

ASA Inner West Discussion Group

AN UPDATE AND REVIEW OF THE CURRENT
RESULTS SEASON

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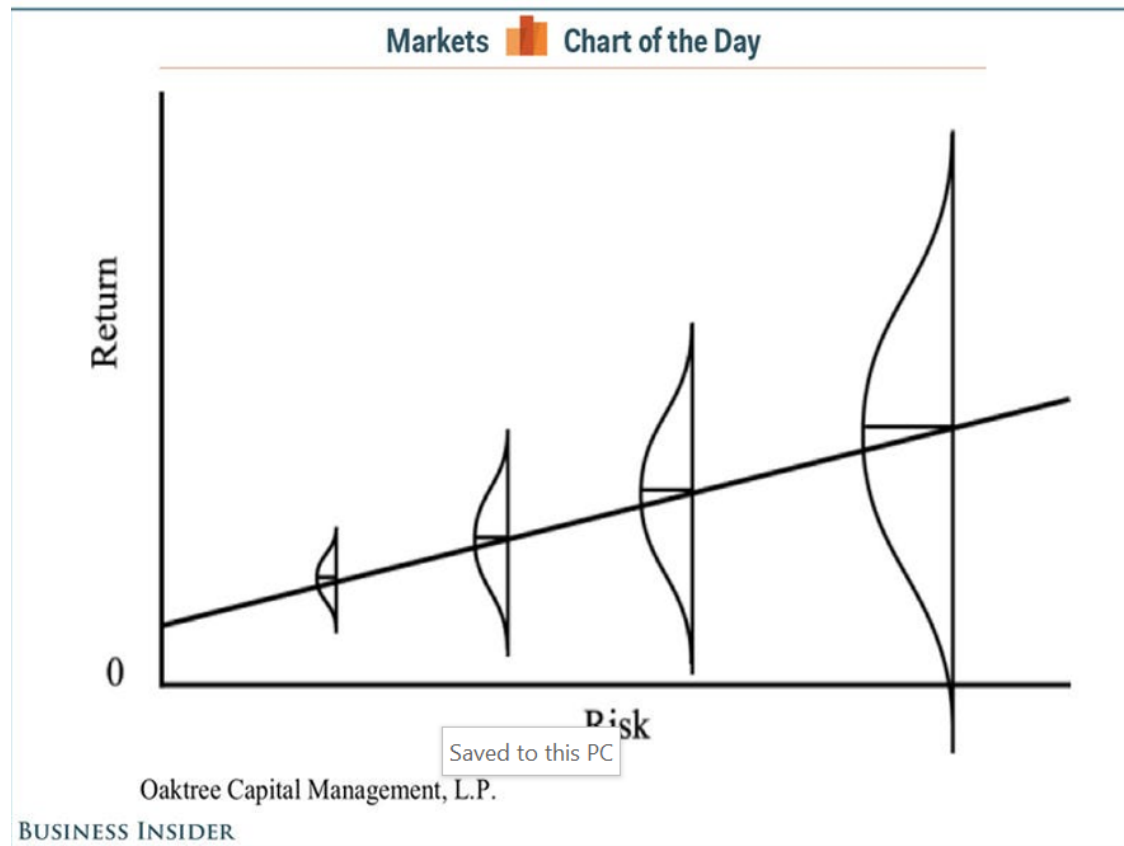


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USEFUL STOCKMARKET QUOTES and CHART

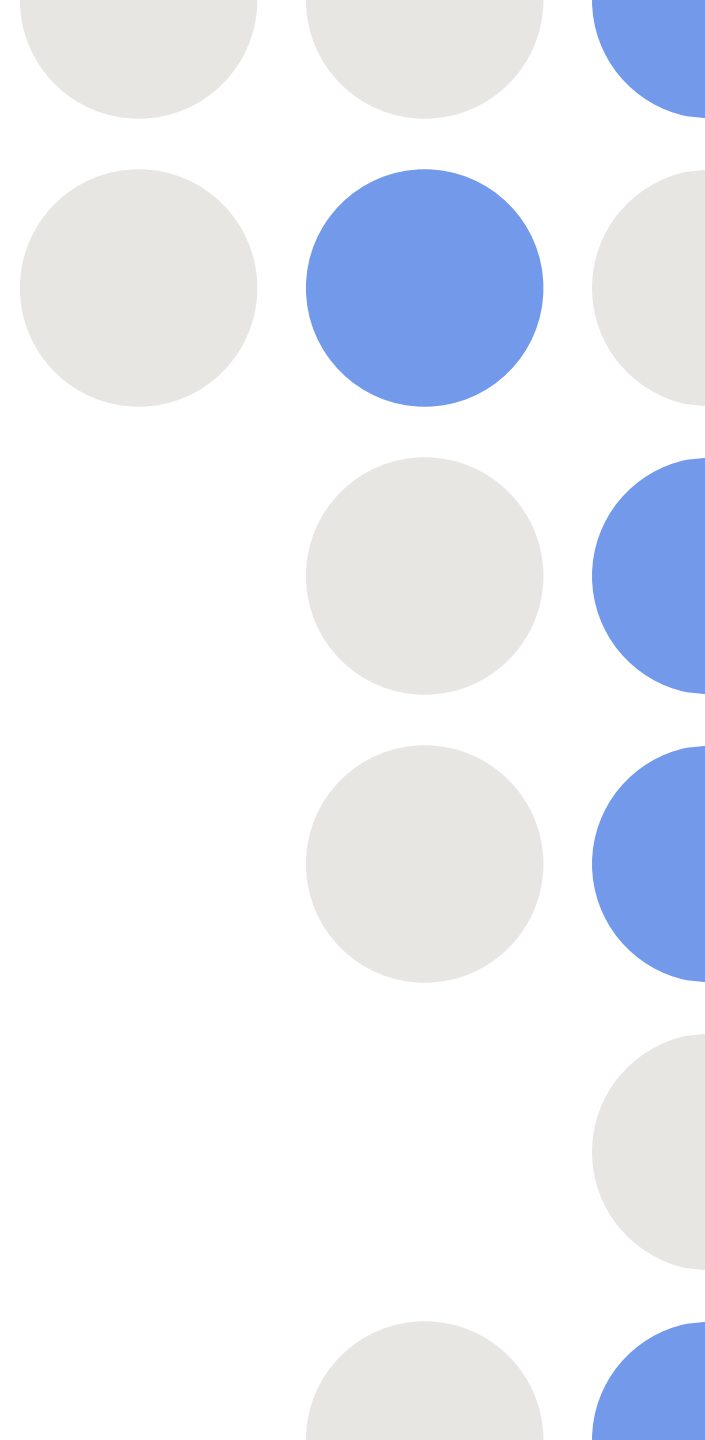
- Buffet (para) The stock market is a mechanism for transferring wealth from the impatient to the patient and the unknowledgeable to the knowledgeable.
- The average investor lost money in the Fidelity Magellan fund under Peter Lynch's tenure during a period of time when the fund returned around 29% annually.
- IMO the most effective risk/return strategy in equities is to buy quality companies when they are on sale
- Following the plan is more important than the plan.

