

Riding Growth Waves

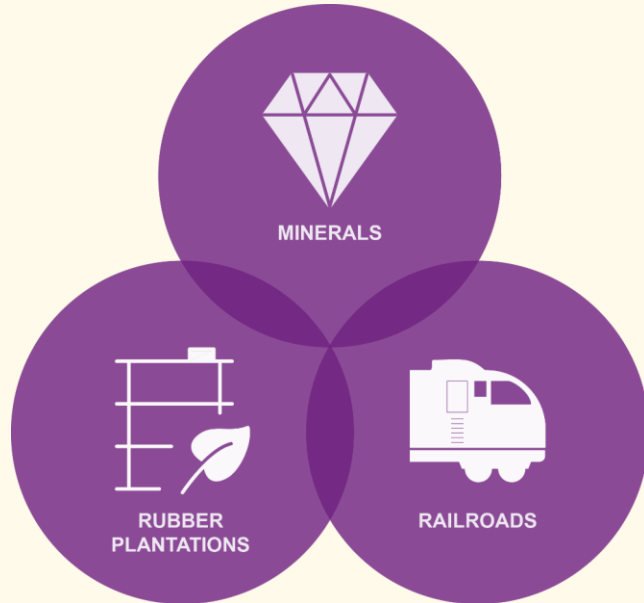
Garnering insights into the research process

Joe Faraday, Director, 2022

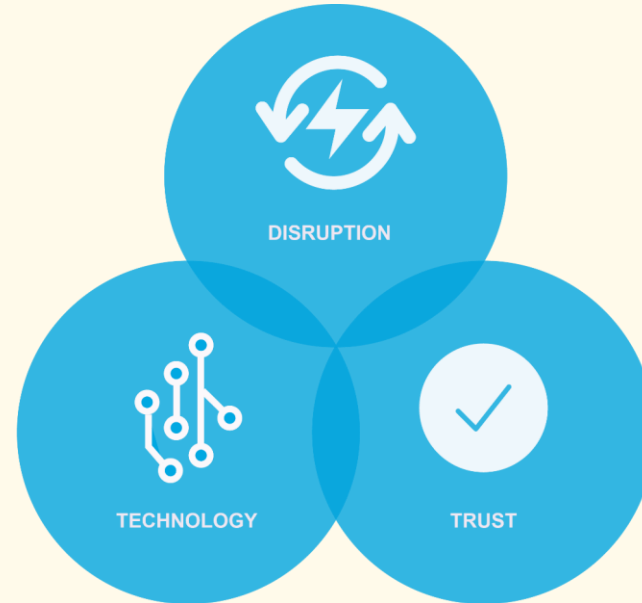


The quest: old and new growth

1908



2021



Getting insights from topic modelling

c. 63,000 documents in the research library

Advancements in machine learning mean large bodies of text can now benefit from statistical analysis

