Twitter Thread by Brian Feroldi



Brian Feroldi
@BrianFeroldi

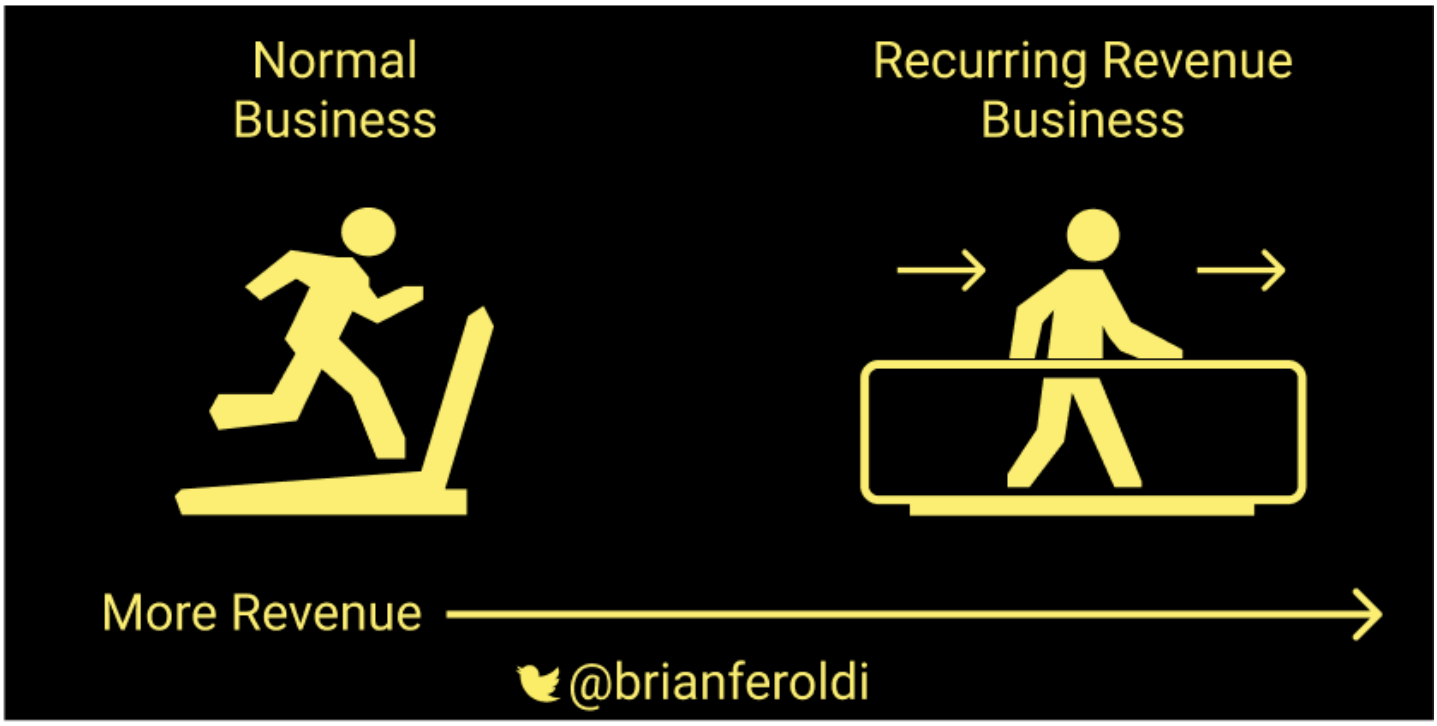
My investing style: Buy and hold high-quality businesses

Here are 15 traits that tell me I've found a great business ■■

1/ Recurring Revenue

Types:

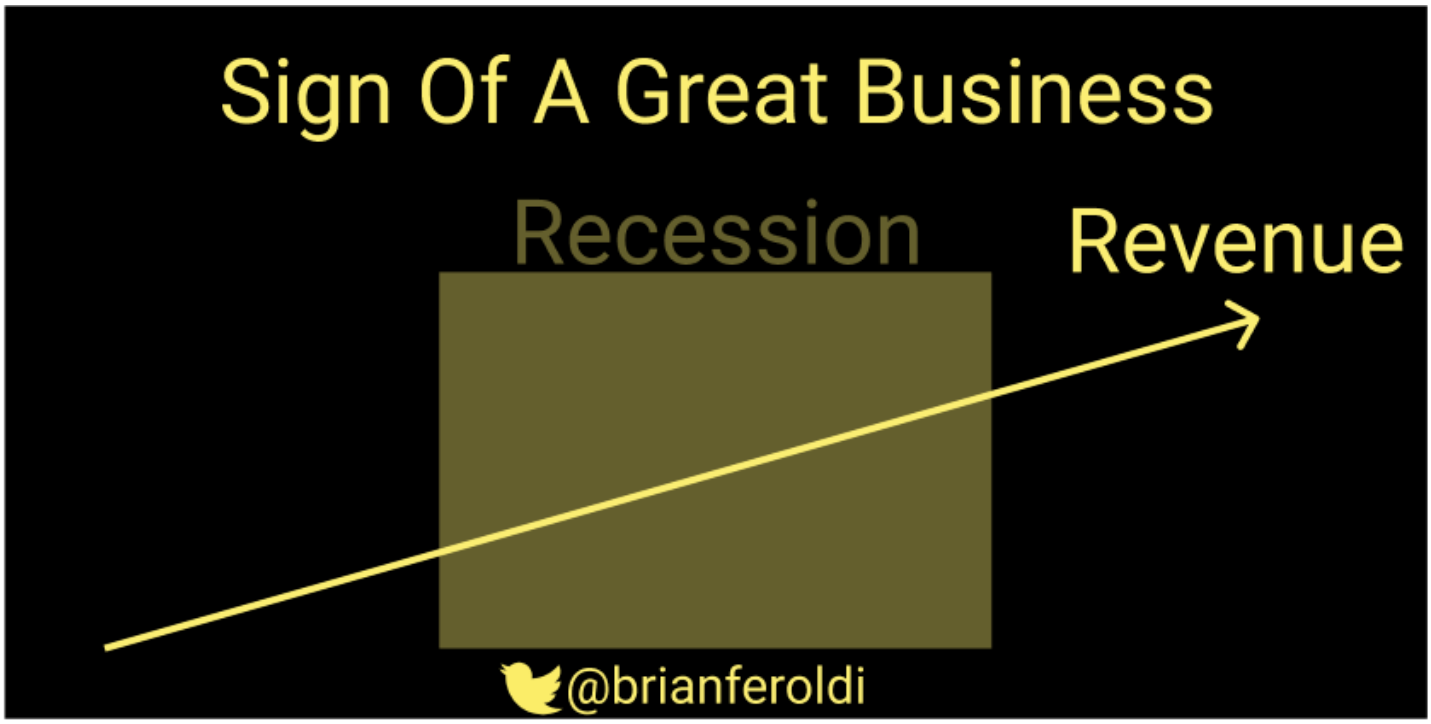
Business Services $MCO
Contracts $AMT
Consumables $MNST
Exchange $MKTX
Franchise $WINA
Membership $TDOC
Platform $ETSY
Razor/blade $DXCM
Real Estate $STOR
SaaS, PaaS, IaaS $TWLO, $NOW, $FSLY
Subscription $NFLX
Tollbooth $BIP



