



Rob Forker

Portfolio Manager & Analyst, Polen Capital Management





Wide-Moat Investing Summit 2019

Hosted by MOI Global

Rob Forker
Portfolio Manager & Analyst, Polen Capital







Rob Forker - Portfolio Manager & Analyst

Mr. Forker joined Polen Capital Management in 2018. He is the lead portfolio manager of the International Small Company Growth strategy. Prior to joining Polen Capital, he worked for ten years at Loomis, Sayles & Company with six of those years dedicated to the Global Opportunities Fund as a senior equity analyst and four years as an equity analyst in central research. Before business school, Mr. Forker worked at Bear Stearns and Lehman Brothers on the institutional trading desks. He received his B.A. and M.B.A. from the University of Virginia. Mr. Forker is a member of the Boston Economic Club.

Our Mission:

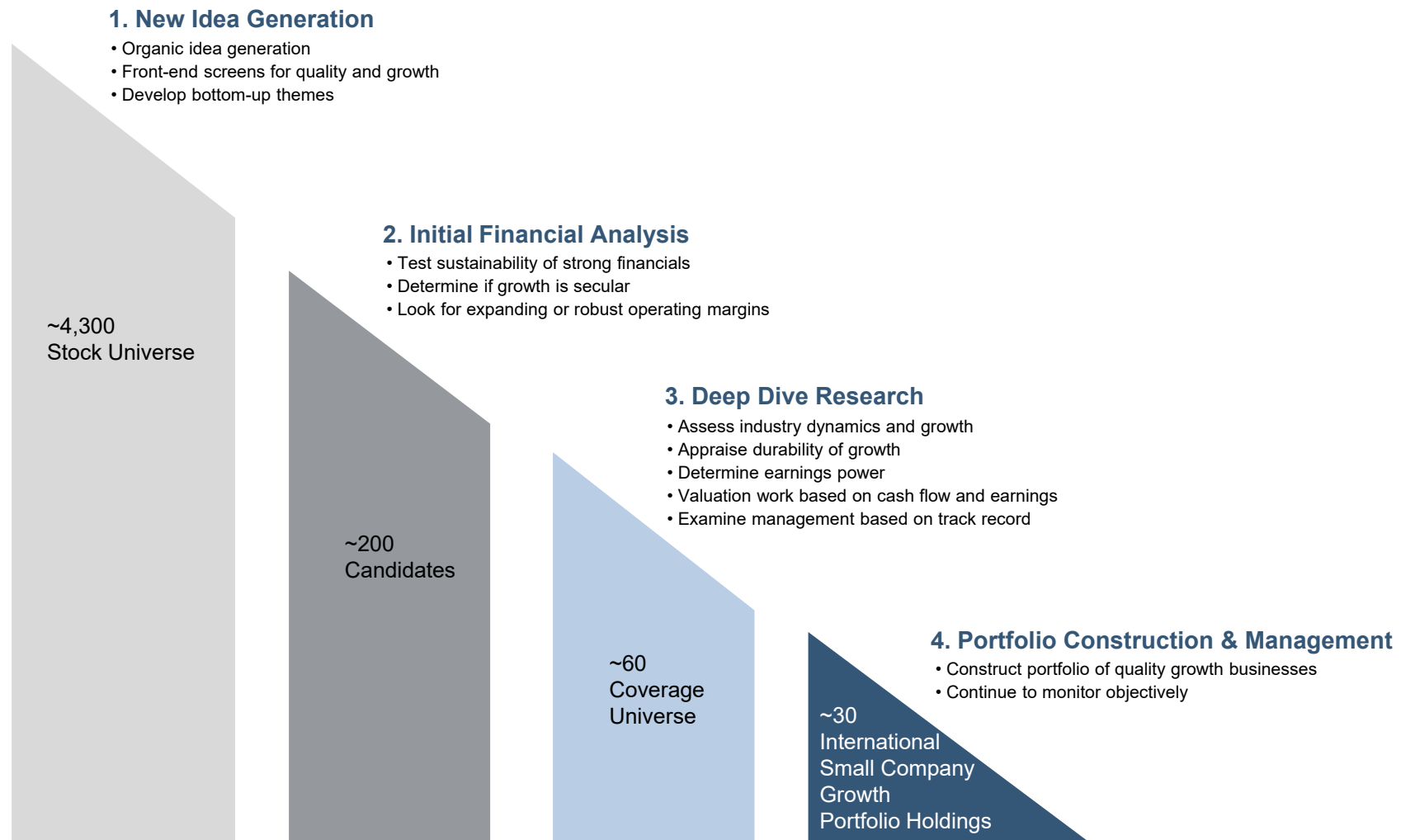
*Preserve and grow client assets
to protect their present
and enable their future.*

Our Guardrails Drive Our Process

1. Real organic revenue growth
2. Stable to increasing profit margins
3. High and / or expanding returns (ROE & ROIC)
4. Abundant free cash flow to reinvest in the business
5. Strong balance sheets with little debt and preferably a net cash position

Applying our guardrails narrows the investable universe to ~200 companies

Investment Process



Our Definition of a Great Investment

Uniquely Positioned Product or Service

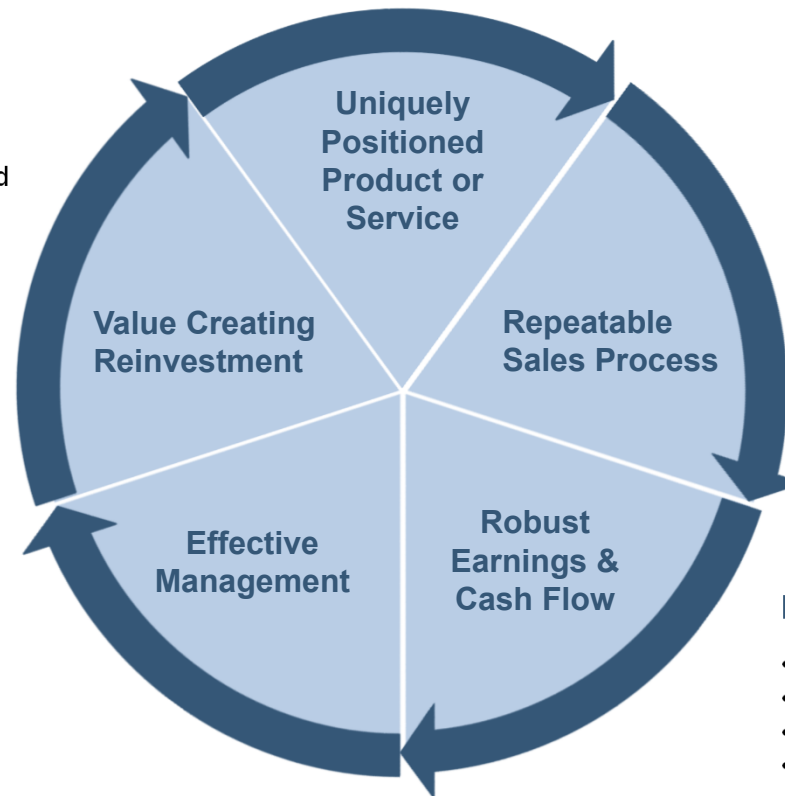
- Competitively advantaged
- Attractive industry characteristics
- Large target market
- Leadership position with growing market share

