Selector High Conviction Equity Fund Quarterly Newsletter No.73

September 2021

"I'm just saying it's time to develop the technology to deflect an asteroid"

In this quarterly edition we review performance, attribution and cover businesses that reported during the period. We explore why uniqueness matters in our article "A funny thing" and look into why some businesses are geared for "Success or failure".

We compiled a table on "The Compounders", which provides some insight into the power of real earnings per share growth. Our stock review this quarter is titled "OFX – a marathon".

Our ESG commentary focuses on James Hardie and Modern Slavery. Finally, we finish with a personal comment on character in the piece "High Achievers".

Photo. Cartoon reflection, "The Compounders" invariably invest at a consistent pace to avoid extinction.

Selector Funds Management Limited
ACN 102756347 AFSL 225316
Level 8, 10 Bridge Street
Sydney NSW 2000 Australia
Tel 612 8090 3612
www.selectorfund.com.au

selector

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. Our ongoing focus on culture and financial sustainability lends itself to strong ESG outcomes.

Selector has a 16-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.

CONTENTS

IN BRIEF – SEPTEMBER QUARTER

Dear Investor,

The September quarter highlighted the unpredictability of business. Life before COVID was relatively straightforward. Businesses generally had their head around global supply chains, employees were in offices, borders were open, travelling unrestricted and government involvement manageable.

Life under COVID has proven a lot tougher. Locally, company reporting season delivered a few observations. It was a tale of two halves as global businesses negotiated reopening, whilst Delta was making its mark. Record low interest rates, economic stimulus, improved direct access to customers, digital channels and zoom proficiency, drove the demand side. On the other hand, supply chain proved a challenge, characterised by significant delays in sourcing, shipping, unloading and delivery of inventory.

Wage inflation emerged, as the playing field for talent shifted from local to global, thanks to the work-from-home phenomenon. We have been impressed by the ability of our businesses to navigate this operating environment. Pleasingly, revenue and profit performance has been strong, driving improved financial metrics, while research and development (R&D) investment and capital expenditure continues to be prioritised.

Governments, however, have made this transition difficult. In fact, the real call out is the threat of more political interference, locally but also increasingly offshore. China is the most vocal, in words and action. High profile local operators, including Tencent and Alibaba have again been warned, as if the first warning in 2010 and again in December 2020 wasn't enough.

This time Chinese entrepreneurship is at stake. Beijing has called out the importance of social equality, under the catch phrase *"common prosperity"*, in ordering adherence. This will have ramifications on companies and their market valuations, most notably the high technology operators who have benefited from the digital economic moats that have been built.

Writing in The Australian, Economist Robert Gottliebsen summed it up, *"The high technology companies and Jack Ma have been told that they no longer own their own databases – they are owned by the Communist Party and the state. They can use the data but in line with the above policies. They must look for ways of using it to benefit the China and the Communist Party. Foolish American investors poured huge sums into U.S. Chinese offshoots (remember subprime?). Their value has understandably slashed."*

Elsewhere, other examples are on show. In the U.S., Google, Apple, Facebook and Amazon are also in battle. Unlike China though, forcing change is more difficult, often ending in court. However, they too are on notice.

In September, the New York City Council (NYCC) extended a cap on the amount food delivery businesses, like Menulog owner Just Eat Takeaway, can charge restaurants for their service. The Council deemed intervention was necessary under the extreme circumstances where COVID had driven demand. Now, pressure is being applied to permanently impose those caps. It is a small illustration, but one nevertheless, reflecting the aftermath of a new COVID world.

Energised, governments will push their powers. Some quite draconian like the Chinese and others more subtle like the NYCC, but they all reflect the visible hand of authorities. The risks are high, evident by the bloated balance sheets of our governments and the knock-on effects of poorly thought-out decisions.

Inflation, the biggest topic dominating market discussions six months ago, has shifted gears a little. A recent Wall Street Journal (WSJ) article posed the suggestion of stagflation, a period marked by a combination of stagnant growth and higher inflation. It happened 50 years ago, between 1966 through to 1982. Over this period the consumer price index (CPI) averaged 6.8% annual growth, while real gross domestic product (GDP) grew 2.2%.

Interestingly, the various asset classes performed better than one would have imagined over the same period, with U.S. T-Bills returning 7.05%, Intermediate Treasury's 7.01% and the S&P 500 index annualising at 6.82%. However, extrapolating that out to today is not that straight forward. It never is. Governments and Central Banks have taken on new roles, one that aims to manage the risk rather than remove it.

As Macquarie Bank economic analyst Victor Shvets noted, *"However, over the last decade, it has become clear that deleveraging is not just undesirable but dangerous in a highly financialized world. After some early attempts at deleveraging, most policy makers have concluded that it can't be done, and hence the emphasis shifted towards managing the problem with as few side effects as possible."*

COVID re-opening is now upon us with its own set of unknown outcomes. Rather than jumping to conclusions or anchoring to a set view, we will assess as we go. Our focus as always will be on the individual businesses and the management teams in charge, noting that short-term decisions can easily hijack long-term performance.

In this quarterly edition we cover businesses that reported during the period. We explore why uniqueness matters in our article "A funny thing" and look into why some businesses are geared for "Success or failure".

We compiled a table on "The compounders", which provides some insight into the power of real Earnings Per Share growth. Our stock review this quarter is titled "OFX – a marathon".

Our ESG commentary focuses on James Hardie and Modern Slavery. Finally, a personal comment on character in the piece "High Achievers".

For the September quarter, the Portfolio recorded a gross positive return of **6.20%** compared to the S&P ASX All Ordinaries Accumulation Index, which posted a gain of **2.05%.**

We trust you find the report informative.

Regards,

Selector Investment Team

“Nana korobi, ya oki”

Translated “***Fall down seven times, stand up eight.***”

In a year when the international community and even its own people said it should not be going ahead, Japan instead pushed through and held the disrupted 2020 Olympics in July 2021.

More broadly, it is an important reminder of the power of persistence, that the focus shouldn’t be on what is in front, but what lies beyond.

Japanese Proverb

PORTFOLIO OVERVIEW

Table 1: Performance as at 30 September 2021*

	3 Month	6 Month	1 Year	3 Year	5 Year	10 Year	15 year	Since Inception
Fund (net of fees)	5.37	22.72	32.53	13.23	15.18	18.84	9.60	11.91
Fund (gross of fees)	6.20	24.17	34.75	15.52	17.40	21.09	11.65	14.05
All Ords. Acc. Index	2.05	10.88	31.46	10.37	10.84	10.94	7.03	8.63
Difference (gross of fees)	4.15	13.29	3.29	5.15	6.56	10.15	4.62	5.42

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

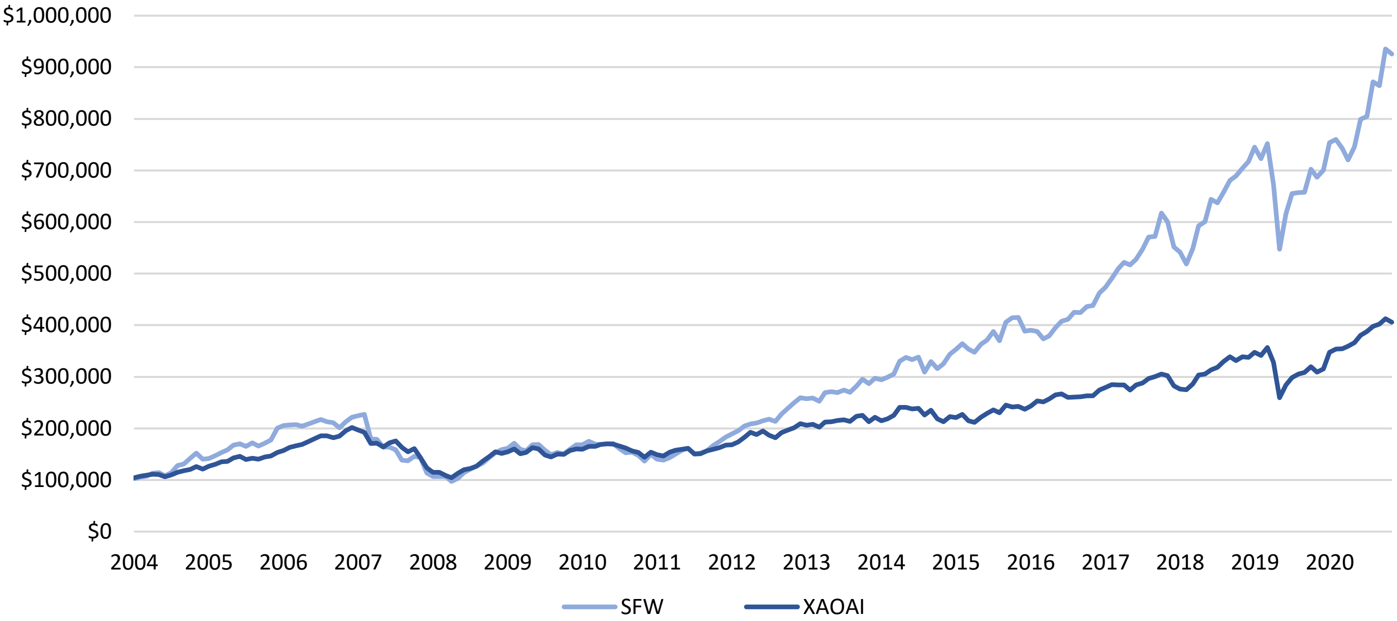


Table 2: Fund's Top 10 Holdings

Top 10 September 2021	%	Top 10 June 2021	%
Domino's Pizza Enterprises	7.80	Domino's Pizza Enterprises	6.64
James Hardie Industries	5.86	Reece	5.81
Aristocrat Leisure	5.71	James Hardie Industries	5.74
carsales.com	5.32	Aristocrat Leisure	5.68
Altium	5.28	ResMed	4.63
ResMed	4.87	Cochlear	4.53
TechnologyOne	4.68	carsales.com	4.52
Reece	4.35	SEEK	4.39
Cochlear	4.02	Altium	4.37
Seek	3.82	TechnologyOne	4.20
Total	**51.71**	**Total**	**50.51**

Table 3: Unit prices as at 30 September 2021

Unit Prices	Entry Price	Mid Price	Exit Price
	$3.8755	$3.8658	$3.8561

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 2021 quarter

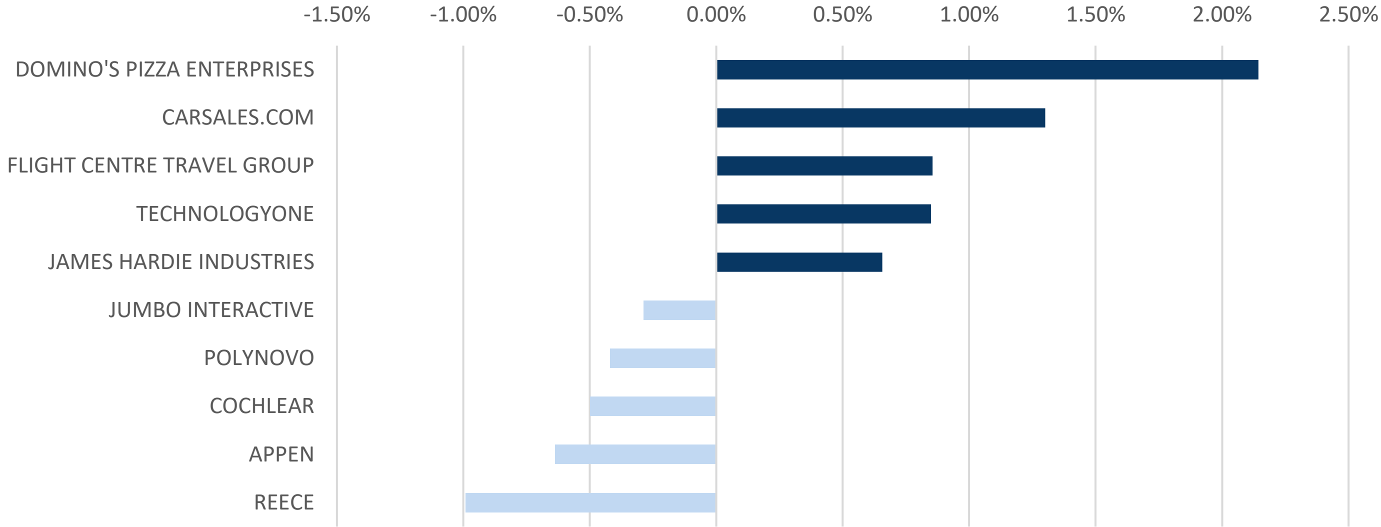
S&P ASX Industry Sectors	Quarter Performance (%)
Energy	7.63
Industrials	5.91
Information Technology	4.42
Financials	3.96
Utilities	3.66
A-REITS	3.65
Telecommunications	3.47
Consumer Staples	3.23
Healthcare	2.09
Consumer Discretionary	1.63
Materials	(13.29)

Table 5: Fund's industry weightings

Industry group	September 2021 (%)	June 2021 (%)
Software & Services	23.93	23.89
Consumer Services	19.21	17.80
Health Care Equipment & Services	15.00	15.44
Media & Entertainment	10.40	10.29
Capital Goods	7.23	8.98
Materials	5.86	5.74
Diversified Financials	4.60	4.63
Pharmaceuticals, Biotech & Life Sciences	4.37	4.24
Insurance	2.49	2.52
Automobiles & Components	2.36	2.25
Household & Personal Products	2.32	1.94
Consumer Durables & Apparel	1.19	1.34
Cash & Other	1.03	0.95

PORTFOLIO CONTRIBUTORS

Graph 2: Contributors and Detractors – September 2021 quarter



Top quarterly contributors

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

Refer to Reporting season snapshot below.

2. carsales.com (ASX:CAR)

Refer to Reporting season snapshot below.

3. Flight Centre Travel Group (ASX:FLT)

Refer to Reporting season snapshot below.

4. TechnologyOne (ASX:TNE)

Leading enterprise Software as a Service (SaaS) provider TechnologyOne announced the acquisition of Scientia Resource Management (Scientia), a U.K. company servicing the higher education sector. Scientia provides Syllabus Plus, a market leading timetabling and resource scheduling product, to over 150 leading Universities across the U.K. and Australia.

Despite entering the U.K. in 2006, TechnologyOne is yet to reap the full benefits, having just turned a small profit in the first half of 2021. With the U.K. total addressable market estimated at three times that of Australia, this acquisition confirms CEO Edward Chung's confidence, *"This acquisition forms part of our strategic focus to deliver the deepest functionality for Higher Education and it will accelerate our growth and competitive position in the U.K. as well as have significant benefits in the Australian Higher Education market."*

The acquisition is expected to cost £12m, with £6m paid upfront. The remaining £6m will be dependent on progressive earnout milestones out to FY23, fully funded from existing cash reserves.

TechnologyOne has a current market capitalisation of $3.8b.

5. James Hardie Industries (ASX:JHX)

Refer to Reporting season snapshot below.

Bottom quarterly contributors

1. Reece (ASX:REH)

Refer to Reporting season snapshot below.

2. Appen (ASX:APX)

Refer to Reporting season snapshot below.

3. Cochlear (ASX:COH)

Refer to Reporting season snapshot below.

4. PolyNovo (ASX:PNV)

Refer to Reporting season snapshot below.

5. Jumbo Interactive (ASX:JIN)

Refer to Reporting season snapshot below.

REPORTING SEASON SNAPSHOT

- ## Altium (ALU.ASX)

Financial summary

Electronic Printed Circuit Board (PCB) designer, Altium released its FY21 results in August. After exiting its non-core Tasking business in February, Altium reported revenue from continuing operations of US$180.2m and operating profits (EBIT) of US$48.1m, an increase of 6% and decrease of 5% respectively.

Like many businesses that reported in the period, Altium's result was a story of two halves. In the first, operational performance was impacted by the COVID-19 pandemic and the business transformation associated with pivoting to the cloud. The company returned to double-digit revenue growth in the second half, up 16% when compared to the prior period.

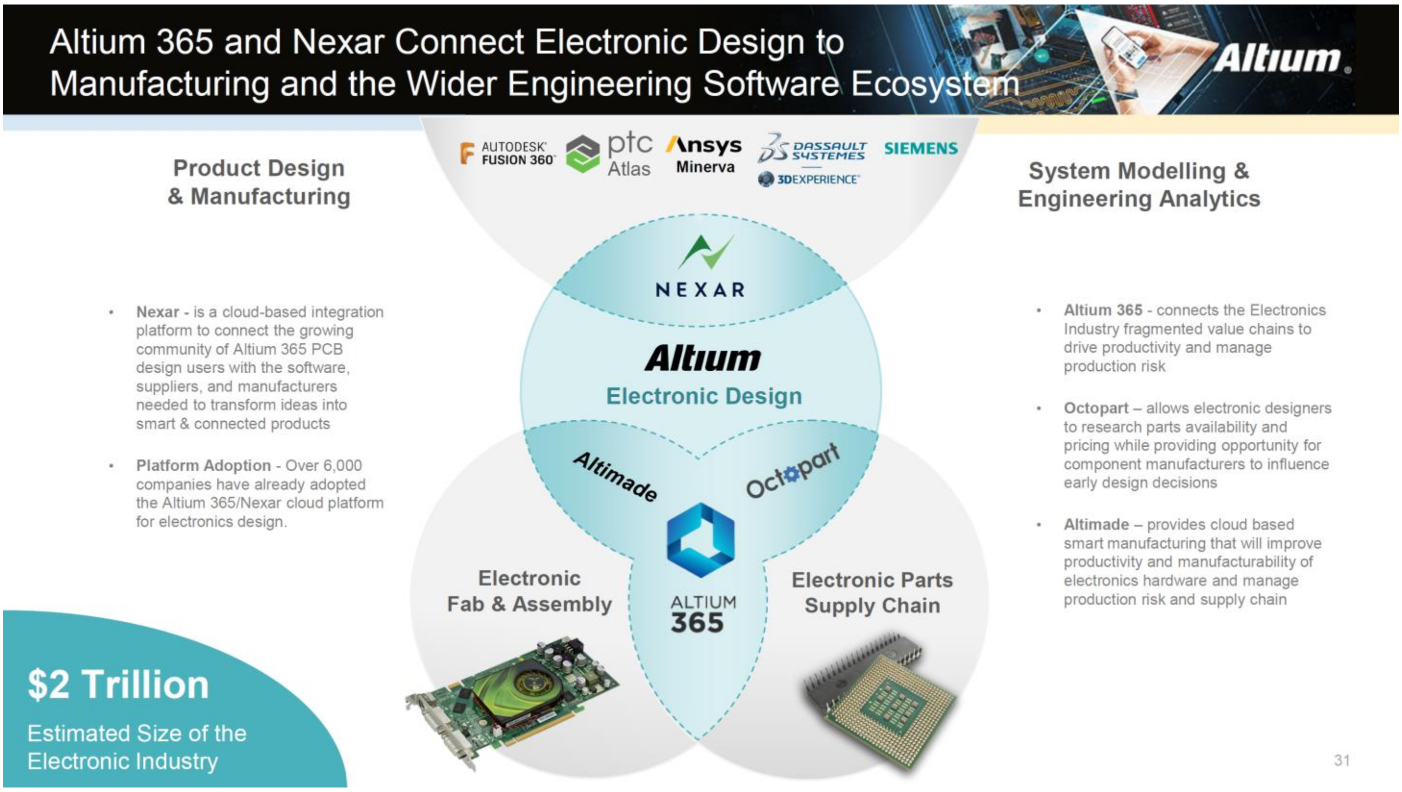
Long-term aspiration

At its core, Altium's software and cloud services provide a unique offering that connects product and electronic design to the electronic parts supply chain and manufacturing, as shown in Figure 1. The company has articulated an aspirational strategy of attaining market leadership and driving to dominance and transformation. The two go hand in hand but differ.

The dominant leadership opportunity requires management's 100,000 seat goal and US$500m revenue target to be achieved by 2026.

While COVID-19 has delayed these targets by 12 months, the company remains confident in its ability to deliver on these milestones. With clear industry leadership, transformation can take shape. For Altium, this means disrupting the status quo of the broader PCB industry.

Figure 1: Altium and Nexar



Source: Altium FY21 Results Presentation

Altium 365

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 seamless connected experience across the design, development and manufacturing process. Released in May 2020, adoption has exceeded internal expectation; 7,200 Altium 365 seats have been sold, up 64% from the prior period. These seats are being used by 12,846 active users and 6,054 active accounts, a multiple of 2x. This is expected to grow to 4x as the ecosystem continues to widen. 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. But given time, a network effect should become apparent.

Similarly, Altium 365 itself can drive monetisation. One such opportunity includes revenue derived from Altimade, a manufacturing clearing house aimed at improving productivity and manufacturability of electronic hardware, while managing production risk and the supply chain. The group has achieved the first connection between Altium 365 and its Brooklyn assembly factory which went online in June 2021. The recent investment in MacroFab greatly expands this manufacturing environment and brings scale to the supply side of Altimade. MacroFab has access to 75 electronic manufacturing partners across North America and once integrated into Altimade, will see Altium uniquely positioned in the engineering ecosystem. An initial offering of this service is expected in the second half of FY22.

Octopart

The group's wholly owned electronic parts supply chain provider, Octopart, performed strongly over the period. This was buoyed by shortages in the semiconductor industry, which drove electronic components and parts search activity. Here, Altium is remunerated by driving traffic to the semiconductor distributors. Octopart saw 16m clicks in total, an increase of 41% on FY20 resulting in revenue of US$27.0m, an increase of 42%.

Core to this ecosystem is Altium Designer 20. Important to note that older versions of Altium Designer do not work with Altium 365. This is a type of soft compliance, while the inherent benefits of this cloud-based platform are expected to drive a lift in subscription recurring revenue levels from today's 65% to 95% by 2025 (excluding China and developing markets). At June end, Altium had 54,394 seats on subscription, an increase of 7%.

China

In China, Altium reported a strong return to growth with full year revenues up 11% to US$23.6m, underpinned by a 47% lift in the second half. The company also delivered a standalone version of the Altium 365 platform, which will sync with AliCloud and WeChat. Designed exclusively for the Chinese market, this model differs in that it operates via a major Chinese manufacturer rather than a clearing house co-owned by Altium. The first pilot exceeded expectations with 8,000 users joining the platform, well ahead of the 5,000 three-month user targets. A second pilot focused on monetisation opportunities for Altium 365 is underway.

Altium has a market capitalisation of $4.4b and has net cash of US$192m.

▪ Appen (APX.ASX)

Financial summary

Appen, a leading provider of data and solutions for use in artificial intelligence (AI) and machine learning (ML), reported its first half 2021 results in August. At the group level, revenue declined by 2% to US$196.6m and underlying operating earnings (EBITDA) fell by 14.3% to US$27.7m. As management have previously called out, global data privacy and regulatory headwinds impacting the company's largest customers continued to pressure the Global Services business.

Transition

Appen should be viewed as a business in transition, as it moves away from contracted services, which can be lumpy and hard to forecast, to a technology and product led organisation with repeatable earnings. This is a clear pivot to where the customers are moving. The organisational restructure to undertake this journey, including run rate savings of US$15m, is largely complete.

Some work is required to separate out the underlying growth rates and contributions from the divisions. This also helps to unmask the margin impact the underlying losses have on this otherwise highly profitable business.

Global Services

For the half, Global Services revenue fell by 9.2% to US$148.8m and underlying operating earnings declined 18.6% to US$34.4m. The was driven by the deferral of ad-based project work. This business is expected to return to single-digit growth. It remains highly profitable with healthy operating margins of 23.1%.

New Markets

The New Markets division consists of Enterprise, Government, China, and Global Product. It is in essence a *"start-up business"*. New Markets is focused on developing these new customer verticals and driving AI use cases through the annotation platform, Appen's core intellectual property. In the half 74 new customers were added, expanding the base to over 320 active customers.

In the period, New Markets delivered revenue growth of 31.5% to US$47.8m. China was the standout, growing revenue by a multiple of 5.8x to US$7.5m. Government was slower than expected. Like any start-up business, the New Markets division reported losses, coming in at US$7.4m. At a group level these losses watered down overall operating margins (EBITDA) to 16%.

Annual Contract Value (ACV) of US$119.6m was up 16% from 1H20. This increase was underpinned by the expansion of an enterprise-wide platform agreement with an existing Global customer.

The New Markets division is expected to continue to deliver strong double-digit growth into the future. Management has clearly prioritised strong growth, with yield to follow.

Global Product

Global Product revenue, a subset of new markets representing customer revenue through Appen's platform and tools, was US$22.3m, up 15.2% on 1H20. This represents a 32% compound annual growth rate (CAGR) from 1H19-1H21, largely driven by new product capabilities and the ability to serve Global customers' evolving needs. Global Product is now 13% of total Global customer spend, up from 11%.

Appen has secured 100 new AI projects since January 2021, with all but three being non-ad related. These projects start small and carry costs up front but have the potential to ramp up over time.

Importantly, non-ad related revenue is now 75% of total revenue from Global customers, reflecting their accelerated investment in new AI products and applications.

Investing for the future

An uplift in capitalised and expensed development costs to 10.8% of revenue in H121 was driven by new product developments, strengthening the core offering. This includes the release of Appen Intelligence, In-platform audit and Appen mobile.

Acquisition

Appen's acquisition of Quadrant highlights the group's strategic intent to continue broadening its data capabilities and product offering. For an upfront fee of US$25m and potential earn out payments of US$20m in equity, Appen has acquired a mobile location and point of interest data business. Based in Singapore, Quadrant uses a local crowd for data verification. Combining Quadrant with Appen's platform of more than one million crowd workers, who can collect relevant local information across 170 plus countries, delivers immediate scale to this start up business.

Company guidance

Costs associated with the acquisition of Quadrant reduced guidance to underlying EBITDA of between US$81m-US$88m. Guidance is clearly second half weighted and CEO Mark Brayan's confidence in achieving the lower end of this range is underpinned by the group's high-quality pipeline and strengthening order book.

Conclusion

Appen Global Services Division is the leading service provider to global technology players, offering training data via a scalable crowd platform across 170 countries. We expect this division to return to growth.

Appen is building a more sustainable business, with a broader customer and revenue base. The transition to a product led approach positions Appen well to compete in the large AI training data market, which is expected to grow to US$5b by 2024.

Appen has a market capitalisation of $1.1b and net cash of US$66m.

- ## Blackmores (BKL.ASX)

Financial summary

In August, Vitamins and Dietary Supplements (VDS) manufacturer, Blackmores reported its full year 2021 result. Group revenue rose 3.2% in constant currency (cc) terms and underlying operating earnings (EBIT) grew by 51.7% to $47.6m.

Operating margins expanded to 8.3%, driven by business simplification and efficiencies delivered across manufacturing and operations. Within manufacturing, divestment of non-core brands and capital investment led to improved plant automation, reduced operational complexity, and increased utilisation rates outcomes above 90%.

These efficiencies combined with higher prices points, better product mix and lower trade promotions lifted gross margins by 1.6% to 52.3%. If unfavourable foreign exchange movements and inflation impacts were excluded, gross margins would have improved by 4.1%. Longer term, management is targeting gross margins in the high 50% range.

Blackmores recorded earnings per share of 148.1c and generated strong cash conversion of 112%. A final dividend of 42c per share was declared, taking the full year amount to 71c per share. We believe this lower payout ratio of 48%, sitting within the group's target capital allocation framework of 30%-60%, is illustrative of the company's newly announced strategic commitment to improve investment flexibility, while providing appropriate returns to shareholders.

