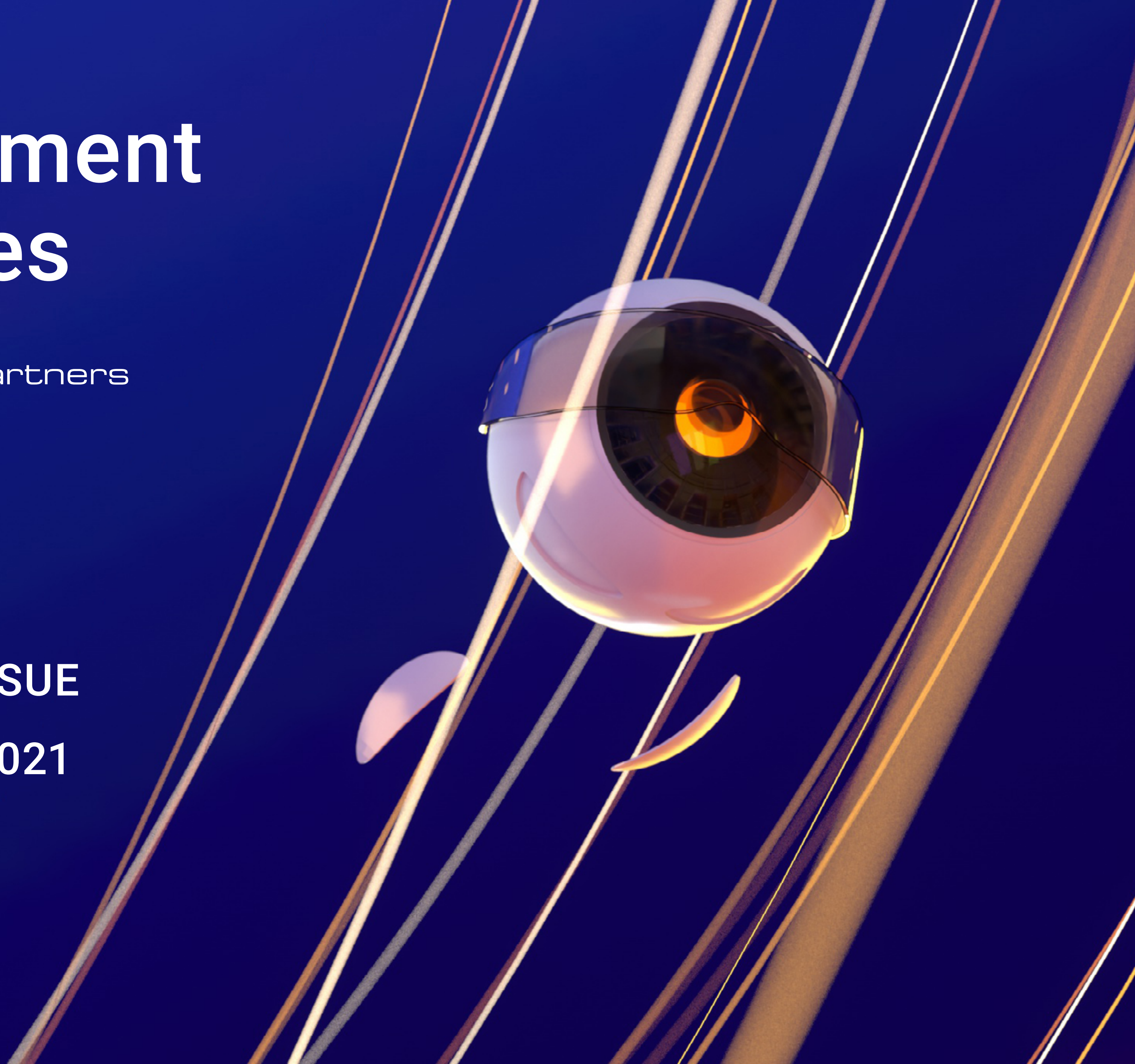
Investment Recipes

by AtonRā Partners



SPECIAL ISSUE

Top picks 2021

27 JANUARY 2021

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Editorial

Dear clients,

As we start yet another year, we remain faithful to our motto “Knowledgeable, Independent, Focused” and to our investment process, which remains very much conviction-driven. We also strive to be as transparent as possible about our process with our clients.

In the latest report, published 18 December 2020, we reviewed in detail each of the themes making up our investment universe. In this new special issue of Investment Recipes, we follow onto the same path and, according to what we identified as key thematic factors, delve into the individual stocks that, for each theme, are our strongest convictions for the year to come.

For each company, we present the key drivers behind our strong conviction and highlight the essential business and competitive features, as well as risks and catalysts.

We hope you enjoy the reading,

The AtonRâ Team

ADVANCED MICRO DEVICES
(AMD US)

Key drivers behind our strong conviction

An industry leader in the making

AMD remains amongst our top convictions also for 2021, as the company consistently grows into a high-performance computing powerhouse. Its long-term platform vision (accelerated heterogeneous computing) and the acquisition of Xilinx expanded AMD’s addressable market well beyond PCs.

- AMD leapfrogged competition to achieve leadership in cloud computing and may grow 5x its share of the expanding datacenter market.

Firing on all cylinders

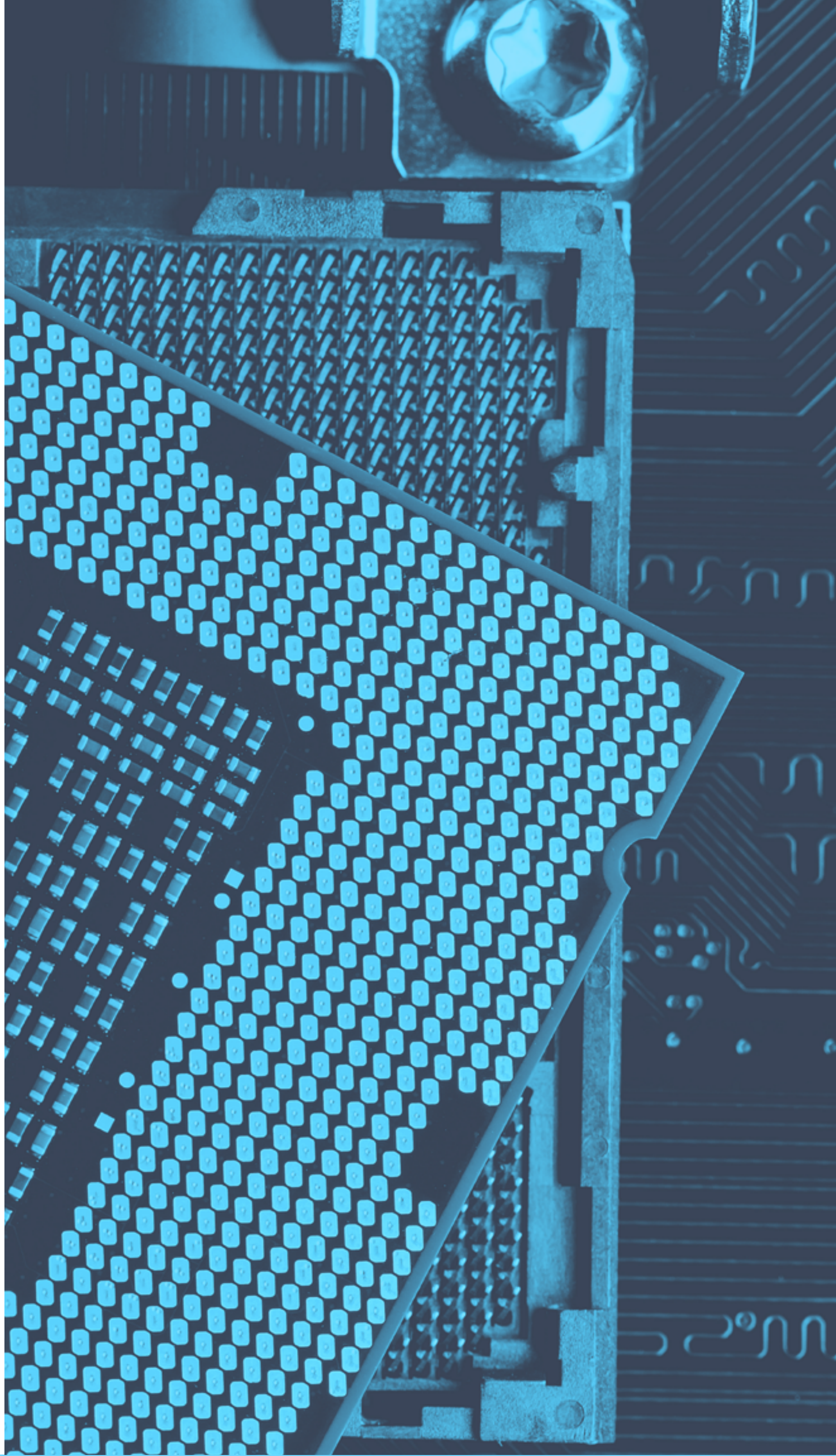
The company’s commercial momentum remains impressive as new product adoption is growing, and the company continues to gain market share.

- Gaming and augmented reality are driving opportunities for both computing platforms and semi-custom solutions (e.g., Sony, Microsoft).
- Intel is losing its monopoly in datacenters to the benefit of AMD as no other player can currently offer a full platform (microprocessor and AI accelerator).

Technological leadership

As we highlighted last year, AMD’s strategic decision to team with TSMC for silicon and packaging technologies enabled a winning roadmap. The chiplet strategy (a large chip is built out of multiple smaller dies), recently embraced by competitors, has been in production for years for both AMD and Xilinx, providing flexibility and reducing yield issues.

- AMD is to become the main customer for advanced products at TSMC, which provides a competitive edge vs. Intel (internal fab) and Nvidia (Samsung).



ADVANCED MICRO DEVICES
(AMD US)

About the company

Predictable execution

The company achieved an impressive turnaround under the leadership of Lisa Su. The financial performance of the company has consistently improved since 2016 when we first added AMD into our AI & Robotics portfolio.

- AMD has now the market-leading roadmap in high-performance computing (Zen, CDNA), and the unique ability to combine them for custom solutions.
- AMD is the only player with both leading microprocessors and production AI accelerators, gaining acceptance in datacenters and supercomputers.

Operational leverage

AMD's long-term vision has just started to materialize with the introduction of its new products. The company has secured leadership in computing, closed the gap with Nvidia in graphics processing, and offers leading integration/power efficiency.

- Partnerships to leverage R&D and COGS with TSMC for silicon technologies and with OEMs for gaming consoles as well as securing the hybrid cloud.
- Gaining share on higher-margin markets (datacenters, enthusiasts PC) and adding accretive Xilinx business.

New market opportunities

With the acquisition of Xilinx and leadership in heterogeneous integration, AMD will be able to address the whole AI & Robotics landscape.

- Leading data-centric and artificial intelligence accelerators (smartNIC and FPGAs for cloud, healthcare, autonomous vehicles, and so on).
- Foothold in 5G infrastructure, aerospace, defense and industrial automation.

in USD mn	2019	2020E	2021E	2022E
Revenue	6,731	9,544	12,205	14,574
Revenue Growth (%)	n.a.	41.79%	27.88%	19.41%
EBITDA (%)	11.96%	19.59%	22.25%	25.63%
EPS	0.40	1.23	1.80	2.43
Earnings Growth (%)	n.a.	205.55%	45.75%	34.83%
P/E	218.3x	71.4x	49.0x	36.4x
P/S	14.7x	11.1x	8.7x	7.3x
EV/EBITDA	65.9x	56.0x	38.5x	28.0x
PEG		0.35	1.07	1.04
Net Debt / EBITDA	-1.3x	-1.0x	-1.3x	-1.6x
FCF per share	0.049	0.079	0.134	0.126

Beta*: **1.45**	3Y Revenue CAGR: **29.4%**

Market Cap:	$106bn
Reference Price:	88.21 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

ADVANCED MICRO DEVICES
(AMD US)

Catalysts

- **Industry consolidation.** With fewer players in the power-efficient computing space (a key enabler of AI & robotics) and the strategic transitions being experienced by its competitors, AMD will be able to increase its lead.
- **High-performance computing.** With a lower total cost of ownership, a strong roadmap and the addition of Xilinx, AMD appears as the clear leader for datacenters and supercomputers in the next few years.
- **Technology edge.** Long-term partnership with TSMC is materializing as AMD is on its way to becoming the foundry's largest customer in early 2021, giving AMD access to the most advanced silicon and packaging technologies along priority manufacturing capabilities.

Risks

- **Industry inertia.** Intel has built a monopoly in datacenter and strongholds with many industry players. The company is still very strong despite recent turmoil and may defend its market share, slowing AMD's growth.
- **ARM microprocessors.** New microprocessors based on ARM RISC architecture for both computers and servers show impressive performances, challenging AMD's x86 approach.
- **Maintaining execution.** AMD impressive execution relies on a few partners and its ability to allocate well its R&D budget. Any glitch might have deep consequences, although competition is not immune to such challenges.

Bottom Line

- AMD is a key AI player as it enables high-performance and power efficient computing in all sectors. With the addition of Xilinx and its industry leadership in heterogeneous integration, AMD is growing as a key player in emerging markets like autonomous cars and industrial automation.
- AMD is addressing growing markets and gaining market share (especially in higher-margin markets). The company can grow its topline faster than the market and has significant operational leverage. The company's leadership team and its clear vision make us confident in the growth prospects and solid execution.

Companies mentioned in this article:

Intel (INTC US), Microsoft (MSFT US), Nvidia (NVDA US), Samsung (005930 KS), Sony (6758 JP), TSMC (2330 TT)

MARVELL TECHNOLOGY GROUP
(MRVL US)

Key drivers behind our strong conviction

Datacentres are striving for more capacity

As we wrote previously, the datacenter architecture is transforming itself as workloads become data-centric (AI) and the central processing is offloaded to accelerators. Marvell is uniquely positioned to address datacenter needs, from processing to storage to high-speed networking challenges.

- Marvell is the market leader for Data Processing Units (DPU) with more than 1mn DPU shipped, a $10bn opportunity by 2023 showing an +85% CAGR.
- It is a market leader also in merchant storage controllers and the Inphi acquisition is bringing datacenter key accounts and a fast-growth optical business.

Addressing the whole AI & Robotics

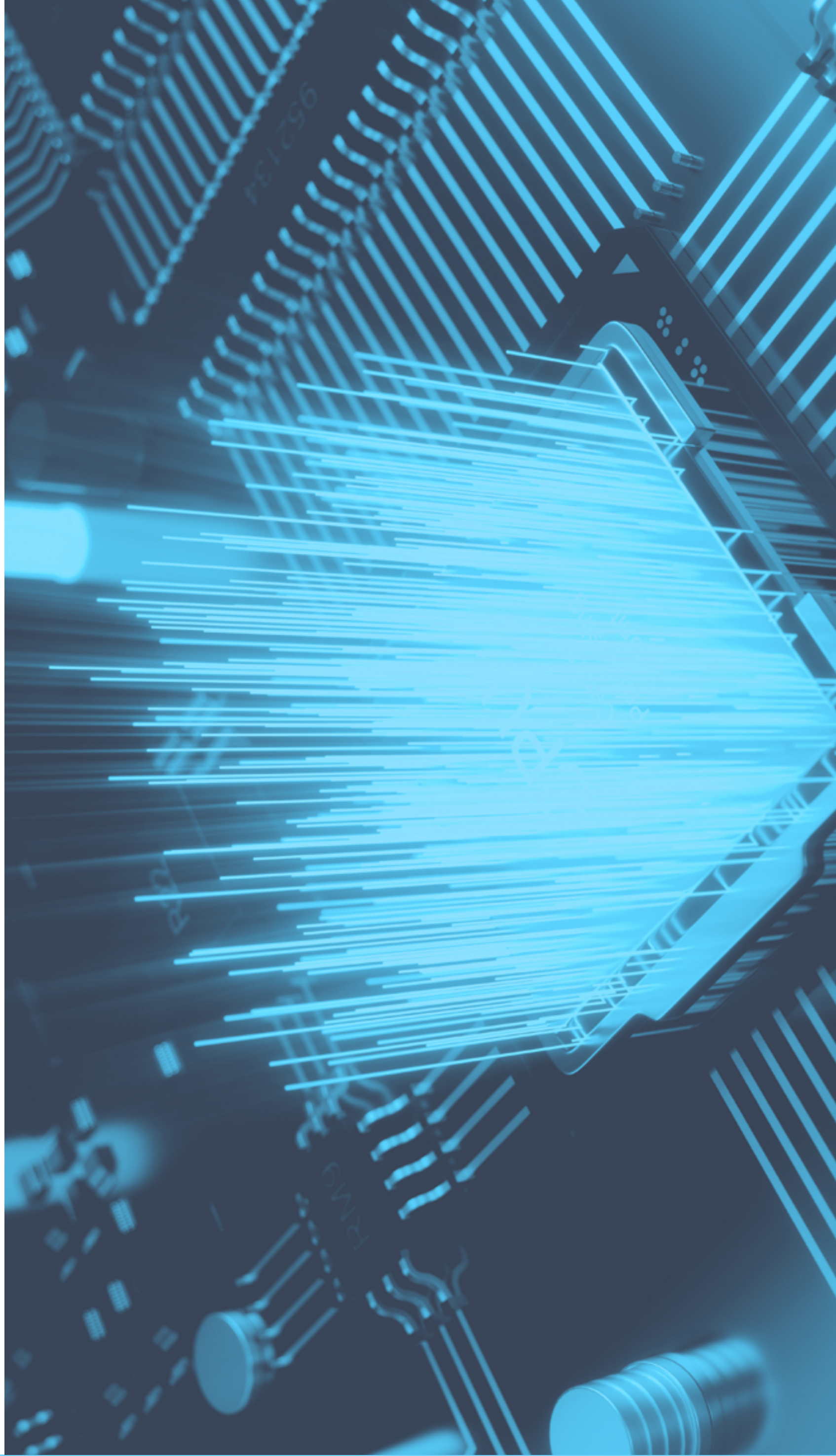
Marvell's business model leverages partnerships with companies looking for in-house leading-edge silicon products for AI, cloud, and industrial applications.

- In ASIC-as-a-Service it offers the most comprehensive custom design and high-performance processors (e.g. ARM-servers) on the most advanced TSMC node.
- Marvell is pioneering automotive ethernet, a key enabler of autonomous cars (a $1bn market opportunity for Marvell and long-term partnership model).

Large 5G opportunity only a matter of when

Marvell is a key enabler of Huawei's competitors (~70% of the 5G infrastructure market) and is uniquely positioned to benefit from the nascent Open and Virtual Radio Access Network (ORAN and VRAN).

- 5G is just starting, delayed by U.S./China tensions and lack of terminals.
- Marvell offers both standard and semi-custom 5G base station chips, scoring major design wins with Samsung and Nokia for platform solutions.



MARVELL TECHNOLOGY GROUP
(MRVL US)

About the company

A new Marvell

The 35-year-old company has gone through a massive overhaul since Matt Murphy's arrival in 2016 and has the highest R&D to sales ratio in the industry. As a result, it was added to the NASDAQ-100 index on 21 December 2020.

- The industry leader for data processors aimed at storing, securing, and moving data – building on a solid track record for storage and communication.
- The industry leader for leading-edge custom chips (integrating customer intellectual property) for 5G, processing, and high-speed networking.

Platform leadership

Marvell is amongst the few companies delivering a 5nm platform for portfolio-wide leadership and has built a leading data-infrastructure portfolio.

- #1 market position in baseband and data-plane processors, security processors, hard drive, and solid-state drive controllers and fiber channel.
- #2 market position in networking switches and physical layer (PHY) integrated circuits.

Customer partnerships

Marvell is focused on high-growth, AI-driven data infrastructure markets, and its business model relies on close collaboration with its customers.

