

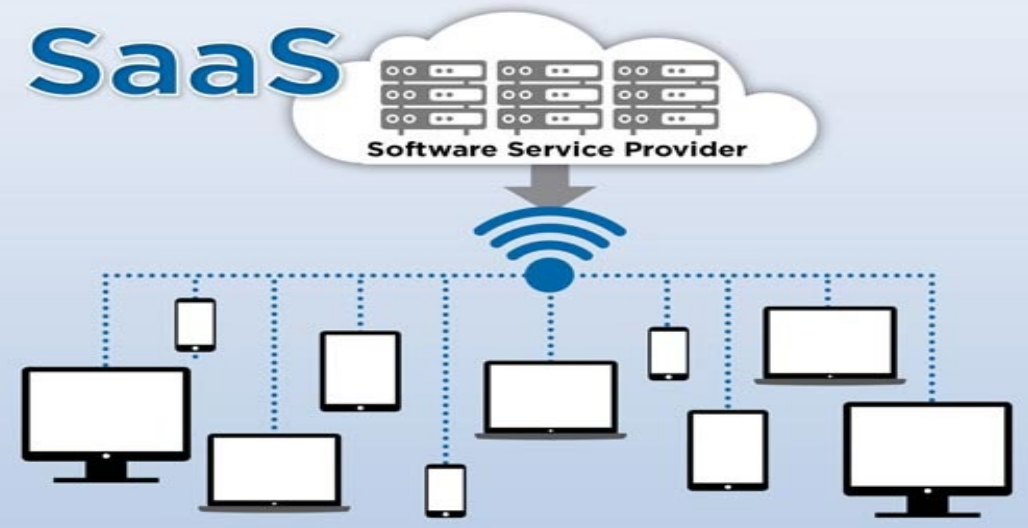
The Benefits of Investing with an Open Mind

Australian Equities - Growth

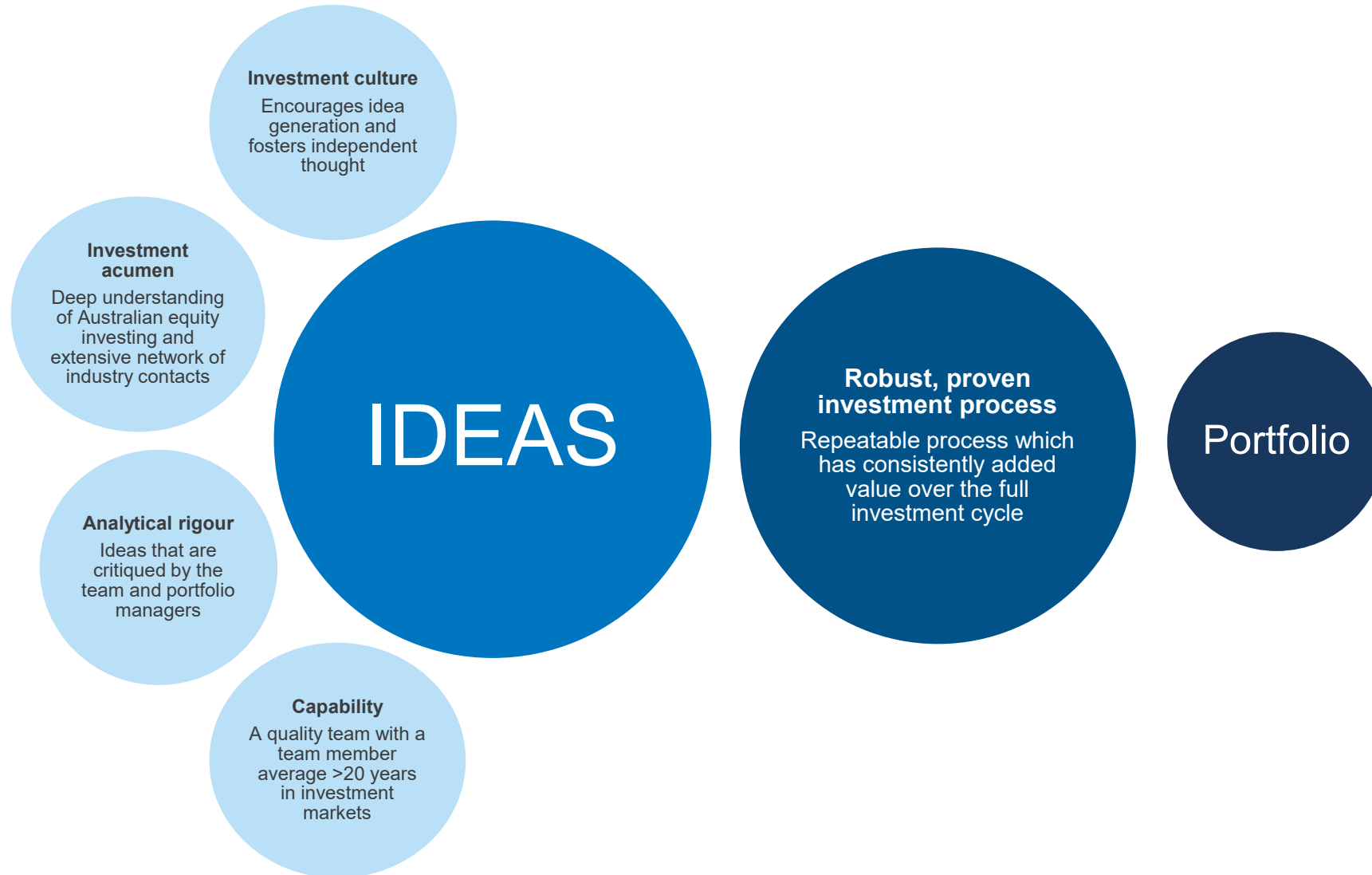
Dushko Bajic

Head of Australian Equities

10 April 2019



Investing with an open mind generates the right ecosystem





Growing companies that generate consistent returns and can reinvest above their cost of capital provide the greatest shareholder value



Changes to company returns on invested capital has high explanatory power for stock outperformance



Understanding industry drivers is critical to understanding what drives stock performance

Software as a Service (SaaS) vs On-premise / Desktop

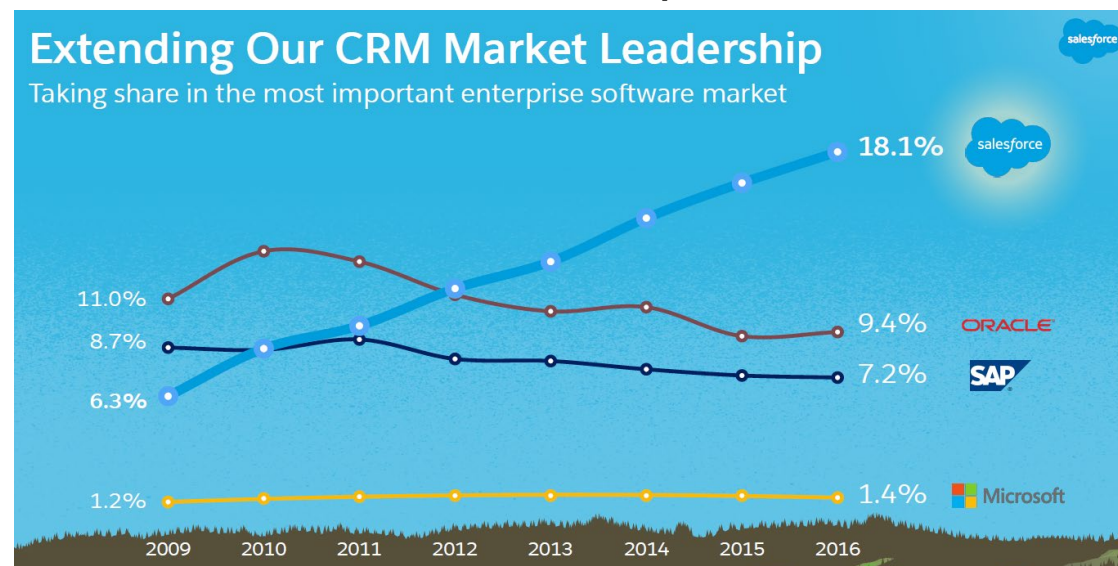
SaaS is a software licensing and delivery model based on regular subscriptions and central hosting.