Australia & New Zealand (ANZ)

The effects of closed borders and lockdowns in ANZ reduced daigou[1] trade and pharmacy traffic, two key sales channels for the company. With the industry responding through deep product discounting, Blackmores instead chose to focus on product innovation and new retail channels. These dynamics along with the milder cold and flu season and prior period pantry stocking, led to revenues dropping 14% to $280.6m.

Cost reductions and selective price rises largely offset this revenue decline. Operating profits increased by 1.7% to $40.3m, while margins expanded to 14.4%. With the company less exposed to promotional product selling, alongside a daigou sales channel representing less than 9% of full year sales, the business is now better positioned to deliver sustainable growth.

International

Strong performances across the key markets of Indonesia, Thailand and Malaysia saw revenue rise by 27.3% cc to $163.7m and underlying operating profit up 49.5% to $20.7m. The region has now delivered a three-year compound annual revenue growth rate (CAGR) of 26%.

The opportunity within International remains the most significant for Blackmores. VDS is underpenetrated compared to ANZ, while global competition is limited. Furthermore, a large unmet need for Halal accredited products provides a unique opportunity.

Blackmores will be first to market in this space, recently receiving Majelis Ulama Indonesia (MUI) certification through its Braeside and Warriewood facilities, to sell Halal products into Indonesia in FY22. Existing products will initially be transitioned into the market, with Halal specific products to be added over time.

During the year, the Indonesian Joint Venture operation run with local partner Kalbe Farma, delivered net profits just shy of $10m, a significant milestone considering its entry in 2016.

To take advantage of latent market demand for VDS products, Blackmores is aiming to double its product adviser network, currently 670, across the group's Asian based regional network. These advisers have proven to effectively increase brand awareness through in-person store promotions.

China

Reinvestment in the China team and release of new product innovation centred on modern parenting, enabled Blackmores to recapture market share. The region recorded revenue of $131.6m up 27.8% and operating earnings of $14.3m. The revenue performance was the strongest since FY18, while operating margins improved to 10.9%.

[1]An individual or a syndicated group of exporters outside China purchases commodities for customers in China.

The two key shopping festivals of China 618 and Double 11 (Singles' Day), both delivered successful outcomes, with Blackmores consolidating its ranking in the top four VDS brands across all cross-border ecommerce (CBEC) platforms.

CBEC remains the priority, with Blackmores keen to maintain share in this highly competitive channel by introducing locally developed products through its Shanghai Innovation Centre and increasing advertising and promotional spend. The company has targeted industry growth rates of 15%-20% per annum over the medium term.

Strategic execution

In 2020, a new strategic agenda was unveiled. Despite various challenges, management has executed on all five priorities thus far:

1. **Driving growth in targeted segments and markets** – achieved in International, China and PAW (Pets).
2. **To simplify operations and reduce costs** – implemented an organisational restructure and divested non-core brands, including Global Therapeutics and IsoWhey. To date, $15m of annualised savings has been delivered.
3. **Strengthen the supply chain** – reduced the product skew (SKU) count by 40% to 900. The benefits being longer run sizes and a more efficient production process. Also delivered an upgrade to the Warriewood warehouse facility.
4. **Ignite the Australian VDS** – have targeted new channels and invested in product innovation.
5. **Transform Digital** – delivered a group-wide migration to the cloud and improved digital capabilities across China and International.

Strategic targets to FY24

Management provided a FY24 strategic target opportunity for the group, outlining key metrics of $825m-$875m in net sales, gross profit margins in the high-50s and EBIT margins in the mid-teens.

Importantly, the five strategic pillars in place today remain unchanged. As CEO Alastair Symington notes, *"We're targeting AUD 250 million to AUD 300 million of revenue by F '24 from growth opportunities across Asia, key channels in Australia, digital commerce and pet. And finally, continued execution of efficiency and price/mix providing an opportunity for an uplift in underlying EBIT margin to the mid-teens by F '24."*

Company guidance

Sales momentum has continued in international markets and China, while trading has been disrupted in ANZ due to extended lockdowns. The focus on ANZ will be on delivering sustainable margin improvements, enabling reinvestment into growth areas, such as market entry into India, and the launch of Halal.

Blackmores has a market capitalisation of $1.9b and net cash of $70.1m.

▪ carsales.com (CAR.ASX)

Financial summary

Leading online automotive listings business carsales.com reported a full year 2021 result that was largely underpinned by a strong second half performance.

Against a tough trading environment carsales reported revenue of $427m and operating profits (EBITDA) of $241m, up 8% and 20% respectively.

Encouragingly, the group's three core regions of Australia, South Korea and Brazil all strengthened their market leading positions, with record buyer and seller activity.

Strong operating leverage was driven by higher penetration of premium products such as Instant Offer, which doubled during the period.

This benefited reported EBITDA margins, which expanded 5.2% to 56.5%, while net profit outpaced revenue growth up 11%, the strongest reported since 2014.

Geographic regions

Domestic

Despite ongoing COVID restrictions, lockdowns and supply shortages, the Australian automotive market remained buoyant. Consumer demand stayed elevated with total online platform site visits increasing 21% to 375m, when compared to the prior period (pcp).

Adjusted Dealer revenues rose 6% to $178.1m, reflecting a tough first half with ongoing industry support of $11m provided. This was offset by an improving demand-led recovery, although shortages in new car inventory muted the positive second half trend.

In the Core Private market, management highlighted increased adoption of value-added services, including premium ads and Instant Offer. This reflects the unmatched strength of carsales value proposition as the most effective sales channel for attracting the largest active audience. As a result, while total segment revenues grew just 1% to $78m, Core Private revenue (excluding Tyresales and Redbook Inspect contributions) grew 26% over the same period.

To better align 'price with value', the company made further iterations to its Dynamic Pricing model. Prior to 2016 consumers paid a flat $68 to sell a car, irrespective of its value. Dynamic Pricing Phase 1 led to the introduction of a tiered pricing structure, ranging from $39 (for a $0-$5,000 vehicle) to $239 for those priced at $70,000 and above.

Dynamic Pricing Phase 2 will now see carsales automatically adjusting the quoted listed price on private advertisements based on the consumer's location, vehicle type and current levels of demand. Initial results of this enhanced dynamic pricing tool are pleasing, with the group noting positive impacts on yield and volume.

International

Despite the backdrop of high COVID infection rates, South Korea and Brazil both delivered strong performances for the period. The group's wholly owned South Korean business Encar reported constant currency revenue and EBITDA growth of 21% and 12% to $80.1m and $40.7m respectively.

Utilisation rates for the group's leading products, Dealer Direct and Guaranteed Inspections, continued to improve with management lifting investment to drive greater penetration.

In Brazil, the 30% owned Webmotors business benefited from a finalisation of its partnership agreement with fellow 70% shareholder Santander Bank.

While COVID restricted regional expansion, 2,000 new dealers were added to the network during the year. For 2021, unfavourable currency movements impacted reported numbers, while in constant currency terms revenue and EBITDA both grew strongly, up 16% and 25% to $62.8m and $27.7m respectively.

Across the Latin America regions of Chile, Argentina and Mexico, challenging economic conditions constrained growth with management implementing operational cost controls to reduce losses. Platform development investment was maintained, however, in preparation of an eventual reopening of these respective economies.

Expanding into adjacent markets

In February 2021, the company announced the acquisition of a 49% interest in U.S. based non-automotive operator Trader Interactive. The purchase expands carsales operation into the U.S. market, with Trader Interactive operating in the non-automotive online segments of Recreational Vehicles (RV), Powersports, Truck and Equipment Industries.

For the half year to June, Trader Interactive reported revenue and EBITDA growth of 12% and 25% to US$66.1m and US$36.3m respectively. Initial feedback on the Trader Interactive business remains positive. Carsales' strategic rationale is unchanged and includes leveraging its proprietary technology and product offerings to grow the percentage take of gross profit per unit sold.

A new car buying experience

Carsales announced a revised purpose statement of *"making buying and selling a great experience"*. This reflects the group's ambition to execute on value-added services, such as Instant Offer, as well as entering the online car purchasing segment through carsales Select.

With an expected launch date in FY22, carsales Select will allow dealers to facilitate online car purchasing through the carsales platform. For dealers, this new offering effectively shifts carsales' proposition from a leads-based model to one of a guaranteed, transaction-based sale.

Carsales Select offers customers peace of mind, with fixed pre-negotiated pricing, certified inspection reports and a 7-day money-back guarantee.

Globally, Carvana in the U.S. and Cazoo in the U.K., are capitalising on the adoption of online car purchasing. This segment continues to grow as availability expands, indicating this is a demand-driven event. With carsales' market leading platform, the company is well positioned to capture a shift to online car purchasing in Australia.

Outlook

The company ended the financial year in a net cash position of $241m, having raised $600m in May to fund the Trader Interactive acquisition. Post settlement, net debt to adjusted EBITDA has reverted to historic norms at approximately 2.1x.

While no formal financial guidance was provided, business conditions remain favourable and management expect to deliver solid growth across the key metrics of revenue, EBITDA and net profit, alongside improvements in cash flow conversion and operating margins.

Carsales has a market capitalisation of $7.0b.

▪ Cochlear (COH.ASX)

Financial summary

In August, leading global bionic ear manufacturer Cochlear delivered its full year 2021 result. Now in their 40th year of operation, the group's financial metrics were strong, surpassing the 2019 pre-COVID top line result with revenues up 10% to $1,493.3m. On a constant currency basis, the numbers were more impressive up 19%.

In terms of mix, Cochlear implants represented 61% of sales revenue, with Services contributing 29% and Acoustics making up the remaining 10%. Underlying net profit increased 54% to $236.7m, driven by market share gains, market growth and rescheduled surgeries.

Cochlear Implants

Cochlear implant numbers rebounded solidly, with units increasing 15% to 36,456 and revenues rising 10% to $898.6m. Recovery across markets was varied with the severity of COVID and subsequent government lockdowns.

In developed markets, comprising some 80% of implant sales, surgeries were generally back to pre-COVID levels. Strong unit growth of 20% was recorded, as the group benefited from solid consumer demand and share gains across the U.S., Japanese and Korean markets. Sales in Western Europe remained subdued with surgeries recovering more slowly.

In Emerging markets implant units grew 10%, underpinned by a strong recovery in China and improvements in Eastern Europe and the Middle East, offset by challenging conditions in Brazil and India.

Along with the U.S., the Chinese market opportunity remains a key priority, with employee numbers increasing by a third to more than 200. The market dynamics remain supportive of strong ongoing demand, underpinned by a large private paying consumer market.

Cochlear Services

Cochlear Services revenues rose 11% to $438.5m. This division represents an important source of ongoing demand from existing implant recipients. Overall sales were impacted by COVID restrictions that limited clinical capacity with new patients prioritised. A key highlight was the October launch of the Nucleus Kanso 2, an off-the-ear sound processor. Currently available in the U.S. and Europe, this product has been well received leading to implant upgrades.

Cochlear's recipient engagement program, Cochlear Family grew its membership by 19% to over 217,000 members by year end. The opportunity to connect directly with an implant recipient remains a key competitive advantage.

Cochlear Acoustics

Acoustics revenue was up 12% to $156.2m, albeit still trailing FY19 numbers. With most of the business generated in the U.S., revenues were boosted by recovering surgery volumes and demand for the newly launched Osia 2 System.

In the second half, the Acoustics division benefited from the product rollout of the new Baha 6 Max Sound Processor in the U.S. and Europe, as well as achieving CE Mark accreditation for the Osia 2 System implant unit.

Strategic priorities

In the earnings update, CEO Dig Howitt reinforced the company's three strategic priorities. In summary, they are:

1. Retaining Market Leadership
2. Growing the Implant Market
3. Delivering consistent revenue and earnings growth

We believe Cochlear is delivering on all fronts.

Retaining market leadership

Amidst the pandemic, Cochlear maintained its focus on research and development (R&D), with 13% of revenue or $195m of fully expensed capital invested during the year. Despite the impacts of COVID, the company chose not to reduce its workforce, ensuring ongoing product development and the provision of superior customer service and support.

The launch of eight new products in the past 18 months, including the off-the-ear Kanso 2 and Baha 6 Max Sound

Processor (as noted above), has further differentiated the company's product portfolio. Overall, these initiatives have led to market share gains, which continue to cement Cochlear's leadership position in the profound hearing loss market.

Growing the implant market

Increasing market awareness remains a key priority, with the company noting "*less than 10% of people who would benefit from an implantable hearing solution are treated*." The group's market leading position and differentiated product portfolio underscores the company's commitment to invest and engage directly with the hearing community, including the audiologists, ENT (ear, nose and throat) specialists and consumers in general.

During the year, several advocacy and awareness milestones were achieved. Firstly, with the publication of the World Health Organisation's (WHO) "World Report on Hearing", which both called on governments to prioritise hearing health and recognised the effectiveness of cochlear implants. Secondly, the global consensus in publication JAMA Otolaryngology recommending a cochlear implant as a minimum standard of care for treating adult hearing loss.

Management have developed an improved understanding of the referral channels through investments in the Cochlear Provider Network and Sycle (audiology practise management software).

While the company states a global market share of greater than 60% in Cochlear implants, it remains a small player, with just 4% of the higher hearing loss segment currently dominated by hearing aids. This large addressable market opportunity provides for sustainable, long-term growth.

Delivering consistent revenue and earnings growth

The company ended the year in a strong financial position, delivering record sales and remaining debt free. A full year dividend of $2.55 per share was announced in line with a targeted 70% payout ratio.

U.S. patent case

In September 2021, Cochlear announced that a patent infringement complaint had been filed in the United States District Court by the University of Pittsburgh. Cochlear's related patent was lodged in 2002 and expires in 2022. This patent along with associated legacy products, predate the University patent by several years. In fact, the asserted patent, which relates to a wireless energy transfer system, was filed at the U.S. Patent Office in 2009 and expires in 2030.

The lawsuit seems spurious at worst and opportunistic at best and despite being at the beginning of the assessment process, Cochlear does not expect any interruption to the business or customers in the U.S.

Company guidance

Management expects sales revenue to benefit from market growth and continued recovery in surgeries across all markets. The company has guided FY22 net profit to be in the range of $265m to $285m, an increase of 20% at the top end. Capital expenditure of $70m to $90m is forecast, including IT system upgrades and process transformations totalling $20m.

Cochlear has a market capitalisation of $14.1b and net cash of $564.6m.

▪ Domino's Pizza Enterprises (DMP.ASX)

Financial summary

FY21 saw Domino's deliver strong results across the nine international markets that fall under the three regions of Australia & New Zealand (ANZ), Europe and Asia (Japan). Group network sales rose 14.6% to $3.7b, underlying EBIT increased 27.2% to $293m and operating margins expanded to 13.3%. Same store sales (SSS) were up 9.3% and a record 285 net new stores were added, which drives future revenue growth and operating leverage.

COVID-19

COVID-19 has proven to be a tailwind that has delivered structural change. Domino's fortressing strategy of being closer to the customer, combined with delivery efficiency, has won and retained new customers who have been forced to consider at-home food options. The consumer experience is powered by best-in-class data insights and digitally led solutions. The equation is simple – shorten the distance and deliver hot food. These improvements drive repeat business at high volume. As a result, the franchisee becomes more profitable and is prepared to open new stores.

In the 2021 Annual Report CEO Don Meij explains, *"We have built centres of excellence in ANZ, Europe and Asia, allowing us to complement local expertise in menu development and taste preferences with proven* *experience in technology, marketing, operations and strategy and insights."*

Three regions

ANZ – despite being the most mature market, network sales rose by 6.5%. Operation 360 is delivering results, with underperforming franchisees being cut out of the system. Since 2019, 37 operators comprising 54 stores have been exited. In FY21, 30 new stores were added with the average number of stores per franchisee improving to 2.1.

Project Ignite, an incentives-based program that reduces the franchisees cost of opening a store, while insulating the profit of existing stores, is set to drive new store growth. This imported program had considerable success in France.

Europe – the region has delivered strong sales constant annual growth rate (CAGR) of 14% over 2 years. In FY21 network sales increased 23% and SSS growth was 12.1%. Europe added 129 new stores and increased online sales by 33.7%.

Germany produced a strong result, driven by increased TV exposure and adoption of the high-volume mentality. 40 new stores were also opened, bringing the total to 370 for the country. Execution remains key, and delivery, which sat at only 15% when the business was acquired, will drive future growth. Project 3TEN is critical here.

Franchisee appetite for new store openings is strong, and the new store pipeline is significant. With a population of 84m people and less than 400 stores currently, Germany is set to grow significantly beyond the ANZ footprint in the future.

France delivered a resilient result as the country experienced significant disruptions, resulting from night curfews and extended lockdowns. Under the experienced management of France CEO, Andrew Bradley, a combination of business incentives, continued investments across technology and the emerging leader's program have led to improved franchisee confidence. This saw a record 38 new stores opened, with a current total of 449 stores. France has a strong pipeline for future expansion.

Benelux with a population of 29.4m added 45 new stores for a total of 448 stores.

Asia **–** Japan delivered the standout result with network sales up 30.9% and 126 stores added. With 800 stores verse the 3,000 store McDonalds footprint, we envisage a future of strong growth. Significant greenfield expansion opportunities exist outside of Tokyo and Osaka, with back of house dough making one of the many layers that reduce the supply chain costs for new regional stores. During the period, Japanese franchised store numbers exceeded corporate stores for the first time.

Strategy of culture and focus

At its core, Domino's remains a business heavily reliant on its human capital. The importance of aligning culture, systems, and training across the 2,949-store network is fundamental to future success. Management is focused on a single business model that can be applied at a country-by-country level.

Domino's fortressing and high-volume mentality applies across the entire network. Initiatives such as 3TEN, Operation 360 and Project Ignite drive continuous improvements at a regional level. Entrepreneurial spirit is alive and well in this business. The competition between the regions, all vying for operational supremacy, is a highlight of the Domino's culture. Germany and Japan have become the torch bearers of the future, having established themselves as the fastest growing and most profitable regions within the Domino's operations.

Store growth

We see positive dynamics at play, including improved franchisee profitability, the continued strength of delivery and the return of carry out demand when lockdowns are eased. Organic growth opportunities are apparent in all three regions, including incentives for franchisees in ANZ. The building blocks are in place for the business to drive accelerated new store growth.

Accordingly, the company is guiding to a record 500 new store openings in FY22, which includes the 157 stores recently acquired in Taiwan. The group has also increased its long-term store network targets in Benelux and Japan by 200 and 500 stores respectively. With a goal of 5,000 stores by calendar year 2026-27 and 6,650 by 2033, the long-term prospects for the business are positive.

Company guidance

Management has increased its 3–5-year expectations for organic store additions from 7%-9% to 9%-12%, while the 2033 store target number has lifted to 6,650. Same store sales growth has been maintained at 3%-6% per annum.

Domino's has a market capitalisation of $12.4b and net debt of $447.3m.

▪ FINEOS Corporation Holdings (FCL.ASX)

Financial performance 2021

Leading global provider of core systems in life, accident and health insurance (LA&H) FINEOS completed its second year as a publicly listed company, recording strong top line growth. Key highlights included group revenue of €108.3m, up 23%, with the services segment rising 14% to €66.4m, while the all-important subscription revenue component jumped 49% to €40m.

Geographically, North America remains a key focus. In 2021 over 73% of revenue was sourced from North America, up from 59% in 2020. This positions FINEOS as the number one player in the core systems of LA&H when measured in terms of revenue, clients and end-to-end quote to claim offering.

Gross profit was solid at 67%, sitting at €72m. Operating profits (EBITDA) was lower at €7.9m, reflecting an increase in headcount, up 22% to 1,065, and greater levels of business investment.

A bottom-line underlying loss of €8.2m was recorded, illustrative of higher amortisation rates of €14.4m compared to €10m in 2020, largely associated with the ongoing capitalisation of research and development (R&D) investment. On a net cash flow perspective, excluding acquisitions of €59m and new share capital of €57m, the group recorded a negative outflow of €23m, reflective of the capitalisation nature of R&D investment.

Subscription vs services

The key business metric continues to be the growth in subscription revenue. The FINEOS business model is focused on signing carriers to the group's Software-as-a-Service (SaaS) cloud offering, requiring migration from the traditional on-premises services model. The switch from these traditional on-premises legacy systems to modern, cloud-based offerings will provide operational efficiency and product enhancement.

In 2021, subscription revenues best demonstrate the positive progress underway. Illustrative of the recurring nature of revenue earned on a client's base contract, plus subsequent volume movements in premiums, this segment rose 49% to €40m for the year. Of this, organic growth was 32% to €37.5m with the balance from recent acquisitions, including Limelight Health and Spraoi.

Focusing specifically on the U.S. market, cloud subscription revenues have grown from less than €1.0m in 2018, coinciding with the service roll-out, to the 2021 figure of €27.9m.

At a high level, the Annual Recurring Revenue (ARR) is the key SaaS cloud metric reflecting the value of a full year run rate of won business. At the end of 2021, this stood at €45.7m illustrating the positive underlying trend.

Importantly, the mix shift that is underway from a service to subscription model delivers long-term margin benefits. While the services offering is important in the signing and transitioning of new clients to the cloud, it also requires more upfront company investment in terms of people, leading to lower gross margins of circa 56%. In contrast, subscription revenues ramp up as services are used, requiring little in additional capital and giving rise to gross margins of 80%.

For 2022, the company is guiding subscription revenues to grow at the historical level of 30% per annum, inferring a figure north of €52m. In the ensuing years we expect subscription revenues to eventually surpass services as the primary driver of revenues and with that, higher levels of gross profits are forecast to flow.

R&D

The company has been open in its commitment to investing heavily on building out its cloud product offering. To date, FINEOS has succeeded in rolling out core Disability and Absence (IDAM) products, with five of the top ten carriers in North America among its client bases. The focus heading into 2022 and beyond is to broaden the cloud offering to include products covering Voluntary, Policy and Billings.

One carrier, New York Life (previously named CIGNA), is live with all offerings and remains a key reference site. However, FINEOS is seeking to complete the necessary R&D required on these products to covert and upsell the other 35 plus carriers in North America and the total 60 plus existing clients within the company's Employee Benefits Platform.

In 2021 the company invested €41m in R&D, representing 38% of revenue, of which €25m was expensed and the balance capitalised. Since 2015 over €150m has been invested on the FINEOS platform. 45% of the group's employee total base of 1,065 are focused on R&D activities.

Funding

In September FINEOS undertook an equity placement to raise a total A$70m, with an additional A$3.7m via a share purchase plan. The new funds augment the company's cash position at June end and provides sufficient capital to progress the ongoing product R&D investment, to capitalise on the significant market opportunity.

The underlying revenue transition to a growing subscription-based business, provides a clear line of sight to expanding gross profit margins, leading to profitability and a net cash flow positive position.

Founder and CEO Michael Kelly increased his holding during the period, following the off-market purchase of equity sold down by the one of the group's original investors and current Chief Technology Officer. Post the capital raising, CEO Kelly will control 167m shares representing approximately 53% of the company's issued capital.

The prize

The FINEOS "Quote to Claim" cloud-based Employee Benefits Platform solution has been years in the making. There is more investment required to broaden the product set, but the company's existing tier one client base of over 60 global carriers is the prize. As they look to modernise their systems driven by higher regulatory complexity, the growing inadequacies of legacy systems and increasing competitive threats, the move to the FINEOS cloud subscription platform offering appears inevitable.

To that end, FINEOS announced that the last company on-premises release was issued in July 2021, with all new software releases to be SaaS only. This action will force change and drive outcomes.

As a reference point, the FINEOS business model is not dissimilar to another listed business TechnologyOne. The company's on-premise to the cloud offering has been underway for some years. Importantly, it has accelerated in recent times with retention rates remaining above 99%.

From this vantage point we would comment that it is for FINEOS to lose at this stage. However, the current evidence suggests clients are gravitating to the offer and such moves are almost permanent in nature, with near zero churn, underscoring the significant monetary prize on offer.

Outlook

For 2022 the company is guiding to revenues of €125m-€130m, up 20% at the top end of the range, noting the great majority of the growth is based on the group's robust pipeline of existing cross-sell and upsell opportunities already identified.

FINEOS has a current market capitalisation of $1.3b post the raising and is net cash at approximately €60m.

▪ Flight Centre Travel Group (FLT.ASX)

With international borders facing hard lockdowns and domestic travel in a state of flux, it is no surprise that Flight Centre Travel Group's performance continued to be significantly impacted over FY21. For the year, the company reported total transactions (TTV) of $3.9b representing less than 17% of pre-COVID 2019 TTV sales of $23.7b.

Despite substantive efforts to reset the cost base under trying industry conditions, an underlying loss before tax of $507.1m was recorded. This compares to the $343.1m profit result delivered in FY19.

Investing to Win

Having weathered the initial impacts of COVID, the company purposely maintained its investment spend to deliver further platform enhancement while building technology leadership capabilities utilising Artificial Intelligence (AI) and Machine Learning (ML). These advancements are set to deliver meaningful benefits to customers, that is at the same time likely to further disrupt legacy travel management companies.

Managing Director Graham Turner explained, *"as an organisation, we too have learnt a lot during the past 18 months, particularly about being resilient, consistent and as optimistic as possible during tough times. Our priorities have evolved from emergency cost cutting at* *the beginning of the crisis to maintaining those significantly reduced expenses, while still developing and implementing our technology, improving productivity and finetuning our recovery strategies to drive stronger future returns."*

With economies now progressively reopening to international travel, Flight Centre is well placed to benefit in this recovery phase, operating as a leaner, more efficient organisation.

While the industry remains subject to disruption, the company is targeting a return to monthly profitability in the second half of FY22 and a return to pre-COVID TTV transaction levels by June 2024. Importantly, Flight Centre is committed to deriving this TTV recovery with a significantly reduced operating cost base and importantly, a commensurately higher group pre-tax profit margin.

Leisure

In Leisure, the company has accelerated its plans to increase online sales, complemented by a smaller and more profitable retail store base. Store rationalisation has reduced the density of locations while maintaining easy access for customers. As a result, property costs have been reduced by almost 70%.

Under the revised go to market strategy the company is expecting a significant channel shift as shown in Figure 2. With a reduced cost base and potential for value added services, due to increasing travel complexity, the company is working to achieve a higher net profit margin from these transactions.

Domestic travel is expected to return once borders reopen, while the more lucrative and higher margin international travel segment will follow as individual travel corridors reopen.

For the year, Leisure TTV reached $1.5b and was tracking at 16% of pre-COVID levels in July 2021. This resulted in the division generating a $353m underlying loss for the year.