- Marvell customers usually co-invest funding R&D and securing long-term relationships.
- Marvell is engaged with several data center and automotive manufacturers to develop custom AI ASICs and is enabling AWS competitors (e.g., Microsoft) with their in-house vertical ARM processors.

in USD mn	2019	2020E	2021E	2022E
Revenue	2,699	2,958	3,476	3,976
Revenue Growth (%)	n.a.	9.58%	17.53%	14.38%
EBITDA (%)	14.46%	27.71%	32.05%	34.29%
EPS	1.39	0.92	1.37	1.79
Earnings Growth (%)	n.a.	-33.66%	48.67%	30.35%
P/E	36.4x	54.9x	36.9x	28.3x
P/S	12.7x	11.5x	9.8x	8.6x
EV/EBITDA	42.9x	42.2x	31.1x	25.4x
PEG		n.m.	0.76	0.93
Net Debt / EBITDA	2.0x	0.7x	-0.3x	-1.0x
FCF per share	0.690	0.199	0.239	0.308

Beta*: **1.27**	3Y Rev CAGR: **13.8%**

Market Cap:	$34bn
Reference Price:	50.77 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

MARVELL TECHNOLOGY GROUP
(MRVL US)

Catalysts

- **A 5G roll-out winner.** Marvell is partnering with all Huawei competitors and will directly benefit from the 5G infrastructure acceleration. We believe it is also a key player of the emerging Open RAN and Virtual RAN 5G markets.
- **Datacenter evolution.** Marvell has repositioned itself as a key enabler of data-centric and security accelerators for the cloud, building on a historically strong position in networking and storage. Inphi's addition reinforces the company's competitive edge in the datacenter market.
- **Custom silicon opportunities.** Marvell's culture and breadth of intellectual property make it a partner of choice for cloud and communication players for their custom vertical products, with a design pipeline just starting to materialize.

Risks

- **Competing with powerhouses.** Marvell is competing with much larger companies (such as Intel, Broadcom, or Amazon) albeit leveraging a much higher R&D to sales ratio and a different business model.
- **Market consolidation.** Marvell is focused on concentrated markets (hyperscale datacentres, communication infrastructure, storage, and automotive) and cannot be a one-stop-shop.
- **Delayed infrastructure investment.** Marvell is very exposed to capital infrastructure spending and its customers' timelines, focusing on early-stage roll-out (5G, optical networks, automotive ethernet) – hence could experience cyclicality and macro headwinds.

Bottom Line

- Marvell has gone through a deep transformation in the last few years and has firmly refocused on fast-growing AI-related themes. The company is an emerging leader, challenging legacy technologies in the data infrastructure market, and will benefit from the massive 5G infrastructure roll-out, and hyperscale datacenter growth.
- Marvell is uniquely positioned to capture value as a partner for in-house silicon (e.g., ARM servers and AI accelerators) and leverage its historical leading market positions in networking, storage, and high-speed data interfaces in new markets (e.g., automotive). We believe the company's vision and leadership team could ignite a revival story à la AMD.

Companies mentioned in this article:

Amazon (AMZN US), Broadcom (AVGO US), Huawei (not listed), Intel (INTC US), TSMC (2330 TT)

SNOWFLAKE
(SNOW US)

Key drivers behind our strong conviction

A unique central position

Snowflake is the only cloud-based data warehouse provider with a neutral position (cloud agnostic), and a pioneer in separating storage from computing costs, positioning the company for the rise of hybrid and multi-cloud.

- In 2020, ~80% of AWS, Google, and Azure accounts planned to spend more on Snowflake, highlighting its market-fit positioning.
- This unique positioning helps maximize market-share gains in a huge market (est. >$60bn over the next 5 years) by leveraging cloud agreement pricing.

A first-mover advantage in data exchange

Snowflakes is the first platform to enable seamless and real-time data sharing outside of the organization, resulting in a de-facto marketplace.

- This feature allows major operating synergies as data can be managed and monetized through a marketplace and interconnected through the supply chain.
- It also creates additional barriers to competition as the number of customers and data providers grow on the platform.

Strapped onto a rocket

Data analytics is critical to business decisions. This trend fuels Snowflake's explosive revenue growth, which the company combines with flawless execution.

- Growth rate reached 174% in FY2020, and FY2021 is expected at >100%, as customers' average return on investment (ROI) was >600% over 3 years.
- Snowflake's net retention rate of 158% set a record among cloud companies.

SOURCE:
Company estimates and reporting, theCUBE - Competition Heats up for Cloud Analytic Databases, 2020 Forrester TEI Study, Prescient & Strategic Intelligence, Coherent Market Insights

SNOWFLAKE
(SNOW US)

About the company

Snowflake: a virtual data warehouse

Data warehouses are used to access and run queries on unified datasets. They allow to lower operatio l costs and accelerate analytics, hence decisions.
- Data warehouses allow aggregating multiple sources of data (structured and unstructured, serving both legacy and Internet-of-Things needs).
- Snowflake's offering is compatible with major database management systems (e.g., Oracle, SQL) and cloud providers (e.g., Amazon, Azure, Google).

Core architecture advantage

Snowflake's architecture decouples compute and storage, allowing to scale independently of any cloud provider and to massively parallelize tasks, with different nodes working securely on different parts of the data in the cluster.
- Pioneering a multi-cluster architecture built from a single-cluster database, so tasks can run independently faster and with fewer errors on the same data.
- Based on proprietary relational-database engines optimized for data analytics (columnar database) and security (built-in HIPAA compliance).

Outstanding value proposition

Snowflake's business model is consumption-based (products), enabling customers to better manage their costs. Snowflakes' data architecture abstracts complexity, limiting wasted prepping, balancing, tuning, and monitoring.
- No need for database administrators, no under- or over-provisioning.
- Snowflake is multi-cloud and API-based (application programming interface), providing an easy way to create best-of-breed solutions at a minimal cost.

in USD mn	2019	2020E	2021E	2022E
Revenue	265	579	1,095	1,788
Revenue Growth (%)	n.a.	118.86%	88.90%	63.35%
EBITDA (%)	-133.93%	-38.18%	-22.02%	-9.88%
EPS	-1.26	-0.92	-0.86	-0.77
Earnings Growth (%)	n.a.	n.m.	n.m.	n.m.
P/E	n.m.	n.m.	n.m.	n.m.
P/S	304.4x	142.3x	75.3x	46.1x
EV/EBITDA		n.a.	n.a.	n.a.
PEG		n.m.	n.m.	n.m.
Net Debt / EBITDA	1.2x	20.2x	18.1x	25.0x
FCF per share	-1.389	-20.775	-1.058	0.025

Beta*: **0.85**	3Y Revenue CAGR: **89.0%**

Market Cap:	$82bn
Reference Price:	291.30 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

SNOWFLAKE
(SNOW US)

Catalysts

- **Accelerated cloudification.** Businesses were already transitioning to the cloud, Covid-19 accelerated the trend, resulting in a significant expansion of Snowflake's addressable market (hybrid and multi-cloud).
- **Rise of multi-cloud.** Companies do not want to put all their eggs in the same basket, i.e., work with only one cloud provider. They are therefore likely to look for neutral suppliers, hence Snowflake.
- **Additional integration.** Snowflake's ultimate goal is to achieve scale where it can monetize the collective network effect of its users and the integration of external solutions.

Risks

- **Big-tech competition.** Google, Amazon, and Microsoft could bridge the gap in terms of quality of service and leverage their position in the cloud, especially Amazon (Snowflake's biggest cloud provider) through its Redshift offering.
- **End of lockup period.** Expiring on 15 March 2021 at the latest, it may negatively impact the stock. To be noted, the stock had a positive reaction on the lockup early-end day (7 January 2021).
- **Valuation.** Very demanding multiples leave little room for execution mistakes, especially in a context of gross margins weaker than normal for software companies due to costs incurred with cloud-providers.

Bottom Line

- Snowflake has a unique proposition in data warehouses, poised to capture a big share of cloud revenues. With an agnostic, cost-efficient, and best-of-breed positioning, it maximizes its exposure to the business transition to the cloud and is prepared for the multi-cloud era (with best-in-class performance and security).
- Although trading on demanding multiples and not being profitable yet, the company benefits from tremendous growth rates and may be able to carve its own segment between the major cloud providers, leveraging its cloud-agnostic approach and network effects.

Companies mentioned in this article:

Amazon (AMZN US), Google (GOOGL US), Microsoft (MSFT US), Oracle (ORCL US)

GUARDANT HEALTH
(GH US)

Key drivers behind our strong conviction

A significant and fast-growing market opportunity

Liquid biopsy has the potential to revolutionize the clinical practice, allowing it to detect early-stage cancer, follow its progression during drug therapy, select a personalized treatment, and more. It offers non-invasiveness and avoids the patient complications associated with conventional tissue biopsies.

- Liquid biopsy is one of the fastest-growing markets of our Bionics' investment universe, growing at a CAGR of 33% by 2025.
- The total U.S. addressable market is estimated up to $130bn by 2035.

Leveraging progress

The liquid biopsy space is experiencing significant clinical, technological, and regulatory progress, resulting in increased reimbursements, a key driver for the industry.

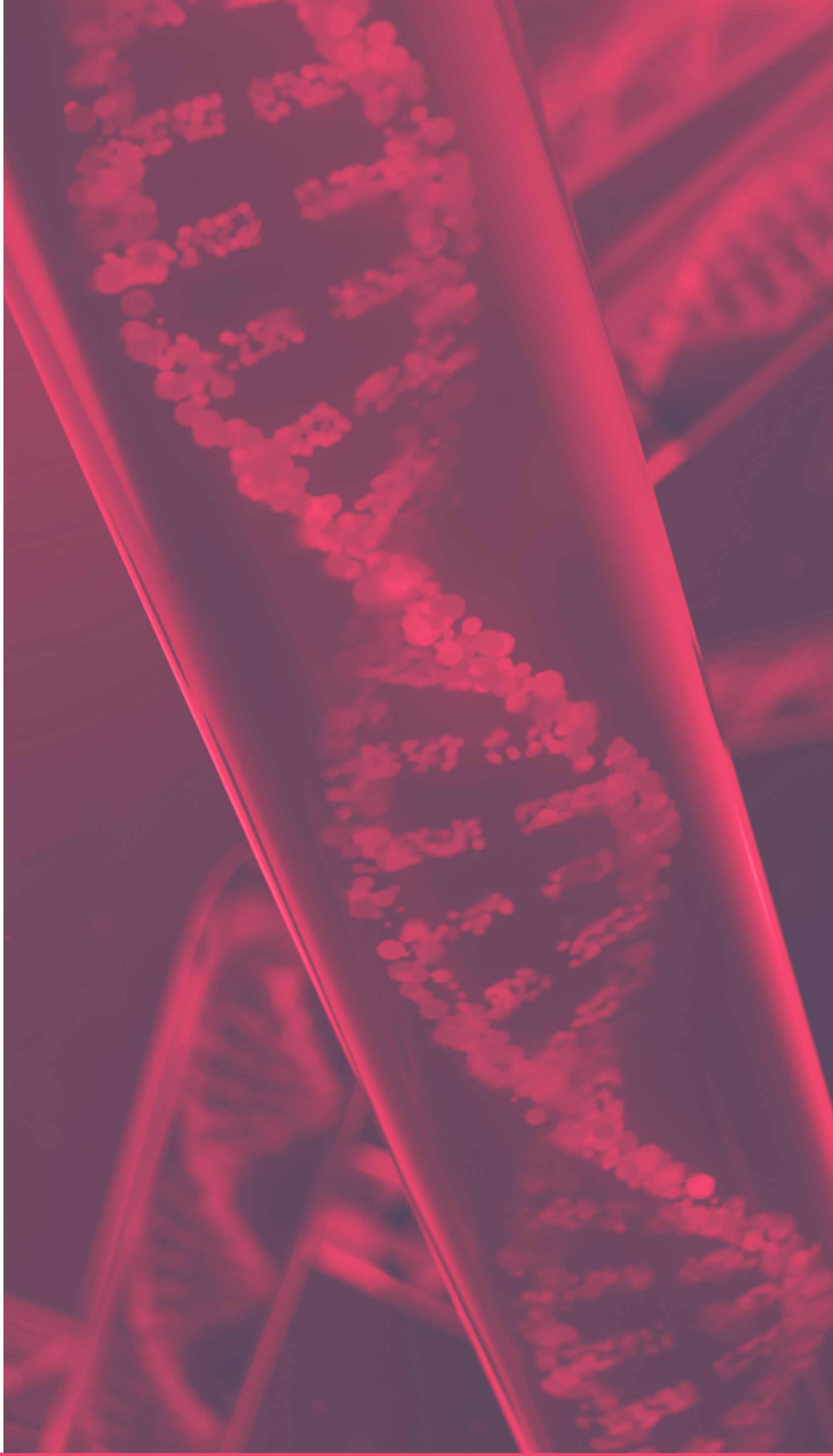
- The Centers for Medicare and Medicaid Services (CMS) offers national coverage to FDA-approved next-generation sequencing (NGS) tests for advanced stages of cancer as well as early-stage breast and ovarian cancers.
- CMS has proposed a coverage policy for blood-based colorectal cancer tests.

Approved products hitting the market

Liquid biopsy tests are no longer a starry-eyed vision of the future. Several products are now commercialized or are nearing commercialization. Guardant Health is the current leader in the liquid biopsy market for therapeutic selection.

- As FDA approves more and more targeted therapies, liquid biopsy for therapeutic selection stands to benefit in the long term.
- Guardant Health's products have already been adopted by >7'000 oncologists and 60 biopharma companies.

SOURCE:
Global Liquid Biopsy Market Size 2018



GUARDANT HEALTH
(GH US)

About the company

FDA approval a key driver

In 2020, the FDA approved Guardant360, making it the first FDA approved liquid biopsy test that uses NGS technology. The approval is an important catalyst as it allows the test to be reimbursed under the existing CMS national coverage determination.

- Guardant has now access to more than 200mn people with medical coverage.
- CMS coverage accelerates private payer coverage, increases clinical adoption, attracts more collaborators, and could potentially lead to price increases.

Guardant360: the flagship product

Guardant360 identifies patients with metastatic non-small cell lung cancer (NSCLC) who may benefit from AstraZeneca's lung cancer drugs Tagrisso and Imfinzi. The test is being studied as a companion diagnostic for other oncology drugs, and the company is opening its first labs in Japan and the E.U.

- The addressable market for therapeutic selection is estimated to be ~$6bn annually in the U.S. alone.
- Top-line 5Y CAGR (2020-2025) is estimated to be ~30%.

Lunar 1 and 2 may offer long-term visibility

Guardant Health is developing Lunar-1 and Lunar-2 assays, for recurrence monitoring and early detection of different types of cancer in asymptomatic and high-risk individuals. Test performance is being boosted by including genomic, epigenomic and biologic signatures.

- Total U.S. addressable market for Lunar-1 and Lunar-2 is more than $50bn.

SOURCE:
J.P. MorganHealthcare ConferenceJanuary 11, 2021

GUARDANT

in USD mn	2019	2020E	2021E	2022E
Revenue	214	285	377	507
Revenue Growth (%)	n.a.	32.87%	32.38%	34.44%
EBITDA (%)	-33.10%	-69.68%	-40.55%	-18.66%
EPS	-0.84	-2.21	-1.62	-1.08
Earnings Growth (%)	n.a.	n.m.	n.m.	n.m.
P/E	n.m.	n.m.	n.m.	n.m.
P/S	67.3x	55.9x	42.2x	31.4x
EV/EBITDA		n.a.	n.a.	n.a.
PEG		n.m.	n.m.	n.m.
Net Debt / EBITDA	7.4x	6.6x	7.7x	11.9x
FCF per share	-0.362			

Beta*: **0.72**	3Y Revenue CAGR: **33.2%**

Market Cap:	$16bn
Reference Price:	159.29 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

GUARDANT HEALTH
(GH US)

Catalysts

- **New product launches.** Guardant360 has been submitted to the FDA as a companion diagnostic in collaboration with Amgen and Janssen Biotech. GuardantREVEAL is expected to launch in 1Q21 for colorectal cancer recurrence monitoring.
- **Clinical milestones.** The company expects primary completion of the NSCLC recurrence study and results for Colorectal cancer (ECLIPSE trials) in 2021.
- **M&A.** Guardant has a strong balance sheet ($2bn cash) that can be deployed for M&A, R&D, and sales marketing.

Risks

- **Competition intensifying.** In an increasingly crowded market, Guardant needs to invest considerable resources to remain ahead of the competition.
- **Long timeline.** The Lunar programs could take a long time to generate the clinical data to support guideline inclusion, broad reimbursement, clinical adoption, and FDA approval.
- **Disappointing clinical results.** Solid clinical data are key for test adoption. Any missteps could open the door to competitors.

Bottom Line

- Liquid biopsy space is part of our top convictions for 2021, supported by a favorable reimbursement landscape and fast technological progress. With increasing opportunities to invest in the liquid biopsy market, our portfolio has exposure across all sub-sectors (asymptomatic screening, therapeutic selection, recurrence monitoring, etc.), including enabling technologies (sequencing).
- Guardant Health remains our top pick in the space. The pandemic decelerated the company's 2020 top-line growth. However, 2021 is slated for a recovery, driven by increased reimbursement and pricing. The Lunar programs continue to show encouraging results and, going ahead, may open a large market opportunity.

Companies mentioned in this article:

AstraZeneca (AZN US), Amgen (AMGN US), Janssen Biotech (not listed)

INSULET
(PODD US)

Key drivers behind our strong conviction

Tubeless insulin pumps opportunity still ahead

Tubeless insulin pumps are small patches stuck onto the skin that connects wirelessly to a mobile device to control and deliver insulin dosages for diabetic patients. The device represents an attractive alternative to multiple daily injections (MDI) and even conventional pumps, as they do not require any needle insertion.

- Today, 95% of the global market is covered through MDI.
- Tubeless insulin pump sales are expected to reach ~$2.5bn by 2025, with a 24% 5Y CAGR.

An overwhelming proportion of Type 2 diabetes patients

Insulin pumps generally target Type 1 diabetes. However, tubeless insulin pumps, given their simple form, are gaining traction among Type 2 diabetes, thus expanding their total market opportunity.

- >34mn people in the U.S. suffer from diabetes, of which ~90–95% have Type 2.

The undisputed leader

Insulet is the global leader in this space, with its Omnipod System, which continues to gain market share from the MDI regimen. The growth has been boosted by a higher penetration in the Type 2 population, higher reimbursement coverage, and easier access through the pharmacy channel.

- ~80% of new Omnipod users come from the MDI regimen.
- Insurance coverage by health plans (including Medicare Part D) has been expanding since 2018.

SOURCE:
Tubeless Insulin Pump (...) Industry Analysis Report, Country Outlook, Application Potential, Price Trends, Competitive Market Share & Forecast, 2019 – 2025, Image: Epam Continuum

INSULET
(PODD US)

About the company

Omnipod DASH: the flagship product

Insulet develops the Omnipod DASH, a tubeless, waterproof, insulin pump. Despite the Covid-19 pandemic, the company has been able to deliver solid growth during 2020 and continues to expand its manufacturing capacity in the U.S. and China.

- YoY revenue growth guidance for FY20 stands in the range of 20–21%.
- The company remains on track to reach its 2021 target of $1bn revenues, with gross margins between 67%–70% (vs. 64.9% in 2020).

Pharmacy channel boosting adoption

Omnipod DASH adoption has been supported by broad availability across pharmacy channels, driving a higher penetration in the Type 2 population, and Insulet is working on a new device designed specifically for them.

- Omnipod DASH is reimbursed through Medicare Part D and is available with zero upfront cost. People only pay for insulin pods, which last up to 3 days.
- In Q3 2020, >30% of Insulet's new U.S. customers were people with Type 2 diabetes.

Artificial pancreas: the next catalysts

Insulet's first closed-loop system (i.e., artificial pancreas), called Omnipod 5, is expected to be released in H1 2021. The system will be connected to a continuous glucose monitor (CGM) and automatically adjust insulin delivery.

- Dexcom and Abbott will combine their CGM systems with Omnipod 5.
- Omnipod 5 will be controlled directly via a smartphone.