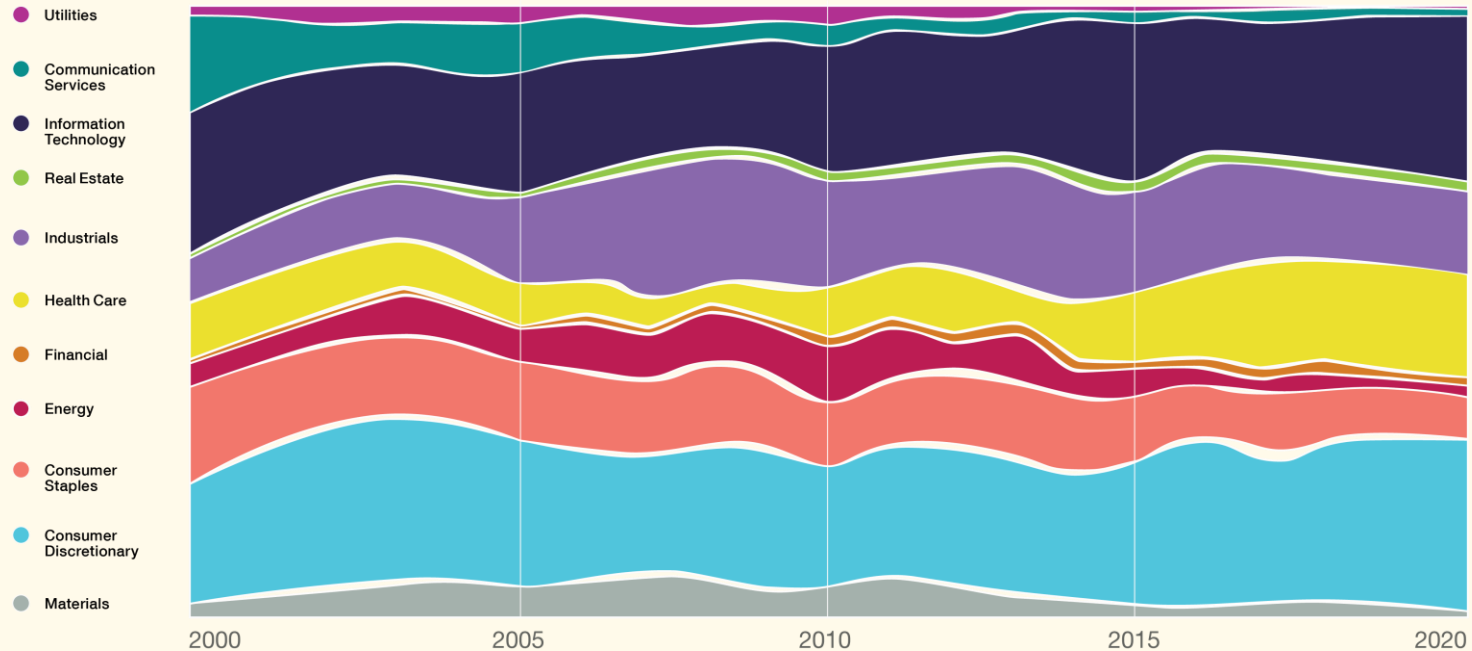
The rough idea:

Convert documents to vectors

Plot 300 dimensional vectors in space

Look for clusters of points - topics

Research waves over time: research by sector



Data as of December 31, 2020.

Top 30 Research Topics from 25 years



Data as of December 31, 2020. Based on c. 27,000 articles in total, readjusted to reflect the top 30 topics, which includes c. 23,000 articles.

Top 30 Research Topics from 2020



Based on 1,185 articles in total, readjusted to reflect the top 30 topics, which includes 1,059 articles.

Four 'Growth Drivers'

Healthcare: pharma, healthcare providers, biotech, ...

Online revolution: retail, web, music, ... (ubiquitous)

Consumption/rise of the middle class: retail, luxury, ...

Technology in industry: semis, industrial, software, ...

Reflection 1. Healthcare at a tipping point

Change from a sick system

To a health system

Big Data

Broadening of research



Image sources: © Getty Images Europe, © Sartorius AG.

2021 report: Sartorius

“Why should the company remain relevant in the future? How repeatable is its success? There is no better way to document a company’s relevance than its role and impact during the most demanding and challenging times in the life science industry. As hundreds of companies mobilised their resources to come up with a solution for the current pandemic, most of them had to rely on Sartorius’ technology in both pre-clinical development and scaling up manufacturing processes (e.g., viral vector and mRNA vaccines).”

“Encouragingly, the company continues to gain the market share in the US. My hypothesis is that Sartorius is well-positioned to remain a strong player (20-30% market share) across the entire spectrum of the development and manufacturing of biological drugs.”

Baillie Gifford views.

