Risk factors

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All investment strategies have the potential for profit and loss, your or your clients’ capital may be at risk.

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All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this document are for illustrative purposes only.
What it does
Adyen, Surinamese for ‘Start over again’, is a platform to simplify and accelerate global payments. It is focused on building a modern infrastructure directly connected to card networks and local payment methods across the world, allowing for unified commerce and providing shopper data insights to merchants.

Why we own it
— Adyen helps merchants manage complexity in payments as they transact across more than one country or channel. The company is fulfilling a badly unmet global need and has a huge opportunity.
— The majority of its staff are engineers who are continually focussed on building new features. This is different to Adyen’s competitors and it allows them to improve the offering at speed.
— Run by two founders who are long-term and thoughtfully creating a culture to motivate their staff.

How it could be worth many times more
— The replacement of cash continues.
— A vast opportunity. €35 trillion global payment market of which Adyen process a few hundred billion.
— Increasing payment complexity (multiple geographies and multiple digital channels) makes Adyen increasingly indispensable and scale matters. We believe this will be a consolidated market.
— Assume that the €35trn market is divided between 3 players (though today, Adyen and Stripe are the only Western contenders) => €11.5trn to Adyen with blended take rate steady at 20bps => €23bn net revenue. Net margins steady at 40% => c. €9bn of earnings vs. a few hundred million today.

Where we might be wrong
— Competition heats up between Adyen and Stripe as their addressable markets proves smaller than anticipated.
— Gaining access to the company proves difficult.
— The business becomes too profitable and doesn’t reinvest enough.

Short 10 questions
Can sales double in the next five years?
Yes, revenues are growing at >40% p.a. Driven by increased volume from existing and new customers.

Ten years and beyond?
More than 40% of global payment volumes are still in cash today – the more this becomes digital, the more demand there is for Adyen.

Competitive advantage?
Single software stack makes Adyen more resilient, efficient and easier to roll out internationally.

Is the business culture different?
Yes. A strong reputation, founder alignment, long-term horizon and thoughtful culture.

Customers like you? Contribute to society?
Customers like Adyen because it removes the cumbersome, expensive and time-consuming obstacles to running and growing a business.

Are returns worthwhile?
ROE is above 35%. 50% operating margins possible.

Will they rise or fall?
The upside will be managing to sustain its impressive returns for a very long time.

How is capital allocated?
Hiring new staff, opening offices around the world and increasing marketing spend.

Could it be worth 5x as much?
Easily. Cash will continue to be replaced, globalisation of commerce continues and merchants need solutions to manage complexity.

What doesn’t the market understand?
An upside more extreme than most would likely entertain.
**What it does**

Affirm is a digital financial services company that provides point of sale credit to the customers of online merchants, enabling them to buy anything from furniture, holidays and laptops. Consumers have the chance to split the payment over periods ranging from 6 weeks to 5 years, at rates starting at 0% APR with transparent pricing, and no late fees or hidden interest charges.

**Why we own it**

- Affirm has the potential to upend the consumer credit card market - reliant on opaque charging structures and keeping customers indebted for longer.
- The increasingly diverse customer base and burgeoning list of over 100,000 merchants offering Affirm as a payment option, including Peloton, Pottery Barn, and Target. Affirm delivers substantial increases in both the average order size and conversion rates for merchants.
- Affirm’s utilisation of the rich transaction data results in optimised credit approval and tailored product recommendations where one quarter of Affirm purchases originate from its own app or website.

**How it could be worth many times more**

- Merchant acquisition continues at pace driven by its partnerships with Shopify and Amazon. The customer base explodes from 8m to >100m with Gross Merchandise Value per user rising from $1,400 to >$20,000.
- Affirm’s ease of use, personalisation and array of premium brands leads it to become the primary destination for customers to manage their credit balances and to shop.
- Affirm takes 25% of the US credit card market in 10 years totalling $1bn in GMV. At a blended take rate of 3% (much lower than today), operating margins of 20-30% and 30%+ ROE.
- Add in accretive elements of directed traffic, marketing, and potential global expansion there is a convincing argument for optimism.

**Where we might be wrong**

- Affirm is disproportionately scrutinised by regulators as it takes increasing market share from incumbent credit card companies.
- The evolution and consolidation of competitors hampers its growth.
- Affirm loses its premium brand value as it expands across market segments.

**Short 10 Questions**

**CAN SALES DOUBLE IN THE NEXT FIVE YEARS?**

Yes, Revenue growth have been consistently >50% year on year.

**TEN YEARS AND BEYOND?**

Affirm takes sizeable share of the consumer credit market and merchant customer acquisition spending.

**COMPETITIVE ADVANTAGE?**

Its peerless brand value and technological expertise.

**IS THE BUSINESS CULTURE DIFFERENT?**

Founder led and mission driven to improve lives by providing ‘honest financial products’, and a culture innovation.

**CUSTOMERS LIKE YOU? SOCIETAL CONSIDERATIONS?**

Yes. Gross take rates of c10%, long term operating margins of 20-30% and 30%+ ROE.

**ARE RETURNS WORTHWHILE?**

Yes, Gross take rates of c10%, long term operating margins of 20-30% and 30%+ ROE.

**WILL THEY RISE OR FALL?**

Decreasing proportion of fixed and funding costs as Affirm scales should lead to increasing margins.

**HOW IS CAPITAL ALLOCATED?**

Technology development to maximise the user experience and machine learning models.

**COULD IT BE WORTH 5X AS MUCH?**

Yes. Revenue growth have been consistently >50% year on year.

**WHAT DOESN’T THE MARKET UNDERSTAND?**

Viewed as a B2B finance company instead of a merchant-customer platform, and opportunities beyond credit.
Alibaba

What it does
Alibaba is a Chinese company with businesses in e-commerce, cloud computing, digital media, entertainment, and payments through financial services platform Ant Financial. The group’s mission:
To make it easy to do business anywhere.

Why we own it
— Online transactions accounted for 30% of the total Chinese retail market in 2018.
— This share could grow to 50% (including customer goods and service) with Alibaba remaining the dominant market leader, currently 58% market share.
— Cross border opportunity – investing in T-Mall’s global platform.
— Altyun, the largest cloud services provider in China, should begin to contribute significantly to revenue.
— Ant Financial is the largest online financial service provider in China, with over 50% of the $16 trillion online payments market (30x the US).

How it could be worth many times more
— GMV (goods and services) grows at 25% p.a. in next five years to reach >$2trn.
— 4% take rate gives reserves of $80bn with operating margins of $32bn.
— Ant Financial backbone of consumption in China and one stop financial/life company for >2bn consumers.
— Expands e-commerce platform and payments outside China.
— Upside increases to greater than 5X over the next decade.

Where we might be wrong
— Domestic GMV grows at less than 10% p.a. in the next five years.
— International expansion and cloud businesses do not gain traction.
— Ant Financial loses to competition.
— Investments in new initiatives do not bring much benefit.
— High margins are competitors’ opportunity.

Short 10 questions
Can sales double in the next five years? 1
GMV will at least reach $1tn in 2020. Take rate will be improved from 2.5% to 4%, as more value added on service provision to SME merchants, including mobile advertisement, cloud and financial services.

Ten years and beyond? 2
International ecommerce, cloud computing and financial services.

Competitive advantage? 3
Scale and solid eco-system have been built to capture different opportunity sets in both consumer goods and services industry, including logistics, finance, entertainment, etc.

Is the business culture different? 4
Strong partnership culture that transcends any individual.

Customers like you? Contribute to society? 5
Yes! They provide the best and most comprehensive services to both online shoppers and merchants, committed to economic development to rural china and traditionally underrepresented groups.

Are returns worthwhile? 6
Asset light marketplace model made the business very profitable. EBITA margin recorded at 50%.

Will they rise or fall? 7
Margins will decrease in the near term with heavy investments into verticals and international expansion, which will pay-off in a longer investment horizon. The margin will be steady, c.40% in the long term.

How is capital allocated? 8
Logistic, cloud infrastructure, M&As inside and outside China.

Could it be worth 5x as much? 9
Confidence of 5x return in five years is higher than 5%.

What doesn’t the market understand? 10
Market is driven by China quarterly GDP numbers.
Amazon

What it does
From its origins as an online bookstore, Amazon has transformed into one of the world’s most influential companies in e-commerce, cloud computing, and AI. But it doesn’t stop there: physical stores, subscription services, and advertising are just some of the other growth pathways. It’s still Day 1.

Why we own it
— Addressable markets are incomprehensibly large, almost without number, and ever expanding.
— The technologies powering Amazon’s businesses get exponentially better and cheaper every year — all with the aim to delight customers.
— Bezos is one of the greatest business thinkers of our era. He has instilled a remarkable cultural advantage.
— AWS (Amazon’s cloud service) may be the most promising and potentially valuable business in the world in its own right. The Alexa platform is just as exciting. There will be others.

How it could be worth many times more
AWS 30–35% share of cloud @ 20% margins drives $50bn of FCF on a base of $300bn by 2027. From there, expect a steady state of cash generation, with considerable lock in of long run clients. This is valuable so stick with a 2.5% FCF yield basis despite lower profitability.
— Imply a valuation at late 2020’s maturity of c. $2trn or $4,000 per share.

E-commerce takes a bigger share of western world retail than we once thought with a large and rising percentage in 3rd party sales. In the US, a toll of 8% on 20% of retail implies c.$80bn of Cash. Margins lower than AWS despite apparently higher market dominance.
— $2trn might be realistic as a mature entity, or another $4000 per share.
— Viewing international valuation as equivalent per unit of sales means another $1trn or $2000 per share.
— Summing the above and using a discount rate of 3%, means that over the next 5 years we might contemplate $7,500–11,300 per share. The lower end of this range seems more probable.

Where we might be wrong
The history of retail dominance is replete with changes of leadership. Amazon faces credible competition from the likes of Shopify, Microsoft and Alibaba to name a few.
Expansion into other geographies doesn’t materialise as anticipated and Amazon becomes old before it becomes rich.
A tedious and long-lasting drift downwards to, say, $2,000 per share in 2025. Bezos’ commitments are increasingly inter-planetary so Wilke’s decision to leave matters.

Short 10 questions
Can sales double in the next five years? 1
Yes: AWS soars, retail profits boom.

Ten years and beyond? 2
Amazon becomes global operating system/platform ex-China.

Competitive advantage? 3
Customer-obsessed, long-term oriented, and willing to be misunderstood.

Is the business culture different? 4
Driven by a genius, company in accord.

Customers like you? Contribute to society? 5
Price, speed and continual upgrades please customers and increase living standards.

Are returns worthwhile? 6
Retail is getting there; AWS definitely!

Will they rise or fall? 7
Rising – perhaps dramatically.

How is capital allocated? 8
Towards opportunities with 1000x payoffs.

Could it be worth 5x as much? 9
Absolutely. Quasi-global and very popular – hard to compete with.

What doesn’t the market understand? 10
The market realises the model works, but not close to grasping the scale of the opportunity.
What it does

ASML – Advanced Semiconductor Materials Lithography – used to be part of Philips but was spun out in 1988. Their high-ticket lithography machines are used to manufacture semiconductor chips.

Why we own it

— Since 1965, when Gordon Moore coined the term, the continuing miracle of Moore’s law has underpinned several decades of computing power revolution. ASML is the dominant provider of high-end lithography machines and is central to its continuation.

— We own it as the trajectory provided by its new generation Extreme Ultraviolet (EUV) machines could see ASML grow handsomely for many years. It is also a systemically important company with read-through implications to some of our other largest holdings – the likes of Amazon, Cloudflare, NVIDIA, Tesla and so forth all ride the wave of increased computing power.

How it could be worth many times more

— The top line can grow 15%-20% p.a. for 10 years to €60bn (from c.€13bn in 2020), and operating margins expand from 27% to 40%. Capital return continues at ~70% of net income.

— This gives €24bn operating income in 2030, plus capital return to shareholders of €70bn over the same time frame for a 5x return.

Where we might be wrong

— Moore’s law finally comes to an end (or more accurately, geometric scaling reaches its limits).

— 3 nanometre wafers (the generation after this new generation) prove too difficult to produce.

— There is a prolonged downturn and overall growth reverts to GDP type levels.

— Two key people – Wennink and Van den Brink – don’t stay the course.

Short 10 questions

Can sales double in the next five years? 1

Yes. Sales have grown 16% the last five years and analysts assume a slowdown. With the criticality of EUV machines to customers’ technology roadmaps, growth of high-teens could be sustained for a long time.

Ten years and beyond? 2

The next-generation EUV and beyond keeping Moore’s Law alive and ASML dominant. As Van den Brink says of their progress: “the laws of physics won’t stop it so long as we have ideas – and we have plenty.”

Competitive advantage? 3

Technology – they are way ahead – and market share (dominant).