SOURCE:
Tubeless Insulin Pump (...) Industry Analysis Report, Country Outlook, Application Potential, Price Trends, Competitive Market Share & Forecast, 2019 – 2025

Insulet Corporation

in USD mn	2019	2020E	2021E	2022E
Revenue	738	892	1,042	1,240
Revenue Growth (%)	n.a.	20.81%	16.83%	19.06%
EBITDA (%)	10.55%	11.95%	16.45%	20.41%
EPS	0.31	0.35	1.10	1.96
Earnings Growth (%)	n.a.	13.46%	215.46%	78.78%
P/E	918.1x	809.2x	256.5x	143.5x
P/S	23.7x	20.8x	17.8x	14.9x
EV/EBITDA	144.4x	174.3x	108.3x	73.4x
PEG		60.13	1.19	1.82
Net Debt / EBITDA	6.6x	1.5x	1.0x	0.6x
FCF per share	-0.178	0.001	0.046	0.187

Beta*: 1.06 | **3Y Revenue CAGR: 18.9%**

Market Cap:	$19bn
Reference Price:	281.2 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

INSULET
(PODD US)

Catalysts

- **FDA approval of the artificial pancreas.** Insulet expects to launch Omnipod 5 in H1 2021. Omnipod 5 has already received the Breakthrough Device designation from the FDA, which may enable immediate Medicare reimbursement.
- **Pharmacy channel.** Increased access across the pharmacy channels is a key driver for adoption.
- **International development.** In 2020, Insulet has entered 5 new markets and expects to continue to expand its international reach and manufacturing capacity.

Risks

- **FDA denial.** If the FDA decides to refuse approval of the Omnipod 5, Insulet's business could be negatively affected.
- **Fierce competition.** 2021 insulin pump market is expected to be a more competitive environment, and Beta Bionics plans to submit its fully automated system, iLet, directly competing with Insulet's.
- **Technology malfunctioning.** Software issues causing the system to work improperly carry a high reputational risk, given the importance of Insulet's trustworthiness to maintain its market leadership.

Bottom Line

- The tubeless insulin pumps market is part of our top convictions for 2021. The sector's growth continues to be driven by penetration in the traditional multiple daily injections regimen and adoption by Type 2 diabetes population.
- Due to its focus on device simplification, we believe Insulet is uniquely positioned to maintain significant growth for both top and bottom line, driven by broader public access through the pharmacy channel, expanded geographical reach, and the launch of its first artificial pancreas, Omnipod 5. The latter may represent a significant commercial tailwind for the company, as the device is set to receive immediate Medicare reimbursement upon FDA approval.

Companies mentioned in this article:

Abbott (ABT US), Beta Bionics (not listed), Dexcom (DXCM US)

NOVOCURE
(NVCR US)

Key drivers behind our strong conviction

Cancer treatment demand still underserved

Tumor Treating Field (TTF) therapy, developed by Novocure, is a new approach to cure a wide range of solid tumors based on a portable generator that turns an electric field to specific frequencies, inhibiting cell division and thus cancer growth.

- Annually, almost 10mn people die from cancer, nearly 600k in the U.S. alone.
- TTF has the potential to improve survival rates of a wide range of solid tumors, alone as well as in combination with current standard-of-care treatments.

An already significant addressable market

TTF has already been approved in the E.U., Japan, the U.S., and China for recurrent and newly diagnosed glioblastoma (GBM), the most common stage 4 brain cancer in adults, and mesothelioma (MPM), an aggressive and rare form of lung cancer. The approach is also being studied for forms of lung, ovarian, liver, and gastric cancers, as well as brain metastases.

- With over 60k new cases of GBM per year, this indication alone represents a >$16bn market opportunity by 2025.
- Late-stage pipeline may drive an >20x increase in the total addressable market.

Reimbursement expansion driving adoption

Despite a steep price, TTF continues to be validated by clinical data, and payers' coverage is expanding, driving adoption.

- Novocure's Optune is priced at $21'000 per month.
- In 2020, TTF for newly diagnosed GBM has received favorable national reimbursement decisions in the U.S., Switzerland, Germany, Japan, and more.

SOURCE:
Image: Novocure, Company's 3Q results, Novocure Reports Third Quarter 2019

NOVOCURE
(NVCR US)

About the company

A monopolistic position

Novocure holds the monopoly of this rapidly emerging technology. New partnerships and excellent results are validating the approach, driving fast-growing sales.
- Revenue 5Y CAGR is around 20%.
- Today more than 18k patients have already been treated with TTF Therapy.

Partnerships are validating the approach

Novocure has recently signed a deal with Merck to test TTF in combination with Keytruda (Merck's blockbuster anti-PD1 immune checkpoint inhibitor drug) as first-line therapy in advanced NSCLC, potentially unlocking a large market.
- The partnership is built upon the clinical studies showing a significant increase in efficacy when the two treatments are used in combination.
- A 66-patient Phase 2 trial will evaluate the tumor size reduction and survival rate.

Several catalysts on the horizon

Novocure's Optune is under investigation for six other indications, with the potential to significantly expand its potential market. Several critical data readouts are expected for 2021 and beyond, which should attract investors' attention in the coming months.
- Final data of phase 2 pilot trials in liver and gastric cancers are expected for 2021.
- Also in 2021, the interim analysis of phase 3 trials in NSCLC, pancreatic, and ovarian cancer should be released.

in USD mn	2019	2020E	2021E	2022E
Revenue	351	484	571	662
Revenue Growth (%)	n.a.	37.87%	17.95%	15.87%
EBITDA (%)	2.15%	23.51%	25.90%	29.98%
EPS	-0.07	0.23	0.43	0.66
Earnings Growth (%)	n.a.	n.m.	89.38%	54.03%
P/E	n.m.	735.6x	388.4x	252.2x
P/S	46.4x	35.2x	29.9x	25.8x
EV/EBITDA	1088.1x	147.7x	113.7x	84.8x
PEG		n.m.	4.35	4.67
Net Debt / EBITDA	-23.4x	-1.7x	-2.1x	-2.4x
FCF per share	-0.026			

Beta*: 1.14	3Y Revenue CAGR: 23.5%

Market Cap:	$17bn
Reference Price:	167.55 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

NOVOCURE
(NVCR US)

Catalysts

- **Data from clinical studies in new indications.** The TTF approach is being extended to new indications. Four indications (liver, pancreatic, ovarian, and brain metastatic cancer) are in the late stage of development.
- **An open door to Chinese opportunity.** In 2020 Novocure, through Zai Lab, launched Optune for GBM in China, and expects to start clinical trials for new indications by early 2021.
- **Increased average duration of the therapy.** The company is working on new studies that support the extended use of the therapy. This may increase the efficacy of the treatment (overall survival) and ultimately the revenue per patient.

Risks

- **Reliance on Optune for GBM.** If Novocure is unable to expand its addressable market through the regulatory approval of new indications or successfully commercialize its current and future products, its business case could be severely harmed.
- **High price & reimbursement uncertainties.** Given the high price of the device, the company needs solid clinical data to ensure coverage from insurance companies is maintained.
- **Competition and new disruptive treatments.** The oncology space is highly competitive and several MedTech, biotech, and pharma companies are currently spending significant resources to find new groundbreaking treatments.

Bottom Line

- TTF therapy addresses cancer indications with highly unmet needs. The approach continues to be validated by clinical data and new partnerships, driving acceptance and payer coverage in the right direction. Novocure, the de-facto monopolist in this space, is benefiting through strong top-line growth and healthy margins.
- Our Bionics portfolio is exposed to several innovative interventional mini-invasive solutions, that promise to disrupt the oncology and cardiovascular space, of which TTF Therapy is a top conviction for 2021.

Companies mentioned in this article:

Zai Lab (ZLAB US), Merck (MRK US)

INNOVENT BIOLOGICS
(1801 HK)

Key drivers behind our strong conviction

Largest oncology market

China is the single largest oncology market in the world (in terms of patient numbers) and it is estimated that 55% of global cancer incidence across various tumors are in China. Immunotherapy, the backbone of novel cancer treatments, is one of the fastest-growing segments in China's biologics market.

- China's biologics market is expected to record a 19% CAGR through 2025.
- PD-1 drugs/checkpoint inhibitors*, Innovent's immunotherapy focus, is currently a $2bn market assuming a mere 10% penetration rate.

Multiple and diversified growth opportunities

Chinese government reforms (including "Made in China 2025") aim at increasing R&D spend, affordability, and regulatory efficiency, in the end supporting innovative drugmakers. Given its centralized healthcare system, affordability plays a key role in significant patient uptake, making biosimilars a focus area. Innovent is well-positioned to capitalize on these growth opportunities.

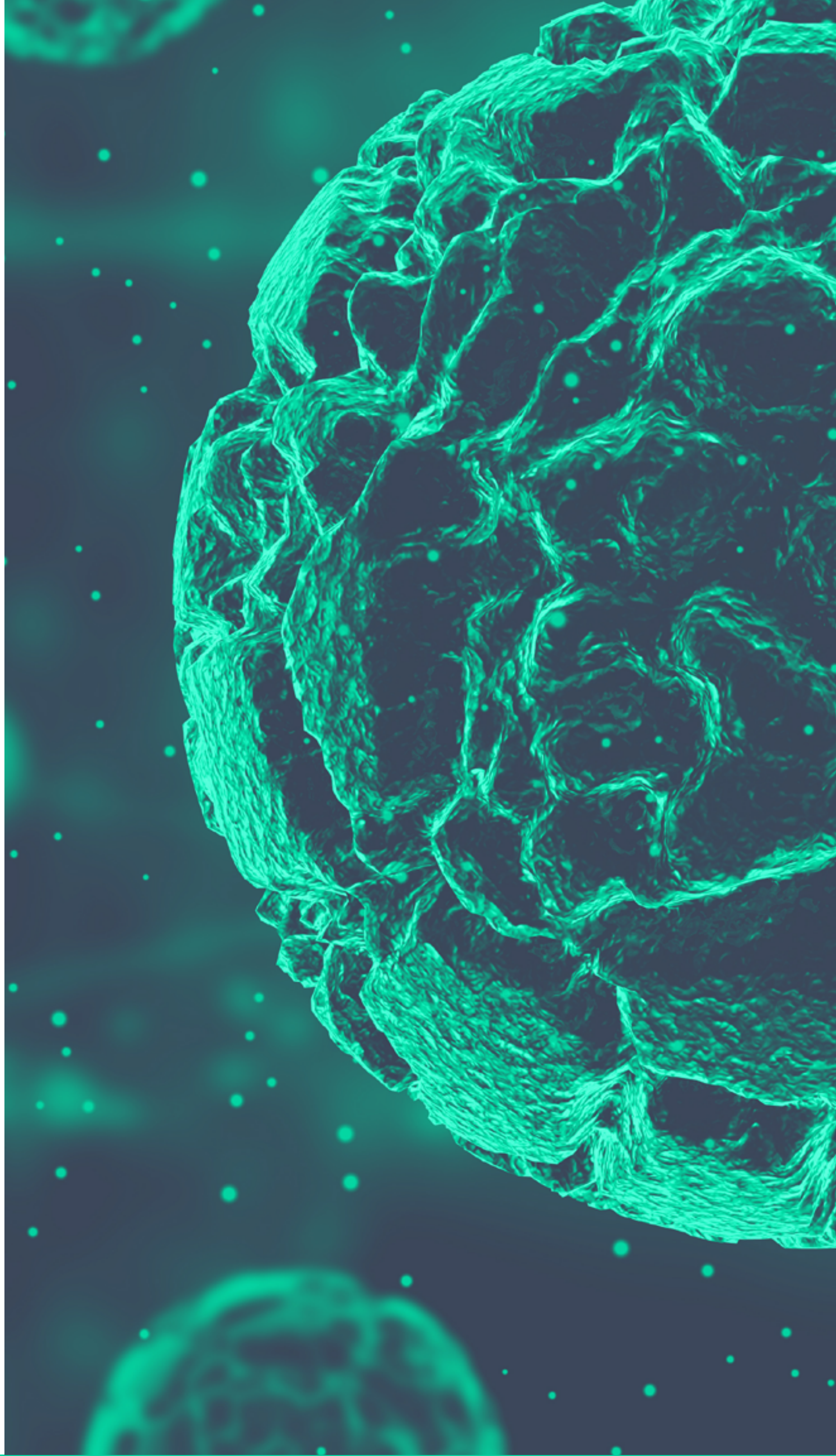
- Chinese biosimilars market is growing at 25% CAGR "en route" to become the largest in the world within the next 5 years.

Strategy cross-vertical validation

The company's collaborations span across technologies, therapeutic areas, and geographic focus.

- Lilly in-licensed TYVYT for global commercialization in a >$1bn deal, underscoring the impressive clinical profile and significant opportunity outside China.
- R&D and marketing partnerships with leading global players include Roche and Incyte, as well as with Coherus on biosimilars.

*Checkpoint inhibitors (such as Keytruda and Opdivo) work by making the cancer visible to the immune system and are currently the largest selling drugs in Oncology.



INNOVENT BIOLOGICS
(1801 HK)

About the company

Capturing the comprehensive scope of China's biotech opportunity

Innovent has one the most fully integrated, innovative, and robust drug development platforms across the Chinese biotech space. Innovent's strategy is to develop best-in-class drugs at the same time for China and global commercialization.

- Platform includes novel drugs and biosimilars, covering a large scope of therapeutic areas (including oncology, metabolic, and immunology), both wholly-owned and in-licensed agents.

At the forefront of medical innovation

The company's pipeline encompasses world-class novel therapeutic pathways and tissue-targeting technologies. With core competencies in monoclonal antibodies, Innovent selectively focuses on several next-gen technologies including multi-specific antibodies, antibody-drug conjugates, and cell therapies.

- The company's drug TYVYT was the first local PD-1 to get NMPA approval and coverage, and in 1H 2020 it showed 177% YoY growth with additional indications waiting for approval.

Strategic positioning and commercial leverage

With clinical and regulatory capabilities in China and globally, the company is strategically positioning its clinical assets through different territories to either differentiate in efficacy, time to market, or pricing. Upcoming launches will leverage a strong commercial footprint for both presence and costs.

- TYVYT could potentially differentiate on pricing, via the Lilly collaboration
- Given the lower R&D costs to date, CD-47 agents could be first to market in China.
- Company has already a 1'100 sales and marketing headcount.

in USD mn	2019	2020E	2021E	2022E
Revenue	150	481	676	1,050
Revenue Growth (%)	n.a.	219.88%	40.52%	55.27%
EBITDA (%)	-161.51%	-169.17%	-138.49%	-16.17%
EPS	-1.46	-0.50	-0.71	-0.15
Earnings Growth (%)	n.a.	n.m.	n.m.	n.m.
P/E	n.m.	n.m.	n.m.	n.m.
P/S	95.4x	35.5x	25.3x	16.3x
EV/EBITDA		n.a.	n.a.	n.a.
PEG		n.m.	n.m.	n.m.
Net Debt / EBITDA	2.3x	5.8x	3.8x	19.2x
FCF per share	-13.288			

Beta*: **0.73**	3Y Revenue CAGR: **91.1%**

Market Cap:	$17bn
Reference Price:	95.25 HKD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

INNOVENT BIOLOGICS
(1801 HK)

Catalysts

- **Label Expansion.** Approval of TYVYT in front-line squamous and non-squamous Non-Small Cell Lung Cancer (the largest PD-1 opportunity) is expected this year.
- **Future pipeline validation.** More than 10 phase 1/2 readouts are expected across early-stage pipeline for CD-47, TIGIT and multispecific platforms, as well as potential phase 3 readouts for the company's PCSK9 asset.
- **Chinese market evolution.** NMPA is further ramping up its approval process, specifically priority review, conditional approvals, and NRDL preference for Chinese-developed drugs.

Risks

- **Clinical failure.** Except for TYVYT in oncology, the company's clinical asset is predominatly early-stage and not yet validated from an efficacy and safety standpoint.
- **Competition.** Most of Innovent assets face competition from other leading Chinese biotechs. Notably, Beigene's Tislelizumab and IMAB's TJC4 could prove difficult from a commercial standpoint.
- **Transparency.** Lack of transparency in clinical conduct or regulatory pathway could lead to slower market adoption and negative sentiment on the sector and the company.

Bottom Line

- Innovent robust immuno-oncology pipeline is well-positioned to make the company one of China's leading players, in the largest and fastest-growing oncology market in the world.
- Additionally, breadth of products, novel and biosimilar, offer important diversification and longer-term could make Innovent a global leading large-biotech player.

Companies mentioned in this article:

Biogene (BIIB US), Coherus (CHRS US), Incyte (INCY US), Lilly (LLY US), Roche (ROCG SW)

SCHRÖDINGER
(SDGR US)

Key drivers behind our strong conviction

AI-powered tools are a game-changer for biopharma's R&D

In our 2021 outlook, we wrote that AI is empowering the discovery process, predominantly in target screening, molecule design, and optimization. AI-based tools help speed-up >15x the discovery phase and increase predictive accuracy.

- 66% of programs fail to reach Investigational New Drug (IND), the start of human trials.
- AI-powered tools for biopharma R&D represent a market valued at $200mn in 2018 and estimated to reach ~$4bn over the next five years.

Reinventing the discovery phase

The discovery phase is usually difficult and slow because it requires a thorough understanding of the drug molecule's properties and a large computational capacity, taking years to screen and test thousands of possible combinations.

- Traditional methods typically take 5 to 6 years to deliver ten candidates out of 10,000 molecules screened, and a majority still fails to reach IND.
- Schrödinger's software is able to go through a much larger base and produce 8 to 10 phase 1-ready product candidates in just two to three years.

Accuracy is key

Simply applying Machine Learning to a library of scientific papers to identify drug-like molecules results in wasting precious computational power on "impossible" molecular combinations. Integrating physics-based calculations to pre-evaluate the properties of drug-like molecules allows for optimized screening, focusing only on viable and plausible combinations.

- Schrödinger's software is the only AI-based tool that integrates physics-based modeling into its machine learning (ML) program.

SOURCE:
Lantern Pharma, Schrödinger, Deloitte, IND (Investigational New Drug)

SCHRÖDINGER
(SDGR US)

About the company

Providing AI to the biotech world

The company's main activity is to offer AI-based software solutions to the biopharma industry in the discovery phase. It is also active in the field of drug development, either internally or through collaborations.

- 88% of its revenues come from its software business, expected to grow at a 20% CAGR through 2030.
- The company counts the 20 largest pharma companies as clients and enjoys a high retention rate of 96%.

Lucrative collaborations

Schrödinger's renowned ability to discover candidates more efficiently through its software has attracted important partners in its drug development segment.

- Schrödinger currently has 29 collaborations in the field of drug discovery, up from 9 in 2013, resulting already in two FDA-approved products.
- The latest is a multi-year collaboration with Bristol Myers with up to $2.7bn in milestone payments across several therapeutic areas.

Leveraging its software

Schrödinger is using its software to develop its internal drug-discovery pipeline, mostly targeting kinases involved in the damage and replication stress response related to tumor development.

- All programs are in the discovery phase with a potential first IND in 2021 for its cancer candidate, CDC7, targeting lung and oesophageal cancers.
- During ASH 2021, the company released promising preclinical data for its MALT 1 inhibitor candidate, showing an anti-cancer activity.

in USD mn	2019	2020E	2021E	2022E
Revenue	86	112	177	237
Revenue Growth (%)	n.a.	31.44%	57.65%	33.56%
EBITDA (%)	-41.00%	-47.60%	-20.00%	7.32%
EPS	-0.40	-0.29	0.01	0.34
Earnings Growth (%)	n.a.	n.m.	n.m.	n.m.
P/E	n.m.	n.m.	n.m.	n.m.
P/S	65.3x	56.2x	35.6x	26.7x
EV/EBITDA		n.a.	n.a.	n.a.
PEG		n.m.	n.m.	n.m.
Net Debt / EBITDA	2.4x	4.7x	7.3x	-16.0x
FCF per share	-0.279			

Beta*: **1.33**	3Y Revenue CAGR: **40.4%**

Market Cap:	$6bn
Reference Price:	90.89 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

SCHRÖDINGER
(SDGR US)

Catalysts

- **Initiate clinical trials.** The company plans to file its first IND for its in-house developed candidate in 2021 (CDC7).
- **MALT 1 inhibitor program.** The company will initiate toxicity studies just one year after launching the program. These studies should support an IND filing by the end of the year.
- **More deals to come.** The Bristol-Myers' partnership is the validation of the company's platform, and could trigger more large deals, broadening its drug development segment.