2/ Recession-Proof Demand

Great companies sell products/services that are in-demand in good times and bad

That allows them to grow regardless of what is happening in the broader economy

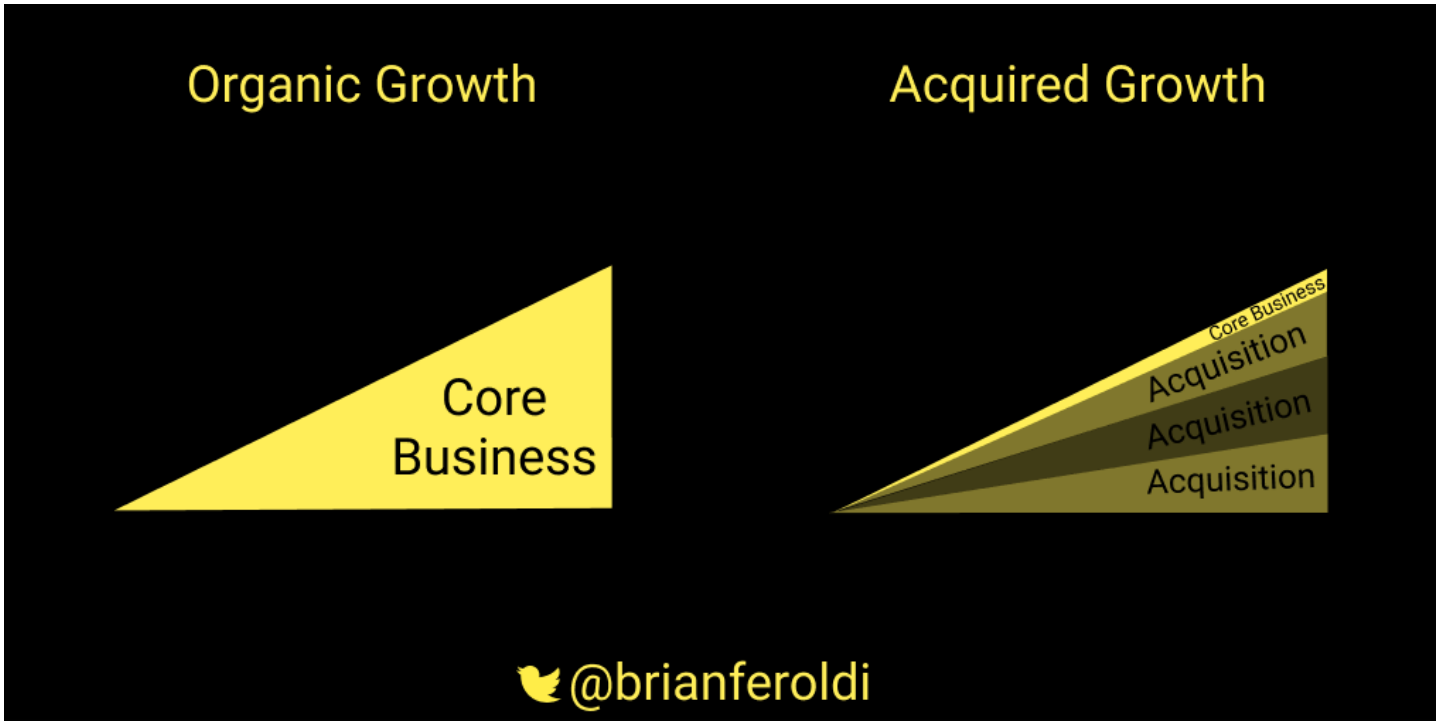


3/ Organic Growth

"Organic" growth: Growing by increasing sales of internally developed products/services

