Selector High Conviction Equity Fund Quarterly Newsletter No.81
September 2023

In this quarterly, we discuss reporting season, profile the long-term financial sustainability of a range of holdings in our article "Mind the Gap" and review our site visit to carsales' U.S. and Brazil operations.

We then discuss China's property woes and the likely longer-term consequences. Four-wheel drive equipment manufacturer ARB unveiled its new Earth Camper during the quarter, and we provide some comments following our visit to the NSW launch.

We conclude with a review of Domino's Pizza Enterprises Environmental Social and Governance (ESG) initiatives.

Photo. *Can the U.S. Fed sustain high interest rates with mounting piles of government debt? We do not think so. Source. Michael Ramirez.*

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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 19-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,

The recession that many financial commentators have predicted is yet to emerge. When and what form it takes remains a point of ongoing media discussion.

Never too far from the headlines, Central Banks maintained their active campaign to suppress demand and lower inflation within a targeted range. This action comes at a cost, even more apparent as global economic growth slows.

High interest rates also carry consequences on family budgets and on governments saddled with mounting debts and constrained by fiscal deficits.

The U.S. financial publisher Barron's highlighted the dilemma now facing many nations, namely the expansion in government debt. Figure 1 points to the difficult fiscal situation now confronting the U.S.

As we have highlighted on numerous occasions, it is also why there is natural limit to how far interest rates can rise. As the Barron's article explains, the numbers simply don't lie.

"The basic problem is simple. The federal government borrows trillions of dollars every year to pay its bills because tax revenues aren't enough to cover the cost of thousands of government agencies and programs around the country.

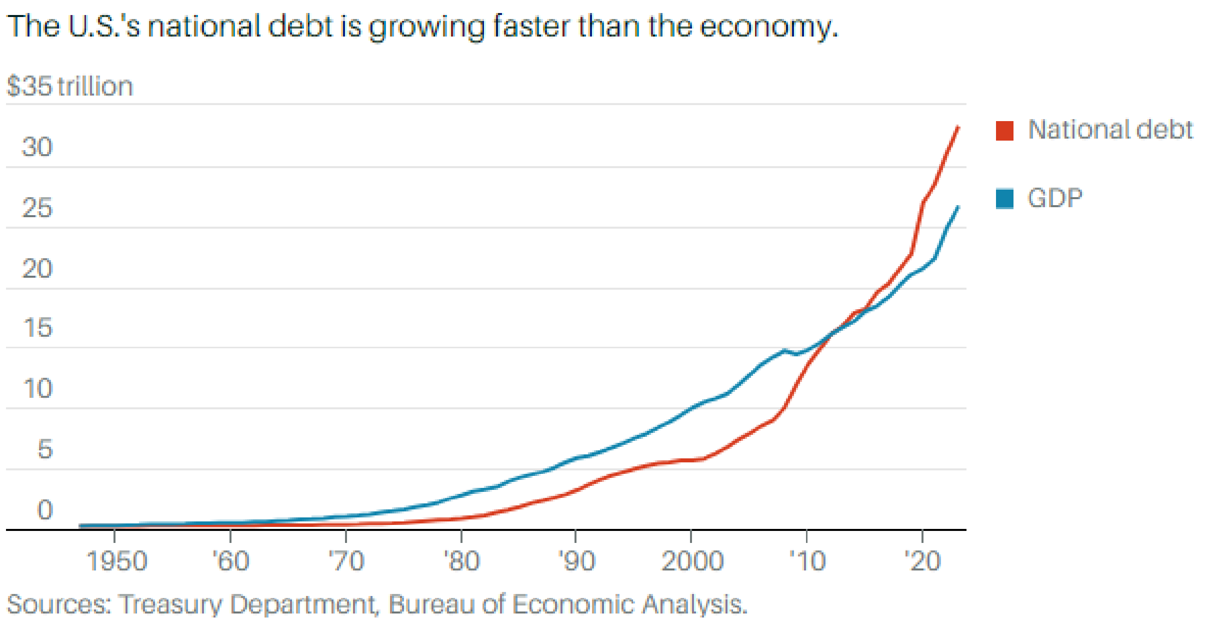
The debt keeps rising as annual budget shortfalls pile up.

As of this month, this total was US$33 trillion, nearly 124 times as big as it was 70 years ago.

While that sounds dramatic, things weren't that bad before the 2000's because the economy, measured by domestic gross product, was growing at the same pace as the debt, if not faster. That meant the federal government could expect tax revenues would keep pace with the cost of servicing its borrowings.

But now, debt is growing faster than the economy. The government's outstanding borrowings surpassed the U.S annual GDP about 10 years ago. That means that even if an entire year's economic output was dedicated to debt repayment, it wouldn't be enough."

Figure 1: U.S. National debt compared to GDP



Source: Barrons

This is what happens when you run a dysfunctional government, devoid of accountability and reliant on ever mounting debt. Investors, reflect their distrust of governments by demanding higher returns for the risk taken.

This is now playing out in U.S. 10-year Treasury notes hitting fresh 16-year highs at 4.88% while 30-year U.S Treasury yields rose above 5.00% for the first time since 2007.

What is most surprising are the comments from officials, including Treasury Secretary Janet Yellen who are at a loss to explain why long dated bond yields have surg*ed. "It's a great question and it's one that's very much on my and the administration's mind*".

Daleep Singh, a former executive at the New York Fed who is now chief global economist at PGIM Fixed Income goes a step further, "*It's perplexing. No fundamental explanation is convincing.* "

We are not perplexed, the reasons for these actions are as clear as day and succinctly depicted in Figure 1**.**

Elsewhere, certain trends are evident. Commercial property values continue to be buffeted from COVID's work from home (WFH) impact and higher interest rate settings.

In China the country's property dilemma goes much further as it tackles deflation, a rising pool of youth unemployment, and cracks in its shadow banking system.

More broadly, Environment, Social and Governance (ESG) matters continue to weigh heavily on certain businesses. Most prominently, big polluters who now find themselves at a difficult juncture.

Having been identified, the true cost of operating these businesses is now significantly higher, illustrating a key risk for investors.

Iron ore miner Rio Tinto and concrete producer Boral informed investors during the quarter that they were unlikely to meet 2025 original carbon emissions targets.

In addition, Rio Tinto was forced to write down the value of its Australian Alumina assets by US$1.2b, reflecting the Labor government's requirement for the gradual reduction of carbon emissions from major industrial companies over the remainder of the decade.

We suspect more of these lower quality, capital intensive businesses will be forced to disclose similar legacy issues as the decade unfolds.

Locally, company reporting season concluded with the usual twists and turns. One or two disappointments were more than offset by an abundance of good to strong performances.

Even with the backdrop of higher funding costs and cost inflation, the strength of a business is its ability to navigate but stay the course.

Financial sustainability is a core tenet of businesses making up the bulk of our portfolio.

Earnings are largely recurring, margins are high, research and development reinvestment is a given and low debt or a net cash balance sheet are a by-product of the conservatism that flows.

When you cast your eye over the portfolio's top ten holdings, these are the qualities evident and given a sufficient timeframe, strong compounding returns have historically resulted.

This quarters' company business commentaries, alongside our article "Mind the gap", discuss these issues in more depth.

COVID and the financial inflationary imposts that have befallen businesses since 2019 have introduced new challenges, leading to a renewed focus. Similarly, investors are encouraged to consider the opportunity set with a different lens.

Having navigated through this tumultuous period, which businesses are exiting 2023 with strength and momentum? This is an important assessment and representative of companies held within our portfolio, setting in place future years of operational outperformance.

In September, we headed overseas and undertook face to face meetings in a range of locations with companies making up one quarter of our total portfolio weighting. It clears the head and allows for sensible thinking and discussion on individual business matters rather than the daily share market gyrations.

Even more importantly, it provides an opportunity to look beyond the numbers and get an appreciation of businesses and their people operating in their respective markets. In total, we boarded 13 flights, zigzagged across the U.S., and travelled to Mexico and Brazil over fourteen days.

Company organised investor tours included Carsales, Fisher & Paykel Healthcare, and Reliance Worldwide. In addition, we met with executives from Altium, Aristocrat Leisure and Life360, and undertook a review of an unlisted U.S. business that has firm intentions to seek public listing in the near term.

Our tour of the Carsales Webmotors business in Sao Paolo, Brazil, and our trek into Tijuana, Mexico, to take a first-hand look at Fisher & Paykel's third Mexican manufacturing facility (MX3) reaffirmed why both are long duration company compounders.

Importantly, our visits allowed us to engage with the organisations beyond management, including key executives, board members, and collaborators on the manufacturing floor.

It illustrates why these visits are so invaluable and why we undertake them with genuine curiosity and appreciation of the efforts made by all.

Business success is delivered over time, and the track records achieved over a long duration is the scorecard investors should judge performance.

In this quarterly, we discuss in more detail the U.S. Trader Interactive and Brazil Webmotors operations that form part of the Carsales organisation.

We comment on China's property woes and likely longer-term consequences. Four-wheel drive manufacturer ARB unveiled its new Earth Camper during the quarter, and we provide some initial comments following our visit to its public launch.

We conclude with a review of Domino's Pizza Enterprises Environmental Social and Governance (ESG) initiatives.

For the September quarter, the portfolio delivered a gross negative return of **0.63%** compared to the S&P ASX All Ordinaries Accumulation Index, which recorded a loss of **0.66%**.

For the calendar year to date, the portfolio delivered a gross positive return of **11.05%** compared to the Index which recorded a gain of **3.96%**.

We appreciate your ongoing support and trust you find the quarterly informative.

Regards,

Selector Investment Team

"A good to great business is one that produces sustained great results."

Jim Collins, author of Good to Great

Financial sustainability – underappreciated.

Jim Collins has studied what makes a good company great, and one thing is clear: greatness comes from sustained performance.

Companies operating at that level easily surpass the mass of businesses that oscillate.

Identifying such businesses is the bedrock of any fundamental company analysis.

It is also the starting point for discussions involving ESG matters. Rather than considering the E, S and G components separately, analysis should first address the most important issue: the company's financial sustainability.

In short, we define the correct letter sequence as FSSGE. In other words, Financial Sustainability, followed by Social, Governance, and Environmental.

A business that operates with Financial Sustainability enjoys a significant competitive advantage.

Intuitively, this should not come as a surprise. High performing businesses distinguish themselves by re-enforcing 'flywheel' attributes. They are invariably category leaders possessing significant intellectual property, enjoying high recurring revenues, and operating with high gross margins. Business growth is often organic, supported by ongoing re-investment via existing business cashflows, and anchored by a balance sheet with little net debt, or better, cash.

When you identify a business with these qualities, the other matters of S, G and E flow naturally. Why? At their core, these companies know the importance of brands and retaining the social licence to operate. They have the financial resources and importantly, a commitment to the long-term health of the business. And over a period, the same outcomes that drive financial leadership are repeated in the categories of S, G and E.

It is crystal clear to us that to address ESG matters, you must first identify the great businesses. In doing so, you will likely come to the same conclusion that we did: FSSGE is the only correct sequence.
SFM

PORTFOLIO OVERVIEW

Table 1: Performance as at 30 September 2023*

	3 Month	6 Month	1 Year	3 Year	5 Year	10 Year	15 Year	Since Inception
Fund (net of fees)	(1.03)	3.63	14.70	4.31	4.45	10.59	10.26	9.68
Fund (gross of fees)	(0.63)	4.46	16.53	5.87	6.30	12.57	12.27	11.72
All Ords. Acc. Index	(0.66)	0.34	13.09	10.77	6.81	7.63	7.41	7.88
Difference (gross of fees)	0.03	4.12	3.44	(4.90)	(0.51)	4.94	4.86	3.84

**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

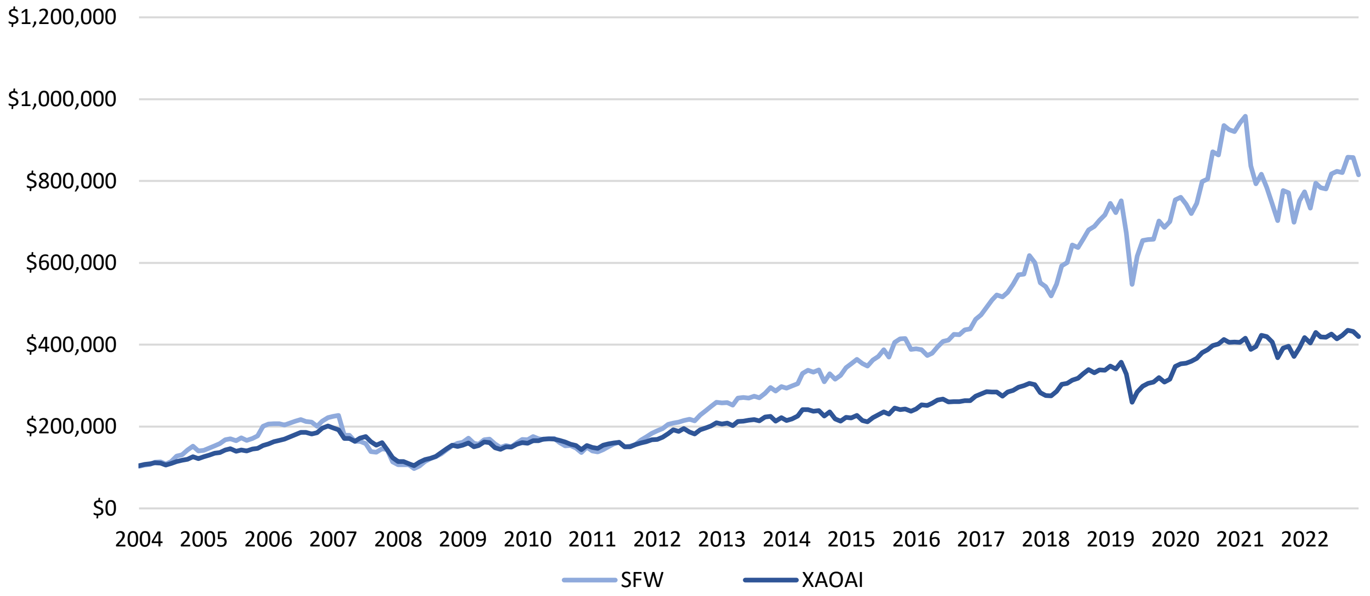


Table 2: Fund's Top 10 Holdings

Top 10 September 2023	%	Top 10 June 2023	%
carsales.com	8.19	carsales.com	7.35
Altium	8.08	TechnologyOne	7.20
TechnologyOne	7.19	Altium	6.72
Cochlear	6.11	Cochlear	5.44
Aristocrat Leisure	5.38	CSL	5.29
James Hardie Industries	5.23	James Hardie Industries	5.07
CSL	4.91	Aristocrat Leisure	5.06
Reece	4.50	ResMed	4.60
Computershare	3.88	Reece	4.45
Domino's Pizza Enterprises	3.58	Nanosonics	3.63
Total	**57.05**	**Total**	**54.81**

Table 3: Unit prices as at 30 September 2023

Unit Prices	Entry Price	Mid Price	Exit Price
	$3.0686	$3.0609	$3.0532

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 2023 quarter

S&P ASX Industry Sectors	Quarter Performance (%)
Energy	8.05
Consumer Discretionary	4.05
Financials	1.36
Telecommunications	(3.30)
Utilities	(3.34)
A-REITS	(3.63)
Industrials	(3.91)
Materials	(4.51)
Information Technology	(5.91)
Consumer Staples	(7.33)
Healthcare	(9.29)

Table 5: Fund's industry weightings

Industry group	September 2023 (%)	June 2023 (%)
Software & Services	25.20	26.26
Health Care Equipment & Services	15.44	16.55
Consumer Services	14.96	13.60
Media & Entertainment	14.16	12.96
Capital Goods	6.41	6.59
Materials	5.23	5.07
Pharmaceuticals, Biotech & Life Sciences	5.11	5.46
Commercial & Professional Services	3.88	3.47
Financial Services	2.39	2.65
Insurance	2.27	2.65
Automobiles & Components	2.25	1.95
Consumer Durables & Apparel	1.66	1.42
Cash & Other	1.03	1.36

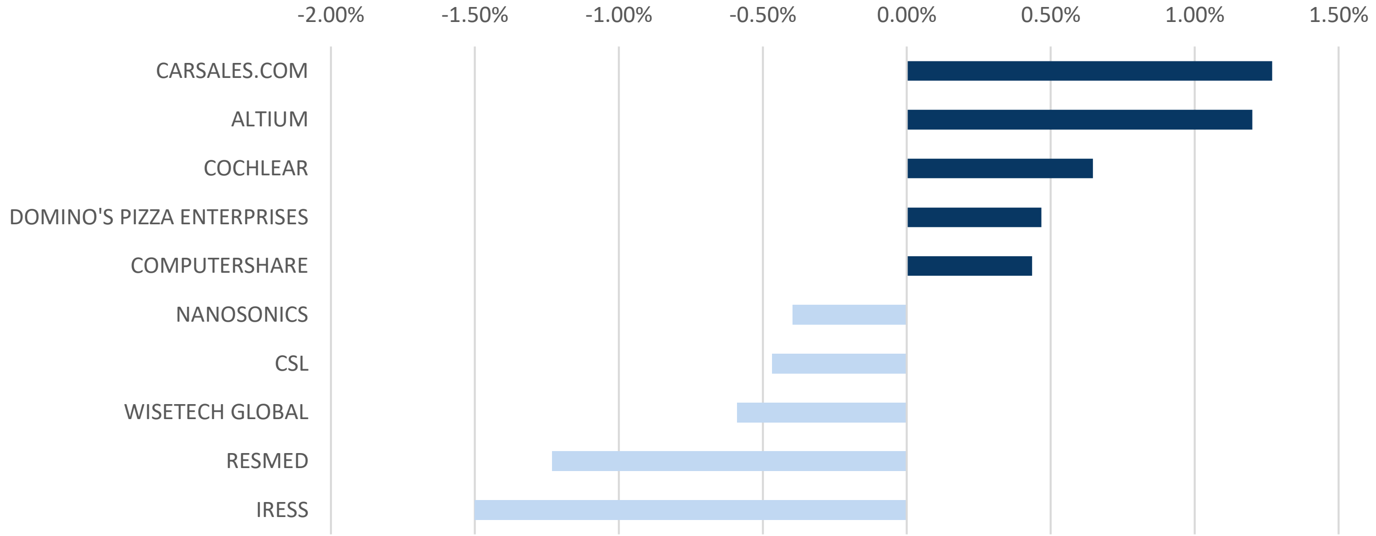
Table 6: Portfolio turnover as at 30 September 2023

Period	Turnover %
1 Year	2.27
2 Years	7.10
3 Years	7.89
5 Years	7.06
10 Years	6.67
Since inception	6.14

- Turnover shown as annualised percentages
- Turnover = Lesser of purchases or sales divided by average funds under management for the period
- Turnover calculation excludes cash flows greater than 1% of FUM over any given period

PORTFOLIO CONTRIBUTORS

Graph 2: Contributors and Detractors – September 2023 quarter



Top quarterly contributors

1. carsales.com (ASX:CAR)

Please refer to Mind the Gap article below.

2. Altium (ASX:ALU)

Please refer to Reporting Season Snapshot below.

3. Cochlear (ASX:COH)

Please refer to Reporting Season Snapshot below.

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

Please refer to Reporting Season Snapshot below.

5. Computershare (ASX:CPU)

In October, Computershare entered into a definitive agreement to sell its U.S. Mortgage Services business to Rithm Capital Corp for an estimated consideration of US$720m. The transaction is expected to complete in early Q4 FY24 with no material impact on FY24 EPS guidance of around 116 cents per share. The deal is expected to be EPS accretive in FY25 and with improved financial metrics of ROIC of 30% (pre-divestment 23%) and Free Cash Flow of US$545m (pre-divestment 23%).

CEO Stuart Irving emphasises the benefits of a simplified strategy along with better quality and consistency of earnings post sale, *"The divestment of US Mortgage Services allows us to focus our efforts on our core businesses which have high levels of recurring revenues, long term growth runways, low capital intensity and attractive returns through the cycle. The proceeds from the sale will enhance Computershare's flexibility to pursue strategic investments and consider further capital management opportunities."*

Computershare has a market capitalisation of $15.7b and net debt of $1.2b.

Bottom quarterly contributors

1. Iress (ASX:IRE)

Please refer to Reporting Season Snapshot below.

2. ResMed (ASX:RMD)

Please refer to Reporting Season Snapshot below.

3. WiseTech Global (ASX:WTC)

Please refer to Reporting Season Snapshot below.

4. CSL (ASX:CSL)

Please refer to Reporting Season Snapshot below.

5. Nanosonics (ASX:NAN)

Please refer to Reporting Season Snapshot 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
BREVILLE GROUP	2.0	7
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
INFOMEDIA	2.0	4
IRESS	2.0	7
JAMES HARDIE INDUSTRIES	2.0	7
JUMBO INTERACTIVE	2.0	6
MEDICAL DEVELOPMENTS INTERNATIONAL	2.0	6
NANOSONICS	2.0	8
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.

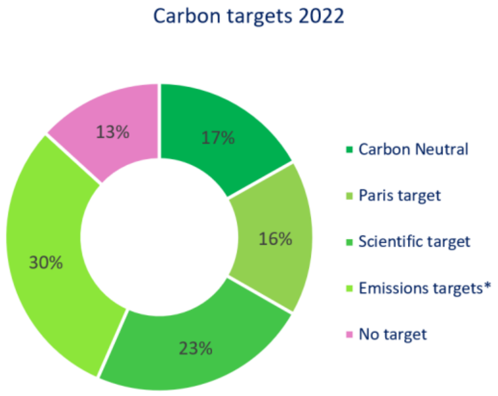
The following is a breakdown of each consideration:

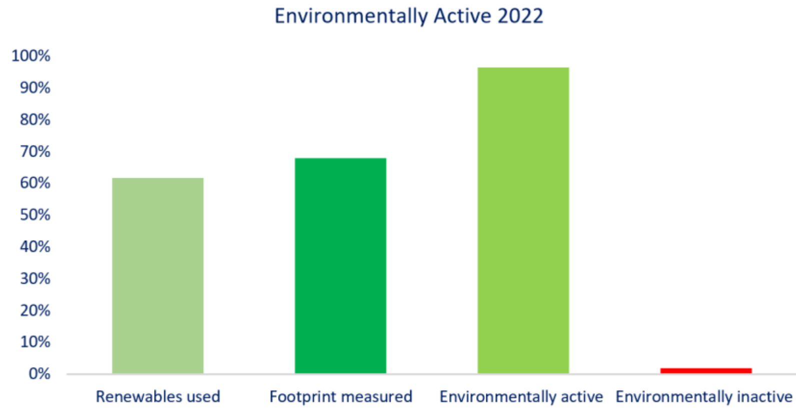
- Climate targets – Assessment of the company's plans relating to carbon neutrality, Paris commitments, scientific targets, or emission targets. "0" rating for no effort.
- Renewable targets – Assessment of the company's documented use of renewables mix or implemented targets for renewable energy.
- 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, available at https://selectorfund.com.au/esg

- ## Carbon Risk Analysis

Figure 2: Portfolio Reporting 2022





What we are seeking

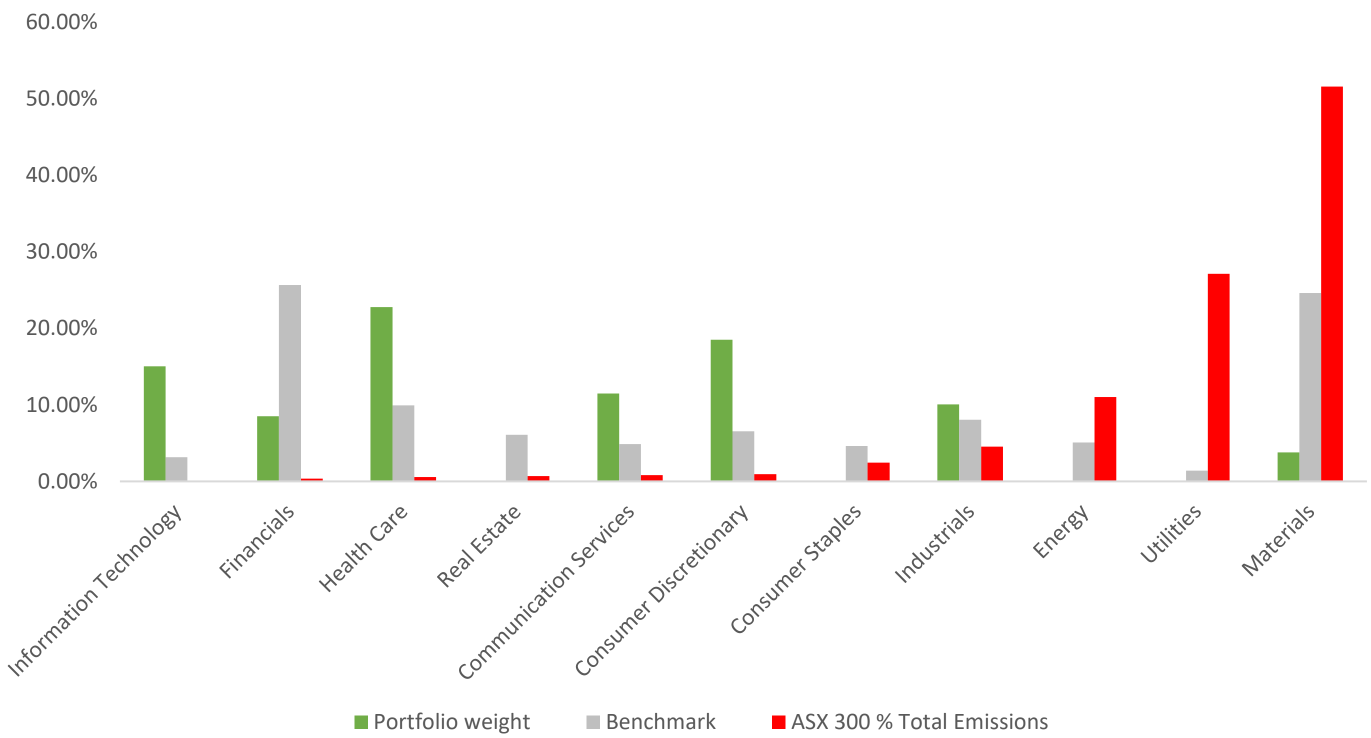
- Paris targets
- Science based targets
- Emissions targets
- Renewable energy targets

What we are monitoring

- No efforts
- No accountability

Source: SFML Research

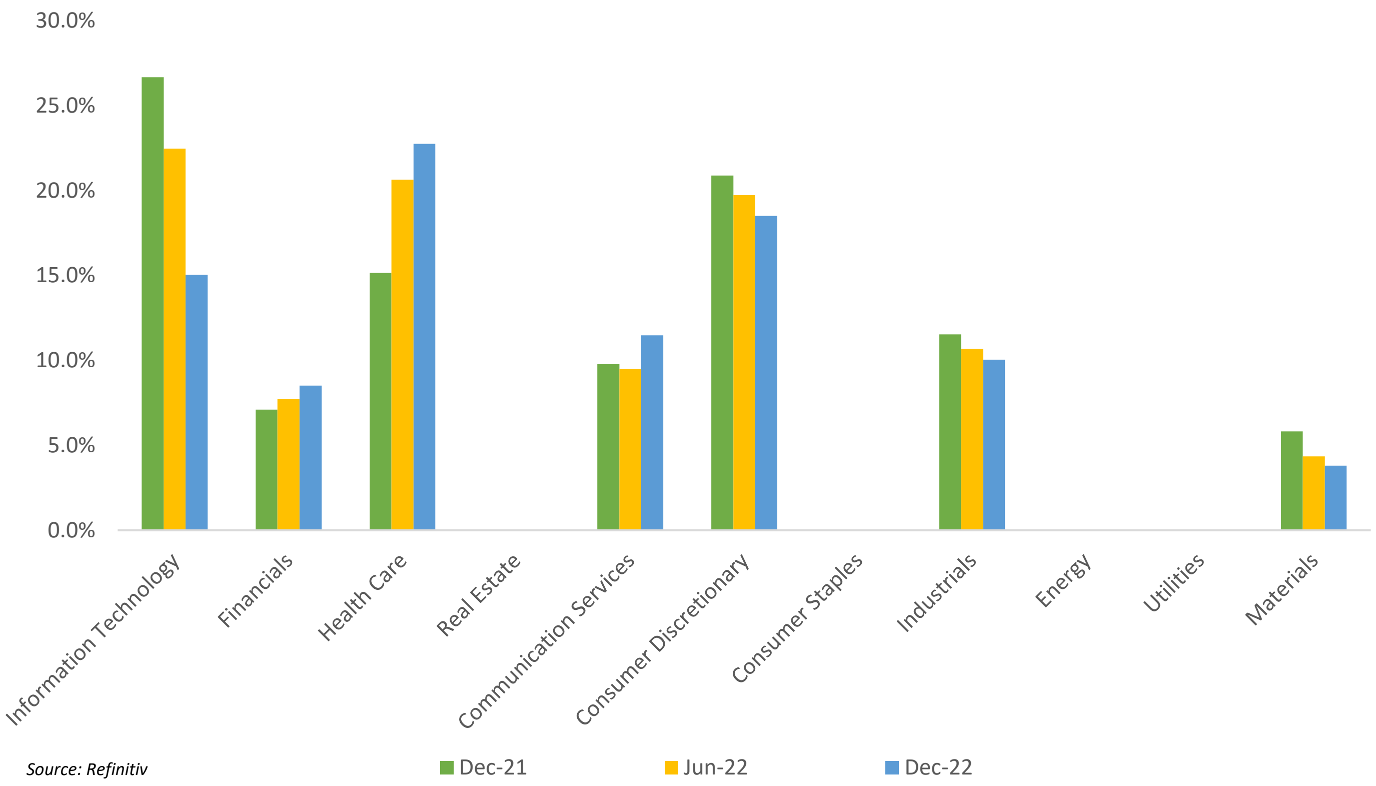
Graph 3: SHCEF vs ASX 300 Carbon Exposure 30 June 2023



**Estimates based on Refinitv*

Source: Refinitiv

Graph 4: Portfolio Carbon Exposure Periodic Change



Source: Refinitiv

Table 8: SFML Portfolio carbon intensity

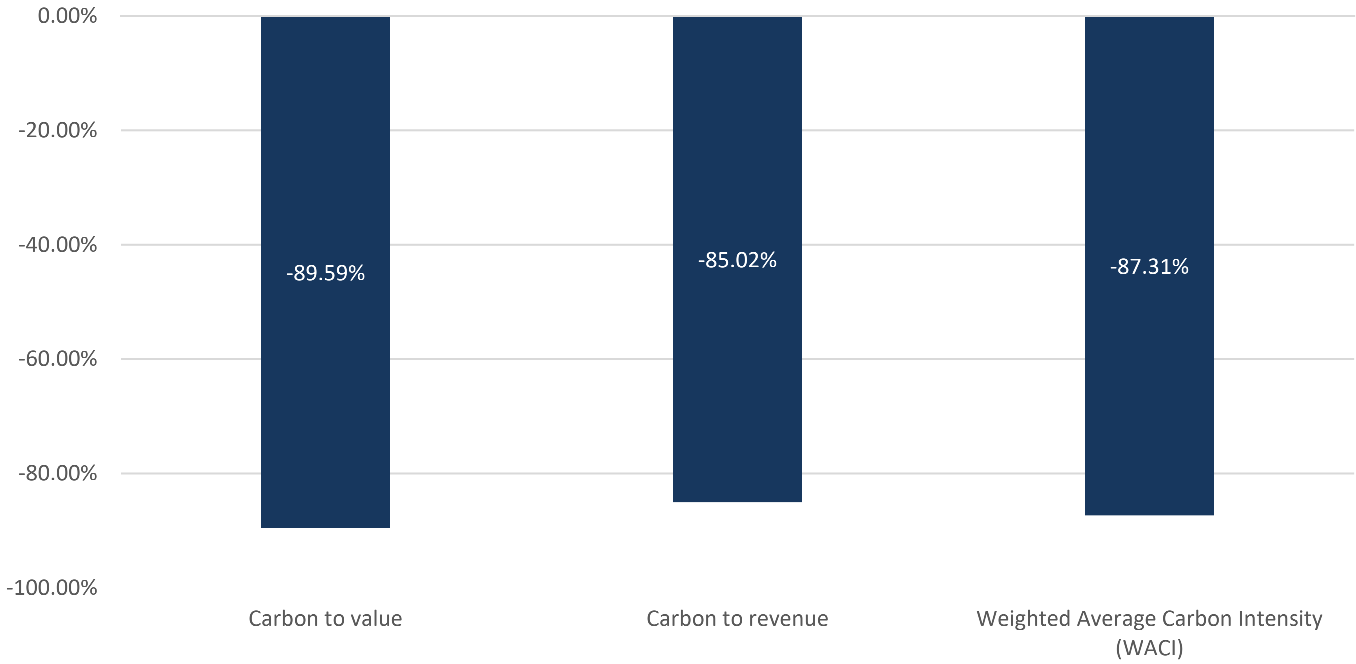
Carbon intensity method[1]	SFML	Benchmark[2]
Carbon to value invested	4.54	43.64
Carbon to revenue	19.26	128.58
Weighted Average Carbon Intensity (WACI)	15.06	118.71

Source: Refinitiv

1. Denominated in tonnes per CO2e/AUD$m
2. Benchmark used is S&P/ASX 300

- ***Carbon to value invested*** – this calculation is the aggregation of estimated owned constituent greenhouse gas emissions per $1m market capitalisation as at 30 June 2023. 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 89.59% and 85.02% respectively. SFML's WACI is 87.31% 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	Revenue ($m)[1]	CO_2 Emissions[2] (Tonnes)	$90 Carbon Tax ($m)	Impact on Revenue (%)
SFML Top 10 Emitters	45,865.50	1,272,210	114.50	(0.25%)
SFML Portfolio – Total	64,908.02	1,329,185	119.63	(0.18%)
ASX300 Top 30 Emitters	543,110.17	200,715,768	18,064.42	(3.33%)
ASX 300 Index – Total	1,112,392.82	217,908,546	19,611.77	(1.76%)

Source: SFML & Refinitiv Estimated CO2 Emission data

1. Last reported financial year values as at 31 December 2022
2. Scope 1 and 2 emissions (estimated if not reported).

*Note: ASX 300 index revenue impact from a carbon tax is **9.8x** 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 CO2 Emission data

*Note: ASX300 Top 30 Emitters revenue impact from a $90 carbon tax is **13.3x** larger than SFML Top 10 Emitters*

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

Company	CO_2 Emissions (Tonnes)	NPAT[1] (AUD $m)	EPS[1] ($)	Value of Carbon Tax ($)	Cost of Carbon Tax ($m)	Impact on NPAT (%)	EPS Post Carbon Tax ($)
JHX	662,727	621.60	1.98	90	59.65	(9.60%)	1.79
CSL	347,000	3,109.57	6.92	90	31.23	(1.00%)	6.85
REH	60,166	392.49	0.61	90	5.41	(1.38%)	0.60
DMP	52,162	166.73	1.90	90	4.69	(2.82%)	1.85
RWC	47,198	189.52	0.30	90	4.25	(2.24%)	0.29
FLT	33,489	-287.18	-1.44	90	3.01	(1.05%)	-1.42
RMD	23,028	1,074.96	7.89	90	2.07	(0.19%)	7.87
ARB	19,810	122.01	1.49	90	1.78	(1.46%)	1.47
FPH	15,119	355.31	0.61	90	1.36	(0.38%)	0.61
ALL	11,512	948.50	1.67	90	1.04	(0.11%)	1.67

Source: Refinitiv CO2 Emission data

1. Last reported financial year values as at 31 December 2022

- **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
- Flight Centre Travel Group
- Reece

- **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.

REPORTING SEASON SNAPSHOT

- ## Altium (ASX:ALU)

Electric printed circuit board (PCB) designer, Altium reported a strong FY23 result with revenue lifting 19% to US$263m and net profit after tax up 20% to US$66.3m. The growth was driven by a 20% increase in Design software revenue to US$203m, and a 17% rise in Cloud Platform revenue to US$60.3m. Operating margins (EBITDA) rose 0.3% to 36.5%, with Altium strategically reinvesting across research and development, front line sales, and executive talent to fuel future growth, especially in its Enterprise and Cloud platform segments.

Design software

Altium's shift to the cloud in FY21 has created a better business with more recurring revenue and improved pricing capabilities. CEO Aram Mirkazemi notes, *"Our Cloud-First Strategy is transforming our product portfolio from stand-alone desktop design software to a connected cloud-based design platform providing mid-market customers with access to enterprise capabilities."*

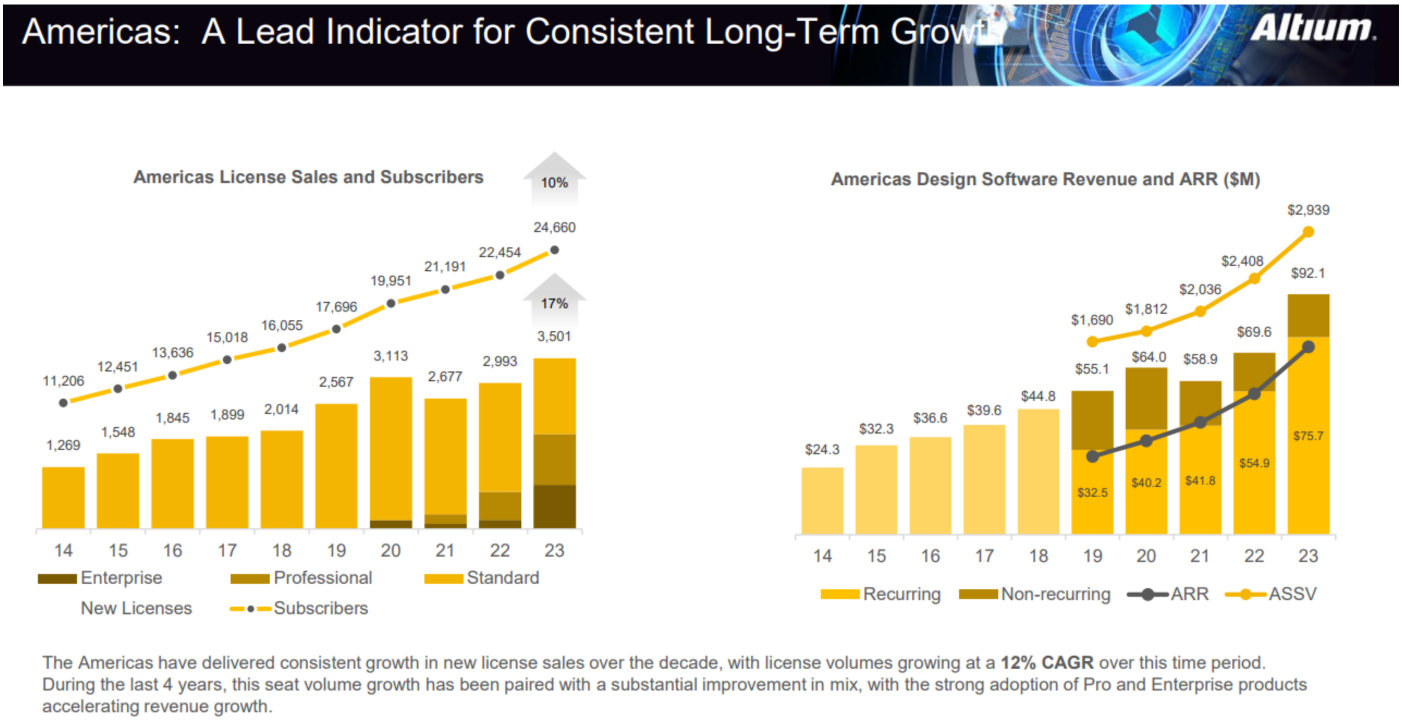
The cloud has enabled Altium to expand its product capabilities, by providing broader access to enterprise-like features and Altium 365, a platform that digitally connects electronic design and manufacturing. As a result, Altium is experiencing strong adoption of Pro and Enterprise subscriptions, which grew by 76% to reach 14,400. In addition, the greater uptake of term-based licenses, which requires annual renewals and reduced discounts for perpetual licenses, has seen the average subscription seat value (ASSV) increase by 22.5% to US$2,408.