Risks

- **Early-stage pipeline.** All in-house candidates are still in the discovery phase, the company's area of expertise. Bringing these assets to full approval is a new challenge for the company.
- **Software competition.** The main competition for the company is BIOVA software developed by Dassault Systèmes. Competition could also come from deep-pocketed AI-leading Big techs.
- **Failure in collaboration assets.** Failure at the clinical stage of drug candidates could jeopardize the company's lucrative diversification.

Bottom Line

- The booming AI drug-discovery industry was brought into the spotlight by the Covid crisis. Innovative approaches are accelerating the R&D chain in the biopharma sector. AI-based discovery is the future of clinical trials and Schrödinger has a leading competitive position to leverage.
- Supported by early investors (e.g., the Bill & Melinda Gates Foundation and Shaw), Schrödinger benefits from a unique software package combining physical models and machine learning. This competitive advantage has attracted biopharma companies to partner with Schrödinger to develop their drugs, not to mention its wholly-owned pipeline, which could be a major driver in 2021 and beyond.

Companies mentioned in this article:
Bristol Myers (BMY US), Dassault System (DSY FR)

ACADIA PHARMACEUTICALS
(ACAD US)

Key drivers behind our strong conviction

Large unmet medical need in the mood disorders space

The World Health Organization expects mood disorders to affect approximately 20% of the general population worldwide by 2030. Despite the medical need, recent innovations in the space range from slow to non-existent.

- The Central Nervous System (CNS) market is expected to reach $163bn in 2025.
- Acadia targets three major indications in this space: Parkinson's, Dementia Related Psychosis, and Schizophrenia negative symptoms.

Safely tackling Dementia Related Psychosis

More than 1.2mn people in the U.S. alone suffer from Dementia Related Psychosis (DRP) and current pharmacotherapy relies on off-label atypical antipsychotics with limited clinical efficacy and severe adverse reactions.

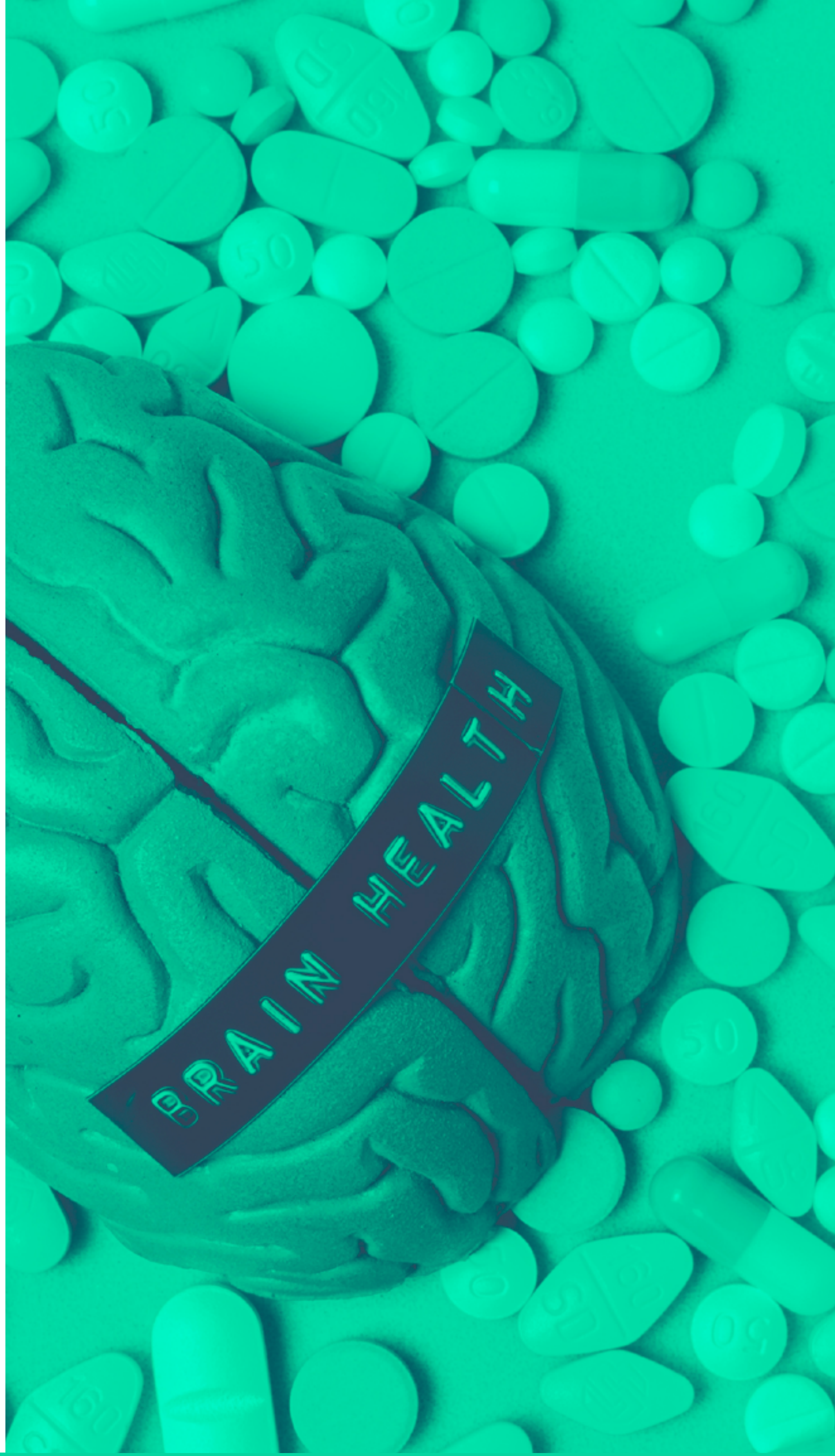
- DRP alone is currently a $30bn market.
- Acadia's Nuplazid approval for DRP is expected in 2Q 2021 given good efficacy and a safer profile (35% reduction in mortality compared to atypical antipsychotics).

Aiming at Schizophrenia too

Schizophrenia is a chronic and severe mental disorder affecting 20mn people worldwide with 59% of patients experiencing negative symptoms. With only one treatment showing limited efficacy in the Schizophrenia negative symptoms field, Acadia is in the starting blocks to take the lion share of the market.

- The schizophrenia drug market size was valued at $7.2bn in 2018.
- Acadia is currently running a phase 3 for Nuplazid in schizophrenia negative symptoms, potentially turning Nuplazid into CNS's most profitable franchise.

SOURCE:
Grandviewresearch, FDA



ACADIA PHARMACEUTICALS
(ACAD US)

About the company

One strong asset, 2 promising leads

Acadia owns 4 programs currently in clinical trials, without indications overlaps, and one current drug on the market: Nuplazid.

- Nuplazid registered sales of $320mn in Q1-Q3 2020 (+33% YoY).
- On-going clinical trials in DRP and Schizophrenia negative symptoms (Nuprazid), Rett syndrome (Trofinetide), and chronic pain (ACP-044).

Encouraging results in clinical trials

Rett syndrome and fragile X syndrome clinical trials have shown great results in 2020. Again, here Acadia would have a monopoly on 2 other indications.

- Phase 3 on Trofinetide for Rett syndrome was launched in March.
- Phase 2 trial of oral treatment with Trofinetide was well tolerated and, at a higher dose, eased social avoidance, anxiety, hyperactivity, and other symptoms of fragile X syndrome in adolescent and adult males.

Tackling pain without opioids

Acadia expanded into the pain reliever segment by acquiring CerSci Therapeutics at an advantageous price, following promising pre-clinical results (on both efficacy and safety) for their main drug candidates. The acquisition could provide strong upside for Acadia.

- Pain reliever is a $18bn market in the U.S. alone.
- Cersci Therapeutics acquisition was done in summer 2020 for ~$52mn.

SOURCE:
Pediatric Neurology, ACADIA

in USD mn	2019	2020E	2021E	2022E
Revenue	339	444	683	1,090
Revenue Growth (%)	n.a.	30.98%	53.72%	59.72%
EBITDA (%)	-71.89%	-66.14%	-29.34%	17.28%
EPS	-1.60	-1.84	-1.03	0.78
Earnings Growth (%)	n.a.	n.m.	n.m.	n.m.
P/E	n.m.	n.m.	n.m.	68.4x
P/S	23.3x	19.2x	12.5x	7.8x
EV/EBITDA		n.a.	n.a.	41.8x
PEG		n.m.	n.m.	n.m.
Net Debt / EBITDA	2.9x	1.5x	1.8x	-2.8x
FCF per share	-0.689	-0.404	-0.144	0.210

Beta*: 0.94 | **3Y Revenue CAGR: 47.6%**

Market Cap:	$9bn
Reference Price:	53.66 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

ACADIA PHARMACEUTICALS
(ACAD US)

Catalysts

- **Nuplazid FDA approval for DRP.** With 2.4mn patients in the U.S. alone in DRP (a multibillion-dollar market) and no competitor yet, Acadia would secure strong income.
- **Positive results in Rett syndrome clinical trial.** Overcoming previous failures in this indication, Acadia would be first on the market.
- **Schizophrenia Negative Symptoms.** The negative symptoms in schizophrenia study was initiated in Q320 and could read out in 2021, representing another major inflection point.

Risks

- **FDA refusal for Nuplazid DRP indication.** Acadia ran two different studies between the phase 2 and phase 3 (acute and relapse prevention respectively), the FDA might not look at both as supportive together.
- **Rett syndrome clinical failure.** Rett syndrome has been a difficult area for drug developers, a failure would imply a challenge to diversify the portfolio from Nuplazid.
- **Competition.** Dementia related psychosis is an area of focus among drugmakers, and several companies (including Karuna and BioXcel) are also working on drugs for this indication.

Bottom Line

- If approved for DRP, Nuplazid can reach an inflection point and become one of the highest-selling antipsychotic drugs. And with additional indications still in clinical studies, it could become one of the most lucrative franchises in CNS.
- Beyond Nuplazid, Acadia is one of the only revenue-generating CNS-platform companies, making it a potentially attractive asset for large pharma companies looking to re-enter the space.

Companies mentioned in this article:

Biogene (BIIB US), BioXcel (BTAI US), Karuna (KRTX US)

XERO
(XRO AU)

Key drivers behind our strong conviction

Growth within financial software

The software industry is the largest segment of our fintech universe with accounting and tax software recording the highest market growth thanks to a new generation of products.

- 5-year CAGR for accounting and tax software is in the low double digits.
- About 400mn SMBs need accounting solutions around the world.

The surge of cloud-based accounting software

SMBs accounting software has been transitioning from on-premise solutions to web-based and more recently to mobile and cloud. These products are easier to use and cheaper to maintain. Xero is a key player in the industry, especially in English-speaking markets. Potential is huge, as penetration remains globally low.

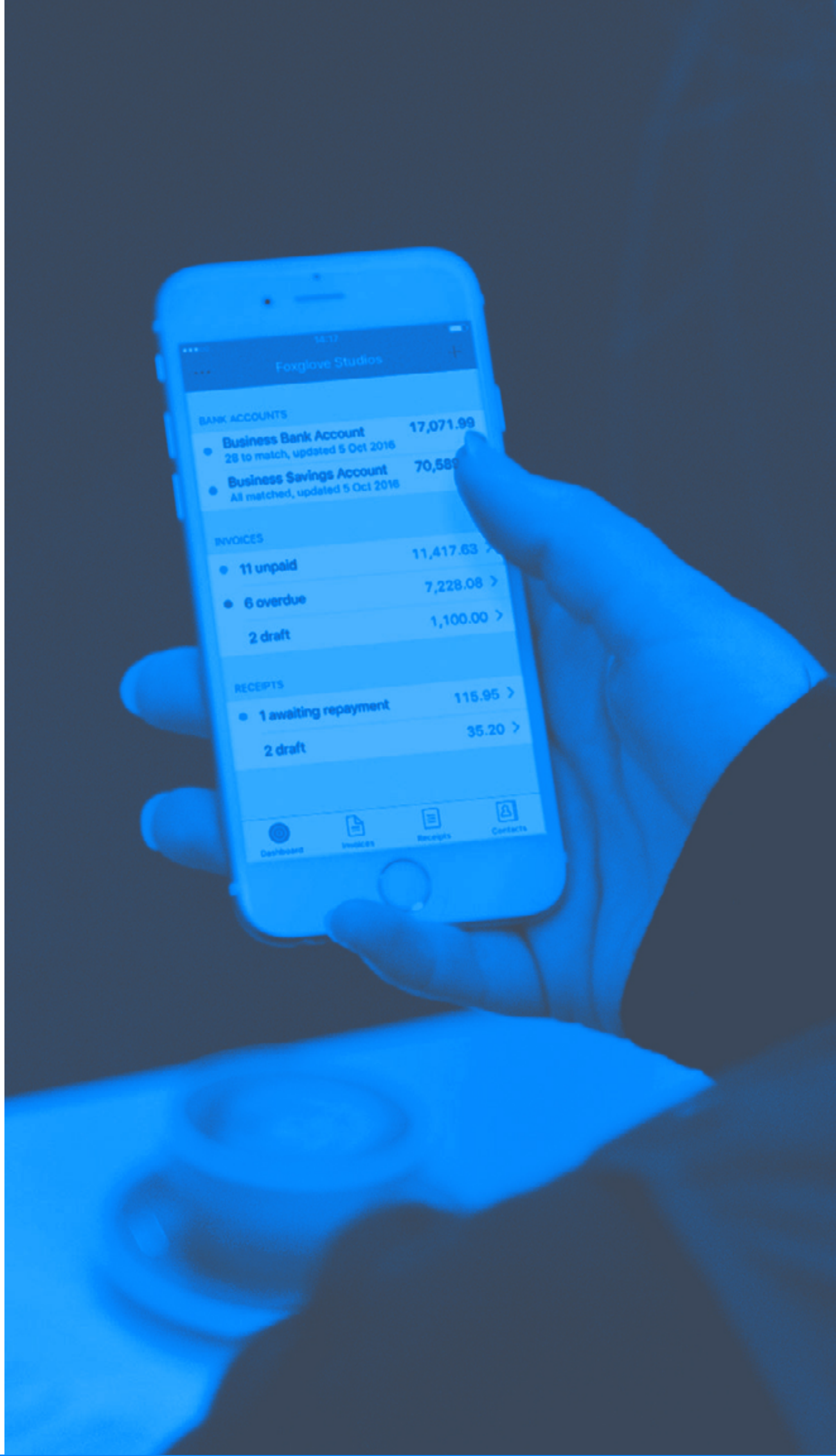
- Cloud-based accounting software penetration within 3 years is expected to reach ~50% in the UK and ~25% in the U.S., doubling from current levels.
- In Australia, accountants have been long pushing for cloud-based solutions (and the expected penetration is >80%).

An economic hedge

Australia distinguishes itself by relative economic stability, having experienced no recession from 1991 to early 2020. Even if the Covid-19 crisis may have lasting consequences, there are very encouraging signals coming from SMBs.

- SMBs' job levels in Australia and New Zealand (ANZ) have already returned to pre-Covid levels, a rare exception in OECD countries.
- 60% of Xero's revenue comes from the ANZ region (as of H1 2020).

SOURCE:
Danish Institute for Human Rights, UBS Evidence Lab, Xero, Xero Small Business Inisghts by Xero and AlphaBeta, Australian Bureau of Statistics, AtonRâ Partners



XERO
(XRO AU)

About the company

Best-in-class platform

Xero is running only cloud-based solutions and does not have any legacy systems to maintain. The platform is API-friendly and uses computer vision to capture data on documents like invoices. Current development focuses on AI to improve analytics, cash forecasting, and robotic process automation.

- Xero's marketplace contains >800 apps.

An ecosystem for SMBs

Xero is launching a suite of services that aim to service most financial needs of SMBs. Added-value (more profitable) services like project- or cash-management are charged on top of the core product, increasing revenue per client.

- 91% of revenue comes from core accounting – as existing clients grow their business and add other modules, the mix will shift accordingly.
- The acquisition of Waddle (invoice financing) in 2020 strengthened Xero's offer for funding and payment solutions.

Highest satisfaction level among accountants

Given its product quality, Xero has benefitted from the highest net promoter score in recent surveys. Keeping a high satisfaction among accountants will bring additional clients as SMBs largely trust their accountants when it comes to selecting accounting software.

- Between 70%–85% of surveyed SMBs chose following their accountant's recommendation.

in USD mn	2019	2020E	2021E	2022E
Revenue	428	611	726	885
Revenue Growth (%)	n.a.	42.80%	18.86%	21.94%
EBITDA (%)	19.38%	40.27%	39.43%	44.69%
EPS	0.03	0.46	0.58	1.04
Earnings Growth (%)	n.a.	1435.83%	27.52%	78.57%
P/E	3549.7x	322.8x	253.1x	140.2x
P/S	35.4x	25.4x	21.4x	17.5x
EV/EBITDA	70.9x	88.4x	76.0x	55.0x
PEG		0.16	6.59	1.29
Net Debt / EBITDA	-0.3x	-0.6x	-0.8x	-0.9x
FCF per share	-0.071	0.056	0.126	0.178

Beta*: 1.18 | **3Y Revenue CAGR: 27.4%**

Market Cap:	$16bn
Reference Price:	137.43 AUD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

SOURCE:
Xero, UBS Evidence Lab

XERO
(XRO AU)

Catalysts

- **Market share gains in the United States.** With a U.S. market share below 5%, Xero still has a boulevard to gain market share against local competitors like Intuit or FreshBooks.
- **Major acquisition.** Xero issued a convertible note of $700mn in late 2020 to buy back existing debt ($300mn). Xero is cash-rich and could announce a much larger acquisition than the sum of all deals done since 2018 (<$100mn).
- **U.S. administration's digitalization.** Revenue growth will boom if the Biden administration follows UK's ambition to have one of the most digitally advanced tax administrations in the world.

Risks

- **Covid-19 ripple effect.** Many SMBs are still dependent on financial support from governments. An end of these programs would increase the number of defaults and impact Xero's top-line growth.
- **Local compliance.** Xero's international expansion requires continuous updates of its solution to consider local accounting rules like VAT, employee benefits, or taxes. Product development is expensive and parametrization errors may cause reputational damages.
- **Valuation and price volatility.** Investors have been piling into promising SaaS companies like Xero lately, stretching valuations. Price volatility may spike as a result.

Bottom Line

- The accounting software industry is living a revolution with the deployment of cloud-based solutions and the promises of AI to automate book-keeping. Penetration rates of cloud-based solutions for SMBs remain low on many markets, implying growth opportunities.
- Xero is the market leader in cloud-based accounting software in Australia and New Zealand. The company is betting on its best-in-class platform to expand internationally, primarily in the United States and the United Kingdom. The expansion of the product offerings will sustain revenue growth.

Companies mentioned in this article:

FreshBooks (not listed), Intuit (INTU US), MYOB Group (MYO AT), Sage (SGE LN), Xero (XRO AT)

AFTERPAY
(APT AU)

Key drivers behind our strong conviction

Buy Now Pay Later (BNPL) is the fastest growing shopping methods

BNPL allows consumers to pay in several instalments with no interests while merchants receive the full amount. The fee is usually charged to the merchant.

- Merchants increase the order size (25%), the conversion rates (20%), the purchase frequency (20%) and attract new consumers.
- Consumer gain flexibility, a lower initial bill and can better plan their budget.
- The industry is projected to grow at a 30% CAGR over the next 3 years.

Highly profitable business models

Given short loan maturity, BNPL can redeploy their capital multiple times per year, increasing their ROIC. Also, given the relatively small individual amounts, default risk remains limited.

