



LONG EQUITY

Why We Own Them

Long Equity

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# Visa and MasterCard

**Business model:** Visa and MasterCard are the world's largest payment processors. Visa processes over \$10 trillion in transactions per year, while MasterCard does close to \$6 trillion. Visa and MasterCard provide payment processing services, facilitating electronic funds transfers between financial institutions, merchants, businesses, and consumers. They offer secure and convenient payment solutions, including credit and debit cards, enabling seamless transactions.

**Revenue diversification:** Visa and MasterCard are available in most countries and process transactions in most currencies. Visa derives 43% of its revenue from the US and the rest internationally. MasterCard generates 35% of its revenue from the Americas and the rest internationally.

**Growth:** There is an increasing shift toward replacing cash transactions with digital payments, alongside growth in e-commerce globally. Expansion into emerging markets where digital payments are gaining traction offers further growth.

**Competitive advantages:** Visa and MasterCard both benefit from having strong brands and impressive networks. With networks consisting of thousands of financial institutions, millions of merchants and billions of credit/debit cards issued to customers around the world, both companies enjoy a formidable barrier to entry. Visa has averaged a gross margin of 81% over the last 5 years, compared to 78% for MasterCard.

## 10 year (2013-2023) growth profile:

Visa	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
CAGR	11%	11%	12%	13%	23%	26%	17%
Linearity	0.98	0.97	0.97	0.96	0.94	0.95	0.97

  

MasterCard	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
CAGR	12%	11%	12%	14%	14%	17%	18%
Linearity	0.97	0.96	0.95	0.93	0.95	0.96	0.96

**Business model:** Fair Isaac, commonly known as FICO, specialises in providing credit scores. The FICO score is an industry benchmark for establishing creditworthiness and is a widely used by financial institutions. The offer a range of products and services to help businesses make data-driven decisions, manage risk, prevent fraud, and optimise operations.

**Revenue diversification:** Approximately 82% of their revenue comes from the Americas, 11% from EMEA and 7% from Asia Pacific. Around 51% of their revenue is from their FICO scores business and 49% from their software business.

**Growth:** FICO's drivers for growth over the next decade include increasing demand for analytics and expansion into new markets. FICO is well positioned to utilise big data and AI to leverage its expertise in predictive modelling to meet growing demand. FICO traditionally services the financial sector (banking and insurance), but is increasingly grow its client base in multiple other industries, including retail and healthcare.

**Competitive advantages:** FICO primarily benefits from network effects. As more lenders and financial institutions use their scores, they become more widely recognised, accepted and valuable. As they accumulate more data, FICO can fine-tune their models, leading to better credit assessments. As more businesses adopt FICO scores, there have been increasing opportunities for cross-selling and up-selling of their products. FICO also benefits from switching costs, as their financial institution clients are often slow to change.

**10 year (2013-2023) growth profile:**

	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
<b>CAGR</b>	7%	9%	15%	17%	15%	19%	34%
<b>Linearity</b>	0.98	0.97	0.89	0.92	0.94	0.93	0.88

**Business model:** MSCI provides indices to asset owners and asset managers, including pension funds, mutual funds and hedge funds. Clients also include financial intermediaries like banks, broker-dealers and an increasing number of "robo-advisors". Over \$1 trillion in ETF assets are linked to MSCI indexes. Their analytics provides portfolio management and risk management analytics software. MSCI has seen their index subscription revenue and asset-based fees grow in response to investors moving to exchange-traded funds and other index linked products.

**Revenue diversification:** Their firm-wide subscriptions are 46% from the Americas, 37% of EMEA region and 17% from the APAC region.

**Growth:** There is increasing demand for data-driven investment decision-making, which MSCI should benefit from given its expertise in index construction and risk analytics. MSCI's expansion into emerging markets presents significant growth opportunities as these markets continue to develop and attract global investors.

**Competitive advantages:** MSCI has extensive and high-quality data sets, combined with robust analytics and research capabilities. Their globally recognised indexes, such as the MSCI World Index and MSCI Emerging Markets Index, are widely used as benchmarks by investors and fund managers. They maintain strong relationships with institutional clients and provide customised solutions catered to specific investment needs.

**10 year (2013-2023) growth profile:**

	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
<b>CAGR</b>	11%	12%	14%	17%	13%	18%	29%
<b>Linearity</b>	0.97	0.98	0.97	0.94	0.94	0.95	0.93

**Business model:** Applied Materials is the world's largest supplier of semiconductor manufacturing equipment. Their revenue largely comes from selling advanced equipment and materials used in the fabrication of semiconductor chips and flat-panel displays. Their products are used in nearly every step of the semiconductor manufacturing process.

**Revenue diversification:** Applied Materials generates 28% of its sales from China, 24% from Taiwan, 17% from Korea, 12% from the US, 8% from Japan, 7% from Europe and 4% from South East Asia. The bulk of their revenue is from their semiconductor systems, with their global services and display business also contributing to their revenue.

**Growth:** They are set to benefit from the increasing demand for semiconductors in various industries, including electronics, automotive, and artificial intelligence. Their focus on developing cutting-edge manufacturing solutions positions it well to capture opportunities in the rapidly evolving semiconductor industry.

