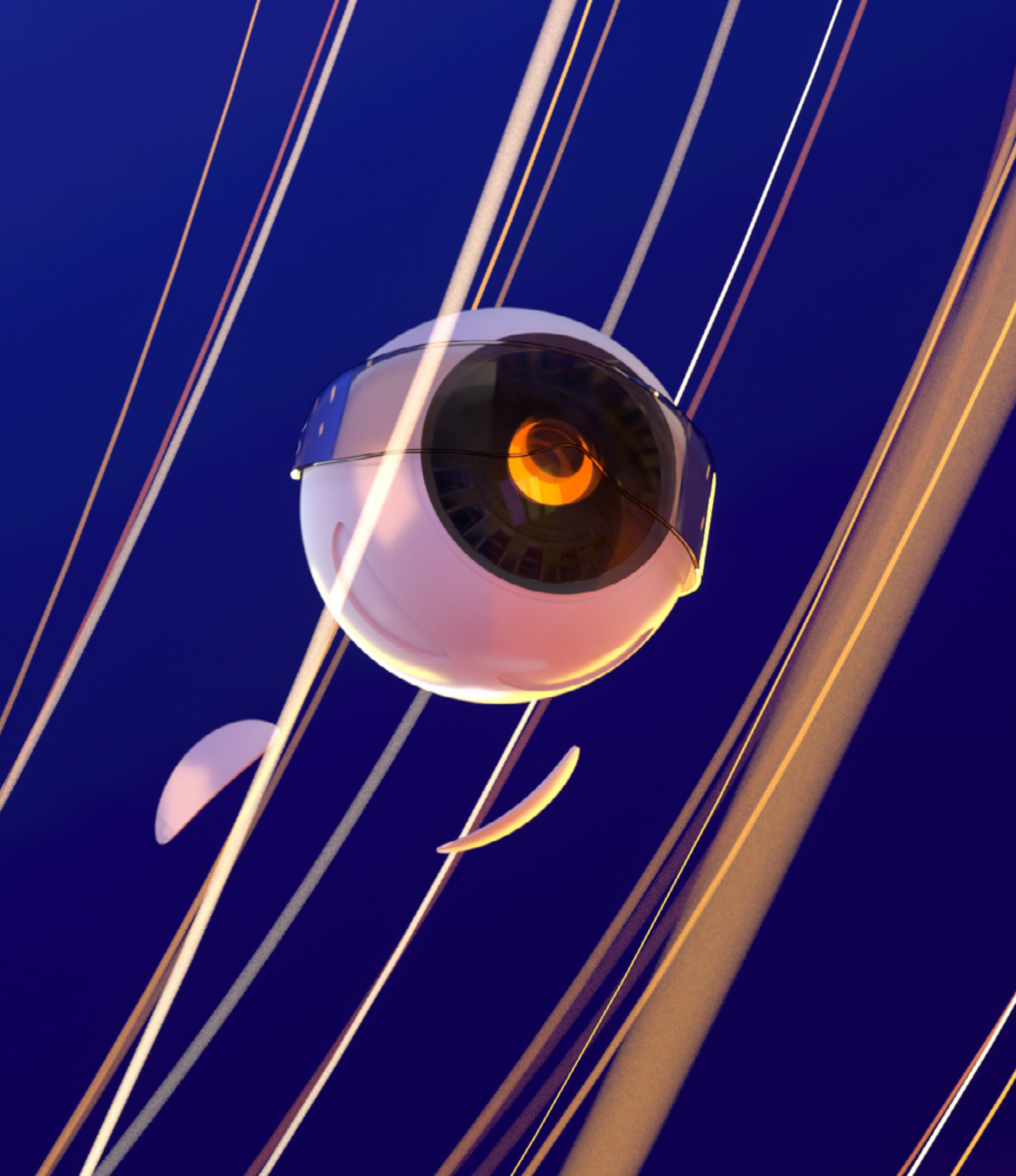
Investment Recipes

by AtonRā Partners



SPECIAL ISSUE

Top picks review

24 JANUARY 2020

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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 20 December 2019, we reviewed drivers and risks of each theme, making up our investment universe. In this new special issue of Investment Recipes, we delve into the individual stocks by reviewing our top-3 strong convictions succinctly.

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

« AMD is all about high-performance computing » (Lisa Su, CEO, CES 2020)

AMD reigns in the field of high-performance computing, one of the essential requirements for Artificial Intelligence.

- The company is enhancing its leadership and gaining market share in a field with strong structural growth.
- The latest product line (Ryzen 4000) opens new markets in mobile computing.