Value Creating Reinvestment

- Well thought-out roadmap
- High incremental ROIC
- History of high-returning capital projects and continued research and development
- Focus on long-term FCF optimization through value-creating acquisitions and divestitures, and intelligent share repurchases

Effective Management

- Strategic vision and innovative thinking
- Process orientation
- Proper incentives
- Reinvestment acumen
- Conservative balance sheet management



Repeatable Sales Process

- Evidence of skill in how business is run
- Strong customer demand
- Customer satisfaction
- Consistent results

Robust Earnings & Cash Flow

- Pricing power and operating leverage
- Strong and growing margins
- High ROIC and/or CFROI
- Incremental margins > Current margins
- Not reliant on external financing

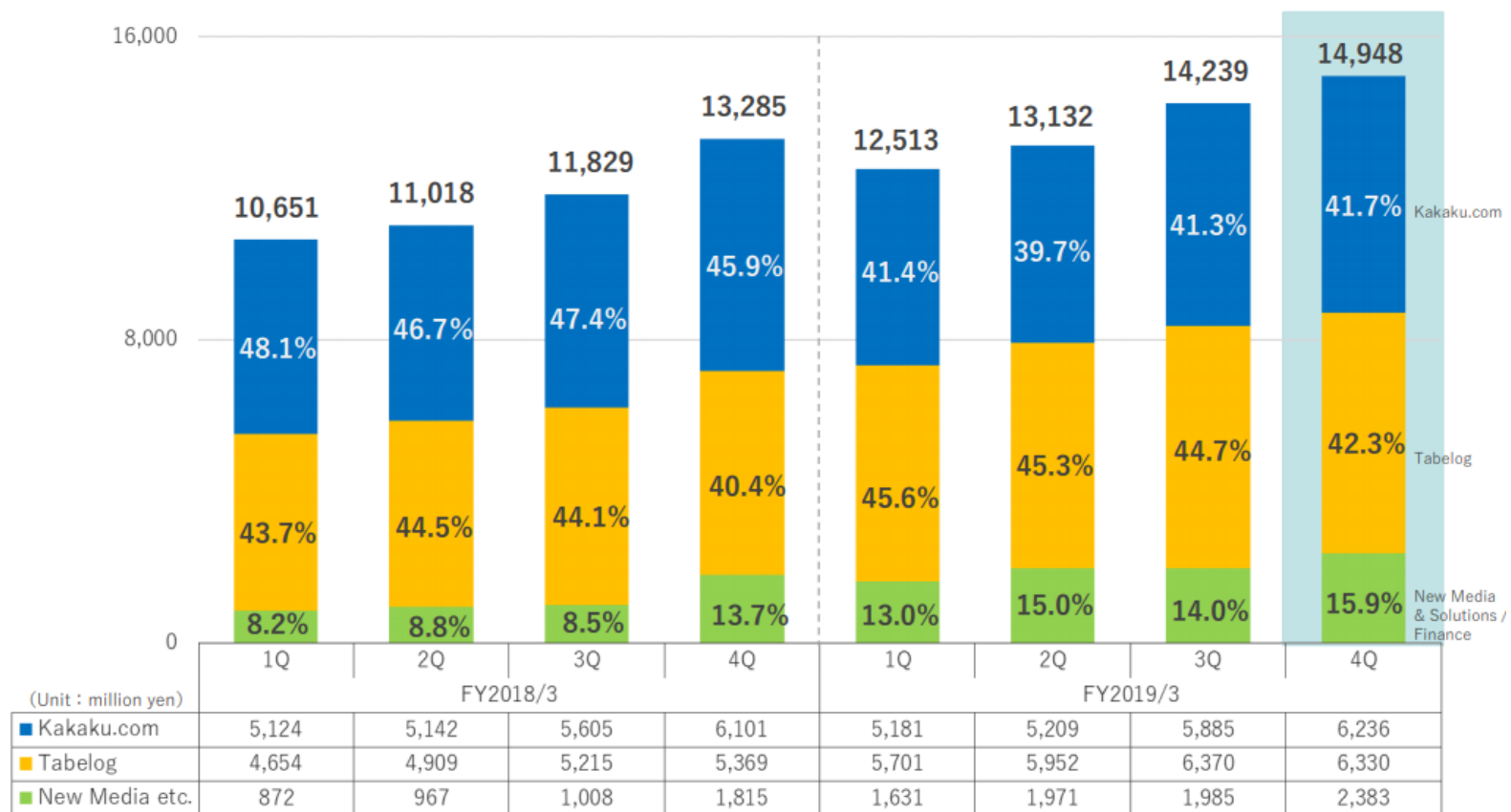
- As illustrated by our guardrails and our flywheel, wide moat investing is what we do at Polen Capital.

kakaku.com

- Kakaku.com is an ecommerce company that owns and operates websites including Kakaku.com and Tabelog.
- The company was founded in 1997 and is headquartered and listed in Japan.
- The company has evolved over the last two decades and now has three primary assets:
 - Kakaku.com website
 - Tabelog
 - New Media / Finance

Introduction – 3 Businesses in One

Quarterly Revenue by Business Segment (Consolidated)



Note: Amounts exclude inter-segment sales and transfers

Source: Kakaku.com

Uniquely Positioned Product or Service

Kakaku.com user traffic data

User Traffic Data (Data as of Mar. 2019)

Total page views: 640.43m

Monthly unique users: 56.15m

PC: 19.26m, Smartphone: 36.87m

Tabelog user traffic data

User Traffic Data (Data as of Mar. 2019)

Total page views: 2,082.12m

Monthly unique users: 119.17m

PC: 19.26m, Smartphone: 101.51m

New Media and Solutions



Shopping support site for Southeast Asia

id.priceprice.com

User Traffic Data (Data as of Mar. 2019)

Total page views: 53.46m

Monthly unique users: 15.31m

Source: Kakaku.com

キナリノ

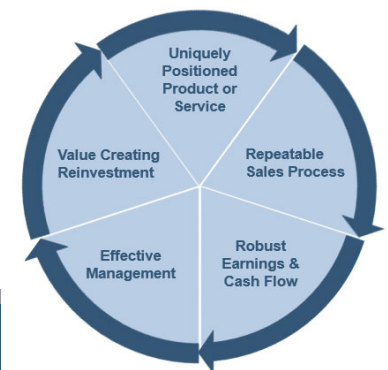
Lifestyle media

kinarino.jp/

User Traffic Data (Data as of Mar. 2019)

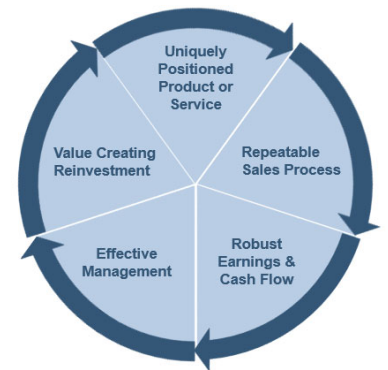
Total page views: 64.78m

Monthly unique users: 10.31m



Uniquely Positioned Product or Service

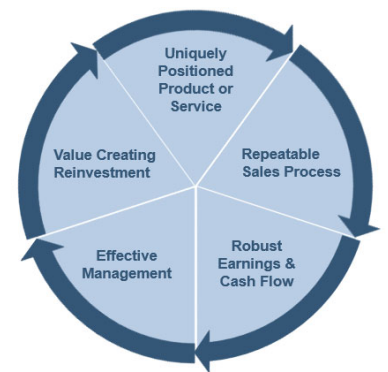
- Kakaku.com and Tabelog are separate businesses, each of which has its own distinct competitive advantages.
- Company continually reinvests into new assets, many of which share similar qualities (e.g. capital-lite, network effects, etc.) with Kakaku.com and Tabelog.