"Inorganic" growth: Growing from mergers & acquisitions

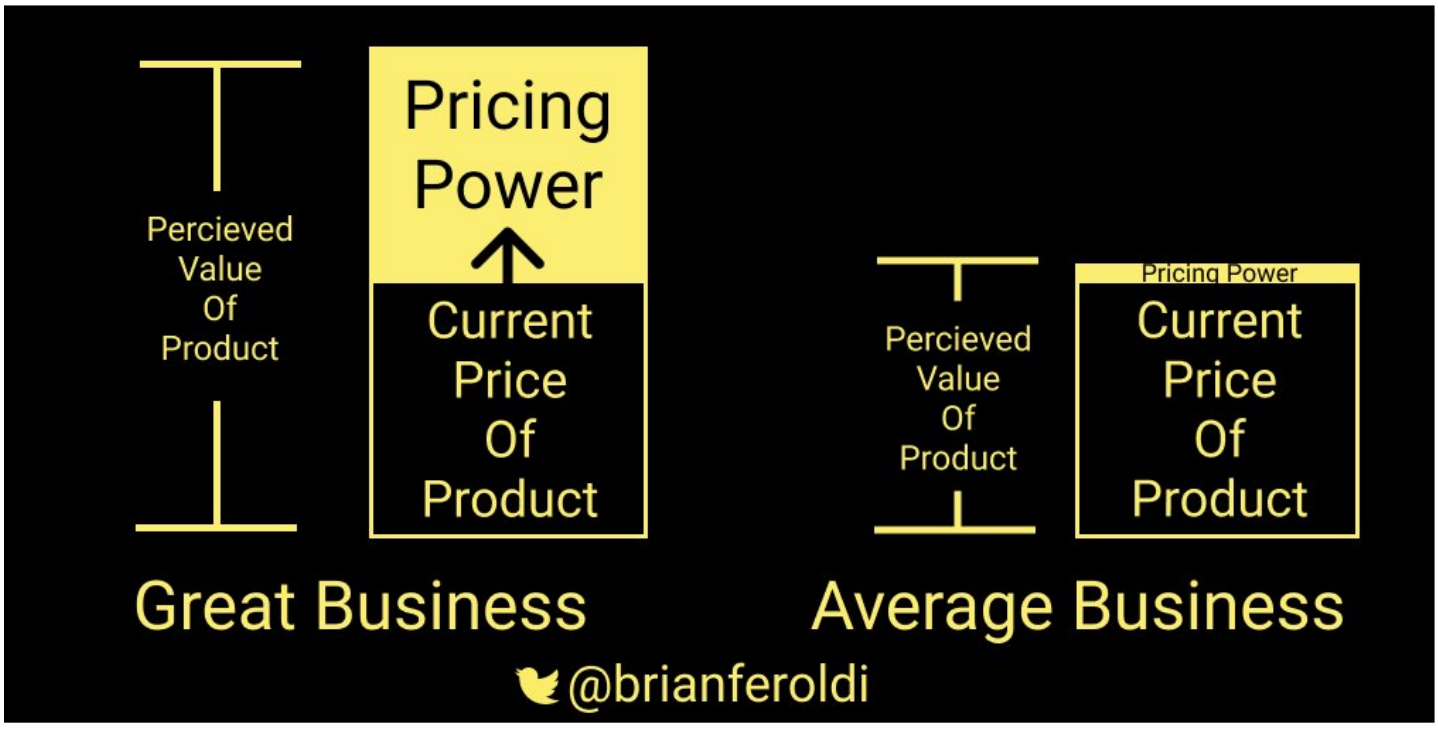
Organic Growth > Inorganic Growth



4/ High & Expanding Gross Margin

Indicates that the company’s products/services create a huge amount of value for the customer