Is the business culture different? 4

A confident can-do culture espoused by Wennink and Van Den Brink that stays the right side of hubris.

Customers like you? Contribute to society? 5

Customers respect ASML for having the best machines and being at the forefront of technological advancement. Society has no idea how much it owes ASML – most of the conveniences and delights in our daily lives have been enabled by their lithography progress over the decades.

Are returns worthwhile? 6

Yes; currently operating margins are high 20%s and ROCE high 30%s.

Will they rise or fall? 7

They have fallen and risen with semiconductor cycles over the years, but the technological lead of their machines plus top line growth could see returns increase from here, with high-30s operating margins plausible.

How is capital allocated? 8

Significant spending on R&D to keep the technological lead. R&D continues at about 15% of total sales – a higher percentage of sales than the industry and an absolute figure which is a multiple of nearest rivals.

Could it be worth 5x as much? 9

ASML enables the accelerating global transition from physical to digital infrastructure.

What doesn’t the market understand? 10

Market over extrapolating cyclical from the past without understanding the secular growth thanks to a new generation of technology.
**What it does**

Founded 2002, Atlassian is an Australian developer of collaboration tools aimed at software developers and project managers. Its products help teams organise, discuss and complete their work; ultimately driving efficiency, time savings and reducing mistakes. Atlassian’s stated mission is to unleash the potential in every team.

**Why we own it**

– “Software is eating the world” – every business is affected.
– Explosive need for collaboration across organisations.
– A different business model with no direct Salesforce, no quarter-end pushes with a large amount of automated sales.
– Interesting culture led by two committed founders who are focussed on the long-term.

**How it could be worth many times more**

Atlassian offers the premier tools for software development co-ordination globally. Monetized through a very different model which avoids the economic contamination of massive salesforces.

On a ten year view, the addressable opportunity is vast. Atlassian has around 130k paying customers and there are well over 50 million addressable customers (SME’s and larger businesses) in the US and Europe alone. Atlassian has around 25 million active users and there are c. 1bn knowledge workers globally.

Wider adoption of the core software development franchise – Jira, Bitbucket and Confluence – and a similar outcome in efforts within the broader enterprise beyond developers, see Atlassian’s offerings are becoming increasingly “infrastructure-like”.

Salesforce’s revenues are 10x higher. Oracle’s are 20x higher. Atlassian’s growth rates are accelerating and there seem few impediments to the company attaining commensurate scale.

Free cash flow margins currently >30% and gross margins 85% but massive operating leverage from here.

**Where we might be wrong**

– New forms of collaboration emerge which make Atlassian redundant.
– The big players focus more on collaborative software – Microsoft (Teams), Salesforce (Slack)...
– There is a natural ceiling to what customers are willing to pay.
– Founders change their spots and sell out, hire a large sales team etc.

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Beigene

What it does
Beigene is a Chinese biotech company focused on immuno-oncology and molecularly targeted drugs for the treatment of cancer. The company vision is to ‘transform the biopharma industry, creating impactful medicines that will be affordable and accessible to more cancer patients around the world.’

Why we own it
- Beigene has been the poster child of a remarkable decade of progress in Chinese biotech.
- Co-CEO’s Oyler and Wang believe China’s vast population along with well-trained healthcare professionals can drive improvements in the global pharma industry.
- China is set to become a major oncology market. Sadly, lifestyle related cancers are rising quickly with a quarter of global cancer patients coming from China (4m vs US 1.7m).
- China is the 2nd biggest pharma market, it is growing quickly, and most drugs remain generics. The government want more innovative treatments which Beigene is providing.

How it could be worth many times more
- In PD-1 drugs, Beigene’s focus on Chinese prevalent cancers (lung, liver, gastric), could garner 20% of the 1.2m patients that the treatment could be relevant for (similar number possible internationally). $15k annual price tag (50% cheaper than overseas players) implies sales of $7.2bn globally.
- In BTK inhibitor drugs for B Cell malignancies, market leader Abbvie’s Ibrutinib generates sales of $5bn annually. This seems plausible for Beigene’s drug Brukinsa.
- The total $12.2bn in revenue compares with <$500m today. Applying a net margin of 20% to the total $12.2bn in sales suggests $2.5bn of net profits.
- Promising PARP Inhibitor is close to approval plus the 20 oncology candidates that recently came with the Amgen deal. Beigene could also move into auto-immune diseases towards the end of the decade. The company’s ambitious long term targets imply sales of over $50bn, achieved through in-house developed drugs plus partners’ drugs that leverage the clinical development infrastructure.

Where we might be wrong
- Efficacy of drugs are limited.
- Government constrains pricing.

Short 10 questions
1. Can sales double in the next five years?
   Yes, $400m sales in 2019 mostly from commissions relating to non-Chinese partners’ drugs. In-house developed drugs are now being launched and the Chinese oncology opportunity alone is vast and expanding.

2. Ten years and beyond?
   The Chinese oncology market will still be immature, more of the same is likely.

3. Competitive advantage?
   Scale, expertise, vision. Not just about drug development but developing best in class infrastructure.

4. Is the business culture different?
   Best from the West (Oyler) and East (Wang), combining science and business acumen.

5. Customers like you? Contribute to society?
   Yes, bringing world class treatments to cancer sufferers, tackling the ticking time bomb of cancer diagnosis and spiralling healthcare costs.

6. Are returns worthwhile?
   Revenue-sharing from distribution partners form the majority. In-licensing will continue to be important as time progresses.

7. Will they rise or fall?
   Innovative drugs have government support. Companies providing them are likely to produce attractive returns.

8. How is capital allocated?
   Building infrastructure as well as developing drugs.

9. Could it be worth 5x as much?
   Yes, the Chinese oncology market is in its infancy. Beigene is building a highly scalable clinical and commercial infrastructure that could be used for other drug categories and other markets. Potential is to be the pharma company that treats more patients than anyone else.

10. What doesn’t the market understand?
    The importance of the infrastructure. Not just another biotech.
**What it does**
Beyond Meat is a manufacturer of plant-based meat substitutes which are distributed through retailers and restaurants. The company recognised that all components of animal meat can be analysed, understood and then replicated from plant sources.

**Why we own it**
- There is an enormous growth opportunity in the alternative protein market, as both lifestyle choices and environmental concerns are resulting in plant-based products rapidly taking share from animal meat.
- Beyond Meat has been a pioneer in its approach, addressing the median carnivorous consumer rather than the vegan/vegetarian niche, and so aims to at least equal meat in terms of taste, cost, and nutrition.
- It benefits from an early mover advantage, a mission-driven culture, and remarkable execution under the leadership of founder Ethan Brown.

**How it could be worth many times more**
- Beyond Meat is looking “beyond meat” with a broader goal of undermining the use of animal derived protein.
- Processed meat market is $210bn in the US, $230bn in Europe, $90bn in China, and $11bn in Brazil.
- On a ten year view, even with no growth in these markets, a 3% share for Beyond Meat would imply revenues of >$15bn vs a run rate of <$1bn today.
- Assuming low teens margins, a degree of dilution to fund growth along the way and a Nestle / Kellogg type rating, a 5x return is comfortably plausible.
- The scenario above comes nowhere close to CEO Brown’s aspiration of dominating animal meat, nor does it include China, the world’s largest meat market, where Beyond Meat has partnerships with Alibaba, Starbucks, and Yum! Brands.

**Where we might be wrong**
- Failure to at least equal meat in terms of cost, experience and nutrition means there is no mass shift from animal protein to plant-based alternatives.
- Lab grown meat, such as that produced by Impossible Foods, is preferable to consumers.

**Short 10 questions**

1. Can sales double in the next five years?  
   Yes: a run rate of under $1bn versus $500bn of spend in the largest processed meat markets.

2. Ten years and beyond?  
   Beyond Meat becomes the preferred option to animal-protein in terms of experience, cost and nutrition.

3. Competitive advantage?  
   Scale from its head-start and rapid growth, and brand advantage.

4. Is the business culture different?  
   Ambitious founder with a clear purpose – yet pragmatic and adaptable as shown by the shift to retail as the pandemic hit.

5. Customers like you? Contribute to society?  
   Yes: tackling climate change, animal welfare and improving our health all at once.

6. Are returns worthwhile?  
   This is a food manufacturer rather than a software business but decent GMs and operating leverage within the business.

7. Will they rise or fall?  
   Rise substantially as R&D is leveraged, marketing becomes more efficient, and more production is brought in-house.

8. How is capital allocated?  
   Efficiently! Historically to R&D, now also increasing manufacturing and production capacity.

9. Could it be worth 5x as much?  
   Yes: Plant-based meat grows to a significant share of the mass meat market over the next decade, from the tiny fraction it is today (<2%).

10. What doesn’t the market understand?  
    Ultimate market size.
What it does
Bilibili began as a niche anime, comics and gaming platform with a hardcore following. Since then, it has diversified its offering and is swiftly becoming the ‘must have’ app for China’s most expressive generation. High-quality content and a sense of community have resulted in rapid user growth with its main revenue streams coming from subscriptions, advertising, e-commerce and distributing mobile games.

Why we own it
— Impressive engagement with the next generation of consumers.
— Massive opportunity to increase monetisation with time.
— Content driven culture combined with long term thinking.
— Huge opportunity to grow user base within China and expand into new markets.

How it could be worth many times more
Rapid user growth continues from a relatively low level of penetration combined with patient monetisation ramp up sees Bilibili’s worth many multiples of its current value. One route it could take is shown below:
— Subscriptions and advertising: Management have set the target of doubling MAU within three years; conservative estimates get us to 2x MAUs within five years. Bilibili is currently charging <40% of its peers. In 5–10 years, it’s plausible to assume ARPU doubles in line with the competition. 2x MAU combined with 2.5x ARPU results in 5x revenue.
— E-Commerce: This is the newest revenue stream for Bilibili, where Influencers sell products directly through the platform (clothing, toys, pencil cases, etc.). The same factors apply here, 2x MAU combined with 2.5x ARPU results in 5x revenue.
— Gaming: The industry is growing rapidly in Asia and there are early signals that Bilibili is disrupting the current duopoly of Tencent and NetEase, whilst enjoying a community advantage against downstream competition. 25% CAGR is achievable in an already rapidly growing market, which results in 3x revenue growth over five years.
— Net margins improve to 25%. A market multiple implies 5x today’s market cap within ten years.

Where we might be wrong
— Proves too hard to increase monetisation.
— Healthy relationship with the government breaks down and faces regulation headwinds.

Short 10 questions

1. Can sales double in the next five years?
   Yes, currently under-monetised and the userbase is growing rapidly.

2. Ten years and beyond?
   Becomes the primary entertainment app in Asia.

3. Competitive advantage?
   High quality content ensures greater engagement and a sticky user base.

4. Is the business culture different?
   Content driven culture. Management focused on the long term.

5. Customers like you? Contribute to society?
   The average wealth in China has increased dramatically, driving the need for cultural consumption. Fosters a positive environment for content sharing and provides a sense of community to the most expressive Chinese generation.

6. Are returns worthwhile?
   Not yet. Reinvesting in the business.

7. Will they rise or fall?
   Rise with increased users and monetisation.

8. How is capital allocated?
   Acquiring content and marketing.

9. Could it be worth 5x as much?
   Yes, Bilibili is a vital platform for the next generation of consumers in China.

10. What doesn’t the market understand?
    The value of culture and long-term management.
The NT in BioNTech stands for New Technology and the purpose is to combine biology, immunology and technology to improve lives.

Is the business culture different?

Multiple products on a ten-year view in infectious disease, oncology, cardiovascular, strokes and even ageing.

Ten years and beyond?

Yes. Ambitions to pioneer therapeutics for cancer and beyond, to patients worldwide.

Customers like you? Contribute to society?

Not yet. But given the low cost of goods sold associated with mRNA, future returns can be worthwhile at even lower prices and for more markets.

Are returns worthwhile?

Yes, potential to become a global, multi-product, immunotherapy powerhouse.

Could it be worth 5x as much?

Yes. Revenue uptick from the approved Covid-19 vaccine will be significant, boosted by multiple product candidates in clinical trials.

Competitive advantage?

Variety of technology platforms allow BioNTech to take a patient-centric approach and tailor therapeutics.

Is the business culture different?

The NT in BioNTech stands for New Technology and the purpose is to combine biology, immunology and technology to improve lives.

Customers like you? Contribute to society?

Yes, Ambitions to pioneer therapeutics for cancer and beyond, to patients worldwide.

Are returns worthwhile?

Not yet. But given the low cost of goods sold associated with mRNA, future returns can be worthwhile at even lower prices and for more markets.

Will they rise or fall?

Covid-19 has rapidly transformed BioNTech to a commercial company, helping financially, providing global reach and name recognition. This is just the beginning.

How is capital allocated?

Mostly on registrational trials, but also some acquisitions.

Could it be worth 5x as much?

Yes, potential to become a global, multi-product, immunotherapy powerhouse.