No physical need for indirect distribution because it is not distributed physically.

Numerous advantages over traditional software:

- No need for internal IT network or server
- Access from anywhere with web browser
- Easier to set up and get operational
- Better security
- Easier integration with other cloud based apps
- Subscription payments vs large upfront payment
- Seamless upgrades – applied to all users simultaneously and instantaneously.

Salesforce.com and Atlassian investor presentations



Salesforce.com Presentation to Annual Investor Day at Dreamforce 2017

THE OLD WAY



Hard to try & deploy
Expensive to buy
Heavy discounting
Top down
Month cycles
Offline business model

THE ATlassian WAY



Do-it-yourself software
Fits any budget
Predictable pricing
Bottom up
Day cycles
E-commerce business model

Atlassian Presentation to Investor & Financial Analyst Session, September 13, 2017

SaaS business model – profitability drivers

Trade off sales growth vs margin

SaaS growth

The growth imperative*:-

- SaaS revenue comes over extended period of time
- Low churn in customers = long term revenue
- SaaS businesses face significant losses in early years
- Heavy upfront investment to acquire customers
- Faster business decides to grow, the worse the losses may become
- Many investors have problems understanding this – hit the brakes when they should be hitting the accelerator

* Courtesy of David Skok, Matrix Partners and sourced from the Xero 2013 Annual Report



Subscriptions also bring stable, predictable recurring revenues.

Hence while they suffer heavy start up losses or limited profitability in early years, SaaS businesses enjoy high, stable margins and free cash flow in the longer term.



SaaS business model – profitability drivers

Trade off sales growth vs margin

SaaS company performance typically measured by the LTV/CAC ratio:

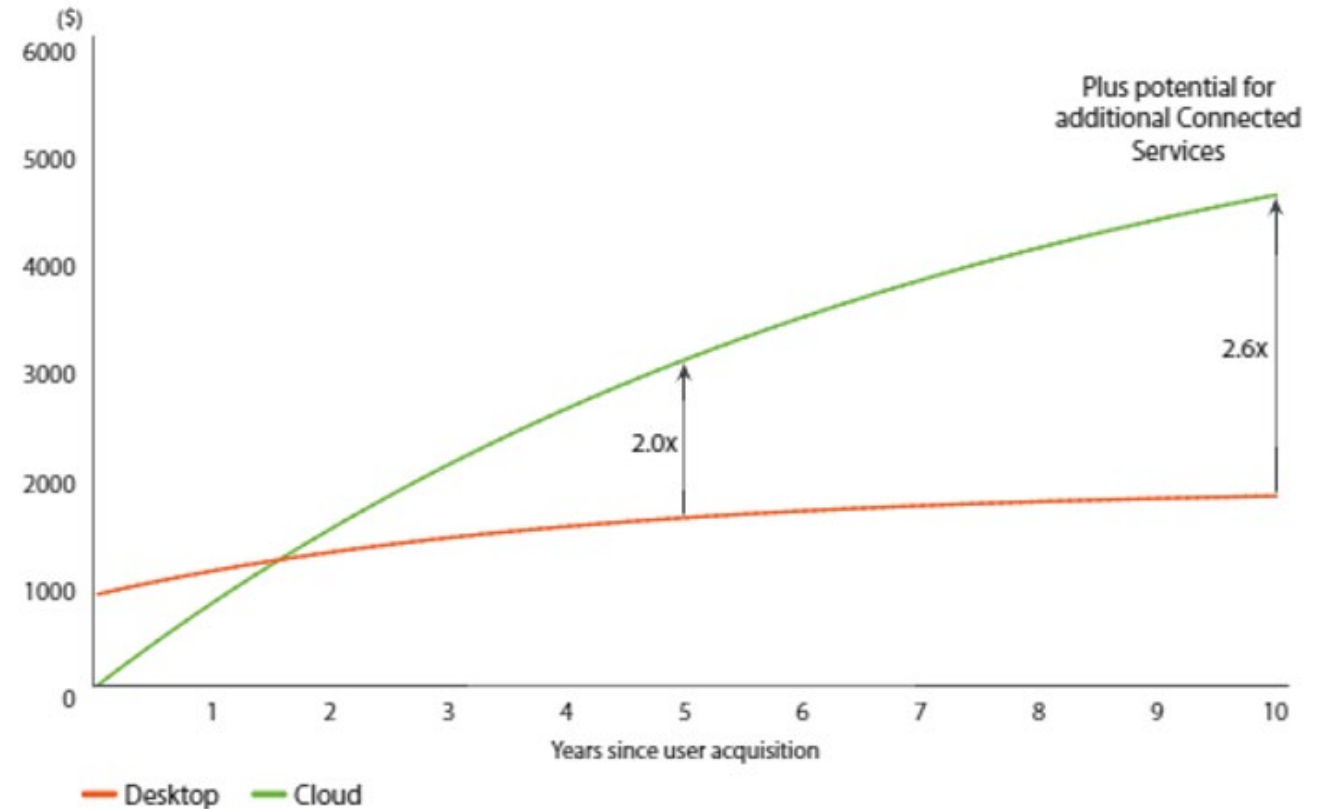
$LTV/CAC \text{ ratio} = \frac{\text{avg. gross profit over a customer lifetime}}{\text{avg. customer acquisition cost}}$

ARPU, CAC and Churn are the key variables driving this ratio.

Lifetime Value (LTV) is a function of ARPU x gross margins x customer retention/churn

Customer Acquisition Cost = $\frac{\text{Total Marketing Spend}}{\text{Gross Subscriber Adds}}$

Illustration of estimated cumulative lifetime value per customer

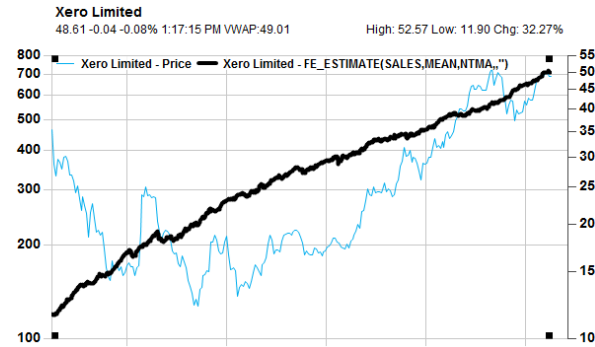


MYOB Prospectus, 27 April 2015

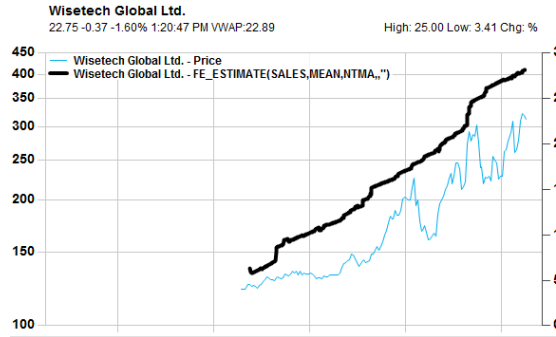
SaaS Global Leaders – Revenue & Share Price last 5 years