Corporate

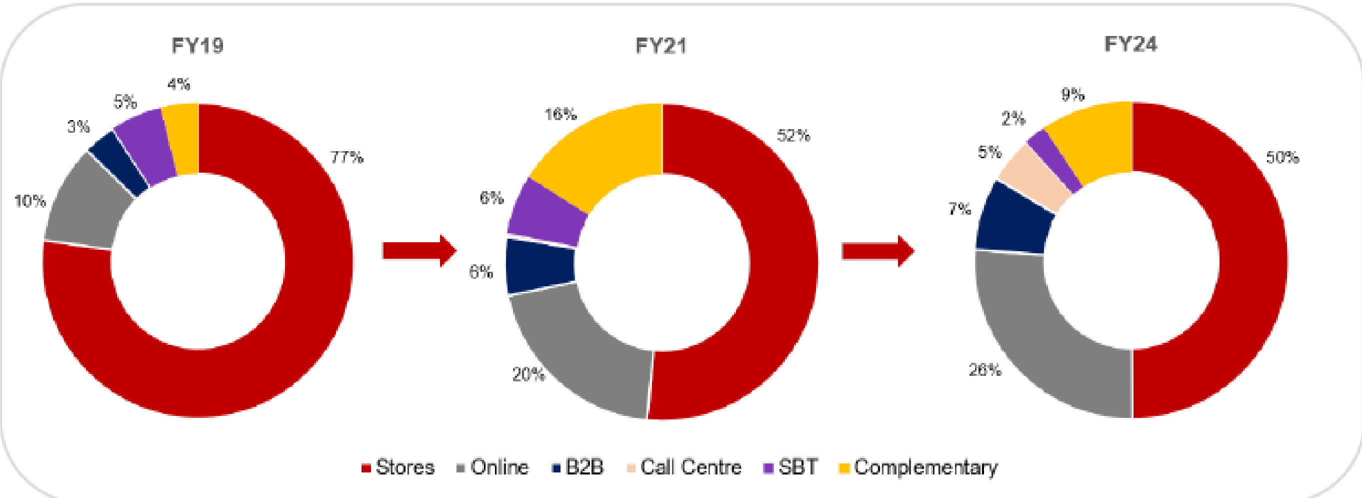
The global Corporate segment contributed 55% of FY21 TTV, up from 38% pre-pandemic, and has generally led the recovery in most countries to date.

Flight Centre has continued to invest aggressively in digital technology and driving scale benefits from its two category-leading brands of FCM (for large clients) and Corporate Traveller (for small to medium enterprises). These businesses are positioned to present a highly differentiated product offering; an end-to-end technology solution that delivers improved customer experience and greater operational synergies across countries.

Despite travel restrictions, Corporate secured significant new client account wins totalling TTV of US$1.4b. This has been buoyed by a record number of customer request for proposals (RFPs) which is up over 340%. In addition, the company has retained 98.5% of its existing large customers.

In the period, Corporate generated $2.2b in TTV and was tracking at 41% of pre-COVID levels in July 2021. As a

Figure 2: Global Leisure Model TTV Shift – FY19 to FY24



Source: Flight Centre Travel Group FY21 Investor Presentation result, the division generated an underlying loss before tax of $122m.

Japan

In September, Flight Centre announced its continued strategic expansion within the Asian corporate travel sector with the launch of its leading FCM travel management business in Japan. This will be undertaken via a joint venture (JV) with Tokyo-based NSF Engagement Corporation.

As the fourth largest corporate travel market, access to Japan will significantly enhance Flight Centre's ability to win new local and multi-national accounts and provide existing customers with an improved offering.

Looking Forward

At financial year end the business had a net liquidity position of $941m available to meet operational needs. With a monthly cash burn of $30m-$40m, the company is confident that its liquidity runway is sufficient, especially as borders reopen and domestic travel in Australia resumes.

Importantly, management has confirmed that under the current business cost structure, the company will be operating at a break-even level at 50% of its pre-pandemic TTV in Corporate and circa 40% in Leisure. Growth beyond these levels will result in a higher proportion of revenues converting into profits.

Flight Centre has a current market capitalisation of $4.4b.

▪ James Hardie Industries (JHX.ASX)

Leading fibre cement producer James Hardie delivered a strong first quarter performance, marking nine conservative quarters of consistent, profitable growth above market. At a group level, total sales lifted 35% to US$843m, while adjusted net income (NOPAT) excluding asbestos payments increased 50% to US$134m. Operating margins improved to 26% from 24.9% previously.

North America

In the group's largest market, North America, volumes in the exterior business grew 21% over the quarter, resulting in net sales of US$577m, up 28%. With improved sales growth particularly for high value products and LEAN manufacturing savings, operating profits (EBIT) increased 29% to US$169m, while margins improved from 29.0% to 29.3%.

To keep up with increasing demand, new manufacturing capacity is being added. A second sheet machine was commissioned in Prattville, Alabama with production beginning in July 2021. Prattville will get a third and fourth line. Lines one and two are to be used in that market, while lines three and four will supply markets to the North by rail.

In addition, Summerville will be commissioned by March 2022 to produce Cemplank, the lower margin fighter brand. The theory is that new plants, such as the greenfield planned in the Northwest, should be built for higher value products including Hardie led innovations, Color Plus and Hardie Exteriors.

This is a key pillar in the North American strategy to drive high value product mix. The price of Cemplank averages US$475 a square foot verse Hardie plank at US$750 and US$1200 for color, while Hardie innovation products sell for 1.7x color at US$2040 a square foot.

Europe

Europe has continued its positive trajectory with volume growth of 28% and net sales of €103m. This is the third straight quarter of double-digit sales growth and improving operating profit margins of 13.1% for this region.

The three key milestones established when the European Fibre Gypsum business was acquired have now been met. These include a targeted 15% EBITDA margin, the right product offer and sufficient scale. This has triggered the decision to build a dedicated Fibre Cement manufacturing capability in this region.

Asia Pacific

In the Asia Pacific market, sales increased 33% to A$184m while margins improved from 24.4% to 27.4%.

Increased freight and input costs impacted margin gains across each region.

Strategy

Since taking over the reins in 2019, CEO Jack Truong has transformed performance across all business lines. CEO Truong has articulated a global strategy built upon customer focus, continuous manufacturing improvement, employee alignment, product innovation and market leadership. Over the short period of his tenure, CEO Truong has been true to his vision. Sales are higher, margins stronger and the production performance now of a consistently high standard.

Truong has got the basics right. In summary they are:

1. World class manufacturing via the execution of LEAN
2. Partnership with customers and a shift to a Push/Pull strategy
3. Supply chain integration servicing the customers
4. A globally integrated management system operating across the organisation, referred to as HMOS (Hardie Manufacturing Operating System)
5. Delivery of consistent financial results

In 2022 the company is extending its Push-Pull strategy, by engaging directly with the ultimate decision maker, the female homeowner. This approach towards building a consumer brand aims to facilitate a direct and personal relationship; one that enables a continuous pool of future customers to consider the merits of the group's product offering, outside of the cyclical building industry.

If successfully executed, this will enable an end-to-end solution linking design, manufacturing and selling. Product innovation sits at the centre and is designed to meet the needs of today's audience who require design aesthetics, affordability, product durability and exacting environmental standards.

This is the mission, to shift the Hardie business to a more consumer centric model by building brand loyalty and driving word of mouth promotion of James Hardie's high value product.

CEO Truong has identified 40m homes in the U.S. that are over 40 years old that now need to be remodelled and resided. Reaching a conservative 5% share or 2m homes would double the annual U.S. new build opportunity. Truong is at pains to explain that this funnel renews every year as the national housing stock ages. James Hardie aims to reach the decision maker with an evocative digital message via social platforms. This opportunity becomes very sustainable once the message has landed.

In its early stages, the "It's Possible with James Hardie" digital and TV campaign has delivered 300m impressions and reached 'Christine', a persona representing the target market, on average 7 to 9 times. Traffic to the company's website from female consumers has increased sevenfold over the same period last year. James Hardie currently has single-digit brand awareness.

For 2022, the company is guiding towards a net operating profit within the range of US$550m-US$590m, revised up from the US$520m-US$570m guidance provided at the full-year result.

James Hardie has a current market capitalisation of A$21.4b and net debt of US$815m.

Jumbo Interactive (JIN.ASX)

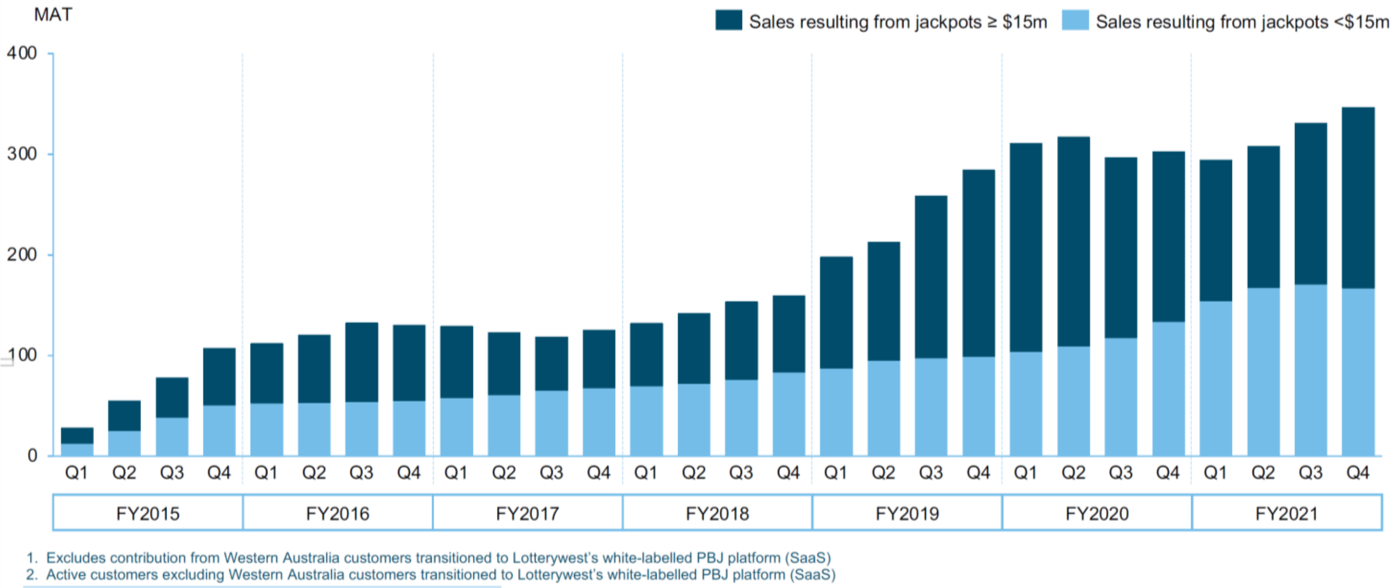
Financial Summary

Online lotteries now account for 32.8% of Australian ticket sales, up from last year's 28.0%. This growth continues to present a significant long-term market opportunity for Jumbo Interactive.

For FY21, Jumbo successfully grew the total transaction value (TTV) of ticket sales facilitated through its digital platform by 37% to $487m. This saw a revenue increase of 17% to $83.3m and underlying net profit after tax lifting 7% to $28.3m.

Jumbo Interactive operates across three segments; Lottery Reselling, its Software-as-a-Service (SaaS) "Powered by Jumbo" platform, and Managed Services.

Figure 3: Lottery Average Moving Annual Total Transaction Value by Quarter



Source: Jumbo FY21 Financial Results Investor Presentation

Lottery Reselling

Despite a subdued lottery jackpot environment and average pool sizes down 21%, Jumbo still delivered a 10.4% lift in average spend per active customer to $423 for the year. The company's active customer base remained largely unchanged, rising 1% to 766,263. The lack of large jackpot pools, which reflect the unpredictability of lottery games, is the key metric influencing transactional volume and new customer acquisitions.

While Jumbo has historically refrained from marketing heavily in a low jackpot environment, the company reassessed this approach during 2021, determining that customers who join when prize pools are low show greater propensity to maintain transactional spending. This was reflected in higher customer acquisition costs per lead of $20.31, up from last year's $14.28. Importantly, this is giving way to a more diverse customer base, thereby driving a higher quality recurring revenue base. Early signs are promising, as depicted in Figure 3 for jackpots below $15m (shown in light blue), Jumbo has continued to successfully increase transaction volumes.

In total, Lottery Retailing contributed TTV of $349.5m (an increase of 15%) and revenue of $72.0m (an increase of 17.1%). Importantly, despite the introduction of a 1.5% Tabcorp service fee, which will incrementally increase to 4.65% by FY24, Jumbo has maintained strong underlying operating earnings (EBITDA) totalling $27.2m and margins (EBITDA) of 38.3%.

The total domestic lottery market is currently transacting $6b of tickets per annum, with underlying growth in the low single-digit range. As noted earlier, digital sales currently represent around 33% of the market. Expectations are that online penetration will continue to grow by 3%-4% per annum, bringing Australia more in line with overseas markets, such as the U.K. and Finland, where online penetration exceeds 40%.

Powered by Jumbo

Moving beyond its traditional ticket reselling business, Jumbo's SaaS platform "Powered by Jumbo" (PBJ), enables the company to licence its software platform offering to external lottery operators around the world. FY21 was a pivotal year as all four external clients in Australia went live on the PBJ platform.

Together, the three charity lottery operators (Mater Foundation, Endeavour Foundation, and Deaf Services) along with Western Australia's Lotterywest represented some 882,000 active players, with a combined annual TTV run rate of $132m. Software license fees range between 3.0% to 9.5% of ticket sales (TTV) processed on the PBJ platform. For the year, PBJ contributed TTV of $104.8m up from $8.7m and external revenue of $4.9m up from $1.2m.

Jumbo is currently working to onboard its first international PBJ client, St. Helena Hospice in the U.K., with a go live launch date expected in the first half of FY22. The total addressable market opportunity for PBJ across Australia, the U.K. and Canada, is estimated at $25b TTV.

Managed Services

While PBJ is an appropriate offering for mid to large lottery operators, it is not well suited for smaller organisations. Jumbo's Managed Services segment provides more comprehensive lottery management services, including prize procurement, lottery game design, campaign marketing, customer relationship and draw management; effectively a "lottery-in-a-box" solution.

With the strategic acquisition of Gatherwell in 2019, providing the foundation for the Managed Services segment in the U.K., this business has grown to support 108 charities, up from 78 last year. As a result, TTV has increased 40% to £9.3m, revenue has risen 42% to £1.8m and EBITDA has more than doubled to $0.7m.

In August, Jumbo announced the acquisition of Stride Management, a Canadian based lottery Managed Services group. Stride is a full-service lottery management solution serving over 750,000 active lottery players in the Alberta and Saskatchewan provinces. In the year to September 2021, Stride was forecast to generate TTV of A$122m, revenue of A$6.5m and profit before tax of A$2.5m. The acquisition has an upfront cost component of C$7.7m (~A$8.2m), with earn outs totalling C$1.65m (~A$1.76m) to be funded entirely from available cash.

For the Managed Services segment, the total addressable market opportunity including the markets of Australia, the U.K. and Canada, is estimated at $42b TTV.

Jumbo has a market capitalisation of $972m and net cash of $63m as at the end of June.

▪ Medical Developments International (MVP.ASX)

Financial Summary

FY21 has been a transitional year for Medical Developments International. The company reclaimed marketing authorisation rights, appointed a new CEO, made Board changes, secured additional investment capital and restructured the business to drive global growth. For the year, reported revenue increased 9% to $25.7m, helped by one-off upfront and milestone payments totaling $10.5m. Excluding this contribution, underlying revenue fell 28% to $15.2m resulting in an underlying operating loss (EBIT) of $4.4m.

Medical Developments delivers solutions across two medical segments: emergency pain relief, via Penthrox, and respiratory products.

Penthrox

The company's focus continues to be on the manufacture and distribution of Penthrox, a fast-acting trauma and emergency pain relief product. Penthrox is an inhaled analgesic in which the active ingredient, Methoxyflurane, is administered in small doses (3ml). It is a non-opioid alternative to narcotics such as morphine and the anesthetic nitrous oxide. Penthrox is self-administered via a handheld inhaler, more commonly known as "the green whistle".

Medical Developments is the sole manufacturer of Penthrox globally, which has been approved and sold in over 40 countries, including Australia.

With the appointment of Brent MacGregor as CEO and Gordon Naylor as Chairman, Medical Developments is focused on realising the full potential of its lead product and delivering on its global aspirations.

Both MacGregor and Naylor previously held the CEO and Chair positions respectively at Seqirus, one of the world's largest influenza vaccine manufacturers, which CSL acquired in 2014. Post the separation from Novartis they were jointly responsible for standing up all Seqirus's operational business systems and driving this complex global franchise from loss to profit in the space of five years.

Marketing authorisations reclaimed

1. Europe

In August 2020, the company reached mutual agreement to repurchase the European distribution rights, covering the 27 member states in the European Union, from previous partner Mundipharma. This cost €3m, payable in staged installments, plus a 5% royalty capped at a maximum of €5m from 1 September 2020.

A European office has been established, along with the appointment of new Head of Europe Stefaan Schatteman, Mundipharma's former marketing executive for the region. Despite operational disruptions and COVID-19 headwinds, the company noted modest growth of the Penthrox business during the period.

2. Australia

Medical Developments also reached an agreement with Mundipharma to repurchase the distribution and licensing rights in Australia. In the lead up to the transition, Mundipharma's decision to sell through existing Penthrox stock levels presented a first half headwind, resulting in lower full year revenues. Importantly, the company experienced a rapid recovery in Penthrox sales post the hand over, reporting a record second half performance.

Australian sales of $8.5m were 55% of total underlying revenues, up from last year's 51% contribution.

3. France, a litmus test

The company's entry into France will serve as a litmus test for its ability to directly service a new market rather than through a distributor. Despite a significant reduction in hospital emergency room visits, Medical Developments saw only a modest decline in regional sales. A key account manager has been appointed for France, with an additional eight expected to be appointed across FY22.

A similar approach has commenced in Belgium, one of the few countries with national reimbursement.

Longer term, the company continues to seek approvals and market entry into the U.S. and China. A next generation device, Penthrox Inhaler Selfie is also under development, which will simplify the self-administration of Methoxyflurane. The new device is expected to launch in the Australian market in FY24, with Europe and the U.S. to follow a year later.

Respiratory

The respiratory segment faced COVID-19 related challenges, as reduced community movement led to a milder cold and flu season. This was compounded by panic-buying in late FY20, leading to a slow start to the year. Trading conditions improved in the second half following the launch of products, including anti-static Breath-A-Tech Spacer into Chemist Warehouse.

Medical Developments has a current market capitalisation of $371m and net cash of $36.3m.

▪ PolyNovo (PNV.ASX)

Financial Summary

PolyNovo, a leader in synthetic bioabsorbable polymer solutions, reported a resilient full year 2021 result with total revenues increasing 33.8% to $25.5m.

Despite access to hospitals and physicians being restricted, the group experienced strong growth of the Novosorb BTM product, with sales increasing 38% on a half-on-half basis.

In an important milestone, the company reported an underlying net profit after tax of $0.26m (excluding non-cash items) and ended the period with $7.7m of cash on hand.

Regional performance

In the U.S. market, PolyNovo remains focused on expanding sales capacity, with the team doubling to 36 employees during the year. The adoption of BTM continues to gain traction, with 44 new hospital accounts added and three new Group Purchasing Organisation (GPO) contracts. GPOs act as a purchasing aggregator for members, which allows PolyNovo to access and sell to a significantly larger base.

Overall, revenue grew 49% to US$15.5m as the U.S business turned profitable during the period.

With the release of additional BTM scaffold sizes, PolyNovo has been successful in driving deeper penetration within hospital's alternate care markets, such as elective and chronic wounds. Management commented that this increased penetration is being driven directly by surgeons.

To accelerate adoption in the chronic wound market, PolyNovo commenced the SynPath reimbursement trial. Early results from the 10 patient, proof-of-concept study show complete healing within 12 weeks. The company expects the final report imminently, with a larger trial commencing by year end.

Within the trauma market, PolyNovo commenced the BARDA funded pivotal trial to gather data on the effectiveness of BTM in the treatment of full thickness burns. The trial will recruit patients across 25 sites in the U.S and five in Canada and is estimated to take three years to complete.

Other markets

In Europe, the distribution model has enabled significant expansion across the region, which resulted in revenue growth of 53%. In the U.K. and Ireland, adverse market conditions heavily impacted the ability to engage with hospitals and surgeons, slowing product rollout. Management commented that post the reporting period conditions had improved, with Ireland witnessing a rapid uptake of BTM.

Across ANZ, revenue and volume grew 25% and 35% respectively, reflecting penetration into smaller wounds and elective procedures. Two additional salespeople were added over the period to extend coverage. Management highlighted improved sales in burns and greater access within private hospitals for elective surgeries.

Product pipeline and R&D initiatives

During the period, the company completed the manufacturing facility for a hernia product leveraging the NovoSorb matrix. Through this investment, new manufacturing processes such as ultrasonic welding and automated packaging have been implemented, enabling the company to significantly improve its output and technical capabilities. Large studies are in progress to gather data on the effectiveness of reabsorption and toxicity of the product, with 1,300 sheets already produced for validation and testing purposes. PolyNovo is aiming to file with the FDA by early 2023.

In addition to the hernia product, the group is developing new technologies for diabetes, reconstruction and muscle repair applications. These R&D initiatives are undertaken in-house, leveraging existing IP and manufacturing techniques from the BTM and hernia platforms.

Outlook

Management's focus remains on expanding operational capabilities, geographic reach and accelerating the time to market of new products. People and R&D activities are central to achieving long-term outcomes, with management committed to building out talent and capacity within product development.

Focus on broadening the organisational structure is underway. With the goal to support future growth by expanding regional and function-based infrastructure, it is clear management have taken a long-term approach in building out the business sustainably funded through existing capital means.

PolyNovo has a market capitalisation of $1.2b and is cash neutral.

▪ Reece (REH.ASX)

Financial Summary

Reece, a leading supplier of plumbing, bathroom, heating, ventilation, air-conditioning, waterworks and refrigeration, delivered a robust full year result, lifting group revenues by 4% to $6.3b and normalised operating earnings (EBITDA) by 11% to $720m.

Australia and New Zealand (ANZ) sales were strong, up 9% to $3.2b, driving operating profits up 23% to $382m. In the U.S., while reported revenues were flat at $3.1b accompanied by operating profits up 11% to $111m, when expressed in U.S. dollar terms, sales rose 11% alongside profits up 24%.

ANZ

ANZ continues to deliver industry leading EBITDA margins of 15.7%, up 1.0% for the year. The business remains a clear market leader across many real-world metrics, including a global employee engagement score of 82, eight points above the industry benchmark.

Online sales increased by 53% in the year. This digital journey has been a decade in the making and continues at pace. The strategy is centred on the online customer platform, maX, which integrates with several platforms for greater customer efficiencies. This includes FieldPulse (an invoicing platform integrated to accounting platforms), PowerUp (trade-based training platform) and Goodwork, (a hiring and job management platform) which grew at 35%, making it the fastest growing social platform for skilled labour.

Reece has also formed the Breakthrough Innovation Group (BIG), a combination of NEXT (innovation & insights), Trout (brand strategy) and Superseed (disruptive ideas). BIG will support both Reece ANZ and the U.S. by testing, learning, and iterating, with the aim of becoming the thought leader of insight and innovation in the trade industry.

U.S.

Reece U.S. operations performed to expectations. The U.S. is currently generating around half the EBITDA margins of ANZ. While this reflects a different competitive set to ANZ, it also represents a long-term opportunity.

The key take out from the FY21 result is that U.S. CEO Sasha Nikolic is ready to launch the Reece livery on U.S. soil. The process to reach this point has been a data driven exercise. The company has confirmed a material step up in capital expenditure, reflecting management's intent and confidence to undertake the first step in a multi-year organic store rollout in the U.S. The U.S. store count currently stands at 189. We believe between 10 and 20 stores could be rolled out on an annual basis.

The Reece U.S. strategy is on track. At the time of acquisition CEO Peter Wilson made it very clear that this was a long-term opportunity, measured in decades not years.

"What we have here is a 100-year-old place that needs a refurbishment while you're living in it. So, we have started by re-stumping the place. Then there needs to be a new roof and walls. The biggest thing will be when we rewire the company, which is the technology part. The opportunity for Morsco is even bigger than I thought but there is still foundational risk. We need to get it right because it is a 10-year journey."

Group strategy

CEO Wilson also used the earnings update to highlight the key priorities behind Reece's "*One purpose, two region strategy*":

1) Being brilliant at the fundamentals of the business
2) Creating opportunities for growth
3) Delivering innovation to stay ahead of their customer's needs

We believe Reece is delivering on all three fronts.

CEO Wilson commented, *"Our vision means that we'll become both a bricks-and-mortar and a digital business, providing the quality of products that we are known for and creating services to help trade people run their business as well. So, however our customers choose to do business with us, they will have the same personalized customer experience, we'll know them on every channel, and we'll be one step ahead of their every need."*

ESG leadership

Reece is also taking a leadership and values-based approach to corporate social responsibility. In 2021, with help from insights across the network, including customers, trades people and consumers, the business redefined its sustainability strategy. The three key areas of focus are:

- Operating a sustainable business by reducing their environmental impact and promoting sustainable business practices;
- Empowering trades to create more sustainable ways of working; and
- Helping to build resilient communities through partnerships and the establishment of the Reece Foundation, which aims to connect trades people with communities in need.

Reece has a current market capitalisation of $11.5b and net debt of $506.7m.

▪ ResMed (RMD.ASX)

In August, leading out-of-hospital medical device, mask, and software provider, ResMed reported its fiscal year 2021 result. The headline performance was solid with group revenue increasing 6% in constant currency (cc) to US$3.2b and non-GAAP operating profits rising 12% in cc to US$1.0b.

Revenue growth was delivered across all segments with Global devices up 3% in cc to US$1.6b, Masks and other rising 9% in cc to US$1.2b and Software as a Service (SaaS) lifting 5% in cc to US$0.4b. ResMed's closely watched gross margin was 57.5%, while non-GAAP gross margin contracted 70 bps to 59.1%, driven by increases in lower margin sleep devices and elevated freight cost.

COVID-19 impact

COVID-19 presented both challenges and opportunities for the business. ResMed's core device sales from new sleep apnea patient enrolment suffered when clinics closed, and today remains subject to the ebbs and flows of the pandemic. New patient demand is recovering but sits below pre-COVID levels. First half revenue was driven by unprecedented global demand for ventilators.

Competitor recall

At the Full Year, ResMed described a near perfect demand storm, as its largest competitor Philips' announced a full product recall of its DreamStation 1 CPAP devices in June. This was caused by the aerosolisation of the sound abatement foam, which can potentially enter a patient's breathing pathway.

According to ResMed this has created near infinite demand and has led to client product allocations. On a combined basis, ResMed (~60%) and Philips (~30%) supply more than 90% of the market for CPAP devices. Philips has indicated the twelve-month recall process will be completed in 2022 at the earliest.

To put the near-term opportunity into perspective, the last month of the fourth quarter contributed approximately US$60m to US$70m of incremental device revenue. CEO Mick Farrell notes that *“we see a path to US$300 million to US$350 million in additional revenue in fiscal 2022, over and above our previously planned revenue growth for fiscal 2022.”* The midpoint of this represents around 20% of FY21 devices revenue.

New product release

Philips’ recall coincides with the September release of ResMed's new AirSense 11 device and software platform. With substantive upgrades to the offering, CEO Farrell claims *“the AirSense 11 is a huge leap forward for the industry”.* In a departure from the standard product release process, ResMed will meet market demand by manufacturing both platforms simultaneously.

President of Sleep & Respiratory Care Business, Jim Hollingshead commented, *“we feel very confident that with AirSense 10 and AirSense 11, we have the 2 best sleep therapy devices on the market...And I think that our competitor's recall simply creates a window of opportunity for us, as Mick is saying, to familiarise more customers, more patients with the innovations and to streamline workflows for providers and to provide continually improving patient experience on therapy, which drives up adherence, improves outcomes for patients, and all of our stakeholders have been winners with that. So, we feel very confident as we were launching, and I think the circumstances give us even more of an opportunity.”*

Supply chain

While ResMed can ramp up manufacturing capacity the challenges lie in supply chain procurement resulting from the global shortage of electronic components (semiconductors). CEO Farrell has led the conversations with long-term suppliers. According to Farrell, the appeal of the life changing nature of ResMed's products, combined with the company’s ability to make long-term commitments to suppliers has seen success in this endeavour.

