

Tidepool Investing

A Dive into the Focused International Equity Team's Views on Moat Trajectory and Culture

Drew French

2/17/2026



Preamble: Preschoolers and Tidepoolers

While driving past WCM's office after a day at a local Laguna cove, my son asked me what I did for work. He's only five years old, so I avoided getting into the nuances of international equity investing. Instead, a bit of inspiration struck, and I said: "You know how we go down to the beach and look for the best tidepools with the most colors and coolest animals?"

"Yeah," he replied, a bit confused.

"Well, I do that for a living, but instead of tidepools, my team and I are looking for companies. And you know how all of the best tidepools usually are full of the best animals? Well, companies are like that, too. So a big part of what we do is look for businesses with the best people, who are able to keep making their 'tidepools' better over time."

I was pretty proud of myself at the time, but I think my analogy was a swing and a miss with my boy, since I'm fairly certain his friends and teachers now think I'm a marine biologist. That said, I've gotten to thinking more and more about this analogy, and I think it's better than my five-year-old gives me credit for.

Tidepool Investing

At WCM, our passion as investors is uncovering companies with growing competitive advantages ("economic moats") supported by strong, adaptable, and moat-aligned corporate cultures. Idea generation comes from a number of different sources (e.g., 360-degree research, conversations with other investors, conferences, etc.), but ultimately, our process hinges on deep fundamental work on each prospective business. The primary focus of our analysis is to understand:

- Tailwinds and/or headwinds facing the business from an industry, region, thematic perspective;
- The company's business model and how it makes money;
- The existence of a competitive advantage ("economic moat") built to stave away competition and generate a strong return on invested capital ("ROIC");
- The *trajectory* of that economic moat (i.e., is the moat improving or deteriorating); and
- If the corporate culture is aligned to grow that moat into the future.

Now in terms of our tidepool analogy, the broader macro environment is like the ocean tides. The cyclicity of industries and markets might not be as predictable as the tides (if only that were the case), but just like the ebb and flow of the tides impacts tidepools, so do the whims geopolitics and both fiscal and monetary policy—not to mention Mr. Market—impact individual companies.

Rising tides bring periods of abundance and excess, allowing fresh and disruptive competition to enter the ecosystem. Flush with resources, new groups are formed and set up new competing ecosystems, while others haven't built adequate protection to fend off predators or stave away collapse and consolidation. These times of excess is when strong tidepools continue to patch and grow their walls.

However, the best tidepools continue to grow their competitive advantages when the tide goes back out. In these periods, those who feasted on excess without reinvesting in their ecosystems are starved for resources and/or dry out completely. Meanwhile, those who focused on growing their barriers are able to trap the most water and resources. It is the tidepools that have entrenched themselves within the safest walls that can best protect themselves when the tide is both rising and falling, in periods of both excess and dearth.

The parallels to companies with growing moats are clear. The highest quality companies—or in WCM's parlance, those with the most positive moat trajectories and superior corporate cultures—are the ones who tend to be the most resilient when the economic tides are both rising and falling.

We are staunch believers that no competitive advantage is static, and that all companies are either getting stronger or weaker relative to their peers. We have seen time and time again that companies with declining competitive advantages have a higher potential of being "value traps," which are optically cheap from a valuation perspective, but whose eroding economic moats ultimately lead to them becoming massive destroyers of investor capital.

As investors, it isn't our job to look for yesterday's market winners, but to use our insights combined with pattern recognition to find the winners of tomorrow. We believe having a deep understanding of competitive advantage dynamics—using WCM's moat trajectory framework—paired with an intimate understanding of the company's corporate culture, is the best way to achieve this goal.

The analogy becomes even clearer when applied to corporate culture. Afterall, it's the individual organisms in the tidepool that determine the success or failure of the ecosystem. Put another way, a tidepool without dynamic life isn't much more than some wet rocks and salt water, just like a company without great people isn't much more than a stack of filings and furniture—assets on paper, but no engine for growth, innovation, or resilience.

Within a thriving tidepool, organisms are both collaborative and competitive, and we believe the same is true within high-quality businesses. Exceptional people and superior corporate cultures separate the great businesses from those that are merely good.