Howard Marks risk spectrum



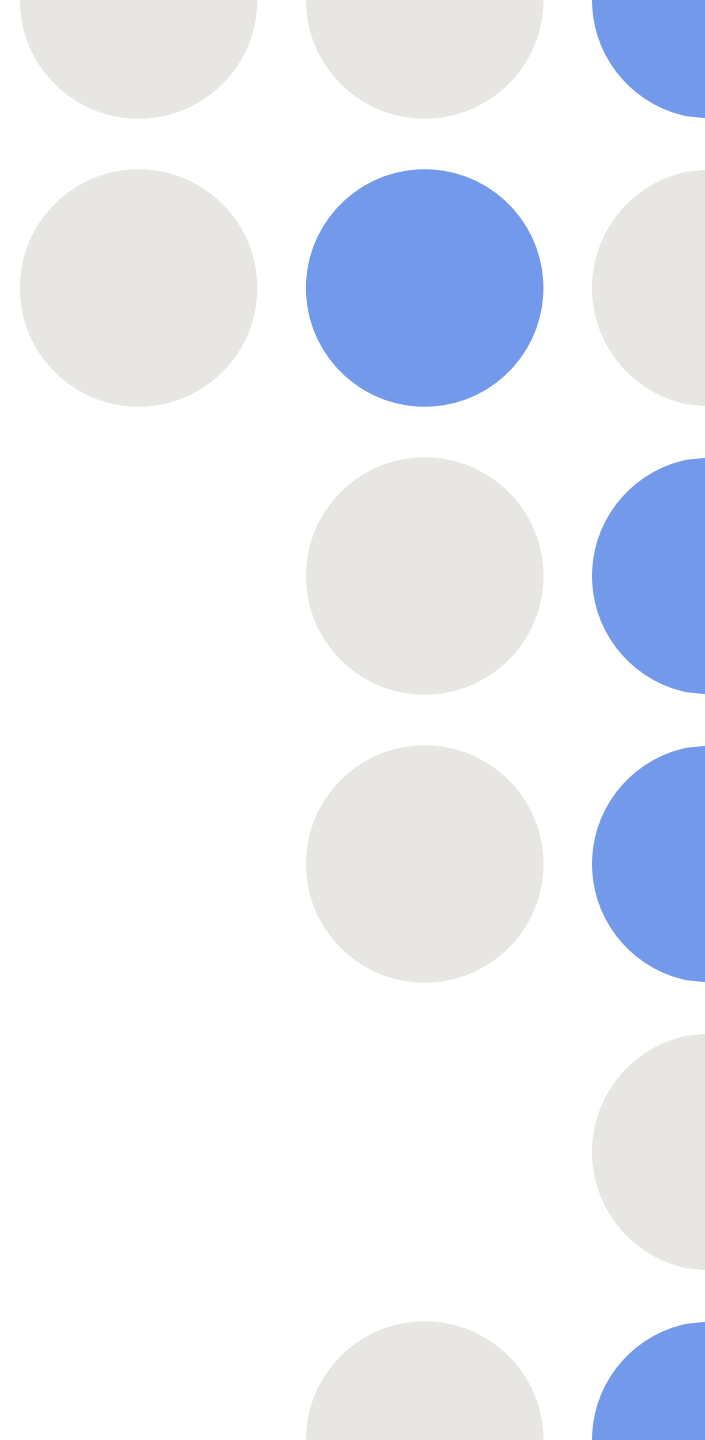
RESULTS SEASON POINTS OF INTEREST

1. Interest rates clearly higher over the period especially at the short end. Some companies have been caught out, there has also been a perverse outcome where long term rates have been locked in while cash on hand earns a higher rate, so higher interest rates have benefited some companies, esp in the US.
 2. The fears of a mortgage cliff and higher cost of living costs impacting discretionary retail have not appeared to anywhere near expectations. Kicking the can down the road? Well anticipated.
 3. Employment remains strong holding up sales offsetting higher costs in many cases. Mixed outcome.
 4. Some residual destocking from C19 impacts. Both business and consumer facing.
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RESULTS SEASON POINTS OF INTEREST cont'd

5. Banks bad debt cycle picking up from low base, as expected.
 6. Some signs of the housing market bottoming.
 7. Continuing concerns over WFH impacting the Office segment and MTM impacting REITs generally due to higher yields.
 8. Lower \$A helps translational profits and broadly positive for transactional impacts.
 9. The elongated expectations of recession are giving mgt teams plenty of time to plan for falling demand. Therefore the recession needs to be greater to impact.
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QUALITY GROWTH STOCK PERFORMANCE

YTD 28/08/23

PME +35%

REH +21%

MQG -4%

REA +26%

FPH +14%

IEL -10%

CAR +25%

ALL +11%

CSL -11%

TNE +25%

GMG +10%

CHC -21%

HUB +25%

BRG +10%

RMD -23%

COH +23%

JBH +5%

Notes

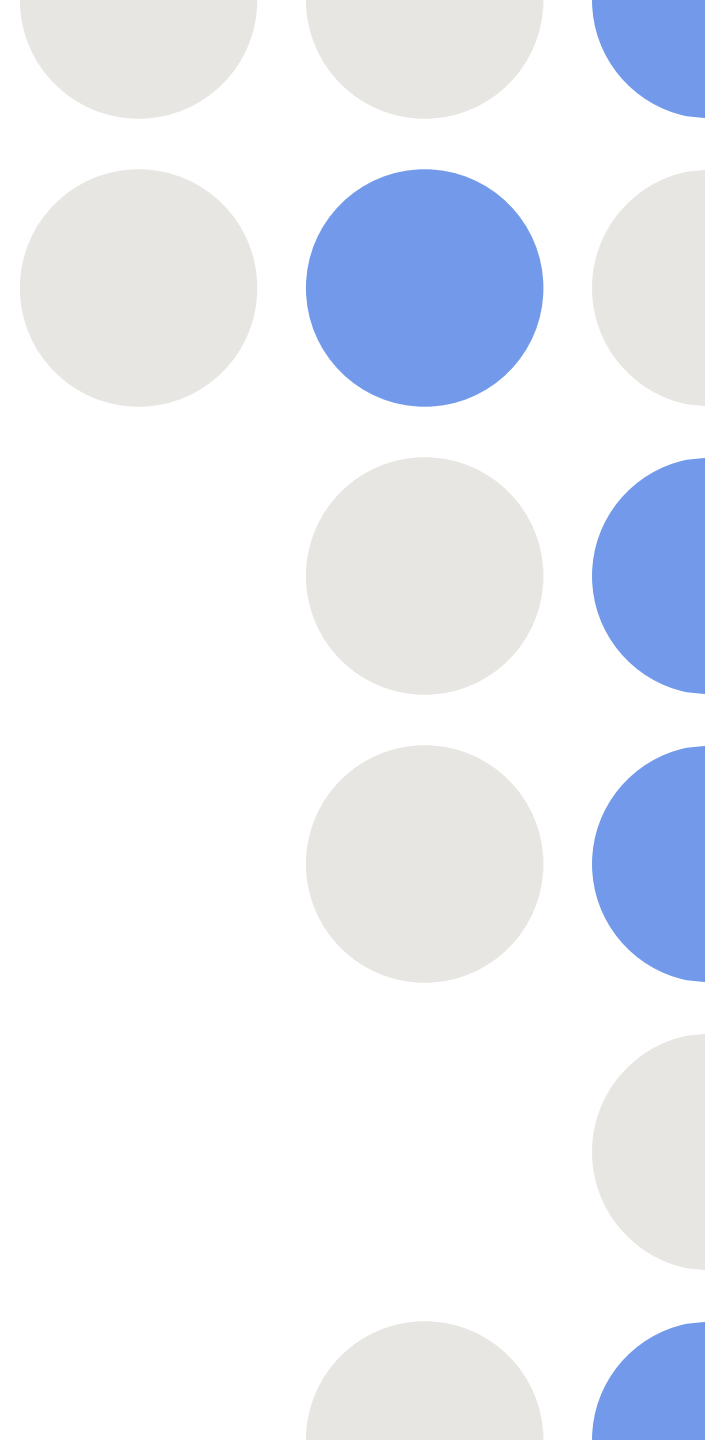
1 year is a short measure of performance.

