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CONTACT ASSET MANAGEMENT

QUARTERLY REPORT

If these walls could talk...

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Given we are moving office; I thought it would be worth looking back on the history of this beautiful building. If these walls could talk, what would they say? What would they say about the companies, its employees and families who have called this place home over the years? What would they say about the 145 years at 160 Pitt Street, Sydney?

Photo: Washington H Soul Pattinson Head Office
160 Pitt Street, Sydney. 1886

Quarterly Report

Welcome to the March Quarterly Report, prepared by Contact Asset Management. Being the manager of BKI Investment Company and URB Investments this month's Quarterly Report from Contact is a little different to previous reports. Today, Friday the 29th March 2019, we are moving office. It does not seem like a big deal as businesses move all the time. They move due to expansion, as a result of a merger or because their lease is up. Our move is a bit different; we have been here since 1886.

Given we are moving office and given the relationship we at Contact, BKI and URB have with Washington H. Soul Pattinson; we thought it would be worth looking back on the history of this beautiful building. If these walls could talk, what would they say? What would they say about the companies, its employees and families who have called this place home over the years? What would they say about the 145 years at 160 Pitt Street, Sydney?

The Beginning of a Long History

Caleb Soul and his son Washington opened their first pharmacy at 177 Pitt Street, Sydney, in 1872, while Lewy Pattinson arrived in Australia in 1881 and opened his first pharmacy in Balmain in 1886. The men became friends and never opened in direct opposition to one another.

In early 1886, the original building at 160 Pitt Street burnt down. Caleb Soul re-built the present building, which was first called the Phoenix building. A phoenix was placed on top of the front facade, being the phoenix rising from the ashes.

Lewy Pattinson used to ride around his shops each morning, arriving at his head office about lunchtime, and in those days used to tether his horse outside his buildings. One day in the 1890s, on arriving at his head office, he found the whole block had been boarded up. There had been an outbreak of bubonic plague in Sydney. Washington Soul, Caleb's son, was waiting for Lewy and said "Mr Pattinson, I have taken the liberty of moving your head office to our head office at 160 Pitt Street, Sydney. Please continue to use it until you are allowed back into your own premises".

Lewy moved into 160 Pitt Street, and soon the men began expanding their businesses. The pharmacy on the ground floor soon included a large soda fountain and milk bar, the first in Australia and was modelled on American drug stores. They also opened a separate Ladies Department under the control of a trained nurse, another first in Australia and an immediate success. The milk bar and soda fountain soon became one of the social scenes of Sydney.



Listing in 1903

Some years later Washington Soul approached his old friend, Lewy Pattinson, and asked if Pattinson & Co. would buy him out. Lewy Pattinson agreed and after discussion with his partners, Pattinson and Co. bought out Washington H. Soul and Co., effective 1st April 1902.

Out of respect for his old friends, Lewy Pattinson included the name of Washington H. Soul in the name of the new Company, Washington H. Soul Pattinson & Company Limited and 160 Pitt Street was renamed.

The first public offering of shares was in December 1902 and Washington H. Soul Pattinson and Company Limited was listed on the Sydney Stock Exchange, now the Australian Stock Exchange on 21 January 1903. The head office of Washington H. Soul Pattinson has remained at 160 Pitt Street, Sydney since that day.

Dealing with Competition

Unable to expand rapidly due to legislation changes, Washington H. Soul Pattinson instead pursued its policy of store improvements and promoting new lines. Cosmetics were a major focus of the 1940's and 1950's. 160 Pitt Street featured a large cosmetic counter with prestigious brands such as Max Factor, Revlon and Helena Rubinstein. The head office store and other pharmacies remained virtually exclusive retailers of cosmetic brands until the 1950's when the major department stores began to set up cosmetic counters.

As department stores took away cosmetic business from Washington H. Soul Pattinson, supermarkets were also beginning to encroach more and more on the traditional domain of pharmacies, moving a significant amount of traditional pharmaceutical stock into their big box format.