The Americas, which has successfully transitioned to a cloud-first model, has seen accelerated growth across both subscribers and ASSV as depicted in Figure 3. Altium aims to replicate this success by implementing the cloud strategy across other regions.

Altium 365

Altium 365 has maintained its strong momentum; monthly active accounts rose 36% to 12,500, and monthly active users were up 56% to 36,700. The platform is benefiting from a growing network effect (user growth has exceeded account growth), indicating an increasing number of users accessing the platform beyond the traditional Altium Designer database. The company's strategy is to keep this platform free to drive adoption, while monetising the user base through additional functionality in the future.

Figure 3: Americas strong growth



Source: Altium FY23 Results Presentation

Octopart

Octopart, an electronics parts search platform, delivered a resilient result with revenue up 12% to US$56m. The growth was attributed to a 32% increase in average revenue per click, offset by declining volumes of 15% as supply chain disruptions normalise. Altium is growing pricing by improving its value proposition to customers, including products like Boost that offer enhanced search result placement for distributors at an additional fee.

Outlook

In FY24, Altium anticipates revenue in the range of US$315m to US$325m, marking a 20%-23% increase, with underlying EBITDA margins expected to be between 35% and 37%. The company also reaffirmed its FY26 aspirational targets to achieve revenue of US$500m and underlying EBITDA margins of 38%-40%, along with a goal of reaching 100,000 software seats on subscription. Altium notes that achieving the US$500m target is possible with 75,000 to 90,000 seats on subscription, but the aspirational goal remains 100,000 seats.

Altium has a market capitalisation of $6.3b and net cash of US$201m.

▪ Appen (ASX:APX)

Appen, a leading provider of data and solutions for use in artificial intelligence (AI) and machine learning (ML), reported a disappointing 1H23 result. Group revenue fell 24% to US$139m, while underlying EBITDA declined from positive US$8.5m to negative US$18.1m. Lower revenue was due to reduced business from its global division and a broader macroeconomic slowdown.

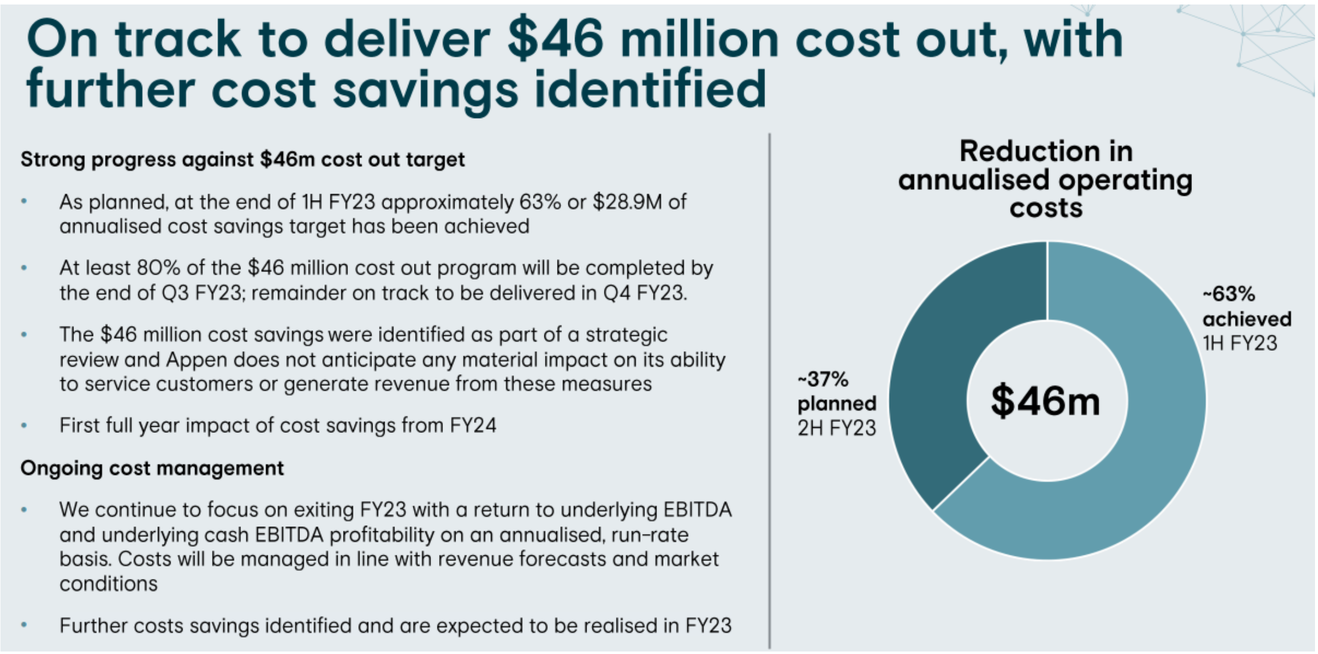
CEO Armughan Ahmad explains, *"Many of our customers are in the phase of evaluating their AI strategies, which has caused some projects to be paused or delayed. Consequently, we are seeing many of the enterprise large Fortune 2000 customers piloting large language models. However, there are very few customers using these models in full production. The combination of market headwinds in some of our large deep learning customers and nascent nature of generative AI market, has resulted in declining revenue."*

Operating margins were significantly impacted due to Appen's largely fixed cost base. Across the segments, Global Services remained profitable with underlying EBITDA before foreign exchange of US$8.7m, while New Markets reported an operating loss of US$21.8m.

Cost Out program

In May, Appen announced a significant cost reduction program to return the business to profitability. The team identified annualised cost savings of US$46m that were expected to have minimal impact on Appen's revenue generation. Appen has achieved 63% of the US$46m target, as reflected in Figure 4 with further cost savings identified in the current year.

Figure 4: Appen Cost out program



Source: Appen 1H23 Results Presentation

The company will incur one-off costs related to the program, while providing balance sheet flexibility to reset the business. Importantly, Appen anticipates achieving underlying cash EBITDA profitability on an annualised, run-rate basis by the end of the full year, with costs being managed to achieve this.

Strategic refresh

Appen is also focused on a strategic refresh that includes improving customer diversification, margins, revenue visibility, and return on investment. Appen's Investor Day in May featured a comprehensive presentation with management highlighting the potential of existing deep learning projects with major customers including Microsoft, Google, and Amazon, as well as enterprises looking to embrace generative AI.

Outlook

The outlook for calendar year 2023 remains weak as Appen customers continue to face ongoing challenges. As a result, the company is prioritising growth investments within a smaller set of areas and will continue to focus on incremental cost savings, which may potentially have a negative impact on 2024 revenue. Appen is realigning the business to achieve underlying cash EBITDA profitability on an annualised, run-rate basis by calendar year end.

Appen has a market capitalisation of A$327m and net cash of $55m.

- ## Cochlear (ASX:COH)

In August, leading global bionic ear manufacturer Cochlear delivered a record full year 2023 result. Revenue increased by 16% to $1,955.7m in constant currency (cc), fuelled by double digit growth in all business segments. Underlying net profit reached $305m, at the high end of the guidance range, marking a 14% increase.

Cochlear Implants (58% of sales revenue)

Cochlear implants reported unit growth of 16% to 44,156 units and revenues increased 17% (cc) to $1,131.4m, with strong performance reported in both developed and emerging markets.

In developed markets, unit volumes increased 15%, reflecting robust growth across all markets due to overall market expansion, enhanced clinical capacity, and COVID catch-up surgeries. Market share remained over 60%, owing to the company's leading product portfolio and the strong take-up of the Nucleus 8 Sound Processor following the launch in Western Europe and the U.S. late in the first half.

In emerging markets, overall unit volumes increased 20%, with most countries now trading well above pre-COVID levels. Government tenders experienced a surge in activity after a period of suppressed demand during COVID-related shutdowns, whilst private pay remained robust.

China exhibited strong year-over-year growth and, alongside the U.S., continues to be a central focus for opportunities. Market dynamics are supportive of ongoing demand driven by a large private consumer market. In February, the company achieved certification to manufacture the Nucleus CP802 Sound Processor at the Chengdu facility and expects to attain implant approval within 18 months.

Services (30% of sales revenue)

The Services division represents an important long-run opportunity for the company, with ongoing upgrade demand underpinned by a growing installed base of implant recipients. For the year, revenues increased 14% (cc) to reach $584.4m. Following a subdued first half, revenues experienced robust growth of 27% (cc) in the second half, highlighted by strong uptake of the Nucleus 8.

Acoustics (12% of sales revenue)

Acoustics revenue increased 15% (cc) to $239.9m, representing high demand for new products and continued recovery from COVID-related surgery delays. The Osia 2 System continues to gain momentum in existing and new markets, with over 12,000 systems sold since launch.

In addition, the Acoustics division benefited from increased demand for sound processor upgrades across all regions on the back of the rollout of the Baha 6 Max Sound Processor.

Strategy

Cochlear's goal is to enhance individual lives by enabling more people to hear. The group's unwavering commitment to this mission drives the organisation and shapes its strategic direction.

Every hearing device implanted initiates a lifelong partnership with the recipient, necessitating a long-term commitment to support their hearing needs, while ensuring sustainable financial growth to benefit all stakeholders.

The group's strategy centres on increasing awareness and access to implantable hearing solutions for those who can benefit from these products. By facilitating better hearing for more people, Cochlear generates value by promoting a healthier society, offering lifelong hearing solutions, nurturing a thriving workforce, and embracing environmental responsibility. These efforts, when executed effectively, are anticipated to yield sustained financial returns in the long run.

Figure 5 highlights the achievements made during the year. Notably, the company helped over 44,000 people hear better, a 15% increase from the prior year, creating a societal benefit of over $7b due to improved health, lower education costs, and increased productivity for the recipients. Additionally, over 48,000 people upgraded their processors, on the back of the launch of Nucleus 8, an increase of 19% on FY22.

Cochlear maintained its focus on research and development (R&D), with $240m of fully expensed capital invested during the year, providing a strong pipeline of products to drive future growth. The company has a consistent R&D program allocating around 12% of revenue each year, resulting in an investment of over $2.7b since listing in 1995.

Capital Management

Cochlear ended the year in a strong financial position, with net cash of $565m. The company announced a final dividend of $1.75 per share, a 10% increase on the prior year, representing a 71% payout ratio.

In February, Cochlear announced a progressive on-market share buyback program, designed to work alongside the current dividend policy, aiming to reduce the cash balance to $200m over the course of several years. Commencing with an initial $75m buyback over 12 months, the company had repurchased $30m or 40% by year end.

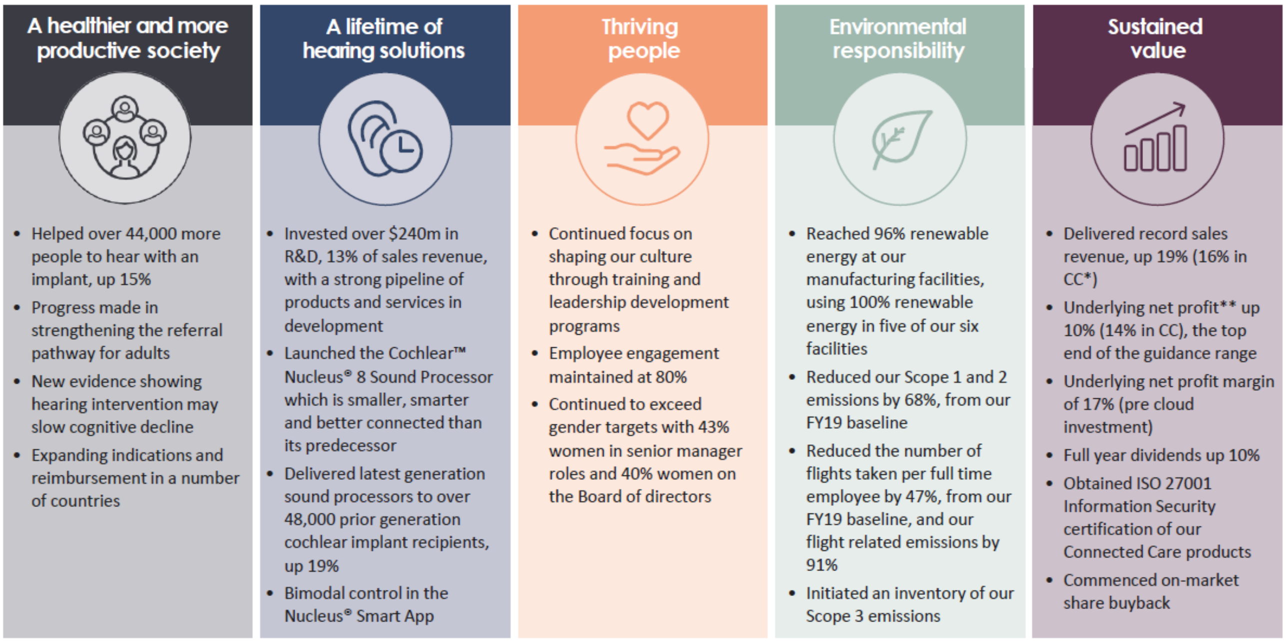
Guidance

The group's market-leading position and differentiated product portfolio underscore the company's commitment to investing and engaging directly with the hearing community, including audiologists, ENT (ear, nose, and throat) specialists, and consumers. Cochlear remains confident in its ability to expand its markets, with a significant unmet clinical need for cochlear and acoustic implants.

For FY24, the company guided to an underlying net profit of between $355m-$375m, an increase of 16%-23% on FY23, driven by revenue growth and net margin gains.

Cochlear has a current market capitalisation of $16.8b.

Figure 5: FY23 highlights



Source: Cochlear FY23 Results Presentation

- ## CSL (ASX:CSL)

CSL, a leading global biotechnology company, reported a strong FY23 result, with group revenue increasing 31% to US$13.3b and adjusted net profit after tax (NPATA) rising 20% to US$2.6b. The company benefited from improved plasma collections, a strong Seqirus result, and an eleven-month contribution from Vifor Pharma.

Gross Margins

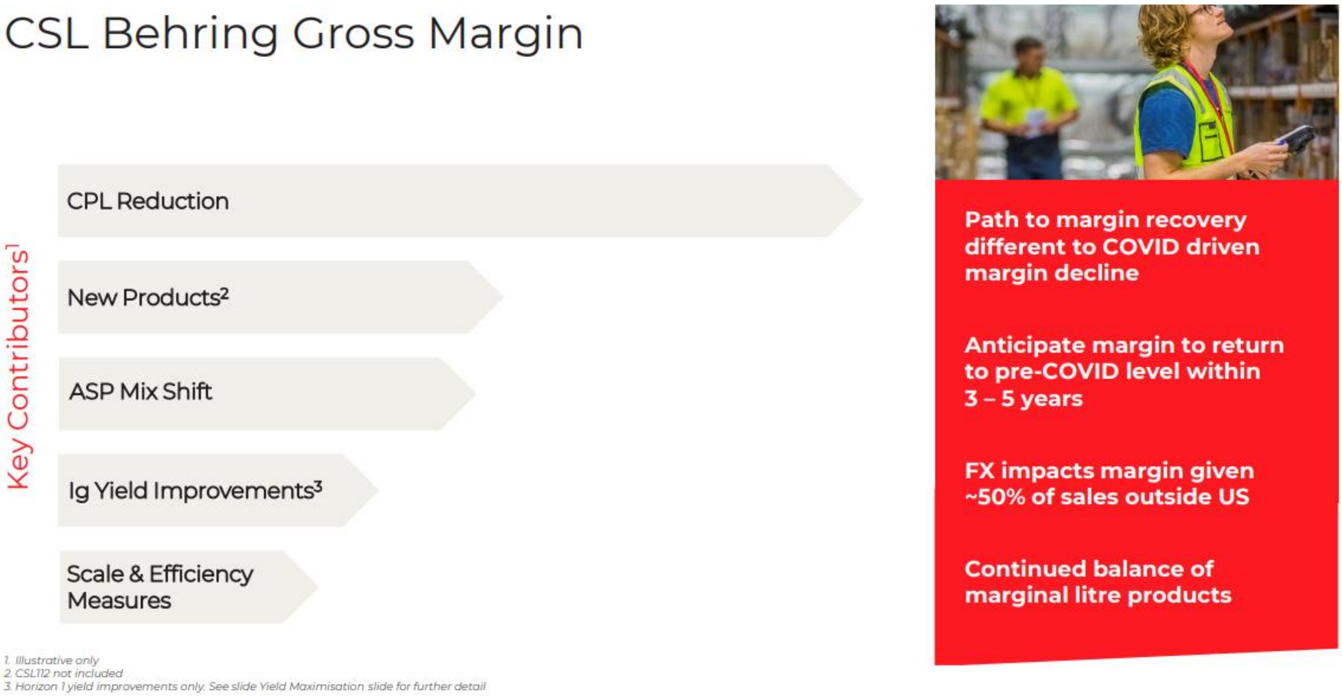
Gross margins rose modestly to 54.5% with impacts felt from inflationary pressures, higher plasma collection costs, and manufacturing inefficiencies within the Behring business, offset by stronger Seqirus and Vifor margins. At its results, CSL detailed a clear pathway to return Behring margins back to pre-COVID levels within 3-5 years as seen in Figure 6. This improvement stems from efficiencies across the collection and fractionation process, in addition to benefits from scale, mix shifts, and new products.

The business also outlined how it intends to drive immunoglobulins (Ig) yield maximisation across two horizons:

- **Horizon 1** – targeting 7.5%-12.5% yield improvement by delivering operational excellence, data analytics, and improved plasma allocation.
- **Horizon 2** – a proprietary process improvement that requires retooling and FDA approval. This will be a phased approach targeted for delivery towards the latter part of the decade.

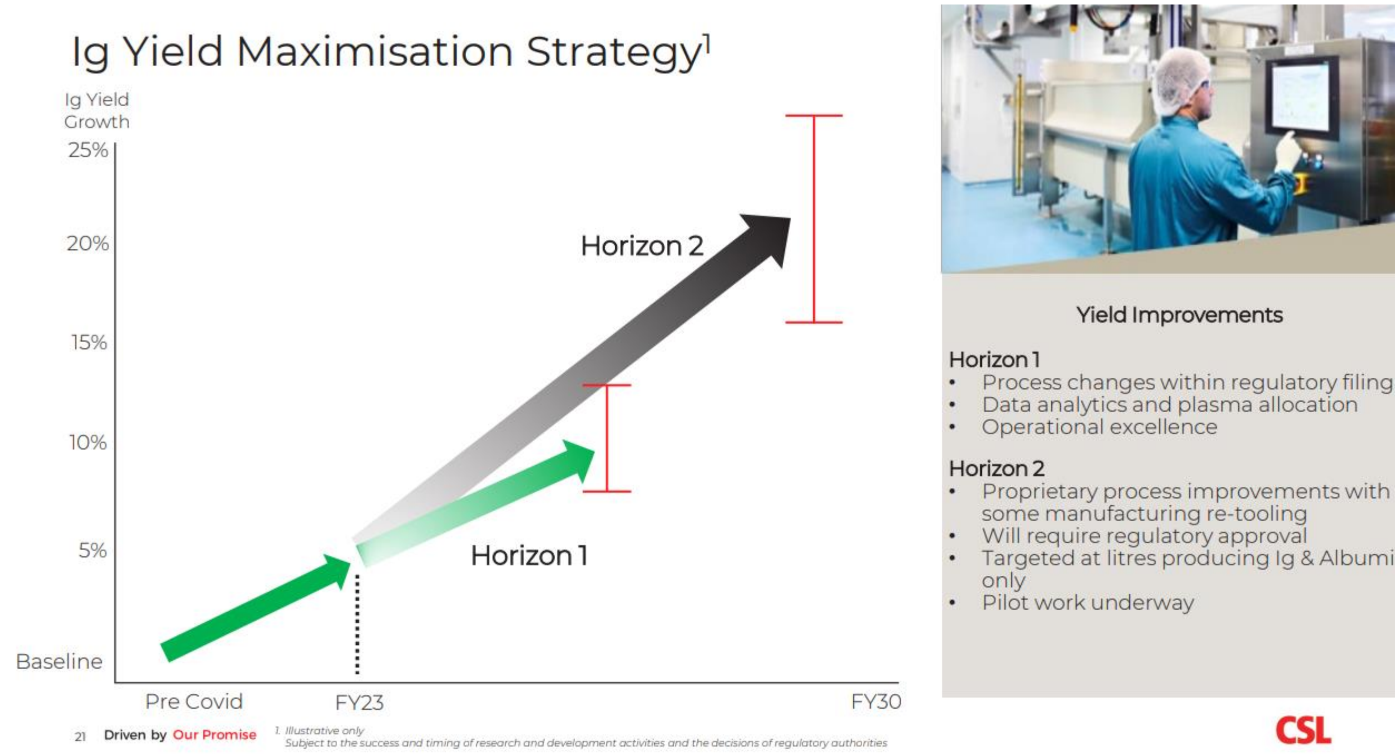
Combined, these IG yield improvements are expected to deliver 15%-25% more yield, subsequently reducing the number of new collection centres and volume of patient donors. The focus on driving operational efficiencies across all business lines is reflected in the company's FY24 capex profile, 30% lower to US$800m.

Figure 6: Gross Margin recovery



Source: CSL FY23 Results Presentation

Figure 7: Yield Maximisation



Source: CSL FY23 Results Presentation

CSL Behring (69% of revenue)

CSL Behring, the global therapeutics business, recorded solid revenue growth of 12% to US$9.3b. The improving supply environment in the prior period drove strong results in Immunoglobulins (Ig) and Albumin, up 21% and 11% respectively.

Plasma collections were up 31% in the period and are currently at record levels. Yield improvements within collection centres remain an area of focus, with CSL delivering a 14% reduction in cost per litre from strong take up of its donor app and self-service kiosks.

Seqirus (16% of revenue)

Seqirus, the flu vaccine business, continues to perform well, with revenue rising 10% to US$1.85b and gross margins increasing from 58.7% to 62.2%. The strong result was driven by the continued shift to higher value products across cell-based (Flucelvac) and adjuvanted egg-based (FLUAD) seasonal influenza vaccines, which rose by 30% and 7% respectively.

The pipeline is strong with CSL earmarking a next generation adjuvanted cell-based vaccine in 2025, followed by an mRNA vaccine by the latter half of the decade.

Vifor Pharma (16% of revenue)

The integration of Vifor, accounting for 16% of revenue, is well advanced, with revenue growth of 14% to US$2b representing an eleven-month contribution. The company has a long-term opportunity to grow across the underpenetrated iron and dialysis markets.

Outlook

Looking ahead, CSL is expected to maintain strong momentum in its core businesses and has guided for full-year revenue growth of 9%-11% and adjusted NPATA growth of 13%-17% to US$2.9b-US$3.0b at constant currency rates.

CSL has a market capitalisation of A$135.3b and net debt of US$10.7b. The company also declared a full year dividend of US$2.36 per share.

- ### Domino’s Pizza Enterprises (ASX:DMP)

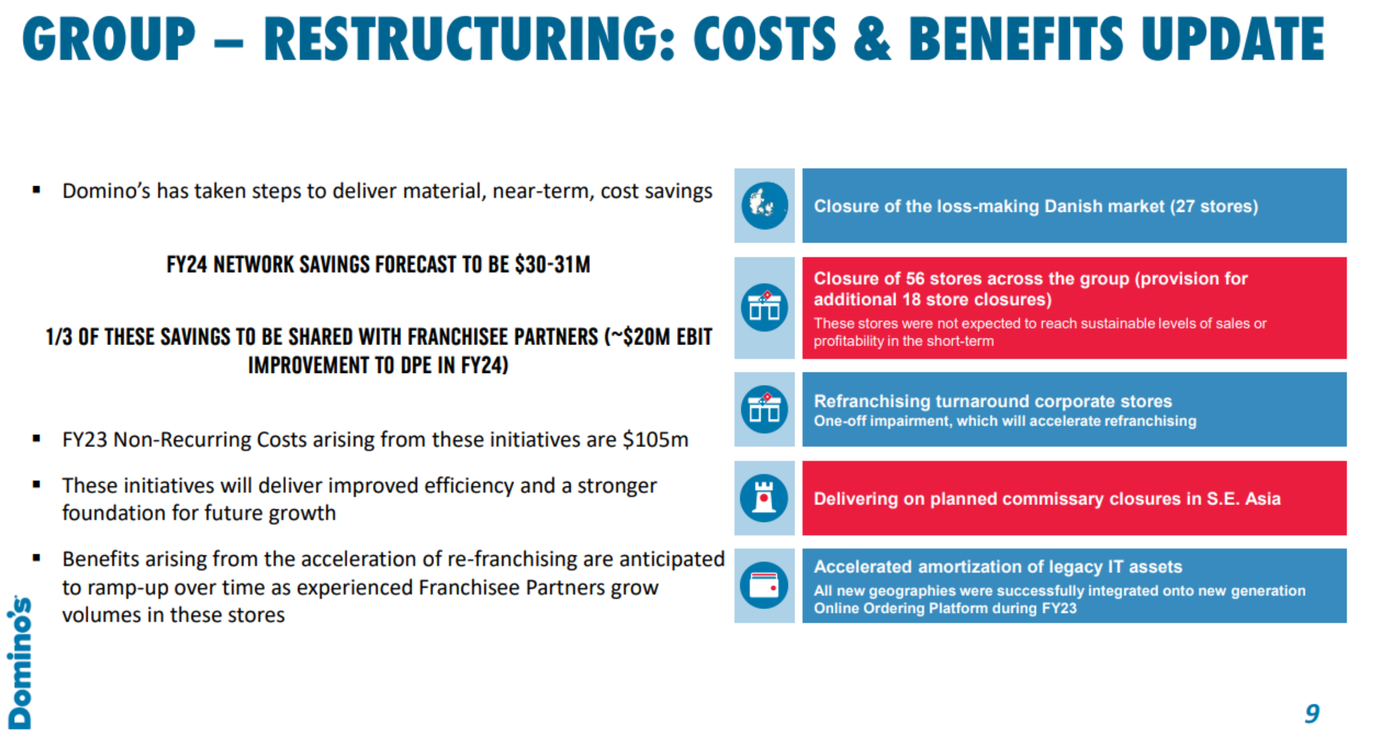
In August, Domino's Pizza Enterprises reported a disappointing financial year 2023 result. Network sales rose 2% to $4b while net profit after tax fell 26% to $123m. Same-store sales (SSS) declined 0.2% and new organic store additions grew 6.1%, both falling short of medium-term targets for SSS of 3%-6% and network store growth of 8%-10%. Operating margins fell by 3% to

8.5%, as the company battled cost inflation and lower order volumes due to price hikes.

Business reset

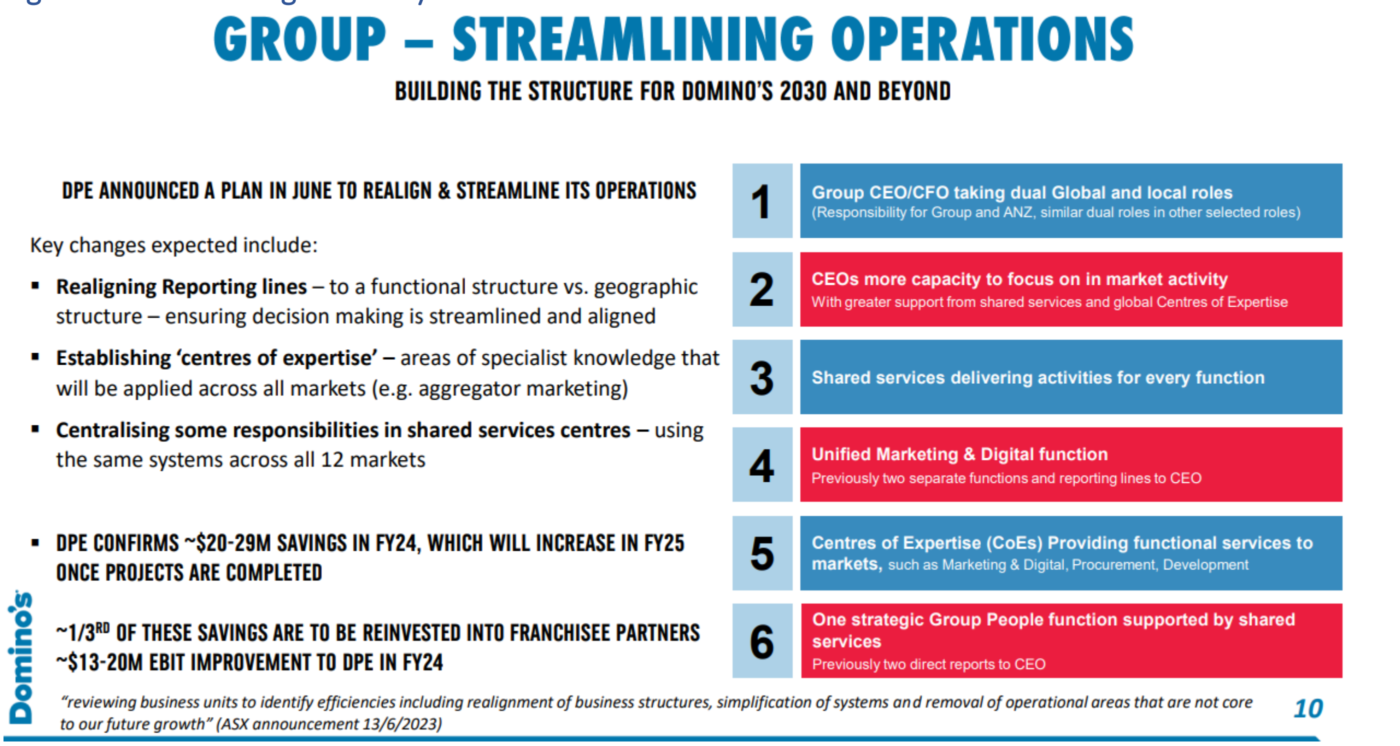
After a challenging FY23, Domino's management is taking the steps to build a better business, with more focus on delivering global operational efficiencies, which should lead to improved margins. This involves a restructuring, best described as a business reset, as outlined in Figure 8 and Figure 9.

Figure 8: Restructuring summary



Source: Domino's Pizza Enterprises FY23 Results Presentation

Figure 9: Streamlining summary



Source: Domino's Pizza Enterprises FY23 Results Presentation

To summarise, the restructure involves exiting the unprofitable Danish market, closing underperforming stores, and refranchising corporate-owned stores. It also includes commissary closures in South-East Asia and writing down the amortization value of legacy IT assets. Additionally, the company is streamlining operations by realigning reporting structures, establishing centers of expertise, and centralising regional responsibilities at the group level.

These initiatives are expected to generate FY24 restructuring savings of $30-$31m and streamlining savings of $20-$29m. Importantly, one-third of savings will be shared with franchisees, helping to rebuild profitability and drive future store growth.

Value proposition

Domino's success has been based on delivering value to customers by balancing Product, Service, and Image with Price. Pricing mistakes in FY23 misaligned the value proposition and resulted in lower volumes. In FY24, the company's primary focus is to return to its core value strategy, historically driven by a high-volume approach which supports low prices and high customer counts and volumes. Improved volumes, combined with some relief in commodity prices and the introduction of high-margin products, are expected to improve unit economics and deliver growth.

CEO Don Meij emphasises the importance of volumes, *"Our business has always been about a high-volume mentality. It's the leverage through more order count growth that our franchise partners win, and we ultimately win if they're winning… and that's where we lost it last year. We lost order counts. You can't make more money out of less customers, and that created a lot of pain in the business."*

Outlook

In the first seven weeks of FY24, Domino's reported 2.8% growth in SSS. Europe and ANZ both saw 6.6% SSS growth, while Asia experienced a 7.8% decline as pricing adjustments have yet to flow through to the customer. Domino's anticipates fewer new store openings as the business prioritises sales and volume recovery. The goal is to deliver improvements in unit economics and return to its stated new store growth outlook of 7%-9% during 2025.

Domino's Pizza Enterprise has a market capitalisation of $4.4b and net debt of $819m.

▪ Iress (ASX:IRE)

Iress reported a first half 2023 result that fell short of expectations with revenue rising 2% to $315.3m, while underlying net profit after tax fell 31% to $24.4m. The sharp fall in earnings resulted from a step-up in third party technology and employee costs, in addition to a subdued revenue outcome that was impacted by reduced spend across ancillary modules.

The company remains under a period of transformation, with non-recurring costs of $30.1m to deliver a technology uplift and transformation program. The benefits of these initiatives have yet to be reflected in the 1H cost profile.

Transformation

At Iress' April Investor Day, new CEO Marcus Price announced initiatives to reset the group's cost base. Management has been pleased with the execution to date, albeit underscoring the size of the task at hand. The company delivered cost savings of $47m, underpinned by group headcount reduction of 15%, which was greater than the 10% earmarked earlier this year.

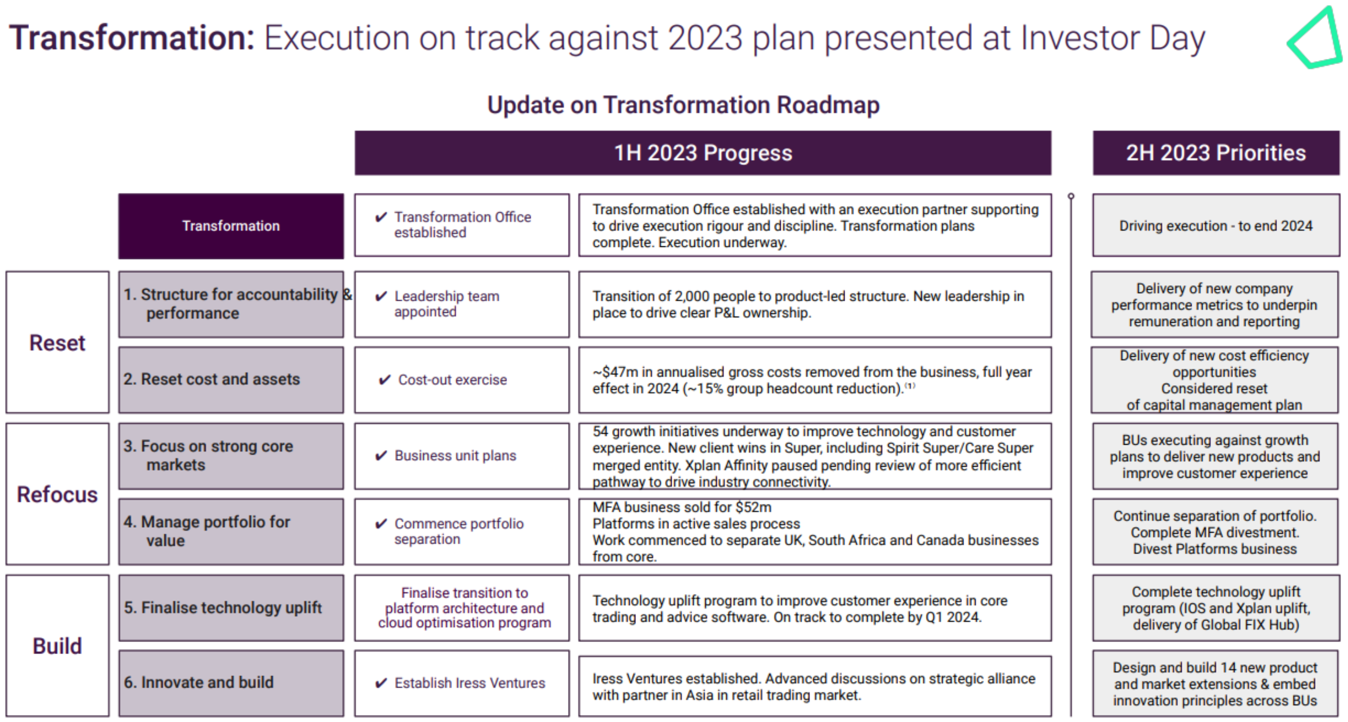
The result is a new organisational structure with direct financial accountability and a clear intent to refocus activities on the group's core businesses:

1. Wealth Management
2. Trading & Market Data
3. Superannuation

Businesses deemed non-core are being reviewed, with action already taken on the MFA business sold for $52m, while Platforms remains in the sales process. Iress is also separating its portfolio with focused leadership across UK, South Africa, and Canada markets while taking a private equity lens to empower local teams.

CEO Price notes, *"Some of these businesses have been in the group for quite a long time, and that disentanglement process takes a little bit of time. We've got to get that right. We want to understand the full potential of those businesses and think about what is the best future for them. So you'll see in the second half of 2023, a continuation of the separation of that portfolio. Obviously, the MFA divestment will be concluded, and we will be able to conclude the platforms business in the second half as well."*

Figure 10: Transformation highlights



Transformation: Execution on track against 2023 plan presented at Investor Day

Update on Transformation Roadmap

		1H 2023 Progress		2H 2023 Priorities
	Transformation	✔ Transformation Office established	Transformation Office established with an execution partner supporting to drive execution rigour and discipline. Transformation plans complete. Execution underway.	Driving execution - to end 2024
Reset	1. Structure for accountability & performance	✔ Leadership team appointed	Transition of 2,000 people to product-led structure. New leadership in place to drive clear P&L ownership.	Delivery of new company performance metrics to underpin remuneration and reporting
Reset	2. Reset cost and assets	✔ Cost-out exercise	~$47m in annualised gross costs removed from the business, full year effect in 2024 (~15% group headcount reduction).(1)	Delivery of new cost efficiency opportunities Considered reset of capital management plan
Refocus	3. Focus on strong core markets	✔ Business unit plans	54 growth initiatives underway to improve technology and customer experience. New client wins in Super, including Spirit Super/Care Super merged entity. Xplan Affinity paused pending review of more efficient pathway to drive industry connectivity.	BUs executing against growth plans to deliver new products and improve customer experience
Refocus	4. Manage portfolio for value	✔ Commence portfolio separation	MFA business sold for $52m Platforms in active sales process Work commenced to separate UK, South Africa and Canada businesses from core.	Continue separation of portfolio. Complete MFA divestment. Divest Platforms business
Build	5. Finalise technology uplift	Finalise transition to platform architecture and cloud optimisation program	Technology uplift program to improve customer experience in core trading and advice software. On track to complete by Q1 2024.	Complete technology uplift program (IOS and Xplan uplift, delivery of Global FIX Hub)
Build	6. Innovate and build	✔ Establish Iress Ventures	Iress Ventures established. Advanced discussions on strategic alliance with partner in Asia in retail trading market.	Design and build 14 new product and market extensions & embed innovation principles across BUs

Source: Iress 1H23 Results Presentation

Capital management

During the period, Iress recorded free cash flow of $20.7m, around half the amount in 1H22, due to non-recurring costs related to transformation of $30.6m and increased net interest of $8.3m. Net debt increased to $375.8m, which lifted the net debt to EBITDA ratio from 2.2 to 2.8x. Management has indicated an intention to reduce net debt by suspending its dividend and divesting non-core assets, while working towards a new capital management plan that would enable the business to sustainably return capital back to shareholders.