10Y US bonds were about 60 bp higher over the period, so a headwind.

Beware point to point measures.

STILL PROVING THEMSELVES

- HUB +25%
 - LOV +21%
 - PWH +9%
 - PXA -22%
 - DDR -29%
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HUB24 (HUB) and NETWEALTH (NWL)

What they do?

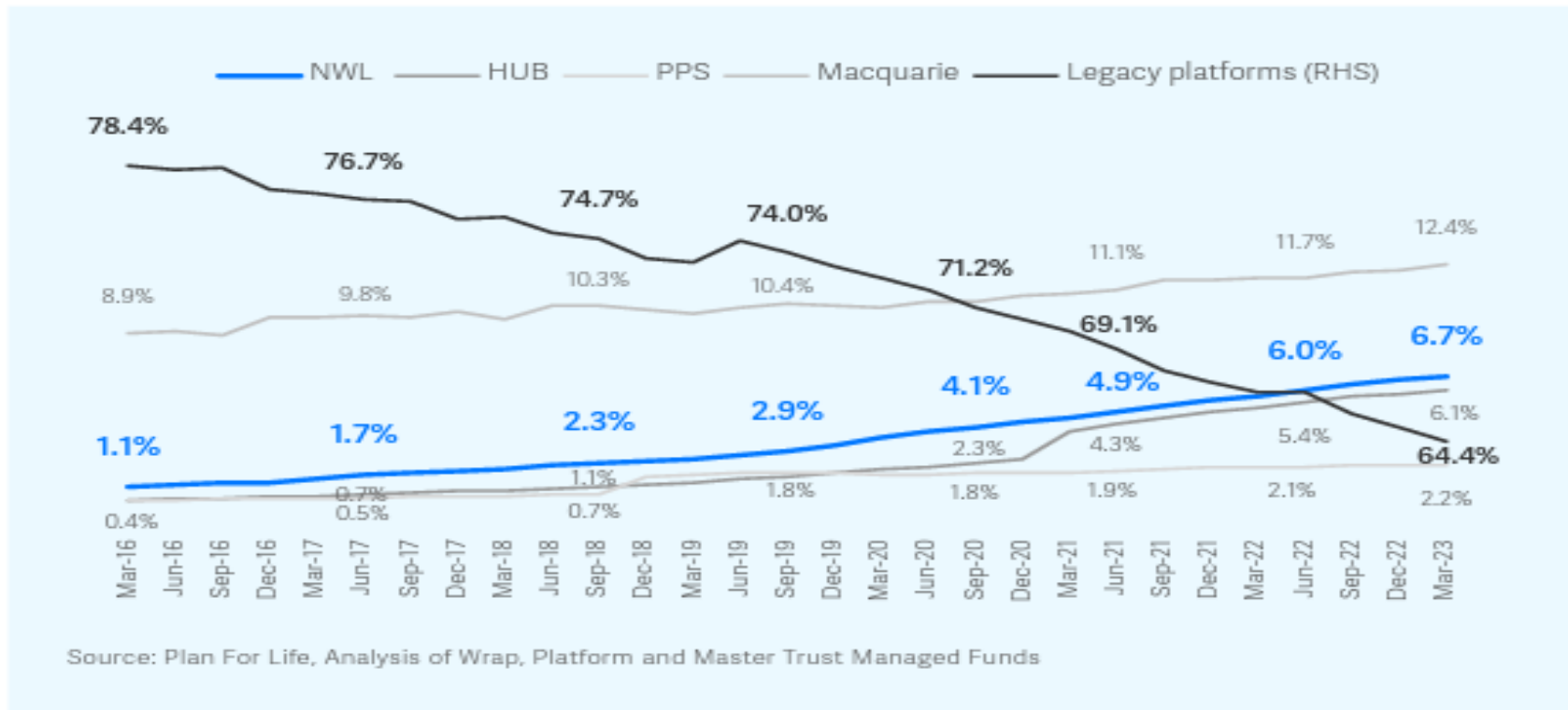
- Provide a software platform to financial advisers so that they can efficiently service their clients.
- The range of services cover various investment reports, and importantly much improved functionality compared to the legacy operators. These include broader investment options covered on the platform, allows investors to monitor and administer investment, performance and tax reports.
- Single view of the world.

Who are the competitors?

- The field is broadly divided into legacy operators, such as the banks, now departing, NAB, AMP, CFS, NAB, WBC, IFL and MQG. The new operators are dominated by HUB and NWL.
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HUB24 (HUB) and NETWEALTH (NWL) cont'd

Quarterly Market Share analysis from March 2016 to March 2023



HUB24 (HUB) cont'd

Strengths

1. Innovative culture that continually adds to functions of the platform.
2. Management has shown an ability to successfully grow the business.
3. HUB and NWL continually win industry awards for best in class.
4. HUB has total FUA of \$80B, so has scale.

Weakness

1. Market exposure does add some volatility.
2. Investor sentiment impacts flows.
3. The business does require ongoing investment.
4. Is there a rump of unmoveable advisers.

