

# WHAT TO LOOK FOR IN SUCCESSFUL COMPANIES

Michael Gordon  
Gordon Capital Pty Ltd

# INVESTMENT RULES

- Understand your risk profile
- Have clear objectives
- Have a diversified portfolio
- Look to hold stocks for three to five years

“We chose the term visionary companies rather than just successful or enduring companies to reflect the fact that they have distinguished themselves as a very special and elite breed of institutions. They are more than successful. They are more than enduring. In most cases, they are the best of the best in their industries, and have been that way for decades.”

# BUFFETT'S INVESTING PRINCIPALS

- Is the business simple to understand?
- Does the business have a consistent operating history?
- Does the business have favourable long term operating prospects?
- Is management rational?
- Is management candid with its shareholders?
- Is management beholden to institutional shareholders?
- Focus on return on equity not earnings per share
- Focus on cash flows
- Look for companies with high profit margins
- What is the value of the business?
- Can the business be purchased at a significant discount to its value?

# FIVE KEYS TO VALUE INVESTING

- Is this a good business run by smart people?
- What is this company worth?
- How attractive is the price, and what should I pay for it?
- How realistic is the most effective catalyst (for change)?
- What is the margin of safety in my purchase price, in other words what is my downside risk?

# FIVE KEYS TO ACHIEVING BUSINESS SUCCESS

- Understand your business
- Know your customer
- Set objectives
- Have a clear strategy
- Focus on the money

# UNDERSTAND YOUR BUSINESS

“Our company’s primary mission is to protect and increase the value of its owners investments whilst efficiently and fairly serving the needs of its customers. The company seeks to accomplish this in a manner that contributes to the development and growth of its employees, and to the goals of countries and communities in which it operates.”

“Chiquita aims to be the dominant player in the production, processing and marketing of horticultural and food products in its chosen categories and markets.”

Chiquita Brands South Pacific Ltd

“To be a world-class full-service integrated telecommunications company helping Australian and Asia-Pacific customers and communities prosper through their access to innovative communications services and multimedia products.”

Telstra

## “Our Vision

Inspiring Global Enjoyment. Whether through beer, wine, spirits, leisure or property, Foster's premium products inspire enjoyment around the world.

## Our Mission

Foster's mission is to work together, respecting each other, our heritage, diversity, skills and knowledge to:

Build premium quality, first-choice brands

Deliver service excellence to customers and consumers

Generate superior returns for shareholders

Create an inspiring workplace

Be welcomed in the communities in which we operate.”

Foster's Group

“Mayne strives to provide superior outcomes for its shareholders and for customers and patients.” (2001 annual report)

- “Mayne will achieve this vision (what we saw earlier) by:
- Developing its leading service proposition in its core business
- Developing its leading service proposition in its core business competencies of health care and logistics
- Growing its business positions in its home market of Australia, and continuing to broaden and deepen its presence in selected markets internationally
- Building strength in the business brands to underpin the value of the corporate brand
- Delivering innovative solutions for customers and patients by mobilising the group’s technological capacities
- Maximising earnings by leveraging business efficiencies within and across its operations, whilst ensuring quality outcomes for customers and patients
- Assigning capital to core assets and businesses to ensure optimum shareholder returns
- Fostering an organisational environment which allows staff to achieve levels of excellence in a way that leads to the achievement of the stated business goals”

# FOUR THINGS TO LOOK AT

- Key Financials
- The Business Drivers
- Trends
- Change or Risk Catalysts

# WESFARMERS

Sales Growth	
3 years	22.4%
5 years	30.6%
Net Profit Growth	
3 years	28.5%
5 years	41.1%
EPS Growth	
3 years	16.4%
5 years	23.3%

# WESFARMERS

	2001	2002	2003
EBITDA Margin	13.9%	13.6%	15.0%
Return on Equity	17.8%	16.6%	15.0%
Net Debt/Equity			23.5%

# WESFARMERS

- Australia's leading conglomerate
- Operations include:
  - Hardware
  - Rural/Insurance
  - Energy
  - Chemicals/Fertilisers
- Trends
  - Recovering rural sector
  - Booming housing industry
  - Strengthening exchange rate
- Risks/catalysts
  - Sale of business units (Rural)
  - Managing Director/Senior management

# COLES MYER

Sales Growth	
3 years	5.6%
5 Years	3.8%
Net Profit Growth	
3 years	3.1%
5 years	12.6%
EPS Growth	
3 years	0.7%
5 years	8.6%

# COLES MYER

	2001	2002	2003
EBIT Margin	2.41%	2.21%	2.69%
Return on Equity	5.4%	10.9%	13.0%
Net Debt/Equity			6.6%

# COLES MYER

- Australia's largest retail group
  - Supermarkets
  - Department stores
  - Discount Department stores
  - Office supplies
  - Fuel
- Trends
  - Recovering Economy
  - Interest rates
  - Profit Recovery Program
- Risks/Catalyst
  - Execution of profit recovery program
  - Senior management
  - Competitive reposne

# WOOLWORTHS

Sales Growth		
3 years		10.5%
5 years		11.4%
Net Profit Growth		
3 years		12.9%
5 years		15.0%
EPS Growth		
3 years		18.0%
5 years		22.6%

# WOOLWORTHS

	2001	2002	2003
EBIT Margin	3.38%	3.40%	3.59%
Return on Equity	43.2%	48.1%	53.3%
Net Debt/Equity			19.7%

# WOOLWORTHS

- Australia's second largest retailer
  - Woolworths/Safeway
  - Big W
  - Dick Smith
  - Tandy
  - Dan Murphy
- Trends
  - Economic growth
  - Interest rates
  - Industry concentration
- Risks/Catalysts
  - Project Refresh execution
  - Coles Myer recovery
  - Roger Corbett

# SOUTHCORP

Sales (\$m)	
1998	2,735
2000	2,619
2003	1,236

	2001	2002	2003
EBIT Margin	9.4%	15.2%	6.6%
Return on Equity	10.4%	13.9%	NA
Net Debt/Equity			62.0%

# SOUTHCORP

- Australia's largest wine group
- Trends
  - Discounting in Australia
  - Over supply and discounting in the US
  - Exchange rate
  - Consolidation of the retail market
- Risks/Catalysts
  - Restructuring
  - Takeover ?
  - Management
  - Shift in power to retailers (Coles/Woolworths)