

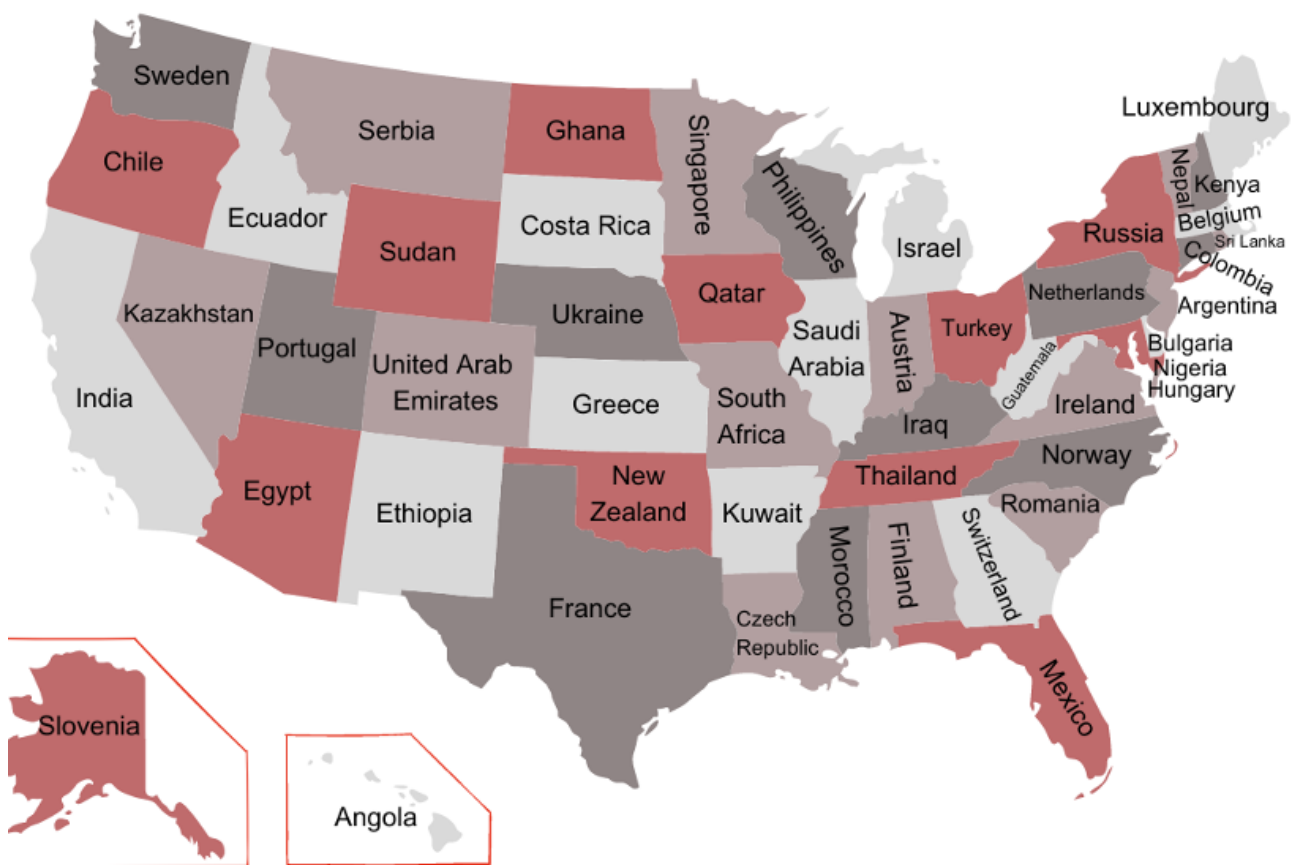
The American Dream

Can Australian companies succeed in the United States?

27 May 2024

The US represents a large market opportunity for Australian companies given the GDP of its individual states rivals that of countries (see Figure 1). We recently spent some time in the US undertaking targeted research on the opportunities for some of our portfolio companies. In this note, we look at key success factors that have historically enabled Australian companies to be successful in the US.

Figure 1: US States vs countries with similar GDP (2023)



Source: Antares Equities, World Bank 2023.

The road overseas is paved with skepticism

Ventures offshore by Australian companies are typically met with skepticism in the investment community. This skepticism is well founded as many Australian expansions offshore over the past few decades have ultimately been unsuccessful. There are various reasons commonly cited for failures including: paying too much for acquisitions, poor integration post acquisition, unrealistic synergies, a lack of cultural cohesion and under-reliance on local talent, inadequate operational oversight and misunderstanding the market dynamics or quality of the business. We highlight examples of ASX listed company offshore fails below:

Figure 2: Unsuccessful Australian expansions offshore

Company	Offshore expansion	Years	Reason for failure
Toll Holdings	Global forwarding	2006-2010	Poor integration, culture
Wesfarmers	Bunnings (UK)	2017-2018	Format not replicable
Slater & Gordon	Quindell (UK)	2015	Poor due diligence
Boral	Headwaters (US)	2017-2021	Overestimated market, poor due diligence
A2 Milk	US fresh milk	2015-now	Crowded competitive landscape
Xero	US expansion	2011-now	Underestimated complexity of localization
QBE	US commercial insurance	2007-now	Lack of competitive advantage
Transurban	US toll roads	2006-now	Traffic projections, lower quality assets
Ramsay	French expansion	2010-now	Challenged profitability due to market
Dominos	Japan	2013-now	Aggressive rollout, misread local market
Flight Centre	Liberty & Gogo (US)	2009-2024	Misunderstood US leisure market/consumer
Incitec Pivot	Waggaman (US)	2016-2023	Persistent operational issues
Australian Banks	International expansions	1980'-2010's	Inferior industry positioning, lower ROE
A-REITS	US assets	Mid 2000's	Low quality assets, gearing

Source: Antares Equities; May 2024

Notwithstanding this, a McKinsey study¹ of ASX100 companies over 2010 to 2019 found that companies who successfully grew revenues offshore had the highest shareholder returns. This indicates that there are superior shareholder returns in companies who are able to successfully execute offshore growth strategies.

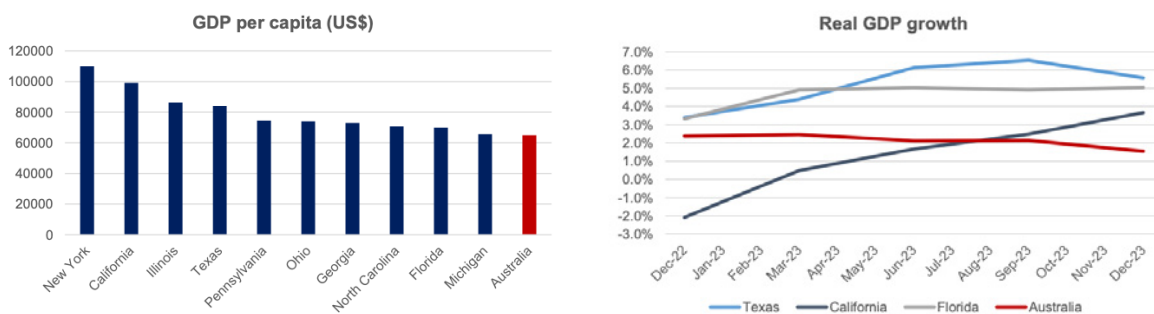
Note 1: McKinsey (2021) Outward bound: *Why Australian companies should look offshore for growth.*

Why Australian companies dare to dream the American dream

With twelve and a half times the population of Australia, the sheer size of the US presents a significant addressable market for Australian companies looking to expand. The United States remains the world's largest economy, and the top 10 US states all have higher GDP per capita than Australia. Population wise, its three largest states California, Texas and Florida are similar in size to Australia, and their real GDP growth is currently well ahead of Australia's.

As such, it is easy to see why many Australian companies see the US as a land of opportunity. But the US market comes with a great deal of complexity with different demographics, consumer preferences, regulations and tax codes across each state. Comedian Trevor Noah has referred to the US as "50 countries masquerading as one", which highlights both the complexity and opportunity of the market.

Figure 3: 2023 GDP per capita and GDP growth: US States vs Australia



Source: US Bureau of Economic Analysis, March 2024.

At face value, cynics might ask whether Australian companies have the license to expand to the US, particularly given the aforementioned examples of unsuccessful offshore strategies. However, we have observed over time that there are occasionally companies who are able to successfully capture US opportunities. We note these mid-cap (and previously mid cap) companies who are currently successfully executing US strategies in the table below:

Figure 4: Examples of success in the US

Company	US Sector	Entry	Reason for success
CAR Group	Non auto vehicle sales	2021	Specialised niche, excellent execution
PWR Holdings	Thermal mangt for F1 racing	2015	Specialised niche, excellent execution
Macquarie Group	Infrastructure	2004	Specialised niche, excellent execution
Aristocrat Leisure	Gaming	1960s	R&D, innovation and design excellence
Breville Group	Espresso machines	2002	R&D, innovation and design excellence
CSL	Blood collection	2003	R&D, innovation
Cochlear	Hearing implants	1985	R&D, innovation
Resmed	Sleep apnea	1989	R&D, innovation
Lovisa	Fashion jewelry	2018	Unique and scalable, replicable model

Source: Antares Equities; May 2024

Focus and differentiation are key

For Australian companies to succeed in the US we believe there are two key elements.

The first is **focus**. Australian companies that specialise in a niche seem to have a higher chance of success compared to companies that attempt to compete with incumbents more broadly by buying assets with inferior industry positions. We think this is because US incumbents tend to be focused on larger market opportunities, leaving the niches to specialised players. However, for Australian companies these niches can be substantial.

The second is a **differentiated product** or model that resonates with the market. This can take the form of a different manufacturing model, revenue model, retail format, or an innovative product or service offering. Without any competitive advantage Australian companies going to the US are likely to find it hard to penetrate the market.

This is what we are looking for when backing companies who are expanding offshore.

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