What doesn’t the market understand?

The unusual scope and scale of its ambitions in immunotherapy and determination of founders, along with highly selective partners.
What it does
Carvana is an online automotive dealership operating across the US with a mission to change the way people buy cars. Purchase any car, any vintage, with any features, at a competitive fixed price, with the option to have it delivered the next day or picked up using their popular coin-operated car vending machines.

Why we own it
- Tremendous market opportunity as the used car industry continues to move online, consolidating a highly fragmented, legacy car dealership network.
- Vertically integrated business model improves the car buying experience whilst lowering prices for consumers. Faster, better, cheaper.
- Culture of delighting consumers will help it build on its already strong brand and grow market share.

How it could be worth many times more
- Carvana’s ambition is to sell 2 million of the 40 million used cars sold each year by 2030. At $20,000 per unit (the current average), that implies revenues of $40bn which compares with a current revenue run rate of $4bn (c.200k cars sold p.a.) today. Little dilution is required to get there and there is scope for net margins to expand a little to 7%.
- In the very long term, there is also scope for the 10x case above to be augmented further. Each year, around 40 million used cars (under 8 years old) are sold in the US and Canada. Carvana might capture 1/3 to sell >13 million cars p.a. This scenario implies potential revenue of $266bn and net profits of $18bn. This >20x scenario would entail some dilution along the way.

Where we might be wrong
- It’s an expensive business to scale, can they achieve their sales targets without further dilution?
- A credit shock would likely impact the business.
- Competition from the likes of Vroom and CarMax means marketing costs stay elevated.

Short 10 questions
1. Can sales double in the next five years?
   Absolutely. 12 months is more likely.
2. Ten years and beyond?
   Continue to gain market share in an exceptionally large and inefficient market. Consolidation improves digital distribution and deepens advantage.
3. Competitive advantage?
   Simple, seamless and differentiated customer experience.
4. Is the business culture different?
   Long-term alignment with family ownership. Innovation around the customer experience with a deep level of engagement. Car vending machines anyone?
5. Customers like you? Contribute to society?
   Not yet. Costs of scaling are significant, but this will only deepen their moat over time.
6. Are returns worthwhile?
   Yes, continuing to take share in a fragmented market. The company aims to sell 2m of the 40m used cars sold every year in the US before the decade is out.
7. Will they rise or fall?
   Rise as selection, fulfilment and cost-density advantages provide flywheels.
8. How is capital allocated?
   Expanding the ‘Inspection & Reconditioning Centres’ and increasing inventory.
9. Could it be worth 5x as much?
   Absolutely. 12 months is more likely.
10. What doesn’t the market understand?
    There are more similarities with Amazon than there is with traditional car dealerships.
What it does
Contemporary Amperex Technology Limited (CATL) manufactures lithium-ion batteries, which are swiftly becoming essential for the global electrification of transport and grid-level energy storage.

Why we own it
— CATL is in the enviable position of facing two huge and consecutive growth opportunities, first EVs and then energy storage.
— CATL has astutely chosen to focus on the production of lithium iron phosphate (LFP) cells, in which it has a leading market position.
— LFP cells are increasingly attractive due to their safety characteristics, long lifecycle and are cobalt-free.
— Alignment with the Chinese government’s evolving decarbonisation ambitions.
— Led by a visionary founder, Robin Zeng, who has proved adept at forming many fruitful partnerships, including VW and Tesla.

How it could be worth many times more
— EV share of global auto market grows to 50 million vehicles by 2030, of which CATL secures a 40% market share.
— Average price of an EV is $30,000 by 2030. Innovation continues to lower battery prices to 15% of purchase price, implying $100bn revenue for CATL.
— Over half of all global energy comes from renewable sources by 2030, fuelling demand for storage solutions. CATL ramps up production to secure a 40% market share - i.e. 6TWh of grid-level energy storage, over $120bn revenue.
— Maintaining an operating margin around 15%, the combined EV and storage revenue streams could see earnings close to $40bn by the early 2030s. By then, the wider energy transition (notably storage) is only just getting into full swing.

Where we might be wrong
— A new battery technology disrupts CATL’s competitive advantage.
— CATL are unable to maintain margins as battery costs fall.
— Automaker relationships do not bear fruit.

Short 10 Questions
CAN SALES DOUBLE IN THE NEXT FIVE YEARS? Absolutely, strong tailwinds backed by excellent execution.
TEN YEARS AND BEYOND? Sustainable energy transition increases demand for CATL products. This could be a multi-decade holding.
COMPETITIVE ADVANTAGE? Astute and nimble R&D deployment.
IS THE BUSINESS CULTURE DIFFERENT? Yes, a highly skilled workforce obsessed with innovation.
CUSTOMERS LIKE YOU? SOCIETAL CONSIDERATIONS? Yes – providing cheaper solutions to their customers whilst accelerating the energy transition.
ARE RETURNS WORTHWHILE? Not yet, ramping up production capacity is expensive.
WILL THEY RISE OR FALL? Rise with scale over the long term.
HOW IS CAPITAL ALLOCATED? Increasing capacity and R&D.
COULD IT BE WORTH 5X AS MUCH? Yes, and even more in the very long term.
WHAT DOESN’T THE MARKET UNDERSTAND? The energy storage market will add a second wind of growth.
What it does
Cloudflare’s mission is to help build a better Internet. The company operates a global network which provides faster, more secure, websites and apps. Cloudflare is the foundation for anything connected to the internet.

Why we own it
— The move from on-premise IT to the Cloud continues at pace. Cloudflare helps when enterprises replace their network appliances with cloud-based services.
— Market leadership in reverse proxy services such as content delivery networks (CDN’s) and distributed denial of service (DDoS) protection. Currently protecting 26 million websites, however the market is vast.
— Three additional long-term opportunities in virtual private networks (VPN), edge computing, and multiprotocol label switching (MPLS).

How it could be worth many times more
— Enterprise customers see the attraction of cloud network services that work together, driving bigger addressable markets and multiple s-curves.
— Potential to replace telco products with cloud solutions
— Core product revenues continue to grow reaching $1.5bn, with a 28% EBIT margin and 2.5% yield, gets to $15bn. The bundling of other security products, which grows addressable market, makes another $2bn in revenues possible at c.40% margins.

Where we might be wrong
— The shift from legacy enterprise solutions proves difficult and not as rapid as we might hope.
— Opportunities in serverless computing becomes dominated by Amazon and Microsoft.

Short 10 questions
Can sales double in the next five years? 1
Comfortably, revenues of c.$350 million growing at CAGR >50%.

Ten years and beyond? 2
Enterprise networks continue their major architectural shift to the Cloud.

Competitive advantage? 3
Data, scale, ISP alignment, cloud-based.

Is the business culture different? 4
Mission driven to build a better internet. Innovation outsourced to decentralised hubs to foster experimentation.

Customers like you? Contribute to society? 5
Security more important as the online transition continues. Democratisation of technical resources that were only available to platform giants.

Are returns worthwhile? 6
A software business with 60+% incremental contribution margins.

Will they rise or fall? 7
Will rise meaningfully over time. 20% OPM’s seems unduly conservative.

How is capital allocated? 8
Growing server network and R&D.

Could it be worth 5x as much? 9
Addressable markets are massive and opportunities are widening.

What doesn’t the market understand? 10
Breadth of capability makes it hard to analyse.
Coupang

What it does
Coupang is an eCommerce company known as the Amazon of South Korea. It combines first-party and third-party fulfilment retail and delivers groceries using similar infrastructure. They also have a nascent takeaway delivery business, consumer payments, they are exploring video and other online offerings, and all this is wrapped up into a prime-type membership called ‘Rocket WOW’.

Why we own it
— It has the largest consumer logistics network in the country with end-to-end integration; South Korea’s density means that 70% of the population live within 7 miles of a Coupang logistics centre.
— South Korean retail has historically had a culture of price gouging. Coupang is disrupting this by offering a superior customer experience and competitively priced goods that are delivered quickly (>99% of orders delivered within 24hrs).
— Coupang’s structural advantage is extremely difficult for sluggish competitors to rival.
— Founder Bom Suk Kim thinks long term, rapidly iterates and has developed a culture different to most Korean corporates.

How it could be worth many times more
— A conservative revenue growth rate of 30% per year on optimistic projected revenues of c.$20 billion for 2021 results in c.$75 billion revenue in 5 years. Apply a conservative price/sales multiple to generate a >5x return.
— Driven by a mixture of increasing spend per customer, more product categories, improving take rate and a modest uplift in customer count.
— Coupang moves the remaining chunk of the retail market online and enjoys a winner-take-all share of the $500 billion South Korean retail market.

Where we might be wrong
— Coupang only addressing the South Korean market becomes a disadvantage.
— Competition in subsegments becomes an increased threat.
— Regulatory scrutiny on Coupang’s growing presence.

Short 10 questions
1. Can sales double in the next five years?
   Yes, revenue growth has been rapid. More users and product categories will fuel sales growth for years to come.

2. Ten years and beyond?
   Consumer expansion into video and financial services, merchant expansion by increasing 3rd party fulfilment and offering B2B business, and geographic expansion outside Korea.

3. Competitive advantage?
   Unrivalled physical infrastructure, largest delivery fleet in the country, very low delivery cost and superior user experience.

4. Is the business culture different?
   Notably different from most Korean corporates and an appealing place to work for employees seeking a new experience.

5. Customers like you? Contribute to society?
   Attractive pricing for goods, with a high level of convenience and climate conscious packaging.

6. Are returns worthwhile?
   Not yet due to heavy reinvestment.

7. Will they rise or fall?
   Rise in the next 5 years as costs deflate and margin comes through.

8. How is capital allocated?
   Infrastructure: fulfillment centres and delivery capabilities.

9. Could it be worth 5x as much?
   5x achievable just through extrapolation of current growth rates in retail.

10. What doesn’t the market understand?
    Coupang has the potential to push ecommerce flywheels further than any other company.
What it does
The largest global food network outside of China, with a leading position in nearly 50 countries spanning Asia, the Middle East, and Latin America. Asia accounts for half of orders and GMV.

Why we own it
— Beneficiary and driver of a deep long-term trend: gradual revolutionising of the grocery and restaurant industry underpinned by behavioural change.
— A founder who believes strongly in entrepreneurship. A unique federal structure that pairs local founder autonomy with centralised innovation.
— Recent expansion into ‘Quick Commerce’ offering rapid delivery of groceries and essentials represents a potentially enormous adjacent market.

How it could be worth many times more
Density, frequency and cultural change combine with success in Quick-Commerce to give real scale. 25% order growth out to 2030 gives a two-thirds share of an enlarged takeaway market (£70bn > £100bn) and a third of the same in Quick-Commerce for £100bn GMV and >£20bn top line compared with <£2bn today 15% FCF generation suggests a 5x return.

Where we might be wrong
— Quick Commerce winds up as an expensive niche for singletons and the lazy.
— A key local founder departs in a major bust-up and market growth stalls.
— Delivery Hero’s lunch is eaten by Rappi in South America and Meituan in Asia.

Short 10 questions
Can sales double in the next five years? 1
Several doublings are possible underpinned by new customers x greater order frequency x higher order value x increasing longevity of each new cohort.

Ten years and beyond? 2
Delivery of food and other essentials moves from occasional convenience to urban norm.

Competitive advantage? 3
Local dominance driven by cities but also by mindset. Willingness to eschew short-term profits (building out grocery won’t be cheap) for longer-term customer lifetime value.

Is the business culture different? 4
Distinctively decentralised and founder-led. Laser focus on customer experience and local specificities as opposed to free giveaways to win marginal territories.

Customers like you? Contribute to society? 5
Yes, new and returning customers order more frequently as the offer improves. Culture driven by values that emphasise environmental sustainability and giving back.

Are returns worthwhile? 6
No but the trajectory is decent. Marketing falling as a % of sales, which is suggestive of greater consumer loyalty (so fewer incentives to acquire or win back customers).

Will they rise or fall? 7
Rise with scale and increasing consumer lock-in due to selection and convenience.

How is capital allocated? 8
Bravely. Securing local leadership and doubling down on Q-Commerce (tripling Dmarts this year), selection and convenience.

Could it be worth 5x as much? 9
Economics of local monopsony on a low capital digital model with global leadership.

What doesn’t the market understand? 10
The potential to radically grow the takeaway market is underappreciated.
Dexcom

What it does
Dexcom is a manufacturer of sensors and display devices for continuous glucose monitoring (CGM). The primary application for CGM is to give diabetics more information about their blood glucose levels to better help them keep it within safe parameters. A superior and more convenient alternative to widely used ‘finger stick’ tests, ultimately improving patient outcomes.

Why we own it
- A revolutionary force in its market with a very large playing field and a strong technology lead.
- Long term opportunities overseas and in Type 2 patients.
- Increasing evidence that continuous glucose monitoring reduces costs.
- Dexcom sensors are the most accurate and don’t require finger calibration.
- Ballooning diabetes management problem.