Kakaku.com Introduction

Kakaku.com (~40% of company revenues today) is a consumer website that allows consumers to compare prices and gain information for a given item sold from a variety of retailers.

- Consumers go on the site to find the best priced items and are directed to retailers such as Yahoo Japan, Rakuten and Amazon.
- The revenue model is driven by a commission / take-rate, advertising, and service fees related to the performance of leads generated.
- #1 player in the market with dominant market share.




Uniquely Positioned Product or Service: Kakaku.com

Website snapshot



[PR] Do you not learn "programming" and improve skills?

「買ってよかった」をすべてのひとに。
[Login] [new ID registration] [browsing history] [usage guide]


A 1,200-Acre Hidden Gem

[▶ Useful for traveling abroad! Wi-Fi rental ...](#)
[▶ Search multiple used car sites at once](#)
[▶ Thoroughly compare about 30 card bans](#)

 <p>パソコン laptop Tablet hard disk PC parts Peripheral equipment</p>	 <p>家電 TV set audio Living and cooking home appliances Health and beauty home appliances Air conditioner Fan</p>	 <p>カメラ digital camera Single lens reflex Mirrorless lens Video camera Memory card</p>
 <p>プロバイダ Price comparison optical line Hikari collaboration WMAX Internet connection Mobile line</p>	 <p>格安SIMカード Call SIM Data SIM Saving smartphone charges MVNO Price comparison popularity ranking</p>	 <p>スマートフォン・携帯電話 iPhone Android smartphone SIM free Cheap smartphone Garaké Wearable</p>
 <p>自動車・バイク New car Secondhand car Car supplies Motorcycle supplies Used car assessment Motorcycle assessment Vehicle inspection estimate</p>	 <p>自動車保険 Bulk estimate Satisfaction Index Ranking Basic knowledge How to choose procedure Industry trend</p>	 <p>モバイルデータ通信 Mobile router Pocket WiFi Rental Wi-Fi Overseas Wi-Fi</p>
 <p>保険 Life, medical care, cancer, financials, pension insurance Overseas travel, fire, motorcycle, pet insurance</p>	 <p>クレジットカード Point reduction rate Annual fee free ETC Gold card overseas trip Miles</p>	 <p>ローン Card loan Housing loan Refinancing Car, car, biker</p>
 <p>スポーツ golf bicycle Fishing tackle Football baseball Sportswear diet</p>	 <p>アウトドア camp barbecue Mountain climbing tent sleeping bag Light Water bottle</p>	 <p>投資・資産運用・FX Securities company Mutual fund NSA Time deposit FX Virtual Currency Bitcoin</p>
 <p>腕時計・アクセサリ Watches ring Piercing Earrings necklace bracelet sunglasses</p>	 <p>ファッション Branded goods wallet bag tops Pants skirt suit dress</p>	 <p>靴・シューズ sneakers boots Sandals pumps Sports shoes Business shoes</p>
 <p>電気・ガス料金 Price comparison Power liberalization Gas liberalization Charge simulation</p>	 <p>住宅設備・リフォーム Gas stove Water heater Water purifier lighting equipment Housing materials Solar power</p>	 <p>DIY・工具 Electric tool General tool Gardening supplies Foliage plant High-pressure washing machine Storehouse</p>

NECパソコンが **3万円台(税込)** から!

高信頼 と 高コスパ を両立した

LAVIE Direct NS(A)

徹底検証



価格.com

List of new arrivals and notifications

computer

Also equipped with BD drive and Office! Well-balanced domestic notebook "LAVIE Direct NS"

Household appliances

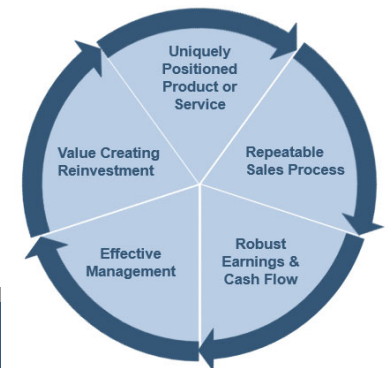
I understand the convenience! Tiffa's "washable" electric kettle

Household appliances

Redesigning TV Life with LCD Flagship Regza "Z730X"

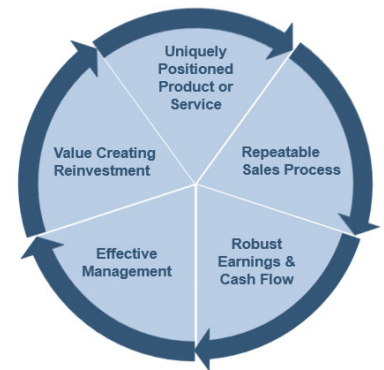
Household appliances

Flooring cleaning power is up! "Ergo rapped Power Pro" appearance



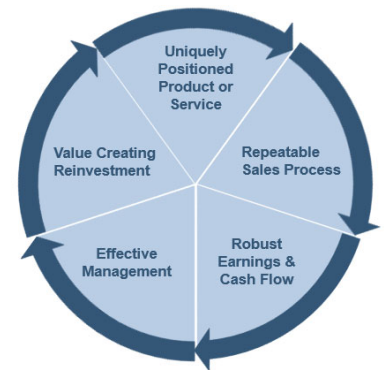
Uniquely Positioned Product or Service: Kakaku.com Drivers

- Shift from offline to online.
- Advertising dollars to online.
- Consumer discovery / destination shopping
- Business Flywheels:
 - More users attract more advertisers and more data providers (e.g. Yahoo Japan, Rakuten, etc.), which increases consumer experience and better connects customers to what they are looking for, which thereby increases user engagement and attracts more users.



Tabelog Introduction

- Launched in 2005, based on the concept of “helping make the best restaurant choice.” Tabelog provides restaurants rankings based on user reviews and ratings.
- Users go to the site to choose a restaurant to dine via a ranking system based on user score.
- Users post information on restaurants.
- The revenue model is driven by fixed fees from the restaurants and transaction fees for online reservations, upsell related to ranking search, and advertising.
- #2 player in the market.




