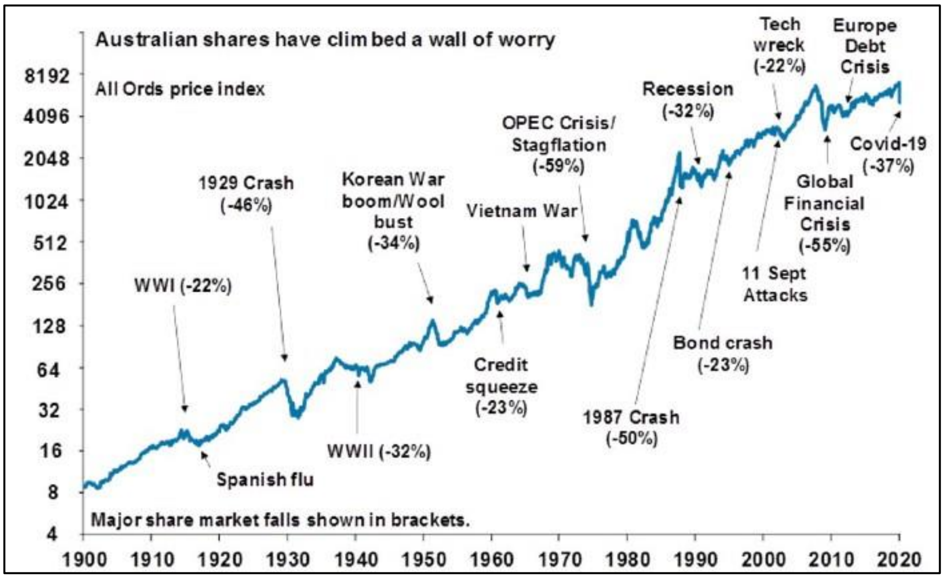
Selector High Conviction Equity Fund Quarterly Newsletter No.77 September 2022



In this quarterly edition we review SFML performance, attribution, ESG and company results from the August reporting season. Our lead article focuses on the macro forces at play, and how we view the current landscape.

We discuss the decision of carsales.com management to go it alone in the U.S. non-automotive market. Following this, we highlight three businesses that fall within the online ‘rivers of gold’ and lament why so many in the market lack accountability.

In our ESG article we profile the progress being made with the Australian online classifieds. We also comment on the future of office space and include an author's extract on why sleep is so underrated.

Photo. The Australian share market since 1900, showing a clear upward trajectory. The bumps and bruises along the way don’t look as painful when a long-term lens is applied. Source. ABC News

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

We focus on stock selection, the funds are high conviction, concentrated and index unaware. As a result, the portfolios have low turnover and produce tax effective returns. Our ongoing focus on culture and financial sustainability lends itself to strong ESG outcomes.

Selector has a 18-year track record of outperformance and we continue to seek businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets and with a focus on capital management.

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IN BRIEF – SEPTEMBER QUARTER

Dear Investor,

Stupid is as stupid does.

Global leaders and central bankers have again stolen the headlines, upholding aggressive monetary tightening action in the pursuit to restore price stability.

The second stated monetary policy objective, to maintain maximum employment, is currently deemed less relevant.

However, as AFR Economist Adrian Blundell-Wignall rightly noted, "*Governments may be forced to acknowledge their own complicity in the inflation that they are so keen to be rid of*."

These experts panicked at the onset of COVID-19, shutting the world down. Emergency interest rate settings added further fuel to the fire, alongside an avalanche of cheap money. China's own draconian restrictions and Russia's belligerent war actions have only worsened the world's attempts to return to some normality.

Now, some two and half years later, our leaders have again hit the panic button. They've made their intentions abundantly clear; defeat inflation, and quickly, with monetary policy the weapon of choice.

U.S. Federal Reserve Chairman Jerome Powell is under no illusion that he is powerless in this situation and is prepared to risk all until the job is done.

The current crusade, "*We will keep at it until inflation is down to 2%*", speaks volumes to the irrational and irresponsible approach entrusted to a select group of individuals.

This quarter, the U.S. cash rate hit a target range of 3.00%-3.25%, seemingly on its way to 4.25%-4.50% by early 2023.

This is the price of failed policies, and the lasting and compounding effects of one of the most mismanaged monumental decisions of our lifetime, COVID-19.

In an attempt to pick up the pieces, they are seemingly prepared to inflict considerable pain to revert to some goldilocks' inflationary setting.

But textbook thinking means little if it ignores the external reality. Supply chain challenges, staff shortages, and the resulting cost pressures are courtesy of government actions and impositions. These imbalances will right themselves – if given a measured and sensible approach.

The ridiculous notion that rate rises stop consumer demand misses the point. This is not a case of spending, for spending's sake; rather a self-inflicted backlog, engineered out of a COVID lockdown mindset, which has reverberated into housing, construction, and staff shortages, to name a few.

Far better to shut the economy down again to fix the problem. Governments have excellent form in believing they are right in all their actions and are even better at dodging accountability.

Their inflation-fighting efforts now come at a likely cost of a sharp U.S economic slowdown and a steep rise in U.S. unemployment. Global dislocations are already evident, with a rampant U.S. dollar strengthening against most currencies, further fuelling the inflationary effects into offshore markets.

Trans-Pacific shipping rates have fallen roughly 75% from year-ago levels, indicating a rapid economic slowdown. Daily freight rates, a significant cost headache to businesses throughout the COVID-19 period, now average US$3,900 per container, compared to US$14,500 at the start of the year and more than US$19,000 in 2021.

How strange then that a recession is now viewed so positively by the powers to be, despite the obvious economic hardships that follow.

Should this entail, it would only hasten a monetary policy U-turn with the intention to stimulate growth once again. A self-perpetuating merry-go-round. If only it were that simple.

A word of caution though, as National Australia Bank Chief Economist Alan Oster pointed out, "*Do remember '89, when the RBA kept putting up rates, and nothing happened until it all fell over.*"

Jerome Powell would do well to heed such advice. Having implemented an unprecedented successive lift in the U.S. cash rate, it now runs the real risk of engineering an economic recession.

A worsening global backdrop has only exacerbated this. Brent crude, the global oil benchmark, is down 23% this quarter to US$87. Further, the rallying U.S. dollar has driven the euro and yen to two-decade lows and sterling to its lowest in nearly 40 years.

In September, the Conference Board forecast global GDP growth of just 2.7% for 2022 and 1.7% for 2023. Outside of the Global Financial Crisis of 2008 and COVID-19, Oster noted this was the worst outlook for global growth since 1993.

While the macroeconomic background continues to whipsaw markets, company reporting season is the opportunity for the businesses held within the portfolio to be properly considered.

The scars of inflation were on display, evident by higher working capital and supply constraints, but generally speaking these were convincingly offset by resilient operational performances.

To have prospered under the weight of business adversity is a testament to boards and management teams. However, we acknowledge the current fear mongering at play has made the immediate future less clear.

Companies are reluctant to provide formal earnings guidance for good reason, but a great percentage operate as global leaders with strong balance sheets and highly recurring earning bases.

They may not command the investor attention for new world minerals or energy businesses now in vogue, but they are proven resilient compound earning performers.

Currently, there is little appetite for investors to consider the merit of investing. The central bankers have hijacked the discussions and are successfully spreading doubt. Investors have responded in kind by looking for the exits.

As is often the way, business leaders have drawn the short straw. They have dealt admirably with matters in their control, while navigating a fluid and unpredictable external environment.

While words are cheap, impeding gloom is evident across a line-up of attractive businesses trading at lower multiples. Opportunities to own companies with a proven record of delivering the goods over a sustainable period, are available to those prepared to look beyond the current market upheaval.

In time, today's concerns surrounding inflation will pass. Just as COVID-19 is no longer front-page news, earlier dislocations, be they the European crisis of 2011, the Global Financial Crisis of 2008, or the Iraqi war of 2003, have long faded away.

In this quarterly we provide a snapshot on company reporting season. Our lead article details the macro forces at play, and how we view the current landscape.

We discuss the decision of carsales.com management to go it alone in the U.S. non-automotive market. We provide our observations on James Hardie, having attended the company's three-day investor event held in New York City during September.

We highlight three businesses that fall within the online 'rivers of gold', provide the challenges of building an international business, and lament why so many in the market who provide analysis lack accountability.

In our ESG article we profile the progress being made with the Australian online classifieds. We also comment on the future of office space and include an author's extract on why sleep is so underrated.

For the September quarter, the Portfolio recorded a gross negative return of **0.55%** compared to the S&P ASX All Ordinaries Accumulation Index, which posted a gain of **0.80%.**

We trust you find the report informative.

Regards,

Selector Investment Team

“Stupid is as stupid does”

To all the Governments and central bankers whose actions reside within a theoretical thought bubble, devoid of responsibility or accountability.

Only to repeat the mistakes, time in, time out, rinse repeat.

Thankfully individuals and businesses haven’t the luxury of being so stupid so often.

PORTFOLIO OVERVIEW

Table 1: Performance as at 30 September 2022*

	3 Month	6 Month	1 Year	3 Year	5 Year	10 Year	15 Year	Since Inception
Fund (net of fees)	(0.96)	(15.04)	(25.34)	(1.89)	7.85	12.86	6.30	9.41
Fund (gross of fees)	(0.55)	(14.35)	(24.44)	(0.23)	9.80	14.90	8.24	11.46
All Ords. Acc. Index	0.80	(12.21)	(8.57)	3.12	7.11	8.58	4.36	7.59
Difference (gross of fees)	(1.35)	(2.14)	(15.87)	(3.35)	2.69	6.32	3.88	3.87

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

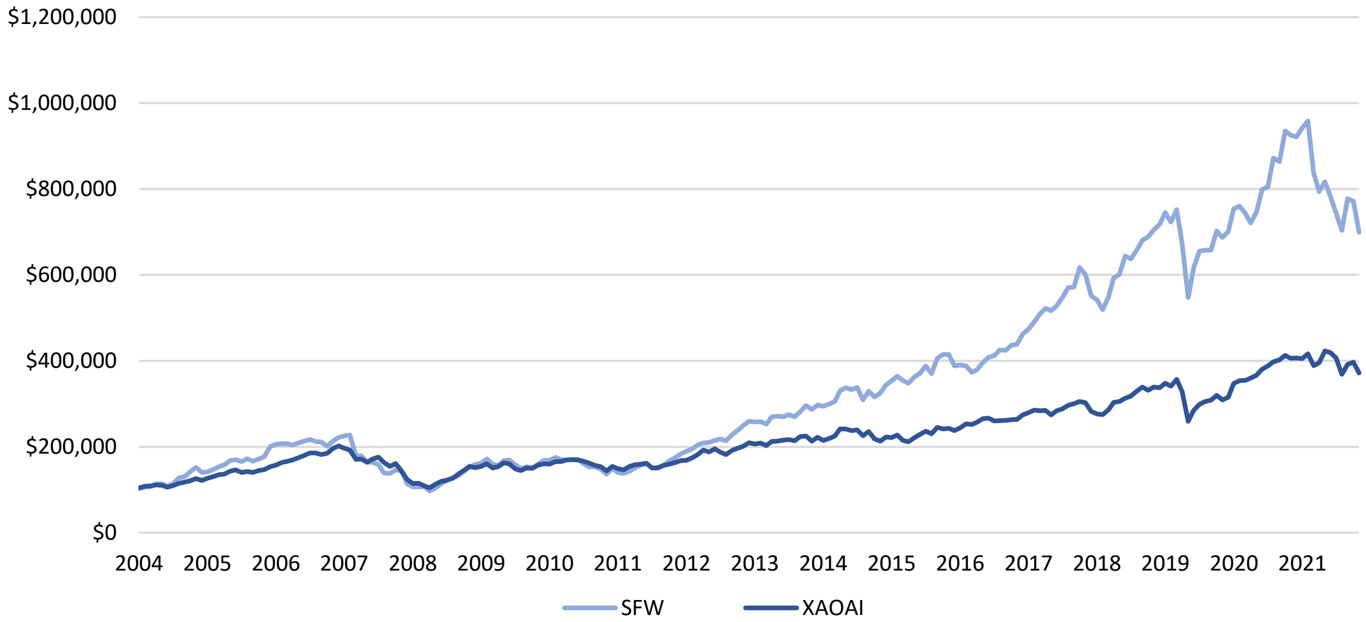


Table 2: Fund's Top 10 Holdings

Top 10 September 2022	%	Top 10 June 2022	%
Altium	6.85	carsales.com	5.82
carsales.com	6.25	TechnologyOne	5.37
CSL	5.89	CSL	5.34
ResMed	5.65	Aristocrat Leisure	5.15
TechnologyOne	5.52	ResMed	4.95
Aristocrat Leisure	5.13	Cochlear	4.85
Cochlear	5.00	Altium	4.80
James Hardie Industries	4.68	James Hardie Industries	4.36
Computershare	4.37	Computershare	4.36
Reece	4.01	Domino's Pizza Enterprises	4.16
Total	**53.35**	**Total**	**49.16**

Table 3: Unit prices as at 30 September 2022

Unit Prices	Entry Price	Mid Price	Exit Price
	$2.8277	$2.8206	$2.8135

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 2022 quarter

S&P ASX Industry Sectors	Quarter Performance (%)
Healthcare	2.64
Information Technology	2.53
Energy	2.29
Financials	0.66
Telecommunications	(0.87)
Consumer Discretionary	(1.96)
Materials	(2.85)
Consumer Staples	(4.33)
Industrials	(6.34)
A-REITS	(7.52)
Utilities	(13.61)

Table 5: Fund's industry weightings

Industry group	September 2022 (%)	June 2022 (%)
Software & Services	27.27	26.80
Health Care Equipment & Services	16.09	15.03
Consumer Services	13.34	14.92
Media & Entertainment	10.21	9.49
Capital Goods	6.32	6.32
Pharmaceuticals, Biotech & Life Sciences	6.29	5.59
Diversified Financials	5.87	5.07
Materials	4.68	4.36
Insurance	2.78	2.64
Cash & Other	1.95	4.99
Household & Personal Products	1.94	2.02
Automobiles & Components	1.91	1.71
Consumer Durables & Apparel	1.35	1.07

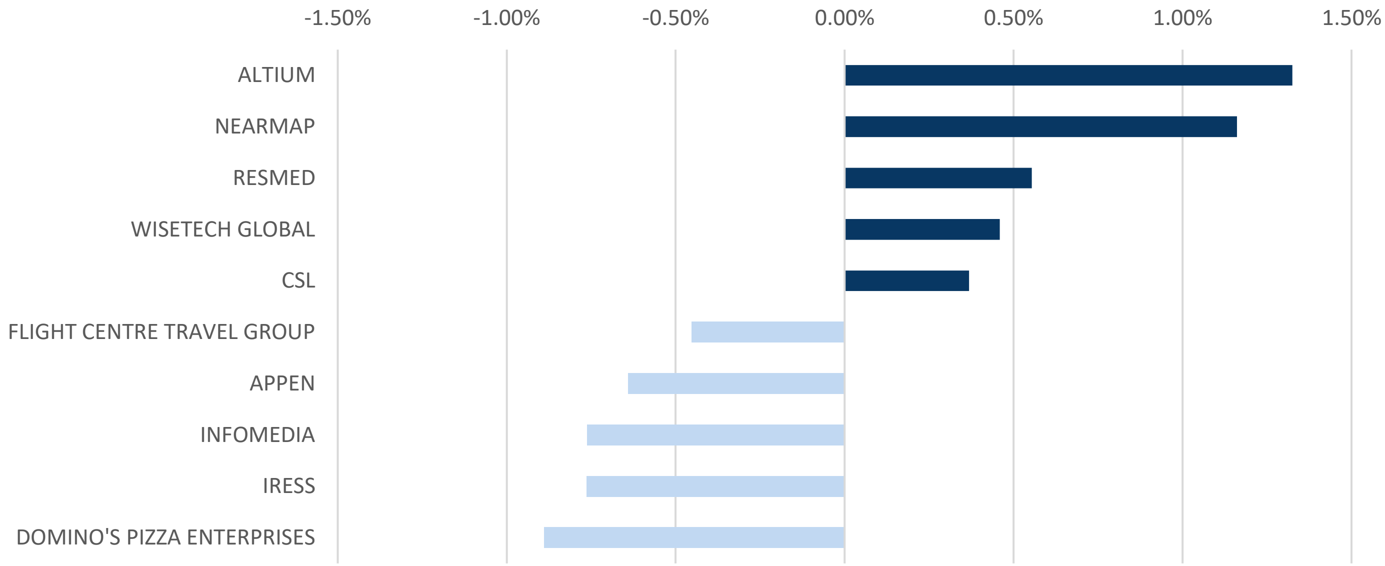
Table 6: Portfolio turnover as at 30 September 2022

Period	Turnover %
1 Year	6.51
2 Years	7.06
3 Years	5.85
5 Years	7.14
10 Years	6.86
Since inception	6.42

- Turnover shown as annualised percentages
- Turnover = Lesser of purchases or sales divided by average funds under management for the period

PORTFOLIO CONTRIBUTORS

Graph 2: Contributors and Detractors – September 2022 quarter



Top quarterly contributors

1. Altium (ASX:ALU)

Please refer to Reporting Season article below.

2. Nearmap (ASX:NEA)

Despite reporting strong operating metrics in the period, Nearmap's reporting season was completely overshadowed by Thoma Bravo's $2.10 per share takeover bid, valuing the company at just over $1b. At a 39% premium to prior trading, the Board unanimously recommended the offer and has entered into a scheme subject to shareholder approval.

3. ResMed (ASX:RMD)

Please refer to Reporting Season article below.

4. WiseTech Global (ASX:WTC)

Leading software provider for logistics WiseTech Global, delivered a strong FY22 result which was at the top end of upgraded guidance. Total revenue grew 26% to $632.2m, while operating earnings (EBITDA) rose 54% to $319m. WiseTech continues to execute on its 3P strategy; Product, Penetration and Profitability. Notable customer wins have continued with the company signing global rollouts with UPS and FedEx in FY22, highlighting global product acceptance..

Research & Development remains a core pillar for success. WiseTech has invested $695m since 2018 and $180.8m (29% of revenue) in FY22. As the rate of acquisitions slow, more resources are being allocated to the core CargoWise product, with investment spend growing by 28%. The focus on innovation and product development is a strategic priority and should deliver latent opportunities across areas such as landside logistics, warehouse and customs and compliance in the medium-term.

The company also provided FY23 guidance for revenue to rise 20%-23% to $755m-$780m up and operating earnings to be $385m-$415m up 21%-30% and representing operating margins of 51%-53%.

For a detailed review of the business, strategy and opportunity, please see our stock review in the June 2022 quarterly newsletter. WiseTech has a market capitalisation of $17.9b and has net cash of $483.4m.

5. CSL (ASX:CSL)

Please refer to Reporting Season article below.

Bottom quarterly contributors

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

Please refer to Reporting Season article below.

2. Iress (ASX:IRE)

In September, financial services software provider Iress downgraded full year result expectations. Challenging macro conditions have led to timing delays to the conversion of new sales opportunities in Mortgages and

APAC, pushing revenues out into 2023. This, coupled with higher technology supplier costs driven in part by foreign exchange, has caused management to reduce the expected FY22 segment profit to a range of $166m-$170m, down from $177m-$183m. As a result, net profit is now expected to be within the range of $54m-$58m, down from $63m-$72m. CEO Andrew Walsh, commented that *"while external macro conditions are volatile, we are making good progress in executing on our long-term strategies to build a more profitable and efficient Iress"*.

On the Superannuation front, the company announced that Commonwealth Superannuation Corporation will adopt Iress' Acurity software for the administration of its more than 500,000 defined benefit scheme members. The migration of members to Iress' unified registry and operating model will be managed in stages over a three-year period with the first expected to be completed by July 2023 and as such will not impact the FY22 guidance.

Iress has a current market capitalisation of $1.7b.

3. Infomedia (ASX:IFM)

Please refer to Reporting Season article below.

4. Appen (ASX:APX)

Please refer to Reporting Season article below.

5. Flight Centre Travel Group (ASX:FLT)

Please refer to Reporting Season article below.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG)

- **ESG risk of the portfolio**

Table 7: SFML ESG Scores

Company Name	ESG Roadmap	ESG Score
ARISTOCRAT LEISURE	2.0	8
ALTIUM	2.0	6
APPEN	2.0	8
ARB CORPORATION	2.0	6
BLACKMORES	2.0	6
BREVILLE GROUP	2.0	5
CARSALES.COM	2.0	8
COCHLEAR	2.0	7
COMPUTERSHARE	2.0	8
CSL	2.0	8
DOMINO'S PIZZA ENTERPRISES	2.0	5
FINEOS CORPORATION HOLDINGS	2.0	6
FLIGHT CENTRE TRAVEL GROUP	2.0	8
FISHER & PAYKEL HEALTHCARE CORPORATION	2.0	8
INSIGNIA FINANCIAL	2.0	5
INFOMEDIA	2.0	4
IRESS	2.0	7
JAMES HARDIE INDUSTRIES	2.0	7
JUMBO INTERACTIVE	2.0	6
MEGAPORT	2.0	4
MEDICAL DEVELOPMENTS INTERNATIONAL	2.0	6
NANOSONICS	2.0	8
NEARMAP	2.0	6
NIB HOLDINGS	2.0	9
OFX GROUP	2.0	7
POLYNOVO	2.0	7
REA GROUP	2.0	9
REECE	2.0	9
RESMED	2.0	8
RELIANCE WORLDWIDE CORPORATION	2.0	9
SEEK	2.0	9
TECHNOLOGYONE	2.0	7
WISETECH GLOBAL	2.0	8

ESG 2.0 Roadmap

Consideration			
Environment	Climate Targets	Renewable targets	Progress against target
Social	Human Capital Management	Community (including MS*)	Best Interests
Governance	Board effectiveness	Shareholder interests	Risk & Litigation

Roadmap scorecard
9 filters applied to each portfolio business

*Modern Slavery (MS)

The ESG 1.0 Roadmap, developed in-house in 2019, defines ESG issues that may impact companies and applies a score of 1 or 0 for each of the 12 areas under consideration. The ESG 2.0 Roadmap iteration was created in 2021, with changes integrated into our portfolio models thereafter. The ESG 2.0 Roadmap consists of 9 areas under consideration.

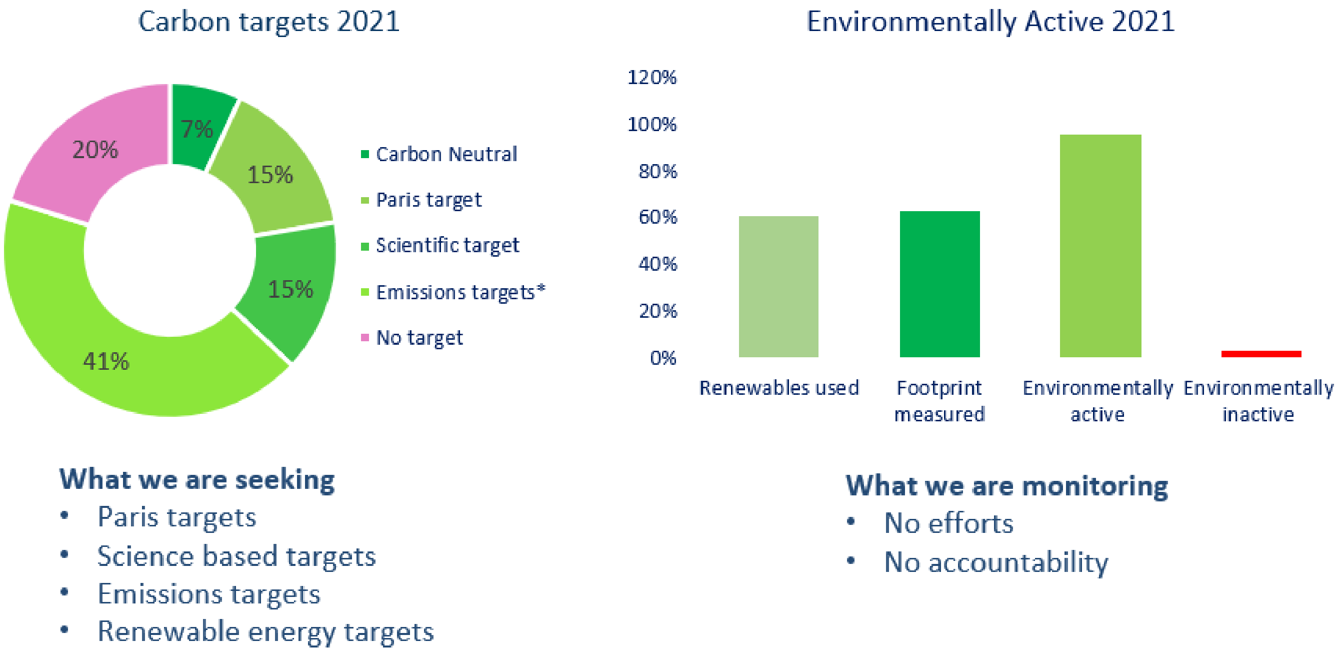
The following is a breakdown of each consideration:

- Climate targets – Assessment of the company's plans relating to carbon neutrality, Paris commitments, scientific targets, or emission targets. "0" rating for no effort.
- Renewable targets – Assessment of the company's documented use of renewables mix or implemented targets for renewable energy.
- Progress against targets – Measuring progress made against announced targets. "0" rating for no effort.
- Human Capital Management – "Is there a history of human rights violations, workplace and IR disputes, discrimination and harassment claims?"
- Rating of the company's employee engagement, turnover and productivity. Compare the company's work, health and safety (WHS) standards against peers, including their recording and track record of incidents.
- Community – Rating of the company's community engagement and social licence to operate. Consider whether the company has a framework on social issues across its supply chain, including labour standards, child labour, health & safety, discrimination, and harassment.
- Best Interests – "Is the company behaving in a manner that is in the best interests of stakeholders."
- Board effectiveness – Assessment of the board including industry experience, independence, age, diversity, tenure, equity ownership and capacity.
- Shareholder interests – Assessment of the remuneration structure, shareholder communication, corporate disclosure, and reliability of financial statements. Test the factors against the company's corporate strategy and whether they are in line with shareholder interests.
- Risk & Litigation – Rating of the company's internal risk and control framework.

The ESG Roadmap is reviewed quarterly with data updated annually by reporting companies. Further detail on our ESG Roadmap can be found in the SFML ESG & Voting Policy 2021, available at https://selectorfund.com.au/esg

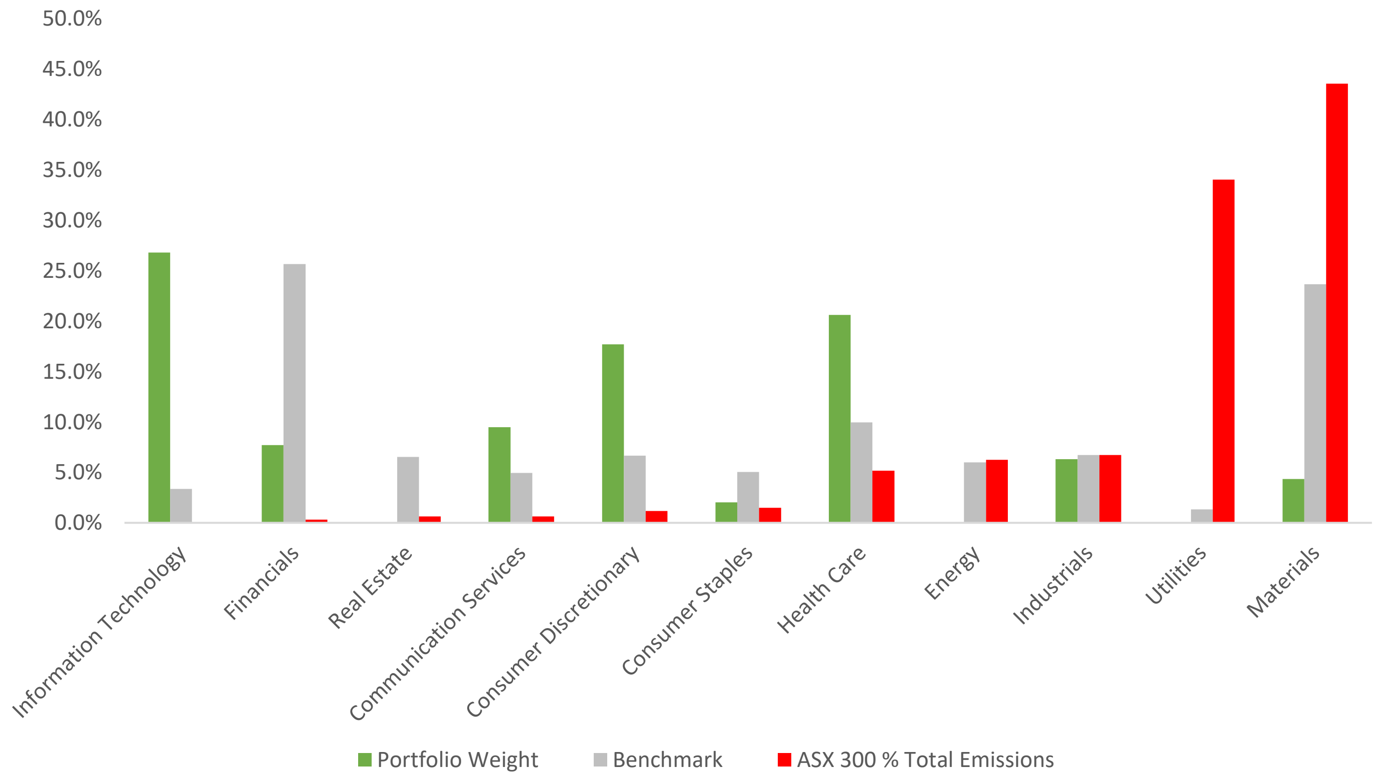
- **Carbon Risk Analysis**

Figure 1: Portfolio Reporting 2021



Source: SFML Research

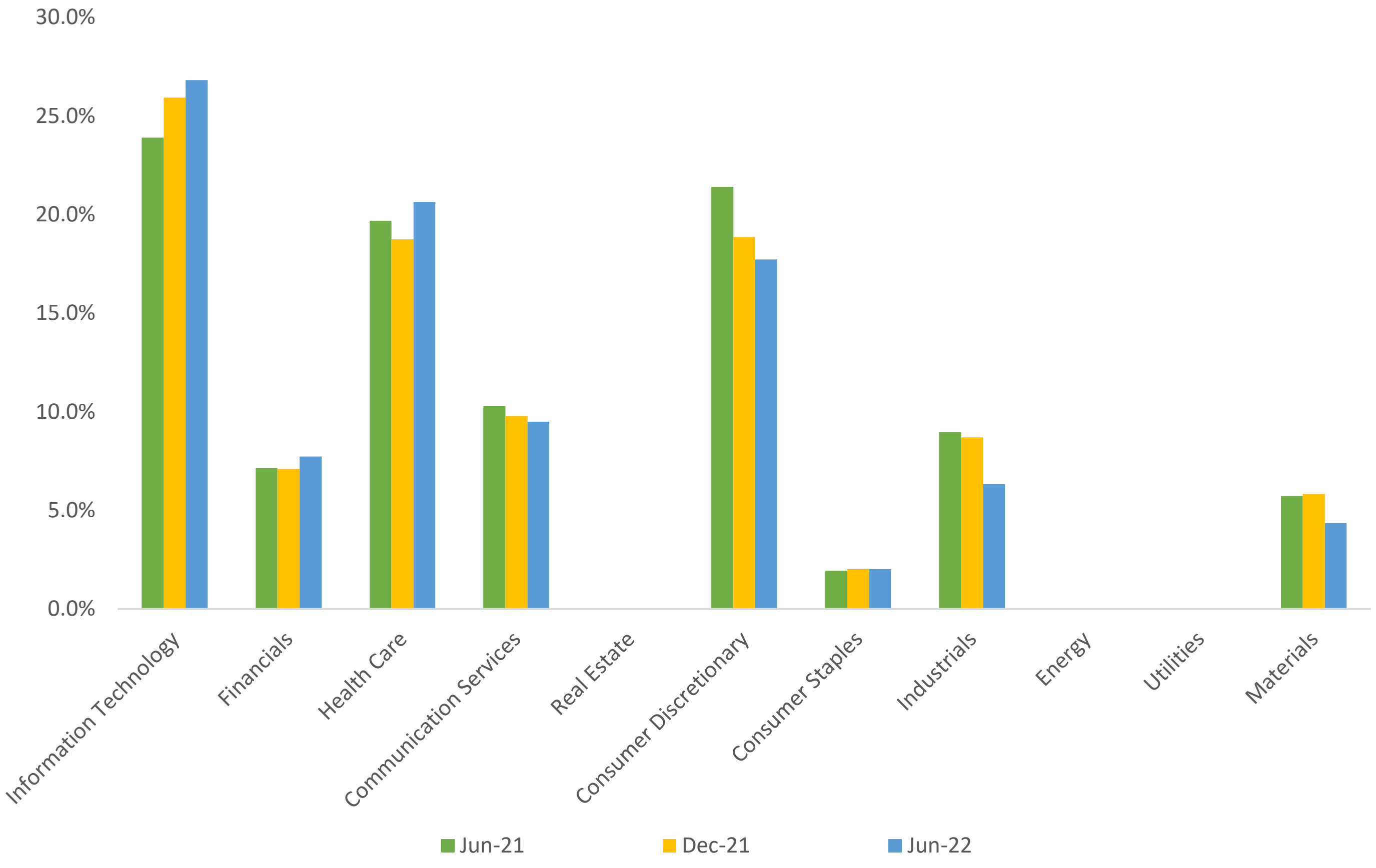
Graph 3: SHCEF vs ASX 300 Carbon Exposure 30 June 2022[1]



Source: Refinitiv

[1] *ASX 300 Index estimated using Vanguard Australian Shares Index ETF*

Graph 4: Portfolio Carbon Exposure Periodic Change



Source: Refinitiv

Table 8: SFML Portfolio carbon intensity

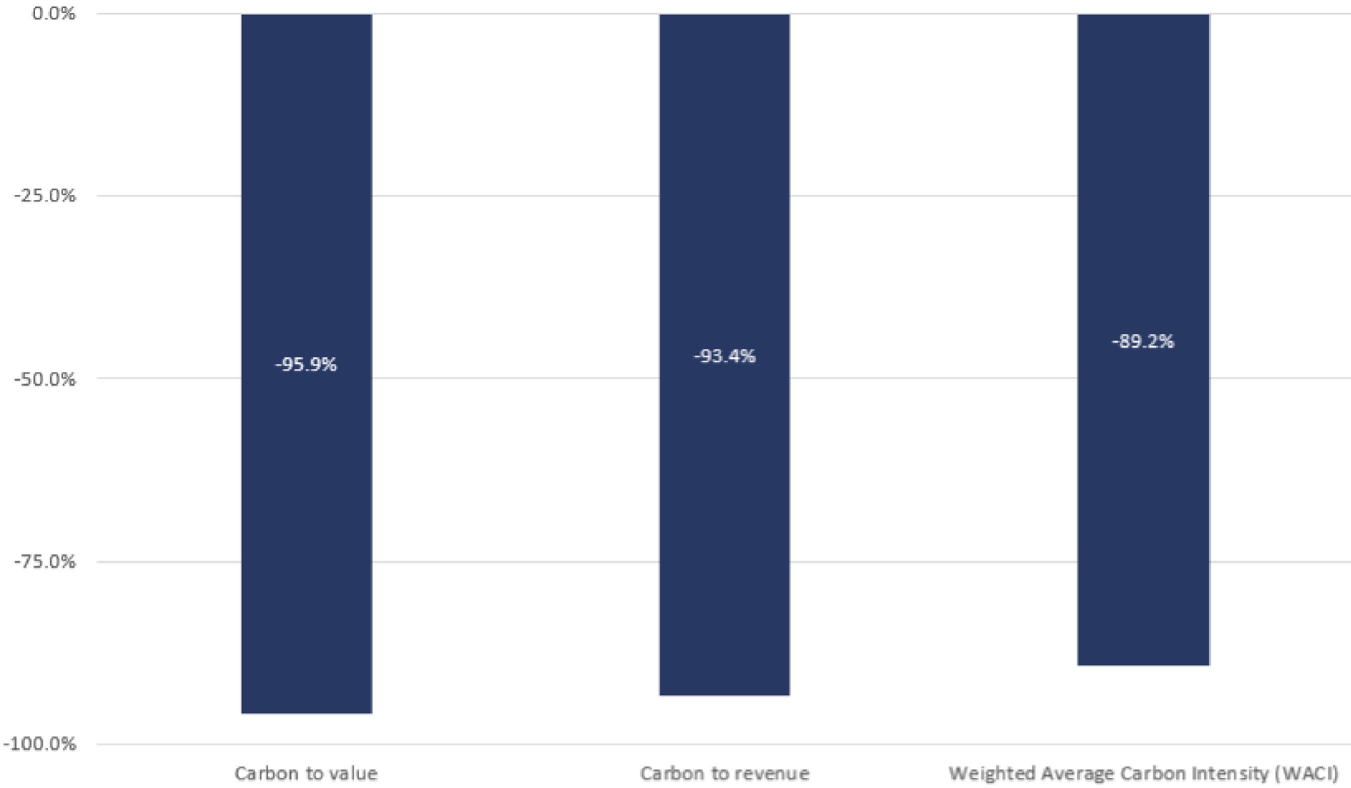
Carbon intensity method[1]	SFML	Benchmark[2]
Carbon to value invested	4.74	116.22
Carbon to revenue	18.62	280.83
Weighted Average Carbon Intensity (WACI)	21.90	202.37

Source: Refinitiv

1. Denominated in tonnes per CO2e/AUD$m
2. Benchmark used is Macquarie True Index-Australian Shares Fund, an approximation of S&P ASX30

- ***Carbon to value invested*** – this calculation is the aggregation of estimated owned constituent greenhouse gas emissions per $1m market capitalisation as at 31 December 2020. It allocates the emissions investors are responsible for based on their level of ownership, enabling them to measure their contribution to climate change.
- ***Carbon to revenue*** – this calculation reflects the aggregation of estimated owned constituent greenhouse gas emissions per $1m generated in apportioned revenues. It allocates the emissions investors are responsible for based on their ownership of company revenues.
- ***Weighted Average Carbon Intensity (WACI)*** is the weighted average of individual company's estimated carbon intensities (emissions over revenues), weighted by the investment proportion of the constituents.