Market share gains

Longer-term, ResMed sees permanent market share gains, as patients, physicians and providers experience a better platform and superior technology. CEO Farrell believes customers are unlikely to *“return to the Dutch company who bought an American company.”*

Digital

ResMed believe the need for digital solutions in out-of-hospital and home care has increased in relevance. While recent growth rates have been subdued, due to fewer elective surgeries and the discharging of patients, the medium-term prospects are positive as the global population ages and the cost of treatment in the hospital remains elevated.

ResMed offers purpose-built software solutions across verticals, such as home medical equipment, skilled nursing facilities, home health and hospice. Demand for software solutions has increased as lockdown restrictions are eased. ResMed now expects SaaS revenue growth to gradually increase to high single-digit levels by the end of the 2022 fiscal year.

ResMed has invested across technology, data and advanced analytics. With a rich ecosystem of cloud connected solutions, comprising 16m cloud connectable devices and 110m accounts in its out-of-hospital care software network. ResMed intends to leverage this data through AI and machine learning to continue improving its products and service offering.

General strategy

ResMed has delivered impressive revenue growth of 12% on a 5-year compound annual growth rate (CAGR) and non-GAAP Operating Income of 16% on a 5-year CAGR. Continuation of this growth is driven by ResMed's three operating priorities, which CEO Farrell has updated:

a) to grow and differentiate our sleep apnea, COPD and asthma businesses;
b) to design, develop and deliver world-leading medical devices **as well as** digital health solutions **that can be scaled globally**; and
c) to innovate and grow the world's best software solutions for care delivered **outside the hospital, especially in the home**.

R&D

Global market leadership and share gains stem from research and development (R&D). ResMed invested US$225.3m on R&D, equal to 6.8% of revenue. This was fully expensed as it was incurred.

ResMed has a market capitalisation of US$36.7b and has strengthened its balance sheet, reducing net debt to US$360m. The company declared a quarterly dividend of US42c per share, representing an 8% increase quarter on quarter.

- ## SEEK (SEK.ASX)

Financial Summary

In August, leading online employment group SEEK released its FY21 result. Group performance was solid with revenue up 5% constant currency (cc) to $1.6b and operating profits (EBITDA) rising 18% to $473.6m. These numbers include both continuing and discontinued operations.

SEEK's continuing operations consists of the online employment businesses across Asia Pacific & Americas (AP&A) and certain portfolio investments. Revenue grew 21% cc to $760m and operating profits rose 33% to $332m. Operating margins of 44% reflect the scalability of these core businesses, which have benefited from a strong job ad market and continued rollout of a new pricing model.

Discontinued operations include the Chinese held investment in Zhaopin, which is now equity accounted following SEEK's equity sell down to 23.5%, as well as the transfer of businesses, including Online Education Services (OES) and the group's early-stage ventures (ESVs), into the separately managed SEEK Growth Fund.

Cash conversion of 94% was below historical levels due to one-time impacts and is expected to improve. The group delivered a 20c per share final dividend, taking the full year dividend to 40c per share.

SEEK new structure

Following a strategic review, SEEK has chosen to undertake a corporate reset which will result in a separation of assets. The continuing SEEK business, housing the traditional online employment AP&A operations will be the primary focus. CEO Ian Narev will lead the organisation, alongside current members of the AP&A executive team. This business will also house the group's remaining 23.5% equity stake in Zhaopin and several ESVs, although they will be independently managed by the group's newly established SEEK Investments.

The company's 80% equity interest in online education provider OES, as well as the balance of ESVs will be housed in a newly created unit trust, known as the SEEK Growth Fund. An independent management company, SEEK Investments, led by former SEEK CEO Andrew Bassat and the previous SEEK Investments team will manage these assets.

These seed assets have been valued at $1.2b, with SEEK Investments as the Manager, receiving management and performance fees. A further $460m of new capital provided by SEEK ($200m), CEO Bassat ($80m) and the balance from outsider investors, will see the Fund valued at $1.7b. At the inception of the new Growth Fund, SEEK is expected to hold 84.5% of units available, with any future position subject to dilution resulting from new capital raised.

This new corporate structure will highlight the inherent quality of the group's leading online employment business, while allowing the newly created SEEK Investments, led by CEO Basset, to focus exclusively on the myriad of start-up business ventures.

While fully supportive of these steps and the calibre of executive talent retained, we also seek greater transparency regarding the new Growth Fund and the underlying performance metric targets.

SEEK ANZ

The FY21 result was robust, with revenue increasing 40% to $541.0m and operating earnings rising 46% to $322.9m. The strong performance was driven by a second half recovery, led by record monthly job ad volumes and a strong small-medium-enterprise (SME) segment performance.

Revenue growth consisted of volumes (+8%), yield (+15%) and depth (+17%). Notably, depth revenue grew by 58% and now represents 32% of ANZ revenue. The transition to new flexible contracts reduces customer friction, as it enables investment across any job ad, at any time to generate the highest return on investment. Early signs are positive with Premium Ad revenue up 2x in FY21.

Despite the strong financial and operating results, total placement share fell from 33% to 30%. The shift to SMEs and changing candidate behaviours has meant social media platforms, such as Facebook, have taken share. Although the data suggests this should be market related, SEEK will continue to prioritise investments across product and brand to retain market share.

SEEK Asia

Asia contributed 19% of revenue from continuing operations. In constant currency terms revenue declined 2% to $145.6m, while EBITDA was lower by 27% to $47.4m. The result was impacted by prolonged lockdowns in developing markets, offset by resilient performances across the developed countries of Singapore, Hong Kong and Malaysia.

Despite the weaker market conditions, Asia represents a key pillar for SEEK's growth aspirations. The market opportunity is much larger than ANZ, while a large proportion of job hiring has yet to move online. SEEK will invest in product, technology and marketing to drive differentiation within the fragmented competitive environment. This has commenced in FY21, with the region recording a significant fall in operating profits, despite revenue remaining broadly flat.

Platform unification

SEEK will accelerate the unification of platforms across ANZ and Asia. By having one centralised platform hosted on the optimised ANZ platform, new products and enhancements can be deployed at scale while overall security and reliability will improve.

SEEK will employ an additional 200 staff to complete the project, with the overall cost expected to total $125m over three years. The task at hand is significant, as the group will be simultaneously undertaking platform unification and other infrastructure projects, including software installations of ERP and CRM. While not discounting the execution risk involved, once complete cost efficiencies and scale benefits should support increased operating leverage.

Five-year strategy and outlook

As a result of the new organisational structure, SEEK has updated its strategic focus areas. The group will invest in four core capabilities, including:

1. Scalable, reliable and safe platforms
2. Strong brand presence
3. Data capture, analysis and application
4. Price to reflect value

SEEK has also set an aspirational target of doubling revenue over the next five years. Management believes the target is achievable within its existing markets through focused product and brand investment. During the investment phase SEEK still expects to achieve operating leverage, and this is anticipated to accelerate post platform unification.

Should this occur, this would imply revenues in excess of $1.5b (2021 $760m) and EBITDA more than $680m (2021 $332M), assuming no improvement in margins.

Balance sheet

Group net debt, excluding Zhaopin, ended the period at $863.3m, representing a net debt to EBITDA ratio of 1.6x. Importantly, SEEK's balance sheet has been simplified, with offshore debt partially paid down alongside the deconsolidation of the local Zhaopin structure.

Company guidance

SEEK anticipates ad volumes to respond quickly to the lifting of COVID restrictions. As a result, the company expects 2022 revenue, excluding the SEEK Growth Fund, to be in the range of $950m to $1.0b and EBITDA of $425m to $450m, representing growth rates of 28% and 32% at the respective midpoints.

SEEK has a market capitalisation of $11.2b and net debt of $863.3m. ***SFM***

RESMED INVESTOR DAY 2021

Key message

Leading global respiratory care manufacturer held its virtual investor day in September.

CEO Mick Farrell, son of founder Peter Farrell, set the scene with the title of the investor day presentation pack, "Transforming Care as the World-leading Digital Health Company".

Since its founding in 1989, the business has evolved from a market pioneer to a leading innovator across the sleep apnea and respiratory care space. Employing over 8,000 employees, serving customers in over 140 countries, and turning over US$3.2b in revenues, the company's market valuation now sits at US$42b.

The events of COVID-19 have reinforced and accelerated industry change. CEO Farrell has identified three of the mega trends to have emerged as a result:

1. Out of hospital care is now the accepted treatment pathway for patients.
2. Digital health has enabled out-of-hospital care to take place, both efficiently and effectively; and
3. The elevation of respiratory care in the medical field.

Today, the company is the clear global industry leader across the sleep apnea and respiratory care market settings, with significant aspirations out to 2025.

ResMed's combined sleep apnea unit and integrated out-of-hospital healthcare offering currently services the needs of 125m lives.

The goal is to double the number of improved lives to 250m by 2025, focusing on three specific health fields:

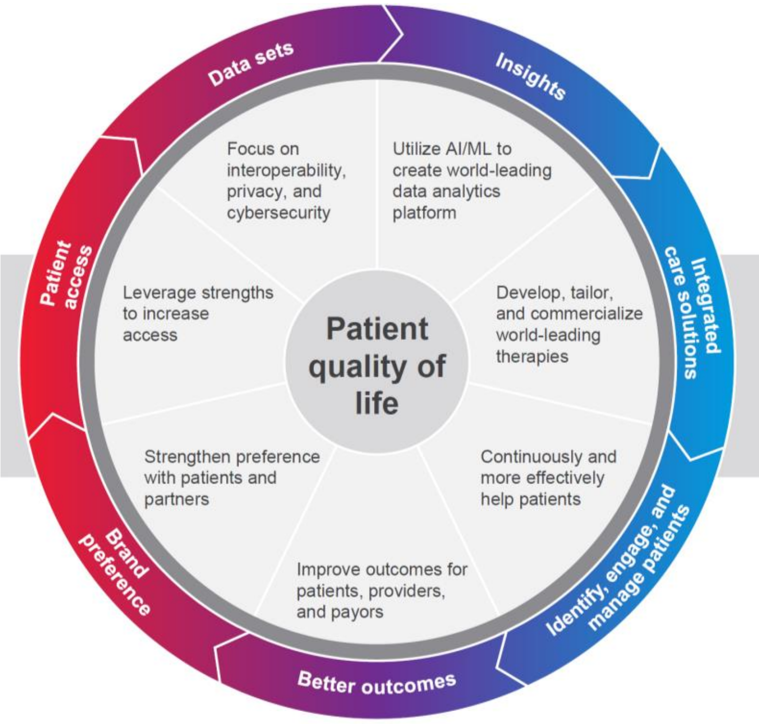
1. Sleep apnea with an estimated 936m undiagnosed sufferers
2. Chronic Obstructive Pulmonary Disease (COPD) with 380m sufferers
3. Asthma with 330m sufferers

Increasing market awareness, expanding market access, and delivering digital innovations, are the cornerstone of transforming out-of-hospital care adoption at scale.

The Flywheel

Personalised care is the new benchmark in healthcare. Those that do it well are likely to benefit from a reinforcing loop. ResMed, not the first of companies to use the term "Flywheel", calls out the sustainable growth opportunities within its products and services.

Figure 4: Sustainable flywheel



Source: ResMed Investor Day presentation, September 2021

Digital plays its part here, as does new insights gleaned from artificial intelligence (AI) and machine learning (ML).

Through a tailored, cloud-based offering, patients can better manage and track their health, helping drive improved levels of treatment adherence. Simultaneously healthcare professionals can quickly access patient data and share insights. This two-pronged approach should ultimately see patient care improve more efficiently.

Add to this the benefit of heightened brand awareness, further strengthening of patient and supplier relationships and a deep commitment to R&D innovation (at 7% of gross revenues, or US$225m in 2021), and the opportunity for sustainability and relevance across its products and services, and resulting lift in recurring revenues, becomes clear.

AirSense 11

In 2014 ResMed launched the AirSense 10 continuous positive airway pressure (CPAP) device platform for sleep apnea patients. It became a best seller and changed the dynamics of patient management.

The combination of hardware and software solutions enhanced usability and significantly streamlined the patient compliance monitoring and management process, while improving overall patient outcomes and engagement.

AirSense 10 also paved the way for AirView and myAir, whereby physicians could monitor a patient's treatment adherence and patients likewise could follow their own progress. It was the first step in a more personalised, two-way healthcare setting.

ResMed's innovative approach delivered significant market share gains against nearest rival Respironics, now owned by the Dutch-based Philips group.

In September 2021 ResMed unveiled AirSense 11. This is the latest iteration of this market leading CPAP device platform. Centred on the role of data to deliver better patient therapy, it is a significant step-up. New features include:

- A two-way communication platform
- Pairing with myAir and directly to the Cloud
- Easy to use touchscreen, with patient prompts and questions
- Cloud enabled upgrades without the requirement of new hardware
- Patient adherence improvements

Test marketing has shown strong uptake of the new features. Looking at the AirSense 10, the group currently has over 16m cloud connected global devices, of which a total of 3.5m patients use the myAir app to self-monitor. Those that track their individual performance are shown to have higher levels of therapy adherence and enjoy better health outcomes.

Figure 5: AirSense 11

Source: ResMed Investor Day presentation, September 2021

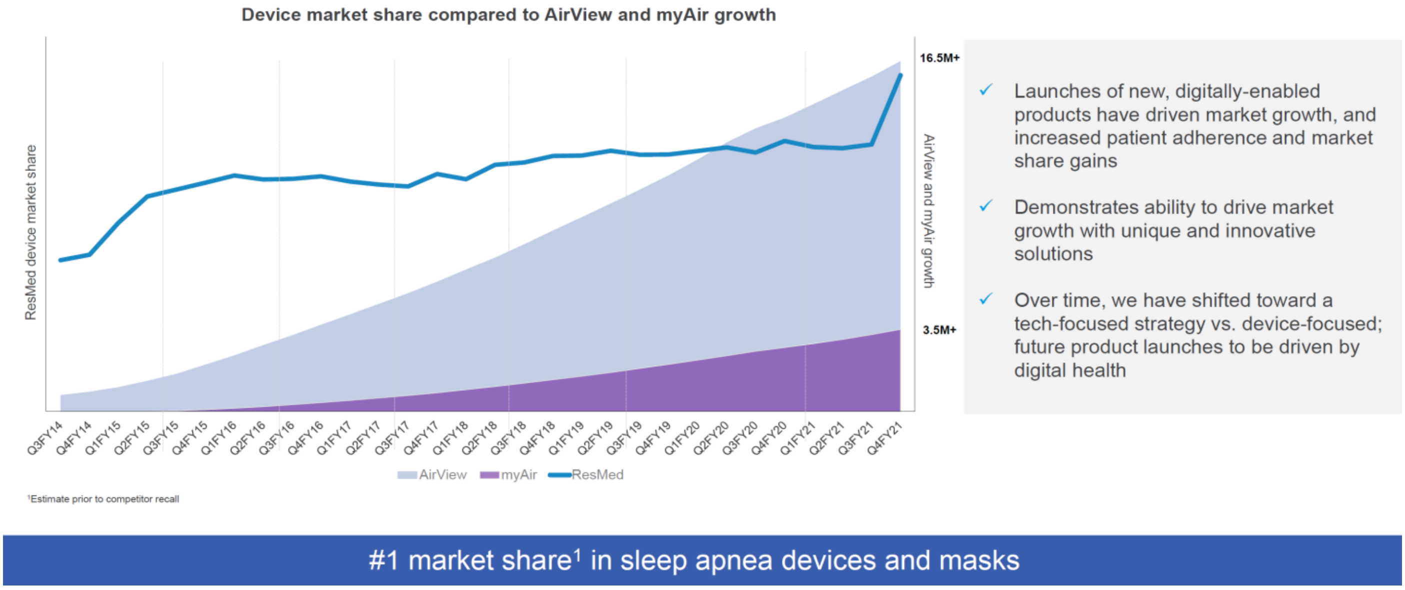
Patient adherence to therapy can be one of the biggest challenges, which is one of the key outcomes the AirSense 11 aims to deliver. In the U.S. just 40% of patients who log onto myAir do so, however, market testing of the new AirSense 11 has seen a figure closer to 60%. If maintained it will underscore the company's "Flywheel" aspiration, driving stronger product adoption, higher levels of therapy adherence and the automatic resupply of recurring mask revenues.

Financials

Since 2017 the business financials have shifted to a higher gear. Top line compound annual growth rate (CAGR) of 12% is driving operational scale, with operating income and earnings per share delivering CAGR of 18% and 17% respectively. The business is enjoying the benefits of scale, with R&D annual investment of US$225m and general working capital expense spread over a much larger revenue base.

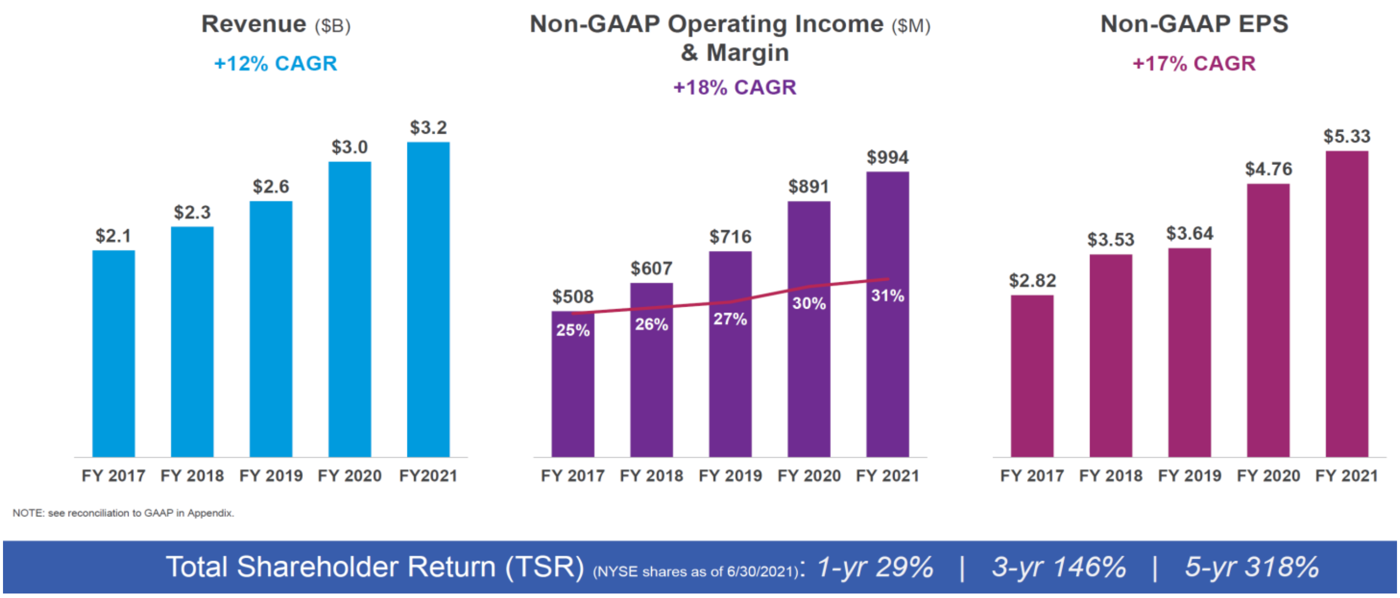
The financial outcomes are pleasing to the eye, reflecting the lack of competitive tension and the company's leading market share position in the sleep apnea industry.

Figure 6: Market share gains



Source: ResMed Investor Day presentation, September 2021

Figure 7: Financials 2017-21



Source: ResMed Investor Day presentation, September 2021

With nearest competitor Philips sidelined, dealing with its DreamStation 1 CPAP product recall, ResMed is set to improve its dominant 60% market share. CEO Farrell has been quite clear on this matter; as unfortunate as these events are on the industry and patients alike, ResMed will step up to the challenge.

Over the course of 2021-2022, ResMed will simultaneously sell its AirSense 10 and roll out its newest release, the AirSense 11.

With the two best-selling products on the market, CEO Farrell expects a permanent shift in market share gains, one that is likely to have a material long-term positive impact on the group.

Looking beyond, CFO Brett Sandercock provided some important business markers:

- Devices expected to grow mid-single digit
- Masks to grow high single-digit
- SaaS to grow mid to high single-digit
- Operating margins to be sustained at 30% plus
- An increase in recurring revenues from masks and SaaS

ResMed has a current market capitalisation of US$42b, net debt of US$360m, and a quarterly dividend payout policy set at 33%. ***SFM***

A FUNNY THING

A funny thing happened during this year's annual reporting season. Where we saw grounds for optimism, the market saw disappointment. Where we saw long-term upside, others fretted about short-term impacts. It made us reflect.

To invest successfully requires conviction and humility. It also involves a process of stepping into the shoes of others, in this case the business owners. The choices we make largely resides on identifying the right people. Some are better than others and what we learn is garnered over time.

The numbers are naturally important but more so the path ahead. And here we make the clear distinction that having an unwavering commitment to a purpose, despite the opposition it may bring, separates the great businesses from the ordinary ones. Ultimately, picking business winners and avoiding the losers comes down too many factors, but sticking to a long-term game plan is the one that gets us across the line and keeps us there.

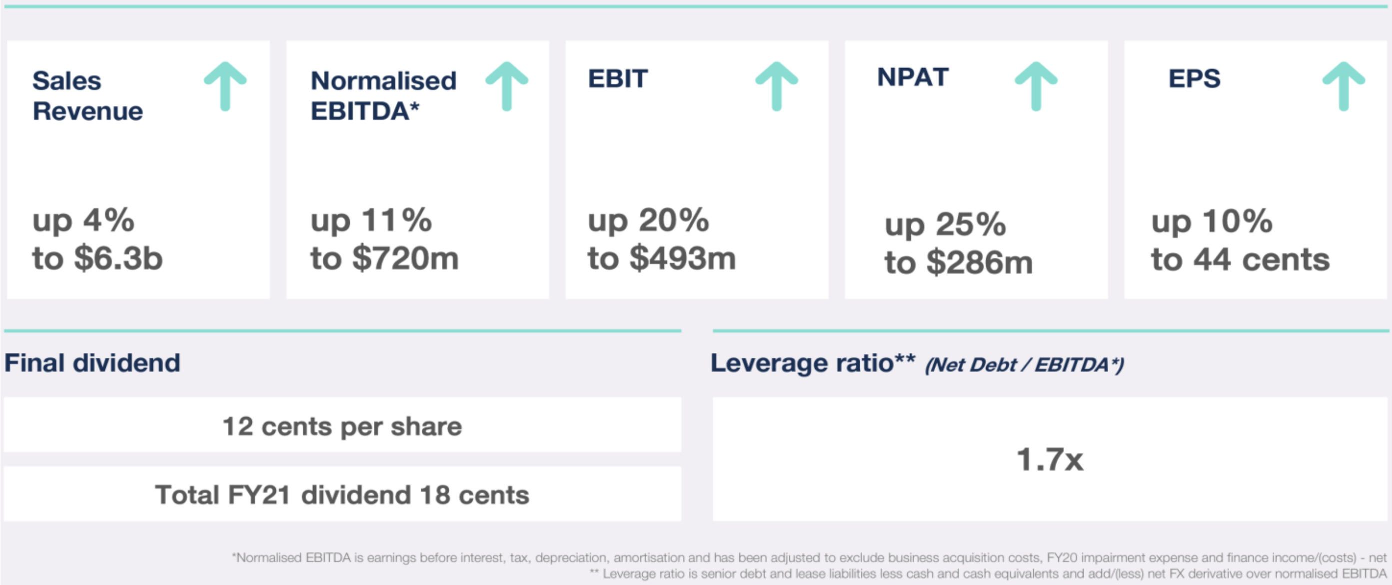
The investment industry is full of disconnects. Over at Reece, the leading Australian plumbing group, the Wilson family involvement goes back to 1969. Today Reece is led by Peter Wilson, an executive who embodies the qualities identified in our opening comments. In 2018, marking 100 years in business, the company undertook the largest acquisition in its history, buying the U.S. based Morsco plumbing business for US$1.44b. It was a bold move, with the accompanying baggage to prove it: a big monetary outlay, an offshore based purchase and willing private equity sellers.

At the time of acquisition CEO Wilson made it very clear this was a long-term opportunity, measured in decades not years.

"What we have here is a 100-year-old place that needs a refurbishment while you're living in it. So, we have started by re-stumping the place. Then there needs to be a new roof and walls. The biggest thing will be when we rewire the company, which is the technology part. The opportunity for Morsco is even bigger than I thought but there is still foundational risk. We need to get it right because it is a 10-year journey."

Those comments are just as relevant today following the company's 2021 full year earnings update. The events that have occurred since the time of acquisition could not have been predicted. COVID-19 drove a need for additional capital and an equity raising followed in 2020. Lockdowns and the flow on demands in housing and investments, with renovators kicking into gear, has led to extraordinary growth in the industry. Plumbing is central to this, and the sales numbers posted by the company during 2021 speak to this demand.

Figure 8: Reece 2021 financial summary



Source: Reece 2021 results presentation

Figure 9: Segment summary ANZ

- Record increase in financial metrics
- Sales revenue up 9% reflecting solid demand across all regions
- Inflation dynamic H2 3%
- EBITDA margin expansion of 100 bps a function of sales volume and operational discipline

FY 21 30 June 2021 (A$m)	FY21	FY20	Var. (%)
Sales revenue	**3,154**	2,888	↑ 9%
Normalised EBITDA*	**496**	424	↑ 17%
EBIT	**382**	310	↑ 23%
Normalised EBITDA margin	**15.7%**	14.7%	↑ 100 bps

*Normalised EBITDA is earnings before interest, tax, depreciation, amortisation and has been adjusted to exclude business acquisition costs, FY20 impairment expense, management fees and finance income/(costs) - net

Source: Reece 2021 results presentation

Figure 10: Segment summary U.S.

- Sales up 11% on a constant currency basis
- Unfavourable FX impact $362m
- Excluding Todd Pipe, USD sales growth of 9.5%
- FY Inflation ~2.0%
- Normalised EBITDA up 10% on USD basis

	AUD			USD		
FY 21 30 June 2021 (A$m)	FY21	FY20	Var. (%)	FY21	FY20	Var. (%)
Sales revenue	**3,117m**	3,122m	→	**2,333m**	2,094m	↑ 11%
Normalised EBITDA*	**224m**	226m	↓ 1%	**167m**	152m	↑ 10%
EBIT	**111m**	101m	↑ 10%	**83m**	67m	↑ 24%
Normalised EBITDA margin	**7.2%**	7.2%	→	**7.2%**	7.2%	→

*Normalised EBITDA is earnings before interest, tax, depreciation, amortisation and has been adjusted to exclude business acquisition costs, FY20 impairment expense, management fees and finance income/(costs) - net

Source: Reece 2021 results presentation

But the reported financial numbers belie the strength in segment performance. Here investors need to apply some appreciation and understanding of each region. Australian sales were strong, up 9% to $3.2b with an even greater performance at the operating profit level, up 23% to $382m.

In the U.S., reported revenues were flat at $3.1b with operating profits up 11% to $111m. However, when expressed in U.S. dollar terms, the top line rose 11%, while profits jumped 24%.

Most analysts got their heads around the currency impact but struggled with operating margins remaining flat at 7.2%. This suggested no improvement in business scale despite the growth, indicating the need for more investment. If you had just turned up and were new to Reece you could easily draw that view, but as we highlighted earlier, the company has remained consistent on this topic. CEO Wilson draws this out in the following,

"*Our unwavering focus on the long-term helps us to keep one step ahead of our competitor's needs*."

