

## **Star Gazer Duncan Byatt – Cofounder of Eagle & Dominion**

Duncan Byatt has nearly 20 years of professional investment experience. He began his investing career as a graduate trainee at Ivory & Sime in Edinburgh, Scotland in 1984 where he gained experience with US and European investments. Then he moved to London and worked as a corporate finance analyst. Next he started a fund management operation for a major Japanese insurance company and spent time in both Japan and the Pacific Rim. In late 1990, he joined Gartmore Investment Management Ltd in the UK in, running the US Emerging Growth Funds between 1991 and early 1998. These were among the largest and most successful funds of their type in London and were AAA rated by Fund Research. Mr Byatt became a principal of Gartmore in 1996.

[start box] “We look for companies – generally smaller companies – which have the capability of growing fast. So we’re looking for revenue growth, the opportunity of the market, which is developing. Typically, companies that we invest in fall into two camps: one is a consolidator, and the other is an innovator. So we’re looking, ideally, for companies which have the characteristic which I call a 20-20-20 company.

Let me explain that a little. A 20-20-20 company is 20% revenue growth, 20% profits growth, and over time, the ability to get to 20% return on equity. So within the 20% revenue growth, the consolidator normally is a slightly larger, slightly more mature business in a more mature industry – very often a fragmented industry. And they may be growing 7 or 8% internally, but then they can add probably double that through acquisitions. That’s a very large part of their growth.

The innovator is the sort of company that you’ve been used to looking at here more in the technology space very often, but where you have explosive revenue growth. They have created a new product which is, if you like, creating its own market as it goes. It addresses a need. But it’s not a mature industry in any way. Those growth rates can be 20 to 100%, or even more in some cases.

Companies are typically consumers of capital, as they grow very fast. Then as they get bigger, they cross over, and become generators of capital. So that’s the third of the twenties, the ROE.

You have to have the market opportunity. You got to have the right people to run the company. You got to have confidence that other people will look at it the same way as you think you’re gonna look at it. And that it will become better known, a bigger company, will attract analyst coverage, will be able to raise capital easily at appropriate cost in the market. A bunch of things. But certainly the people are a very key piece of it.

Typically, to assess people, we sit down and spend quite a lot of time talking with the management team. Very often, we’ll go and visit the company on the ground as well, and meet with the guys who are actually running the operation. And you can find out a great deal about business, particularly in the manufacturing business, if you actually go and walk around the plant. You immediately get a sense of – is it buzzing? Is it very busy? Do the people look as though they’re really enjoying what they’re doing? Or is it kind of quiet, people are looking a little glum; they really wish they were somewhere else? You pretty rapidly get a sense of whether the business is ticking positively or not.

Ideally, of course, you would find a 20-20-20 company which is trading at ten times PE. But that’s not very often the case. So because we tend to focus on smaller companies, and because they tend to be earlier on, you tend to wind up with one of two things. If the company has just IPO’d, a lot of people have just seen it, and it really is an interesting business, very often the multiple will be high. And so you have that risk.

But equally often, as we all know, most of the IPOs that we’ve all been involved with, at one point or another, go below their issue price – and sometimes substantially below the issue price. So when everyone else has forgotten about it, you can often find exactly the same business, with the same people running it, but now with 50-plus million dollars of cash on the balance sheet, and trading at a very low valuation. So it’s important, but not critical.

One of the bigger successes was Clear Channel Communications, which went, I think, from 75¢ to \$95, or something like that.

That turned out to be a very large company with a valuation of about \$35 billion dollars, in the end. It was run by Lowry Mays, who’s still involved with the company, still owns a big piece of it. When we first found

it, I think Lowry and his family owned roughly 50% of the business. And the market cap was probably around \$100 million dollars.

That was a classic example of a consolidator. They were very acquisitive. But also they had a tailwind, in the sense of radio's share of the advertising market going up rapidly – within that, local radio going up even faster. So that grew very, very quickly for a period, and was one of the most successful stocks on the American Stock Exchanges in the 90s.

About six months after we invested in it we knew we had a winner. The cash flow started suddenly ramping very, very quickly as a result of the acquisitions of the stations – reorganizing the stations with greater reach. Pretty nuts and bolts stuff. But, you know, it was pretty obvious it was gonna work.” [end box]