Rising gross margin also indicates pricing power



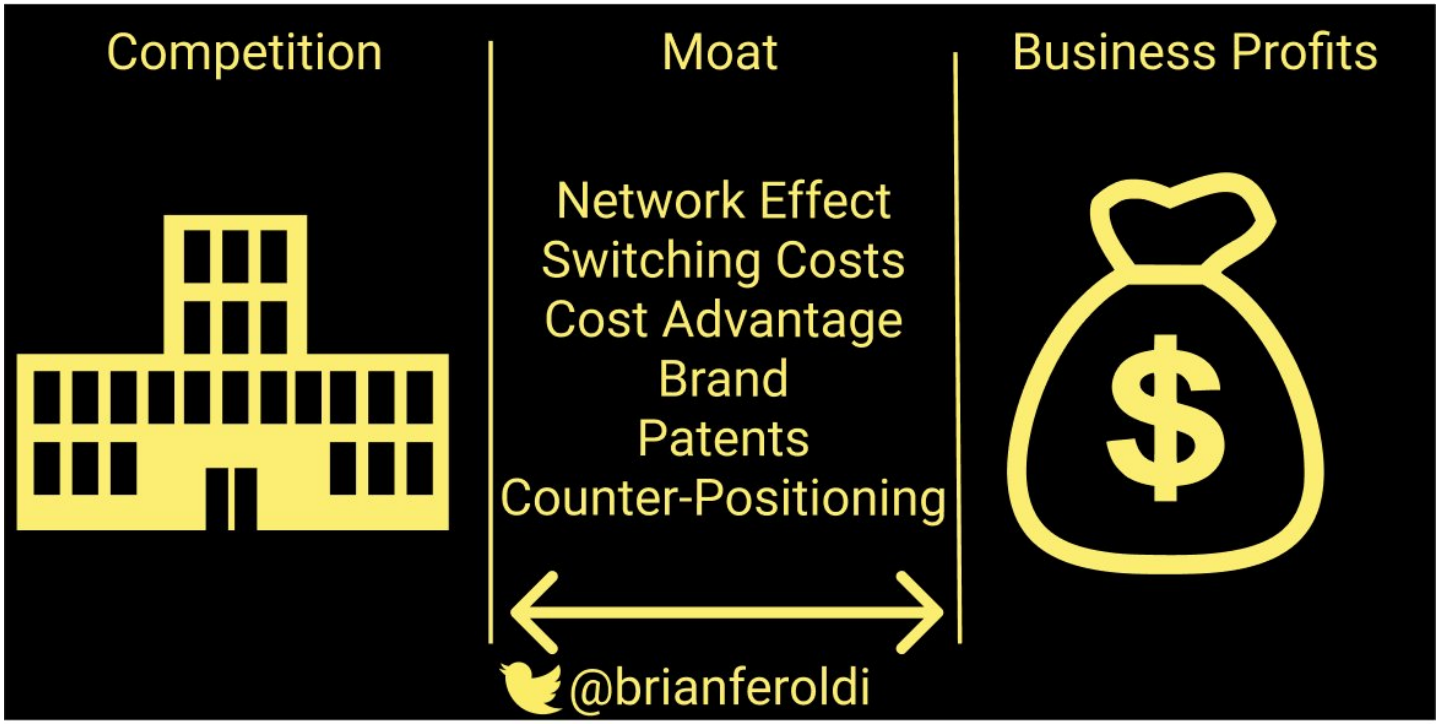
5/ Widening moat

Capitalism is brutal

A widening moat will protect a company's profits from competition

Sources:

Network effects: $FB
Switching costs: $ADBE
Durable Cost Advantage: $WMT
Premium Brand: $PTON
Patents: $OLED
Counter-Positioning: $TSLA



6/ Operating Leverage

If a company can grow its costs at a slower rate than revenue then its profits will grow at a FASTER than revenue

This concept was visualized beautifully by @10kdiver

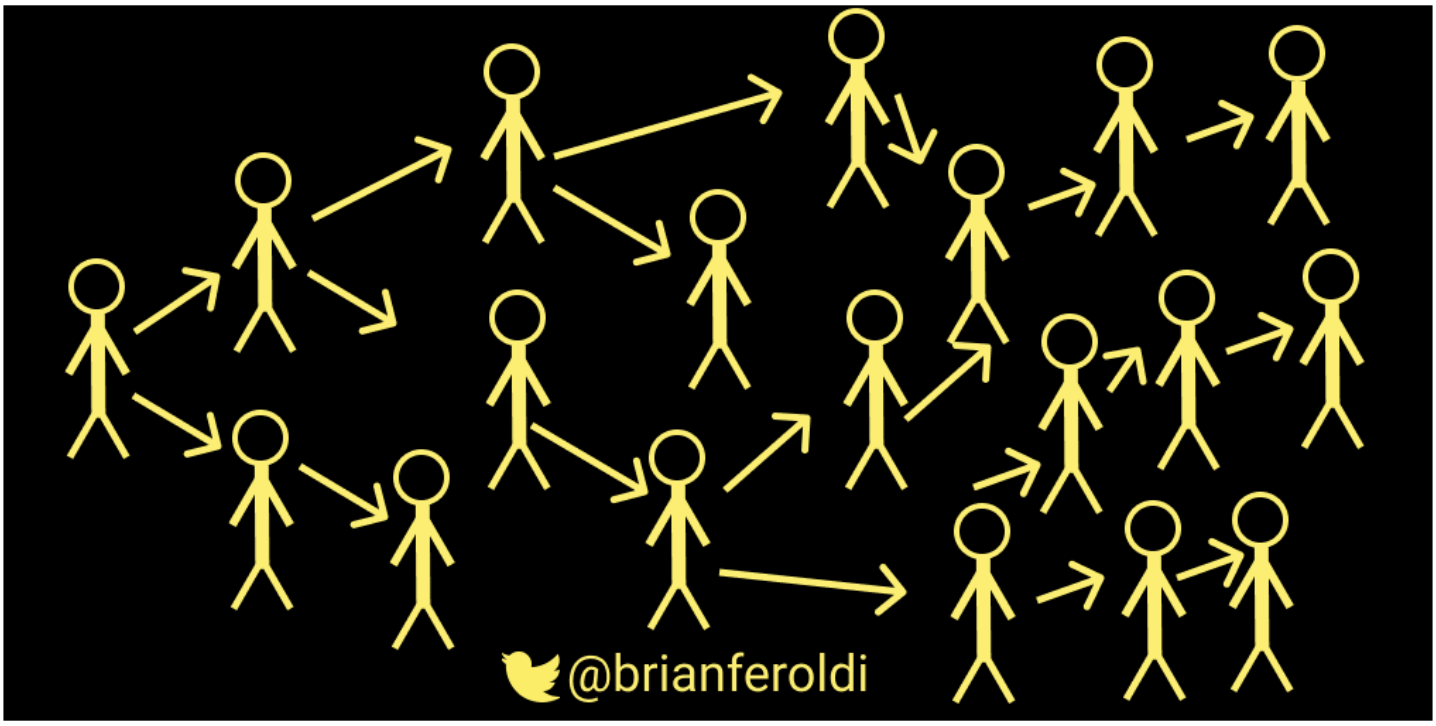
https://t.co/2RhrI7IzFy

> Not only does @10kdiver produce some killer threads,
>
> He's super talented with animation too!
>
> Here's how to visualize operating leverage: pic.twitter.com/3R7vr4rOiU
>
> — Brian Feroldi (@BrianFeroldi) March 11, 2021