This year's numbers reflect a combination of both past and future. If management had simply stopped investing, the profit margin figure would look rosier and investors no doubt happier. But this would rob the company in the forward years and is contrary to the way management operate. One that is, of an infinite mindset, to think beyond the current period and invest for the outer years.

Investors then fretted about the company's valuation with one describing it as farcically expensive. Picking a point in time can lead to all matter of conclusions. The company itself reported a net profit of $285m for this year and left it at that. A look at the accounts, however, suggests a different number.

If you add the annual $43.2m of goodwill write down associated with the original Morsco acquisition, alongside an unrealised foreign exchange impact of $24.5m and offset by a $7.2m property gain, you will see after tax profits lift by some $47m to $332m, 17% higher than the figure stated. Sticking to the accounting rules is fine, but investors need to appreciate the many moving parts and the distortions that can occur.

As to the forward years, management gave analysts even more reasons to fret. Higher inventory to satisfy customer demands and more investment to "*rewire the company*" are not what investors want to hear. On the contrary this is exactly what you want to see. With 189 stores in the U.S, compared to the 642 in Australia and New Zealand, the company is getting its house to expand in a market that is large and open to the Reece way of doing business.

We take comfort that Reece management are steadfast in their pursuit of what matters in the long run and are prepared to report transparent and conservative financials in the interim.

Over at Cochlear the situation is not dissimilar. The company reported a cracking full year result, with implant unit sales up 15% and underlying net profits up 54% to $237m. Despite this, most analyst questions focused on the 16% net profit margin, a drop from the historical level of 18%. It was quite nauseating to hear repeated questions on whether and when margins would be restored.

In a year when its nearest competitors recorded negative implant growth, it mattered naught that the company maintained its research and development expenditure (R&D), while lifting marketing initiatives to capture greater share.

What is lost on many, is that management could deliver a profit number of their choosing. Dropping the level of research spend, cutting marketing and pulling back on regional expansion would all deliver the desired short-term outcomes.

If that were to occur, our smiles would soon erase and our reason for staying would come under review.

Below we provide a transcript of Amazon's 2020 letter to shareholders from its Founder and Chairman Jeff Bezos.

The reading underlies why 'distinctiveness' matters and shines a light on those great business leaders who approach their duties, not to conform but to ensure long term survival. ***SFM***

Appendix 1: Amazon 2020 letter to shareholders

Differentiation is Survival and the Universe Wants You to be Typical

This is my last annual shareholder letter as the CEO of Amazon, and I have one last thing of utmost importance I feel compelled to teach. I hope all Amazonians take it to heart.

Here is a passage from Richard Dawkins' (extraordinary) book The Blind Watchmaker. It's about a basic fact of biology.

"Staving off death is a thing that you have to work at. Left to itself – and that is what it is when it dies – the body tends to revert to a state of equilibrium with its environment. If you measure some quantity such as the temperature, the acidity, the water content, or the electrical potential in a living body, you will typically find that it is markedly different from the corresponding measure in the surroundings. Our bodies, for instance, are usually hotter than our surroundings, and in cold climates they have to work hard to maintain the differential. When we die the work stops, the temperature differential starts to disappear, and we end up the same temperature as our surroundings. Not all animals work so hard to avoid coming into equilibrium with their surrounding temperature, but all animals do some comparable work. For instance, in a dry country, animals and plants work to maintain the fluid content of their cells, work against a natural tendency for water to flow from them into the dry outside world. If they fail, they die. More generally, if living things didn't work actively to prevent it, they would eventually merge into their surroundings, and cease to exist as autonomous beings. That is what happens when they die."

While the passage is not intended as a metaphor, it's nevertheless a fantastic one, and very relevant to Amazon. I would argue that it's relevant to all companies and all institutions and to each of our individual lives too. In what ways does the world pull at you in an attempt to make you normal? How much work does it take to maintain your distinctiveness? To keep alive the thing or things that make you special?

I know a happily married couple who have a running joke in their relationship. Not infrequently, the husband looks at the wife with faux distress and says to her, "Can't you just be normal?" They both smile and laugh, and of course the deep truth is that her distinctiveness is something he loves about her. But, at the same time, it's also true that things would often be easier – take less energy – if we were a little more normal.

This phenomenon happens at all scale levels. Democracies are not normal. Tyranny is the historical norm. If we stopped doing all of the continuous hard work that is needed to maintain our distinctiveness in that regard, we would quickly come into equilibrium with tyranny.

We all know that distinctiveness – originality – is valuable. We are all taught to "be yourself." What I'm really asking you to do is to embrace and be realistic about how much energy it takes to maintain that distinctiveness. The world wants you to be typical – in a thousand ways, it pulls at you. Don't let it happen.

You have to pay a price for your distinctiveness, and it's worth it. The fairy tale version of "be yourself" is that all the pain stops as soon as you allow your distinctiveness to shine. That version is misleading. Being yourself is worth it, but don't expect it to be easy or free. You'll have to put energy into it continuously.

The world will always try to make Amazon more typical – to bring us into equilibrium with our environment. It will take continuous effort, but we can and must be better than that.

Founder and Chairman Jeff Bezos

SUCCESS OR FAILURE?

It is often said there is a fine line between success and failure. Planning for success, however, is an entirely different conversation.

Over recent months we have witnessed numerous examples where planning for success has played out.

Organisations have a legal obligation to undertake business risk analysis to prepare for when things go wrong. So, what about when everything goes right?

To imagine this scenario a few things are needed. First there must be an internal belief of what upside looks like. Second, there must be a certain level of buy-in from everyone in the organisation that extraordinary things can be achieved. Thirdly, there must be a plan, a broad sketch, or even a mud map of the potential upside if things work. And lastly, that belief needs to be backed up with investment.

Planning for success might sound sensible, even downright necessary, but this high hurdle requires relentless attention and a commitment to a common goal. Few are up to the challenge, sidelined by an array of factors, be they balance sheet constraints, external shareholder pressure or even internal Board dissension.

And even if one was able to navigate all these obstacles, success is still not guaranteed. But it is still the right path to take because fortune favours the brave.

'One person's loss is another person's gain'

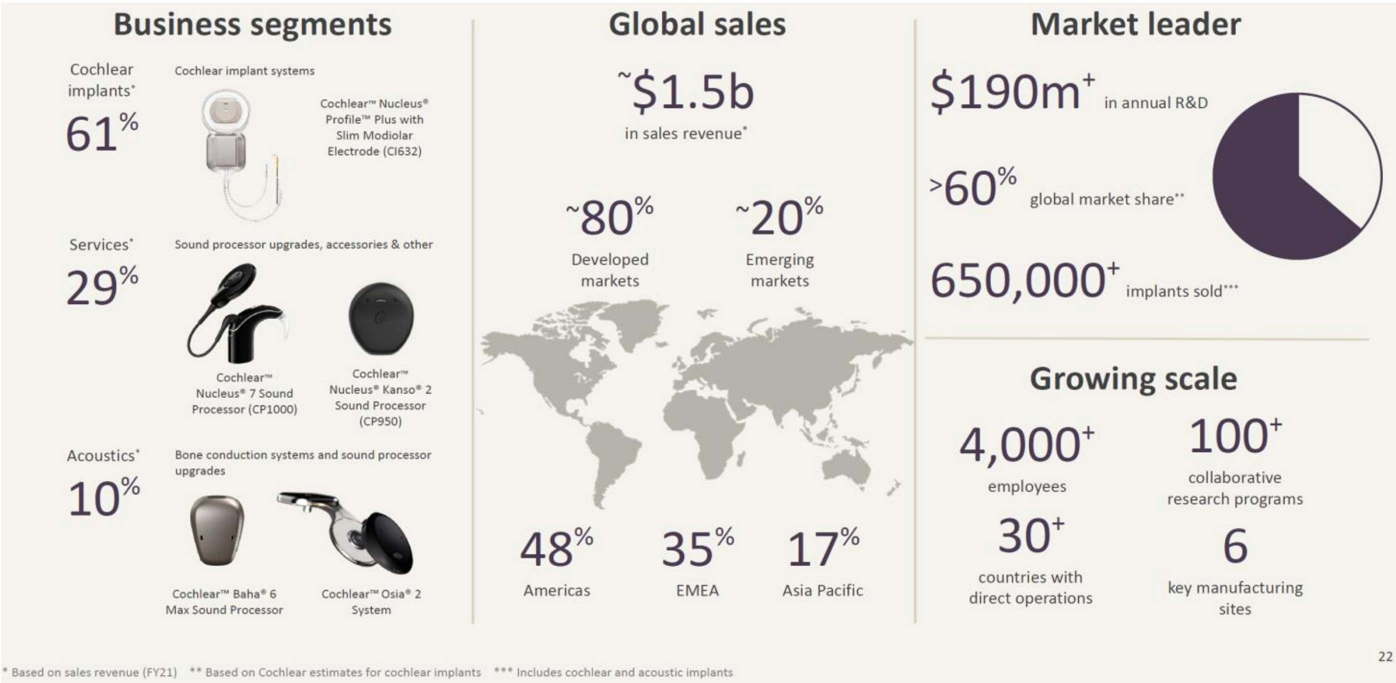
Competition is the great leveller, and it comes in all manner of shapes and sizes. There are those that disrupt with new technologies, others that build enduring brands, while many more take the price competitive route.

Amongst all the variables, competition is the one constant in business life. It never goes away, and the very good operators work hard to stay in front. Ooccasionally, luck plays its part.

Cochlear

When Advanced Bionics' parent Sonova announced in February 2020 the product recall of its HiRes Ultra cochlear implant, the obvious beneficiaries were its competitors. Cochlear, the global leader with an estimated 60% share, stood to capture even more of the pie. The actions of Advanced Bionics to limit the information shared since that initial public release has only served to strengthen the hands of competitors.

Figure 11: Cochlear at a glance



Source: Cochlear results presentation 2021

The stumbles of one company doesn't however guarantee the success of another. That's where the work and investment undertaken over decades comes into play. Having suffered from its own implant failure back in 2011, Cochlear management undertook a critical reassessment, doubling down on de-risking production and ramping up manufacturing, while retaining global leadership.

Anchored by a commitment to "*Grow the hearing implant market*", the group's three strategic priorities are focused on lifting awareness, opening market access and delivering clinical evidence.

There are no short cuts here. The more than $2b of fully expensed research and development investment made since the company's listing in 1995 is a testament to that.

When Advanced Bionics stumbled in 2020, audiologists and implant centers had little choice but to consider the two main alternative providers to meet demand, our own Cochlear and the privately held Austrian group Med-El.

In the biggest implant market, the U.S., Cochlear has converted those opportunities into strong gains. The group now sits with a market share said to exceed 70%. Further, the 2021 financial scorecard shows global cochlear implant unit sales jumped 15% to 36,456, despite its nearest competitors recording negative unit growth performance.

Importantly, Cochlear ended the year with momentum, across both developed and emerging markets, supported by its long-term commitment to product development.

Its comprehensive portfolio of products and connected care services enabled the group to strike, not because it got lucky but because it came prepared.

ResMed

The situation at obstructive sleep apnea global leader, ResMed is not dissimilar to Cochlear. Since inception it has focused solely on treating patients suffering from sleep disorders.

Sleep disorder breathing is estimated to affect some 936m adults, while Chronic Obstructive Pulmonary Disease (COPD), a serious lung disease, afflicts some 380m people worldwide.

The sleep business has been on a continual digital evolution. ResMed is leading the way through its cloud-based software solutions combined with personal data capture to help improve sleep care. The company discloses an installed base of 16m cloud connectable devices worldwide.

For 2021, the group recorded global sales of US$3.2b, split between US$1.6b of device sales, US$1.2b of annual recurring mask revenues and US$0.4b of Software as a Service income. The result, $993m in net profits.

The onset of COVID-19 during 2020 tested the group's capacity to deliver vital ventilator units. It met this unique challenge, while also expanding manufacturing capacity and planning for new product releases.

Looking ahead, the company's new Singapore manufacturing facility is set to open in the final quarter of 2021. This will see capacity doubled and significant efficiency enhancements.

In August, the group launched its new CPAP device, the AirSense 11 (see Figure 12), the next iteration of its current market leading AirSense 10 unit.

With an estimated 60% global market share, management has been consistent in its pursuit of product and service leadership. In 2021 alone, over US$225m was invested in research and development.

The company's market share is only expected to grow following news on 14 June that its main competitor, Dutch based group Koninklijke Philips and its subsidiary Philips Respironics, was urgently recalling its DreamStation 1 CPAP units. The unexpected product defect, involving foam degradation and emissions, is said to have impacted over 3.5m of installed devices.

Figure 12: ResMed AirSense 11

Source: ResMed Virtual Investor Day 2021 Presentation

Supply issues are only further adding to this challenge. The group's current manufacturing capacity of 55,000 devices per week, lifting to 80,000 units, will require over twelve months of production just to fulfil the voluntary replacement of all affected units. This unfortunate course of events has effectively put Philips Respironics temporarily out of action, forcing newly diagnosed patients to seek alternative providers.

As a point of comparison, the Philips Respironics Sleep business is roughly 40% of ResMed's revenues, earning US$1.3b of sales, split across its devices and masks, at 60% and 40% respectively.

Over the past decade ResMed has cemented a sizable lead over its rival, driven firstly by the successful launch of the AirSense CPAP device range and further augmented by its digital cloud-based solutions offering.

This recall will see the scales tip even further in favour of ResMed. In the group's fourth quarter conference call held in August, CEO Mick Farrell confirmed additional sales of US$300m-US$350m during 2022 are expected, which is above and beyond planned organic revenue growth. Due to the extent of the recall, further growth into 2023 is also anticipated.

Thankfully, unlike Philips Respironics who are working hard to ramp up production, ResMed have the capacity to meet this demand.

"*Our plants aren't at full capacity, so we have capacity, it's really around components and parts and pieces that are the bottlenecks.*"

According to CEO Farrell, this situation is leading to "*unprecedented demand*" and even more significantly "*a permanent market share increase.*"

"*Importantly, we see a clear opportunity to increase our long-term sustainable market share, as patients, physicians and providers experience our ResMed market leading device and integrated cloud-based software solutions. Our experience over the last 7 plus years since we launched our online platform called Air Solutions at scale is that when providers adopt and embrace our suite of digital health solutions, they can lower their own labor costs by over 50%. They can drive their own patient adherence rates up to over 87% and beyond. After doing that, they don't want to go back to an inferior solution. And yes, during the near distant future, we will be starting the full product launch of our brand new next-generation platform called AirSense 11.*"

Whilst unexpected, ResMed won't miss any opportunity to further cement their dominant market leading position.

James Hardie Industries

Having carved out a successful global offering around Fiber Cement building products, James Hardie is intent on pushing through on its advantage. Its ambition was laid out some two and half years ago by incoming CEO Jack Truong. In short, to transform the business "*from a big, small company to a small, big company that is capable of delivering growth above market with strong returns, consistently*".

We covered the company's progress to date in our most recent June 2021 Selector Quarterly Newsletter. Here we discussed management's pursuit to redefine the market opportunity with a focus on winning over homeowners. In directly appealing to consumers, via a multi-year targeted marketing campaign, James Hardie is aiming to convert customers from traditional wood, stucco and vinyl alternatives to its higher valued ColorPlus siding and trim products.

To meet the expected demand, the group's first commitment to deliver "*strong returns, consistently*", required a step change in the manufacturing approach. Under the LEAN methodology, designed to drive consistency of operations to reduce waste without sacrificing productivity, the company has achieved both record sales volumes and improvements in operating profit margins.

It has ramped up capacity and is currently on track to lift U.S. name plate manufacturing capacity from 4.2b square feet to 4.8b square feet. This includes a new facility at Prattville, Alabama and the upcoming recommissioning of the group's Summerville plant in South Carolina. Prior to this expansion, total U.S. plant utilisation rates were running at 83%, providing ample scope for continued market share growth.

Here, it's worth calling out one of the group's key competitors. At Louisiana-Pacific (LP), the company's SmartSide Engineered Wood Products (EWP) competes directly against the James Hardie Fiber Cement range. Like James Hardie it has enjoyed strong volume and price growth in recent quarters, driven by a powerful housing market and increased repair and remodeling (R&R) demand.

Comparatively though, the LP business is dominated by its Orientated Strand Board (Chip Board) operations, although management is now intent on shifting production focus to EWP. CEO Brad Southern outlines the reasoning behind this, "*SmartSide has a long runway for growth ahead as we innovate, capture share, expand addressable markets and execute an aggressive capacity expansion strategy.*"

The dilemma for LP though is lack of capacity. It has been caught short and is now implementing expansion plans to meet demand. This will involve plant conversions at Houlton in Maine and Sagola, Michigan, where OSB manufacturing was previously undertaken. In both instances, SmartSide production is not expected to begin until calendar year 2022 and 2023.

At a time of heightened demand, LP has shifted to an allocated order file. This is industry code for rationing, resulting in customers receiving less than what is asked for to appease as many as possible. As this is unlikely to change in the short-term for the reasons discussed above, new demand will need to be satisfied by competing offerings.

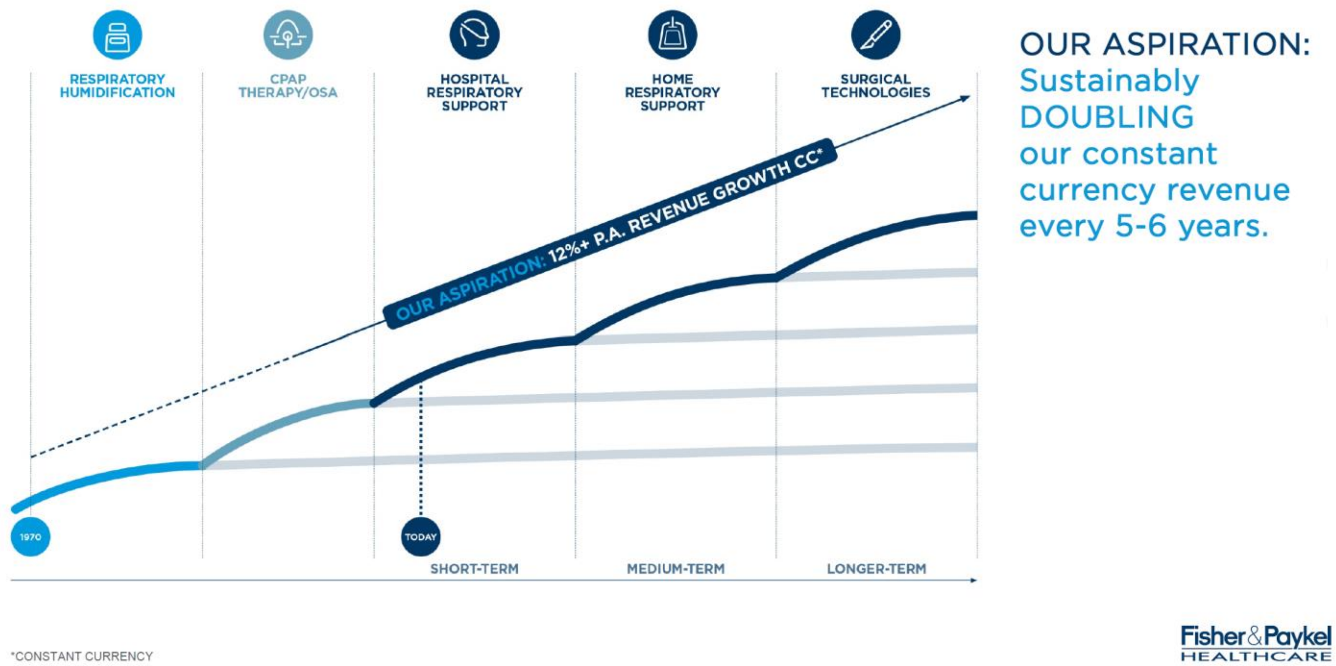
For James Hardie to be aggressively marketing its ColorPlus offering at a time of strong demand and limited industry supply is testament to its forward planning and "*small, big company*" thinking.

Fisher & Paykel Healthcare

Few companies have stuck to a business plan and executed it as well as respiratory care group Fisher & Paykel Healthcare. The group's portfolio of hospital and homecare health solutions are driving a step change in clinical practice, accelerated by the events of 2020.

Management's mud map is clear, "*We aim to grow our business in a way that is sustainable over the long term by creating better products, extending our global reach and changing clinical practice.*"

Figure 13: Fisher & Paykel Healthcare long-term aspiration



Source: Company presentation 2021

In output terms this is equivalent to a doubling every five to six years, or revenue growth of 12% per annum as shown in Figure 13. To achieve this, the company looks to maintain its investment in product development, manufacturing capacity and clinical education.

There are no knee jerk reactions to short-term events that might either accelerate or decelerate these outcomes. COVID-19 certainly tested the business and management, yet CEO Lewis Gradon is quick to dismiss that success was down to luck.

Commenting in the group's 2021 Annual Report, CEO Gradon said, "*Our business was positioned at the right place, at the right time, to respond to a global pandemic, and this was not down to chance. The work to research, develop and prove the benefits of our products and therapies started more than fifty years ago. It continues today, so that we will be ready to meet the needs of patients ten years and more from now."*

Despite the challenges encountered, the company delivered an extraordinary result and met unprecedented demand. Group revenues lifted by 61% to NZ$2.0b, net profits were up 94% to NZ$524m, whilst total staff numbers rose 1,827 to 6,916 across the key regions of New Zealand and Mexico.

The key standout, however, was in manufacturing, sourcing critical components and opening both its second production facility in Mexico and the company's fourth New Zealand manufacturing facility, The Daniell Building.

Work is now underway to open a third manufacturing facility in Mexico, plus plans for additional expansion in New Zealand and a possible third geographical location. In advancing manufacturing capacity, the company will also incur additional working capital by holding higher levels of inventory to ensure any future surge demand can be met.

Fisher & Paykel Healthcare dealt with and benefited from the events of 2020 because it was prepared to succeed. For 2022 and beyond the message is unwavering. While demand in the short-term is difficult to predict, the long-term drivers remain very much in place, and this will continue to support investment across the group's core product range.

Domino's Pizza Enterprises

No one planned for COVID, which a year on has left some businesses faring better than most. Take-away food, referred to as the Quick Service Restaurant (QSR) sector, is a case in point. Some may even suggest these operators have been the lucky recipients of the lockdown economy. Although, that would severely underestimate the long-term mindset of some businesses to not just survive, but to thrive.

In this bucket we would include global pizza operator Domino's Pizza Enterprises. To have delivered a record performance during 2021, while operating 2,949 franchisee and corporate stores, across nine geographical regions, with all the complications that this entails was no mean feat.

The group opened 285 stores, setting records in France, Germany and Japan. A further 500 plus new stores are earmarked for 2022, inclusive of the company's newest region, Taiwan with 157 stores.

The financial output in 2021 was similarly impressive. Global food sales were up 15% to $3.7b, translating to underlying operating profits of $293m, up 27% and free cash flow jumping 40% to $216m.

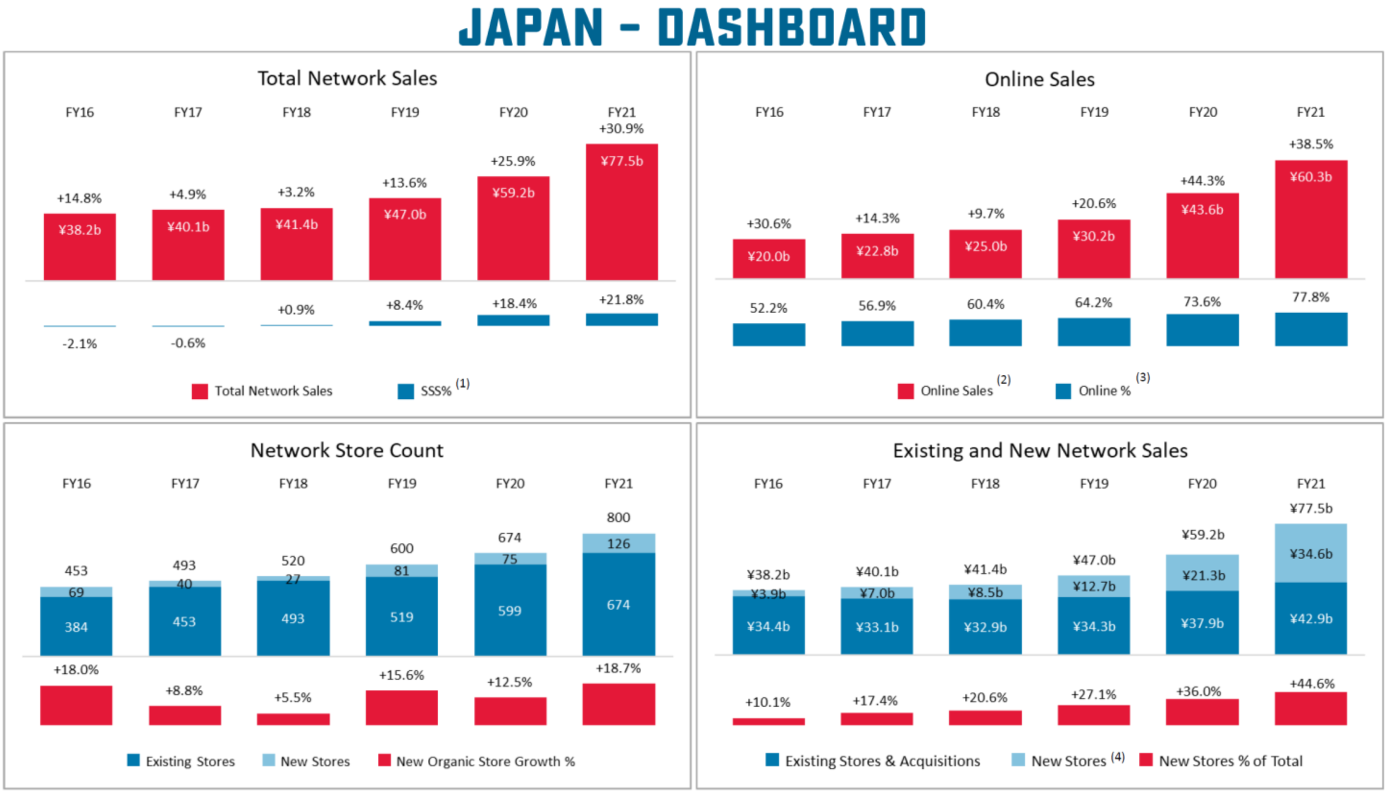
COVID-19 and general restrictions undoubtedly played its part, but Domino's success can be traced back to a unique business underpinning. One that CEO Don Meij refers to as it's 'High-Volume Mentality'.

The singular purpose behind this is to deliver affordable, high-quality products at scale. This sounds simple in theory, but it becomes even more impressive when you consider the consistency required across the more than 88,000 world-wide team members, serving up 281m pizzas in this year alone.

This laser focus has meant the business can be ruthless in cutting inefficient processes and at the same time embrace market leading innovations. Ultimately, this helps to drive continual refinement of the business model.

No region best typifies this approach than Japan. We profiled the Japanese operations in our June 2018 Selector Quarterly Newsletter following our visit to the country. Even then the long-term opportunity, under the guidance and direction of President and regional CEO Josh Kilimnik, was clear.

