



Holland Views: Ashtead (Sunbelt) £61; Mcap: £26.7bn

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## Bingo + The culture vulture

Your author recently spent a week in the US. Part of that time was with UK company Ashtead, getting a close look at its Sunbelt business. The rest was spent at the Berkshire Hathaway AGM.

Many other investors were on this same trip which coincided with the company's capital markets [presentation](#).

Readers interested in Ashtead we will assume have looked at this presentation and what follows is designed to be additive to such reading. We share our learnings that came from studying this business and its culture up close. These follow our earlier work on the company ([Plant Higher](#)) which we still feel is very relevant today. We hope these new comments also have a wider use in other company assessments.

### The best investor communications

Huge sums of corporate dollars are spent and vast quantities of management time are wasted in crafting "a message" to investors. That a whole sub-industry has grown to create such 'spin' tells us a great deal about both quoted company managers and the investors they court. Too many managers need far too much help with corporate strategy and the communication of it. Equally far too many investors are ready, mouths open to be spoon fed such crafted messaging. All of this is an anathema to us. We want companies to have strategies that have come from long-term internal reflections of real customer needs and how a company can deliver them in an efficient and yet profitable way. We want passionate owners that know their market and customers so closely as to find consulting insights laughable. Often some of the best companies we come across speak a different language using their own metrics. This might make investor understanding more difficult at first, but such language reveals an inside-out process. We seek aligned owner-manager types who deeply understand what they are trying to do. As such they can articulate it to all, with ease, be they employees, investors or others.

#### [Learnings and a blueprint for great future meetings](#)

Ashtead's Sunbelt two-day investor trip was enlightening because frankly it was not an investor trip at all. It was the company's presentation to c.5,000 employees of its next 5-year business plan. Those 5,000 included all Sunbelt sales people and all branch managers. c.150 investors and analysts + numerous suppliers were mixed in with these employees. The result of which was:

- A single message presented to both employees, investors and suppliers.
- An easy to see cohesive and strong corporate culture.

The financial projections of the company's new 5 year plan can be found in the link above. We give some reflections on these later, but first consider the culture and other traits we noted in our time with the company. Before doing so, we would like to do something we rarely do in our research (which is fiercely independent). That is to thank the Sunbelt team and to commend the brave approach they took in mixing employees, suppliers and investors in this way. The result was enlightening and real, and we will be recommending the format to many other companies.

## Culture – the dirty word

*“Culture eats strategy for breakfast”*

The above quote might explain why we share Munger’s aversion to PR, Consultants, and Investment Banking. Often, such people set out to help a company formulate a strategy. We are aiming higher than that, seeking businesses with great ingrained cultures. If they don’t already have one in place, no amount of strategy meetings or consultant fees will likely create one.

The older your author gets, the more time he spends reflecting on management psyche and company culture. Of course, a company has to have a good business model, but these days that might be evidential to us quite quickly. However, the resilience of that model and the innovation, future growth (or decline) of it will likely result from the way the company is/has being led over a long period, and the culture it already possesses.

In that light we hope our work on [Netflix](#) and [Amazon](#) in recent years has been useful and instructive of our thinking. In each case we spent a great deal of time reading and trying to understand the real drivers of each company. We asked ourselves if there was a highly customer centric approach and empowered workforce. Also how powerful were the customer relationships already in place. Our financial forecasting of these two companies can best be described as fag packet for it was the intangible factors we were keen to assess. Pleasingly the cultural assessments we made seem (so far at least) to be driving good customer and shareholder outcomes at both companies. It is through this lens that we consider Ashtead (or Sunbelt as we think it should be re-named).

### Sunbelt’s greatest assets – its culture

*“What you can’t measure sometimes matters more”* **Charlie Munger**

Whilst a little of Sunbelt’s culture could be seen on stage during numerous staff presentations, it was most evident in our wider impromptu conversations with a great many employees – the vast majority of which love working for Sunbelt. More than a few remarked how Sunbelt has been *“great for me and my family”*. Indeed, multiple generation same-family members working for the company is quite common. The company’s recent year’s ‘safety obsession’ clearly helps this idea, i.e. you don’t want your family working for a company that you assess as anything other than very safe.