Opportunities

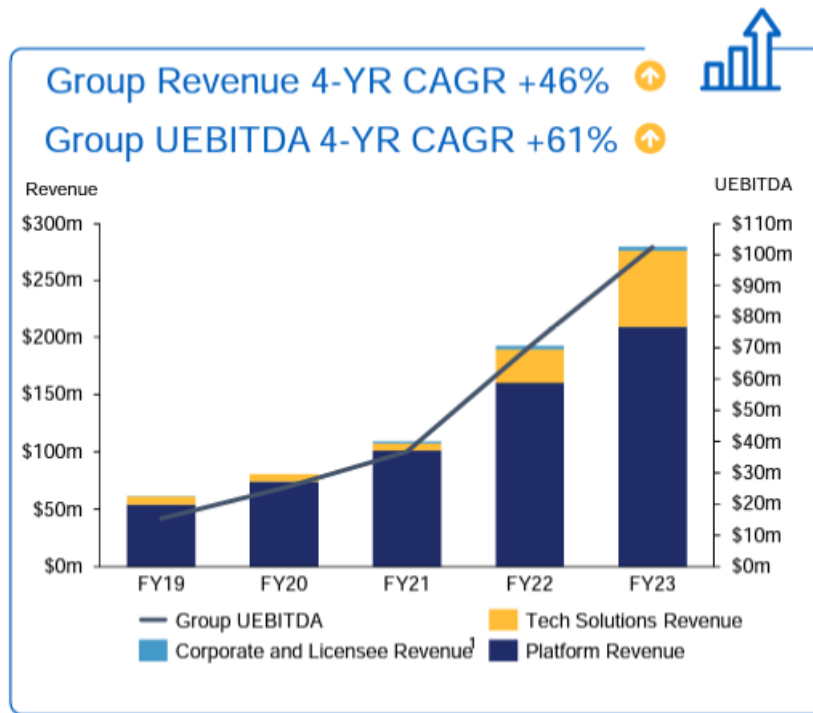
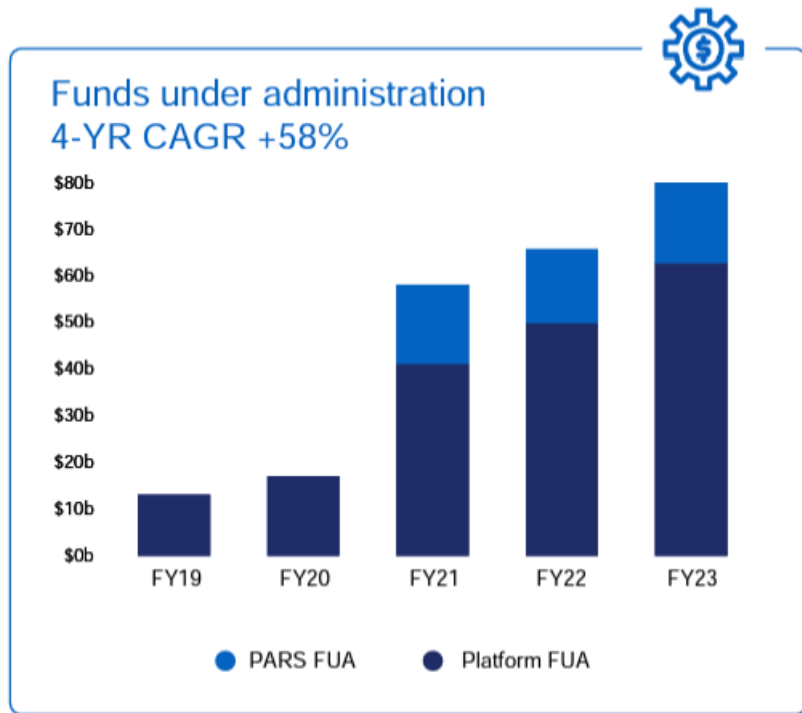
1. The Legacy operators still have large market shares.
2. Have the scale now to increase investment in distribution and R&D.
3. Opportunity to add on services and acquire adjacent businesses.

Threats

1. The space is quite competitive and fee wars do erupt from time to time. As the legacy platforms lose share do they engage in fee cuts. NWL and HUB are also quite competitive.
2. Poor acquisitions as HUB are quite aggressive growers, so far so good.

HUB24 (HUB) cont'd

Consistently delivering growth and shareholder value



PINNACLE INVESTMENT MGT (PNI)

What they do?

- Partner with fund management firms, currently affiliates manage \$92B in FUM.
- Invest in ownership of firms, board membership, build, grow and support affiliates.

What do they offer?

- Distribution services, equity monetisation, seed capital, product development, seed capital, regulatory, administrative and legal support. Take pressure off managers.

Who are some of the affiliates?

- PNI usually own 30-50%, Hyperion, Antipodes, Metrics, Coolabah, Plato and many others.
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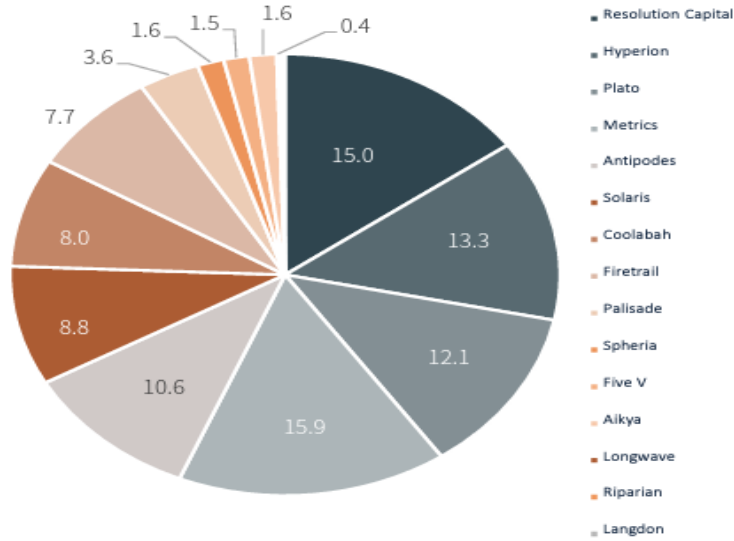
PINNACLE INVESTMENT MGT (PNI) cont'd

Strengths	1.	Strong management.
	2.	Proven business model.
	3.	Diversified exposure to managers, sectors, geographies.
Weakness	1.	Accounting is complex as all income comes from affiliate dividends, services usually cost recovery.
	2.	Performance fees are volatile.
	3.	Capital Intensive in investment phase.
Opportunities	1.	Growth in International managers, growth in sectors outside equities.
	2.	Significant investment taking place in some affiliates for growth for new products.
Threats	1.	Market turmoil, PNI is market exposed.
	2.	Individual managers suffer from performance or style issues. Some do not work.