2023 Guidance

Iress expects 2H23 underlying EBITDA to be broadly flat with 1H23 due to a soft revenue outlook and continued cost pressures. While transformational savings will begin to flow through in 2H23, the full benefit will not be realised in calendar year 2023.

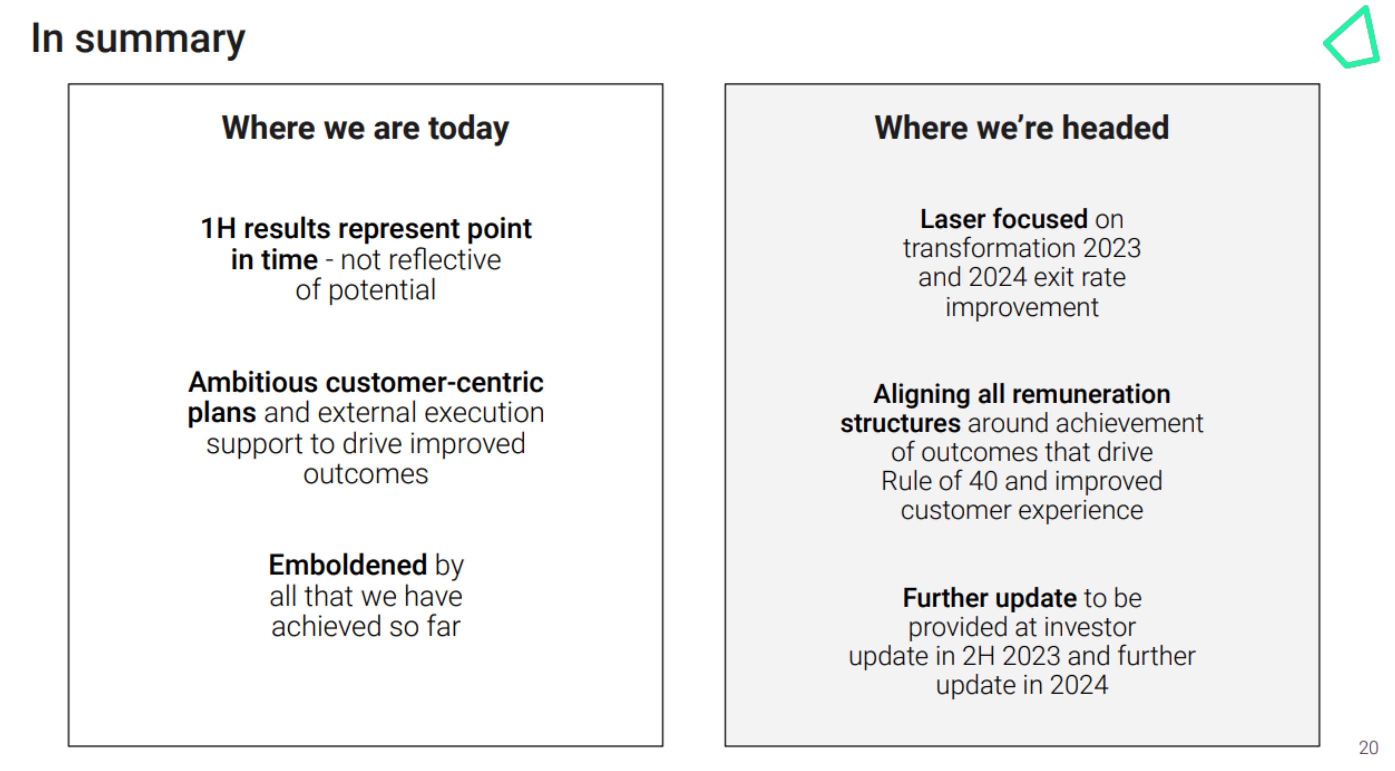
For calendar year 2024, the company expects completion to the business reset and is guiding to overall EBITDA growth of 5%-10%, but importantly pointing to an underlying EBITDA exit run rate of 20%-30% higher on a full year calendar 2023 profits.

In FY25, Iress expects to be a leaner operating business, having released capital, with a reset cost base, while operating its core businesses to the rule of 40 (where the company's combined annual growth rate and profit margin equals or exceeds 40%).

Figure 11 below depicts management's vision of the business today and where it is headed.

Iress has a current market capitalisation of $1b and a net debt leverage of 2.8x.

Figure 11: Iress summary



Source: Iress 1H23 Results Presentation

- ## James Hardie Industries (ASX:JHX)

In August, James Hardie, a global leader in fiber cement, announced an improved 1Q24 result. Group revenue declined 5% to US$954m, while adjusted net income increased by 13% to US$175m, surpassing the upper end of the US$145m-US$165m guidance.

The uplift in earnings was driven by record gross margins rising 5.2% to 39.1%, resulting from lower freight and input costs, as well as higher average net sales prices.

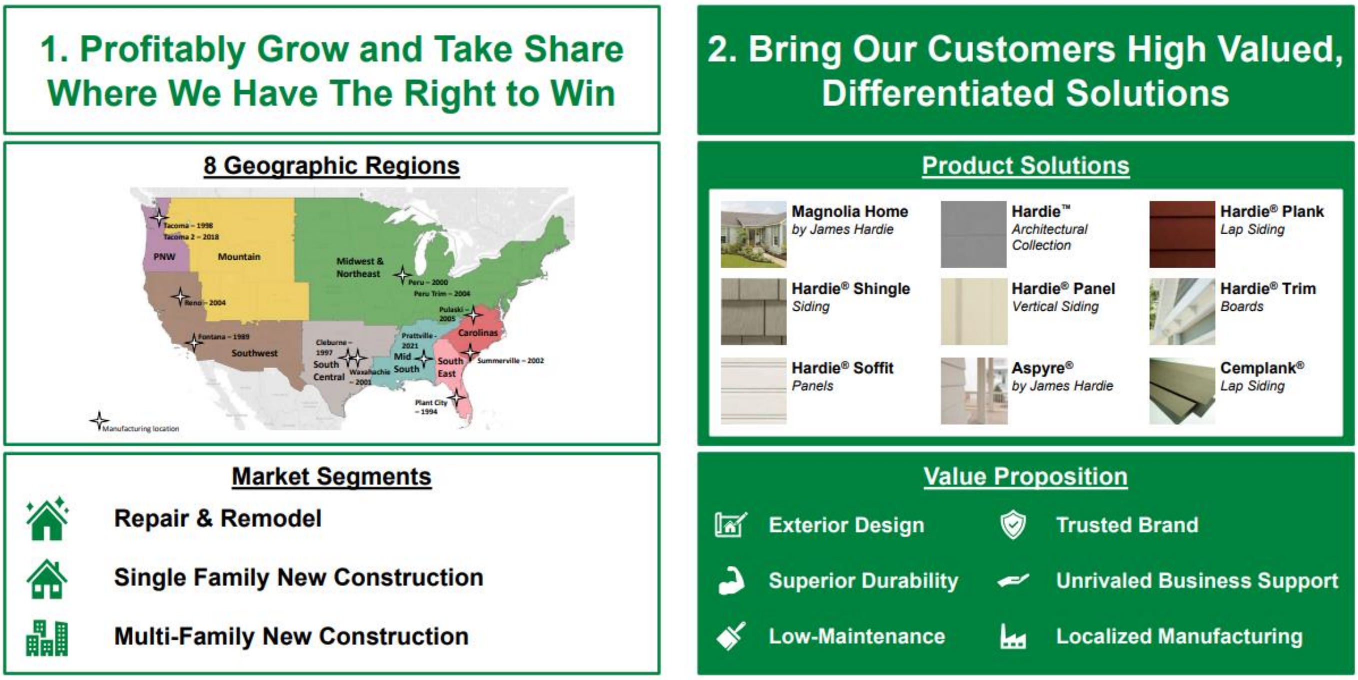
Strategy

James Hardie is balancing strategic investments in growth initiatives, such as brand marketing and sales support, with profitable earnings growth. This approach, coupled with better-than-expected volumes, resulted in a robust first-quarter performance. EBIT margins increased by 5.4% to 31.3% in North America (NA), 7.6% to 33.2% in APAC, and were flat in Europe at 9.9%.

Despite the industry's cyclical nature, James Hardie has consistently delivered organic growth through market share gains and price improvements. As a result, the company enjoys a dominant U.S. market position in fiber cement, reflected in its 85% wallet share of the top 25 U.S. builders. This is further enhanced with the group's recent exclusive national deal to supply the largest homebuilder in the U.S., D.R. Horton.

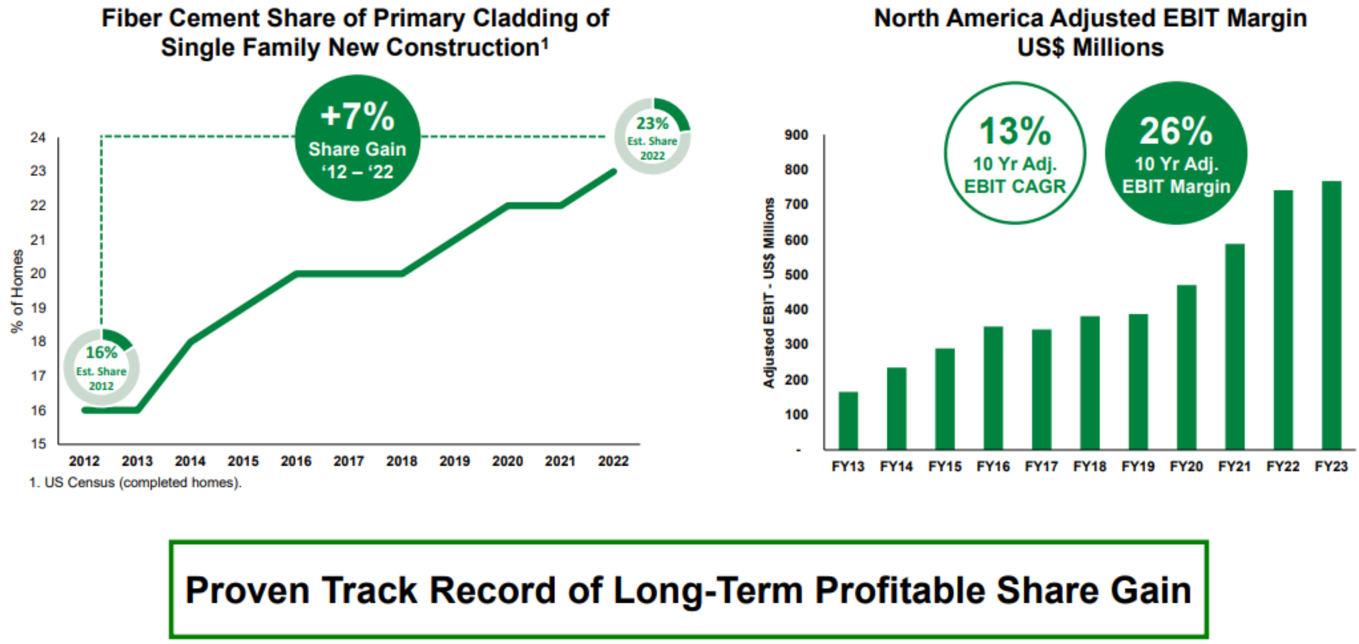
In this current environment, management is focused on continued market share gains across all regions (APAC, NA, and Europe) and segments (single-family, multi-family, and repair & remodel). The company remains confident in achieving this due to its diverse and differentiated product portfolio and strong value proposition, as illustrated in Figure 12 and Figure 13.

Figure 12: Strategic goals



Source: James Hardie Industries 1Q24 Results Presentation

Figure 13: Market share gains



Source: James Hardie Industries 1Q24 Results Presentation

Capital Management

James Hardie is refining its approach to capital expenditure, choosing to cancel the Rosehill pilot plan and the Truganina Greenfield expansion, both located in Australia. Instead, it will focus on brownfield (organic) capacity growth within existing manufacturing sites at Carole Park. These adjustments are expected to reduce total capital outlays without hindering the company's ability to meet market demand.

James Hardie maintains a robust balance sheet with a net debt leverage ratio of 0.85x. Additionally, cash generation is expected to improve as annual Asbestos Injuries Compensation Fund (AICF) payments reduce. This will provide the flexibility to continue to invest in organic growth while deploying excess capital through share buybacks.

Guidance and Outlook

Given the uncertain macro backdrop, James Hardie provided second quarter rather than full year guidance. The group expects Q2 NA volumes of 740-770m square feet, NA EBIT margins of 30%-32% and group adjusted net income of US$170-US$190m. The guidance indicates a strong second quarter and continued momentum.

James Hardie has a market capitalisation of $17.5b and net debt of US$948m. In the interim, the company has opted to replace ordinary dividends with a US$200m share buyback program.

- ### Nanosonics (ASX:NAN)

In August, Nanosonics, the global leader in infection prevention reported its full year 2023 results. Revenue increased 38% to $166m and earnings before interest and tax (EBIT) improved to $19.8m versus $1.8m in the prior corresponding period (pcp).

The result reflected a successful transition to a largely direct sales model in North America, which accounts for 91% of total revenue. Growth was achieved from strong upgrade sales within the GE customer base and better pricing on capital and consumables within this cohort. Management continues to see opportunity to optimise the Trophon installed base in North America as they get a deeper understanding of the customer needs.

For the year, North American upgrades increased 58% to 1,390 units, representing 77% of all new upgrades globally (1,810 units).

Global new installed base fell short of internal targets, down 16% to 2,600 due to reduced capital budgets in North America delaying purchases, and ongoing budget and hospital access challenges in Europe. Despite this, management remains confident it can return to the historical average of over 3,000 newly placed units in FY24.

Table 12: Nanosonics' financial highlights

	North America	**Europe, Middle East & Africa (EMEA)**	**Asia Pacific (APAC)**	**Group**
Total Revenue ($m)	150.4	8.1	7.5	166
Change	*41%*	*8%*	*27%*	*38%*
Capital revenue ($m)	48.9	1.9	3.3	54.2
Change	*46%*	*-10%*	*74%*	*44%*
Consumable revenue ($m)	101.4	6.2	4.2	111.8
Change	*38%*	*15%*	*5%*	*35%*
Installed base (units)	28,390	2,010	2,050	32,450
Change	*9%*	*10%*	*8%*	*9%*
Upgraded units	1,390	190	150	1,810
Change	*58%*	*-39%*	*7%*	*81%*
Installed base penetration	47%	5%[1]	5%[1]	23%

Source: Company Announcements

1. *23% market penetration in the U.K. Greater than 85% in Australia and New Zealand*

Trophon profitability

In the results presentation, management provided an unaudited financial summary of the Trophon business to highlight the platform's underlying profitability. For the year, operating profit margins more than doubled to $38.9m.

In new market development, management has prioritised China and Japan. Over the year Nanosonics progressed on its Trophon commercialistion in China, lodging the necessary documentation for regulatory approval. Management is targeting approval in FY24 with sales to occur from FY25.

In Japan, market awareness and protocol development has been slow. Nevertheless, the team of 14 dedicated staff are seeing improvements in building out clinical activity and awareness in efforts to establish national high-level disinfection guidelines for ultrasound transducers.

In R&D, investment on new product development outside Trophon totalled $22.5m, primarily in the company's net product platform CORIS. This investment represents 76% of total FY23 R&D spend, which is fully expensed.

Figure 14: Trophon business financial summary

TROPHON BUSINESS

nanosonics

Unaudited Pro forma Profit and Loss

A significant proportion of the Company's operating expenses are associated with future earning opportunities from new product development and expansion. Presented below is the profitability profile of the current core trophon business without those product expansion investments.

Excluding operating expenses of approximately $22.4 million[1] associated with the development and commercialisation preparation of the CORIS technology, the profit before tax of the current trophon business in FY23 was approximately $44.0 million.[1]

$ million	FY23	FY22	% Change
Revenue	**166.0**	**120.3**	▲ **38%**
Gross profit	**130.6**	**91.9**	▲ **42%**
%	78.7%	76.4%	
Operating expenses	**(91.7)**	**(76.1)**	▲ **20%**
Operating expenses as a % of sales	55.2%	63.3%	
Operating Margin	**38.9**	**15.8**	▲ **146%**
Other income	1.3	0.5	▲ 160%
Other gains/(losses)-net	1.9	(0.1)	
Earnings before interest and taxes	42.1	16.2	▲ 160%
Finance income-net	2.0	(0.2)	
Operating profit before tax	**44.0**	**16.0**	▲ 175%
Income tax expense[2]	(11.5)	(4.1)	▲ 180%
Profit after income tax	**32.5**	**11.8**	▲ 175%

This includes all operating and investment costs associated with developing emerging trophon markets that do not currently contribute significantly to revenue as well as R&D associated with the trophon technology roadmap.

As the trophon business continues to grow, improvements in operating leverage are being achieved with operating expenses as a percentage of sales reducing to 55.2% in FY23 from 63.3% in FY22.

The pro forma profit before tax of $44.0 million in FY23 represents 26.5% of revenue demonstrating the strong underlying profitability of the stand-alone trophon business.[1]

After adjusting for the after-tax impact of the CORIS investments, the return on equity of the trophon business is approximately 22%.[3]

1. The pro forma profit and loss statement is unaudited and reflects total Company results less operating costs associated with new product development and commercialisation. Operating costs reflect unaudited management allocation estimates where resources are shared between trophon and new product development and commercialisation. The pro forma profit and loss statement also includes income received from the Jobs Plus Program.
2. Effective income tax expense for the trophon business is the difference between the total Company income tax less tax benefit attributable to CORIS investments which was calculated by applying Australian corporate tax rate and the maximum R&D tax offset rate.
3. Return on equity is calculated based on the pro forma profit after income tax of the trophon business divided by the average equity for FY23.

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Source: Nanosonics FY23 Results Presentation

CORIS opportunity

CORIS is the group's next platform designed to reprocess reusable flexible endoscopes. The device aims to address the limitations of manual cleaning through a highly automated process. Early data points from CORIS show superior disinfection compared to manual reprocessing, setting new benchmarks in endoscope cleaning efficacy.

Nanosonics reported the U.S. Food and Drug Administration (FDA) have notified that human factor testing, which was initially scheduled to take place in Australia, is now required to be completed in the U.S. This has pushed out FDA submission plans to 3Q FY24 and subsequently delayed the timing of global commercial rollout.

Importantly, the fundamentals behind CORIS adoption are known, with clinical guidelines and endoscope reprocessing requirements already established in all major markets.

Outlook

The company ended the full year in a strong financial position with $112.2m of cash and no debt. For FY24, management has guided to revenue up 15%-20%, a gross profit margin of 75%-77% and operating expenses including the commercialisation of CORIS of 17%-22%. Management also expect the Trophon business to experience further operating margin improvement with revenue growth outpacing costs.

Nanosonics has a market capitalisation of $1.3b.

▪ REA Group (ASX:REA)

Leading digital real estate advertiser, REA Group reported a solid FY23 result with revenue rising 1% to $1.2b and net profit after tax down 9% to $372m. The performance was impacted by national market listing volumes down 12% in Australia and increased losses in India. Group EBITDA margins fell from 58% to 55%.

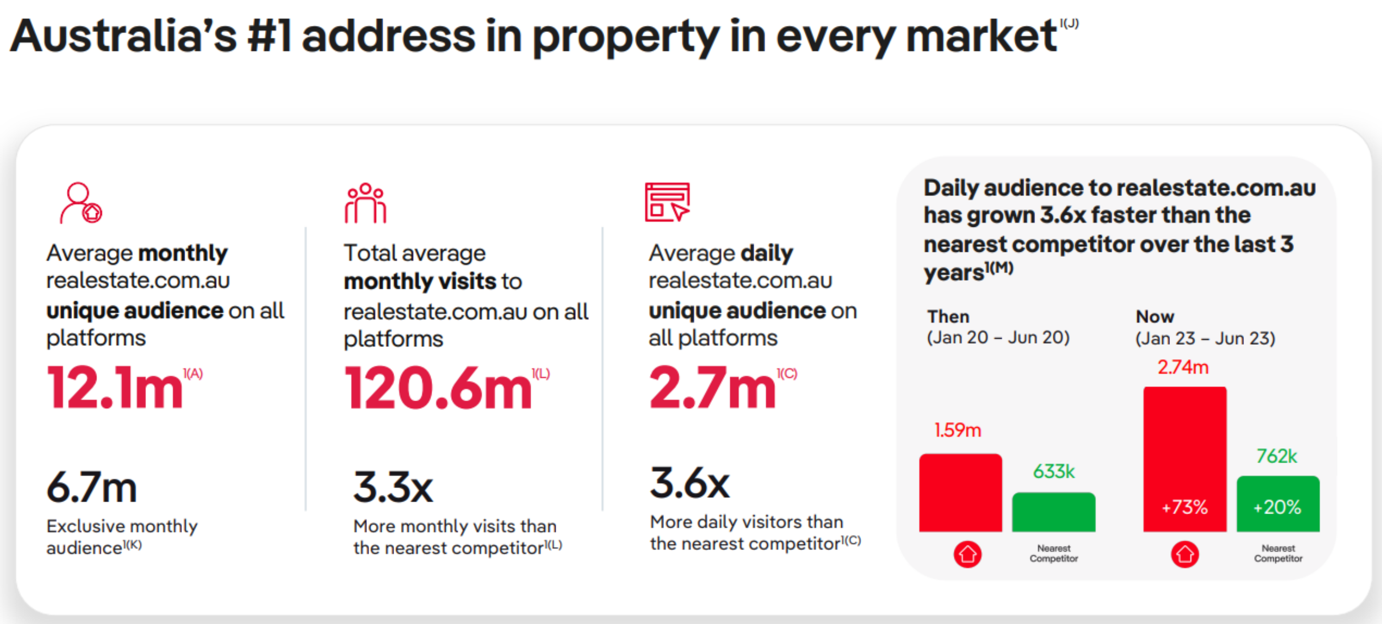
Australia

REA Group has cemented itself as the dominant online real estate portal in Australia, as shown in Figure 15.

Consumer platform engagement continues to strengthen, with REA recording an 18% rise in active members, a 51% increase in properties tracked (totaling 3.6m), and an average of 2m monthly buyer enquiries. Using AI for personalised experiences further enhances the company's position as the top choice for agents, home sellers, and buyers.

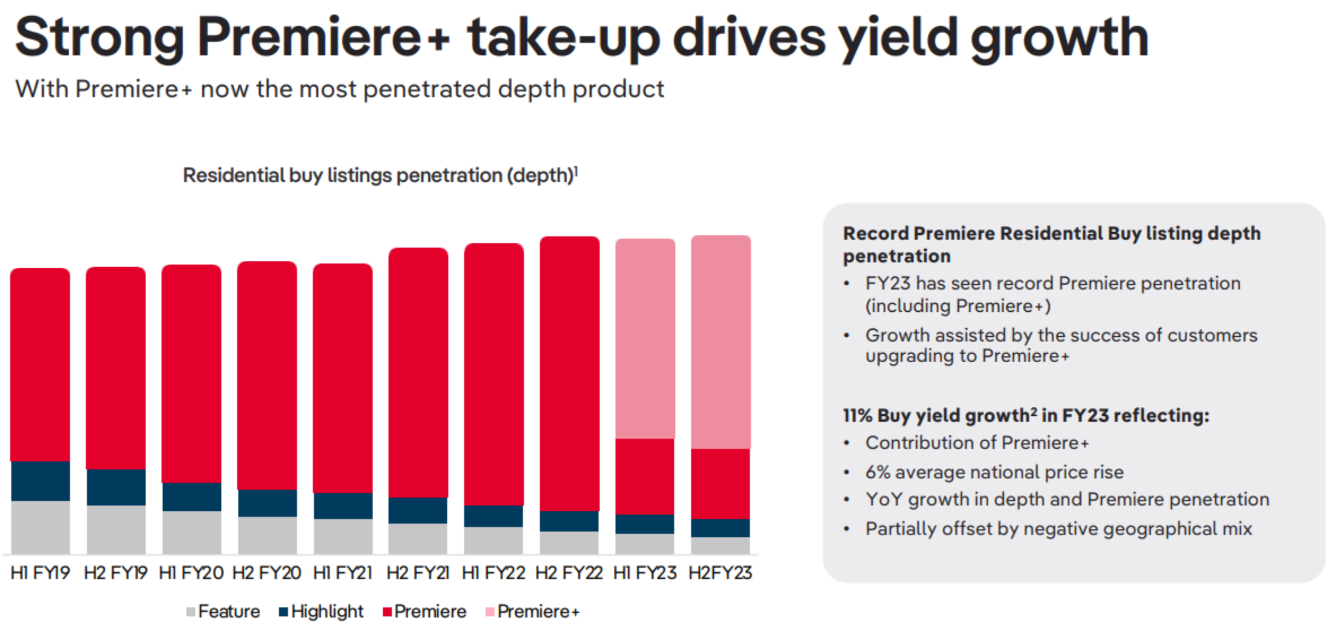
REA monetises this dominant position through value-added product enhancements and price adjustments. This is reflected in the release of Premiere+, the company's highest value-added product. Launched during 2023, the product has enjoyed remarkable adoption, as demonstrated in Figure 16.

Figure 15: Audience metrics



Source: REA Group Sustainability Report

Figure 16: Depth uptake



Source: REA Group Sustainability Report

Figure 17: Property Coach overview

Property Coach

We have a deep understanding of the property journey at REA. A survey conducted in May 2023 shows 3 in 4 Australians who think about selling don't go on to sell their property. This represents a huge opportunity for REA Group and our customers. In FY23, we launched Property Coach, a human-based service offering on property.com.au. Property Coach helps consumers navigate the buy/sell journey by providing advice on taking the next step, connecting them with the right experts, including real estate agents and mortgage brokers, at the right time and helping to empower more owners to list their properties for sale.

INTRODUCTIC

Source: REA Group Sustainability Report

Secondly, REA enjoys incredibly strong pricing power, having implemented a 13% average national buy price rise as well as an 8% increase in its rental product segment. While listing volumes remain uncertain, REA has shown it can consistently enhance yield and grow the business throughout market cycles.

To drive higher volumes REA is undertaking several new initiatives. These include Property.com.au, PropTrack (data), Property Coach, and AI products that stimulate market demand by enhancing seller knowledge and boosting confidence. Management notes around 40% of the approximate 1m vendors looking to sell will list their properties. The opportunity is to help convert a greater portion of the 60% that don't list, with even a 10% uplift being material to REA's revenue.

During the full year, Residential revenue fell by 1% to $814mm, representing 69% of the total revenue.

Adjacent Revenue Streams

Additional revenue streams include Agency Services, Financial Services, and Data which have significant long-term potential. REA has a competitive advantage through its ability to leverage its dominant property market position.

In FY23, REA introduced its long-awaited Agent Pro subscription, a product aimed squarely at real estate agencies. An annual subscription paid by agents is expected to deliver quality new listing leads, differentiated data insights, and improved branding.

India

With a 78% shareholding in Housing.com, REA is looking to replicate its local success in India. The company is ranked as the number one property site by audience leads through its primary brand, holding 1.3 times more visits than its closest competitor. The company has sustained its investment commitment, as it looks to expand into Tier two cities, while investing in product and targeted marketing. As a result, REA India recorded increased operating losses of $39m during 2023. In FY24 the company expects India EBITDA losses to be lower compared to FY23.

Outlook

For 2024, REA expects to report strong revenue growth, resulting from double-digit price rises and greater adoption of value-added products, more than offsetting the expected low to mid-teens growth in operating expenses.

REA Group has a market capitalisation of $18.2b and net debt of $59m. The company recorded full year dividends of 158c per share, representing a payout ratio of 56%.

- ## ResMed (ASX:RMD)

In August, ResMed, a leading provider of medical devices, masks, and software for out-of-hospital care, reported its fourth quarter and full year 2023 result.

For the full year, ResMed recorded group revenues of US$4.2b up 21% constant currency (cc), operating profits of US$1.1b up 13%, and non-GAAP net income of US$949.8m, representing a net income margin of 22.5%.

For the quarter, group revenue rose by 23% in cc to US$1.1b, while underlying net income lifted by 18% in cc to US$229.7m.

CPAP sleep device sales increased in the quarter, driven by both improved supply chain conditions, enabling a significant ramp up in production, and unprecedented demand following a competitor's product recall. With component supply normalising, the company can now meet all patient device demand globally with its AirSense 10 and AirSense 11 platform, the top two devices in market.

ResMed continues to scale availability of its 'best-in-class' AirSense 11, which will gain further geographic regulatory approvals over the coming year. As a result, global device revenue grew by 24% in cc to reach US$602.4m, with Americas device revenue increasing 30% to US$387.2m.

Global masks and Other revenue grew by 18% in cc to US$381m, driven by strong resupply from existing patients and new patient demand. Recurring mask sales represents approximately 70%-80% of mask demand, while patient compliance and 90-day adherence rates on CPAP devices sits above 87% as more patients adopt the group's cloud enabled platform, myAir.

Software as a Service (SaaS) revenue lifted 34% in cc to US$138.6m, including $27.3m from the recently acquired MEDIFOX DAN, meeting expectations at the time of acquisition. The existing SaaS portfolio sustained strong organic growth of 8%.

Gross Margins

Comparative quarterly gross margins declined from 57.8% to 55.8%, due to a greater mix of lower margin device sales, component cost increases, and negative foreign exchange movements, partially offset by higher average selling prices. Specifically, very strong unit sales of devices and masks, to meet unprecedented demand, was booked against higher inventory costs secured during the COVID-induced component squeeze.

To that end, gross margins are expected to return to historical levels of around 60% over the near term through improved product mix and normalising input and freight costs.

CEO Michael Farrell reiterates this view, *"As we move through fiscal year 2024, I see improvements in our business margins with geography mix, with product mix and specifically with strong bilevel and noninvasive ventilator growth, with strong mask growth and with increased software solutions growth. All these business lines are margin accretive to our group. I also see that the higher inventory costs and freight costs that we've seen through the supply chain crisis continues to work their way through our sold products. And as we progress through the fiscal year, we will continue to drive the transition to AirSense 11, and we will gain regulatory approvals and we will scale production."*

Philips Recall of DreamStation 1 CPAP (Continuous Positive Airway Pressure) devices

In its July 2023 quarterly update, Philips confirmed approximately 99% of the 5.5m replacement devices and repair kits had been produced, with the majority already sent to patients and home care providers. Philips remains under investigation by the U.S. Department of Justice regarding a proposed consent decree and several class-action lawsuits.

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. Historically, ResMed and Philips together supplied more than 90% of the U.S. market for CPAP devices.

Somnoware acquisition

In July, ResMed announced the acquisition of Somnoware, a privately held U.S. leader in sleep and respiratory care diagnostics software. The software simplifies and optimises the tasks of physicians, sleep labs, and pulmonary function testing labs. It assists with diagnosing and assessing a patient's sleep and respiratory care test results, managing equipment orders, scheduling appointments, and monitoring compliance, all within the Somnoware platform.

The acquisition complements the current software ecosystem, which includes AirView for providers and physicians, and Brightree for home care providers. The result is greater efficiency, improved patient care, and an enhanced overall customer experience.

The financial terms of the transaction are not significant to the group's financial results and remain undisclosed. Going forward, ResMed anticipates allocating additional funds for tuck-in acquisitions.

Medium-term growth

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. Research and development (R&D) investment is anticipated to remain consistent with prior years, ranging from 7%-8% of revenue in FY24. In 2023 the company invested and fully expensed US$288m in R&D.

Once a patient is diagnosed, ResMed is well positioned to capture demand as it has the number one and two platform offerings. The company continues to enhance its market-leading AirSense 10 and 11 solutions with data and AI to drive the next leg of differentiation. For example, several AI-driven coaching features are being added across its ecosystem, providing personalised suggestions that deliver better engagement and adherence for its patients, physicians, and providers.

CEO Farrell highlights the significant value ResMed is creating, *"We now have over 15.5 billion nights of medical data in the cloud, and that data comes from over 21.5 million, 100% cloud connectable medical devices on bedside tables in 140 countries worldwide. We continue to lead the industry in digital health and we don't plan to stop anytime soon because there's so much opportunity ahead of us."*

Recent updates: Glucagon-like peptide-1 (GLP-1) drugs

Recent concerns around obesity drugs known as GLP-1s have impacted sentiment, as investors weigh the long-term outcomes for sleep apnea. ResMed believes the relationship between sleep apnea and weight loss is non-linear, with age, gender and facial structures as other contributing factors. The company is monitoring the situation, having identified 17,000 patients on GLP-1s, with no significant drop-offs to date. Notably, the sleep apnea market remains highly underpenetrated, with a global total addressable opportunity of one billion patients. The U.S., the most mature market, has approximately 20% of patients diagnosed.

Recent updates: Philips – Food & Drug Administration (FDA) comment

On 5 October 2023, the U.S. Federal Agency of the Department for Health and Human Services updated its website regarding the June 2021 product recall of certain Philips Respironics products, including ventilators and CPAP devices.

From the perspective of the FDA the situation remains fluid and ongoing, despite the company providing positive commentary in its most recent update to the market.

The FDA also noted, "*The FDA remains unsatisfied with the status of this recall, and we continue to take steps to protect the health and safety of individuals using these devices.*"

Summary

ResMed has a market capitalisation of US$26.3b and net debt of US$1.2b. The company declared an increased quarterly dividend of US48c per share.

▪ WiseTech Global (ASX:WTC)

Leading provider of global logistics software, WiseTech Global, reported a strong FY23 result with group revenue rising 29% to $816.8m and underlying operating earnings (EBITDA) increasing 28% to $412.1m. Revenue from its core platform CargoWise rose 41% to $659.6m, while non-CargoWise revenue fell 5% to $157.2m. Notably, the company now classifies 96% of revenue as recurring, reflecting the highly predictable nature of company earnings.

The company recorded EBITDA growth excluding M&A contributions of 26%, while expanding margins by 2% to 53%. WiseTech continues to focus on driving operational efficiencies, with the business targeting an additional $40m company-wide cost efficiency program in FY24.

Operationally, financial year 2023 was strong. The business delivered 1,130 product enhancements, and new customer wins, including the significant signing of a global customs rollout contract with FedEx.

WiseTech's long-term vision to become the operating system of choice for logistics was reflected in the acceleration of the company's development capability, with the R&D team growing from 1,000 to 1,800, representing 60% of all employees. This investment is accelerating the development of products across customs, landside, and logistics to deliver a fully digitised logistics solution.

Customs

The acquisition of 25 vendor custom solutions, combined with an investment of $250m in R&D, has culminated in the build out of a global customs solution currently covering 55% of all international trade, with 70% earmarked post recent acquisitions. WiseTech's global offering has a single interface and architecture, giving it a substantial competitive advantage. It is a significant step change as the global solution removes manual work while helping users avoid costly fines through automation. The goal is to achieve 90% coverage in due course.

Securing a global customs rollout deal with Kuehne + Nagel (K+N), the number one freight forwarder, and FedEx has provided an important and significant validation of the product solution. These deals are the first of its kind due to its global nature and are seen as watershed moments that should bring other players to the platform.

Landside logistics

WiseTech is accelerating its development in landside logistics, otherwise referred to as the transport and handling of cargo and goods by road, rail, or inland waterways. The recent acquisition of Envase and Blume are complementing the CargoWise offering, adding capabilities that digitally link the logistics ecosystem in North America. Blume, in particular, has a strong presence in the market that would have taken decades to replicate or displace.

These acquisitions fast-track WiseTech's ability to digitise the traditionally manual process of landside logistics, increasing efficiency and reducing user costs.

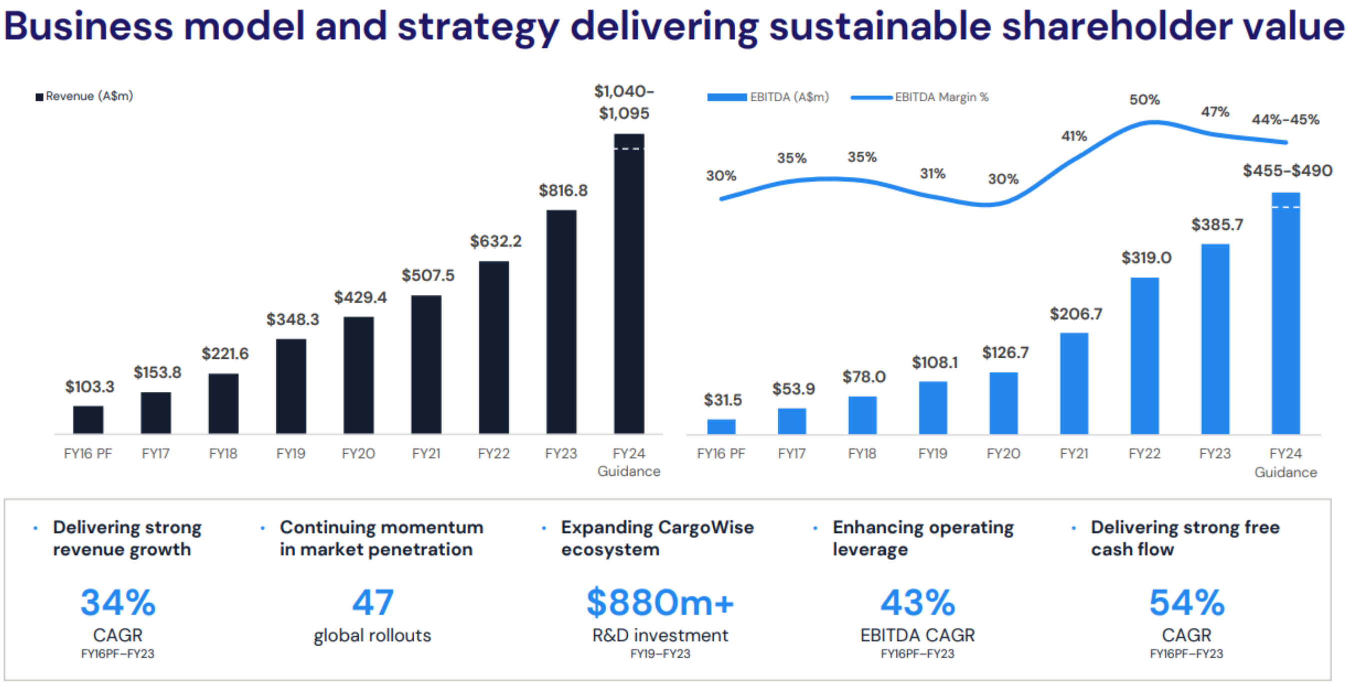
Guidance

For FY24, WiseTech has guided for revenue of $1,040m-$1,095m, up 27%-34%, EBITDA of $455m-$490m, up 18%-27%, and EBITDA margins of 44%-45%, down 2%-3%. Near-term operating margins contraction reflects the full-year impact of Shipamax, Envase, and Blume acquisitions, which are lower margin and yet to be fully integrated into the CargoWise ecosystem.