7/ Low-cost customer acquisition

The best marketing is no marketing

Great companies create demand through word of mouth and spend little on sales & marketing

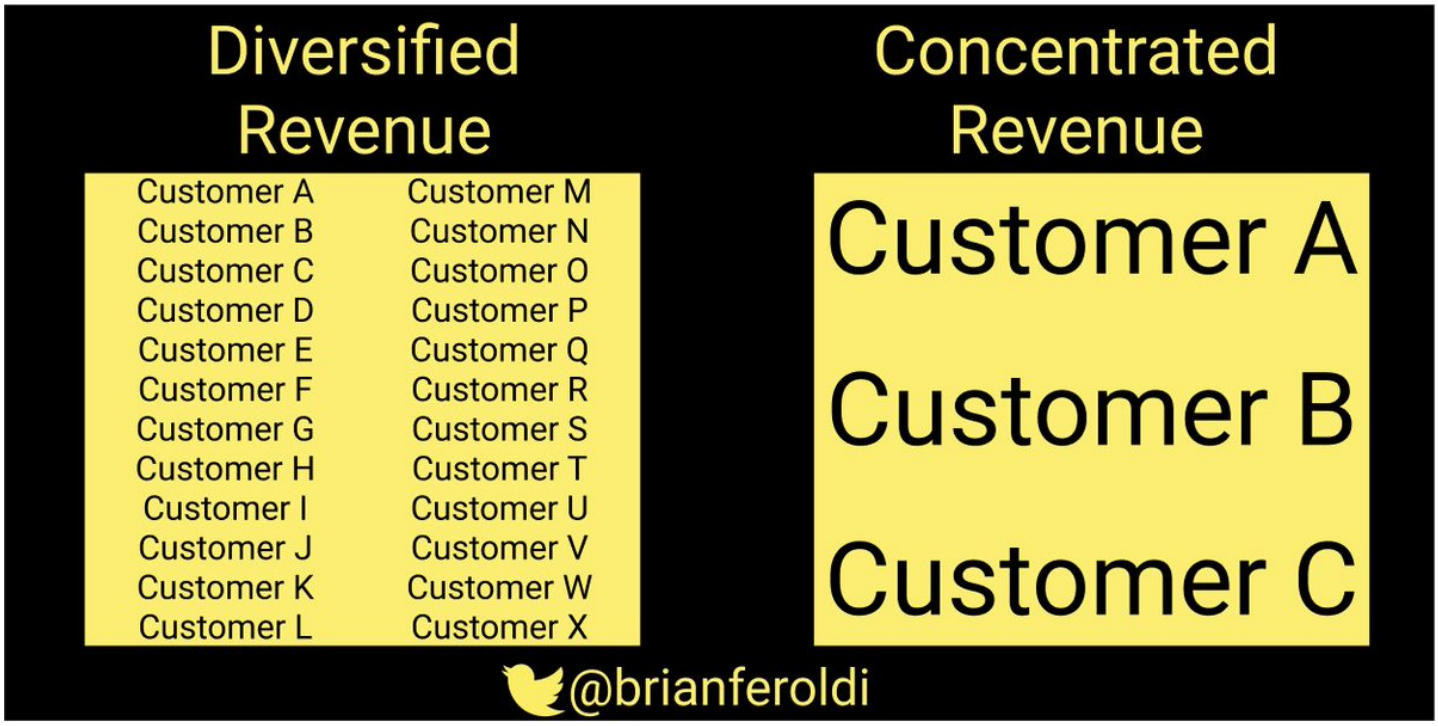


8/ Diversified Revenue

Companies that depend on a few customers for most of their revenue are fragile

One customer leaving can ruin the investing thesis

Great businesses serve thousands of customers, not just a few big ones



9/ Great Management

Management matters