How it could be worth many times more
- Over 400 million global diabetes sufferers, due to grow by 55% to 2040.
- High penetration in Type 1 and 2.
- Dexcom have < 1 million users today.
- Domestically, Dexcom revenues grow at >40% to 2025 and operating leverage sees margins rise to 35% => 5x upside.
- Scope for further expansion into overseas markets.

Where we might be wrong
- Sensors commoditise fast and margins fall.
- Significant advances in diabetes treatments that negates need for sensors.
- Economics of the industry prove to be more challenging.

Short 10 questions

1. Can sales double in the next five years?
   Yes, as the opportunity in the US expands and new European markets are entered.

2. Ten years and beyond?
   Opportunities in Asia and targeting Type 2 diabetes.

3. Competitive advantage?
   Most accurate sensor, smartphone compatible and no need to use finger sticks.

4. Is the business culture different?
   The culture is more focused versus incumbent Medtronic.

5. Customers like you? Contribute to society?
   Vocal patient advocacy groups, real quality life difference.

6. Are returns worthwhile?
   Gross profit currently c.65%; however operating income is negative.

7. Will they rise or fall?
   Operating margins should rise to at least 35%.

8. How is capital allocated?
   Organic growth, a focus on research and development.

9. Could it be worth 5x as much?
   Revenue growth continues; margins expand.

10. What doesn’t the market understand?
    The market is focussed on the short term medical news.
HDFC

What it does
HDFC is major provider of finance for housing in India.

Why we own it
— Management are operationally excellent and entrepreneurial but also prudent.
— Loan book has > $55bn of assets.
— The Indian mortgage market offers the potential for decades of rapid growth at attractive rates of return.
— Excellent underwriting record over the last 40 years. Non-performing loans <1.5% in contrast to the broader market.

How it could be worth many times more
Mortgage Business: penetration grows to c.20% of Indian GDP by 2030. Core mortgage business: delivers mid-teens loan book growth for another ten years, with HDFC holding its 20% market share. Steady 18% ROE and a 40% dividend payout ratio over ten years would see the valuation of the mortgage business reaching $70bn on 3x book (a high premium justified for an outstanding lender in a growing market).
HDFC Bank: can grow ahead of the industry by winning the customers from the smaller public banks with inferior customer service. 18% ROE and 80% retention would mean the 21% stake in HDFC Bank is worth $65bn on 3x book in 10 years.
HDFC Asset Management: can continue to take share from subscale competitors. If they are able to keep growing their $54bn of AUM slightly ahead of the industry, HDFC’s stake valued at 15% of AUM could be worth $20bn in ten years.
HDFC Life: Life insurance is still underpenetrated in India. HDFC has ~20% market share with strong solvency ratios. Mid-teens growth in embedded value would bring HDFC’s stake to $11bn in 2030. Total value of the entities that are listed today: $70bn in ten years. The currently unlisted holdings can add perhaps another $5–$10bn. Overall this gets us to 3–4x capitalisation gains over ten years if we assume no holding period discount. HDFC intends to list all the group companies when the time is right. Management’s excellent capital allocation may boost this to a 5x return.

Where we might be wrong
— Market opportunity smaller than it appears.
— Competition squeezes margins.
— Credit quality declines; write offs increase.
— Succession plans post Purekh and Mistry?

Short 10 questions
1. Can sales double in the next five years?
   Yes, many of the trends look set to continue.
2. Ten years and beyond?
   Traction in fastest growing affordable segment.
3. Competitive advantage?
   Shake out of smaller players trending to market share gains for HDFC who remain nimble. 150 experiments to integrate AI into customer experiences. The Life company is the leading online provider.
4. Is the business culture different?
   Pragmatic approach to growth, married with a strong willingness to experiment with new technologies and opportunities.
5. Customers like you? Contribute to society?
   Providing relatively quick and cost competitive funding for a life-changing purchase. Extensive financial education programme.
6. Are returns worthwhile?
   Operating margin very dependable over time.
7. Will they rise or fall?
   Margins stable diversifying its lending sources over the last decade to leave it less exposed to short term rises in lending costs.
8. How is capital allocated?
   New opportunities within the financial sector with more emphasis on returns to shareholders over the next decade.
9. Could it be worth 5x as much?
   Yes, over ten years.
10. What doesn’t the market understand?
    Longevity of the opportunity and culture.
What it does
Hermès is the ultimate luxury brand. Whether purchasing a bag, scarf, jewellery, tableware or furniture, consumers recognise the mastery of artisanal skills involved in making each product. Its Birkin and Kelly bags are the epitome of luxury.

Why we own it
— Family-owned since 1837, the overarching aim is to pass the company in ever better shape from one generation to the next. The investment horizon is thus extremely long term.
— The Hermès brand is above the madding fashion crowd, with supreme and timeless quality at its heart.
— The company controls its rate of growth and will never sacrifice artisanship for faster sales growth.

How it could be worth many times more
— The case still rests on the longevity of this thoughtfully-managed, ultra high-end brand
— Assume a mid-teens revenue growth ceiling to prevent brand dilution, but this growth has longevity → >€30bn in revenues in 15 years’ time
— Gross margin steady at 70%, cash margin steady at 25% ⇒ c. €8bn of cashflow vs. c. €750m of net profit pre-covid
— Possible further boost as structurally low interest rates increase the value of durable future cash flows

Where we might be wrong
— Hermès loses its appeal as too stodgy for younger customers.
— The family succumbs to in-fighting and the culture fades into history.
— Hermès gets the balance between exclusivity and production expansion wrong, diluting the brand’s appeal.

Short 10 questions
Can sales double in the next five years?  1
Yes, thanks to rising affluence, iconic brand status, new geographies, and pricing power.

Ten years and beyond?  2
More of the same, plus perhaps Shang Xia starts to shine.

Competitive advantage?  3
Refusal to chase volume is conducive to brand integrity and longevity.

Is the business culture different?  4
The family ownership is key. Same owners for 182 years. A truly longterm perspective.

Customers like you? Contribute to society?  5
Product quality is second to none and represents pinnacle of luxury. Hermès is a leader in developing and conserving artisanal skills and heritage.

Are returns worthwhile?  6
Yes, extremely attractive, c.35% margins.

Will they rise or fall?  7
Pricing power is huge and drifting up. 40%+ achievable.

How is capital allocated?  8
Organic growth for over 180 years. Its recent Shang Xia investment could take decades to pay off.

Could it be worth 5x as much?  9
4x return is plausible without brand damage. Faster growth could be a worry.

What doesn’t the market understand?  10
Power of compounding.
What it does
Illumina enables its customers to read and understand genetic variations. Its products allow for the sequencing of genomes at an unprecedented scale.

Why we own it
— Genomic sequencing has the potential to revolutionise healthcare for which the addressable market could be enormous. Illumina is the leader in this field in terms of technology, relationships, standards, equipment and service.
— Since we bought shares in the company, the proof of practical concept has become established – from pre-natal, to rare diseases to oncology.
— Illumina’s industry leadership has surged. This could be a settled domination.

How it could be worth many times more
The growth opportunity is huge, unlocked as sequencing costs march downward. Illumina’s competitive position has been strengthened with Qiagen’s capitulation – this is now a global oligopoly. Oncology is a $1bn business with 1% of patients having their tumours sequenced globally. The case for this rising to 90%+ as sequencing costs come down is strong.
Illumina can capture at least 1/3rd of that market for $30bn in revenues, with net margins of 30% achievable at such scale. Oncology alone could therefore deliver 5x today’s valuation, before we contemplate the longer term potential of sequencing for more routine conditions. Timeframe is the biggest question mark here – this stock requires a lot of patience.

Where we might be wrong
— This could still be a dead-end in terms of widespread clinical improvement.
— Illumina can’t extract value as the market develops – instead it goes to others.
— The speed of adoption by health providers and society significantly drags on (prevents?) growth.

Short 10 questions
1. Can sales double in the next five years?
   Yes – growth in treating oncology, pre-natal, and rare diseases.

2. Ten years and beyond?
   Genome sequencing of whole populations. Huge opportunity beyond humans.

3. Competitive advantage?
   Illumina is now the industry standard preferred choice.

4. Is the business culture different?
   Ambitious and science-driven.

5. Customers like you? Contribute to society?
   Invented the industry, dramatically lowered costs, and are delivering great clinical benefits.

6. Are returns worthwhile?
   Margins in the low 20% with scope to climb.

7. Will they rise or fall?
   They should rise high enough.

8. How is capital allocated?
   Purchase of Solexa in 2007 was key to establishing Illumina’s competitive position and the purchase of Grail is broadening it.

9. Could it be worth 5x as much?
   Yes, comfortably in the top 5% of outcomes – perhaps even more than a 35% chance.

10. What doesn’t the market understand?
    Hard to grasp the full scale of the global opportunity.
What it does
Intuitive develops and manufactures robotic products designed to improve clinical outcomes of patients through minimally invasive surgery.

Why we own it
— Robotic surgery has the potential to save money for the healthcare system and improve clinical outcomes for patients.
— Faster recovery and cost saving.
— Currently <1% of procedures are carried out robotically.
— Surgeons who are trained on these systems in the future can drive up the %.
— The technology can be applied to new clinical areas which technological advances will help with.

How it could be worth many times more
— 5% of surgeries are undertaken by Da Vinci – 10 million procedures p.a with no slippage in revenue per procedure. Margins hold steady – earnings 10x greater than today.
— Long run procedure growth in high teens accelerates to 20% p.a ⇒ 6x return over the next ten years.

Where we might be wrong
— Advances in diagnostics and treatments, rather than increasing the market size, could result in fewer invasive surgery procedures.
— New entrants into this market must be likely. The lack of competition seems anomalous.
— Are they too greedy? Should they not slash hardware prices to boost adoption and keep out rivals?
— Do Da Vinci machines take cost out of the system and does robotic surgery improve clinical outcomes?

Short 10 questions
1. Can sales double in the next five years?
Penetration in the US continues to rise and acceptance overseas rises.

2. Ten years and beyond?
Why not all procedures with robots? Overseas usage rises closer to US levels.

3. Competitive advantage?
Military background; clear market leader.

4. Is the business culture different?
Heavy R&D slant. Sales methods becoming less aggressive.

5. Customers like you? Contribute to society?
Less invasive, quicker recovery and better outcomes.

6. Are returns worthwhile?
Yes, OPM’s in the low 30s. ROCE of over 20%.

7. Will they rise or fall?
No competition just yet.

8. How is capital allocated?
Bought their main competitor.

9. Could it be worth 5x as much?
All depends on expansion in general surgery and the rest of the world.

10. What doesn’t the market understand?
Massive opportunities beyond the historical addressable procedures.
What it does
KE Holdings is a real estate service provider which in 2018 launched Beike, the largest integrated online housing platform in China. Beike provides brokerage, listings, transactions and other services, and is open for use by other real estate agents across China. In addition, KE owns the offline Lianjia brokerage brand and the Deyou franchise.

Why we own it
- Potential to become an operating system for the entire industry – for agents, property developers and other players.
- Vast opportunity for rapid growth. Launched only in 2018, Beike is already the second largest commerce platform in China (after Alibaba) in GTV.
- Strong tailwinds from a continuation of rapid urbanisation and desire for home ownership.
- Beike’s trust-building and standard-setting provide superior experience for all actors.
- Link between WeChat and Beike apps, thanks to Tencent’s strategic investment, enhances user experience.

How it could be worth many times more
- In 2019, the gross transaction value of the Chinese residential real estate market was c. RMB 30 trillion. This is expected to grow to over RMB 45 trillion by the mid 2020’s.
- Broker service penetration of 45% and a 50% share for Beike in this “winner takes most” market, implies RMB 10 trillion on the Beike platform vs. 2 trillion in 2019.
- With take rates of 3% (up from 2.3% today, but still well under US market levels), Beike’s revenues would be RMB 300bn which is > 5x current levels.
- With associated operating leverage, Free cash flow margins can grow as well. 15% seems plausible (though still lower than the c.30% level enjoyed by the likes of Alibaba).

Where we might be wrong
- The single biggest risk in our view is whether Alibaba enters this market and creates significant and costly competition.

Short 10 questions
Can sales double in the next five years? 1
Yes, Lianjia becomes the premium brokerage brand in China, the Deyou franchise penetrates lower-tier cities and lower price markets, while Beike steams ahead online.

Ten years and beyond? 2
Beike becomes the operating system for the entire housing industry.

Competitive advantage? 3
Unparalleled lead in data which continues to fuel the Beike user experience.

Is the business culture different? 4
The founder and chair Zuo Hui is focused on transforming the industry by building standards and infrastructure. The partnership model provides long-term sustainability of leadership.