Leadership is not a matter of chance

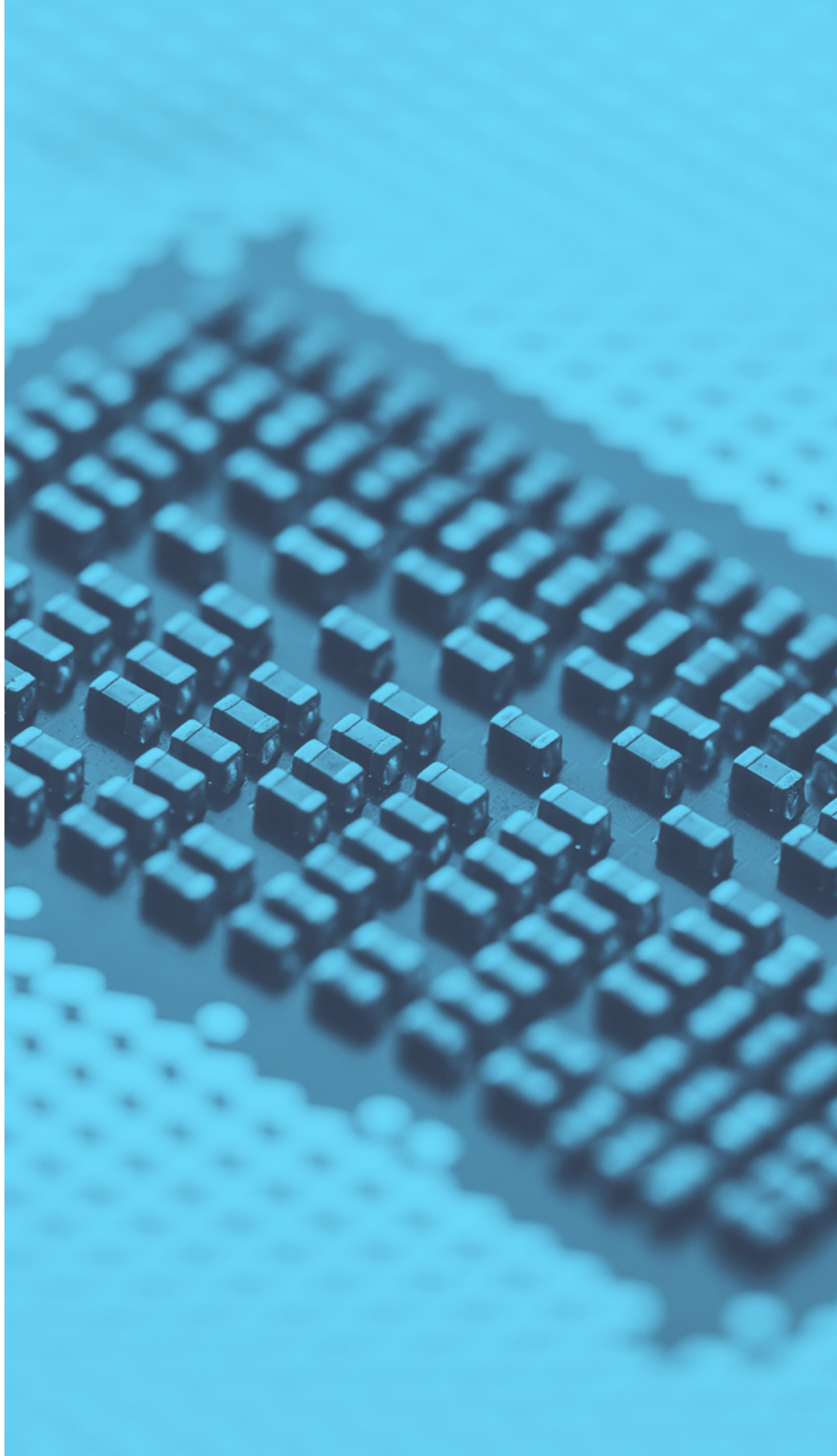
AMD's strategic decision to shift the production of its chips from **Global Foundries (not listed)** to **TSMC (2330 TT)** allowed the company to increase its gross margins steadily over the last quarters.

- With its 2nd generation of chips (Rome), the company was able to gain market share in the server market as the performance of its chips is 50% better at half the price vs. **Intel (INTC US).**
- The company's target of double-digit market share in the server market is in sight.

Standing on the shoulders of giants

Tech industry leaders turned to AMD to co-design and co-develop some of their flagship products.

- Google for its gaming platform, Windows for the Surface laptop, Apple for MacPro, and many others…



ADVANCED MICRO DEVICES
(AMD US)

About the company

David vs. Goliath

AMD is leapfrogging away from Intel's competition thanks to its Zen 2 architecture, which is built on a TSMC 7nm node and is the most advanced computer architecture, bringing high performance and low power consumption.