Australian & New Zealand have some world class SaaS companies

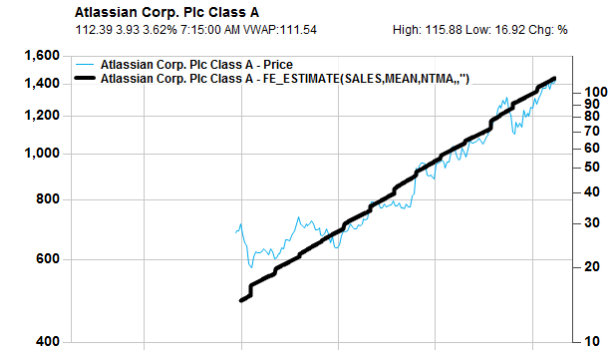
New Zealand founded



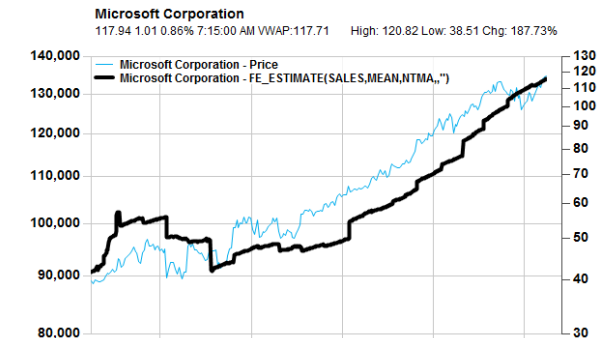
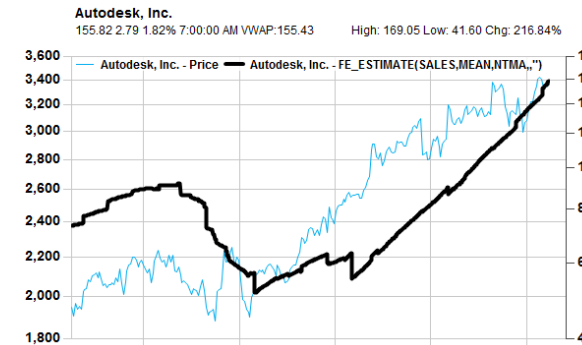
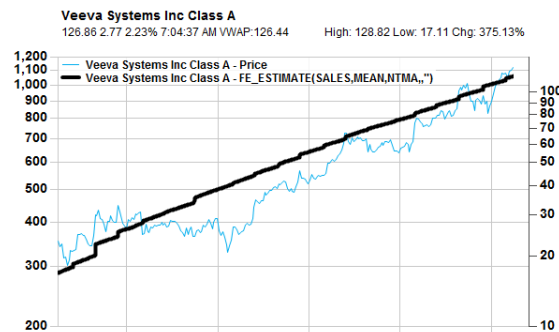
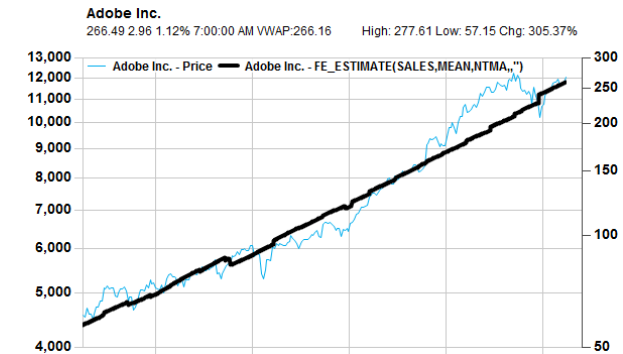
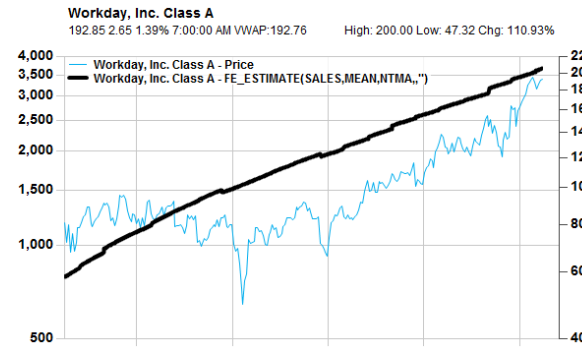
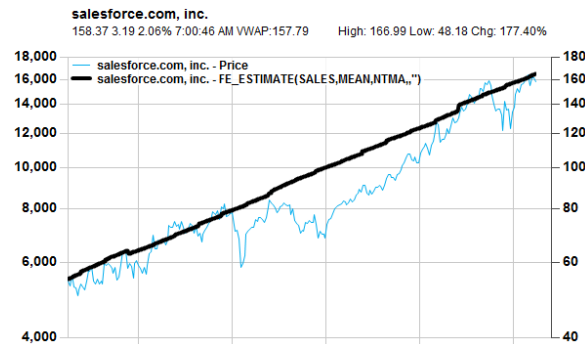
Australian founded



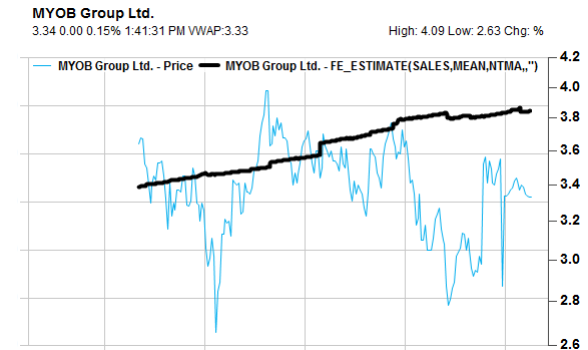
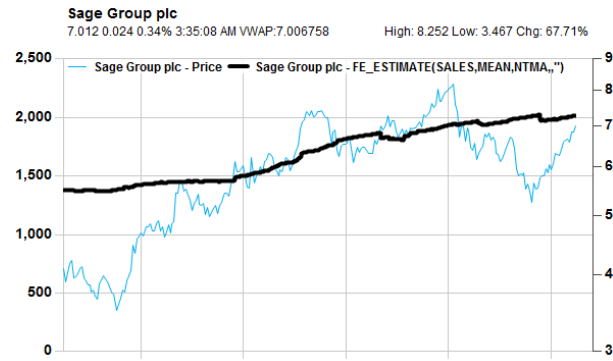
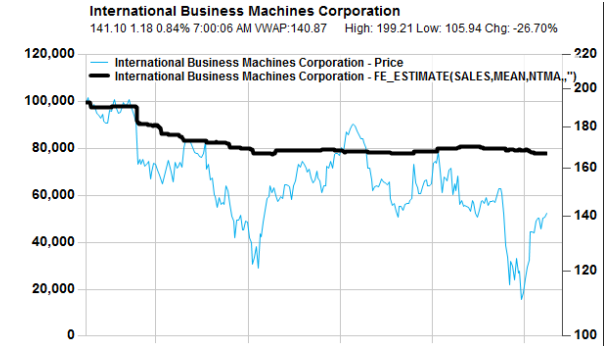
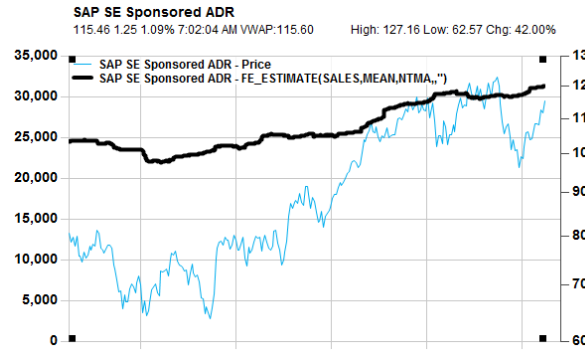
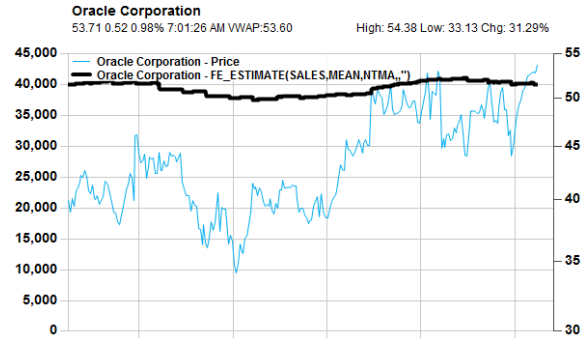
Australian founded



US founded



Traditional on-premise desktop software providers (last 5 years)

