



Monthly Manager Views

# FSSA Regional India Strategy

As the saying goes, “There are two kinds of forecasters: those who don't know, and those who don't know they don't know.” Recently, we have seen hordes of the latter kind, garbed as analysts, Unicorn founders, freshly-minted CEOs and so-called “experts”, as they engage in modern-day snake oil salesmanship, which is what seems to pass for Fundamental Equity Research these days. The difference between making forecasts and predictions is the difference between a rational investor and a soothsayer. Today, there are a number of companies and analysts who desperately pretend that a different set of rules apply to them. To that end, they have even invented a new jargon-littered language that has been enthusiastically adopted by the investing community. Some of the words and phrases being used (and over-used) these days make us wince. Let's look at a few.

**“TAM” or Total Addressable Market:** When I started my career as an analyst 20 years ago, certain things were key to forecast what might become of a business over the long term (i.e. five to ten years). These included an understanding of the market size of a product or service and its growth potential; assessing why certain businesses in that industry were doing better or worse than others; and evaluating the management quality and figuring out the alignment (both financial and cultural). Today, it feels like all that analysis is now captured in one word, “TAM”, which companies are helpfully providing to analysts and they, in turn, end up using it as a fig leaf to justify almost anything – from the current small scale of the business, the pitiful margins, the ridiculous sales/marketing strategy and, of course, the outrageous valuation. It feels like the time when people used to mention enterprise value (EV)/click or EV/eyeballs or EV/square foot.

**Unit Economics:** We used to think that, for young businesses, one needs to see if it is able to generate a positive contribution margin to cover some of its fixed costs and then calculate how long it would take to achieve breakeven. But in the “free money” era, the term has become convoluted, as analysts are rewarding businesses who don't want to do any of that. Customer Acquisition Cost is the new buzzword and Unit Economics have been reduced to some sort of weird distortion aimed at justifying massive upfront costs. We used to look at how much a company is spending on sales and marketing, analyse the mix of short-term promotions and long-term advertising (good old above and below the line costs – where is the line now we wonder?), how the sales team was organised, their incentive structures and what a business was doing to prevent mis-selling. Nowadays, that seems like a primitive way of trying to understand basic unit economics; what the phrase now means is anyone's guess!

**Value Proposition:** “What is your value proposition?” analysts are asking companies these days. But, isn't that something that the analyst needs to figure out? By all means, ask the management for their views, but regurgitating those same views without critical reasoning is pointless, in our view. What is it that makes a company generate superior returns on capital employed (ROCE) and what makes its growth and returns sustainable? It could be many things – a brand, technology, license, etc. But what we have been hearing (and what is often not said) is that the only value proposition many of these new businesses have is access to unlimited, unabashed funding.

**Flywheel:** A surprising number of management teams we meet these days are hard at work pushing “Flywheels” as they attempt to defy the gravity of flawed business models. The term was made popular by Amazon as a way to describe the virtuous cycle that happens when the whole business model is aligned to offer a remarkable customer experience. But it seems the term is now being used instead to provide a remarkable initial public offering (IPO) roadshow experience, which the analysts are lapping up.

**Pivot:** We have heard this word more in the last 12 months than ever before. Companies now are desperate to tell analysts their pivots in life; and they are pivoting quite often to the next fancy thing, which salivating analysts are gobbling up as it helps them to see the almighty “Path to Profitability”.

**Path to Profitability:** Another recent favourite. By brewing a concoction of TAM, Value Proposition and Unit Economics, with some Flywheels and Pivots along the way, the modern soothsayers are able to discern a “Path to Profitability”. The whole sham is not unlike TV evangelists prescribing a path to heaven that they have divined. I am sure the CEOs of some of these companies would secretly love to find this path to the Promised Land that seems so obvious to some investors.



As more and more people are pivoting away from common sense, our team is resolved NOT to pivot away from our (admittedly) boring way of investing. We have been through these manias before and now, more than ever, we must be vigilant. Our goal is to keep it simple – preserve our clients’ capital and grow it steadily by investing in good businesses, run by good people, for the long term.

\* Company data retrieved from company annual reports or other such investor reports. Financial metrics and valuations are from FactSet and Bloomberg. As at 30 September 2021 or otherwise noted.

### Important Information

References to “we” or “us” are references to First Sentier Investors (FSI). The FSSA Investment Managers business forms part of First Sentier Investors, which is a global asset management business that is ultimately owned by Mitsubishi UFJ Financial Group, Inc (MUFG), a global financial group.

In Hong Kong, this document is issued by First State Investments (Hong Kong) Limited (FSI HK) and has not been reviewed by the Securities & Futures Commission in Hong Kong. In Singapore, this document is issued by First State Investments (Singapore) (FSIS) whose company registration number is 196900420D. In Australia, this information has been prepared and issued by First Sentier Investors (Australia) IM Ltd (ABN 89 114 194 311, AFSL 289017) (FSI AIM).

This document is directed at persons who are professional, sophisticated or wholesale clients and has not been prepared for and is not intended for persons who are retail clients. The information herein is for information purposes only. It is not intended to provide you with financial product advice and does not take into account your objectives, financial situation or needs. Before making an investment decision you should consider, with a financial advisor, whether this information is appropriate in light of your investment needs, objectives and financial situation. Some of the funds mentioned herein are not authorised for offer/sale to the public in certain jurisdiction.

Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same. All securities mentioned herein may or may not form part of the holdings of First Sentier Investors' portfolios at a certain point in time, and the holdings may change over time.

Any opinions expressed in this material are the opinions of the individual authors at the time of publication only and are subject to change without notice. Such opinions: (i) are not a recommendation to hold, purchase or sell a particular financial product; (ii) may not include all of the information needed to make an investment decision in relation to such a financial product; and (iii) may substantially differ from other individuals within First Sentier Investors.

Please refer to the relevant offering documents in relation to any funds mentioned in this material for details, including the risk factors and information on requirements relating to investor eligibility before making a decision about investing in such funds. The offering document is available from First Sentier Investors and FSI on its website and should be considered before any investment decision in relation to any such funds.

Neither MUFG, FSI HK, FSIS, FSI AIM nor any of affiliates thereof guarantee the performance of any investment or entity referred to in this document or the repayment of capital. Any investment in funds referred to herein are not deposits or other liabilities of MUFG, FSI HK, FSIS, FSI or affiliates thereof and are subject to investment risk, including loss of income and capital invested.

To the extent permitted by law, no liability is accepted by MUFG, FSI HK, FSIS, FSI AIM nor any of their affiliates for any loss or damage as a result of any reliance on this material. This material contains, or is based upon, information that we believe to be accurate and reliable, however neither the MUFG, FSI HK, FSIS, FSI AIM nor their respective affiliates offer any warranty that it contains no factual errors. No part of this material may be reproduced or transmitted in any form or by any means without the prior written consent of FSI.

Any performance information has been calculated using exit prices after taking into account all ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Past performance is not indicative of future performance.

Copyright © First Sentier Investors (Australia) Services Pty Limited 2021.

All rights reserved.