- Average loan maturity is 3 weeks for the industry.
- >75% of buyers have the funds to cover the full purchase but use BNPL as alternative to credit card or simply as convenience.

BNPL from Australia to the world

BNPL is widely spread in Australia and is gaining traction in the rest of the world. In the U.S. it is still in its infancy but growing ~200% YoY in GMV (Gross Merchandise Value), as big fintech players are starting to get involved, and consumers, whose credit limits were reduced during the Covid-19 crisis, look for alternatives.

- Already 9 pure BNPL companies are listed on ASX.
- Paypal has recently introduced a BNPL offer with its "Pay in 4" service.

SOURCE:
AFT Annual Report, Buy Now Pay Later

AFTERPAY
(APT AU)

About the company

BNPL leader

Australian-based Afterpay is the leading BNPL payment provider. They have a unique BNPL model: 2-week interval across four installments, with instant online approval. Merchants are paying a 3%–6% fee.

- Afterpay mainly focuses on fashion and beauty, which are the highest share of e-commerce, have medium price range and are emotional purchases.
- Consumers can browse for items directly on Afterpay website, leading to increased traffic for merchants.

Afterpay community

Afterpay created its own brand and a strong community around it, with huge groups on social media to the point that "Afterpay" is now a verb. Partnerships with major brands are made easier thanks to the size of the Afterpay community.

- In Australia, more than 85% of BNPL users have an Afterpay account, and 18% of all e-commerce in ANZ goes through Afterpay.
- Merchants adopting Afterpay benefit from increased traffic and have an incentive to stick with the service.

U.S. expansion

Afterpay entered the U.S. market in 2018 and already accounts for 70% of U.S. BNPL transactions thanks to integration with Plaid and partnerships with Visa, Mastercard, AmEx, Apple Pay, Google Pay.

- Fashion and Beauty represent a $360bn market in the U.S., of which 40% is online and growing close to 20% YoY.
- Afterpay had a stellar FY2020, with sales up 112%, income up 103%, active customers up 116%, merchants up 72%.

SOURCE:
COVID-19 and the surge of "buy now, pay later", Afterpay Announces Full Year Results

in USD mn	2019	2020E	2021E	2022E
Revenue	358	734	1,166	1,521
Revenue Growth (%)	n.a.	104.87%	58.90%	30.36%
EBITDA (%)	2.69%	13.83%	21.52%	27.50%
EPS	-0.06	0.12	0.47	0.86
Earnings Growth (%)	n.a.	n.m.	289.11%	81.55%
P/E	n.m.	1102.5x	283.3x	156.1x
P/S	74.4x	40.0x	25.2x	19.3x
EV/EBITDA	1160.0x	374.9x	151.6x	91.0x
PEG		n.m.	0.75	1.47
Net Debt / EBITDA	-10.6x	-2.9x	-0.1x	1.2x
FCF per share	-0.107			

Beta*: 2.38 | **3Y Revenue CAGR: 61.9%**

Market Cap:	$29bn
Reference Price:	143.46 AUD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

AFTERPAY
(APT AU)

Catalysts

- **New addictive shopping experience.** Afterpay caters to consumers' addictive behavior, GenZ, and Millenials in particular. Many consumers browse first on the Afterpay website and then decide on the purchase.
- **International expansion.** Afterpay expanded to the U.S. in 2018, Canada in 2020, and via further acquisitions in 2021, it plans to enter Europe and Asia.
- **Afterpay community and branding.** Joining the Afterpay platform allows merchants to get more traffic and new clients, a value proposition they can hardly refuse.

Risks

- **Regulatory issues as credit companies.** Despite having avoided being regulated due to the interest-free nature of the loans, scrutiny may arrive sooner than expected, triggered by a bad actor or a high market share.
- **Competition from major fintech players.** Major players are entering the space with slight but competitively crucial differences. Paypal's "Pay in 4" has no costs for the merchant. U.S.-based Affirm is charging interest but has longer payment plans for the consumers.
- **Credit cycle driven business.** As there are no credit checks on consumers, a negative turn of the credit cycle could raise the default rate and non-essential consumption may slow down.

Bottom Line

- BNPL is spreading quickly from Australia to the rest of the world, showing very attractive growth rates and a highly profitable business model. Afterpay is the undisputed leader in the ANZ region with a strongly recognized brand, to the point it became a verb. Afterpay is leveraging its strong community as a value-adding component of its platform when recruiting merchants. The company has room to expand internationally with its proven business model.
- In the fintech world, we are shifting our portfolios to have better exposure to challengers that are devising new, market- and consumer-oriented strategies to beat deep-pocketed incumbents. Afterpay is the perfect fit.

Companies mentioned in this article:

Affirm (AFRM US), American Express (AXP US), Apple (APPL US) Google (GOOGL US) Mastercard (MA US), Paypal (PYPL US), Plaid (not listed), Visa (V US)

SOCIAL FINANCE
(IPOE US)

Key drivers behind our strong conviction

Millennials with unmet financial needs

Social Finance (SoFi) is primarily targeting HENRYs (High Earners, Not Rich Yet), millennials who earn 6 figures income and who feel broke. Their banking behavior is different from their parents' – more digital and mobile. As they inherit, they will mostly manage their assets on their own, with no financial advisor.

- U.S. millennials will receive $68tn from their parents by 2030.
- 10% of millennials (~7.2mn people) earn >$100k/year (2019).

Challengers gaining market shares from incumbents

The financial sector is being disrupted by challenger banks proposing better customer experience and fully app-driven. Business models are maturing, and profitability is close. A tsunami is coming on incumbents.

- Top-10 legacy U.S. banks hold ~50% of consumers' bank accounts.
- Only 44 neobanks compete with 4'700 FDIC incumbent banks.

Riding the U.S. student-debt burden

Student loans are often the first meaningful financial decisions that young people must take. As graduates get a job, refinancing high-interest or unsubsidized direct loans is an attractive option that SoFi leveraged to initially build its user base, thanks to its attractive student-loans refinancing options.

- Outstanding student loans account for a whopping $1.7tn.
- ~92% of loans are owned by the U.S. Department of Education.
- SoFi refinanced >$30bn in student loans.

SOURCE:
Coldwell Banker, Bureau of Labor Statistics, Exton Consulting, WalletHub, FRED, NerdWallet, SoFi

SOCIAL FINANCE
(IPOE US)

About the company

Rebundling financial services for its member community

SoFi is more than a financial service provider. It has built trust and brand recognition to lock in its captive community. Customers feel part of an exclusive club and the company wants to provide the full spectrum of financial services.

- Services include cash management, investments, loans, credit cards, etc.
- <20% of customers use more than one product – cross-selling opportunity.

A leading technology enabler

Following the acquisition of Galileo, SoFi turned into a leading technology enabler of complementary products that can be deployed across competitors' platforms.

- SoFi announced the acquisition of Galileo for $1.2bn in April 2020.
- Galileo's APIs have facilitated the opening of >50mn accounts (Q3 2020).

Banking charter already available

Unlike most challenger banks, SoFi was granted a conditional national bank charter in 2020 from the U.S. Office of Comptroller of the Currency (OCC). It is a clear competitive advantage that will allow SoFi to receive deposits and make loans on its own, which will eventually boost profitability.

- The Federal Deposit Insurance Corporation (FDIC) and the Fed must still approve SoFi's request.
- Only a few fintech companies have followed the same direction, e.g., Square, LendingClub, or Varo Bank.

in USD mn	2019	2020E	2021E	2022E
Revenue	451	620	980	1,500
Revenue Growth (%)	n.a.	37.47%	58.06%	53.06%
EBITDA (%)	-33.04%	-10.65%	2.76%	16.93%
EPS			-0.02	0.23
Earnings Growth (%)				
P/E		n.m	n.m	95.2x
P/S		30.7x	19.4x	12.7x
EV/EBITDA		n.a.	n.a.	n.a.
PEG				
Net Debt / EBITDA				
FCF per share				

Beta*: n.a. | **3Y Revenue CAGR: 49.3%**

Market Cap:	$2bn
Reference Price:	20.16 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Company reports, AtonRâ Partners

SOURCE:
Company's estimates, AtonRâ Partners

SOCIAL FINANCE
(IPOE US)

Catalysts

- **New products.** Recent growth has been fueled by new products, such as home loans, brokerage accounts, or credit cards with SoFi's loyalty program. We expect the company to launch a myriad of new products with the cash it raises, e.g., lending and investment products.
- **Student loan reforms.** The Biden administration is analyzing several propositions to reduce the student-debt burden. These reforms would improve the financial situation of SoFi's client base, leading to an increased total addressable market.
- **International expansion.** The company is looking to expand in Latin and South America. In 2020, it acquired a company in Hong Kong. Those international seeds will bring long-term growth.

Risks

- **Marketing effort.** Challengers must dedicate significant resources to sales to attract new customers and differentiate their offerings from the competitors. This may delay SoFi's journey towards profitability.
- **Departure of key people.** Following the misconduct of the former CEO and founder, the appointment of Anthony Noto as CEO in January 2018 largely contributed to SoFi's current successes. Going public could lead to talents' departure, including in the top management entourage.
- **SPAC.** SoFi announced its merger with a SPAC, Social Capital Hedosophia Holdings V. SPACs come with a series of risks. For instance, the timeframe to go public may be too short for the acquired company to fulfill properly and efficiently with its new duties as a public company.

Bottom Line

- As a leading challenger and technology enabler, SoFi offers the best of two worlds. SoFi primarily targets HENRYs and is well-positioned to capture the greatest wealth transfer in history from Baby Boomers to younger generations. Through intuitive user experience, the company is developing one of the most comprehensive offerings.
- SoFi is the perfect proxy for tomorrow's fintech – It democratizes financial services.

Companies mentioned in this article:

LendingClub (LC US), Social Capital Hedosophia Holdings V (IPOE US), SoFi (to be acquired by IPOE US), Square (SQ US), Varo (not listed)

ADAPTIVE BIOTECHNOLOGIES
(ADPT US)

Key drivers behind our strong conviction

Immune Medicine is leading growth

Driven by learnings from the precision oncology space, and enabled by advancements in computational power*, immune-based diagnostics and personalized treatments are areas of strong growth and robust R&D efforts.

- Immunomodulation is showing a healthy 14.3% CAGR through 2025.
- Liquid biopsy (similar outcome, different approach), is growing at a CAGR of 33% by 2025.

A considerable market opportunity with two main verticals

Immune-based genomic platforms are applicable across various therapeutics segments including cancer, infectious diseases, Central Nervous System (CNS) disorders, and autoimmune diseases. Their utilization is best suited for diagnostic and drug discovery, both sizeable markets.

- Clinical diagnostics in early detection and Minimal Residual Disease (MRD) represent a $25bn market opportunity.
- Cell-therapies target-discovery is the most obvious application on the drug development side, with a market growing at a +40% CAGR through 2025 to ~$30bn.

Covid is a considerable long-term booster

Adaptive developed multiple new products in response to the pandemic, that could be an integral part of the vaccination campaign and drive significant upside.

- ImmunoSEQ T-MAP COVID measures immune response to vaccines and is expected to be utilized in at least 2 large clinical studies, and possibly beyond.
- Adaptive's proprietary immune-based research platform is uniquely positioned to identify best neutralizing antibody constructs for new vaccine development.

* There are an estimated 50bn T-cell receptors vs. 30,000 genes in the static DNA.

ADAPTIVE BIOTECHNOLOGIES
(ADPT US)

Adaptive biotechnologies™

About the company

A uniquely differentiated diagnostics play

Adaptive Biotechnologies is a category leader in the immune-driven approach to genomics and drug-development. Immune receptor data is needed to develop products across different business areas including clinical diagnostics, life-science research, and drug discovery.

- The company positioned itself as a leading player in the space with strategic partnerships across business areas: i.e., Microsoft on machine learning, Genentech on therapeutic development, and AstraZeneca on research.

Leading in fast-growing segments

The company is expected to grow revenues at a five-year CAGR of >40%, as it is uniquely positioned to leverage its T-detect platform (a tool to guide target selection in cell therapies, antibody drugs and cancer vaccines) across the fastest growing segments in the biotech space.

- The company plans to submit its first wholly-owned IND (human trial) within the next 18-months, further demonstrating its capability in target selection.

Multiple catalysts ahead

After meaningful T-detect platform validation in 2020, Adaptive has multiple projects for each of its diagnostic and drug development verticals, positive for both growth and diversification.

- colonSEQ regulatory expansion to additional indications (using blood sampling) can open the door to a dominat foothold in the $5bn Minimal Residual Disease monitoring market.
- The Lyme disease program is to be submitted to the FDA this year, potentially leading to a first, important approval for the early detection modality.

in USD mn	2019	2020E	2021E	2022E
Revenue	85	95	159	224
Revenue Growth (%)	n.a.	11.74%	67.43%	40.58%
EBITDA (%)	-82.98%	-124.32%	-71.68%	-49.94%
EPS	-0.56	-1.08	-1.15	-1.18
Earnings Growth (%)	n.a.	n.m.	n.m.	n.m.
P/E	n.m.	n.m.	n.m.	n.m.
P/S	95.8x	93.7x	55.9x	39.8x
EV/EBITDA		n.a.	n.a.	n.a.
PEG		n.m.	n.m.	n.m.
Net Debt / EBITDA	7.7x	5.1x	4.2x	4.3x
FCF per share	-0.858			

Beta*: 0.44	3Y Revenue CAGR: **38.0%**

Market Cap:	$9bn
Reference Price:	65.09 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

ADAPTIVE BIOTECHNOLOGIES
(ADPT US)

Catalysts

- **Covid-19.** Further immunoSEQ T-MAP COVID integration in late-stage vaccine studies, and potentially a license agreement for a new neutralizing antibody candidate are likely to materialize in the coming months.
- **New product launch.** ColonSEQ in ALL MRD monitoring (Blood) and T-detect Lyme are both expected to be launched this year.
- **Technology validation.** Confirm T-detect signals in ovarian cancer, and potentially extend discovery capabilities to additional tissues.

Risks

- **Vaccine adoption/durability.** Current COVID vaccines show strong domination and durable response, decelerating the development pace.
- **Competition.** MRD landscape gets increased competition from liquid biopsy rivals, compromising the company's commercial opportunity.
- **Reimbursement.** Changes to the reimbursement landscape, particularly following the U.S. administration changes, could compromise broad adoption.

Bottom Line

- Adaptive is our favorite play in the immune-based diagnostic space, given its strong value proposition, clear leadership in fast-growing markets, and a validated technological platform.
- We have added Adaptive in our Healthcare M&A portfolio as we believe the company is uniquely positioned at the core of the healthcare value chain, making it an attractive consolidation target.

Companies mentioned in this article:

Astrazeneca (AZN LN), Genentech (not listed), Microsoft (MSFT US)

CATALENT
(CTLT US)

Key drivers behind our strong conviction

R&D outsourcing boosted by Covid-19

Contract development manufacturing organizations (CDMOs) are working alongside biopharma companies during the current pandemic to help them conduct trials as well as in the manufacturing and supply of essential ingredients.

- Catalent has signed with major vaccine manufacturers like J&J, AstraZeneca, and Moderna, to support commercial manufacturing.
- In total, Catalent has won more than 75 Covid-19-related contracts, including vaccines, antivirals, treatments and diagnostics.

Robust R&D pipeline globally

The increasing complexity of clinical trials has not halted their growth in numbers. Investment in healthcare R&D is beating records, and estimates point to >70% of the global pipeline requiring advanced delivery technologies, which Catalent provides.

- In 2020 there have been more clinical trials than in the whole 2000–2010 period.
- 2021 revenue growth guidance was raised to 16%–22% range (from 12%–16% range) of which half is related to Covid-19.

Able to serve their clients complex needs on gene therapy

Catalent became the first CDMO to have a commercial gene therapy production, with Novartis/ AveXis. The company continues to shift its revenue mix towards biologics and gene therapy.

- The company made a $130mn investment to expand its gene therapy campus.
- A dedicated clinical facility is being built in Houston for cell-therapy and a 41’000 sqft cell-therapy manufacturing facility was acquired from Bone Therapeutics.

SOURCE:
Evaluate Pharma World Preview 2020, FDA, ClinicalTrials.gov, Catalent presentation

CATALENT
(CTLT US)

Catalent®

About the company

Leading provider of advanced dosage delivery technologies

Catalent divides its activities into four segments: Softgel & Oral Technologies, Biologics, Oral & Specialty Delivery, and Clinical Supply Services. They are able to address the full spectrum of pharmaceutical industry's needs, including small molecules, protein, gene therapy biologics, and consumer health products.

- 2020 saw strong growth with revenues >$3bn (+24%) and the Biologics segment contributed the most, with an impressive +83% organic growth.

A platform serving blue-chip customers

The quality of Catalent's products is recognized by over 1'200 pharmaceutical companies, including the largest players in the industry. Its know-how allowed the company to develop an extensive range of products available globally.

- They manufacture >70bn doses each year and serve 86 of the top 100 branded pharma companies.

Evolution of the product portfolio

The company is pursuing a strategy of opportunistic M&A activities, with subsequent growth of the product mix. The company is currently shifting to fast-growing biologics and gene therapy, where it is positioning itself as a global leader.

- With the integration of Paragon and Cook Pharmaca, biologics continued to increase, and moved from ~25% of revenues last year to 30% today.
- It expects to generate 50% of its total revenue from this segment by 2024.

in USD mn	2019	2020E	2021E	2022E
Revenue	3,094	3,726	4,098	4,494
Revenue Growth (%)	n.a.	20.43%	9.98%	9.67%
EBITDA (%)	21.30%	24.77%	25.52%	26.01%
EPS	1.31	2.56	2.99	3.57
Earnings Growth (%)	n.a.	95.30%	16.98%	19.18%
P/E	88.2x	45.2x	38.6x	32.4x
P/S	5.7x	5.1x	4.6x	4.2x
EV/EBITDA	22.2x	23.5x	20.7x	18.5x
PEG		0.47	2.27	1.69
Net Debt / EBITDA	3.1x	2.1x	1.5x	1.0x
FCF per share	-0.024	0.005	0.036	0.064

Beta*: **1.22**	3Y Revenue CAGR: **13.3%**

Market Cap:	$19bn
Reference Price:	115.50 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

CATALENT
(CTLT US)

Catalysts

- **Continuing innovation.** Catalent will benefit from partnerships made on the next generation of medicines. They have partnered with Exelixis on antibody-drug conjugates and have reached an agreement on a cell therapy program for the potential treatment of ALS.
- **Covid programs.** As we entered 2021, vaccination plans are underway worldwide. Catalent has partnered with most of the major players.
- **New investments.** Catalent has cleaned up its balance sheet allowing for future external or organic development. Cash increased to >$950mn and net leverage was reduced to 2.8x.

Risks

- **Gene and cell therapy slowdown.** Recent setbacks in gene therapy may make it more difficult to move from development to commercialization projects
- **Competition from low-cost jurisdictions.** India and China are making substantial investments to fill the technological gap in CDMO and advanced delivery technologies.
- **Slow start for Softgel segment.** Fiscal 1Q21 decline (-16%) due to a poor flu season and lower demand in consumer health could continue this year due to the current Covid crisis.

Bottom Line

- The strong momentum on Covid-19 related projects is expected to continue over the next few years and Catalent has been chosen as the partner of choice by the leading companies in the segment. Catalent continues to develop its biologics segment through significant investments and is now well-positioned to respond to the growing proportion of biological products in pipelines. Catalent, as a market leader, will benefit from the continued growth in biopharma R&D spending and the steadily increasing proportion of R&D that is outsourced.
- Given its size and portfolio, Catalent is a good candidate for M&A activities. It could act either as an industrial consolidator or as a target for large pharmaceutical companies wanting to acquire the technology developed by Catalent.

