UNIVERSITY OF AUCKLAND
INVESTMENT
CLUB

# INVESTMENT BULLETIN

STUDENT WRITERS · STUDENT OPINIONS

# PELOTON'S FALL FROM GRACE: A CASE STUDY

BY KEEGAN MACDONALD

## + MORE ON:

AN UPDATE FROM THE FUND
THE EMOTIONS OF MUSICAL CHAIRS
NEW ZEALAND RUGBY'S REVIVAL

## & FROM OUR PARTNERS:

MYOB RESOURCES FOR STUDENTS
FORSYTH BARR FOCUS

**03 OCT 2022 | ISSUE NO.44**

SUPPORTED BY: myob & FORSYTH BARR

The University of Auckland Investment Club
Investment Bulletin Team 2022


Andrew Meng
Bulletin Editor-in-Chief

Timothy Cross
Senior Writer

Rohan Bhatt
Senior Writer

Joshua Paul
Senior Writer

Luka Borich
Senior Writer

Zac Ballantyne
Senior Writer

Aniston Inger-Holland
Senior Writer

Issie Dekker
Writer

Phoebe Horton Andrews
Writer

Isabella Ho
Writer

Daniel Vaz
Writer

Anthony Kwan
Writer

Skip Gee
Writer

Salvy Fung
Writer

Keegan Macdonald
Writer

Faheem Ibrahim
Writer

Andrew Huang
Writer

Dylan Didi
Writer

Benjamin Hall
Writer

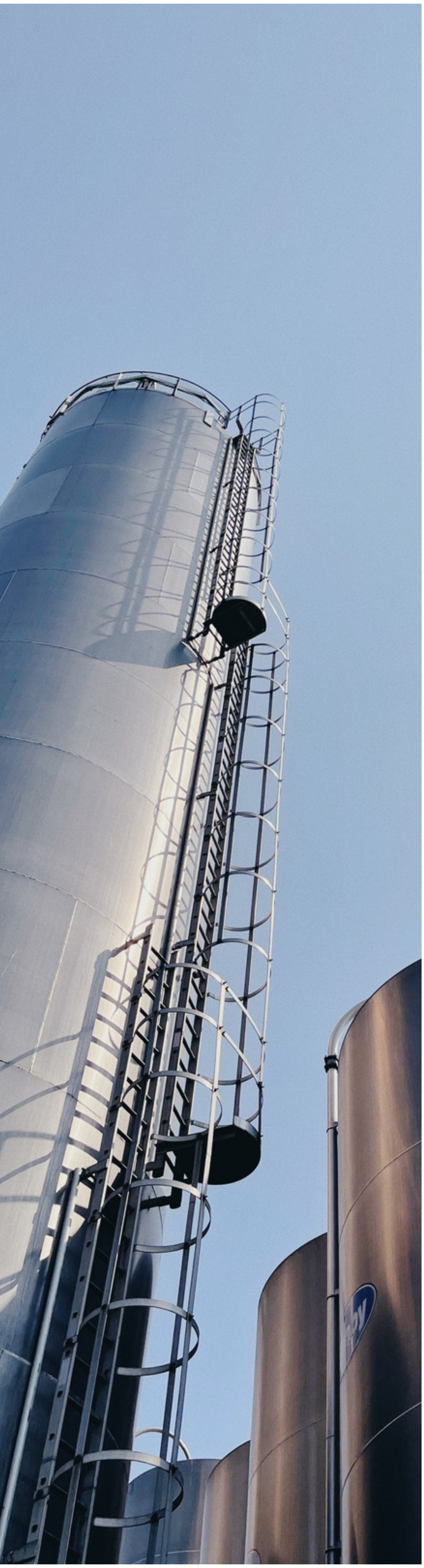

Prices as at Friday 30th September 2022
unless otherwise stated


THE UAIC BULLETIN IS BROUGHT
TO YOU IN PARTNERSHIP WITH:

myob

FORSYTH BARR

# Contents



# An update from the fund

A RUNDOWN OF THIS WEEKS PITCHES WRITTEN BY OUR INVESTMENT COMMITTEE ANALYSTS

SAUNDERS INTERNATIONAL

## SAUNDERS INTERNATIONAL (ASX: SNG)

Saunders International has been a market leader in Australia's liquid storage construction for the past 70 years, having gone public in 2007 to finance their steady growth.

