UNIVERSITY OF AUCKLAND INVESTMENT CLUB

INVESTMENT BULLETIN

STUDENT WRITERS · STUDENT OPINIONS

NO SUCH THING AS A FREE LUNCH

BY ANISTON INGER-HOLLAND

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SHARING IS CARING (OR IS IT?)

WHICH IS IT? THE DAD SANDAL OR THE NINE-BILLION-DOLLAR SANDAL?

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FORSYTH BARR FOCUS: BALLOTS AND BULLS

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An Update from the fund

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

Nufarm

Pitched by Jarrod Ong & Gavin MacMillan

Nufarm (ASX:NUF) is an Australian agriculture chemical business that provides crop protection solutions to customers across North America, Europe and Asia Pacific. It has developed a range of crop protection service products for five key areas: Soybean, Corn, Cereals, Nuts and Pasture. Crop Protection makes up 92% of revenues, whereas its fast-growing Seed Technologies business makes up 8% of all revenues. Seed Technologies encompasses 3 key focus areas, namely Nuseed, Carinata (Crop Cover) and Aquaterra + Nutriterra (Plant based omega-3). Nuseed is a business revolved around creating genetically modified seeds for different environments. Carinata is a product that enables farmers to shift toward regenerative farming practices whilst experiencing a yield, and Aquaterra + Nutriterra provides a new source of supply to the already supply stricken Omega-3 market.

The business has several systemic tailwinds supporting success into the future. Trends such as the growing population, decrease in arable land for agriculture and shifts toward sustainable farming practices and regenerative farming place strong drivers for revenue expansion within its seed technology business. Nufarm fully owns 100% of its innovations and has begun to achieve regulatory approvals in key markets such as Norway for salmon fishing.

The Investment Committee passed Nufarm onto the valuation stage at a vote of 4 Yes, 3 No. The Committee noted that exposure to weather and geopolitical factors created downside risk for the crop protection business but saw substantial growth opportunity within Nufarm's seed technology business. Since then, Nufarm has also passed the valuation stage and will now be pitched to the club on Wednesday the 11th of October.

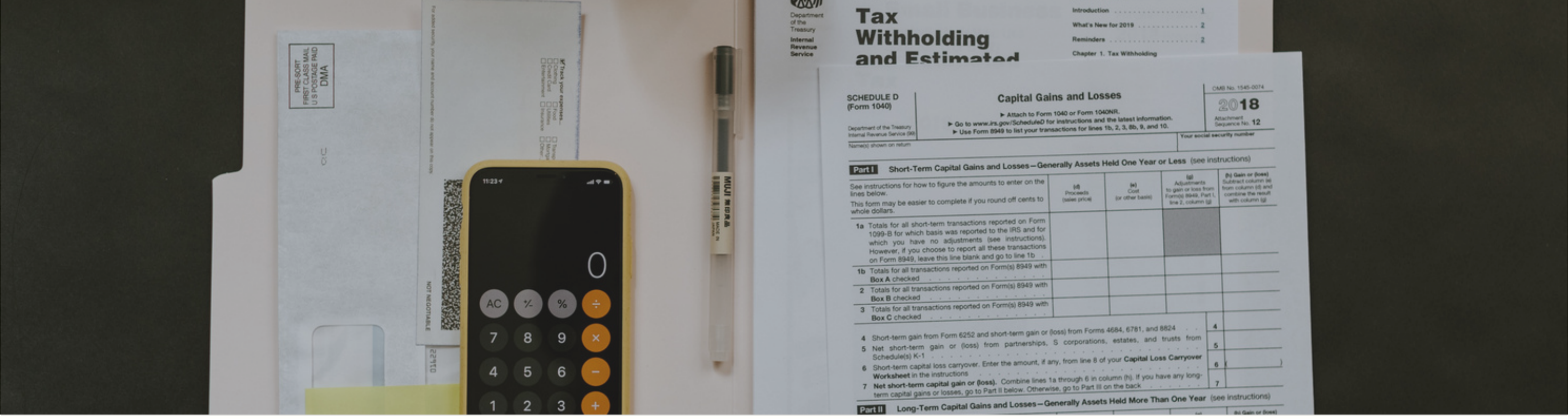
LOCAL

No such thing as a free lunch

BY ANISTON INGER-HOLLAND.

