Stockbroking | Wealth Management | Corporate Advice

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ProAdvice - ProNet National Conference – Webinar Series

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About Morgans

Morgans:

- Australia's largest national full-service stockbroking and wealth management network with over 60 branches around Australia.
- Not aligned with any bank or insurance company.

Morgans Hobart:

- Morgans Hobart office is made up of 6 advisers and 5 support staff.
- The team has varied backgrounds in agriculture, accounting, commerce and law.

We offer clients advice on:

- Stock selection, portfolio construction and asset allocation
- Direct shares listed on the Australian Stock Exchange
- Direct shares listed on international exchanges
- Investments within Individual, Company, Discretionary Trust and Self Managed Super Fund structures
- Retirement planning
- Personal risk insurances
- Estate planning

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Economic Update

Covid-19

- Truly unprecedented times;
  - Countries/economies 'shut down'.
  - Fiscal and monetary policy response has been enormous.
- What has happened and where to from here? There are still many unknowns;
  - Will there be a vaccine?
  - When will the vaccine be available?
  - Will there be second waves or more?
  - Further lockdowns?
- We also have the US Presidential election and ongoing tension between China and the US.
- What does all this mean for investment markets?

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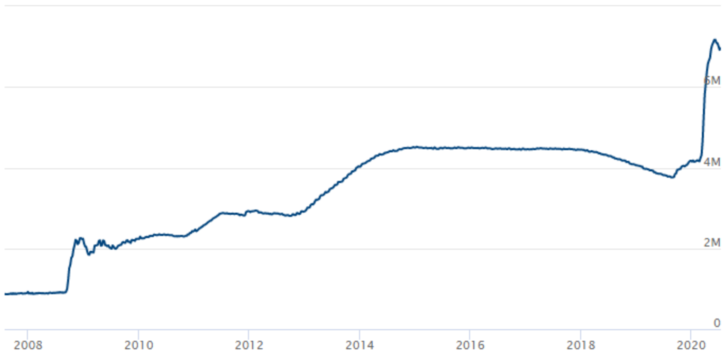
US Federal Reserve Balance Sheet since the Global Financial Crisis



Source: US Federal Reserve

USD Total Assets (in millions of dollars)

- FED balance sheet: assets <$1 trillion pre GFC.
- From GFC to January 2020: growth of $3 trillion (8 years)
- From March 2020 to now: growth of $3 trillion (<6 months)

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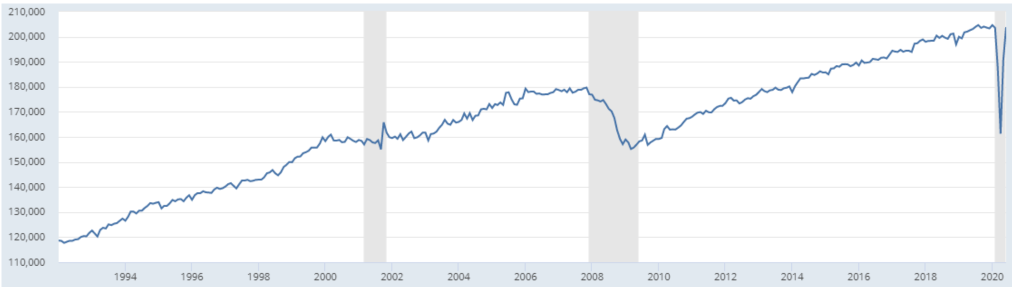
Economic Update

Where to from here?