So how do we define a great culture? At WCM, we analyze corporate culture across three distinct vectors:

1. Culture-strategy alignment: We want to understand if the company's culture supports what we believe is the right strategy to grow its moat over the next 3-5+ years. At a high level, we try to get answers to several questions specifically targeting the alignment of the culture with the company's strategy. For example: what are the incentive structures in place, and what behaviors do these incentive structures

promote? Are these behaviors aligned with the company's strategy to grow its moat? What kinds of stories and qualities are celebrated within the organization, and what is frowned upon? What are the cultural north stars that drive daily behavior?

2. Cultural strength: How much buy-in does the company have across the entire organization? Is the culture pervasive across the entire organization, and is what is being talked about within the C-suite being echoed and acted upon all the way down the company? Are we hearing the same stories and shared mindset echoed from different divisions, and even a layer deeper, from vendors, supply chain partners, and even competitors?

3. Cultural adaptability: How self-aware is management to their company's own strengths and weaknesses? Does the culture embrace candor and healthy competition? And then, are executives and managers encouraged to look beyond their own walls and understand their position within an ever-shifting value chain? Are they going to be caught flat footed in the face of change, or will they stay nimble and able to pivot in the face of adversity? In many ways, we at WCM argue that adaptable management teams and culture help provide the ultimate form of downside protection, as even though we might not know what the next black swan event may be, we can have a good understanding of how our management teams are able to respond to the challenge.

On WCM's Focused International Equity team, we believe an excellent example of this comes from one of our former holdings, Fujifilm Holdings Corp., which we purchased as we saw the business transitioning from a more commoditized consumer electronics and printing company into a high-quality healthcare business. Namely, homing in on Fujifilm's historical adaptability compared to Eastman Kodak, its top competitor in the early 2000s¹, highlights the importance of cultural adaptability in the face of a shifting marketplace.

The dramatic difference in outcomes between these two businesses serves as a stark example of the importance of seeking companies growing their competitive advantages—especially in the face of adversity—to allow companies to compound capital over long periods of time and avoid value traps.

Surviving a Tidal Shift: Fujifilm Innovates, Kodak Desiccates

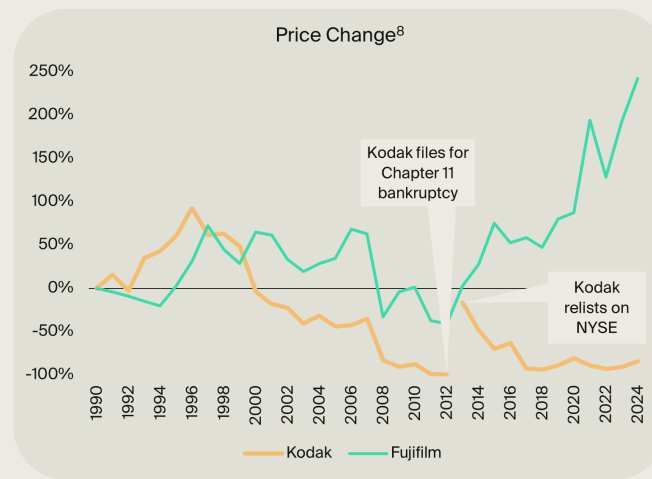
At its peak in 2000, photo film was an incredibly profitable business by nearly every metric, with gross margins in the 60-70% range², return on invested capital around 40-45%³, a razor and blade business model with predictably recurring revenue, and a large global TAM. The industry had high barriers to entry and was highly consolidated, dominated by a duopoly of the photo juggernauts Eastman Kodak in the US and Fujifilm in Japan. Together, Kodak and Fujifilm owned more than 2/3 of the global market⁴ (~90% of the US market)⁵, having built incredibly wide moats around scale and cost advantages, process power and IP patents, and nearly unparalleled brand recognition.

Then in the early 2000s, the photographic film industry experienced a rapid tidal shift as the digital camera tsunami, followed swiftly by a deluge of smart phones, completely upended the industry. What unfolded from 2000-2012 was a tale of two cities, with Fujifilm's adaptable corporate culture allowing it to shift its innovation-focused moat into creative new industries, while Eastman Kodak bet it all on film as a cash cow to grow its digital camera and printing businesses, ultimately destroying more than 99% of its market cap until it was forced to declare Chapter 11 bankruptcy in January 2012.⁶

So, what happened?