The overriding impression that came from the two-day company event was of an organisation that oozed a strong and loyal culture, top-to-bottom. Also, a culture with a ‘desire to win’. Your author met a great many Sunbelt employees, many of which were proud to have been with the company for 15-20 years and love it. We were told but could not substantiate that staff NPS scores are very high. This was not something we feel a need to check on, it being self-evident. When discussing this culture point with a Board Director, they admitted they were sceptical of it at first, until they realised how real it was. They described it as “amazing” and the staff as:

*“...they are all mini Brendan’s”*

Describing such a cult like buy-in by staff of the company and its mission is very hard to do in writing. Indeed, it feels somewhat rose-tinted/Panglossian as we write it. It even suggests we are not taking a strong analytical approach. But arguably that is the whole point of Munger’s quote above. Culture is hard to measure, hard to see and hard to articulate. But that does not mean it is not real or important. We concluded it is both: **real and important**, for both Ashtead and many of the other companies we look at. We found a strong, powerful, will to win culture at Ashtead and we conclude it is a great (intangible) asset of the company. Under current management we suggest that asset value is being preserved and enhanced, but like all intangible assets it needs to be recognised and nurtured.

### [Build or bought culture](#)

Whilst we cannot compare Sunbelt's vs its biggest competitor, United Rentals, culture side-by-side we noticed how much stronger the culture was inside parts of Sunbelt where there had been organic or greenfield site growth or add-on complimentary acquisitions. Where more aggressive M+A had taken place (like in Canada) establishing and preserving the culture was a little harder. This is because bought-in-businesses have culture/habits of their own. This suggests that M+A built businesses doing bigger roll-up types deals find keeping a great group culture much harder (# United Rentals). Not only was this evident to us in our Sunbelt discussions, but we have seen plenty of examples of M+A culture failings in our investing past. This shows how hard great cultures are to develop and maintain at any sort of scale.

Interestingly when we as Ashtead investors have looked at the three channels of past potential growth (i.e. organic/greenfield and M+A) we just looked at the mechanics of growth each could produce. We did not consider any negative or positive effects they might have on group culture. This culture vs M+A growth threat is interesting when we reflect on the future growth roadmap that Ashtead has now laid out. The company projects that 75% of the next five years growth will come from higher throughput of its existing estate. Not only is that good for operational gearing, it is good for employees, managers of these branches and thus likely further reinforcing/strengthening the culture we saw close up.

### Good to great

As we observed the tightness of the culture fit between management and employees, we had to fight the cynicism that so easily comes to mind in such situations from frankly being British (or maybe more importantly being non-American)! It is just too easy to either be cynical about such staff buy-ins that are on display or see it as fake or unimportant because it is so unusual to us in the UK. We conclude that this culture is both real and important. Additionally, any investor not realising as such, for whatever reason, is likely to underestimate what such a company might achieve. On returning to the office, we glanced at our office wall, where on display we have our [one-page notes from Good to Great](#) by Jim Collins. We draw readers attention to point 6 extracted below:

#### **Traits found in great companies:**

Point 6: A Cult Like Culture – Demanding of employees to follow culture.

- i. Fervently held ideology
- ii. Indoctrination (management enforces it)
- iii. Tightness of fit
- iv. Elitism (proud of being part of it)

Extract from Holland Advisors summary of Good to great, by Jim Collins

If this reads as odd, cult-like or even a little sickly to you, chances are you are not American. You might even be proud of that fact! But crucially if we are trying to find great global businesses to invest in, we need to think harder on such issues. **We will go further and state openly: How many UK /European companies would be considered by Jim Collins to qualify for 'Good to Great' type status... Almost none.** How many huge, world class businesses have been created in the last twenty years and how many of them emanated from the US. That so many companies who have reached such elevated heights of corporate performance are US based is not by chance we conclude.