Removing Goods and Services Tax (GST) from food has been a topic of debate for years, but fuel has been added to the fire after Labour announced a major 2023 campaign policy: removing GST from fresh and frozen fruits and vegetables. In a world of inflation and a “cost of living crisis”, why are business leaders in opposition to removing this tax? After all, aren’t they anti-tax? Surely this is confirmation they hate the poor?

You see, it is not straight-forward. As a student (let’s not expose my tax bracket but take the hint) and tax law nerd, here is my take on why removing goods and services tax is a terrible idea.



Explanation of GST.

GST is implemented on most goods and services sold in New Zealand at 15 percent.There is a consensus that New Zealand's GST system is sound, due to its simplistic and broad nature. Any changes can tip this balance.

GST is regarded as a regressive tax, as it has a greater impact on low income households. Although higher income households tend to spend more in dollars on goods and services, as a proportion of income, lower income households end up paying more tax.

A look at current proposals.

When compared to other jurisdictions, "fresh and frozen fruit and vegetables" is relatively definable. But there is still ambiguity within this definition.

In a press conference, Newshub's Lloyd Burr grilled Hipkins on his policy with a round of rapid fire questions. The result was further questions: chopped and packaged coriander would be exempt, a pot of basil is unclear, but lettuce seedlings definitely taxed. The end result was Hipkins refusing to answer further questions and laughing it off. But ultimately, this is no laughing matter. Ambiguity will make this a highly litigious area as exemplified in the United Kingdom.

In the infamous Pringles case, the iconic Pringles chip was ruled a crisp and not exempt from value-added tax (VAT)—but this took two years and cost the manufacturer £100m. This was not the only famous case. The manufacturer of Jaffa Cakes was successful in their claim that the product was a cake, not a biscuit, and therefore was zero-rated. Potato chips and Jaffa Cakes are clearly not what a "fresh and frozen fruit and vegetable" based regime would intend, but they are good examples of how litigious this area can get. The crux of this point is: does New Zealand want to shift from one of the best systems in the world, to a confusing regime?

Fruit and vegetables will only be the beginning. If one of the policy considerations is helping low income families with their budgets, why not ease the pressure from staples like milk, bread, tinned consumables, etc?

The Assumption

Underpinning the entire debate is the assumption supermarkets will pass on the 15 percent savings to consumers. Unfortunately, one key lesson New Zealand can learn from other jurisdictions is that these savings will likely not get passed on.

A big spanner in the works.

The Tax Working Group's 2018 report looked at the effect of a reduction in VAT in many jurisdictions and found "the incidence of GST/VAT changes varies substantially', with perfect market competition being "more likely to feature full shifting of taxes" compared to less competitive markets. I have some bad news if you are not aware of the state of supermarket competition in New Zealand...

The Tax Working Group found that there were pass-through rates of 31% for Finland and 45% for France, when VAT was reduced on restaurant and catering services. This included only a 2.3% price reduction in Finland. The reality is the reduction in GST would not be passed on to consumers—at least not significantly, or immediately. Another key takeaway is that just because other countries are doing something, doesn't mean New Zealand has to. Although Labour's Grant Robertson has affirmed that the new Grocery Commissioner will ensure the removal is passed through to New Zealanders fully, it will be difficult to enforce due to fruit and vegetables' fluctuating prices.

Would this materially help low income consumers?

Let's pretend the supermarkets have pledged to immediately pass on the full removal of GST to consumers. What a world—would we even have a cost of living crisis anymore?

