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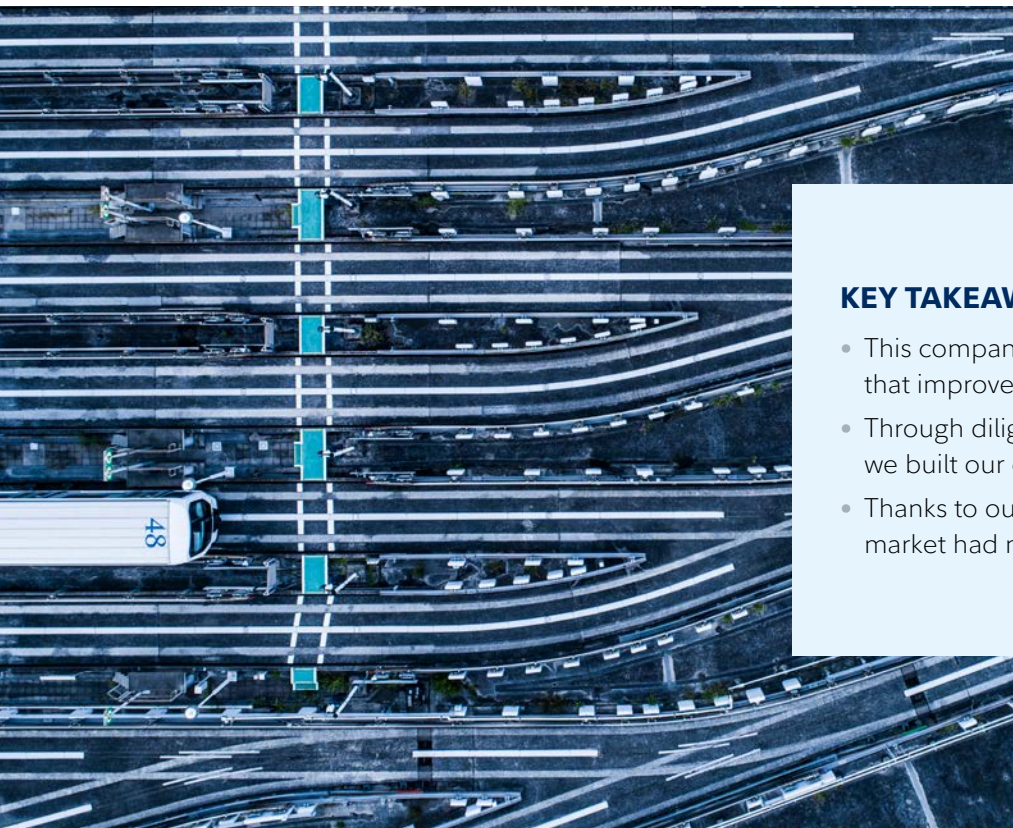
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An M&A deep dive

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A falling share price drew attention to a consumer staple stock the market had written down. Analysis of the company's deals and leadership showed hidden value.



KEY TAKEAWAYS

- This company had a good record of making acquisitions that improved their bottom line.
- Through diligent analysis and company meetings, we built our conviction in the stock.
- Thanks to our research, we spotted something the wider market had missed.

To buy into an idea, sometimes you need a passionate analyst to bring it home.

Last summer, our analyst covering consumer staples, Fenella Atkinson, recommended a U.S. company that holds several well-known personal and household care brands. It caught my eye because the company share price was not having a good year: all things artificial intelligence (AI) were rising, and more defensive subsectors like consumer staples were selling off to fund it.

I wasn't quite convinced and moved on, but after Fenella's flag I continued to watch as the share price fell further. If I could gain faith in the company's fundamentals, it would be appealing.

Fenella's own conviction continued to grow. She believed the structural case for the stock was to do with its M&A record. Bolt-on acquisitions are a standard strategy for well-known staples names, but this company manages its portfolio of brands actively, selling off poor performing ones and acquiring others that it can scale up through its distribution network.

Fenella had already done a lot of work on the outcome of several of the group's previous takeovers. Much of the detail was buried because the company hadn't been breaking down the post-deal sales of many of its purchased entities. We carried out diligence on those – some of it sectoral, some of it based on prior knowledge and experience of the market, and plenty of digging amongst the company's reports and earnings calls. Fenella initiated more direct contact with its management too.