Graph 5: SFML Carbon Intensity Relative to ASX 300



Source: Refinitiv

SFML's carbon to value invested and carbon to revenue are both lower than the S&P ASX 300 index, at 95.9% and 93.4% respectively. SFML's WACI is 89% lower than the index, due to no exposure to Energy and Utilities sectors, and low exposure to the Materials sector.

Table 9: SFML Top 10 emitters and total Portfolio Revenue impact of AUD$90 Carbon tax

Portfolio	LTM Revenue ($m)*	Estimated CO_2 Emissions (Tonnes)	$90 Carbon Tax ($m)	Impact on LTM Revenue (%)
SFML Top 10 Emitters	40,915.18	1,304,349	117.39	(0.29%)
SFML Portfolio – Total	52,335.96	1,371,583	123.44	(0.24%)
ASX300 Top 30 Emitters	458,387.54	216,705,671	19,503.51	(4.25%)
ASX 300 Index – Total	938,332.01	233,754,518	21,037.91	(2.24%)

Source: SFML & Refinitiv Estimated CO2 Emission data

* LTM (Last Twelve Months) revenue as of 31 December 2021

Note: ASX 300 index revenue impact from a carbon tax is ***9.5x*** *larger than SFML portfolio*

Table 10: Fundamentals behind comparing SFML Top 10 Emitters and ASX300 Top 30 Emitters

Portfolio	Percentage of Total Portfolio	Percentage of Total Portfolio's Emissions
SFML Top 10 Emitters	44.85%	95.10%
ASX 300 Top 30 Emitters	32.33%	92.71%

Source: SFML & Refinitiv Estimated CO2 Emission data

Note: ASX300 Top 30 Emitters revenue impact from a $90 carbon tax is ***14.8x*** *larger than SFML Top 10 Emitters*

Table 11: SFML Portfolio Top 10 Emitters Carbon Tax Scenario Testing

Company	CO_2 Emissions (Tonnes)	FY21 NPAT (AUD $m)	EPS FY21 ($)	Value of Carbon Tax ($)	Cost of Carbon Tax ($m)	Impact on NPAT (%)	EPS Post Carbon Tax ($)
JHX	603,840	353.83	0.79	90	54.35	(9.78%)	0.72
CSL	344,000	3,197.71	7.03	90	30.96	(0.78%)	6.97
ALL	129,024	820.00	1.29	90	11.61	(1.24%)	1.27
CPU	63,953	254.74	0.45	90	5.76	(1.67%)	0.45
REH	43,835	286.00	0.44	90	3.95	(1.17%)	0.44
FLT	34,328	-433.46	-2.18	90	3.09	(0.71%)	-2.19
DMP	33,539	184.01	2.13	90	3.02	(1.17%)	2.10
RMD	22,171	638.87	4.40	90	2.00	(0.16%)	4.39
ARB	16,405	112.90	1.40	90	1.48	(0.92%)	1.37
FPH	13,253	503.23	0.87	90	1.19	(0.17%)	0.87

Source: SFML & Refinitiv Estimated CO2 Emission data

We provide a more detailed review of the impact of a carbon tax on SFML's portfolio in the article below, *SFML 2022 Climate Commitment*.

- **How ESG factors are incorporated into research and decision-making processes**

We believe ESG is incorporated into our investment process and our research efforts. We make this distinction to provide further insight.

ESG incorporation into investment process

ESG consideration is integrated into the three core areas of our investment process:

1. Corporate engagement program
2. Quantitative modelling program
3. Voting program.

The three programs of work listed above are applied consistently to each business that we research. Ultimately, we are seeking businesses with leadership qualities, run by competent management teams, underpinned by a strong balance sheet and with a focus on capital management. Each of these four elements has its roots in culture and ESG.

We believe Culture and ESG are intertwined. We consider them both integral to our assessment of a business. Voting is the other half of ESG, all resolutions are documented, researched and voted inhouse.

Our ongoing focus on the individual culture and financial sustainability of a business lends itself to strong ESG outcomes at a business and portfolio level. This is evidenced by portfolio emissions significantly lower than index emissions, coupled with outperformance since inception.

ESG incorporation into research

All research is undertaken in-house by the Portfolio Managers and investment team. This is an intensive, granular and in-depth approach to continuous learning. We seek businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets and with a focus on capital management. This approach lends itself to strong ESG outcomes. Our approach is to fully integrate ESG into each of these four areas.

This is a risk out process. We are trying to take as much risk off the table as possible before we invest. The key areas of risk we focus on are board and management competency and the culture they are responsible for, business qualities, balance sheet and capital management. We believe a common-sense approach holds that a net cash balance sheet carries lower risk and more optionality than an optimised or extended balance sheet. We ultimately compare equity risk to a risk-free rate.

Before we invest, we seek to understand which risks a business can control verse those outside its control. For this to be possible, risk must be reported in a consistent and transparent fashion, to avoid any surprises. Here we are considering the possibility of assets becoming stranded (environment) or compromised (Social, Governance, legal, IP, cybersecurity as examples).

Risk sits in each bucket of E, S and G. Our program of corporate engagement has aided our understanding of risk in the S and G buckets since inception. In more recent years we have taken progressive steps to better understand Environmental risk and today, we are actively seeking better financial disclosure from the companies we invest in.

Our conviction in this process generates a concentrated portfolio of our best ideas, or our highest quality stock picks. The aim is to capture as much real earnings per share growth as possible over the long-term.

Our approach has been consistent since inception. It is framed by our Roadmap. This template is both qualitative and quantitative in nature, it focuses our research efforts on the aspects of ESG that we hold important in assessing the risk associated with a long-term investment. This internal scoring system is integrated into our financial model.

Our Roadmap provides a repeatable framework that drives our corporate engagement program, our quantitative program of financial modelling including our stock universe data screen, and our structured voting program. It also holds a strong relevance to our portfolio construction.

Our Roadmap has a material bearing on our investment process from screening ideas to portfolio construction. As an example, we highlight the top left-hand corner of the Roadmap, “Individuals we can trust”. If we are unable to establish confidence in management, board and the culture that they are responsible for, we will not invest in a business. We are index unaware and have the luxury of sitting on the sideline or saying no to an investment.

We believe culture and ESG are intertwined, with the former driving the later. We have focused on the culture that drives the social attributes and governance process within a business since inception.

In 2019 we developed our ESG Roadmap which provides an additional framework for integrating ESG into our research. It is also incorporated into our financial models. This is an iterative approach whereby we are building upon successful initiatives and discarding those that do not add value to our process.

We have taken progressive steps to better understand environmental risk. We measure emissions targets and renewables use across the portfolio. We also measure portfolio emissions against index emissions.

We have long had confidence that our process drives strong ESG outcomes in relation to social and governance issues. We believe our long-term outperformance and low turnover is evidence of this. It is now also apparent, from the portfolio reporting discussed above, that we are driving equally strong ESG outcomes in relation to environmental issues.

In addition, we use our templates and framework to actively seek better transparency and financial disclosure from the companies we invest in.

- **Examples of where ESG issues have been integrated into investment analysis and decision-making processes including company engagement and voting**

As part of our corporate engagement program, in 2022 we have proposed a sustainable capital management program to businesses we engage with. The ongoing ability to deliver strong ESG outcomes requires long term business sustainability. The model that SFML promotes is a sustainable approach to ongoing re investment into innovation and R&D programs, a sensible payout ratio, and a consistent buyback of shares that drives real EPS growth over the long term while maintaining a strong balance sheet. These financial elements promote business sustainability that are hallmarks of good financial stewardship including. We have actively discussed this model with:

- carsales.com
- Fisher & Paykel Healthcare
- TechnologyOne
- Cochlear

- **Details of any ESG research sources (internal and external) used during the reporting period.**

We endeavour to read widely. This includes publicly disclosed documents, such as annual reports, sustainability statements, company and board charters and broker research. We subscribe to news services, various publications and a global business transcript service that also collates broker research and financial data.

SFML also recently integrated a new financial platform, Refinitiv, which provides extensive ESG coverage and data insights across ASX All Ordinaries securities. Refinitiv's reported and estimated emissions data has been used to generate the detailed analysis of SFML's portfolio emissions as seen above. Refinitiv will also enable data to be refreshed more frequently.

All research is undertaken in house by the Portfolio Managers and investment team. This is an intensive, granular and in-depth approach to continuous learning. We believe this is a differentiated approach that generates strong ESG outcomes.

THE HEADLINES WE READ

As we write we note some headlines which have taken control. They scream of bear market sized 20% falls in the S&P 500 and the Nasdaq alike.

On 1 June 2022 JP Morgan CEO Jamie Dimon told analysts,

“You know, I said there’s storm clouds but I’m going to change it … it’s a hurricane, while conditions seem fine at the moment, nobody knows if the hurricane is “a minor one or Superstorm Sandy.” You’d better brace yourself. JPMorgan is bracing ourselves and we’re going to be very conservative with our balance sheet.”

The two main factors that had Dimon worried:

- Quantitative tightening, or QT, began in June ramping up to US$95b a month in reduced bond holdings.
- Ukraine war and its impact on commodities, including food and fuel. Oil could hit US$150 or US$175 a barrel, he said.

QT undoubtedly sucks liquidity from markets and the impacts of this are not well understood. It was always going to be a problem after Janet Yellen famously described the impact of unwinding QT as like watching paint dry on a wall.

OPEC+, in its desperation to put a floor under the oil price at US$90-US$100 a barrel, has all but proved Dimon wrong on the second count. They would not be cutting production in this fashion if demand indicated the price levels Dimon forecast.

On 12 October, Dimon had a follow up warning that he expects markets to remain volatile for the foreseeable future, and that the S&P 500 could easily fall another 20% as the Federal Reserve continues to raise interest rates.

Bank of America (BOA) has thrown its hat in the ring stating for bear markets, the average price decline is 37.3% and the average duration is 289 days, noting there have been nine bear markets in the past 140 years.

The rates we face

The headlines from Dimon, BOA, and most other commentators are based on the near certainty that the U.S. Federal Reserve will continue with unprecedented interest rate increases.

Current market forecasts see local cash rates at 3.5%, U.S. cash rates at 4.85% and U.K. at slightly less than 6%. Cash rates above 5% will see mortgages above 7% and small business loans north of this. This will create stress that lowers GDP growth. Consequently, rates will follow.

While the impacts of rising rates lag in some parts of the real world, fixed rate mortgages can take time to roll off, in other parts the impact is more immediate. The meteoric rise of the U.S. currency has created a vortex that has sucked assets from every corner of the globe and left few asset classes untouched.

We remain of the view that rates will not dwell at permanently high levels, and that growth is in fact a scarce commodity. Today’s growth is courtesy of reopening the globe and pandemic stimulus, two factors unlikely to repeat, noting that inflation is a delta that requires prices to stack to continue. Prior to this, the world faced anaemic growth due to a combination of deflationary impacts of demographics and technology.

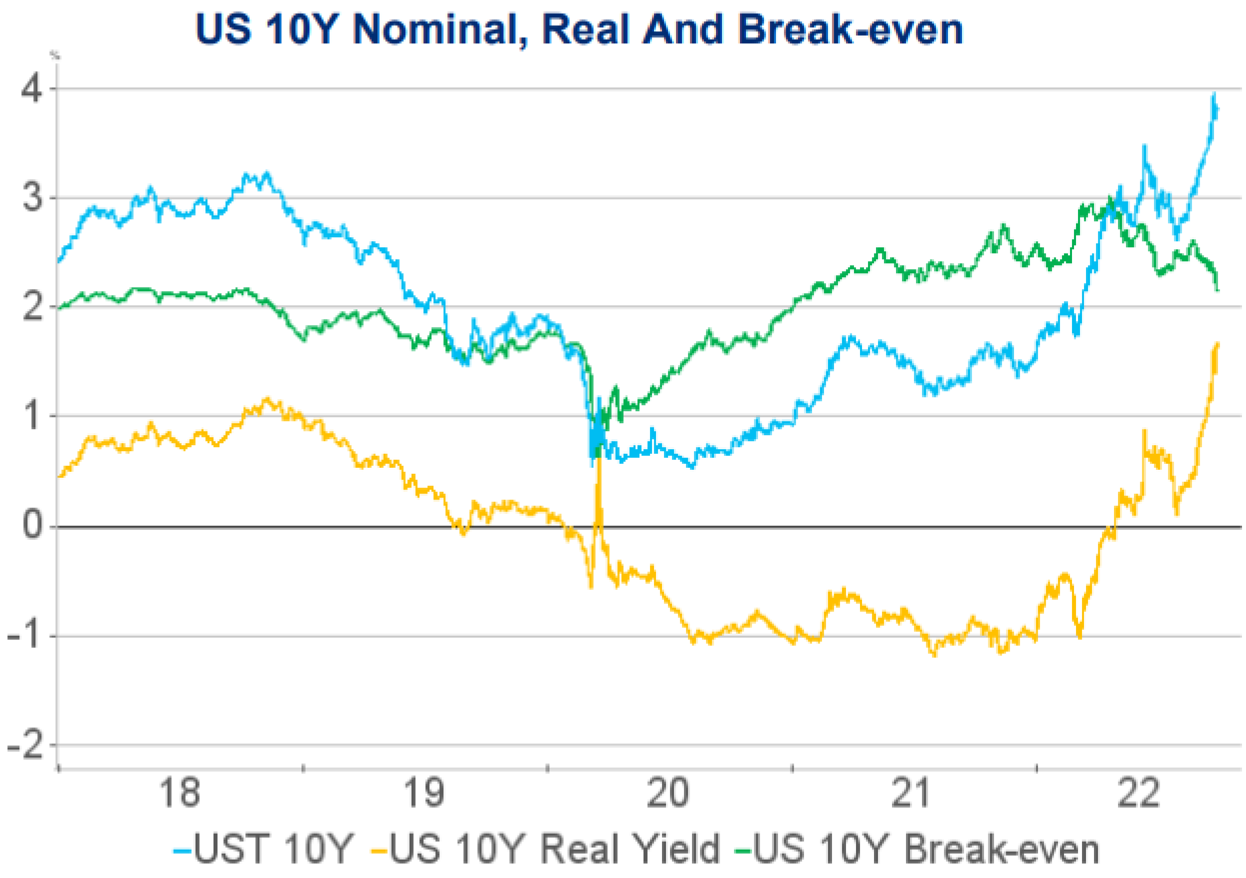
We are also of the view that quality businesses with sustainable cashflows that can compound at above average GDP growth rates through organic means and have competitive advantage (driven by Leadership, Brand, IP, or recurring revenue or a combination of these) will be highly sought after in the low growth, lower rate environment which we foresee.

Yield curves generate enormous interest, amongst market watchers and mortgage holders alike, this year due to the magnitude of interest rate moves in a short nine-month window. Many have been wrongfooted.

In May this year, our Reserve Bank of Australia governor Philip Lowe admitted the central bank’s pandemic guidance that interest rates would not rise until at least 2024 was an *“embarrassing”* error and it *“should have done better”*.

Since the shape of yield curves is thought to be the key driver of asset prices today, it is worth spending some time on this argument.

Chart 1: 10-year treasuries, real yield, and breakeven rates



Source: Citi Research, Datastream

The chart above depicts three curves.

1. The **10-year treasury bill** which is a government bond with a coupon that trades in the secondary market. (Blue)
2. The **10-year breakeven rate** which measures the difference between 10-year Treasury Bond and Treasury Inflation Protected Securities (TIPS). It indicates the markets' inflation expectations over the 10-year horizon. The spread between 10-year Treasuries and TIPS will be lower if fixed income traders' inflation expectations are lower and will be higher with increasing inflation expectations. This is the view of professional bond traders. (Green). Clearly here expectations are for a falling inflation rate.
3. The **10-year Real yield** is the return that a bond investor earns from interest payments after accounting for inflation. Effectively this is the 10-year treasury bill minus inflation. (Yellow)

In our view, rates are a driver of the *'Sell-off'* but it is not that simple.

Real interest rates impact stock valuation estimates. Valuation models incorporate interest rates into the assessment of how much a stock's future earnings are worth today. We have discussed this previously. When rates rise, it diminishes the value of those future earnings and thus reduces the value of the stock.

This dynamic has been a prime catalyst in the sell-off of technology and other growth companies whose value is heavily dependent on earnings growth into the future.

Most of the time (in history), real yields have remained positive. Investors should not think positive real yields are negative for the stock market.

Positive real yields are in fact positive for the stock market as the economy is in growth and subsequently business can operate in an environment with an economic tailwind.

In unusual circumstances, real yields can go negative. The past two years has seen this occur as depicted in yellow in Chart 1. The Federal Reserve's quantitative easing (QE) program to support the economy during the 2020 COVID pandemic saw massive purchases of bonds in the open market push yields down well below the long-term trend for inflation of 2% per year, creating negative real rates.

In Chart 1 the real rate, depicted in yellow, is on a steep incline as the Central banks push rates higher while inflation expectations fall, depicted in green. The outcome for both curves is potentially at peak uncertainty and this is being reflected in equity markets around the globe. Volatility can be at its highest as markets test to discover both high and low points.

While we hold a view that interest rates will head lower from the peak rates targeted by central banks, investors should not be under the illusion that returns can only be generated alongside falling real interest rates. We have a long track record of producing strong returns across environments that include periods of positive real interest rates.

Internally, we were under no illusion that interest rates were at lift off from December 2021, with the Federal Reserve announcing its pivot to a fast taper (QT) and a program of accelerated rate increases. While we did not envisage terminal cash rates of 4%, 5% or 6% one year out, we remain of the view that these levels are not likely sustainable. While these cash rates are not particularly high in historical terms, they will do enough damage to GDP growth to cause them to fall back. GDP forecasts have been slashed this quarter.

Catherine Wood, CEO Ark Invest, in an open letter to the Federal Reserve on October 10th concluded, *"could it be that the unprecedented 13-fold increase in interest rates during the last six months—likely 16-fold come November 2—has shocked not just the U.S. but the world and raised the risks of a deflationary bust?"*

The prospect of Deflation

Post stagflation, which we are currently experiencing, deflation remains a real prospect. A decline in aggregate demand typically results in subsequent lower prices. Causes of this shift include reduced government spending, stock market failure, consumer desire to increase savings, and tightening monetary policies (higher interest rates). All four are firmly in place.

Demographics point to deflation. Demographics in the form of aging and retiring populations are a deflationary force. The older and retired people consume less, so as populations age and people like baby boomers leave the workforce, they will consume less, demand will drop and pull inflation down with it.

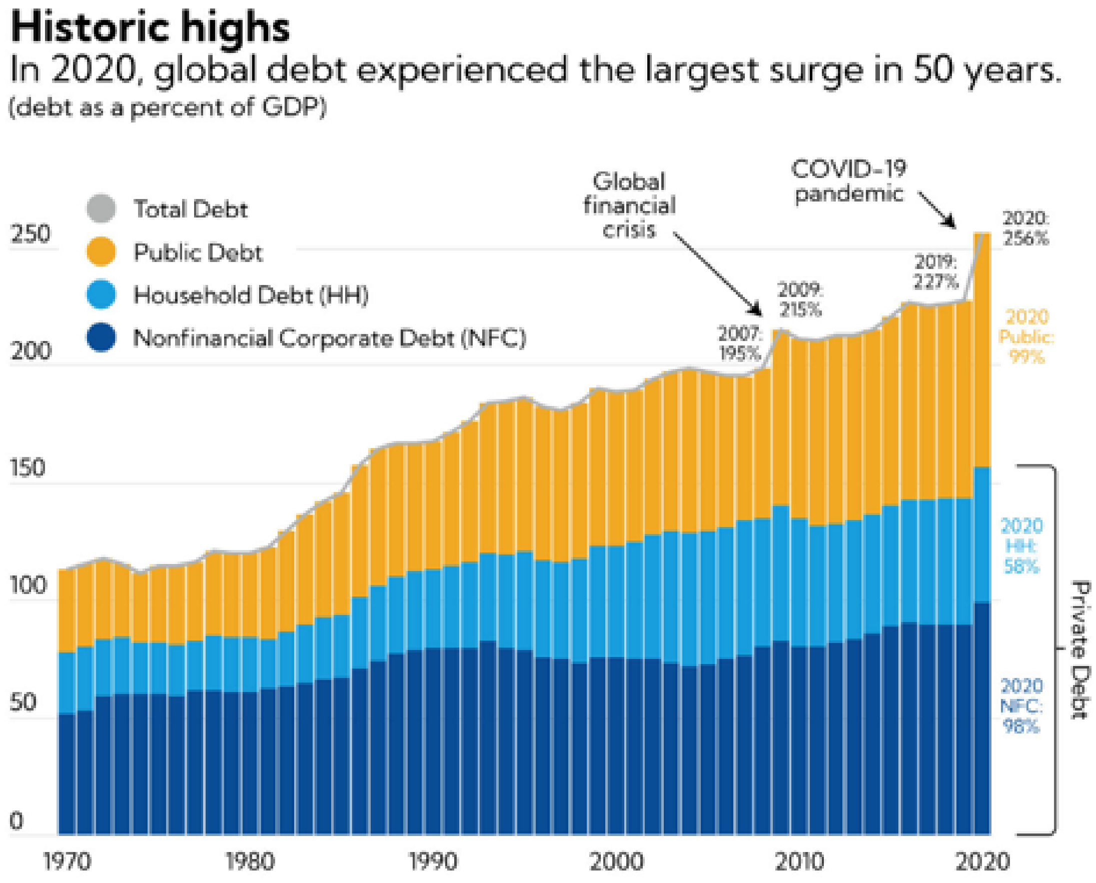
On the flip side a rapidly growing population creates inflationary pressure through increasing demand for goods and services. Yet today, populations are in decline across the developed world. According to worldmapper.org the biggest absolute population decline between 2015 and 2050 will happen in China, followed by Japan and Russia.

When it comes to relative population decline European countries are in the lead: Bulgaria first, followed by Latvia, Moldova, Ukraine, Croatia, and Lithuania. The first non-European country on the top is the United States of America on 12th place.

Technology

The role technology will play in relation to deflation is less clear. Persuasive arguments can be made for productivity gains driven by technology which lowers prices. Others argue we are past peak technological advances which lowers future investment (reducing demand) but also reduces any productivity gain. With supercomputing and the age of genetics on our doorstep we see this latter argument as short sighted.

Chart 2: The Debt



Source: IMF

The Burden of debt is inescapable, and it increasingly sits with governments. Not only is the higher interest cost an impost on society it must eventually lead to higher taxes which are a drag on growth.

According to the IMF's Global Debt Database, borrowing jumped by twenty-eight percentage points to 256 percent of gross domestic product in 2020. In 2021 Global Debt surpassed US$300b. Government accounted for about half of this increase, with the remainder from non-financial corporations and households. Public debt now represents close to 40 percent of the global total, the most in almost six decades.

Increasing interest rates expose holders of debt to rising costs. When rates move quickly weak balance sheets can quickly face ruin. Businesses, countries, and entire financial systems face into this risk. In London, the term Quantitative Destruction has been coined. Britain is now providing a test case of what happens when higher rates threaten to bring down an entire financial system.

In October, a debt driven liquidity crisis in the U.K. required emergency Bank of England intervention. Unfunded pension plans who lodge gilts (bonds) as collateral to support debt to pay out future liabilities, faced immediate collapse as treasury yields screamed higher and prices melted away. The underlying debt structures supporting these schemes, were endorsed by regulators. The trigger to a crisis can unfortunately come in many unseen forms.

In this case, the mere prospect of lower taxes (in an unfunded budget) requiring more debt issuance was enough to expose these pension schemes, creating a run on the very assets they lodge as security.

It is an ironic twist that while increasing rates to fight inflation on one hand the Bank of England has already been forced to stabilise the entire financial system by effectively lowering rates with the other hand. We would argue that the aggregate indebtedness of the globe is a limiting factor for interest rate increases.

This latest example in the U.K., highlights the risks faced by an increasingly indebted world. Debt shifts control from the asset owner to a lender. It is a key reason we have always favoured net cash balance sheets. You never really know when the debt might be called due, and the timing is never favourable.

The end

Many commentators have asserted that the era of low interest rates is over. They insist that we are never going back to the historically low rates that prevailed in late 2019 and early 2020, just before the pandemic, rates that were negative in many countries.

Paul Krugman argues that low interest rates were not artificial; they were natural. And it is hard to see anything that will cause the natural rate to rise once the current inflation spike is over. So, the era of low interest rates is not over after all.

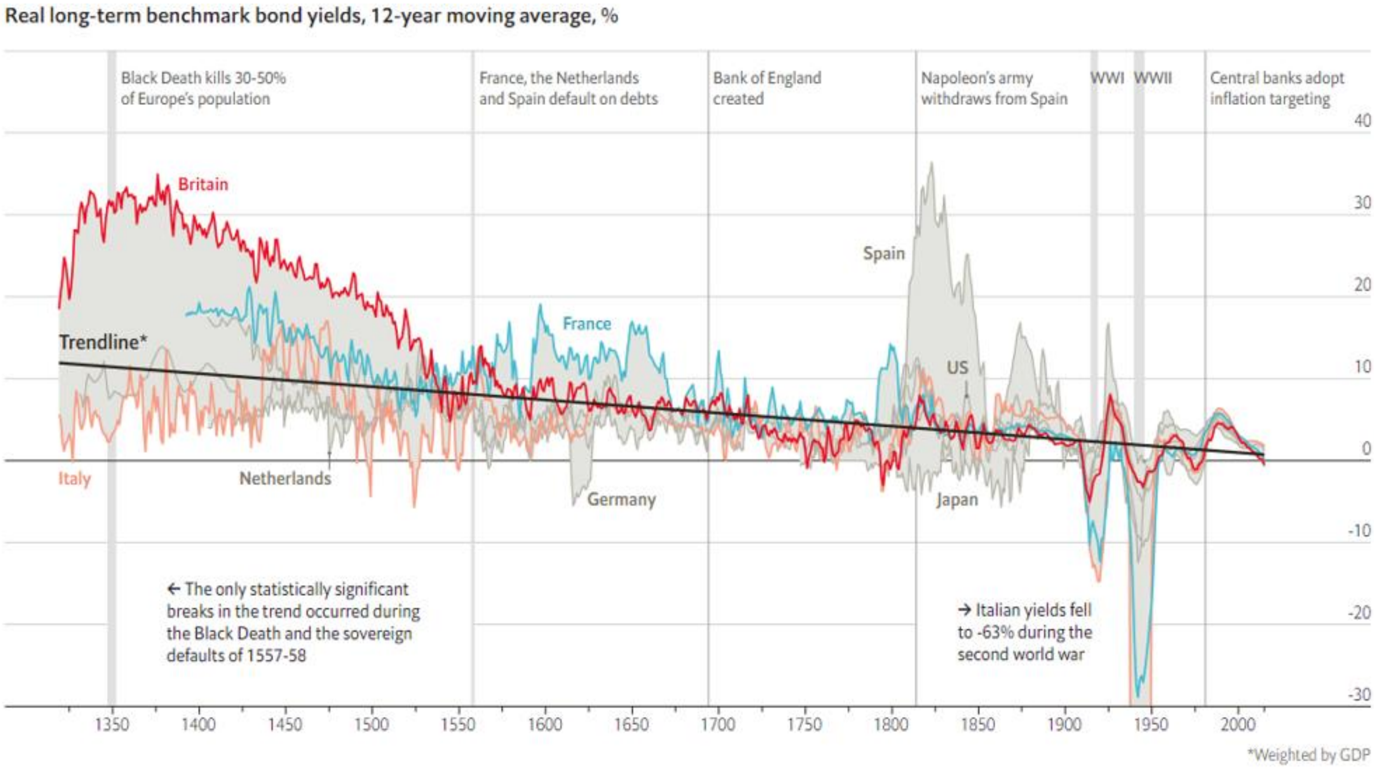
Krugman sights the work of Swedish economist Knut Wicksell, on the natural rate of interest. Wicksell defined the natural rate either as the interest rate that matched saving with investment or as the rate consistent with overall price stability. These definitions are consistent with each other: An interest rate that is too low, so that investment spending exceeds the supply of savings, will cause inflationary overheating of the economy.

The fact that we did not see inflationary overheating over the course of a 30-year trend of falling interest rates suggests that the decline was not artificial – that the natural rate must have been falling over that period.

In October, the Economist produced the chart below along with a note on recent research on long-run trends in interest rates suggests that creditors hoping for healthy real yields in future are still likely to be disappointed.

In 2020 Paul Schmelzing, an economist, published a dataset of interest rates and inflation dating back to the 1300s, in countries representing four-fifths of advanced-economy GDP. It showed that real long-term yields fell from the low double digits in the early Renaissance to the low single digits today. The trend applied to both public- and private-sector debt, and to seven of eight countries studied (the exception was Spain, where rates averaged 27% following Napoleon's defeat in 1814).

Chart 3: Real Long term benchmark bond yields from 1310



Source: The Economist

This trend may be of little use to speculators, as rates have drifted towards its level only over long periods. It underestimated real borrowing costs by two percentage points on average from 1363-1479, and then overestimated them by one point from 1480-1625. Nonetheless, people investing on behalf of their grandchildren should take note: the 700-year pattern suggests that current real rates should be just 0.7%.

The authors speculate that the trend may be more likely to flatten out as rates approach negative territory than to continue for ever. However, they *"do not see evidence of that yet."* A simple linear extrapolation implies that on average, real rates will sink below zero for good in 2066.

The conclusion

While the conclusion is anything but clear, it would appear to us that both interest rates and growth will remain constrained and that deflationary forces remain. We have briefly outlined some of the boundaries of these structural constraints including demographics, technology, and debt. We have also presented, in brief, an argument that long-term rates remain in decline. This argument does not rule out bouts of inflation.

Our view is that we are nearing the point where inflation and interest rates peak, and that global growth will be curtailed as stimulus is progressively removed and structural forces are re-established. That presents an attractive backdrop for long-term investment in quality businesses.

Dimon and BOA may well be correct, a 20% equity downside is a real risk today. If the Russian war on Ukraine and democracy escalates to its full potential, this may well prove to be an underestimation in the short run. Other black swans exist also.

