Long Term Global Growth

Reflections

July 2022

Since the start of the year, the LTGG team has been making the most of its post-pandemic freedom to get back on the road and visit all your portfolio holdings. This allows us to deepen our relationships with management, track operational progress and dig into any areas of concern. As well as meeting current holdings, there is a growing list of new contenders that we're working our way through to see if they warrant a place in the LTGG portfolio. What follows is a selection of some of the companies we have met on our recent travels.

Adyen – Amsterdam

We were very lucky to spend a morning with Adyen, which is testament to the strength of the relationship that has been built so far. We not only met the CEO, Pieter van der Does, but also employees who normally shy away from meeting investors. The clarity of Pieter's thinking on the sort of organisation he wants to build was exceptional. He is focused on developing talent and would rather have fewer people in the company than dilute quality. Pieter said: "We ask leaders to spend time on the smart people in their team. If you have nines and tens, let them have freedom. It's a whole different organisation if you run it for smart people." Adyen invests heavily in training and teaches people how to manage and lead – even going as far as working with actors to help manage difficult conversations. This is important because it shows a focus on each individual and honesty about the quality of staff. Adyen's unique culture always comes across in our meetings with Pieter and he is someone we can learn a lot from.

Netflix – Los Gatos

We met with Spencer Wang, vice president and investor relations, to dig into the recent challenges faced by Netflix, which include a slowdown of subscriber growth and password sharing among users. It was clear password sharing is being taken seriously. With 300 million people enjoying Netflix but only 200 million paying, monetising these accounts is a key focus. Spencer shared that CEO Reed Hastings has been energised by the task of converting the 100 million who use the service but currently are not willing to pay. To quote Spencer: "Reed is in the pants of the password sharing team." Netflix has recently partnered with Microsoft to build out an ad-tier version and it expects this option will be more popular among price-sensitive password sharers. It is too early to judge if this is the right approach, but there is a risk that the existing 200 million paying customers opt down for cheaper prices, especially during a period of inflation and a cost-of-living crisis. We look forward to learning more when we meet Reed Hastings next month, and plan to explore his long-term strategic plans for the company.

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Roblox – San Mateo

We met with CEO Dave Baszucki and CFO Mike Guthrie to understand more about the crowded landscape of 'metaverse' competitors and find out how Roblox's 16-year head start might give it an advantage. Dave explained Roblox's advantage cannot be what it has built so far; it must always be about what it's building now. He describes the company as the primary product to work on. The organisation has been deliberately structured to enable innovation at scale, comprising 40 autonomous teams of 20 people. Every team is viewed as a mini company working on a two-year roadmap. The roadmaps are driven by the mini companies on a bottom-up basis but connected by the overall strategy of optimising the platform for engagement. We believe this approach is a key competitive advantage for Roblox and an example of what sets it apart from peers.

Tesla – Palo Alto

Keen to find out what has enabled Tesla to outgrow its peers despite a backdrop of severe supply chain challenges, we met with CFO Zach Kirkhorn and other members of management. Zach explained that due to recent chip shortages Tesla has had to change chip suppliers at short notice, but due to vertical integration it is able to introduce new chips into the process seamlessly. This is a tough environment for competitors as logistics, suppliers and material costs compress hardware margins. We were encouraged by the steps Tesla has taken to carefully control demand during this unusual period while reducing costs. It has increased interest rates on leasing, removed the friend referral program and raised prices on various models – yet it sold all production, demonstrating strong pricing power. Zach was keen to stress that pricing will have to come back down again to drive demand and affordability for the next five years, but the company appears well positioned to do this. Our meeting reinforced our view that Tesla is an incredibly adaptable company and one that continues to impress.

The above notes relate to existing LTGG companies. However, to give some insight into the contenders for the portfolio, we have met with Guardant Health, a leading precision oncology company focused on finding a cure for cancer through its proprietary blood tests. We left eager to learn more about its approach and plan to do a full review. Others include SolarEdge, an Israeli manufacturer of solar inverters which we think stands to benefit from the transition away from fossil fuels, and Datadog, a cloud observability platform that provides customers visibility on the efficiency of their cloud infrastructure. As more and more businesses move to the cloud, this is an essential function and Datadog appears to be leading the way. Watch this space…

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