Figure 14: Japan performance dashboard



1) FY21 Year End closing store count of same-stores was 228 out of 800 total stores (28.5%)
2) Including sales via aggregator platforms from FY20 onwards, FY21 ¥6.6b and FY20 ¥3.9b
3) Online Sales percentage calculated as total Online Sales divided by total Network Sales
4) New organic stores include all new stores opened after 28 June 2015

Source: Domino's Pizza Enterprises results presentation 2021

In Japan, the group increased operating profits by 40% to $111m across its 800-plus stores. Commenting on the 2021 Japanese result, CEO Kilimnik adds some perspective on why Japan was such an incredibly strong performer.

“Okay, we've seen significant internal franchisee reinvestment back into the brand through this year, which really is largely driven by confidence in the strategy, our up-weighted communications of the strategy with our franchisees which has increased their confidence. But really, of course, what is the major factor is strong unit economics and is always the major deciding factor. And that, of course, along with funding options now with quite a few suitors that are helping us through that is really a good recipe for success.

If you recall, a couple of years ago, we're about 1.5 to 1.9 stores per franchise. And as a result of professionalizing the franchise side of the business, we're up around about 3%. And this represents now 50% of our stores, which are now franchise, which we've gone across that magic 50% mark. What you can see here is 38.6% of the system is now 3 to 5 stores and 12% almost 12 is 6-plus -- Of course, there is 1/3 of our franchisees that are still single units, but the majority of them are pretty positive about the expansion in the future.

So, we've experienced some amazing results. And as I mentioned last time, it wasn't through luck, it isn't like we weren't overly surprised, but we are pleased that over the last 3 years, we've been executing against the strategy, which I've taken all of you on the journey on.

And we now are seeing the critical mass fruits of this work, operations have never been better, and we've got the metrics to demonstrate this. Service has improved by 2 minutes across the group over the year, and that's even considering the increased volume.

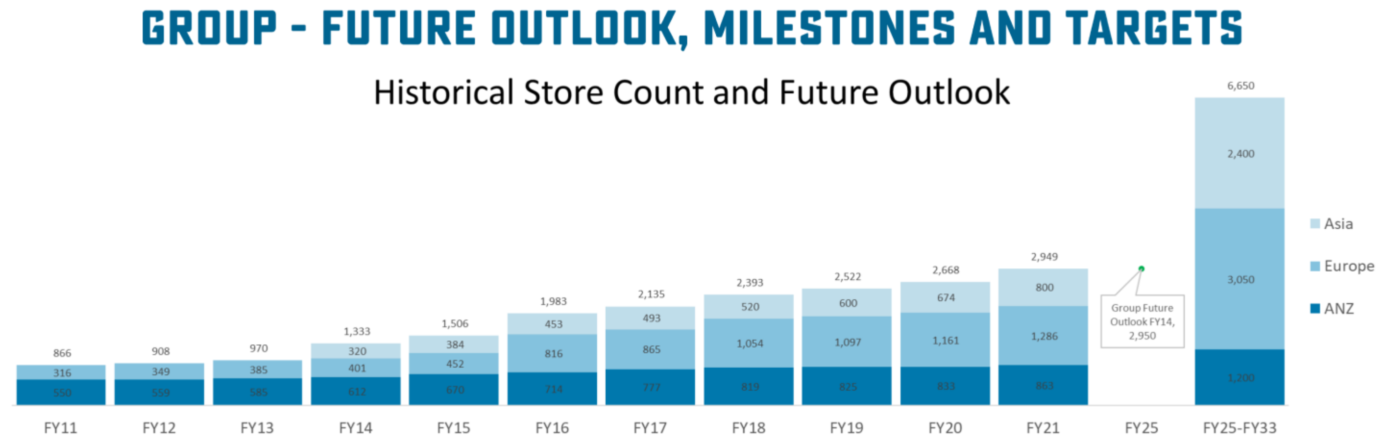
We also saw consistent cost control, which goes for our strong store managers, our training programs. And of course, this all dropped through to the record P&L in the store, which is basically the main scorecard I look at.”

As Domino’s plans for the next phase, with targets to open another 3,500 stores out to 2033, the message from the company is reliably consistent.

“Today’s results are the dividends from previous long-term investment in our business. The results of tomorrow will flow from our reinvestment decisions today.”

Similarly, in Australia CEO Nick Knight outlined why Domino's continues to shine.

Figure 15: Domino's Pizza Enterprises store count 2011-2033



- In FY22, the Network will expand by circa 500 stores, through both organic new store openings and the integration of Taiwan
- DPE plans to open our 3,000th store in the next two months, our 4,000th store in Calendar Year 2023, and our 5,000th store during Calendar Years 2026-27
- A review of our modelling has increased our expectations for Benelux (+200) and Japan (+500) 2033 store milestones. Note these milestones do not represent fully penetrated targets for these markets

Source: Domino's Pizza Enterprises results presentation 2021

"It would be easy to say that Domino's was destined to grow throughout this time – that is incorrect. Our recent performance owes credit for our decision to invest in Operations 360 and to operate a larger number of Corporate stores, with higher costs, where former franchisees no longer had the passion or capability to excel in this business.

Make no mistake – trading conditions have been challenging and we see this continuing into FY22 - but we have seen a lift in operational performance and a resulting improvement in franchisee profitability, because our refranchising and new stores have come from within.

We will reinvest to ensure we take the next step to build out our opportunity markets – more stores reduce the last mile of delivery, giving customers a better experience, franchisees improved unit economics, giving Domino's a fortressed presence in the QSR industry.

Just as Operations 360 improved our franchisee cohort, our multi-million-dollar investment in Project Ignite will ensure those passionate to grow the business have the financial capacity to match."

The 2021 results are on the board and no amount of luck makes up for sheer persistence and perseverance.

Comment

So, who plans for success?

Over the twenty plus years that we have followed the progress of these companies, one thing is clear; none started as global leaders. They have reached their respective positions because they planned for success, sustained the advantage through continual investment and maintained a conservative financial footing throughout.

And when competitor disruption or market opportunity presented itself, far from shying away, these collective businesses have shown the ability and agility to respond accordingly, turning good luck into a sustainable long-term compounding advantage. ***SFM***

THE COMPOUNDERS

In our June 2021 Selector Quarterly Newsletter, we spoke about identifying businesses that can compound profits over long periods and our aversion to selling them unnecessarily. These profit compounders are highly valued by investors, often leading to the tagline of ten or twenty baggers, in reference to the multiple of market value created compared to the original capital outlaid.

Determining which businesses can compound is not known upfront, but there are a few worthy attributes found in many of these top performers. Below we list a few that have stood us in good stead and surprisingly most just come down to good old fashioned common sense.

Firstly, a business run by the founders is a worthy place to start. There are exceptions of course and simply backing individuals without further due diligence is not a wise move. However, if the founders or quasi founders are at the helm and they have the right capacity to manage in the interests of all shareholders, performance tends to follow. We would include companies like four-wheel drive manufacturer ARB, sleep apnea leader ResMed and plumbing group Reece in this group.

The second are those where there are no founders in place, but the executive team and the board entrusted as custodians of the business operate at the highest level. Companies like Cochlear and CSL quickly spring to mind.

Getting the people right is critical but so too the business. Here a few things to call out. Avoiding competitive industries, where margins are low, capital intensity high and sales are contract driven, are not the attributes usually associated with long-term compound winners. That's not to say they can't have their day in the sun but sustaining that performance over a long period is difficult. Some companies that come to mind here are Telstra, Qantas, and Lendlease.

Good businesses enjoy certain quality attributes. They are often unique in their product or service offering and typically, enjoy high gross margins, that allows for strong re-investment in the business. The very best operate subscription type businesses, with high customer retention rates or enjoy quasi monopoly status.

The benefits enjoyed by this type of organisation is reflected in the financial flywheel that follows. Highly sought out products or services, with high margins, invariably leads to strong operating profits, that allows for high levels of reinvestment and a competitive moat to be sustained.

Growth is delivered organically, while acquisitions are rare and undertaken opportunistically. Business funding is generated from within operating cash flows and investors are rarely called on for new capital.

Management and company boards that grasp the power of such business qualities often operate with a long-term mindset and their actions provide the backdrop for attracting the best available talent.

The last part of the puzzle is the equity piece. The truly successful companies treat equity as it should be treated, with care.

Founders get the importance of ownership more-so than professional boards who have different motivations and timeframes. Ultimately, business valuations are driven by two important outputs; the absolute growth in company profits and the number of shares on issue. Grow the first and keep the second constant. This provides the necessary fuel to deliver real earnings per share growth that drives higher valuations.

It is fascinating to reflect on business performance over long periods. With so much investor attention focused on the short-term, it does pay to step back and imagine how good a business could be over the long-term and the role compounding plays in that equation.

We asked our analysts to compile a short list of stocks and their respective share market performances since listing on the stock exchange. Table 6 reflects the value of $100,000 invested in each business at the time of listing, compared to the current value ascribed by the market. Dividends are excluded for this illustration.

Table 6: The Compounders as at 30 September 2021

Code	Company Name	Years since listing	Value of a $100,000 investment
ARB	ARB Corporation	34	$48,940,000
CSL	CSL	27	$38,605,000
REA	REA Group	22	$31,770,000
REH	Reece	67	$25,517,000
COH	Cochlear	26	$8,816,000
BKL	Blackmores	36	$8,747,000
JIN	Jumbo Interactive	22	$7,995,000
DMP	Domino's Pizza Enterprises	16	$7,294,000
RMD	ResMed	22	$4,197,000
FLT	Flight Centre Travel Group	26	$2,259,000
ALU	Altium	22	$1,776,000
ALL	Aristocrat Leisure	25	$1,619,000
SEK	SEEK	16	$1,482,000
JHX	James Hardie Industries	20	$1,396,000
TNE	TechnologyOne	22	$1,136,000

Source: Company and financial markets

Not everything works, and rarely do you know you have a compounding winner until sometime down the track. But when it does, its power is hard to ignore. No wonder Albert Einstein once described compound interest as the "*eighth wonder of the world*." ***SFM***

OFX – A MARATHON

Foreign exchange provider OFX has invested considerably over the years to provide a point of service differentiation that justifies its investment thesis.

The company's 2021 Annual Report gives some insight into the market opportunity, but also the competitive intensity that exists in the global arena.

As Chairman Steven Sargent outlines in his opening address to shareholders, "*We operate in a global industry – payments – that is large (estimated to be more than $130 trillion by turnover), highly regulated (we are licensed in over 55 different regulatory regimes), and highly fragmented (we have seen more than 10,000 new entrants in the last five years alone). In addition to all of this, client expectations grow every quarter – they want faster, cheaper, easier payment transfer experiences.*"

Under such a setting it is difficult to imagine how OFX can stand out from the crowd. The company's current market capitalisation of $384m suggests that it doesn't, certainly when compared to the company's float valuation of $480m back in 2013. We profiled the company in our December 2013 Selector Quarterly Newsletter, which was known at the time as OzForex.

In 2021, the company celebrated 20 years of foreign exchange operations, following its launch of the NZForex brand in 2001. The business grew quickly and expanded into multiple markets, namely the U.K. and the U.S., backed by its then major shareholder Macquarie Bank.

The company's stock market listing should have provided the basis to which to build on. The core foundational pieces were in place, namely a digital foreign currency platform offering, complemented by a string of primary counterparty banking arrangements that provided the necessary network of local and global bank accounts to facilitate money transfers.

That was the plan, but the reality of public life exposed some issues. Business infrastructure while adequate required greater investment, alongside a management team that struggled with investor scrutiny, leading to changes across the ranks, including its CEO.

Table 7: OFX financial record 2013-2021

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Transaction turnover ($b)	9.1	13.6	16.6	19.6	19.4	21.2	23.7	24.7	25.0
Net fees and commission ($m)	50.3	71.0	88.4	102.3	103.9	108.4	117.3	124.0	117.5
Interest income ($m)	1.8	1.5	1.8	1.7	1.2	1.6	1.5	1.1	0.5
Revenue ($m)	**52.1**	**85.3**	**90.2**	**103.9**	**105.1**	**109.9**	**118.7**	**125.2**	**117.9**
Employee cost ($m)	(16.7)	(32.1)	(30.4)	(39.0)	(42.8)	(46.1)	(50.3)	(53.4)	(58.0)
Promotional cost ($m)	(6.8)	(10.7)	(13.9)	(15.3)	(16.3)	(16.1)	(17.6)	(13.6)	(12.8)
Occupancy cost ($m)	(1.2)	(1.6)	(2.1)	(3.9)	(5.4)	(4.0)	(4.4)	(0.7)	(0.7)
Other cost ($m)	(2.7)	(19.1)	(9.8)	(14.0)	(16.6)	(13.8)	(18.5)	(20.5)	(10.7)
Depreciation & Amortisation ($m)	(0.5)	(0.5)	(0.6)	(1.4)	(3.8)	(4.9)	(5.8)	(10.5)	(11.7)
Total Expenses ($m)	**(27.9)**	**(63.4)**	**(56.3)**	**(72.1)**	**(81.1)**	**(80.1)**	**(90.8)**	**(88.2)**	**(82.2)**
Profit before tax ($m)	24.2	21.9	33.9	31.8	24.0	24.9	22.1	24.8	16.3
Tax ($m)	(7.1)	(5.9)	(9.7)	(10.0)	(4.4)	(6.2)	(4.5)	(4.4)	(3.5)
Net Profit ($m)	**17.1**	**16.0**	**24.3**	**21.8**	**19.6**	**18.7**	**17.6**	**20.3**	**12.8**
Earnings per share (cents)	7.1	6.8	10.1	9.1	8.2	7.8	7.3	8.4	5.3
Other data points									
Active clients ('000)	92.0	120.5	142.5	150.9	156.7	161.9	156.5	152.7	138.5
Transactions ('000)	460.0	581.1	702.8	784.2	852.3	963.7	1,049.0	1,113.4	1,403.0
Average transaction size ($'000)	19.8	23.4	23.7	25.0	22.8	22.0	22.6	22.1	17.8

Source: Company financials

Ultimately, all these factors came at a great cost. Despite delivering record cross border transaction values, leading to higher fee and trading income, it failed to drop to the bottom line.

This is set out in Table 7**.** The company recorded turnover of $25b and revenue of $134m in 2021, compared to the $9b and $50m respectively in 2013. In contrast, a COVID-19 impacted year saw reported net profit for 2021 of $12.8m, down from the $17.1m reported in 2013.

Turning point?

In 2016 the appointment of current Chairman Steven Sargent as Director set in train a business reset. The establishment of a new executive team led by CEO Skander Malcolm and CFO Selena Verth, followed in 2017. Further appointments covering key roles of risk, technology, marketing, alongside regional heads now make up a strong team unit.

The business for all intents and purposes was under a rebuild, one that would address the needs of customers as well as navigating competitive threats and changing market dynamics. To do this, management revisited the core strengths that defined the business, supported by data analysis to confirm the correct course of action. Principally, a continued focus on the current consumer offering alongside an increasingly important pivot to servicing the needs of corporate clients and business enterprises.

Undertaking a reset is never straight forward and rarely embraced by investors because whilst they are necessary, they also come at a considerable cost, namely lower profits.

Ultimately, any business that seeks sustainability must aspire to grow by investing more. The company said as much in the 2021 annual report to shareholders. They described their actions over the past five years as, "*building a more valuable business*". While the numbers may appear relatively small in comparison to the global spend of competitors, OFX has invested $32m in technology systems to meet today's needs as well as positioning for future requirements.

In the field of currency payments, having a scalable, digitally enabled technology platform is a given, but underpinning that is the need to earn the trust of industry participants and regulators. Here the often-overlooked critical piece is the compliance oversight. Simply providing a competitive fee offering without a robust service and compliant structure just won't cut it. OFX refer to their offering as, "*human and digital*", a scalable digital platform combined with around the clock human engagement.

Recent enterprise deals encompassing registry services group Link Market Services, logistics software provider Wisetech Global and its most recent win, offering currency payments services for the Reserve Bank of Australia and the Australian Taxation Office, reflects the company’s growing reputation. These are high value, recurring revenue opportunities, only secured when all the necessary client needs and concerns have been addressed.

Prudent management

One of the real strengths of the business has been the company’s conservative financial approach. Since listing, management have not sought additional capital from shareholders. It began public life with 240m of issued capital and today that figure remains largely unchanged at 244m shares.

It has prudently built the business, acknowledging the corporate responsibility that exists with operating a publicly listed company, compared to their unlisted counterparts.

Again, Chairman Sargent makes the case, “*The availability of cheap capital has led to a deluge of new entrants and innovation, which is healthy; but capital alone does not win, and the cost of capital is unlikely to remain at historic lows forever. Business models that succeed through the cycle do not rely solely on cheap capital.”*

This is about getting the balance right between sustaining ongoing re-investment and capital discipline. It is critical that both are done but not by focusing solely on one at the expense of the other.

At market extremes operators can easily be caught out, only made more concerning when one considers the online cross border payments world has no physical exchanges, as management rightly point out, “*Trust has to be earned and it takes time. However, you can lose it in hours.*”

At the group’s most recent reporting update in March, net cash, post collateral and bank guarantees, stood at

$37m. The board's confidence was also reflected in its decision to withdraw the payment of dividends and introduce a share buyback program for up to 10% of the group's issued capital.

Pivot or morphing?

No business can afford to stand still. In our opinion the best operators are those that refine their offering, focusing on their strengths while adjusting to the changing landscape.

In the case of OFX, the evolution or what management terms a '*strategic pivot to corporate and online seller segments*' is reflective of the opportunities and the company's growing skill set.

When Matthew Gilmour founded the business in 1998, the opportunity to exploit a market opportunity was clear, "*The idea for OzForex came about by applying what was going on in financial services at the time – which was the rise and rise of the non-banks, in areas such as mortgages, combined with the obvious power of the internet to the very old business of foreign exchange*."

The banks were charging big fees to facilitate foreign exchange services, leaving consumer customers with little alternative option.

Success soon followed as Gilmour noted in 2008, "*At OzForex we regard ourselves as an IT firm first, and a financial services firm second. In the last decade the IT focus has allowed us to grow quickly and consistently whilst managing risk very tightly. Our key principles in OzForex mean we pride ourselves on being very transparent with our fees and rates to clients and we try to embed excellence in everything we do but especially in relation to the client experience and our systems.*"

While this business segment remains core to the group, the stellar growth achieved in the earlier years has not continued. A combination of factors has contributed to this slowdown, namely consumer demands that are easily influenced by movements in exchange rates and economic factors that impact currency exchange decisions.

In contrast, the opportunity set in other verticals, namely corporate customers, including small to medium enterprises (SME) and the newest segment, the Online Seller market has flourished. Figure 16 illustrates these distinctive target segments while

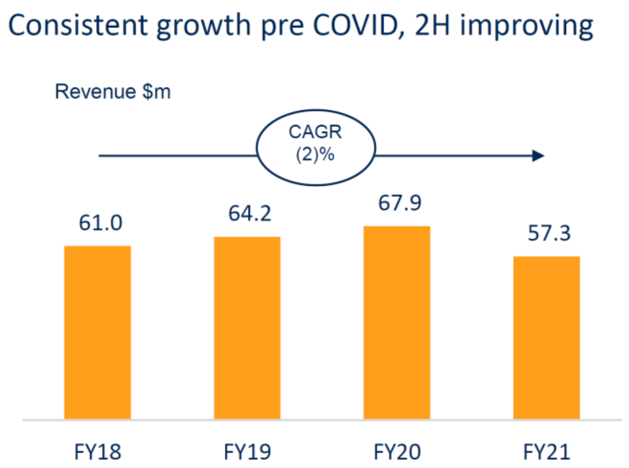
Figure 17, Figure 18 and Figure 19 provide a trend line of recent activity across the key business segments.

Figure 16: Targeted business segments

	High Value Consumer	Corporate	Online Seller	Enterprise
Segments we target	Typical ATVs of ~$17.1k biannual+ trading	Typical ATVs of ~$26.4k monthly+ trading	Typical ATVs of ~$17.0k weekly+ trading	B2B2C and B2B2B
Must Haves	Fast, competitive, and trusted money transfer experience on a single digital platform			
Differentiators	Local 24/7 human service delivery	Better risk management tools and localised 24/7 human service and expertise	Specialised global payments & receivables for eCommerce, with marketplace integration	Fully serviced PaaS based on our global infrastructure
Future Focus (FY22+)	Win post COVID rebound in use cases	Better 'end-to-end' experience, FX risk management	Enhance 3rd party integrations and product to support eCommerce ecosystem	Activate wins, convert pipeline, grow pipeline

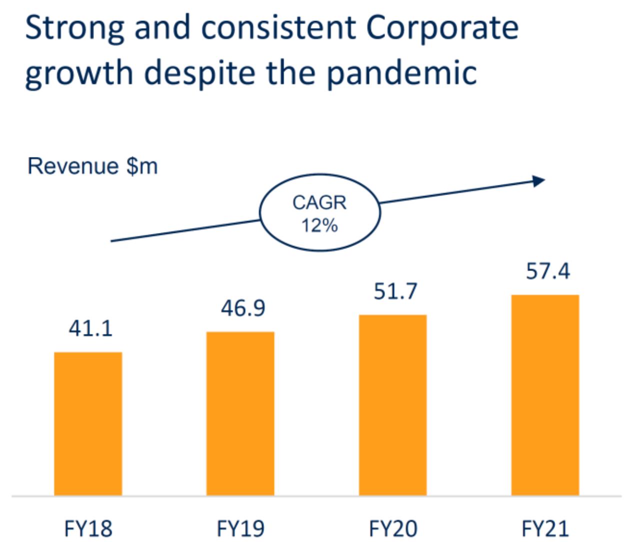
Source: OFX annual investor presentation 2021

Figure 17: Consumer



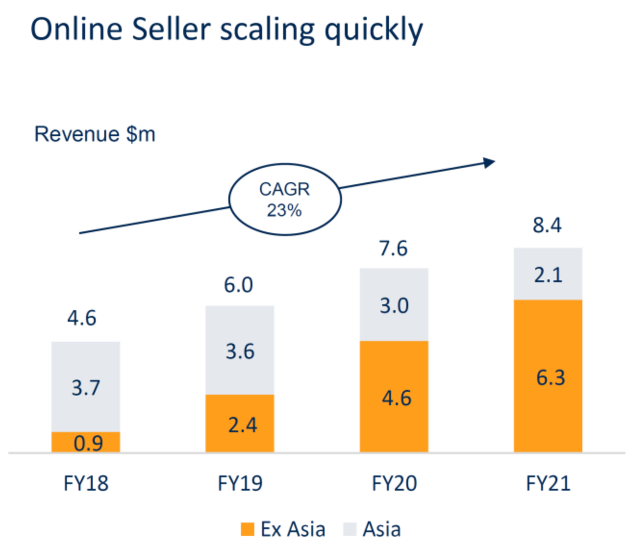
Source: OFX annual investor presentation 2021

Figure 18: Corporate



Source: OFX annual investor presentation 2021

Figure 19: Online sellers

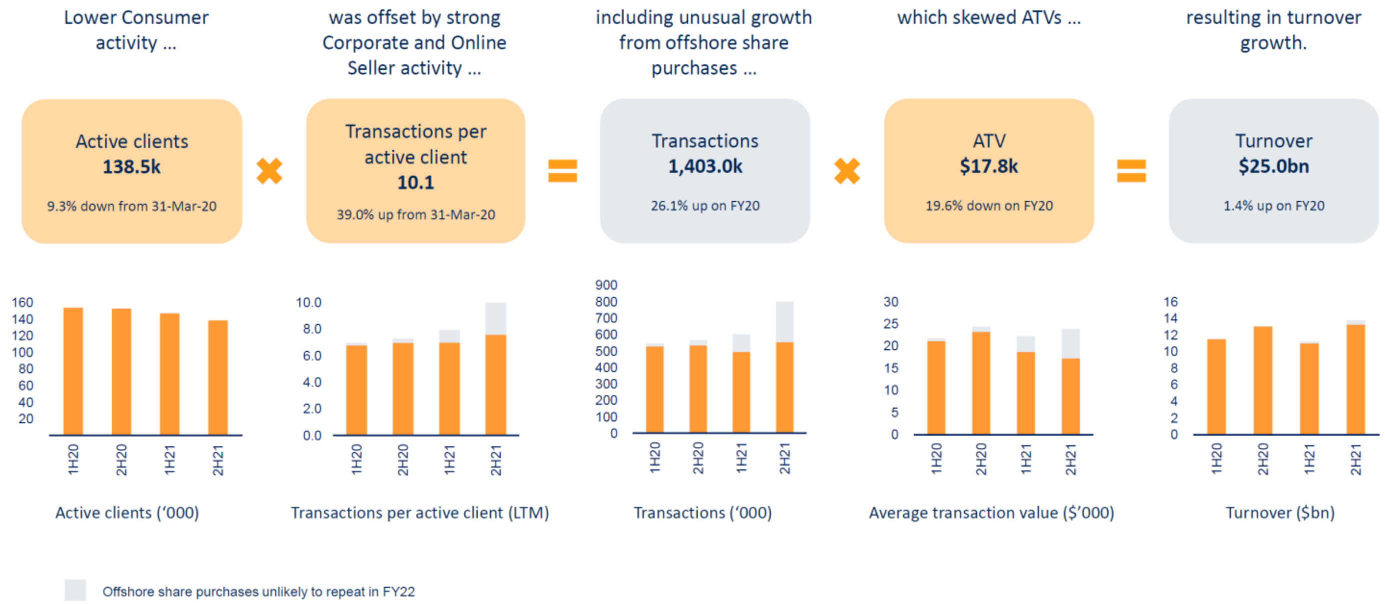


Source: OFX annual investor presentation 2021

Collectively, the three segments have combined to build a more robust, recurring revenue model. Most notably the Corporate segment has overtaken Consumer as the leading revenue contributor. This is an important development for two reasons. Firstly, corporates undertake regular cross border payments, with typical average transaction values (ATV) above $25,000. Secondly, they seek the human touch involvement.

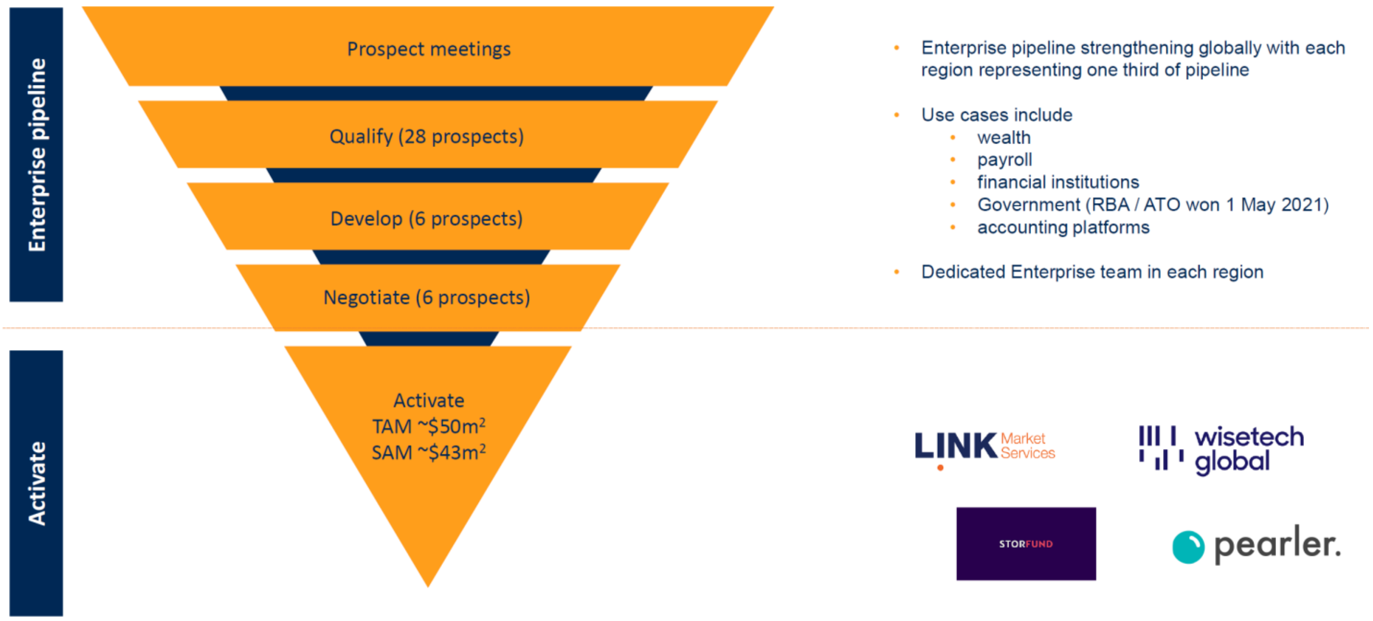
The benefits of this are beginning to shine through in the group's financial metrics, as outlined in Figure 20. While active client numbers have declined, it belies the mix effect occurring within the business segments. This is reflected in transactions per active client driving strongly upwards to 10.1 times per annum, as more corporate and online seller activity offset variability in consumer demand.