- This architecture is deployed in high-end products for both CPUs and GPUs.
- The third generation of Zen is announced for 2020, just one year after Zen 2.

Steps ahead of the competition

The technological leadership resulting from substantial R&D investments has allowed AMD to gain significant market share in the desktop and server segments.

- The company is now targeting an untapped market in the mobile desktop segment for gamers and graphics with the 4th generation of Ryzen CPU.

A successful financial turnaround

The financial shape of the company significantly improved since 2016, when we first added AMD into our AI & Robotics portfolio, thanks to innovation, a better focus on the product mix, and enhanced execution.

- 2018 was the first profitable year since 2011.
- Total debt-to-EBITDA decreased from 4.6x in Q4 2017 to 1.5x in Q3 2019.

ADVANCED MICRO DEVICES
(AMD US)

Catalysts

- **Missing competition.** Intel production delay is making AMD the only valuable alternative for high-performance computing.
- **Datacenter expenditure and upgrade.** The lower total cost of ownership for AMD products makes them a no-brainer choice for data centers, a potential market of $29bn.
- **Margin expansion.** Gross margins have substantially improved in the last two years. Additional margin expansion is expected as the company is moving its revenue mix to higher-margin products.

Risks

- **CPU supply.** TSMC is the only foundry servicing AMD for high-end products. The microprocessor company will account for one-third of TSMC 7nm capacity.
- **RISC processors.** In the laptop market, RISC processors (designed by ARM), are already a threat for every CPU producer. In servers ARM never hid its willingness to move into this market.
- **Cyclicality.** The semiconductor industry is cyclical. Upturns are followed by downturns that usually last between four to six quarters.

Bottom Line

- AMD is a key AI player as it enables high-performance computing in all sectors.
- Growth in the datacenters market coupled with high potential in the mobility, make us confident with the company's prospects.

LATTICE SEMICONDUCTOR
(LSCC US)

Key drivers behind our strong conviction

A focused strategy

Following a management shake-up, Lattice focus solely on low power and small footprint FPGAs.

- A $3bn total addressable market by 2022, that could see further upside coming from 5G, IoT, security, and automotive.
- Recently, five new executives joined the top management team, coming from **Xilinx (XLNX US)**, **Intel (INTC US)**, and **Advanced Micro Devices (AMD US)**.

Products development on a new platform-based design

A platform-based design enables Lattice to develop multiple product families based on a single architecture. The refocused product line allows the company to harvest growth from all the markets it targets, i.e., embedded vision, security, AI.

- Resulting in lower development costs and higher profitability.
- And a faster time to market.

A Sales team dedicated to high ROI projects

Lattice restructured its sales team to increase market coverage, notably towards OEMs.

- The top 20 OEM customers represent >50% of the addressable market by 2022.

LATTICE SEMICONDUCTOR
(LSCC US)

About the company

Vast experience with low power programmable chips

Lattice is an important player in field-programmable gate arrays (FPGA), flexible devices that can be (re)programmed for tasks such as face recognition or modulating both analog and digital signals in telecommunications.

- It is leading the competition race with **Xilinx (XLNX US)** and **Intel (INTC US)**.