It should also be recognised that when markets are stable and rising, as was the case in pre pandemic December 2019 and again post pandemic December 2021, our view was that equity market downside risk of 50% existed. This is a simple fact of strong markets that is borne out by history.

We manage this risk through our preference for low levels of balance sheet debt. We prefer net cash. This is one of the elements of our quality investing process. We are not trying to speculate by timing equity markets.

Today we are at a lower risk point in the cycle, valuations (price) have fallen significantly. A well telegraphed recession, another risk, may well impact future earnings. Earnings are of course the denominator of the Price to Earnings equation. In this environment some businesses will continue to prosper while others will be impacted. Our performance indicates we have historically overcome this risk by selecting quality compounders.

It is clear to us that investing when valuations are depressed makes sense, if you have the risk tolerance that is required to be a long-term equity investor. ***SFM***

COMPANY REPORTING SEASON

- ## Altium (ASX:ALU)

In August, electronic Printed Circuit Board (PCB) designer Altium released its FY22 results. The business is accelerating on all fronts, with reported revenue increasing 23% to US$220.8m and operating profits (EBIT) up 41% to US$67.9m. Octopart, the global market leader in electronics parts search, contributed record revenue of US$50m. This was up 85%, benefiting from the global parts shortage.

Strategy

At its core, Altium's software and cloud services provide a unique offering that connects product and electronic design to the electronic supply chain and manufacturing. Altium is on a path toward both industry dominance and transformation.

The two go hand in hand but differ. The company have set a target for 2026 of US$500m in revenue and 100,000 subscriber seats to achieve the dominant leadership position. However, the company notes with a stronger uptake of higher value subscription seats, this revenue target could be achieved with as few as 75,000 seats on subscription.

With clear industry leadership, transformation can take shape. For Altium, this means disrupting the status quo of the broader PCB industry.

Altium 365

Altium 365 is the pivot point. This cloud-based collaboration model offers an end-to-end solution, which integrates both electronic and mechanical design elements. The result is a more seamless and connected experience across the design, development, and manufacturing process.

Uptake of 365 has continued at pace. The growth of the user-to-account ratio from 2.11x to 2.55x reflects the increasing influence of the network effect in attracting users from outside the traditional user base. Importantly, 365 is driving material workflow efficiencies. This becomes immediately apparent to engineers after they make the switch. In time, this multiple is expected to grow to 4x as the ecosystem continues to widen.

In total, 365 now has 23,560 active monthly users. While the company is yet to directly monetise its 365 offering, it is a critical aspect of the Cloud Platform strategy, enhancing the attractiveness of the core PCB design technology, as well as encouraging the migration from on-premise to on-cloud.

Altium Designer

Core to this ecosystem is Altium Designer (AD). AD 22 was released this year, providing supply chain insights directly within the design experience, advanced board design capabilities for fabrication, enhanced simulation tools, and real lifecycle management with Altium 365 to work from anywhere with anyone.

At present, Altium has 56,912 seats on subscription and is used by over 30,000 companies. The business model transition from perpetual to term-based licensing is progressing well, with 33% of new seats sold on term-based licenses. In the period, the company noted significant software revenue growth, driven by mainstream customers adopting higher priced Professional level platform capabilities. The shift to term-based seat sales, coupled with the uptake of Professional and Enterprise seats, saw the average subscription price increase by 10% to US$2,170.

Manufacturing and Parts

While Octopart benefited from the shortage of semiconductors, Altimade suffered. Altimade’s core value proposition is *“painless manufacturing”,* achieved by connecting design to manufacturing. Practically, this means customers can request instant quotes or place orders to produce their PCB assembly, without leaving the design environment. But limited access to parts hindered these operations.

On the other hand, these shortages opened up interesting possibilities. Notably, supply chain partners looking to connect with designers working in small quantities that are otherwise unable to secure parts. While this is a significant piece in the journey towards industry transformation, it is pioneering work and will take considerable time before its full commercial impact will be felt.

China

Altium has built a standalone version of this platform model, which will sync with AliCloud and WeChat. Designed purely for the China market, it operates via a major Chinese manufacturer rather than a clearing house owned by Altium.

China underperformed for the year with a 10.2% decline in revenue to US$21.2m. By and large a result of the ongoing impacts of COVID-19 lockdowns. This performance reflects a measured approach to license compliance, as the in-person visits required to complete the process were restricted in Beijing.

Strategic Partnerships

The final key tenant to Altium’s industry domination and transformation is penetration of the enterprise market. Pivotal to this is maintaining strong and stable relationships with strategic partners, alignment of product and go-to-market teams and scaling the enterprise sales workforce.

Enterprise sales performed well with NEXUS revenue of US$13.7m, an increase of 59%. This result was buoyed by large deals closed (exceeding US$1m) with Veoneer, Meta Platform Technology, and the Dräxlmaier Group. According to management, the pipeline of NEXUS customers is strong and bodes well for further acceleration in FY23. The uptake of these offerings is a strong indicator of the value customers see in the platform’s capabilities.

Revenue from enterprise is now approaching 10% of the total design software revenue and is currently 79% recurring.

Group Annual Recurring Revenue (ARR) increased 15.2% to US$123.5m, driven by the higher update of Pro and Enterprise platform capabilities. Altium’s recurring revenues now represent 75% of total revenues.

Guidance

For FY23, management is guiding to revenue within the range of US$255m-US$265m, up 15%-20%. Of this, Cloud revenues are expected to contribute US$60m-US$65m, with the core Electronic Design contributing US$195m-US$200m. Underlying operating profit (EBITDA) margins are expected to be within the range of 38%-40%.

Altium has a current market capitalisation of A$4.7b and cash of US$199.3m. The company declared a final dividend of A$0.26, taking the full year dividend to A$0.47, a 17.5% increase.

▪ Appen (ASX:APX)

Appen, a leading provider of data and solutions for use in artificial intelligence (AI) and machine learning (ML), reported a weaker first half 2022 result in August. Group revenue fell 6.9% to US$182.9m, while increased investments and lower revenue from higher margin projects led to underlying EBITDA fall by 66% to US$9.6m.

Operating margins were impacted by lower revenue, in conjunction with Appen's fixed cost base and higher spend associated with product, technology, and transformation.

The company ended the period with US$42.2m in net cash and chose not to pay an interim dividend.

Global Services

Global Services, which represents projects completed on Appen's major U.S. technology customer platforms, saw revenue decline 7.4% to US$137.8m. Some customers have been impacted by the global digital advertising slowdown and have reprioritised spend from large, mature projects into early-stage ventures that deliver new revenue streams.

The result is disappointing and reflects Appen's significant exposure to its largest customers. There also remains a level of uncertainty as to the extent and duration of these headwinds.

As a result, the company has guided purchase orders, which represent customer project commitments at the start of the year, to fulfil at lower levels. This indicates the second half revenue skew will likely be less pronounced. In response, Appen is accelerating the use of offshore resources as an interim step to reduce costs, while continuing to invest in automation that can be introduced over time.

Management remains confident in its market share position and the relevance of crowd sourcing. The company's project count increased to an all-time high, a positive reflection of their continued importance.

Global Services remains highly profitable, delivering operating earnings of US$26.2m, with these funds being reinvested into New Markets. Importantly, Appen remains one of two players who can reliably service relevant projects at scale, with the ability to capture demand if it returns.

New Markets

The New Markets division consists of Enterprise, Government, China, and Global Product. This segment is focused on developing new customer verticals and driving AI use cases through Appen's core annotation platform. During the period, revenue from New Markets declined 6% to US$45m due to the end of a large Global Product project. Excluding Global Product, New Markets revenue increased 35%.

China remains the strongest performer, delivering revenue of US$18m, up 141% on the prior corresponding period (pcp). Growth has continued despite lockdowns impacting new sales wins and momentum in autonomous vehicle projects. The region's progress reflects the strong management team and product offering in place, with the company seeking to translate these learnings into Enterprise. Despite being the market leader, Appen remains loss-making in China due to the large upfront investments. Leverage and profitability are expected to be achieved over time.

Performances in Government and Enterprise were below management expectations. The latter is a key area of focus and new leadership is now in place. Appen is targeting larger enterprises and projects, with early execution seeing a 37% increase in average deal size. The company has recently achieved two notable wins, a social media company and a global auto company worth $8.7m and $2.5m respectively. The prize is significant with the data labelling market forecast to grow at a 32% compound annual growth rate over the next five years.

Management is prioritising revenue growth within New Markets, particularly across Enterprise and China. Investments across sales and marketing and product development have improved Appen's go-to-market position, albeit impacting short-term earnings.

New Markets recorded increased losses of US$15.6m, more than double the US$7.4m loss in the pcp. This segment continues to mask the highly profitable Global Services segment.

Strategy

Appen remains a business in transition, as it shifts from a service-led model to a technology and product-led organisation. This is a clear pivot aligned to how customers are choosing to consume data. At the full year result, the company outlined its growth strategy, with a long-term focus to transform the business and diversify revenue. The four core strategic pillars are:

1. **Grow** – deliver revenue growth and diversify Appen's customer base, by penetrating new customer segments.
2. **Automate** – develop greater efficiencies during the data labelling process for the crowd workforce at improved margins.
3. **Expand** – create new products and capabilities in adjacent areas. A recent example is point of interest data through the Quadrant acquisition.
4. **Evolve** – improve the scalability and productivity of back-office functions.

The near-term objective is to prioritise the first two pillars. CEO Brayan reiterates this, *"We're committed to our long-term strategy. We will continue to invest for growth, including investments in new markets to diversify revenue and lift productivity. We will also prudently manage costs."*

This strategy is underpinned by capitalised and expensed development costs, currently at 10% of revenue, to accelerate the development of new and existing products.

Outlook

In October, Appen released a further trading update highlighting no improvement in conditions during August and September. The company expects full year revenue to be US$375m-US$395m, down 12%-16% and EBITDA before Foreign Exchange of US$13m-US$18m, which compares with the US$78.9m in FY22.

CEO Brayan notes *"despite the challenging operating conditions, we remain committed to our long-term strategy including investments in New Markets to diversify revenue and products to improve productivity. While our plans to increase the use of offshore facilities are gathering pace as well as our actions to reduce costs, the full benefits of these programs will not be evident in FY2022."*

Appen has a market capitalisation of A$327m and net cash of US$44m.

- ## ARB Corporation (ASX:ARB)

In August, four-wheel drive equipment manufacturer ARB reported a strong full year 2022 result. Revenue increased 11.5% to $694.5m and net profit after tax grew 8.1% to $122m.

ARB continues to maintain a strong balance sheet with $52.7m of cash and no debt. Cash flows from operations remain robust at $84.6m, providing flexibility to invest. This enabled ARB to increase inventories by $50.7m to $223.6m, helping mitigate supply chain challenges and support growth.

While Andrew Brown remains as Managing Director, the company appointed Lachlan McCann to the role of CEO. McCann joined ARB in 2001 and in his time has led the group's Thai operation, Original Equipment Manufacturer (OEM) sales, and most recently served as the company's Chief Operating Officer. This appointment speaks to ARB's ongoing focus on internal staff development and maintaining a culture that fosters a long-term business commitment.

Segment Performance

Australian Aftermarket

Australian Aftermarket continues to perform well despite new vehicle supply chain issues. Structurally, ARB benefits from the high demand for four-wheel drive and sports utility vehicles (SUV). These segments represented 51.6% of total new vehicle sales in FY22.

ARB had a retail footprint of 74 stores at the end of the period, up from 70 stores in the prior corresponding period (pcp). The company is progressing well in rolling out its flagship store layout, which modernises its retail design and is driving greater store returns. ARB ended the financial year with 34 flagship stores.

Exports

The Export segment represents all international aftermarket sales and any OEM part with ARB branding. All regions grew in the period with the Americas being the main growth driver as seen in Figure 2.

Americas

Since launching the Ford partnership in October 2021, management remains pleased with the collaboration and development between both parties. All ARB branded products sold through Ford dealers come with a five-year warranty, signalling the strong brand reputation ARB has developed. The deal also illustrates Ford's belief in ARB, as the company itself only offers a three-year product warranty.

The Ford agreement is an important milestone for ARB in the U.S. where its long-held ambitions are yet to be realised. We believe ARB's historically low U.S. brand awareness and limited presence is set to change, although not overnight. Ford and ARB will also be rolling out the program in several key markets outside Australia and the U.S., including New Zealand, Southeast Asia, Europe, and Africa.

In addition, Toyota North America has entered into a commercial agreement with ARB. This relationship will focus on overlanding and further indicates the growing recognition of ARB as a heritage brand and leading global innovator and supplier of high quality 4WD accessories. Details on the extent of this new agreement are expected to follow at the proper time.

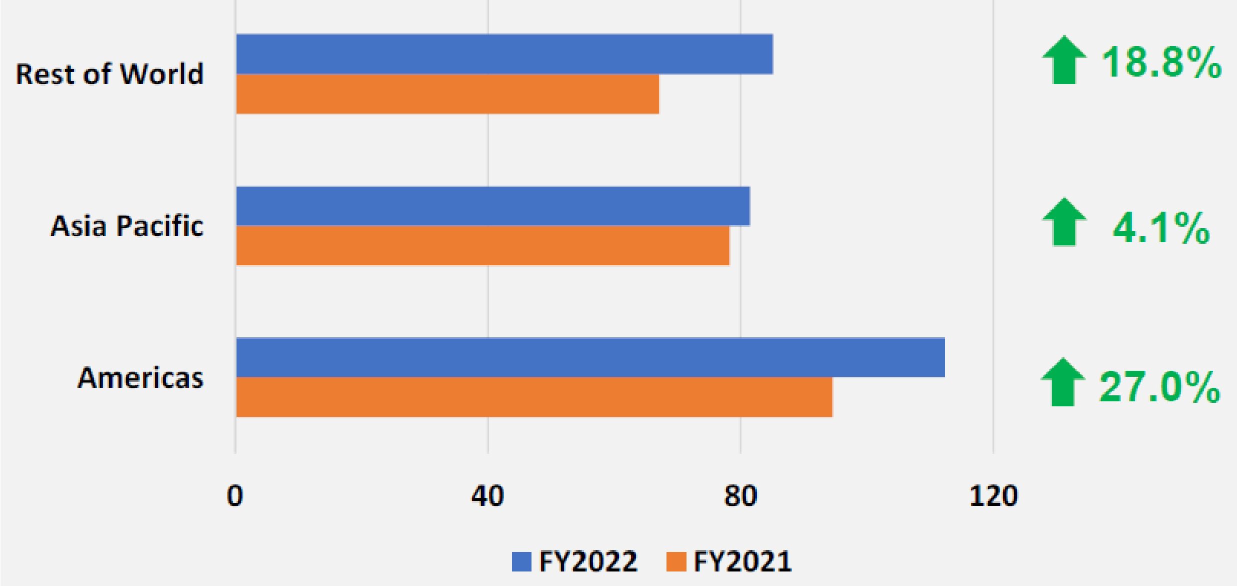
The company confirmed the development of its third U.S. distribution centre in Texas. The facility will open in October 2022 and allows ARB to increasingly localise its distribution capability in key U.S. states.

With a sales base of circa $110m, North America remains a long-term strategic opportunity through partnerships and the pursuit of a direct-to-consumer model.

OEM

This segment includes all ARB products that are white labelled by OEMs. After increasing 74% last year, sales were flat and remain contingent on new vehicle contracts. Over the period, ARB expanded its OEM reach with several new long-term contracts signed.

Figure 2: Export Sales by Region ($m)



Source: ARB financial year 2022 results presentation

Research and Development Update

Product innovation remains a core capability and competitive advantage for ARB. The company currently has over 100 design and product engineers across its global operations.

The pipeline of new product development remains strong and the group has announced four long-term product development programs will be released during FY23.

The company's redevelopment of its Victoria head office is also on track. The site includes a new 1,000 square meter centre of excellence, which will house the engineering team's workshop and various testing and developing equipment.

Likewise, ARB's new manufacturing facility in Thailand (Ora 4) is expecting completion in December 2022. The facility is 36,000 square meters and located in the same business park as ARB's existing manufacturing facilities.

Overall, these investments have doubled the company's manufacturing capacity, with ARB investing $58.1m in property, plant, and equipment during the period.

ARB has a market capitalisation of $2.2b and declared a final dividend of 32 cents per share (cps), bringing total dividends for the year to 71 cps.

- ## Breville Group (ASX:BRG)

Global coffee innovation and kitchen appliance manufacturer, Breville reported its full year 2022 results in August. Revenue grew 19.4% to $1.4b and earnings before interest and tax (EBIT) increased 14.6% to $156m.

EBIT margins held relatively steady at 11%, with strategic price rises offsetting inflationary pressures. Breville remains a beneficiary of the structural shift to flexible work environments, which continue to accelerate demand for home appliance products.

The group operates under a centralised structure with two business segments, Global Product and Distribution, in three geographies: the Americas, Asia Pacific (APAC), and Europe, Middle East and Africa (EMEA). The sales split for the financial year was Global Product 83.1% and Distribution 16.9%.

Global Product

Global Product sells Breville-designed, developed and branded products directly, and through third-party channels. For the full year, segment sales were strong, up 19.8% to $1.18b with gross profit up 18.2% to $429m. The group took advantage of pricing power to offset inflationary pressures and protect gross margins.

Breville's strategy to invest in New Product Development (NPD) and geographic expansion has provided consistent revenue growth. This has seen the business expand at a compound annual growth rate (CAGR) of 22.5% over a 4-year period. CEO Jim Clayton commented, "*Having doubled the size of the business in the last 4 years, the strength of our geographic portfolio came through in FY22 as the Americas accelerated in the second half to pick up the slack in Europe*."

Americas

The Americas, the group's largest and fastest growing region in FY22, recorded sales growth of 22.7% to $605m, accelerated by strong consumer demand in the second half.

APAC

In APAC, where the business has a 90-year history and strong brand awareness, sales lifted by 18.9% to $278m. In June, Breville launched in South Korea signifying the group's first direct entry into Asia.

EMEA

In EMEA, where Breville markets and distributes products under the company owned brands of Sage and Baratza, sales were up 14.8% to $295m. Despite a strong first half, concerns following the Russian invasion of Ukraine and general retailer destocking saw sales decline 15.9% in the second half. NPD and geographic expansion to Poland is expected to support sales in FY23.

EMEA continues to impress with a CAGR of 35.6% since 2019, outperforming the two other more established geographies. EMEA is now larger than APAC and when combined matches the contribution of the Americas.

Distribution

Distribution sells products designed and developed by a third-party which are granted under a licence agreement or sourced directly from manufacturers. Products are either sold under Breville-owned brands or distributed under a third-party brand, such as Nespresso. During the year, strong Nespresso sales in the Americas and solid growth in Breville in APAC, helped lift revenues 17.9% to $240m. In keeping with strategic objectives, the Distribution segment generated incremental EBIT for reinvestment into the Global Product Segment.

Solutions Model

In March, the group launched the Joule Oven Air Fryer Pro, the first smart connected product in the U.S. and Canada. This signifies the first step in the transition from a product company to a solutions-based company. Paired with the Joule Oven App, the user has access to adapted recipes. At launch, this totalled 115 from ChefSteps and Breville Test Kitchen teams. By December 2022, it is envisaged this will increase to 400 recipes provided by an extended ecosystem of culinary experts, including The New York Times, Bon Appetit, and Williams Sonoma, as well as individual chefs as part of the Chef Series.

Digital Platforms

The structural shift to a flexible work environment has driven strong demand for home appliance products. With demand easily outstripping supply, original marketing spend has been diverted into other investments to accelerate the group's global platform completion. This is seen as a pull forward of investment that would have occurred over future years.

Breville now has a global infrastructure platform, which will allow new products to be added and scaled across the company's worldwide operations. The rollout is now complete across all key territories, with Australia and the newly launched South Korea the last two regions to go live.

Outlook

While no formal guidance was provided, the group enters FY23 with positive sales momentum. Management remains confident that tailwinds from new product launches, cost improvements, and entry and maturation of new geographies will offset macro headwinds.

Breville has a market capitalisation of $2.6b and net debt of $4m. The company also declared a final dividend of 15 cents per share, bringing total dividends for the year to 30 cents per share.

▪ carsales.com (ASX:CAR)

In August, leading global automotive marketplace operator, carsales.com reported a strong full year result. Revenue increased 19% to $509m and operating profit (EBITDA) grew 12% to $270m.

Post the acquisition of the remaining 51% interest of Trader Interactive, the company anticipates net debt to EBITDA ratio of 2.7x. This is expected to reduce to 2x within two years.

Investment in new product development remains robust at 8% of total revenue. Carsales also declared a final fully franked dividend of 24.5 cents per share, an increase of 9% against the prior corresponding period (pcp).

Digital Evolution

Founded 25 years ago as a domestic online ad listing business, carsales.com has consistently invested in its product offering to enhance the digital experience of buying and selling vehicles. Since then, the group has transformed its service into a truly global end-to-end ecosystem providing flexibility to its customers.

The company's first digital innovation outside ad listings was in 2015 with Instant offer. This solution allows customers to sell a listed vehicle within 24 hours, providing a strong competitive offering. For dealers, this premium feature creates a cost-effective solution to inspect and purchase a wide range of second-hand vehicles. While it has taken time to optimise the offering for both parties, Instant Offer is beginning to drive meaningful revenue and operating margin expansion.

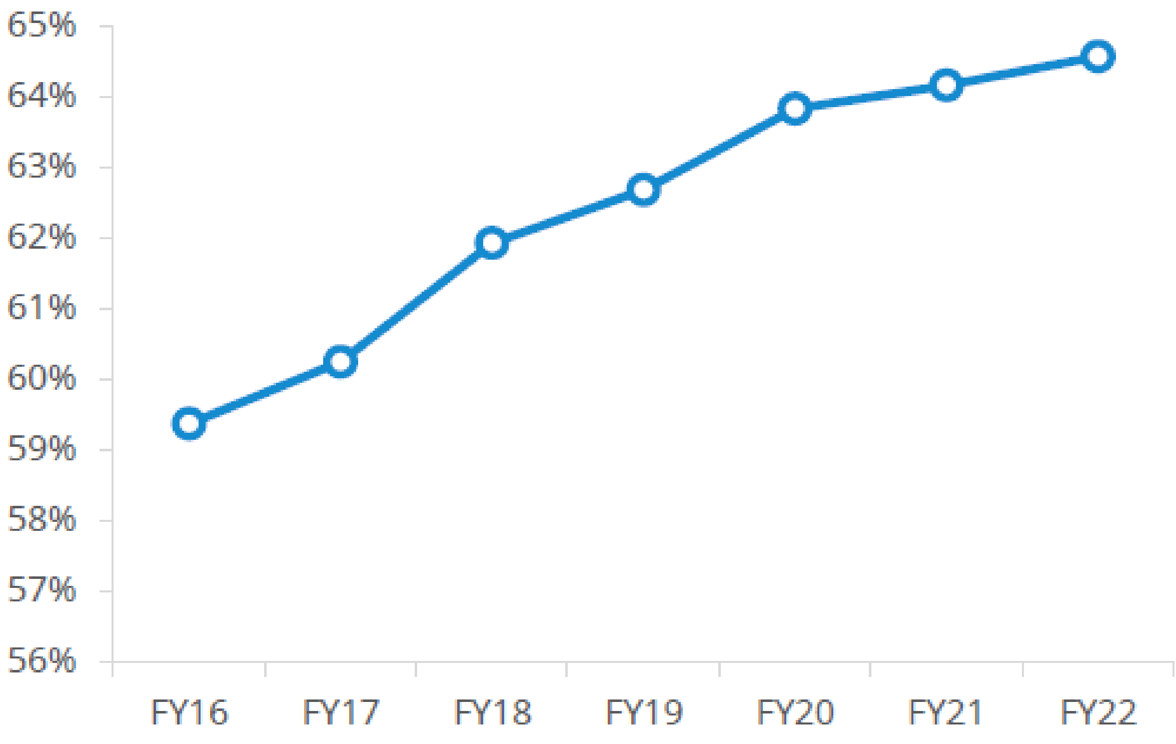
While continuing to improve its product offering, the company has also grown its global presence by acquiring interests in leading automotive marketplace businesses, including Brazil in 2013, South Korea in 2014, Chile & Mexico in 2016, and the U.S. in 2021. These markets have materially expanded the company's total addressable market with cumulative annual transaction volumes seven times larger than the Australian market.

More recently, the success of South Korea's online car buying solution and COVID-19 has accelerated the group's digital initiatives. Launched in Australia in 2021, carsales Select is a fully digital and personalised car buying experience.

Customers benefit from a seven-day money back guarantee, certified inspection reports, extended warranty, and digital trade-in valuations. This transaction-based offering utilises the group's subscribed dealer network and its market leading audience to create significant value for all parties. Subscribed dealers benefit from higher quality leads; the time to sell has halved compared to the standard leads-based model.

Overall, the company's long-term focus on product innovation is delivering a superior experience for both customers and dealers. Further, the incremental value derived from its digital retailing offering is expanding domestic operating margins, as seen in Figure 3.

Figure 3: carsales.com Australian EBITDA Margin



Source: carsales.com FY22 Results Presentation

Geographic Highlights

Table 12: carsales.com Financial Year 2022 Segment Results

	Revenue ($m)	Growth*	EBITDA ($m)	Growth*	EBITDA margin
Australia – 52% revenue[1]	**351.7**	**10%**	**227.2**	**8%**	**65%**
Dealer	183.8	5%			
Private	69.4	26%			
International - 48% revenue[1]					
America – Trader Interactive[1]	195.5	11%	111.2	16%	57%
South Korea – Encar	90.9	17%	45.7	16%	50%
Brazil – webmotors	84.1	26%	35.8	23%	43%
Chile – chileautos	4.8	10%	2.2	12%	46%
Mexico – soloautos	1.1	-40%	-3.0	-45%	nm
Group Result[1]	**705.0**	**11%**	**382.9**	**10%**	**54.3%**

1.Pro-forma revenue and EBITDA. Assumes 12month ownership of Trader Interactive
**In Constant Currency*

With management noting significant opportunity within the domestic business, and a largely untapped opportunity in North America through Trader Interactive, the group remain confident in growing its value proposition and operating margins overtime.

Table 12 highlights the current operating profile of the Australian market compared to International Operations. As learnings and products are shared across borders, revenue and margins should continue to improve in international markets.

Australia

Domestically, carsales.com benefited from a buoyant automotive market with strong consumer demand and elevated used car prices. Pleasingly, the quality of leads for dealers improved with management highlighting a reduced time to sell.

Carsales Select has made solid progress, with growing inventory volumes and on-boarded dealers. As of 30 June 2022, over 6,000 Select cars have been sold on the platform. The company remains focused on releasing new features, such as a recently added trade-in valuation tool to minimise customer friction. Over the next year, carsales.com plans to integrate a finance module, which will allow customer applications to be sent to dealers with a credit check.

Private revenue recorded excellent growth driven by high volumes and yield growth. Yields increased 19% to $131 against the pcp through the successful launch of micro-bracketing, a more nuanced model that aims to better align customer value and price.

Since implementing value-based pricing in FY17, private ad yields have increased from $73 per listing to $131. Further, management believes there is significant runway to better align ad revenue with the value provided, given carsales.com average take rate per sale on a $30,000 vehicle is 0.4%.

International

North America

Trader Interactive (TI) posted a solid result with revenue growth across all four verticals (RV, Powersports, Commercial Truck, and Equipment). During the period, operating margins expanded from 54.3% to 56.8%. This was driven by higher dealer penetration, yield, and inventory levels. As both companies continue to share operational insights, management is excited about the opportunity to accelerate growth by introducing dynamic pricing, media and improved dealer systems.

South Korea

Encar delivered a strong result, driven by growth in its differentiated digital retail offering. The group's focus on customer service and transparency in vehicle condition is resonating well, helping deliver a better customer experience and reduced time to sell for dealers.

Management remains confident in its strategy, increasing its penetration of Guarantee inspection ads to 40% of total inventory. Encar remains one of the only operators to charge for listings in South Korea. Guarantee adds are priced at $100 per listing, a five-fold increase to its standard offering. Despite this, dealers are maintaining their margins, reflecting the value customers place on credible vehicle information.

Brazil

In Brazil, 30% owned Webmotors benefited from improving inventory levels (90% of pre-COVID levels) and higher lead volumes. The group recommenced its regional expansion plans, leading to an additional 700 dealers added to the platform. Management noted better dealer uptake of premium products, particularly its customer relationship management solution, which is driving higher dealer yields.

Latin America

Latin America delivered a mixed result, with inventory constraints being the key driver. In Chile, improved inventory levels and prudent cost management were the main factors for the double-digit growth in revenue and operating profits.

Conversely, Mexico inventory remains challenged as new car sales sit 30% below pre-pandemic levels. Management continues to focus on cost controls and are well positioned once market conditions improve.

Strategic Update and Outlook

While no formal guidance was provided, the company has good momentum heading into FY23 and expects to deliver strong growth across the key metrics of revenue, EBITDA, and net profit. Management remains confident about future growth opportunities and plans to utilise its IP and best-of-breed technology to enhance the value created for the customer and grow market share across all segments.

carsales.com has a market capitalisation of $6.6b.

▪ CSL (ASX:CSL)

In August, leading global biotechnology company CSL reported a solid full year 2022 result. Revenue rose 3% in constant currency (cc) to US$10.6b, while net profit after tax (NPAT) fell 6% in cc to US$2.3b.

Gross margins fell 2.4% to 54.3% due to increased plasma collection costs and the impact of lower volumes. The latter is expected to ease as plasma collection volumes recover.

CSL Behring

The company's global therapeutics business, CSL Behring recorded revenue growth of 2% on cc to US$8.6b, while operating profits (EBIT) fell 17% to US$2.2b. The lower plasma collected in FY21 has impacted this year’s supply of immunoglobulin (Ig) products due to a 9-12-month lag from collection to sale. As a result, Ig which represents around 45% of Behring revenues recorded a 3% fall in sales to US$4b.

While supply remains constrained, CEO Paul Perreault notes *“demand has and will continue to remain robust. It is the only reason why we continue to invest in our facilities."*

With social mobility and the COVID environment improving, plasma collection volumes grew 24% annually. The company also opened 27 collection centres, taking the total to 330 centres globally. CSL is well placed to benefit from plasma recovery through its leading collection and manufacturing capabilities.

Following a period of rapid collection centre expansion, CSL has shifted focus to delivering efficiencies within existing centres. As a result, the growth of collection centres is expected to moderate.

Recent technology enhancements are driving productivity improvements, such as the new self-service kiosks and a new donor app, which has reduced donor time in centres. Augmenting this is Terumo's recently approved plasma collection platform Rika, which has delivered a 30% reduction in average donation time, improved operator productivity, and potential yield efficiencies during the collection process.

With time these initiatives should further differentiate CSL's collection centres. For plasma donors, the seamless experience should drive retention. For operators, the process becomes more efficient as automation helps reduce manual errors. For the company, a more efficient network of centres leads to higher patient volumes and invariably provides the option to reduce operating hours.

Similar to Ig, Albumin supply has been constrained by lower plasma volumes. For the year, sales reduced modestly by 1% to US$1.1b. China grew 10% despite increased competition, as the region benefits from the transition to a direct distribution model, which has provided channel transparency and greater market reach. Albumin volumes outside of China have been more challenged, but are expected to improve as supply returns.

Haemophilia sales rose 8% to US$1.2b. This was driven by market leading Haemophilia B product, Idelvion which grew 20% in cc. Less differentiated products, such as Afstyla, have continued to face competitive pressures.

Speciality revenue was driven by differentiated products Haegarda and Kcentra, up 5% and 18% respectively. In total, specialty sales rose 3% to US$ 1.8b.

Seqirus

The company's vaccine business continues to go from strength to strength. Product differentiation is the key driver. CSL's higher value product portfolio of cell-based (Flucelvac) and adjuvanted egg-based (FLUAD) seasonal influenza vaccines increased by 10% and 41%, to US$486m and US$885m respectively.

COVID has brought vaccine effectiveness to the forefront of the decision-making process. The past decade has seen efficacy in the U.S. ranging from 19% to 60% due to a lack of innovation. With the transition to new and more effective vaccine technology overdue, CSL has innovated through its cell-based vaccines and more recently in its MF59 adjuvanted egg-based vaccine, FLUAD. This has led to yield (price) growth and margin expansion.

The R&D pipeline remains robust. Management are developing further higher value products, such as an adjuvanted quadrivalent cell vaccine as the next standard of care, with self-amplifying mRNA as a potential offering in the future. To support this, construction has commenced on a world-class cell culture influenza vaccine facility in Melbourne and an mRNA facility in Holly Springs, North Carolina.

Seqirus revenue rose 13% to US$2b, while operating earnings increased 52% to US$734.7m. Seasonal influenza vaccines rose 16% to US$1.6b and represents 90% of Seqirus revenue.

Research and Development (R&D)

Going under the radar is CSL's R&D portfolio, which is beginning to gain traction. Two notable highlights include:

- EtranaDez, the potential first gene therapy product for Haemophilia B, achieved primary endpoints in its phase three trial, and if approved will be launched in CY23.
- Garadacimab for Hereditary Angioedema Attack (HAE) met both its phase three primary and secondary endpoints and is a next generation offering with clinical superiority over incumbents.

In the year, CSL invested US$1.2b, or 11% revenue in R&D.

Vifor Pharma Acquisition

In August, CSL finalised the acquisition of Vifor Pharma, a Swiss specialty pharmaceuticals company that develops, manufactures, and markets leading products in iron deficiency, renal and cardio-renal therapies. Strategically, the acquisition augments CSL’s business with adjacent products and an extended high-value R&D pipeline aimed at offering solutions across the entire kidney disease lifecycle.

Key to the acquisition is Vifor’s partnership with Fresenius Medical Care, the global leader in dialysis. This partnership positions CSL for global leadership in nephrology and provides access to 350,000 kidney disease patients, over 54m dialysis treatments, and 4,000 dialysis clinics. The acquisition is expected to be earnings accretive, with Vifor delivering approximately US$2b of revenue and US$0.4b of free cash flow in FY21.

Outlook

CSL expects FY23 revenue growth of 7-11% cc and an NPAT increase of 6-11% to US$2.4b-$2.5b, excluding Vifor earnings and acquisition transaction costs. The medium-term outlook remains positive, with plasma volumes recovering, momentum in Seqirus, and some promising R&D programs nearing approval.