Uniquely Positioned Product or Service: Tabelog

Website snapshot


Find shops and restaurants

887,038 store 31,067,161 reviews


Search by prefecture Attention area ▾




Tokyo




Osaka



Kyoto



Aichi



Fukuoka

Hokkaido and Tohoku
[Hokkaido](#) | [Aomori](#) | [Akita](#) | [Yamagata](#) | [Iwate](#) | [Miyagi](#) | [Fukushima](#)

Kansai
[Osaka](#) | [Hyogo](#) | [Kyoto](#) | [Shiga](#) | [Nara](#) | [Wakayama](#)


Kanto
[Tokyo](#) | [Kanagawa](#) | [Saitama](#) | [Chiba](#) | [Tochigi](#) | [Ibaraki](#) | [Gunma](#)

China, Shikoku
[Okayama](#) | [Hiroshima](#) | [Tottori](#) | [Shimane](#) | [Yamaguchi](#) | [Kagawa](#) | [Tokushima](#) | [Ehime](#) | [Kochi](#)

Chubu
[Aichi](#) | [Gifu](#) | [Shizuoka](#) | [Triple](#) | [Niigata](#) | [Yamanashi](#) | [Nagano](#) | [Ishikawa](#) | [Toyama](#) | [Fukui](#)

Kyushu-Okinawa
[Fukuoka](#) | [Saga](#) | [Nagasaki](#) | [Kumamoto](#) | [Oita](#) | [Miyazaki](#) | [Kagoshima](#) | [Okinawa](#)

▶ Find overseas shops ▶ Find shops across the country



Not registered

Once you log in, you will be able to save shops on the food log and manage the shops you've been to.

Login

First month free with credit card

About premium service

Find a reviewer

Search

▶ Search from reviewers all over the country

Beginner's Guide

Feature



ANAカード利用者様へ
 マイルが貯まるお店が見つかるANAカードマイルプラス・グルメ



KOF98 1,000日記念
 1,000円ピッタリで、お得なセットメニューが楽しめるお店！



私たちの居場所、ここにも
 ブルーム・テック&ブルーム・テック・プラスを楽しめるお店



「旅する×走る×食事する」
 全国50カ所のランニングコースと、飲食店情報をお届け！

Search from genres and scenes




T-POINT

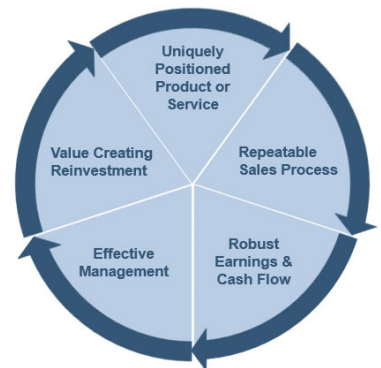


百名店
うどん 2019

New reviews

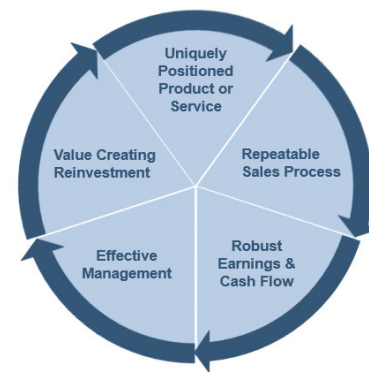


If you follow the person you like, you can find it in the shop recommended by that person.



Uniquely Positioned Product or Service: Tabelog Drivers

- Shift from offline to online.
- Growth opportunities from existing customers (i.e. additional services and growth in ARPU).
- Increased penetration / add restaurants not currently using Tabelog services.
- Strong network effect.
 - As of May 2019, Tabelog had 900,000 registered restaurants, 31M posted reviews, monthly users ~119M resulting in ~2B monthly page views.

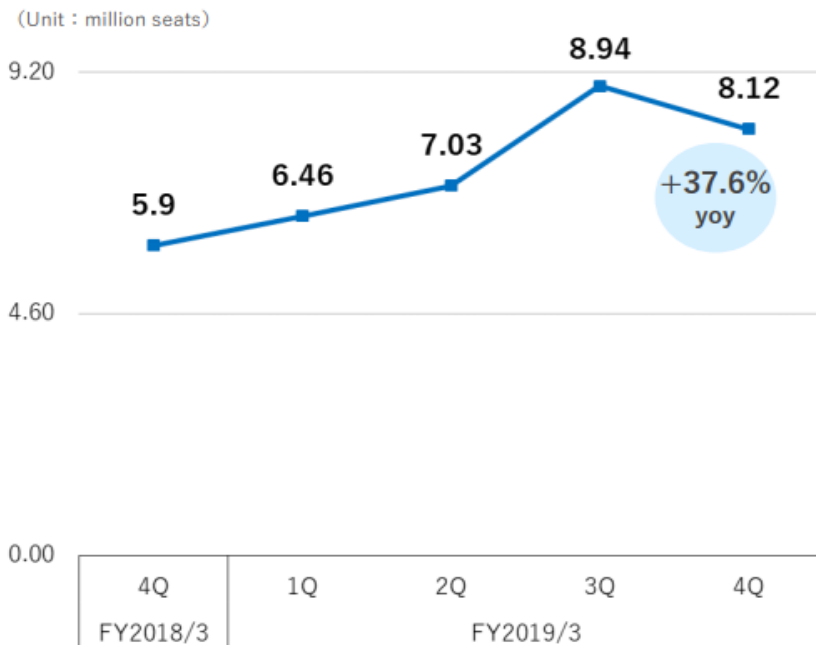


Uniquely Positioned Product or Service: Tabelog

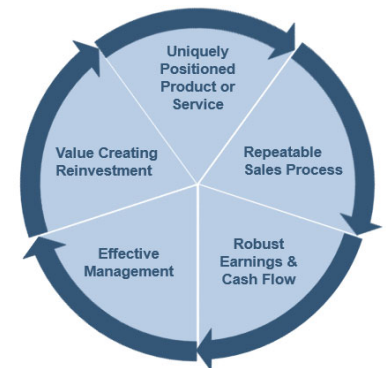
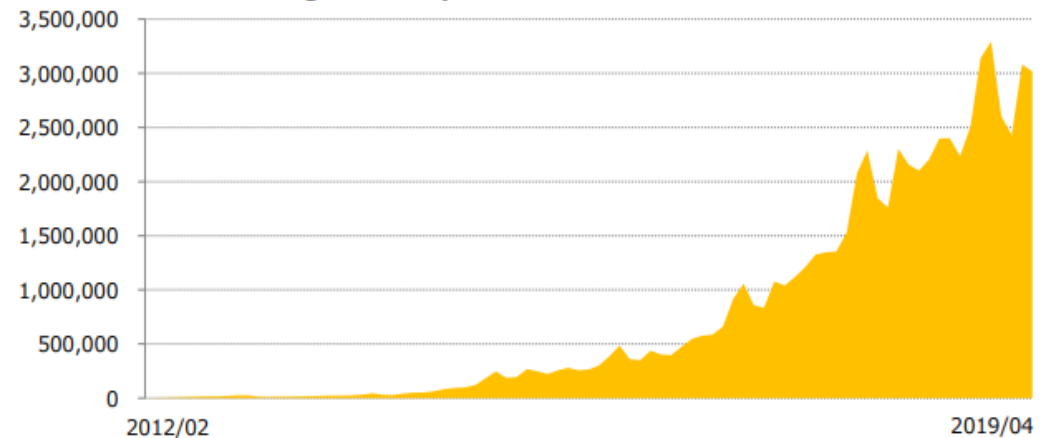
Total Addressable Market