The maths, accounting and even ideas that sit behind the formation of a business is the same the world over. We think a few points differentiate the best US companies making their outsized and long lasting superior performance more possible:

- The US has a purer form of capitalism where success is rewarded and admired, not envied
- There is a desire to win, and no one is ashamed of that fact. Sunbelt spoke unapologetically of that “*desire to win*”. Also, of having “*Local Hustle and National Muscle*”
- The best companies’ have strong cultures with high employee buy-ins. Only by doing so can any drive and vision at the top of the company be translated into positive actions by thousands of customer facing employees. This is what Jim Collins’ study of the best companies in history concluded.

We found in Sunbelt (Ashtead) exactly the culture Jim Collins’ outlines for great businesses to possess.

## A Customer Obsession: Bingo

Ashtead’s Capital Market presentation to investors had 76 slides. However, the pictorial that we saw as by far the most important of our two days in Atlanta was not included...?! More so, the most important subject matter brought up by management in the two days was not even mentioned during numerous analyst questions. What are we referring to? Ashtead new-found focus on: “*Customer Obsession.*”

By the company’s own admission it has been a safety focused business in recent years and one where the customer was looked after locally, but not really asked for their feedback or wider needs. Whilst individual challenging projects and large customers are looked after well by Sunbelt (we speculate that Amazon is their largest customer) customer centricity has not been the company’s main driver up until now.

### Wood for the trees

The Sunbelt conference we attended had a huge exhibition centre next to it and this was designed to show the wider salesforce and branch managers the breath of the solutions the company can now offer. Thus, in time to enable cross selling and the like. The new growth plan for the company laid out the main focus points to staff/investors. The growth plan was listed under the following 5 headings.

1. Customer
2. Growth
3. Performance
4. Sustainability
5. Investment

Following the capital markets presentation there were many questions on points 2,3, and 5. Even a couple on sustainability. The customer obsession point however was not asked about at all, even though it was first item on the company’s list and heavily emphasised in company presentations. Why is that? Simply put, because it cannot be measured or quantified and that’s what investors/analysts like to do best....build spreadsheets!

*‘What you can’t measure sometimes matters more’* **Charlie Munger**

And yet it was the company's first priority, so much so that in staff presentations, earlier in the day, they spoke about how this was a seminal change for the company *"we will all going forwards be obsessed with the customer"* **Brendan Horgan, CEO**. Here is what the first text on the first slide of the new strategy states as its ambition:

*"elevate our obsession with customer service and their success throughout the organisation to a level unparalleled in the broader service sector"*

Ashtead Capital Market presentation. April 2024 – emphasis ours

### The world's best business model

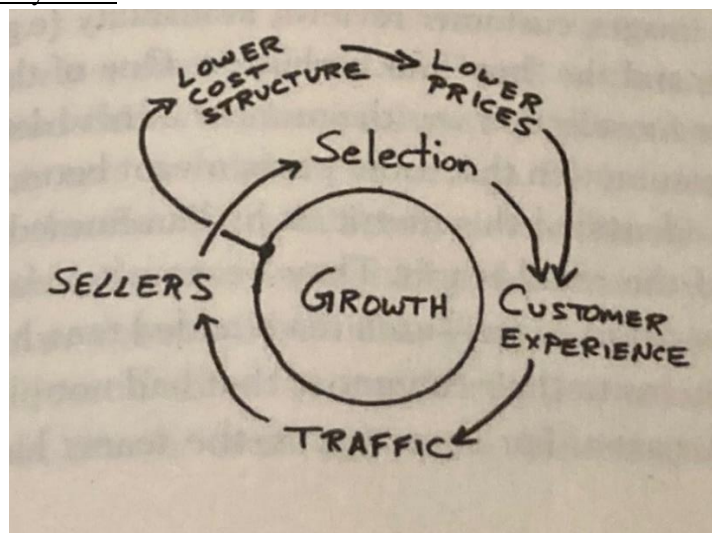
Anyone that has read our work on [Amazon](#) or TSMC will be able to see where this is going. These two companies we regard as exceptional for a single shared ideology. One that almost no other company possesses. This being that they have taken the Scale-Economy-Shared/Customer Centric business model that is so successful in the B2C sector and used it in the B2B arena.

