

# MOATS



# WHAT IS A MOAT?

A company's competitive advantage

Capitalism ensures high profits attract competition

Almost always drives high returns downward

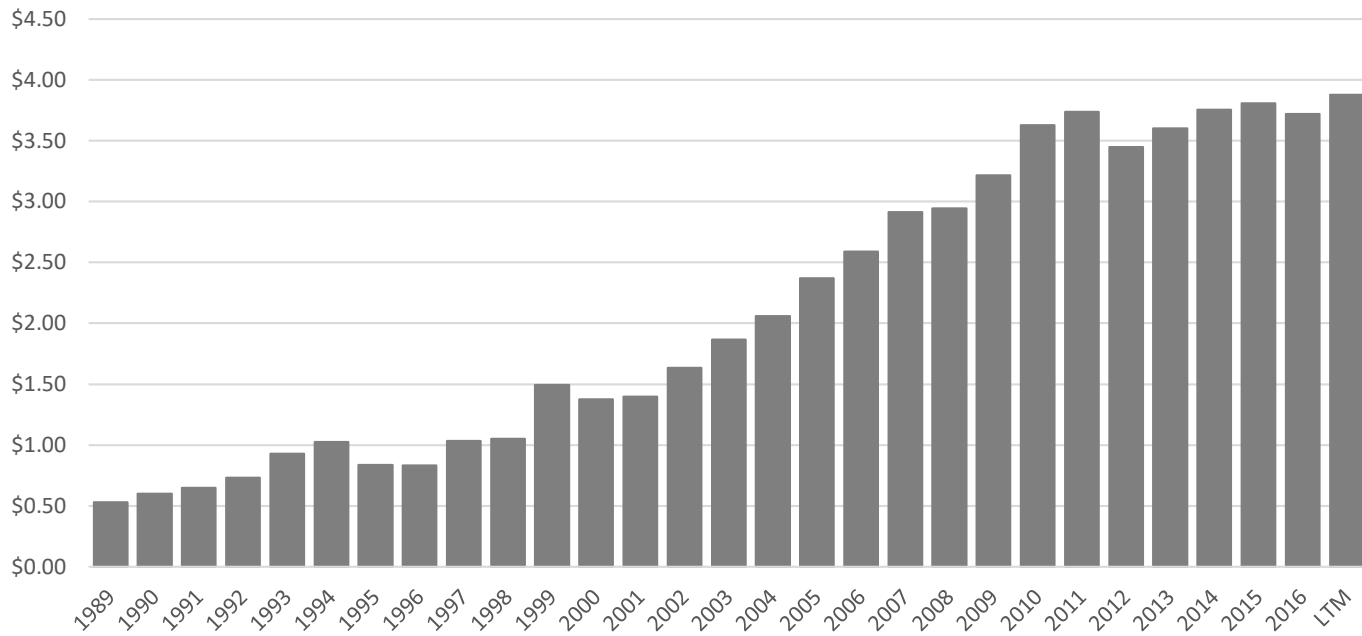
Certain companies are resilient due to presence of a moat