- # of restaurants
- # of paying restaurants
- New plan versus old plan
 - New plan allows users to get points and ranks listings
- International expansion over time with Tabelog

Number of seat reservations (Quarterly Total)



(No. of seats) Tabelog - monthly number of online reservations



Source: Kakaku.com

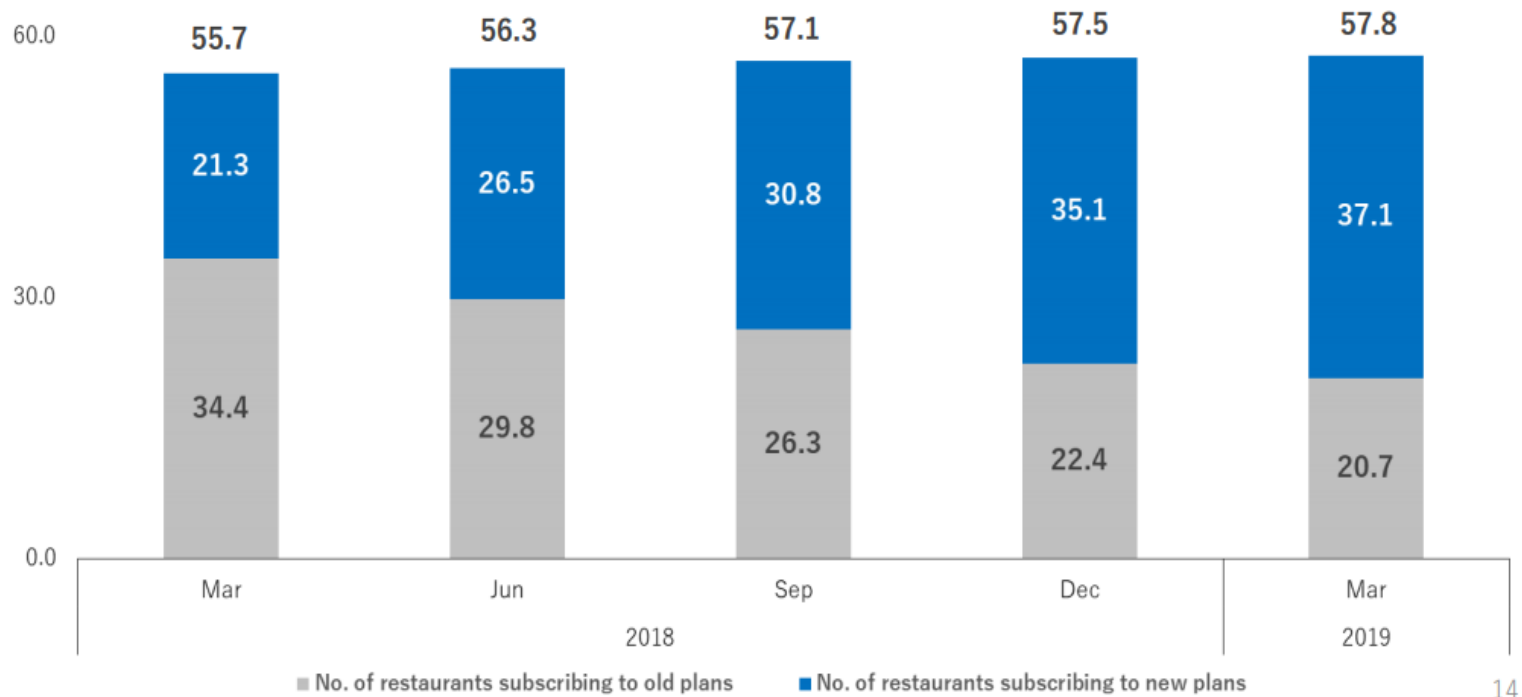
Uniquely Positioned Product or Service: Tabelog

Total Addressable Market

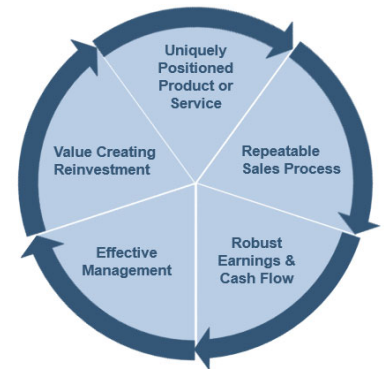
- New plan versus old plan

Breakdown of Fee-Paying Restaurants

(Unit : thousand)



Source: Kakaku.com



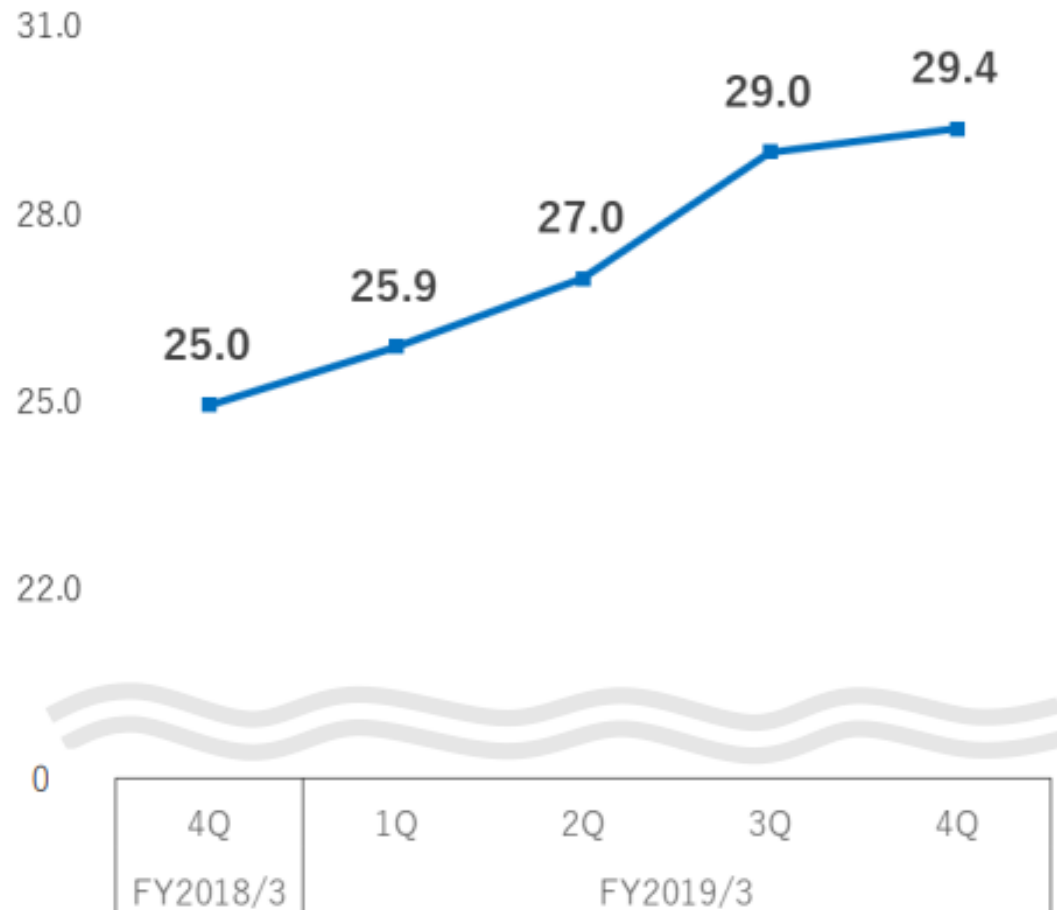
Uniquely Positioned Product or Service: Tabelog