Until now Ashtead has been an equipment hire company, and a good one, growing at a strong rate and gaining market share. However, when you look at the contracts it is getting involved with now it is more and more becoming a problem-solving company. As we have observed in the past we see Ashtead as the asset-heavy outsourced facilitator of many of America's other asset light businesses. More projects now require numerous hardware pieces, but the customer just wants a solution (rock concert tours and Grand Prix's are good examples). A one stop shop is a great solution to this customer need. If that one stop shop also becomes very customer centric in helping solving asset heavy, complex problems, well even better. That is exactly the opportunity Ashtead sees in front of the company today. Its solution for how to tackle this opportunity is to obsess about the customer, knowing that such service will bring far greater volume of business to them in time. We agree with their assessment, and it encourages us greatly that the future growth of the company is potentially assured.

### The Bezos Flywheel

Almost all the best companies we invest in have some sort of customer obsession. Some like Ryanair might just express this in super-low prices that customers cannot resist. Others like Amazon, Netflix, or Jet2 show it in multi-faceted ways, from great service, all-inclusive pricing or excellent product innovation. However, the core desire is the same, i.e. to delight the customer to earn their loyalty and thus greater future business. Famously Jeff Bezos articulated this customer centricity in a flywheel to his early fellow Amazon employees on a napkin sketch. Here it is:

Fig.1: Jeff Bezos Flywheel



Source: Holland Advisors: Macro/Amazon – A time for buckets, September 2022



Bingo

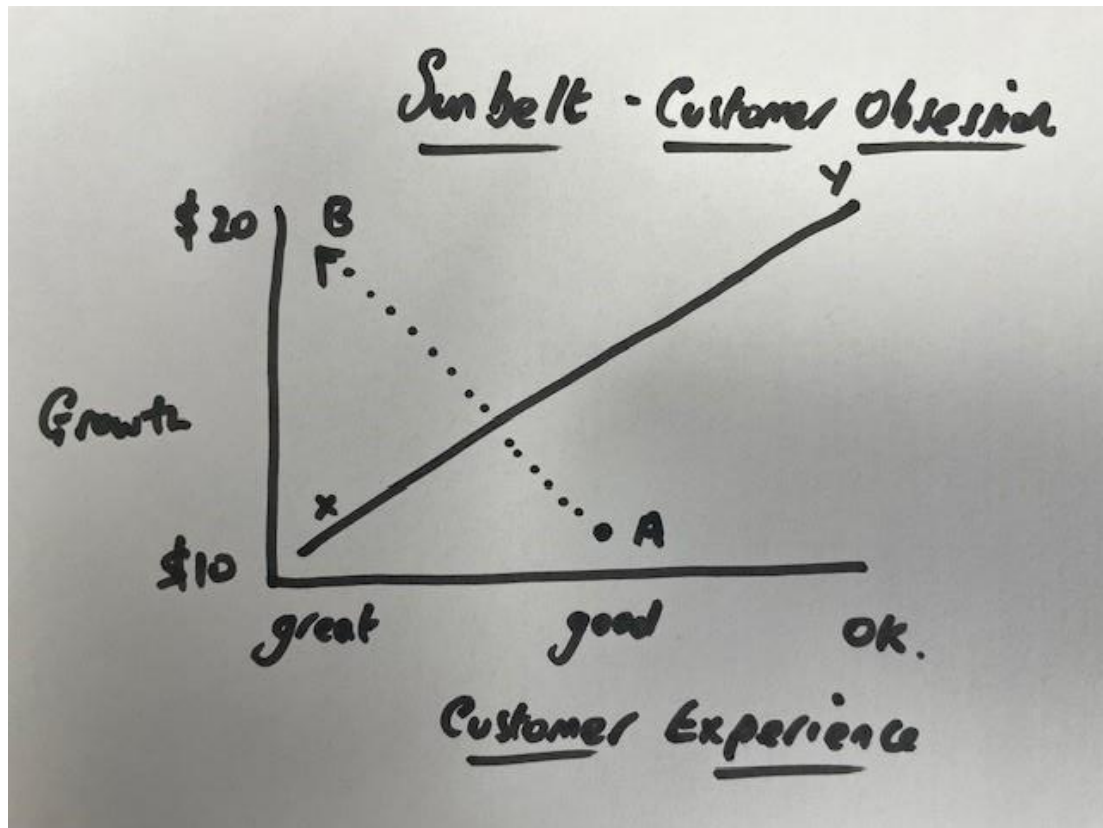
Ashtead has long been a business we have admired and it has performed well in corporate profitability growth. But in some ways, it was an exception to our rule. It was not led by an owner manager, nor did not really engage in a Scale Economy Shared, customer centric business model.

