

## Strategy Notes January 2018 – 2017, The Year of the Growth Stock

If one were forced to categorise the 2017 calendar year into just one broad thematic, then the year could arguably be remembered as the **'Year of the Growth Stock'**. Never before in our investment lifetimes can we recall a period where so many companies have successfully (and aggressively) scaled their businesses rapidly from initial concept through to funding, expansion and eventual market dominance in such brief periods of time.

The early successes of a growing number of increasingly higher profile success stories (Netflix, Uber, Amazon et al) has essentially paved the way for an explosion of multiple new business concepts and ideas, supported by an early stage venture capital industry that remains increasingly tolerant of the investment risk in backing early stage business models and management teams. Any traditional incumbent business with seemingly comfortable operating margins has effectively now become open slather for any number of new businesses keen to seize that margin opportunity for the benefit of their investors.

No longer are these newer business just smaller sized start-ups, in fact perhaps the most incredible aspect of 2017 has been that the bulk of ultra-high revenue growth and disruptive technologies has been generated amongst businesses already of substantial size. Given the already significant revenue bases from which these companies operate, it is staggering to comprehend the continued top-line growth that a number of these companies are still able to generate: at their recent quarterly updates for example, Facebook (~\$510bn market cap) guided fourth quarter revenue growth of +47%. Alphabet, Google's parent company, reported +24% growth, whilst Amazon Web Services delivered +45% growth to the Amazon.com parent.

This isn't to say that smaller capitalised businesses have been left behind – indeed far from it. As we have written extensively in recent months within these Letters, across the Australian market it has been within the smaller cap space that a number of incredibly exciting and unique businesses have originated to subsequently grow into significantly larger companies. The bulk of these businesses have flourished by providing...

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