Baillie Gifford™

Long Term Global Growth

Monthly Reflections: From biologics to branded fashion

September 2023

Dundalk, Paris, Boston and Hong Kong are just a few places where the Long Term Global Growth Team has recently found itself researching new ideas.

Be it robotics, biologics or high-end fashion, there is no shortage of growth opportunities. The key question for us is whether they can deliver the outlier returns we seek on your behalf.

So, what are some of our observations?

WuXi Biologics (WuXi)

A long way from its headquarters in the Jiangsu province of China, on the motorway between Dublin and Belfast, you will find WuXi's vast and brand-new production facility. WuXi is the leading contract development and manufacturing organisation for biologics drugs in China.

On arrival, it was hard not to be impressed with the set-up – apparently 70 per cent of potential customers who come for a tour end up committing to production contracts. But this was not the reason for our visit.

The phenomenal growth WuXi has achieved over the last several years piqued our interest. It boasts a five-year revenue compound annual growth rate north of 50 per cent, with earnings growing at a rate of nearly 70 per cent. However, it's the similarities between the biologics manufacturing industry and semiconductor foundries that could make this a multi-decade growth opportunity.

Getting decent yields is technically challenging (accumulated know-how matters), the industry is capital intensive (often $500 million plus per large facility, and ramp-up takes 4-5 years), and reputation is critical given that facilities require regulatory approvals.

In addition to these high barriers to entry, rivals say speed is WuXi's superpower. In an industry where projects take several years and time translates into higher costs, this matters a lot.

While we had the opportunity to meet some of the WuXi team in Hong Kong earlier in the year, success in overseas production feels like an essential component of the company's future growth given the mounting regulatory crossfire between China and the USA. We were keen to see how well WuXi's culture travels and whether 'WuXi speed' is possible without Chinese employees.

The Dundalk facility is a merit of the team's execution, particularly when you consider the challenges of a large construction project amid Brexit and Covid-19. What's more, it reached capacity within 18 months. But, for us, questions remain over whether internationalisation of the company's manufacturing facilities will be too high a price to pay and overly dilutive to returns.

Symbotic

On the evening of the 7 August 2023, the streets of Boston were buzzing with excitement following Pablo Reyes's walk-off grand slam for the Red Sox. For those who are not baseball aficionados, this is the incredibly rare, game-ending scenario where the last pitch is met with a home run and all three bases are 'loaded', achieving the maximum of four runs and securing the win for the beloved home team.

The dexterity of the pitcher, the precision of the batter and the synchrony of the fielders reminded us of the warehouse automation technology developed by Symbotic, whom we had met earlier that day.

The name Symbotic comes from the phrase 'symphony of robotics'. Spanning the size of two football fields and standing 30 feet tall, each of Symbotic's systems can orchestrate 300-400 robots at up to 20 miles per hour, fully removing the need for humans in the warehouse.

The value to large retailers is already evident, with Symbotic improving its customers' space efficiency by up to 60 per cent. For an initial outlay of $50m, Symbotic has calculated that could generate $250m in savings through efficiency gains over the asset's lifecycle. It is also addressing a largely greenfield opportunity. The warehousing industry has underinvested significantly and automation deployment rates are exceptionally low. Mounting pressure has also arisen as a result of labour shortages.

Our visit was timely, as Symbotic had just announced its joint venture, GreenBox, with the investor Softbank. Therefore, we had the opportunity to learn more from the chief strategy officer, the architect of this new concept: 'warehouse as a service'. The idea is that several small-to-medium enterprises could co-lease warehouses with Symbotic systems, making them affordable while significantly expanding Symbotic's addressable market. This is possible because Symbotic's system is agnostic to who owns the products it moves; the software simply synchronises it all with an accuracy rate of 99.99 per cent.

Automating factories and warehouses with AI-powered robotics seems the inevitable next iteration of assembly line production. Enthusiasm for this is currently reflected in Symbotic's valuation. High multiples today may be paled into insignificance if it knocks it out of the park and continues to grow at this phenomenal rate.

Moncler

The allure of luxury is palpable when walking through Paris. From the haute couture-lined streets of the Champs-Élysées to the wide boulevards dressed in Haussmann architecture, it was a fitting setting to learn more about the (albeit Italian) brand, Moncler.

With its 70-year history and an authentic Alpine heritage which seems impossible to replicate, the recognisable Moncler monogram has successfully captured the minds and wallets of aspirational consumers. Boasting 17 per cent compound annual growth rates in its revenue over the last five years, not even a global pandemic can deny its popularity.

Its flagship product, the quilted puffer jacket, is complemented by lines of footwear, knitwear and, more recently, the acquisition of Stone Island. The brand's success is not limited to fashion, with the Grenoble performance wear collection being high-quality enough to be worn by Olympic skiers.

The potential longevity and durability of growth in luxury is an attractive feature, particularly when combined with Moncler's brave experimentation with initiatives such as Moncler Genius, where it launches exclusive and limited collaborations with well-known designers. It undoubtedly has a degree of *je ne sais quoi* that could easily be underappreciated by the market in the short term.

Outliers

LTGG aims to identify rapidly growing companies with huge market opportunities, underpinned by strong cultures and competitive advantages that enable them to capitalise on these opportunities in the long term. This is a high hurdle for entry into the portfolio.

We have always believed that there are only a handful of these types of businesses in the stock market, so our task is to find them and hold them for long periods in order for our clients to benefit from the compounding of returns over time.

Competition for capital in the portfolio remains intense, and this should be cause for optimism.

Performance

Annual past performance to 30 September each year (net %)

	2019	2020	2021	2022	2023
LTGG Composite	-6.4	102.9	25.9	-48.8	19.9
MSCI ACWI	2.0	11.0	28.0	-20.3	21.4

Annualised returns to 30 September 2023 each year (net %)

	1 Year	5 Years	10 Years	Since Inception*
LTGG Composite	19.9	8.0	12.9	11.0
MSCI ACWI	21.4	7.0	8.1	7.5

*Inception date 29 February 2004.

Source: Baillie Gifford & Co and MSCI. US Dollars.

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