Customers like you? Contribute to society? 5
Beike makes housing transactions safer, less complicated, more efficient and more enjoyable in China.

Are returns worthwhile? 6
Yes, but room to get much better!

Will they rise or fall? 7
Rise as Beike platform scales.

How is capital allocated? 8
Reinvestments into efficiency-enhancing technologies and data insights, while also exploring acquisitions of brokerage brands to solidify market leadership.

Could it be worth 5x as much? 9
Beike takes most of the market, margins rise, data lead creates an unassailable moat. This could be a multi-decade opportunity.

What doesn’t the market understand? 10
The market focuses on short-term numbers of property sales and prices in China.
What it does
Kering is an international group that owns luxury brands such as Gucci, Saint Laurent, and Balenciaga.

Why we own it
— CEO Francois-Henri Pinault’s combination of patience and entrepreneurialism drives the culture.
— An ensemble of complementary luxury brands that exhibit tremendous pricing power and longevity.
— Gucci, the group’s best-known brand, is led by a talented and restless eccentric designer, which could last for many years. Daniel Lee at Bottega Veneta is showing early signs of reinvigorating that brand, and ‘younger’ houses such as Balenciaga could grow to multiples of their current size.
— We believe that the central holding company adds value to the individual brands, particularly in regard to technology and sustainability innovation.

How it could be worth many times more
— Steady growth over a longer period acknowledging the unlikely probability that we can predict the individual brands.
— The emerging possibility that luxury might encompass more than clothes: ‘experiences’, dining, even furniture – Kering is unafraid of giving its brands freedom to experiment.
— 15% growth to 2030 gives ~€70bn of sales. Margins tick up a little to 35%. Implies earnings 4-5x higher than today.

Where we might be wrong
— Gucci hits the jackpot with designer, Alessandro Michele and this is as good as it gets.
— The long-awaited Asian brands emerge and usurp the European stalwarts.
— Whilst Gucci has proven indestructible, is it too dominant in a group context?
— Are there natural ceilings to luxury brands; can one really go above €10bn?

Short 10 questions
Can sales double in the next five years? 1
Gucci, Saint Laurent and a recovering Bottega Veneta give double-digit growth.

Ten years and beyond? 2
Balenciaga, Brioni and Alexander McQueen become €1bn+ brands.

Competitive advantage? 3
Heritage brands are well managed and aided by a patient, central owner.

Is the business culture different? 4
Pinault is one of the most thoughtful CEOs around.

Customers like you? Contribute to society? 5
Absolutely – the brands are emotional, aspirational and long-lasting. The company is a leader in environmental sustainability.

Are returns worthwhile? 6
Yes. Luxury appeal.

Will they rise or fall? 7
They carry on rising with Gucci’s scope and larger scale for the other brands.

How is capital allocated? 8
The ability to acquire great brands out of favour is a special one.

Could it be worth 5x as much? 9
The share price hasn’t kept up with the underlying growth rate.

What doesn’t the market understand? 10
Worried about cyclicality and over-reliance on Gucci, while overlooking Kering’s track record of patiently building up other brands and divisions to a significant scale.
Meituan

What it does
Meituan is an online marketplace for the local service industry in China. It operates in more than 200 categories in 2,800 cities with dominant market shares in on-demand restaurant delivery, in-store dining, hotel booking and film ticketing. From a user perspective, it provides rich information to help make better decisions when choosing services. From a merchant perspective, it helps with marketing, operational efficiency and other services like financial and supply management.

Why we own it
— Scale advantage: Meituan enjoys network effects that increase the loyalty of consumers, merchants, creating a barrier to entry.
— Delivery capability: Delivery infrastructure is key differentiator. Meituan has built the largest intra-city on-demand delivery network in China.
— Supportive and cooperative relationship with Tencent.

How it could be worth many times more
The founding team has their own blue-sky case of delivering 100m orders daily in China, up from around 24m today. Our blue sky: 40% of the local service market will be transacted online in 2025 (up from c. 15% today) => 15trn RMB market. Meituan has built out the indispensable infrastructure and takes a 50% share as the largest platform.
— Meituan’s Implied Gross Transaction Value of RMB 7.4 trillion is 10x today’s level.
Waing Xing thinks 20% is an achievable take rate in five years if Meituan wins in the grocery category.
— Implied revenue of RMB 1480bn compares with RMB 120bn today.
Structural EBITA margins settling at 20% provides ample scope for upside.

Where we might be wrong
— Alibaba takes over and dominates the services market.
— Founder, Wang Xing can’t handle the pressure of running a public company.

Short 10 questions
1. Can sales double in the next five years?
2. Ten years and beyond?
3. Competitive advantage?
4. Is the business culture different?
5. Customers like you? Contribute to society?
6. Are returns worthwhile?
7. Will they rise or fall?
8. How is capital allocated?
9. Could it be worth 5x as much?
10. What doesn’t the market understand?

Chinese service market grows to $3trillion by 2023 (100% CAGR).
Meituan will become a new Alibaba from Chinese service industry with 50% market share.
Duopoly with extensive eco-system platform approach across 100s of categories.
An enthusiastic CEO who is extremely long term and continually challenges Meituan management team.
“Always choose to do the right things for our customers and not the easy things for ourselves”
OPM margin of 10%-12% in the next few years.
Rise. Potential to be a global pioneer and innovator in designing the model of e-commerce platforms for services.
Technology, R&D, cloud-based ERP systems, smart payment solutions.
Service sector grows, take rate grows, market dominance.
There is no comparison in the non-Chinese market, could deliver 100 million meals by 2025.
What it does
A social media company which owns Facebook, Instagram, WhatsApp, Messenger and Oculus VR. The company’s mission is to give people the power to build community and bring the world closer together.

Why we own it
— Management team with the desire to experiment and who are committed to the long-term.
— High engagement >¼ of the world’s population are users => 2bn+ people.
— Huge opportunities in advertising and beyond.
— Truly global reach (ex China) over 70% of users in ROW and Asia.
— 1bn+ networks ripe for monetisation: FB, Instagram, Messenger, WhatsApp…
— Incredible profitability >40% Operating Margin.

How it could be worth many times more
Facebook has captured roughly 45% of the world’s internet users but only 8% of the $1trn advertising market. Their advertising revenue per user (ARPU) can grow significantly.
— Very high and reliable ROIs to advertisers, better than other online/offline competition.
— US ARPU is currently $186. The worldwide average ARPU is now where the US ARPU was 5 years ago. Nearly ¾ of users are outside of the US so worldwide ARPU growth would be significant.
— If worldwide ARPU grows to c. $70 p.a., user numbers remain static at c. 3bn, implied advertising revenue is $200bn.
— Net margins in core advertising can clear 45% as growth strain eases. This stream of profits implies 3–4x upside.
— More nascent revenue streams apart from Oculus, embryonic ecommerce initiatives have the potential to unlock another very large market.

Where we might be wrong
— Sales slump to nominal GDP type – 5% growth, as advertising appeal proves finite.
—Advertisers cannot find new formats without spoiling the user experience.
— Privacy concerns continue and undermine usage growth.
— Regulators intervene clumsily.
— Nothing lasts forever – a millennial invents a new way to socialise and Facebook becomes My Space.
— Zuckerberg becomes imperial CEO…

Short 10 questions
CAN SALES DOUBLE IN THE NEXT FIVE YEARS? 1
Gradual change from user growth to increasing monetisation led by video and AR/VR.

TEN YEARS AND BEYOND? 2
The other platforms kick in – Instagram is the place for brands; WhatsApp mirrors WeChat, etc.

COMPETITIVE ADVANTAGE? 3
Scale unlocks everything – more data creates more demand from advertisers giving better user experience = virtuous circle.

IS THE BUSINESS CULTURE DIFFERENT? 4
Organisation attracts smart people. User experience key but also takes bold decisions.

CUSTOMERS LIKE YOU? CONTRIBUTE TO SOCIETY? 5
Engagement keeps rising as the experience improves. Laudable aim to connect everyone worldwide. Response to privacy/fake news concerns key.

ARE RETURNS WORTHWHILE? 6
Remarkable for a 10 year old business investing $5bn+ in R&D.

WILL THEY RISE OR FALL? 7
Margins could rise after a period of heavy investment.

HOW IS CAPITAL ALLOCATED? 8
Not afraid to invest either organically or acquisitively – Instagram a stroke of genius.

COULD IT BE WORTH 5x AS MUCH? 9
Absolutely – the shares continue to de-rate as earnings explode.

WHAT DOESN’T THE MARKET UNDERSTAND? 10
Truly global company with huge monetisation potential in ROW. Western Societal question marks loom larger than global potential.
**What it does**
Moderna is a biotech company that develops medicines based on messenger RNA (mRNA). mRNA transfers information stored in our genes to the cellular machinery, called ribosome, that produces all the proteins required for a healthy life.

**Why we own it**
- The technology has transformational potential. Control the RNA transcription process and you control the body, influencing proteins to prevent and eradicate disease.
- The platform aims to address the ‘big four’ killers – autoimmune disease, cardiovascular disease, cancer, infectious disease.
- Developing treatments untreatable with existing technologies, improving disease management where treatments already exist, whilst driving drug pricing down over the long term.
- CEO Stéphane Bancel and R&D lead Stephen Hoge drive Moderna’s bold, curious and collaborative culture.

**How it could be worth many times more**
- Current revenue boosted by SARS-CoV-2 vaccine rollout. Current supply deals of ~300m doses at $20 per dose and apply the average Phase III-to-approval probability in infectious disease trials of 75%, we obtain a probability adjusted revenue stream of $4.5bn. Either the virus weakens such that vaccination only makes sense as a one-off, or it’s endemic leading to a revenue stream of booster doses at a higher price point. The latter case would see post-pandemic addressable demand of perhaps 500m annual booster doses. If Moderna supplied a quarter of this demand at 3x the pandemic pricing, an ongoing revenue stream of $7.5bn materialises. 10x those sales, reflecting the derisking of the technology and broader applicability would put Moderna at 3x its current value.
- But if the coronavirus is validated, we can see Moderna as a notable player in the vaccine space in general. The rest of the pipeline is exciting: 12 candidates ex. Coronavirus that have entered clinical trials vs 11 for BioNTech and 3 for CureVac. The total prescription drug market is around the $600bn mark today, not including generics and orphan drugs, so the scope for further upside is clear.

**Where we might be wrong**
- Biology risk – efficacy within each modality underwhelms.
- Technology risk – the platform technology does not materialise.

**Short 10 questions**
1. Can sales double in the next five years?
   COVID vaccine deposits continue to roll in.

2. Ten years and beyond?
   Creation of an operating system for disease with the ability to tackle the ‘big four’ killers.

3. Competitive advantage?
   Focus is on the technology rather than the biology.

4. Is the business culture different?
   Motivated management with a long-term time horizon.

5. Customers like you? Contribute to society?
   Yes. Therapies giving hope to the previously incurable and restoring those condemned to decline.

6. Are returns worthwhile?
   Not yet but scale will help.

7. Will they rise or fall?
   20% returns possible with platform success.

8. How is capital allocated?
   Research and manufacturing.

9. Could it be worth 5x as much?
   Transforming the drug development process will revolutionise the healthcare industry.

10. What doesn’t the market understand?
   The pandemic represents an accelerant for the technology and is shifting the probability of success.
What it does

Netflix is a streaming service that allows members to watch TV series, documentaries and feature films across a wide variety of genres and languages. Members can watch as much as they want, anytime, anywhere, on any internet-connected screen and can play, pause and resume watching, all without commercials or commitments.

Why we own it

— The first truly global content & distribution media brand. A huge intangible advantage against disjointed, national competition.
— Latent pricing power – monthly charge under-prices.
— Quality product on demand.
— Netflix has proven that American content can travel well and that local shows can enjoy great success.
— One of the most unique cultures in the world.
— Scale matters – the economics improve substantially as the business grows.

How it could be worth many times more

Both subscribers and the catalogue of evergreen inventory keep growing and returns to scale kick in as Netflix amortises these costs over an ever-larger subscriber base.
— Ex-China, there are 1.7bn pay TV households globally (2018 data). In the long run, it seems likely that they will all shift to streaming.
— Given Netflix’s powerful and growing competitive advantages, 70% penetration of streaming households is plausible. 1.2bn households at $8 per month points to $115bn of revenue compared with a run rate in the mid 20-s today.
— Content spend remains at 40% of sales (a formidable $46bn budget); but strong leverage in other expense lines drives 40% margins for $46bn of profits after tax. Sticky because of that content budget.
— A market multiple implies 5x today’s market cap and accelerated cord-cutting patterns put this somewhere between a 5–10 year outcome.

Where we might be wrong

— It gets the content/cost equation wrong and becomes an old-fashioned studio reliant on hits with concomitant cyclicity.
— Competition fights back – Prime persists and Disney, HBO and others succeed in going ‘over the top’ addressing cord-cutters and cord-nevers.
— Regulatory change is negative – higher charges for bigger files.
— We move beyond streaming and Netflix becomes a stranded incumbent.