Lower income households spend more of their income proportionally on food. However, there is not a lot of data in New Zealand as to whether low income households are actually buying fruit and vegetables. Studies overseas have shown that low income households do not spend a lot on fruit and vegetables. This is because lower income households are also time-poor, and opt for foods that are easily accessible, available, convenient, low cost but good taste, and with lower perishability. If the GST removal is passed through fully, it may lower the cost but this policy will not target the rest of the other factors affecting their consumption. In fact, it will make accessibility and convenience worse as dairies and other smaller retailers will stop selling fruit and vegetables due to the administrative expense of implementing the new changes. This is important when the secondary purpose for Hipkins is that removing GST will "aso mean that families can make healthier choices". This is an unfounded assumption, with no scientific foundation.

Labour predicts the savings per household will amount to $20 a month. If this is the case, higher income earners will save more on average than lower income households as they spend more. Now, Labour does not make any comments in relation to income inequality, but given it has been a priority of this government it is important that the effects of this policy are addressed. The reality is that this policy will further exacerbate income inequality. This policy is a tax break to the wealthy. As Deloitte's tax partner Alan Bullot commented to Stuff.co.nz, "rich households will benefit on a dollar-cost basis three times as much as poor households." This will further exacerbate income inequality, worsening the financial divide between New Zealanders. If the goal is to reduce income inequality, implementing this policy is the last thing we want to do.

Finally, can the government afford it?

This cost is estimated at a whopping $2.2 billion (which was $235 million higher after Labour's initial numbers botch-up which failed to include the $115 million start-up cost, and undercounted the first financial year by a further $120 million).

Bullot also noted, if on the high threshold of 50% of the removal is passed through to consumers, "the Government is foregoing $2b in order to get $1b into the hands of consumers." That is terrible cost-benefit analysis. In fact, it is more cost effective to give everyone transfer payments of $30 a week.

With a comprehensive overview, we can see that low income families do not win - the rich, marginally. The government—probably the biggest losers (unless this is the policy that gets them re-elected, of course). Ultimately, I think New Zealand as a whole takes first place in this race to the bottom. We have transitioned from policies which are debatable, but at least in good faith, to a policy that is the textbook definition of relying on New Zealanders' ignorance and lack of financial education. It looks like we have got ourselves into a pickle.

LOCAL

Sharing is caring (or is it?)

BY HANNAH JONES

Through a random series of events, I found myself at a meeting in Wellington about unions on a windy Wednesday night. At this meeting, I found out that Uber drivers weren't technically employees of Uber. Although this seemed mildly unusual at first, no major concerns were raised in my mind immediately (though perhaps they should have been). However, as the meeting continued, significant concerns started to arise.

I'll first introduce the concept of the sharing economy. A sharing economy is a response to the concept of economies of scale. This type of economy is generally thought of as an opportunity for people to utilise "excess capacity" - a spare room in a home, or a car that goes unused, in order to make profit. An example is carpooling. It originally started as a way for people to save resources (gas, time spent in traffic, etc), and was thought to be a neighbourly/community support business model.

As the world moved on and people got more comfortable with technology, businesses took advantage of this supply and started offering easy and convenient services on a larger scale. So, companies like Uber and Airbnb started popping up to meet demand. The basic law of economics tells us that the demand for drunk rides home from K road on a Saturday night is equal to the number of drivers willing to risk the vomit on the way home. While we all love an easy trip home after a night out, there's a little more to it than that.

From what I can gather, in a shared economy, at least one side gets taken advantage of. However in the particular case of Uber, everyone does. I typically think of Uber as a transportation app, or a taxi replacement. However, it is a technology company through and through. It is unique in the way that despite it being a technology company, technology is not the good or service it offers - labour is. The labour of drivers who are technically not even employees. Uber drivers do not sign up to be employees for Uber - they simply subscribe to a different type of service. While a part of this subscription means that Uber drivers get paid for their services, it also means that they get out of paying their workers a fair amount along with employee expectations like sick days and holiday pay by never technically "hiring" them, or alternatively, considering them as independent contractors with very, very short contracts. Though drivers are aware of this when they sign up for the app, it's important to note that requesting drivers to agree to a contract that infringes upon their rights raises ethical concerns. This blurred distinction between independent contractors and employees creates a legal ambiguity, raising questions about workers' rights and the responsibilities of companies like Uber in the context of the sharing economy in New Zealand.

