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# BAILLIE GIFFORD

## EUROPEAN STOCK STORIES

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Adyen, Prosus and Beijer Ref

Investment managers Stephen Paice and Moritz Sitte give some examples of European companies that tick all the boxes and show exciting growth potential.

*The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result your capital may be at risk.*

*This film was produced and approved in March 2020 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.*

**Stephen Paice (SP):** One of our key objectives is to find Europe's greatest growth companies and to invest in them for a very long period of time. These innovative companies will have large and growing markets, they will have very strong competitive positions which will enable them, either today or sometime in the near future, to generate very attractive returns, and most of these companies will be managed and owned by very entrepreneurial founders and families.

This is a very different proposition to investing in the broader European market which in our minds is still full of large, bureaucratic companies run by short-term, professional managers, who undoubtedly face years of disruption and declining returns.

And I think this is one of the reasons why Europe is probably the last place you would ever want to invest passively.

**Moritz Sitte (MS):** One example of a European company disrupting a traditional industry, in this case payments, is Adyen. Adyen makes it possible for companies such as Uber, Spotify, Netflix, to accept payments from consumers around the world using a plethora of payment methods. And that is no small feat because it allows these companies to scale quickly in a way that simply wasn't possible 10, 15 years ago.

Unlike its traditional competitors, Adyen has built its systems from scratch, which confers a powerful technological advantage. More importantly however, its founders, who continue to run the business have built an organisation which is focused on innovating quickly for the benefit of its customers.

We believe that Adyen could grow to multiples of its current size over the next decade and we are delighted to be invested in it.

**SP:** One of the most exciting technology companies in the world is now listed in Europe. This is called Prosus, a technology holding company, which was spun out of Naspers, a South African business, last year.

Most of its current value comes from its 31 per cent stake in Tencent, which is a Chinese gaming and social media platform. It has possibly one of the most attractive users bases in the world. Its WeChat platform has well over 1 billion engaged users and the potential to monetise this base is on a scale that we've never really seen before in Europe.

We also believe that the management team are exceptional capital allocators, and beyond the Tencent stake, they have built up world-leading positions in food delivery, online classifieds and fintech and payments.



This ticks a lot of the boxes we look for in terms of growth, edge and alignment. It also trades on a significant discount to its net asset value, but the real kicker is that this has a real potential to be worth multiples of its current value.

**MS:** Europe is also great at producing world-leading industrial franchises. For instance, Beijer Ref. Beijer Ref is a Swedish company which distributes air conditioning units. And it's a great example of what we like to call a hidden champion. That's a company that has a very strong position in a niche which at first sight looks fairly mundane but which at closer inspection turns out to be an attractive, growing market. In the case of air conditioning units, that growth is driven by product innovation as well as environmental regulation.

Beijer Ref's long-standing management team - wo by the way have most of their own net worth invested in the business – have done a fantastic job not just growing the business organically but also acquiring smaller peers to consolidate what remains a fragmented market.

We believe there is a long runway for this strategy to continue and this should result in Beijer Ref becoming a better, as well as a bigger, business.

*The following film has been recorded with Stephen Paice and Moritz Sitte, investment managers for the European Fund and the Baillie Gifford European Trust plc.*

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