In short, Saunders designs, constructs and maintains bulk liquid storage facilities across Australia with strong footholds in NSW, Victoria and the Northern Territory. However, the company have recently adapted their business model, implementing strategic acquisitions to aid in their diversification growth strategy and adding to their service offering through civil infrastructure construction and industrial process automation.

Saunders has also expanded upon their core markets in oil & gas to provide services to the defense, infrastructure, new energy, water, mining, and minerals industries. This strategy paid off for them when in 2021, Saunders secured a two-year defense contract valued at $165m with Crowley, one of the U. S's largest fuel logistics companies. This was their biggest contract to date and has steadied them for international escalation. This momentum is boosted by an industry that is seeing high forecasted annual growth and strong government tailwinds with over AU$1.1B worth of projects expected to be injected within the industry over the next three years.

The Investment Committee did not pass Saunders onto the valuation stage by a vote of 3/11.

SIMS METAL MANAGEMENT
(ASX: SGM)

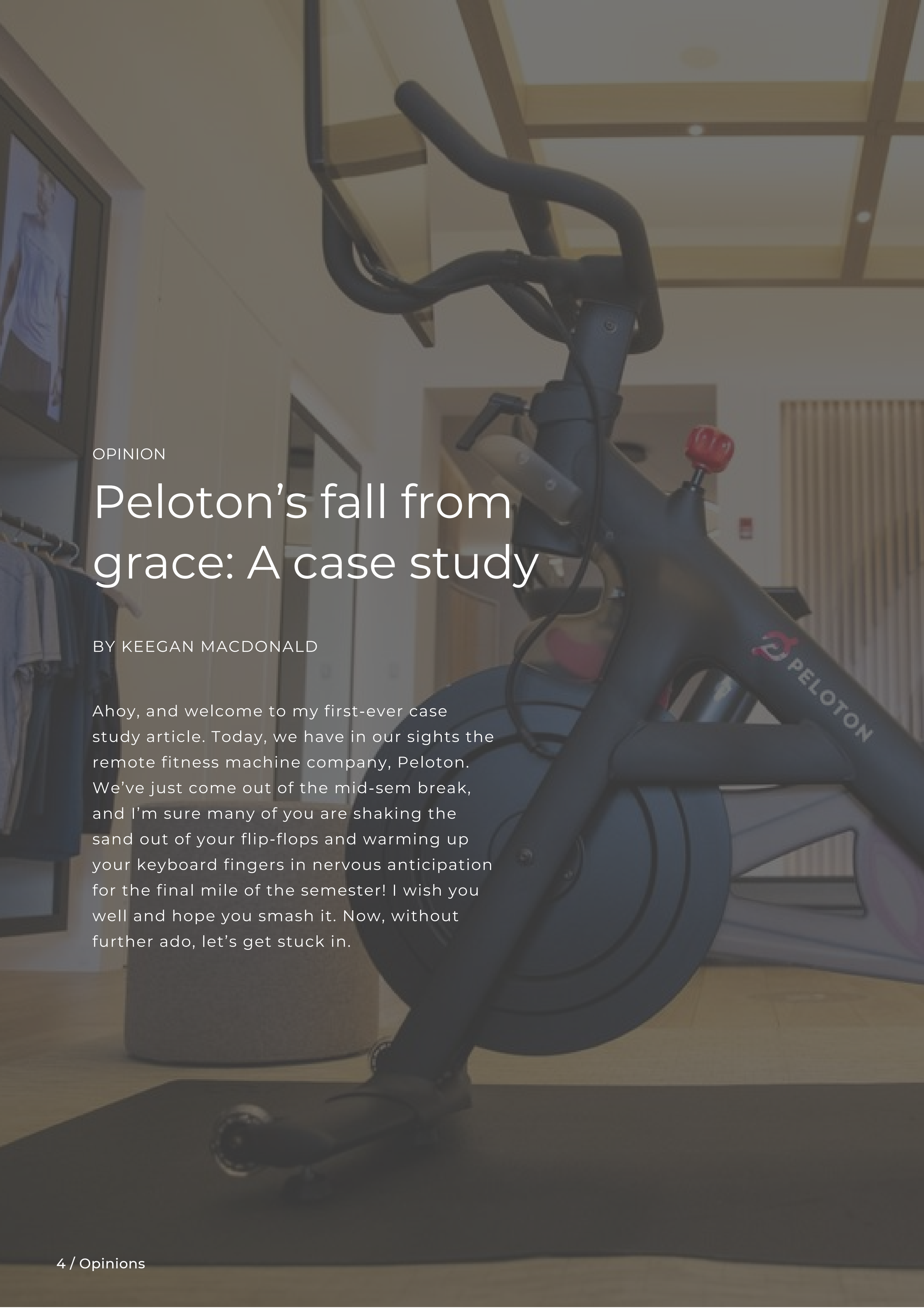
Founded in 1917, Sims Metal Management Limited is the worlds largest listed metals recycling company. With a focus on the turning scrap metal into high quality industrial level ferrous and non-ferrous metals, Sims also specialises in the recycling of post-consumer electronic goods and municipal waste recycling.