The company expects to rectify this margin dilution through a 5% cost improvement across these businesses. The business has a proven track record of delivering this, as seen in Figure 18, and the subsequent margin improvements following acquisitions in FY18 and FY19. Management remains confident they can return the business to 50%+ operating margins in FY26.

WiseTech has a market capitalisation of $21.4b, and net debt of $82m. A full year dividend of 15c per share was declared, representing a 20% underlying net profit payout ratio. ***SFM***

Figure 18: History of financial returns



Source: WiseTech FY23 Results Presentation

MIND THE GAP

"The big money is not in the buying or the selling but in the waiting."

Impatience

The greatest mistake investors make is exiting a business mid-stream. We have seen enough over our investing lifetime to know the pursuit of constant performance gratification will come at the expense of companies that are genuine long-term profit compounders.

Investor impatience, which seeks to profit from every trade, be positioned for every economic cycle, and avoid every business disappointment, is a common thematic in the marketplace.

Patience

Not every investment will work out as planned, but some will work out spectacularly well, more than making up for occasional disappointments.

The constricting factor is always time. Companies that truly succeed take time and investment. It also explains why patience is the most unappreciated aspect of investing.

Business reporting season

It has been three years since COVID-19 first interrupted daily life. Everyone has needed to adapt, but for one group the challenges have been without precedent. Within that context, the 2023 full year reporting season holds even more significance.

Generally speaking, when companies present their annual performance scorecard, the only thing that seems to matter to market analysts is whether market expectations have been met, followed closely by the earnings outlook.

Such a narrow focus is bound to lead to disappointment. Cast the financial performance timeframe a little wider and the conversation takes on more meaning.

The financial tables shared below of companies held within the portfolio consider just that. Using three data points – 2015 as a base, 2019 being the pre-COVID era, and 2023 – it provides a reference point for judging past performance and more importantly, business momentum coming out.

This is most evident in the healthcare sector. All the operators mentioned (Cochlear, CSL, Fisher & Paykel Healthcare and ResMed) suffered from component shortages or constrained plasma volumes during COVID.

The perfect storm of business disruption, higher costs, and lower margins impacted financial outcomes. However, as the 2023 results rightly highlight, these businesses have emerged stronger, more confident and with momentum behind them.

By and large, it is a situation repeated in most of our investments as discussed below.

Widening the gap

If there is one financial metric in the company accounts that gets our utmost attention it is the level of reinvestment undertaken in any given year, expressed as a percentage of revenue.

Research and Development (R&D) expenditure rarely enjoys the same level of exposure the profit and loss number generates, but it remains a leading indicator of future performance for two basic reasons.

The first speaks to company management and their priorities. Sustaining a level of reinvestment even during difficult economic conditions is a real test of whether short-term profits and performance are a higher priority than striving for long-term differentiation.

The second is the sheer quantum of funds committed. Dollars spent does not tell the whole story because it lacks sufficient transparency or rigour on actual output. Nevertheless, it remains an important leading indicator of future profitability.

During this reporting season, the likes of Cochlear, ResMed, Breville, WiseTech, and Aristocrat, to list just a few, delivered both strong profit performance and stepped up their R&D investment.

In the case of Cochlear, 13% of group revenue, or $244m was reinvested and fully expensed during the year. This compares to its bottom-line underlying net profit of $305m, up 10% for the year.

Go back five years and R&D investment was closer to $184m. The company's consistent spend on R&D and focus on delivering long-term sustainable value explains why it has widened the gap considerably among its competitors and achieved a global market share of over 70% in developed countries.

When you centre the discussion around this core output, rather than a point-in-time price to earnings multiple, you soon appreciate the inherent value or long-term profit latency within an organisation focusing on long-term financial sustainability versus short-term targets.

Wrong incentives, wrong outcomes

Interestingly, it is a point lost on even the most professional investors and industry analysts who fixate on short-term targets.

It matters little that company management teams can massage their numbers to meet market consensus numbers to appease the masses.

Even our industry superannuation funds have fallen into the trap of short-term thinking due to the government's annual performance testing, which *"measures how the fund has performed against a range of asset class benchmarks, not whether it is achieving its objectives or meeting its member's expectations. Funds that fail the test two years in a row can no longer accept new members."*

Even though it is designed to improve long-term member outcomes by exposing serial under-performers, it promotes the opposite behavioural outcome among all participants. That is, avoiding short-term underperformance for fear of bad publicity or worse closure to new members.

The quote from Charlie Munger, *"Show me the incentive, I'll show you the outcome,"* talks to the long-term problems that arise when you set targets that lead to unintended consequences.

The industry's annual reporting season's obsession for companies to hit consensus profit targets and the superannuation industry's annual performance test are illustrative of the wrong incentives, promoting the wrong long-term outcomes.

Fortunately, not all companies and management teams operate in this manner. Despite the market pressure to bend, a collective operate according to their long-term aspirational pursuits.

That is not to say they abdicate their short to medium-term obligations to investors. Instead, the overwhelming focus is dictated by what is good for the business long term.

A case in point is the global leader in freight forwarding logistics software, WiseTech. The group maintained its impressive performance track record during 2023, delivering financial numbers ahead of expectations. It also reinvested $262m in R&D, or some 32% of the group's $818m in revenues, and announced the expansion of its product and development team from 1,000 to 1,800, driven by organic growth and business acquisitions.

The company, led by founder and major shareholder Richard White highlighted the importance of such a significant ongoing investment despite the short-term profit margin implications.

"Our deep move into Landside Logistics as a result of our strategically significant acquisitions of Envase Technologies and Blume Global is delivering breakthrough capabilities, at scale, creating significant growth opportunities.

We have also accelerated our development capability over the year, growing our product development team from just over 1,000 team members at the beginning of FY23 to now over 1,800. This incredible growth means that 60% of our global team is now focused on accelerating our product development. Our vision is to be the operating system for global logistics, and we have made significant progress in realizing that vision with the release of our CargoWise Warehouse Suite and CargoWise Neo."

The subsequent 20% plus decline in WiseTech's share price post the result release was a direct response to the company's heightened valuation heading into reporting season and its 2024 profit outlook.

In short, despite guiding growth in revenues to over $1.0b for 2024, and even with an uplift from 18% to 27% in operating profits (EBITDA) to $455-$490m, the numbers disappointed analysts who were anchored to higher consensus estimates.

Market analysts were quick to cut the group's valuation, led by Macquarie Group dropping its target from $90 per share to $59. Going into reporting season, the same analysts had lifted the company's valuation from $57 per share to $90, having extended the discounted cash flow model used in its analysis from the year 2030 to 2040.

It matters little to us that such valuation methods are so commonly adopted. More staggering though, it highlights the silliness of an industry that can undertake company modelling looking out 17 years with such precision and yet change course at the drop of a hat.

Far better to back the reasoning of management teams, and in this case, a co-founder who is prepared to put long-term business aspirations ahead of short-term profit and margin targets.

The following section considers the progress of companies from 2015 through COVID and beyond.

Company profiles 2015-2023

Please note that all figures are in reported currency, millions unless otherwise stated.

Cochlear (AUD)	FY15	FY19	FY23
Revenue	926	1,427	1,936
Gross Profit margin	**70%**	**75%**	**75%**
EBITDA	237	409	470
margin	*26%*	*29%*	*24%*
NPAT	146	277	301
margin	***16%***	***19%***	***16%***
Net debt (cash)	141	103	(556)
leverage ratio	0.6	0.3	(1.2)
R&D	**128**	**184**	**245**
% revenue	***14%***	***13%***	***13%***
Shares on issue	57	58	66
EPS (cents)	255	480	458

WiseTech Global (AUD)	FY15	FY19	FY23
Revenue	70	348	817
Gross Profit margin	**84%**	**81%**	**86%**
EBITDA	33	134	386
margin	*48%*	*39%*	*47%*
NPAT	2	54	212
margin	***3%***	***16%***	***26%***
Net debt (cash)	(13)	(259)	82
leverage ratio	(0.4)	(1.9)	0.2
R&D	**31**	**113**	**262**
% revenue	***44%***	***32%***	***32%***
Shares on issue	244	318	332
EPS (cents)	0.0	0.17	0.64

Breville (AUD)	FY15	FY19	FY23
Revenue	527	760	1,479
Gross Profit margin	**33%**	**36%**	**35%**
EBITDA	77	114	218
margin	***15%***	***15%***	***15%***
NPAT	47	67	110
margin	*9%*	*9%*	*7%*
Net debt (cash)	(33)	(10)	121
leverage ratio	(0.4)	(0.1)	0.6
R&D	**42**	**83**	**194**
% revenue	***8%***	***11%***	***13%***
Shares on issue	130	130	143
EPS (cents)	0.36	0.52	0.77

Breville

Breville has been on a three-stage journey since Jim Clayton took over as CEO in 2015. The first phase ran from FY16-FY19, with CEO Clayton beginning to centralise global functions (R&IT, Marketing and Supply Chain operations) into a single technology and supply chain platform. Historically all functions were replicated across each region.

This decision would create the infrastructure required to scale the business and grow over the long run. As CEO Clayton noted, *"To be a long-term sustainable innovation-driven product company, Breville needed to evolve its business model to invest a materially higher percentage of OPEX in marketing and R&D."* Over this period, R&D spend as a percentage of revenue increased from 8.4% to 11%.

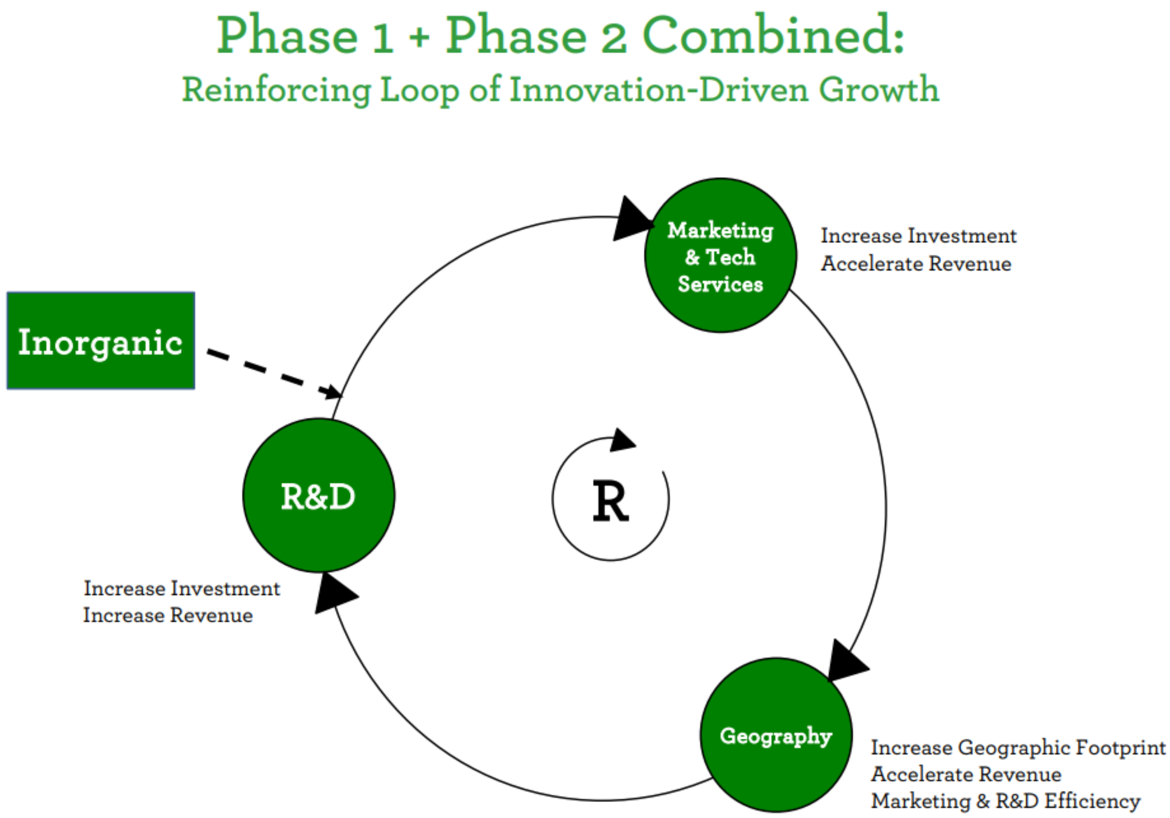
Phase two focused on growing Breville's addressable market through geographic expansion. Since 2019, Breville has entered 17 new countries with a direct go-to-market model. These new regions are seen as annuities, given the products long shelf life and relatively non-discretionary characteristics.

Phase one and two combined have created a flywheel effect for the company.

The final phase is to evolve the company into a solutions business within the Coffee and Cooking categories. Marked for FY24, this initiative aims to create an end-to-end solutions ecosystem for each division.

To succeed in the transition, the company requires an outcome-based offering rather than supplying a piece of hardware to the customer. The change requires complete global alignment across product, content, services, manufacturing, and distribution.

Figure 19: Flywheel of innovation driven growth



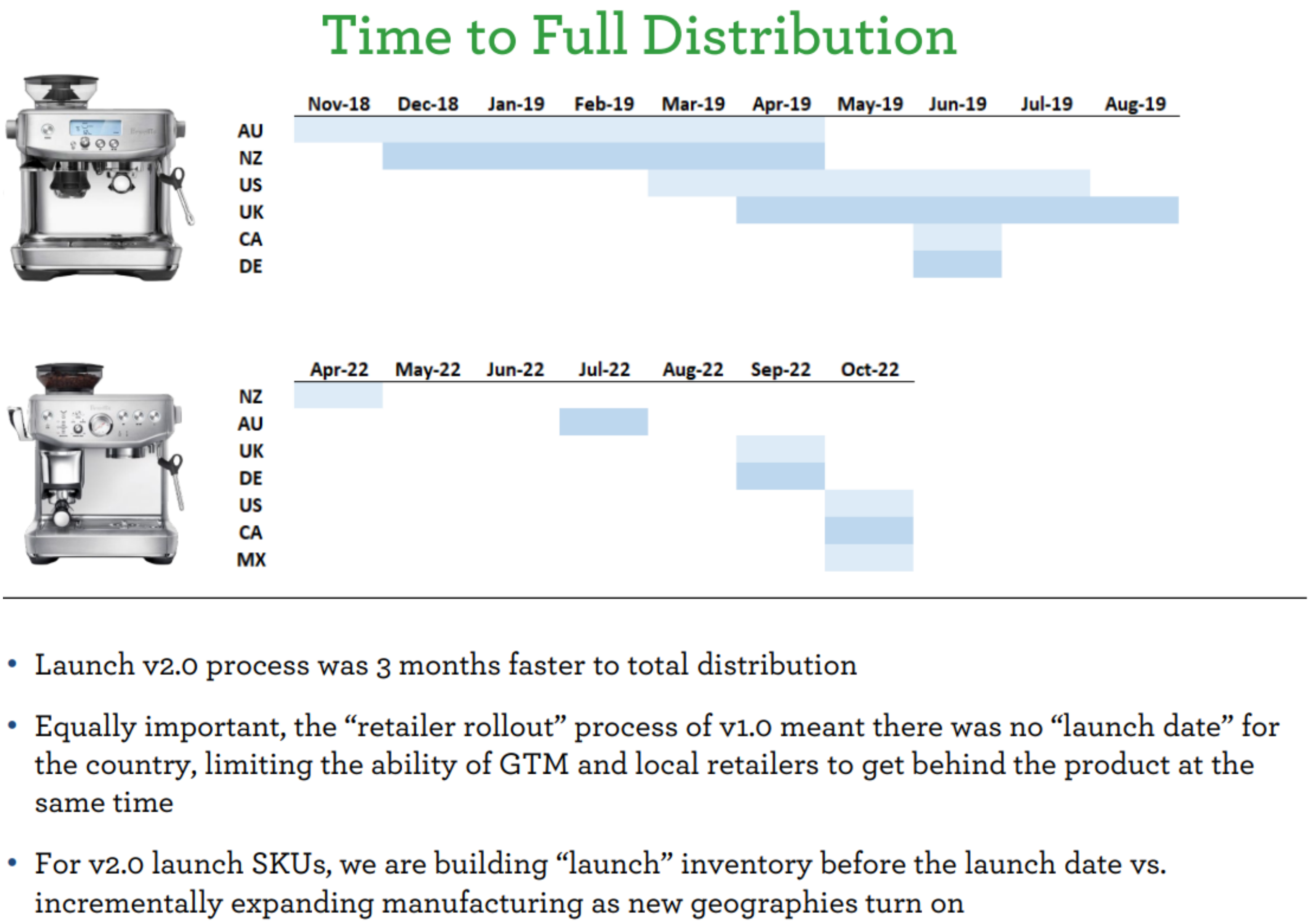
Source: Breville Macquarie Conference Presentation

COVID pivot

The onset of COVID and the resulting supply-constrained environment provided an opportune moment for Breville to redirect all marketing spend and resources to build a single global go-to-market platform and one global instance for Product, Customer Relationship Management (CRM), and Enterprise Resource Planning (ERP).

Completed in FY22, this significant upfront investment has delivered faster global product rollout capabilities and materially reduced the level of operating expenses required. As a result, Breville is investing more in product, marketing, and technology while maintaining operating profit margins.

Figure 20: Launch 2.0



Source: Breville Half Year 2023 Results Presentation

Importantly, this investment was not at the expense of product development. Breville has exited COVID with a deep product pipeline and an emerging solutions ecosystem for the Coffee and Cooking market.

The idea of a solutions model began in 2019 when Breville acquired ChefSteps, a content and connected hardware (Sous Vide) company. It wasn't until 2023 that Breville announced the full rollout of its connected ecosystem under the Breville+ brand. This end-to-end offering includes the physical hardware, a platform of 100+ guided recipes bespoke for Breville's cooking products, plus live and on-demand product sessions with experts.

Breville+ is launching first in the U.S. this calendar year.

For the coffee market, Breville's solution model adds a dedicated subscription marketplace for customers to source high quality beans from a select number of local roasters under the Beanz brand. This offering is live across the U.S., Australia, and the U.K.

Breville has also introduced up to US$200 credit on all manual expresso machines for consumers who purchase a year's worth of coffee bags from Beanz. This final step ensures Breville can give customers café made coffee at home every time.

The solutions ecosystem buildout marks an important milestone for the business. The end goal is to align hardware, software, content, and service capabilities within the same organisation, providing the consumer a superior offering over its hardware competitors.

To help with the transformation, Tim Baxter (ex. CEO of Samsung Americas) and Tuula Rytila (ex. VP of Digital Stores of Microsoft) joined the board in 2022. Both non-executives have successfully completed the arc from a hardware company to a solutions model with the Samsung connected/smart TV and Microsoft's Xbox Digital Direct ecosystem.

Figure 21: Coffee solutions model

Source: Breville Macquarie Conference Presentation

Aristocrat Leisure

Aristocrat Leisure (AUD)	FY15	FY19	FY22*
Revenue	1,582	4,397	5,574
Gross Profit margin	**57%**	**55%**	**55%**
EBITDA	523	1,597	1,851
margin	*33%*	*36%*	*33%*
NPAT	186	699	949
margin	***12%***	***16%***	***17%***
Net debt (cash)	1,451	2,224	(564)
leverage ratio	2.8	1.4	(0.3)
R&D	**191**	**500**	**667**
% revenue	***12%***	***11%***	***12%***
Shares on issue	637	639	660
EPS (cents)	0.29	1.09	1.44

** September balance year end*

Aristocrat prides itself on having a product-led business and a culture of retaining talent, partnering with the customer and market-leading design and development (D&D) spend. In financial year 2022, Aristocrat reported D&D spend of $667m. This fully expensed investment represents 12% of revenue.

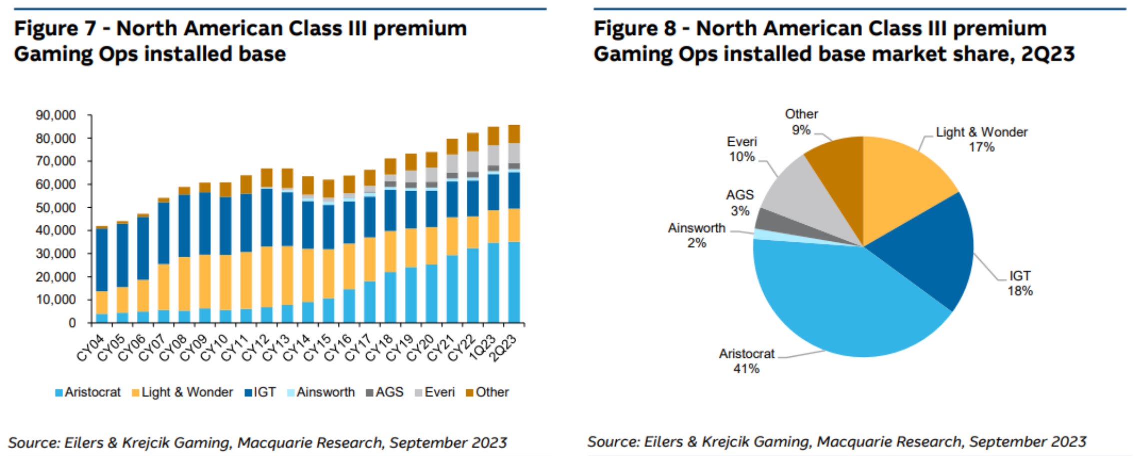
While the dollar value here is important, it's worth noting this mindset of spending 11%-12% of revenue on product development has been part of the company's strategy for the last decade. A focus on reinvesting in its people, customers, and product has seen Aristocrat's market share in North American premium leased games go from a mid-single digit share in 2012/2013 to 41% in 2023, according to Eilers & Krejcik's September 2023 gaming report.

With clear market leadership, the company continues to expand the content available in adjacent land-based gaming categories, as well as the digital space through its mobile social casino studio Product Madness and recent entry into iGaming. Aristocrat ended the half with over 30 design studios across land based and digital.

While Aristocrat has used acquisitions to expand its leadership position across all segments, it has run the business conservatively under CEO Trevor Croker to ensure business optionality and flexibility is maintained.

Over COVID, we saw just this. With competitors distracted by highly geared balance sheets, Aristocrat remained agile and supported customers during periods of forced closures. As a result, the company exited the lockdowns with a stronger and more strategically based relationship with its land-based customers.

Figure 22: North American premium leased game performance



Source: Macquarie research; Eilers & Krejcik September 2023 Gaming Report

Carsales.com

Carsales.com (AUD)	FY15	FY19	FY23
Revenue	312	417	781
Gross Profit margin	**91%**	**92%**	**92%**
EBITDA	163	222	425
margin	*52%*	*53%*	*54%*
NPAT	109	133	278
margin	***35%***	***32%***	***36%***
Net debt (cash)	188	398	973
leverage ratio	1.2	1.8	2.3
R&D	**17**	**25**	**86**
% revenue	***5%***	***6%***	***11%***
Shares on issue	240	244	377
EPS (cents)	**0.46**	**0.55**	**0.74**

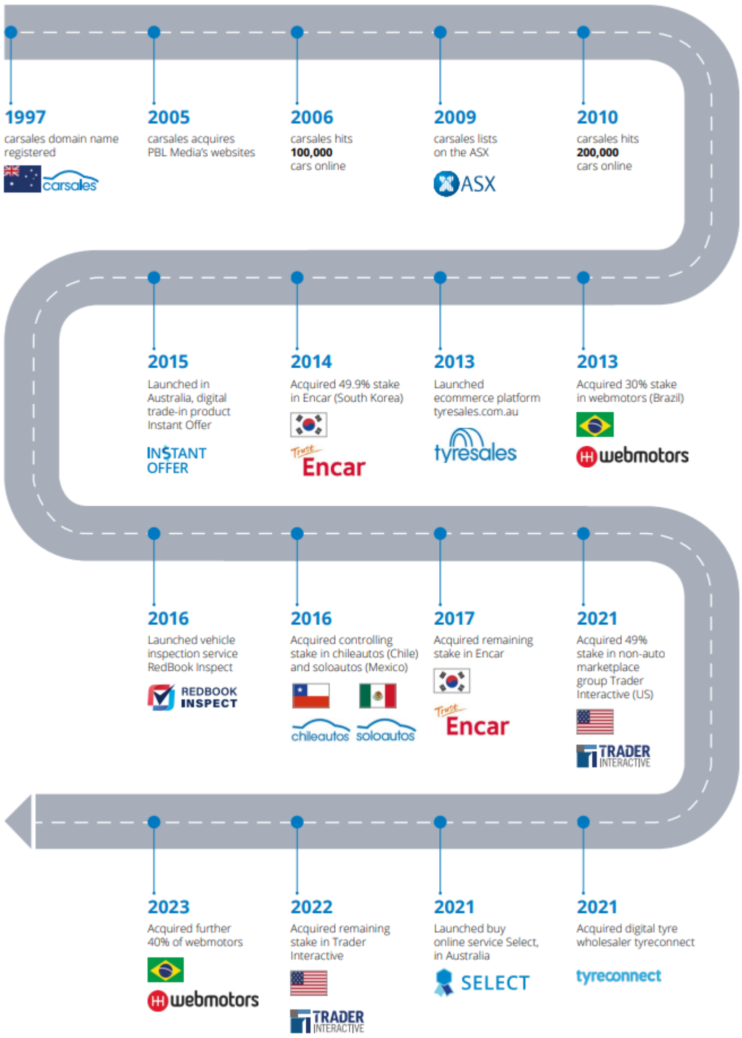
Global automotive marketplace operator carsales' initial foray offshore involved acquiring a 30% stake in online automotive operator Webmotors (Brazil) in 2013. At the time, carsales had revenues of $215m and net profits of $83.5m.

Fast forward to 2023, the business has a global footprint of market-leading automotive marketplaces across South Korea (SK Encar), the U.S. (Trader Interactive), and recently increased its ownership in Webmotors to a controlling stake of 70%.

The business has equally transformed itself in financial terms with $942m of pro forma revenues and operating profits (EBITDA) totalling $496m.

Carsales' evolution, set out in Figure 23, as been conservative, with management opting for an initial non-controlling stake in regional leaders to better understand the cultural setting, business, and market opportunity before acquiring controlling interests or outright ownership.

Figure 23: Strategy evolution



Source: carsales.com FY23 annual report

We discuss the business further in our "carsales touring" article. COVID (and 2021 specifically) marked a pivotal year for the company for two reasons. Domestically, the business launched carsales select, an end-to-end online digital retailing experience for customers. This extended the offering from a pure leads-based proposition to one of a guaranteed, transaction-based sales for dealers.

Carsales also acquired a 49% stake in U.S. non-auto marketplace group Trader Interactive (TI) for $797m. TI reported half year 2021 revenue of US$66.1m and EBITDA of US$36.3m. The business enjoys a market-leading position in RV and Powersports in terms of audience volumes, and a close second in Trucks and Equipment. TI was predominantly a dealer-led business, representing 77% of revenue, with private and media at 7% and 5% of revenue, respectively.

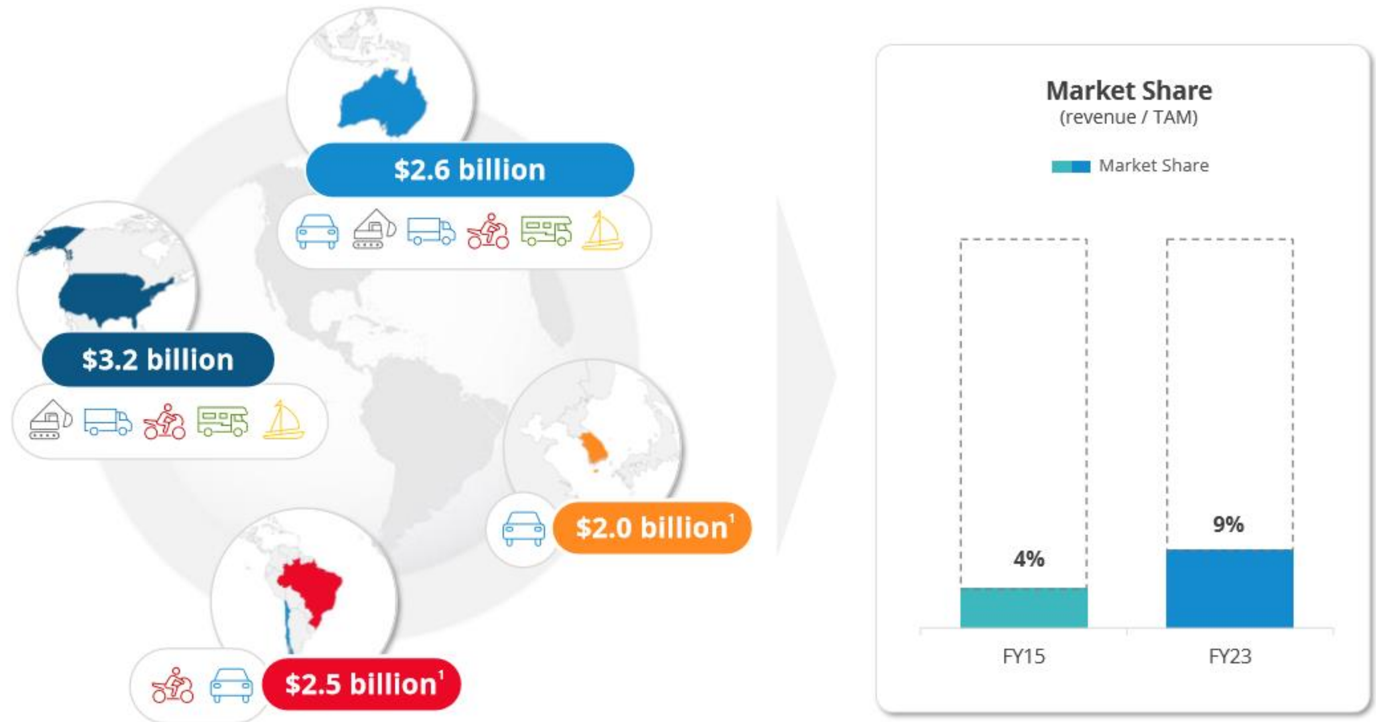
In comparison carsales non-auto revenues were more evenly split, with dealer, private and media representing 47%, 28%, and 25% of FY20 revenues, respectively.

Carsales purchased the remaining 51% of TI in 2022 for $1,172m. Over the 12 months since first acquiring TI, EBITDA margins have grown from 54% to 57%.

Key to carsales' success has been its ability to augment market-leading businesses by leveraging the group's proven IP and technology stack, leading to incrementally higher margins.

TI's early success is a case in point but remains well below carsales' domestic business EBITDA margins of 65%. Further, all regions have significant long-term growth opportunities, putting carsales in a unique position to reinvest back in the business.

Figure 24: Market opportunity



Source: carsales.com FY23 results presentation

SEEK

SEEK (AUD)	FY15	FY19	FY23*
Revenue	873	1,537	1,225
Gross Profit margin	**97%**	**85%**	**99%**
EBITDA	349	455	546
margin	*40%*	*30%*	*45%*
NPAT	281	180	203
margin	***32%***	***12%***	***17%***
Net debt (cash)	535	1,217	1,064
leverage ratio	1.5	2.7	1.9
R&D	**40**	**106**	**182**
% revenue	***5%***	***7%***	***15%***
Shares on issue	344	352	356
EPS (cents)	0.82	0.51	0.57

**In comparison, FY23 represents results without the SEEK growth Fund*

SEEK is undergoing its own technology journey as it consolidates its global marketplace infrastructure (employment marketplace platform, CRM, and ERP) into a single platform.

“Platform Unification” was announced in FY21, alongside the company’s decision to separate its investments into a newly created unit trust (SEEK Growth Fund) headed by co-founder Andrew Bassat.

Both initiatives aim to simplify the business and refocus investment spend back onto the core marketplace platform. Management aim to complete platform unification by the end of FY24.

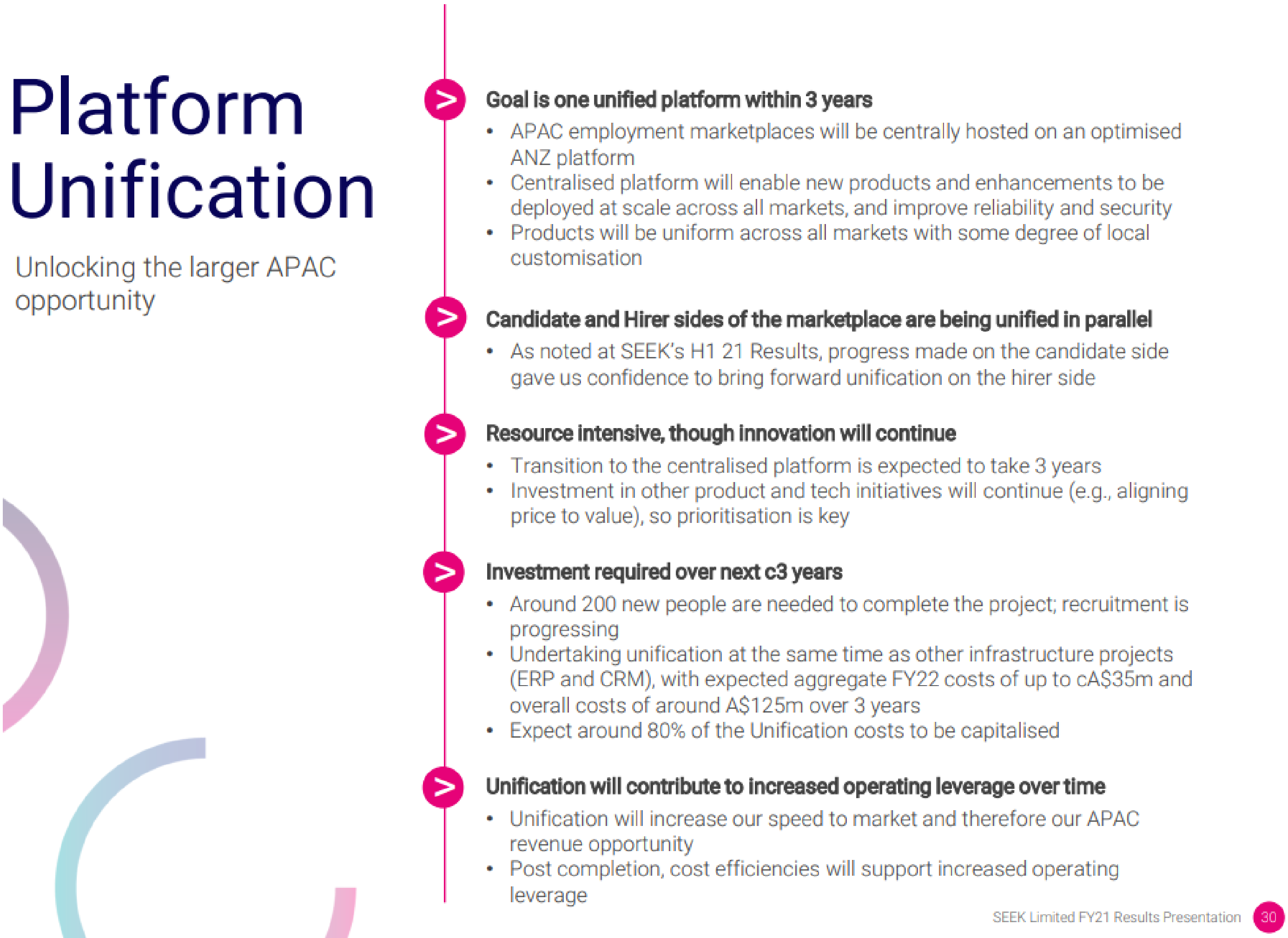
The centralised platform means new products and enhancements can be deployed at scale across all regions. Currently, the Asia market lacks the full suite of products compared to the domestic business.

Early insight on the transferability of the domestic business' features is positive, with the launch of additional depth products in Asia seeing FY23 revenue increase 17% in constant currency to $247m and operating profits (EBITDA) of $97m, up 76% in constant currency. Margins expanded 13 percentage points to 39%, or six percentage points when including the technology costs incurred.

Depth sales now represent 37% of revenue (27% in prior period) and premium ads at 7% of total paid ad volume versus 3% in the prior period.

Like Breville and carsales, these investments aim to create a long-term sustainable and scalable global business. All up, SEEK has spent $135m on unification, with the total projected cost expected to be $180m.

Figure 25: Platform Unification background and cost



Source: SEEK FY21 results presentation

Altium

Altium (AUD)	**FY15**	**FY19**	**FY23**
Revenue	80	172	263
Recurring (%)	**47%**	**56%**	**77%**
Gross Profit margin	**80%**	**78%**	**80%**
EBITDA	23	62	96
margin	*28%*	*36%*	*36%*
NPAT	15	53	66
margin	***19%***	***31%***	***25%***
Net debt (cash)	(61)	(81)	(201)
leverage ratio	(2.7)	(1.3)	(2.1)
R&D	**12**	**19**	**43**
% revenue	***15%***	***11%***	***16%***
Shares on issue	129	130	131
EPS (cents)	0.12	0.41	0.51

Other notable companies that exited COVID with momentum include Altium, ResMed, and Fisher and Paykel Healthcare.

Leading printed circuit board (PCB) designer, Altium has fundamentally changed how its business operates. It started with the introduction and accelerated rollout of Altium 365 (365) in 2020, a new cloud-native platform allowing engineers to work and collaborate across different functions from anywhere.