- Too many factors at play to confidently state the most likely path forward.
- Central banks have stated that they are committed to using their tools to support the economy through these challenging times.
- There are some green shoots. The US Advance Real Retail and Food Services sales has recovered rapidly;

US Advance Real Retail and Food Services Sales



Source: Federal Reserve Bank of St. Louis

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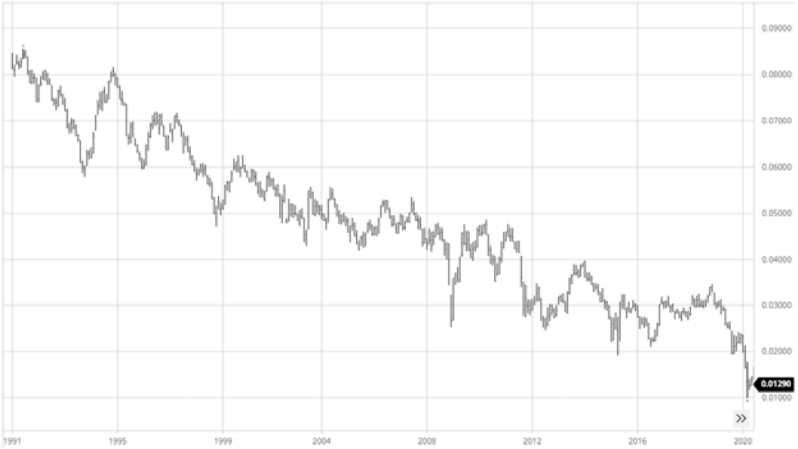
30 Years of Falling Interest Rates

- Tailwind for growth assets. Won't stay low forever but as a result of Covid-19 it is unlikely that rates will rise for some time.
- RBA Governor Philip Lowe: "rates wont rise for some years" – May 2020
- FED Chairman Jerome Powell: "we're not even thinking about thinking about raising interest rates" – June 2020
- Warren Buffet: "I think that stocks are ridiculously cheap if you believe that 3% on 30-year Treasury Bonds makes sense" – May 2019



30 Year US Treasury Rate

Source: barchart.com

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Risk Strategies for Investors

Now is an opportune time to assess your invested position.

- Focus on your asset allocation. Ensure your portfolio is aligned to your risk profile and you are comfortable with the percentage allocation to defensive assets (cash, term deposits) and growth assets (shares, property).
- Ensure you have optimal structures in place – speak to your accountant.
- Volatility will persist, be prepared to invest for the long haul.

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Risk Strategies for Investors

How we approach investments;

- When we purchase a stock, we become fractional owner in a company, we don't own a ticker on a screen.
- We assess an investment based on company fundamentals, not on share price fluctuation, dividend yield or franking credits.
- We need to be willing to look through short-term volatility and focus on the **long-term.**
- When we purchase a company, we intend to hold it for 10+ years, unless something changes with the underlying fundamentals of the business.
- We always focus on quality companies. This becomes even more important in times of uncertainty.

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Investment Criteria

What do the most successful global investors look for in a company?

- There were very few traders or chartist that were renowned for building long term wealth.
- They had/have a fundamental approach and were very conservative.
- Very similar criteria emerged.

8 Key Criteria:

- A sound business model which is transparent and easily understood.
- The potential to grow profitably and be able to do this consistently.
- A competitive advantage making it difficult for newcomers to establish themselves profitably.
- Are operated by competent and prudent managers.
- Low debt levels.
- Conservative accounting practices.
- A high return on equity.
- Finally, a reasonable valuation.

Red Flags:

- If one of the above stock selection criteria begins to deteriorate.
- If a profit downgrade is announced.
- If the share price enters a longer term down trend.

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Invest for the long-term

- In moments of extreme duress, our minds tend to focus on worst case scenarios, while such scenarios have a habit of not materialising.
- Hindsight will tell us that it was prescient to sell everything at 'the start' of each of the past market corrections, and only return once the trend is moving upwards. In practice, this is much more difficult to execute continuously and there are often additional consequences.
- Research shows that trying to 'time the market' can be detrimental to returns. The following chart illustrates the impact of missing the best performing days of the market (US S&P500) from January 1980 to December 2018;