Total Addressable Market

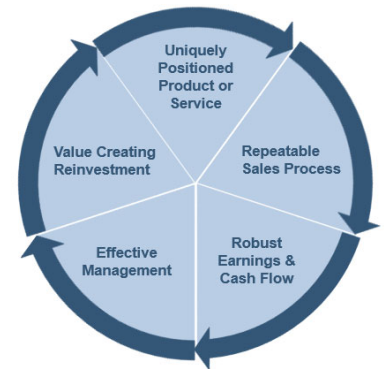
- ARPU

Monthly revenue per restaurant (Quarterly average)

(Unit : thousand yen)



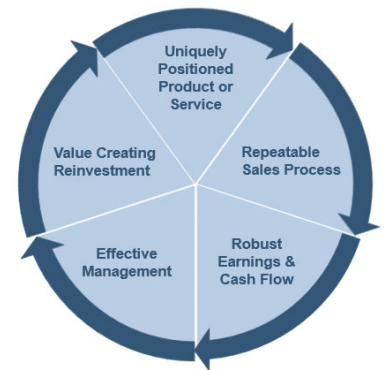
Source: Kakaku.com



Repeatable Sales Process

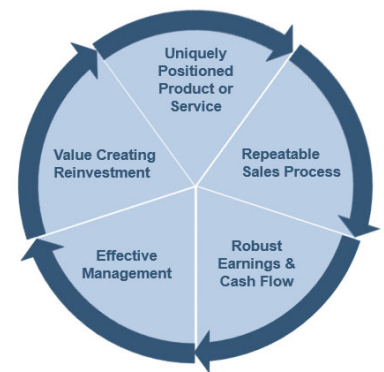
Company has continually grown total users across its websites and grown market share.

Kakaku.com and Tabelog have “toll road” characteristics that attract consumers, restaurants, online merchants, and advertisers.



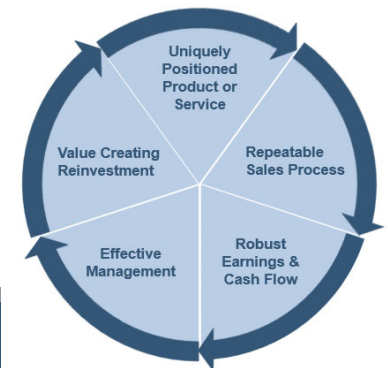
Robust Earnings and Cash Flow

- The best types of businesses:
 - Generate high levels of cash flow.
 - Have numerous opportunities to grow.
 - Are capital-lite.
- This combination allows the business to grow without significant reinvestment needed.
- Results in high internal rates of return (ROE, ROIC, CFROI)
- Presents management with unique challenge. What to do with cash?
 - Ability to self fund both organic and inorganic growth.



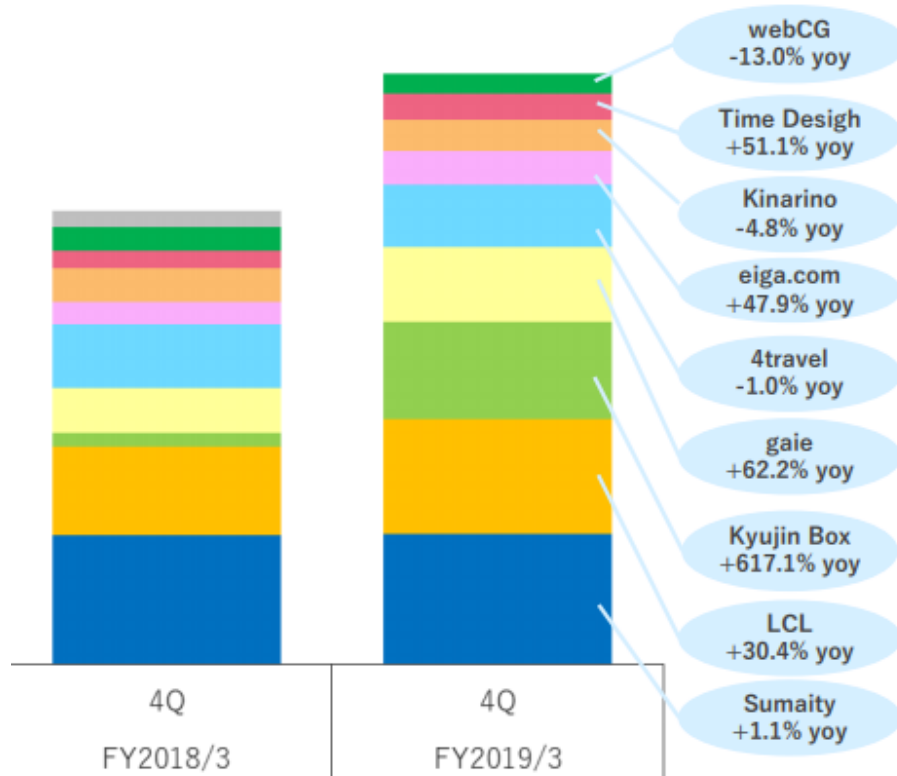
Effective Management

- Long-tenured, successful management team.
- History of maintaining a very conservative balance sheet.
- Positive track record of value creating capital allocation decisions.
- Willingness to continually reinvest in both organic and inorganic growth.
- Financial flexibility to reward shareholders through dividends and share buybacks, while continuing to reinvest.



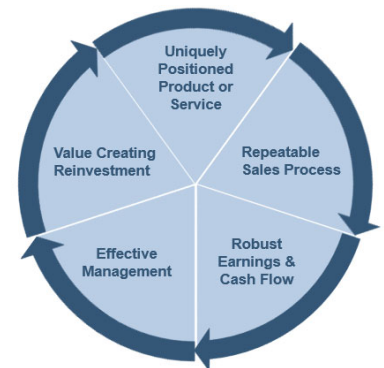
Value Creating Reinvestment: New Media

Revenue by New Media and Solutions



- Identify an unsatisfied need
- Buy and build properties
- Company launches 1 – 2 websites each year
- Proven process which fosters new sites
 - Gain support
 - Aggregate users
 - Monetize users

Source: Kakaku.com



Value Creating Reinvestment: New Media

New Media and Solutions



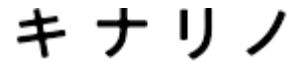
Shopping support site for Southeast Asia
id.priceprice.com

User Traffic Data (Data as of Mar. 2019)

Total page views: 53.46m

Monthly unique users: 15.31m

Source: Kakaku.com



Lifestyle media
kinarino.jp/

User Traffic Data (Data as of Mar. 2019)

Total page views: 64.78m

Monthly unique users: 10.31m

- Built Tabelog
- Bought LCL (bus service)
- Willingness to close non-performing sites
- Not afraid of trial and error



Photo sharing community



Travel review and comparison site



Movie discovery platform



Online residential real estate portal



Dynamic package reservation system (Time Desing, inc.)