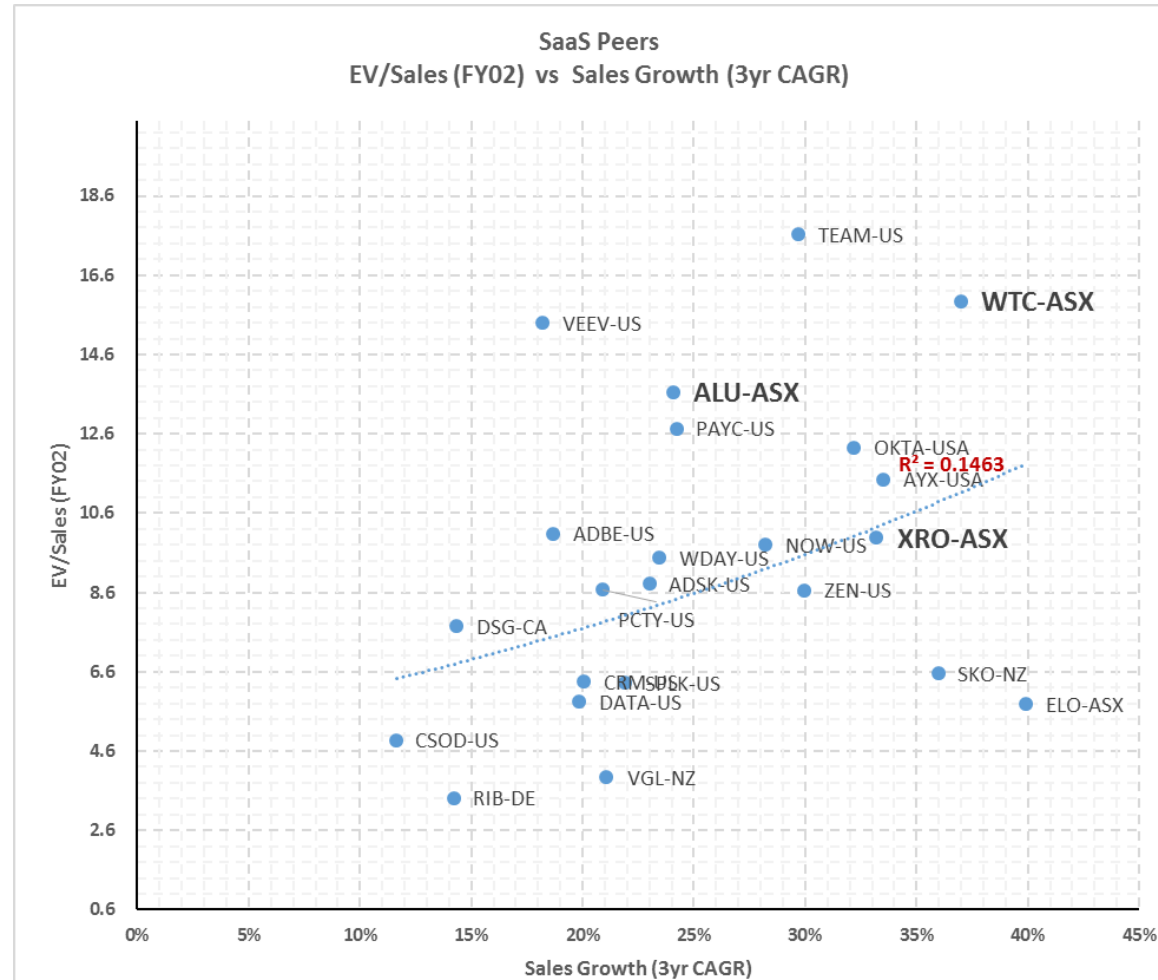


Source: FactSet, CFSGAM, March 2019

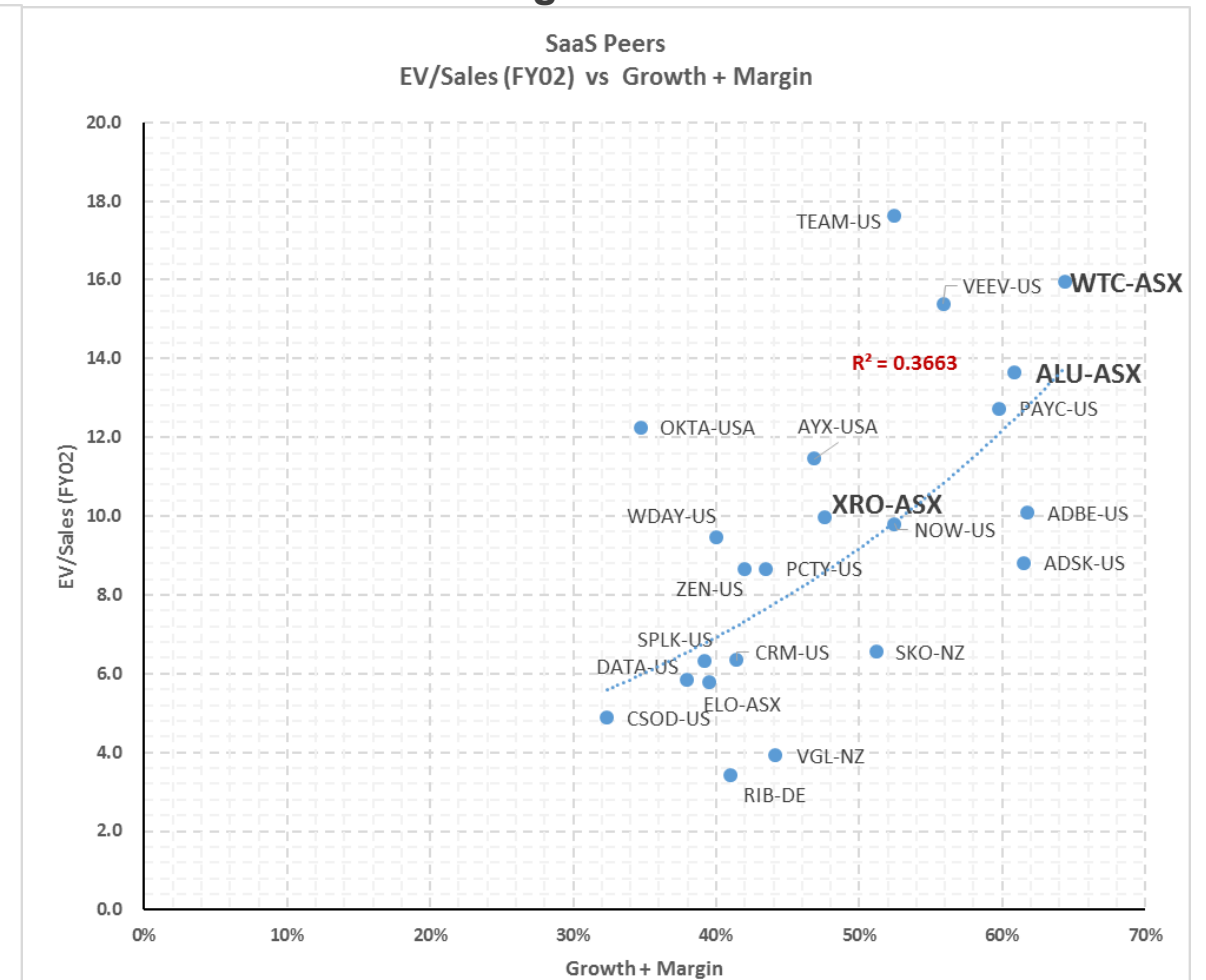
Valuation cross check vs global peers

SaaS companies often valued on revenue multiples. A standard measures is EV/Sales vs 3yr Sales Growth