The platform acts as an operating system for Altium Designer, which is accessible to all stakeholders involved in electronics development (PCB design, simulation, part validation and manufacturing), with varying levels of functionality across four levels of access. These include:

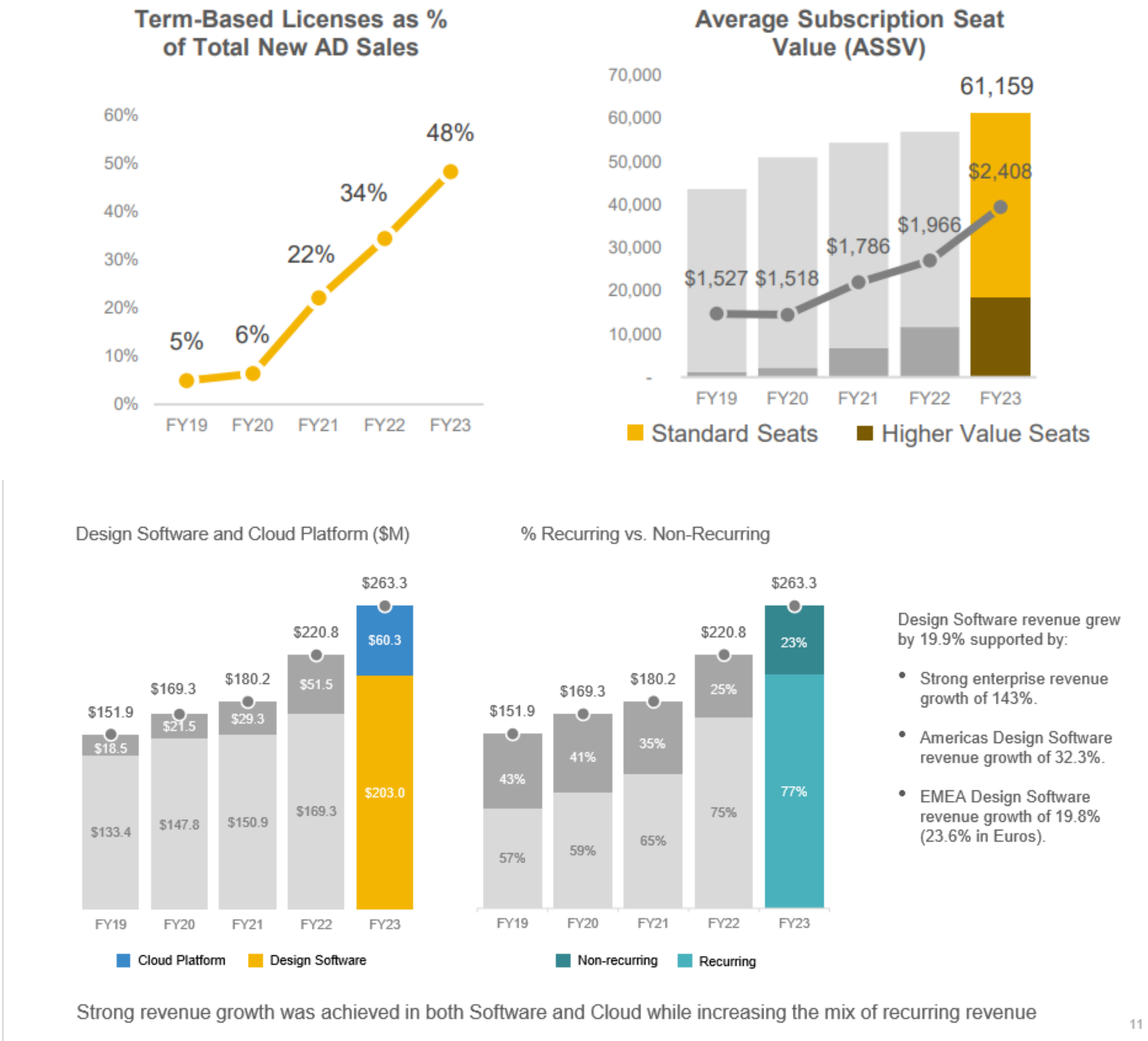
- **Personal**: the ability to view and comment on designs. Free to use, no Altium subscription required.
- **Standard**: store, share, design, and edit with anyone on an Altium Designer standard subscription. Access covers support for bi-directional collaboration across electronic and mechanical functions with user's ECAD (Electronic Computer aided design) and MCAD (Mechanical Computer aided design) tools.
- **Pro**: offers full desktop designer functionality plus the added structure of data management and fully managed component validation. Users need to have an Altium Designer Pro subscription license.
- **Enterprise**: the complete pro-level offering with additional support for collaborative design across larger teams. It also provides direct support for synchronisation of component data and product lifecycle management systems (end-to-end collaboration ecosystem). Users need to have an Altium Designer Enterprise subscription.

To accelerate investment and focus on the new platform, Altium divested its Tasking business to FSN Capital in December 2020 for an upfront consideration of US$100m, with a further US$10m realised upon achieving its FY21 revenue target.

The release of Altium 365 coincides with the company's strategy to move away from perpetual licenses. Over COVID, Altium converted a higher portion of new users to term-based licences, from 6% in FY20 to 48% of total new licences sold in FY23. This shift has been driven by new Professional and Enterprise licences (high value seats), signifying the company's ability to win in the mid and top end of the market.

As a result, the average price of subscription seats increased from $1,518 in FY20 to $2,408 in FY23.

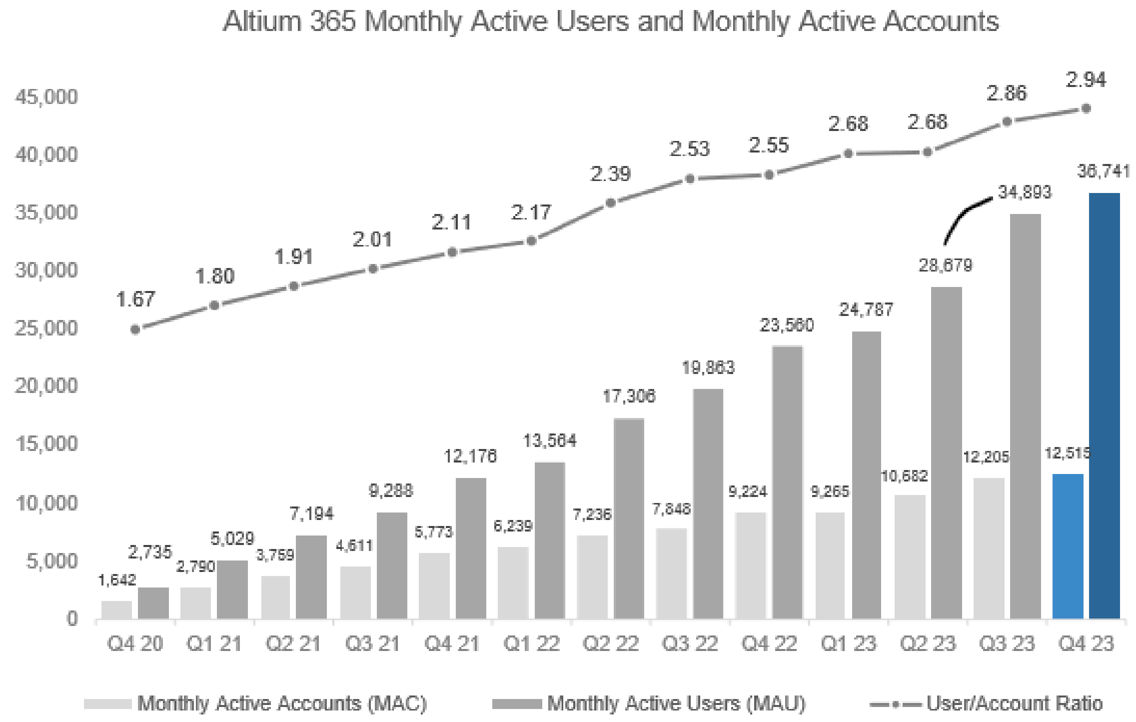
Figure 26: Shift to high value subscription licences



**Cloud platform is revenue from Octopart and Smart Manufacturing.*

Source: Altium FY23 Results Presentation

Figure 27: Altium 365 user take up



Source: Altium FY23 Results Presentation

Key to 365's success is management's ability to expand the number of Altium Designer licenses sold on an ongoing basis and broaden the platform's capability to build an end-to-end PCB ecosystem.

In the past year the company has partnered with leading players across simulation (Keysight and Ansys), quality management, and compliance and procurement capabilities (Hexagon).

And the progress made here is clear. Most recently, leading listed Japanese semiconductor supplier Renesas Electronics announced it standardised development of all PCB designs onto Altium 365 in June 2023. Previously, Renesas used multiple design tools across the company.

ResMed | Fisher & Paykel Healthcare

ResMed (US$)	**FY15**	**FY19**	**FY23**
Revenue	1,679	2,607	4,223
Gross Profit margin	**60%**	**59%**	**56%**
EBITDA	474	720	1,204
margin	***28%***	***28%***	***29%***
NPAT	353	405	898
margin	*21%*	*16%*	*21%*
Net debt (cash)	(417)	1,124	1,213
leverage ratio	(0.9)	1.6	1.0
R&D	**115**	**181**	**288**
% revenue	***7%***	***7%***	***7%***
Shares on issue	143	145	148
EPS	2.47	2.80	6.08

Fisher & Paykel Healthcare (NZ$)	**FY15**	**FY19**	**FY23**
Revenue	672	1,070	1,581
Gross Profit margin	**61%**	**67%**	**59%**
EBITDA	204	332	431
margin	***30%***	***31%***	***27%***
NPAT	113	209	250
margin	*17%*	*20%*	*16%*
Net debt (cash)	52	(54)	(38)
leverage ratio	0.3	(0.2)	(0.1)
R&D	**65**	**100**	**174**
% revenue	***10%***	***9%***	***11%***
Shares on issue	556	572	579
EPS	0.20	0.37	0.43

For ResMed and Fisher and Paykel Healthcare, management's ability to ramp up production during a period of supply chain challenges and chip shortages is remarkable. Now exiting the disruptions, ResMed continues to impress; at its half year 2023 results call, the company announced its ability to meet all global demand in its major markets with AirSense10 and AirSense11 devices. Remarkably, this has been achieved during a period where the second largest competitor remains out of the market with a product recall.

For Fisher and Paykel, management released a five-year snapshot table at its 2023 Annual General Meeting. The standouts are the growth in R&D – both in the number of people and spend as a percentage of revenue – as well as the added manufacturing capacity and volume of studies published over such a short period.

Figure 28: Five-year snapshot

Our progress over the last five years

	FY2019	FY2023	Change	Comment
Countries with F&P people	38	53	↑ 39%	• COVID-19 accelerated expansion
Total people	4,547	6,564	↑ 44%	
People in Manufacturing & Operations	2,680	3,975	↑ 48%	• Peaked at 4,989 in FY22
People in R&D	581	846	↑ 46%	• Accelerated R&D investment
R&D as a % of revenue	9%	11%	↑ 165bps	
Land	57 ha	159 ha	↑ 179%	• Added 102 ha for second NZ campus
Manufacturing facilities	5	7	↑ 40%	• Plus preparing China and NZ5
Plant and equipment capex	$41M	$100M	↑ 144%	• Cumulative $434M over the last 5 years
Hospital hardware (% of hospital sales)	12%	15%	↑ 300bps	• Cumulative $1.2B sales over last 5 years
Patients treated with Optiflow	3M out of 30M	6M out of 50M	↑ 100%	• Peaked at 7M patients in FY21/FY22
NHF clinical practice guidelines	0	7	↑ N/A	• Guidelines for non-COVID-19 patients
NHF studies published	247	865	↑ 250%	
Anesthesia sales team	20	69	↑ 245%	• Accelerated anesthesia opportunity

Source: Fisher & Paykel Healthcare 2023 AGM presentation

The disruptions didn't distract the company from investing in future growth opportunities, despite selling 10 years' worth of hospital hardware during COVID. Fisher and Paykel Healthcare's acceleration of its Anaesthesia sales team is one example. The Anaesthesia opportunity, announced at the company's 2022 investor day, is long term (measured in decades).

With both companies prioritising patient care over profitability, gross profit margins and operating profit margins declined. Nonetheless, the companies have exited in better competitive positions and see medium to long-term margins recovering to pre-COVID levels.

Most companies in the portfolio exited COVID with momentum. However, some experienced missteps, including Domino's Pizza Enterprise. Or in the case of Flight Centre Travel Group, a forced shutdown of operations due to the Government's COVID travel restrictions.

Flight Centre Travel Group

Flight Centre Travel Group (AUD)	**FY15**	**FY19**	**FY23**
TTV	17,598	23,728	21,939
Revenue	2,363	3,055	2,281
Gross Profit margin	**46%**	**54%**	**39%**
EBITDA	417	427	266
margin	***18%***	***14%***	***12%***
NPAT	257	264	47
margin	*11%*	*9%*	*2%*
Net debt (cash)	(532)	(151)	173
R&D (CAPEX)	**83**	**101**	**92**
% revenue	***4%***	***3%***	***4%***
Shares on issue	101	101	218
EPS	2.55	2.62	0.22
Full Time Employees	n/a	20,092	13,065
Revenue per FTE	n/a	152,064	174,572
Underlying PBT	366	344	106
%TTV	2.1%	1.4%	0.5%

Source: Company Financials

Though Flight Centre entered the lockdown period with a net cash balance sheet, the extended halt to travel caused havoc, forcing management to make tough decisions. One of those was a complete restructure of the business, not for short-term survival, but as a way to resize the business and reinvest in platform technology to create a more financially sustainable business.

During COVID the company minimised operating spend, swiftly closing over 50% of global leisure shops, including more than 40% of the Australian stores. Post completion in August 2020, Flight Centre had an Australian leisure network of 516 stores and a global network of 222 stores. The monthly operating cost base reduced from $227m to $65m.

Management quickly shifted its focus to positioning the business for recovery, investing in key people and technology infrastructure to support a more scalable business. The key initiatives are highlighted in Figure 29.

Importantly, technology spend was maintained at pre-COVID levels.

Figure 29: COVID response plan initiatives

INVESTMENT IN CUSTOMERS

- ✔ Continued customer wins and implementation
- ✔ Excellence in customer relationships
- ✔ State of the Market customer research
- ✔ Redefined supplier partners as customers

INVESTMENT IN TECHNOLOGY

- ✔ Acquired full control of customer booking experience with WhereTo tool
- ✔ Acceleration of content control with TPConnects partnership
- ✔ Advancement of customer facing technology

INVESTMENT IN PRODUCTIVITY

- ✔ Investment in consistent global automation processes
- ✔ Deployment of multiple projects expedited in low transaction environment
- ✔ Implementation of global data project

Source: Fight Centre Travel Group FY20 results presentation

Flight Centre also rolled out a global recovery rights program to all remaining staff (excluding board and senior executives) in June 2021. In total the program grants employees 250 share rights, which vested in February 2023.

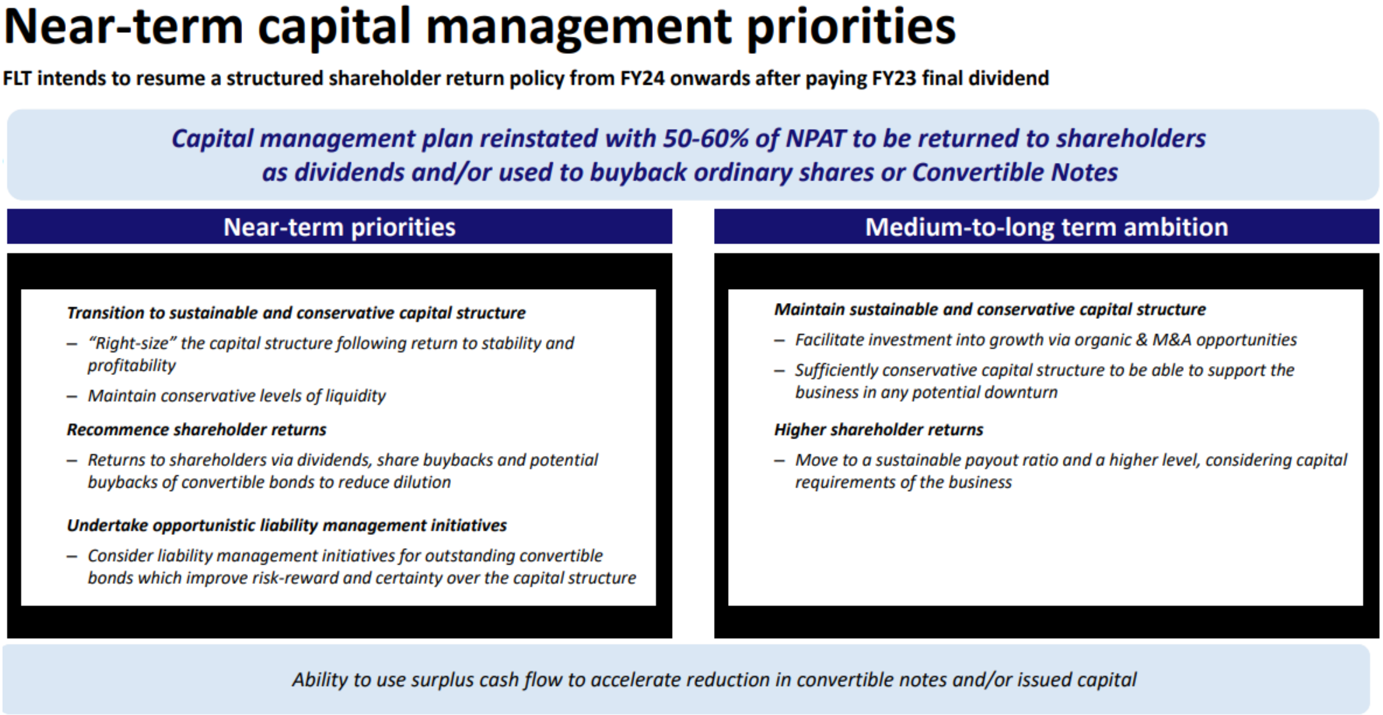
Fast forward to 2022, the business outlook was positive with new client wins, supported by improved staff efficiencies and better digital platform capabilities. This continued into 2023, with the company reporting circa $4b of new sales, as measured by Total Transaction Value (TTV) wins in the Corporate segment. Impressively, the group delivered 92% of FY19 TTV in 2023 with 61% of the group's 2019 workforce.

Management continues to see an opportunity to lower the cost per transaction metric. The Corporate network is now positioned for growth and is expected to see an improvement in margins. Leisure is in a similar position with an improved digital customer experience, a wider selection of packages and products, and a more streamlined operation, driving greater staff productivity.

The improved scale of the business saw management announce its 2025 ambition to reach a profit before tax margin of 2% of TTV. If achieved, this will be the company's highest reported margin since FY15 of 2.1% and compares to a peak of 2.4% in FY13.

The group also provided a new near-term capital management structure for FY24 onwards, focused on delivering financially sustainable outcomes. The biggest change has been the decision to distribute 50%-60% of NPAT to shareholders as a dividend and/or via the buyback of convertible notes or ordinary shares. This compares to Flight Centre's historical dividend-only payout ratio, which remained above 60% between 2016 and 2019.

Figure 30: Near-term capital management structure



Source: Flight Centre Travel Group FY23 results presentation

Domino's Pizza Enterprises

Domino's Pizza Enterprises (AUD)	FY15	FY19	FY23
Store count	1,506	2,522	2,899
Network sales	1,480	2,897	4,006
Revenue	702	1,435	2,351
Gross Profit margin	**70%**	**69%**	**56%**
EBITDA	128	282	347
margin	***18%***	***20%***	***15%***
NPAT	64	141	123
margin	*9%*	*10%*	*5%*
Net debt (cash)	82	539	819
leverage ratio	0.6	1.9	2.4
R&D	**73**	**91**	**206**
% revenue	***10%***	***6%***	***9%***
Shares on issue	86	86	89
EPS	0.75	1.65	1.38

In the case of global pizza franchisee operator Domino's Pizza Enterprises, the company simply got its value equation wrong for delivery customers in 2022. Volume decline affected franchisee profitability, with FY23 network sales up 2.2% to $4b, while underlying operating profits (EBITDA) declined 12.4%.

Management was quick to acknowledge that its response to wage and inflationary pressure was wrong and has since been winding back changes to improve the value proposition for customers. What stood out in the FY23 result was CEO Don Meij's comments on the learnings from the Netherland's region.

"The rock star in our whole business for the whole year was the Benelux led by the Netherlands particularly. The Netherlands, which is just ***very consistent****, was an inspiration for the rest of the group with its* ***product development and its more consistent approach to pricing."***

Quite simply the region didn't overreact - making conservative decisions based on data and good research. Comments from Europe's CEO Andre Ten Wolde reaffirm this. *"So, I think the learnings is that we never really overreacted in some of the things. We didn't introduce the service delivery fee. We tested it in corporate stores. It didn't do well for our margins in corporate stores, but we didn't roll it out because we saw the impact it had on the frequency in a period where there's low consumer confidence."'*

FY23 was a year of operational reset after multiple years of store and geographic growth, with management announcing the following network and operational changes.

Network restructuring

- Closure of the Danish market (loss making) of 27 stores.
- Closure of 56 stores (an additional 18 provisioned) in the network, which were not expected to reach sustainable levels of sales or profitability in the short term.
- **Return a third of the savings back to the franchisees.**

Operational restructure

- Centralise core functions (Marketing & Digital, Procurement and Development).
- A select number of group executives to take dual roles within regions to realign decision makers to be part of day-to-day business operations.
- **Return a third of the savings back to the franchisees.**

Overall, these initiatives are expected to deliver combined savings of \$50m-\$60m in FY24 and a targeted \$53m-\$63m EBIT improvement in FY25. In the shorter term, this misstep sees store additions reduce from 8%-10% annual growth over the next 3-5 years to 7%-9%. Group same-store sales growth remains unchanged at 3%-6% annually over the next 3-5 years.

Looking further out, these changes help simplify the business whilst improving operational efficiency and scale. The greater emphasis on franchisee profitability and choosing the right franchisee is a key part of the business's long-term growth potential. At the same time the introduction of a global corporate platform structure will introduce efficiency across all operations.

Final comment

A lot is lost when the focus narrows to annual performance and point-in-time investments. The discussion turns to ratios and views on beating or missing expectations (market noise). Cast the timeframe further and attention turns to the actual business and where it is going.

Judgement is made based on the people, business uniqueness, and financial sustainability of a company, all essential for long-term compounders. ***SFM***

CARSALES TOURING

April 2022

In April 2022, we visited the wholly owned operations of Carsales' Korean operations Encar in the country's capital city, Seoul. We profiled our trip in our June 2022 Selector Quarterly Newsletter, outlining the group's leading online market position and the impressive hands-on management team led by SB Kim.

Carsales acquired its initial stake in Encar in 2014, a 49.9% interest for A$126m, followed by the purchase of the remaining 50.1% for A$244m in 2017.

In 2014, Encar generated revenues of A$22m and operating profits (EBITDA) of A$12m. By 2017, revenues had grown to A$45m, generating EBITDA profits of A$23m.

In the 2023-year Encar delivered another strong performance, with revenues of A$99m and EBITDA profits of A$50m. Achieved organically and funded from existing cash flows, it underscores the significant value the group has reached over a relatively short time frame.

September 2022

In September 2022 we followed this up with a trip to the U.S. to visit the group's then-most recent acquisition, online non-automotive group Trader Interactive. We outlined our comments from the trip in our September 2022 Quarterly Newsletter, also available on our website.

As we noted then, the group began with a 49% purchase, outlaying A$797m in May 2021, but followed shortly after to buy the 51% remaining balance for A$1,172m in June 2022. All up, the group outlaid A$1.9b to complete the acquisition.

CEO Cameron McIntyre needed no further convincing on the importance of acting quickly when the opportunity arose to wholly own the business, *"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."*

Although early days, the performance has been strong and ahead of company expectations. At the time of acquisition in 2021, Trader Interactive delivered revenues of A$188m alongside EBITDA profits of A$107m. Over the past two years, revenues have climbed to A$239m while EBITDA profits have improved to A$140m.

September 2023

The third piece of the international expansion story resides in São Paulo, Brazil. This represented the group's original step out. In June 2013, carsales paid A$88m for its minority 30% equity purchase in leading online automotive group Webmotors. The balance was in the hands of Brazil's leading financial institution, Banco Santander.

In March 2023, carsales reversed the roles, buying an additional 40% interest in Webmotors from Banco Santander, leaving the bank with a minority 30% position. carsales paid A$353m for the additional stake, illustrating the significant value uplift since 2013.

Carsales outlaid A$441m in total for its 70% controlling position.

To provide some perspective on its growth, from 2018 to 2023, Webmotors saw revenues lift by 23% per annum from BRL139m to BRL396m (Brazilian Real currency).

Operating profits have increased even faster, up 25% per annum from BRL53m to BRL161m.

With global stakes now in the ground, the company has significant operations in four geographies, including Australia, the U.S., South Korea, and Brazil.

The group's employment base exceeds 1,800 and for the full year 2023, on a proforma basis (one that assumes a full year of ownership of all operations), revenues totalled A$942m, delivering EBITDA profits of A$496m and a net debt position of A$973m.

Touring

The 2023 year was a pivotal one for the group. Following its move to full ownership of Trader Interactive and its increased stake in Webmotors, combined international revenues delivered more than half of group revenues for the first time since the company went public in 2009.

In September, we accompanied the carsales management team on an investor tour of its Trader Interactive operations in the U.S. and a visit to the Webmotors headquarters in São Paulo, Brazil.

Some Perspective

A decade ago, carsales operated in one jurisdiction, Australia. The business was in its infancy as the online automotive marketplace gained traction. In 2013, the company recorded operating revenues of $215m and operating profits of $120m. Net profit came in at $85m and full-time employees totalled 415.

The business segments in 2013 were not that dissimilar to today, as set out in Table 13.

Table 13: Operating revenue segments 2013

Segment	FY13
Revenues $m	
- Dealer	97.0
- Private	35.7
- Display	54.5
- Dealer & Data Services	27.9
Total Revenues $m	**215.1**
EBITDA $m	**120.1**
EBITDA margin %	55.8

Source: Company Financials

The revenue methods implemented, which involved a simple leads-based model for auto dealers and a flat fee structure for private customers selling cars, were less refined.

Over the subsequent decade the company has honed its product set, characterised by deeper product penetration, delivering higher yield outcomes.

In short, the company's more tailored and extensive value offering across the group's customer base of dealers and private users now provides a proven roadmap that can be deployed into new territories.

The rise of digital retailing has also augmented the offering, leading to a host of new addressable market opportunities including:

1. **Select** – end to end digital online automotive purchase.
2. **Instant Offer** – digital trade-in execution.
3. **Dealer Finance** – pre-approval integration.
4. **Dynamic Pricing** – aligning price to value delivered.

The constant iteration has delivered a higher quality, more resilient, and profitable business. As a comparator to 2013, the Australian business segments delivered the following revenues in 2023, set out in Table 2.

Table 14: Operating revenue segments 2023

Segment	FY23
Revenues $m	
- Dealer	203.0
- Private	89.9
- Display	60.6
- Dealer & Data Services	45.6
Total Revenues	**399.1**
EBITDA $m	**258.6**
EBITDA margin %	64.8

Source: Company Financials

The relevance of these two periods, 2013 and 2023, should serve as a marker of the longer-term revenue and margin potential available to Encar, Trader Interactive, and Webmotors under the guidance and influence of carsales.

U.S., San Francisco – Trader Interactive

1. Team

Lori Stacy is Trader Interactive's Chief Executive Officer. She joined Trader in 1997 as a Sales Manager with Auto Trader magazines, later holding the position of National Sales Trainer, General Manager, and District Manager, where she led the company in automotive growth.

In 2007, the business split the assets, with Stacy transitioning to the non-automotive side of the business and overseeing its shift from print to a fully digital company by 2010.

Despite its long heritage and market-leading position across three product segments, 2023 is in many ways day one for Trader Interactive.

The company now has the deep carsales product set and yield playbook to draw upon, accompanied by a history of know-how. And perhaps the cherry on the top: it has assembled a team of proven industry executives with the autonomy to deliver.

Meetings and presentations delivered by the executive team as set out in Table 15.

2. Scale

The size and scale of the opportunity across the business verticals is significant, as displayed in Figure 1.

Table 15: US Trader Interactive Executive Team

Trader interactive Executive Team	
Lori Stacy	Chief Executive Officer
Kane Hocking	Chief Financial Officer
Paige Bouma	Chief Sales Officer
David McMinn	Chief Operating Officer
Jim Ranson	Executive Vice President Media
Shawn Friesen	Executive Vice President Marketplaces
Troy Snyder	Digital Retailing

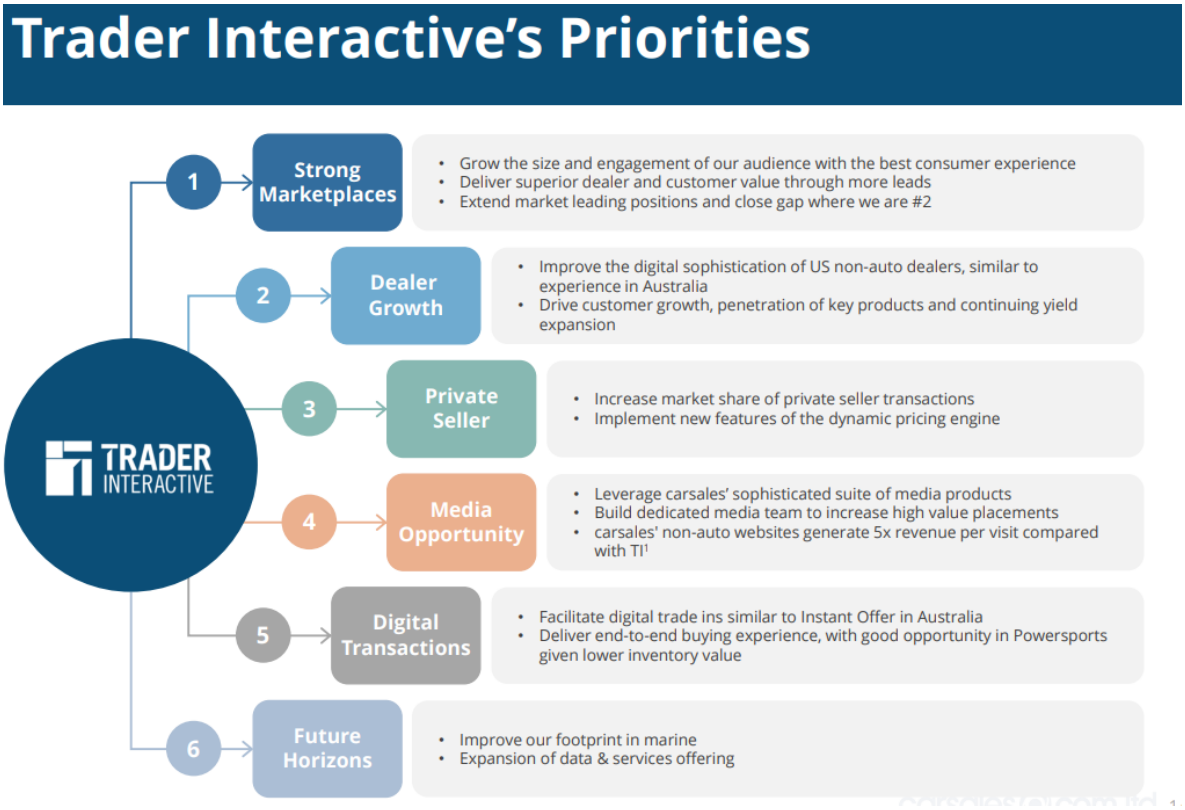
Source: Company Financials

Figure 31: Trader Interactive Management Team

Source: carsales.com Trader Interactive Investor Presentation September 2023

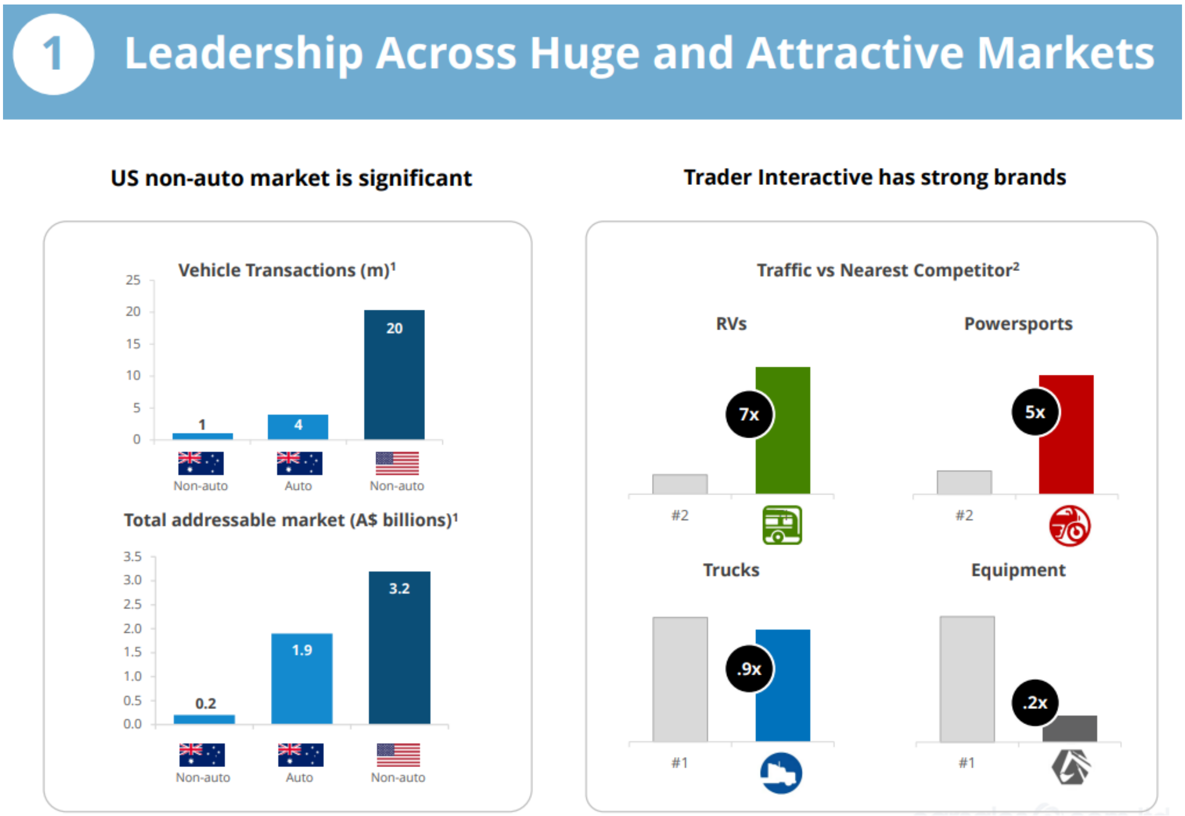
Figure 33 puts the potential into perspective, made even more attractive by the company's leading position across several market segments.

Figure 32: U.S. Trader Interactive – Marketplaces



Source: carsales.com Trader Interactive Investor Presentation September 2023

Figure 33: Marketplaces opportunities



Source: carsales.com Trader Interactive Investor Presentation September 2023

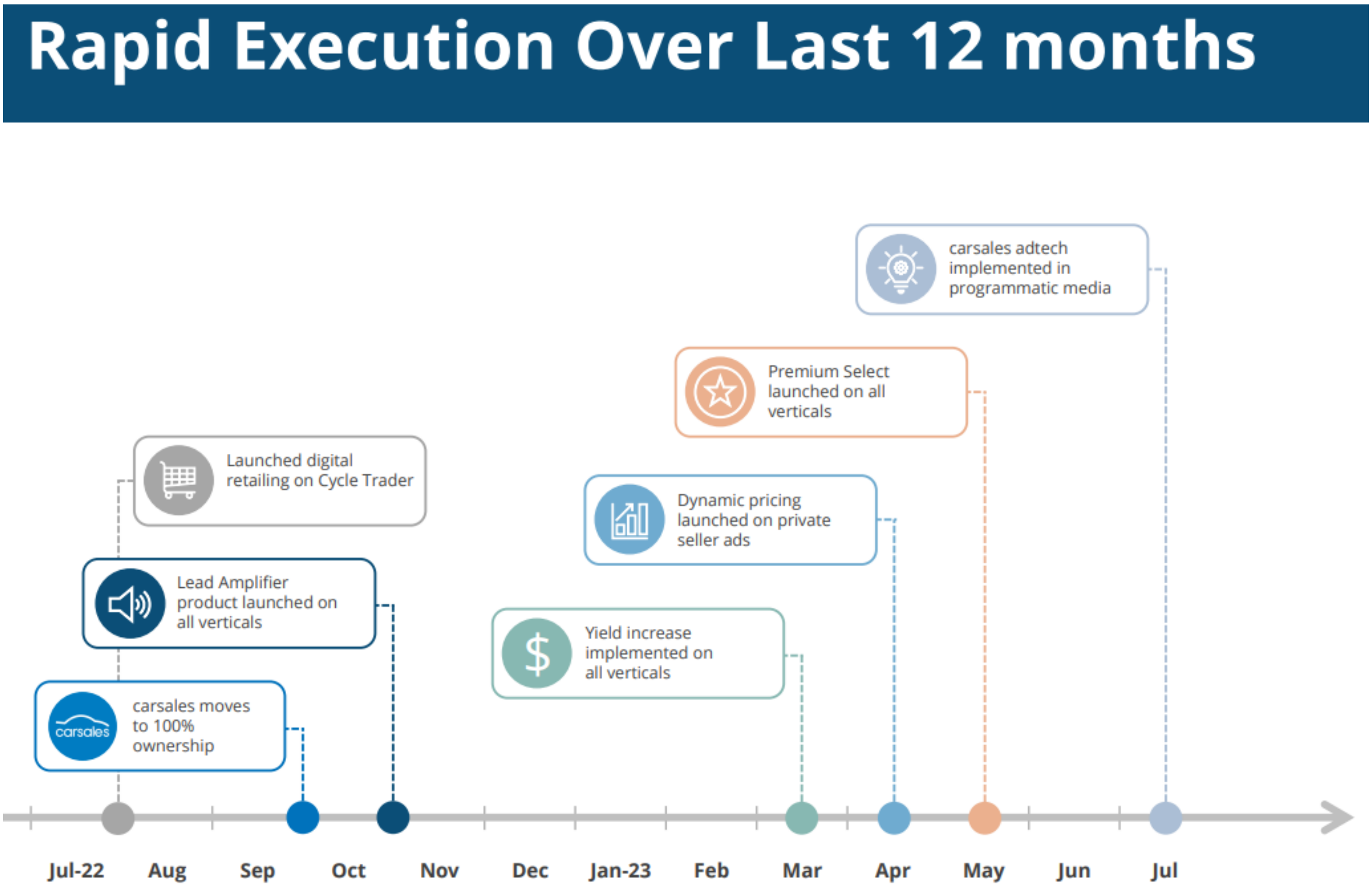
3. Speed of execution

The best illustration of how well the team is performing is reflected in Figure 34.

Over the past year, the company has implemented a host of product refinements, driving higher product take- up and better yield output.

This ability to incorporate proven business models into new markets, highlights the inherent strength of the carsales business model.