Kodak: A Classic Value Trap

Heading into 2000, not only was Kodak company generating high return on capital and being lauded for its brand recognition and wide economic moat, but it was trading at ~11x earnings with a 4-6% dividend yield⁷, which was enough to earn the stock a buy rating across the majority of sell side analysts covering the company. In other words, Kodak was perceived as a high-quality, wide-moat business trading at a discount to its intrinsic value. While digital film was already taking share from film in the mid-90s, the majority of analysts believed that Kodak was still a great business.



This backward-looking definition of "quality" ignored two key aspects that were leading indicators of Kodak's demise:

1. While Kodak's moat was wide, it was clearly deteriorating and losing relevance in the face of a shifting landscape and more aggressive competition, and;
2. Kodak's management team and corporate culture were not properly aligned for the change in strategy that Kodak needed to implement to survive this tidal shift.

Kodak was not ignorant to the obstacles that the digital wave was going to present to the company. In fact, Kodak itself invented the first digital camera in 1975 and invested heavily in the mid-to-late 2000s in R&D to grow its foothold in digital cameras.⁹ The problem wasn't ignorance, but rather, its inside-out thinking that tried to force its current business model onto a mismatched, rapidly evolving marketplace that was marked by dramatically changing consumer behavior. In other words, Kodak found itself in a classic innovator's dilemma, desperately trying to preserve the cash flows from its film business while concurrently doubling down on film-adjacent businesses such as digital printing kiosks and ink-jet printers, all while consumers were rapidly shifting from sharing pictures to sharing pixels.

As Kodak poured billions of dollars into digital cameras, photo kiosks, and ink-jet printers to preserve the legacy business model, social media, the commodification of digital cameras, and the smart phone era changed consumer habits. Hardware prices plunged over 75% from 2000 to 2006, wiping out demand for the profitable consumables like film and paper.¹⁰

Year	Quote	Cultural Signal
2000	"Film continues to grow steadily." —President Dan Carp, insisting film would be able to fund its shift to digital. ¹¹	Confidence in status quo cash flows delayed hard cannibalization choices.
2004	"Digital will be nearly half of revenue by 2005, and we'll be profitable." —Investor Day deck. ¹²	Ambitious top line goal masked thin margins and hidden cost to get there.
2007	"We were very late—20 years late." —CEO Pérez on entering ink jet printing. ¹³	Recognition of lateness, yet still pursuing a structurally unattractive segment.
2011	"Printers, software and packaging will double to \$2 bn by 2013." —Kodak press release. ¹⁴	Last ditch optimism just months before bankruptcy filing.

The company had become all razors and no blades, and cash burn ensued. By doubling down on its past, Kodak missed on growing its moat in the adjacent, high growth end-markets of its future.

A healthy counter-example is that when Kodak sold its Health Imaging division in 2007 for \$2.6bn¹⁵ to fund its digital strategy, Fujifilm was investing in expanding its related health imaging business.

From a governance perspective, executive compensation was fuel for these strategic missteps, as short-term net earnings and EPS targets incentivized protectionism and cost-cutting rather than bold innovation. When Kodak finally prioritized digital growth, it was too late, as they were competing with

big tech leaders in an increasingly commoditized market, all while smartphones and social media were about to completely upend the industry.

Importantly, while Kodak may have had the right culture to defend share in its already established film business, it simply didn't have the right people on the bus to pivot the company's strategy, think creatively, and grow share in new verticals during this period of rapid disruption.

Ultimately, Kodak's culture wasn't adequately adaptable in the face of a paradigm shift, and even more specifically, Kodak tried to *iterate* rather than *innovate* its way out of a structural change to its underlying business.

- “The single biggest mistake that Kodak made for two decades was the fear of introducing technologies that would disrupt the film business” – David Glocker, ex Kodak R&D scientist¹⁶
- “We developed the world's first consumer digital camera but we could not get approval to launch or sell it because of fear of the effects on the film market.” – Donald Strickland, ex Vice President of Digital Imaging at Kodak¹⁷
- “Our market share, our brand recognition, our company reputation were so exceptional that we just couldn't imagine losing our number one position or failure of any kind. There was a certain arrogance in our company” – Commercialization manager at Kodak (1973-2008)¹⁸
- “Kodak was hesitant to modify its core business. From the outside, it appeared that Kodak deep down just really didn't want to.” – Shigetaka Komori, Fujifilm CEO (2003-2021)¹⁹

Now let's look at what factors allowed its top competitor, Fujifilm, to not just weather the storm, but actually come out of the 2000s stronger than ever.