With primary operations in the United States, Australia, New Zealand, the United Kingdom and 14 other countries, Sims has a global coverage and is the market leader in metals recycling, with little to no competitors.

This stock was first added to our fund in May of 2020, with an investment thesis of Sims being in an attractive industry, having international market dominance, high ESG ratings and trading at a significant discount to historial averages.

Over the course of these two years, this investment thesis has been realised and although Sims still proves to be a valuable and strong company, it is time to release it from our fund as per our value investing principles. The Investment Commitee has passed Sims onto the valuation stage by a vote of 10/12 in favour.

Come along to the club's AGM on Tuesday 4th October in 260-009 to hear the Investment Committee team's full pitch and rationale for closing our investment in Sims, and to exercise your right to vote on this action!




OPINION

# Peloton's fall from grace: A case study

BY KEEGAN MACDONALD

Ahoy, and welcome to my first-ever case study article. Today, we have in our sights the remote fitness machine company, Peloton. We've just come out of the mid-sem break, and I'm sure many of you are shaking the sand out of your flip-flops and warming up your keyboard fingers in nervous anticipation for the final mile of the semester! I wish you well and hope you smash it. Now, without further ado, let's get stuck in.

In December 2020, the price per share of Peloton (NASDAQ: PTON) was $162.72 US. In September 2022, approximately two years later, PTON was trading at $9.44 US per share, a mere 5.8% of its peak price. This article aims to examine some of the theorised drivers behind Peloton's recent fall from grace as well as provide a brief summary of how they plan to navigate the near-term turbulent future.

Context is essential to understand the outcome. Peloton was founded in 2012 to bring the excitement and community characteristic of boutique fitness services into their customers' homes. Peloton did this by capitalising on technological advances in big data, cameras, and display screens and merging these technologies with indoor bicycles to deliver a compelling at-home experience.

However, exercise is hard and painful. So, Peloton needed a way to make it enjoyable. They adopted a similar practice to other boutique fitness providers and dopamine experts and designed a product that floods their user's senses while they work out. Peloton developed curated music with nightclub-like visual effects to distract and overcome their user's pain threshold. Alas, in 2014, Peloton's first internet-connected stationary bicycle with an attached tablet was released to the general public. It was marketed as an upper echelon 'smart bike' and cost $1,995 US per bicycle in addition to a $39 US/month membership fee.

It was displayed in shopping centres around the US and sales quickly grew. Peloton's product was racing off the shelves and into eager American homes. The innovation behind the merging of technologies into a sleek indoor bicycle, combined with the products' data capabilities regarding the storage of user information, workout preferences, and historical workout performance aided in keeping customers coming back for more. Peloton was hailed by many and developed a cult-like word-of-mouth following as they quickly grew. This trend continued and in August 2019, Peloton announced its IPO and sold shares to the general public. Then, on 29 December 2019, Chinese authorities advised the WHO of cases of pneumonia of unknown cause, originating in Wuhan, Hubei Province of China.