Figure 34: Product Execution



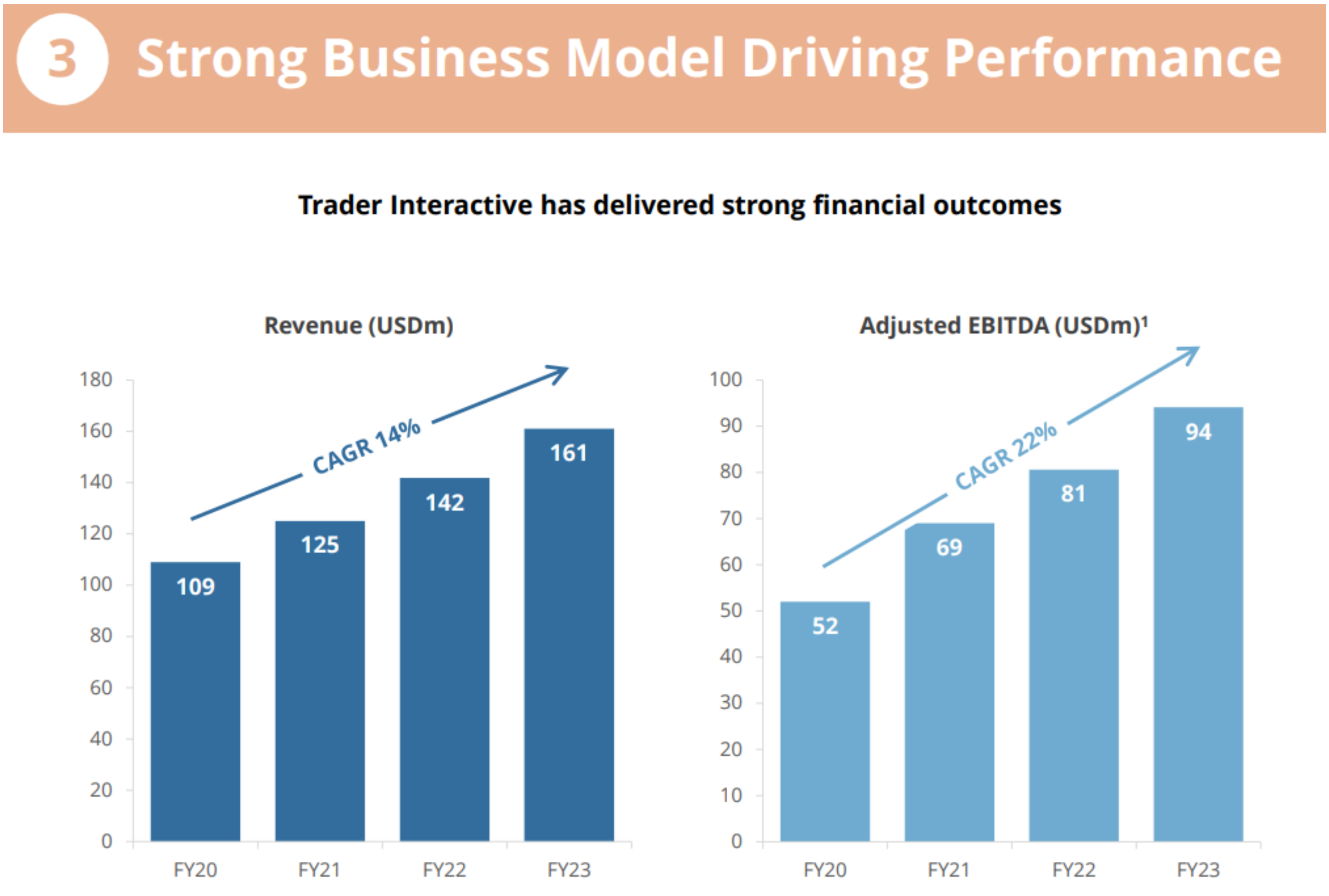
Source: Source: carsales.com Trader Interactive Investor Presentation September 2023

4. Proven track performance

Even though carsales' ownership period has been relatively short, the company's financial track record offers a compelling starting position, as Figure 35 highlights.

Where this is most apparent is the improving operating margin trend, which has increased from 48% in 2020 to its current level of 58%. This figure is expected to grow significantly as higher-yielding products and deeper market segmentation strategies are incorporated.

Figure 35: Track record



Source: carsales.com Trader Interactive Investor Presentation September 2023

Brazil, Sao Paolo – Webmotors

At a snapshot, here's the company profile: *"Founded in 1995 in Sao Paulo, Webmotors is the number one automotive digital marketplace in Brazil… Webmotors offers marketplace services for dealers, private party sellers and digital advertisers…Webmotors has approximately 430,000 dealer and private ad listings, 17,000 subscribed dealer customers, generates over 320 million annual website visits and delivers over 16 million leads to car sellers."*

1. *Team*

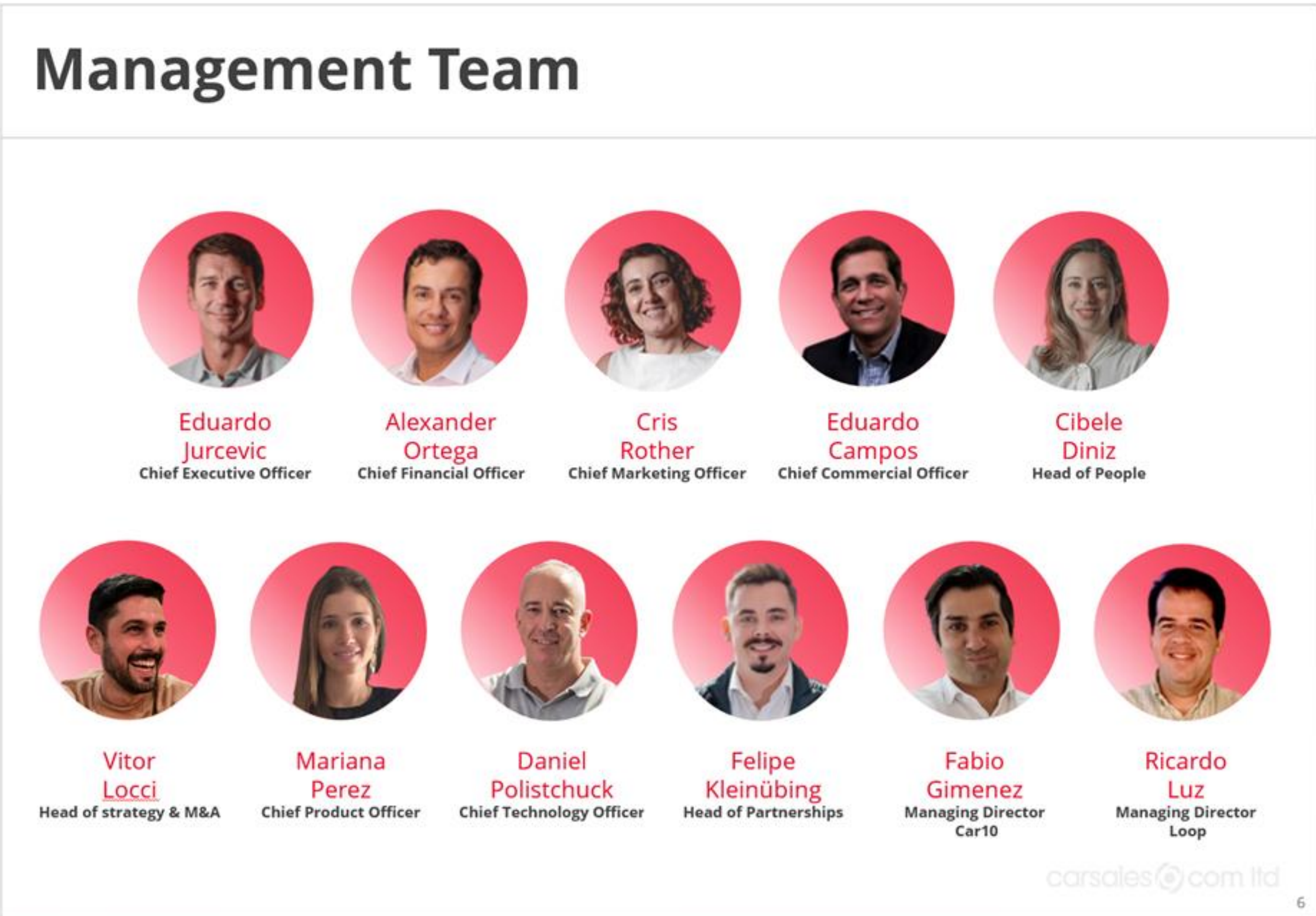
Webmotors has assembled a highly motivated, experienced team led by its impressive CEO Eduardo Jurcevic. Following a long career spanning 24 years at Santander, CEO Jurcevic took on the Webmotors head role in 2019, accelerating the company's strong growth profile.

The site tour of the company's head office, located inside Santander's group headquarters in Sao Paolo, underscored the close working relationship between the two companies and the campus-style environment provided for staff.

The executive team brings an important mix of business diversity and entrepreneurial skills, backed by joint venture owners Santander (30%) and carsales (70%), respectively.

Our meetings confirmed the high-quality way this unified team is executing the business plan.

Figure 36: Webmotors executive team



Source: carsales.com Webmotors Investor Day Presentation September 2023

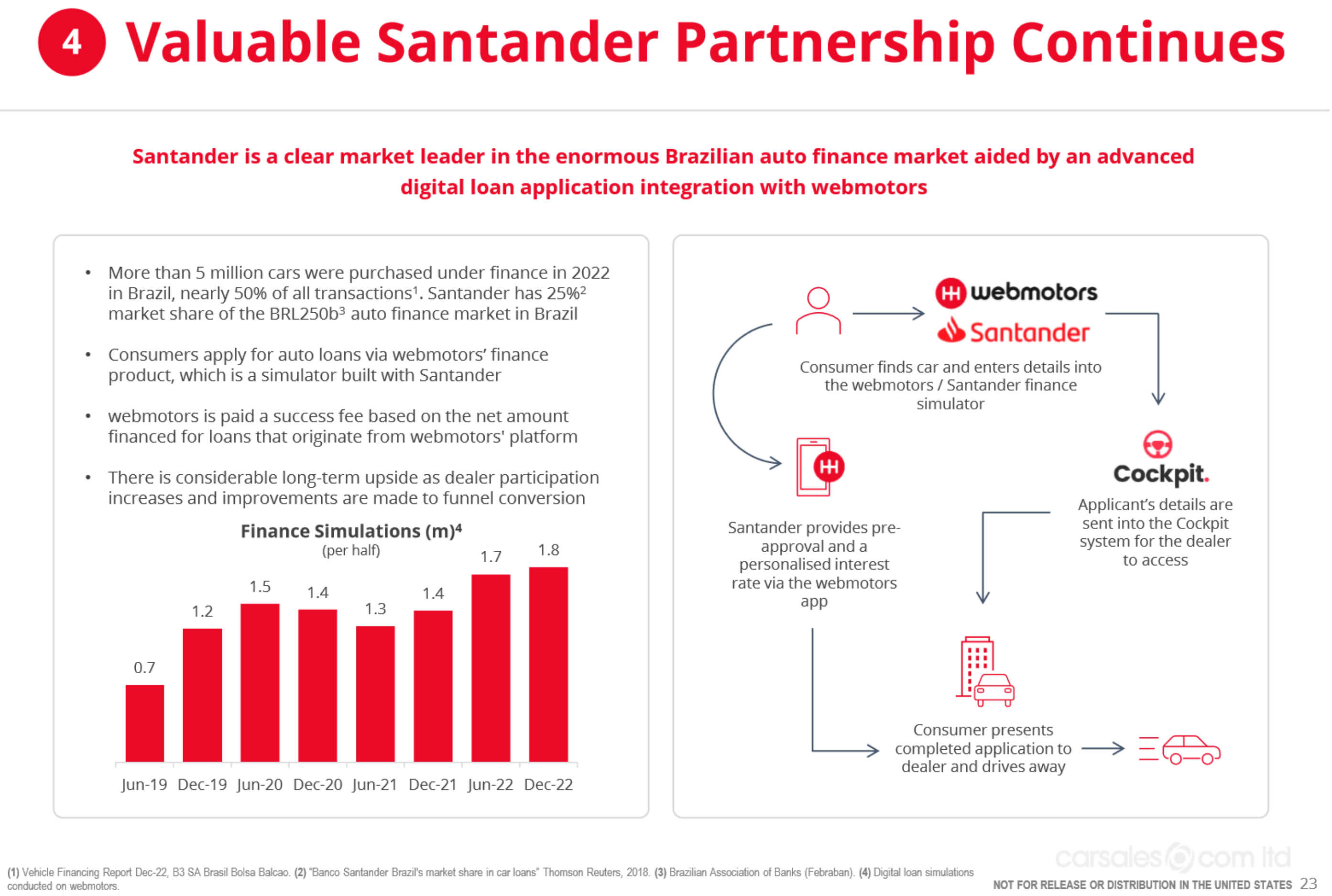
2. *Aligned Partner*

While the Santander partnership may see a reversal of roles, with carsales now controlling 70% of the business, the importance of Webmotors to the bank remains strategically critical.

With over five million cars financed each year, Webmotors is an important link between customers, dealers, and the need for banking finance.

As Brazil's largest auto finance provider, with a 22% share, Santander's newest offering Pioneer Auto will further fortify the customer engagement process along the transaction path.

Figure 37: Santander partnership

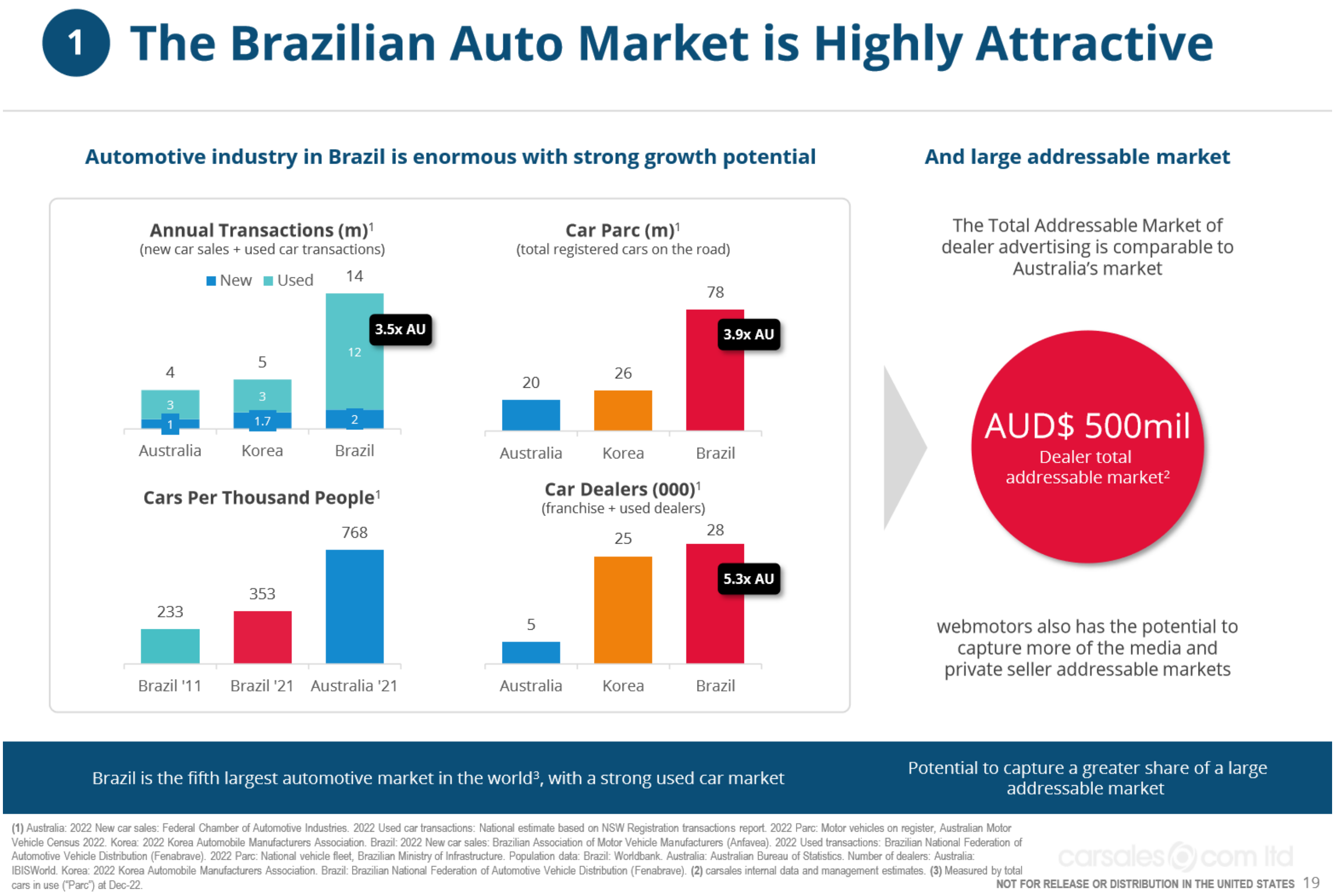


Source: carsales.com Webmotors Investor Day Presentation September 2023

3. Addressing the opportunity

The Webmotors opportunity is large, while comparatives with South Korea and Australia highlight the significant latent potential remaining.

Figure 38: Brazil auto marketplace



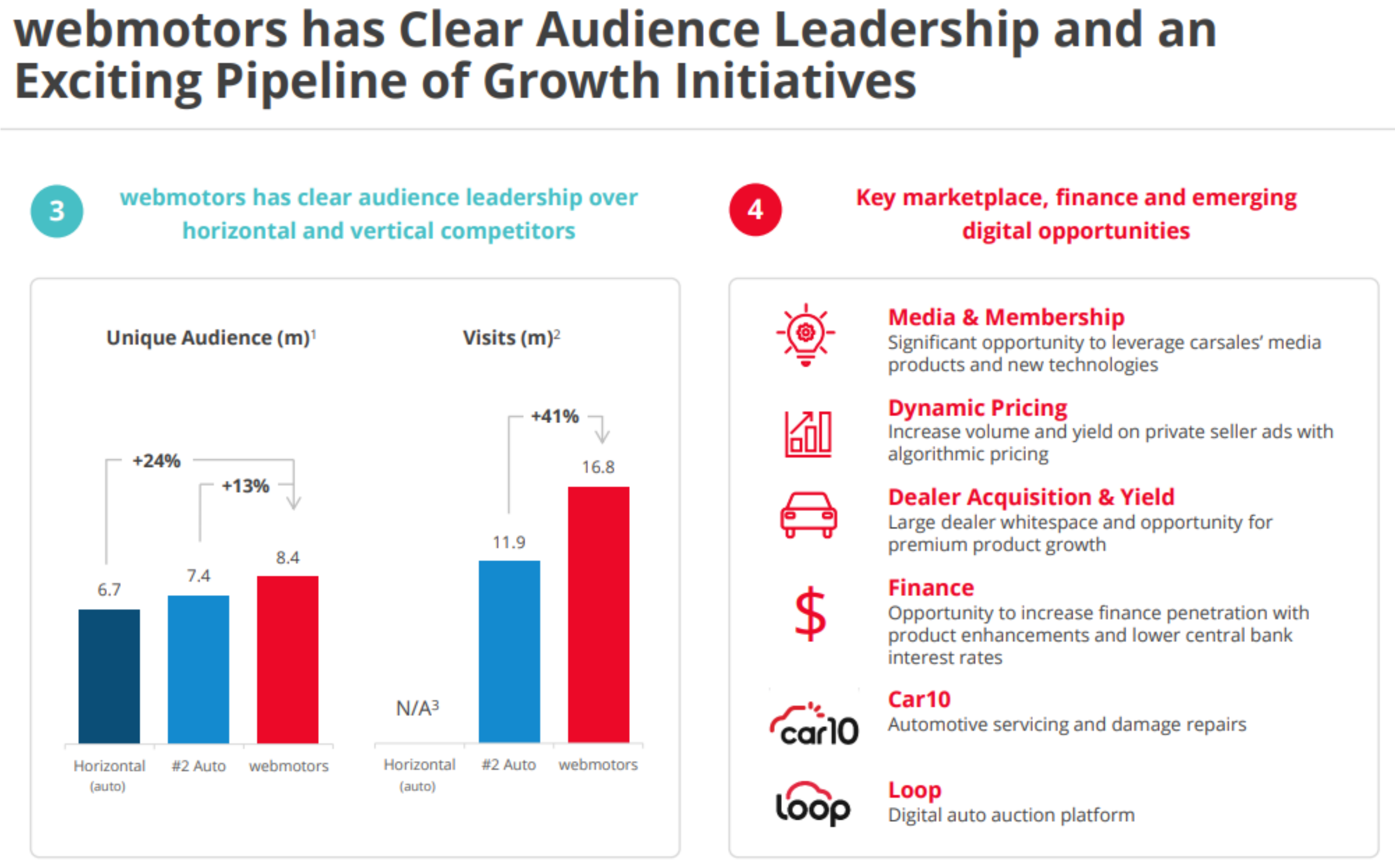
Source: carsales.com Webmotors Investor Day Presentation September 2023

4. Market Leadership

Attaining market leadership is often hard-fought, but the spoils are significant once achieved. In Brazil, Webmotors enjoys such a position with a 70% plus share of the Sao Paolo online auto market.

Leadership provides better unit economics and the opportunity to invest more aggressively in opening the gap between competitors.

Figure 39: Market leadership



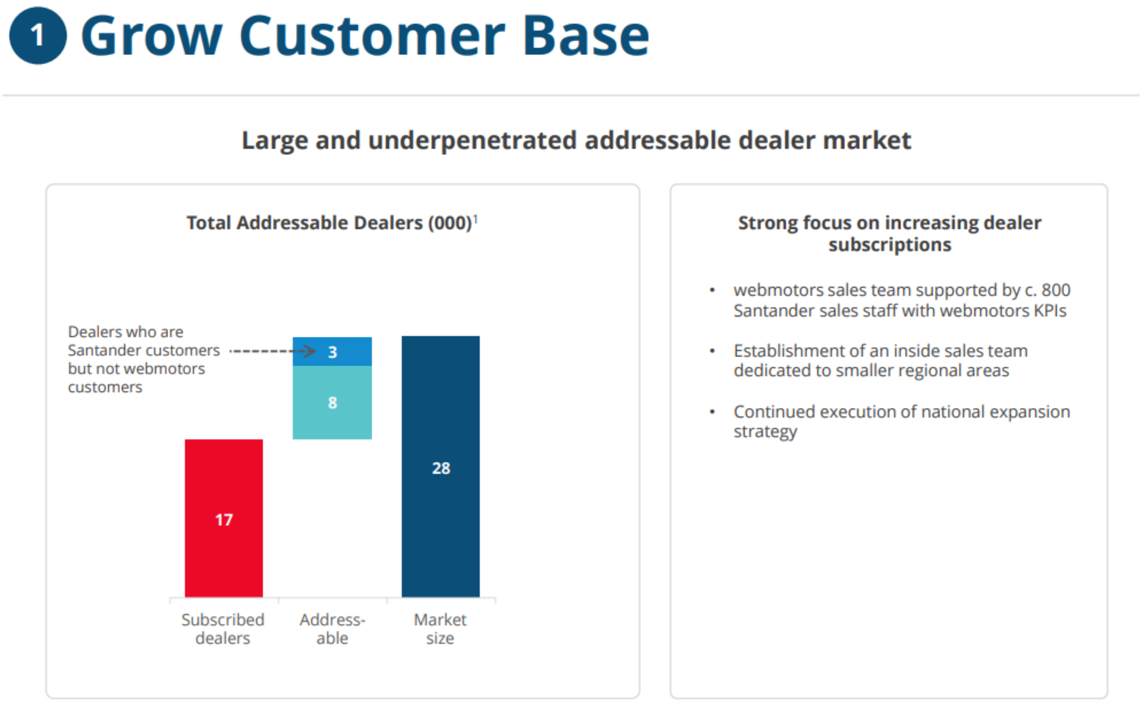
Source: carsales.com Webmotors Investor Day Presentation September 2023

5. Scaling the opportunity

Market leadership enables scale to kick in. Higher investment in products and the brand builds confidence to go deeper and wider.

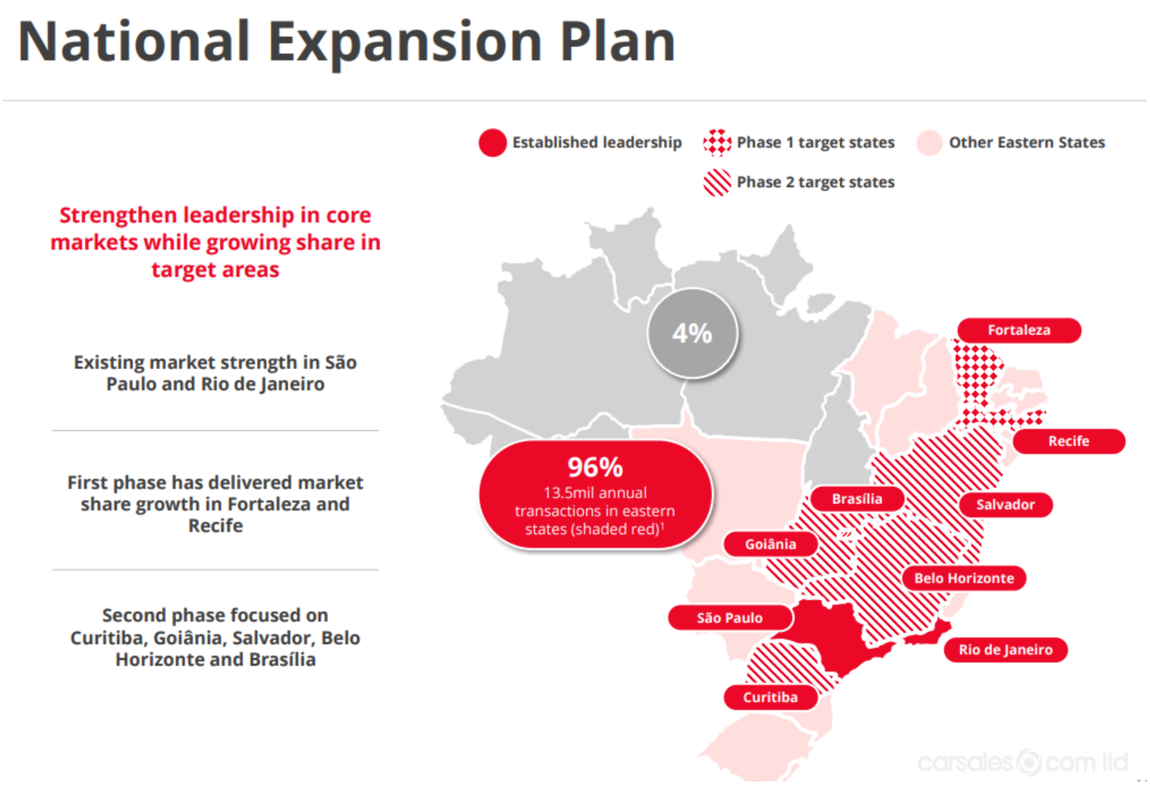
In Brazil, the group's number one priority is to grow dealer membership regionally. The raw numbers speak to an existing dealership base of 28,000, of which 17,000 are current customers.

Figure 40: Customer Base



Source: carsales.com Webmotors Investor Day Presentation September 2023

Figure 41: Going national



Source: carsales.com Webmotors Investor Day Presentation September 2023

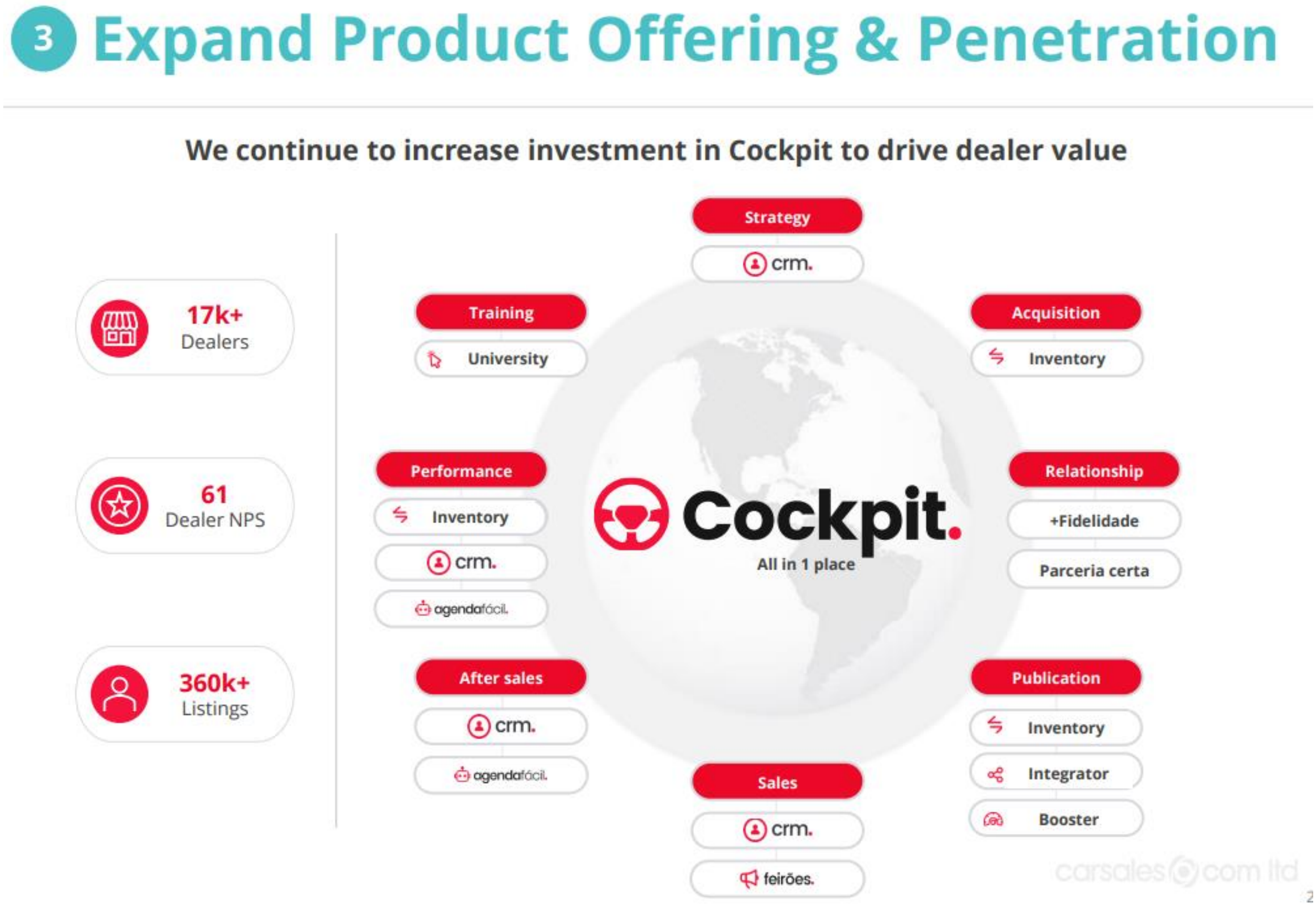
6. *Power of Cockpit*

Like the company's Autogate inventory management system driving the Australian carsales dealer platform, the Cockpit in Brazil performs a similar function.

As Figure 42 depicts, dealers have access to a depth of information to follow the status of enquiry leads, all in one location.

Webmotors' online marketplace and its auto specialised Customer Relationship Management platform set it apart from its competitors, driving high recurring monthly revenues.

Figure 42: The power of Cockpit



Source: carsales.com Webmotors Investor Day Presentation September 2023

7. Deepening the product set

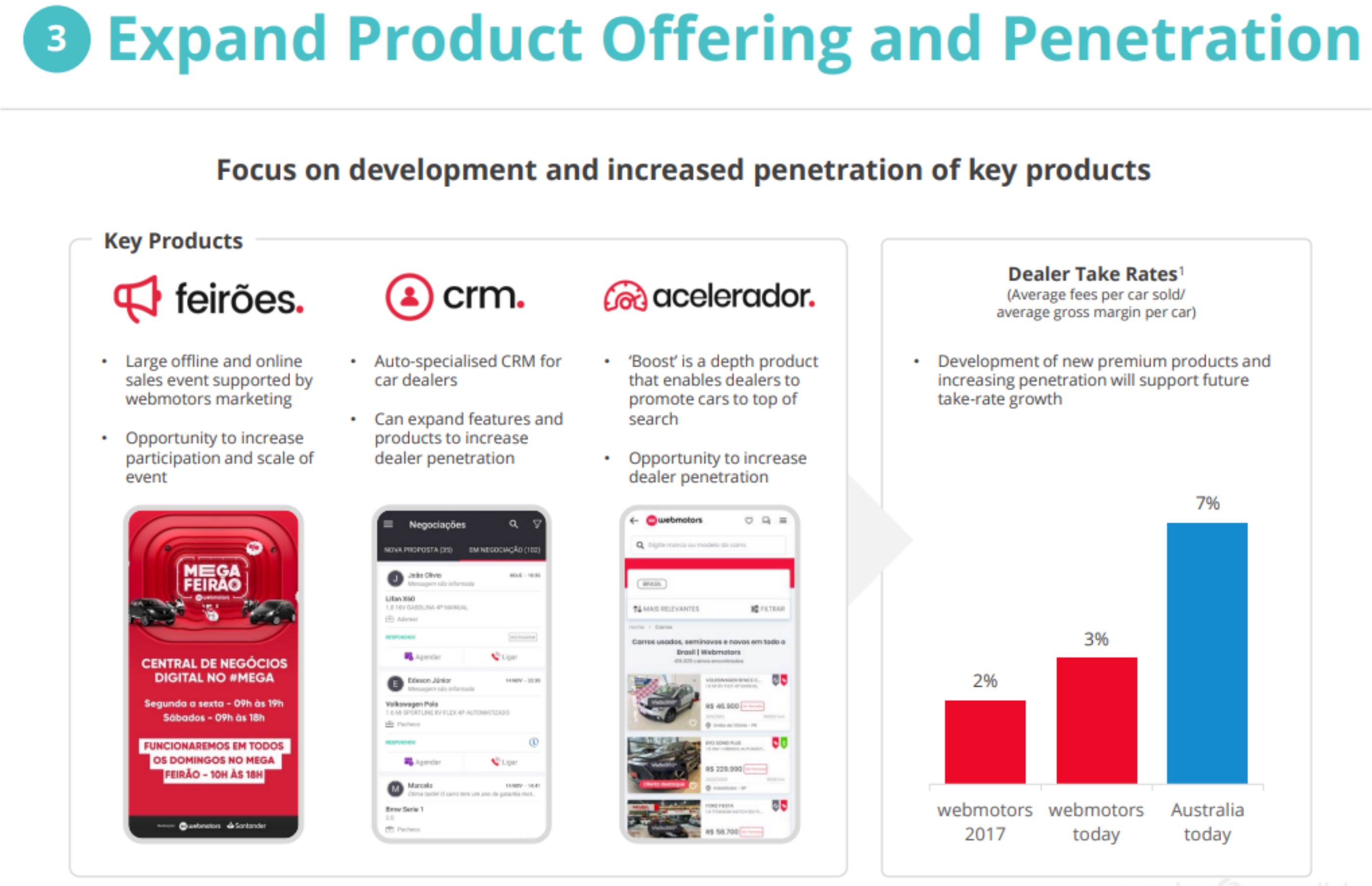
Like Trader Interactive, Webmotors benefits enormously from the experiences of its parent company, carsales. Since its inception, the company has deepened the product set, delivering continuous optimisations and higher value outcomes.

Figure 43 highlights the role of key products in driving higher dealer take rates, reflecting the average fees earned for each car sold compared to a dealer's gross margin.

Webmotors is early in the journey, taking just 3% of a dealer's margin, while carsales sits at 7%.

New features drive customer penetration, generating higher leads for dealers that encourage higher fees. It is an iterative process, which carsales has successfully delivered over the long term.

Figure 43: Dealer take rates - earning more of the value delivered



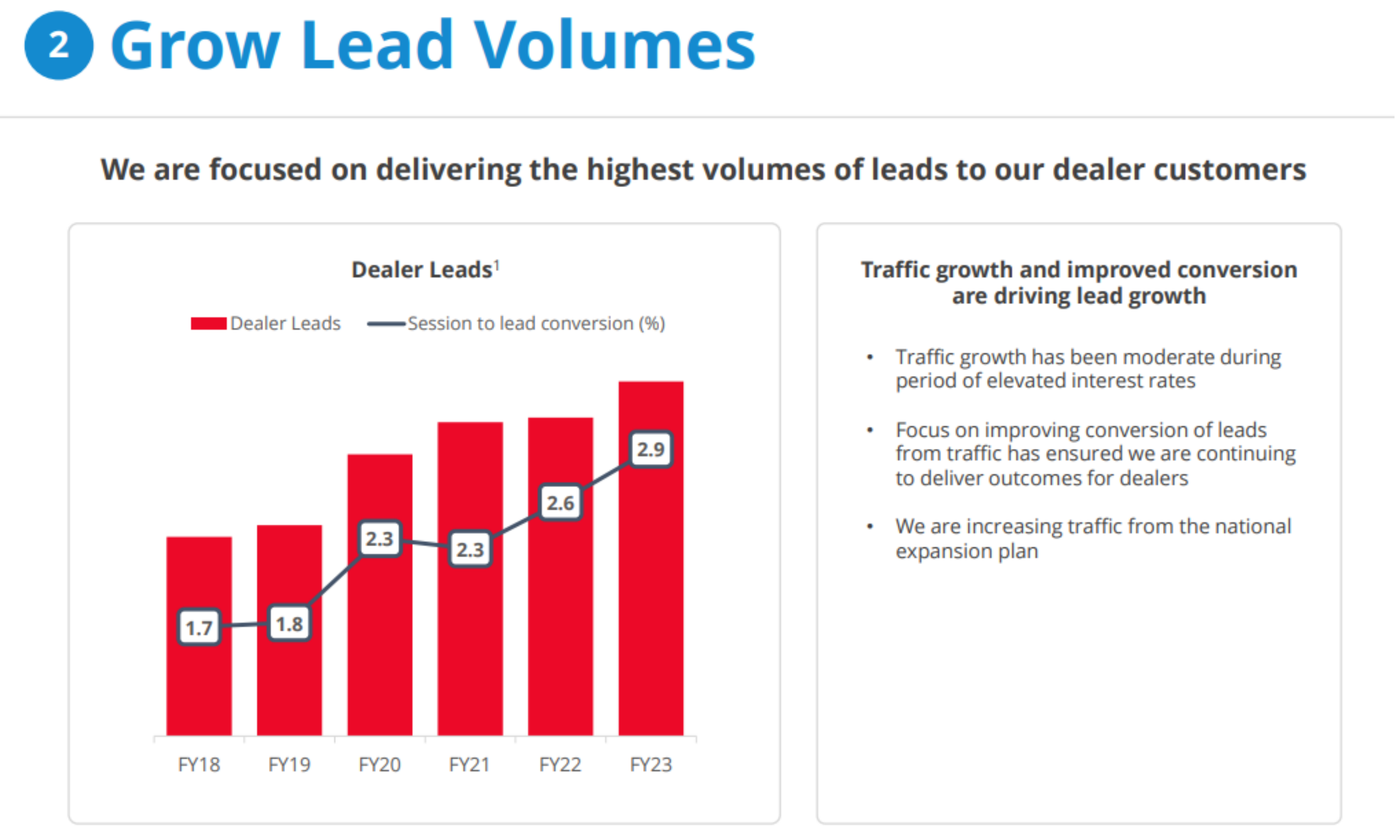
Source: carsales.com Webmotors Investor Day Presentation September 2023

8. Growing lead volumes and improving lead conversion

Figure 44 illustrates Webmotors' improving leads metric, with traffic growth and higher dealer leads translating to better lead conversion rates.

It is an important measure for dealers to assess the value delivered and remains carsales' key performance metric.