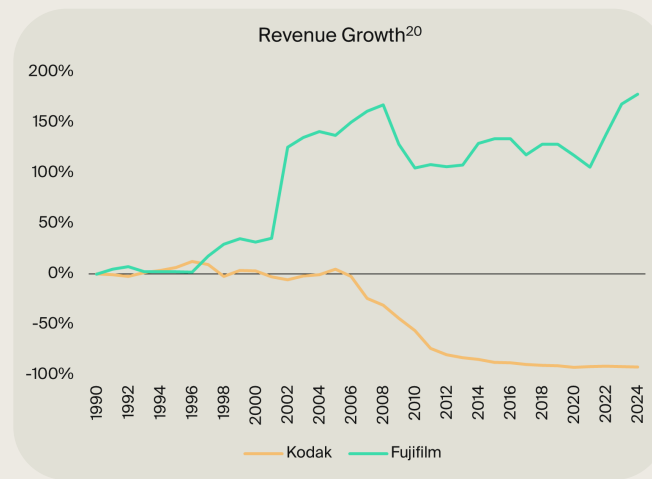
The Counterexample: Fujifilm

In the early 2000s, Fujifilm was the world's #2 film manufacturer, behind Kodak, dominating in its home market of Japan and gradually taking share from Kodak across the globe.¹⁷ Fujifilm had just as much to lose from the death of film as its US counterpart; however, the company took a completely different approach to the exact same crisis.

"...one thing that might have contributed to Kodak's downfall was that it was the premier company in photographic film for so long. This, I believe, made it slow to adapt and diversify. Fujifilm, which was always the challenger, always Kodak's colossal shadow, needed to try its hand at diversification."

Shigetaka Komori, Fujifilm CEO (2003-2021) Source: see 21

Fujifilm's high degree of external awareness helped the company to completely rebuild itself, leveraging its technological knowhow to innovate into new and highly profitable business lines and ultimately grow its moat in a new direction. Back to our tidepool analogy, while Kodak was building bigger walls around a pool that was already drying out in the sun, Fujifilm was busy colonizing new pools closer to the water line.



As the digital wave moved from a ripple to an all-out tsunami, Shigetaka Komori, a 40-year veteran of the company, assumed the role of President in 2000 and, inevitably, CEO in 2003. While it is often true that Japanese companies can get lost in a quagmire of decision-making bureaucracy, Komori, well-respected for his long tenure and wide breadth of managerial experience at Fujifilm, was able to quickly put the Board of Directors into crisis mode. Komori impressed on the Board that Fujifilm's "only choice was radical reform," as he circulated a crisis white-paper where he proposed an all-or-nothing package which called for widespread plant closures, increased R&D spend, and M&A into non-film categories. Importantly, Komori tied management bonuses to non-film growth while maintaining Group operating margins >10%.²²

Fujifilm drastically transformed its business from a consumer film company to a diversified healthcare and business solutions giant. Contrary to Kodak's approach, Fujifilm was quick to move into the digital camera market without thinking twice about cannibalizing its film business. In tandem, the company focused on its partnership with Xerox to lean heavily into its business innovation segment, which provides full-office solutions to primarily enterprise customers, focusing on recurring revenue equipment, systems and cloud workflow integration, and service contracts with a focus on aftermarket consumables (e.g., ink, toner, paper, etc.). This allowed Fujifilm to stem its cash bleed earlier than Kodak, which in turn allowed Fujifilm to invest more into M&A and R&D (R&D reached 8% of net sales at Fujifilm's peak).

Importantly, and in a 180-degree strategy to Kodak, Fujifilm was not interested in simply plowing capital into digital imaging as its primary driver of future growth. In the words of Komori:²³

"It's worth noting one interesting facet of Japanese business culture: although hierarchical inertia can significantly slow Japanese conglomerates' decision making, once a decision is made, consensus culture can actually work in a company's favor to push rapid change across an organization. In other words, it's achieving consensus that is difficult, whereas buy-in is unilateral once consensus is reached."

