Quality Shares Portfolio: news and views

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When you invest in the Quality Shares Portfolio, I tell you what I am doing with your money and why. I offer my unvarnished views on companies and markets. I share investment ideas and principles you can apply to the rest of your portfolio.

No other investment service offers this. Most funds give you a list of the top 10 holdings, alongside a monthly factsheet with little, if any, commentary. You rarely know detailed reasons behind the manager's decisions, or the portfolio performance. And you hardly ever get insights that can be applied more widely.

When you invest in the Quality Shares Portfolio, you gain access to an 'Investor zone'. Here you can see a full list of every holding, with explanations on why I own it and how it scores against four crucial criteria in my investing checklist.

In addition, every month, you receive updates. These are detailed (several pages) and cover my views on the portfolio, companies, market developments and other timely topics – like inflation and artificial intelligence. You can see a sample below, with snippets from past updates.

FROM THE APRIL 2023 UPDATE

Call with Diploma's CEO

On 24 March I had a 50-minute one-to-one video call with Johnny Thomson, Diploma's CEO. The company recently raised money from shareholders to acquire Tennessee Industrial Electronics (TIE), and provide funds for future acquisitions.

The £76 million TIE acquisition strikes me as an excellent deal, enhancing the quality of Diploma's business. It takes Diploma into the industrial automation market, which is growing rapidly as companies seek efficiencies by replacing people with robots.

A broken robot is the last thing you want in a factory. TIE supplies components that get them back up and running quickly. The breadth of its offering and speed of delivery add significant value to its customers, generating high levels of repeat business, at excellent margins. Johnny Thomson told me Diploma's acquisition pipeline is brimming with similarly exciting opportunities.

I spent most of the call discussing Diploma's culture. I was reassured that Johnny Thomson seems to have thought carefully of how to scale while retaining the entrepreneurial spirit that made the group successful, and avoiding the bureaucracy creep that gets many businesses into trouble.

Overall, I think Diploma is in capable hands with significant growth opportunities in all of its markets, as well as the capability and ambition to exploit them. But there are risks. It needs to execute well on acquisitions and retain its entrepreneurial culture, which will become more difficult as it grows. However, I think Johnny Thomson understands these risks well and is so far managing them sensibly.

Article and podcast on Diploma (June 2022) »

Next's annual results

I spent the morning of 29 March digesting Next's annual results. Next isn't currently in the Quality Shares Portfolio. However, I've been following it closely for over five years, and I pay close attention to everything it says.

Next's results are always a delight to read. I've come across no other company that reports with such clarity, detail and wisdom. I particularly enjoyed page 16 of its latest report where Simon Wolfson, CEO, discusses his views on culture, which very much resonate with my own.

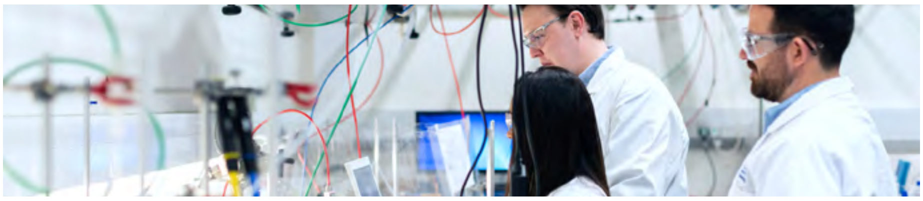
Simon Wolfson's achievements as CEO of Next over the last two decades are remarkable in my opinion. But retail is a very difficult industry and will always be cyclical. This is why, currently, Next's business model doesn't score as highly on my investment checklist as the 15 companies in the Quality Shares Portfolio. The quote from Steve Jobs springs to mind – focusing on the very best ideas means rejecting hundreds of good ones.

That said, I believe Next's business is getting stronger, and it is working on some exciting growth initiatives. Although small at the moment, they could pay off handsomely over the next decade. I will continue to monitor it closely.