Online media for car lovers



Job classifieds



FX related information, commentary and forecast on foreign exchange market



Akiba style information and community site



Online media for men's fashion

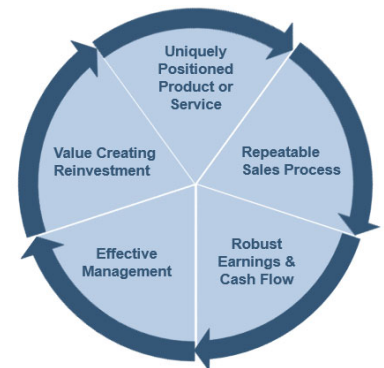


Online Travel Information Media



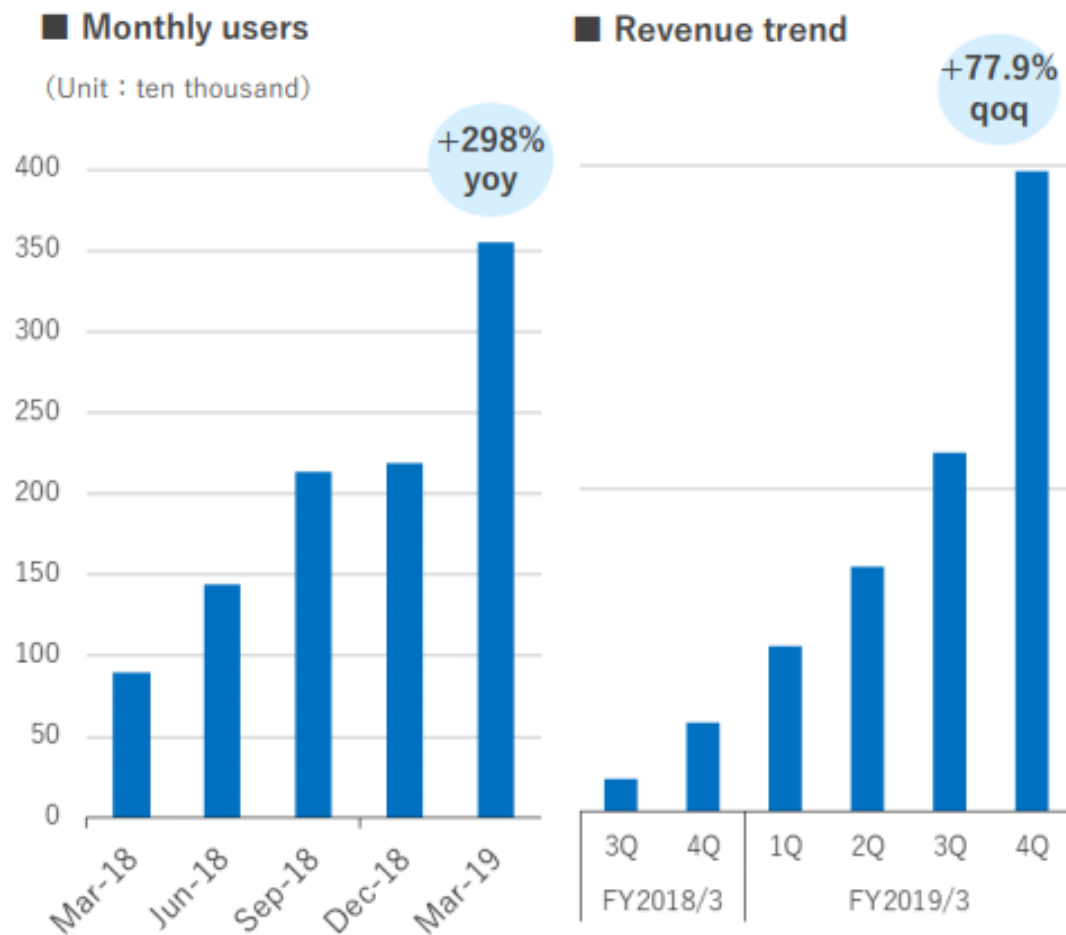
Highway and overnight bus price comparison

Source: Kakaku.com



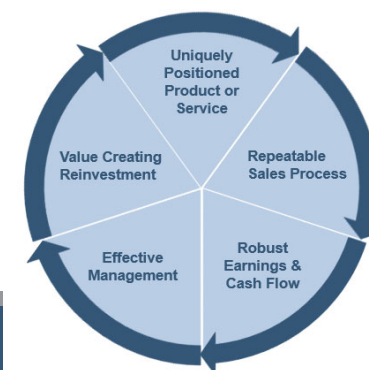
Value Creating Reinvestment: New Media

Kyujin Box: Monthly users and quarterly revenue



- Kyujin Box is the most notable
 - 3mm users versus 20mm at Indeed
 - Japanese born site that caters to localized services

Source: Kakaku.com



Value Creating Reinvestment

Management Inbox

Targeting 40% ROE

Approach to profit growth

Realize stable profit growth through business expansion and optimal resource allocation.

Approach to allocation of management resources

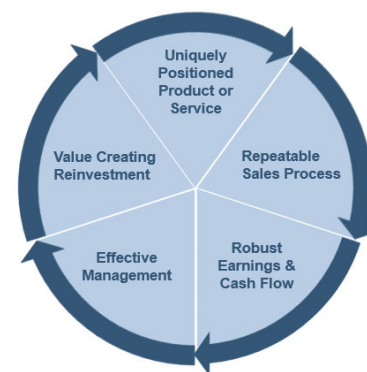
Growth investment

- Invest in human resources in process of expanding existing businesses and creating new ones.
- Invest in researching, developing and commercially deploying leading-edge technologies.
- Engage in M&A and make minority investments to expand business portfolio and expedite growth.

Shareholder return

- Aim to limit working capital requirements to equivalent of six months of cash flow and return any surplus cash to shareholders.
- Return capital to shareholders by paying dividends twice annually on an ongoing basis and buying back shares as necessary.

Source: Kakaku.com



KDDI Strategic Partnership

KDDI owns ~17% of Kakaku.com

- AU Pay
 - Introduce payment with restaurants

NEWS RELEASE

February 12, 2019

Kakaku.com, Inc. & KDDI Corporation

KDDI has been strengthening its payment business leveraging the business base of “au Kantan Kessai” (Easy Payment) and “au WALLET”. KDDI will launch au PAY, a new smartphone payment service using barcodes and QR codes, in April 2019. The au WALLET app will be able to start using au PAY by following some simple steps and can use their au WALLET balance and WALLET points to make payments at stores.