Short 10 questions

1. Can sales double in the next five years?
   International subscriptions now bigger than US and growing much faster.

2. Ten years and beyond?
   Virtuous circle of best content continues to drive more subscriptions which is invested in better content.

3. Competitive advantage?
   Customer experience; choice; focus. Great to have Amazon and others challenge their dominance as it validates the move to streaming.

4. Is the business culture different?
   Definitely – from Hastings to HR they live and breathe innovation.

5. Customers like you? Contribute to society?
   Ad free content that can be watched anywhere at any time.

6. Are returns worthwhile?
   Starting to be with double digit OPMs as content costs amortised over more subscribers.

7. Will they rise or fall?
   Expect steady rise from here – question is where will they get to? 30%+ in the long-term.

8. How is capital allocated?
   Organic expansion driven by huge investment in content spend at c.40% of sales.

9. Could it be worth 5x as much?
   Yes. The world’s first global media brand.

10. What doesn’t the market understand?
    Obsessed with competition especially Amazon and content.
Short 10 questions

1. Can sales double in the next five years?
   Just the foothills. Progress toward ½m cars per year and approaching 1m members cumulatively.

2. Ten years and beyond?
   Mass-market IP licencing, premium memberships, autonomy. Joint ventures with Changan and GAC capable of 2m cars per year (1/3rd of market)? Level 4 autonomy to be commonplace in China before the West?

3. Competitive advantage?
   Deep connection with its member community. Aspirational brand and lifestyle choice. Technology.

4. Is the business culture different?
   Yes. Bringing joy to customers through design, value, community, exceeding expectations, honesty.

5. Customers like you? Contribute to society?
   So far, emphatically yes. Demand has been greater (and broader) than even the company expected.

6. Are returns worthwhile?
   Not at the moment. Still investing heavily behind the vision.

7. Will they rise or fall?
   If NIO becomes primarily an IP licensor with low manufacturing investment, returns could rise steeply.

8. How is capital allocated?
   Technology (primarily software), R&D and expanding the NIO House network.

9. Could it be worth 5x as much?
   The Chinese car market continues to grow, EV sales increasingly dominate, and NIO becomes the domestic champion.

10. What doesn’t the market understand?
    Lazy analogies to Tesla (the visions differ) combined with fearfulness at the short-term capital needs.
What it does
NVIDIA designs Graphics Processing Units (GPU’s) for the gaming industry and system-on-a-chip units for the mobile and automotive markets.

Why we own it
— Leader in graphic computing, an enabling technology for:
  — Virtual reality
  — Driverless cars
  — Artificial intelligence
— Three large growth opportunities could become reality sooner than expected.
— AI computing demand continues to double 3–4 months, 5x faster than Moore’s Law.

How it could be worth many times more
— $50bn worth of deep-learning chips can be sold into the $1tn datacenter market a year. NVIDIA’s share could be 80% in an aggressive scenario with this $40bn revenue stream supplemented by a number of accelerants:
  — Autonomy technology. Assume 20% of global annual car production carries Nvidia’s software and hardware elements, priced at $600 on average => $12bn revenue contribution.
  — Edge computing. Further broadens out the opportunity beyond non-automotive: perhaps $10bn from areas such as robotics.
  — The integration of ARM. Expands the opportunity set into CPUs and systems-on-chips. Nvidia-ARM could capture at least $10bn of revenue from Intel’s fraying $70bn revenue base.
  — Incremental revenue from gaming and professional visualization: increasing use of digital production technologies and virtual reality drives a longer term $10bn contribution vs. $5bn today.

The $80bn total revenue above compares with low teens today. Using a stretching 40% net margin assumption (vs.33% today), Nvidia’s profits would be c. $30bn.

Where we might be wrong
— GPUs are not the best chip technology for machine learning/artificial intelligence.
— Virtual/augmented reality fails to supplant smartphones and PCs.
— Processing power is distributed (small, low power chips locally) rather than centralised (high power chips in servers).
— Underlying technology becomes commoditised.

Short 10 questions
Can sales double in the next five years? 1
Virtual reality reinvigorates high-end PC sales, machine learning drives GPU use.

Ten years and beyond? 2
Machine learning and artificial intelligence move into the cloud, powered by NVIDIA server GPUs. Driverless cars use NVIDIA’s “supercomputers” to navigate.

Competitive advantage? 3
Ambitious founder/CEO thinks deeply about the company and its employees, driven to exploit large emerging markets in AI/VR/driverless cars.

Is the business culture different? 4
Best graphics chips for gamers translate to virtual reality customers, first (only?) company with a commercially available AI chip/software for researchers.

Are returns worthwhile? 5
Yes, growing market share has led to rising gross and operating margins.

Will they rise or fall? 6
High R&D expense will be offset by sales of premium products for high-end virtual reality and AI research.

How is capital allocated? 7
R&D is 30% of sales with infrequent acquisitions.

Could it be worth 5x as much? 8
Yes. Three large growth opportunities combined with a strong competitive advantage.

What doesn’t the market understand? 9
Potential of artificial intelligence and virtual reality to usher in new computing age.
Peloton

What it does
Peloton uses technology and design to connect the world through fitness. Users can buy home fitness equipment, such as a bike or a treadmill and subscribe to the digital service, which offers live and on-demand classes. Alternatively, they can subscribe solely to the digital service, where the offering ranges from yoga to rowing and meditation classes.

Why we own it
— Technology-first approach to an industry which has seen little innovation in decades.
— Peloton ensures high levels of customer engagement, a strong brand and quasi-cult following by controlling the whole experience from content creation through to sales and delivery.
— Peloton benefits from scale with regards to content. Its impressive digital class offering can service a growing online community.

How it could be worth many times more
Peloton’s market could extend far beyond existing gym-goers to include people who want the convenience of home fitness. Greater geographic expansion is likely.
— 25 million subscribers by 2030 seems plausible vs 1.5 million today. At $40/month => $12bn revenue.
— Returns to scale and a cult-like brand sees marketing spend dropping to 10% of sales and net margins grow to 20% by 2030 => $2.5bn of profits implies a market cap of 2x today’s.
— But this seems almost tame. We have increasing reasons to believe that the company might succeed in its 100m member ambitions.
— 75m connected global fitness subscribers => $150–200bn valuation on a low-to high-teens steady-state cash flow multiple.
— Comfortably reach 60% blended gross margins with hardware ASPs falling to $1600 and subscription holding steady at $39 per month.
— Subscription/hardware revenue mix would invert to ~80/20. This shift from hardware to software over time, would meaningfully change the company’s long-term earnings power.

Where we might be wrong
— An expensive service. Is Peloton a product for those who can afford expensive toys and expensive hobbies?
— Competition emerges from incumbents and global “tech giants” - e.g. Facebook, Amazon, Alibaba etc.

Short 10 questions
1. Can sales double in the next five years? 
   Yes. By disrupting a large and expanding fitness market. One stop shop for all needs from bootcamp to recovery.
2. Ten years and beyond? 
   With continued international expansion, Peloton can address the global obesity crisis that continues to rise.
3. Competitive advantage? 
   A hugely enthusiastic and loyal customer base, vertical integration, scale benefits, and a genuinely inclusive culture. The potent combination of convenience and entertainment makes it hard for would-be imitators to undercut them on price alone.
4. Is the business culture different? 
   A company built on the foundations of high-energy, ambition and customer-focus. Led by a persistent and adaptable founder, John Foley.
5. Customers like you? Contribute to society? 
   Peloton has a quasi-cult following. It offers convenience and flexibility, making the physical and psychological benefits of exercise more achievable.
6. Are returns worthwhile? 
   Not yet, margins will improve gradually in the next five years as costs of growth decline.
7. Will they rise or fall? 
   Rise as marketing and G&A costs decline over the next 10 years.
8. How is capital allocated? 
   Continued investment in international expansion, equipment, content, showrooms and company culture.
9. Could it be worth 5x as much? 
   Yes. By disrupting a large and expanding fitness market. One stop shop for all needs from bootcamp to recovery.
10. What doesn’t the market understand? 
    An industry that has thus far remained stubbornly oblivious to opportunities created by digital distribution, stands to be transformed.
What it does
Pinduoduo (PDD) is a social e-commerce platform targeting the hundreds of millions of Chinese consumers who are not currently part of the Alibaba ecosystem, typically live in rural areas and are elderly. Pinduoduo means ‘Shopping together, more saving, more fun’. When a user wants to buy a product they can either place an order directly or start a shopping ‘team’ and invite their friends or family via Tencent’s messaging app, WeChat. As more team members participate in the purchase, more of them enjoy a better deal.

Why we own it
— PDD brings exposure to customers living in lower tier cities in China, giving people in remote provinces access to basic items and food to eat. It is also facilitating consumption escalation and upgrade.
— The powerful social networks (WeChat and QQ) are becoming the most effective and efficient tools for buyer acquisition and engagement in China. Tencent’s significant ownership can help PDD to sustain this advantage.
— The strong Chinese characters, mobile-first, massive data, artificial intelligence capabilities can be also well leveraged by PDD, to optimize the entire supply chain, from buyers to manufacturers.

How it could be worth many times more
Chinese retail continues to grow to $10trn by 2024, with ecommerce capturing a larger share, reaching at least 60%. PDD’s growth continues to surprise, reaching c.30% market share in 2024 from 10% in 2019, giving $1.8tm in GMV. Taking a 10% share of the online travel market adds another $0.06tm in GMV giving $1.86tm. The blended take rate trends up to 5% as their ‘demand integrated supply chain model’ grows in appeal, and their intelligent SaaS systems become invaluable for manufacturers. An operating margin of c.25% on revenue of >$90bn implies a market cap many times larger than today.

Where we might be wrong
— Growth runway is limited and users migrate to other platforms as they become wealthier.
— Struggles to become profitable with scale and resorts to excessively subsidising its consumers’ discounts.

Short 10 questions
1. Can sales double in the next five years?
   Yes, by growth in retail sales and online consumption of goods. Targeting those whose spending power is likely to grow quickly.
2. Ten years and beyond?
   Improve the efficiency and quality of the supply chain in the manufacturing industry in China.
3. Competitive advantage?
   New social based e-commerce model, value-for-money merchandise and the potential to transform the manufacturing industry.
4. Is the business culture different?
   Ambitious young founder Colin Huang describes culture as ‘Costco + Disney’.
5. Customers like you? Contribute to society?
   Yes. Targeting low tier cities to drive consumption, empower SME’s, create jobs and transform the ‘old economy’.
6. Are returns worthwhile?
   Not yet, margins will improve gradually in the next few years.
7. Will they rise or fall?
   Rise to mid 20s over the next five years.
8. How is capital allocated?
   Investment in technology, expansion opportunities outside China and building a partnership structure to make it an attractive place to work.
9. Could it be worth 5x as much?
   Advertising revenues, market share and take rate all set to rise.
10. What doesn’t the market understand?
   Pinduoduo is still unknown to many.
ROBLOX

What it does

Roblox is best described as a ‘Virtual High Street’. It is a User Generated platform that is mostly used by teenagers to meet their friends online and create content. Roblox blurs the line between a game developer, a game distributor, and the underlying development environment that powers the games. In doing so, Roblox works to lower the barrier to digital content creation and assist in finding a market for that content.

Why we own it

— Since 2004 Roblox has taken a distinctive approach to building a gaming business that looks quite dissimilar to others. It mitigates the risk associated with the success of a given piece of content by facilitating more on-platform creation, not dissimilar to Shopify.
— It looks, in some respects, more like a social media platform than a gaming franchise. It has built an exceptional niche in content for children, and has very good scope to increase monetisation and expand beyond it.
— Efficient and disciplined capital allocation is a key value. Roblox has scaled the business with very little outside capital and the bulk of investment has been organic.
— From the start, founder Dave Baszucki has been committed to his vision, patient and undeterred.

How it could be worth many times more

— Potential to expand the number of daily active users from c.50m today towards a ceiling of 300–350m. Driven by cohort age expansion and replication of penetration rates achieved in the US more internationally but ex-China. Snapchat is 300m, by way of example.
— Monetisation of users driven by increasing customisation, brands identity in Roblox, education, music, advertising and eCommerce. All of this can drive engagement, aside from bookings. A huge opportunity is addressable given Roblox’s ability to recreate aspects of the real economy within its own ecosystem. An annual average of $80 bookings per user globally might be achievable.
— This suggests c.$25bn of annual bookings in a good outcome. Given how capital light this is, the margin could very plausibly be north of 50% if they opted to harvest over sow, but something around $10bn of FCF as an upper-bound is pretty reasonable on an intermediate LTGG time frame – more than ample upside.