Companies mentioned in this article:

Astrazeneca (AZN LN), AveXis (AVXS US), Bone Therapeutics (BOTHE BR), Exelixis (EXEL US), Johnson and Johnson (JNJ US), Moderna (MRNA US), Novartis (NOVN SW)

VEEVA SYSTEMS
(VEEV US)

Key drivers behind our strong conviction

Appetite for the digital age

Digital technologies and interactions are reshaping the biopharmaceutical industry at an accelerating pace. This digital transition is driven by evolving go-to-market models and the growth of telemedicine.

- 74% of physicians, surveyed by PwC, expect fewer field visits by pharma forces than the pre-pandemic period.
- More than 50% of doctors prefer to receive digital medical and commercial info, drug pipeline studies, and healthcare trends.

A deep pipeline of digital services

Big pharma needs digitalization to both reduce costs and improve efficiency. Veeva has successfully expanded the range of products to provide tailor-made solutions to the pharma industry by leveraging its cloud-based platform.

- Sales efficiency through a dedicated CRM, improved clinical trials management through a dedicated platform, and regulatory compliance through AI-powered cloud services.
- Its new retail applications allow for collecting more data to help feed the AI and ML algorithms used for producing relevant data analysis.

First mover advantage in a growing niche market

Veeva enjoys a first-mover advantage in a very specific niche market, where the customers tend to be sticky and with a platform that is easily scalable.

- Veeva has an 80%-plus market share in CRM for life sciences; the company continues to gain market share from its main competitor, IQVIA.
- The average number of products per client is steadily increasing, and the longer a client has been with Veeva, the more products it uses.

VEEVA SYSTEMS
(VEEV US)

About the company

Leading SaaS provider for the healthcare sector

Veeva provides cloud-based services to the healthcare industry that are tailor-made to help companies develop and market products faster and more efficiently, sell more effectively, and maintain compliance with government regulations.

- The commercial cloud business, two-thirds of which is related to CRM offering, is the most mature segment, with a CAGR of 11% over the period 2019–2025.
- Beyond its initial CRM solution, the Vault suite helps manage clinical trials and regulatory compliance, cross-selling, and deepening ties with its customers.

Expanding market opportunity

With a successful track record of leveraging its commercial cloud platform to expand the range of services provided, the company has developed new promising markets offering plenty of room for further growth and entrenching customers.

- The company has set an overall long-term revenue target of $3bn by 2025, vs revenues of $1.4bn over a current TAM of $12bn.
- The company launched a next-generation commercial data warehouse and advanced artificial intelligence applications (Andi and Nitro).

Healthy financials, strong growth, and sticky customers

Top-line growth is driven by a deep understanding of its customers' needs, while healthy margins and FCF generation ensure the company can easily finance the expansion of its product offerings.

- Top line growth is ~20% and operating margins are >35%.
- Revenu retention rate is >120%, showing successful cross-selling of new products to existing customers.

in USD mn	2019	2020E	2021E	2022E
Revenue	1,104	1,448	1,718	2,028
Revenue Growth (%)	n.a.	31.19%	18.60%	18.07%
EBITDA (%)	28.44%	39.88%	38.32%	39.15%
EPS	2.04	2.84	3.12	3.67
Earnings Growth (%)	n.a.	39.34%	9.89%	17.68%
P/E	133.0x	95.5x	86.9x	73.8x
P/S	45.7x	28.3x	23.9x	20.2x
EV/EBITDA	66.1x	68.3x	59.9x	49.7x
PEG		2.43	8.78	4.17
Net Debt / EBITDA	-3.5x	-2.5x	-3.2x	-3.6x
FCF per share	0.294	0.344	0.346	0.350

Beta*: **0.80**	3Y Revenue CAGR: **22.5%**

Market Cap:	$41bn
Reference Price:	271.01 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

VEEVA SYSTEMS
(VEEV US)

Catalysts

- **New apps roll-out.** Veeva has an important pipeline of new services coming to the market, with potential for both cross-selling to existing customers and attracting new clients.
- **Accelerated revenue growth through M&A.** Veeva acquired in 2019 Crossix, a provider of privacy-safe U.S. patient data and Physician's World, which manages events.
- **Retail app ramp up.** The launch of the retail app "myVeeva" targeting patients and doctors aims at improving quantity and quality of the data used to feed the AI algorithms that produce the insights used by its customers.

Risks

- **Legal cases.** Competitors IQVIA and Medidata have both sued Veeva on alleged theft of trade secrets, and the cases are still unresolved.
- **Conversion to revenue.** With Covid uncertainty persisting, a slowdown in spending by some customers could have an impact on the monetization of cloud-based business applications such as MyVeeva.
- **Sales force cut.** Veeva expects to cut by 10% its sales force in 2021. Although the company is focused on digital, a lower sales force could result in reduced product sales.

Bottom Line

- As the pharmaceutical industry accelerates its digitalisation and outsourcing process, Veeva Systems is perfectly placed to reap the benefits of this trend, having developed industry-specific cloud-based solutions that help its customers reduce costs and operate more efficiently. Continuous product-range expansion and a strategic partnership approach with customers ensures stickiness and successful cross-selling.
- Flawless execution has allowed operational leverage to trickle into healthy margins, compounding top-line growth. We are increasing exposure to pharmaceutical service providers, and Veeva Systems is a key player in this segment.

Companies mentioned in this article:
Dassault System (DSY US), IQVIA (IQV US)

PAYPAL
(PYPL US)

Key drivers behind our strong conviction

Covid-19 the accelerating factor

The pandemic accelerated secular socio-economic trends and its consequences are likely to linger. Society will likely keep some of the changes the crisis forced upon it, notably for e-commerce and online payment.

- The move toward a cashless society and digital payment is a structural trend that has been boosted to show a ~24% CAGR over 5 years.
- PayPal's fastest-growing demographic were people over 50, showing a strong wave of new adoption across generations.

Peer-to-peer (P2P) payments

Besides digital transactions, digital P2P payment is growing, especially among Millennial and GenZ customers but also in under-banked regions.

- PayPal has a global presence and is a leader in this space – through its own native app and Venmo, it can play a key role in the global development of digital P2P payment.

Startup DNA driving the conglomerate

To keep growth and maintain a leader status, big tech companies must behave like startups. PayPal continues to preserve and expand its growth multiples via innovation, partnerships, and investments.

- PayPal released as many products in 2H 2020 as in the previous six years.
- PayPal partnered with major brands, like MELI in LatAm or like Uber, to access new businesses, markets, and customers.
- PayPal Ventures, PayPal's VC arm, invested in more than 45 start-ups.

SOURCE:
Global Digital Payments Market Forecast to Reach USD 12,407.5 billion by 2025, Registering a CAGR of 23.8% Over the Period 2020–2025

PAYPAL
(PYPL US)

About the company

The mobile payment leader

PayPal continues to be a worldwide leader in online payment and pursues its growth trend in both volume of payments and active users.

- PayPal operates a network of more than 360mn consumers and 25 mn merchants.
- PayPal collects huge amounts of data from its customers, a key competitive advantage in the future development of digital payments and fintech.

New offering

PayPal continues to expand and extend its offering to attract new clients and boost retention for both consumers and merchants.

- Consumers can buy cryptocurrencies on PayPal and merchants can accept them.
- A new Buy Now, Pay Later (BNPL) service named Pay in 4, inspired by Afterpay.
- The U.S. stimulus check was directly received on their PayPal account by many.
- QR Code checkout process with major brands (CVS, Nike, Bed Bath, etc.)

Brand recognition

Trust is at the backbone of any medium of exchange. PayPal has a strong brand recognition allowing it to continue acquiring new customers, both consumers and merchants, on a global scale.

- PayPal is available in >190 countries and various currencies.

in USD mn	2019	2020E	2021E	2022E
Revenue	17,772	21,426	25,444	30,423
Revenue Growth (%)	n.a.	20.56%	18.76%	19.57%
EBITDA (%)	21.27%	28.61%	28.92%	29.33%
EPS	2.20	3.80	4.54	5.66
Earnings Growth (%)	n.a.	72.88%	19.42%	24.71%
P/E	109.1x	63.1x	52.8x	42.4x
P/S	16.0x	13.1x	11.0x	9.2x
EV/EBITDA	32.0x	45.0x	37.5x	30.9x
PEG		0.87	2.72	1.71
Net Debt / EBITDA	-1.5x	-1.2x	-1.4x	-1.7x
FCF per share	0.150	0.265	0.220	0.216

Beta*: 1.09	3Y Revenue CAGR: 19.6%

Market Cap:	$281bn
Reference Price:	239.79 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

PAYPAL
(PYPL US)

Catalysts

- **Covid-19.** Digital Payments will continue to benefit from both a cashless society and Covid restrictions. PayPal has high exposure to e-commerce but is increasing its presence in-stores.
- **Network leverage.** PayPal offers services for both merchants and consumers, giving it a unique position in the digital payment space and can leverage the network effect.
- **New products.** BNPL, Crypto, QR Code checkout, and Instant Payment offering may be a new source of growth.

Risks

- **Cybercrime.** Cyberattack on PayPal or any other digital payments can trigger a customer exodus.
- **Tech giants.** Global tech companies with a large number of customers are entering the global payment space and have deep pockets if needed.
- **Limit to expansion.** Asia (China) expansion is difficult even with the purchase of GoPay or the Baidu partnership because of the domination of Alipay and WeChat Pay.

Bottom Line

- PayPal is a leader in the online payment processing framework, and its presence is widespread giving more stability in revenue. The company is not dependent on any single market or concentrated on only a few customers. Its globally recognized brand allows it to attract more customers and continue its international expansion.
- As the leader in digital payments Paypal benefits from its two-sided extensive consumer and merchant network, constantly launching new products and closely listening new markets disruptions via its VC arm.

Companies mentioned in this article:
Afterpay (APT AU), Baidu (BIIB US)

NEXI
(NEXI IM)

Key drivers behind our strong conviction

A leader in large underpenetrated markets

Following recent acquisitions, Nexi is now a key player in the payment industry in Italy, DACH, and Eastern Europe, among others. All these countries have a low rate of adoption for digital payments, implying a high growth potential for Nexi.

- With 80% of transactions still made in cash, Italy ranks as 24th out of 27 countries in the EU for digital payments.
- Digital payments in key markets grow on average at 12% YoY.

Public policies pushing for cashless societies

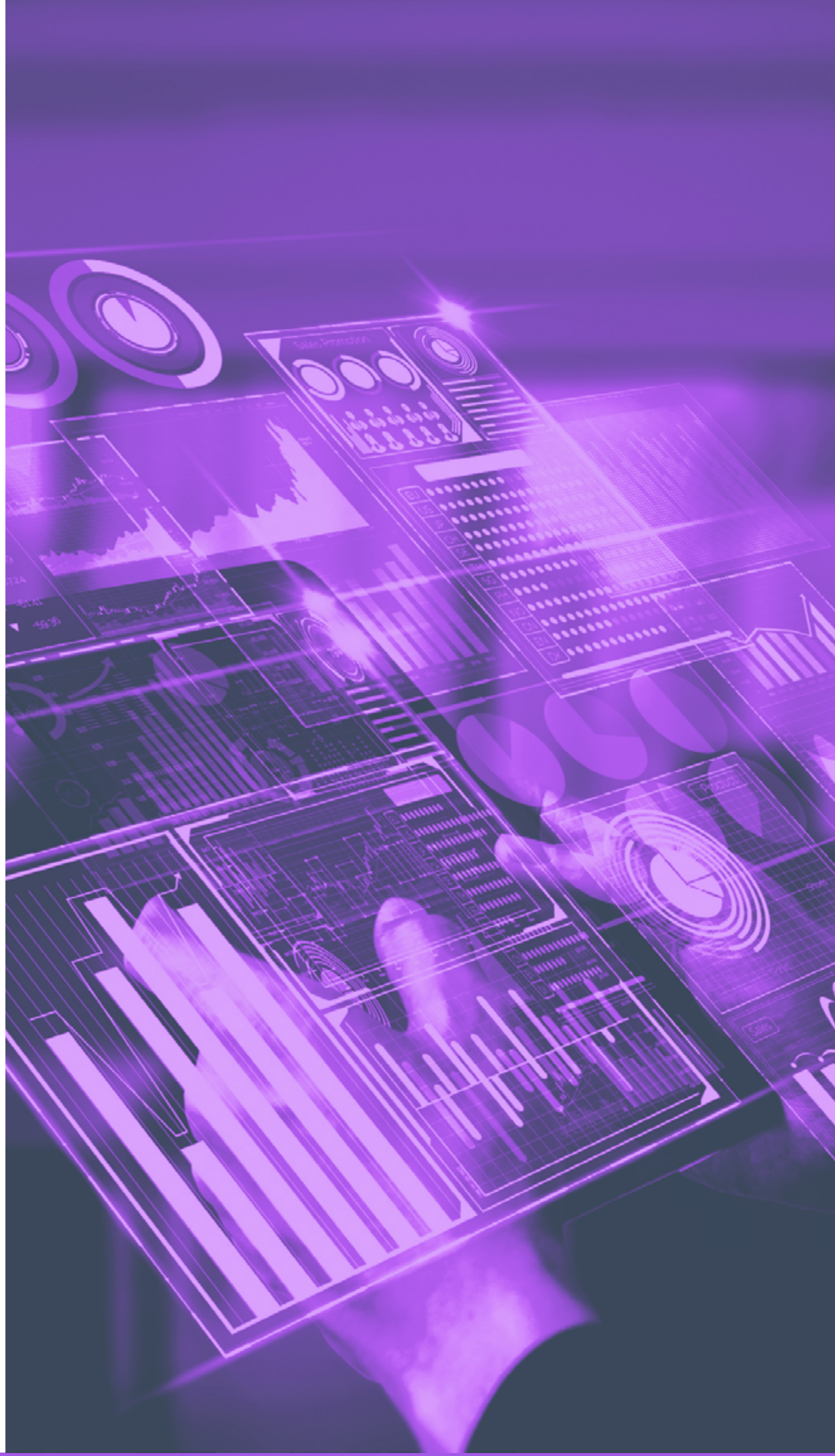
Italy, Nexi's primary market, encourages people to shift to digital payments. This is part of a global trend towards cashless societies, in a move where governments aim to fight tax evasion and to reduce the costs of physical cash.

- Italian taxpayers are entitled to 10% of their purchases done with a payment card every semester, with a maximum cashback of €150.
- 5.3mn people signed up for this scheme in the first two weeks.
- The public cost associated with the use of cash in Italy exceeds €15bn or ~1% of GDP.

A recovery play after the pandemics

Nexi's activity is still highly dependent on transactions at physical stores. A return to normal is expected in 2021 thanks to the Covid-19 vaccine. The company will benefit from the transition from brick-and-mortar shopping to e-commerce, and also a surge in volume for deeply impacted activities in 2020.

- 80% of revenues are generated offline, with traveling accounting for 15–20% of Nexi's total transaction volume in a normal year.



NEXI
(NEXI IM)

About the company

The emergence of a highly profitable payment leader

Nexi was a major actor of the consolidation wave in the payment industry that hit Europe in 2020, becoming the European leader in merchant acquisition. Also, the acquisitions of Nets and Sia will generate synergies at all levels, increasing EPS by >25% in 2022.

- The combined entity will reach 2.4mn merchants.
- EBITDA and EBITDA margin should reach €1.5bn and 52% in 2021 (compared to €1.4bn and 24% for Worldline).

Innovative payment solutions for merchants

The merger with Nets extends Nexi's geographical reach and expands its product offering. The product portfolio includes pay-later schemes, account-to-account (A2A) capabilities, one-click checkouts, and blockchain solutions.

- 50% of 64mn German online shoppers already used Ratepay, the group installment and invoice offer.
- Nexi processed >€11bn in A2A in 2020.

A one-stop-shop in payment solutions

The difficulty in operating international payment firms resides in the local constraints and payment habits. Nexi tackles these challenges by offering a one-stop-shop through the full digital payment value chain and by relying on local subsidiaries to build customer loyalty.

- Nexi's activities cover payment capture, authorization, processing, clearing, and settlement.

in USD mn	2019	2020E	2021E	2022E
Revenue	1,638	1,235	1,377	1,468
Revenue Growth (%)	n.a.	-24.64%	11.52%	6.64%
EBITDA (%)	17.04%	46.60%	48.76%	49.88%
EPS	0.14	0.41	0.48	0.54
Earnings Growth (%)	n.a.	190.93%	19.19%	11.24%
P/E	132.7x	37.8x	31.5x	28.3x
P/S	6.9x	9.4x	8.4x	7.9x
EV/EBITDA	43.4x	23.1x	19.8x	18.1x
PEG		0.24	1.99	3.06
Net Debt / EBITDA	12.1x	3.8x	3.0x	2.3x
FCF per share	0.013	0.208	0.217	0.254

Beta*: 0.80 | **3Y Revenue CAGR: -3.6%**

Market Cap:	$12bn
Reference Price:	14.45 EUR

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

NEXI
(NEXI IM)

Catalysts

- **Antitrust and regulatory approvals.** The mergers with Nets and Sia are expected to be completed in Q2 and Q3 2021, respectively.
- **Covid-19 vaccine.** The return to normal scenario will materialize once the number of people getting vaccinated increases.
- **Buy-Now-Pay-Later boom.** Nexi will benefit from the accelerating development and international expansion of Ratepay. Pay later programs are the digital payment technology with the highest growth potential and Nexi has the tools to capitalize on it.

Risks

- **Indebtedness.** Following the recent acquisitions, Nexi will have more financial leverage than Worldline, its main European competitor. Should the European consolidation wave continue, the company will have fewer ammunitions to make additional acquisitions.
- **Acquisition indigestion.** Integrating SIA and Nets could be a challenge, especially because of the difference of culture between Southern and Northern Europe.
- **Shareholding structure.** Six shareholders, including several private equity firms, own ~62% of the company. These investors may want to reduce their stakes at the end of the lockup periods linked to the mergers.

Bottom Line

- Nexi is a European payment company that made the right acquisitions to be part of the happy few club. Its exposure to the most underpenetrated European countries guarantees an above-market organic growth rate in the coming years.
- The strength of the company is not only about its geographical coverage, but also about its product offering. Nexi is active on the full digital payment value chain and offers the most innovative payment solutions to its millions of merchants.

Companies mentioned in this article:

Nexi (NEXI IM), Worldline (WLN FP)

GMO PAYMENT GATEWAY
(3769 JP)

Key drivers behind our strong conviction

A stronghold in Japan

GMO Payment has established one of the largest payment processing service in Japan. The company has partnerships with key Japanese institutions and established a dense merchant network, leading to high barriers to entry.

- Transactions worth ¥5.8tn (+26.0% YoY) were processed in FY2020.
- The network of over 140k merchants (+27.1% YoY) includes e-commerce giant Zozotown, the Tokyo Metropolitan Government, or TEPCO.

Japanese authorities pushing for cashless

The official target for the ratio of cashless settlement has been set at 40% by 2025 vs. 27% today, directly benefiting GMO Payment thanks to its cashless payment services. Changes in consumption habits (accelerated by sanitary measures) and increased e-commerce penetration represent additional tailwinds.

- Despite the VAT-related cashless rebate measures ending in June 2020, 86% of consumers planned to continue making cashless payments.
- Banks are transforming their branches into cashless (300 out of 400 by 2022 for Sumitomo Mitsui Bank) to reduce access to physical money, slowly but surely increasing the share of cashless payments (+2.8% in 2019).

A territory to conquer for Fintech

Japan has one of the lowest Fintech adoption rates in the world. As penetration rates normalize, first-movers like GMO Payment are likely to experience an outsized momentum.

- According to Ernst & Young, only 34% of the population in Japan uses Fintech services – compared to 46% in the United States or 87% in China.

GMO PAYMENT GATEWAY
(3769 JP)

About the company

Payment processing at the core

GMO Payment focuses on payment processing, particularly in Japanese e-commerce with larger merchants. Revenues are generated through a mix of monthly fixed revenues and fees based on transaction volumes and value.

- Payment processing accounts for 70% of revenues and 86% of operating profit.
- More than 80% of transaction volumes are generated online.
- Innovative contract systems consolidate the company's leading position.