Figure 20: Business model covering 2020-21



Source OFX annual investor presentation 2021

Figure 21: Enterprise pipeline



1. Pipeline as at 31 March 2021.
2. Estimated revenue for Enterprise strategic alliances won. TAM is all FX revenue, SAM is revenue in regions OFX is licensed. This excludes RBA / ATO appointment post 31 March 2021

Source: OFX investor presentation May 2021

The flow-on effect is more transactions and ultimately higher turnover, based on the group's typically high ATV.

The business pivot is also driving a higher level of annual recurring revenues from existing clients, with this number now nudging 80%.

Enterprise Pipeline

Figure 21 provides a snapshot of current enterprise engagement, which in time may lead to positive commercial outcomes. The company has for the first time broken down the discussion pathway which, if nothing else, illustrates there is genuine enterprise interest to engage with a currency payments specialist to outsource these duties. As noted earlier and outlined in Figure 21, OFX has successfully concluded discussions with several high-profile customers.

Disruption

It goes without saying that this is an industry ripe for disruption. The global payments market, once the domain of the major banks, is facing competitive pressure from unlikely quarters. One must look no further than the entrance of global technology operators; Google Pay, Apple Pay, Facebook Pay, alongside the operating payment platforms provided by PayPal or China's Alipay.

These concerns are now resonating across the banking landscape. Take for example our largest bank, Commonwealth Bank of Australia's CEO Matt Comyn calling on our Parliament to regulate Apple's payment network. Describing the Apple network, a closed system that restricts users from controlling what sits in their Apple wallet app, CEO Comyn fears the loss of a competitive response.

When you consider Apple iPhones are being used for 80% of smartphone 'tap and go' payments and Apple Pay is now used by 9,000 global banks, including all our major banks, the threat becomes real. Given Apple's immense scale, including a market capitalisation of US$2.5t being twice the size of Australia's gross domestic product (GDP), this threat is only likely to grow.

Even though OFX's original business premise was in taking on the traditional banks, the company is not immune. Twenty years on and competition is coming from all sides, particularly newer digital platforms backed by private equity investors.

Below we provide a comparison to one such operator, Wise. Established in 2011 as a financial technology company, the group listed on the London Stock Exchange in July 2021 with a current market capitalisation of £9.8b. The numbers below make for some interesting comparisons.

The cross-border money transfer market is rife with industry players. As it stands, banks still hold the largest share of the personal segment at 66%, with traditional money transfer operators sitting at 13% and non-banks comprising the balance at 18%.

By-passing the traditional banking network, Wise has shifted away from domestic banking infrastructure to one not limited by borders. As Figure 22 below highlights, Wise is cutting out the intermediaries and manual processes that dominate cross border payments to achieve price and service transparency. In less than a decade of operations, Wise is now moving over £5b per month. Unlike OFX, the company predominantly focuses on the low value transfer market comprising of the consumer segment. The 5.7m active customer base, with on average £7,385 per transaction during 2021, illustrates this.

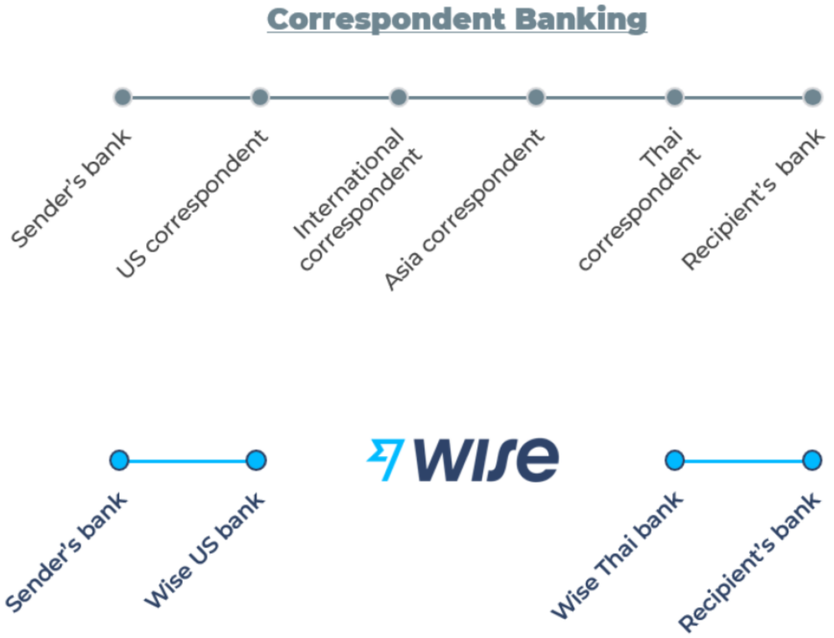
Against the incumbents, Wise prides itself on speed and low fees as Figure 23 and Figure 24 illustrates**.** Wise's total average fee take rate at 0.75% sits comparatively low against the traditional banking model charging anywhere between 3%-7%, although this has risen over recent years. In comparison, OFX 's average take rate sits at a very competitive 0.53%.

Table 8: Wise v OFX March 2021 comparison

Metrics	OFX (A$)	WISE (£)
Valuation metrics		
Share Price	1.49	9.81
Shares outstanding (m)	244	995
Market Cap (m)	364	9,757
Net cash (m)	61	208
Financial metrics		
Revenue (m)	134.2	421.0
Personal	*53.7*	*341.3*
Business	*65.8*	*79.7*
Gross profit (m)	117.5	260.5
Gross margin (%)	*87.6*	*62.1*
EBIT (m)	17.7	44.9
NPAT (m)	12.8	30.9
Business metrics		
TTV (m)	**25,000**	**54,400**
Personal		*42,100*
Business		*12,300*
Active customers ('000)	**139**	**6,000**
Personal		*5,700*
Business		*305*
Average transaction value ('000)	**17.8**	**9.1**
Personal	*17.1*	*7.4*
Business	*26.4*	*12.3*
Take rate (%)	**0.54**	**0.77**
Cross currency		*0.70*
Other		*0.07*

Source Wise prospectus, OFX annual report

Figure 22: Wise payment steps

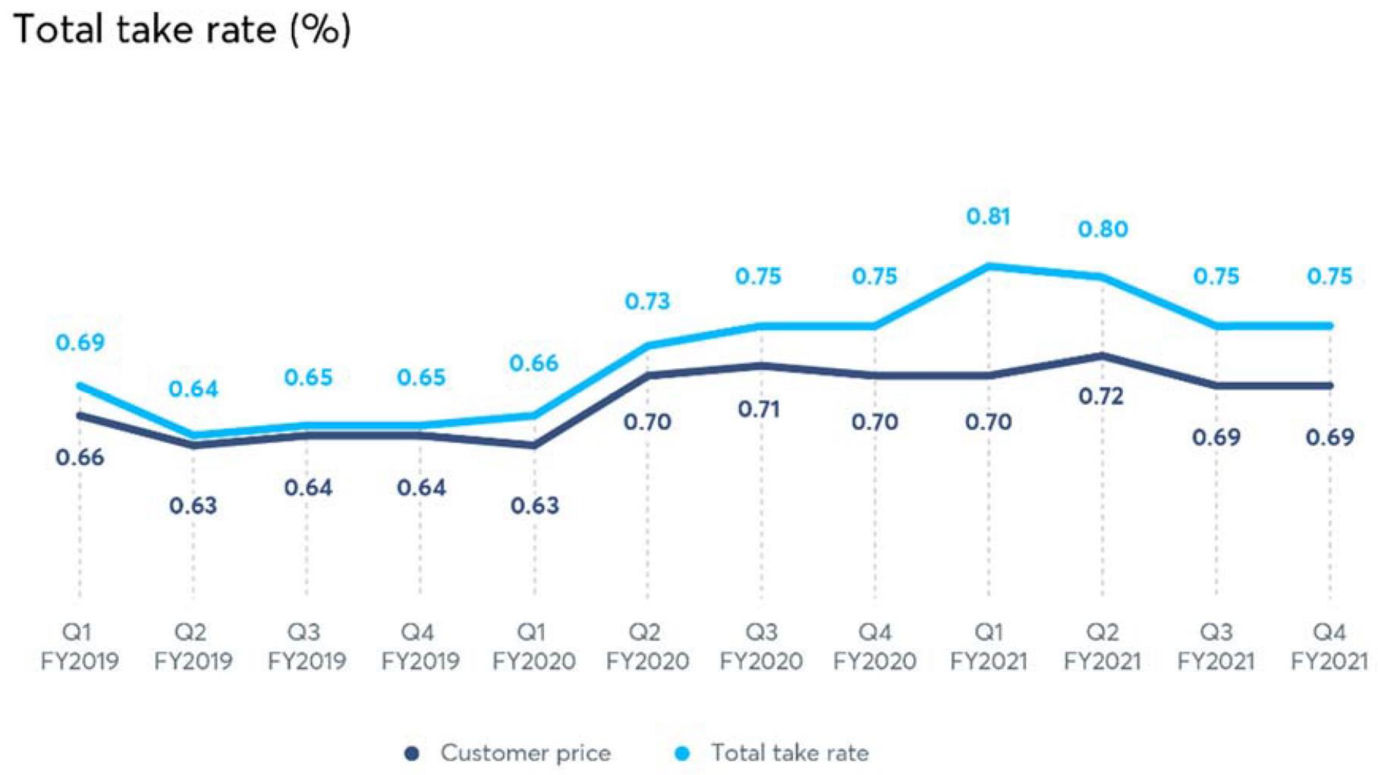


Source: Wise prospectus 2021

Figure 23: Wise v Traditional Incumbents

Source: Wise prospectus 2021

Figure 24: Wise total take rate



Source: Wise prospectus 2021

Financially, Wise numbers when measured in volume, transaction values and revenue terms are larger by a factor to that of OFX. However, when compared against reported profitability the gap is closer. Again, the point is not to draw too many conclusions as each has chosen a different path to market.

One figure that is inescapable is the business valuations set down by the respective home markets of London and the Australian Stock Exchange, with Wise valued at £9.8b compared to OFX sitting at sub $400m.

OFX's low valuation is certainly a reflection of past financial and business miss-steps combined with concerns surrounding the competitive and fast-moving digital payments arena. On this last point we can’t disagree, as the speed of technology adoption is blurring the lines between the role of traditional cross border payment operators and technology platform start-ups.

OFX itself was a start-up some twenty years ago and its progression to this point is illustrative of how the world has not only changed but opened to a plethora of new participants. OFX has also attracted its own level of corporate interest with the business having been on the receiving end of at least two formal takeover offers over its listed life.

Summary

Our assessment of a business always boils down to the people, the business and the balance sheet. Valuation is our last consideration.

CEO Skander Malcolm makes the case, “*In FY21, we experienced both the highs and lows of competing in a global payments environment in unprecedented times; but through that, we have emerged stronger, clearer about our competitive advantages, and more resolute in our assessment that we are building a more valuable company*.”

On what we can observe, value is on offer. ***SFM***

TRASHING THE HOME

Here is a story that is being played out time and again, so stay with us if you can.

Knock, knock, who's there?

What would you say if someone knocked on your front door with an offer to buy it? You would likely reject them because you were caught off guard or perhaps the bid was too low. Keeping in mind most vendors think their place is worth a lot more.

Anyway, the bidder returns a second time with a higher bid and you politely decline again.

Third time lucky, they up the price again. This time though, you stop and re-assess and decide that maybe it's worth a proper hearing. So, you agree to the terms. The bidder wants to come in and look at the place. Fair enough, they are buying it, but that's not all. They also want to live in the house for a month, sleep in your beds, ask you to provide all sorts of information on the running of the house, its foundations and anything else that comes to mind.

You agree, they enter. You put up with their requests, knowing that a sale at the settled price would be a fair outcome. In the meantime, the household is turned upside down, the family's privacy is invaded by this stranger, and because of the terms in place you're not allowed to talk to others. There are also costs in feeding and maintaining this stranger during their stay.

But here is the rub, at the conclusion the bidder leaves. They decide not to proceed with their intended offer. There was nothing wrong, so the story goes, other than it didn't meet their expectations. On the way out, they leave a nice note thanking you for your hospitality and to wish you well.

You on the other hand are left to pick up the pieces and costs. You reflect on the experience and ask yourself, 'would I do it again?' I'm hoping your answer is no. It wasn't a pleasant experience, but more importantly there was no downside for the bidder. They had no skin in the game yet imposed conditions on you as the intended vendor. So, you write down your experiences and conclude it will be different next time.

Real world

Now come with me to the real world. In the financial market arena, bidders can approach listed companies offering to buy them out with tempting offers. Boards pressured to satisfy their shareholders and fulfil their duties engage with these outsiders.

Appointed investment bankers working with these targeted companies, satisfy themselves that the bid has merit and deserving of consideration.

They agree to let them in. All good, but at the death they leave, and life goes on.

Sounds familiar, welcome Iress.

Iress

We own Iress. We like the business; the team is open, transparent and operate like founders. They have a strong culture, and the business model is robust and moat like. There is a lot to admire, and we have been patient investors for many, many years.

On 4 July the company notified the Australian Stock Exchange it had received a confidential, unsolicited, non-binding and indicative proposal from EQT Fund Management, a Private Equity group based in Sweden. EQT put forward an offer to acquire all the Iress shares through a Scheme of Arrangement, within a price range of $15.30 and $15.50 per share.

Like the $14.80 offer received on 18 June, the Board didn't deem the bid as offering *"compelling value."*

On 11 August, EQT lifted its offer to $15.75, excluding the interim dividend of 15 cents. The Board considered this as *"compelling enough"* to engage and provided EQT access (please enter my home), with a 30-day period of exclusivity to undertake due diligence.

On 10 September, with exclusivity time up (please leave our home), EQT request an extension. Being hospitable, Iress grant them an extra 10 days.

On 17 September, EQT informs Iress, who in-turn informs the stock exchange, that the two parties are unable to agree to the original transaction. As a result, discussions are terminated.

Some lovely words from EQT followed, "*During our work we have been able to confirm that Iress is an impressive technology-focused business with strong market share and a very loyal customer base driven by its market leading software solutions. We have not come across any red flags during our due diligence but were not able to sufficiently confirm our investment hypothesis. We wish management and the company well and have every confidence Iress will continue to be a leader in its field.*"

Their parting gift to Iress shareholders? A $4m-$5m of one-off non-operating pre-tax costs to facilitate the failed transaction. For context, Iress is guiding to pre-tax profits of $92m-$97m for 2021. These costs would therefore represent approximately 5% of pre-tax profits.

Now if you want to know where your money has just been spent, you can head to the ASX news release and read the 17-page Herbert Smith Freehills Process Deed, which outlines the transaction process. Also in the mix are the company lawyers and financial advisors, because company boards are under enormous pressure to be seen to be doing the right thing.

Our View

This process doesn't work for shareholders. Giving outsiders an opportunity to come through the front door, get exclusive access to information that others are not privy to, and ultimately setting the terms of whether to proceed, is flawed.

Having trampled through the home, they could at least pitch in with the cleaning costs. So, we ask ourselves three questions:

1. Why do our boards not insist on an entry fee, a cost of doing business, or a termination fee reflecting genuine skin in the game?
2. Why are parties, like EQT, able to run amuck and suggest they are genuine and force the issue with indicative bids that leave boards with little choice but to engage?
3. Why does this practice repeat itself across countless failed bids, where the only thing that remains is a footnote on the bottom of the financial results page outlining transactions costs incurred?

Insanity is doing the same thing repeatedly and expecting different results. We have witnessed this on too many occasions. The individuals who lose out, every time, are those very people the board is seeking to protect, the owners, the shareholders.

When will boards insist on a fair deal, a price of entry or exit if a deal is not done, before allowing strangers into the home? This would surely weed out the troublemakers or those just kicking the tyres.

Hope

As for Iress, life has returned to normal with a refocus on building out the business opportunities presented at its recent investor day. We hope that if another stranger knocks on the door, they might think twice and ask for a financial commitment before letting them in. If not, we are all insanely doomed. ***SFM***

JAMES HARDIE – A SUSTAINABILITY STORY

Leading fibre cement producer James Hardie published its Sustainability Report in July for Financial Year 2021. This is the group's first full sustainability report, which covers both progress to-date and the business' future priorities. During the year, the group also published their inaugural Modern Slavery Statement in response to the requirements of the Modern Slavery Act 2018 (Cth).

Both reports show how far James Hardie has come on their sustainability journey, albeit later than some investors would have liked. What may not be well known is that whilst the broader sustainability priorities had not been previously published, the company has been responding to the Climate Disclosure Project (CDP) Climate Change questionnaire annually since 2017.

The CDP is a non-profit organisation that helps companies and cities disclose their environmental impact. James Hardie has achieved an improvement in their disclosure score from a C- in 2017 to a B- in 2020. The 2021 disclosures have not yet been scored.

Culture and ESG

We believe Culture and ESG are intertwined. We consider them both integral to our assessment of a business. Companies with superior cultural behaviours are better disposed to responsible management of ESG issues. They increase shareholder wealth through higher staff engagement and retention (people), they pursue business leadership through consistent reinvestment (business), and they are better managers of financial risk (balance sheet), including cashflows and earnings (capital management).

Under the leadership of CEO Dr Jack Truong, James Hardie has developed its sustainability strategy, prioritising four key pillars: Zero Harm, Communities, Innovation and Environment. We provide further detail on each below

These areas of focus are deeply engrained within the overarching company culture, with Truong noting, *"Our company culture is built on providing a foundation of "Zero Harm", creating a positive impact in communities, and delivering environmentally-responsible, innovative solutions to customers."*

Figure 25: James Hardie's Community Impact

Source: James Hardie FY21 Sustainability Report

Zero Harm

For James Hardie safety is a non-negotiable pillar for business success. This is managed through its "Zero Harm" culture, with a commitment across three key areas:

1. **Safe people** – encompassing safety awareness skills development, and accident reporting to reduce risk and probability of injury.

2. **Safe systems** – encompassing annual audits, safety meetings, and implementing Hardie Manufacturing Operating System (HMOS) to discuss concerns and solutions.

3. **Safe places** – encompassing visual tools to simplify processes, standardised signage and clearly defined responsibilities to efficiently address safety concerns.

In FY21, the company saw an improvement on their performance metrics year-on-year. Total recordable incident rate (TIPR) improved 21% on FY20, whilst total days away, restricted or transferred (DART) improved 4% on FY20.

Communities

This pillar reflects the company's commitment to carefully manage impacts with a global mindset, while creating value in and for the community. The approach taken is to employ, source, deliver and give locally with Truong noting, *"building sustainable local communities is at the forefront of our strategy."*

Figure 25 above shows the material impacts in FY21 to communities within 100 and 500 miles from where the company operates.

Innovation

James Hardie commits to delivering solutions that improve the lives of homeowners through the development of new products with sustainability benefits. Further, the company seeks to earn 80% of revenue from products with Environmental Product Declarations (EPD) by 2030.

In FY21, 26% of revenue was earned from EPD products and three new products were launched with sustainability benefits, such as low maintenance and durability, including:

1. Hardie Textured Panels in North America

2. Hardie Fine Texture Cladding in Australia

3. Hardie Brand VL Plank in Europe, which provides installation efficiency of up to 20%

Environment

James Hardie's commitment in the environment pillar is to be responsible and accountable for impacts on the environment and to prioritise the management of waste, water, energy and emissions. The goal is to achieve a 40% reduction in Scope 1 and 2 greenhouse gas (GHG) intensity and a 50% reduction in landfill waste intensity by 2030, both from a 2019 baseline. The company has also set a goal to recycle 20m cubic feet of water per year by 2030.

Energy & emissions

The commitment is to continuously improve energy conservation and efficiency, and to shift to more renewable energy sources where possible. To achieve this, there are three identified areas of focus:

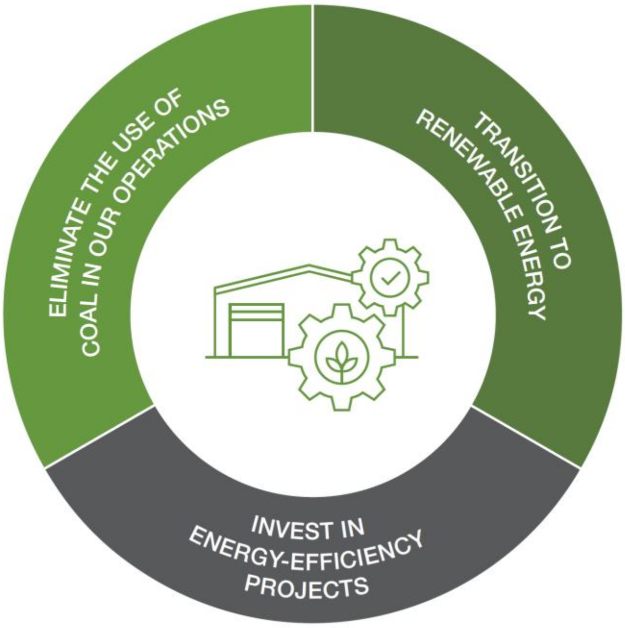
1. Remove the reliance on coal in their facilities

2. Increase the use of renewable energy sources

3. Deliver energy efficiency projects

Figure 26 sets out the energy strategy. In FY21, the group reported a 17% reduction in Scope 1 and 2 GHG intensity from 2019.

Figure 26: James Hardie Energy Strategy



Energy & emissions

Our energy strategy

James Hardie has a three-pronged long-term strategy to improve energy efficiency and reduce emissions.

STRATEGIC OBJECTIVE	FY21 UPDATE
Eliminate the use of coal in our operations	Commenced construction of natural gas boiler in Carole Park, 1 of only 2 facilities using coal
Transition to renewable energy	Building roadmap of renewable power with utility providers
Invest in energy-efficiency projects	Investigating boiler heat recover projects

Source: James Hardie FY21 Sustainability Report

Waste

James Hardie's waste commitment is to both reduce the number of materials used and maximise recycling within processes. To achieve this, the company is focused on resource conservation and integrated waste reduction, driven by LEAN manufacturing and Hardie Manufacturing Operating System (HMOS) processes.

CEO Truong commented on progress made in the sustainability report, *"Our supply chain delivered 100% Forest Stewardship Council (FSC) certified cellulose fibre in our fibre cement products and 100% post-consumer recycled fibres in our fibre gypsum products. Further minimizing our impact, we utilize up to 50% recycled content in our fibre gypsum products."*

Figure 27 sets out the waste strategy. In FY21, the group reported a 21% reduction in landfill waste, a significant step towards the goal of a 50% reduction by 2030.

Water

James Hardie has committed to maximise the efficient use of water through conserving, reusing, and recycling. In FY21, a modest 0.04 cubic feet of water was recycled.

Whilst some would believe this is slow progress towards the 2030 goal, the company is currently undertaking a water conservation trial across one of the larger plants in North America.

Once validated, up to 2m cubic feet of water per year is expected to be recycled at this plant alone. The aim is to replicate this across the network as well as undertaking additional conservation projects.

Figure 28 sets out the water strategy.

Figure 27: James Hardie Waste Strategy

Waste

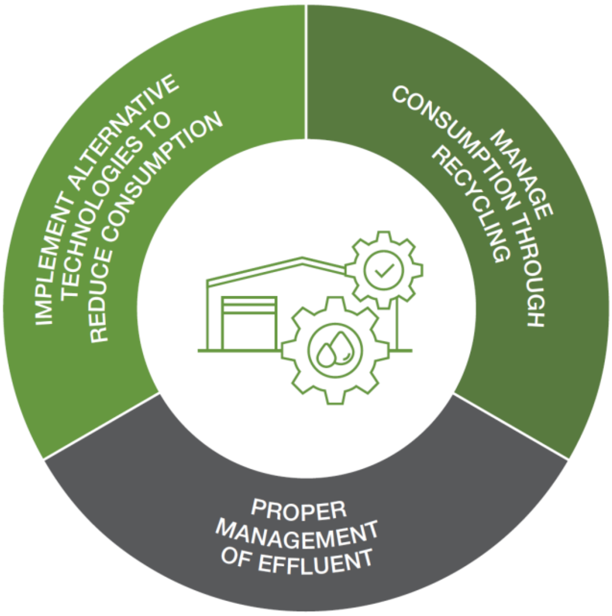
Our waste strategy

We aim to send zero manufacturing waste to landfill through three key strategies:

STRATEGIC OBJECTIVE	FY21 UPDATE
Generate less waste	LEAN processes saved us $107M to date In Europe, we continue to send zero product waste to landfill
Maximize recycling	Up to 15% recycled content in our fiber cement products Up to 50% recycled content in our fiber gypsum products
Enable beneficial reuse	In APAC, we increased the beneficial reuse of waste In Australia, we increased the diversion of production waste to landfill

Source: James Hardie FY21 Sustainability Report

Figure 28: James Hardie Water Strategy



Water

Our water strategy

We aim to maximize the efficient use of water, by conserving, reusing and recycling water.

STRATEGIC OBJECTIVE	FY21 UPDATE
Implement alternative technologies to reduce consumption	Commenced an initial trial in North America with plans to replicate across the network
Manage consumption through recycling	We recycle water 4 to 6 times in production before discharge
Proper management of effluent	We continue to ensure proper treatment of effluents prior to discharge and avoid runoff to the surrounding environment

Source: James Hardie FY21 Sustainability Report

Task Force on Climate-Related Financial Disclosures (TCFD)

At SFML, we believe all companies and organisations have a responsibility to consider the risks of climate change and to ensure that the business is resilient in a low carbon future. In 2021, SFML became a supporting party to the Task Force on Climate Related Financial Disclosure (TCFD) and its principles, in pursuit of greater transparency on these important issues.

It was pleasing to read that James Hardie has developed a three-stage roadmap (Figure 29) towards implementing the recommendations of the TCFD. As noted in the group's sustainability report, *"The roadmap highlights the key steps to be performed in relation to the TCFD core elements (governance, strategy, risk management and metrics & targets) and relevant disclosures."*

Sustainable Development Goals (SDGs)

James Hardie undertook a materiality assessment in 2020, which kick started the process of identifying key topics, operational and strategic focus, and an alignment to several of the Sustainable Development Goals (SDGs). The SDGs are a collection of 17 interlinked global sustainability goals set by the United Nations in 2015, which are intended to be achieved by 2030.

