

Your capital is at risk. Past performance is not a guide to future returns. The following update is based on a representative portfolio.

Joe Stellato (JS):

Good morning, good afternoon, good evening to everyone, depending on where in the world you're joining us from. Welcome to our private companies webinar. This is the final installment of our quarterly live series. For those who don't know me, I'm Joe Stellato. I look after many of our firm's wealth clients here in the States. I'm also joined today by Dale Ledbetter, a dedicated specialist on our private companies team. Dale's based with me in our New York City office, but our private companies team is spread across both our Edinburgh headquarters, and in California as well. For those that are less familiar with Baillie Gifford's private equity business, we've been investing in the growth equity segment of private equity since 2012 now. Since then, we've deployed over \$10 billion across over 150 companies. And for those that are attending that mainly think about our public equity strategies. Today Baillie Gifford holds \$19 billion worth of public companies that we at one point held privately. So it's an important source of ideas for us and frankly, it's an edge for our public equity business as well. We're not going to specifically discuss product or vehicles on this call, but please get in touch with your Baillie Gifford contact if you did have any specific questions on vehicles or products specifically. Our plan today is going to be a bit different from our other quarterly review calls. Instead of a product review, we instead wanted to tap into Dale's knowledge. He's going to share with you all a few interesting trends and themes that we're seeing in the private equity space. We're going to walk through a number of charts that share some big ideas on these trends, but the call is live for a reason. So most importantly, ask your questions, type them in on the box below. I'll do my best to interject during the conversation and ask the questions live. If we don't get to questions, I'll be sure to share your question with your BG contact so that we get you a proper answer. With that, why don't we dive in. Dale, why don't we begin with framing out the private equity space broadly, maybe delineating a bit more on what we see as growth equity versus buyout or some of the other segments of the market.

Dale Ledbetter (DL):

Sure, so we can do a little bit of level setting. The private market industry is a \$16tn industry that includes \$3tn of dry powder or capital yet to be invested. As you can see from the chart, the lion's share of that has been allocated to buyout, and more recently you've seen an increase in allocations to venture capital or earlier stage investing, and that's rounded out by other strategies such as real estate, growth, infrastructure, secondaries, etc. for a minute, unpack why the lion's share of capital has been allocated to buyout and venture. And that's really because those two asset classes in particular offer something that public markets do not. In the case of buyouts, it's this idea of control, this idea of stable returns, less risk. And in the case of venture, capital is really about asymmetrical returns, or if you're a baseball fan like myself, hitting home runs. And that's to the point where for anyone who's tuned in or watch later, I asked a question of, well, what about growth equity? As you can see, it's been a small portion of the overall ecosystem going back to 2013. And if you think about growth equity, it offers a complimentary return profile to both venture capital and buyouts. It can be additive to your portfolio because growth equity offers asymmetrical returns with similar risks to buyout. Growth-oriented businesses are mature companies that have

really graduated beyond that venture capital ecosystem, but also companies that are much larger than any specific buyout. You might have seen in the news recently the buyout of Electronic Arts, which was a \$55bn valuation. A private company that we are invested in, SpaceX, is a \$400bn valuation. That's over seven times larger than the largest buyout in history. So we're really investing in businesses that sit outside of these two mostly funded asset classes.

JS:

So then Dale, I think that begs the question on our entry point, right? Where do we define growth equity starting? And then maybe just a conversation on valuations and growth expectations. I'll flip to the next slide so we could see it.

DL:

So there's a misconception that asymmetrical returns can only happen at the earlier stage or the seed stage. We tend to enter companies when they're at that series C stage. You can argue what these series mean anymore at this point, but we tend to think about growth businesses that are generating \$50m of minimum revenue, going at 35 per cent top line, that are profitable or have a path towards profitability, and that tends to be that series C range. And as you can see, you can generate asymmetrical returns as you go through the growth stage and then into public markets. When we, again, invested in SpaceX, it was a \$30bn valuation. It's grown 10x since then as a private growth company. If you were a seed investor in Google, you returned 160 times your capital at Google's IPO of around \$23bn. Since Google has been a public company, it's returned an additional 150 times capital since being public and almost being a \$3tn company. So overall, if you're looking for asymmetrical returns, you can continue to get through those from the C stage, through the go stage, and then all the way until you become a public company.

JS:

How do we think about the intrinsic value then of some of these companies, right? What they're doing today might not fully measure what their potential growth is.

DL:

Correct. So throughout it, I think it's important to realise that, you know, nothing that we do at Baillie Gifford has changed. The way we think about business models and companies is precisely the same as it's been throughout our history. But the world around us has changed and companies are able to capitalise themselves more efficiently in private markets at any given point. When we've owned some of the companies on the screen, we've probably looked foolish. But what we're trying to really understand is that, as Joe, you pointed out, the intrinsic value of a business. We're not looking at what the business is today. We're looking at what the business is five, ten years from now and even beyond that. We're looking at businesses that have durable business models that have competitive moats that become stronger or reinforce themselves as they become larger. If you think about our investment in Amazon on the public side back in 2004 it was just a book company or perceived to be just a book company. But since then, it's been able to layer on products such as AWS, healthcare services, advertising and marketing, Fire TV, the list goes on and on. Some of us, where would our lives be without Amazon? If you fast forward to a private investment, Spotify, that we still hold publicly, it initially had 15 million paying subscribers. Today it has 276 million paying subscribers and it was a music streaming service but an add-on to that music streaming service is

the community that they've created around it. In addition, you have podcasts and podcast tools to help podcasters create those platforms. And you also have things like Spotify Kids as well. So really, we're looking at businesses that can layer on products, grow, become engines of growth. And it just so happens that these engines of growth or these inflection points are now happening in private markets. And these are the type of businesses that we've always analysed.

