

# INTRODUCTION TO EQUITIES

Continuing Education Programme

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# AGENDA

- What is an equity?
- Styles of equity fund management
- Case studies



# WHAT IS AN EQUITY?

- Businesses need capital to grow
- Two different types of capital; debt & equity
- Plusses and minuses to both
- Equity holders lose money before debt holders when something goes wrong, but benefit when things go right
- Equity holders appoint a Board and have a say in the management of the company
- This brings a stewardship responsibility (ESG etc)

**Equity shareholders own part of a business**



# WHAT IS AN EQUITY?

You expect a return on your investment



- As a company generates value (a return above the cost of capital), book value should grow, and the share price should go up = **CAPITAL GROWTH**
- In addition, cash that the company does not need can be returned to shareholders as dividends
- Dividends should grow as the company grows

Source: Janus Henderson Investors as at 24 March 2021

# STYLES OF EQUITY FUND MANAGEMENT

## What is Small Cap, Large Cap and All Cap?

### Typical Characteristics

	Large cap	Small cap
Maturity of business	High	Low
Dividends	High	Low
Growth	Low	High
Liquidity	Liquid	Illiquid
Analyst coverage	Over researched	Under researched
Governance	Developed	Weak/immature

### Market Cap

#### Micro Cap

<£100m

#### Small Cap

£100m - £5b

#### Mid Cap

£5b - £15b

#### Large Cap

£15b - £100b

#### Mega Cap

>£100b



Market Cap  
£5 billion



Market Cap  
£1.5 trillion

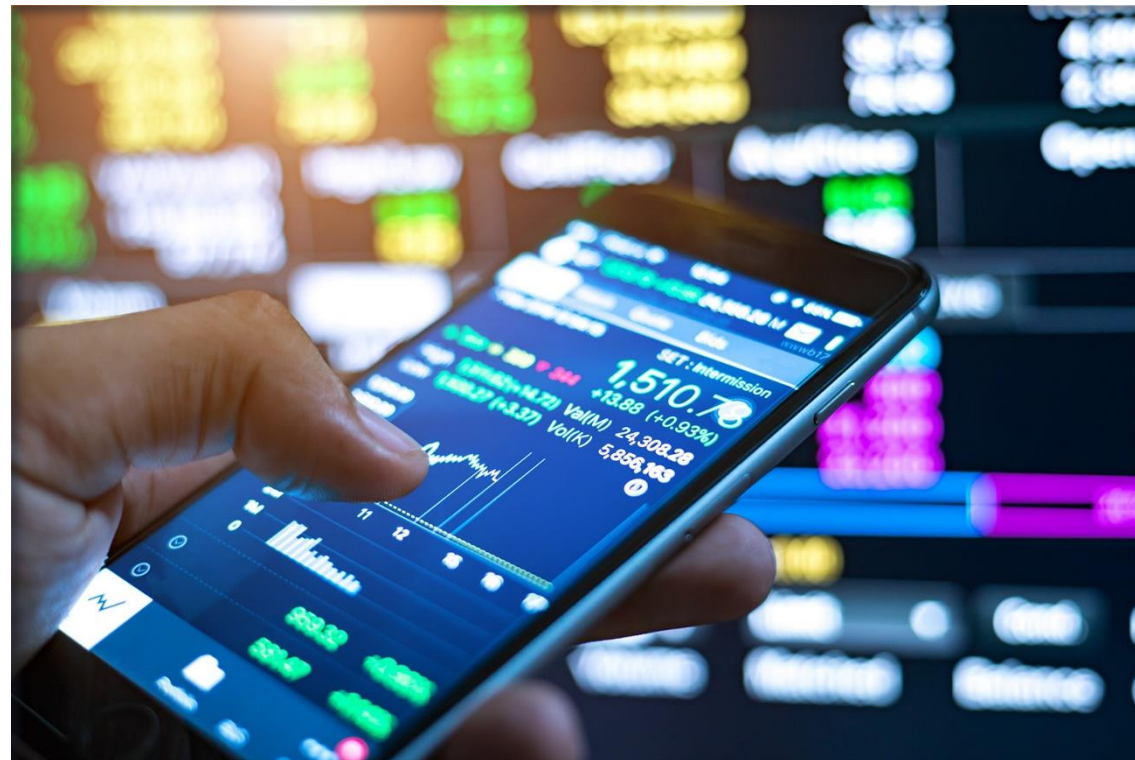
Source: Bloomberg, as at 21 March 2021

# STYLES OF EQUITY FUND MANAGEMENT

## Defining 'Growth' versus 'Value' investing

	Typical Characteristics	
	Growth Stocks	Value Stocks
Valuation	Higher than average ▲	Lower than average ▼
Dividends	Low or none ▾	High ▲
Trajectory	Expanding ↗	Disposing of assets or shrinking ↘