**Competitive advantages:** Their global presence and established relationships with semiconductor manufacturers provide a strong distribution network and customer loyalty.

**10 year (2013-2023) growth profile:**

	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
<b>CAGR</b>	13%	15%	26%	39%	33%	38%	24%
<b>Linearity</b>	0.97	0.96	0.95	0.95	0.92	0.92	0.88



**Business model:** ASML is a Dutch manufacturer of photolithography - an essential step in the creation of semiconductors. ASML's products are used by every major semiconductor manufacturer. Drivers for growth include computing, smartphones, AI, 5G and autonomous vehicles.

**Revenue diversification:** ASML generates 39% of its sales from Taiwan, 33% from South Korea, 15% from China, 9% from the US, 2% from Japan and 1% from the EMA.

**Growth:** ASML is well-positioned to benefit from the increasing demand for advanced semiconductor technologies driven by emerging trends such as artificial intelligence, 5G, and autonomous vehicles. As the industry continues to push the limits of chip manufacturing processes, ASML's innovative lithography systems and technology roadmap present opportunities for further growth and market expansion.

**Competitive advantages:** ASML is the only company producing the EUV machines required for microchip production. It is a crucial component of the semiconductor supply chain.

**10 year (2013-2023) growth profile:**

	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
<b>CAGR</b>	14%	16%	16%	15%	27%	28%	23%
<b>Linearity</b>	0.94	0.93	0.91	0.90	0.81	0.81	0.90

**Business:** Cadence Design Systems is a leading provider of electronic design automation (EDA) software. They offer advanced tools and technologies enabling the design, verify, and manufacture of semiconductors, integrated circuits and electronic systems.

**Clients:** Clients of Cadence include semiconductor manufacturers, fabless semiconductor companies, and electronics companies across various industries. Examples of clients include major semiconductor manufacturers, as well as electronics companies.

**Revenue diversification:** Cadence generates 44% of its revenue from the US, 16% from EMEA and 38% from Asia-Pacific.

**Growth:** There is increasing demand for advanced and complex chip designs, driven by emerging technologies like artificial intelligence, 5G, and autonomous vehicles. The increasing complexity of chip designs and the need for efficient verification methodologies create opportunities for these companies to provide innovative solutions and expand their market presence.

**Competitive advantages:** Cadence have competitive advantages based on extensive product portfolios, technological expertise, and strong industry partnerships. Their comprehensive EDA tools, IP libraries, and system-level solutions cater to the diverse needs of semiconductor and electronics companies. Knowledge of customer needs and focus on continuous innovation contribute to their competitive edge. Like other SAAS companies, they also benefit from entrenched customers and switching costs. This is the result of customers becoming dependent on the software service, making it difficult and costly for customers to switch to competitors and will therefore continue subscriptions and renew contracts and licenses. Financially this creates stable and consistent revenues and creates a barrier to entry to competitors, as existing customers are not easily displaced.

**10 year (2013-2023) growth profile:**

	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
<b>CAGR</b>	10%	11%	18%	7%	15%	15%	34%
<b>Linearity</b>	0.96	0.96	0.91	0.73	0.94	0.93	0.92

**Business:** NVIDIA designs graphics processing units (GPUs). They specialize in high-performance computing solutions for gaming, data centers, artificial intelligence (AI), and autonomous vehicles.

**Clients:** NVIDIA's clients include technology companies, gaming companies, cloud service providers, and research institutions.

**Revenue diversification:** Approximately 23% of revenue is from China, 25% from Taiwan and 29% from the more broader Asia Pacific region. 11% is from Europe and 7% from the US.

**Growth:** There is increasing demand for AI, high-performance computing, and graphics processing. The growth of AI applications in industries such as healthcare, finance, and self-driving cars presents opportunities for NVIDIA's GPU-accelerated computing solutions. Autonomous vehicles and data centers, coupled with their ongoing innovation in GPU technology, further contributes to growth potential.

**Competitive advantages:** NVIDIA's GPUs are renowned for exceptional performance, efficiency, and scalability, making them a preferred choice for demanding computational tasks. NVIDIA's software ecosystem, developer support, and partnerships with leading technology companies enhance their competitive position. Their strong brand recognition and long-standing reputation in the gaming industry also contribute to their competitive advantages.

**10 year (2013-2023) growth profile:**

	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
<b>CAGR</b>	20%	21%	24%	23%	20%	19%	61%
<b>Linearity</b>	0.91	0.91	0.84	0.81	0.86	0.86	0.81



# Constellation Software

**Business:** Constellation Software is a Canadian software company that acquires, manages, and builds vertical market software businesses. They focus on acquiring established software companies in niche industries and providing them with the necessary resources and support to drive their growth and enhance their offerings.

**Clients:** Constellation Software's clients primarily consist of businesses and organisations in specific vertical markets. Clients include companies in sectors such as healthcare, education, public safety, and financial services.

**Revenue diversification:** Constellation generates 44% of its revenue from the US, 33% from EMEA and 23% from the rest of the world.

