Perpetual: Don't just invest, engage - active ownership in action

By Perpetual Asset Management

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By actively engaging with companies such as Woolworths and Healius, the Perpetual Australian Equities team helped chart a course towards creating value for investors.

- In five years of owning WOW, its share price doubled
- Perpetual is one of the few Aussie managers embracing active ownership
- Learn more about the Perpetual Strategic Capital Fund

In 2014, supermarket giant Woolworths lost its way with falling market share and tighter margins leading to a drop in share price.

That's when asset manager Perpetual saw an opportunity to invest and help the struggling business turn around.

"The goal when buying into an under-valued quality asset is to polish it up and get it back to where it was before," Pezzullo says.

"It wasn't broken but it had just lost its way. They made a mistake with would-be Bunnings rival chain Masters and invested billions in the wrong assets.

"It had distracted them from the supermarket game and Coles was starting to beat them."

Upon investing, Perpetual told the incoming chair that it was willing to help the turnaround.

"We said Woolworths needed to lower prices by $1 billion to bring customers back into Woollies stores. They had the opportunity to lower prices and do the right things by customers.

"The short-term negatives were more than offset by the long-term regaining of trust and reputation as the fresh food people," Pezzullo says.

Perpetual supported the strategy to sell Masters and de-merge from the drinks business, which ultimately became Endeavour Group, and make changes at head office.

"In the five years that we owned it, the share price basically doubled," Pezzullo says.

"It is a great example of active ownership. It was collaborative. There was engagement on the big picture, and there was capital support."

A timeline of Perpetual's engagement with Woolworths:

- **Perpetual's view in early 2014:** WOW grossly overvalued at $33.
- **Our view later in 2014:** Biggest grocer but falling market share. Growing aggregate sales with rapid store-rollout and falling margins. Smart competitors (Coles and Aldi) taking share at their expense. We undertook ineffectual meetings with board.
- **2015:** We worked with a demographer on store rollout, looked at best and worst stores of Woolworths, Coles, Aldi.
- **Mar 2016:** Perpetual goes substantial and presents chair and board with recommendations we think will add value.

- **Oct 2017:** Woolworths exits Masters.
- **Aug 2019:** Perpetual analyst places $38-$40 sum-of-the-parts valuation on the business. Points to strength of the franchise, renewed opportunities due to improve balance sheet (post Masters offtake) and strong cash generation. Price target plays out.
- **Sep 2021**: De-merger of Endeavour achieved.

An investment strategy that focuses on active ownership

Perpetual has a history of active ownership over many decades, engaging with boards, management and championing corporate actions to extract value for shareholders.

Now, our Australian equities team is offering Perpetual Strategic Capital Fund – a concentrated, high-conviction portfolio with activist targets as a focal point.
Another company with which the team actively engaged is Healius.

Perpetual's Strategic Capital Fund invested in the pathology and diagnostic group in late 2023.

"Right from the beginning, we were in constant contact with the chair about the need for board renewal," Pezzullo says.

"Then during the February 2024 reporting season, we met with management and the CEO was resistant to change."

That prompted a more formal letter to the board asking for a strategic review of the business and management change.

In early March, the CEO left, and chief financial officer Paul Anderson took the top job.

A strategic review was implemented.

“The result was that its diagnostic imaging business, Lumus, would be sold and the pathology business would be reinvigorated. And that’s what happened,” Pezzullo says.

Healius sold the Lumus business to Affinity equity Partners for $965 million, above expectations.

“It gives the CEO space to focus on lifting efficiencies in the pathology business,” Pezzullo says.

Find out more about Perpetuals’ Strategic Capital Fund

About Vince Pezzullo and Perpetual Strategic Capital Fund

Vince is Perpetual’s head of equities and portfolio manager of Perpetual Strategic Capital Fund.

Vince has more than 30 years of experience in financial services including global experience as an analyst and portfolio manager.

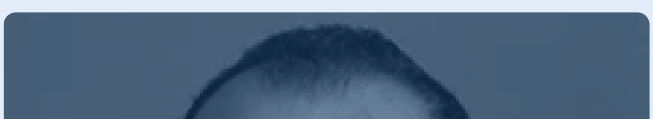
Perpetual Strategic Capital Fund is a concentrated, high conviction portfolio with a focus on active ownership.

Perpetual is a pioneer in Australian quality and value investing, with a heritage dating back to 1886.

We have a track record of contributing value through “active ownership” and deep research.

Find out more about Perpetual Strategic Capital Fund
Browse Perpetual’s Australian equities capabilities
Want to know more? Contact a Perpetual account manager

Portfolio Manager



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