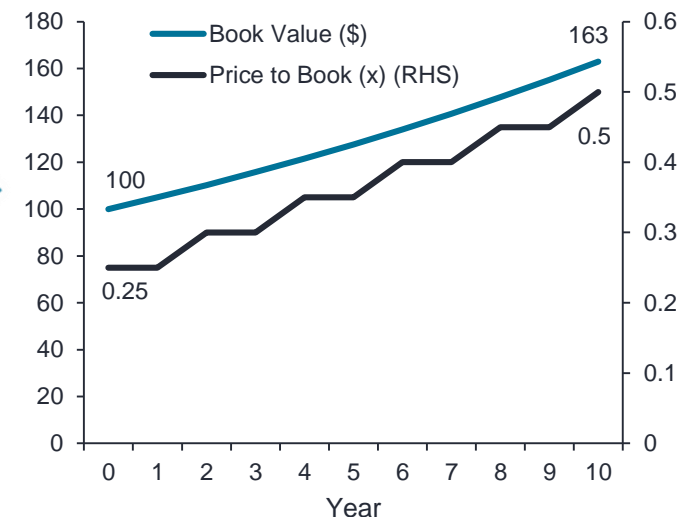
**Isn't any attractive investment a value stock?!**



Source: Janus Henderson Investors as at 24 March 2021

# STYLES OF EQUITY FUND MANAGEMENT

Value Stock	YEAR 0	1	2	3	4	5	6	7	8	9	10
Earnings per share	5	5.3	5.5	5.8	6.1	6.4	6.7	7.0	7.4	7.8	8.1
Growth		5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Book value	100	105	110	116	122	128	134	141	148	155	163
Return on Equity (ROE)	5%										
Share price	25	26	33	35	43	45	54	56	66	70	81
Price to Earnings (P/E)	5	5	6	6	7	7	8	8	9	9	10
Price to Book (P/B)	0.25	0.25	0.3	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5



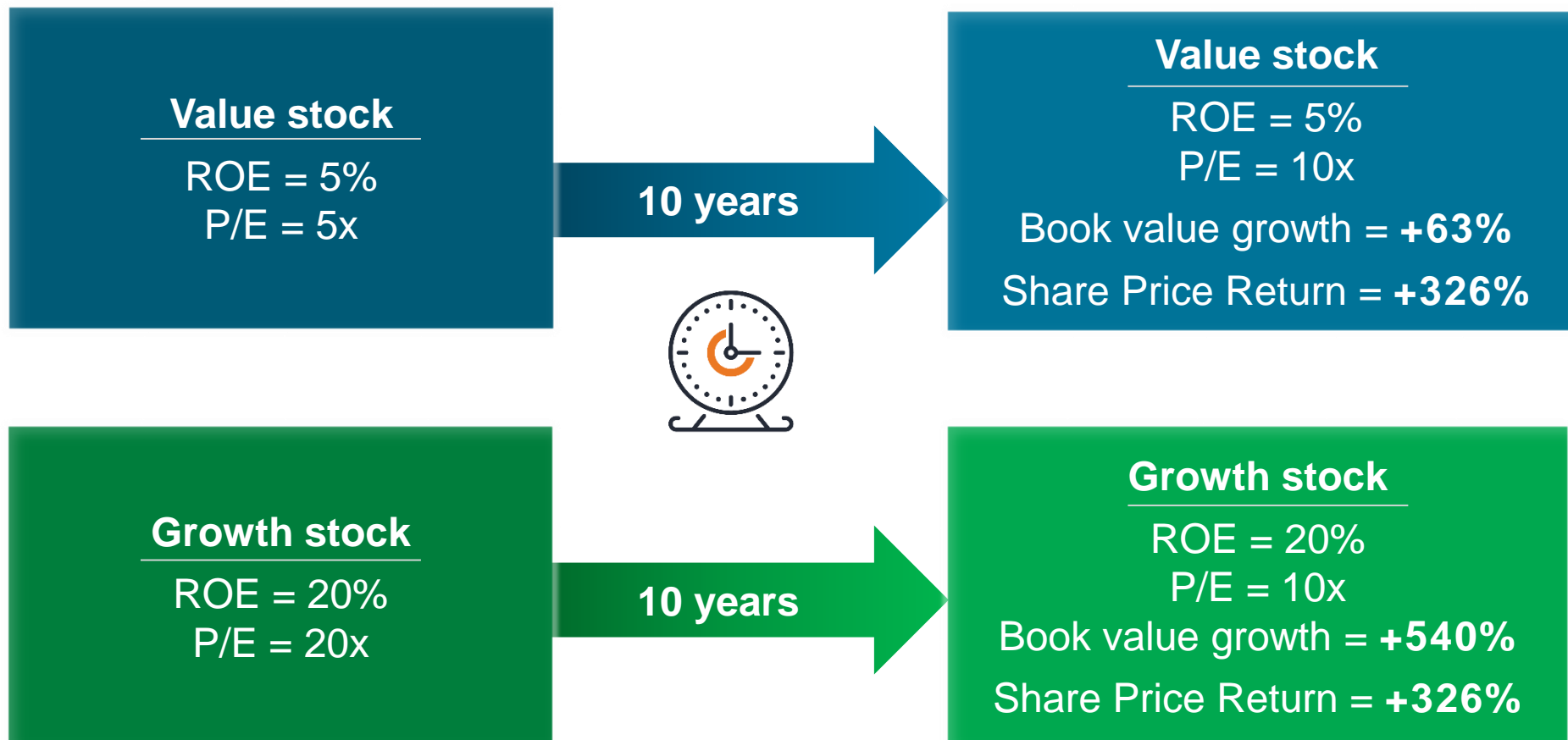
Growth Stock	YEAR 0	1	2	3	4	5	6	7	8	9	10
Earnings per share	20.4	24.6	29.6	35.6	42.9	51.6	62.1	74.8	90.1	108.5	130.6
Growth		20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Book value	100	120	145	175	210	253	305	367	442	532	640
Return on Equity (ROE)	20%										
Share price	400	491	532	641	686	826	870	1047	1081	1302	1306
Price to Earnings (P/E)	20	20	18	18	16	16	14	14	12	12	10
Price to Book (P/B)	4.0	4.1	3.7	3.7	3.3	3.3	2.9	2.9	2.4	2.4	2.0