JS:

I think we know our mailman's name and entire family history, thanks to the power of Amazon and my wife's spending habits. So no need to belabor that point. I think that the next slide is actually going to be really interesting for us. And it's one of my favourite things to talk about. It comes down to access and ultimately how we're finding some of these companies. Do you wanna maybe talk through a bit on our network and what that's meant for us?

DL:

Sure, so the Baillie Gifford platform really unlocks various channels of access. For example, we were long-term public holders of Tesla. That's how we were able to access SpaceX, ByteDance, Databricks, and Stripe which would historically be public companies, reached out to us directly to be on their cap table. So we're able to unlock these larger-cap private businesses. But in addition to that, because of our entrenched industry position within growth equity, we're also able to unlock relationships with unique companies that are outside of the venture capital ecosystem. So for example, Bending Spoons, Tekever, Cosm, these are businesses that were outside of the venture capital ecosystem. We were some of the first institutional capital to invest. And then if you look at a company like Insightech, we were introduced to that business via another venture capital firm. We have several relationships with smaller VCs who introduced us to companies that are growing into that growth phase that I mentioned earlier. And then lastly, companies like Revolut and Anthropic extended the rounds in which we invested in. And so this access point will only accentuate as we are going into, or we're in a new cycle. In the previous cycle, you had earlier-stage investors who were venturing more into growth, and you had buyout investors also venturing into growth, looking for alpha. Those players are not as active in this space. In addition to that, companies, you know, choose their shareholders in private markets. And in this new cycle, I think you'll start to see companies really partner with pure growth equity managers, such as ourselves, as they look for continuity on their cap table in Tourist or less active, which I think will be a competitive advantage for Baillie Gifford going forward. And it already has been throughout our history.

JS:

Okay, that does blend into our next handful of slides, which talks about the most common pushbacks we hear. Let me just make a quick comment and say, from a housekeeping perspective, I've had a few folks come in and say they want a copy of these slides. We're happy to send it over to anyone that requests it. So just ping a note to us now and I'll make sure that your BG contact does pass it along. Thinking about the comments you're making around continuity and ultimately realisations right when a company moves to the public markets. The three common pushbacks we've been hearing when we talk about growth equity more broadly with our wealth clients. Firstly, it's around valuations. Secondly, it's around a lack of control. This is a segment of the market that isn't as control-oriented as venture or buyout. And then clearly the realisations and IPO markets slowing down. So maybe we just take that piece by piece and we talk about valuations first.

DL:

Sure, I think there's a conception that valuations are inflated. When you look at headline numbers, things look very expensive in public markets and in some cases in private markets as well. But I would caution you and say that private companies are actually not expensive when you factor in growth. If you look at a company, Bending Spoons, which we mentioned on the previous slide, its closest public comparison is a company called Constellation Software. Bending Spoons is growing four times faster than Constellation Software, generating 80 per cent revenue growth top line, and it's also half the price. So, these private market companies, although they may look expensive on the surface level, they actually are, when you factor in growth, they're actually much more positioned than our public market comparisons. Take another company, Billion to One, which is a molecular diagnostics company. Its closest next comparison in public markets is a company called Noterro. It's growing twice as fast as Noterro, and it's also in line in terms of price. Our most recent investment, Anthropic, is growing 500 per cent year over year. So if you're looking for revenue growth, if you're looking for alpha, it's pertinent that you own private growth assets.

JS:

Okay, and what about the point around a lack of control, right? Baillie Gifford and competitors like ours in the growth equity space don't typically get involved in the management of a company. Any thoughts on that?

DL:

Yeah, you know, we're minority investors typically, or always, and Peter Singlehurst, who actually leads our private companies effort, will often say, if I think I can run a company better than a founder or a management team, then I shouldn't be investing in that business. We're at Baillie Gifford not looking to have control or have a large we don't have large operating partners, etc. Again, these companies that we're investing in our mature businesses, they have founders that have conviction and being in control is not really the way in which we can help those companies. The way in which we can help them are with their board composition and really having strategic players on their board as opposed to early stage financial buyers. Other ways we can help them is by helping the CFO understand how they would transition from being a private company to a public company. And we host forums around both those topics in order to help our companies make that transition. So I think ultimately what control does is it gives a false sense of security that you have the ability to generate some predetermined outcome, which is not necessarily the case. And these founders have proven to be leaders in growing their companies to exponential revenue growth, valuations, et cetera, without ceding control. The last point I'll make is that I think not seeking control has also helped us partner with some very exciting growth businesses. I mentioned Tekever on the previous slide. They had a term sheet from a private equity investor who wanted to take control. Tekever had very little, it had no institutional capital on their cap table outside of a smaller round that happened in 2021. The term sheet that this PE manager offered was much higher than our term sheet. But ultimately, they chose to partner with us because we enabled them to keep control. And just to put some numbers on it, that business is growing at 100 per cent top line and also has 40 per cent EBITDA margins. There's no need for us to come in and take control of that business. They bootstrapped themselves to growth since their existence in 2001.