Here, I'll propose the idea that Uber is not necessarily a part of a "sharing" economy, but rather a "taking" economy. An article Ryan Calo and Alex Rosenblat in the Columbia Law Review titled "The Taking Economy: Uber, Information and Power" posed this terminology. Companies like Uber take information from users, as well as a fee, and take labour from uber drivers, without proper compensation.

In light of these practices, a careful consideration of the larger financial landscape is essential. Uber, for instance, reported a notable $9.2 billion profit Year-over-Year in Quarter 3 of 2023. This substantial profit raises pertinent ethical questions about a company that benefits significantly while many of its drivers lack essential employment rights. Despite this, I can't imagine many of you reading this will stop taking Ubers. Their convenience, relative safety and price make them almost an unbeatable form of transport. Consumers face difficult decisions when it comes to deciding between corporate convenience and supporting the little guy.

GLOBAL

Which is it? The dad sandal or the nine-billion-dollar sandal?

BY FRANCESCA MASFEN

Next week, the unassuming, ugly, yet highly practical Birkenstock shoe is poised to embark on a remarkable nine-billion-dollar IPO. While it's possible that bankers might not have caught a glimpse of the sandal's iconic Barbie moment, their enthusiasm for embracing this opportunity is unquestionable. The scene in which Barbie swaps her Louboutin heels for Birkenstock sandals is a powerful testament to the cultural icon status of the shoe and its meteoric rise within the fashion world.

Birkenstock's rich history dates back to the 18th century, precisely to 1774, when Johann Adam Birkenstock, a German cobbler, crafted the first orthopaedic sandal. Building upon this legacy, in 1932, Johann's son, Carl, introduced a pioneering training program for podiatry and specialised footwear, renowned in medical circles as the 'Carl Birkenstock system.' It wasn't until 1966 that the brand entered the US market, leaving an indelible mark by pioneering environmentally friendly adhesives in production. However, at that time, Birkenstock's popularity primarily resided within the counterculture of hippies and artists, cherished as a symbol of anti-fashion and primarily designed to address orthopaedic concerns.

Skip forward to today, and Birkenstocks have become one of the most sought-after fashion items globally, earning the moniker of 'sell-out shoe' according to Fashion magazine Insider. Luxury brands like Christian Dior have even joined Birkenstock, creating limited-edition styles that fetch prices as high as USD 1,100. To illustrate the brand's enduring appeal, Steve Jobs' Birkenstock sandals commanded a staggering USD 200,000 at auction. In the first half of 2023, there was a remarkable 593% surge in interest in these iconic sandals after their appearance in the Barbie movie. This surge is a testament to Birkenstock's impressive annual growth rate of 24%, illustrating its consistent appeal to fashion enthusiasts and consumers.

It's evident that Birkenstock has achieved the status of a cultural icon, and the new majority owners, private equity firm L. Catterton and Bernard Arnault's family investment company, are poised to capitalise significantly on the popularity of the cork sandal. Goldman Sachs, JPMorgan, and Morgan Stanley are determined to ensure that the company's debut on the share market is as remarkable in the banking arena as in the fashion world.

As per a filing with the US Securities and Exchange Commission earlier this week, Birkenstock aims to set the share price between $44 and $ 49 USD – 30% of the cost of a Birkenstock. This pricing may be considered notably steep due to the premium associated with owning a piece of a company with such a strong brand identity and a loyal customer base. Nevertheless, it underscores Birkenstock's transformation into a household name, with the cost aligning closely with the brand equity associated with these shoes, making it an attractive investment for those who believe in the company's future growth potential.

Following the offering, the footwear brand will have approximately 187.8 million outstanding shares, with over 1/3 of the IPO set to go to L. Catterton and the Arnault family (who also own a 40% stake in L. Catterton).