EV / Sales Growth



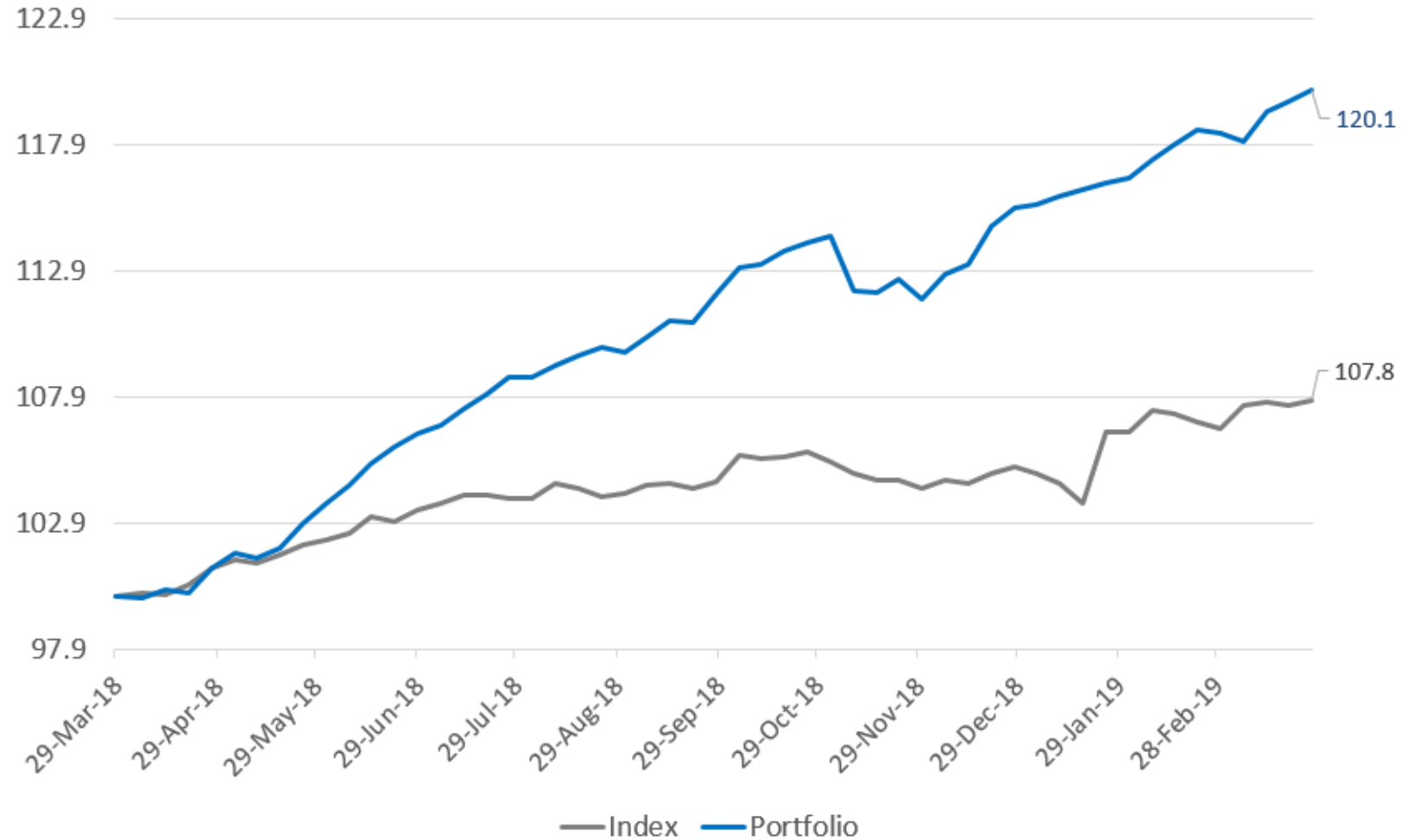
EV / "Sales Growth + Margin"



Source: FactSet, CFSGAM, March 2019

Portfolio EPS growth extending gains over index last 12 months

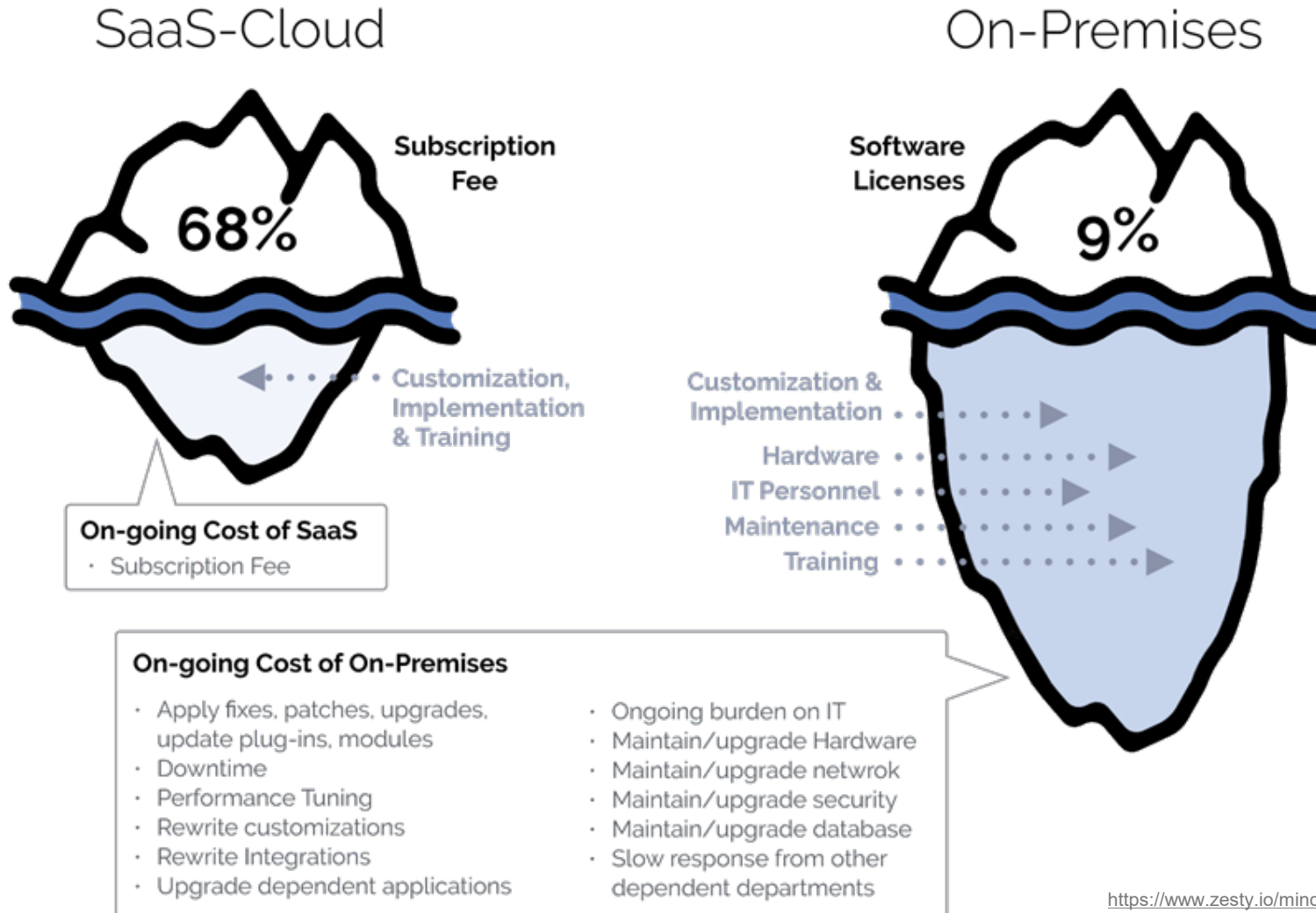
CFSGAM Ex-20 Australian Share Portfolio Vs ASX 300 Ex 20: EPS NTMA Cap/Pf weighted
31-Mar-2018 : 31-Mar-2019



Source: FactSet, CFSGAM, March 2019

FOCUS TOPIC: Software as a Service (SaaS)

- coded in the Cloud from birth



<https://www.zesty.io/mindshare/marketing-technology/what-exactly-is-saas/>

Cloud Infrastructure spend. An \$80b USD market that grew +46% YoY !

