

AORIS

Iron
Sharpens
Iron:
The Under-
appreciated
Upside of
Competition



Aoris Investment Management

Aoris is a specialist international equity manager founded in 2017. We are a focused business and manage a single international equity portfolio. Our investment approach is conservative, fundamental and evidence-based.

The Aoris International Fund

We own a concentrated portfolio of high-quality, wealth-creating businesses run by prudent and capable management. Owning a maximum of 15 companies allows our quality criteria to be unusually demanding and permits us to be discerning on the price we pay. We aim to deliver a return of 8–12% p.a. after fees over a 5–7-year market cycle.

Iron Sharpens Iron: The Underappreciated Upside of Competition



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Introduction

Imagine you're an equity analyst in 1983. A business that's about to list on the Nasdaq comes across your desk. The business model is simple: it launders and rents out uniforms. What it does isn't proprietary – competitors can offer similar uniforms. There are no meaningful barriers to entry. Nor does this business have scale advantages – there are peers just as large. The company's pitch is that it does an unglamorous job, but reliably well. By any conventional analysis, this company would have looked ordinary.

This company was Cintas, one of the best-performing stocks of the past 42 years. By the end of 2025, \$1 invested at the initial public offering had become \$288. Today, Cintas has earned roughly 30% of the US uniform rental market. Earnings have grown at an attractive rate through all manner of recessions, rate rises, and wave after wave of competition.

How did a business doing something as ordinary as cleaning and renting uniforms, with so many other businesses offering a similar service, turn out to be this special?

The answer lies in how competition pushed the business to get better.

Rather than competition always being a source of pressure, we believe that for the best businesses, competition can make them better.

In this feature article, we discuss how competition can make the best businesses better, more durable, and mitigate the risk of competitive fade, while a lack of competition can breed complacency.

Conventional competitive advantages protect a business from competition. They do not protect a business from itself.

The absence of real competition creates the temptation for complacency

Take away deadlines, feedback and recognition for a year. How hard would you push yourself?

Without any pushback or accountability, many people drift towards doing the minimum. Work still gets done, just not as well, not as carefully, and not as often. When there are no consequences to coasting, it can be easy to become lazy.

Without competition to keep it accountable, a business can slip into complacency.

For businesses that don't face competition, this is often the scenario they find themselves in. There is less incentive for the business to improve its product or service because customers don't have alternatives. Unhappy customers can't leave.

There is also less incentive to maintain efficient operations. If costs aren't managed effectively, the company can pass those costs on to its customers with higher prices, without immediate consequence.

The danger for an investor is that complacency rarely announces itself in the numbers straight away, even if under the surface there is erosion. In these situations it's often only a matter of time until an unexpected change brings the cost of complacency to light: a new technology, a regulatory change, a new substitute. By then, it's already too late to make changes.

The costs of complacency can remain hidden for years, but when they eventually become apparent, the business's decline can be rapid.

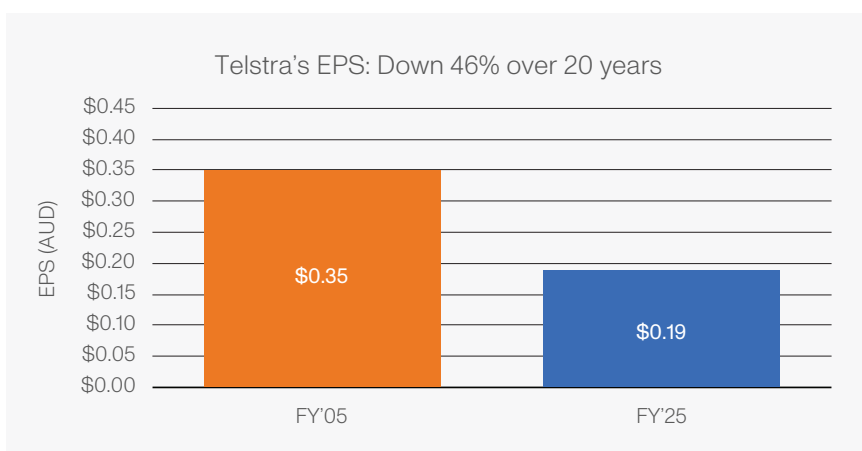
Below are two examples of how businesses protected from competition can become complacent, and how the cost of complacency can be hidden until there's a change in the industry.