CSL has a market capitalisation of $135b and net cash of US$778.6m, which includes Vifor equity funding pre-completion of the US$11.7b acquisition. The company also reported a total full year dividend of US$2.22 per share.

Domino's Pizza Enterprises (ASX:DMP)

FY22 was a challenging year for Domino's with COVID-19 tailwinds abating, inflationary pressures increasing input costs, and reduced consumer confidence impacting sales in some regions. Group network sales rose 4.6% to $3.9b, while underlying EBIT fell 10.5% to $262.9m.

Same store sales (SSS) were flat, due to the strong prior year in Japan and weaker second half in Europe. During the year the company opened 450 new stores, 294 organic and 156 from its Taiwan acquisition. However, are still behind the 500-store rollout target.

Underlying profit margins (EBIT) reduced from 13.4% to 11.5%, with the company impacted by lower network sales and reinvestments made in its franchisee network.

Inflation

Domino's is adopting a multi-layered approach to combat inflation and declining consumer confidence. The company is focused on operational excellence and better efficiencies through an increase in digital sales and the adoption of e-bikes for deliveries. In addition, long-term supply partnerships are an integral aspect of limiting food cost increases.

Innovation is also occurring across the product segment, with the group adopting a range of offerings to cater to the price conscious consumer, plus new premium offers such as the successful launch of the burger bar range of pizzas. All markets are making progress in offsetting inflation at a margin level through a combination of delivery surcharges and offering more value. Australia and Japan are the most progressed on this front.

Australia & New Zealand (ANZ) – 883 stores (+23 new stores)

Under the leadership of CEO David Burness, ANZ delivered a strong result with network sales up 3.5% to $1.3b and EBIT up 2.8% to $121m. Earnings were ahead of expectations, despite the $10m investment in Project Ignite and $1.8m impact from COVID-19 related store closures in New Zealand. Operating margins were flat at 15.5%.

Having exited most lower performing franchisees, Domino's is focused on Project Ignite, an initiative to enhance the economics of purchasing existing or opening new stores for existing franchisees. Early signs of momentum exist with re-franchising and new store openings accelerating. In the second half alone, 20 new stores were opened and there is a strong pipeline heading into FY23. Over 10% of ANZ franchisees now operate six or more stores.

Europe – 1,401 stores (+123 new stores)

Europe experienced a challenging second half as record inflation impacted consumer confidence and resulted in significant cost increases for ingredients, labour, and energy. The region delivered full year network sales of $1.5b up 4.3%, while operating earnings declined 11% to $78.8m. Contrary to the company's first half operating profit, recording an increase of 11.5%.

The economic backdrop, including the war in Ukraine, an energy crisis, and resulting inflation, has impacted confidence and translated to lower expected store openings, with franchisee uncertainty likely to continue into FY23.

Across the regions, France fell short as the company went early on pricing through its new premium menu offering, which failed to resonate with the price-sensitive local consumer.

Germany fared better with network sales and SSS growth. Earnings declined, however, due to the expected step up in royalties paid under the original purchase agreement.

Benelux continues to remain the regional standout, with the benefits of scale driving operational efficiencies and offsetting inflationary headwinds. Benelux is representative of the benefits of scale, which has yet to be achieved across Domino's other European markets.

Denmark remains in the initial stages of the challenging task of rebuilding consumer confidence and as a result, contributed losses of $12m.

Europe recorded operating margins of 11.2%, which is well below the 15.5% achieved in ANZ. The opportunity to expand margin through greater store count is clear. In turn, helping drive scale and marketing efficiency.

Asia – 1,103 stores (+148 new stores)

Asia, consisting of Japan and Taiwan, recorded network sales of $1b up 6.7% and EBIT of $85m down 23.1%. Japan experienced a re-basing of sales from the second quarter, as the lifting of COVID-19 restrictions impacted demand.

While this has seen profits fall, the long-term outlook remains intact. Over a three-year period, total sales in Asia have grown 75.9%. Japan, which dominates this region, is now a materially larger business with more than a third of its 933-store network less than three years old. Franchisee profitability and appetite to open stores remain strong.

Including Taiwan, over 40% of Asia network sales are represented by stores under three years of operation. With operating margins currently sitting at 10.6%, the opportunity to grow margins as the business scales and matures is significant.

Taiwan is exceeding expectations with 14 new stores opened in the year. The region has benefitted from the implementation of Domino's high-volume mentality and proven marketing strategies, with additional benefits around technology to follow.

Asia Acquisitions

Domino's has entered into a binding agreement to acquire three new Domino's Pizza markets – Malaysia, Singapore, and Cambodia, comprising 287 corporate stores that delivered 65m Malaysian ringgit (A$21m) normalised EBITDA in FY22. The acquisition will cost 660m ringgit (A$214m) upfront in addition to an earnout over the next two to three years and will be debt funded.

Like Taiwan and Japan, Domino's will seek to translate its expertise to these three new Asian regions.

Franchisee Unit Economics

Domino's franchisees, comprising 82% of the group's 3,387 store network, remain fundamental to long-term growth. As profitability improves, payback periods decline, incentivising franchisees to open more stores. During the period, Domino's protected franchisee profitability by absorbing food cost increases, and improving the unit economics of opening new stores through Project Ignite in ANZ.

CEO Don Meij explains the benefits of this strategy, *"When a franchisee is really profitable, they fortress. Thereby, bringing their stores closer to the customer because it's just more profitable to do so. Being closer to the customer allows us to be faster and more convenient, deliver a hotter, fresher pizza, which then improves the customer experience, which drives our customer lifetime value."*

There remain many opportunities to fortress across all Domino's markets. Germany, France, and even Japan are some notable examples of countries yet to reach scale and where margin upside is achievable.

Domino's has a market capitalisation of $4.9b and net debt of $491m, presenting a net leverage ratio of 1.4x.

▪ FINEOS Corporation Holdings (ASX:FCL)

In August, Life, Accident and Health (LA&H) insurance software vendor FINEOS provided a strong full year report. For the period, the company reported revenue of €127.2m, an increase of 17.5%, and operating profit (EBITDA) of €6.7m, up 28.8% from the prior period.

With over 60 customers globally, FINEOS has been focused on cross-selling and upselling products to existing clients, culminating in a 23.4% increase in annual recurring revenue (ARR), now at €51.8m.

Strategy

Following the successful capital raise in September 2021, and with current cash holdings of €44.3m, FINEOS is well-funded to pursue its growth strategy, as defined by the following four pillars:

1. Grow and upsell with existing clients
2. Win new clients
3. Expand sales and enter new markets
4. Make FINEOS the LA&H industry leading platform for Group, Voluntary and Absence Management

With 47% of its 1,075 strong employee base dedicated to R&D initiatives and 36% focused on product consulting, FINEOS is well placed to continue to execute these objectives.

Platform

FINEOS has been quick to integrate Limelight Health and Spraoi, acquired in the first and second half of FY21 respectively. Limelight, described as the missing link in creating the first end-to-end Software as a Service (SaaS) insurance suite, offers a highly configurable cloud-based platform. As a leading provider of quoting, underwriting, and rating modules, its offering is highly complementary to FINEOS' existing back-office solutions.

Spraoi's product capabilities enhance FINEOS Engage and FINEOS Insight, with additional digital smart-portal options, industry specific operational and analytical models, as well as machine learning capabilities across the FINEOS Platform.

Clients can cherry-pick the solutions they require by opting to adopt only part of the platform. For instance, paid leave has become a key employee benefit in the U.S. market, driving continued adoption of FINEOS Absence. In time, FINEOS expects to attract further business from clients who have adopted limited services as they show the value of their integrated, cloud platform solution.

With a continued focus on building recurring software revenues, FINEOS is focusing on engaging Software Integrators, such as EY, to drive sales and facilitate implementations. In time, this will see service revenues flatten or decline (currently 56% of revenue), with subscriptions driving top-line growth.

Research and Development (R&D)

FINEOS continues to dedicate significant resources to develop its software platform through R&D. In the period, 34% of revenue was invested in R&D, equating to €43.2m. Since FY15, circa €200m has been invested in the FINEOS platform. While this is important in capitalising on the current market opportunity, it also serves as a significant competitive moat.

New York Life

Post year-end, FINEOS and New York Life Group Benefit Solutions (NYL) released a joint study, which showed the purpose-built FINEOS Platform successfully met NYL's business challenges. This platform is currently used for nine million customers, supporting a US$4.1b book of business, and has successfully replaced six back-office systems.

Outlook

The company has guided total FY23 revenue to be within the range of €135m-€140m. FINEOS is expecting to be in a positive free cash flow position in FY24.

FINEOS has a current market capitalisation of A$438m.

▪ Flight Centre Travel Group (ASX:FLT)

The reopening of global borders and international travel sees Flight Centre Travel Group delivering on its targeted timeframes for returning to profitability. For the year, the company reported total transaction volumes (TTV) of $10.3b, up 162% on the heavily COVID-19 impacted prior period. The uplift in both Corporate and Leisure TTV resulted in a modest underlying EBITDA profit of $0.9m for the second half. For the year, Flight Centre delivered an underlying EBITDA loss of $183.1m, a 46% improvement on the $337.8m loss reported in the prior period.

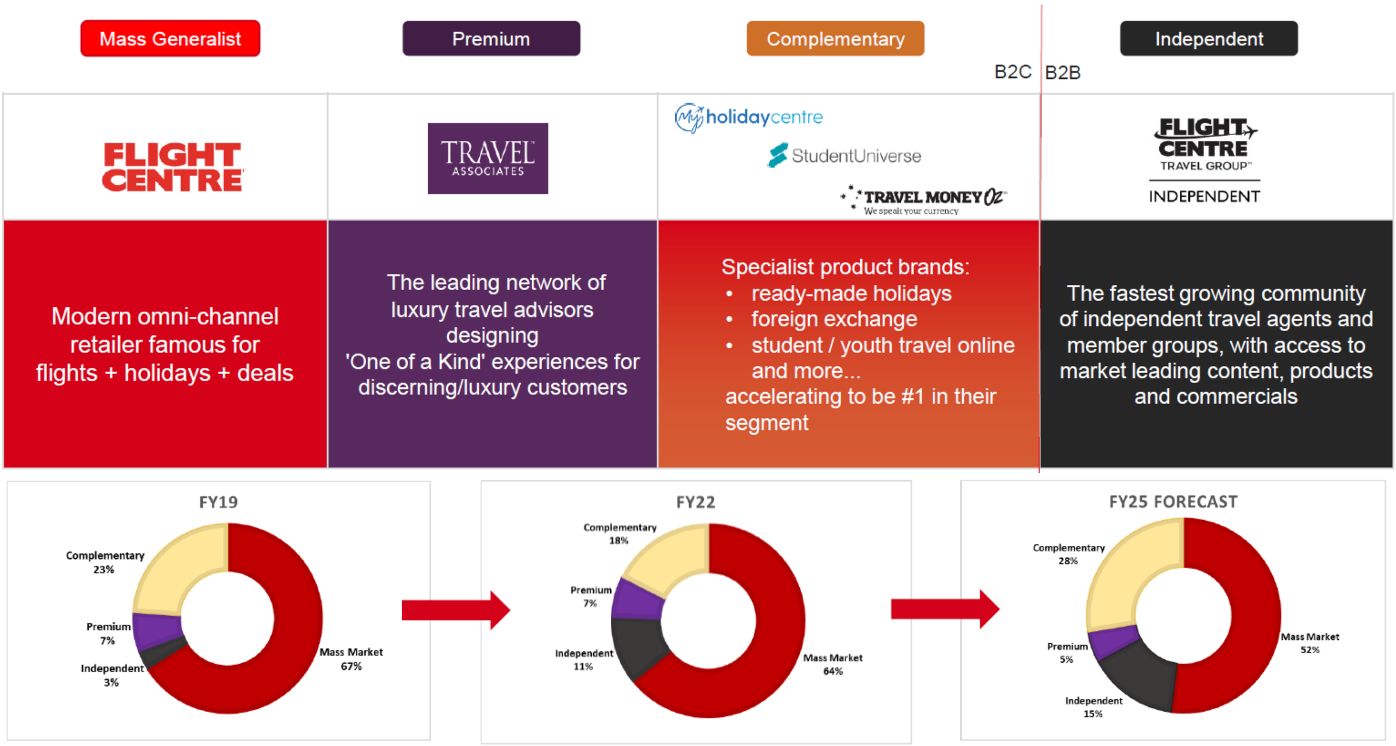
CEO Graham Turner commented, *"After two years of unprecedented disruption to normal global travel patterns and other everyday activities, we are pleased to start FY23 with a considerably brighter outlook. Travel demand has recovered rapidly since most governments globally removed or relaxed border restrictions and we have started the new fiscal year with strong momentum."*

Investing to Win

Having weathered the initial impacts of COVID-19, Flight Centre decided to maintain investment spend to deliver further platform enhancement, while building technology leadership capabilities that extend to the use of Artificial Intelligence (AI) and Machine Learning (ML). These advancements are set to deliver meaningful benefits to customers, and concurrently are likely to further disrupt legacy travel management companies.

Overall costs in the period tracked at circa 50% of pre-COVID levels, as Flight Centre maintained tight controls despite continuing to invest in key growth drivers including people, systems, and technology. The business is well placed to benefit in this recovery phase, operating as a leaner, more efficient organisation underpinned by investments made during COVID.

Figure 4: Global Leisure Model TTV Shift - FY19 to FY25



Source: Flight Centre Travel Group FY22 Investor Presentation

Corporate

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 delivering improved customer experience and greater operational synergies across countries.

Corporate continued to successfully execute its Grow to Win strategy. A large volume of new accounts under their belt and high customer retention rates has resulted in market share gains across key regions. Flight Centre is now outpacing the industry recovery, with new account wins representing $2.5b in annual spend over the year.

In the period, Corporate generated TTV of $5.6b, an increase of 158%. This resulted in an underlying EBITDA profit of $5.6m, up from a $99.4m loss in the prior period.

Looking forward to June 2023, Flight Centre is targeting a 120% monthly TTV recovery which, given the significant customer wins secured over the past two years, would only require average client spend to return to 70% of pre-COVID levels. The company has already made significant progress on this front, with total TTV levels for the month of June 2022 already exceeding pre-COVID levels.

Leisure

In Leisure, the company has accelerated its plans to digitise the customer experience and provide an omnichannel offering across online, call centre, and in-store channels. The company is now operating a smaller and more profitable retail store base, with its rationalisation program reducing the density of locations while maintaining easy access for customers.

Under the revised go-to-market strategy, the company is focused on expanding its range of brands, as shown in Figure 4. A reduced cost base and the potential for value-added services, due to the increased complexity of current travel, the company is working to achieve a higher net profit margin from increased penetration of complementary and premium travel brands.

In the period, Leisure TTV reached $4.1b, an increase of 197%. As a result, the division generated a $196.4m underlying EBITDA loss for the year, up from a $357.4m loss in the prior period.

Supply

The Supply division was formally established within the period as Flight Centre's third key pillar. This segment consists of:

1. A Leisure and Corporate Supply Mart – ensuring breadth and depth of content, simplified access and distribution, and commercial returns for all Flight corporate and leisure brands and businesses.
2. In-destination businesses specialising in touring, destination management, and hotel management; and
3. An emerging external distribution business (The Travel Junction) leveraging Flight Centre's products and systems to service external Business-to-Business customers.

Leisure and Corporate Supply is critical to the business's success, as it delivers and oversees all product and supply-related services. While Supply will not have its own business reporting line, its success will be measurable by its ability to maintain and improve the margins of the Leisure and Corporate businesses.

Looking Forward

At the end of the period, Flight Centre had a net liquidity position of $697m available to meet operational needs after repaying its short-term U.K. debt in full. Having reached a cash flow positive run rate, the company is confident this runway is sufficient.

Flight Centre has a current market capitalisation of $3.0b.

▪ Infomedia (ASX:IFM)

Infomedia, a leading automotive Software as a Service (SaaS) provider in parts, service and data insight solutions, reported a strong full year 2022 result in August. Revenue grew 23% to $115m resulting in cash EBITDA, which excludes capitalised development costs and non-cash adjustments, increasing by 29% to $25m.

Infomedia's fundamentals remain solid with 95% recurring revenue, free cash flow of $22m, up 79%, and $69m of cash on the balance sheet.

In the period, reported net profit after tax decreased $7.7m, or 48.5%, to $8.2m. This was in large part due to earnouts of $7m for online e-commerce solution SimplePart, acquired in 2021, and a final milestone payment of $2m for data insights business Nidasu, acquired in 2018.

Appointment of new CEO – 90-day impression

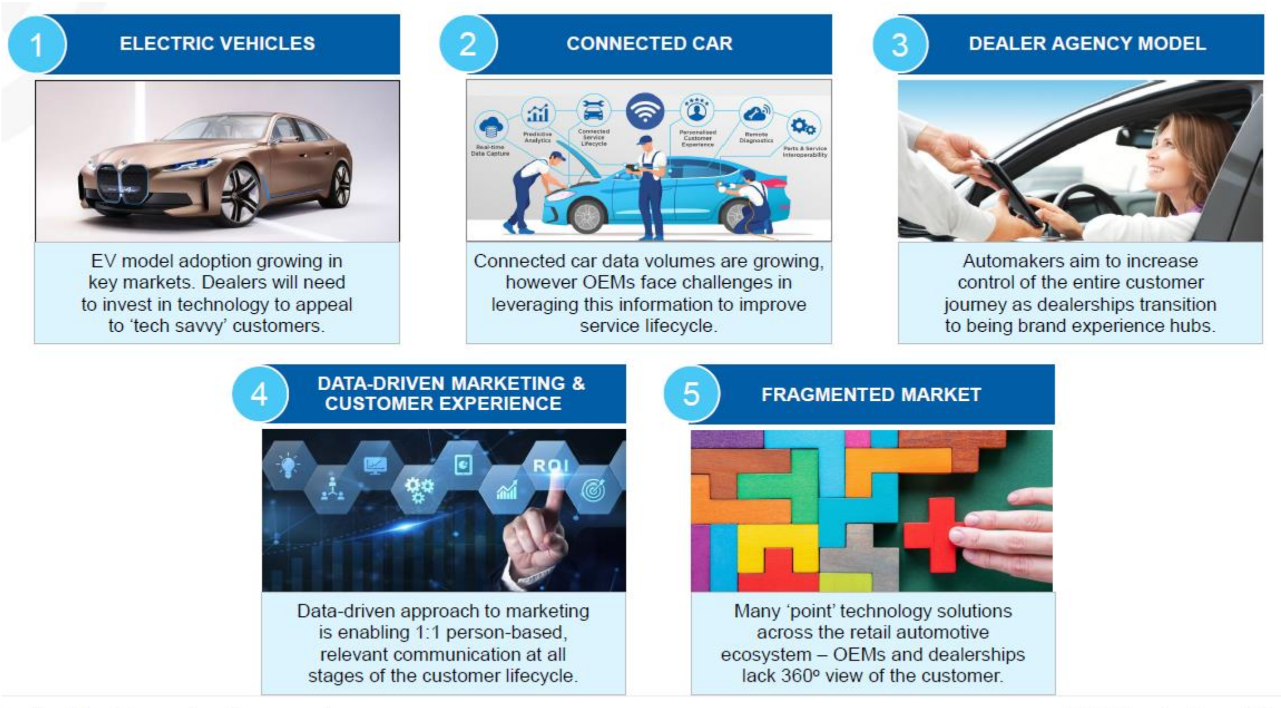
In March, the company appointed Jens Monsees as CEO. Monsees has over 20 years of experience in the global automotive sector, including the role of Chief Digital Officer at BMW and automotive industry leader for Google.

As is often the case, changes in the C-suite bring a new perspective to business operations. Monsees is no different. Having met with over 25 key OEM and global customers and visited Infomedia's offices in Europe, the U.S., and Australia, Monsees has identified numerous strategic opportunities to strengthen the group's people, product, and processes. These initiatives include a renewed focus on U.S. operations, improving internal IT infrastructure to drive efficiencies, optimising R&D to focus on product-led initiatives, and fostering a performance culture via accountability, feedback, and learning.

Management have also voiced a new vision of "*empowering the data-driven automotive ecosystem*". This includes a global end-to-end e-commerce solution providing value across the vehicle and customer lifecycle.

The company remains optimistic about future growth opportunities, underpinned by a data-driven approach. Long-term market dynamics remain positive, with OEMs enhancing the connectivity of all vehicles to create a personalised customer experience as seen in Figure 5.

Figure 5: Key Trend in Automotive



Source: Infomedia FY22 results presentation

Table 13: Regional Performance

	Revenue ($m)	Change	Cash EBITDA ($m)	Change	Cash EBITDA Margin
Asia Pacific	37.5	15%	27.7	14%	74%
EMEA	38.9	5%	32.3	4%	83%
Americas*	43.7	59%	27.2	77%	62%

**Includes SimplePart Acquisition for 12 months in FY22*

Regional Highlights

As shown in Table 13 above, all regions experienced solid growth. Infodrive, the group's data-driven vehicle and customer lifecycle management solution, saw strong customer wins in all regions, including Nissan Motors in APAC, Mazda EU in EMEA, and DealerBuilt in the Americas.

SimplePart is also gaining traction outside of the Americas, recording its first wins in APAC with RAM Trucks and Europe with Hyundai Ireland. Infomedia sees significant cross-sell and up-sell opportunities within existing customer partnerships where many of these relations span decades.

Outlook

Whilst Infomedia received two non-binding takeover proposals in June, neither deal closed before the 30 September deadline. The company continues to focus on accelerating product growth and evolving systems and operational processes to drive efficiencies. As Chairman Bart Vogel explained, *"The Board is more encouraged than ever as to the outlook of the business. Infomedia is a global, growing, profitable and cash flow generative technology business. Under the leadership of new CEO Jens Monsees, the business is well positioned to capitalise on many exciting initiatives ahead."*

For FY23, the company expects revenue to be in the range of $131m-$139m, an increase of between 14% to 21%. Operational initiatives over FY23 are expected to reflect positively in underlying cash EBITDA margins over the longer term.

Infomedia has a market capitalisation of $453m and paid out a total annual dividend of 5.6 cents per share, up 26%.

Nanosonics (ASX:NAN)

In August, global leader in infection prevention solutions Nanosonics reported a solid full year result with revenue up 17% to $120.3m.

The past 12 months has been a key investment period to develop internal capabilities and capacity to support future growth. In North America, the group finalised the transition to a direct sales model, which will help deepen customer relationships. Further, the company has relocated its headquarters to Macquarie Park, which expands manufacturing and R&D capacity by two and three times respectively.

As a result, operating expenses increased 28% to $90.5m, leading to profit before tax of $1.6m compared to $11m in the prior corresponding period (pcp).

Two Key Messages

1. Growth Momentum Returning to pre-COVID Levels

With COVID restrictions easing, Nanosonics has seen hospital access improve and ultrasound procedure volumes return to near pre-COVID levels. Consumables, the group's recurring revenue contributor, remains resilient and represents almost 70% of total group revenue.

North America

In North America, Trophon (Nanosonics automated ultrasound high-level disinfection device) strengthened its position as the standard of care, with 26,130 installed units across 5,000 institutions.

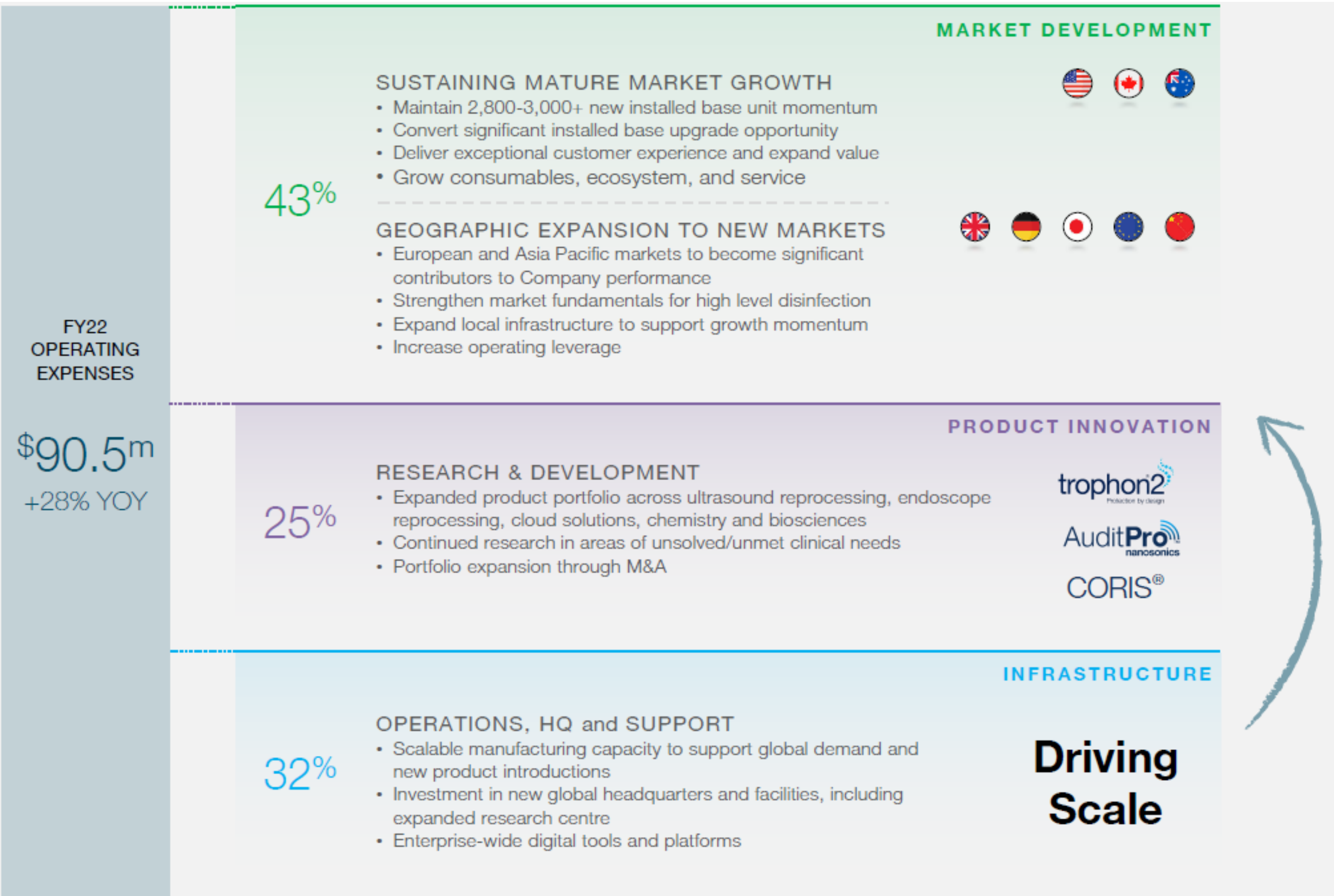
Direct Sales Model

Over the financial year, Nanosonics transitioned to a direct sales model. This indicates a distinct maturing of the business, contrary to sell-side market views, and follows in the well-trodden path of Cochlear and ResMed who both acquired or took direct control of distribution. The North American team now has over 100 employees and includes several key sales and clinical staff who were previously part of GE Healthcare's high-level disinfection division.

The North American team has managed to fulfil all client needs during the transition whilst driving strong upgrade unit growth. Upgrade sales more than doubled to 880 units and importantly, the Nanosonics direct sales force drove nearly 90% of these conversions.

The group remains well positioned to grow the Trophon installed base, upgrades, and consumables utilisation with the transition to a direct sales model providing greater control of the customer experience. The in-country infrastructure will play a key role in the success of the Generation 2 product, Coris.

Figure 6: Breakdown of Operating Expenses



Source: Nanosonics FY22 Results Presentation

Europe & Middle East

In Europe, the company continues to navigate a challenging environment due to limited hospital access. Management also noted the majority of units placed in the U.K. (its biggest market) are under a managed service model where no capital revenue is recognised.

Management remains optimistic about the European opportunity, with stronger growth expected as restrictions ease.

Asia Pacific (APAC)

In APAC, capital revenue fell 30% due to a one-off upgrade deal of 200 units to its largest Australian customer in the pcp. Market penetration in Australia and New Zealand remains above 75% but represents only 5% of the total opportunity across APAC. Nanosonics continues to progress on its expansion plans within Japan and China, which remain a longer-term opportunity.

2. Investment in Capability and Capacity to Support Future Growth

With a significant global opportunity in infection prevention, Nanosonics is prioritising reinvestment in internal infrastructure, new markets, and Research and Development (R&D) as seen in Figure 6. These investments are masking strong operating leverage at scale, with the North American region achieving operating margins between 55% and 60%.

Research and Development (R&D)

In FY22, Nanosonics' R&D spend of $22.5m (fully expensed) was largely associated with the development of new products, including the Coris platform.

Coris is the group's next automated instrument repossessing platform designed to clean reusable flexible endoscopes.

Currently, no solution effectively disinfects reusable endoscopes. Cleaning processes are highly manual and consist of 55 to 200 steps. Additionally, due to the complex design nature of endoscopes, many channels are between one and six millimetres, making it very difficult to properly disinfect using current measures.

Early data points from Coris show vastly superior disinfection outcomes compared to manual repossessing. A milestone for the company and an indicator of clinical advancement saw the U.S. Food and Drug Administration (FDA) accept the Coris technology into its Safer Technologies Program (STeP). This program is for specific medical devices that are expected to significantly improve the safety of currently available treatments or diagnoses. The program also accelerates the review process.

Management is targeting a global market launch of Coris in calendar year 2023, pending regulatory approval in each region.

Outlook

Management provided full year 2023 guidance with revenue increase of 20-25%, gross profit margins of 75%-76%, and operating expenses growing at 15-18%.

Nanosonics has a market capitalisation of $1.1b. The company maintains a robust balance sheet with $94.5m of cash and no debt.

▪ REA Group (ASX:REA)

Digital real estate advertiser REA Group reported a record full year result, delivering group revenue of $1.2b up 26%, and net profit from core operations of $408m up 25%. Revenue excluding acquisitions grew 18%, while the consolidated entities of Mortgage Choice (Financial Services) and REA India (formerly Elara) contributed the remaining 8%.

EBITDA margins from core operations fell from 60% to 57%, predominantly due to increased losses across REA India and International associates. Australia continues to be the group earnings driver, with EBITDA margins remaining stable at 65%.

Strategy

REA has embarked on a strategy to change how the world experiences property, centred around three key objectives:

1. Continuing to deliver Australia's largest, most engaged consumer audience and driving the highest quality leads to customers.
2. Providing customers with superior value across property advertising, our agent marketplace and agency services.
3. Becoming Australia's leading property data, valuations and insights provider.

Competitive Positioning

Underpinning REA Group’s first strategic pillar is its dominant position as the undisputed leader for online property advertising in Australia. During the year, audience metrics continued to widen against its nearest competitor Domain Holdings, with total average monthly visits of 124m, 3.4 times that of Domain, and a unique average monthly audience of 12.7m, representing some 62% of the adult population. Superior audience metrics make REA the most popular choice across the board, from agents to home sellers and buyers.

Residential (63% of Group Revenue)

The Australian Residential business remains REA’s largest and fastest growing segment. Revenue rose 24% to $776m, with the segment benefiting from an 11% increase in national listings, an 8% price rise, and higher depth penetration offsetting the decline in rental listings.

REA is further engaging its audience through the delivery of data insights and personalised experiences, which has seen monthly active members rise 25% and owner-tracked properties up 51%. This has allowed the business to layer on value-added depth offerings, such as Premiere All, Audience Maximiser and Premiere+ to drive yield growth.

With REA representing less than half the home seller’s marketing schedule, there remains ample opportunity to take a greater portion of spend. Management has earmarked double-digit buy yield growth over the next 3-5 years by driving price rises and depth penetration while adding value.

New Products

Under the second strategic pillar, REA is leveraging data to deliver new products with unique value. For property buyers, REA has introduced personalised member experiences, driving engagement and higher value leads for agents. Early indicators show members are three times more likely to act on a property.

For agents, REA has developed a complete range of solutions. This includes Connect, a digital service offering that streamlines agent workflows, a comprehensive property advertising platform, and an Agency Marketplace aimed at generating new vendor leads. As REA widens this value proposition for agents, the platform becomes stickier, leading to greater utilisation and ultimately increased viewership from buyers and renters.

The company has a long-term product roadmap, with continued investment poised to increase its already strong competitive position.

Data

The third strategic pillar is REA's data business, PropTrack, which is disrupting the mortgage valuation space. The platform uses advanced technology and leverages REA's unique data sources and insights across its large audience base to improve the speed and accuracy of valuations. The release of a new valuation model, AVM 3.0 is expected to drive uptake.

Digital solutions like PropTrack can help banks digitise by reducing the need for manual valuations. The opportunity is significant with the mortgage valuations market estimated to be worth $500m, of which 50% is still manual. PropTrack is well positioned to take share in this space with its unique proposition enabling accuracy and speed.

Financial Services (5.7% of Revenue)

The Mortgage Choice acquisition has delivered REA scale in financial services, with consolidation of broker platforms lifting market share to 5%-6%. During the period, Financial Services revenue grew 12% to $79m driven by submissions up 13%, settlements up 28% and brokers up 6% respectively. The company is adopting an omnichannel approach, providing both digital and broker channels, with REA having the advantage of accessing its large base of property seekers, well before the purchase decision is ultimately made.

India (4.6% of Revenue)

REA is seeking to replicate its domestic success in international markets. The group's minority interests in Move (U.S. 20%) and PropertyGuru (Asia 17.5% fully diluted), means REA's involvement is limited to Board representation, noting News Limited's control of Move. In India, REA's initial 60.7% controlling interest in Elara, purchased in 2021 and later renamed REA India, has subsequently been lifted to 73.3% at the original entry valuation, under an agreement with News Limited. We believe REA has the appetite to continue to increase its ownership, subject to a new valuation.

Housing.com is REA India's primary brand, with investments in targeted marketing, its mobile app, and expansion into more Tier 2 cities lifting average monthly visits by 50% to 14.2m and brand awareness from 53% to 74%. In FY22, REA India recorded operating losses of $35m, which is expected to widen in FY23 due to continued investments to drive outright market leadership from both an audience and revenue perspective.