Figure 44: Leads and conversion

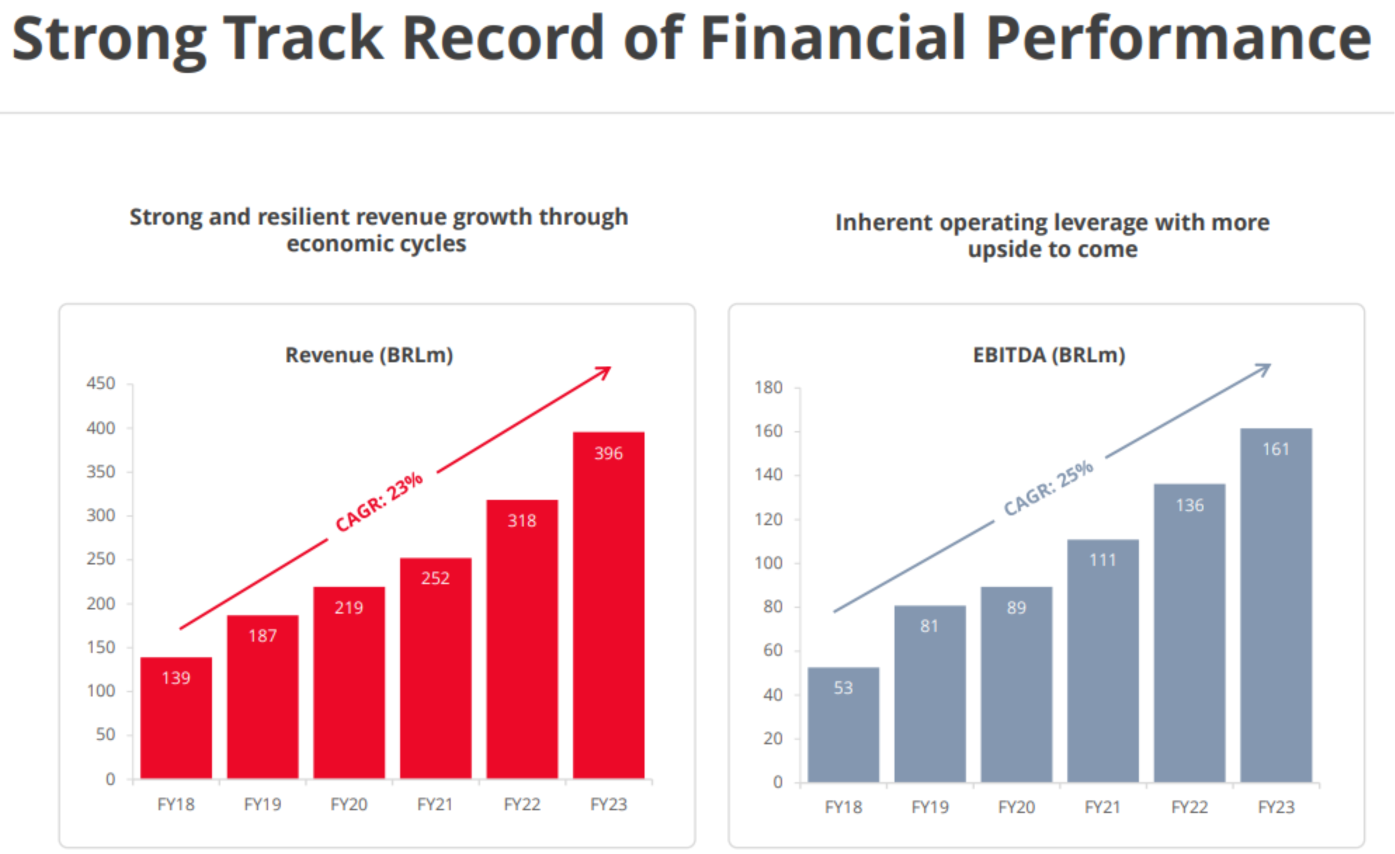


Source: carsales.com Webmotors Investor Day Presentation September 2023

9. Proven financial track record

Webmotors' market success is clear in the numbers. Despite delivering compound annual growth rates of more than 20% since 2017, the expectation is this rate of growth can be sustained for many years to come. National expansion, the sustained improvement in lead conversion, and a plethora of proven product offerings to deploy in a relatively immature market justify this confidence.

Figure 45: Webmotors financial track record 2018-2023



Source: carsales.com Webmotors Investor Day Presentation September 2023

10. Delivering to its potential

Webmotors' margin profile reflects a business undergoing rapid growth and significant reinvestment. In time, management have confirmed a similar margin profile should be delivered across all geographical regions, underscoring the positive earnings latency in the newer regions of the U.S., Brazil, and South Korea.

Global market leader Queensland Dr, Glasgow, UK

It is rare, or somewhat unique to find a business with market leading brands delivering strong unit economics and operating across four geographical regions.

Carsales is in that position. The shift to digital and the group's leading transaction marketplace product set is delivering across both the auto and non-auto segments.

The attractiveness of the business model is not only the size of the opportunity but the ability to take learnings from one region and scale it across many.

In that sense, carsales is uniquely placed.

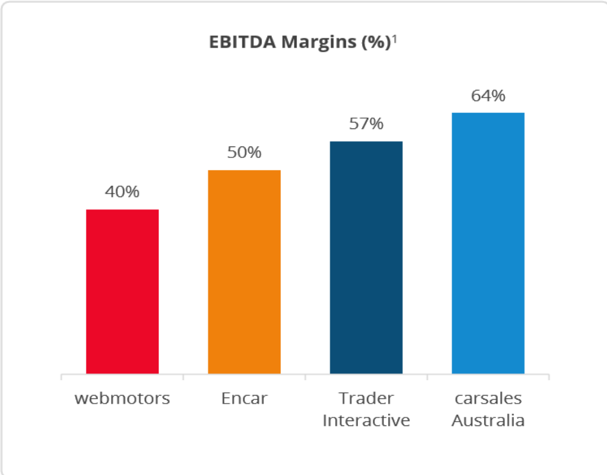
Figure 46: Operating margins

6 Strong EBITDA Margins with Significant Upside

High incremental margins expected from key growth areas

Growth Area	Margin Impact	Comment
Dealer yield optimisation	↑	Low/no incremental costs associated
Media products	↑	Low/no incremental costs associated
Finance penetration	↑	Leveraging strong Santander sales relationship
National expansion	→ (short term)	Upfront investment required, but expansion programme will moderate over next 2-3 years

Significant upside potential to margins relative to other carsales marketplaces

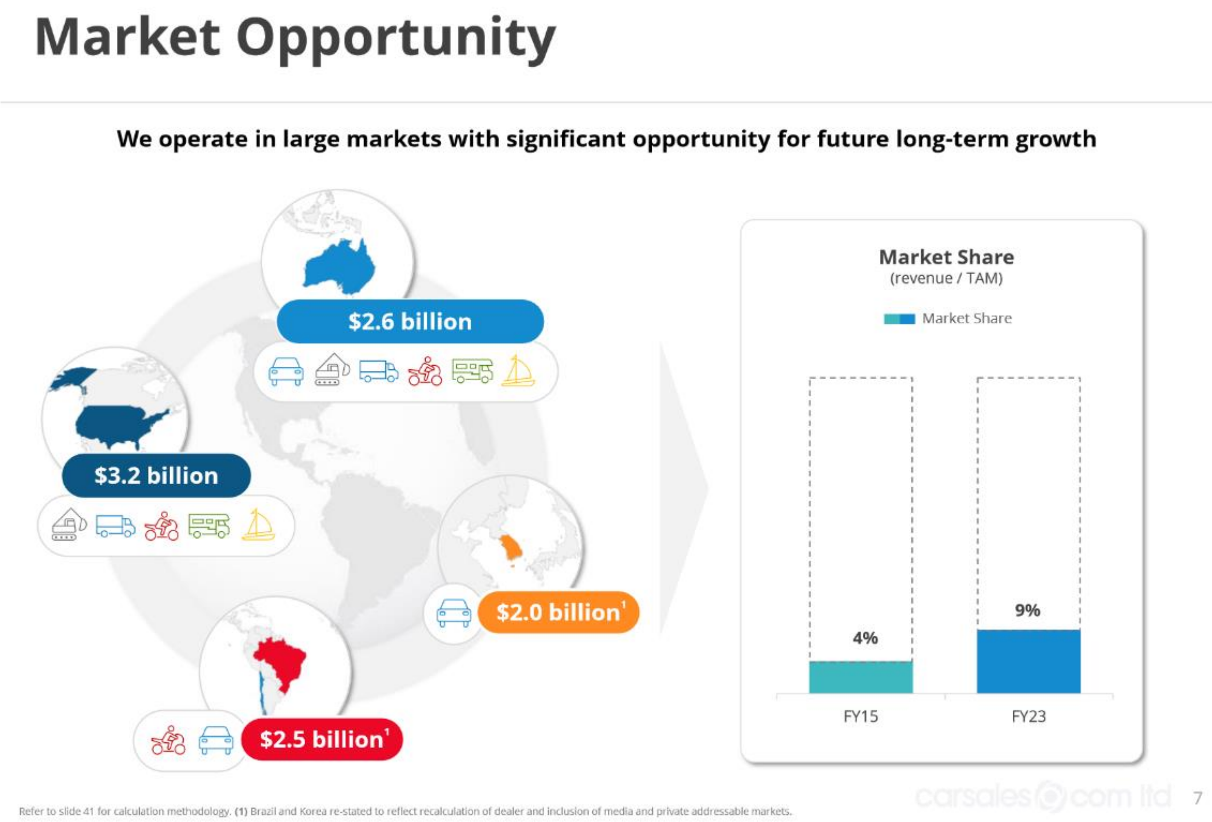


(1) Jan-22 – Dec-22 EBITDA / Revenue. carsales excludes carsales investments whilst webmotors excludes car10 and Loop. Refer slide 36 and slides 2-5 regarding basis of preparation of financial information.

carsales.com ltd NOT FOR RELEASE OR DISTRIBUTION IN THE UNITED STATES 25

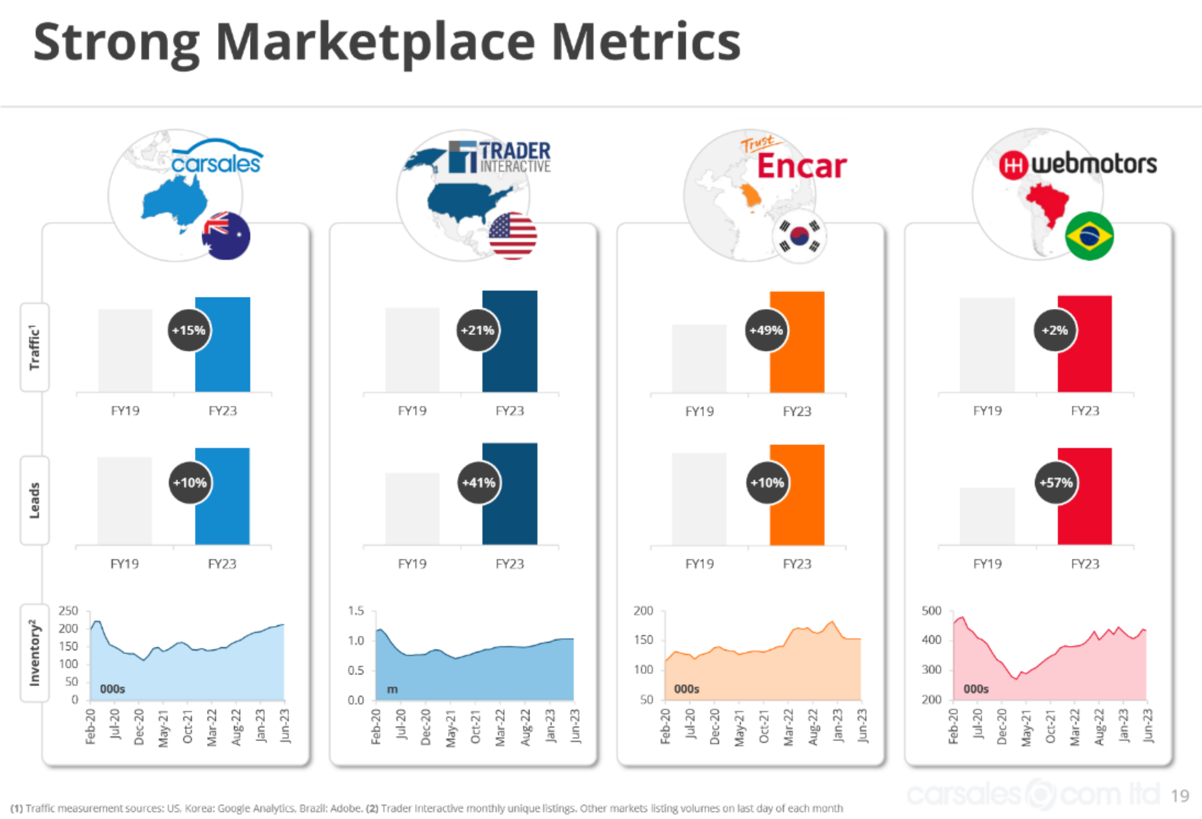
Source: carsales.com Webmotors Investor Day Presentation September 2023

Figure 47: Carsales global marketplaces



Source: carsales.com Webmotors Investor Day Presentation September 2023

Figure 48: Carsales four geographical regions



Source: carsales.com Webmotors Investor Day Presentation September 2023

Final comment

Carsales founder Greg Roebuck, who remains in the top 20 shareholder list, was fond of calling out the importance of picking up the one percents in business.

“Don't spend all your time thinking of great big changes. Be happy with lots of little changes and you'd be surprised how quickly they make a huge a difference.”

Any investor who has spent time following the evolution of the carsales business would see this philosophy firmly embedded. Perhaps most evident is the incremental way products and services are constantly fine-tuned to drive higher performance and improved returns.

Current CEO McIntyre’s leadership approach is no different, having worked alongside Roebuck since 2007, before the group’s public listing in 2009.

While it’s easy to dismiss executives making broad statements, McIntyre’s performance since taking over the CEO reins in 2017 has earned him high praise and added substance to his cultural legacy.

“We treat the business as our own and every dollar as our own. That is right through the culture of the organisation. The whole idea that we want our kids to work in the business is about painting a picture that we are in this for the long term.”

Culturally aligned, a high-performance track record, and committed to the long-term. It is hard to ask for anything more. ***SFM***

THE CURSE OF PROPERTY

As an asset class, property has its followers. It is a force to be reckoned with, having made millionaires out of countless individuals.

The problem with property, if there is one, is that it usually comes delivered as a package. In this instance, the package is debt, sometimes layers of it all designed to encourage the faster ownership of an asset class that few can purchase outright.

The documentary movie, *The Big Short* released in 2015 following the events of the Global Financial Crisis (GFC), illustrated the shortcomings of property when leverage and greed are combined.

The 2008 GFC didn't end well for investment banks and property holders as they ended up with too much debt and little ability to sell.

This last point is particularly relevant. Property for all its advantages has one big shortcoming, it is invariably a difficult asset class to move. The industry defines such outcomes as illiquid events.

The second major disadvantage occurs when investors, locked into owning illiquid assets, look to exit. To avoid a fire sale, property owners aim to delay any investor request for redemption for a lengthy period. This is often accompanied by the realisation that valuations need to be reset lower, sometimes materially lower.

What transpires is a period of protracted delays, and the painful realisation property can deliver a powerful sting.

In China, this is now becoming a reality. Property has been for a long time the nation's poster child, but its undoing is now all too familiar.

Some liken the current situation to a giant Ponzi scheme threatening the country's long-term economic track record. More importantly, there are no easy solutions, as the following discussion below looks to highlight.

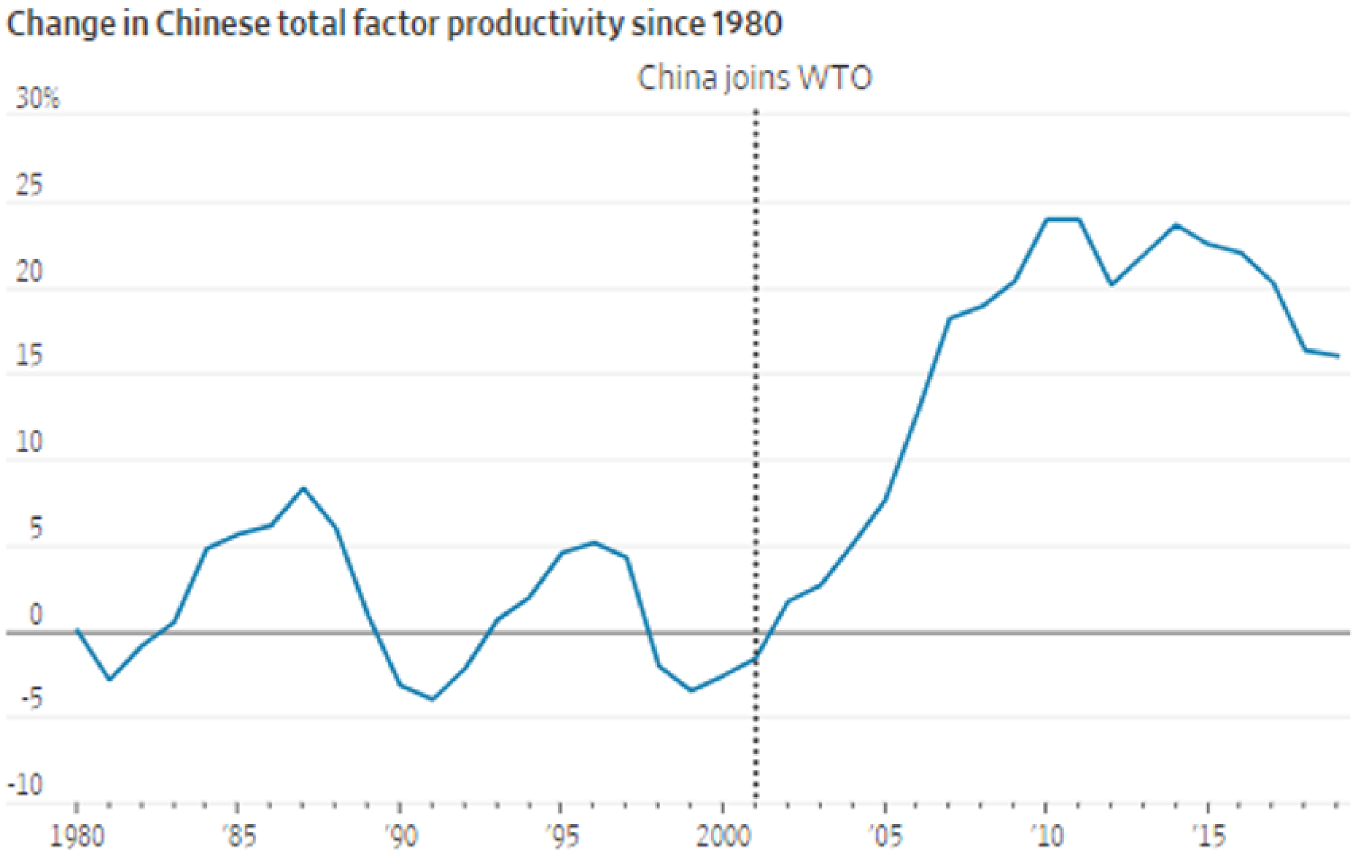
China – *"Houston, we have a problem"*

The maths doesn't lie. The issue that China faces is not one of spend, its relevance as a global technology nation, or COVID recovery.

The problem lies with the biggest challenge facing most nations, delivering productivity growth. According to a recent piece from the Wall Street Journal (WSJ), China's productivity has been falling for more than a decade after an extraordinary period of growth following its entry into the World Trade Organisation in 2001.

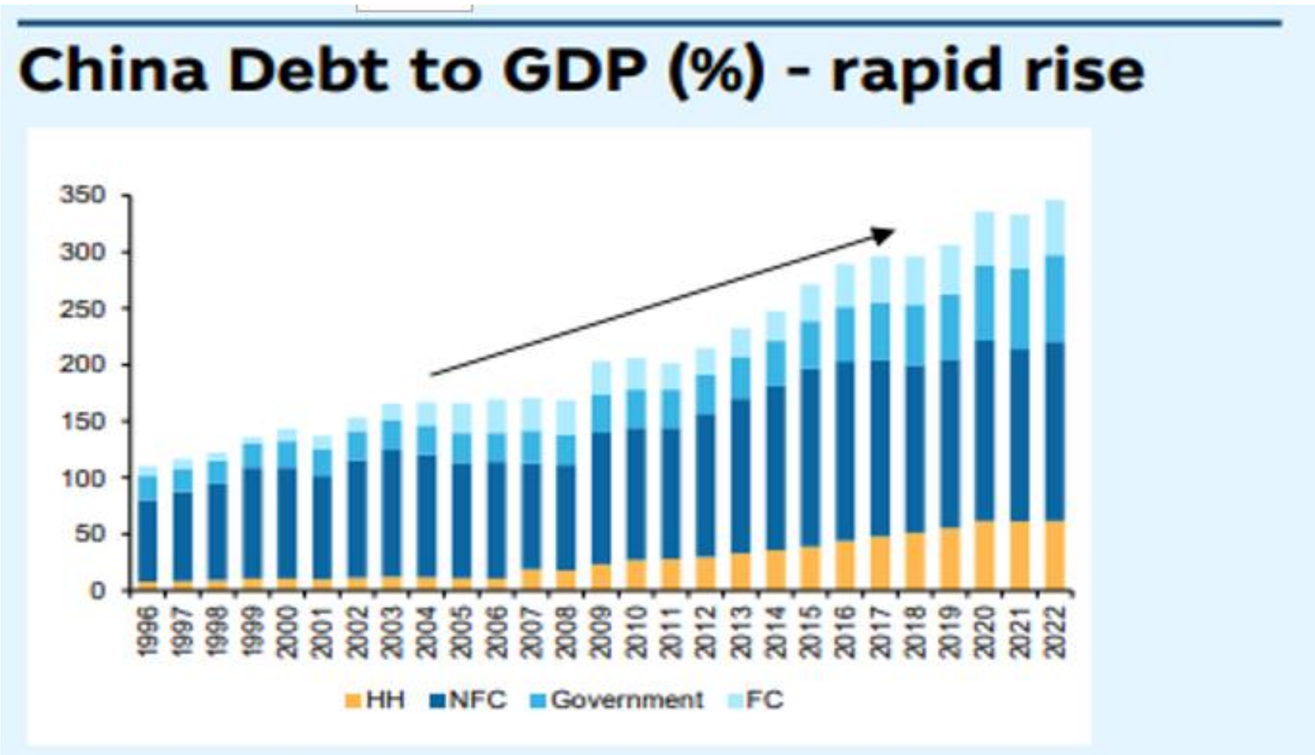
Figure 49 and Figure 50 are most telling, with Chinese productivity declining since 2010 despite the government's best attempts to manufacture growth. Coupled with China's debt to GDP, which sits well above 300%.

Figure 49: Chinese productivity since 1980



Source: Penn World Table 10.01, www.ggdc.net/pwt

Figure 50: China debt to GDP



Source: IIF, Macquarie Research

According to The Economist Professor Brad DeLong, *"Local Chinese governments are financed by land sales, and if they can't make land sales they have no funding, and you have no local public services in China."*

The primary issue is that China borrowed and invested heavily in unproductive assets, such as housing, while suppressing consumption. Now 25%-30% of the economy is dedicated to building or developers.

The allocation of capital towards such a significant and largely unproductive asset class is now an economic drag on the nation and its people.

The situation has been exacerbated by the government's handling of one of its biggest property developers, Evergrande. Since 2021, despite its perilous financial standing, the company remains on life support. Rather than tackle the problem head on, the government's more palatable path has seen it hand out even more loans, worsening the economic waste and delaying the inevitable.

In short, throwing more debt at the problem has damaged consumer confidence, as Figure 51 highlights, with new property starts in decline.

Deflation

In a world awash with inflation, China has a different problem: deflation. Falling prices pose immediate dangers for the country's policymakers. They erode profits, depress confidence, and deter risk taking, only adding to deflationary pressures.

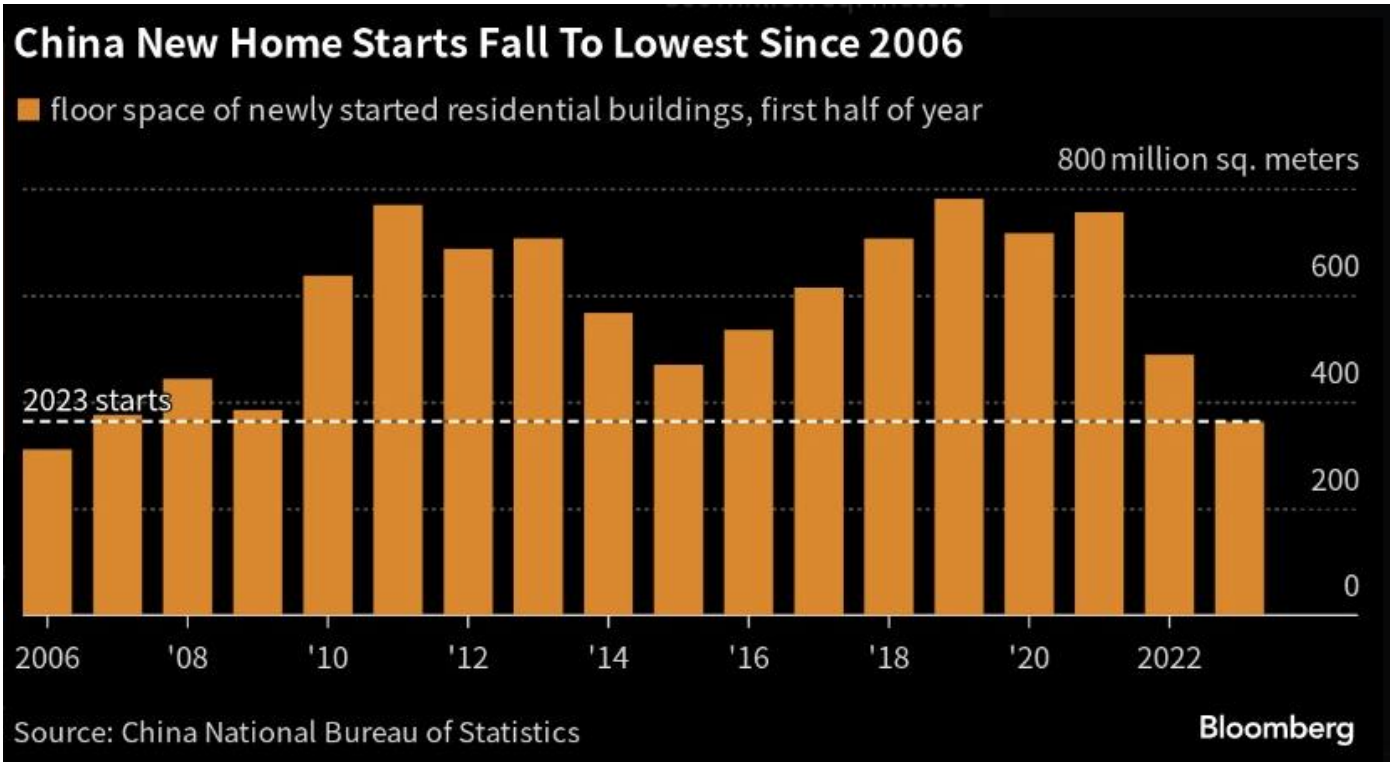
It also speaks volumes of deeper structural issues at play, underscored by soaring youth unemployment, currently exceeding 20% and ageing demographics.

Evergrande – background

The Chinese name for Evergrande implies 'a kind of constant grandeur'. As the second largest real estate developer in Mainland China, an outsider's perspective would suggest it has lived up to its name.

Incorporated in the Cayman Islands and founded in 1996, the company sold apartments to upper and middle-income dwellers, becoming in 2018 the most valuable real estate company in the world.

Figure 51: China First home starts 2006-2023



Source: Bloomberg

Figure 52: Evergrande Group's City Plaza, Beijing – empty apartment buildings

Source: Bloomberg

Stock Exchange listed in 2009, Evergrande became synonymous with China's mass urbanisation period. In 2021, the company reported the extent of its debt position, declaring default in December.

An effort to restructure its offshore debts has seen it miss multiple deadlines, leading to delayed payments to investors, and further restructuring.

The shares have been suspended since March 2022 and to avoid further regulatory action the Hong Kong listed group was required to update investors by September 2023. In July the holding company, Evergrande Group, now the world's most indebted property developer, reported shareholder losses of 476b yuan (US$66b) and 106b yuan (US$15b) for 2021 and 2022, respectively.

The update also revealed Evergrande's total debts had reached 2.437t yuan (US$340b) by year-end 2022, equivalent to roughly 2% of China's gross domestic product. In contrast, the company's total assets were valued at only 1.838t yuan (US$256b), implying the business was insolvent and conditions that indicate, *"the existence of material uncertainties"* that may cast significant doubt about the company's ability to continue as an ongoing concern.

Before the crisis, the company had more than 200,000 employees, annual revenues of more than US$110b, and owned more than 1,300 developments across major Chinese cities.

The fallout extends well beyond Evergrande. Real estate remains a pillar of China's economy, accounting for as much as 30% of gross domestic product (GDP), employing tens of millions of workers and contributing significantly to local governments.

But the housing sector has gone from an unstoppable driver of growth and propensity to one that threatens to derail long-term investor confidence.

Citigroup research pointed to nearly a third of all property loans now classed as bad debts, up from 24% in 2021. George Magnus, an associate at the China Centre at the University of Oxford, noted that the Chinese market was not quite a classic Ponzi scheme in the style of Bernie Madoff's scam that was exposed after the GFC, but it was very similar.

"Developers raise huge amounts of money from customers to basically fund the purchase of the next construction projects. This continues on and on before it has got to the size it has," It's not strictly a Ponzi in the asset management sense, the Madoff style, but they're essentially using clients' money to fund the next project, so yes, it's the standard definition of what that means."

Thanks partly to the country's investment-led economic model that has prioritised construction, property flourished. As a result, it bred a hitherto blind faith in the property values, which have risen uniformly for the past two decades or more.

That is no longer the case. The investment bubble that gave rise to the hallowed asset of property has now ended. Beijing isn't prepared to accept its fate, but not facing reality will only force the day of reckoning further down the track.

In the meantime, the Chinese productivity miracle of past decades may be just that, a thing of the past. ***SFM***

ARB – 48 YEARS OF FOCUS

ARB's story began in 1975 when Anthony (Tony) Brown, the brother of current directors Roger and Andrew Brown, reflected on his experience travelling from Melbourne to Cape York. Driving a series one Land Rover equipped with homemade roof racks, Tony found he was spending much of his time helping others with various mechanical problems and equipment failures. On return, Tony combined his expertise with the field experience from his travels and started building 4x4 equipment.

ARB initially focused on vehicle protection equipment, building bull bars and selling direct to customers in Australia. In 1987 the group acquired Roberts Diff Locks, now known as Air Locker. It was the first of ARB’s products to be shipped globally because of its high value and relatively small package size. The following year (1988) saw ARB acquire Old Man Emu Suspension, which continues to run under the same brand today.

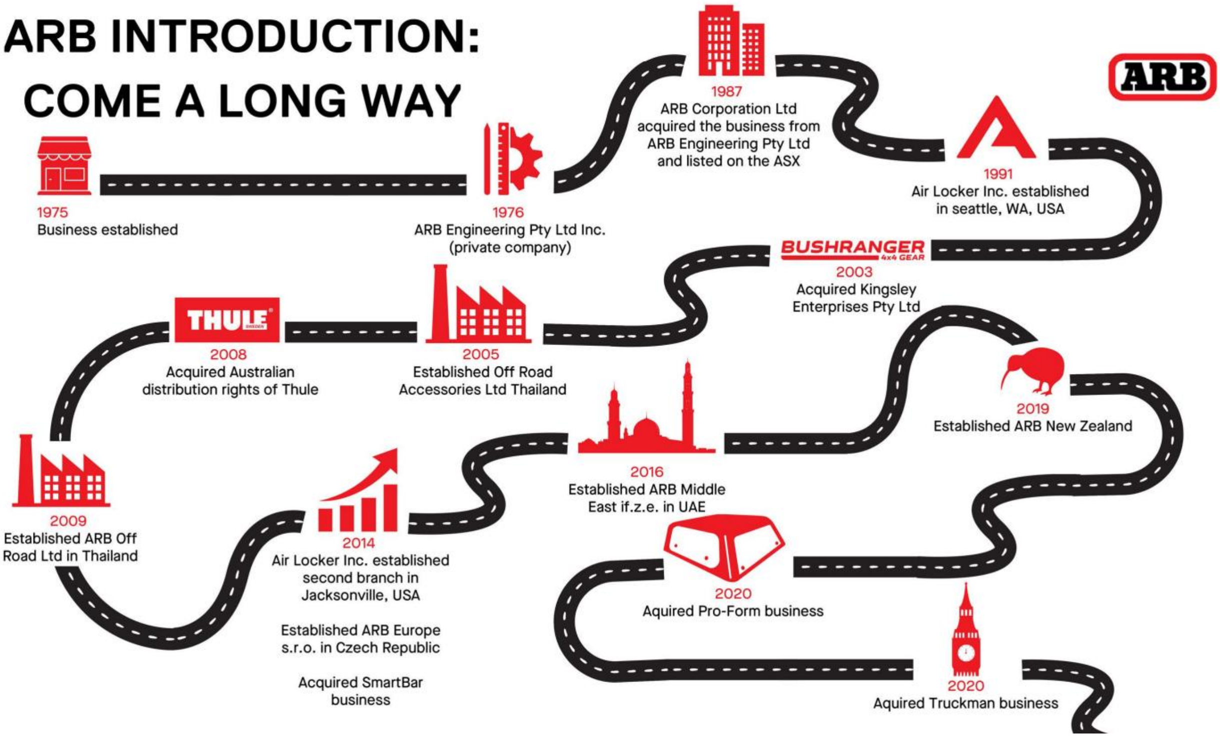
Incrementally, ARB grew its offering into full vehicle protection and off-roading accessories, guided by its vision of making remote travel a safer and more enjoyable experience. The journey has been gradual and mainly organic, with no large acquisitions.

We previously wrote about ARB in our December 2017 Selector Quarterly Newsletter following a site visit to the company’s Melbourne headquarters. Below, we share an extract from that article.

‘There are many nuances to the way ARB does business but undoubtedly the key observation is a management team that has been able to remain focused on delivering an outstanding range of quality products that customers deem relevant. Executive chairman Roger Brown emphasised the importance of this point: *“In 40 years, we've stayed the same business. We've been very fortunate that the market for our products has grown, and we've grown, but we manufacture, supply and distribute accessories for 4WD vehicles, and it hasn't changed.”*

Based on their track record, you can appreciate why the company isn't about to change any time soon. As John Forsyth commented: *“Staying in the same business is a key focus”* and just as important, what can shareholders expect from ARB? *“More of the same for quite some time.”’*

Figure 53: ARB history



Source: Market update 2023 presentation

Product development

ARB has been built from the ground up, focusing on product quality, function, and reliability as the bedrock. The business has been conservatively managed, with decisions made well ahead of potential future growth, funded by existing cash flows.

Guiding the business has been the philosophy of having a go. Andrew Brown sums this up well, *"We're not afraid to have a crack at developing new products inhouse. Even if we're not experts to begin with, we inevitably end up producing world class products."*

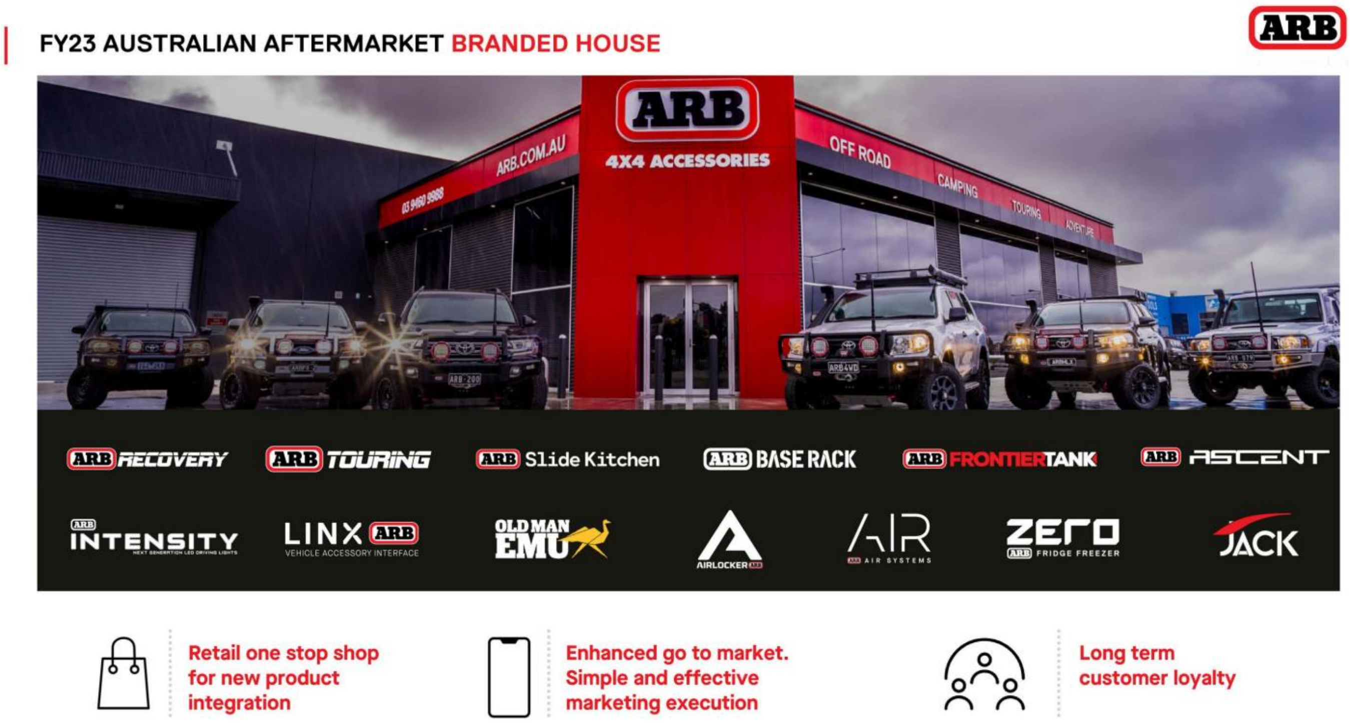
When ARB went public in 1987, it had sales of $1.5m and breakeven after-tax profits. Now, it is a global distributor of leading off-roading equipment and vehicle protection in over 125 countries, with product sales of $671m and after-tax profits of $88.5m. The company remains in a net cash position of $45m, has no debt, and continues to reinvest over 6% of sales in product development and capacity expansion.

The incremental investment and *"have a go"* attitude have seen the company expand its offering to a branded house of over 10 leading product ranges (Figure 54). Product development, which is key to ARB's competitive advantage, is supported by more than 110 in-house engineers globally recognised as some of the most experienced 4x4 vehicle specialists in the industry.

For context, we provide an overview of ARB's historical financials and level of investment in product and manufacturing capacity (CAPEX) since 2013. During this period, the company has invested a total of $131m in product development and a further $326m in plants and equipment, as shown in Figure 55 and Figure 56. These investments represent a material portion of revenue, ranging from 7% to 16%.