Here is a thread I wrote in what I look for in a great CEO

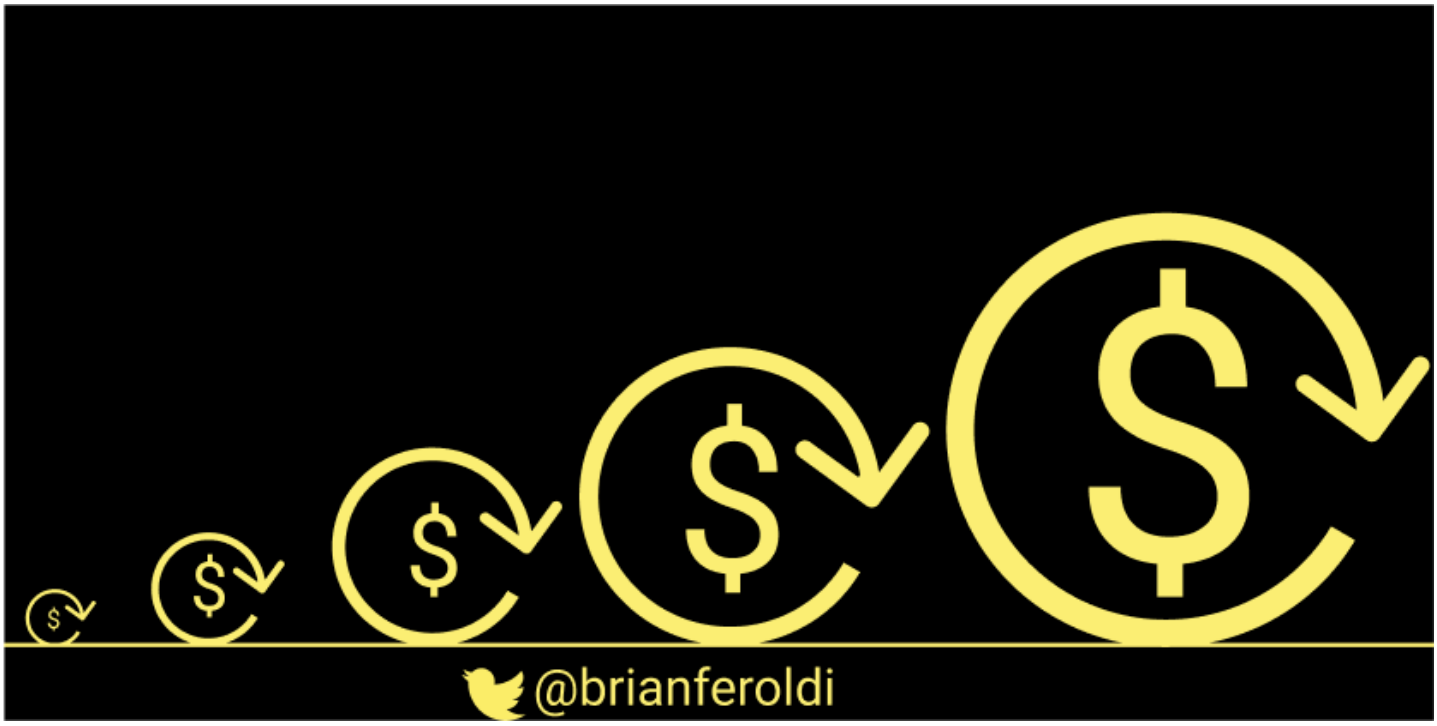
https://t.co/PuM6EXCxYH

> 10 Traits Of A Great CEO
>
> A \U0001f9f5on how I judge management
>
> — Brian Feroldi (@BrianFeroldi) May 9, 2021

10/ Reinvestment Opportunities

Great businesses can reinvest profits back into themselves at high rates of return for long periods of time

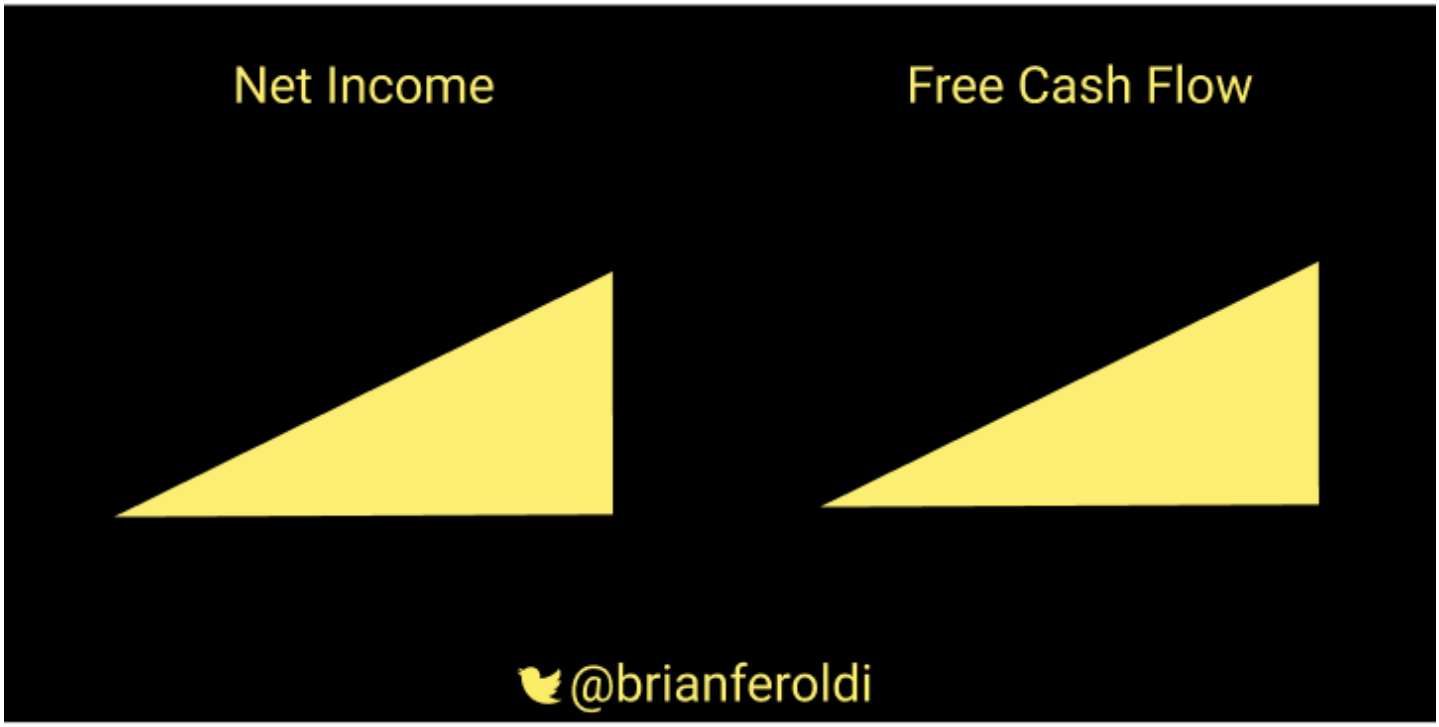
This continuously grows the profit stream, which will eventually lead to share price appreciation