Reflection 2. Elongation of growth: internet revolution

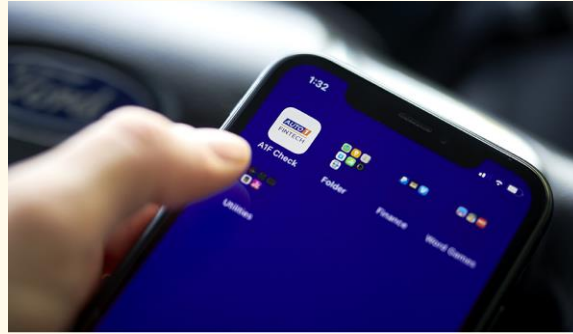
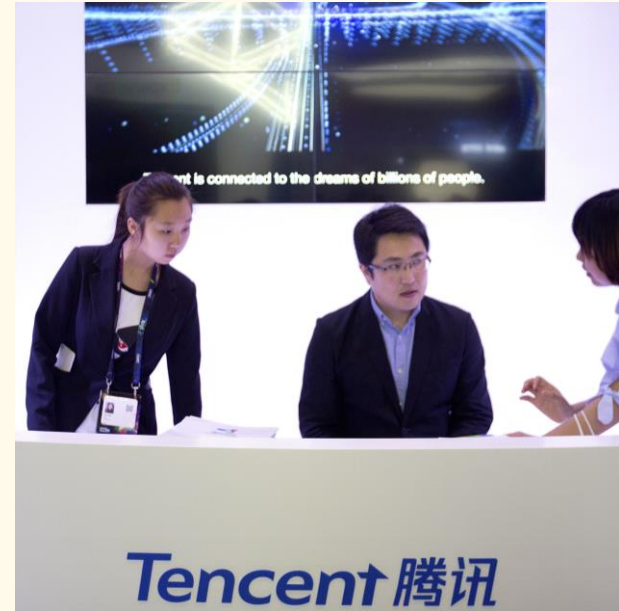


Image sources: © Zalando, © 2021 Bloomberg Finance.

2008 report: Tencent

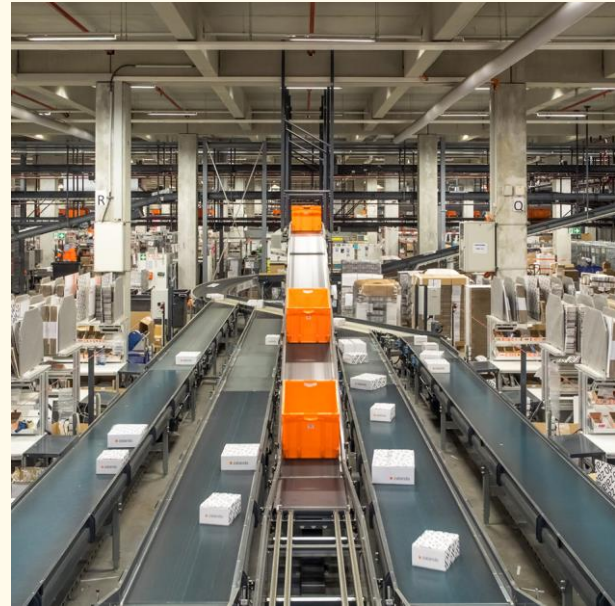
“I’ve never looked at a company with such a broad range of outcomes. It’s possible that the business becomes worthless because a disruptive technology nullifies the network effects or the Govt changes the rules. On the other hand, with its network effects, entrenched competitive position, rising returns and monumental growth potential, this could become the most valuable internet asset in the world over the next decade.”



Baillie Gifford views. Image sources: © AP/REX/Shutterstock.

Summer 2021 update report: Zalando

“Let’s keep this very crude and simple. A 20% share of European fashion equates to a GMV of €90bn. This is then split 30/70 between wholesale and third-party. Assume third-party commission is 25% (combines standard commission with fulfilment and media spend) and use the mid-point of long-term margin guidance for wholesale and the upper end for third-party then tax at 25%. On a 25x multiple that crudely accounts to €110bn market cap that’s nearly 5x before considering any of the more blue-sky opportunities which would materially augment this. It is also possible margins end up higher. To be clear though a 20% share could take a decade, but I think it shows the potential for material upside exists. This feels more like an optimistic central case rather than a blue-sky.”