Subsequently, a market capitalisation of approximately $9.2 billion will result at the upper end of the expected price range. This target valuation significantly exceeds the conservative $8 billion estimate less than a month ago when the company first filed for its IPO on the New York Stock Exchange. The company has fortuitously timed its ascent, with the Barbie movie contributing significantly to its surge in popularity during this period.

This higher valuation is partly influenced by the impressive market debuts of British chip designer Arm Holdings and grocery delivery company Instacart last month. Arm Holdings saw a 25% increase on its first trading day, while Instacart experienced a 12% surge. Investment bankers had hoped these highly anticipated IPOs signalled the revival of the IPO market, which had remained relatively quiet for the past two years since the beginning of 2021.

Unfortunately, Arm and Instacart have since seen their share prices decline, driven by concerns about prolonged higher US interest rates, with the addition of the uncertainty following the Government shutdown over the weekend. Nonetheless, Birkenstock appears confident that the cultural appeal of its sandals will provide a buffer against the ongoing market turbulence.

In February 2021, a well-known shoe company, Dr Martens, went public with a starting value of £4.5 billion. But now, its value has decreased to just £1.3 billion. Similarly, in 2021, Allbirds, a shoe brand from New Zealand, started with a bang, with an IPO valued at $4 billion and a first-day trading worth over $300 million. However, like Dr. Martens, Allbirds' value plummeted by more than 96% to roughly $175 million.

It's no secret that private equity (PE) investors often see IPOs as opportunities to make a quick buck, even if it means squeezing every penny out of the company. Sadly, My Food Bag, a New Zealand company, is a glaring example. They raised $342 million in their IPO, but a whopping $287.5 million went straight into the pockets of existing investors. For many PE investors, IPOs are more about making an exit and cashing in rather than nurturing the company for future growth. This is also reflected in the business practices of Bernard Arnault, who is set to become the biggest winner of this IPO. Arnault is known for selling assets to make hefty profits and has earned the nickname 'the Terminator.'

In the grand scheme, the Birkenstock IPO offers PE and regular investors a quick payday. But based on what we've seen with Dr Martens and Allbirds, I would only bet on its value staying high for a while. Give it 6-8 months, and you might want to consider buying and selling the stock to make a fast buck, especially if you're a student struggling with finances (like me...).

The humble dad sandal or the nine-billion-dollar sandal? Birkenstock's impending $9 billion IPO testifies to its transformation from a modest yet highly practical sandal into a global cultural icon. Financial markets are eager, but lessons from Dr Martens and Allbirds offer caution. As private equity investors and fashion enthusiasts anticipate Birkenstock's debut, it's poised to leave its mark in fashion and high finance. My advice: think of it as a stock for a "hit it and quit it" approach, not a "put a ring on it" deal.

MYOB Column

Comfortable conversations for financial advice

In the world of finance and accounting, the traditional approach has often been one of formality, rigidity, and a sense of intimidation.

Clients would walk into a boardroom, faced with accountants in suits, and feel overwhelmed by the corporate atmosphere.

However, there is a growing need for a more comfortable and casual approach to financial advice, especially among younger demographics and new business owners.

This is where “comfortable conversations” come into play.

Julian Mauro, the director of Mauro, recognised this need and set out to create a practice that offers expert financial advice in a supportive and non-judgmental environment.

Through comfortable conversations, clients can seek guidance without feeling overwhelmed or intimidated.

This approach aims to make professional financial advice accessible to everyone.

Listen to the latest episode of Fiscal Therapy and corresponding article here

Forsyth Barr FOCUS

Ballots and bulls - Do elections impact financial markets?

Every three years New Zealand engages in the dance of the politicians, known as our General Election. Elections are often regarded as significant events, with the potential to shape the direction of a nation's policies and priorities. Given the attention and suspense they generate, the actual impact of elections on local financial markets is worth examining.

Read the full article here.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