Worldwide cloud infrastructure spending and annual growth Canalys estimates: Full-year 2018

| Vendor | 2018 (US\$ billion) | 2018 Market share | 2017 (US\$ billion) | 2017 Market share | Annual growth |
|-----------------|------------------------|----------------------|------------------------|----------------------|------------------|
| AWS | 25.4 | 31.7% | 17.3 | 31.5% | +47.1% |
| Microsoft Azure | 13.5 | 16.8% | 7.4 | 13.5% | +82.4% |
| Google Cloud | 6.8 | 8.5% | 3.5 | 6.4% | +93.9% |
| Alibaba Cloud | 3.2 | 4.0% | 1.7 | 3.0% | +91.8% |
| IBM Cloud | 3.1 | 3.8% | 2.6 | 4.7% | +17.6% |
| Others | 28.3 | 35.2% | 22.4 | 40.8% | +26.1% |
| Total | 80.4 | 100.0% | 54.9 | 100.0% | +46.5% |

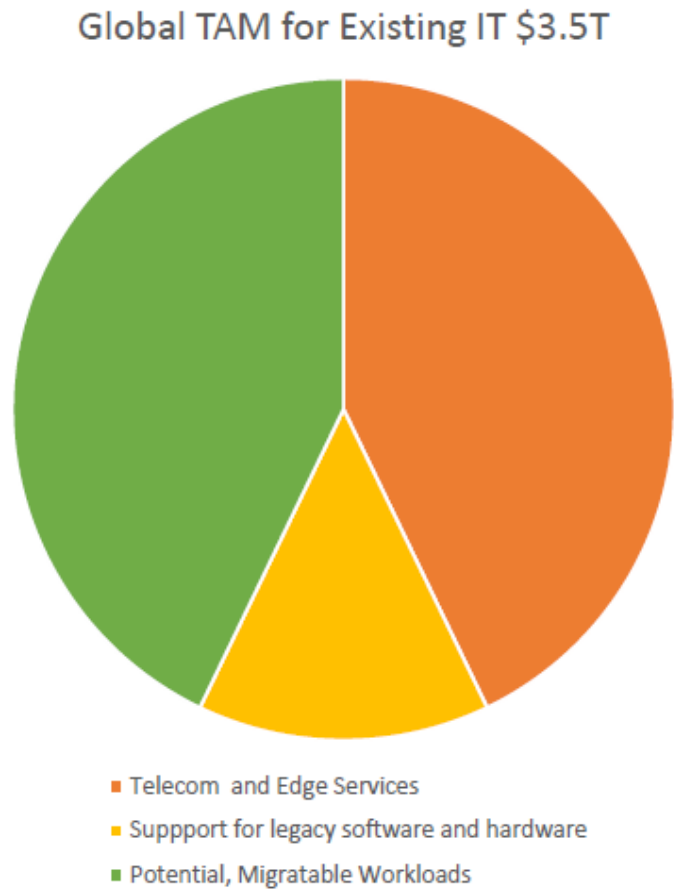


Source: Canalys Cloud Channels Analysis, February 2019

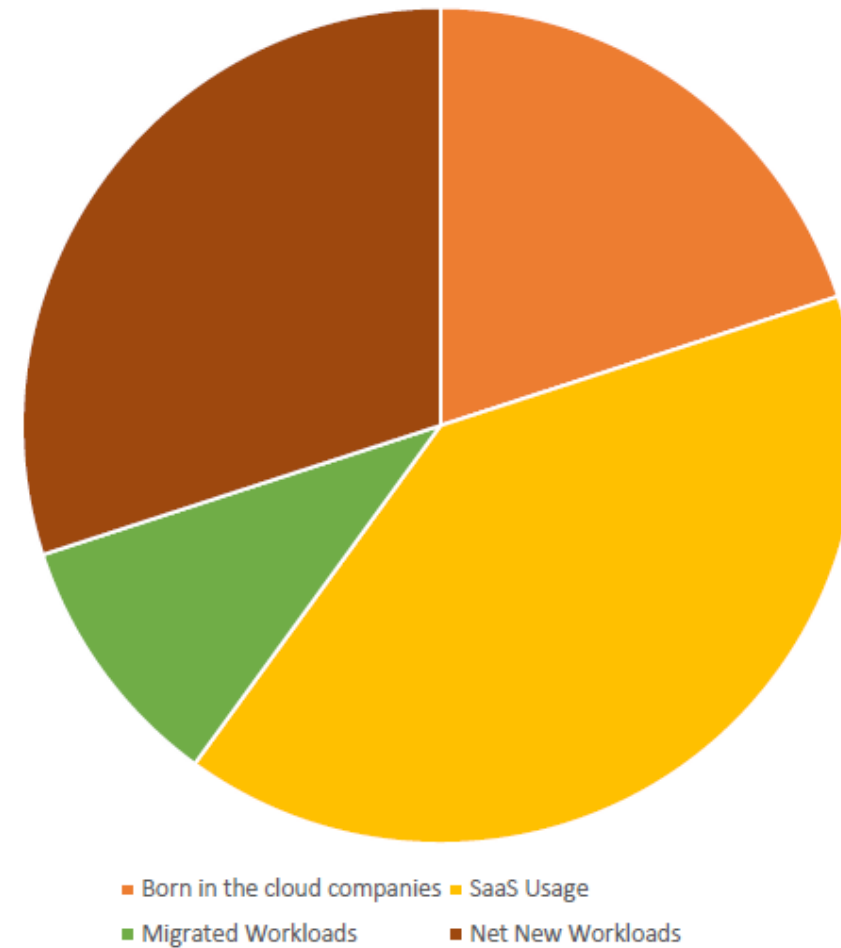
<https://www.canalys.com/newsroom/cloud-market-share-q4-2018-and-full-year-2018>