**Growth:** Constellation Software has a decentralised business model that allows its acquired companies to operate autonomously while benefiting from shared resources and expertise. This model provides opportunities for further acquisitions and expansion into new vertical markets. Increasing demand for specialised software solutions in various industries, coupled with Constellation Software's focus on long-term customer relationships, positions them for continued growth.

**Competitive advantages:** Constellation Software has industry knowledge, extensive network of subsidiaries, and ability to identify and acquire successful software companies. Their decentralised approach allows acquired companies to maintain their entrepreneurialism while leveraging the resources and expertise of Constellation Software. Constellations disciplined acquisition strategy, financial stability, and commitment to long-term value creation differentiate them in the software industry. Their strong relationships with customers, built through ongoing support and collaboration, also contribute to their competitive position. Like other SAAS companies, switching costs results in dependable customers, consistent revenues and a barrier to entry for potential competitors.

**10 year (2013-2023) growth profile:**

	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
<b>CAGR</b>	26%	26%	29%	22%	29%	29%	31%
<b>Linearity</b>	0.96	0.96	0.98	0.93	0.97	0.97	0.95

**Diverse customer:** Fortinet sells their cybersecurity software to over 730,000 customers across most industries, including healthcare, finance, tech and government. Therefore, one customer going out of business would make little difference to revenue.

**Subscription service:** Fortinet makes the software once and can sell it to each of their thousands of customers. This isn't a one time transaction. Subscriptions mean that Fortinet's revenues are recurring and predictable.

**Essential low-cost service:** In the event of an economic downturn, companies will look to cut back on non-essential purchases. Marketing is typically one of the areas first cut during a downturn. Given its importance and relative low-cost, cybersecurity would be one of the last things a struggling company would cut back on.

**Specialist service:** Unlike other essential low-cost services, like insurance, there are only a handful of cybersecurity companies with strong trusted brands and the relevant expertise. This provides Fortinet with pricing power, meaning they don't need to compete on price.

If inflation is high and Fortinet put their prices up, then their clients won't notice (as it's inexpensive). If they do notice, then they are unlikely to care (as it's essential). And if they do care, then they are unlikely to do anything - given the the disruption and hassle from switching and low number of alternatives. This gives Fortinet an insulated and diverse revenue stream that they can grow through flexing their pricing power.

**Business:** Microsoft develops, manufactures, licenses, supports, and sells software, hardware, and services. The company is known for its Windows operating system, Microsoft Office suite, Azure cloud platform, and Xbox gaming consoles.

**Clients:** Microsoft's clients span a wide range of industries and sectors. Millions of individuals and businesses worldwide rely on Microsoft's software and productivity tools for their daily operations.

**Revenue diversification:** Microsoft generates 50% of its revenue from the US and 50% internationally.

**Growth:** Microsoft's growth is expected to be driven by its cloud computing, artificial intelligence, and digital transformation. Its Azure cloud platform continues to experience significant growth, benefiting from the increasing adoption of cloud services by businesses. Their investments in AI and machine learning technologies position it well in the era of data-driven decision-making.

**Competitive advantages:** Its strong presence in the enterprise market, supported by long-standing relationships with businesses and governments, provides a solid foundation for continued growth. Its comprehensive product ecosystem, including Azure, Office 365, Dynamics 365, and LinkedIn, enables cross-platform integration and seamless productivity experiences. Like other SAAS companies, switching costs results in dependable customers, consistent revenues and a barrier to entry for potential competitors.

**10 year (2013-2023) growth profile:**

	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
<b>CAGR</b>	11%	10%	13%	13%	9%	11%	26%
<b>Linearity</b>	0.95	0.93	0.92	0.89	0.93	0.94	0.93

**Business:** Novo Nordisk is a pharmaceutical company specialising in researching, manufacturing, and distributing pharmaceutical products and devices for the treatment of diabetes, obesity, and other chronic diseases.

**Clients:** Novo Nordisk's clients are primarily healthcare providers, hospitals, clinics, and pharmacies worldwide. Clients include healthcare institutions, and retail pharmacy chains who prescribe and dispense Novo Nordisk's diabetes medications and related products to patients.

**Revenue diversification:** Novo Nordisk generates 48% of its revenue from the US, 17% from EMEA and the rest internationally.

**Growth:** There is an increasing prevalence of diabetes and a growing demand for innovative treatments. The rise in obesity rates and lifestyle changes contribute to the expansion of the patient population in need of diabetes care.

**Competitive advantages:** Novo Nordisk's competitive advantages stem from their expertise in diabetes. They have a strong portfolio of innovative treatments, including insulin analogs and GLP-1 receptor agonists. Novo Nordisk's global reach, brand recognition, and support programs for patients and healthcare providers enhance their competitive advantages.

**10 year (2013-2023) growth profile:**

	Revenue	Gross Profit	Op. Profit	Net Income	FCF	FCF/Share	Share Price
<b>CAGR</b>	6%	6%	7%	8%	11%	13%	19%
<b>Linearity</b>	0.93	0.93	0.95	0.97	0.92	0.94	0.83