Four growth trends boosting UK companies despite Brexit uncertainty

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"Companies benefiting from long-term structural trends have the potential to continue to grow without relying on a positive macroeconomic backdrop."

Richard Hallett

By Richard Hallett, Manager of the Marlborough UK Multi-Cap Growth Fund. The opinions expressed are as of October 2018 and may change as subsequent conditions vary.

With the final shape of Brexit still impossible to predict, uncertainty about the political direction the country will take and many High Street retailers limping along in a precarious state, there are clear macroeconomic challenges for UK PLC.

On a more positive note though, plenty of UK businesses are continuing to achieve strong growth. In many cases, these are companies benefiting from powerful trends changing the way we do business, spend our money or lead our lives.

Where these long-term structural trends are channelling money into a particular business area, the leading companies in that field should benefit from a strong tailwind, providing the potential for robust growth irrespective of wider macroeconomic conditions.

Such businesses can be termed 'secular growth' companies and they can be found across the full breadth of the market cap spectrum.

The structural growth trends they are benefiting from can range from cutting-edge technology through to less exciting, but nonetheless powerful changes.

Increasing global regulation

One example of the latter is increasing regulation. This is a global trend affecting virtually every area of life, with new rules, restrictions and safeguards being introduced at local, national and international levels. New regulations relate to everything from food hygiene and pest control to building safety.

One beneficiary is FTSE 100-listed Halma, a group specialising in health and safety products. Its almost 50 subsidiary companies make products ranging from fire detection systems and emergency phones for lifts to corrosion detectors to monitor the structural integrity of bridges.

The company believes increasing global regulation should drive continuing growth in demand for its products, protect margins and provide a degree of security of income in difficult economic conditions.

Halma is acquisitive, using strong cashflows to buy up smaller businesses and in June the group reported adjusted pre-tax profits for the year up 10% to £214m.

Intertek, another FTSE 100 company, is also benefiting from the trend for greater regulation. It provides testing, inspection and certification for products in a broad range of industries globally.

It is a multi-faceted business - testing goods and auditing services, checking everything from the quality of oil coming out of the ground to the effectiveness of cyber-security measures.

Intertek is a consolidator, making earnings-enhancing acquisitions by buying up smaller businesses, reaping the benefits of cost synergies and selling new services to its global customer base.

In August, the company announced half-year profits before tax of £214m, up 7.5%, on a constant currency rate basis, compared with the first six months of 2017.

Growing healthcare spending

The growth in healthcare spending is another long-term structural trend. In the US, for example, health spending was estimated to be up by 4.6% to nearly $3.5 trn in 2017 and is projected to rise another 5.3% this year. This is being driven by an ageing population, greater disposable income and higher prices being charged for medical products.

AIM-listed Craneware is a business well positioned to reap the benefits of this growing market. The company provides software for the US healthcare industry and is the largest player in its field. With a potential market of more than 500 US healthcare companies, Craneware already counts around a third of them as customers.

Its software helps hospitals and other providers monitor their stocks of medicines, manage payments from health insurers and patients and ensure they comply with the pricing transparency required by regulators.

Craneware's customers sign multi-year contracts giving good visibility of earnings and the company is using its strong and sticky cashflow to invest in developing new products, particularly cloud-based offerings.

Pre-tax profits for the first half of this year were £6.6m, up 16% on the same period last year.

Cyber security

As companies do more and more business online, so the risks increase - not just of fraud, but also of things like falling foul of money launderers.

GB Group, which is listed on AIM, is a specialist in helping organisations to quickly check the identity and location of individuals online to avoid fraud and prevent money laundering - and to prove they have done this for compliance purposes.

Increasingly GB Group is globalising its business, selling large-scale multi-year contracts to multi-national players in financial services and other sectors. Adjusted operating profit was up 55% to £26m for the year to 31st March 2018.

Artificial intelligence

Blue Prism, another AIM company, is a leading player in the field of robotic process automation (RPA), where software 'robots' perform mundane back-office administrative tasks such as transferring data between different computer applications.

A recently published Global RPA Market Insights report forecasts that the worldwide RPA market, which was valued at £198m last year, will grow to £7bn by 2025, an annualised growth rate of just over 60%.

While Blue Prism is not yet generating a profit, this is a business with very strong growth potential. It is one of the top three global companies in this rapidly expanding sector and a trusted provider to financial services giants including BNY Mellon, Aegon, Commerzbank and Zurich.

Exactly where the Brexit process will take us remains highly uncertain. However, companies benefiting from long-term structural trends have the potential to continue to grow without relying on a positive macroeconomic backdrop. In an unpredictable world that presents an attractive opportunity for investors.

Risk Warnings

Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Capital is at risk. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest. Our funds invest for the long-term and may not be appropriate for investors who plan to take money out within five years. Tax treatment depends on individual circumstances and may change in the future. The fund will be exposed to stock markets. Stock market prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events. The fund invests mainly in the UK, therefore, investments will be vulnerable to sentiment in that market, which may strongly affect the value of the fund.

Richard Hallett is Manager of the Marlborough UK Multi-Cap Growth fund, which holds some or all of the stocks mentioned. The views expressed are his own and should not be construed as investment advice.

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Regulatory Information