Source: Janus Henderson Investors as at March 2021

# STYLES OF EQUITY FUND MANAGEMENT

Defining 'Growth' versus 'Value' investing



Source: Janus Henderson Investors as at March 2021



# CASE STUDY – HELLOFRESH

## What do they do?

- Meal kit business
- Present in ~13 countries
- App-based platform business
- Source, package, deliver

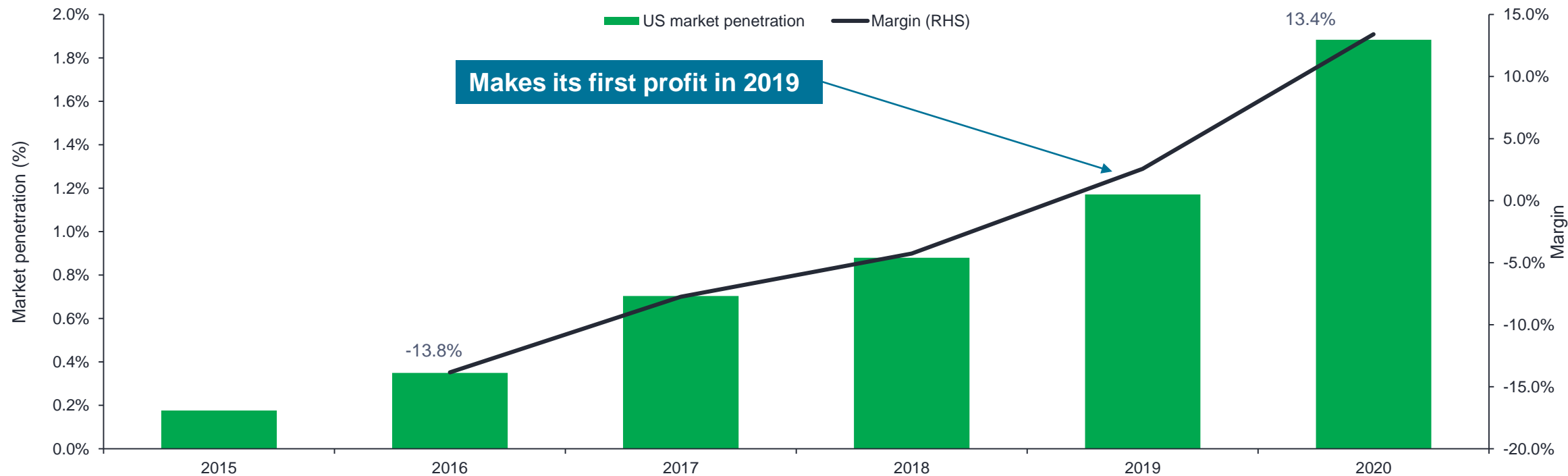
## What is the growth angle?

