

# HollAnd Advisors

Holland Views: Ryman Healthcare Price: \$9.20; Mcap: NZ\$4.6bn (US\$3bn)

## A win-win for Mum

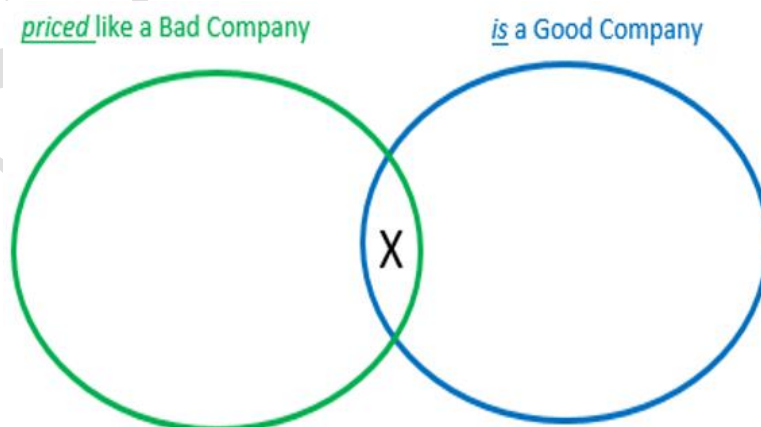
Last week we listened to the great Seth Klarman being interviewed. He talked about how investments are looked at in silos (e.g. a sector or asset class etc.). He then said he looked for opportunities between the silos. We could relate to this. The more we do this investing job the more we realise it helps to understand why the opportunity you are looking at exists at all. And indeed, where to look for new ones. For the Venn diagram at the bottom of this page to be relevant a misunderstanding must exist between our assessment of an investment opportunity and that of others looking at it/owning it. Realising the need for such contradictions we think is an important first stepping stone in identifying ideas and realising which ones to grasp.

### The best stock you will never look at

Too few of our readers will spend time on Ryman Healthcare, which is great shame on a number of levels. Not only do we think it an excellent investment, as we articulate below and did in our '*Ryman Healthcare – Why*' piece earlier in the year. We also think it a wonderful test case for how to look for ideas and when to realise that you have found a good one. Hoping to keep many reading who might not be minded to invest in a c.US\$3bn NZ listed company, we highlight a few common traits that we think Ryman shares with other good investments. These would include:

- Win-win outcomes
- A put-up-more-to-make-more business model
- A stand-out company within its sector. I.e. one with a better business model and culture, that peers struggle to match

Fig.1: Holland Venn diagram



Source: Holland Advisors

### Win-win outcomes

Some years ago now we heard Buffett describe how he liked to make investments that are:

*“win-wins for the entire ecosystem”.*

It is easy to nod on hearing such a statement without fully taking on board its importance. Such outcomes are unusual and the opposite of profit maximisation schemes that might be popular with many career CEO's. An example win-win is where consumers get lower prices, suppliers get a good volume of sales and employees get good rates of pay (Costco). Ryman is another wonderful example of a win-win outcome we think and we will articulate why we think that is the case later on.

### Put-up more to make more businesses (PUMTMM)

We have written about such a business model many times now. Our attraction to these was also first solidified with Buffett's words. His year-end letter that explained to us the distinction between a 'dream' business, a 'gruesome' one and a 'compounder' is still crystal clear in our heads. For ease of understanding we call his 'compounder' model a: **'put-up-more-to-make-more'** (PUMTMM) business.

This is an area of analysis that we think sometimes also falls between the silos that Seth Klarman speaks of. In this case they are analytic silos or style investing ones. There are a great many investors looking for high ROIC companies (above say 30%). Such investors want to see the obvious cash generation that such business models produce. Hopefully such businesses also grow. This investment Nirvana (High ROIC, cash generation and growth) is the 'dream' model Buffett spoke of. Those that cannot get the whole dream look for parts of it. They seek high cashflow generation. Or they seek growth or high ROIC. Few investors seek out low ROIC and low cash generation. Therein may lie the opportunity.

Our PUMTMM model we think is an example of a company financial model that is falling between the silos and thus too often rejected. Here we are talking about a company that might make a c.20% ROE, but then be able to re-deploy a large percentage of its annual profits into opportunities that can also make future c.20% ROE's.

### What are you looking for?

Let us consider a few different companies by way of charts. We ask readers the simple question of whether you would consider investing in the company whose returns are shown below. Be honest.

To view the remainder of this in-depth report, please contact Andrew Hollingworth,  
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