

Future Stocks: Our best ideas in Europe

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Where are Europe's hidden growth opportunities? Investment specialist Thomas Hodges, explains how companies Lonza, Topicus and Soitec thrive by leveraging market fragmentation, revealing a far more interesting investment landscape than headlines suggest.

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Thomas Hodges: Europe's not always thought of as a high-growth region, but Europe offers an awful lot of opportunities for growth investors. If you look a bit away from the areas where everyone tends to look in Europe, we've got companies which can go out and exploit fragmentation, Europe is such a fragmented market, so we think Europe is far more interesting than the headlines would let you know. But it's really a market which is best accessed via an active approach.

Lonza: Swiss multinational in pharmaceutical, biotech, and nutrition sectors

Lonza is a contract development and manufacturing organisation. In layman's terms that's a drug manufacturer. So it partners with biopharmaceutical companies, they are an outsource partner for that company which is developing the drug. What generally is expected will happen is that by 2028, 52 per cent of drugs will be outsourced, and that means that we're going to see more of these drug manufacturing volumes pushed towards the likes of a Lonza. Lonza is one of the largest drug manufacturers in general, but particularly for biologics where we're seeing an awful lot of focus be applied. And that means that Lonza can take market share over the long term.

Topicus: Vertical market software and services

Topicus I would say is probably one of the fastest growing companies Europe. What this business is doing is consolidating a very fragmented market, and that market is vertical market software. So

these are highly specialised pieces of software to the type of industry and business, and also geography, that they serve. And the great thing is that there's thousands of them, they have the opportunity to go around and consolidate these businesses. It's knowing exactly what they want from an acquisition and it's going out and finding them at the right price. And so what that translates into is growth upon growth upon growth.

Soitec: International company manufacturing semiconductor substrates

Yes, so Soitec's a little bit complicated. It manufactures a small, incredibly thin wafer which goes onto a semiconductor chip in order to boost its performance. So with more chips, more powerful chips, going into phones, there's more need for Soitec's wafers. It can improve the range of an electric vehicle by about 5 to 10 per cent, and they think that it should be able to reduce the cost of a battery by 15 to 20 per cent. The use cases are expanding incredibly significantly. We don't think the market is quite alive to that yet, and so the valuation along with that really big growth case adds up to something which could be quite significant, we think.

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