



Our North Star – 10 year IRR

We aspire to deliver the highest decile rate of risk adjusted investment returns over a 10 year period measured across 5+ year rolling slices. Everything that we do is a means to this end.

Why this working white paper?

We use Terminal Value, industrial to digital and convexity a lot internally and in our past letters.

“Terminal Value” lies at the center of most things we do. Over the years, each member of the team has discovered, mutated, and implemented this philosophy in their unique ways. But we have never attempted to articulate it – until we decided to. This paper captures the essence of several hours of intense “manthan” putting forward our current, firm, and evolving view of Terminal Value. Despite our attempt, we maintain that TV is the reflexive part dependent truth

Industrial to digital and convexity too have been scattered over various oral and written communication.

This whitepaper on these 3 concepts will remain our guiding lights. We will amend these as we gain more insights and/or learn more.

We hope you enjoy reading these as much as we LOVED debating and writing these. And please reach out to debate these!

Team dT!



Terminal Value (TV) – the chosen strategy to reach our North Star

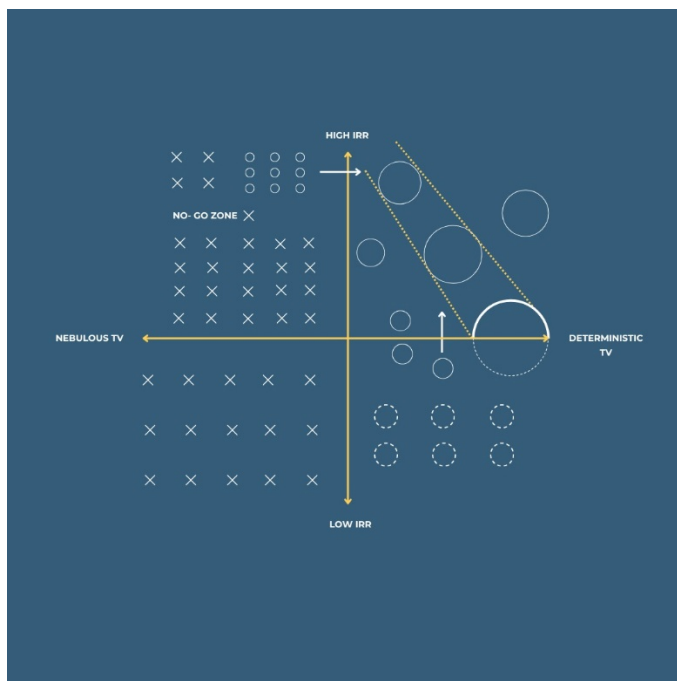
We believe TV maximizes our probability of delivering aspired investment returns while at the same time minimizing our risk along the way. *(Yes – sometimes you can have and eat your cake).*

In a practical sense, TV is a right to get paid for iteratively solving a customer's problem bestowed on the enterprise by the customer's collective. With every sale, the right is auctioned to the best solver. In this world, the highest TV enterprises are the most customer centric and unparalleled problem solvers.

This DNA manifests qualitatively as “relevance” and “resilience” and quantitatively as market share gains with stellar profitability metrics over long periods of time.

Multiple execution pathways to implement our TV Strategy

There are different pathways of executing the TV strategy. Each pathway differentiates around two vectors: a) trading off certainty of TV against prospective IRR, and b) weights and number of positions. We have captured the same in the graphic below:





The Industrial to Digital Pivot – a paradigm shift to leverage

Inspired by the book “The World after Capital” by Albert Wenger; we strongly believe the world is pivoting from industrial to digital. The last significant pivot was land to industrial where the unit of constraint shifted from land to capital (physical and financial). We think this upcoming shift will result in human attention being the new unit of constraint.

This has many implications as the rules of the game could significantly change as we make this pivot. Some of the changes that we foresee is that companies will move from mass production of goods and services to mass personalisation. We could see companies shifting from trying to solve aggregate demand-supply to marginal demand-supply. We believe this is a journey and will not happen over time and so we want to partner with companies through convexity that explicitly or implicitly share in the same belief. We expand below on convexity, and on a couple of characteristics we seek for in companies we want to partner with.

Convexity – our digital sieve to spot TV compounders of digital age

Convexity – We acknowledge that the shift from industrial to digital could take a while, and so we will view companies through a convex lens – one outcome is their base case business and terminal value seen through an industrial lens, and the other through a digital lens. This protects our downside.

We believe not all companies have the undergirding of succeeding in a digital age. We assess this using our CDAC framework:

“We look for businesses that are very customer centric in their thinking, where they generate lots of data, have an architecture to take out insights from the data, and most importantly a culture to use the insights to eventually mass customize.”

We often observe and endorse such companies understanding their profits as a responsibility and not a right. They invest the profit earned in the business to keep pivoting their business to the digital age, keeping customer satisfaction as their north star.