"Low power" as a natural barrier to entry

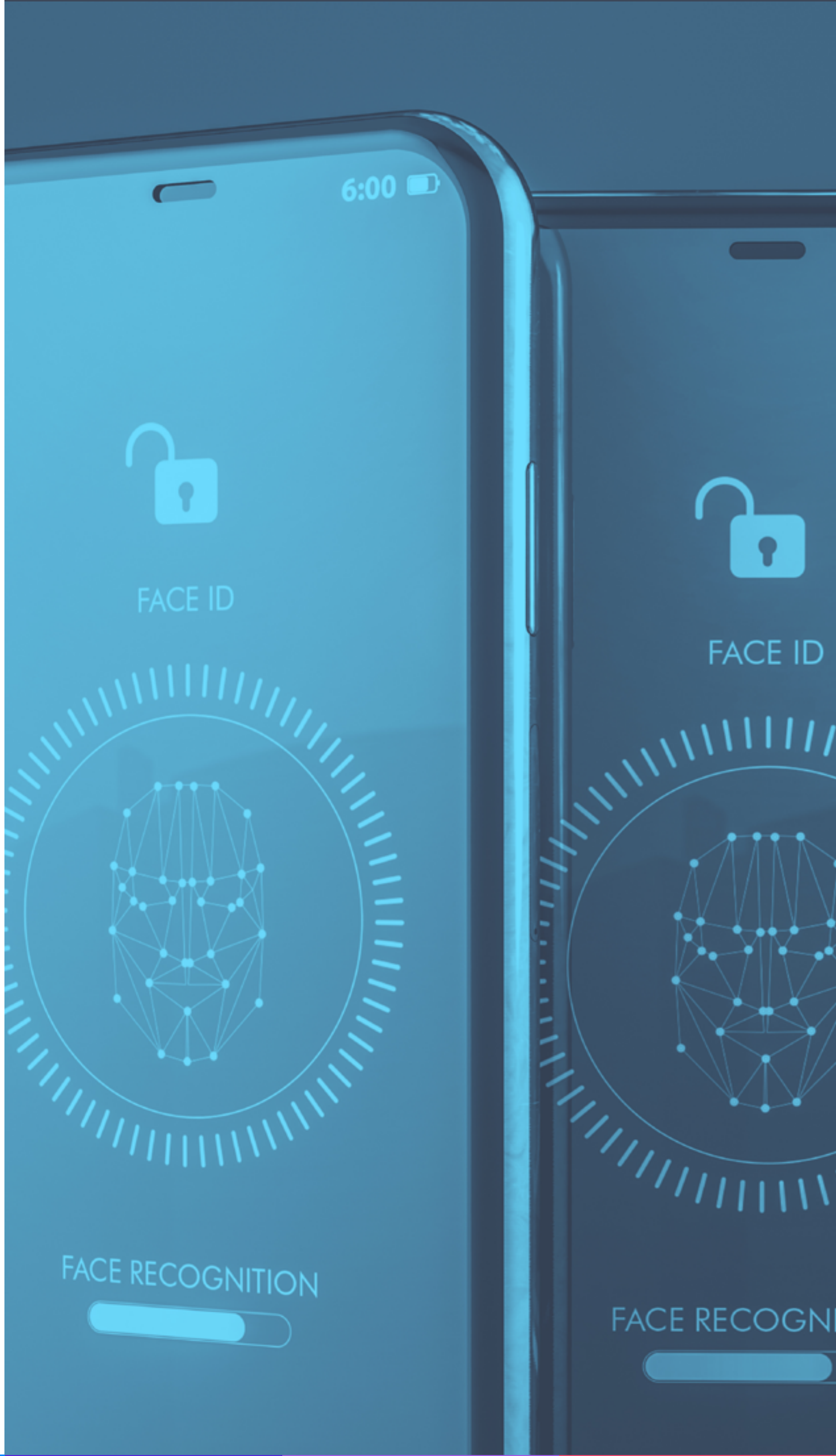
FPGAs are typically used in prototyping and eventually replaced in the production phase by dedicated chips (ASICs) that offer lower power consumption and a reduced footprint - Lattice's low power FPGAs, significantly differ from those offered by competitors.

- Lattice's FPGAs consume 1mW to 1W with a footprint between 2-100mm², vs. standard FPGAs currently at 200W and 3000mm².
- The low total cost of Lattice products preserves them from being challenged by ASICs.

Healthy cash generation to support its product pipeline

Annual R&D investments of ~20-25% of revenues are made possible by strong cash generation - this allows Lattice to develop a growing number of applications for low power FPGAs and better fulfill client needs.

- Cash generation currently runs at >20%.
- Recently Lattice announced two new products, and two more are coming in 2020.



LATTICE SEMICONDUCTOR

(LSCC US)

Catalysts

- **Increased use cases of AI.** Architecture innovation and chips miniaturization will lead to cheaper computing power and subsequently pave the way for more AI, where FPGAs are essential.
- **IoT, 5G, and security.** Increasing capabilities of sensors and growing demand for security and computer vision will drive demand for Lattice's products.
- **AI at the edge.** The edge is where AI will make most of its impact: high computing and low power are the two most stringent requirements that are met by Lattice products.