Outlook

In FY23, management expects the residential property market to soften due to interest rate rises. Despite this weaker outlook, the company expects positive operating jaws (revenue growth outpacing cost growth), with costs likely to increase in the mid-high single-digit range, while yields are forecast to grow at double-digit rates.

The group expects greater losses from International associates and REA India. CFO Janelle Hopkins notes, *"we're extremely pleased with our results in FY22 and approach FY23 in an incredibly strong position. And as we have demonstrated over the last 2 years, we are well placed to adapt to changing market conditions."*

REA Group has a market capitalisation of $15.1b and net debt of $295m. The company also declared a final dividend of 89c per share, taking the full year dividends to $1.64 per share, an increase of 25%.

▪ Reece (ASX:REH)

Reece, a leading supplier of plumbing, bathroom, heating, ventilation, air-conditioning, waterworks, and refrigeration, delivered a strong full year result. Group revenues increased 22% to $7.7b and normalised operating earnings (EBITDA) were up 16% to $838m, driven by strong demand across all regions.

Group Vision and Strategy

Despite navigating competing pressures of constrained supply chains, ongoing COVID-19 impacts and disruptive weather events, the group remains firmly focused on three key strategic priorities:

1. Being brilliant at the fundamentals of the business with an intentional focus on the foundations of the Reece model.

2. Creating opportunities for growth through reinvestment in stores and systems in addition to expansions into new markets and adjacencies where growth opportunities arise.
3. Delivering innovation to stay ahead of their customer's needs.

Whilst Australia and New Zealand (ANZ) continues to deliver on all three priorities, the U.S. remains focused on the first two, leveraging innovation learnings where appropriate.

Australia and New Zealand (ANZ)

ANZ sales were robust, up 12% to $3.5b, driving normalised operating profits up 5% to $526m. ANZ continues to deliver standout EBITDA margins of 15%, albeit 0.90% lower than the prior comparable period (pcp), primarily due to an increased headcount and wage inflation.

Despite the disruptions in the market, Reece continued to forge ahead with its growth strategy. During the year, three new branches were added to the ANZ network bringing the total number to 645. In addition, the business continued to upgrade the network with 33 refurbishments completed.

In April, the group moved into their new purpose-built headquarters and support centre in Melbourne, aptly named "The Works". This strategic investment is six years in the making and aims to attract and retain talent, drive innovation and inspire collaboration.

Reece's continued investment in its digital ecosystem saw online sales up 17%. Digital improvements include enhancements to the customer facing maX platform and expansion of the ReeceConnect ecosystem. In May, the group launched Imagin3D, a visualisation technology to help bring a customer's bathroom vision to life. The take-up has been impressive, with over 15,000 customers using the planner since release.

U.S.

The U.S. performance was impressive. Revenue was up 33% and operating profits up 42.5%, to $4.1b and $312m respectively. The EBITDA margin of 7.5% was up 0.5% on the pcp. The U.S. continues to generate around half the EBITDA margins of ANZ due to structural differences.

While margins represent a long-term opportunity, this is not management's current focus. This is clearly telegraphed by the store rollout and refurbishment program which requires investment. Margin improvement will come with scale, operational excellence, distribution and buying power, which will not emerge until the latter part of the decade. Supply chain and distribution, for instance, will require significant investment and will not be addressed for at least the next five years.

The U.S. opportunity is large, and the market is fragmented. Reece global management are first to acknowledge that the gaps remain wide. They describe this as the ongoing 20-mile march; local management need to focus on incremental gains and the global team address the gaps. Along this journey, Reece USA is making a determined pivot to the Repair and Remodel (R&R) market that few big players have an interest in.

Four years on from the acquisition of MORSCO, the U.S. strategy remains on track. CEO Peter Wilson commented, *"In 2018, we outlined that we saw a significant opportunity to secure a foothold in a large and growing market through a business model that we knew and understood. Four years on, the rationale for the acquisition is still intact. We believe this is proving to be a highly strategic platform in an attractive and growing region. So, despite all the external challenges that we've had to navigate since, the business is on track and the opportunity remains."*

During the year, nine new stores were rolled out in addition to eleven completed refurbishments. With a clear pipeline, the company believes it can roll out between 10 and 15 stores annually in the U.S. market. As of 30 June 2022, the U.S. store count stands at 204.

In what is seen as a symbolic, nonetheless important, milestone for the company, the Reece corporate brand was launched for the first time in the U.S. Whilst new stores continue to be rolled out in locally branded names, the aim is to progressively rebrand the network over the next two years, starting in California.

Finally, the digital platform maX was launched for the U.S. market. Locally built, maX is tailored to the needs of the U.S. trades and is a forward step in Reece's commitment to solving customers' needs.

Supply Chain

Reece's local distribution model has held them in good stead during a period of immense supply chain disruption. Taking advantage of long-standing supplier relationships, Reece purposely held higher inventory levels, actively purchasing where available. Inventory is seen as a strategic asset and being 'in stock' has enabled Reece to manage customer expectations and improve market share. Inventory levels are expected to remain elevated until supply chain and demand dynamics normalise.

Chair Transition

Reece announced the intention of founder and Executive Chair, Alan Wilson to move to an Executive Director role effective 1 September 2022. Deputy Chair, Tim Poole will assume an Acting Chair role whilst leading the search for a permanent replacement.

Wilson will continue to play an active role in the business as both a Board member and in an advisory capacity across the group. CEO Peter Wilson noted, *"For over 50 years my Dad has been at the heart of Reece, instilling a deep understanding of our customer and the importance of thinking long term in everything we do. His transition to Executive Director provides us with great continuity and gives him more time to be back out in the Reece network, where he is happiest and where he will help keep our values and culture alive."*

Outlook

Whilst not providing guidance, Reece believes it is well placed to navigate the current macro complexity with a strong brand, a diversified business model, and a focus on the less cyclical R&R market.

Successful refinancing of the existing US$ Term B debt facilities in December 2021 and the gross repayment of $342m of borrowings, saw Reece end the year with net debt of $870m. The company declared a final dividend of 15 cents per share (cps), bringing total dividends to 22.5 cps.

Reece has a current market capitalisation of $9.3b.

▪ Reliance Worldwide Corporation (ASX:RWC)

In August, global provider of water control systems and plumbing solutions, Reliance Worldwide Corporation (RWC) reported its full year 2022 result. Net sales increased 17% to US$1.2b, while net profit increased 2% to US$161.4m.

EBITDA margins decreased from 26% to 24.2%, primarily due to cost inflation and other input cost pressures on resins, steel, and transport.

Sales growth was largely driven by the Americas, aided by the 7.5-month contribution of the EZ-FLO acquisition, new product revenues, and a 9.5% price increase across all products to combat inflationary pressures.

Asia-Pacific reported solid revenue growth reflecting robust demand in Australia, driven by residential construction and remodelling activity.

Finally, net sales increased marginally in EMEA, with lower plumbing and heating volumes in the UK offset by strong demand in continental Europe for water filtration and drinks dispense products.

Resilience

Reliance continue to demonstrate resilience and have executed in particularly challenging times. While unprecedented macro-conditions, including COVID-19, supply chain disruption, and geopolitical tension continues to present short-term challenges, the company has maintained industry leading delivery performance and high service levels.

While management expects rising interest rates and declining consumer sentiment to pose ongoing headwinds in FY23, they are confident underlying demand will remain strong, driven by investments in home repair and remodelling (R&R). Most of Reliance's exposure is in the R&R segment, with lower exposure to cyclical construction; this provides a cushion from any marked economic downturn.

Table 14: Regional Performance

Region	Revenue (m)	Change	EBITDA (m)	Change	EBITDA margins (%)
Americas	US$791	26%	US$133.8	10%	16.9
Asia Pacific	A$293.5	6%	A$58.7	-11%	20.0
EMEA	£218.8	1%	£74.3	4%	34.0

Source: Reliance Worldwide Corporation FY22 Results Presentation

On acknowledging the ongoing uncertainty, CEO Heath Sharp states, *"I believe we have proven over the last few years that our execution is solid. We have the ability to manage dynamic supply chains, and the direct control we have over our manufacturing operations leaves us well positioned from a product quality and customer service point of view".*

Strategy – great products, strong brands, and an ability to execute

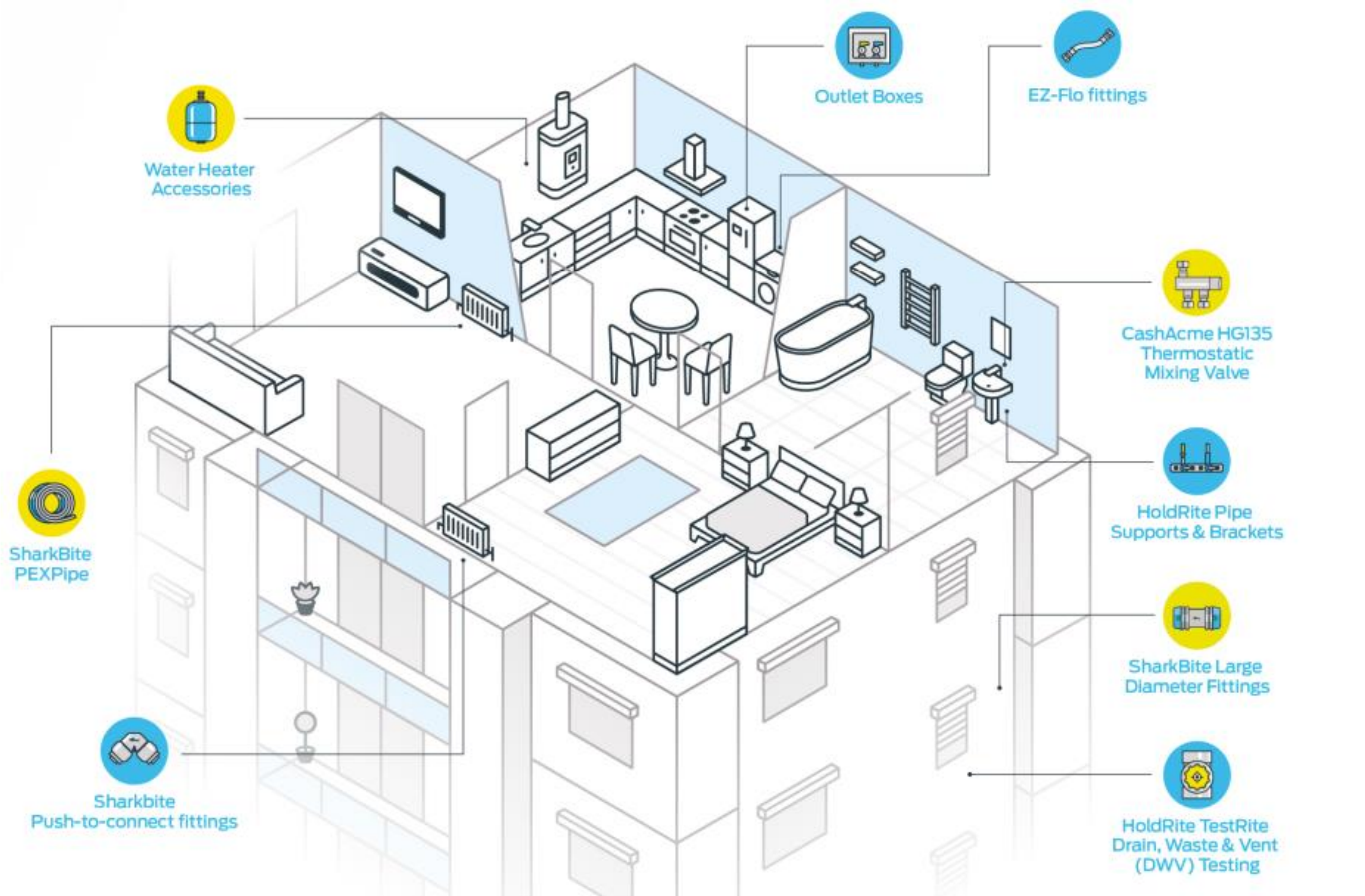
Reliance has a clear strategy focused on creating value through product leadership, centred around three core drivers of growth:

1. Smart product solutions that improve contractor productivity and enable the DIYer
2. Creating value for distribution partners through high levels of service, differentiated brands, and continued product innovation
3. Industry leading execution

Boasting a broad portfolio of strong brands, as shown in Figure 7, Reliance aims to provide smart plumbing solutions from "*meter to faucet*". CEO Heath Sharp puts it simply, *"At their core, our products are easy to use, work brilliantly together, and allow the plumber to get more work done".*

The company remains focused on driving growth in core and adjacent markets by expanding the product range and leveraging its strong brands and channel partner network.

Figure 7: Portfolio of strong brands



Source: Reliance Worldwide Corporation May 2022 Macquarie Australia Conference

Business Update

Reliance completed two strategic acquisitions in 2021, adding a range of complementary products and a new distribution centre in the U.S.

In August, the acquisition of LCL was completed for US$28m. LCL is Australia's largest producer of bronze brass copper alloys, centred around recycling copper material and manufacturing lead-free brass. The acquisition means all Australian-manufactured brass products will be made with recycled copper and ensures Reliance have access to the supply of high-quality brass. In essence, giving them control of a critical piece of their manufacturing supply chain.

In November, Reliance announced the acquisition of leading manufacturer and distributor of plumbing supplies, EZ-FLO, for US$325m. EZ-FLO expands Reliance's offering to include appliance supply lines, flexible water connectors, gas connectors, and stop valves. The EASTMAN brand products owned by EZ-FLO are rated number one for appliance installations in the U.S., and in the top two for U.S. water plumbing connectors.

Moreover, EZ-FLO's manufacturing and sourcing capabilities give Reliance access to lower cost manufacturing and provide expanded geographic reach in the Americas for a wide range of plumbing products. Management expects revenue and cost synergies to follow, comprising 10% sales growth p.a. and $10m p.a. in cost savings.

Reliance also opened a new US distribution centre in Cullman, Alabama which provides 600,000 square feet of warehousing space and improves efficiency by streamlining operations. The new facility is largely automated; robot carts, known as Chuck's, are tasked with picking, sorting, and counting orders, reducing processing time by 10%.

Outlook

Despite short-term macro headwinds, Reliance has a positive outlook underpinned by its unique product offering and industry leading execution. In an industry that has a shortage of labour to fill demand, Reliance's offering provides quicker and easier plumbing solutions. Product expansion, through a combination of M&A and organic growth initiatives to fill product gaps in core fittings, will continue to be a priority.

Whilst no financial guidance was provided, management expects demand to be led by a backlog of repair and remodel work, supported by strong household balance sheets post-COVID, and unemployment at near-record lows.

Reliance Worldwide Corporation has a market capitalisation of $2.8b and net debt of $551.1m, equating to a net debt to EBITDA ratio of 2.1x. Increased debt was primarily a result of the funding for the LCL and EZ-FLO acquisitions. The company also declared a final dividend of US5c per share, taking the full year dividends to US9.5c per share.

▪ ResMed (ASX:RMD)

In August, leading out-of-hospital medical device, mask, and software provider, ResMed reported its fourth quarter and full year 2022 result. For the quarter, group revenue rose 8% in constant currency (cc) to US$915m while operating profits lifted 4% in cc to US$272m.

Global device revenue grew 6% in cc to US$487m, driven by continued demand resulting from a competitor recall. Masks and Other revenue grew 11% in cc to US$324m, as strong resupply outweighs the headwind from lower new patient starts. Software as a Service (SaaS) revenue lifted 8% in cc to US$103m.

Gross margins rose moderately to 57.8%, with product mix benefits and pricing surcharges offsetting higher freight, component, and manufacturing costs. The medium-term opportunity is to return gross margins to historical levels of around 60% via manufacturing optimisation, as the supply chain normalises and higher freight prices begin to abate.

For the full year, ResMed recorded revenues of US$3.6b up 13% cc, and operating profits of US$1b up 11%.

Philips Recall

ResMed continues to experience unprecedented demand from its largest competitor's full product recall of DreamStation 1 CPAP (Continuous Positive Airway Pressure) devices.

In June, Philips updated the market on its recall, confirming they now expect completion by early calendar year 2023. Philips forecasts production to resume in 2023 but below historical levels, indicating market share losses. The company also announced the Department of Justice, acting on behalf of the FDA, are in discussions regarding a proposed consent decree. If enacted, this would halt the manufacturing of DreamStation devices.

The extended recall, consent decree and market observations have led ResMed CEO Mick Farrell to believe Philips won't return to the new patient market for the next 12 months. Historically, ResMed and Philips together supplied more than 90% of the market for CPAP devices.

Supply Imbalance

While ResMed has capacity to ramp up manufacturing, the challenge lies in supply chain procurement due to the global shortage of electronic components (semiconductors). An interim solution has seen ResMed supply a redesigned card to the cloud AirSense10 machine, which does not require the in-demand communications chip. This has helped bridge the near-term supply-demand imbalance.

Management has pointed to an improving supply chain outlook, particularly with semiconductor availability. CEO Mick Farrell has signalled his confidence on the matter, *"sequentially every quarter through fiscal '23, we're going to see those volumes improve. And we've got line of sight to that, and we've got interactions with suppliers on that, and we think it's going to go up every quarter. I don't look at this as incremental or temporary taking of share now. This is permanent share taking. We're going to go in, we're going to get the share, we're going to lock it in with digital health solutions. And when somebody uses something that lowers their labor costs by 50%, that improves the adherence rate of the end customer, the patient, to 87%, 9 out of 10 patients getting adherent at day 9 and beyond, that's where we can lock it in."*

ResMed is driving permanent market share gains, as clinicians and Durable Medical Equipment (DME) providers experience its best-in-class cloud connected devices and platform ecosystem. Philip's internal forecasts confirm these expectations.

Medium-term Growth

Looking beyond the persistent supply-demand imbalances, ResMed's ability to grow remains significant with an estimated addressable global market of over one billion sleep apnea patients. The company continues to innovate to identify, screen, diagnose, treat and manage a larger audience of patients in a more streamlined manner. This includes a partnership with the U.S.'s largest pharmacy chain CVS on the bricks-and-mortar front, and Verily via its Primasun joint venture through social media and search.

Once a patient is diagnosed, ResMed is well positioned to capture demand through its market leading platform and product offerings that have proven to drive efficiencies and deliver the best outcomes for patients and providers. The launch of ResMed's AirSense 11 platform is reflective of this, increasing patient engagement levels through record adoption rates on the myAir app at double the rates experienced on the AirSense 10 platform.

By streamlining and creating an end-to-end digital pathway for sleep apnea patients, ResMed is confident industry growth rates can rise faster than pre-COVID levels. CEO Farrell provides his take on recent market size estimates noting, *"our competitor put out some numbers that they think the market is today and in 2025. And I think they underestimated the actual market today and the market in 2025 by 25%, 30%, even 35%. I think they were talking about US$2.1b device market in 2025. For me, it's north of US$2.5b, US$2.6b, US$2.7b."*

Software as a Service (SaaS)

SaaS has brought an adjacent revenue stream through exposure to areas such as skilled nursing and home hospice. The company is witnessing pent-up demand for technology in these out-of-hospital care settings, as providers seek better care outcomes and lower overall costs. During the period, SaaS revenue grew by 8% and is expected to maintain high single-digit growth rates into FY23.

In June, ResMed expanded its SaaS portfolio outside the U.S. through the acquisition of MEDIFOX DAN. MEDIFOX operates in Germany and provides mission-critical solutions in major care settings for home health, nursing homes and outpatient therapy.

The acquisition broadens the SaaS portfolio into new care settings, such as outpatient therapy. ResMed SaaS President Bobby Ghoshal further highlights the inherent opportunity, *"we're seeing greater adoption of digital solutions across Germany as its population continues to age and severe staffing shortages continue to challenge German care providers. MEDIFOX DAN and ResMed are well positioned to help providers across major out-of-*

hospital care settings meet rising demands and ultimately help improve patient outcomes."

ResMed is expected to acquire MEDIFOX for a total cash consideration of US$1b. The deal will be financed with existing cash and debt facilities. In calendar year 2021, MEDIXFOX delivered pro-forma revenue of US$83m and adjusted EBITDA of US$35m, representing margins of 42%, and is immediately accretive to non GAAP diluted earnings on close. The acquisition is expected to close by calendar year end.

ResMed has a market capitalisation of US$31.0b and net debt of US$500m. The company declared a quarterly dividend of US44c per share. ***SFM***

CARSALES – GOING ALONE

There are many ways investors could interpret Carsales' recent decision to buy out the remaining 51% of U.S. based non-automotive online operator, Trader Interactive. Yet of all the research and media commentaries written on the deal, it's those from Carsales CEO Cameron McIntyre worth paying most attention to.

Here we provide a snapshot of these comments.

Who initiated?

"We called by mutual agreement with our partners even before it was supposed to open because we liked the business so much and because it was in the best interest of Carsales shareholders for us to do so."

Why now?

"We would have to pay more if we did this deal in 12 months' time because the business is growing, and it's growing strongly."

Alignment?

"Ultimately there were competing priorities between Carsales.com and Trader Interactive' private equity shareholders. Moving to full ownership will allow Carsales to focus on executing on its long-term product and technology strategy."

Compounding track record

CEO McIntyre's decision is consistent with the group's past track record. Since listing in 2009 the company has compounded earnings per share by 14.4% per annum, lifting underlying net profits from $30.7m in 2009 to $153.6m by 2021.

In stark contrast, the group's issued capital base expanded from 232m shares to 282m, an annual compound growth rate of just 1.5% over the same 12-year period.

Since its establishment, the business has had two CEOs. Company co-founder, Greg Roebuck established the business in 1997 and was at the helm as CEO before retiring in 2017. McIntyre, who joined Carsales in 2007 as Chief Financial Officer, played a key role in the group's public listing on the stock exchange in 2009, before moving into the Chief Operating Officer role in 2014. In 2017 he was promoted to CEO.

At the time of listing, the company carried a market value of $812m, based on the $3.50 per share offering. The group had a total issued capital base of 232m shares. Today the number of shares sits at 351m, following two recent capital raising events, with the business currently valued at $7.0b.

Both raisings were for the purpose of the two-part Trader Interactive acquisition. The first in May 2021 saw 35m shares issued at $17.00 per share, raising $595m to partly fund the group's initial 49% purchase of the business.

This second raising of $1.2b in June 2022 saw 69m shares issued at $17.75 per share, funding the remaining 51% of the business not held.

Carsales' two-step process to full ownership resulted in a total capital outlay of US$1.4b (A$1.9b), now sitting alongside a total company net debt profile of $1.1b.

No one is questioning the significance of the outlay nor the geographical risk of operating in a new market. It is worth noting, however, how rare the opportunity is to take expertise into new territories by acquiring well established market leaders.

CEO McIntyre, having owned 49% of Trader Interactive for 13 months, needed no more convincing of why making the move now was important.

"We've had the opportunity to get to know the CEO Lori Stacy, and her executive team and the Trader Interactive business more broadly, and we've been super impressed with them. We knew it was a great business when we made our initial investment, but we're even clearer now that the quality of the businesses and the quality of the team is there, and the scale of the opportunities are there."

Trader Interactive CEO Lori Stacy joined the company in 1997 and led the transition of the business to its fully digital state by 2010, and is equally clear on the unique opportunity presented.

"I have worked with the Carsales leadership team over the last 12 months, and I have been extremely impressed. We can see how compatible we are from a culture and strategy perspective. The backing of

Carsales, along with their domain expertise from their worldwide marketplace portfolio, will enable us to accelerate innovation across all of our verticals, while refining and improving both the buying and selling experiences for our consumers and dealers alike."

Worth noting that the Carsales board of directors who signed off on the deal are equally committed, having collectively invested an additional $7.7m in new equity during the recent call for capital.

Background

Over the course of its corporate life, management have taken important and deliberate steps in building out the business. We profiled the company's first move into the U.S. market in our June 2021 Selector Quarterly Newsletter.

This follows previous successful forays into newer international markets, namely Brazil in 2013, followed by its initial move in South Korea in 2014, before its eventual full ownership in 2017.

To date the performance outcomes from these two expansionary moves have been strong, enabling the company to enjoy the benefits of operational scale and transferring of technology between all parties and regions.

This was most evident on our recent visit in April to the company's South Korean headquarters, Encar. We provided a detailed note on this visit in our June 2022 Selector Quarterly Newsletter.

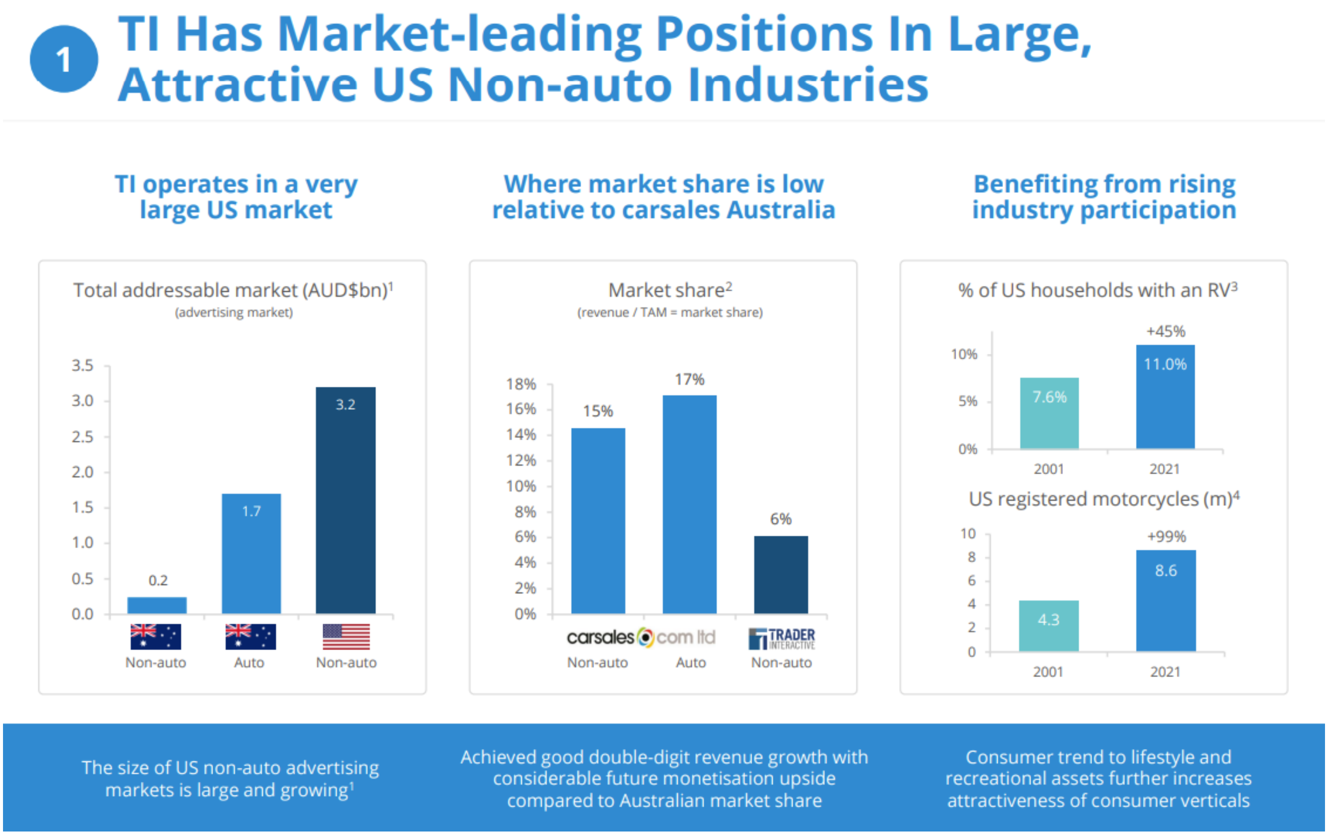
The visit highlighted the Korean's team's ability, led by Encar CEO Kim Sang-Boem (SB), to become the leading industry disruptor in the used car classified advertising market in Korea.

The group continues to re-invest with a digital vision that stretches into the outer years. In turn, these learnings are shared within the wider Carsales group.

We make this point because it is highly likely a similar scenario will unfold at Trader Interactive. CEO McIntyre notes one of the most attractive aspects of the business was its similarity to the Carsales offering 10 years prior.

The ability to engage, and transfer knowledge, technology and product sets, provides the basis to build upon the group's U.S. leading market position.

Figure 8: U.S. Leadership



Source: Carsales Equity Capital Presentation June 2022

Culture

It could be that the only truly sustainable competitive advantage within a business is its people. To that end, the critical piece of Carsales' offering is nurturing a strong company culture. And as we learnt with our trip to Korea, nothing beats seeing operations first hand.

US Operations – site visit September 2022

Figure 8 speaks to the Trader Interactive business and its performance relative to the Carsales' business model. Presented by management at the recent capital raising, the figures highlight positive aspects and also illustrate the opportunity available if local management can execute correctly.

Trader Interactive operates in a large addressable market, as Figure 8 notes. In comparative terms it is a magnitude of the current Australian operations; it's circa two times the local automotive sector and 16 times the non-automotive industry. Therein lies the opportunity.

Importantly, whilst Trader Interactive is the industry leader across a number of business verticals, it only commands a six per cent market share. Even more promising, is the anticipated growth in these industry segments, propelled by the aftermath of COVID-19.

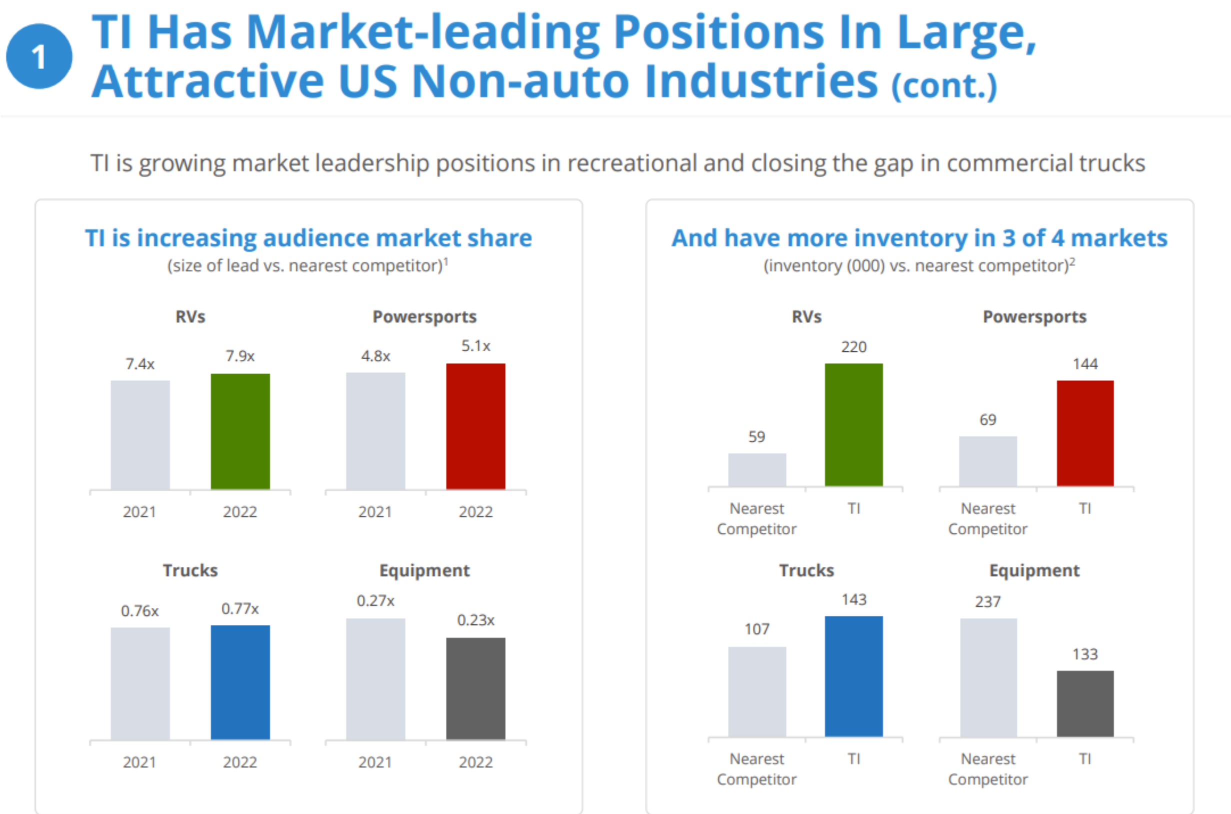
The segments shown in Figure 9 include Recreational Vehicles (RVs), Powersports, Trucks, and Equipment. Trader Interactive leads audience market share across three of the four segments, reinforced by the higher levels of inventory verse its competitors.

The relationship between audience levels and inventory levels held on site is important. Without inventory, the result is twofold; additional pressure on dealers to retain subscriptions services with Trader Interactive, and less inclination for audiences to visit. And the cycle continues.

Carsales is acquiring a business with strong operating momentum and a closely aligned management team. At this point we can accept the cultural piece at face value, but note the importance Carsales' management place on its people.