Telstra

When Telstra became publicly listed in the late 1990s, it was insulated from competition. Demand for connectivity was increasing rapidly and Telstra had a monopoly on most of the fixed-line network needed for connectivity in Australia.

Over the next two decades, Telstra became one of the least trusted brands in Australia, known for its high prices and poor customer service. Customer relationships deteriorated in a way that wouldn't have been likely in a genuinely competitive environment. Over the short term, the impact was muted. The lack of competition made Telstra complacent.

When the NBN was announced, threatening Telstra's infrastructure advantage, it was too late for the business to meaningfully rebuild its reputation with customers. As the NBN arrived, customers had a choice for their fixed-line internet connection for the first time, and many exercised it. Telstra's fixed market share, which was 68% in the late 1990s, fell to 34% by 2025. Over the past 20 years, its EPS has nearly halved as shown below.



Source: Company data and Aoris analysis

IBM

IBM's story differs from Telstra in that it wasn't born a monopoly. Instead, IBM worked hard over decades to achieve its dominant position in enterprise computing. By the 1990s, it had a strong data centre infrastructure offering and deep enterprise relationships. In the early 2000s, it was among the first to recognise the potential of cloud computing. Despite recognising the opportunity early, IBM failed to turn that insight into leadership. Today, cloud computing is associated with Amazon, Microsoft and Google, but not IBM. Why is this?

By the early 2000s, IBM already had a large installed base of enterprise clients, where its products were deeply embedded. With minimal effort, it earned excellent recurring revenue. IBM's dominant position protected it from competition, but it also allowed complacency to creep in. The focus of the business shifted towards improving margins and maintaining the status quo.

By the time the company raised the alarm that it was being left behind by the market's shift to cloud infrastructure, it was too late.

An example from nature – the dodo

The impacts of limited competition can also be seen in evolution, as was observed with the dodo.

The dodo was a bird that evolved on Mauritius, an isolated island with no large predators. With no predators, the dodo lost its ability to fly and the fear instinct that helps animals avoid danger. It didn't need to protect its eggs from predators so it built nests on the ground.

The dodo thrived for millions of years on Mauritius.

Then, Dutch sailors arrived in 1598, and with them invasive animals like rats, pigs and monkeys. These were species that had gone through natural selection against the toughest competition the Afro-Eurasian supercontinent offered.

Within one human lifetime, dodos became extinct. The last sighting of a dodo was in 1662.

Businesses are no different. Businesses protected from competition also don't go through the natural selection process. Just like the dodo, they can appear fine for a long time, even if vigilance has waned. But eventually a day will come when there's a change in their ecosystem. If the business has allowed complacency to creep in, it will only take a small change for its underlying weaknesses to be exposed. The downfall can be sudden and rapid.

Competition makes the best businesses better

A competitive environment separates the exceptional businesses from average ones and pushes them to get even better.

Competition separates the best from the rest

At Aoris, we like businesses that win in competitive markets. It accentuates the strengths of a strong business and the weaknesses of a weak business. Returning to our nature analogy, in more competitive environments, weaker animals quickly die out, while the species that can survive eventually flourish when they reach more forgiving environments – sometimes to the point where we label them as pests!

Competition can push the best businesses to get stronger

Just as a lack of competition can breed complacency, competition forces leading firms to stay sharp. It exposes weaknesses, reveals where improvement is needed, and creates a constant push to get better.

The same pattern appears across history. Between 1500 and 1800, the Western world opened up a clear lead in warfare over other great civilisations, including the Middle East, China and India. A central reason was Europe's political fragmentation. It was made up of many rival states locked in continual competition, while the Middle East, China and India were more often unified under dominant powers, limiting that same intensity of conflict. China offers a similar example. Many of its most important advances in warfare and state-building came between 770 BC and 221 BC, the age of Confucius and Sun Tzu, and the period before China was unified. These were centuries of relentless struggle, with its later centuries aptly named the 'Warring States period'.