Where we might be wrong

— Inadequate moderation of additive or toxic content alienates certain user groups.
— Fails in expanding beyond existing US, youthful cohort, or that cohort proves flighty.
— Take rate proves overly aggressive and creators defect to alternative expressions for digital entertainment.

Short 10 Questions

CAN SALES DOUBLE IN THE NEXT FIVE YEARS? 1
Yes. User expansion driven by aging-up and geographic expansion, and monetisation driven by increasing product depth.

TEN YEARS AND BEYOND? 2
Baszucki articulates a vision of 1bn users. The limit to what can be recreated within this ecosystem in terms of economic structures is unbounded.

COMPETITIVE ADVANTAGE? 3
Exceptional social elements, with shared game play, and very low customer acquisition costs.

IS THE BUSINESS CULTURE DIFFERENT? 4
Aligned founder with ambitious vision at the helm of a company that has consistently made unique decisions to forge its own path.

CUSTOMERS LIKE YOU? SOCIETAL CONSIDERATIONS? 5
It’s fun. The more people play, the more incentive there is to create content within Roblox. Some question marks over moderation over long-term and take-rates, however.

ARE RETURNS WORTHWHILE? 6
Income statement skewed by amortisation, but underlying is extremely positive. Implied cash returns on equity 100%+ and virtual currency means very low-cost ‘float’ financing.

WILL THEY RISE OR FALL? 7
Rise with scale as investments for growth become smaller as a % of total revenues and asset turn improves.

HOW IS CAPITAL ALLOCATED? 8
Facebook needed 5x more external capital to reach similar scale, so trajectory of capital allocation is strong. Intend to scale organically and focus on platform technology and moderation.

COULD IT BE WORTH 5X AS MUCH? 9
Yes. User expansion driven by content flywheel. If 1bn users is achieved and bookings per users look even vaguely like current US metrics, we can imagine valuations in the hundreds of billions.

WHAT DOESN’T THE MARKET UNDERSTAND? 10
Sees Roblox as just another cyclical “one hit wonder” in gaming, rather than an enduring ecosystem that can extend into many aspects of virtual daily lives.
What it does

US cloud-based software company. It provides customer relationship management (CRM) services and also sells a complementary suite of enterprise applications focused on customer service, marketing automation, analytics, and application development.

Why we own it

— The debate on the move to the cloud is over and Salesforce is the clear leader.
— The addressable market is continually under-estimated as it is not limited to CRM but the whole of enterprise spending.
— A founder-managed business focused on capturing a large opportunity by evolving rapidly with customer demand.
— The incumbents can’t respond because they are caught by their high-margin legacy businesses.

How it could be worth many times more

Global IT spend is >$2trn. Cloud & SaaS penetration can grow from <20% to >70% of that and Salesforce can address a growing chunk of that SaaS market through its ever-expanding product suite. This gives the company runway to keep compounding revenues in the mid-twenties for another decade => 2030 blue sky revenues grow from the current run rate of c.$20bn to c.$180bn.

The company’s orientation toward reinvesting for growth suppresses the reported bottom line, but unit margins averaging 40% today hint at the limits of profitability in steady-state. After R&D (low teens), G&A (high single digits) and tax, we’re left with profits just shy of $40bn, with 5x upside on a market multiple.

Where we might be wrong

— Incumbents surprise us and rise phoenix-like from the ashes and revenue stalls.
— One trick pony, can only sell, no after sales service.
— Growth strain creates an organisational mess or a service interruption which destroys reputation.
— Margins stall as the company spends to grow.

Short 10 questions

1. Can sales double in the next five years?
   Ongoing customer growth and bigger contracts from existing clients.

2. Ten years and beyond?
   Global IT spend is $2 trillion and all of it migrates to the cloud.

3. Competitive advantage?
   Incumbents can’t adapt. Cloud model means a better product creating virtuous customer circle.

4. Is the business culture different?
   Benioff – passionate, driven & philanthropic.

5. Customers like you? Contribute to society?
   Faster implementation, lower maintenance cost, less hassle.

6. Are returns worthwhile?
   Yes, Gross Margins >70%, operating margin will continue to improve – as subscription models kick in.

7. Will they rise or fall?
   Starting to rise rapidly – they can get to SAP/Oracle peaks of 35%.

8. How is capital allocated?
   More of the cashflow is being directed to buying businesses.

9. Could it be worth 5x as much?
   The opportunity set continues to grow and the competition is nowhere.

10. What doesn’t the market understand?
    Not giving credit of ‘underlying’ profitability.
**SEA**

**What it does**
Founded as a Singapore-based gaming distributor in 2009, SEA has grown into the leading gaming, e-commerce, and digital finance company in South East Asia and increasingly beyond. It isn’t a business that is defined by a given geography or vertical, but more of an active deployer of growth capital across underserved customers across the world.

**Why we own it**
- The global gaming market is now the biggest entertainment industry and growing rapidly with SEA the dominant player in its region. Its largest franchise, Free Fire has over 750m users producing >$1bn of cash flow annually to seed expansion in other segments.
- Shopee’s social features, gamification and empowerment of third-party merchants has led it to increasingly dominate in a region where online penetration is still a small fraction of total retail.
- The broader opportunity in digital payments, credit, savings, and wealth is enticing considering around three quarters of SEA’s target customers in some regions are underbanked or unbanked.
- Founder Forrest Li is a long term visionary – relentlessly prepared to solve problems from first principles in a highly decentralised way.

**How it could be worth many times more**
- The gaming business can continue to deepen its relationship with a huge user base and achieve success with a pipeline of proprietary and third party games. It could plausibly reach upward of 1.2bn users in total and roughly $10 a year per user, with some users paying directly and others monetised indirectly, on a 33% net margin that contributes about $4bn of free cash flow across the gaming business. It alone is worth $80bn in this bullish but plausible eventuality.
- Some of the fastest GDP growth in the world, increasing online penetration and economic growth in core region, and expansion to new verticals and countries.
- The broader opportunity in digital payments, credit, savings, and wealth is enticing considering around three quarters of SEA’s target customers in some regions are underbanked or unbanked.
- Founder Forrest Li is a long term visionary – relentlessly prepared to solve problems from first principles in a highly decentralised way.

**Where we might be wrong**
- Dilution of the entrepreneurial, experimental culture due to breakneck speed of expansion. Broadly, that they bite off more than they can chew.
- Both local and global competition intensifies, limiting market share expansion.
- SEA’s pipeline of proprietary and third-party games underwhelm.
- Regulation of perceived-foreign entrants into new markets.

**Short 10 Questions**
1. **CAN SALES DOUBLE IN THE NEXT FIVE YEARS?**
   Consistently >100% revenue growth so far in the context of almost limitless market depth.
2. **TEN YEARS AND BEYOND?**
   Increasing online penetration and economic growth in core region, and expansion to new verticals and countries.
3. **COMPETITIVE ADVANTAGE?**
   Strongly social elements in both games and eCommerce, gaming talent, cash stream to subsidise other markets and Tencent relationship.
4. **IS THE BUSINESS CULTURE DIFFERENT?**
   Hyper decentralised model empowering diverse local market nuance and decision making.
5. **CUSTOMERS LIKE YOU? SOCIETAL CONSIDERATIONS?**
   Huge engagement of users, encouraging local merchants and servicing the underbanked.
6. **ARE RETURNS WORTHWHILE?**
   Gaming division churning out cash. E-commerce and finance not yet.
7. **WILL THEY RISE OR FALL?**
   Underlying health of gaming and eCommerce business strong. Sales and marketing costs low. Margins can settle at c.20% over time.
8. **HOW IS CAPITAL ALLOCATED?**
   Technology build, nascent finance expansion and e-commerce globalisation.
9. **COULD IT BE WORTH 5X AS MUCH?**
   Gaming cash flow powers e-commerce and finance expansion.
10. **WHAT DOESN’T THE MARKET UNDERSTAND?**
    Mecurial company that resists categorisation. Market is very reluctant to put stock in differentiated and energised acultures. Scepticism of e-commerce profitability.
What it does
Shopify is a Canadian technology company that enables small businesses to set up and sell products online.

Why we own it
— Shopify provides simple, low cost software and hosting services that enable budding e-commerce entrepreneurs to move online quickly and efficiently.
— Has grown rapidly in recent years but still at the very early stages of tapping into the opportunity ahead of it.
— Product offering that is strongly liked by, and increasingly useful to, its customers.
— Founder remains actively involved, as CEO and major shareholder.

How it could be worth many times more
Wider adoption at the bigger brand level and across their very wide product portfolio drives GMV growth of ~25% p.a to $1.1tn by 2030.
Blended net take rate expands to 7%, net of interchange and minimal cost-of-goods => gross profit in the region of $80bn.
Operating costs of $20–30bn (warehouse, software maintenance, sales account management and headcount), implies c.$40bn of profit after tax and a market capitalization of >5x today’s level.
The numbers above seem conservative as recent GMV growth has been c.100% p.a. and Shopify’s penetration remains tiny in % terms by all measures today. If we look at long-term GMV growth of 33%, we’re looking at $2tn GMV at the end of the period and, with substantial operational leverage, commensurately higher returns to scale.

Where we might be wrong
— Retailers stick to traditional sales methods.
— Large companies centralize sourcing of online tools – new business goes to SAP, Salesforce and Adobe.
— Competition heats up from Hybris, Demandware and Magento.
— Regulators scrutinise the use of social media and targeted advertising to sell products.

Short 10 questions
1. Can sales double in the next five years?
   Yes. Retailers discover the attraction of selling through new media channels.

2. Ten years and beyond?
   Ecosystem keeps expanding as does Shopify’s services to its users.

3. Competitive advantage?
   Innovative cloud based model driven by commissions rather than licenses. Flexible, lowest friction model compared to competition.

4. Is the business culture different?
   Long term, collaborative culture from a founder with deep technical expertise.

5. Customers like you? Contribute to society?
   A consistent reputation of excellence that is transforming small business sales.

6. Are returns worthwhile?
   Not yet.

7. Will they rise or fall?
   Rise as R&D spend falls due to scale benefits.

8. How is capital allocated?
   A war chest of cash to use as they wish.

9. Could it be worth 5x as much?
   Growth continues at 50%, take rate picks up and large merchant adoption happens quicker than expected.

10. What doesn’t the market understand?
    Market unable to think past existing models of retail.
What it does
Spotify is a music streaming platform founded by Swedish entrepreneur Daniel Ek. Leveraging cloud computing technology, Spotify is a world leading service that has reinvigorated the music industry after years of decline. Ek’s vision is to give a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by it.

Why we own it
— Music is a world in its own right (to paraphrase Stevie Wonder). A vast global opportunity to connect fans and artists and move beyond the Top 40 straightjacket of radio through personalised discovery.
— Plenty of room for growth as Spotify subscribers listen to <6hrs/week vs (e.g.) 32hrs/week for the US average.
— 75% of music sales are via music labels and they retain 80% of profit. Over time Spotify can do what the labels do cheaper with superior data to the artists’ (and Spotify’s) benefit.
— A remarkable and highly-respected leader on a mission ‘to unlock the potential of human creativity’ (alongside a smart, hard-nosed ex Netflix CFO to do battle with the labels).

How it could be worth many times more
— 600m paid subscriptions x €60 Annualised ARPU (€53 today) plus 600m free users x €24 each in ad revenues (roughly what Snap earns). This implies 50bn of revenue compared with a run rate below 10bn today.
— Blended gross margin rises from 25% to 40%, helped by pricing, international markets, podcasts, value add to artists and labels through data analytics etc. Strong leverage in other costs for a 20% operating margin produces 8bn after tax profits, with 5x upside on a market multiple.

Where we might be wrong
— Great hits die hard. Customers are unmoved by chance to broaden their music tastes.
— Breadth of creation and discovery proves illusory.
— Labels refuse to die. They fight back hard and cling on to more value for longer.

Short 10 questions
Can sales double in the next five years? 1
Adds 20m subscriptions a year and better monetises free tier.

Ten years and beyond? 2
Traditional models upended as Spotify offers the creative space for artists to collaborate across cultures and the tools to grow their audiences. No gatekeepers required.

Competitive advantage? 3
Scale and sophistication of data/Al-led recommendation means Spotify is far from just another jukebox.

Is the business culture different? 4
Unwavering belief in art for art’s sake: “music geeks first and technologists second”.

Customers like you? Contribute to society? 5
Making music an inseparable companion. Allowing artists to earn a living.

Are returns worthwhile? 6
Not at the moment but the company is cash flow positive.

Will they rise or fall? 7
Rise significantly through maturation of international markets, strong leverage in podcast investments and cross selling of value added services to artists and labels.

How is capital allocated? 8
Expanding the creative avenues for fans and artists.

Could it be worth 5x as much? 9
Music streaming 7% share globally vs Sweden 40%.