Cloud Market size likely to be much larger than current market estimates

Potential Cloud Market



Future TAM for Cloud Services \$5T 2027



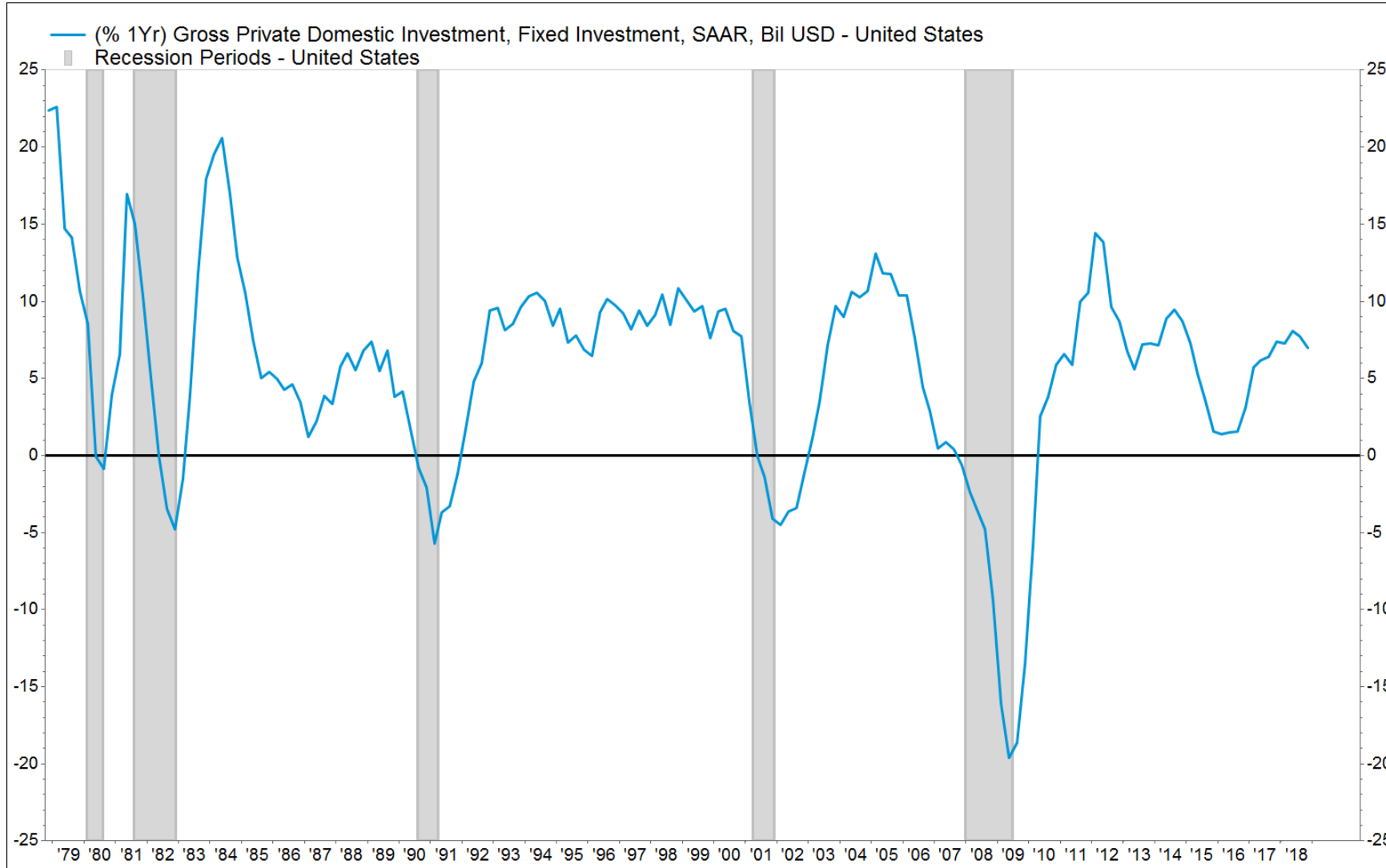


The Post-IT Era

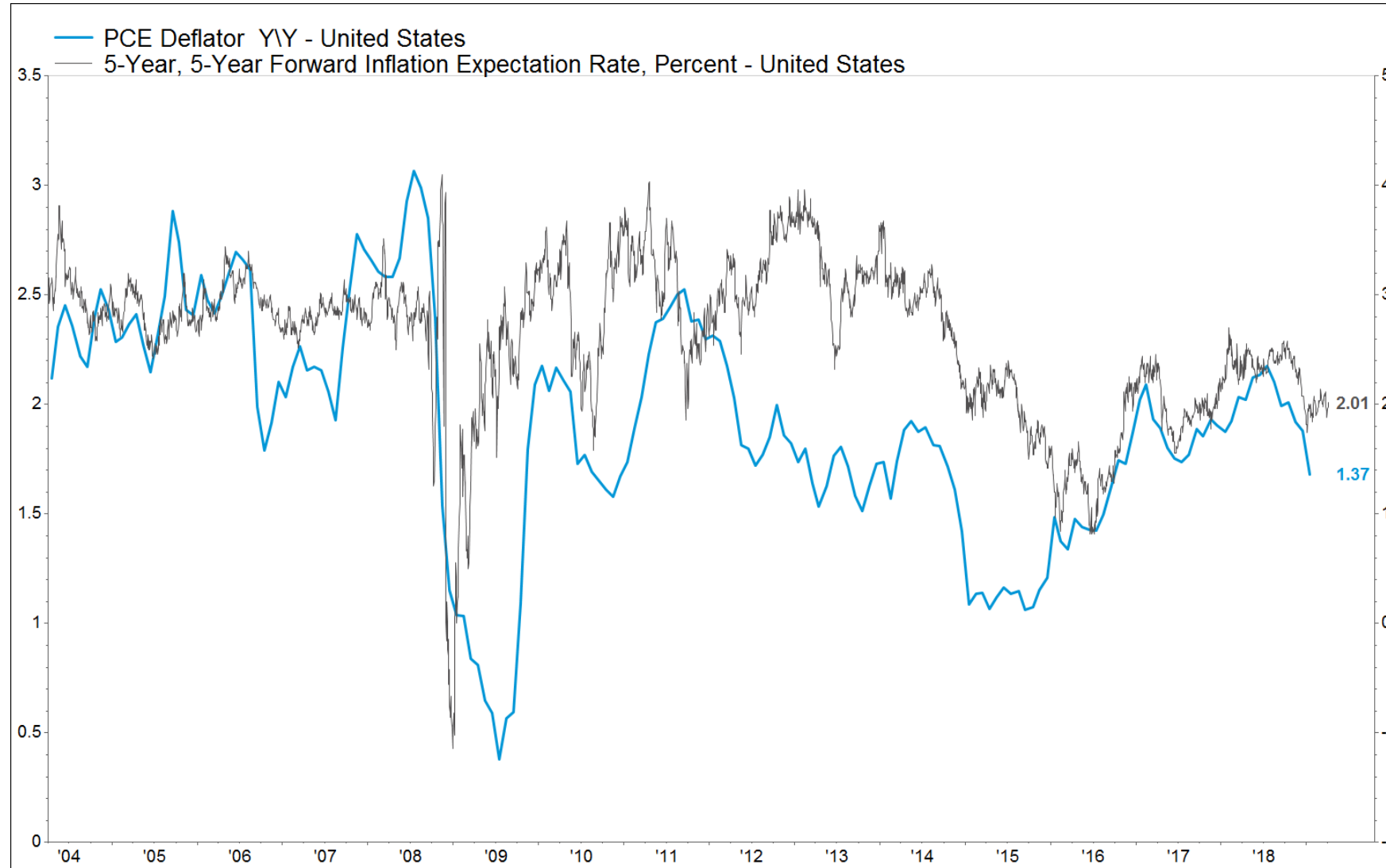
- Non-Traditional IT or “Shadow IT” is driving cloud growth for new projects
- Departments and business units are looking at the cloud to create new businesses and gain more insight from their data
- IT is seen as an inhibitor of growth and innovation
- IT has atrophied into a purchasing organization that manages large vendor contracts
- Budgets for IT are decreasing while new business expansion using technology are increasing
- Traditional IT expertise is not as crucial in the cloud world as most of their functions are automated by the cloud providers (Networking, Security, Database, Business Continuity, etc)

Capex growth has recovered since 2016

Growing Capital Stock leads to Productivity gains → This keeps Unit Labour Costs and inflation low