How competition pushes Cintas to win

Cintas operates in a competitive market. Customers are free to choose from many uniform rental providers, so Cintas has to offer something superior to win them. Then, to retain customers in the face of ever-improving competition, Cintas has to keep finding ways to get better. It's improved its reliability, broadened its range of uniforms, and turned each customer visit into a chance to provide more services, like restocking soaps, towels, doormats, and first aid kits. It's also improved its efficiency over time, with customers benefiting from muted price increases.

Cintas' value proposition is so compelling that its average customer stays for 25 years.

Businesses that have thrived against competition, can offer investors the opportunity for more durable growth and less risk.

Why businesses that thrive in competitive markets can make attractive investments

1. Significant room to grow via share gains

Competitive markets expose weak businesses, causing them to lose share at a faster rate. But the same dynamic creates an opportunity for stronger businesses. As weaker competitors falter, the strongest businesses benefit from having substantial headroom to gain share from these weaker businesses and drive growth.

Today, Cintas still only has 30% of the US uniform rental market. There is a lot more room for that to grow, fuelling growth for many years to come.

2. The size of the pie can grow

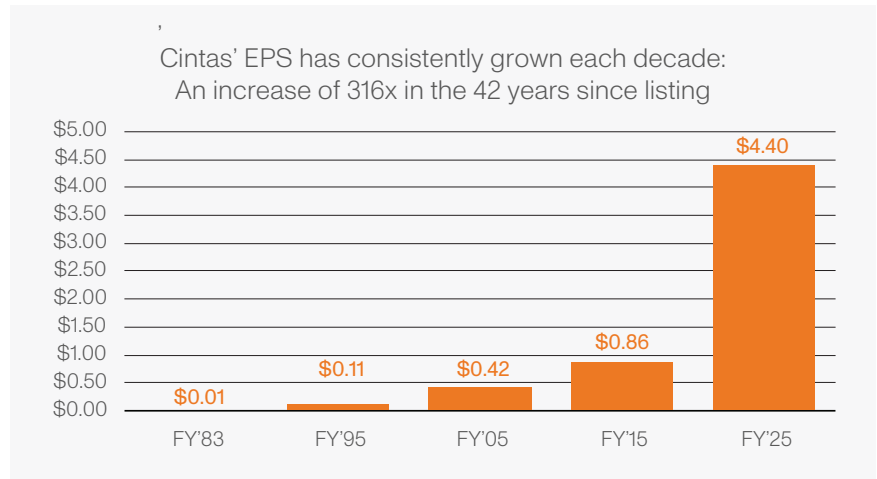
Markets aren't zero-sum. By pushing all players to improve, competition can expand the size of a market.

In Cintas' case, many businesses either manage their uniform programs themselves or ask employees to purchase and clean their own uniforms. By Cintas improving what it offers, it has persuaded many businesses that previously operated this way to transition to renting uniforms from them. This grows the size of Cintas' overall market. Today, two-thirds of Cintas' new customers are companies that are new to renting uniforms from an external provider.

3. Competitive pressure brings issues to the surface, lessening the chance of a hidden surprise

Weaknesses brewing beneath the surface are more likely to be exposed by competitive pressure. As my favourite mixed martial arts athlete Khabib Nurmagomedov once proclaimed after winning the biggest match in mixed martial arts history: 'Diamonds are made under big pressure. If you can handle this pressure, you can become a diamond.'

Cintas has been remarkable in the lack of surprises that investors have experienced over its history. This is reflected in its earnings, which have consistently grown at a strong rate as shown below.



Source: Company data and Aoris analysis

Conclusion

The best businesses are not always the ones with the easiest path. Often, they are the ones that have been forced to fight, adapt and improve for years.

Competition does not guarantee greatness, but it does make complacency much harder. That is why it can be such a powerful force in investing. When a company can keep winning in a hard market, it is usually telling you something important: this is a business still sharpening its edge.

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