What doesn’t the market understand? 10
Obsession with short-term gross margins and the ostensibly impressive, noisy competition.
What it does
Tencent’s ecosystem includes, gaming, e-commerce, music, cloud and artificial intelligence. Tencent is also one of the world’s largest venture capital firms with holdings in over 350 companies including: Uber, NIO, WeWork, NVIDIA, Tesla, Ola, Ubtech, Go-Jek and FlipKart. (Tencent’s mission is to ‘improve the quality of life through Internet value-added services and enhance connectivity between the ‘Consumer Internet’ and the ‘Industrial Internet’).

Why we own it
— Owns an unparalleled asset in WeChat, which is the widest reaching social media platform in the world.
— Advertising seems a natural boom, finance and ecommerce are potentially transformational.
— Investor in well positioned companies that are growing their own user bases.
— Extraordinary transition from local, protected quasi imitator, to innovator of class, patience and scale – though still Greater China.

How it could be worth many times more
— Investments pay off.
— Tencent ecosystem becomes most valuable advertising platform in the world.
— WeChat captures finance revenue at scale. Chinese banking earnings: $600bn, growing 10% p.a. => $1.6trn in a decade.
— Tencent takes 5% share on the back of ubiquitous mobile payments platform => $75bn of earnings on 25x => 5x upside on finance alone.
— Beyond payments WeChat is the gateway to every walk of life: healthcare, online advertising, entertainment and cloud computing. A 50% share of each would more than treble current revenues.

Where we might be wrong
— Advertising proves limited.
— They fall out with the government and are more heavily regulated.
— A better mouse trap arrives?

Short 10 questions
1. Can sales double in the next five years?
   Advertising, Finance, Commerce and Cloud.
2. Ten years and beyond?
   Tenpay disrupts the chinese banking system.
3. Competitive advantage?
   The most all embracing and practical platform anywhere.
4. Is the business culture different?
   Fascinating: quiet, patient, founder.
5. Customers like you? Contribute to society?
   Surely – great product, not pushed.
6. Are returns worthwhile?
   Yes, platform economics and platform pay off.
7. Will they rise or fall?
   Wax and wane with investment.
8. How is capital allocated?
   Patiently, from consumer to industrial.
9. Could it be worth 5x as much?
   Easily with payments, AI and Cloud.
10. What doesn’t the market understand?
    Non-gaming business and investments long term growth driver.
What it does

Tesla is an automotive and energy company run by CEO Elon Musk. The company is accelerating the world’s transition to sustainable energy with electric cars, solar panels and integrated renewable energy solutions for homes and businesses.

Why we own it

— Wondrous opportunities: tiny market share, better cars versus sleepy, harmful incumbents of huge scale.
— It isn’t just cars: energy and utilities utterly in the cross-hairs.
— They’ve done the hard stuff already!
— An extraordinary leader.

How it could be worth many times more

Production capacity goes from 650k cars to the announced capacity of 2m vehicles. Over a decade, >10m cars & trucks a year and a VW like share of the global market.

ASP’s across all vehicle types could be in the region of $40k => vehicle revenue of $400bn.

Margins healthy given the level of software integration and service-like elements.
— 20% seems plausible with implied profits of c.$80bn – c.40x current free cash flow.

Assume $200bn of dilution over a decade => market multiple is required to achieve 5x.

Further upside:
— Manufacturing expertise integrates downwards into energy storage. 1Twh per year at $50 per kwh and 10% margins adds another $5bn of Ebit.
— Autonomous driving software licenses. 10% of the global vehicle fleet @ $150 per month implies revenues approaching $200bn.

Where we might be wrong

— Ongoing governance challenges.
— Execution!
— Other technologies.
— Sustained profitability.
— Solar link.

Short 10 questions

Can sales double in the next five years? 1
Beyond premium models, attacking the larger, more price sensitive mass market.

Ten years and beyond? 2
Vehicle expansion, autonomous driving, solar, static energy storage…

Competitive advantage? 3
Pure electric focus and no baggage. Mindset of software iteration, not committee-led brand preservation.

Is the business culture different? 4
A cultural anathema in the auto industry.

Customers like you? Contribute to society? 5
Evangelical.

Are returns worthwhile? 6
Capital requirements high for production however vertical integration (including distribution) along with falling battery costs make margins attractive.

Will they rise or fall? 7
Rise in the long run but investment will remain high in the near term.

How is capital allocated? 8
All required by core business – vertical integration an important asset.

Could it be worth 5x as much? 9
Yes – as future success becomes increasingly likely.

What doesn’t the market understand? 10
How far this disruption can go.
What it does
The Trade Desk (TTD) operates a cloud-based platform used to
buy digital advertising inventory across multiple formats (display,
audio, video and social) and devices (mobile, connected TV and
desktop). It is a demand side platform that operates across the
open internet, helping advertisers show targeted ads to the most
relevant consumers, at the best price and optimal time.

Why we own it
— The advertising market is full of long-standing inefficiencies
and TTD is a company that offers a way of doing things
meaningfully better than they have historically been done.
— TTD’s platform is superior, it broadens the range of
worthwhile digital advertising options, aiding navigation
across the multiple available channels for reaching a relevant
audience and doing so while providing advertisers with a
degree of transparency and agency that is not available from
the walled gardens (Facebook and Google) who have
dominated digital advertising thus far.
— Jeff Green is a visionary founder who is committed to enabling
fair competition in the online advertising market for the benefit
of advertisers, small publishers, and internet users alike.
— The digital advertising market remains poised to grow
strongly, with much of this growth likely to come from brand
advertising, in particular across connected TV (CTV) where
TTD has a dominant position.

How it could be worth many times more
— 5x return could be achieved if TTD captures 1–2% of the
$1 trillion advertising market and margins climb to 30%,
on an implied PE of 50x, which is not unreasonable for a
company we would expect to be growing revenues at c.40%.
— Further upside could come from:
  — A favourable shift in advertising budgets channelled
towards the open internet.
  — Growth in overseas revenues, with China becoming
the largest market.
  — Uninhibited share gains in CTV where no walled
gardens exist.

Where we might be wrong
— The walled gardens consume even more ad spend,
stunting both growth and margins for TTD.
— Fierce competition in the fragmented ad-tech space
threatens market share and take rates.
— Brand advertising becomes a thing of the past,
causing disappointing growth in connected TV.

Short 10 questions
1. Can sales double in the next five years?
   Yes, as more money is spent on digital media. TTD expands
   its footprint within existing customers and pulls in new ones.
2. Ten years and beyond?
   Connected TV and video will become the largest channel
   and China will become one of the largest markets.
3. Competitive advantage?
   TTD has the largest market share among all ad-buying
   platforms, and there are material scale advantages in bidding
   for inventory across the open internet. This allows delivery of
   superior ROIs to advertisers.
4. Is the business culture different?
   Run by a highly principled founder; building a global workforce
   that has a high retention rate in what is normally a cut-throat
   industry.
5. Customers like you? Contribute to society?
   TTD is existential to enabling fair monetisation for independent
   publishers across the internet and building ad-targeting
   solutions that are friendlier to user-privacy.
6. Are returns worthwhile?
   An asset light model with low marginal costs and operating
   leverage allows for very healthy returns.
7. Will they rise or fall?
   Returns can rise moderately from their already worthwhile
   levels if the company keeps growing.
8. How is capital allocated?
   Product improvement and growth (including geographical
   expansion).
9. Could it be worth 5x as much?
   Yes, the opportunity is huge and TTD is very well positioned
   to succeed.
10. What doesn’t the market understand?
   The complexities and subtleties of the advertising market make
   it difficult to recognise the competitive strengths of TTD and
   the period in which they may play out.
What it does
Workday provides cloud-based enterprise software solutions for businesses. This extends beyond the company’s main focus of Human Capital Management (HCM) into other aspects of their customers’ core systems of record, with the long-term aim being offer a complete, cloud-based ERP suite rather than point solutions.

Why we own it
— We view the shift to cloud-based software as inevitable, but it is far from ubiquitous; on-premise providers still comprise the estimated 80% of the enterprise IT market today.
— Workday has the opportunity to dominate enterprise human capital management software.
— Expanding the product offering – financials, followed by planning and analytics.
— Over 8,000 customers globally with a customer community representing more than 45 million workers.
— International growth opportunity still very early.

How it could be worth many times more
With a radically simple product offering relative to its peers, Workday reaches ever more customers across different sectors and diversifies across multiple solutions (e.g. HR + Finance + Analytics).

Workday parlays its HCM (Human Capital Management) software strength today into a 25% share of Finance and Analytics – both in isolation slightly larger markets than the HCM – over 5–10 years. Concurrently, Workday becomes the dominant vendor in HCM with a 50% share. That translates to ~$25bn of sales (just over half Oracle’s scale) which is >5x higher than today. Operating leverage drives significant margin expansion, 30% net margins and continued growth drive a market capitalisation well north of $200bn.

Where we might be wrong
— Competition not just from incumbents SAP and Oracle, but also Microsoft and AWS?
— Replicating Workday’s HR success proves more challenging in other product categories.
— Clumsy integration of acquired businesses dilutes the culture.

Short 10 questions
Can sales double in the next five years? 1
Capturing US and international enterprise customers from over 2,100 currently (1,000 in 2016).

Ten years and beyond? 2
Continued growth in customer numbers and spend per customer. Cross selling Finance and Analytics.

Competitive advantage? 3
Secure, reliable, intuitive and easy to customise, with consistency across the product suite.

Is the business culture different? 4
Founder-led and obsessed with customer satisfaction. “Culture outweighs strategy”, as Bhusri believes.

Customers like you? Contribute to society? 5
Intuitive user experience, lower total costs of ownership, aiming to become zero-carbon by 2021.

Are returns worthwhile? 6
Loss-making due to investment in software and salesforce build-out.

Will they rise or fall? 7
They will eventually rise as sales and marketing and R&D expense fall as a percentage of sales.

How is capital allocated? 8
Organic growth in salesforce and technology coupled with highly integrated acquisitions.

Could it be worth 5x as much? 9
ERP still in early stages of cloud transition and multiple, sizeable adjacencies to core product.

What doesn’t the market understand? 10
This is a long-term opportunity requiring a 10-year view.
**What it does**

Eric Yuan founded Zoom in 2011. Zoom is the leader in modern enterprise video communications, with an easy, reliable cloud platform for video and audio conferencing, collaboration, chat, and webinars across mobile devices, desktops, telephones, and room systems.

**Why we own it**

- Frictionless video communications – ‘it just works’. Video conferencing has simply been a terrible experience – dropped calls, frozen screens and poor audio. Zoom has removed these friction points.
- Technological lead due to its video-first cloud architecture.
- Led by a CEO who ensures employees are still “humble and paranoid about caring for the customer”.
- Large dynamic market with minuscule share.

**How it could be worth many times more**

Westernized knowledge workers grow from 1bn today to 1.5bn over the next decade (still only 15% of the population). Zoom takes a 25% of share alongside Microsoft and other alternatives => 375mn users. If we enrich the current $15/month proposition with additional telephony and networking hardware services as part of the license bundle but then factor in some deflation in pricing driven by new markets, ARPU of $220 seems plausible => $80bn of revenue.

Then add in domestic use cases with Zoom as a software building block integrated into other businesses’s propositions – direct connections to a shop, teacher, lawyer, salesperson, technical support assistant via Zoom API in a branded application. This could plausibly address a further 500mn of western users => a further $15bn of revenue.

Current 60%+ cash margins could plausibly be sustained. Even with some dampening, it’s over $50bn of profit on the summed revenue above and an implied market capitalization well north of 5x today’s.

**Where we might be wrong**

- Better technology emerges which makes Zoom redundant.
- Collaboration needs (including Video conferencing) disproportionately shifts to established players from the likes of Microsoft.
- Enthusiasm wanes, security concerns prevail and customers don’t increase use.
- Can’t sell to large organisations, doesn’t evolve from being an extremely popular solution amongst small businesses.

**Short 10 questions**

1. Can sales double in the next five years?
   - Absolutely, revenues continue at CAGR >100% each year.

2. Ten years and beyond?
   - Becomes ubiquitous across all businesses as working practices evolve.

3. Competitive advantage?
   - User-focussed software – low friction.

4. Is the business culture different?
   - A culture where customer happiness is as much of an imperative as employee happiness.

5. Customers like you? Contribute to society?
   - Monthly meeting minutes increased from 500mn to 5bn in 3 years (9x). Environmentally crucial antidote to carbon intensive business travel.

6. Are returns worthwhile?
   - Yes, >80% gross margins.

7. Will they rise or fall?
   - Operating margin rises with scale (2%–>20%).

8. How is capital allocated?
   - R&D – solving pain points for customers and introducing adjacent technologies i.e automated AI transcription.

9. Could it be worth 5x as much?
   - Large addressable market in early stage of growth.

10. What doesn’t the market understand?
    - An accelerant for and beneficiary of a longer-term reconfiguration of working practices.
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Important information

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