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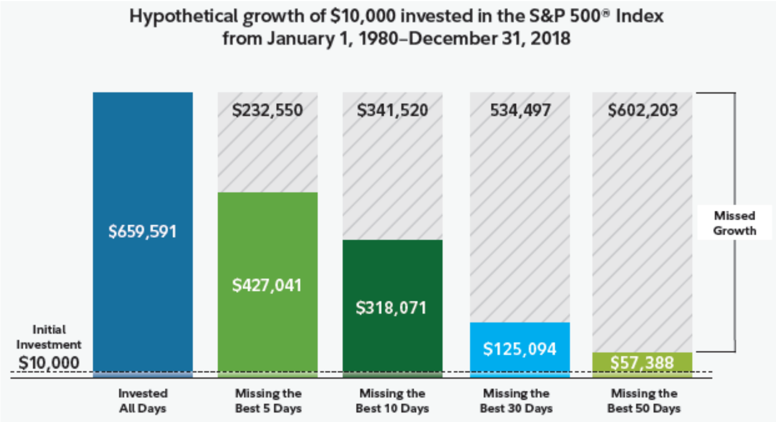
Why a long-term view is crucial.



Source: Fidelity

- **Of the 10 best days during this period, 6 occurred during the most volatile times.**

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Revisiting August 2018 ProNet Seminar.

Sectors flagged at the time to consider reducing exposure to;

- Australian Banks.
- Listed Property Trusts.

Capital return (04/08/2018 – 04/08/2020)

- ASX Listed Property Index: -14.6%
- Commonwealth Bank: -1.8%
- ANZ Bank: -49.2%
- NAB: -47.8%
- Westpac: -54.3%

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Revisiting August 2018 ProNet Seminar.

- Jon and Phil suggested focusing on companies with;
  - Growth metrics.
  - Low debt.
  - High cash buffers.
- Three companies mentioned during the 2018 seminar were Apple, Alphabet and MasterCard.
  - The capital return since August 2018 has been;
    - Apple: +76.2%.
    - Alphabet: +18.9%
    - MasterCard: +48.2%.

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What sectors/companies do we find attractive?

The current environment has further entrenched the growth potential of several companies and sectors that already had substantial tailwinds, including;

- Digital payments
- E-commerce
- Cloud computing

"We've seen two years' worth of digital transformation in two months" – Satya Nadella, **Microsoft** CEO (April 2020)

Amazon Inc stats at quarter end of 30 June 2020;

- Total revenue growth +41%.
- Amazon Web Services (cloud computing segment) grew 29%.
- Online grocery orders grew 300% in the quarter to 30 June 2020.
- Added 175,000 staff since pandemic started due to customer demand and expect 125,000 to be made permanent.

"*In March 2020, 13 million **Visa** cardholders in Latin America made e-commerce transactions for the first time ever*" – Jack Forestell, Visa Chief Product Officer (May 2020).

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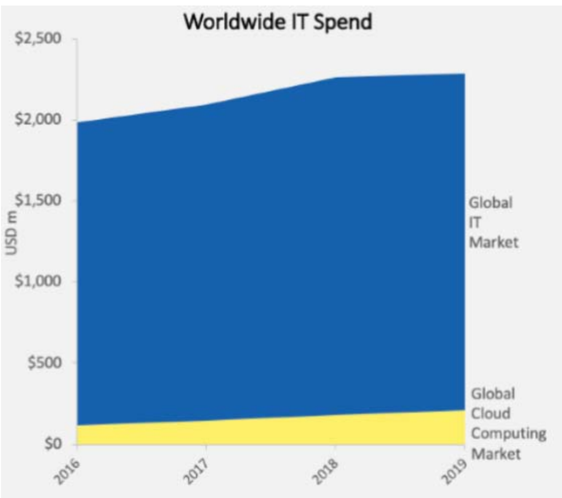
Cloud Computing

Cloud Computing represents only a small portion of the global IT market and is growing.



Source: Munro Partners

- Gartner (2020) forecasts the global public cloud service market will grow from $242B in 2019 to $364B by 2022.[1]
- In 2019, 42% of Australian businesses used paid cloud services, up from 31% in 2015-16 (Deloitte, 2019).[2]

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1: Gartner Press Release 23 July 2020 *Gartner Forecasts Worldwide Public Cloud Revenue to Grow 6.3% in 2020.*
2: The Economic Value of Cloud Services in Australia. Deloitte Access Economics, 2019.