Baillie Gifford views. Image sources: © Zalando

Reflection 3. Consumption patterns endure and evolve



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Summer 2020 report: LVMH

“Powerful Culture and Sensible strategy”

The way LVMH describe what they are trying to do makes a lot of sense:

Focus on mass market luxury because brands matter here but the potential market size is large (not just the top 0.1%) –
“There will always be people who want the same stuff as others but better”

A belief that the big brands will get bigger

Scalability in A&P spend

Big brands give people reassurance

People want to belong to a selective club but “people overestimate consumers appetite to be different”

Give brands autonomy “autonomous but not independent” = devolved management, entrepreneurial minded.

Arnault acting as a manager of managers and matching needs and skills

Provide support and bargaining power to group companies

Scale means you can take painful decisions for the medium term good... small fashion brands don't have that flexibility

Broad diversified portfolio: smooths performance, allows cross selling, allows group learning to be transmitted for example in new markets and online

Buy and hold investment style – “focusses brands on long term value creation”

Baillie Gifford views.

Millennials vs. Generation Z

Millennials

Born between 1981 and 1996



Most raised by Baby Boomers



Grew up during an economic boom



Tend to be idealistic



Focused on having experiences



Prefer brands that share their values



Prefer Facebook

Generation Z

Born between 1997 and 2010s



Most raised by Generation X



Grew up during a recession



Tend to be pragmatic



Focused on saving money



Prefer brands that feel authentic



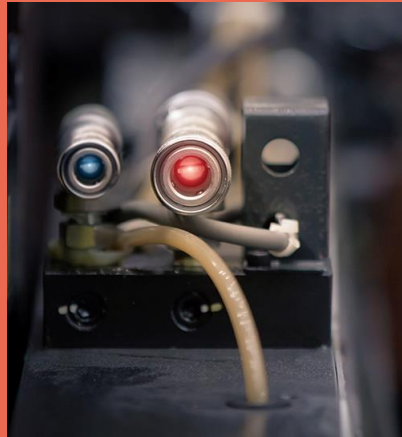
Prefer Instagram

Tech in industry

Semiconductors, factory automation and software



ASML



Keyence



Nemetschek

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1986 report: Atlas Copco

3/86

Atlas Copco: (opening company unit - 80% Giron, 20% unit - 100% Giron)

Price: 210 Swkr Div: 6 S Yearly: 310 Swkr Range: 85-6-215-100
 5x: 131-58

Capacity of 1/14/1985: 5.2

1985	-	1984 Cap: 4.8 Swkr
(Actual to company)	1986: 13.2	(8.465-)
1987: 21.7	+56%	[1986/1985]
1988: 21.7	-	7.5x
1989: 31.1	-	6.8x

Year to 3/12/1985

Sales: 10.1 bn (+10.8%)
 Op. cost: 8.8 bn (+9.6%)
 Op. inc: 1.3 bn (+15.7%)
 Net Int. Pt.: 103 (+14.2%)
 Profit: 820 (+14.5%)
 Turn: 30% (+2.6% at 37% at 52%)

8/5% Cap. exp. 4/1% get. 1/1% (1985) Div. Ratio: 68% (unit: 100% 1985)
 1984 Rate: 16.7%

Business Split: Cost

	T/O (€)	Op. Profit (%)	Change (%)
Assempner	4.8	5.6	+15
MCT	3.4	2.2	+6.2%
Tools	9	1.1	+3%
Service	6	6	-6
Manufactur.	4	7	+6%

Geographical Split: (1985) Group 80% (Sweden 8%), N. Am 12%, S. Am 8%,
 Africa 15%, Asia 8%, Rest 5%.



Image sources: © Atlas Copco.

Research: Curious, Patient and Brave

'Work with people of enquiring mind'

- Carlyle Gifford

What if? not what is?

Go anywhere and everywhere

A latticework of different models and vantage points

Think what can go right, not go wrong

"Overseas trips in those days were quite something, with the analyst travelling huge distances by boat and by steam train, and a year or so later returning to Edinburgh to deliver a report. These investments gave an income which, in those days, was considered more important than capital growth."

- 100 years of Baillie Gifford



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Principal Office: Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, Scotland
Telephone: +44 (0)131 275 2000 bailliegifford.com
780 Third Avenue, 43rd Floor, New York, NY 10017
Telephone: (212) 319 4633 bailliegifford.com

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