This was the world's first known exposure to COVID-19 and on the 30th of January 2020, the WHO declared the epidemic a global health emergency. Following this, several countries shut their borders, closed communal spaces, prohibited mass gatherings, and mandated isolation ensued. In addition to these legislative changes, there was a global perception shift in the minds of people towards the view that the only safe space to live, work, and play was their own homes, for fear of contracting the deadly coronavirus. For Peloton, there could not have been a better catalyst to accelerate the sales and the demand for its remote fitness products.


In addition to legislative and consumer perception changes, another factor that contributed to increasing Peloton's bottom line was the US Fed lowering the federal fund rate twice during March 2020, first by 0.5% to a range of 1-1.25% and then by a further 1% to a range of 0-0.25%. This was notable expansionary behaviour given the Fed had not altered interest rates in increments of more than 0.25% since cutting them in the Great Depression of 1929-1939.

Following these cuts, a combination of quantitative easing and several stimulus relief packages were adopted to stimulate consumer spending in an effort to increase GDP and stabilise price levels. These expansionary policies had the effect of further boosting Peloton's sales during the pandemic. Peloton began expanding and acquired gym equipment manufacturer Precor, for the handsome sum of $420 million in December 2020 and an Ohio factory in May 2021 for $400 million. However, the path ahead was not all leprechauns and fairies for Peloton. This is because, although growth can be seen as overwhelmingly positive, servicing such an immense demand does not come without its challenges.

Peloton betted that lockdowns and the associated trends in remote fitness would persist and become the new norm. So, they decided to purchase significant property, plant, and equipment in the form of production warehouses and distribution facilities, as well as holding extensive inventory in an effort to meet forecast demand levels. They also invested in significant R&D and new product development. However, another risk associated with unprecedented growth lurked below the surface and reared its ugly head in 2021.

This beast was health and safety oversight. Similar faults are known all too well by Boeing's 737 Max and Samsung's Galaxy Note 7. Tragically, Peloton's Tread+ treadmill was linked to dozens of injuries to adults and children, and even one death by mechanical failure as a child's limbs were dragged under the rear of the exposed treadmill belt.

Appropriately, demand for Peloton's products waned and Peloton's reputation took a hit. Further, as the tail-end of the pandemic approached and life began to resemble the familiar signs of normality as borders reopened and in-person socialising began to recur, people began returning to in-person gyms. Thus, Peloton suffered from the bullwhip effect - spending big on logistics while expecting demand would remain high - only for it to simmer down. As a result, Peloton was left with costly supply chain operations and an overcompensatory distribution channel with excess stock on their shelves.

Similar to how the Fed so effectively inflated the demand for consumer spending and Peloton's products only a few years earlier, the Fed began to employ contractionary monetary policy tools in efforts to control their raging post-pandemic inflation levels. Such policies, coupled with society's reduced need to live from home, doubled down to compress Peloton's revenues below their forecast earnings. Missed earnings and profitability expectations upset shareholders, who hurriedly sold their PTON stock, as Peloton's strategic direction and path to further growth became muddied.

The price sensitivity of luxury goods deserves special mention here. Typically, when push comes to shove, and consumers have less disposable income in downturns, people will restrict their spending on unnecessary items like luxury smart bikes in favour of a cheaper alternative like a gym membership or a set of dumbbells. In this way, it may be stated that, given Peloton's product pricing and reputation, their offerings are highly price-sensitive and were negatively impacted by the Fed's increasing interest rates. Like how Shopify experienced immense growth over the pandemic era, the bullwhip effect cracked back in full force when demand fell short of expectations, and several impacted organisations, including Peloton, were forced to make strategic changes and redundancies in 2022.

At the beginning of 2022, Peloton hired consultancy company McKinsey & Co. to review its cost structure and advise on eliminating some jobs. Several layoffs and resignations ensued. Critical to these strategic changes included the resignation of Peloton's ex-CEO, John Foley, from the Chief Executive role on 8th February 2022. Notably, he resigned from his executive board member role on 12th September 2022 to pursue other start-up endeavours. In his wake, Barry McCarthy (ex-CFO, Spotify & Netflix) stepped up to the plate and took on Peloton's predicaments head-on.