Banks – picking up pennies in front of a steamroller

I don't have much to say about the Silicon Valley Bank/Credit Suisse saga and the fine mess some other banks have gotten themselves into. However, I recently wrote a short article explaining why I tend to avoid banks. I don't envisage this changing any time soon.

In my view, the returns from investing in banks simply aren't worth the risk. In the good times, they are picking up pennies in front of a steamroller. In a crisis, they can easily be wiped out.



Danaher – the good, the bad and the ugly

Danaher, the Life Sciences company, reported a 7% fall in first quarter revenues, leading to a 17% profit decline – more of the same is expected for the full year.

The announcement sent the share price down by almost 9%. However, the results aren't anywhere near as bad as they first appear, and at the time of writing the shares have recovered over half their lost ground.

Why the weakness in revenue and profit?

I think there are two main factors.

Firstly, declining Covid-related sales. Danaher played a key role in the pandemic response, supplying tests and equipment for vaccines and therapies. In 2022, Covid-related sales totalled around $4.5 billion. In 2023, that figure is expected to drop to just over $1 billion.

If you strip out the impact of declining Covid-related sales, the results show revenue is growing by 6%. That, however, is still slightly below Danaher's previous forecast for 2023, which brings us to the second factor for the reported decline.

Revenue from small biotechnology customers declined in the first quarter, as they faced funding pressures (not helped by the collapse of Silicon Valley Bank, I suspect).

I wouldn't be surprised to see these funding pressures get worse before they hopefully get better. Higher interest rates and recent banking troubles suggest funding for all small businesses is likely to get more expensive and more difficult to obtain.

However, smaller biotechnology customers account for less than 10% of Danaher's total sales, based on my estimates: the bulk comes from larger, more established biotechnology and pharmaceutical customers. So even if this weakness persists, the impact should be manageable.

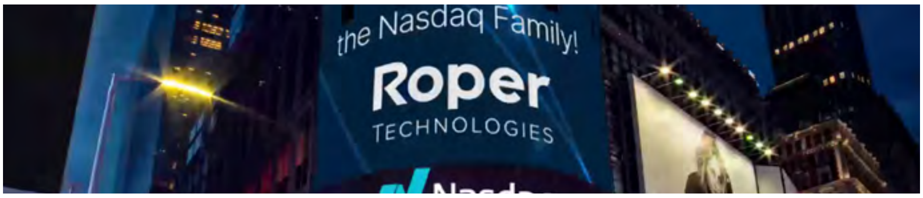
In addition, by the end of this year, I estimate Danaher's Covid-related sales should account for less than 5% of revenues. This means any further declines shouldn't cause much of a headwind to 2024 revenues and profits.

Looking to the next 5 to ten years, I remain excited by Danaher's prospects. The number of new biological therapies in development is significantly higher than at any point in history, with over 750 in Phase 3 clinical trials. These therapies could revolutionise the treatment of many diseases, from diabetes to Alzheimer's. As a leading supplier of critical equipment for the creation of such therapies, I believe Danaher looks exceptionally well placed to capitalise.

Solid results from RELX

Results from RELX were as reliable as ever. Momentum remains strong in all its divisions. Insurance, fraud prevention and financial crime and compliance – all areas that should be relatively immune to the economic backdrop – have seen particularly strong growth. Meanwhile, the Exhibitions division has bounced back strongly as people return to face-to-face events. This sets the business up for another year of good profit growth, in my view.

To learn more about why I regard RELX so highly, see my article from February 2023.



Roper Technologies – a powerful cocktail

Software and technology company Roper Technologies increased its full-year earnings guidance again after another strong quarter.

Revenue increased by 17% in the second quarter and profit by 20%, underlining the attractive growth potential of its niche markets.

Not only does Roper offer excellent growth prospects, but it should also be well insulated from the economic cycle, in my view. This is because its software and technology are critical to its clients and over 90% of its software revenues repeat or recur. Moreover, Roper serves defensive end-markets (like healthcare). When combined with an entrepreneurial, high-performance culture, it leaves me very excited by Roper's long-term prospects.

You can learn more about why I rate Roper's business model and culture so highly in my latest article from August 2023.