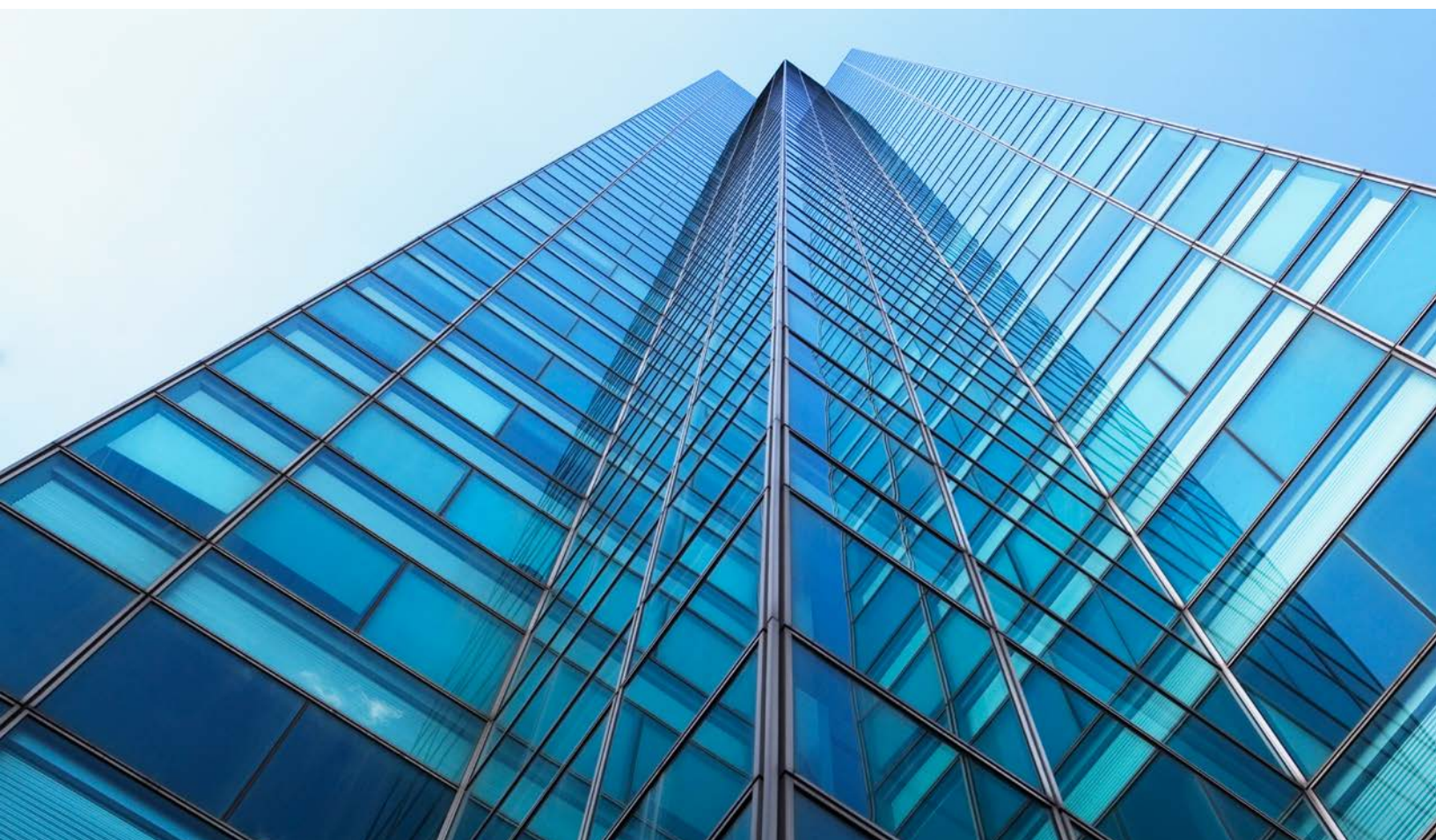
Strength in numbers

The research meant she could back out the numbers and work out whether a handful of previous deals had been positive for the company's sales and bottom line. They had. This put us in an especially strong position when it came to taking a view on a fresh acquisition the company had made. The market didn't like it, but the numbers told us it was better than many thought.

To determine whether the company had simply been fortunate in its M&A activity, we turned our attention to the management team: who they were, how they were operating, and how their ideas differed from their peers. Fenella met with the CEO and walked through his acquisition criteria with him. We organized further meetings with both the CFO and the CEO. It convinced us that the deals they were doing were not just things they

had jumped on because they suited them at a particular moment. It was something they were doing consistently over time. Sometimes they did have to take write-downs on their assets as they divested. But in aggregate, we could see that this portfolio reshaping was value-accretive to the business.

Companies always tell you what they want you to hear, but when you can check it against the numbers, it goes a long way to gaining conviction.





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