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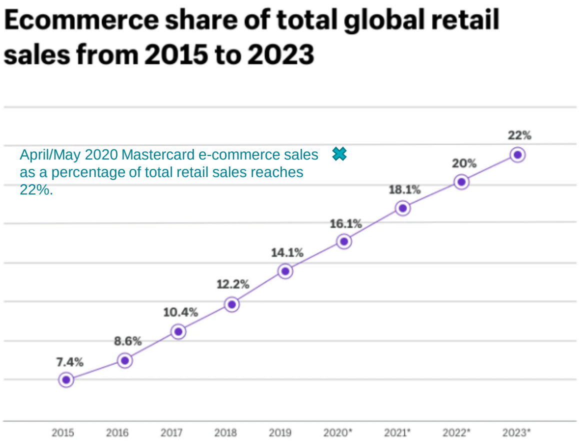
E-Commerce



Source: Shopify, Jan 2020

- Covid-19 has brought forward growth.
- In April and May 2020, e-commerce sales made up 22% of all MasterCard retail sales[1]. A figure Shopify had forecast in January 2020 we would not reach until 2023.

17 1: MasterCard SpendingPulse *New Recovery Insights Report Spotlights the Impacts of COVID-19* (June 10, 2020)

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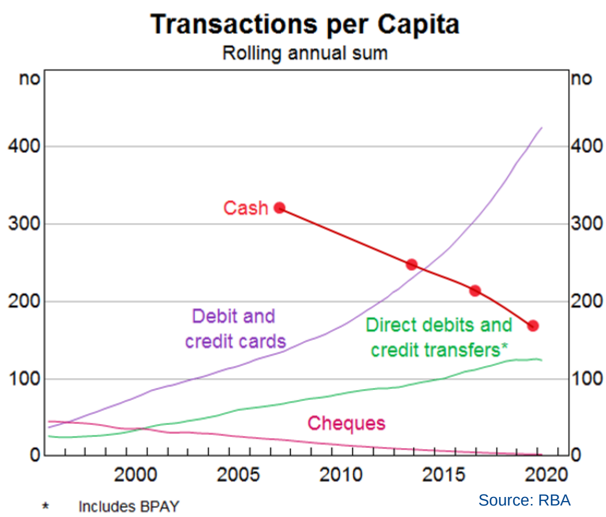
Digital Payments

- We believe companies like MasterCard and Visa have long runways of growth ahead of them as they benefit from the broader global transition away from cash.
- MasterCard and Visa are global companies that have essentially won the cashless payment sector in the Western world.
- Other companies choose to work off their platforms, rather than compete (e.g. PayPal, Square, Apple).
- Simple business model – effectively a toll booth for transactions.
- Pandemic means consumers are rapidly adopting contactless solutions.



Source: RBA

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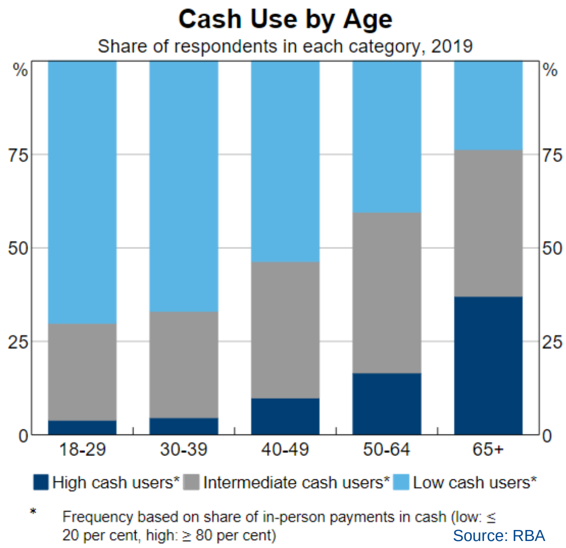
MasterCard

Fundamentals
- History of solid growth with long term tailwinds to support the company going forward.
  - 10-year average revenue growth of +10% p.a.
  - 10-year average earnings per share growth of +20% p.a.
- Competitive Advantage – duopoly and network effect.
- Strong cash position.
- High return on equity.