The first step to overcoming a problem is to identify that a problem exists in the first instance. In February 2022, McCarthy stated in an interview, "they got caught up in the vision thing at the expense of getting real and dealing with the world as it is. I mean, really, who thought that Covid was going to be the forever thing?" This is, at the very least, a positive indication that the revised company aims and short-medium term strategies may be paved on the basis of reality, with an experienced financial professional and ex-Spotify & Netflix subscription guru at the helm. One of these experimental strategies is to test different pricing models and reduce equipment costs in an effort to grow higher margin subscription revenue and outpace hardware sales. It is unclear how successful these strategies will be for Peloton as significant work must be done to salvage its reputation from the post-pandemic wreckage.

OPINION

# The emotions of musical chairs

BY LUKA BORICH

University opens many doors for many people. Science, education, arts, history, and media are all among the wealth of degrees on offer. As a product of this, the distance between students of different faculties sometimes cannot feel further apart. From an academic perspective, what – beyond breathing and the buildings in which they study – does an astrophysicist have in common with a drama student?

I have grown to believe that we students are ultimately playing derivatives of the same game. That at some point in our academic journeys, we will realise it. That eventually, we will all 'wake up' to the realisation that finding a job out of university boils down to a game of musical chairs.

As a fifth-year Law and Commerce student, I have recently had exposure to the interview process of big firms. In a word: lengthy. Which it has to be, since they receive thousands of applicants every year. Many of the hurdles they lay down to filter candidates make sense: in-person interviews and aptitude tests, for example. Notwithstanding the logic of the process, students can't help but feel frustrated when seemingly 'less-qualified' candidates make it further through the process.

This sense of an arbitrary selection process - where luck plays a bigger role than people will admit - and the hopelessness that comes with interviewing for twenty graduate roles and getting none, is not a unique feeling. For a moment, it can feel like you are back circling those damn chairs and the music stopping when you are on the wrong side.

There are things one can do to improve the chances of success beyond better grades and walking faster around the chairs. Chief among them: networking. Personally, I have always been slightly uncomfortable with the idea of networking. Rightly or wrongly, sometimes it can feel like schmoozing. Perhaps it is the social setting of many networking events, where people might talk only for furthering their career.

Whatever one may feel about the transparency of the exercise, no one can doubt the effectiveness. University preaches this from day one, even if the 'how' isn't fleshed out.

On a deeper level, you could say networking has its roots in playing musical chairs as a kid. Speaking personally, at our school often everyone would try to move next to their friends. Alliances were formed and there was an understanding on which chairs to go for, so as to help each other get a seat.

Maybe it's a stretch to call this networking, but the economics of it are true nonetheless. The inescapable reality of supply and demand when it comes to job applicants and job positions, particularly at larger companies, rings true - there tend to be more people applying than positions needing filling.

There's power in realising this. The best grades do not always go the farthest, and the most well-connected people may never reach the top. A healthy prescription of both gives you the best chances of success, but even when you think the seat is yours, someone might snatch that seat away, or the music might start up suddenly again. And that's a feeling all students can relate to.

SPORT

# The revival of New Zealand Rugby

BY BENJAMIN HALL

Whether you’re an avid rugby fanatic or onlooker of the game, every New Zealander understands the passion our country has for our national sport. With New Zealand Rugby (NZR) posting financial losses for the past decade, a string of questionable performances from the All Blacks, and fans expressing their concern for a new coach, the future success of our national sport feels uncertain. However, a recent deal with US private equity firm, Silver Lake, has seen much-needed capital investment injected into the struggling body of NZR.

For the past couple of years, NZR has been in negotiation with Silver Lake Partners, a Silicon Valley-based private equity firm seeking a slice of NZR's commercial rights. There were numerous sceptical debates on what this means for NZR, with the most controversial topic being the resistance of any level of foreign ownership of the All Blacks brand.

Many believe Silver Lake will take more of a commanding and controlling grasp of the NZR operations and may influence the indigenous values interwoven with our national sport. The haka, for example, has been integral to Māori and Pacific communities alike, as well as to the sport of rugby, to which Silver Lake has no connection. This poses the question as to Silver Lake's ability to be an appropriate investment for NZR.