# GREAT BUSINESS



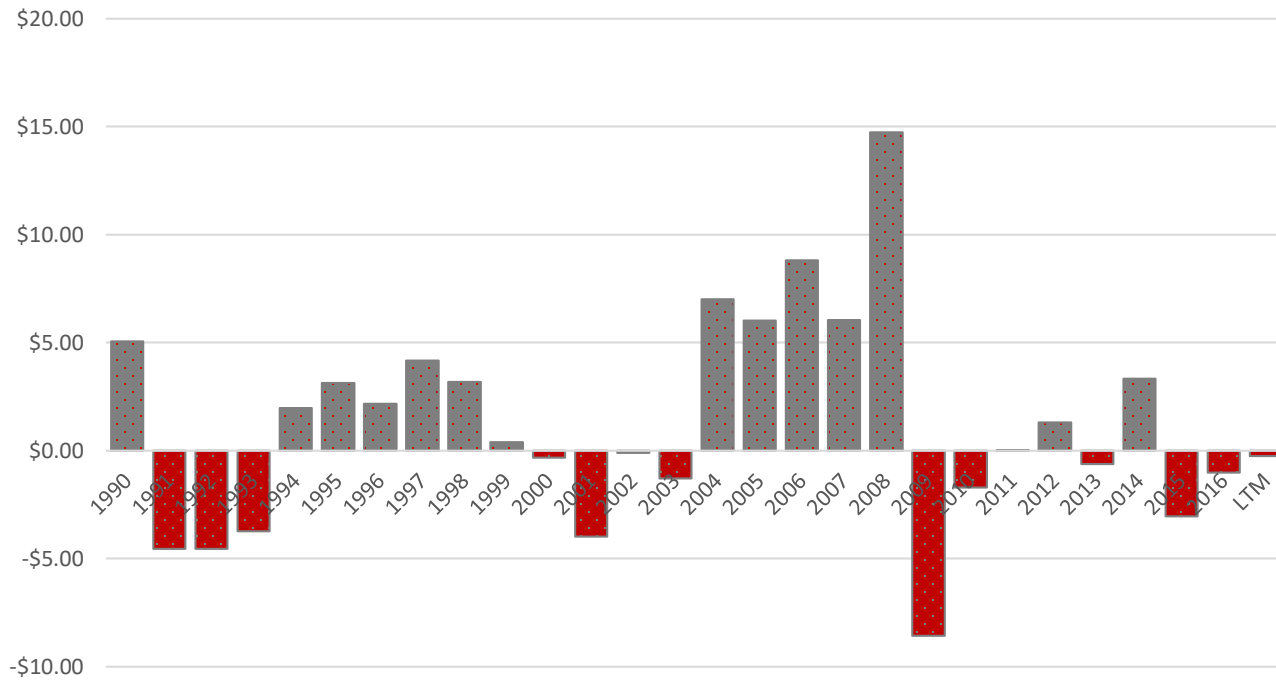
## Earnings per Share



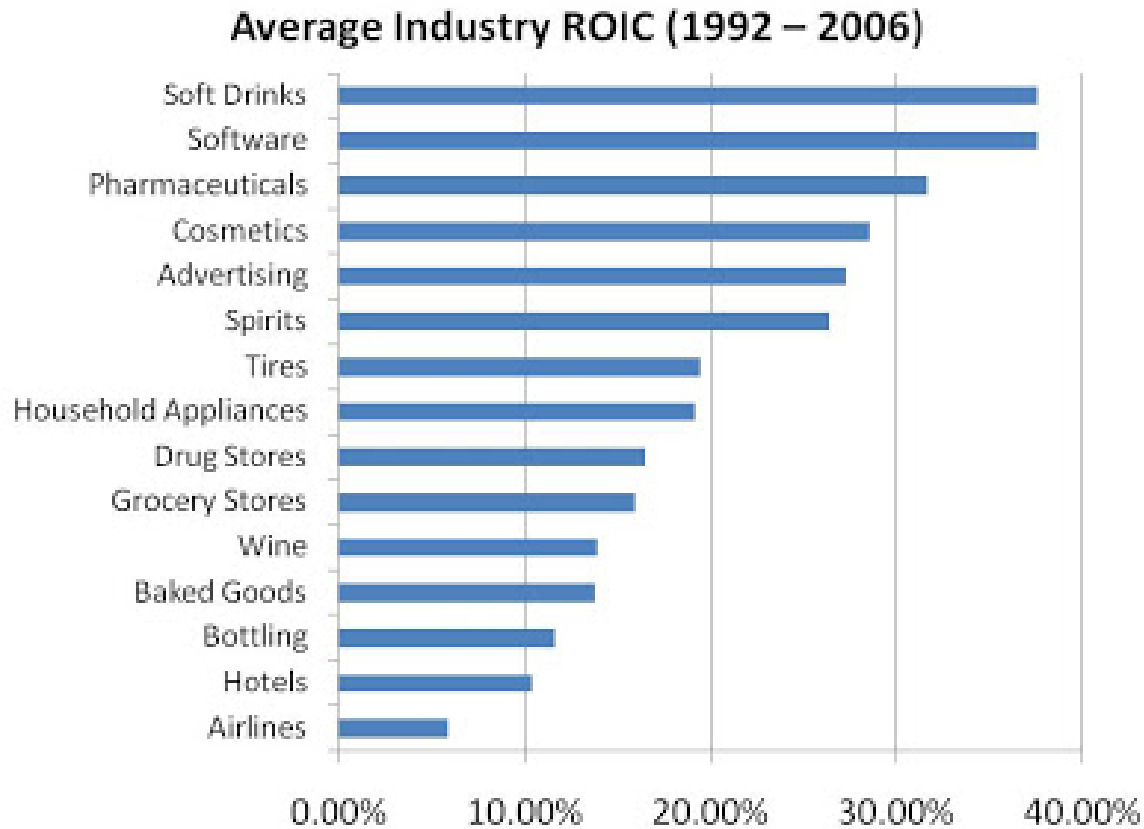
# NOT SO GREAT BUSINESS



## Earnings per Share



# INDUSTRY ROICs



Source: Michael Porter; Barel Karsan

# MOAT SOURCE #1:

## INTANGIBLE ASSETS (Patents, Brands, Licenses)



GILEAD



novo nordisk

# MOAT SOURCE #2:

## SWITCHING COSTS



# MOAT SOURCE #3:

## SCALE/COST ADVANTAGES





# MOAT SOURCE #4:

## NETWORK EFFECTS



# MULTIPLE MOATS:

Company/Industry	Moat Sources			
	Intangible Assets	Switching Costs	Scale / Cost Advantages	Network Effects
Credit Card Networks	✓	✓	✓	✓



# MULTIPLE MOATS:

Company/Industry	Moat Sources			
	Intangible Assets	Switching Costs	Scale / Cost Advantages	Network Effects
Enterprise Productivity Software	✓	✓	✓	✓



# WHY MOATS MATTER

Predictable earnings

Businesses usually have pricing power

High returns on capital = lots of Free Cash Flow

Growing earnings and dividends

Compounding (8<sup>th</sup> Wonder of the World)

**This is where we prefer to invest!**