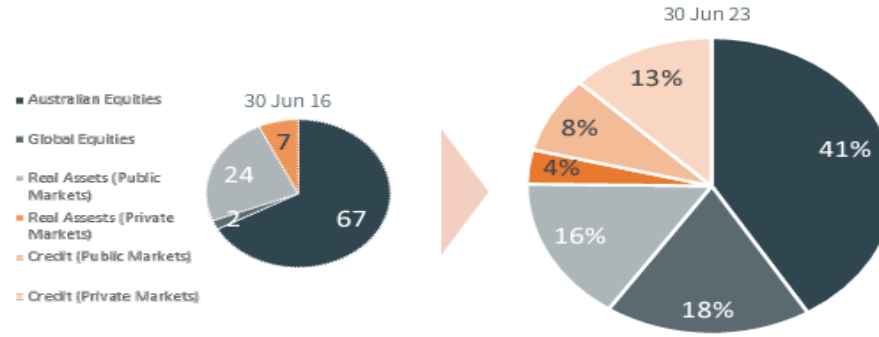
PINNACLE INVESTMENT MGT (PNI) cont'd

A broadly diversified platform in place to move ahead with sustained growth

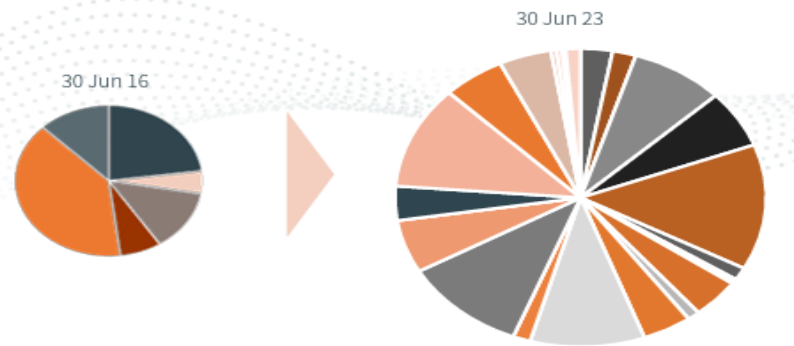
FY23 FUM by Affiliate (%)¹



Change in FUM by Asset Class (%)



Growth in FUM subject to performance fees by Strategy



LOVISA (LOV)

What they do?

- Designs and sells fast fashion jewellery and accessories. The important features are that the designs are in house and there is continual investment in new styles and products. The target audience is millennials, and the company is backed by Brett Blundy.
- The product range is cheap, ever changing, and this made to be worn only a few times and then replaced.

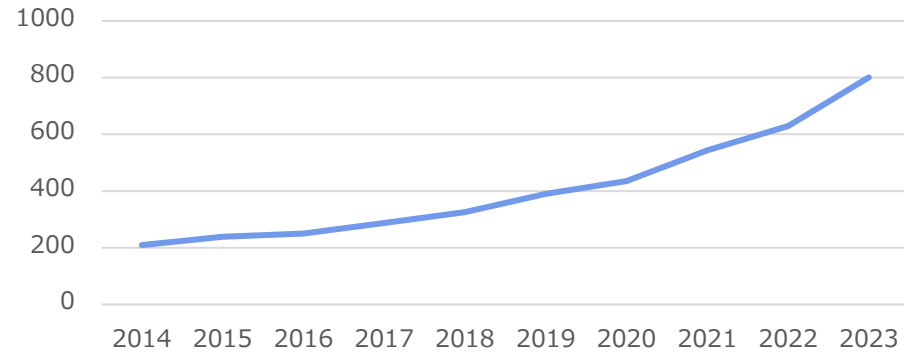
Why is it interesting?

- LOV has proven store of template that is highly profitable. Stores are a small footprint. Employees are relatively cheap labour, fast turnover, low value w/cap.
 - The company now is embarking on a global rollout. Many European countries as well as the US have been successfully entered. The global expansion could have many more years to run.
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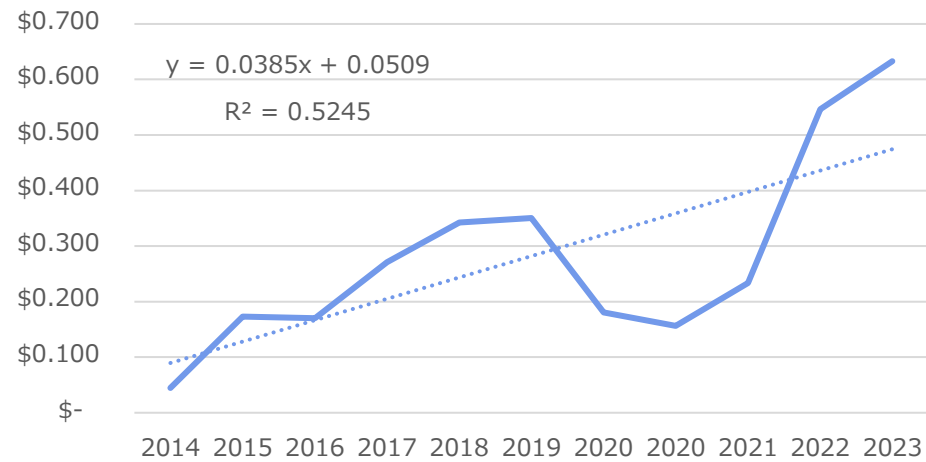


LOVISA (LOV) cont'd

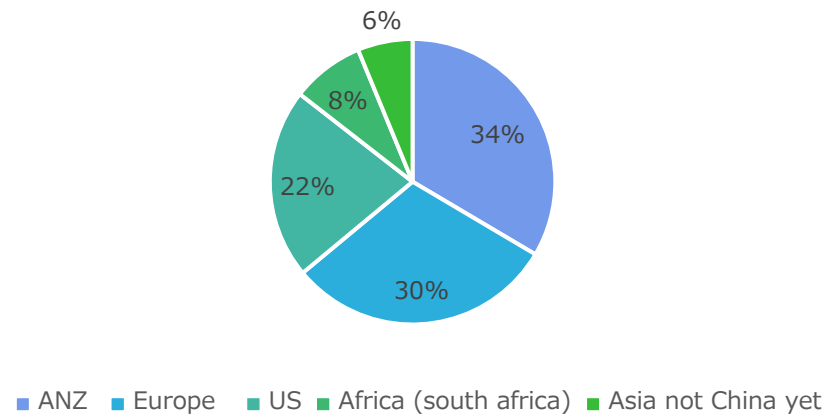
Store Roll Out



Eps growth



LOV rev mix 2023



LOVISA (LOV) cont'd

Strengths

1. In house design function.
2. Scalable model, good unit economics.
3. Strong experience with Blundy backing.
4. Large competitor collapsed in Europe, LOV was paid to take it over.

Weakness

1. New CEO yet to be proven, brought in on large salary package to execute on global rollout.
2. Not necessarily high barrier to entry, but design, logistics management and scale are important.

Opportunities

1. Global runway is potentially large, MS estimates terminal store count 18k, 800 current stores.
2. Already established in many markets now saturation occurring.
3. Well-worn path of retailers rolling out stores once proven as a successful store model.

Threats

1. Ability to obtain retail sites at rents which make sense slow growth.
2. Millennials tire of fast fashion, disposable jewellery.
3. Significant competitor emerges.

NICK SCALI (NCK)

What they do?