The companies intend to link au PAY and Tabelog, to jointly work towards acquiring au PAY affiliated restaurants and attracting customers to these restaurants. Restaurants where au PAY can be used will be introduced to Tabelog users, and customers will also be rewarded with points for using au PAY at restaurants listed in Tabelog.

Further, from February 2019 onwards, the companies will jointly build a data platform for carrying out big data analysis (hereinafter “joint analysis platform”). The joint analysis platform, will be utilized to manage in an integrated manner the gender, age and other attribute data owned by KDDI and the consumption pattern data, etc. owned by Kakaku.com. Supership Inc., a KDDI Group company, will utilize AI technology etc. to carry out advanced big data analysis*. Based on this data analysis, the companies intend to offer optimal proposals to customers based on consideration of their particular needs, while also providing support to stores affiliated with the “Kakaku.com” and Tabelog websites to help them attract customers.

KDDI owns ~17% of Kakaku.com

- KDDI has a corporate sales force that can push Tabelog further
- Cross traffic from KDDI's shopping site
- Ability to monetize data

Take Kakaku.com back to our 5 Guardrails

1. Revenue growth over the last five years has grown at a ~11% sales CAGR
2. Operating margins are ~45%
3. High returns – ROE is ~40%
4. Cash flow is abundant

The company has produced strong cash flow for the past decade via strong revenue, high margins, low working capital requirements and relatively low CAPEX. Most importantly - the company has re-invested these cash flows into R&D, thoughtful acquisitions, dividends and buybacks.

5. Balance sheet – net debt to EBITDA is -1x

Company in Transition (For the Better!)

- Kakaku.com is growing 2-5%
- Tabelog is growing ~20%
- New Media can grow 40 - 50%

	FY3/2017 通期/Annual	FY3/2018 通期/Annual	FY3/2019 通期/Annual	2019 vs 2017
Total Revenue	43,464	46,782	54,832	26.15%
sales growth %		7.63%	17.21%	
Kakaku.com	21,288	21,973	22,510	5.74%
sales growth %		3.22%	2.44%	
% of total revenue	48.98%	46.97%	41.05%	-7.93%
Shopping	9,140	9,248	9,254	1.25%
% of total revenue	21.03%	19.77%	16.88%	-4.15%
Service	7,987	8,559	8,804	10.23%
% of total revenue	18.38%	18.30%	16.06%	-2.32%
Advertising	4,161	4,166	4,452	6.99%
% of total revenue	9.57%	8.91%	8.12%	-1.45%
Tabelog	18,609	20,148	24,352	30.86%
sales growth %		8.27%	20.87%	
% of total revenue	42.81%	43.07%	44.41%	1.60%
Restaurant Promotion	12,533	14,990	19,105	52.44%
% of total revenue	28.84%	32.04%	34.84%	6.01%
Premium Memberships	3,525	2,942	2,890	-18.01%
% of total revenue	8.11%	6.29%	5.27%	-2.84%
Advertising	2,551	2,216	2,357	-7.60%
% of total revenue	5.87%	4.74%	4.30%	-1.57%
New Media & Solution/ Fina	3,567	4,662	7,970	123.44%
sales growth %		30.70%	70.96%	
% of total revenue	8.21%	9.97%	14.54%	6.33%
New Media & Solution	2,640	3,444	6,250	136.74%
% of total revenue	6.07%	7.36%	11.40%	5.32%
Finance	928	1,218	1,720	85.34%
% of total revenue	2.14%	2.60%	3.14%	1.00%
Operating Income	21,447	22,876	25,070	16.89%
Operating Margin	49.34%	48.90%	45.72%	-3.62%

Source: Kakaku.com

Investment Thesis

- Kakaku.com has dominant market share within the price comparison segment and has shown a history of evolving as consumer preferences change.
- Tabelog is growing 20% plus per annum and enables consumers to research restaurant options and book a reservation.
- New Media is a collection of sites that allow consumers to price compare in a variety of life's activities.
- KDDI recently became a meaningful owner of Kakaku.com - this relationship has a lot of optionality. Kakaku.com and KDDI could partner on the payments side, referrals from KDDI's shopping site, and more data to monetize.
- Capital allocation – company has reduced the share count ~9% since 2012 and has consistently paid a compelling dividend with a payout ratio of ~40%.

We love investments where there are multiple ways to win

- Kakaku.com is a high-quality asset with high returns. These cash flows fund Kakaku.com's initiatives to strengthen Kakaku.com, but as importantly fund Tabelog and newer assets.
- Tabelog is a compelling asset with a long runway for growth with high returns.
- The newer sites look really interesting and you are betting that 1 – 3 names in this basket can deliver strong returns over time.
- And KDDI gives you optionality to favorable outcomes.

Wide Moat Companies

- Overall, high quality names like Kakaku.com often pleasantly surprise you with outcomes that are better than you originally envisioned.
- Said differently, typically wide moat companies have longer and stronger fundamentals.
- Power of capital-lite, high cash generative business model run by management team of talented capital allocators.

“The best businesses by far for owners continue to be those that have high returns on capital and that require little incremental investment to grow.”

Warren Buffett

Risks



- Kakaku.com needs to continue to evolve to stay relevant to consumers.
- Tabelog competes with two credible competitors where a response could be unfavorable.
- New Media assets could distract management.
- Amazon threat
 - Oligopoly between Amazon, Rakuten, and Yahoo Japan.

Valuation is the ‘last part’ of our process, not to be misconstrued as the ‘least important part’ of our process

- At Polen Capital, we are business analysts first.
- Our screen has no valuation metrics, we do not discuss valuation in our initial work nor during a shallow dive.
- Valuation is only discussed as part of the deep dive near the end of the process.
- You can't determine a reasonable valuation for a company until you fully understand the business.
- Looking at valuation too early can create biases and shortcuts that lead to mistakes.

How we think about Valuation comes back to how we think about the drivers of long-term investment returns:

We think of ourselves as business owners versus stock investors/traders and believe it is the underlying businesses that ultimately create value over the long-term. We consider the long-term earnings per share growth and free cash flow per share growth to be the primary drivers of long-term stock price performance and try to own businesses that we believe can generate consistent above average EPS and FCF/share growth over a long period of time.

“It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”

Warren Buffett

This Circles Back to Our Guardrails

Identify well-run businesses with sustainable competitive advantages, high returns on equity, above average earnings and free cash flow per share growth, that can self-fund and grow their businesses with little to no financial leverage.

The information provided in this presentation should not be construed as a recommendation to purchase or sell any particular security. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable or will equal the investment performance of the securities discussed herein. For a complete list of Polen's past specific recommendations holdings report and current holdings as of the current quarter end, please contact info@polencapital.com.

Offices

Boca Raton, FL (HQ)

Boston, MA

1825 NW Corporate Blvd., Suite 300
Boca Raton, FL 33431-6394

500 Boylston St., Suite 1120
Boston, MA 02116

+1-561-241-2425 (Office)

+1-561-246-3011 (Fax)

info@polencapital.com (Email)