Diversifying in Fintech

On top of its large footprint in payment, the company has launched a diversification into adjacent financial services to increase its revenues and margin profile, notably through Fintech services.

- Services such as payment after delivery and transaction lending show a dynamic growth and represent an increasing share of profits.
- Customers can benefit from added-value services through payment data analysis and inferences that lead to increased transaction volumes.

Strong tailwinds

The top- and bottom-line have been growing at double-digit rates for years, allowing the company to consolidate its market-leading position and seal alliances and partnerships with large institutions.

- Operating profits and transaction volume are set to increase by 2.5–3x by 2025.
- The rollout of next-generation payment platforms with Visa and Sumitomo Mitsui card is expected in 2021.
- The rollout of payment platforms dedicated to utilities and telecom will help to boost expansion outside of e-commerce.

in USD mn	2019	2020E	2021E	2022E
Revenue	313	389	478	575
Revenue Growth (%)	n.a.	24.21%	22.71%	20.47%
EBITDA (%)	42.83%	36.24%	36.29%	36.03%
EPS	127.88	114.30	143.39	175.72
Earnings Growth (%)	n.a.	-10.62%	25.45%	22.55%
P/E	1.2x	136.8x	108.7x	88.7x
P/S	36.3x	28.7x	23.3x	19.4x
EV/EBITDA	54.5x	74.8x	61.5x	51.4x
PEG		n.m.	0.04	0.04
Net Debt / EBITDA	-4.1x	-3.5x	-3.2x	-5.0x
FCF per share	15.360			

Beta*: 0.82	3Y Revenue CAGR: 22.5%

Market Cap:	$11bn
Reference Price:	15'930.00 JPY

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

GMO PAYMENT GATEWAY

(3769 JP)

Catalysts

- **Secular switch to electronic payment.** Japan is slowly but surely transitioning to a cashless society, a trend accelerated by current sanitary measures. GMO Payment may expect its volume of transactions (both online and offline) and hence its revenue, to increase.

- **Tokyo Olympic Games.** Postponed in 2020 due to the pandemic, the Olympic Games represent the opportunity for Japanese authorities to promote the use of cashless through high visibility advertising campaigns, further boosting the adoption rate.

- **International expansion.** GMO Payment started investing massively abroad, with a target to increase 10x its operating profits from international payment processing and lending activities by 2025.

Risks

- **Higher regulation.** Fintech activities do not suffer from the same constraints as banks. If regulation were to increase, profitability would suffer.

- **Tougher competition.** Gateway providers like Square, Stripe, or Adyen already have a local presence, but wait for the market to expand before launching major sales efforts. On the international side, locally established players may prove hard to displace.

- **Shareholder pressure.** The dividend payout ratio is about 50% and kept artificially high by the main shareholder (GMO Internet with a 40% stake) who relies on this cashflow. Such a payout ratio may limit the company's ability to make necessary investments and hamper its growth.

Bottom Line

- GMO Payment is part of our top convictions as it is the leader in payment processing in Japan, a 130mn people country that is pushing towards cashless solutions to fill the gap with other advanced economies.

- The company has witnessed a limited impact from Covid-19, with a higher number of lower-value e-commerce transactions offsetting the lower share of high-value travel-related transactions. In the meantime, its diversification effort in Fintech and international expansion should help maintain a double-digit growth in earnings for the foreseeable future.

Companies mentioned in this article:

Adyen (ADYEN NA), GMO Internet (9449 JP), Square (SQ US), Stripe (Not listed), Sumitomo Mitsui (8316 JP), Visa (V US)

CLOUDFLARE
(NET US)

Key drivers behind our strong conviction

Disrupting large and established legacy markets

Cloudflare's target market includes cloud security, threat intelligence, and content delivery network markets. The need to go serverless, new trends and technologies such as Internet of Things, 5G networks, remote work relying on the cloud, are all driving an acceleration in growth.

- Target markets are worth a combined $63bn and show a healthy 10% 5y CAGR.
- Cloudflare skillfully captures this disruption and is projected to continue growing its sales organically at 30–40% YoY, faster than its addressable market.

Transition to the cloud is inevitable

Rising data complexity leaves the cloud as the only viable solution for companies to manage their growing data needs. Cloudflare is designed to work natively and in real-time in the cloud, offering automation and scalability.

- Free users volunteering to test new products allow for rapid development cycles and quality analysis, with upgrades pushed instantly across the whole network.
- Machine learning improves products in real-time, leveraging every new threat, attack, or customer's request.

A highly efficient and consistent business model

Cloudflare continues to heavily invest in innovation and its team, focusing on its market-leading ability to run on any hardware and technological stack, as well as its symbiotic relationship with Internet Service Providers.

- Cloudflare spends >25% of sales on R&D, and ~50% on its sales team.
- Planned operating efficiency enhancement will yield 25%+ in operating margin.

SOURCE:
Company reports, AtonRâ Partners

CLOUDFLARE
(NET US)

About the company

"Best of Breed" provider of cloud platform

The firm offers cloud, hybrid, on-premise, and SaaS platforms that provide advanced cybersecurity, performance optimization, analytics, and domain delivery services. Operating at a massive scale, its success is validated by dollar-based recurring revenues above 115%, of which almost half come from outside of the U.S.

- Their solution blocks >76bn cyberthreats per day.
- Cloudflare sits at the heart of many industries serving over 3.2mn customers and 16% of the Fortune 1000.

A flexible solution providing strong competitive advantages

Cloudflare is a market pioneer with a highly configurable platform. Its IT solution may be efficiently run on every server globally, scaling and adapting its capacity. Separate solutions are usually costly, complex, full of dependencies, and installed on-premise – all challenges solved by Cloudflare's offering.

- Cloudflare is used in over 175 countries worldwide, and over 99% of the internet-connected population is within 0.1 sec of Cloudflare's network.

Efficient customer strategy and distribution model

The commercial strategy relies on technological leadership to drive self-service adoption and natural expansion, which pulls the firm into new markets and validates sales team growth, solidifying its market-leading position.

- Cloudflare is successfully and consistently growing its large customer base, almost doubling YoY clients paying $100K or more without additional marketing costs.

in USD mn	2019	2020E	2021E	2022E
Revenue	287	423	566	737
Revenue Growth (%)	n.a.	47.54%	33.67%	30.27%
EBITDA (%)	-27.33%	4.90%	9.59%	12.76%
EPS	-0.72	-0.13	-0.09	0.00
Earnings Growth (%)	n.a.	n.m.	n.m.	n.m.
P/E	-107.6x	n.m.	n.m.	n.m.
P/S	39.7x	56.5x	42.3x	32.4x
EV/EBITDA		1119.9x	428.0x	247.0x
PEG		n.m.	n.m.	n.m.
Net Debt / EBITDA	8.0x	-32.0x	-10.9x	-4.5x
FCF per share	-0.465	-0.192	-0.073	-0.031

Beta*: 0.95 | **3Y Revenue CAGR: 37.0%**

Market Cap:	$24bn
Reference Price:	77.85 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

CLOUDFLARE
(NET US)

Catalysts

- **IoT, 5G, and cloud.** The growing quantity of content, faster network speeds, and the shift to the cloud dimension increase the need for secure online domains which would inevitably lead to a higher demand for Cloudflare's services.
- **Increased customer retention.** Combined with low customer acquisition costs, higher customer retention will ensure stable sales allowing continuous investment in R&D to guarantee the high degree of innovation fueling growth.
- **Smart use of cash.** The company has doubled its cash position in 2020 and sits on a cash pillow of over $1bn. Further investing in R&D, marketing, and expanding its distribution network will leave competitors far behind.

Risks

- **Fragmented customer base.** Small clients represent more than 99% of its customer base. This makes it hard to verify them (e.g., websites that sell stolen card data) and allows them to switch more easily in case of outages.
- **Unbearable costs.** Increasing costs to expand its platform and customer base via R&D expenditure and salary expenses for the marketing team may put a toll on the firm's profitability. Continuing the 5-year of being unprofitable will not help.
- **Competition.** Despite being years ahead in offering a single cloud product, competitors may catch up by also shifting their strategy to the cloud and offering a free upgrade to the cloud for existing customers.

Bottom Line

- Cloudflare has deservedly been called the "best-in-breed" solution for cybersecurity, given their considerable expertise. Their leadership is being protected by high barriers to entry, high investments in R&D, and an experienced sales team.
- We believe that the recent strategic initiatives to increase operating efficiency, as well as tailwinds such as Covid-19-induced accelerated transition to the cloud will continue to create value for shareholders and positively impact the company's future growth.

CROWDSTRIKE
(CRWD US)

Key drivers behind our strong conviction

A segment under the spotlight

As organizations continue to digitize their business processes, the damage potential of cyberattacks increases exponentially. Multiple high-profile attacks (e.g., SolarWinds), have brought the spotlight to the cybersecurity market.

- Data breaches in the U.S. cost on average ~$9m in 2019 (+25% YoY).
- CrowdStrike has recognized expertise in complex cyberattack investigation (Sony Pictures in 2014, DNC leak in 2016).

Designed for the new landscape

Risks are compounded by the increasing number of connected devices and by the work-from-home trend, which multiplies the number of network vulnerability points. Protection solutions need to adapt to serve a booming endpoint market.

- FBI reported a 300% increase in reported cybercrimes since Covid-19.
- CrowdStrike's native cloud architecture is naturally fit for IoT and provides maximum market exposure.

High-growth profile

CrowdStrike is currently the reference in endpoint protection. Its technological edge and positioning are fueling significant growth and are placing the company as a future market leader.

- Revenues show stunning growth rates (35% CAGR), several times higher than those of the underlying endpoint market (8% CAGR) over the next 5 years.
- CrowdStrike is quickly gaining market share and now ranks #4 globally.

SOURCE:
Company reports, AtonRâ Partners

CROWDSTRIKE
(CRWD US)

CROWDSTRIKE

About the company

First-class endpoint protection

CrowdStrike offers next-generation endpoint protection, i.e., protecting the devices connected to a network (like an antivirus used to). It provides software but also services to assess potential breaches and propose solutions to fix them.

- CrowdStrike's software suite uses a combination of complex techniques to offer a recognized level of protection against ever-improving attack vectors.
- Its services allow companies to build a fine-tuned preventive protection or limit damages from existing breaches.

An innovative approach

Unlike competitors, its software is designed from scratch to run on the cloud. This scalable approach (composed of a light-weight agent and a cloud-based database) abolishes previous silos, allows for a fast reaction time, and improves overall protection as new customers are connected.

- The AI-powered SaaS platform gives a competitive edge over on-premise traditional solutions (lower performance impact, uniform protection across the customer base, easier deployment), especially in a remote-work context.

Further growth ahead

Despite the tremendous growth, more potential lies ahead: addressing customers and adjacent markets (geographical and verticals) by leveraging the existing database through a partnership-enabled app store.

- Dollar-based net retention rate has been regularly above 100% thanks to the launch of additional modules, and average module usage is >4 out of 11.
- International presence outside the U.S. remains limited (26%).

in USD mn	2019	2020E	2021E	2022E
Revenue	481	859	1,207	1,573
Revenue Growth (%)	n.a.	78.46%	40.50%	30.31%
EBITDA (%)	-25.45%	10.09%	10.22%	13.28%
EPS	-0.96	0.22	0.34	0.60
Earnings Growth (%)	n.a.	n.m.	54.08%	77.18%
P/E	n.m.	996.0x	646.4x	364.8x
P/S	67.5x	56.5x	40.2x	30.9x
EV/EBITDA		547.9x	385.1x	227.4x
PEG		8.10	11.95	4.73
Net Debt / EBITDA	7.4x	-12.8x	-11.2x	-8.3x
FCF per share	-0.427	0.236	0.195	0.181

Beta*: **0.68**	3Y Revenue CAGR: **48.4%**

Market Cap:	$49bn
Reference Price:	219.51 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

CROWDSTRIKE
(CRWD US)

Catalysts

- **Fallout from recent hacks.** The extent of the SolarWinds hack has yet to be fully gasped. Still, the already known damage will reinforce the case for a strong cybersecurity protection.
- **Snowball effect.** CrowdStrike remains a small player, but its scalable offering will only improve along the company's growth, improving its competitive edge, fueling scale effects and creating a virtuous cycle.
- **Balance sheet opportunities.** The proceedings from the IPO may be used to further increase the company's footprint, either organically or through targeted acquisitions.

Risks

- **Entry of bigger players.** Major cybersecurity players (e.g., Palo Alto Networks, VMware) have started expanding in endpoint security through M&A. These players may bundle their offering with their existing one and may undercut CrowdStrike's value proposition.
- **Technology replacement.** Substantial growth is only possible as long as the company retains a technological supremacy, which may be disputed. SaaS also allows an easier deployment – hence replacement.
- **Demanding valuation.** High growth expectations are baked-in, leaving little room for execution mistakes, especially considering the negative profitability.

Bottom Line

- CrowdStrike is the rising star in endpoint security, aggressively taking market share from traditional players thanks to its new approach combining cloud and AI, resulting in an undisputed competitive edge and stellar growth rates.
- The company is poised to benefit from the exponential number of connected devices, which traditional endpoint services fail to properly address, as well as from the increasing demand for effective and easily deployable security solutions, following the rise of remote-work and associated cybercrime.

Companies mentioned in this article:

Palo Alto Networks (PANW US), SolarWinds (SWI US), VMware (VMW US)

EVERBRIDGE
(EVBG US)

Key drivers behind our strong conviction

One person's poison is another's gain

People and assets are constantly under threat. Extreme weather events due to global warming, mass shootings facilitated by easy access to weapons, or rise in cyber-attacks never stop.

- Natural disasters caused losses to the tune of $150bn in 2019.
- In 2020, there were 612 mass shootings in the U.S., while the 2015-2020 average is >1 per day.
- Over 1.1bn malware threats have been identified so far.

A new era in risk management

Critical event management (CEM), is evolving from being considered like an insurance to a management tool aimed at mitigating the impact of catastrophes. C-level executives have started understanding CEM's power to manage more efficiently their businesses – increase revenue, save money.

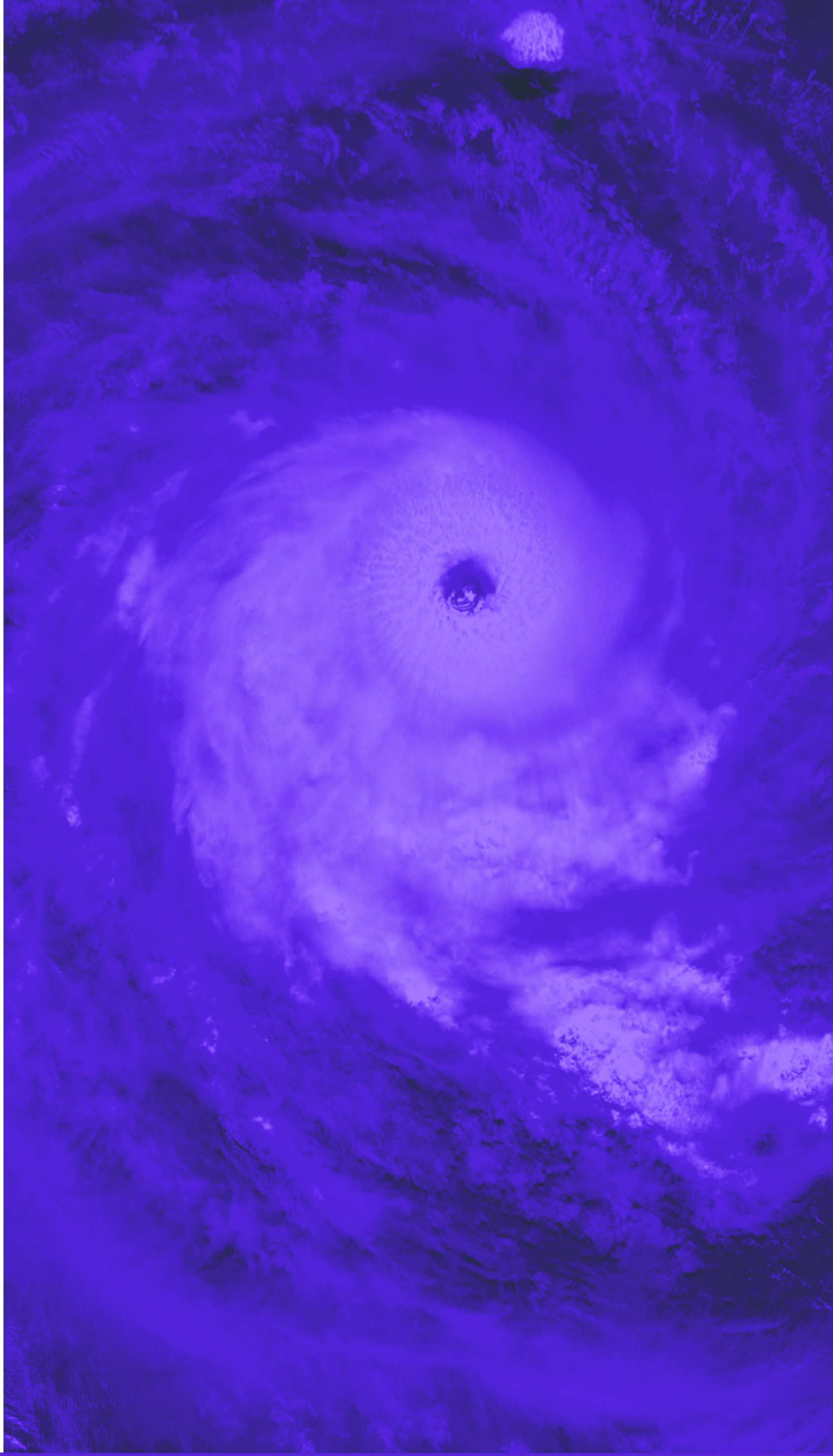
- Everbridge, the market leader, is trusted by companies like Goldman Sachs, Dow or Tiffany & Co trust Everbridge.
- The estimated total addressable market for Everbridge is >$40bn.

A regulatory boost from the public sector

Real-time communication around critical events is essential for public authorities as it can save lives. New batches of regulations reinforce constraints on public sectors to improve their response to CEM.

- All EU member states must adopt a public warning system by June 2022.
- India is deploying upgraded cyclone alert systems in its coastal states.

SOURCE:
Gun Violence Archive, AV Test, Everbridge



EVERBRIDGE
(EVBG US)

About the company

The best CEM platform

Everbridge offers the most advanced CEM platform, developed internally and through targeted acquisitions. The platform relies on AI to analyze tons of data to identify potential critical events and uses geolocation to communicate effectively with the various stakeholders.

- Everbridge invests >20% of its revenue in R&D (vs. 10–15% on average for the software industry).

The only international CEM provider

Everbridge is the only player in the CEM industry to have a global scale. Multinationals that want to have a single solution to manage their risks have no alternatives. The contract wins create a network effect, attracting other players.

- In Florida, Everbridge onboarded first the state, before expanding to over 400 customers including 65 out of 67 counties and 260 cities.
- In Singapore, Everbridge contracted with the country and is now used by dozens of corporate clients, including local banks for six-figure deals.

A boost from Covid-19

Everbridge capitalized on the pandemics with several products, e.g., supply chain management and return-to-work solutions. The necessity to have sound business continuity plans attracted new clients, which are likely to expand usage to other modules going forward.

- The company had 5'467 clients at the end of Q3 2020 (+616 YoY).
- Revenue retention rate is >110%.

in USD mn	2019	2020E	2021E	2022E
Revenue	201	268	337	430
Revenue Growth (%)	n.a.	33.42%	25.73%	27.47%
EBITDA (%)	-13.50%	2.63%	4.24%	10.89%
EPS	-1.55	-0.02	0.07	0.81
Earnings Growth (%)	n.m.	n.m.	n.m.	n.m.
P/E	n.m.	n.m.	n.m.	n.m.
P/S	22.8x	18.0x	14.3x	11.2x
EV/EBITDA		680.1x	335.8x	102.7x
PEG		n.m.	n.m.	n.m.
Net Debt / EBITDA	3.7x	-3.6x	-2.3x	-1.3x
FCF per share	-0.225	-0.024	0.028	0.078

Beta*: 0.78	**3Y Revenue CAGR: 28.8%**

Market Cap:	$5bn
Reference Price:	138.05 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

EVERBRIDGE
(EVBG US)

Catalysts

- **New sales channel.** Instead of focusing solely on direct sales, Everbridge is developing sales partnerships for their platform, multiplying the chances to reach the right decision-makers.
- **New contracts awarded in Europe.** European countries will start announcing their provider of mass notification systems to be implemented by 2022. A domino effect is likely should Everbridge start winning contracts.
- **Profitability in sight, Everbridge should turn profitable in 2021.** The scale of the business is growing, and we expect margin expansion to accelerate once profitability will be confirmed.