Nevertheless, in June, NZR voted to sell a minority stake in its commercial operations to Silver Lake for $200 million. With a resounding 89-1 vote in favour of the deal, Silver Lake will own between 5.81% and 8.58% of the new entity, NZR Commercial Co, containing the revenue-generating activities of NZR. This is a momentous moment for the game of rugby in New Zealand as NZR plans to expand their audience and create new earnings opportunities with Silver Lake's investment.

Additionally, a co-investment between $62.5 million and $100 million will be offered to NZ-based institutional investors this year, with Silver Lake underwriting. This would greatly improve the financial state of NZR as they look to rebound from the losses incurred over the 2018 to 2020 period.

NZR recorded an operating loss of $18.7 million in 2020. The pandemic was the main source of this loss as it forced many match cancellations. However, this year, NZR was able to tackle the significant challenges and post a financial profit of $5.5 million, the first financial profit since 2017. This was primarily driven by increases in broadcasting revenue, sponsorship and licensing. Additionally, Altrad was secured as a new Major Global Partner replacing AIG as the official front of jersey sponsor the All Blacks.

Alongside this profit, the Silver Lake deal ensured a significant cash boost to all NPC unions, community rugby clubs, and heartland provinces of $14 million, $7.5 million and $6 million respectively. These funds will help improve the future health of the game, as for the past decade, rugby has been struggling at the community level with falling junior numbers.

New Zealand's talent development, particularly that of the once-dominant U20's team, has declined since its last championship in 2017. Long gone are the glory days with the 2011 U20 side hailed as the greatest

age grade team with the likes of Beauden Barrett, Sam Cane, and Brodie Retallick. These problems were magnified when the public lost faith in NZR as they failed to appoint the most successful coach in Super Rugby and the All Blacks humiliating historic defeats to Ireland and Argentina.

Poor performances like these would continue to diminish the All Blacks brand. Whilst NZR intends to seek an extra $62.5 million to $100 million in funds this year, the timing of the capital raise may be unfavourable with the potential dent in demand for shares resulting in a lower sale price. Nevertheless, the involvement of outside investors will put additional pressure and scrutiny on the All Blacks where it will become unacceptable to have performance slumps and poor management staff and players.

Although the Silver Lake deal will cause ongoing debate, I believe it provides stability and a new pathway for NZR. Partnering with Silver Lake represents the onboarding of talent, connections, insights, and experience that sport management in New Zealand lacks. Fresh ideas, an injection in capital and an open perspective will see NZR dig their way out of these trenches as they hope to get back to winning ways. Through revitalising the national sport in communities, this will hopefully transition to higher participation rates and improved results.

As an All Blacks supporter, it's frustrating to see the All Blacks' strong brand being eroded by this current team, given the amount of history and strength the past All Blacks teams have built over the last 100 years. But with the Bledisloe Cup and Rugby Championship secured for another year, and qualities of character and resilience in the past couple performances, can NZR get their act together and can we see the revival of New Zealand rugby in time for the Rugby World Cup next year?

## MYOB resources for students

MYOB is a leading business management platform with a purpose of helping more businesses in Australia and New Zealand start, survive and succeed.

From soloists and SMEs to mid-market enterprise businesses, MYOB delivers business management tools and accounting solutions to fit their ambitions, direct to businesses as well as through a network of accountants, bookkeepers, consultants and strategic partners.

Recognising the importance of providing the next generation of accountants, business owners and technology specialists with both the knowledge and the opportunities to help them achieve success, MYOB has a number of resources for students to learn more about MYOB, the industries we operate in, and the businesses we help.

MYOB Student Hub
MYOB Media Centre
MYOB Blog
MYOB Reports

# Forsyth Barr FOCUS

Every week, we've been including content authored by the team at Forsyth Barr.

The articles we've featured are all part of the 'Focus' series - pieces detailing Forysth Barr's perspectives on key market dynamics.

"These are designed to highlight issues we believe are particularly relevant for long-term investors, and to focus on opportunities that will benefit portfolios in the years ahead."

Click here to see the full collection of Focus articles.


UNIVERSITY OF AUCKLAND
INVESTMENT
CLUB