

The data lens

June 2020

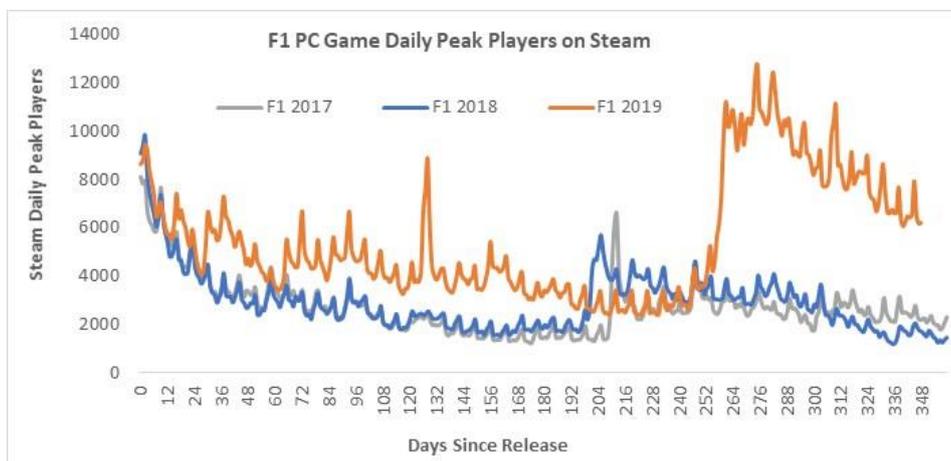
*“The price of light is less than the cost of darkness.”
Arthur C. Nielsen, Market Researcher & Founder of ACNielsen*

Possibly a slightly over-dramatic way to kick off this month’s mid-month letter, which discusses the use of alternative data in the bottom-up research process at Tellworth, but I wanted to support the new tradition of opening the mid-month update with an emboldened quote. “War is ninety percent information” (Bonaparte) felt a bit too aggressive.

In the **May edition**, my colleague, Seb Jory, introduced the “Six Heartbeats of the Consumer”, providing a great example of how we incorporate alternative data in the *top-down* process at Tellworth. This helps us identify and forecast macro trends, feeding into our thinking on portfolio construction and where to look for opportunities. However, applying the ‘data lens’ to our investment process doesn’t end there. Considering *stock-specific* alternative data sources improves our understanding of the companies in which we invest and helps us to spot trends that can then guide or validate an investment thesis.

Such use of data is, of course, more applicable to some businesses than others (e.g. more so consumer-facing online businesses, less so industrials). However, with an analytical mind-set and a little creativity, it is surprising how frequently you can find use in applying the data lens to supplement the other key parts of our investment approach (well-covered in many years of PM’s Tellworth Monthly Investor Letters discussing the P3M process). How has the demand for kettles been impacted by lockdown in different geographies? [Relevant to Strix; see Google Trends]. Is customer service at Bigblu really improving? [Relevant to Bigblu Broadband; track Trustpilot scores over time and vs. peers]. In this letter, I will take you through two examples of the application of this approach in more detail.

The video game developer, **Codemasters**, has been a Tellworth holding since its 2018 IPO. Along with review counts, tracking daily peak player numbers by game has been a key way to assess the relative success of its games. This is particularly useful for its key F1 game franchise, where annual releases provide a consistent base for year-on-year comparison.

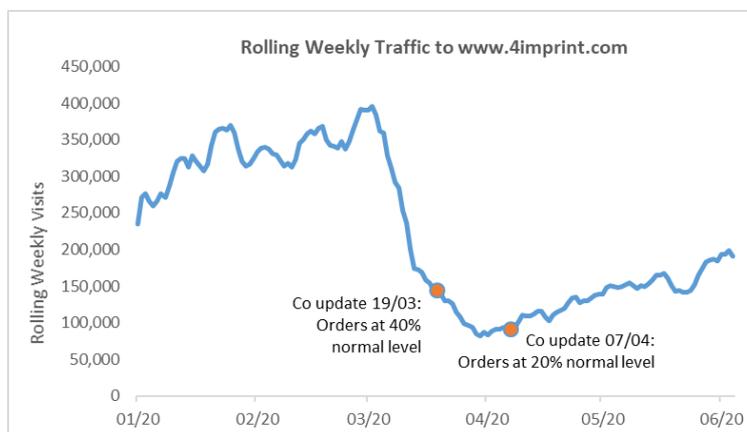


Source: Tellworth Investments, www.steamdb.info

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Looking first at F1 2017 and F1 2018, a typical pattern can be identified, reflecting strong initial player interest on the release of a new game (summer for the F1 franchise), a gradual decline as the game matures, a boost on price promotion (typically around Christmas) and then a tail-off ahead of the next new game launch. The chart for F1 2019 (released August 2019) is particularly noteworthy, however. Whilst initial player interest on launch looked similar to prior years, significantly higher daily player counts in the subsequent months point to both increased audience (sales of this edition) and player engagement (sales of future editions). As well as being a highly reviewed game, other factors driving this increased interest likely include the success of Netflix's F1 documentary and the rising profile of e-sports, both of which form part of Liberty Media's, the new owners of F1, strategy to attract a younger viewer base to the sport. More recently, lockdown has 'supercharged' these factors, plus more time at home has increased demand for gaming. Combined, the material increase in audience interest in the F1 2019 game leaves us excited for the launch of F1 2020 next month and the outlook for Codemasters' most important game franchise. Considering also the other key parts of the investment case (shift to higher margin digital sales; new game franchises), we remain happy holders of Codemasters across Tellworth funds.

The promotional products marketing platform, **4Imprint**, is a business we had admired from afar but a rich rating historically tempered our interest in owning the shares. However, whilst the Covid negatives list is long, one silver lining has been the opportunity to revisit good businesses sold off aggressively in the market turmoil. 4Imprint piqued our interest in April for this reason, with the shares still languishing near lows, even when some parts of the market had begun to show signs of life. But how to get comfortable buying the dip in the shares of a company that reported a particularly painful -80% YoY sales impact in early April? With 60% orders being placed online (and likely a high portion of telephone orders still involving an online aspect to the customer journey), analysing web traffic trends to www.4imprint.com helped us to understand the shape of the fall in demand and pick up on indications of a recovery.



Source: Tellworth Investments, SimilarWeb

In addition to our fundamental stock work around sizing the opportunity set, the prospect of market share gains and financial analysis, the improvement in traffic trends supported our decision to initiate a position in the shares in mid-April. We felt at the time that, despite the uncertainty and the market's gloomy outlook, the valuation for a good quality company already embarking on the path of recovery was overly discounted. It's early days for our holding, but so far this is looking to have been a good entry point.

The shift to digital is ongoing and has only accelerated due to Covid, which makes this type of analysis increasingly relevant and useful to our investment process. Along with the other core aspects of our research process, we see the *data lens* as a powerful tool in our investor toolbox to help us keep delivering the stream of ideas that drives our portfolios.

James Gerlis is head of research and responsible investment and joined Tellworth in 2017. His role involves finding and researching stock-specific investment opportunities and supporting in the overall management of portfolios.

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