JS:

Okay, well, the lack of control ultimately ends up translating to when does a company move to the public arena and how big of a voice do you as an investor have in that process? It's a smart slide for us to end on where we just talk about the pace of IPOs and then ultimately realizations more broadly.

DL:

Yeah, so private markets, liquidity is at the top of everyone's mind. If you've been to any private market conferences recently, you know, DPI is a new IRR. And we've actually, in the last three years, lived through two of the coldest IPO market periods in our history, per research from the Institute of Private Capital from the University of North Carolina down in Chapel Hill, going from February which is actually the second longest, or the second longest cold IPO market. And then June 24 to May 25 is the fourth longest cold IPO market. Joe, I'll do a little trivia. Any guesses which one is the coldest IPO market in our history?

JS:

I don't want to guess with this many people on the line. You tell us.

DL:

Totally fine. So the longest, if anyone was curious, is the 1970s, 75 to 80, when during the points of periods of stagflation. But overall, the point is that we're starting to see the IPO market open up. There's been quarters or consecutive months where you've seen an uptick in IPOs. Some of it is around a bit less uncertainty. And even in our own portfolio, companies such as HeartFlow and Tempest AI have had good post-IPO trading. And I think as more and more companies do decide to list, and you also see post-IPO trading that is positive, I think of the companies that have listed more recently, 60 per cent of them have seen that positive trend post IPO. That will encourage other companies to list as well. And so I think you will see more companies list as a result of being followers, but also in more recent years, these companies have really started to marry revenue growth with profitability. And I think that will also make them have a stronger profile to go out and list ultimately.

JS:

We did have one question come in and the Spotify example is perfect for this, right? It's an example of a company that we bought privately and now hold in a number of different public portfolios. The question just asks how exactly are our teams sharing information? Is there a wall in between private equity and public equity teams? Do they sit in different places? Just any sense for how we host company meetings? How exactly is information changing hands?

DL:

Sure, great question. One of the unique things about Baillie Gifford and also I think a competitive advantage of ours is that our private and public teams sit on the same floor. We have a dedicated team of 10 private investors. Then we have 13 hybrid investors that look at both private and public markets. They meet on a quarterly basis to share information more formally, but on a daily basis, they're always interacting and sharing ideas. When we invest in a company privately, that company will often come visit Baillie Gifford to get to know our public teams. One example of that is

ByteDance that has visited our office several times to get to know our public equity managers. So there's a constant sharing of information, no Chinese walls. Really, you have our private market investors informing our public market investors of what the pipeline will be of these private companies, and vice versa, you have our public market investors learning from our private investors about some of the challenges that that these private companies are potentially solving. So it's really a synergistic platform that is proven to be beneficial. And honestly, probably one of the number one reasons why private companies tend to choose Baillie Gifford as a partner of choice on their cap table is that constant need of capital that we can provide as you transition from being a larger private company to a public company.

JS:

Okay, I think we've got time for one more question, and there's a few questions around AI broadly, but I think if we could expand the point a bit more, if we're thinking about deployment this year, right, is there any theme that you can cut across that says, this is where we're excited about, these are different areas that we think the most opportunities are coming from? It doesn't necessarily have to be AI-centric.

DL:

Yeah, so in terms of AI, I think it's an evolving domain that we've taken our time to learn about and understand. We were trying to understand whether value will accrue. We are very excited about it, but we also are very selective in taking our time to understand whether value will accrue. We recently invested in Anthropic, and that's because we started to see some competitive advantage as it comes to enterprise, particularly software development and coding. In terms of other opportunities we might be excited about, robotics would be another potential future investment that we would look at. I think just generally speaking, we don't tend to follow any sectors per se. We're really trying just to identify those growth businesses that can compete on a global scale, regardless of sector or geography. More recently, we've also seen an uptick in fintech investments. I think that in the 2021-22 period, fintech had lost a little bit of its lustre. But more recently, I think that it's been more attractive, particularly in terms of pricing. And also, when you think about you know, a point of sales platforms versus compounding software, like a Rippling or Revolut. That's also, I think, becoming, we're just trying to see a clear market leaders or winners in those spaces as well.

JS:

Perfect. Okay. I think we can give everyone else the rest of the time of their day back. I'll just flag and say, we're going to have members of our investment team across in the States later this month. A bunch of folks will be in New York for anyone that's on here from New York and wants to spend time with us. Just again, please get in touch with your BG contact to do that. But more broadly, if there's any specific questions, like I said, about vehicles or products, we're always happy to continue the conversation. Thank you all for spending time with us. Dale, thank you for your insights. Have a great day, everyone. Take care.

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