

Ten European surprises for Asian investors

The continent hosts world-beating companies with competitive advantages which underpin robust growth and sustainable shareholder returns.

Emerging markets are the future, Europe is the past. That's what conventional wisdom would have you believe. But at Columbia Threadneedle Investments, we think differently. Exciting investment opportunities can be found all over the world and Europe in particular remains a hotbed of corporate growth stories.

We find a hugely varied range of investment opportunities, but they have one thing in common. Many of Europe's leading companies boast "economic moats" which keep the competition at bay. Using the Porter's Five Forces framework for analysing a company's competitive environment and pricing power, we find trailblazing European companies. The combination of moats and pricing power creates business models which can sustain high returns that the stock market should reward with premium ratings.

Despite Europe's recent lacklustre economic growth, it is home to many leading companies operating in international markets.¹ Formidable competitive advantages protect their

expanding earnings, making them attractive investments.

Here are ten facts Asian investors might be surprised to learn about Europe.

1. Companies with a secret ingredient

Clean eating is more and more important to consumers across the globe. European companies pioneer the science behind natural ingredients. While they may be invisible to consumers, their products drive millions of consumer decisions every day. The probiotics in yogurt, the culture that ferments exquisite cheese and the essential enzymes in infant formula are all part of a portfolio of patents developed by the Danish company, Christian Hansen. Taking natural extracts, innovative Swiss and German companies such as Symrise, Firmenich and Givaudan produce the distinct flavours, fragrances and aromas that go into consumer products including fine perfumes, cosmetics, beverages and pet food. These are highly successful companies and command market share in their sector.



2. Spotify was founded in Sweden

When most people think of successful technology companies, US leaders like Google, Microsoft and Apple spring to mind. However, Europe too boasts a very successful technological ecosystem. Many of the world's leading talents in technology see the appeal of living and working in cities like Amsterdam, London and Berlin. So it's no wonder that companies like Rightmove, Takeaway.com, Adyen and Spotify were founded in Europe. Once they have introduced a key technology, these sorts of companies tend to grow quickly, leaving little room for competitors and creating a sweet deal for investors.

3. Some of the biggest crises turned into the biggest recoveries

That some European countries fell victim to the global financial crisis is well documented. But these

countries have also engineered spectacular recoveries. Ireland and Iceland are two remarkable success stories.

Figure 1:
Iceland real GDP growth (%)

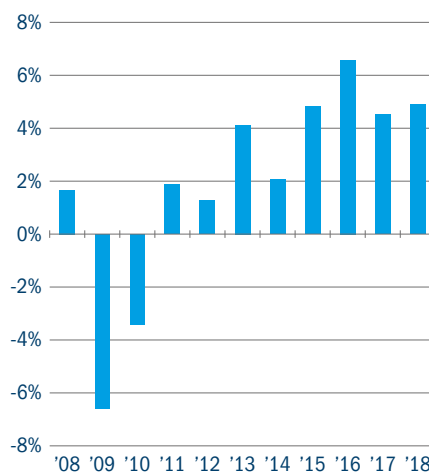
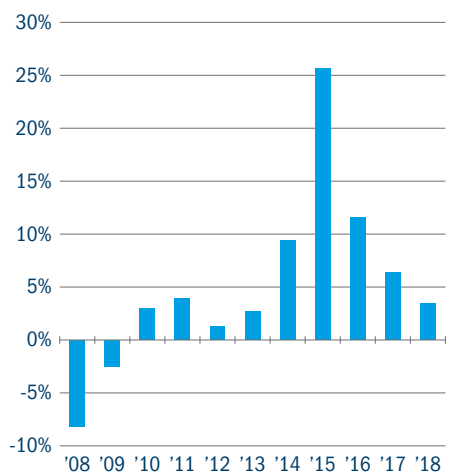


Figure 2:
Ireland real GDP growth (%)



Source: World Bank GDP data (data.worldbank.org).

4. European companies are turning the continent's ageing population into a positive

People in industrialised nations are living longer and populations in emerging and developing economies are growing – this puts tremendous pressure on healthcare. Europe has been facing the challenges of an ageing population for a long time, which has compelled European companies to become front-runners in offering appropriate solutions. For instance, European technology leaders in optics, Carl Zeiss and EssilorLuxottica, serve many critical markets including medical technology and semiconductor manufacturing equipment, as well as vision care. Those concentrated on specialized care such as Orpea provide the highest standards in services for the elderly.

5. European brands are a byword for luxury

It is very difficult to compete with the history and heritage of European luxury brands. Visit any shopping mall in the world and non-European brands are harder to find. Louis Vuitton, Hermes, Kering and Prada are global leaders in luxury leather. Commanding the highest market share in beauty globally, L'Oreal has an impressive portfolio of luxury cosmetic products. Some of the most distinguished brands in jewellery and luxury watches are owned by European companies such as Swatch and Richemont, which dominate

their respective industries. After all, who can better the brand power of a Swiss watch, an Italian leather handbag or a French perfume?

6. Europe's businesses have global appeal

Investors may worry that Europe's largest businesses are vulnerable to the region's ups and downs, both political and economic. But many are global businesses with highly diversified sales. More than two thirds of the sales generated by MSCI Europe top 100 companies are from outside Europe, often in high-growth economies.

7. Fancy a premier branded beverage?

From Campari to Aperol, Pernod to Remy Martin, the main luxury wine and spirits brands are European. Some of this is an accident of history and indeed the brands, the vineyards and the production processes are centuries old. However, the Europeans are experts at fortifying their unrivalled brands. Champagne is a terrific example of a product with an economic moat: sparkling wine produced outside France's Champagne region cannot be called "champagne", and the same can be said of cognac in the spirits sector.

8. France revived the Olympics

Most people know that the ancient Greeks inspired the Olympics, where almost every

nation in the world is represented. But did you know that the modern Olympics were revived by a Frenchman, Charles Pierre de Frédy, Baron de Coubertin? So French is always spoken first in any Olympic proclamations. Europe's stewardship of this world-renowned sporting event illustrates the powerful influence which dynamic Europeans can play on the world stage.

9. Six of the ten most visited countries in the world are in Europe

While Thailand's beaches tantalise some and New York's skyscrapers others, Europe remains the most popular destination for globe-trotting tourists. France is the most visited country in the world, with Spain in second place. Italy, the UK, Turkey and Germany also feature in the top ten. Europe may be hindered by slow short-term economic growth, but the power of history gives many of its tourist-focused businesses a major competitive advantage.

10. Lego is the biggest tyre manufacturer in the world

Forget Bridgestone in Japan, Danish company Lego is one of the biggest tyre manufacturers in the world (for use on vehicles in its Lego building sets).²

Sources:

1. World Bank GDP data (data.worldbank.org).
2. https://en.wikipedia.org/wiki/Lego_tire

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