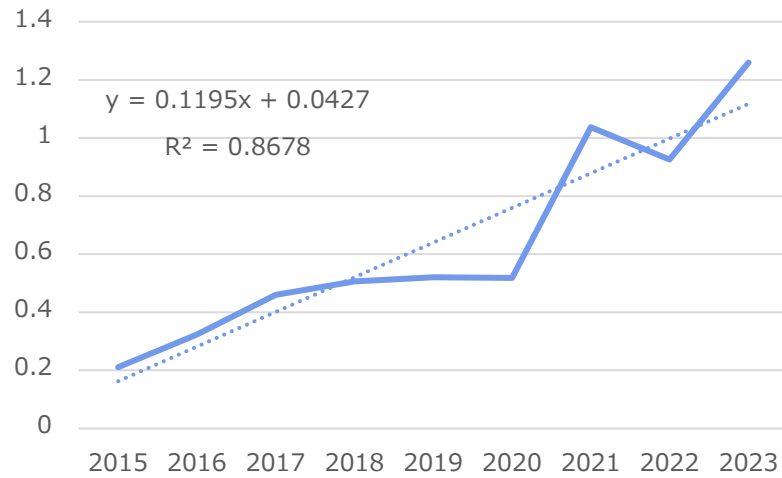
- "Our strategy of being a category specialist with a clear customer offering built around the largest range of furniture and homewares in the country, combined with the most inspirational content and the best customer service is working."

Why interesting?

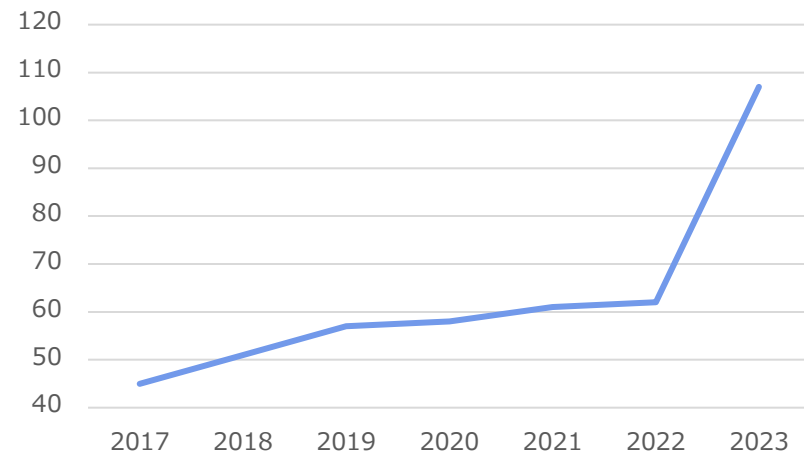
- Family run with long successful track record. The model is very profitable and established. There is a runway of growth through store rollouts. Bulky goods retailing does take some expertise in logistics and retaining customer satisfaction, imo.
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NICK SCALI (NCK) cont'd

Eps growth



NCK store rollout



NICK SCALI (NCK) cont'd

Strengths

1. Strong management with good track record on capital allocation and execution.
2. Family run.

Weakness

1. Competitive industry but mainly at lower end IKEA, HVN and online TPW.

Opportunities

1. Store roll out to target 171 stores, 107 currently.
2. Integrating Plush acquisition.
3. Share price anticipates consumer downturn.

Threats

1. Ability to find sites at workable rents.
2. Consumer downturn hits demand.

PSI INSURANCE (PSI)

What they do?

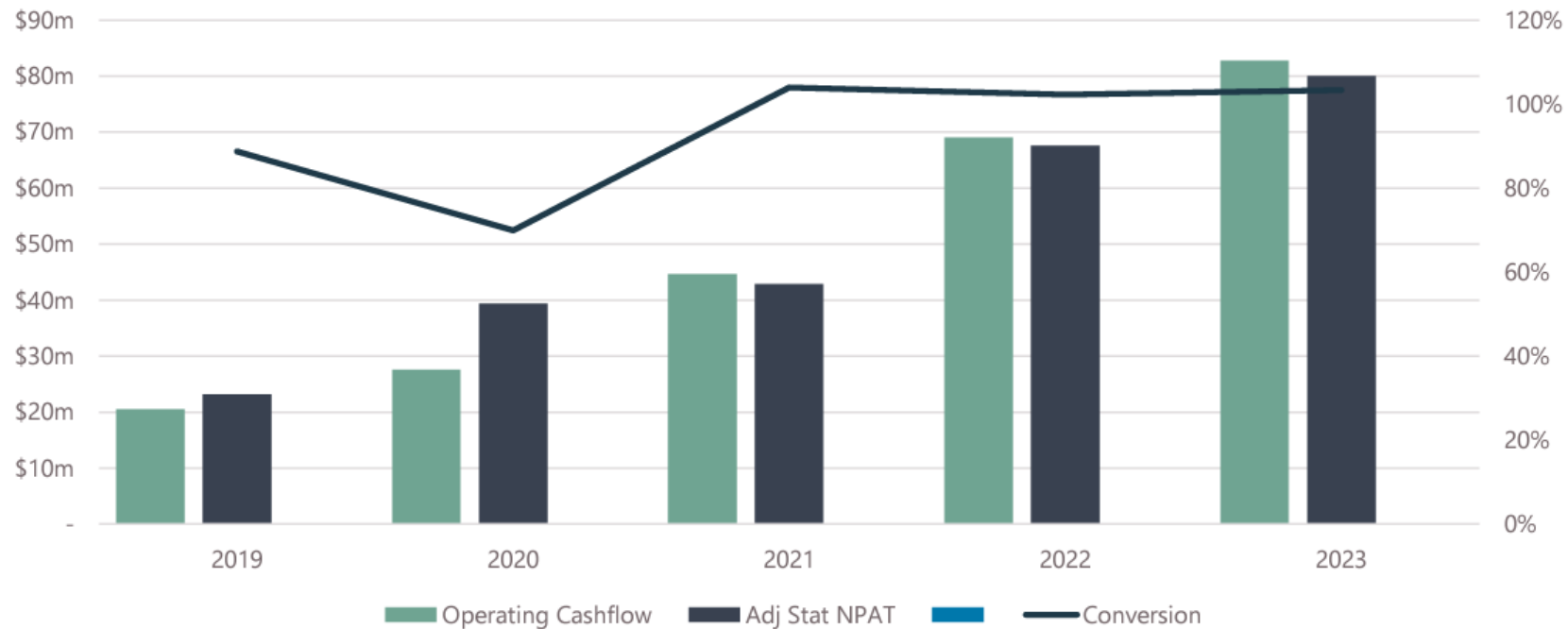
- Whole range of insurance broking operations in the Australia and UK. The company also operates an Agency (Specialty) businesses specialising in things like corporate travel, hire/rental, specialty accommodation.
- Family run, Dwyer family.
- Who owns the customer? Underwriter or broker? Broker wins.