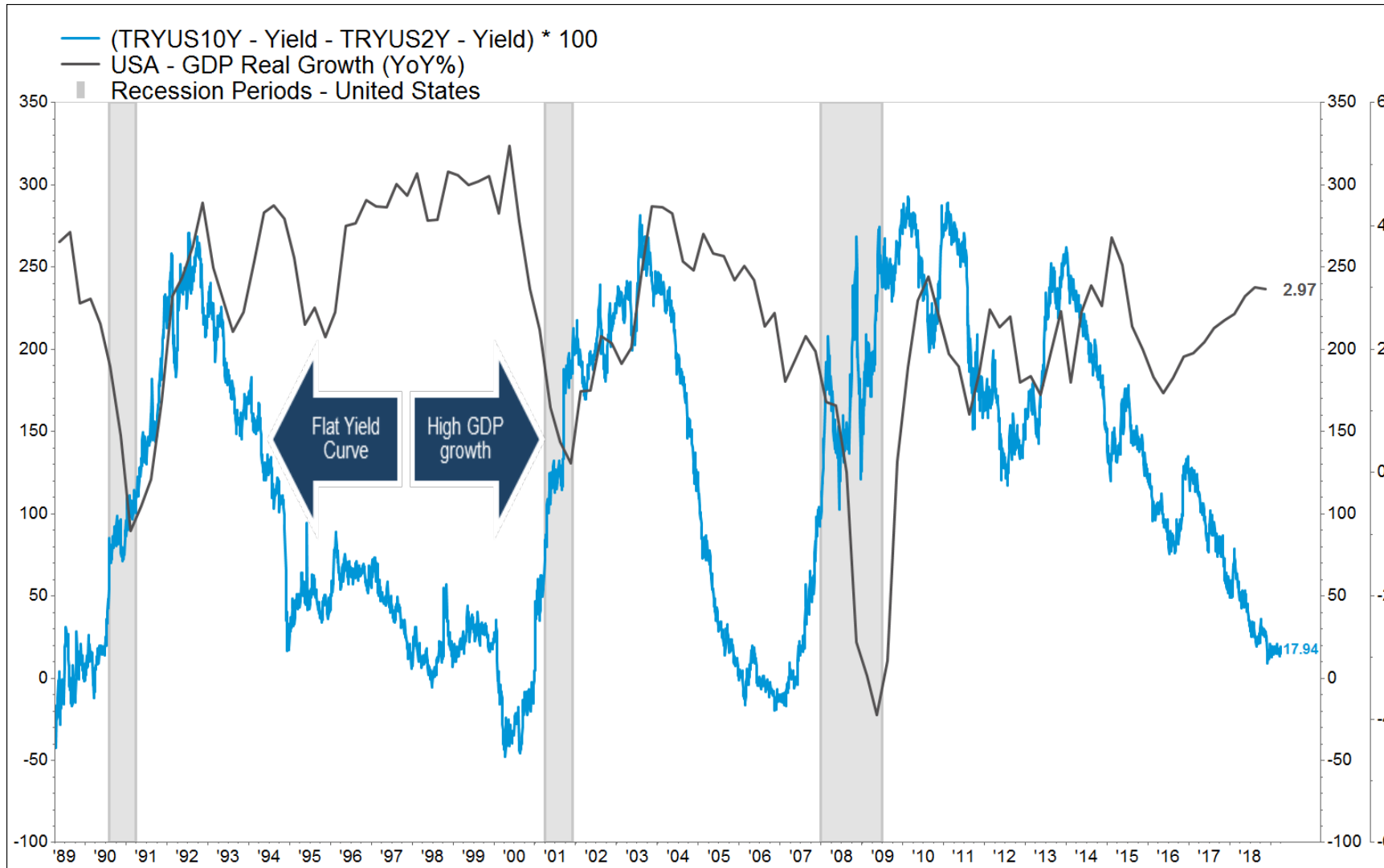


No inflation outbreak despite strong GDP growth



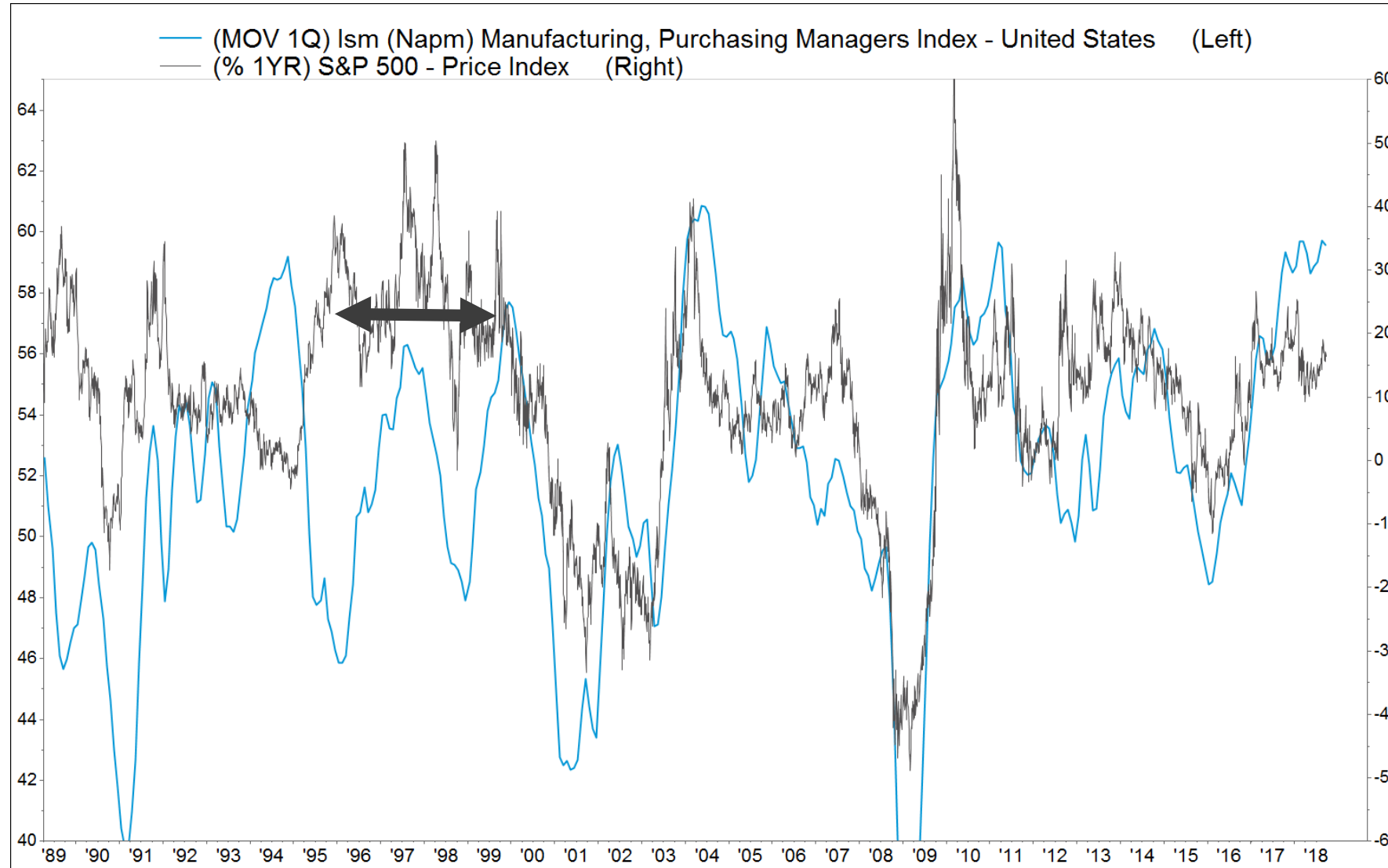
Source: FactSet, CFSGAM, March 2019

Productivity Growth + Labour Force growth = Higher Potential GDPSo, flat yield curve can co-exist with high GDP growth



Source: FactSet, CFSGAM, March 2019

Stock Market returns can be attractive despite topping out of PMI's



Source: FactSet, CFSGAM, March 2019

Disclaimer

This information has been prepared and issued by Colonial First State Managed Infrastructure Limited (ABN 13 006 464 428, AFSL 240550) (CFSMIL). It is directed at persons who are professional, sophisticated or wholesale clients and has not been prepared for and is not intended for persons who are retail clients. A copy of the Financial Services Guide for CFSMIL is available from Colonial First State Global Asset Management on its website. This material contains general information only. It is not intended to provide you with financial product advice and does not take into account your objectives, financial situation or needs. Before making an investment decision, you should consider, with a financial adviser, whether this information is appropriate in light of your investment needs, objectives and financial situation.

The Commonwealth Bank of Australia (**Bank**) and its subsidiaries do not guarantee the performance of the Fund(s) or the repayment of capital by the Fund(s). Investments in the Fund(s) are not deposits or other liabilities of the Bank or its subsidiaries, and investment-type products are subject to investment risk including loss of income and capital invested. CFSMIL is a subsidiary of the Bank.

To the extent permitted by law, no liability is accepted by CFSMIL, the Bank or any affiliates thereof for any loss or damage as a result of any reliance on this information. This information is, or is based upon, information that we believe to be accurate and reliable, however neither CFSMIL, the Bank nor any affiliates thereof offers any warranty that it contains no factual errors. No part of this material may be reproduced or transmitted in any form or by any means without the prior written consent of CFSMIL.

Copyright © Colonial First State Group Limited 2019

All rights reserved.