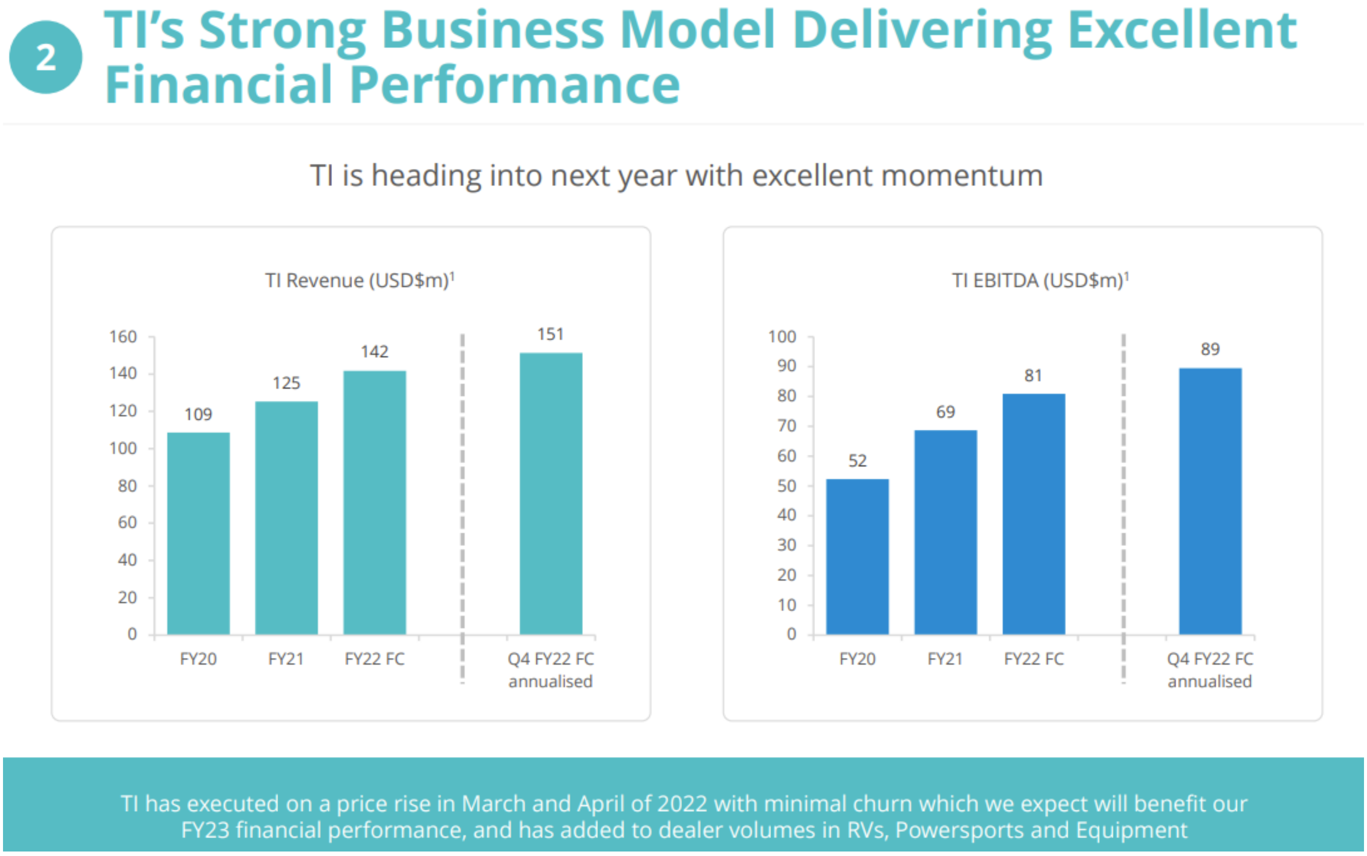
Importantly, the financials (see Figure 10) point to the positive earnings trajectory. With Carsales' proven track record as a long-term aligned business, we expect this to only strengthen.

Figure 9: US Non-automotive segments



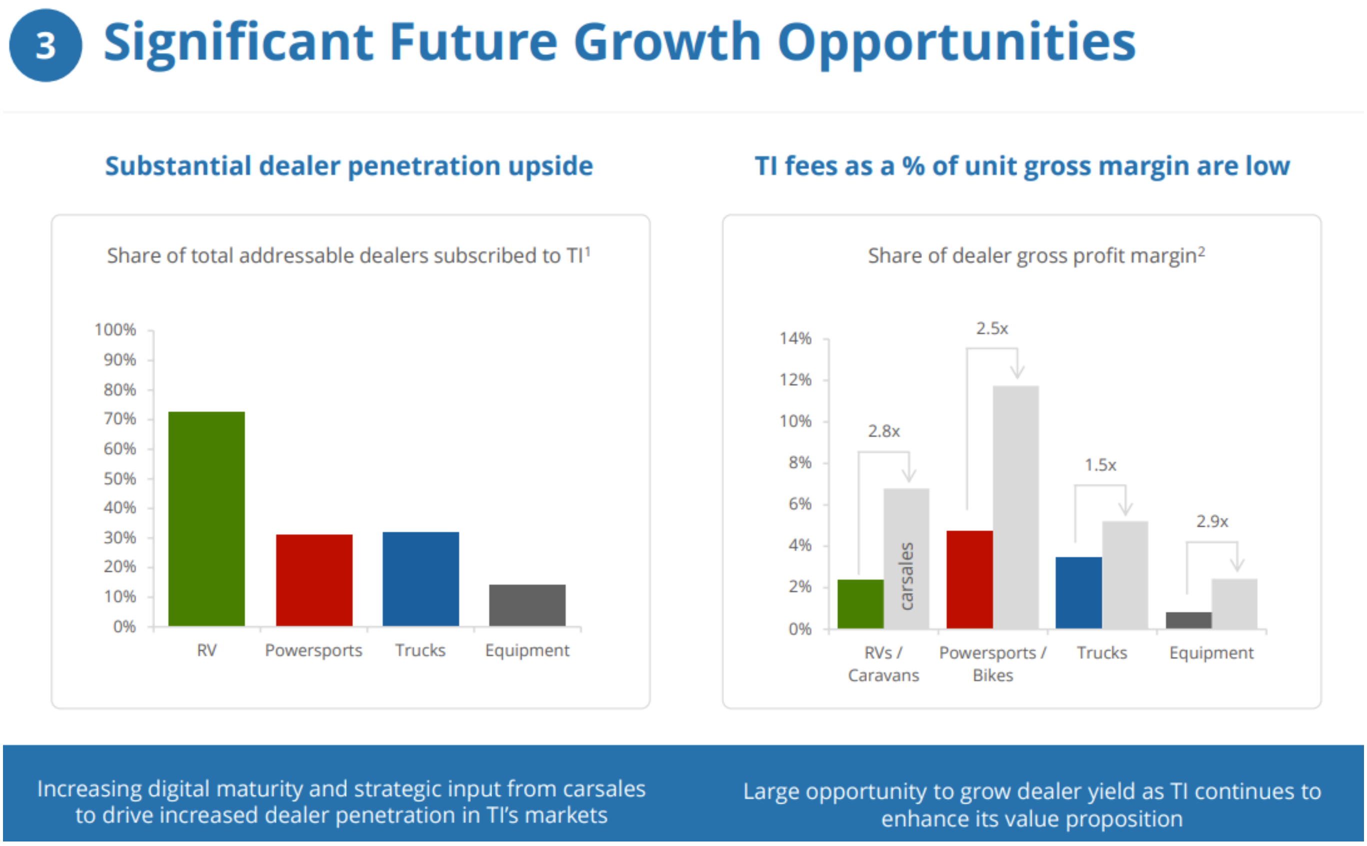
Source: Carsales Equity Capital Presentation June 2022

Figure 10: Sustained Operating Momentum



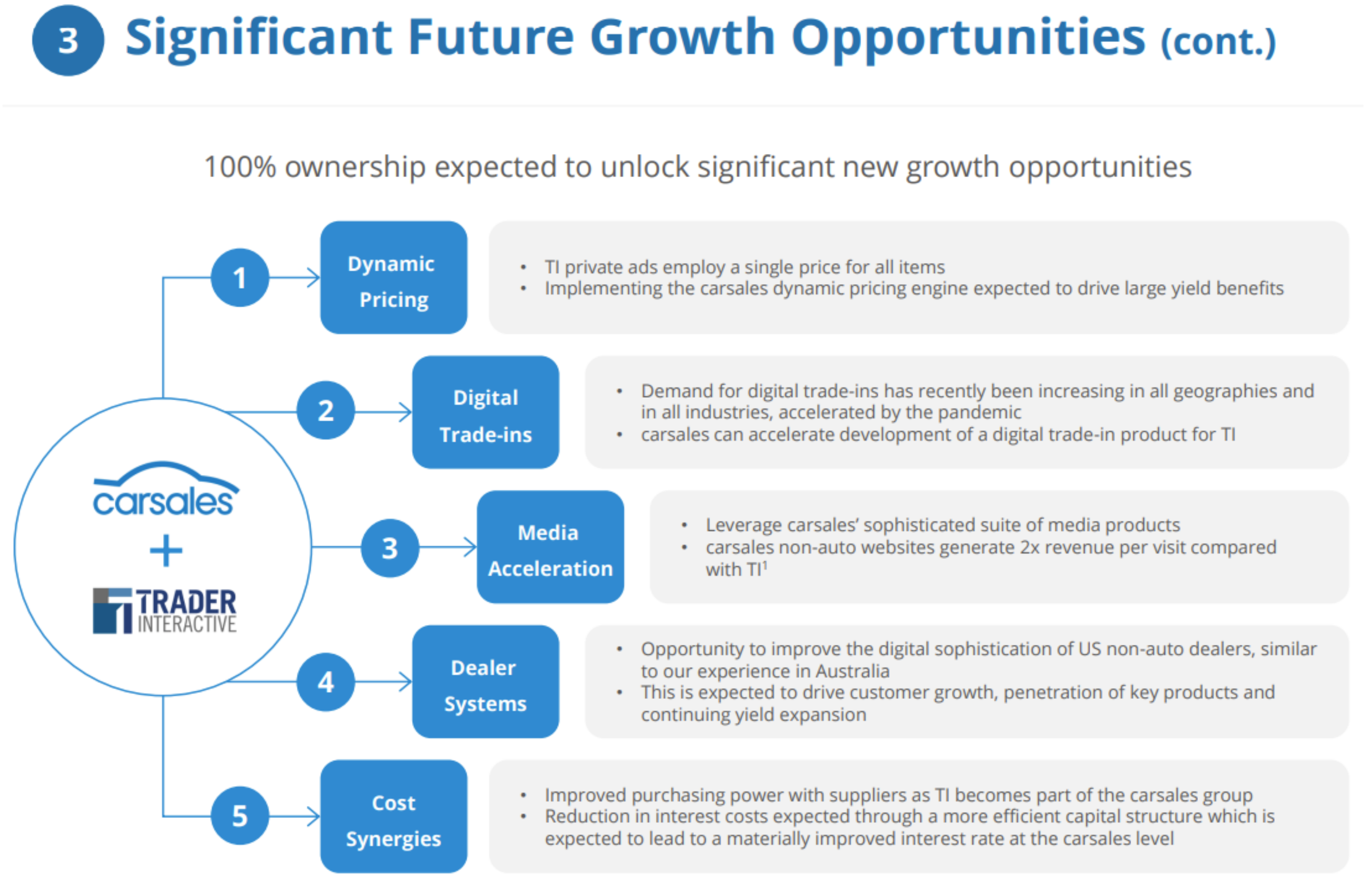
Source: Carsales Equity Capital Presentation June 2022

Figure 11: U.S. Opportunity



Source: Carsales Equity Capital Presentation June 2022

Figure 12: U.S. Opportunity



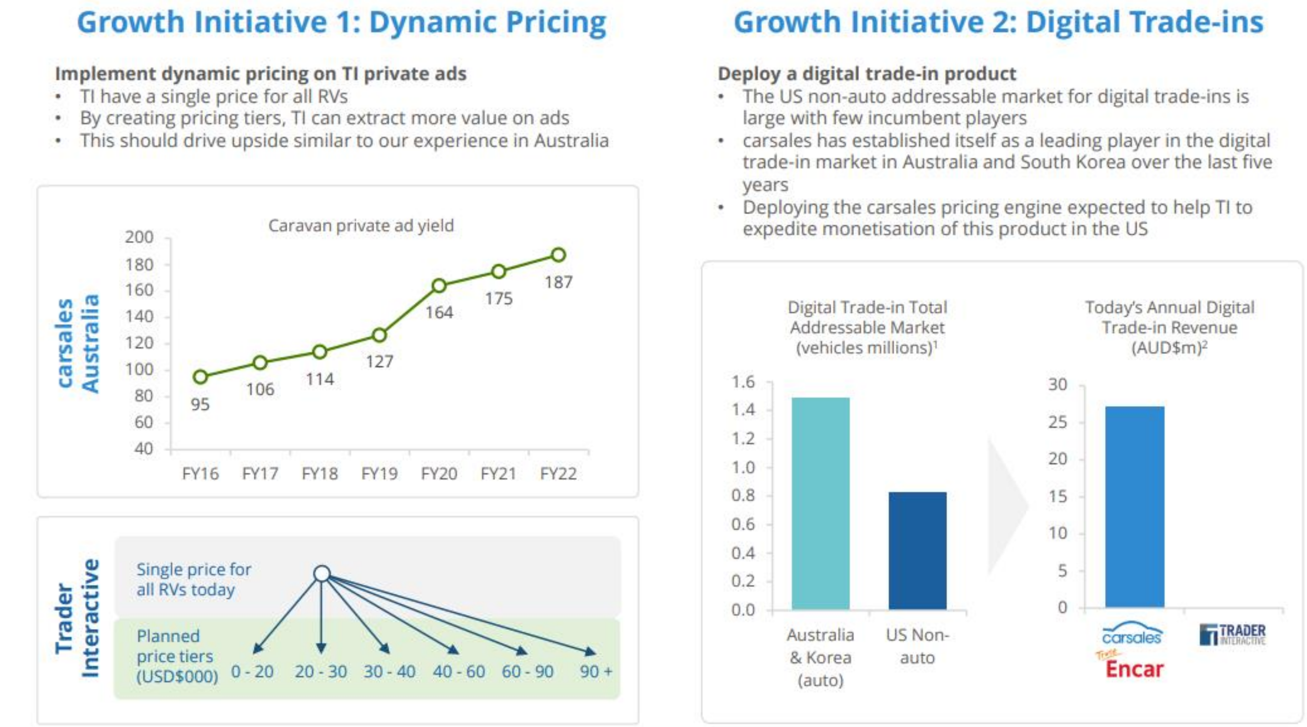
Source: Carsales Equity Capital Presentation June 2022

Looking at Figure 11 and Figure 12, the value offering of these two businesses combined is clear. Currently Trader Interactive services 8,900 dealers across the business verticals, charging average monthly subscription rates of circa US$1,330.

Figure 11 highlights the growth opportunities across both dealer numbers in each vertical, and the potential for greater share of dealer gross margins as the product and service offerings drive better economic outcomes for customers.

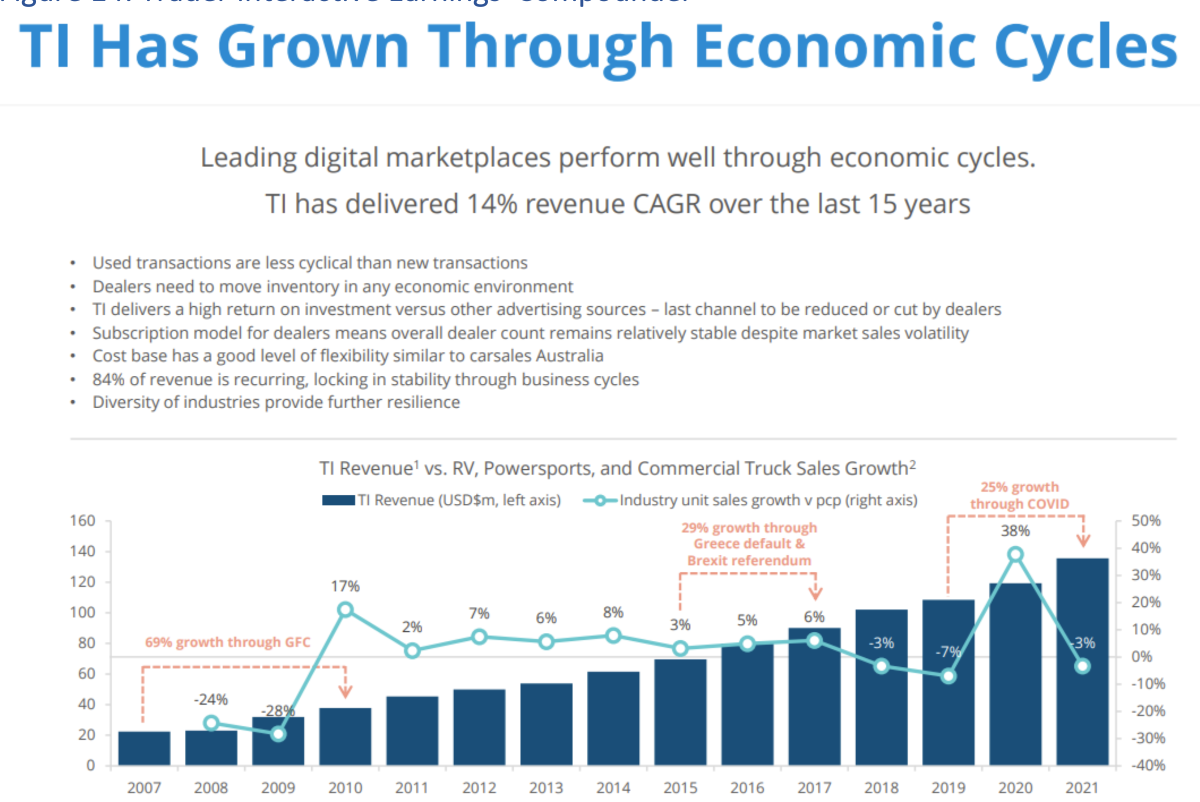
These improvements will flow to the U.S. operations, reflected in Figure 12. Namely, Carsales' ability to drive higher dealer profitability via product improvements, including dynamic pricing and digital trade-ins. Already on offer in Australia, and more recently Korea, these services have led to strong customer uptake as shown in Figure 13.

Figure 13: Carsales Product Offering



Source: Carsales Equity Capital Presentation June 2022

Figure 14: Trader Interactive Earnings 'Compounder'



Source: Carsales Equity Capital Presentation June 2022

Figure 14 provides an important backdrop a fourteen-year track record of Trader Interactive performance. While past performance provides a great resume, the value for Carsales' shareholders lies in the forward years.

To that end, the combination of the Carsales founder-led mindset, its market leading position, and a proven track record of business performance provides scope for optimism. ***SFM.***

JAMES HARDIE INVESTOR DAY 2022

We flew into New York City during early September to participate in the James Hardie Investor Day.

Attending this three-day event in person was important on many fronts. Not ignoring the fact that COVID has impacted previous attempts, the additional incentive was the opportunity to meet newly appointed CEO Aaron Erter, following the exit of Jack Truong in early 2022.

In the intervening period, the company was capably led by the executive team headed by North American President Sean Gadd and Chief Financial Officer Jason Miele.

Our investment philosophy

We have spoken regularly on the key principles considered in any of our investment undertakings. In order they are:

- The people
- The business
- The balance sheet
- Compounding earnings per share growth

In this review we focus specifically on number one, the people.

Background

The past year has been a difficult period for the James Hardie business. The termination of CEO Jack Truong in January, following his original appointment in 2019, was unexpected.

As damaging and disruptive as such events are, Truong heralded significant reform within the organisation. One that saw the company aspire to be a world-class manufacturer, with a consumer-led focus, operating under a continuous improvement mindset.

While the results and the operational performance have been impressive, in the end it was Truong's leadership style that was his undoing. A philosophy to *"bend, not break"* now suggests otherwise.

The board, led by Michael Hammes, took the necessary steps and fired Truong in January 2022. As we have subsequently learnt, the key executives raised their concerns, providing confidence that such behaviour would not be tolerated.

Subsequent events

On 2 September, the board appointed an external candidate Aaron Erter to fill the vacant CEO role. Concurrently, another important change was underway; the transition of the chairperson role from Michael Hammes to fellow non-executive director Anne Lloyd.

The two appointments are significant. During our visit, we had the opportunity to meet both individuals separately, to probe and ask the necessary questions.

Anne Lloyd

The importance of Anne Lloyd's appointment as chairperson is equally important as that of the new CEO.

Lloyd's resume is impressive. Having joined U.S. based Martin Marietta Materials (a supplier of aggregates and heavy building materials) in 1998, she assumed the role of CFO in 2005, before stepping down in 2017. Founded in 1993, the business has over 10,000 staff and a market capitalisation of US$21b.

In 2018, Lloyd joined the James Hardie board as a non-executive director. Shortly after, following the departure of then CFO Matt Marsh, Lloyd was thrust into the CFO role in an interim capacity.

As a fellow board member, she is accepting of the criticism that followed Truong's departure. From our meeting, and the subsequent opening address to investors, we are confident James Hardie has done incredibly well to have secured the services of Lloyd.

She is experienced, fully across the company's operations, and open in her approach. There is transparency in her communication and a deep understanding of what is expected of the board and executive team.

The appointment of Aaron Erter followed a long consultation process, inclusive of executive management feedback and external input. The board's assessment of candidates considered five needs:

1. Proven consumer-led experience. This was crucial and aligns with the company's number one strategic objective to market directly to the homeowner
2. Necessary CEO experience

3. Strategic capabilities to drive the business
4. Enterprise leadership skills that considered the interests of all employees
5. Human skill set that recognised and rewarded talent

Commenting on the appointment of Erter, Lloyd said, *"Aaron is a leader of exceptional caliber and joins James Hardie at a pivotal time in our history; we are in a strong financial position, we have the right foundational strategy, and we have an excellent core leadership team. Aaron brings experience leading global teams and the ability to execute strategies that combine innovation, marketing to the homeowner and penetrating new and existing markets and segments. Aaron has proven capability and extensive experience in understanding the consumers' needs, commercialising the right innovative products to meet those needs, and driving growth through the right consumer marketing."*

Aaron Erter

Erter comes with an impressive educational background. He holds a Bachelor of Economics from The Wharton School at the University of Pennsylvania and an MBA from the University of Notre Dame.

Professionally, Erter's career spans three organisations. His first run on the board was with Stanley Black and Decker, specifically centred on expanding and strengthening the company's distribution channels.

In 2011 he joined paint and specialty coatings group Valspar. Its corporate history spanned over two centuries, with over 11,000 employees in 25 countries. In 2017 the business was acquired by Sherwin-Williams for US$9.3b.

Erter continued on with Sherwin-Williams and held key President roles, including Consumer Brands and Performance Coatings. Sherwin-Williams' origins dates to 1866, with the first ready mixed paints created in 1880. The business has over 61,000 employees, operations in 120 countries and a retail store base of more than 4,500. In 2021 the company recorded revenues of US$20b and currently has a market capitalisation of US$60b.

Most recently, Erter was the CEO of privately owned PLZ Group, a specialty aerosol and liquid manufacturer in North America. During his tenure, Erter was responsible for the integration of 15 businesses and introduced a best-in-class renowned ESG program.

People

Initially, CEO Erter's role will be less about leading the executive team and more focused on bringing it together following the group's bruising experience under Truong's reign.

His leadership will be underpinned by five key principles:

1. Safety
2. Customer focused
3. Results driven
4. Operate with respect and authenticity
5. Team approach

Erter's global executive team, with deep company experience covering all regions across the U.S., Australia, and Europe, include:

1. Jason Miele – Chief Financial Officer, 15 years
2. Sean Gadd – North America President, 18 years
3. Chad Fredricksen – VP North America Professional Channel, 19 years
4. John Marsden – VP North America Sales, 18 years
5. Ryan Kilcullen – Executive Vice President, Global Operations, 15 years
6. Dr Joe Liu – Chief Technology Officer, eight months
7. James Johnson – Chief Information Officer, nine months
8. John Arneil – General Manager, Asia Pacific, 20 years
9. Joe Blasko – Chief Compliance Officer, Company Secretary, 11 years
10. Dr Alan Miller – Director Global Innovation Europe, 19 years

Comment

This is a strong executive unit, led by its newly promoted Chair Anne Lloyd and CEO Aaron Erter. The business is soundly based, well positioned and culturally aligned. The arrival of CEO Erter will herald a new chapter, one that suggests a positive way forward for all. ***SFM***

ONLINE RIVERS OF GOLD

When the world went online in the 1990's, few imagined the devastating financial impact that would befall traditional operators.

The 'rivers of gold' that flowed for these entrenched media groups, including industry stalwarts Fairfax, News Corporation and regional operators, such as Rural Press, soon disappeared.

If investors needed any further proof of this power shift, it came in the 2022 reporting season. Across the property, employment and automobile arena, these classified online offerings are now respectively dominated by three players: REA Group, Seek and carsales.com.

1990's

The 1990's heralded in many wonderful businesses. Among them were the Government listings of Commonwealth Bank of Australia in 1991 at $5.40 per share, the Commonwealth Serum Laboratories (CSL) in 1994 at $2.40 per share, as well as public offers in 1995 for Flight Centre Travel Group at $0.95 per share and Cochlear at $2.50 per share.

1995 is also remembered for several firsts, culminating in the emergence of future industry leaders. Notably, the launch of the world's first internet-enabled marketplaces (Craigslist and eBay), the start of online dating (Match.com), the first fully computer-animated feature film (Pixar's Toy Story) and the first online bookseller (Amazon.com).

It was also a period of rich unearthing in our local media landscape. That same year REA Group was born, followed by both Seek and carsales.com in 1997.

One by one, they listed on the Australian Stock Exchange over the preceding decade: REA Group in 1999 at $0.50 per share, Seek in 2005 at $2.10 per share, and finally carsales.com in 2009 at $3.50 per share.

The strong share price performances since these early beginnings reflect the progress of each company. Importantly, all three have remained true to their field of endeavour, enjoying commanding leadership metrics that now extend into burgeoning international markets.

2022

Two decades have passed since these online entrepreneurs first hit the commercial stage. As Table 15 demonstrates, market leadership has resulted in imposing financial metrics and the freedom to explore internationally.

Table 15: Key Financial Metrics

Year 2022	**REA Group**	**Seek**	**carsales.com**
Group Revenue $m	1,169	1,117	510
EBITDA $m	670	509	272
EBITDA margin	57%	46%	53%
EBIT $m	586	419	233
EBIT margin	50%	38%	46%
Net Profit $m	408	246	195
Net Profit margin	35%	22%	38%
Free Cash Flow $m	394	273	156
'Core'			
Revenue – Australian Online $m	1,008	827	352
EBITDA $m	682	530	227
EBITDA margin	68%	64%	64%

Source: Company Financials

General observations

In 2022 REA Group, Seek and carsales.com delivered strong revenue growth, converting to solid profit growth. Table 15 reflects the group operating (EBITDA) margins enjoyed by these companies, ranging from 46% to 57%.

Further, if we focus our attention solely on the online 'rivers of gold' under the heading of Core, the returns are amplified. Here, we remove all other group revenue undertakings and solely consider the traditional classified advertising business of property, employment, and automobiles. This look-through approach has all three of our premier online operators earning operating margins over 60%.

Our last financial call-out relates to the free cash flow metric, reflecting the cash flow available after considering any capital investment required to sustain the business. In essence, it measures a company's financial capacity to internally fund its growth.

Table 15 shows all three retained significant cash flow during 2022, ranging from $156m in the case of carsales.com up to $394m for REA Group. The result is more capacity to fund shareholder dividends and consider new investment pursuits.

International arena

Notably, all three operators have expanded into new international territories.

REA Group

Having sold off its Italian operations some years ago, REA Group is focused intently on the Indian market. While it retains equity investments covering Asia and the U.S., India provides a significant opportunity to build a leading market position.

To that end, the group is committed to its long-term potential, incurring substantial losses in the interim. For 2022, the company reported an operating loss of $35m on its India investment, recording revenues of $54m, up 92% for the year. REA India is owned 73% by REA Group and the balance by parent News Corp.

Seek

Seek has operated in international markets for many years, including its successful endeavour in China through its Zhaopin investment in 2006, partially offset by weaker performances in Brazil and Mexico.

The greatest upside, however, now lies in South-East Asia. Seek's interest in the region was forged over a decade ago through the acquisitions of leading local operators JobStreet and Jobs DB.

Today, the business operates in six Asian markets, characterised as either Developed (Malaysia, Hong Kong, and Singapore) or Emerging (Indonesia, Thailand, and the Philippines). With a combined workforce population of 246m, it represents a significant market opportunity leveraging the online learnings from Australia.

In 2022, these wholly owned operations delivered revenues of $202m and operating profits of $52m, resulting in margins of 26%. Emphasising the importance of the opportunity, the company has committed to an investment program under its Platform Unification migration plan.

The program, which is set to be completed in 2024 with a forecast total cost of $180m, is aimed at creating one unified platform covering its entire online employment offering across Australia and Asia. The successful completion of this investment will enable new products and enhancements to be deployed at scale across all markets.

The prize here is the expectation to more than double revenues from the current base of $202m, delivered on expanding operating margins.

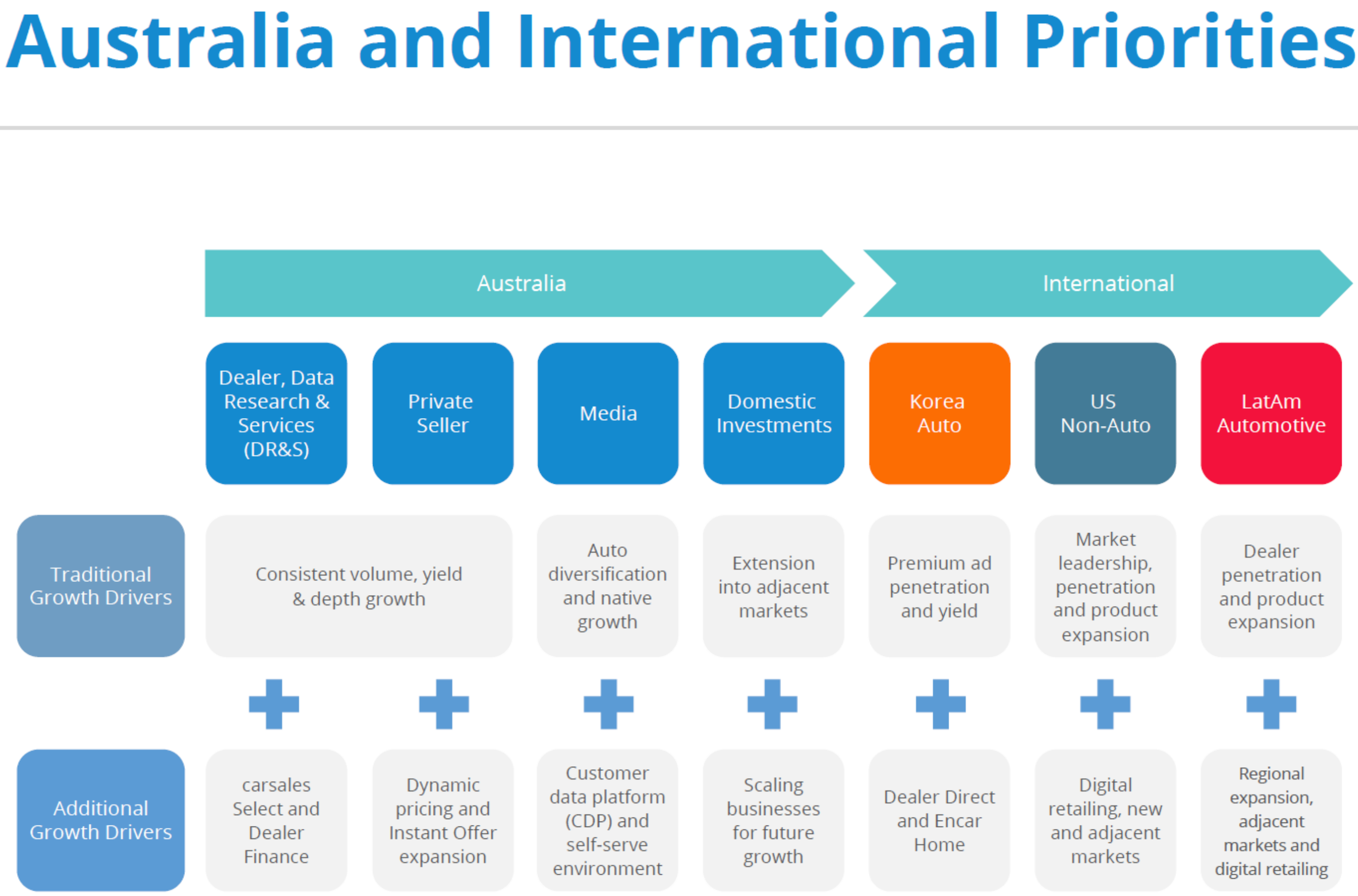
Carsales.com

As we have covered elsewhere in this quarterly, carsales.com is no stranger to breaking new ground. The business has successfully taken its online learnings and technology into broader geographies.

Beginning with Brazil in 2013, South Korea in 2014, and most recently the U.S in 2021 with the acquisition of non-automotive operator Trader Interactive.

The company's track record to date provides confidence that the group's intellectual property can be successfully exported into new markets. In 2022, the geographical revenue mix between Australia and International stood at roughly 50%, buoyed by the Trader Interactive acquisition. Figure 15 illustrates the opportunity set across the group's market landscape.

Figure 15: Carsales' Breadth of Operations



Source: Carsales.com 2022 presentation

Comment

REA Group, Seek and carsales.com have in their own right successfully built upon the business foundations established over two decades. The founder mentality critical in those early years remains. As for the size, scale, and diversity, the market capitalisations of $16.2b, $7.3b, and $7.6b respectively speak volumes.

All three possess defendable market positions and are investing accordingly, with a mindset to distance the gap between competitors, while embarking on new market opportunities.

Looking more holistically, the trio of original online disrupters have not only survived the early onslaught but gone on to build formidable thriving businesses, holding all the necessary qualities for ongoing financial success. ***SFM***

NO ACCOUNTABILITY

It has been fascinating observing how some in the analyst broker community conduct themselves when it comes to carrying out their research.

Big houses, including the likes of Macquarie and Citigroup regularly publish their research and views on companies, often influencing market values, in the short-term at least, with their share price targets.

Where they fail is on the question of accountability. Frankly, there is none.

They are free to publish recommendations and price valuations. However, company management should question the time devoted to answering all matter of topics during reporting season, purely to fill short-term financial modelling gaps.

Worse is the propensity to change tack. Take for instance Macquarie's recent research pieces on Nearmap and Altium. In both cases the author viewed the outlook poorly. There is nothing wrong with that; independent views are the hallmark of a properly functioning market.

For Nearmap, the valuation came in at $1.40. The recommendation was neutral. When U.S. based private equity firm, Thoma Bravo showed its intent to acquire the company for $2.10 per share in August, it required the analyst to update his target price. Why? We have no idea, noting that changing a target after the event underlines the stupidity of the process.

Here the author, guided by the indicative proposal, lifted its price target to $2.00 per share. Unremarkable that this price target should roughly equate to the indicative offer of $2.10. Even more astounding was the internally calculated discounted cash flow (DCF) valuation, which inferred a value of $3.10 per share.