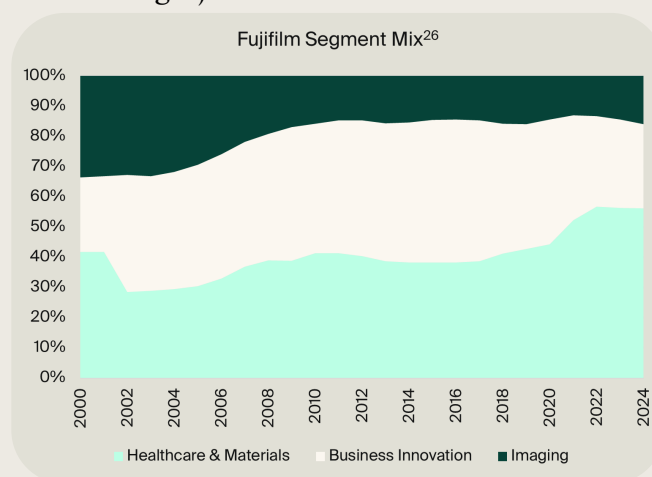
Komori's call to arms helped Fujifilm dive into transformation plans immediately and headfirst, highlighting the company's cultural adaptability.

"Kodak later declared that it was a digital company, or wanted to be one... but here again Fujifilm was different. Even though we had entered the digital age, Fujifilm had not the slightest intention of transforming itself entirely into a digital company... differentiation in the digital world is difficult, and sooner or later price competition would heat up... [and] digital products alone are not enough to sustain a company worth several trillion yen." —Shigetaka Komori, Fujifilm CEO (2003-2021)²³

From the outset, Fujifilm aligned its incentive structure to promote creative thinking to find new verticals where Fujifilm could leverage its existing moats as a large-scaled materials company with IP

and process power in not only imaging, but also chemistry and science-based solutions. This led to Fujifilm's second and most long-term leg of growth: healthcare.

Fujifilm had been involved in X-ray film since its founding in 1936, and had subsequently entered the endoscope market in the 1970s and the X-ray diagnostic system market in the '80s.²⁴ Concurrently, the company's film business had effectively built 80+ years of experience in cosmetics research, with the gelatin needed to produce photographic film being derived from collagen, the most abundant protein in human skin and a key ingredient in topical creams, gels, lotions, and makeup. This made Fujifilm's diversification into cosmetics in 2007 a small step for Fujifilm, as opposed to a giant leap. As mentioned, Fujifilm's push into healthcare coincided with Kodak selling off its healthcare imaging assets, which although was ~20% of Kodak's revenues and quite profitable²⁵, management sold to help pay down debt and expand further into the commoditizing digital camera market... only about a month prior to Apple's release of the iPhone (talk about timing...)!



On the other hand, Fujifilm leveraged its film and chemical expertise to expand aggressively into healthcare. It acquired Toyama Chemical, moving into radiopharmaceuticals, and more importantly, drug discovery in the Contract Development and Manufacturing Organization ("CDMO") market. Fujifilm doubled down on its CDMO capabilities by acquiring Merck's Diosynth and MSD Biologics assets in 2011, becoming one of the world's largest CDMO by bioreactor volume capacity today.²⁶ It also acquired Sonosite²⁷, entering the ultrasound market and later giving the company a comprehensive suite of diagnostic equipment once it purchased Hitachi Medical in 2021.²⁸

Fujifilm's successful pivot came from its adaptability, its willingness to think differently and innovate outside of the box, and its incentive structure to reward its top talent and management for accelerating its strategic pivot. Perhaps because it was a much scrappier #2 in the space, Fujifilm was able to escape the same innovator's dilemma that buried Kodak by applying its institutional knowledge and process power in parallel industries with large growth runaways and massive addressable markets with strong tailwinds. Importantly, Fujifilm's outward-looking management team was able to innovate its way out of ruin by looking beyond its own walls and embracing change, rather than trying to iterate on its current business model to stave off an inevitable death.

Nourishing Our Tidepool and Growing Our Moat

Long-term investing ultimately comes down to a simple question: What is your edge, and how will it endure? Our contention is that financial ratios capture only a moment in time from backward looking performance, whereas corporate culture captures the habits and behaviors that turn those moments into long-term future moat trajectories. Over time, it's trajectories—not snapshots—that drive returns.

The implication for investors is straightforward. A rigorous cultural assessment is not an optional "soft" overlay; it is central to judging whether a competitive advantage will strengthen or erode. Data and models set the stage for risk-reward expectations, but culture tells you how the story is probabilistically to unfold. By spending the time to understand how a company really works (e.g., the company's internal language, incentives, tolerance for honest debate and commitment to candor) we improve our odds of owning businesses that compound value through full market cycles.