Fred Pattinson and the Washington H. Soul Pattinson Board needed to devise a way to maintain and build on their success; the concept of agencies (pharmacy outlets) emerged and they were allowed to use the Company's name and tap into their vast wholesaling network in return for purchasing all their supplies from the Company. The agency system allowed Washington H. Soul Pattinson to extend further into Queensland, Victoria, Tasmania and Western Australia.

The agency roll out soon led to international sales and within a few years the group were selling a range of pharmaceuticals into Singapore, Malaysia, PNG and the Pacific. This offshore expansion also led to the beginning of diversification for



Washington H. Soul Pattinson. Large investments were made into Western Mining, Peko Wallsend, BHP, Australian Oil and Gas, Brambles, Deposit and Investment Co and National Bank. The other significant share purchase made was the 25% acquisition of Brickworks Limited, the largest brick maker in the country. An investment house was born and its head office was here at 160 Pitt Street.

Post this agency roll out, Chair at the time, Jim Millner had to fight even harder to undercut the supermarkets and chain stores. Using wire baskets placed at the front of 160 Pitt Street, two or three "specials" were sold at the lowest prices available to the public. This technique was very successful and after a short downturn in profit, the Company's business once again became highly profitable.

Adapting to Change

By the end of the 1970's, Washington H. Soul Pattinson had more than 200 pharmacy outlets, all run out of the head office at 160 Pitt Street, Sydney. They had expanded Soul's own brand products to include a range of grocery products and traditional corner shop staples such as dishwashing liquid, honey, sunflower oil, skim milk and confectionery. The Company also introduced health and fitness departments into many stores and saw considerable increases in this category driving significant profits to the group. Further diversification took place in the 1970's with the acquisition of 50% of New Hope Collieries.

One of the most outstanding success stories for the Washington H. Soul Pattinson chemist chain was the development of Soulcolor. A deal with Hanimex to do all the developing and printing for Soul Pattinson. At its peak, the development of film accounted for approximately 10% of Washington H Soul's total retail business.

In 1994, pharmacies within the Washington H. Soul Pattinson group totalled 300, and still they were run out of the head office at 160 Pitt Street.

During this time, vehicular access along Pitt Street between King Street and Market Street ceased and the area was closed off to traffic. Pitt Street Mall developed and was soon one of Australia's busiest and most cosmopolitan shopping precincts.



Reinvesting for the Future

In 2003, 160 Pitt Street undertook a significant face-lift. A complete refurbishment. The building was old and tired and like all good investments, needed capital spent on it to ensure it would continue to deliver returns long into the future. The head office moved to Bligh Street during these renovations. This, however, did not stop the Company continuing with its investments and investing for the future. During this one year alone, the small number of staff at Washington H. Soul Pattinson listed New Hope Corporation and BKI Investment Company, having only listed SP Telemedia in 2001. Pitt Capital Partners was also established. We did not sit still despite not being in the comfort of 160 Pitt Street.



Development of Pitt Street Mall in 2010 saw some further capital spent on the facade of the building.



In 2011, Pitt Street Real Estate was created. In 2016, Contact Asset Management was established and URB Investments was listed in 2017. All businesses calling 160 Pitt Street home.

However, as our investments and management companies flourished, we were still located on one of the 10 most expensive retail strips by rent per capita in the world. It was becoming increasingly difficult in this day and age to compete as a pharmacy in this environment. Retailing in pharmaceuticals along this precinct was proving very challenging.

Last year an offer was made to the Company for the sale of the building. It was a very good offer and the decision was made by the Board to sell the building. As a result, our Soul Pattinson chemist on Pitt Street Mall would close its doors after 145 years of trading in pharmaceuticals.

In July this year, we exchanged on 160 Pitt Street with a private group. A difficult and sad day for all of us. However, as the Boards, Managers and staff before us have done numerous times, we have had to adapt and move on with the times.