Despite the shares selling at $1.40 pre the Thoma Bravo's proposal, and with an internally calculated DCF more than double the market price, the best that could be coughed up was neutral. Clearly, this underlined the lack of belief in the author's own financially derived model.

The second example refers to Altium. Having written extensively on the downside risk in the lead up to the full year 2022 results, a target price of $25.20 was offered. At the time the shares were trading at $31.26, with concerns that subdued competitor results would also impact the company's financial performance.

When the company reported in August those concerns failed to materialise. Altium delivered impressive financial metrics, which the market rightly rewarded, lifting the shares 20% on the day.

Noting the move, the target price reversed. Out with the original $25.20 and in with a new $31.40 price target.

The adjustment was easy. The only requirement being a few tweaks to the model, alongside zero accountability. However, this does beg the bigger question: Why do markets, investors and the media pay so much attention to such flawed analysis?

In short, most investors are lazy and simply follow the herd. A catchy headline and a lack of business acumen will suffice.

More significant is the cost to company management, who at times are required to openly defend their position and explain sharp market moves on the back of poorly thought-out research and new share price targets.

In extreme cases, it can leave companies vulnerable to corporate activity, which appears to be the reality for Nearmap. Under this scenario, shareholders lose out when opportunistic bids emerge.

An open, viable and transparent financial market is critically important to ensuring integrity in the system. Equally important is independent research, undertaken at arm's length to avoid inherent conflict.

Importantly, while this may be the case, the lack of accountability remains a contentious issue that leaves companies and management teams exposed to justifying outcomes not of their making.

Ultimately, company management and boards are answerable to shareholders. Equally, fund managers are answerable to clients, whilst analysts operate in a parallel universe, answerable to no one.

Our advice to management is: focus on the business at hand, speak less to non-shareholders who are more fixated on providing a short-term financial model and engage with the rightful owners of the business, the shareholders. ***SFM***

LIKE CROSSING OVER A BARBED WIRE FENCE

"Like crossing over a barbed wire fence."

This is how Chairman of Medical Developments International, Gordon Naylor described the company's business transition, as it unveiled a $30m capital raising during July.

We profiled the business in our June 2021 Quarterly Newsletter. Below we provide an extract from that report.

Backdrop

"The fund recently initiated a position in Medical Developments International, a company delivering solutions across two medical segments: emergency pain and respiratory products. The company's main focus has been the manufacture and distribution of Penthrox, a fast-acting trauma and emergency pain relief product. Medical Developments is the sole manufacturer of Penthrox globally, which has been approved and sold in over 40 countries, including Australia.

Penthrox, also known as Methoxyflurane, was first invented by William T. Miller in 1948 and came into general anaesthetic use in 1960. In 1999 manufacturing was discontinued in the U.S. and in 2005 its use in key markets, including the U.S. and Canada were withdrawn.

In Australia though the story is quite different. Since the late 1970s, Methoxyflurane has seen continual use for emergency pain relief incidents, as an analgesic, and in 2010 it was included in the Pharmaceutical Benefits Scheme, with a reimbursement price of $44.

Penthrox is a non-opioid alternative to narcotics, such as morphine and the anaesthetic nitrous oxide, and is dispensed via a self-administering device through a handheld inhaler. Hence its more common name, the 'green whistle'.

The original inventor of the disposal inhaler was Robert Wexler of Abbott Laboratories in 1968.

Since launch, the company has sold over seven million units. The company describes Penthrox as follows:

Penthrox is a fast onset, non-opioid analgesic indicated for pain relief by self-administration in patients with trauma and those requiring analgesia for surgical procedures. It is used in Australian Hospitals including Emergency Departments, Australian Ambulance Services, the Australian Defence Forces, Sports Medicine and for analgesia during short surgical procedures such as Dental and Cosmetic surgery as well as in other medical applications.

Penthrox was formerly a family-owned business that was sold to Medical Developments International, which subsequently listed on the Australian Stock Exchange in 2003. Apart from the manufacture and sale of Penthrox, Medical Developments International also operates and manufactures a range of devices, primarily in the respiratory field and the much smaller veterinary products segment, with operations based in Scoresby, Melbourne."

Figure 16: Penthrox 'green whistle'

Source: Medical Developments International 2020 Annual Report

Management

The most significant development in the company's recent history was the appointment of current Chairman Gordon Naylor and CEO Brent MacGregor in 2020.

Both hail from CSL and were involved in successfully transitioning the company's influenza business, Seqirus, from loss making to a highly profitable global leader.

At the time of his appointment, Chairman Naylor provided some context around the task.

"*There are parallels between MVP and my former employer CSL in two ways; firstly, around Seqirus and what we achieved there in a short period of time. That business was driven from generating an annual loss of $250m to being a profitable high growth market leader within 3 years. Second, I am proud to have been part of the internationalisation of CSL from domestic roots to the global leader that the company is today.*

For businesses like MVP, which have experienced success in the local and relatively small Australian marketplace, there is transition risk when expanding abroad into diverse international markets. The experience that MVP's new CEO Brent MacGregor and I bring to the table is relevant to making that transition a successful one and executing on the international stage. The opportunity for the success of Penthrox in Australia to be replicated in Europe is immense and both Brent and I are excited by this challenge and look forward to executing on our strategy."

"Like crossing over a barbed wire fence."

As we noted at the time, execution on this opportunity was in its infancy. Importantly, the successful completion of a $37m capital raising in 2020 paved the way for a business reset.

Fast forward to 2022 and CEO MacGregor now has the business poised for growth. However, not everything has gone according to plan. Access to new and existing international customers were seriously impacted due to COVID restrictions. Onboarding a new executive team also created challenges.

Unlike Seqirus, which could rely on CSL for ongoing financial support, Medical Developments was running solo.

Chairman Naylor's analogy, *"Like crossing over a barbed wire fence"*, is fitting for a business losing money with its sights set on reaching the other side.

To that end, the Board undertook a second successful $30m capital raising in August 2022, as expected. Importantly, the company's issued capital remains tight at just 86m shares, equivalent to a current market value of $172m, alongside a $49m starting cash position.

Operational momentum

2020 could best be described as the rebuilding phase. In 2022, the business now has clean air. The update provided in August highlighted the progress made in the last two years and why the revenue potential remains significant.

Team

CEO MacGregor now has the management team largely in place. The appointment of Anita James as Chief Financial Officer in May 2022 completes a comprehensive executive rebuild, including:

- Sindy Martino – Head of Commercial Operations for ANZ & International
- Stefaan Schatteman – Head of Europe
- Matthew Cramer – Chief of Operations & Supply Chain
- Scott Courtney – Chief Scientific Officer
- Neil Radford – Head of Quality
- Michelle Bradney – Head of Medical Affairs
- Wayne Pearce – Head of Production
- Greer Lucas – Head of People & Culture

Chairman Naylor notes this new leadership team *"knows what good looks like"* and can execute to the plan. In the interim it comes at a cost, but the importance of getting the right people and corporate structure shouldn't be underestimated.

Board

The Board transition has also continued. Following the initial appointment of Chairman Naylor and CEO MacGregor in 2020, new non-executive directors include:

- Christine Emmanuel – Ex CSIRO (Executive Manager Business Development)
- Mary Sontrop – Ex CSL (Head of Global Manufacturing)
- Richard Betts – Ex Ridley, Pact Group (CFO)

Board and management are aligned with investors, having participated in the most recent raising. The largest individual shareholder is Non-Executive Director David Williams, with a shareholding of circa 12%.

Direct & focused

The company has discarded business units pulling attention from its core. The focus is now on building the Penthrox product globally, initially centred on Australia, New Zealand and Europe.

The subsequent benefits are twofold: First, it removes unnecessary operating costs. Second, and most importantly, it creates space for an aligned management team to deliver on clear financial targets.

To further reduce any chance of distraction, the company will move prudently on the U.S. opportunity.

Entry into the U.S. market will be *"transformational"*, according to Chairman Naylor. In the interim however, the focus remains on existing and under-penetrated geographical regions.

The product

On a multitude of fronts the company's product offering offers considerable appeal, as Figure 17 illustrates.

Supported by an established safety profile, the key selling features of Penthrox are the fact it is non-opioid, needle free, and provides effective pain relief.

There are over 8m Penthrox users worldwide, underscoring its market acceptance across ambulance and hospital settings.

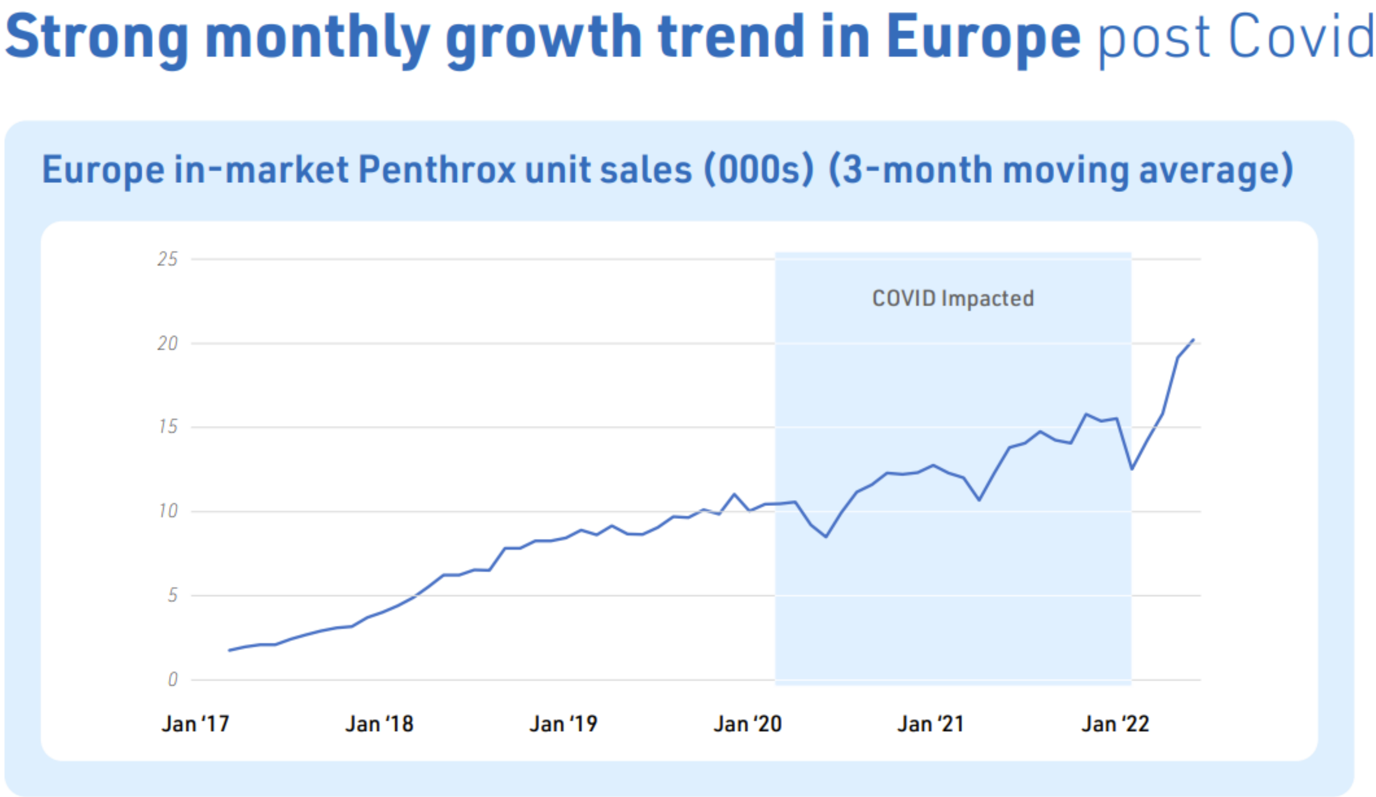
Demand trend

The company's decision to seek additional capital was driven by the demand trends now being witnessed.

Figure 17: Penthrox – the benefits

Source: Medical Developments International Presentation August 2022

Figure 18: Penthrox Europe



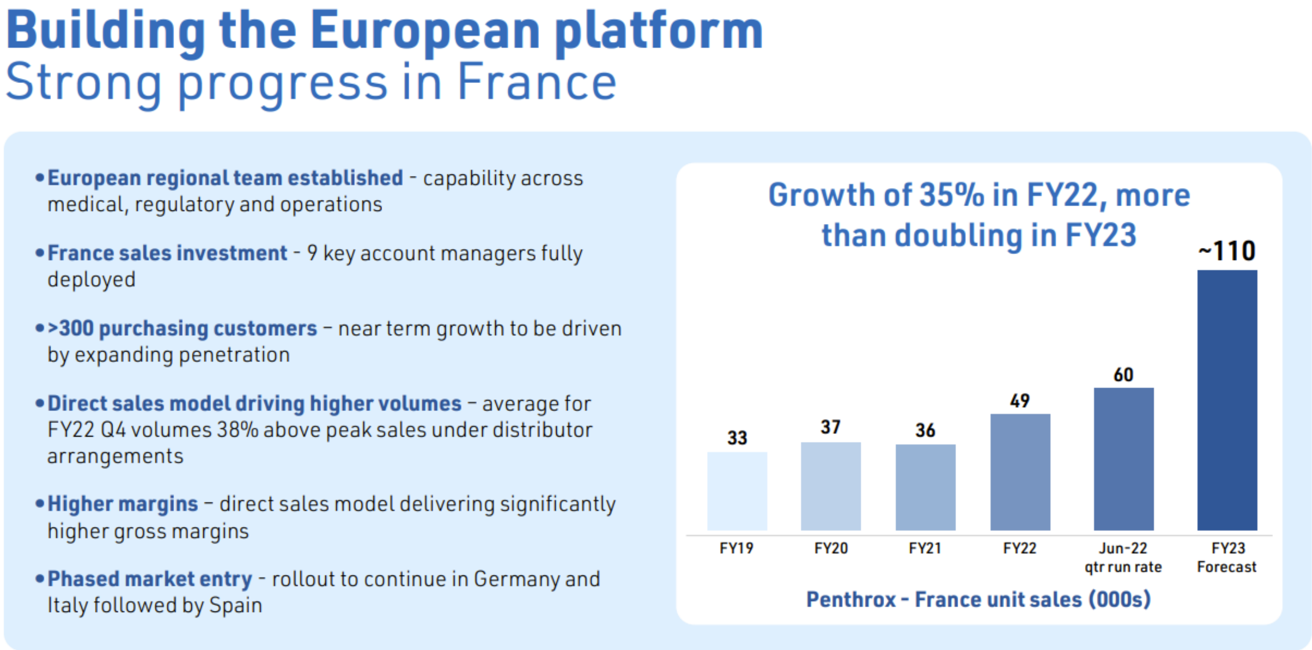
Source: Medical Developments International Presentation August 2022

Case in point is Europe, which was regarded by the company as the *"the canary in the coal mine".* Having reset the European operations with a direct sales force in France, the question was whether the company could generate sufficient demand.

As Figure 18 above illustrates, management are now confident this is the case. Despite the impacts of COVID, the demand profile continues to improve and in large part supports the business case to invest more aggressively.

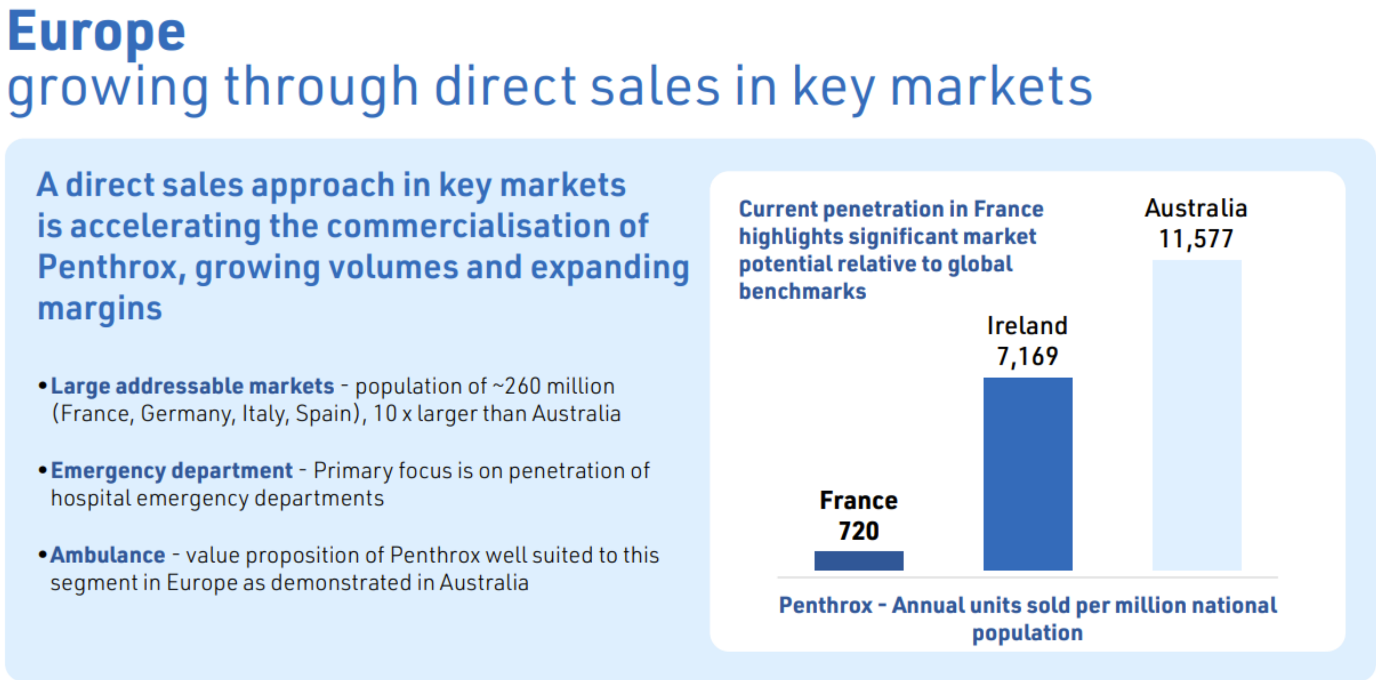
Figure 19 represents the company's unit sales expectation for France in 2023.

Figure 19: France "2023 Forecast"



Source: Medical Developments International Presentation August 2022

Figure 20: What if?



Source: Medical Developments International Presentation August 2022

Figure 20 looks at national Penthrox penetration, based on annual units sold per million, across Australia, Ireland and France. Should Penthrox usage in France reach a similar level to Australia, annual units would surpass 775,000, compared to the current base of 49,000. In contrast, Australia's current annual Penthrox demand sits at 300,000 units.

The combined regions of France, Germany, Italy and Spain (markets included in the group's business plan), has an addressable population market of 260m, representing an opportunity 10 times larger than Australia.

Financials

The group's operations are now entirely focused on two revenue sources: Penthrox and Respiratory. The company ended 2022 with group revenues of $22.4m, with Penthrox sales making up $13.7m of the total.

At this level of sales, the company reported an operating loss of $14m. This position is expected to improve beyond 2023, with the company targeting a positive free cash flow result in 2025.

Post this capital raising, Medical Developments has indicated it has the necessary funds to meet this financial goal.

Comment

Since 2020 the company has taken meaningful steps to build the business case for Penthrox. The Board has harnessed the opportunity to strengthen its capital base to support a concerted and targeted marketing push, backed by an experienced executive team.

The business has momentum and while the group remains loss making, there is confidence future recurring revenues are expected to be many multiples of the current sales run rate. ***SFM***

ESG SPOTLIGHT – REA, SEEK & CARSALES

As the Annual General Meeting season approaches, the release of company Sustainability Reports is underway. The aim of the report, published annually, is for each company to shed light on the progress made across their Environment, Social and Governance (ESG) goals.

This quarter we review the ESG performance of three leading participators in the digital marketplace: REA, SEEK and Carsales. All three businesses have now released their 2022 Sustainability Reports. Carsales published its third annual report in August, whilst both REA and SEEK delivered their fourth annual report in September.

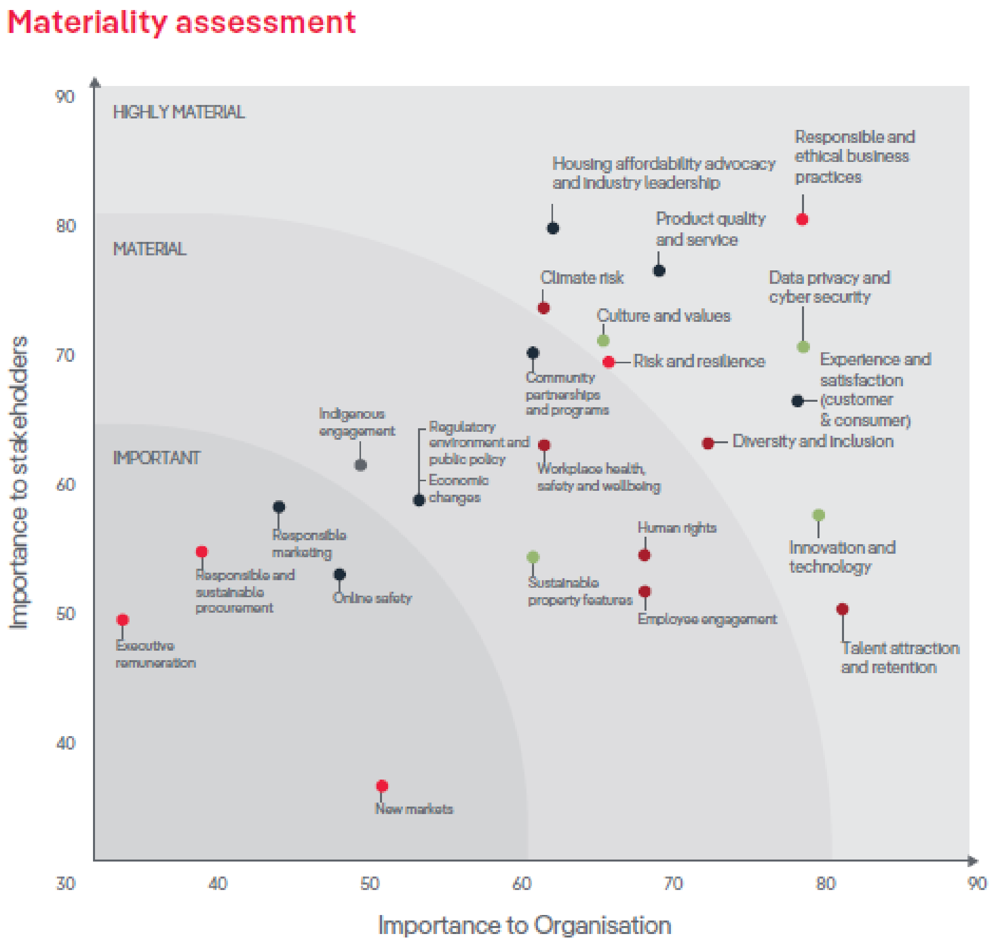
Materiality Assessment

Materiality assessments are designed to help an organisation better understand the importance of specific ESG issues to the business and its stakeholders. It engages various groups including executives, shareholders, suppliers, regulators, and customers.

In 2022, REA, SEEK and Carsales completed new, or updated their existing materiality assessments. On the back of this, key areas of focus were identified. REA and Carsales Materiality Matrix are shown in Figure 21 and Figure 22. Unsurprisingly, the topics that ranked the highest across both were Governance issues such as ethics, integrity, data protection and cyber security, and social issues such as diversity and inclusion, customer satisfaction, and talent attraction.

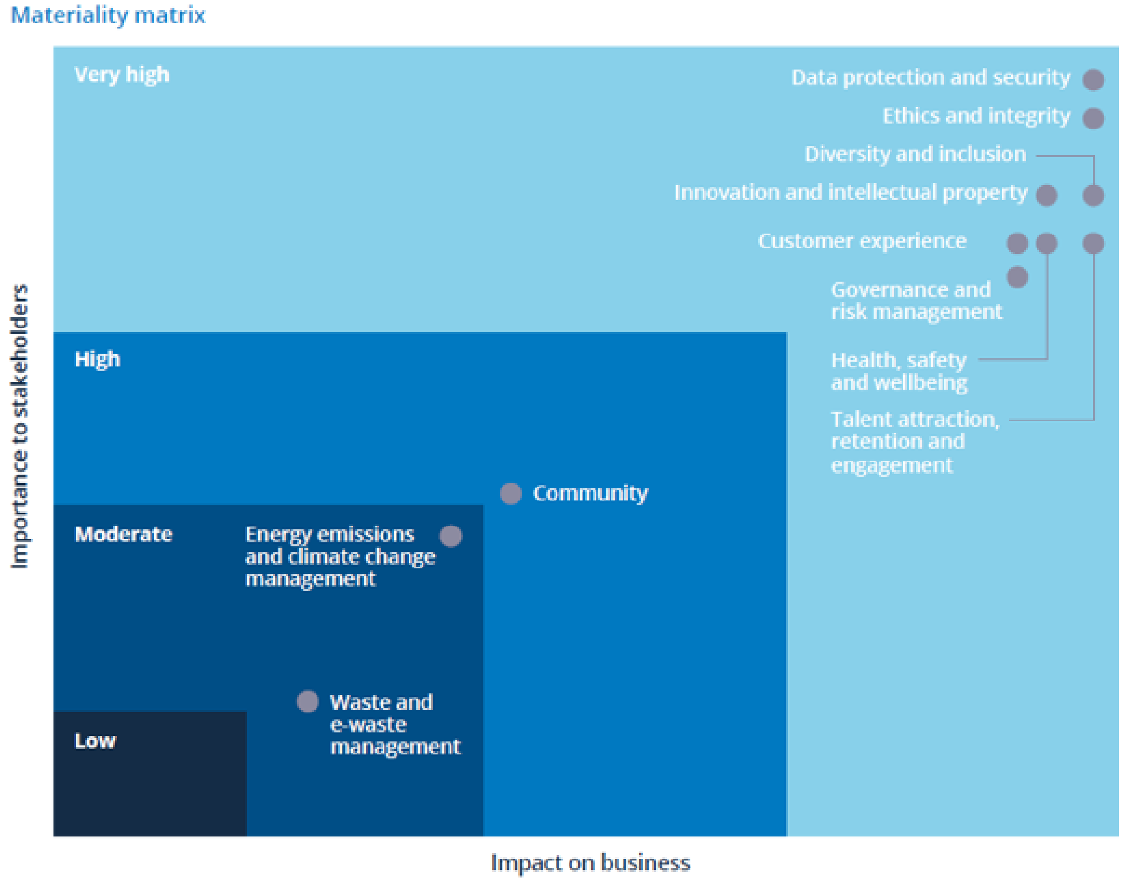
We review key achievements across the three pillars of ESG below.

Figure 21: REA Group Materiality matrix



Source: REA Group 2022 Sustainability Report

Figure 22: carsales.com Materiality matrix



Source: carsales.com 2022 Sustainability Report

REA Group

Governance

"Good governance is essential to protect and enhance the long-term performance and sustainability of our company."

- **Board**

REA has a strong board of eight directors, inclusive of CEO Owen Wilson, with a breadth of skills and diversity. The executive team is equally as impressive. In June 2022, MarketMeter recognised CEO Wilson as one of the top three CEOs in the ASX100, and CFO Janelle Hopkins as the number one CFO. These results were based on scoring from 115 of Australia's super funds, investment managers, and equity analysts.

- **Responsible & ethical business practices**

REA defines responsible & ethical business practices as, *"implementing and maintaining best-practice policies to guide business decisions and driving ethical practice from the top down."* In 2022, two notable achievements in this area include the introduction of a new supplier due diligence tool, and updates to compliance risk training for new and existing employees, to ensure the highest level of ethics and integrity remains within the business.

- **Data privacy and cyber security**

Recent well-publicised data breach events highlight the importance for businesses, particularly those operating in the online space, to have robust policies and procedures in place to address data privacy and cyber security. The following initiatives and achievements were made in the year:

1. Privacy Leadership Team – established to monitor and advise on the impacts of digital innovation, regulatory changes, and changing consumer attitudes to privacy;
2. Training – organisation wide training on privacy;
3. Rental application 1form decommissioned due to the amount of personal data collected and replaced with a new form that collects approximately 50% less personal information;
4. Cyber Defence Team – established to proactively monitor systems for vulnerabilities.

Social

"Championing the needs of our stakeholders, participating in the communities we operate in, investing in our people, creating innovative customer solutions and consumer experiences."

- **Diversity & Inclusion**

Diversity is a key priority. In 2022, REA partnered with the Diversity Council of Australia (DCA) to run its first Diversity and Inclusion Index. The results of the index provide better insight into the make-up of the company and where they can improve on diversity efforts. Impressively, REA surpassed the benchmarks across every metric and was recognised as an Inclusive Employer for 2021-2022 by the DCA.

- **Talent attraction**

REA appreciates the importance of attracting and retaining talent as a key enabler of business success. In recognition of their efforts, the group was named Australia's fourth Best Workplace for 2022 by Great Place to Work (GPTW) for the second year in a row. We believe this speaks volumes to the culture within the organisation.

Environment

"Understanding and acting on the impacts, risks and opportunities of climate change for our business, and supporting our customers and consumers to do the same."

- **Climate change**

REA has a proactive approach to tackling climate change. In 2020, the company published its first Climate Change Policy, with a commitment to reduce absolute scope 1 and 2 carbon emissions by 42%, and scope 3 emissions by 25% by 2030 from an FY20 base year. Figure 23 shows progress against these goals. REA is intending to re-baseline their Science-Based Aligned targets in FY23 and also consider opportunities to align with the Net-Zero Standard.

Pleasingly, REA has achieved Climate Active carbon neutral certification for FY20 and FY21 and is currently finalising the requirements for FY22.

In 2022, REA engaged an external sustainability consultant to establish a roadmap responding to the Taskforce on Climate-Related Financial Disclosures (TCFD). As a result, REA's Executive Risk Committee (ERC) now includes consideration of climate-related risks and opportunities. In FY23, the ERC will undertake a top-down climate risk assessment, inclusive of scenario testing.

SEEK

Governance

"We are committed to conducting business in an honest, ethical and responsible way."

- **Board**

SEEK's board consists of eight directors, six of whom are independent. The remaining two directors are current CEO Ian Narev, and former CEO and founder Andrew Bassat. The experience, skills, and diversity of the board are immense. Their board skills matrix, published in their 2022 Corporate Governance statement, is proof of this.

Figure 23: REA Group scope 1, 2 & 3 emissions

Breakdown by scope

Scope	FY20	FY21	FY22	FY21 v FY22 percentage change
Scope 1	0.95	6.2	23.02	- 50%
Scope 2	953.76	1186.7	578.72	
Scope 3	5588.36	5138.49	7072.37	38%
Total	**6543.07**	**6331.39**	**7674.11**	**21%**

Source: REA Group 2022 Sustainability Report

- **Cyber Security**

In 2022, SEEK increased investment to recruit and retain quality cyber security talent, in addition to their strong internal pipeline. The group will continue to invest to stay aligned with the National Institute of Standards and Technology (NIST) Cybersecurity Framework and the Centre for Internet Security (CIS) Critical Controls, which publish some of the most comprehensive cyber security standards globally.

- **Data trust**

SEEK has a Data Trust Committee to provide oversight on data-related risks. In 2022, SEEK appointed a Chief of Data Services, and Data Protection Officer roles in SEEK Asia. The unification of SEEK's platforms, with expected completion by end of FY24, will simplify the group's data environment and management, and mean enhancements can be deployed across all regions. This will ultimately improve security and reliability.

Social

"Our customers, community and employees are front of mind in our approach to having a positive impact on society."

- **Diversity & Inclusion**

SEEK works hard to provide a culture that promotes diversity and inclusivity. SEEK's overall APAC workforce is relatively balanced by gender, with 52% female and 48% male representation. The business has active programs to support gender pay equity and increase female participation in technology.

- **Modern Slavery**

SEEK published their second Modern Slavery Statement in 2022, with no instances of modern slavery identified to date. SEEK not only addresses the risks within its supply chain but also has a responsibility to protect job seekers from opportunities advertised on its site that could result in modern slavery. As part of ongoing due diligence, modern slavery assessments were performed this year on JobStreet Malaysia and SEEK's Jora business. The results will be published in their third Modern Slavery Statement, due by calendar year-end.

Environment

"Through measuring and striving to minimise energy use and emissions, we aim to reduce our environmental impact."

- **Climate Change**

SEEK's climate change action is impressive, dating back to 2019 when they published emissions data across their ANZ business for the first time. In 2021, the group aligned climate reporting to the TCFD, committed to net zero by 2030 and was certified by Climate Active as a carbon neutral organisation in their ANZ operations for that year.

2022 has only seen further momentum in this area. New initiatives include a commitment to carbon neutrality across all business operations, the establishment of a Climate Steering Group, and the appointment of a Sustainability Manager.

In addition, SEEK has developed a groupwide Emissions Reduction Strategy, providing a pathway to achieving their net zero commitment by 2030. Figure 24 is an inventory of SEEK's greenhouse gas emissions, showing the impact of the global operations, whilst Figure 25 shows the breakdown in emissions by region and scope.

Figure 24: SEEK greenhouse gas emissions inventory for FY21 and FY22

Greenhouse gas emissions inventory

(Tonnes CO_2-equivalent)	FY2021 (ANZ operations)	FY2022 (Global operations)
Scope 1 – direct emissions	0	68
Scope 2 – electricity-related emissions	687	1,210
Scope 3 – indirect emissions	5,245	9,440
Total emissions	**5,932**	**10,718**
Emissions per employee (head count)	**5.26**	**2.96**
Total emissions – including Scope 3 indirect emissions from the Melbourne headquarters fit-out (7,550 tCO_2e)	13,482	–

Energy consumption

(GJ)	FY2021 (ANZ operations)	FY2022 (Global operations)
Electricity (offices)	2,701	7,078

Source: SEEK 2022 Sustainability Report

Figure 25: SEEK emissions by region and scope for FY22

Source: SEEK 2022 Sustainability Report

SEEK's efforts on climate change should be applauded and serve as a benchmark for other organisations to follow.

carsales.com

Governance

"carsales is committed to strong corporate governance, which we believe underpins sustainable value creation for investors and other stakeholders."