Business Model

- Peers are AUB and SDF. The industry is very close, everyone knows everyone. The brokers control the customer and negotiate terms with the underwriters, IAG, SUN, Allianz etc, scale gives them leverage, so a wholesale to retail arbitrage.
 - The Agency business addresses unique or complex risks with the broker working with underwriters. Usually no principal risk for broker, profit share model, vintage cars is the usual example.
 - Brokerage firms grow organically and by acquisition.
 - The insurance brokerage businesses are relatively stable, PSI knows the operators and has a good understanding of acquisition targets which helps offset risks.
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PSI INSURANCE (PSI) cont'd

Statutory operating cashflow and cash conversion (\$m, %)



PSI INSURANCE (PSI) cont'd

Strengths	<ol style="list-style-type: none">1. Strong management.2. Good track record over time.3. Stable business with few shocks.
Weakness	<ol style="list-style-type: none">1. Capital intensive i.e. needs equity to grow.
Opportunities	<ol style="list-style-type: none">1. Continue to grow through acquisition.2. Smaller than peers so can grow more easily.3. HK operations just starting.4. UK growth.
Threats	<ol style="list-style-type: none">1. Competition for targets. Although PSI usually goes for firms that need more work.2. Regulatory changes.3. Insurance cycle peaks, although this is more of an issue for larger brokers.

RESMED (RMD)

What do they do?

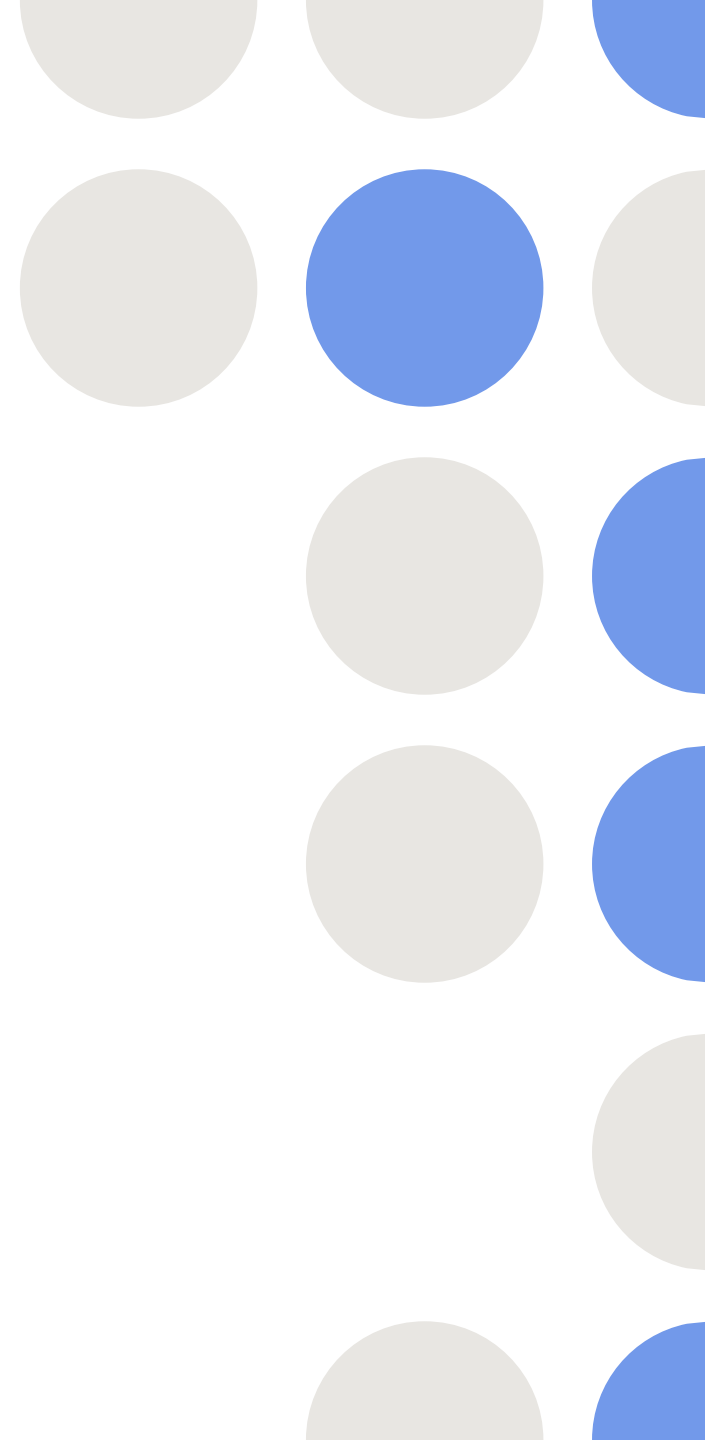
- A medical device company. The global leader in CPAP machines and masks as well as developed an integrated cloud-based monitoring system. Targeting sleep disorders, like sleep apnoea, COPD and other chronic diseases.

Value add?

- RMD aims to reduce the cost of healthcare by offering out of hospital treatment, compliance monitoring, making their products more comfortable, quieter and lighter. Customers are the users, doctors, mainly the distributors and insurance reimbursement companies are important.

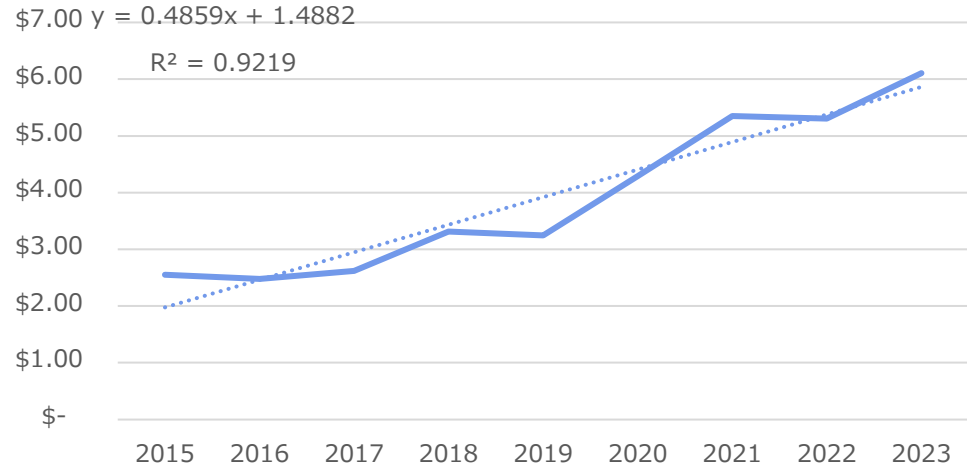
Business Model

- RMD established by current CEO's father. At scale medical device companies are attractive investments, as long as the TAM is large, and scale gives them the opportunity to lead the market in R&D and marketing/distribution investment.
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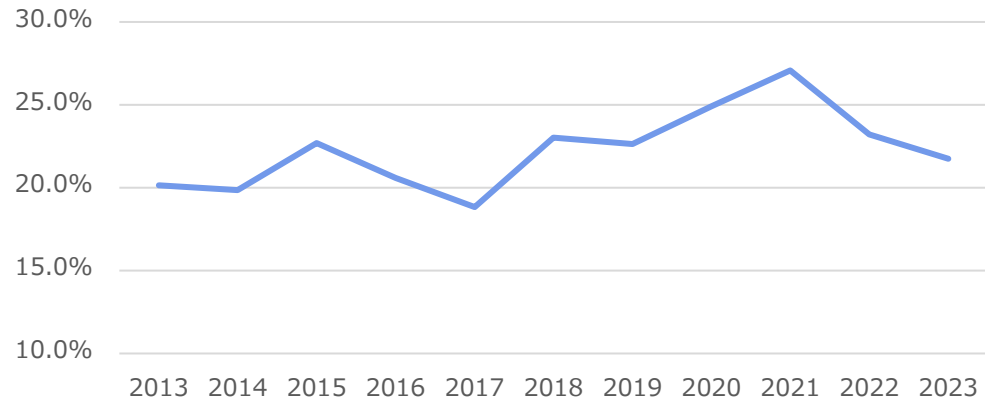