James Hardie have aligned themselves with five of the goals:

- SDG 8 – Decent Work and Economic Growth
- SDG 9 – Industry, Innovation and Infrastructure
- SDG 12 – Responsible Consumption and Production
- SDG 13 – Climate Action
- SDG 16 – Peace, Justice and Strong Institutions

We would also argue James Hardie's strategy of building sustainable communities aligns the company with SDG 11 – Sustainable Cities and Communities.

Figure 29: James Hardie TCFD Roadmap

	FY22: DISCOVERY	FY23: SCENARIO ANALYSIS	FY24: CHECK & ADJUST
GOVERNANCE	Expand climate-related awareness and identify material climate-related risks and opportunities.	Incorporate climate-related issues into relevant governance and management bodies.	On-going review & approval of climate-related issues by appropriate governance and management bodies.
STRATEGY	Identify exposure, management strategies and financial impact of material risks and opportunities.	Explore qualitative & quantitative scenarios to update issues, management strategies and financial impacts.	Integrate climate-related scenario analysis into our strategic and financial planning.
RISK MANAGEMENT	Incorporate climate-related risks into our Risk Management Framework.	Embed climate-related risks into our Risk Management Framework.	On-going monitoring and risk management.
METRICS & TARGETS	Determine metrics associated to climate-related risks and opportunities.	Analyse metrics trends to develop targets, assess our strategic position & their financial impact.	On-going analysis of metrics & targets trends to assess our strategic position and their financial impact.
DISCLOSURE	Disclose identified risks & opportunities with associated governance & risk management arrangements.	Disclose our scenarios, assumptions, time frames and and associated governance, risk management, metrics and targets.	On-going disclosure of our governance, strategy, risk management, metrics and targets and scenario analysis.

Source: James Hardie FY21 Sustainability Report

Modern Slavery

In December 2020, James Hardie Australia, the main operating entity for the James Hardie Group in Australia, published their inaugural Modern Slavery Statement. The company identified the highest risk fell within supply chain, as opposed to operations, due to both geographical location and operational footprint.

In FY20, a supplier self-assessment questionnaire was distributed to suppliers identified as being medium to high risk. These responses are currently under review, and we expect the results to be reported in the next round of statements.

A recent research brief conducted by Monash University on the Modern Slavery Statement Disclosure Quality of the ASX100 Companies[2], ranked James Hardie's statement 82nd in the group of 100. Some key best practices, as noted in the brief, included:

- Metrics around employee numbers, including numbers of direct hires and labour hire contracts;
- A clear scoping of risk and assessment of risk level;
- Information of supplier audits, issues identified and resolution of issues; and
- A clear set of KPIs (Key Performance Indicators) for effectiveness assessment.

Whilst we see the group's initial statement as a fair starting point, we would expect future statements to be expanded to include relevant best practices. Further, we would like to see James Hardie broadening this statement to include a full assessment of global operations.

Summary

James Hardie's efforts in FY21 highlights the company's commitment to sustainability across all elements of the business.

We leave the final word to CEO Dr Jack Truong, *"Our business is about delivering beautiful products that are resource efficient and contribute to resilient and sustainable communities. I am very excited for our future and the opportunity to further convert our strategic vision into tangible benefits for all of our stakeholders. At James Hardie, we are all committed to Building Sustainable Communities."* ***SFM***

[2] *https://www.monash.edu/__data/assets/pdf_file/0011/2652887/MCFS-Research-brief_Modern-Slavery-Statement-ASX100-3-1.pdf*

MODERN SLAVERY REPORTING

Compliance often becomes dry, procedural, and routine. Clarity of purpose is lost when a periodic or repetitive process bares no relation to the underlying cause. Modern slavery reporting (MSR) is no different. Primary and even secondary supply chain analysis, both critical elements of the evaluation pathway, are often far removed from the root problem.

These comments are by no means aimed at undermining the MSR process. Rather, if we have some understanding of the underlying issues, the process becomes more relevant and holds greater meaning. Further, with knowledge, underlying problems can be addressed instead of being ignored or even exacerbated.

Dollars don't tell the full story

The 2018 Global Slavery Index indicates that total G20 trade at risk of modern slavery was $354b, with the United States potentially importing a total of $144b of criminal proceeds. Australia may be accounting for up to $12b in imports of product associated with modern slavery. These figures, while glaringly large, fail to present the real picture, including the damage to the lives of the children involved.

Child Slavery

Child slavery, a focus area of MSR, should peak the interests of parents across the globe. While the statistics present a tragic situation, the solutions need to be carefully thought through rather than rushed to fit a convenient new agenda.

According to The Economist and the International Labour Organization (ILO), between 2000 and 2016 the number of children working in factories, on farms and down mines, fell by almost 94m, to 152m. Yet in the four years to 2020 progress has reversed, with an extra 8m children working, and some 6.5m more doing dangerous jobs. The economic hit caused by the COVID-19 pandemic may push an additional 9m more children into work by the end of 2022.

These numbers are breathtakingly higher than the total servitude figures in the 2018 Global Slavery Index, which estimates that 89m people have lived under such conditions in the past five years, including 40.3m in 2016 of whom 70% were women and girls.

Rich countries have used their buying power to prevent child labour. In 2019 America halted imports of tobacco from Malawi because some of the crop was tended by children. In the same year it mulled a ban on cocoa from Ivory Coast, and the chocolate made from it, for the same reason.

The impetus for these bans is natural, it is driven by the desire to end cruelty to children. Yet stringent countermeasures, in many cases, may do more harm than good. While child-traffickers deserve to be put behind bars, most children in work are not enslaved by strangers, but instead toil alongside family members on small farms or tiny fishing vessels.

In 2017, for example, Ghanaian police, encouraged by Western charities, raided remote villages on Lake Volta, claiming they had rescued 144 children from slavery. Yet an investigation found that all but four had been snatched from their families. Such well-meaning moves by rich countries may exacerbate the poverty that comes from parents keeping their children home from school to help on the farm.

Governments need to help the poor become rich enough, so that they don't have to resort to putting their children to work in order to feed them. In the longer run this means embracing policies that will help poor countries' economies grow.

Responsibility

Like governments, businesses also need to provide considered responses to supply chain engagement outcomes in relation to MSR, if they are to do long-term good rather than harm. This is under way, but more needs to be done. Once again awareness is a big hurdle as most of this crime is unreported. On a positive note, businesses and governments are increasingly accepting the reality that when modern slavery occurs in one country, the direct results will be felt throughout international supply chains. This includes Australia and Australian businesses both public and private.

Walk Free Foundation (Minderoo Foundation)

Though almost every country has declared it illegal, modern slavery still exists on an unacceptable scale. Yet action from the countries most equipped to respond is underwhelming. The Walk Free Foundation's Global

Slavery Index (GSI) has developed world leading research to provide measurement of both the size and scale of modern slavery, as well as assessing country-level vulnerability and governmental responses. Together with the International Labour Organization (ILO) and the International Organization for Migration (IOM), the Walk Free Foundation developed the joint Global Estimates of Modern Slavery.

The GSI also provides a picture of the factors that allow modern slavery to prosper, and where the products of the crime are sold and consumed.

What's happening in the G20?

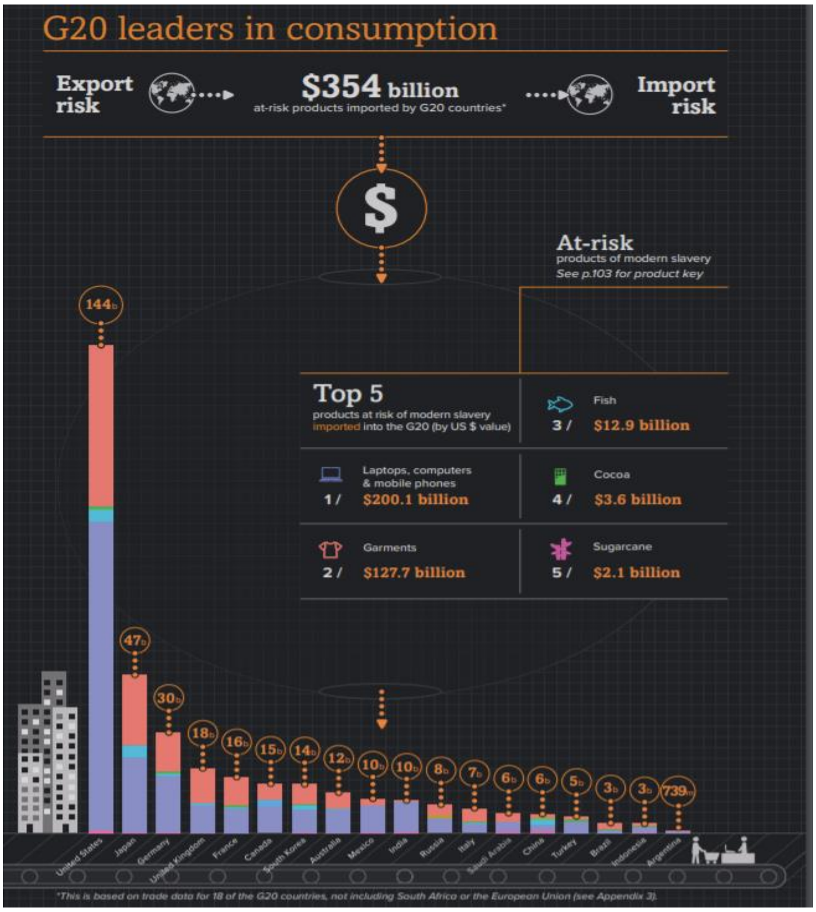
Citizens of most G20 countries enjoy relatively low levels of vulnerability to the crime of modern slavery within their borders, and many aspects of their governments responses to it are comparatively strong. Nonetheless, businesses and governments in G20 countries are importing products that are at risk of modern slavery on a significant scale.

One of the most important findings of the 2018 Global Slavery Index is that the prevalence of modern slavery in high-GDP countries is higher than previously understood, underscoring the responsibilities of these countries. Through collaboration and surveys, more data has been built on receiving countries (importers), most of which are highly developed.

The prevalence estimates for the United States, Australia, the United Kingdom, France, Germany, the Netherlands and several other European nations, are higher than initially thought. Given these are also the countries taking the most action to respond to modern slavery, this does not mean these initiatives are in vain. It does, however, underscore that even in countries with seemingly strong laws and systems, there are critical gaps in protections for groups such as irregular migrants, the homeless, workers in the shadow or gig economy, and certain minorities. These gaps, which are being actively exploited by criminals, need urgent attention from governments.

Responsible businesses also have a role to play. As a starting point they can use this data to aid their MSR process.

Figure 30: G20 consumption of at-risk product



Source: www.walkfree.org

MSR in action

In May 2021 Domino's issued its first Modern Slavery risk assessment for its Australian operations. The suppliers evaluated under this assessment included those that provide goods with agricultural inputs, primarily pizza ingredients, as well as printing and packaging consumables, uniforms, and appliances.

The risk assessment of the supply chain evaluated the **magnitude** of modern slavery risk for the products and services procured by Domino's for its Australian business, based on the likelihood and consequence of the risk occurring. It also considered the level of Domino's **leverage**, as a valued long-term client of its suppliers. Leverage, which can be used to address modern slavery risk through working with suppliers to drive improvements in labour practices, is an important catalyst for change.

Based on data drawn from Walk Free Foundation's (Minderoo Foundation) Global Slavery Index and information from Anti-Slavery International, Domino's have developed a heat map identifying certain goods and services that have a higher risk of modern slavery within their supply chains. Risk factors include the nature of the sector and the country providing inputs. Sectors that have supply chains relying on unskilled, itinerant, sub-contracted or casual labour were inherently higher risk, as were countries with a lower level of industrial regulation.

Domino's findings were transparent in disclosing that approximately 2% of suppliers, corresponding to around 7% of total procurement spend, fell into the high priority category. These suppliers were rated by Domino's as both high risk and high leverage. In this process Domino's has identified four high risk categories including pizza ingredients, printing and packaging consumables, uniforms and appliances.

Pizza ingredients

Pizza ingredients, including fresh vegetables, have been identified as higher risk for modern slavery, particularly debt bondage. Most of Domino's fresh vegetables are grown and processed in Australia. The horticulture sector has a high risk of modern slavery due to publicly reported instances of debt bondage and other forms of modern slavery on farms, particularly within vulnerable groups such as migrants.

Some other food products, particularly those that undergo a level of processing such as processed meats and non-perishable goods, may be sourced from or processed in countries other than Australia, where the risks of modern slavery may be higher. This inherently creates challenges for oversight and mitigating modern slavery risks. However, Domino's has strong and well-established relationships with suppliers, which can be leveraged to minimise modern slavery risk.

Printing consumables, uniforms, and appliances

Printing consumables, uniforms and appliances all have inputs from higher risk, highly globalised sectors within their supply chains (forestry, textiles, and mining, respectively). The types of modern slavery risks which can occur within these industries include forced labour and child labour, and risks are exacerbated due to low level of oversight over international operations.

Leverage, a key to sustainability

In some circumstances the easy option for Domino's is to exit these suppliers from providing services, though this does little to solve the problem and may well do long-term harm. Under such a scenario, suppliers hard hit by the loss of Domino's business would have reduced financial flexibility to embrace necessary change. They may even work to disguise risks to prevent additional loss of business in the future. Alternatively, they simply find customers with lower expectations.

Instead, Domino's, like any responsible business, will focus on these higher risk suppliers by engaging with them to both reduce and manage risk. Importantly, the suppliers identified in the high-risk category also fall into the high leverage category, which means Domino's believes it is well positioned to influence positive long-term changes in these supply arrangements.

Additionally, almost all of Domino's franchisee procurements use Domino's preferred suppliers, increasing leverage and opportunities to identify and address potential issues within their supply chains.

A long journey

Why is modern slavery still so pervasive around the world? Why and how is it tolerated in the globalising economy? What are we missing?

These questions, which are not easily answered, were posed in an essay by Fiona David, Executive Director of Global Research, Walk Free Foundation.

"We have to shift from individual to collective approaches to solving what are truly global problems.

It is unthinkable that by 2018, world leaders have managed to make global, legally binding agreements on everything from outer space to carriage of goods by sea, but they have yet to agree on a framework that would enable the safe movement of people globally."

Awareness to the silent crime and the proceeds of modern slavery remains low. In this article we are attempting to highlight the good work that is being done. Importantly, a valuable source of publicly available data has been developed. It is a big step towards reducing the awareness gap that still exists. The Global Slavery Index is a tool for citizens, non-government organisations (NGOs), public and private businesses, and governments, to understand the size of the problem, existing responses, and contributing factors so that they can advocate for and build sound policies that will eradicate modern slavery.

All supporting data tables and methodology are available to download from the Global Slavery Index website: https://www.globalslaveryindex.org/

There are no short-term answers here. The real benefits always lie in the long-term responses that come with time. We encourage all the businesses in which we make long-term investments, to embrace the data and resources provided. The next addition of the Global Slavery Index will be released in 2022. ***SFM***

HIGH ACHIEVER

This piece has nothing to do with investments but a lot to do with character. Across July and August sport took a front row seat, with many turning to the Tokyo Olympics as a welcome reprieve under the shadow of COVID lockdowns. This quarterly's opening quote is our nod of thanks to Japan. It's one thing to pull off this great event, it's another to set a high bar under such extreme conditions.

Amid strict protocols the games went on. There were countless memorable moments, from individual performances to team events, each with their own backstory of courage and the recognition that comes with success. When athletes perform at the highest level it is captivating.

But this story isn't about the Olympics. This is about the Paralympics, held two weeks later across the same venues, and just as memorable.

Australians are never found wanting when it comes to the sporting arena and with a strong contingency, our athletes competed across most disciplines.

I took an interest and watched the sporting prowess on display, simultaneously becoming aware of a few statistics. According to the Australian Institute of Health and Welfare (AIHW), a Federal Government body, one in six people in Australia have a disability. In other words, 18% or 4.4m of the population. Of this figure, around 1.4m have a severe or profound disability.

More inspirational are the personal achievements, that would go unnoticed without such media coverage. The one to share of many during the two-week games is that of 30-year-old wheelchair tennis player Dylan Alcott. In any given year winning achievements can go unnoticed, but this year was rather special.

Figure 31: Australian Institute of Health and Welfare 2020

Source: AIHW 2020 report

Figure 32: Dylan Alcott winning in New York

Golden year: Dylan Alcott completes holy grail

Source: The Australian 14 September 2021

This calendar year Alcott completed the Golden Slam – winning the Australian Open, French Open, Wimbledon and the US Open, plus the Paralympic Gold in Tokyo – becoming the first male tennis player in history to do so.

Dylan Alcott spoke of the moment following his US Open victory, "*Thanks for making a young, fat, disabled kid with a really bad haircut – thanks for making his dreams come true, because I can't believe I just did that.*"

"*I used to hate myself so much. I hated my disability. I didn't even want to be here anymore. I found tennis and it changed my life. Now I've become the only male ever, in any form of tennis, to win the golden slam. That's pretty cool*."

Pretty cool indeed!! ***SFM***

COMPANY ENGAGEMENTS – SEPTEMBER 2021 QUARTER

Date	Company	Description
2-Jul	IEL	IDP Education Acquisition Conference Call
2-Jul	NAN	Nanosonics Barrenjoey Management Meeting
5-Jul	TAH	TABCORP Holdings Demerger Conference Call
8-Jul	ALL	Aristocrat Leisure JP Morgan Gaming Industry Insight Call
9-Jul	RMD	ResMed UBS Sleep Centre Industry Insight Call
9-Jul	IFL	IOOF Holdings UBS Management Meeting
9-Jul	COUR.NYSE	Coursera Citi Management Meeting
9-Jul	DMP	Domino's Pizza Enterprises UBS Industry Insight Call
14-Jul	PNV	PolyNovo Barrenjoey Management Meeting
16-Jul	JHX	James Hardie Industries Management Meeting
16-Jul	MVP	Medical Developments International Management Meeting
20-Jul	OFX	OFX Group Barrenjoey Management Meeting
21-Jul	REA	REA Group Barrenjoey Industry Insight Call
21-Jul	NEA	Nearmap Management Meeting
22-Jul	ALL	Aristocrat Leisure Barrenjoey Industry Insight Call
29-Jul	IRE	Iress Investor Day
3-Aug	HUB	HUB24 Barrenjoey Management Meeting
3-Aug	IRE	Iress Barrenjoey Management Meeting
5-Aug	OFX	OFX Group Management Meeting
5-Aug	SGMS.NAS	Scientific Games UBS Non-Deal Roadshow
6-Aug	RMD	ResMed 4Q21 Results Conference Call
6-Aug	REA	REA Group FY21 Results Conference Call
10-Aug	JHX	James Hardie Industries 1Q22 Results Conference Call
10-Aug	MP1	Megaport FY21 Results Conference Call
10-Aug	JHX	James Hardie Industries UBS Management Meeting
10-Aug	MP1	Megaport UBS Management Meeting
11-Aug	CPU	Computershare FY21 Results Conference Call
11-Aug	JHX	James Hardie Industries Management Meeting
11-Aug	SEK	SEEK Growth Fund Investor Call
11-Aug	CPU	Computershare Citi Management Meeting
12-Aug	MP1	Megaport FY21 Results Conference Call
12-Aug	MP1	Megaport JP Morgan Management Meeting
12-Aug	MP1	Megaport Management Meeting
13-Aug	MP1	Megaport Barrenjoey Management Meeting
13-Aug	CPU	Computershare JP Morgan Management Meeting
13-Aug	CPU	Computershare Management Meeting
16-Aug	CAR	carsales.com FY21 Results Conference Call
16-Aug	CAR	carsales.com Management Meeting
16-Aug	CAR	carsales.com GS Management Meeting
17-Aug	BRG	Breville FY21 Results Conference Call
17-Aug	BRG	Breville UBS Management Meeting

Date	Company	Description
17-Aug	CAR	carsales.com Macquarie Management Meeting
17-Aug	BRG	Breville Macquarie Management Meeting
17-Aug	CAR	carsales.com UBS Management Meeting
18-Aug	CAR	carsales.com Barrenjoey Management Meeting
18-Aug	ARB	ARB Corporation UBS Management Meeting
18-Aug	NEA	Nearmap FY21 Results Conference Call
18-Aug	CSL	CSL FY21 Results Conference Call
18-Aug	DMP	Domino's Pizza Enterprises FY21 Results Conference Call
18-Aug	FPH	Fisher & Paykel Healthcare Annual General Meeting
18-Aug	DMP	Domino's Pizza Enterprises Citi Management Meeting
18-Aug	BRG	Breville JP Morgan Management Meeting
18-Aug	REA	REA Group Management Meeting
19-Aug	TLX	Telix Pharmaceuticals 1H21 Results Conference Call
19-Aug	ARB	ARB Corporation Barrenjoey Management Meeting
19-Aug	IRE	Iress 1H21 Results Conference Call
19-Aug	CSL	CSL FY21 Investor Call
19-Aug	TLX	Telix Pharmaceuticals Taylor Collison Management Meeting
19-Aug	NEA	Nearmap Citi Management Meeting
19-Aug	NEA	Nearmap Management Meeting
20-Aug	DMP	Domino's Pizza Enterprises Management Meeting
20-Aug	COH	Cochlear FY21 Results Conference Call
20-Aug	DMP	Domino's Pizza Enterprises UBS Management Meeting
20-Aug	IRE	Iress 1H21 Results Conference Call
23-Aug	RWC	Reliance Worldwide FY21 Results Conference Call
23-Aug	NHF	NIB Holdings FY21 Results Conference Call
23-Aug	COH	Cochlear Jarden Management Meeting
23-Aug	COH	Cochlear Management Meeting
24-Aug	NAN	Nanosonics FY21 Results Conference Call
24-Aug	IFM	Infomedia FY21 Results Conference Call
24-Aug	SEK	SEEK FY21 Results Conference Call
24-Aug	IRE	Iress JP Morgan Management Meeting
24-Aug	NAN	Nanosonics Barrenjoey Management Meeting
24-Aug	IFM	Infomedia Management Meeting
24-Aug	IRE	Iress Barrenjoey Management Meeting
24-Aug	NAN	Nanosonics UBS Management Meeting
25-Aug	RWC	Reliance Worldwide JP Morgan Management Meeting
25-Aug	BRG	Breville Barrenjoey Management Meeting
25-Aug	REH	Reece FY21 Results Conference Call
25-Aug	NHF	NIB Holdings Macquarie Management Meeting
25-Aug	IFM	Infomedia UBS Management Meeting
25-Aug	NHF	NIB Holdings Management Meeting
25-Aug	SEK	SEEK Management Meeting
25-Aug	MVP	Fisher & Paykel Healthcare FY21 Results Conference Call
26-Aug	RWC	Reliance Worldwide JP Morgan Management Meeting

Date	Company	Description
26-Aug	REH	Reece FY21 Results Conference Call
26-Aug	BKL	Blackmores FY21 Results Conference Call
26-Aug	FLT	Flight Centre Travel Group FY21 Results Conference Call
26-Aug	JIN	Jumbo Interactive FY21 Results Conference Call
26-Aug	APX	Appen HY21 Results Conference Call
26-Aug	PNV	PolyNovo FY21 Results Conference Call
26-Aug	IFL	IOOF Holdings FY21 Results Conference Call
26-Aug	SEK	SEEK Barrenjoey Management Meeting
26-Aug	FLT	Flight Centre Travel Group UBS Management Meeting
26-Aug	OFX	OFX Group Annual General Meeting
26-Aug	PNV	PolyNovo UBS Management Meeting
26-Aug	NAN	Nanosonics Management Meeting
26-Aug	FLT	Flight Centre Travel Group JP Morgan Management Meeting
26-Aug	PNV	PolyNovo JP Morgan Management Meeting
26-Aug	FCL	FINEOS Corporation Holdings FY21 Results Conference Call
27-Aug	JHX	James Hardie Industries Annual General Meeting
27-Aug	FLT	Flight Centre Travel Group Management Meeting
27-Aug	OFX	OFX Group Management Meeting
27-Aug	BKL	Blackmores Management Meeting
27-Aug	IFL	IOOF Holdings Citi Management Meeting
27-Aug	JIN	Jumbo Interactive Management Meeting
30-Aug	JIN	Jumbo Interactive Barrenjoey Management Meeting
30-Aug	ALU	Altium FY21 Results Conference Call
30-Aug	APX	Appen Citi Management Meeting
30-Aug	APX	Appen Management Meeting
30-Aug	PNV	PolyNovo Management Meeting
31-Aug	ALU	Altium Barrenjoey Management Meeting
31-Aug	ALU	Altium Management Meeting
31-Aug	CSL	CSL Management Meeting
31-Aug	FCL	FINEOS Corporation Holdings Citi Management Meeting
31-Aug	FCL	FINEOS Corporation Holdings Management Meeting
1-Sep	ARB	ARB Corporation Management Meeting
1-Sep	IFL	IOOF Holdings Management Meeting
1-Sep	IRE	Iress Macquarie Management Meeting
2-Sep	FCL	FINEOS Corporation Holdings Macquarie Management Meeting
3-Sep	CAR	carsales.com Morgans Management Meeting
3-Sep	SEK	SEEK Management Meeting
6-Sep	PME	Pro Medicus Barrenjoey Management Meeting
7-Sep	PME	Pro Medicus GS Management Meeting
7-Sep	PNV	PolyNovo Barrenjoey Management Meeting
7-Sep	PME	Pro Medicus UBS Management Meeting
8-Sep	GAN.NAS	GAN Barrenjoey Management Meeting
8-Sep	EVRI.NYSE	Everi Holdings JP Morgan Management Meeting
9-Sep	RMD	ResMed Investor Day

Date	Company	Description
9-Sep	MVP	Medical Developments International Taylor Collison Management Meeting
9-Sep	GQG	GQG Partners UBS & GS Non-Deal Roadshow
9-Sep	MVP	Medical Developments International Management Meeting
9-Sep	RMV.LSE	Rightmove PLC Barrenjoey Management Meeting
10-Sep	RMD	ResMed Morgan Stanley Annual Global Healthcare Conference
10-Sep	GQG	GQG Partners UBS & GS Non-Deal Roadshow
13-Sep	AMS	Atomos Investor Day
15-Sep	PLTK.NAS	Playtika Barrenjoey Management Meeting
16-Sep	EVRI.NYSE	Everi Holdings Barrenjoey Management Meeting
16-Sep	ALU	Altium Barrenjoey Management Meeting
16-Sep	360	Life360 Barrenjoey Management Meeting
16-Sep	BRG	Breville Management Meeting
16-Sep	ALL	Aristocrat Leisure Virtual Investor Roundtable
16-Sep	AUTO.lSE	Autotrader PLC Barrenjoey Management Meeting
20-Sep	IRE	Iress Management Meeting
20-Sep	Blis	Blis Morgans Non-Deal Roadshow
21-Sep	6098.TYO	Recruit Holdings Barrenjoey Management Meeting
27-Sep	COH	Cochlear Management Meeting
28-Sep	AD8	Audinate Barrenjoey Management Meeting
28-Sep	MP1	Megaport UBS Industry insight Call
28-Sep	DMP	Domino's Pizza Enterprises ESG Investor Roadshow
28-Sep	SiteMinder	SiteMinder UBS Non-deal roadshow
29-Sep	LOW.NYSE	Lowes Barrenjoey Management Meeting
29-Sep	JHX	James Hardie Industries US Builders Industry Insight Call
29-Sep	ALL	Aristocrat Leisure JP Morgan Industry Insight Call
30-Sep	SiteMinder	SiteMinder UBS Non-deal roadshow