Perpetual

Management teams that passed the COVID test

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One of Perpetual's key filters when assessing businesses to invest in is the quality of their management teams. However, the importance of sound management was even further amplified by the COVID-19 pandemic and here we assess a few examples.

One thing COVID highlighted was how important a good management team is in your investment thesis. On the one hand, some management teams were like deer in the headlights and were incremental with their operational response and, when things got tough, diluted shareholders with deeply discounted capital raisings. On the other hand, there were other management teams which responded quickly operationally, did everything possible to maximise liquidity without diluting shareholders and capitalised on opportunities so as to come out the other side of the pandemic in a stronger position.

A few stand outs in our investee companies are Seven Group (ASX: SVW), who didn't miss a beat operationally and used the volatility during COVID-19 to make a raid on international building and construction materials company, Boral at what we consider to be a very good entry point. Another company, Premier Investments (ASX: PMV), moved quickly during COVID and leveraged its investment in online fulfilment to transition customers to online and did it in a way which was materially more profitable than its retail network. It then took advantage of its strong position to shut down unprofitable stores and rebase its operating leases, meaning its retail network will be more profitable on the other side of COVID.

We believe that it is no coincidence that companies like SVW, PMV and Eagers Automotive (ASX: APE) all performed strongly during the COVID downturn. The one thing they have in common is they have a major founder/shareholder who is on the board. This generally means that longer term value accretive decisions are typically made rather than decisions made by agency style boards and management who do whatever seems to be a good idea at the time to appease shareholders in the short term. While we have reduced our position in APE due to the stock trading above what we consider to be mid-cycle valuation, we continue to believe the outlook for SVW and PMV is very exciting. They have made excellent investments both organically and inorganically and we have faith in the management team combined with a strong balance sheet and high-quality assets will be able to generate strong returns in almost every macro scenario which we think is likely to occur.

Who knows what macro scenario will play out during FY22, but we will continue to monitor our core investments and scour the market to either take advantage of market panic to get good entries into quality companies or look for changes in industry or companies, which we believe could materially change the underlying value of a company over time. We look forward to the year ahead.

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