

Keeping it in the Family

How co-investing with company founders drives returns

What makes a company “good” or “great”? Many investors when answering that question may think about a company’s product or service, highlighting how that product or service is unique or differentiated or how its pricing model is sustainable. They may point to some financial metrics, Return on Invested Capital for example or the company’s ability to turn earnings into cash. Unquestionably, all these attributes contribute to a good or great company, but a great product needs to be invented; a good service needs to be sold to customers; capital needs to be allocated; receivables need to be collected. All this points to people. At Celeste, we believe a company’s leadership, the Board of Directors and Senior Management team are the glue that binds the discrete aspects of a business together to make a good company great.

A fertile area for investors seeking high quality leadership teams are founder/family led companies. These listed companies provide an opportunity to invest alongside the founder or the family of the founder. They give investors access to a leadership team who are strongly aligned both financially and emotionally. Their knowledge, commitment and motivation is a core component of their, and hence the company’s, DNA. The blending of these factors often means that there is little if nothing inside a company management can’t do or don’t know about. This creates a high degree of transparency across the organisation as employees can’t hide issues with customers, suppliers, regulators or internal processes. This is not to dismiss companies led by corporate CEOs, nor do all founder/family led businesses become good or great companies. It takes a unique set of skills and expertise to deal with public markets and to scale/drive the business across different points of the company’s “S curve” to maturity.

Across the Celeste Small Companies Portfolio, a number of the companies that we are invested in continue to be run by the founder or family that helped create them. Examples include: Andrew Hansen at Hansen Technologies; Phil Ryan at City Chic Collective; Andrew & Roger Brown at ARB Corp.; Brendon Cook at oOh!Media; and John Rubino & Rob Velletri at Monadelphous.



When Andrew Hansen joined Hansen Technologies, a company founded in 1971 by his father, Kenneth Hansen, it had one major telco client. Andrew’s job was to diversify and grow the business, or to wind it up. Andrew set to work to adapt and sell Hansen’s core product set to other infrastructure sector clients in order to assist them in their billing, customer care and data management. The expanding product suite now extends to over 500 clients across 80 countries. Andrew was appointed MD in 1992, transformed the strategy, listed the company in 2000 and remains aligned with 17.6% ownership. Core to Hansen’s globalisation has been the view held by the CEO that he is a custodian of the strategy, requiring talented, motivated and eager employees to deliver it.

Keeping the strategy simple and focused remains key at Hansen to this day, with key levers (1) optimising revenues across products and clients, and (2) driving cost efficiencies to deliver products and solutions more cheaply. The strong focus on revenue growth and cost containment has delivered increasing profitability and cash generation over the past two decades. This cash has been deployed to drive organic growth from new and upgraded products, as well as filling technical gaps through acquisition. Since IPO Hansen has grown revenues from \$31.1m to \$230m at 11% pa, EBITDA from \$5.6m to \$56m some 12% pa and NPAT from \$4.4m to \$33.8m, growth of 11% pa. At the IPO price of \$1 investors have received 75½ cents in dividends, the majority of which have been franked. On the current market price of \$4/share Hansen has a market capitalisation of near \$800m, 10x the IPO market cap. Over the 20 year listed history founder led focus and patience has delivered significant value for shareholders.

ARB is a great example of a Family led company. ARB traces its origins back to 1975, when Tony Brown was inspired by a four-wheel-driving trip through the top end of Australia to create robust and durable 4x4 accessories. His brothers, Andrew, the current Managing Director and Roger, the current Chairman, have driven ARB to become a global manufacturer and distributor of 4x4 accessories. ARB listed on the ASX in 1987, a year in which it generated \$14m in revenues and \$1m in profits after tax. A little over 30 years later, in 2018, ARB reported sales of \$424m and profits of \$51m. Indeed, during the 30 plus years of its listed history, ARB has grown reported earnings in all but one year, 2007. In part this is due to Andrew and Roger's focus on in-house product development, continually investing in research & development driving the company to produce a market leading offering.



ARB Prospectus 1987 - 3 of 5 Board members at ARB in 1987 are still actively involved in the company

oOh!media is today the dominant Out Of Home advertising company in Australia. Brendan Cook, Managing Director and CEO of oOh!media, founded the precursor to oOh!media, Outdoor Network Australia in 1989. At the time, not only was Brendon the owner and head of sales, he

also described himself as “Chief Finance Officer, Head of HR and Office Cleaner”. Over the ensuing 30 years, via a number of acquisitions, Brendon, through his superior industry knowledge, network, passion and salesmanship, has driven OML to over \$1b in market capitalisation and to the lead position in an industry that is taking material market share from other channels in the Australian media landscape.



Brenden Cook, Managing Director and CEO of oOh!media, is pictured here in front of one of his company's billboards.

Another slightly different example of a ‘founder’ led company is City Chic Collective. Phil Ryan grew up in the clothing industry, his family owned Ambition, a fashion wholesaler, retailer and manufacturer. As a consequence, Phil developed the skills and understanding of all component parts of the fashion industry; from the cutting table to the retail shop floor. In 2006, as a general manager at Specialty Fashion Group (SFH), Phil led a team of six people who were tasked with developing and growing the City Chic brand. Following the restructuring of SFH, the listed clothing conglomerate, City Chic, the best asset in the SFH stable has become the listed entity. To put this in perspective, City Chic grew from an immaterial contribution within SFH to generating EBITDA of \$20m in FY18. This compares to the five divested SFH brands which had 832 stores but generated an EBITDA loss of \$6.2m in calendar year 2017. As a result Phil is now the Managing Director of a fashion company solely focused on the fast growing plus-sized apparel sector. The input of CEO Phil Ryan ensures that the offering is on trend, garments are manufactured appropriately, and that they are marketed with a focus on the plus size target market. Additionally, City Chic is unusual in that 40% of total sales are online, the majority directly through the City Chic website. This is amongst the highest for retailers that also have a physical store footprint. If City Chic can continue to execute, this will place it in a unique position with online earnings growth benefitting from lower capital intensity, stronger inventory turns and reduced cannibalisation of physical store earnings.



Picture: John Rubino, Chairman, and Rob Velletri, Managing Director, Monadelphous

Engineering Services is a challenging industry, with many risks from contract negotiation, weather, geography and execution. The Chairman of Monadelphous, John Rubino, and Managing Director, Rob Velletri, took control of the company after a major restructuring in the late 1980's. Some 30 years later, it is extremely difficult to argue that there is a better Engineering Services company listed on the ASX. While Monadelphous' earnings profile gyrates with the vicissitudes of the end markets it serves, the company has built a reputation with clients and investors of executing projects ahead of time and below budget. The Monadelphous pedigree is evidenced by its financial performance, with best of breed return on any metric – invested capital, assets or equity. Given the nature of “contracting”, this can only be done via people and the “Monadelphous Way” reflects the culture John Rubino and Rob Velletri created.

In addition to the founders and families mentioned above, there are many other examples found in the Celeste Small Companies Portfolio such as: Robert Kelly at Steadfast; Michael & Matthew Heine at Netwealth; James Kelly at Lifestyle Communities; and The Wilson Family at Reece. By investing alongside these individuals and families, Celeste unit holders have access to aligned and committed management teams that drive their listed companies with a high level of insight and passion.

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