Risks
- Regulatory.
- Competition – disruption of some sort.
- Prolonged economic downturn.
- Shorter term pressures from less cross-border transactions.



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What sectors/companies do we find attractive?

A smaller Australian company that meets our criteria; Baby Bunting (BBN.ASX)

- Largest baby goods retailer in Australia with attractive fundamentals.
- Compared to other retailers, the baby goods sector has been reasonably defensive, and is also growing.
- In the last two years, several competitors have exited the market (70 store closures across 5 competitors) and BBN's next closest competitor now has 3 stores (BBN has 56). This has opened up a significant market share opportunity for BBN.
- Online sales have been growing (up 39% during FY20) and now represent almost 15% of total sales. Physical store sales are also growing (7.6% in 2H20).
- Strong balance sheet: no debt and $13m of cash.
- FY20 EBITDA growth: +24%, NPAT: +29.5%.
- BBN stores typically take 4 – 5 years to mature, 52% of BBN's stores are <5 years old.
- Private label/exclusive products are 35% of total sales.
- FY21 PE of 20x.

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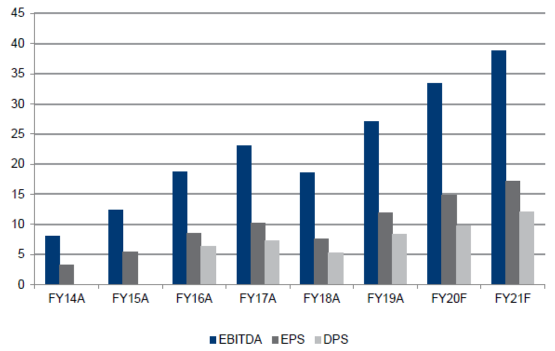
Baby Bunting (BBN.ASX)

Historical and forecast EBITDA (A$m), EPS (cps) and DPS (cps)



SOURCE: MORGANS, COMPANY

Risks and competitors;
- Amazon risk (76% of BBN's top selling products aren't available on Amazon.
- Catch.com.au (74% of BBN's top selling products aren't available on Catch.
- eBay (BBN has a strong branded store presence on eBay).

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What are we avoiding & where do we suggest caution?

- As always, we are avoiding companies that do not meet our investment criteria. This generally removes poorer quality businesses from our client's portfolios.
- Consider avoiding;
  - Companies with poor balance sheets (high debts and/or concerns about debt serviceability).
  - Unprofitable companies.
  - Speculative investments.
  - Companies with sky high valuations.
- Be cautious;
  - 'Short-termism'. Remember investing is a marathon not a sprint.
  - Financial media does not have your best interests at heart. Stay informed but don't act on every piece of information.
- Ensure;
  - Your portfolio is appropriate for your risk tolerance.
  - The companies you own can weather the storm.

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Client Top Direct Share Holdings

Company	Percentage
MasterCard	5.9%
Alphabet Inc	5.4%
Amazon	5.1%
Microsoft	4.7%
Alibaba	4.2%
Facebook	3.8%
CSL Ltd	3.8%
Commonwealth Bank	3.8%
Bapcor	3.6%
Dexus Property	3.6%
Apple Inc	3.5%
Johnson & Johnson	3.3%
Ramsay Healthcare	2.5%
Westpac Bank	2.2%
PayPal Holding	2.2%
Baby Bunting	2.1%
Macquarie Group	1.8%
Computershare	1.4%

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Performance Figures

Annual Performance as at 31 July	1 Year	2 Years	3 Years	5 Years
Aggregated Portfolio Performance*	8.55%	7.79%	9.53%	8.24%
Morningstar Balanced Index	0.70%	5.07%	6.18%	5.62%
Morningstar Growth Index	-0.65%	4.81%	6.66%	6.46%

The table illustrates the aggregate performance figures for client portfolios to the end of July 2020.

- The figures are a simple average and not weighted for the size of client portfolios.
- There are a range of risk profiles from moderate to assertive.
- The above figures are after Morgans fees.
- Please note that past performance cannot be used to predict future performance.

We believe the criteria we apply has worked and will continue to work.

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