On WCM's Focused International Equity team, we believe this is our edge, and that as long as we continue to relentlessly pursue our long-term goals of thinking differently and getting better, this edge will not only endure, but *strengthen*. We continue to believe that it is not our job to predict the next tide, but to

inspect the pools, testing whether their walls are built for either feast or famine, and ultimately using our moat trajectory and cultural frameworks to align ourselves with the best companies with the highest likelihood of delivering excess return in the future.

My son still thinks I'm a marine biologist, and in a way, I guess he's not wrong. In the end, we're both looking for ecosystems that can thrive when the tide goes out.

1 Source: Columbia Business School, Leap into the Void: How Digital Disruption Broke Kodak and Transformed Fuji, October 2019

2 Source: FactSet

3 Source: FactSet

4 Source: Los Angeles Times, Kodak's U.S. Film Sales Fall as Fuji Makes Gains, November 2000

5 Source: Fortune Magazine, May 1995

6 Source: Company Filings

7 Source: FactSet

8 Chart Source: FactSet

9 Kodak.com Photography History

10: Source: disposableamerica.org, Going Retro in the Age of Digital – Disposable America

11 Source: Wired, Kodak Sitting Pretty With Digital, June 14, 2000

12 Source: Company Filings

13 Source: CNN Money, Kodak Fortune, February 7, 2007

14 Source: Company Filings

15 Source: Diagnostic and Interventional Cardiology, January 9, 2007

16 Source: Knowledge at Wharton, What's Wrong with This Picture: Kodak's 30-year Slide into Bankruptcy, February 2012

17 Source: BBC, Kodak: From Brownie and roll film to digital disaster, January 2012

18 Source: ebrary.net, Kodak – From Great to Collapse – Lessons Learned from Hubris, Born of Success

19 Source: Innovating Out of Crisis: How Fujifilm Survived (and Thrived) As Its Core Business Was Vanishing

20 Source: FactSet

21 Source: Medium, Chapter 5. Innovating Out of a Crisis, September 2021

22 Source: Harvard Business School, Fujifilm: A Second Foundation.", Case 807-137, March 2007 (revised April 2007)

23 Source: Innovating Out of Crisis: How Fujifilm Survived (and Thrived) As Its Core Business Was Vanishing

24 Source: Fujifilm.com, 90 Year History

25: Source: FactSet

26 Source: FUJIFILM Biotechnologies, FUJIFILM Completes Acquisition of Merck Biomanufacturing Network, April 2011

27 Source: sonosite.com, Fujifilm Holdings Announces Agreement to Acquire Sonosite, Inc., August 2015

28 Source: FUJIFILM Press Release, Fujifilm to Acquire Hitachi's Diagnostic Imaging-Related Business to Accelerate Growth of Its Healthcare Business, December 2019

The views and opinions expressed in this commentary are as of the date indicated, for informational purposes only, are based on the opinions and beliefs of WCM's Research Team and are subject to change without notice based on market and other conditions. The specific companies or organizations identified may not represent the specific investments purchased, sold, or recommended for client accounts and are not investment recommendations. The reader should not assume that an investment in any security was or will be profitable.

The information presented reflects the views specific to certain WCM strategies and may not be applicable to all WCM investment strategies. Each investment strategy has its own unique objectives, risks, and approaches. This information is for general informational purposes only and should not be considered as a complete representation of all the firm's investment products or services.

Clients and prospective investors should carefully review the specific disclosures, offering documents, and investment objectives of any strategy prior to making investment decisions. Past performance is not indicative of future results, and all investments carry risk, including the potential loss of principal.

This website may contain hyperlinks to third party websites. Unless otherwise stated by WCM, references or descriptions of WCM, its employees, and/or services or products provided by such third parties do not constitute an endorsement of WCM. The content is an expression of third-party opinion, for information purposes only and should not be construed as investment advice or a recommendation to sell or buy any security or other investment or undertake any investment strategy. WCM also assumes no obligation to update any forward-looking information. WCM has not necessarily reviewed the third-party websites nor have control of such third parties or their associated websites. To the extent permitted by applicable law, WCM disclaims responsibility for their provided or advertised content, information, services, and products.