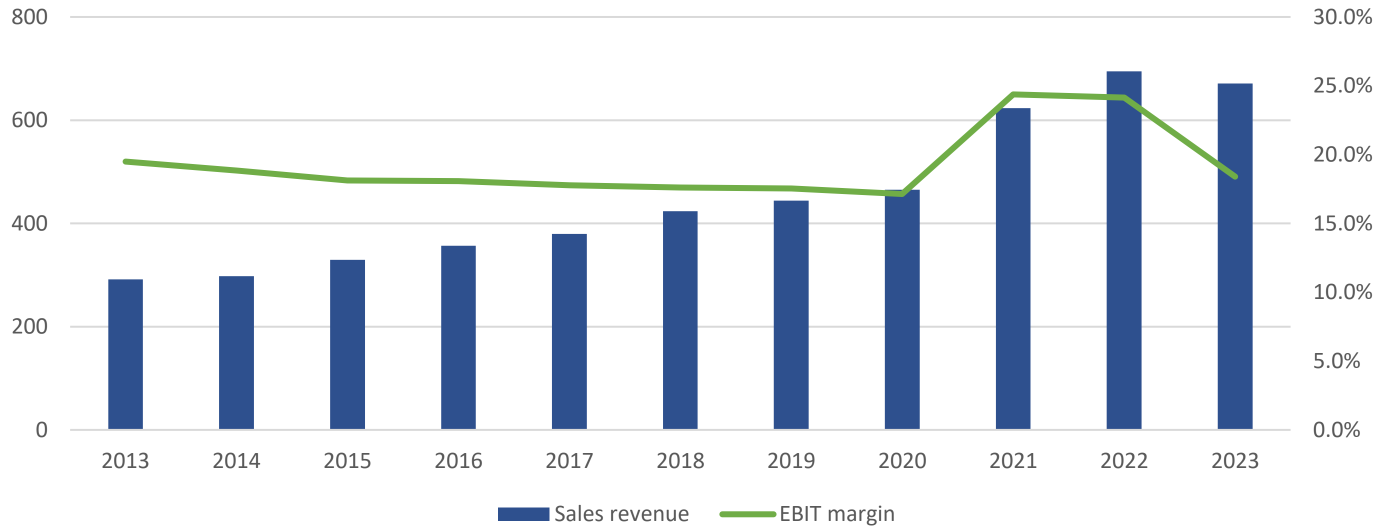
Many of the company's products are long-term in the making, with some taking well over five years to go from concept, design, and testing to the finished product. The Earth Camper is just one such example.

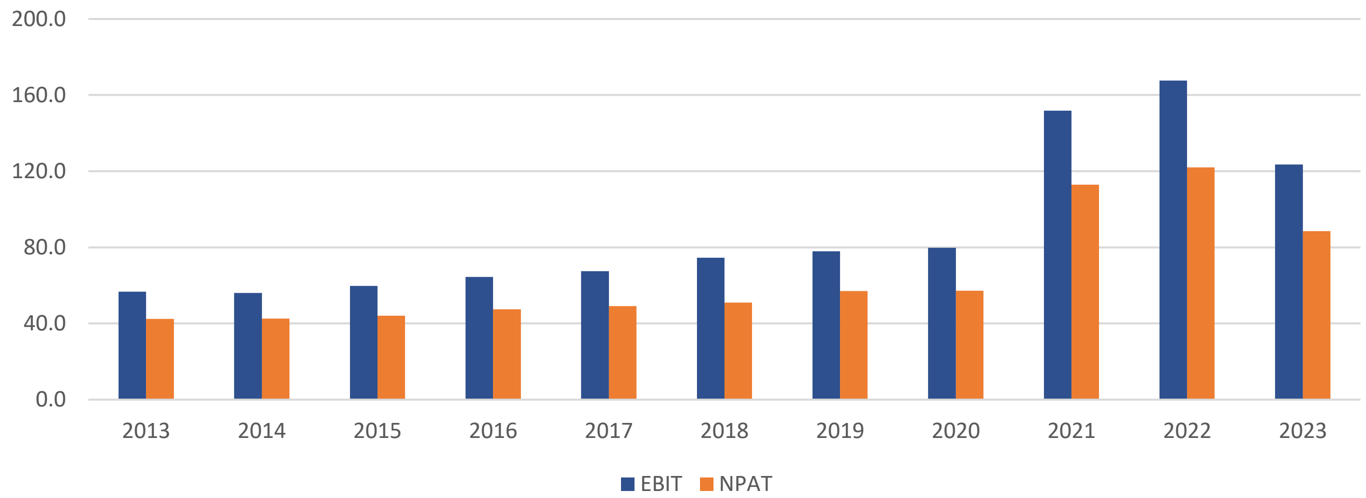
Figure 54: ARB Brands



Source: ARB FY23 Results Presentation

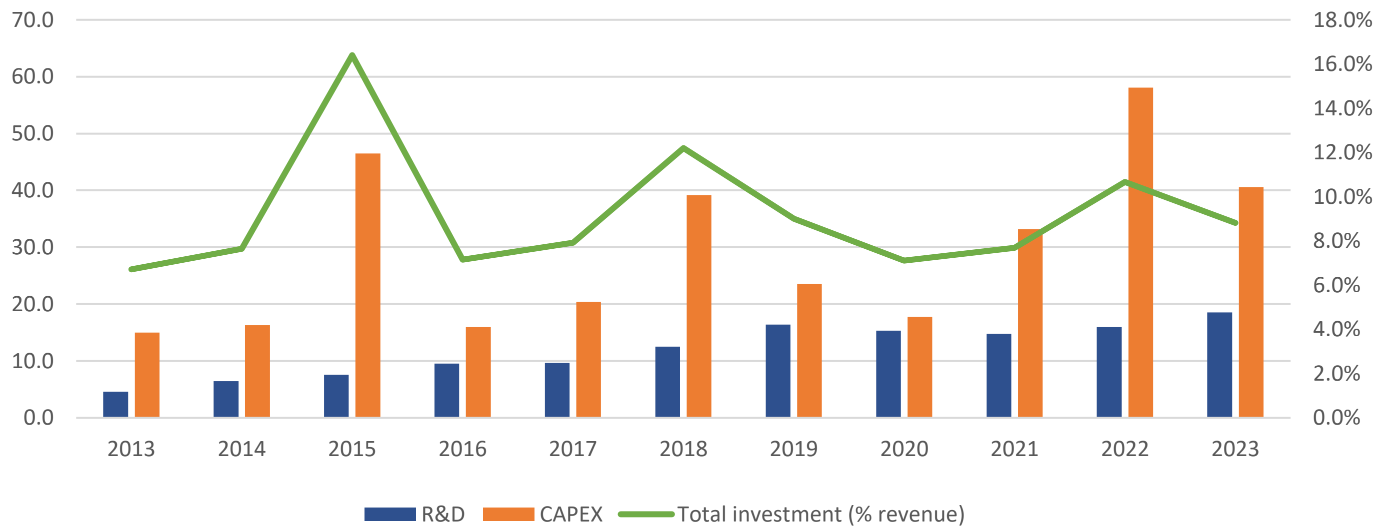
Figure 55: Financial snapshot





Source: ARB Company Financials

Figure 56: Investment in growth



Source: ARB Company Financials

Figure 57: The Earth Camper

Source: ARB

This year, ARB unveiled a new product, the Earth Camper. The original idea was born in 2016.

In their most recent newsletter, ARB explained the reasons for entering the camper trailer segment, a new product category for the business. In short, there was a gap in the market for a fully off-road capable, durable, and reliable product available globally. The vision was simple – develop a product that could follow you anywhere.

Andrew Brown explains, *"Overlanding has started to take off in the United States and Chinese markets but there was nothing in those markets that we thought was fit for purpose. So we wanted something that was ARB and what we thought a camper should look like."*

The business had the key foundations in place to achieve this, as the article states, *"ARB was already doing all the things that make good off road campers. And doing it on a global scale. We'd already developed or has specialist knowledge in all the individual elements."*

The Earth Camper enjoys a sense of familiarity, as it features a catalogue of the company's leading products, including Old Man Emu suspension, ARB base rack, kitchen accessories and air compressors, all of which are housed in a fiberglass shell.

The product pays homage to ARB's initial strengths of working with aluminium tubing. It is wrapped in 90-millimeter bent aluminium tubing that forms a continuous exoskeleton, minimising the number of welds required. The remaining non-ARB mechanical parts were specifically chosen to ensure spare parts were available globally.

Significant testing was completed on the Earth Camper. This included electronic simulations, chassis and suspension field testing, and finally prototype testing. A handful of campers were then pilot tested by a small group of customers. Over this period, the camper underwent numerous iterations to ensure the final product was fit for purpose.

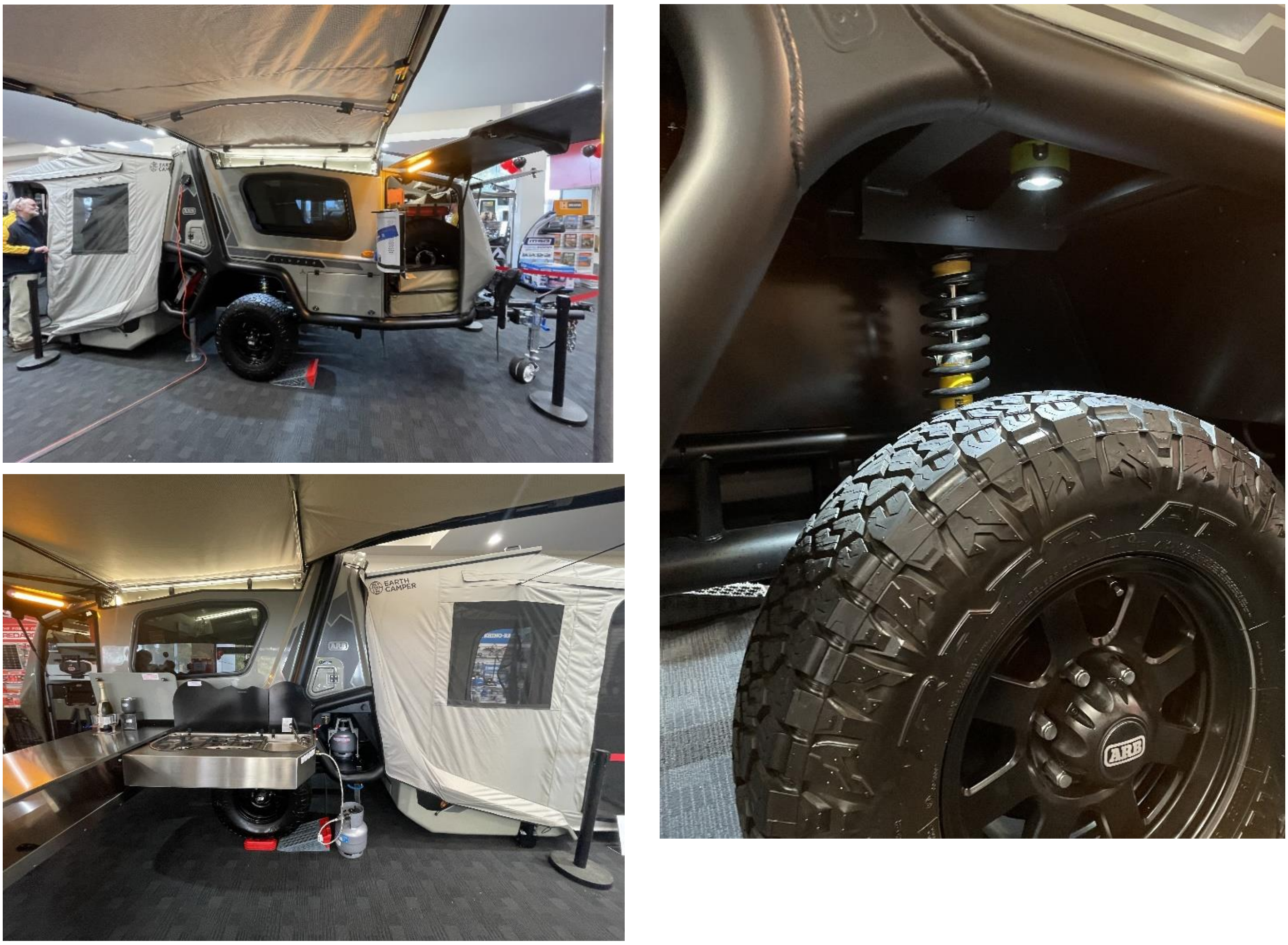
To commercialise the camper on a global scale, ARB has set aside capacity in its newly commissioned 33,250 square meter Thailand facility (Ora 4).

Early feedback on the camper is positive. Over 1,400 potential customers have registered interest, including more than 940 from Australia alone. ARB plans to debut the camper in the U.S. at SEMA, an automotive specialty equipment trade show in late October.

Key to ARB's offering is its nationwide retail network of 74 branded stores to assist with customer queries, services and issues when travelling. Over time, ARB aspires to have sufficient inventory to facilitate next-day delivery, which would leapfrog the monthly lead times and limited store footprint of its competitors.

The ARB Earth Camper starts at $74,500, with fully optioned variants reaching ~$92,000. Below are a handful of photos from our attendance at the NSW launch at ARB Moorebank in July.

Figure 58: The Earth Camper launch



Source: SFML Site Visit

FY23 update: U.S. Strategy and OEM partnerships

At its full year 2023 results, ARB reported sales revenues of $671m and after-tax profits of $89m.

The company, under newly appointed CEO Lachlan McCann, continues to stay true to its roots of developing functional and reliable 4x4 equipment for the end user. With over 20 years under his belt at ARB, McCann has covered a breadth of roles. Between 2010 and 2014, McCann ran the group's Thailand manufacturing operations, followed by the role of general manager of International and OEM sales from 2014-2018. Most recently, he was Chief Operating Officer.

A highlight from the result was the business's maturity in its U.S. strategy. The company expects its first retail store to open in the second half of financial year 2024. This marks an important milestone, as the company can begin to enjoy 1:1 interactions with the end customer.

ARB also expects to launch a direct-to-consumer eCommerce site in September 2023. Historically, ARB has relied on U.S. distributors to market its products and noted problematic experiences from ongoing changes by a key customer.

In other news, ARB announced a new partnership with Toyota USA. This deal is a branded collaboration targeting the overlanding market, with all parts being factory fitted by Toyota.

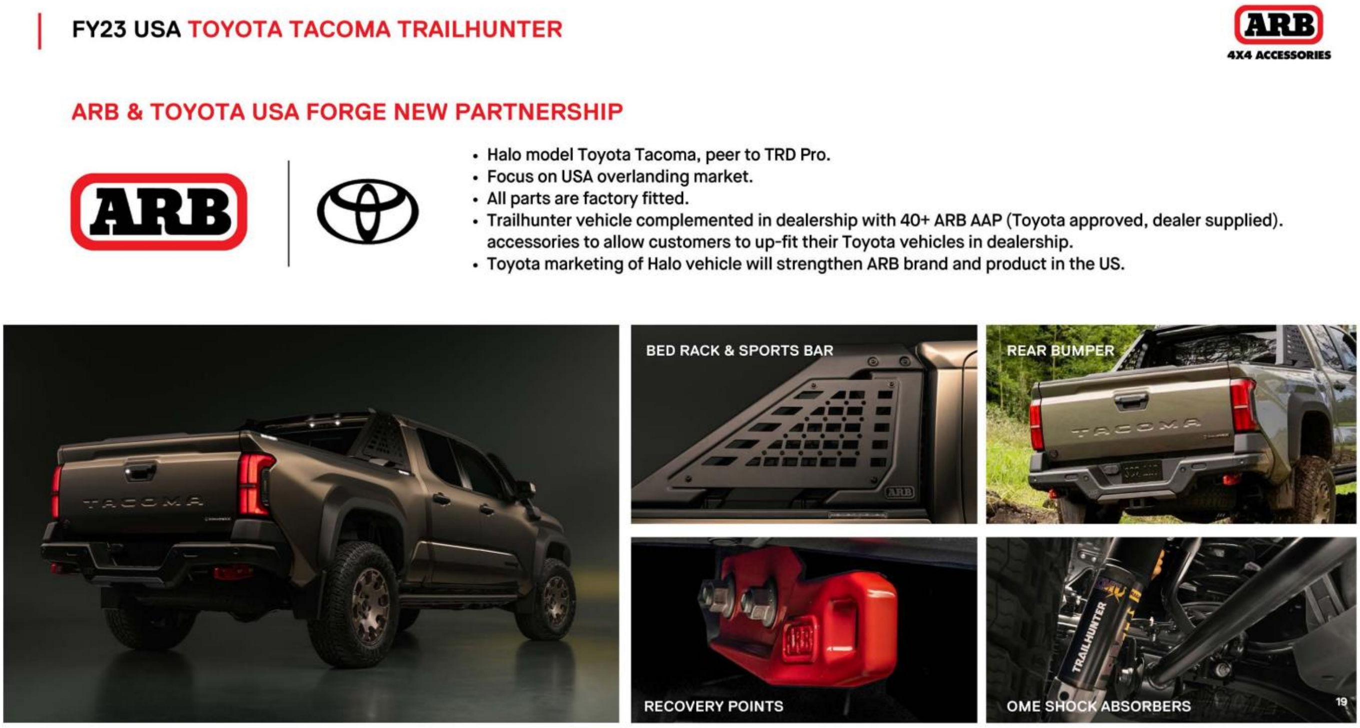
Notably, ARB is featuring on a halo version of the Toyota Tacoma (Trailhunter), which is purpose-built for overlanding. The vehicle includes four ARB products, including Old Man Emu suspension, rear bumper, bed racks, and recovery points. Upon launch, Toyota dealers will have access to over 40 ARB-approved products for the Tacoma, regardless of which model customers choose.

This partnership expands on ARB's ongoing success with Ford USA, which has become a key contributor to ARB USA's sales. ARB and Ford are extending this further to the new Ford Ranger model across 15 vehicle specific accessories.

Overall, these partnerships will help accelerate customer awareness in the U.S. market. It is worth noting the U.S. 4x4 automotive market lacks a strong national retail leader, giving ARB a long-term opportunity to replicate its national brand success achieved in Australia.

In FY23, ARB reported U.S. revenue of $81m and EBITDA of $7.4m. ***SFM***

Figure 59: U.S. OEM partnerships



Source: ARB FY23 Results Presentation

Figure 60: U.S. OEM partnerships

Source: ARB FY23 Results Presentation

DOMINO'S SUSTAINABILITY INITIATIVES

"We do the right thing, because it's the right thing to do."

Domino's goal to become the leading sustainable Quick Service Restaurant (QSR) in every market they operate by 2030 guides every aspect of their operations, from the franchisees to their supply chain.

Domino's and ESG

In 2021, Domino's launched Domino's for Good. This initiative is designed to create a positive impact and experience for all stakeholders through Environmental, Social, and Governance (ESG) efforts. To support this, the group established a multi-national ESG working group, engaged sustainability consultancy firm Quantis, and appointed Marika Stegmeijer as the group's first Chief ESG Officer.

Stegmeijer is responsible for Domino's global ESG strategy and execution, which has involved establishing emissions benchmarks, monitoring progress, ensuring legal compliance and effective management of ESG risks, and actively engaging with stakeholders.

Domino's ESG has come a long way. The group is preparing to publish its third Sustainability Report in November 2023 and recently provided an update on two key initiatives: the validation of emissions targets with the Science Based Targets initiative (SBTi) and the Domino's Dairy Initiative.

Science Based Targets initiative (SBTi)

The Science Based Targets initiative (SBTi) is a global body that helps companies set emission reduction targets in line with climate science. The SBTi was founded in 2015 by the Carbon Disclosure Project (CDP), the United Nations Global Compact, the World Resources Institute, and the World Wide Fund for Nature.

Science-based targets, considered ambitious but achievable, are focused on helping companies reduce their greenhouse gas emissions and limit global warming to 1.5 degrees Celsius above pre-industrial levels. Setting these targets with the SBTi is a five-step process:

1. Commit by submitting a letter of intent.
2. Develop reduction targets in line with the SBTi's criteria.
3. Submit targets to the SBTi for official validation.
4. Communicate targets and inform stakeholders.
5. Report company-wide emissions and track target progress annually.

The SBTi has over 3,000 companies and financial institutions participating in its program, representing over 40% of global market capitalisation. Apple and Microsoft, for example, are among those taking action.

Domino's and SBTi

In July 2023, Domino's announced it had become the first QSR chain to have its targets validated, based on the latest scientific advice on Forest, Land and Agriculture (FLAG).

The group was selected as one of the first ten companies in the world to have their FLAG targets approved. The announcement means the SBTi has examined Domino's goals and verified their plan meets globally accepted scientific standards.

Aside from aiming for Net Zero emissions by 2050, Domino's has pledged to reduce greenhouse gas emissions by 65% per product sold by FY2030 compared to FY2020 levels. In addition, the company aims to stop deforestation in its supply chain by FY2025.

Domino's Dairy Initiative

Following a review of its emissions and those in its supply chain, Domino's found nearly 40% of emissions came from dairy and other animal-based proteins, primarily cheese.

To achieve its ambitious goals, Domino's is collaborating with business partners to find ways to reduce dairy emissions without compromising on the taste customers love. Otherwise known as the Domino's Dairy Initiative, the intention is to make dairy production more environmentally friendly and sustainable.

Domino's recently hosted a two-day summit in Amsterdam to explore what a Domino's Dairy Initiative could look like. Among the attendees was the global leader in mozzarella cheese and long-term supplier, Leprino Foods. The summit also featured representatives from Rabobank, the Dairy Farmers of America (representing 25% of U.S. dairy farmers), Danone, and

Compassion in World Farming, an NGO dedicated to animal welfare.

The primary focus of this event was to articulate a roadmap for the future and translate this vision into concrete action plans. The collaboration of Leprino Foods and Domino's also highlighted the ability for mutually beneficial long-term partnerships based on a common goal.

The driving force behind this endeavour is to minimise the impact on the planet. To achieve this, the initiative will encompass comprehensive efforts in environmental leadership, social responsibility, animal welfare, economic transparency, and auditability to provide a holistic approach towards building an ethical and sustainable dairy supply chain.

But why is this important?

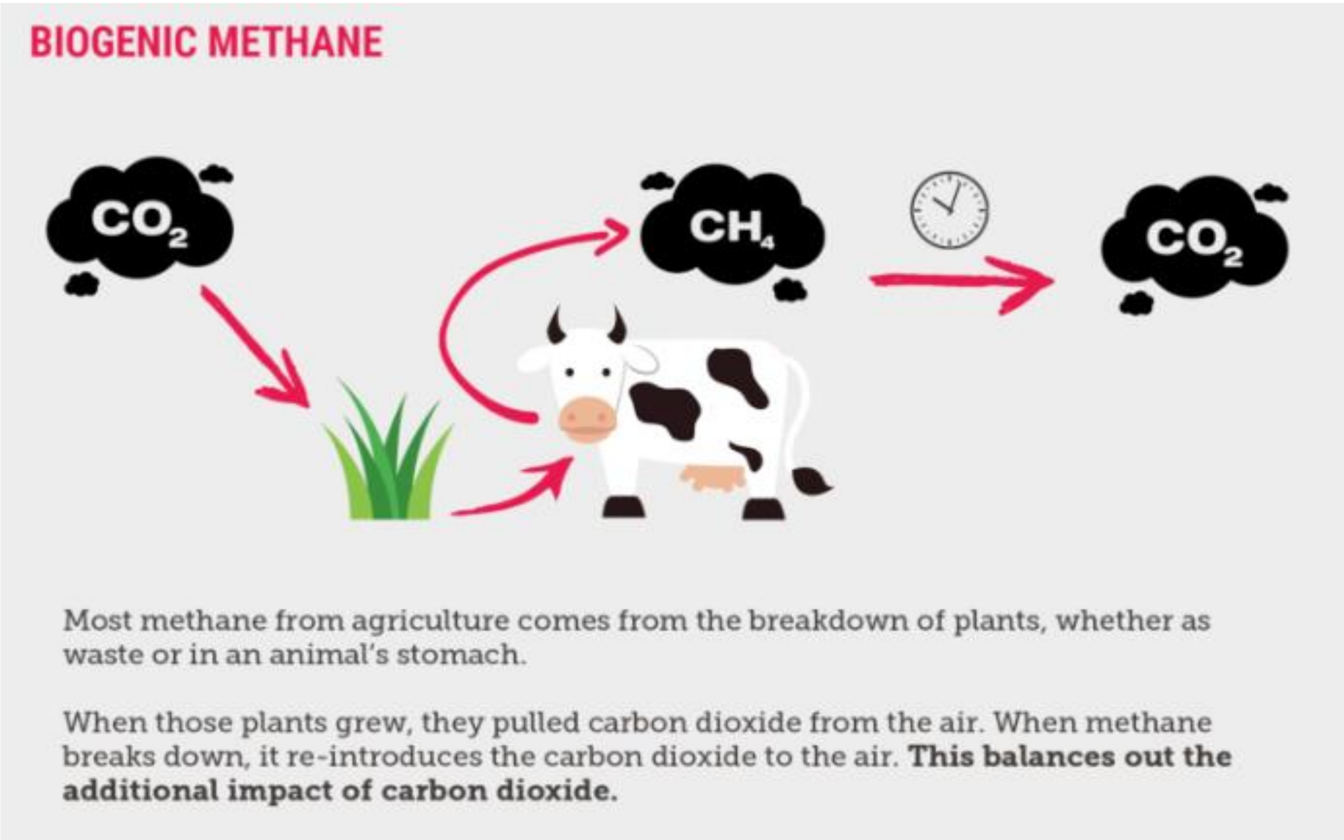
According to the World Wildlife Fund (WWF)[1], there are around 270 million dairy cows globally who are tended to by millions of farmers. The practices undertaken can impact the environment, with dairy cows and manure producing greenhouse gas emissions contributing to climate change.

Unsustainable dairy farming and feed production can also lead to the loss of ecologically critical areas, such as wetlands and forests. Further, the dairy industry is often criticised for its treatment of animals and its impact on human health.

Dairy cows are a major source of methane, a greenhouse gas that is 25 times more potent than carbon dioxide at trapping heat in the atmosphere. Dairy production accounts for about 4% of global greenhouse gas emissions, according to the Food and Agriculture Organization (FAO) of the United Nations.

In Australia, 'agriculture' contributes around 13% of our greenhouse gas emissions annually. By weight, about half of the agricultural sector's emissions, or 42%, are methane. Most of this is the biogenic methane produced by cows and other livestock due to the fermentation of plant matter in their stomachs (see Figure 61).

Figure 61: Biogenic Methane



Source: Climate Council of Australia – climatecouncil.org.au

[1] https://www.worldwildlife.org/industries/dairy

Intergovernmental Panel on Climate Change (IPCC) and methane

The Intergovernmental Panel on Climate Change (IPCC) is the leading international body for the assessment of climate change. The IPCC was established by the United Nations Environment Programme (UNEP) and the World Meteorological Organisation (WMO) in 1988 to provide a clear scientific view of climate change and its potential environmental and socio-economic impacts.

To date, the IPCC has produced six assessment reports. Each provides a comprehensive assessment of the current scientific knowledge on climate change. The IPCC's Sixth Assessment Report (AR6), released in 2023, concluded that human-induced climate change is already affecting many weather and climate extremes in every region across the globe. The report also warned that without immediate, rapid, and large-scale reductions in greenhouse gas emissions limiting warming to close to 1.5°C or even 2°C will be beyond reach.

Methane is a major greenhouse gas and the second largest contributor to human-caused climate change after carbon dioxide. The IPCC has concluded that reducing methane emissions is one of the most effective ways to slow the rate of global warming in the near term.

The IPCC's report estimated that reducing methane emissions by 45% by 2030 could avoid 0.3°C of global warming by 2045. This would put the world on a more sustainable path to limiting global warming to 1.5°C, the goal of the Paris Agreement.

Conclusion

In embracing sustainability, Domino's has recognised its responsibility extends far beyond delivering pizza. The group’s commitment to environmental stewardship, social responsibility, and ethical practices is deeply ingrained in corporate culture. The Domino's Dairy Initiative and validation of science-based targets, as examples, demonstrate the group’s ambition to contribute to a better, more sustainable future. We look forward to reviewing the company’s progress across all pillars of ESG when they release their sustainability report in November. ***SFM***

OVERSEAS SITE MEETINGS SEPTEMBER 7-19, 2023

1. *Brazil – Sao Paolo*

Photo 1: Banco Santander head office Sao Paolo

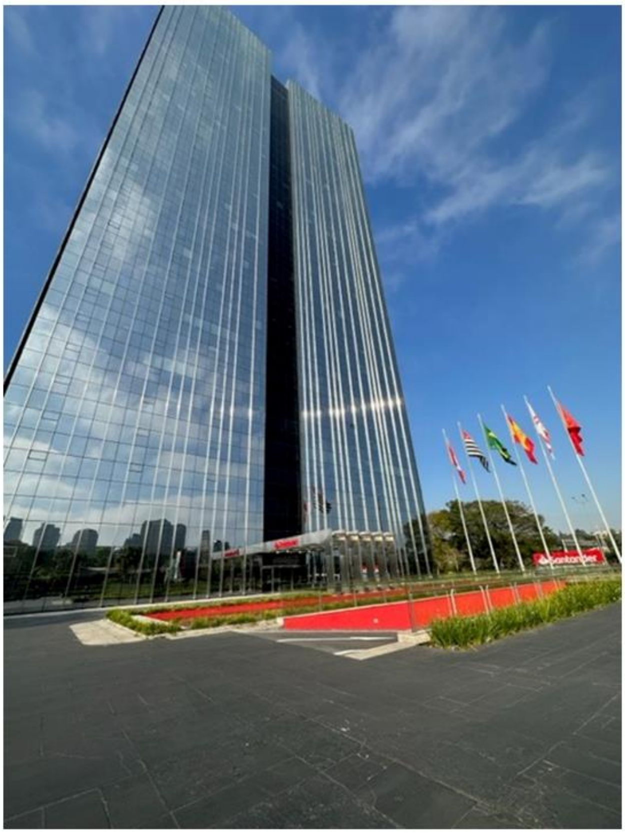


Photo 2: Webmotors head office located in Banco Santander head office building

Photo 3: Car dealership Sao Paolo, customer of Webmotors

Photo 4: Car dealership Sao Paolo, customer of Webmotors

2. U.S. – Irvine, California

Photo 5: Reece bath & kitchen showroom, Irvine

3. Mexico – Tijuana

Photo 6: Fisher & Paykel Healthcare newest manufacturing facility (MX3) Tijuana, Mexico

Photo 7: Fisher & Paykel Healthcare view of adjoining vacant land for future manufacturing expansion *facilities MX4 and MX5*

Photo 8: Crossing Mexican border back into U.S., an interesting experience

4. U.S – Birmingham, Alabama

Photo 9: Reliance Worldwide, Birmingham, Alabama manufacturing site

Photo 10: Reliance manufacturing footprint, product set, SharkBite Max, Holdrite Hydro Flame

Photo 11: Reliance Worldwide executives, Group CEO Heath Sharp (left), Albert von Pelser VP Operations Americas (middle), Will Kilpatrick President Americas (far right)

Photo 12: Reliance Worldwide buildings 1-4, Values, Pex Pipes, SharkBite Fittings, Assembly

Photo 13: Reliance Worldwide Distribution Centre

COMPANY ENGAGEMENTS – SEPTEMBER 2023 QUARTER

Date	Company	Description
12-Jul	COH	Cochlear JP Morgan Insights Briefing
12-Jul	NWL	Netwealth Group Post 4Q Briefing
15-Jul	ARB	ARB Corporation Earth Camper Launch
19-Jul	OFX	OFX Group Macquarie Emerging Leaders Conference
20-Jul	TLX	Telix Pharmaceuticals 2Q23 Results Call
24-Jul	FPH	Fisher & Paykel Healthcare Management Meeting
24-Jul	TLX	Telix Pharmaceuticals UBS Management Meeting
26-Jul	OFX	OFX Group Pre-AGM Management meeting
27-Jul	IFL	Insignia Financial 4Q23 Business Update
28-Jul	NHF	nib holdings AASB17 Investor Briefing
31-Jul	AVR	Anteris Technologies Barrenjoey Management Meeting
1-Aug	CAT	Catapult Annual General Meeting
1-Aug	DOM.LON	Domino's Pizza Group PLC HY23 Results Call
2-Aug	APX	Appen General Meeting
2-Aug	JHX	James Hardie Industries Management Meeting
3-Aug	LPX.NYS	Louisiana-Pacific Corp Macquarie Management Meeting
4-Aug	RMD	ResMed 4Q23 Results Call
4-Aug	JHX	James Hardie Industries Annual General Meeting
4-Aug	OFX	OFX Group Barrenjoey Post-AGM Results Briefing
8-Aug	JHX	James Hardie Industries 1Q24 Results Call
10-Aug	JHX	James Hardie Industries Management Meeting
11-Aug	REA	REA Group FY23 Results Call
11-Aug	NCK	Nick Scali FY23 Results Call
11-Aug	NCK	Nick Scali Macquarie Management Meeting
14-Aug	CAR	carsales.com FY23 Results Call
14-Aug	CAR	carsales.com Barrenjoey Management Meeting
14-Aug	REA	REA Group Barrenjoey Management Meeting
14-Aug	CAR	carsales.com Management Meeting
15-Aug	ALL	Aristocrat Leisure AGE Presentation and Tour
15-Aug	360	Life360 2Q23 Results Call
15-Aug	COH	Cochlear FY23 Results Call
15-Aug	PME	Pro Medicus FY23 Results Call
15-Aug	CSL	CSL FY23 Results Call
15-Aug	SEK	SEEK FY23 Results Call
15-Aug	SEK	SEEK Barrenjoey Management Meeting
15-Aug	REA	REA Group UBS Management Meeting
16-Aug	CPU	Computershare FY23 Results Call
16-Aug	NWL	Netwealth Group FY23 Results Call
16-Aug	REA	REA Group Management Meeting
16-Aug	CAR	carsales.com UBS Management Meeting
16-Aug	SEK	SEEK Management Meeting

Date	Company	Description
16-Aug	CPU	Computershare Citi Management Meeting
17-Aug	360	Life360 GS Management Meeting
17-Aug	CPU	Computershare UBS Management Meeting
17-Aug	COH	Cochlear Management Meeting
17-Aug	CPU	Computershare Management Meeting
18-Aug	PWH	PWR Holdings FY23 Results Call
18-Aug	PWH	PWR Holdings Morgans Management Meeting
21-Aug	BRG	Breville FY23 Results Call
21-Aug	RWC	Reliance Worldwide FY23 Results Call
21-Aug	IRE	Iress 1H23 Results Call
21-Aug	NHF	nib holdings FY23 Results Call
21-Aug	AD8	Audinate FY23 Results Call
21-Aug	BRG	Breville UBS Management Meeting
21-Aug	AD8	Audinate UBS Management Meeting
21-Aug	BRG	Breville JP Morgan Management Meeting
21-Aug	ALU	Altium FY23 Results Call
22-Aug	ARB	ARB Corporation FY23 Results Call
22-Aug	NAN	Nanosonics FY23 Results Call
22-Aug	ALU	Altium Management Meeting
22-Aug	PWH	PWR Holdings UBS Management Meeting
22-Aug	NAN	Nanosonics Barrenjoey Management Meeting
22-Aug	ALU	Altium Barrenjoey Management Meeting
22-Aug	ARB	ARB Corporation Macquarie Management Meeting
22-Aug	IRE	Iress Management Meeting
23-Aug	NAN	Nanosonics Management Meeting
23-Aug	ARB	ARB Corporation TC Management Meeting
23-Aug	REH	Reece FY23 Results Call
23-Aug	WTC	WiseTech Global FY23 Results Call
23-Aug	DMP	Domino's Pizza Enterprises FY23 Results Call
23-Aug	DMP	Domino's Pizza Enterprises Barrenjoey Management Meeting
23-Aug	PNV	PolyNovo FY23 Results Call
23-Aug	FCL	FINEOS Corporation Holdings FY23 Results Call
24-Aug	PNV	PolyNovo Macquarie Management Meeting
24-Aug	BRG	Breville Barrenjoey Management Meeting
24-Aug	TLX	Telix Pharmaceuticals Results Call
24-Aug	TLX	Telix Pharmaceuticals TC Management Meeting
24-Aug	DMP	Domino's Pizza Enterprises Management Meeting
24-Aug	REH	Reece Management Meeting
24-Aug	IFL	Insignia Financial FY23 Results Call
24-Aug	RWC	Reliance Worldwide Macquarie Management Meeting
24-Aug	DMP	Domino's Pizza Enterprises UBS Management Meeting
24-Aug	RWC	Reliance Worldwide Management Meeting
25-Aug	CSL	CSL Management Meeting
25-Aug	JIN	Jumbo Interactive FY23 Results Call

Date	Company	Description
25-Aug	NAN	Nanosonics UBS Management Meeting
25-Aug	PNV	PolyNovo Management Meeting
28-Aug	IFM	Infomedia FY23 Results Call
28-Aug	APX	Appen 1H23 Results Call
28-Aug	IFM	Infomedia Shaw and Partners Management Meeting
28-Aug	IFM	Infomedia Management Meeting
28-Aug	CAR	carsales.com TC Management Meeting
28-Aug	WTC	WiseTech Global GS Management Meeting
28-Aug	IFL	Insignia Financial Management Meeting
29-Aug	WTC	WiseTech Global Management Meeting
29-Aug	FPH	Fisher & Paykel Healthcare Annual General Meeting
29-Aug	NHF	nib holdings GS Management Meeting
29-Aug	APX	Appen Barrenjoey Management Meeting
29-Aug	APX	Appen Management Meeting
30-Aug	JIN	Jumbo Interactive Management Meeting
30-Aug	FLT	Flight Centre Travel Group FY23 Results Call
30-Aug	NHF	nib holdings Management Meeting
30-Aug	FLT	Flight Centre Travel Group UBS Management Meeting
30-Aug	JIN	Jumbo Interactive UBS Management Meeting
30-Aug	FLT	Flight Centre Travel Group Management Meeting
31-Aug	MVP	Medical Developments International FY23 Results Call
31-Aug	ARB	ARB Corporation Management Meeting
31-Aug	BRG	Breville Management Meeting
4-Sep	FCL	FINEOS Corporation Holdings Market Briefing
4-Sep	FCL	FINEOS Corporation Holdings Management Meeting
4-Sep	IRE	Iress Management Meeting
4-Sep	IRE	Iress Barrenjoey Management Meeting
4-Sep	JIN	Jumbo Interactive Macquarie Management Meeting
5-Sep	PME	Pro Medicus Barrenjoey Management Meeting
5-Sep	MVP	Medical Developments International Management Meeting
6-Sep	FCL	FINEOS Corporation Holdings Citi Management Meeting
6-Sep	PXA	PEXA Group Ltd Barrenjoey Management Meeting
7-Sep	360	Life360 Management Meeting
7-Sep	ALL	Aristocrat Leisure UBS Industry Insights Call
7-Sep	AD8	Audinate Equity Raising Call
8-Sep	MVP	Medical Developments International TC Management Meeting
8-Sep	CAR	carsales.com Trader Interactive Investor Day
8-Sep	CAR	carsales.com Webmotors Investor Day
13-Sep	RMD	ResMed MS Annual Global Healthcare Conference
15-Sep	RMD	ResMed Bank of America Global Healthcare Conference
15-Sep	FPH	Fisher & Paykel Healthcare U.S. & Mexico Site Visit
16-Sep	ALL	Aristocrat Leisure Management Meeting
18-Sep	MP1	Megaport GS Management Meeting
15-Sep	RWC	Reliance Worldwide U.S. Site Visit

Date	Company	Description
19-Sep	ALL	Aristocrat Leisure Management Roundtable
19-Sep	TLX	Telix Pharmaceuticals UBS Industry Insights Call