11/ Profits

Companies that produce profits have far more control over their destiny than companies that don’t

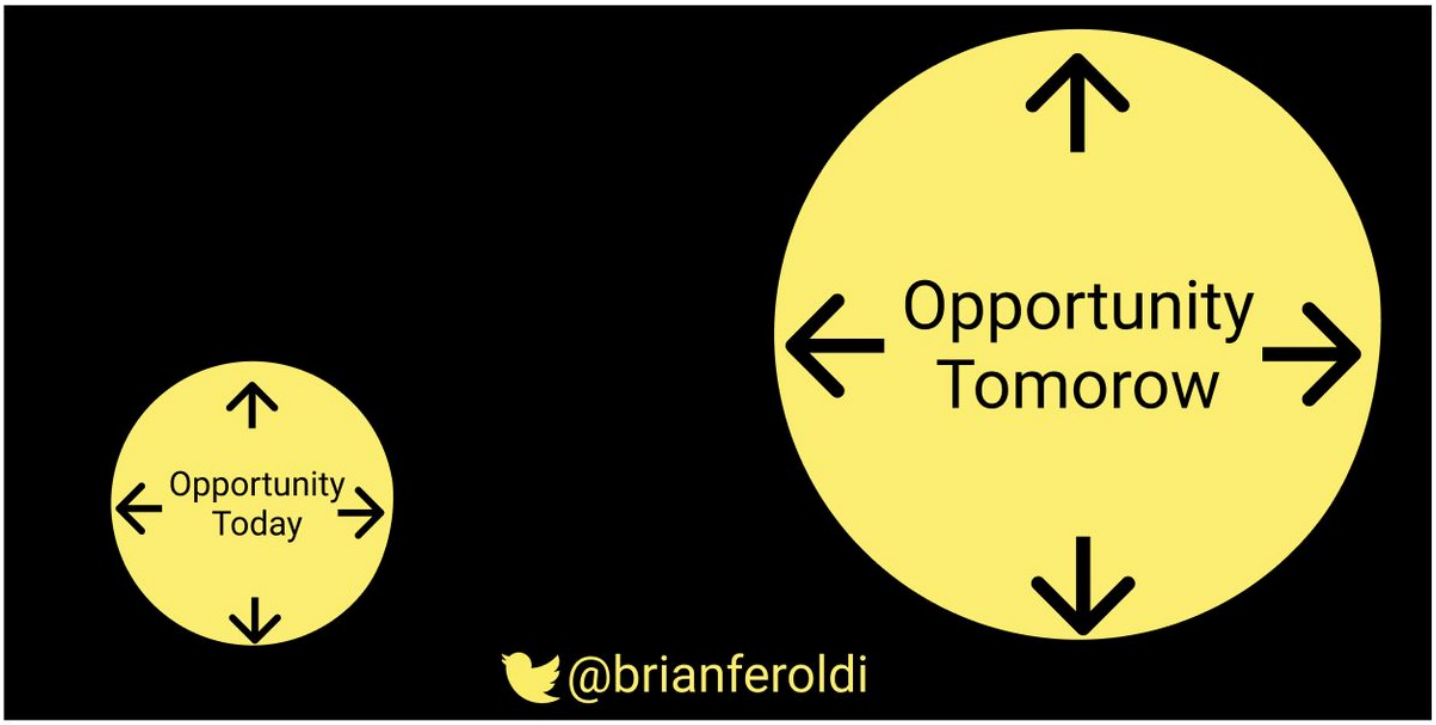
I want to see that both net income & free cash flow are positive & growing



12/ Optionality

Great companies create new revenue opportunities for themselves by launching new products/services that open up new markets

Ex:
$AMZN -> AWS
$MELI -> Payments
$TSLA -> Energy Storage



13/ Huge Total Addressable Market (TAM)

I want to own companies that have only captured a small fraction of their opportunity

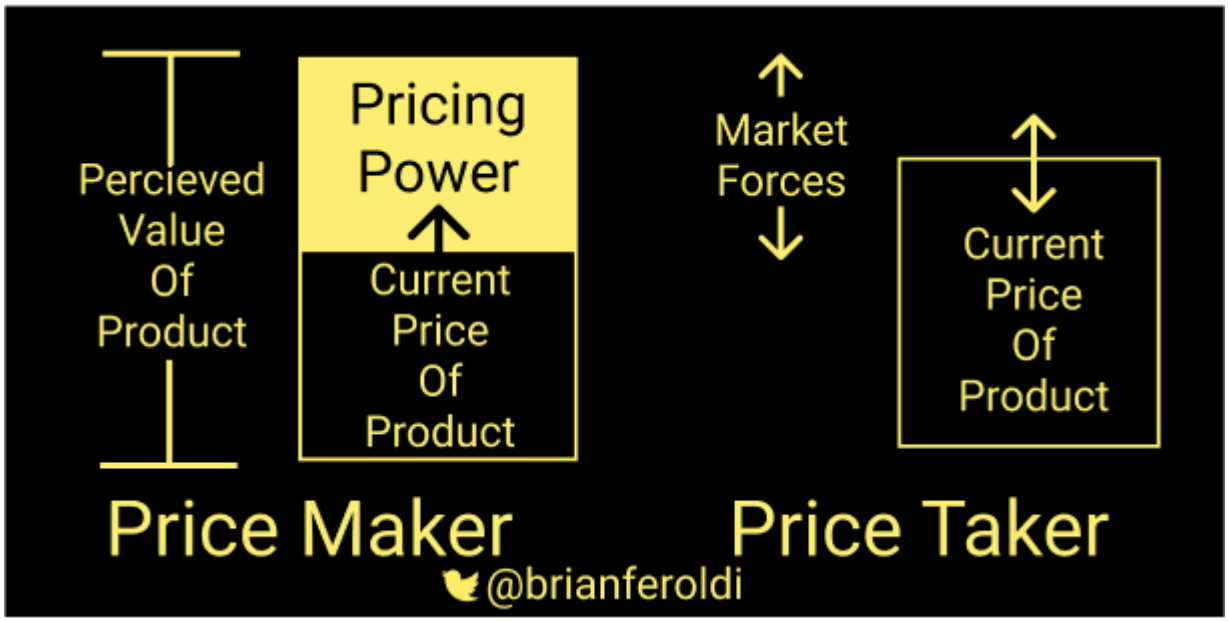
That creates a long runway for continued growth



