



Report:

Observations from Paris Trip

**Paradice Global
Equities Team**

In September, Toby Shute, an analyst on the Global equities team, attended a pan-European equities conference hosted by Kepler Cheuvreux in Paris. He participated in 17 group and one-on-one company meetings over the course of three days. This provided a good opportunity to check in with firms that the Global team either owns or has studied in the past, in addition to meeting several others for the first time. The conference setting also provided an opportunity to compare notes and trade war stories with other Global and European-specialist investors.

Meeting takeaways

- With economic conditions generally quite weak across the Continent, the anticipated positive impact of **declining interest rates** was a constant refrain. Some obvious exceptions were our meetings with a pair of Nordic financial firms, both of whose earnings have directly benefited from rising rates. Less obvious exceptions were the Dutch low-cost gym operator noting how higher rates have hobbled its **private equity (PE)**-backed competitors, or the Italian industrial serial acquirer seeing reduced competition with PE sponsors for M&A deals.
- **China** – be it weakness in local demand, **protectionism** and trade frictions, or the threat from low-priced competition – was another recurring topic, with more than 50 references to the words “Chinese” or “China” in our meeting notes! Rising protectionism and trade barriers are positive for some companies we met, like a Finnish port crane equipment manufacturer that’s now the sole non-Chinese option when it comes to end-to-end solutions. Frictions are decidedly negative for others, like a French spirits company being slapped with tariffs as retribution for the EU shielding its auto industry from Chinese EV imports. **“Local-for-local”** is an increasingly important manufacturing strategy for companies with significant revenue exposure to the domestic market, such as the German eye surgery equipment player and Belgian cinema laser projection specialist we met. China even came up in the context of sourcing pharmaceutical raw materials from the mucosa of pig intestines.
- We met with two **beverage** companies as well as Europe’s leading glass packaging manufacturer, which primarily serves food & beverage customers. Besides talking about the summer weather (a seasonal swing factor), investors homed in on structural concerns currently weighing on sentiment in the sector. A major one relates to **health trends**, with people generally drinking less alcohol today, particularly compared to the pandemic lockdown period which saw many of us become amateur mixologists. We learned that wine consumption is trending -5% in France this year, for example. One company highlighted how its multi-beverage strategy, with enhanced water and other non-alcohol categories representing half of sales, insulates it from shifting consumer preferences. It also shared an anecdote of how one of the company leaders couldn’t stand alcohol while taking a GLP-1 medication, which perhaps poses a bigger challenge for US-facing beverage companies due to relatively higher obesity prevalence. The glass packaging player noted that it sees no difference in glass penetration when it comes to non-alcoholic beer and wine, and that zero ABV Guinness is actually pretty good whereas zero proof wine is not.

- **Corporate actions** were top-of-mind for investors in certain group meetings, such as a Spanish pharmaceutical company facing rumors swirling around strategic alternatives for its contract manufacturing arm, the Danish hearing aid/audio company waving the white flag in the face of AirPods dominance in consumer audio, or the French outsourcing firm whose approach for a US peer was leaked to the press in the days leading up to the conference. Many other companies asserted that **M&A is high on the agenda**, whether in a market consolidation role (such as a Spanish automotive supplier that's integrated close to 100 companies over its 28-year history, or a French industrial services firm that's done 160 deals in the last 15 years alone) or for more defensive reasons.
- There were many helpful reminders that **Europe is not a monolith**, with consumers, businesses and governments behaving in radically different ways, large and small. Germany and France taking starkly different paths on **nuclear power** is a big one, particularly in the face of surging power demand from generative AI. Less consequentially perhaps, we also learned that the Danes drink 7x as much Pepsi as the Dutch.
- On the topic of **ESG / sustainability**, one Nordic company called out the fact that despite the company focusing on **decarbonising**, "no one talks about it anymore." Others highlighted the investments and contributions they are making to help customers reduce their scope 3 emissions (such as replacing gas furnaces for glassmaking with electric or hybrid ones), or source **more sustainable raw materials** (like algae-derived omega-3 oils for aquaculture).

Other findings

- **Inflation** has come to Europe, but it is not evenly distributed. We were surprised to find that it was possible to order a very high quality ham and blue cheese on baguette at a lunch counter in central Paris for only 8 euros (13 AUD).
- Local portfolio managers assured us that within the European funds management industry, the ESG train has not been derailed and remains a major institutional client focus.
- On a side mission for an anniversary gift, our own sustainability leanings led us to a maison offering Fairmined-certified gold jewelry that's intended to promote the SDGs in the artisanal and small-scale mining sector. Inflation was felt much more acutely here than in the case of the ham sandwich!

Summary

With the lagging effects of higher interest rates weighing on housing, autos, and other bedrocks of economic activity, the mood was understandably measured in Paris, but many companies and investors we met were rightly looking forward to better days ahead. The conference reinforced our view that there are many opportunities across Europe today, ranging from the cyclical (e.g. weak autos/China) to the structural (market consolidation plays with scale advantages) to the more idiosyncratic (e.g. retaliatory tariffs being placed on French cognac for purely political reasons). We are actively taking advantage of several such opportunities in the portfolios we manage for clients.

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