

Meandering of a fellow investor

Mental models and some reflections

Repeatable pattern recognition

- Same sector (Different geography)
 - Banks, FMCG, Consumer Brands, Diagnostic industry, Mobile towers, Gaming, Alcohol beverages, Airlines, Cable TV, Digital advertisement, Financial services, Insurance, Commodity Exchange, Rating agencies
- Adaptation Time lag (Adaptation in China/emerging market)
 - Automotive, Mobile, ecommerce,
- Emerging Industry dynamics
 - Enzymes, Pharma sector, IT sector

Connecting the dots

- Housing Finance Freddie Mac
- Financial Services GE Capital
- Inner garments L'eggs (leggings)
- Aviation Southwest Airlines
- Enzymes Novoenzymes
- Tower Infrastructure American Tower
- Commodity trading CME

GE Capital

*Fortune Magazine article Nov 1997

- GE Capital: Jack Welch's secret weapon
- Was at 32B rev in 97 and contributed to 40% earnings
- Ran the business as string of niche businesses
- By 2000 contributed to 50% of the profits
- 2002 article had 62B revenues and 5Billion in profits
- 2013 Fed Res designates it systematically important Fin institution
- 2015 most of GE Capital would be sold (Total Assets \$499B)
- US Retail finance business Listed as Synchrony Financial (13 billion rev)

L'eggs from Hanes

*Peter Lynch in "One up on wall street" Book 1989

- L'eggs from Hanes sold pantyhoses in colorful plastic eggs and was a six bagger for Peter Lynch.
- Made the link to Page Industries "Jockey undergarments".

American Tower

*Chuck Arke Conference April 2011 Omaha

- Operates wireless and broadcast communications infrastructure
- Tenancy Rev/Annuity type contracts
- Was a 100 bagger stock for a fund manager
- Using debt expanded across United States to be the largest infrastructure operator.
- Bharati Infratel?

Southwest Airlines

*Case Study MBA class 91

- Low cost airline compounder (21.49% from 1972-2015)
- Incredible track record in a horrible industry
- Formula of low costs, operational efficiency, rapid turnaround, operating out of less expensive airports, one type of aircraft, respect for employees.
- Indigo?

Enzyme Sector

*book where Novoenzyme was discussed

- Industry has huge entry barriers derived from R&D intensity, long gestation period, customer stickiness.
- 5 players control 75% of global enzymes market with EBITDA margin (about 35%) and ROE (25-30%)
- Novoenzymes 33%, Du Pont 19%, Chr Hansen 11%
- Advanced Enzyme Technologies?

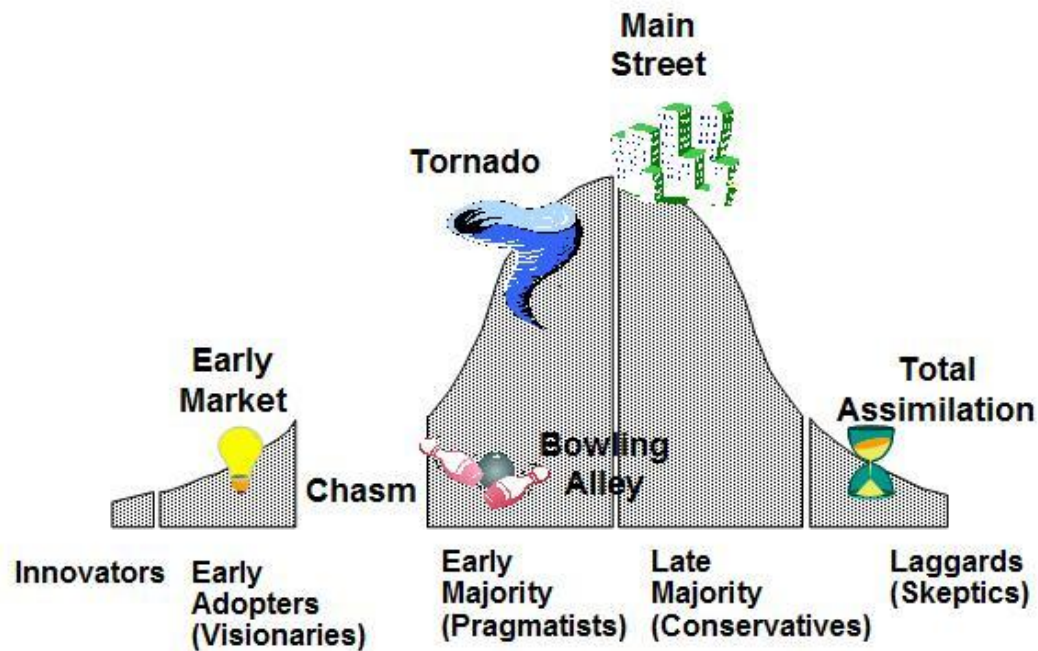
Diagnostic sector

*Graham & Doddsville Glenn Greenberg spring 2010

- Laboratory Corporation of America (16 B mkt cap) & Quest Diagnostic (15 Billion mkt cap)
- US Market lab services USD 80 Billion annually
- Consolidated into 2 large vendors
- 3rd party contracts with Insurance cos/HMO/ for directpay
- Distribution and scale
- Thyrocare/Dr.Paths Labs?

On markets & how market adaptation evolves

Technology Adoption Life Cycle: Diagnose and adapt as markets evolve



Source: Moore (2002), *Crossing the Chasm*; Wiefels (2002), *The Chasm Companion*.

Investing for the J curve

- Entrepreneurs
- Think in terms of buckets
- Think in 5-7 year time lines
- Diversify – Concentrate – Super concentrate
- Potentials to J curve (emerging moats) to Compounders (established moats)
- Is the moat getting stronger?

Forever Investing?

- Jeremy Siegel Future for investors
- Two sectors dominate consumer brand companies and well known pharmaceutical cos
- Schumpeter's "creative destruction" is well on its way to attack whole industries (energy, automotive, etc.)
- Brands are being challenged (Amazon Duracell)
- Industries are getting deconstructed (energy, automotive, ..) and reconstructed (genome treatment impacting pharma etc.)
- Moats being created by Amazon, Google, Facebook etc. seems to be unassailable

Learning from the last few months

- Competition is with yourself
- The game is to be played inside out
- What's your goal in investing?
- Rules are at best guard rails
- Subtle resonance
- Reality and removing the ego
- Loyalty to first principles
- Trust your own judgment / common sense