The reason we entitled this note ‘Bingo’ was that both of these traits emerged during our trip. Brendan as CEO might not be the founder of Ashtead, but he acts and manages it as if he owns c.10% of the company. As such we feel he has just the owner type alignment we seek. Additionally, the company’s greater move now towards customer centricity takes it closer to our favourite type of business model. I.e. ones that tend not to see a fade in their growth because they are re-investing so much today for tomorrow’s potential growth.

The missing chart

Below is the chart that we think all investors attending Atlanta should be focused on, but we suspect very few will. It was drawn line by line on the stage in front of 5,000 staff by the CEO/COO. This was their first and most important message for staff.

Fig.2: Sunbelt’s new customer obsession



Source: Holland copy of Sunbelt investor presentation, April 2024

The story this picture told, as it was drawn line by line by the CEO/COO during Sunbelt’s presentation was of the evolution of an average business. At small scale, most businesses can focus on customer needs, and make sure the customer experience is great. But as they grow (X to Y) often the customer experience deteriorates (#BT, Sky, most UK utilities and British Airways). Ashtead/Sunbelt’s ambition is to buck this trend and improve today’s ‘good’ customer service levels to ‘great’ as the business scales further (A to B). Management then went on to cite examples of businesses they thought they could use as benchmarks for their customer experience ambition. (This included Amazon, Chick-Fil-A and Grainger). BINGO. This customer obsession is just what we look for in our best companies.

## The Future – Sunbelt 4.0

The financial projections given by Ashtead for the next 5 years under its 4.0 plan are broadly as follows:

- Group organic revenue to grow 6-9%
- ROI of  $\geq$  20%
- Operating margin to rise to 26-29%
- 11-12% EPS growth
  - 10% organic
  - 1-2% from buy backs or M+A

We will state plainly that we think these are a tad conservative. The reason being that they imply Sunbelt will grow its sales at a slower rate vs the wider rental industry than in the recent past. In the last 5-10 years, Sunbelt revenues have grown at 2x the rental/construction industry growth rate. These projections suggest this will reduce to 1.5x. The culture we have witnessed, a strong focus on product/solutions innovation and a newfound customer obsession are all notable. Combining these we assess the gap between Sunbelt and its peers to be widening not narrowing as their forecasts imply. We are sure they are meant to be prudent, as such they are reasonable. But our job is to look for probabilistic outcomes, not beatable ones. As such, all things being equal we suspect Sunbelt might grow at a similar relative rate to its past not slower. (We do concede however that the construction related sector has grown faster than average in recent years so a period of absolute growth slowdown is quite conceivable).

### [Plant Higher](#)

In our first research piece on Ashtead (Holland Advisors: Ashtead – [Plant Higher](#), March 2020) we spent some time articulating the multi-faceted growth channels the company possessed. Also how it allocated capital between them. We also explained the use of constant leverage and how this resulted in a faster rate of intrinsic value growth for the Equity investor. We are admirers of business models that are careful users of ‘Other People’s Money’. This can be negative working capital, insurance float or constant leverage in a secularly growing business.

The business model our *Plant Higher* piece explained is still exactly the model Ashtead employs today. Thus, we feel little need to re-explain its workings. This original piece was accompanied by a financial model. It showed (at a share price of £17 in March 2020!) that four years of our expected 10% pa growth revenue (and a PE re-rating to a more sensible level – we assumed 15x) would result in a share price of £48. At the time, this math, and the investor IRR it implied (23%), might have seemed outlandish. But today’s share price, four years on is £61!

