

The Fundamentals of Embracing Change and Creating Value

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If the coronavirus pandemic has reminded us of anything, it is that change is inevitable and rarely predictable. Yet investors who view change as an opportunity as opposed to a threat—despite the considerable challenges of today—can view the future with optimism.

In any environment, some changes are more predictable than others. For instance, today we can reasonably assume working from home, shopping over e-commerce, and attending doctor appointments virtually will become more mainstream. We can reasonably expect there to be shifts in the political, social, and regulatory landscapes that will impact business, though these are inherently less certain in form and intensity. Furthermore, we can expect reactions to the reactions, as we live in a highly competitive and creative world where people and institutions are not static but dynamic organisms.

Thankfully, Riverbridge's investment outcomes are not predicated on whether our predictions of the future are right. Far more important is how companies position themselves relative to the changes and opportunities of the next decade. As such, we remain singularly focused on the fundamental prospects and progress of our portfolio companies.

It is impossible to predict the future. But companies in a position to see, adapt, and invest in opportunity can embrace and create change.

See the change

Predicting the future is easy, getting it right is the hard part. The most successful companies enjoy customer relationships that do not require them to precisely predict the direction of their end-markets. Instead, their customers share what they are seeing and ask these vendors and service providers—whom they view as strategic partners—to invest alongside them to pursue new opportunities and alleviate emerging pain points. This creates successful and growing relationships, as well as business investments which generate higher returns on capital given the higher probability of end-market relevance.

Adapt

Adaptability is much easier said than done in business. Companies constrained by narrow visions, lack of

leadership depth, or legacy business models often struggle to pivot. These companies are at risk of becoming world class in businesses that are no longer relevant. It is often said that Kodak thought they were in the film business when in fact they were in the memories business. Perhaps, if Kodak shared the latter vision, defined by the customer and not the business model, the outcome may have been different.

A clarity of vision, from top to bottom, empowers leaders and employees throughout organizations to learn and to act in the best interest of the company. As the world becomes more interconnected and business becomes more complex and dynamic, it is no longer feasible for organizations to be run from the top with a "grand strategist" calling all the shots. Leadership depth will be more crucial than ever over the coming years as successful businesses navigate change through pivots and innovation.

Invest in opportunity

Capital is king. Companies with strong balance sheets have certainly performed well in this uncertain market environment, but financial flexibility will remain important during the economic recovery. Companies that are undergoing financial stress are not focused on the next opportunity. At best, they hope to catch up. Companies that self-fund their growth investments and keep their financial house in order enable the entire organization to stay focused on value creation. When the end market presents an opportunity, it will be those partners in sound financial condition that invest alongside and capitalize.

Strategic relationships, adaptable organizations, and self-funding business models will be more relevant than ever over the coming years as our world navigates the changes spurred by the coronavirus pandemic. These changes will provide opportunities for new value creation: medical breakthroughs, technological advances, waste reduction, new jobs, and strengthened communities. Ultimately, it is this kind of value creation in which we seek to invest.

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