Companies, Employees and Families

As has been well documented, Washington H. Soul Pattinson is the second oldest publicly listed Company on the ASX. As a Company, we are one of only a few that has been successfully managed by the same family from the outset. Lewy Pattinson, Fred Pattinson, Jim Millner and our current Chairman, my father Rob Millner. This has been a great strength of the group over many years. We've always invested alongside our Shareholders and have been well aligned when making long-term investment decisions.

The family's leadership has been grounded in successive members who value the deep history of the Company, yet are able to adapt to changing times and economic conditions. We have now had five generations of the Pattinson family serve this Company in this building and it is something that makes us immensely proud.

However, one of the biggest strengths of the family has always been the ability to spot talented people to fill senior and middle management positions for Washington H. Soul Pattinson and its investee companies. There have also been three generations of the Dixon, Spence, Rowe and Letters families involved with Washington H. Soul Pattinson over the years, and there have been more than 40 employees who have worked for the Company for over 50 years. Most of them based here at 160 Pitt Street.

Whilst the Washington H. Soul Pattinson head office is moving, Pitt Capital Partners, Pitt Street Real Estate and Contact Asset Management are also moving today.

All businesses at 160 Pitt Street are run by very talented senior managers who have been with the group for a long period of time. Todd Barlow, has been a group executive for over a decade, being appointed as Managing Director of Washington H. Soul Pattinson in 2015. David Scammell joined Pitt Capital Partners in 2004 and was then appointed Managing Director in 2015. Hugh Williams co-founded Pitt Street Real Estate Partners in 2011 and Will Culbert, Director and Co-Portfolio Manager of Contact Asset Management has been with the group for over 6 years. All of these managers continue to do an exceptional job, always acting in the best interests of Shareholders and always aiming for long-term wealth creation. In turn, these managers have always been well supported by able, loyal and long-serving staff.

Moving On, the Next Chapter

Our new Head Office "Barrack Place" Level 14, 151, Clarence Street is a beautiful new building. It is a next generation A-Grade workplace, targeting a 5-star NABERS Energy rating and is one of the most advanced buildings in its class in Sydney, featuring some of the latest industry technology.

Historically the York and Clarence Street precinct has had its own unique and special characteristics being the heritage precinct, which originally housed the most beautiful brick warehouse buildings in Sydney. The building has just been restored using Brickworks products and looks great. The building incorporates a vibrant and contemporary laneway retail precinct and Level 14 is flooded with natural light and open planned workspaces.



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If These Walls Could Talk...

There are 30 of us leaving 160 Pitt Street today, and it has been quite an emotional ride this last 12 months. This last week I have enjoyed seeing all the memorabilia being packed up for the move. I have enjoyed my father finding various artefacts in his office and bringing it down the corridor and sharing its history with us all.

Equally, though, we are all excited by the new chapter ahead. A chapter we all get to be a part of and forge into something very special. We are all very ambitious, driven people and we cannot wait to drive for further success at Washington H. Soul Pattinson, Pitt Capital Partners, Pitt Street Real Estate and Contact Asset Management.

If these walls could talk, they would tell us to remember what this building has taught us over the multiple generations; to be patient, to be stable, to focus on the long term, invest in quality and remember what the phoenix atop of 160 represents. They would tell us to remember the saying “the thicker the carpet the thinner the dividend”.

They would tell us to remember the 100’s of deals and difficult decisions that have been experienced in the Board Rooms on Level 1 and Level 2. The AGM’s that were once held in the Board Room at Level 1. The walks down the corridor we do with visitors when they come in for meetings, fascinated with our photos, our memorabilia, our history.

If these walls could talk, they would tell us to remember the Shareholders and remember that for 117 years, Washington H. Soul Pattinson has always paid a dividend and that decision has always been made at 160 Pitt Street.

And so, no matter where the Head Office is in the next 145 years, we will always be driven by the same vision and purpose that has been instilled in us all at Washington H. Soul Pattinson. We will always have the DNA of 160 Pitt Street within us and we will always strive to continue to be one of Australia’s most profitable and successful investment companies. Managed sensibly over the long term for all of our Shareholders.

Tom Millner
Contact Asset Management

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