14/ Price Maker

Companies that sell commodities have no control over the price of their product

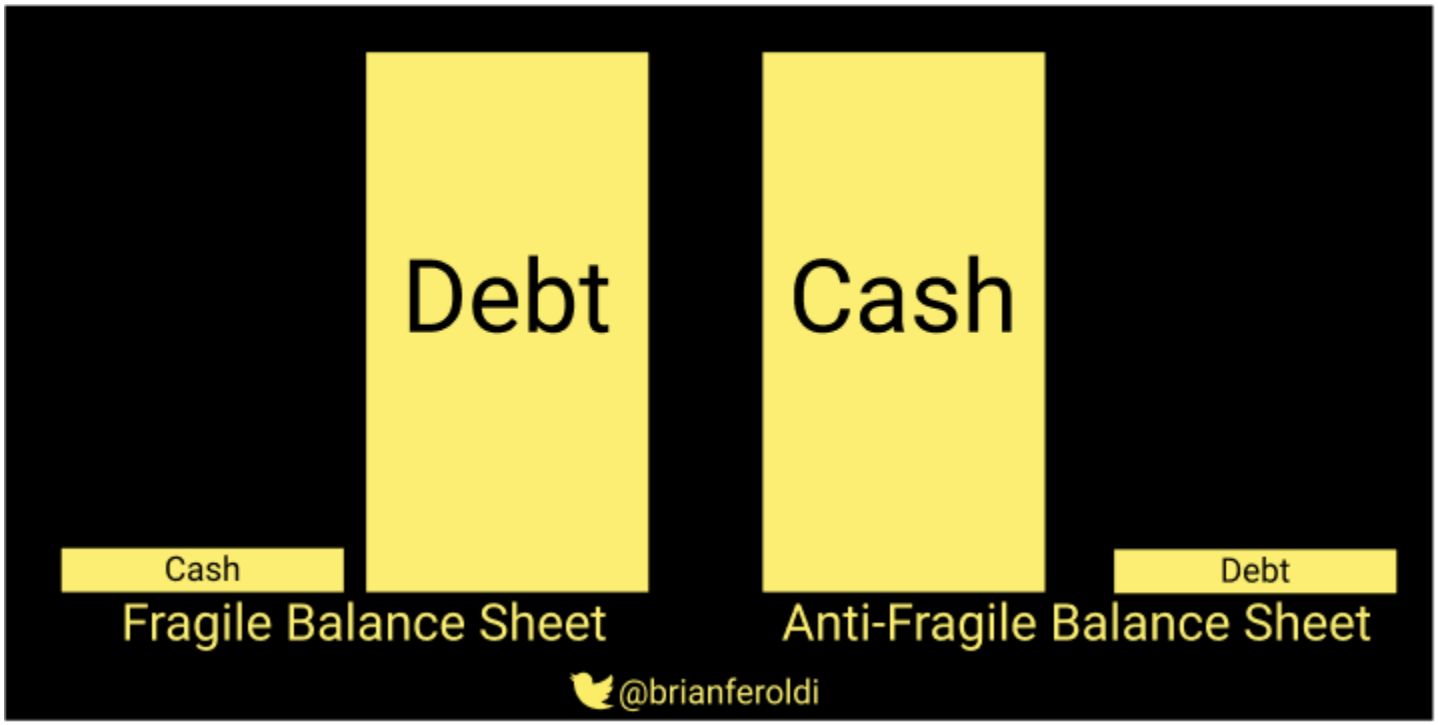
I want to own price makers, not price takers



15/ Anti-Fragile Balance Sheet

Cash-rich companies get stronger in downturns

Debt-laden companies get weaker in downturns



Enjoy these financial graphics?

I email them daily for free

https://t.co/GKYc6e2v3b

Enjoy this thread?

I regularly tweet about money, investing, and self-improvement

If those topics interest you, follow me
@BrianFeroldi

Want to see me & @tmfstoffel show you how we research a business in real-time?

We do so weekly on my YouTube channel

https://t.co/2YidjLLghL

To summarize, I want:

✔■Recurring Revenue
✔■Recession-Proof
✔■Organic Growth
✔■High GM
✔■Widening moat
✔■Operating Leverage
✔■Low-cost Marketing
✔■Diversified Customers
✔■Great Management
✔■Reinvestment
✔■Profits
✔■Optionality
✔■Huge TAM
✔■Price Maker
✔■Strong Balance Sheet