RESMED (RMD) cont'd

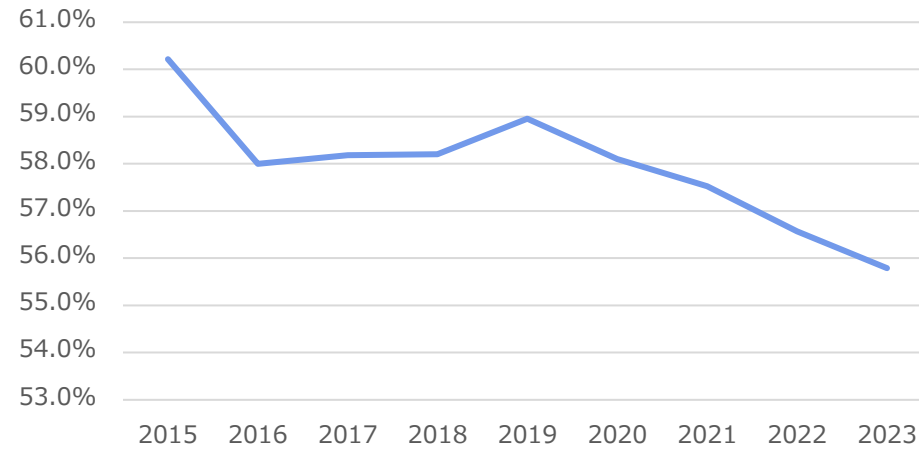
Eps growth



RMD ROE



RMD GM



RESMED (RMD) cont'd

Strengths

1. Global leader in sleep devices.
2. One of the best GTM in healthcare space.

Weakness

1. Relatively low IP versus other med device imo.
2. Machines are lower margin than masks, (60/20?) so product mix swings GM around. Is GM weakness systemic?
3. ROE lower as significant investments in software biz's-will they improve ROI?

Opportunities

1. Large unmet TAM geographically and in existing markets.
2. RMD is putting in place connected cloud based device monitoring, huge information potential.

Threats

1. Weight loss pills-expensive, side effects, watch reimbursement.
2. Philips come back strongly.

Bibliography

Advanced

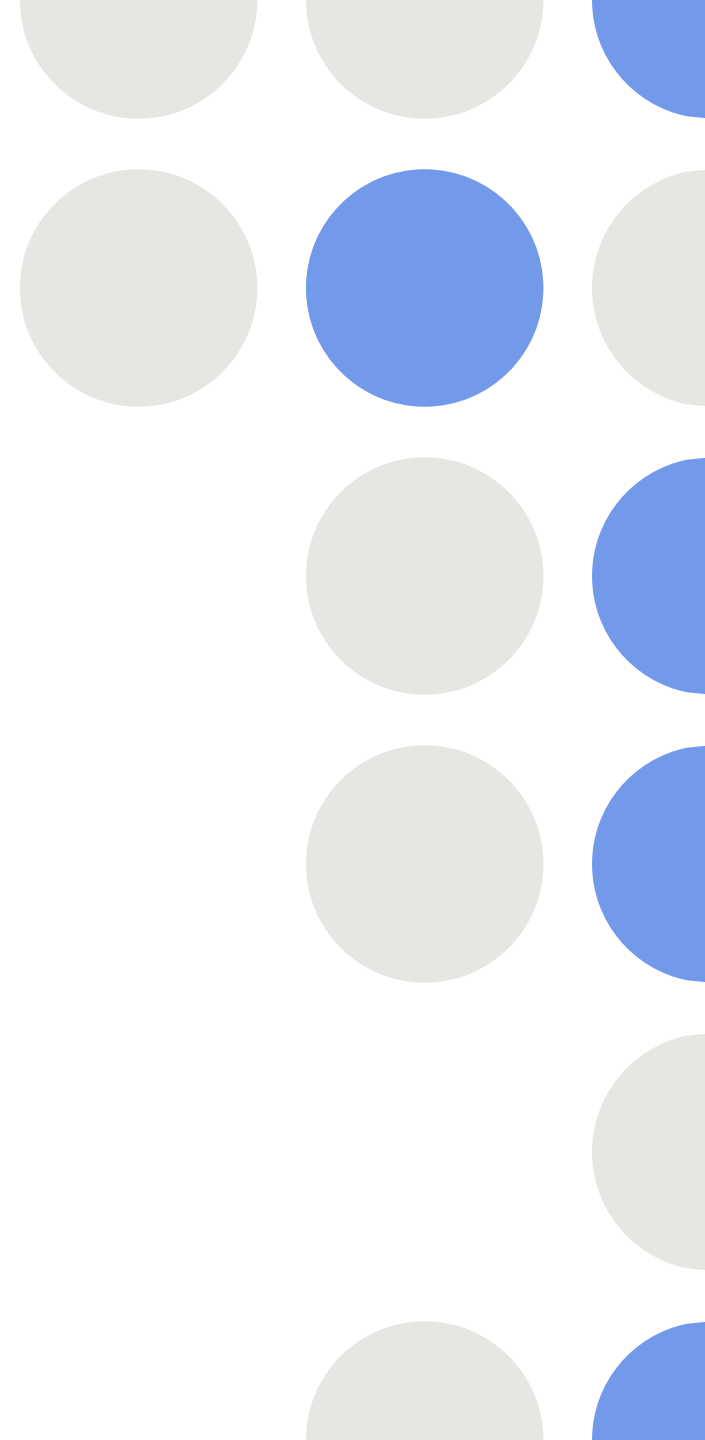
- Superforecasting – Tetlock
- Thinking Fast and Slow - Kahneman

Useful

- Beating the Street/One up on Wall ST – Lynch
- Winning on Wall St-Zweig
- The Most Important Thing - Marks

Easy

- Berkshire AGM free online 1996-2023 Buffet and Munger speak
 - Common Stocks Uncommon Profits-Fisher
 - Intelligent Investor- Graham
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Questions?

**And remember, always
do your own research!**