- Significant TAM opportunity; compete against grocery shopping
- US; €1bn revenues from selling to 1.9% of the 129m US households
- US; see 40% of households as potential customers; 10% of this implies x 2 revenues
- Further TAM potential; new markets, new brands (cheaper/more premium/specific diets), orders/customer, average order value
- Adjacencies?



Source: Janus Henderson Investors, Bloomberg as at 21 March 2021

# CASE STUDY – HELLOFRESH



Source: Janus Henderson Investors, Bloomberg as at 21 March 2021

# CASE STUDY – TOTAL

## What do they do?

- \$125bn market cap company; involved in oil & gas production, refining, marketing and sales
- Classic example of a price-taking, commodity business
- Upstream business focused on Europe, Africa, ME, Asia and the US
- Downstream activities 80% located in Europe

## What is the value angle?

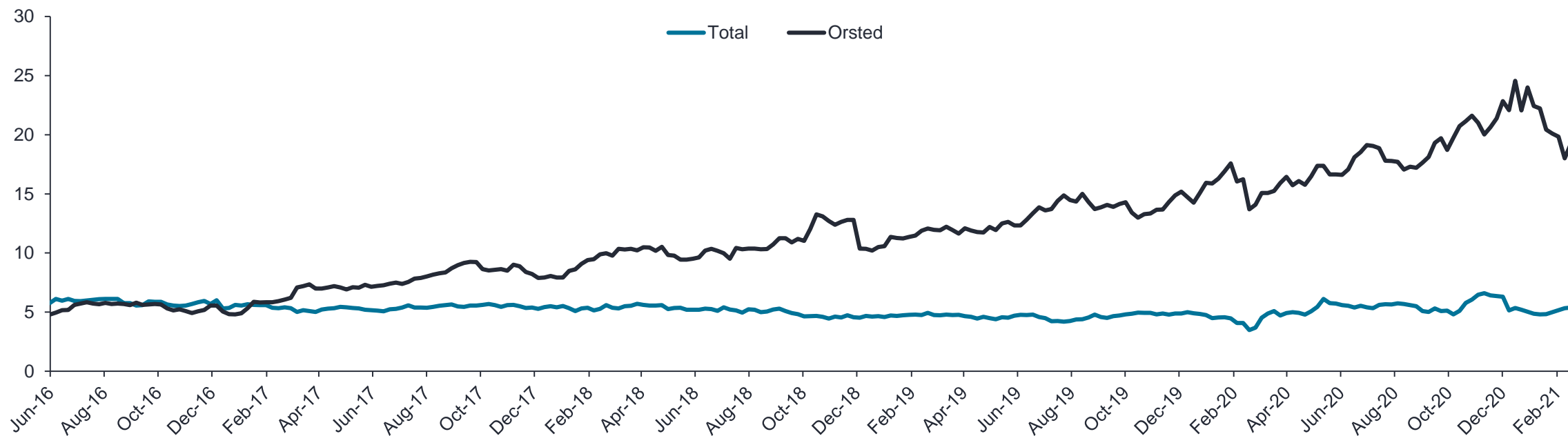
- 10 x P/E, 1 x P/B, 7% dividend yield
- Targeting net zero carbon emissions by 2050
- ~\$500m in renewables EBITDA this year (23 x this gets you \$11.5bn versus \$165bn group EV)
- Renewables could become the largest part of the business by the late 2030s



Source: Janus Henderson Investors, Bloomberg as at 21 March 2021

# CASE STUDY – TOTAL

## Enterprise Value / EBITDA (x)



Source: Janus Henderson Investors, Bloomberg as at 21 March 2021

# STYLES OF EQUITY FUND MANAGEMENT

Value Portfolio



Blend Portfolio

Growth Portfolio



# APPENDIX

# BIOGRAPHIES



**Richard Brown, CFA**  
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Richard Brown is a Client Portfolio Manager of European equities at Janus Henderson Investors, a position he has held since 2015. Richard joined Henderson in 2007 as a product specialist and began working on the Pan-European equities team as an investment specialist in 2009.

Richard graduated with a BSc degree (Hons) in mathematics with management studies from Sussex University. He holds the Chartered Financial Analyst designation and the Investment Management Certificate (IMC). Richard has 14 years of financial industry experience.

Source: Janus Henderson Investors, as at March 2021

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