Risks

- **Data privacy.** The ability to contact 600mn people around the world goes with the risk of being scrutinized by regulators or be targeted by hackers.
- **Competition from giants.** Behemoths like Cisco, Honeywell, or Siemens offer competing services. These solutions' quality is still behind, but they have deep pockets to develop their products as the CEM industry grows.
- **Volatile shareholders.** Loved or not understood by alternative funds, as per the top shareholders and high short interest ratio (10–15%) indicate respectively, Everbridge stock price may exhibit a bumpy ride ahead.

Bottom Line

- In a period characterized by a global pandemic, individuals and entities are reminded that critical events happen every day. Everbridge offers a CEM solution to mitigate the consequences of such events and is becoming an essential part of the toolbox of all executives and officials needing to protect people and assets.
- As the only pure-player with an international reach, Everbridge can rely on a state-of-the-art solution. Targeted acquisitions and investments to maintain its technological leadership will ensure it keeps the positive top-line growth momentum.

Companies mentioned in this article:

Cisco (CSCO US), Everbridge (EVBG US), Honeywell (HON US), Siemens (SIE GY)

CONTEMPORARY AMPEREX TECHNOLOGY
(300750 CH)

Key drivers behind our strong conviction

Capturing electric vehicle (EV) growth

Global EV adoption is set to sharply accelerate in the coming years, driven by supportive policies and new models' rollout. Batteries are crucial components in electric cars and leading makers are set to leverage the sector's growth.

- EV "annual sales are expected to grow from about 2.3mn in 2020 to 8.5mn by 2025 and 26mn by 2030.
- Batteries represent about 14% of the overall cost and impacting car's driving range, recharging performances, and lifetime.

Technology and cost leader

The company is leveraging its access to lower cost materials and manufacturing facilities, as well as its leading technological know-how to maintain its competitive advantage against other battery players.

- Its NMC811 high-nickel battery cell cost is estimated at around $99/kWh (or an estimated ~10% better than competition).
- It is also known for its lithium ferrophosphate cobalt-free battery which is used in Tesla's China-made model-3 low-range cars.

Chinese player going global

China is expected to remain the world's largest EV market and CATL is a dominat national player with high potential to expand its market share abroad.

- It currently has a 45–50% market share in China and ~10% in Europe.
- In 2021, CATL is to complete construction of a new 14GWh factory in Germany, a key location for addressing the European market.

CONTEMPORARY AMPEREX TECHNOLOGY
(300750 CH)

About the company

Lithium-ion battery maker

The company is a leading provider of lithium-ion (Li-ion) battery technology, mainly targeting the EV sector but with the ambition to also expand into non-EV segments (e.g., energy storage systems, e-bikes, and so on).

- It sold ~41GWh of batteries in 2019, about 24% of global demand.
- It is a global leader in the industry thanks to its large and diversified customer base (including Tesla, VW, BMW, Toyota, Audi, NIO, SAIC Motor, BAIC, etc.).

Ramping-up production and expanding business scope

The company is pursuing its manufacturing capacity expansion, with new factories under construction in China, Germany, and Indonesia. It aims at maintaining its lead by strengthening its supply chain (e.g., JVs with materials suppliers) and capturing emerging demand (with a focus on Europe).

- 60GWh of annual capacity is in operation and 40GWh under construction.
- Annual production capacity is projected to reach 160GWh by 2023.

At the forefront of innovation

The company introduced the cell-to-pack (CTP) technology, integrating cells directly in battery packs, hence bypassing modules and reducing packing materials, space, weight, and manufacturing costs. It is also leading R&D in innovative battery chemis-tries, notably with reduced cobalt contents.

- CTP is estimated to improve mass-energy density by 10–15%.
- CATL intends to bring cell-to-chassis technology (where cells are directly integrated into cars' chassis) to the market by 2030.

in USD mn	2019	2020E	2021E	2022E
Revenue	6,577	7,674	10,686	14,048
Revenue Growth (%)	n.a.	16.67%	39.26%	31.46%
EBITDA (%)	21.72%	22.43%	21.56%	21.67%
EPS	2.38	2.24	3.19	4.13
Earnings Growth (%)	n.a.	-5.63%	42.29%	29.35%
P/E	23.7x	163.2x	114.7x	88.6x
P/S	18.7x	17.1x	12.3x	9.4x
EV/EBITDA	22.9x	74.1x	55.3x	41.9x
PEG		n.m.	0.42	0.47
Net Debt / EBITDA	-0.8x	-3.1x	-2.3x	-2.1x
FCF per share	-0.142			

Beta*: **0.95**	3Y Revenue CAGR: **28.8%**

Market Cap:	$131bn
Reference Price:	385.50 CNY

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

CONTEMPORARY AMPEREX TECHNOLOGY
(300750 CH)

Catalysts

- **Global expansion.** Expanding market share in Europe with its new factory in Germany, growing LFP battery sales through the new lower-priced Tesla Model 3 in China, and the use of CATL batteries in new EV models.
- **Faster EV growth.** EV sales could further accelerate in 2021, driven by a post-pandemic demand recovery as well as automakers releasing new models.
- **Policy support.** Government support (e.g., subsidies, tax rebates, infrastructure spending) and ICE car bans could speed up the adoption of EVs, notably in the Democrat-controlled U.S.

Risks

- **Increased competition.** Some automakers are starting to develop their battery technology. Tesla announced such plans during its Battery Day event, a threat for existing battery manufacturers.
- **EV slowdown.** The economic impact of the pandemic could result in lower-than-expected adoption of EVs as people may delay the purchase of new cars in the near term.
- **Technological breakthrough.** New battery or energy storage technologies like solid-state batteries (e.g., QuantumScape) could hamper CATL leadership and ultimately its sales.

Bottom Line

- Contemporary Amperex Technology remains one of the leading actors in the EV-batteries industry benefiting from strong relationships established with major automakers, as well as competitive pricing & technology.
- We believe that the company, through its strong partnerships, innovative technology, and manufacturing expansion, will keep capturing growing revenues from the EV industry.

Companies mentioned in this article:

BAIC Motor (1958 HK), BMW (BMW GR), Nio (NIO US), SAIC Motor (600104 CH), Toyota Motor (7203 JP), Tesla (TSLA US), Volkswagen (VOW GR)

TPI COMPOSITES
(TPIC US)

Key drivers behind our strong conviction

Capitalizing on wind energy growth

As major components in wind turbines, blades are directly benefiting from the rapid growth of the wind energy sector. They are key to improve turbines' performance and cost competitiveness through technological advancement.

- Wind blades represent about 22% of total installed turbine costs.
- 348GW of new wind power capacity are to be installed by end of 2024, bringing the total global capacity to nearly 1'000GW (9% CAGR).

Outsourced blade manufacturing model taking over

The vertically integrated wind power industry is increasingly outsourcing wind blade manufacturing in order to optimize supply chain and capital allocation. The outsourcing model allows them to serve geographically distributed customers in a more cost- and time-efficient manner.

- In 2018, outsourced blades represented 59% of global wind blade manufacturing (vs. 38% in 2009).
- TPIC is the leading independent manufacturer of composite wind blades.

Leveraging a global footprint

Thanks to its global manufacturing footprint, TPI Composites is best-positioned to address new and existing customers across the globe. The company is replicating and scaling-up its production capacity to meet a growing global demand.

- It operates 10 manufacturing plants, 2 transport facilities, and 5 tooling/engineering/R&D facilities across 5 countries.

TPI COMPOSITES
(TPIC US)

About the company

Wind-blade producer

TPI Composites' main activity is to design and manufacture composite wind blades for the wind energy market. Its advanced composite expertise and global footprint makes it the best-positioned actor to capitalize on the wind-energy growth and wind-blades outsourcing trend.

- Since 2001, TPIC produced more than 55'000 wind blades worldwide and is now capturing >15% of global market share.

Strong customer loyalty

The company has built a strong reputation among many wind turbine OEMs by producing best-in-class products specific to their needs. It has hence secured long-term supply agreements with major players (including Vestas, GE, Siemens Gamesa, etc.), providing healthy revenue visibility.

- Its customers account for 99% of U.S. onshore wind market and 52% of global onshore market.

Going beyond the wind industry

TPIC is extending the application of its expertise in advanced composite technology to some of the emerging areas of clean transportation, such as electric busses and commercial electric vehicles, where the lighter weight provided by the composite material enables a longer range.

- The company is currently developing a prototype composite-body electric delivery-van for Workhorse Group (U.S. electric delivery vehicles) and is already building the all-composite bus body of Proterra (U.S. electric bus maker).

in USD mn	2019	2020E	2021E	2022E
Revenue	1,437	1,654	1,784	1,976
Revenue Growth (%)	n.a.	15.14%	7.87%	10.74%
EBITDA (%)	5.33%	5.67%	8.93%	9.21%
EPS	-0.04	-0.57	1.57	2.09
Earnings Growth (%)	n.a.	n.m.	n.m.	33.18%
P/E	n.m.	n.m.	39.7x	29.8x
P/S	1.5x	1.3x	1.2x	1.1x
EV/EBITDA	9.4x	24.6x	14.5x	12.7x
PEG		n.m.	n.m.	0.90
Net Debt / EBITDA	0.9x	1.3x	0.7x	0.6x
FCF per share	-0.036	-0.005	0.008	

Beta*: 1.71 | **3Y Revenue CAGR: 11.2%**

Market Cap:	$2bn
Reference Price:	62.14 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

TPI COMPOSITES
(TPIC US)

Catalysts

- **Higher U.S. demand.** Higher-than-expected wind turbine demand thanks to the 1-year production tax credit (PTC) extension as well as the introduction of new potential incentives by the Democrat majority.
- **Clean transportation opportunity.** The company could experience strong growth in its nascent transport segment driven by the positive momentum in this sector and the upcoming IPO of Proterra (one of its customers).
- **Increased corporate commitment.** Increased focus on renewable electricity procurement from large corporates could further accelerate the installation of new wind power facilities.

Risks

- **Covid-19 pandemic.** New lockdowns could disrupt blades' production in either of its factories (including China, U.S., Mexico, India, etc.) and delay demand in the near term.
- **Headline risk.** Blade failure could put the company's reputation at risk and impact global wind manufacturers' trust in TPIC products – currently, an average of 3'800 failures/year are reported (out of ~700'000 blades in operation).
- **Rising raw material prices.** Disruption in materials supply, (e.g., PET) could impact the company's profitability in the near term.

Bottom Line

- The global wind industry is to experience a period of solid growth, driven by countries' renewables commitments, corporate and utility procurement decisions, as well as public pressure.
- Within the pretty consolidated wind power industry, we believe that TPI Composites stands out as a unique player, best-positioned to capture the upcoming growth on a global scale.

Companies mentioned in this article:
GE (GE US), Proterra (not listed), Siemens Gamesa (SGRE SM), Vestas Winds Systems (VWS DC), Workhorse Group (WKHS US)

SOLAREDGE
(SEDG US)

Key drivers behind our strong conviction

In the solar industry's « Sweet Spot »

SolarEdge leads a key segment of the value chain, enabling it to benefit both from the growing photovoltaic (PV) deployment and falling prices of modules.

- PV solar installations increased 1'650% over the past nine years (37% CAGR).
- Solar power prices fell by more than 85% since 2010 (from about $360/MWh to $50/MWh), improving the competitiveness and fostering new installations.

Providing a best-in-class product

SolarEdge combines power optimizers (attached at the back of each solar panel) along with a string inverter, an innovative approach that avoids generalized power losses caused by malfunctioning of an individual panel.

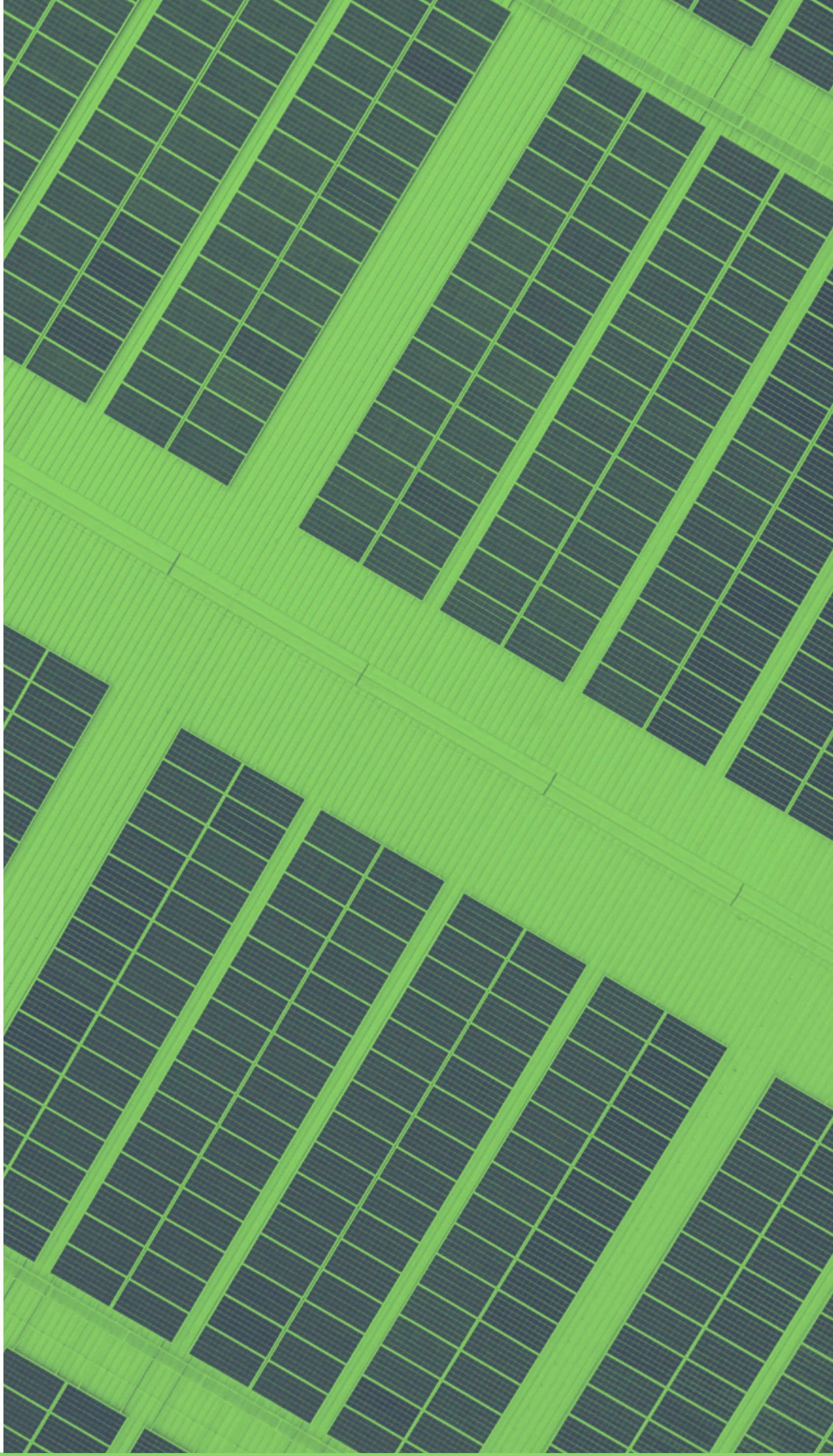
- Hence, every individual panel is equipped with SolarEdge's product, providing a one-to-one ratio with panel deployment.
- SolarEdge's solution has demonstrated outstanding efficiency at a 99.5% level (vs. 95-98% on standard residential inverters).

Major R&D and strategic acquisitions

A strong and unlevered balance sheet allows SolarEdge to pursue vital acquisitions, a fast-track access to complementary high-growth markets.

- SMRE, with its innovative powertrains used in the EV market, and Kokam a global Tier 1 provider of battery solutions.

SOURCE:
Global EV Outlook 2020, IEA



SOLAREDGE
(SEDG US)

About the company

A complete residential smart energy solution

SolarEdge makes solar inverters, a product that converts direct current (DC) generated by solar arrays into alternating current (AC), enabling households to use the electricity generated by the solar panels. Producing the most efficient inverter is a strong differentiator from competitors.

- Inverters remain its primary source of revenue (>93%).
- Expanding high-growth Storage & Energy Management will diversify its revenues.

Focused on solar products and growing its market share

Despite diversifying into adjacent high-growth markets, i.e., EV drive trains, batteries, and power backup, the solar segment remains its key growth driver and area of investment. SolarEdge spends 10% of its revenues on R&D, Capex, and innovation.

- Spending on R&D, Capex, & innovation is 3x more than its main competitors.
- The U.S. solar residential segment (SEDG's main market) is to be the fastest-growing next year at +22% (following a +5% in 2020).

Disruptive products

IP-protected technology and a proven track record help SolarEdge to gain market share.

- HD Wave Technology boosted the efficiency and reduced the size, weight, and cooling needs of its solar inverters.
- Its new power optimizers enhance the lifetime value of solar arrays.

in USD mn	2019	2020E	2021E	2022E
Revenue	1,426	1,457	1,748	2,162
Revenue Growth (%)	n.a.	2.18%	19.99%	23.70%
EBITDA (%)	15.21%	17.56%	19.77%	20.32%
EPS	3.03	4.02	4.66	6.28
Earnings Growth (%)	n.a.	32.72%	15.77%	34.78%
P/E	93.1x	70.1x	60.6x	45.0x
P/S	9.9x	9.9x	8.3x	6.7x
EV/EBITDA	20.0x	54.2x	40.1x	31.6x
PEG		2.14	3.84	1.29
Net Debt / EBITDA	-1.4x	-3.1x	-3.0x	-2.6x
FCF per share	0.069	0.074	0.117	0.114

Beta*: **1.57**	3Y Revenue CAGR: **14.9%**

Market Cap:	$14bn
Reference Price:	282.26 USD

** Beta is calculated on a 3Y period, If not available (IPOs) the longest available period is used.*

Data source: Eikon/Refinitiv - Reuters

SOLAREDGE
(SEDG US)

Catalysts

- **Solar PV boom.** The latest EIA forecast anticipates solar PV to account for 39% (or 15.4GW) of new U.S. electricity generating capacity in 2021 (vs 12GW last year).
- **Supportive regulations.** SolarEdge's double-digit growth will be positively impacted by new supportive regulations (such as further tax credit extensions) that might arise from the new U.S. Democrat government.
- **New battery factory.** The upcoming opening of its 2GWh battery cell factory (to be online by 2022) would to bring additional revenues and contribute to expanding the company's total addressable market.

Risks

- **Covid-19.** The pandemic lasting longer than anticipated could impact SEDG product demand beyond expectations.
- **Vertical integration.** New competition could arise from PV panel makers who may vertically integrate power inverters providers and increase competition. Tesla (which already provides PV panels & batteries) recently announced the introduction of its solar inverter solution.
- **New entrants.** Solar-inverter suppliers must continuously innovate to fight product commoditization and lower-cost-competitors, e.g., Generac. Failure to do so will increase pricing pressure and nullify any competitive advantage.

Bottom Line

- SolarEdge remains focused on continuing to deliver disruptive and mission-critical components for solar arrays.
- We believe that the company has a solid product line and strong technology patents to maintain its status as the leading global solar inverter and power-electronics supplier.

Companies mentioned in this article:
Generac (GNRC US), Tesla (TSLA US)

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