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Feature: Global Growth

Capitalising on global growth through multi-nationals

Mark Yockey, managing director & portfolio manager of the Global Equity team at Artisan Partners, takes a look 'under the hood' of three multi-national companies

BY MARK YOCKEY

Identifying growth opportunities around the world can be more challenging as global economies continue to focus on ways to ignite growth following the great financial crisis.

In the search for growth, investors can benefit from taking a good look under the hood of multi-national companies – they may be surprised by what is powering the growth engine. More specifically, there are several well-run Europe-based companies which have exposure to the global market, not just the European market.

Nestle

One such example is Nestlé, the Swiss nutrition, health and wellness company. Nestlé owns 29 brands each worth over $1bn including Gerber baby foods, Poland Spring bottled waters and Nespresso coffee products. Brand strength is critical to generating pricing power, which in turn can lead to higher profits for shareholders.

It is estimated that Nestlé generates nearly three quarters of its sales outside of Europe and over 40% of its sales in emerging markets. Nestlé benefits from a long history of building knowledge about local consumers and their particular tastes.

Having grown their business country by country in Europe, they have applied their expertise globally and are reaping the benefits of that today. Nestlé currently has operations in 194 countries around the world and over 400 factories in 86 countries. Global demographic trends, driven by consumers in emerging markets where disposable incomes are rising and urbanisation is increasing, are very important drivers of growth and Nestlé is a clear beneficiary of this secular trend.

In recent years, Nestlé has emphasised a business model called Popularly Positioned Products, which focuses on the specific needs of global lower income consumers, a group recognised as one of Nestlé's main growth drivers.

The goal is to offer these customers the opportunity to consume high-quality products at an affordable cost. It relies on local sourcing, local manufacture and local distribution to minimise costs. The company's broad and diverse portfolio also creates the possibility for customers to trade up and trade down the value spectrum without leaving the Nestlé product family.

SABMiller and Anheuser-Busch InBev

Brewing giants SABMiller and Anheuser-Busch InBev are other examples of companies with powerful brand names, and a global reach beyond their home markets.

Headquartered in London, SABMiller is the world's second largest brewer by volume and holds a number one or two position in over 90% of its markets, which helps it to establish advantageous pricing power.

The company also produces and distributes soft drinks in select regions. SABMiller has one of the best geographic profiles in the beer world, generating about 75% of its earnings from a diverse group of emerging markets including China, Latin America and Africa.

Anheuser-Busch InBev, despite its Belgian headquarters, counts North America and Brazil as key markets and emerging markets account for roughly half of the company's sales.

Investors often affiliate Anheuser-Busch InBev with its popular developed market brands such as Budweiser or Stella Artois, but the company has over 200 brands in its global portfolio including locally-focused beers such as Quilmes and Skol.

Exposure to emerging markets is key for both SABMiller and Anheuser-Busch InBev. Increases in per capita income in emerging markets are expected to drive up per capita beer consumption rates, which are currently meaningfully below rates in developed markets.

Furthermore, GDP in emerging markets is forecasted to grow faster than the worldwide pace, drawing more citizens into the middle class and setting up branded beer to be a beneficiary from consumer desires to trade up.

Linde

Linde is another interesting case of a multi-national company that is capitalising on global growth trends.

Linde, based in Germany, is a major player in the consolidated industrial gases industry and enjoys a top position in several of its markets. The company employs over 60,000 people in more than 100 countries and is exposed to multiple global growth drivers, extending its growth potential well beyond its European domicile.

As worldwide demand for energy continues to climb sharply, Linde is able to deliver technologies that increase recovery rates on existing fossil reserves and also provide the means to capture renewable energies more effectively.

From an infrastructure and construction perspective, fast-growing emerging markets, especially in Asia, are also important for Linde. Linde generates approximately 30% of revenues in Asia, where increasing industrialization and wealth are fostering demand for industrial gases. In addition, Linde gases are used in the health care arena where burgeoning and aging populations are demanding more health care options.

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