- **Board**

The Carsales board comprises seven directors, five of which are independent, with female representation sitting at 33%. In addition, the board has one alternate director appointed by Wal Pisciotta (non-independent director), and acts as a voting substitute in the instance Mr. Pisciotta can't attend a meeting. The board conducts an annual review of its skills matrix, and at their most recent review concluded the skills and experience required were adequately covered.

- **Data and Cyber Security**

Carsales strive to provide their customers with a secure, always-on digital platform. Remarkably, the system maintained 99.9% uptime (at a minimum) and recorded zero reportable data breaches. IT security is a key priority and investment focus in 2022, resulting in a 75% increase in internal security specialists and a new global senior security leader role.

In addition, the group has developed a new security strategy and roadmap, designed to establish a resilient security capability for better efficiencies.

Social

"Carsales is committed to fostering a work environment where diversity, equity and inclusion is celebrated and our people feel valued, respected and a sense of belonging."

- **Diversity & Inclusion**

Carsales' diversity strategy has a focus on promoting gender equality throughout the business. The group was awarded the Workplace Gender Equality Agency (WGEA) Employer of Choice citation for the eighth year. The citation is a voluntary leading-practice recognition, designed to encourage and recognise organisations' active commitment to gender equality in Australian workplaces. Carsales is actively working to improve female representation across all areas of the business, with a key focus on increasing participation in digital roles.

- **Talent attraction and retention**

Employee engagement surveys are a good way for a business to assess the connection their employees have to their work, team, and the organisation as a whole. Carsales conduct an employee opinion survey (EOS) annually. At their most recent in March 2022, the engagement score was 78%, up 6% on the prior year.

Carsales launched its People Promise in 2010, which offers employees an impressive suite of benefits covering Culture, Career Development, Work Life Balance, Health & Wellbeing, Community and Reward & Recognition. Figure 26 gives a breakdown of the benefits available.

Figure 26: carsales.com People Promise summary of benefits

Culture and Benefits

- Hackathons
- carsales Catch Ups
- Free or discounted carsales, RedBook and tyresales services
- Myki Commuter Club
- Local dining discounts
- Audi corporate program
- Mercedes corporate program
- BMW/Mini corporate program
- JB HiFi commercial discounts
- Salary packaging benefits

Career Development

- Supercharge
- CEO Scholarship
- Mentor program
- Buddy program
- Essential series
- Expert series
- Employee referral program
- Study leave

Work Life Balance

- Refuel days
- Paid parental leave
- Purchased leave
- Early access to long service leave
- Gender transition leave
- Career breaks
- Public holiday swaps
- Phased retirement
- Caring for elders and disability care
- Family Care support program

Health and Wellbeing

- Health and wellbeing activities
- Free flu injections
- Discounted health insurance
- Fitness and health club offers
- Employee Assistance Program
- Income protection insurance

Reward and Recognition

- The #wearecarsales Awards
- Anniversary awards
- Employee recognition via SHOUT!
- carsales Superannuation plan
- Companywide team functions

Community

- Community Days
- Community grants

Source: carsales.com 2022 Sustainability Report

Environment

"We believe that all companies have an obligation to do what they can to protect the environment and intend to remain accountable for our impact on climate change and take responsibility for implementing positive change."

- **Climate Change**

Carsales climate change action is progressing, albeit slower than REA and SEEK. In 2022, the Australian operations were certified for the first time as carbon neutral by Climate Active. The group is now aiming for carbon neutrality across their global operations in 2024. In addition, Carsales intends to start reporting against the TCFD framework in 2023, with the report to be included in the Financial Statements.

Conclusion

We recognise the parallels in the sustainability approach across all three businesses and acknowledge the different stages they are at in their journey. Like Carsales noted in their Sustainability Report, we believe all companies have an obligation to do what they can to protect the environment. We are pleased with the progress seen on climate change, particularly when it has long been held that the smaller environmental footprint of technology companies equates to a reduced need to act.

We believe all three businesses are contributing positively across the three ESG pillars and look forward to seeing how future initiatives play out. ***SFM***

OFFICE SPACE POST-COVID

It's a little over two years since COVID came to Australian shores. And it seems gradually we're returning to a sense of normality; travel is back, restaurants are bustling, and events are in full swing.

Except the return to the office. For better or worse, the jury is out. Where and how we work has evidently changed, with the cultural setting of organisations under pressure.

A forced experiment at the beginning of the pandemic sees many organisations now organically trying to find the right balance.

A range of factors has seen hybrid work flourish. Employees prefer the flexibility of working in a personal setting, while the benefits to employers are less obvious.

Further, strong labour markets have shifted the bargaining power to employees, leaving employers unwilling to mandate full-time returns to the office.

U.S. based organisations, including Salesforce, Autodesk and Atlassian are leading the remote work revolution, with Salesforce declaring the nine-to-five workday dead.

AutoDesk employee feedback shows a resounding 97% prefer to work in some form of hybrid or flexible way going forward. Interestingly, 80% of Salesforce employees want to maintain a connection to a physical space.

Locally, the Australian HR Institute's survey of 1,177 HR professionals reiterates the changing working dynamic. Of those surveyed, 58% now work from home at least once a week. Triple the pre-pandemic number. Employees working continuously from home rose from 5% to 18%. It also found only 3% of employers do not offer the option of hybrid or remote work.

UBS analysts also forecast the "structural shift" to WFH will reduce the number of those working in Australian CBD offices by up to 15%. These statistics will invariably dampen demand for office space.

Atlassian's recent commentary on the topic nicely sums up the current predicament.

"While the office has traditionally been a place where employees feel the most productive, digital tools like Cloud technology can support a healthier work-life balance and increase productivity, regardless of location. Organizations have found that this kind of flexibility brings business value – employee satisfaction increases, productivity improves, and teams are able to collaborate more effectively.

Because of developments in cloud technology, organizations feel more confident in supporting a workforce that favors hybrid work environments. A 2020 study of 1,000 US employees reported that 55% of employees expect their companies to support hybrid work, with 67% of organizations understanding and meeting those expectations. Employees enjoy the flexibility hybrid work provides, whether they find value in engaging with their colleagues face-to-face a few times per week or being able to choose the distraction-free environment that works best for them.

Our point here is that the office is not dead. Rather, it has transformed from rows of cubicles designed to organize wires and house static hardware into a liveable space that promotes organic, human engagements all enabled by advancements in the cloud."

This raises the question on office space. The demand profile is changing. We see this as a structural piece taking shape over multiple years, particularly as long-term leases expire. Early signs indicate the use and need for office space, at least in its current format, is declining.

And it's a situation playing out around the globe. A recent Bloomberg article focusing on New York office space iterates this, *"In some cases, companies are simply cutting back on space to reduce their real estate costs. Others are relocating to shiny new towers with top-of-the-line amenities to attract talent and employees who may be reluctant to leave the comforts of working from home. Left behind are older buildings outside of prime locations.*

The U.S. is likely to have a slower office-market recovery than Asia and Europe because it began the pandemic with a higher vacancy rate, and long-term demand is expected to drop around 10% or more, Barkham said. New York, America's biggest office real estate market, is at the center of the issue.

A strip on Manhattan's Third Avenue, from 42nd to 59th streets, shows the problem of older properties in stark terms. While New York leasing demand has bounced back toward pre-pandemic levels, the corridor has 29% of office space available for tenants, nearly double the amount four years ago and above the city's overall rate of 19%, according to research from brokerage firm Savills."

We are now in an interesting predicament where office space is underutilised. Time will tell how companies respond. What is clear, however, is many properties will be in the firing line as the need for office space invariably declines.

With rising interest rates and the growing debt burden among property owners, we could see a future where commercial property investments no longer provide stable income streams and the generation of capital returns of past years. ***SFM***

SLEEPING LIKE A BABY?

There is little doubt the market becomes a macro beast when uncertainty is at its loudest. We would argue that much of the macro volatility is outside an equity investors control in the short-term.

Our solution is owning quality investments that compound. Those run by sensible management who preside over enduring cashflows. These businesses can self-fund consistent reinvestment aimed at increasing competitive advantage or driving higher incremental returns on capital. They have little or no debt and should continue to compound into the future.

Owning these types of businesses should help you sleep at night, as their returns are proven to overcome short-term volatility. But for assorted reasons people do not sleep well, this can include members of our families, our investment team and our clients.

The most value we can add is to continue to read and educate ourselves, and rather than diving into more macro commentary (which we cannot control), we have chosen to focus on our collective health (which we can influence). In other words, the best advice we can provide, in good markets and during times of financial stress, is to get one good night's sleep, followed by another.

Through our readings and discussions with management teams at Fisher & Paykel Healthcare and ResMed we have learned to equate both short and long-term health with sleep. In short, sleep is the underappreciated fourth foundation of the animal kingdom. But others, including Matthew Walker, have done more research so we defer to them.

The following extracts come from the book *Why We Sleep* (Matthew Walker 2017). One CEO (Chief Executive Officer) we respect described this book as a *"pandemic read which was life changing"*.

It is worthwhile if not an essential read. *Why We Sleep* can be read in any chapter order. You can take any section and benefit, including the introduction we offer up here.

We have long believed that compounding is the key to long-term wealth creation, and we have consistently taught this to our offspring, staff, and clients. We now know that sleep is the key to long-term health. Health and wealth, they have a steady rhyme.

It is a book we have felt compelled to recommended to family members, particularly our teenagers, emerging adults and young parents. We believe patterns are important and the younger you start on any healthy journey the better.

Maybe you can pass it on to your loved ones also.

"Do you think you got enough sleep this past week? Can you recall the last time you woke up without an alarm clock feeling refreshed, not needing caffeine? If the answer to either of these questions is "no," you are not alone. Two-thirds of adults throughout all developed nations fail to obtain the recommended eight hours of nightly sleep.

I doubt you are surprised by this fact, but you may be surprised by the consequences. Routinely sleeping less than six or seven hours a night demolishes your immune system, more than doubling your risk of cancer. Insufficient sleep is a key lifestyle factor determining whether or not you will develop Alzheimer's disease. Inadequate sleep—even moderate reductions for just one week—disrupts blood sugar levels so profoundly that you would be classified as pre-diabetic. Short sleeping increases the likelihood of your coronary arteries becoming blocked and brittle, setting you on a path toward cardiovascular disease, stroke, and congestive heart failure. Fitting Charlotte Brontë's prophetic wisdom that "a ruffled mind makes a restless pillow," sleep disruption further contributes to all major psychiatric conditions, including depression, anxiety, and suicidality.

Perhaps you have also noticed a desire to eat more when you're tired? This is no coincidence. Too little sleep swells concentrations of a hormone that makes you feel hungry while suppressing a companion hormone that otherwise signals food satisfaction. Despite being full, you still want to eat more. It's a proven recipe for weight gain in sleep-deficient adults and children alike. Worse, should you attempt to diet but don't get enough sleep while doing so, it is futile, since most of the weight you lose will come from lean body mass, not fat.

Add the above health consequences up, and a proven link becomes easier to accept: the shorter your sleep, the shorter your life span. The old maxim "I'll sleep when I'm dead" is therefore unfortunate. Adopt this mind-set, and you will be dead sooner and the quality of that (shorter) life will be worse. The elastic band of sleep deprivation can stretch only so far before it snaps. Sadly, human beings are in fact the only species that will deliberately deprive themselves of sleep without legitimate gain. Every component of wellness, and countless seams of societal fabric, are being eroded by our costly state of sleep neglect: human and financial alike. So much so that the World Health Organization (WHO) has now declared a sleep loss epidemic throughout industrialized nations. It is no coincidence that countries where sleep time has declined most dramatically over the past century, such as the US, the UK, Japan, and South Korea, and several in western Europe, are also those suffering the greatest increase in rates of the aforementioned physical diseases and mental disorders.

Scientists such as myself have even started lobbying doctors to start "prescribing" sleep. As medical advice goes, it's perhaps the most painless and enjoyable to follow. Do not, however, mistake this as a plea to doctors to start prescribing more sleeping pills—quite the opposite, in fact, considering the alarming evidence surrounding the deleterious health consequences of these drugs.

But can we go so far as to say that a lack of sleep can kill you outright? Actually, yes—on at least two counts. First, there is a very rare genetic disorder that starts with a progressive insomnia, emerging in midlife. Several months into the disease course, the patient stops sleeping altogether. By this stage, they have started to lose many basic brain and body functions. No drugs that we currently have will help the patient sleep. After twelve to eighteen months of no sleep, the patient will die. Though exceedingly rare, this disorder asserts that a lack of sleep can kill a human being.

Second is the deadly circumstance of getting behind the wheel of a motor vehicle without having had sufficient sleep. Drowsy driving is the cause of hundreds of thousands of traffic accidents and fatalities each year. And here, it is not only the life of the sleep-deprived individuals that is at risk, but the lives of those around them. Tragically, one person dies in a traffic accident every hour in the United States due to a fatigue-related error. It is disquieting to learn that vehicular accidents caused by drowsy driving exceed those caused by alcohol and drugs combined.

Society's apathy toward sleep has, in part, been caused by the historic failure of science to explain why we need it. Sleep remained one of the last great biological mysteries. All of the mighty problem-solving methods in science—genetics, molecular biology, and high-powered digital technology— have been unable to unlock the stubborn vault of sleep. Minds of the most stringent kind, including Nobel Prize–winner Francis Crick, who deduced the twisted-ladder structure of DNA, famed Roman educator and rhetorician Quintilian, and even Sigmund Freud had all tried their hand at deciphering sleep's enigmatic code, all in vain.

To better frame this state of prior scientific ignorance, imagine the birth of your first child. At the hospital, the doctor enters the room and says, "Congratulations, it's a healthy baby boy. We've completed all of the preliminary tests and everything looks good." She smiles reassuringly and starts walking toward the door. However, before exiting the room she turns around and says, "There is just one thing. From this moment forth, and for the rest of your child's entire life, he will repeatedly and routinely lapse into a state of apparent coma. It might even resemble death at times. And while his body lies still his mind will often be filled with stunning, bizarre hallucinations. This state will consume one-third of his life and I have absolutely no idea why he'll do it, or what it is for. Good luck!"

Astonishing, but until very recently, this was reality: doctors and scientists could not give you a consistent or complete answer as to why we sleep. Consider that we have known the functions of the three other basic drives in life—to eat, to drink, and to reproduce—for many tens if not hundreds of years now. Yet the fourth main biological drive, common across the entire animal kingdom—the drive to sleep—has continued to elude science for millennia.

Addressing the question of why we sleep from an evolutionary perspective only compounds the mystery. No matter what vantage point you take, sleep would appear to be the most foolish of biological phenomena. When you are asleep, you cannot gather food. You cannot socialize. You cannot find a mate and reproduce. You cannot nurture or protect your offspring. Worse still, *sleep leaves you vulnerable to predation. Sleep is surely one of the most puzzling of all human behaviours.*

On any one of these grounds—never mind all of them in combination—there ought to have been a strong evolutionary pressure to prevent the emergence of sleep or anything remotely like it. As one sleep scientist has said, "If sleep does not serve an absolutely vital function, then it is the biggest mistake the evolutionary process has ever made."

Yet sleep has persisted. Heroically so. Indeed, every species studied to date sleeps. This simple fact establishes that sleep evolved with—or very soon after—life itself on our planet. Moreover, the subsequent perseverance of sleep throughout evolution means there must be tremendous benefits that far outweigh all of the obvious hazards and detriments.

Ultimately, asking "Why do we sleep?" was the wrong question. It implied there was a single function, one holy grail of a reason that we slept, and we went in search of it. Theories ranged from the logical (a time for conserving energy), to the peculiar (an opportunity for eyeball oxygenation), to the psychoanalytic (a non-conscious state in which we fulfill repressed wishes).

This book will reveal a very different truth: sleep is infinitely more complex, profoundly more interesting, and alarmingly more health-relevant. We sleep for a rich litany of functions, plural—an abundant constellation of night-time benefits that service both our brains and our bodies. There does not seem to be one major organ within the body, or process within the brain, that isn't optimally enhanced by sleep (and detrimentally impaired when we don't get enough). That we receive such a bounty of health benefits each night should not be surprising. After all, we are awake for two-thirds of our lives, and we don't just achieve one useful thing during that stretch of time. We accomplish myriad undertakings that promote our own well-being and survival. Why, then, would we expect sleep—and the twenty-five to thirty years, on average, it takes from our lives—to offer one function only?

Through an explosion of discoveries over the past twenty years, we have come to realize that evolution did not make a spectacular blunder in conceiving of sleep. Sleep dispenses a multitude of health-ensuring benefits, yours to pick up in repeat prescription every twenty-four hours, should you choose. (Many don't.)

Within the brain, sleep enriches a diversity of functions, including our ability to learn, memorize, and make logical decisions and choices. Benevolently servicing our psychological health, sleep recalibrates our emotional brain circuits, allowing us to navigate next-day social and psychological challenges with cool-headed composure. We are even beginning to understand the most impervious and controversial of all conscious experiences: the dream. Dreaming provides a unique suite of benefits to all species fortunate enough to experience it, humans included. Among these gifts are a consoling neurochemical bath that mollifies painful memories and a virtual reality space in which the brain melds past and present knowledge, inspiring creativity.

Downstairs in the body, sleep restocks the armoury of our immune system, helping fight malignancy, preventing infection, and warding off all manner of sickness. Sleep reforms the body's metabolic state by fine-tuning the balance of insulin and circulating glucose. Sleep further regulates our appetite, helping control body weight through healthy food selection rather than rash impulsivity. Plentiful sleep maintains a flourishing microbiome within your gut from which we know so much of our nutritional health begins. Adequate sleep is intimately tied to the fitness of our cardiovascular system, lowering blood pressure while keeping our hearts in fine condition.

A balanced diet and exercise are of vital importance, yes. But we now see sleep as the preeminent force in this health trinity. The physical and mental impairments caused by one night of bad sleep dwarf those caused by an equivalent absence of food or exercise. It is difficult to imagine any other state—natural or medically manipulated—that affords a more powerful redressing of physical and mental health at every level of analysis.

Based on a rich, new scientific understanding of sleep, we no longer have to ask what sleep is good for. Instead, we are now forced to wonder whether there are any biological functions that do not benefit by a good night's sleep. So far, the results of thousands of studies insist that no, there aren't.

Emerging from this research renaissance is an unequivocal message: sleep is the single most effective thing we can do to reset our brain and body health each day—Mother Nature's best effort yet at contra-death. Unfortunately, the real evidence that makes clear all of *the dangers that befall individuals and societies when sleep becomes short have not been clearly telegraphed to the public. It is the most glaring omission in the contemporary health conversation. In response, this book is intended to serve as a scientifically accurate intervention addressing this unmet need, and what I hope is a fascinating journey of discoveries. It aims to revise our cultural appreciation of sleep, and reverse our neglect of it.*

Personally, I should note that I am in love with sleep (not just my own, though I do give myself a non-negotiable eight-hour sleep opportunity each night). I am in love with everything sleep is and does. I am in love with discovering all that remains unknown about it. I am in love with communicating the astonishing brilliance of it to the public. I am in love with finding any and all methods for reuniting humanity with the sleep it so desperately needs. This love affair has now spanned a twenty-plus-year research career that began when I was a professor of psychiatry at Harvard Medical School and continues now that I am a professor of neuroscience and psychology at the University of California, Berkeley.

It was not, however, love at first sight. I am an accidental sleep researcher. It was never my intent to inhabit this esoteric outer territory of science. At age eighteen I went to study at the Queen's Medical Center in England: a prodigious institute in Nottingham boasting a wonderful band of brain scientists on its faculty. Ultimately, medicine wasn't for me, as it seemed more concerned with answers, whereas I was always more enthralled by questions. For me, answers were simply a way to get to the next question. I decided to study neuroscience, and after graduating, obtained my PhD in neurophysiology supported by a fellowship from England's Medical Research Council, London.

It was during my PhD work that I began making my first real scientific contributions in the field of sleep research. I was examining patterns of electrical brainwave activity in older adults in the early stages of dementia. Counter to common belief, there isn't just one type of dementia. Alzheimer's disease is the most common, but is only one of many types. For a number of treatment reasons, it is critical to know which type of dementia an individual is suffering from as soon as possible.

I began assessing brainwave activity from my patients during wake and sleep. My hypothesis: there was a unique and specific electrical brain signature that could forecast which dementia subtype each individual was progressing toward. Measurements taken during the day were ambiguous, with no clear signature of difference to be found. Only in the night-time ocean of sleeping brainwaves did the recordings speak out a clear labelling of my patients saddening disease fate. The discovery proved that sleep could potentially be used as a new early diagnostic litmus test to understand which type of dementia an individual would develop.

Sleep became my obsession. The answer it had provided me, like all good answers, only led to more fascinating questions, among them: Was the disruption of sleep in my patients actually contributing to the diseases they were suffering from, and even causing some of their terrible symptoms, such as memory loss, aggression, hallucinations, delusions? I read all I could. A scarcely believable truth began to emerge—nobody actually knew the clear reason why we needed sleep, and what it does. I could not answer my own question about dementia if this fundamental first question remained unanswered. I decided I would try to crack the code of sleep.

I halted my research in dementia and, for a post-doctoral position that took me across the Atlantic Ocean to Harvard, set about addressing one of the most enigmatic puzzles of humanity—one that had eluded some of the best scientists in history: Why do we sleep? With genuine naïveté, not hubris, I believed I would find the answer within two years. That was twenty years ago. Hard problems care little about what motivates their interrogators; they meter out their lessons of difficulty all the same.

Now, after two decades of my own research efforts, combined with thousands of studies from other laboratories around the world, we have many of the answers. These discoveries have taken me on wonderful, privileged, and unexpected journeys inside and outside of academia—from being a sleep consultant for the NBA, NFL, and British Premier League football teams; to Pixar Animation, government agencies, and well-known technology and financial companies; to taking part in and helping make several mainstream television programs and documentaries. These sleep revelations, together with many similar discoveries from my fellow sleep scientists, will offer all the proof you need about the vital importance of sleep.

A final comment on the structure of this book. The chapters are written in a logical order, traversing a narrative arc in four main parts.

Part 1 demystifies this beguiling thing called sleep: what it is, what it isn't, who sleeps, how much they sleep, how human beings should sleep (but are not), and how sleep changes across your life span or that of your child, for better and for worse.

Part 2 details the good, the bad, and the deathly of sleep and sleep loss. We will explore all of the astonishing benefits of sleep for brain and for body, affirming what a remarkable Swiss Army knife of health and wellness sleep truly is. Then we turn to how and why a lack of sufficient sleep leads to a quagmire of ill health, disease, and untimely death—a wakeup call to sleep if ever there was one.

Part 3 offers safe passage from sleep to the fantastical world of dreams scientifically explained. From peering into the brains of dreaming individuals, and precisely how dreams inspire Nobel Prize–winning ideas that transform the world, to whether or not dream control really is possible, and if such a thing is even wise—all will be revealed.

Part 4 seats us first at the bedside, explaining numerous sleep disorders, including insomnia. I will unpack the obvious and not-so-obvious reasons for why so many of us find it difficult to get a good night's sleep, night after night. A frank discussion of sleeping pills then follows, based on scientific and clinical data rather than hearsay or branding messages. Details of new, safer, and more effective non-drug therapies for better sleep will then be advised. Transitioning from bedside up to the level of sleep in society, we will subsequently learn of the sobering impact that insufficient sleep has in education, in medicine and health care, and in business. The evidence shatters beliefs about the usefulness of long waking hours with little sleep in effectively, safely, profitably, and ethically accomplishing the goals of each of these disciplines. Concluding the book with genuine optimistic hope, I lay out a road map of ideas that can reconnect humanity with the sleep it remains so bereft of—a new vision for sleep in the twenty-first century.

I should point out that you need not read this book in this progressive, four-part narrative arc. Each chapter can, for the most part, be read individually, and out of order, without losing too much of its significance. I therefore invite you to consume the book in whole or in part, buffet-style or in order, all according to your personal taste.

In closing, I offer a disclaimer. Should you feel drowsy and fall asleep while reading the book, unlike most authors, I will not be disheartened. Indeed, based on the topic and content of this book, I am actively going to encourage that kind of behaviour from you. Knowing what I know about the relationship between sleep and memory, it is the greatest form of flattery for me to know that you, the reader, cannot resist the urge to strengthen and thus remember what I am telling you by falling asleep. So please, feel free to ebb and flow into and out of consciousness during this entire book. I will take absolutely no offense. On the contrary, I would be delighted." ***SFM***

TAX FACTS

At a time when Governments are desperate to take more, a few facts are worth noting.

The author of these facts is Dimitri Burshtein (appearing in the Australian Financial Review on 10 October 2022), former government policy analyst.

1. Australian Governments are collecting record amounts of tax; record in aggregate and record as a proportion of GDP.
2. Total revenues collected across federal, state and local governments in 2021 was $811b or $31,600 per person.
3. Twenty years ago, 1992, this was $135b or $7,700 per person.
4. Despite this large increase, it is insufficient to meet aggregate budget deficits across all governments totalling $158b or 8% of GDP.
5. Governments do not create economic value but instead transfers it from one section of the economy to another.
6. In 2021, total government outlays amounted to 48.1% of GDP, hence the need to raise more taxes.
7. According to the Parliamentary Budget Office, the average personal income tax rate in Australia increased from 12.5% in 1960 to 23.5% last year.

Burshtein provides a view of where this could end.

"Inherently, increasing taxes will not provide the budgetary salve claimed. It will lead to a slowing economy, leading to reduced receipts and increased social security outlays. It will also hinder efforts to contain inflation by suppressing aggregate supply. Increasing taxes to fund more and more questionable government expenditures gives life to the words of Thomas Jefferson, who wrote that a "government big enough to supply everything you need is big enough to take everything you have". ***SFM***

COMPANY ENGAGEMENTS – SEPTEMBER 2022 QUARTER

Date	Company	Description
7-Jul	BRG	Breville Barrenjoey Industry Insight Call
8-Jul	RMD	ResMed JPM Industry Insight Call with Nationwide Medical
12-Jul	DMP	Domino's Pizza Enterprises FY22 Board Investor/Proxy Advisor Roadshow
20-Jul	MP1	Megaport 4Q22 Results Conference Call
26-Jul	IRE	Iress Management Meeting
2-Aug	APX	Appen 1H22 Results and Trading Outlook Call
3-Aug	PNV	PolyNovo Conference call with Board
3-Aug	OFX	OFX Group Management Meeting
4-Aug	MVP	Medical Developments International Capital Raise Investor Call
4-Aug	NEA	Nearmap Bankstown Airport Site Visit
5-Aug	APX	Appen Management Meeting
9-Aug	REA	REA Group FY22 Results Conference Call
9-Aug	MP1	Megaport FY22 Results Conference Call
10-Aug	CPU	Computershare FY22 Results Conference Call
10-Aug	ALL	Aristocrat Leisure AGE Gaming Expo Product Tour
10-Aug	MP1	Megaport Morgans Management Meeting
10-Aug	MP1	Megaport UBS Management Meeting
10-Aug	CPU	Computershare Citi Management Meeting
10-Aug	CPU	Computershare Management Meeting
11-Aug	REA	REA Group GS Management Meeting
11-Aug	MP1	Megaport Management Meeting
11-Aug	REA	REA Group Barrenjoey Management Meeting
11-Aug	OFX	OFX Group Annual General Meeting
12-Aug	RMD	ResMed 4Q22 Results Conference Call
12-Aug	REA	REA Group Management Meeting
15-Aug	CAR	carsales.com FY22 Results Conference Call
15-Aug	CAR	carsales.com Barrenjoey Management Meeting
15-Aug	CAR	carsales.com Management Meeting
16-Aug	JHX	James Hardie Industries 1Q23 Results Call
16-Aug	CAR	carsales.com GS Management Meeting
16-Aug	SEK	SEEK FY22 Results Conference Call
16-Aug	SEK	SEEK Barrenjoey Management Meeting
16-Aug	CAR	carsales.com UBS Management Meeting
17-Aug	NEA	Nearmap FY22 Results Conference Call
17-Aug	CSL	CSL FY22 Results Conference Call
17-Aug	SEK	SEEK Management Meeting
18-Aug	JHX	James Hardie Industries 1Q23 Results Conference Call
18-Aug	IRE	Iress HY22 Results Conference Call

Date	Company	Description
18-Aug	BKL	Blackmores FY22 Results Conference Call
18-Aug	IRE	Iress Barrenjoey Management Meeting
18-Aug	NEA	Nearmap Management Meeting
19-Aug	COH	Cochlear FY22 Results Conference Call
19-Aug	BKL	Blackmores Barrenjoey Management Meeting
19-Aug	IRE	Iress Macquarie Management Meeting
19-Aug	CSL	CSL MST Management Meeting
19-Aug	BKL	Blackmores Management Meeting
22-Aug	RWC	Reliance Worldwide FY22 Results Conference Call
22-Aug	NHF	nib holdings FY22 Results Conference Call
22-Aug	COH	Cochlear JPM Management Meeting
22-Aug	COH	Cochlear Management Meeting
22-Aug	ALU	Altium FY22 Results Conference Call
23-Aug	ALU	Altium Barrenjoey Management Meeting
23-Aug	BRG	Breville FY22 Results Conference Call
23-Aug	ARB	ARB Corporation FY22 Results Conference Call
23-Aug	NAN	Nanosonics FY22 Results Conference Call
23-Aug	BRG	Breville UBS Management Meeting
23-Aug	NAN	Nanosonics Barrenjoey Management Meeting
23-Aug	BRG	Breville Macquarie Management Meeting
23-Aug	BRG	Breville JPM Management Meeting
23-Aug	ALU	Altium Barrenjoey Management Meeting
23-Aug	NAN	Nanosonics Barrenjoey Management Meeting
24-Aug	REH	Reece FY22 Results Conference Call
24-Aug	ARB	ARB Corporation UBS Management Meeting
24-Aug	WTC	WiseTech Global FY22 Results Conference Call
24-Aug	DMP	Domino's Pizza Enterprises FY22 Results Conference Call
24-Aug	FPH	Fisher & Paykel Healthcare Annual General Meeting
24-Aug	RWC	Reliance Worldwide UBS Management Meeting
24-Aug	BRG	Breville Barrenjoey Management Meeting
24-Aug	ARB	ARB Corporation Taylor Collison Management Meeting
24-Aug	ALU	Altium Macquarie Management Meeting
24-Aug	FCL	FINEOS Corporation Holdings FY22 Results Conference Call
25-Aug	NWL	Netwealth Group Barrenjoey Management Meeting
25-Aug	FLT	Flight Centre Travel Group FY22 Results Conference Call
25-Aug	APX	Appen 1H22 Results Conference Call
25-Aug	IFL	Insignia Financial FY22 Results Conference Call
25-Aug	RWC	Reliance Worldwide Management Meeting
25-Aug	APX	Appen Barrenjoey Management Meeting
25-Aug	WTC	WiseTech Global Barrenjoey Management Meeting

Date	Company	Description
25-Aug	FLT	Flight Centre Travel Group Management Meeting
25-Aug	FLT	Flight Centre Travel Group JPM Management Meeting
25-Aug	DMP	Domino's Pizza Enterprises UBS Management Meeting
26-Aug	JIN	Jumbo Interactive FY22 Results Conference Call
26-Aug	WTC	WiseTech Global GS Management Meeting
26-Aug	IFM	Infomedia FY22 Results Conference Call
26-Aug	MVP	Medical Developments International FY22 Results Conference Call
26-Aug	PNV	PolyNovo FY22 Results Conference Call
26-Aug	IFM	Infomedia Management Meeting
29-Aug	JIN	Jumbo Interactive Management Meeting
29-Aug	JIN	Jumbo Interactive Barrenjoey Management Meeting
29-Aug	PNV	PolyNovo Macquarie Management Meeting
29-Aug	DMP	Domino's Pizza Enterprises Management Meeting
29-Aug	PNV	PolyNovo UBS Management Meeting
29-Aug	FCL	FINEOS Corporation Holdings Management Meeting
30-Aug	NHF	nib holdings Citi Management Meeting
30-Aug	APX	Appen Citi Management Meeting
30-Aug	IFL	Insignia Financial Management Meeting
30-Aug	NHF	nib holdings Management Meeting
31-Aug	APX	Appen Management Meeting
31-Aug	BRG	Breville Management Meeting
1-Sep	REH	Reece Management Meeting
2-Sep	PNV	PolyNovo Management Meeting
5-Sep	IRE	Iress Management Meeting
5-Sep	WTC	WiseTech Global Management Meeting
6-Sep	MVP	Medical Developments International Taylor Collison Management Meeting
6-Sep	ARB	ARB Corporation Management Meeting
7-Sep	FPH	Fisher & Paykel Healthcare Management Meeting
7-Sep	FPH	Fisher & Paykel Healthcare Jarden Management Meeting
7-Sep	CPU	Computershare Management Meeting
8-Sep	IFM	Infomedia UBS Management Meeting
8-Sep	MVP	Medical Developments International Management Meeting
11-Sep	JHX	James Hardie Industries Site Visit
12-Sep	RMD	ResMed Morgan Stanley Annual Global Healthcare Conference
13-Sep	JHX	James Hardie Industries U.S. Investor Day
13-Sep	FCL	FINEOS Corporation Holdings Macquarie Management Meeting
14-Sep	JHX	James Hardie Industries U.S. Investor Day
15-Sep	RWC	Reliance Worldwide Corporation U.S. Investor Day and Site Visit
15-Sep	FPH	Fisher & Paykel Healthcare JPM Management Meeting
16-Sep	RMD	ResMed JPM Industry Insight Call

Date	Company	Description
16-Sep	CAR	carsales.com Trader Interactive Management Meeting
20-Sep	REH	Reece U.S Site Visit
20-Sep	ADSK.NAS	AutoDesk U.S Site Visit
21-Sep	PNV	PolyNovo U.S Site Visit
21-Sep	ALU	Altium U.S Site Visit
22-Sep	OFX	OFX Group FIRMA Site Visit
23-Sep	CAR	carsales.com Barrenjoey Industry Insight Call
27-Sep	ALL	Aristocrat Leisure Investor Roundtable Conference Call
28-Sep	COH	Cochlear JPM Industry Insight Call
28-Sep	BKL	Blackmores Management Meeting
28-Sep	NEA	Nearmap Thoma Bravo Acquisition Webinar
29-Sep	IRE	Iress Management Meeting
29-Sep	IRE	Iress Extraordinary General Meeting
29-Sep	CSL	CSL Management Meeting