More relevant to today’s outlook is perhaps a second scenario we included in our original model. It showed what the likely compounding of Ashtead would be without any PE re-rating, assuming an already reasonable starting multiple (PE = 15x) This resulted in a 14% likely growth rate in EPS/intrinsic value we estimated despite only assuming 7% organic revenue growth. This today is the financial model we are referring to once again as it takes realistic account of Ashtead’s underrated ability to deploy excess capital efficiently (usually via accretive M+A add ons) whether the starting multiple is 15x or c.19x today makes little difference. Unlike 2020 we are not arguing for a re-rating of the share valuation, just a better comprehension of the likely intrinsic value growth it will report when all avenues of capital deployment are realistically analysed.

### Matters outstanding

Our admiration for Ashtead's business model and culture does not make us blind to potential headwinds. The company looks set for continued secular growth from increased wider usage of rental and further gains in its market share. That does not mean it is oblivious to all cyclical bumps in the road, or that future growth will be linear from today's starting point. Such headwinds could be caused by fiscal rectitude one day enforced on the US or by competitor actions. Up to now its largest competitor, United Rentals, has been as keen as Ashtead that discounting of fleet should not follow any dip in customer demand (i.e. to keep rental rates firm). However as the market share of each company increases they are likely to bump into each other more. Whilst we see Sunbelt as the winner of such head-to-head contests, that does not mean United will concede share without a fight.

For this reason and one of seeking margin of safety when investing, we keep an open mind as to where Ashtead might be in its investment or competitive cycle. We do this at the same time as admiring the company for its culture, innovation and customer focus.

### A word on inflation and pricing

The company spoke openly about the inflation in COGS and skilled staff it continues to experience. They also spoke of the price (rate) increases required to pass such cost inflation on to customers. Broadly stated this was given as 4.5-5%. Notably any anticipated future operational gearing the group expects is from greater throughput of existing assets (i.e. greater asset turn) not from pricing any monopoly position with clients higher. As seekers of Scale Economy Shared models for their resilience, this we were pleased to hear.

This +5% pricing pass-through of cost inflation guidance might prove useful to those building financial models of the company. More importantly we think it offers a wider view of the inflation in the US economy and how embedded it now is. The new product exhibition at the conference was called "Anytown". We think the company's statements on cost pressure and inflation could be called "Everytown". I.e. this wage and assets cost inflation and pricing pass through are now happening in every town in the USA. There is much discussion from academics about when inflation becomes endemic. We would conclude from our experience at the investor day, it already has. As the company's brand name, Sunbelt, suggests the observations it makes are representative of a huge swath of middle America.

Does this lead us to have a worrying forecast as the future of the US economy or stock-market? Not really no. A world of 3-4% inflation is perfectly survivable. It will require the businesses as we invest in to both have pricing power and not be overly reliant on excessive leverage to make their expected returns. That is fine by us. Most of the companies we invest in have excelled in a world of deflation, winning customers and market share (Netflix, JDW, Ryanair, Amazon). We think they, and Ashtead, will do just fine in a modest inflationary world.

### **Summary**

Whilst it is now c.4years old we feel our *Plant Higher* piece explained the Ashtead business/financial model well. While the next 5 years are projected to see more organic growth, rather than greenfield site expansion the business model remains identical. An assumed deleveraging and slower rate for sales growth for now however depresses projected outcomes of that growth. The financial discipline of the company to allocate capital well remains intact and impressive. What is new is the scale of product innovation the company is trying to bring to market and its obsession with solving customer problems.



Crucially, without a strong and cohesive culture already in place these might be hollow ambitions or wishful thinking. However, with a strong proven business model under this manager (owner-esq) and a powerful culture already in place, we think there is a good chance such ambition is delivered upon. If so, we think customers, employees and shareholders alike are going to be very happy with the outcome. From purely an investment perspective we think such an approach will overpower any long-term cyclicity the group encounters and beat any market expectation of fade in the growth rate. 13-15% compound investor returns would be our best guess outcome as per our past modelling.

Today the shares are buoyed somewhat after this event. In Ashtead's case market sentiment can change. We hope investors can use our tangible and intangible observations of the company in this and past pieces to act accordingly when the time seems right.

We are fans!

With kind regards

**Andrew**

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