Risks

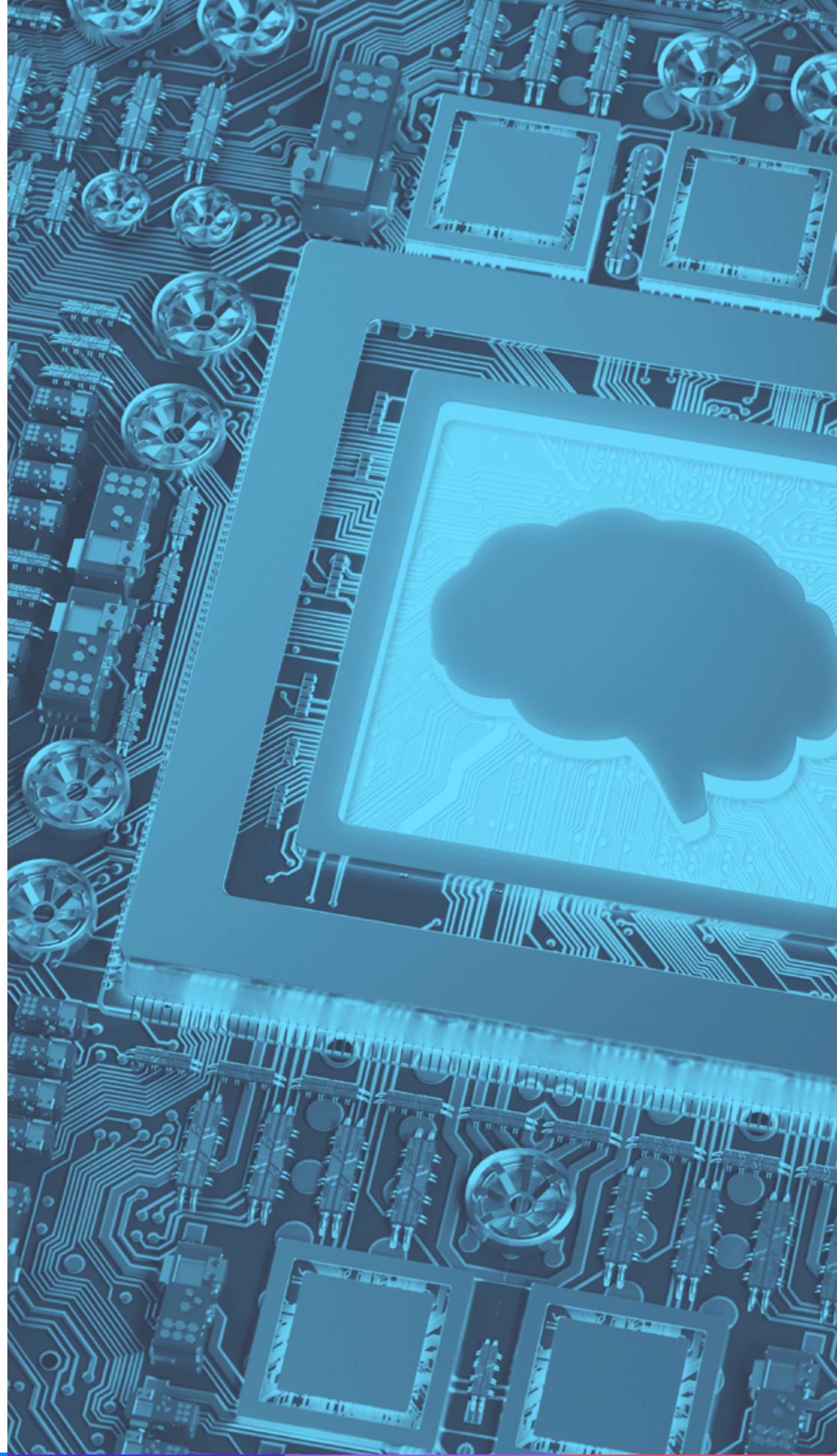
- **Multiple foundries.** Managing many foundries as it is the case for Lattice is often costly and inefficient.
- **High dependence on mobile & communication.** More than 60% of Lattice revenues come from those two verticals.
- **High dependence on China.** More than 50% of Lattice revenues derive from China.

Bottom Line

- Lattice Corp concentrates on a very niche market of low power FPGAs, in which they have considerable expertise while simultaneously being protected by high barriers to entry.
- We believe that the recent strategic refocus of its R&D, product and sales strategy will continue to create value for shareholders and positively impact the company's future growth.

SPLUNK

(SPLK US)



Key drivers behind our strong conviction

A pure-play on Big Data management

Splunk is one of the leaders in data management. Data have meaning if properly captured, indexed, managed, and visualized. The interpretation part comes after the due management of such data is carried out.

- Worldwide data generation is expected to increase by 61% CAGR until 2025.

A leader in security information and event management

Splunk software addresses emerging security threats, security information, and event management.

- Real-time security monitoring allows to timely detect incidents and compromised systems.
- Many legacy security information and event management systems are not suitable against modern threats.

First-mover advantage in log management

Splunk filled a space in business data management, namely log management. Before Splunk, these tasks were performed manually.

- Developers often rely on log reports to find out the location of bugs in their code. Debugging and troubleshooting are made simpler by deploying log management apps.

SPLUNK
(SPLK US)

About the company

Back on track after the change in the billing revenue model

The company shifted its revenue model from perpetual licenses to periodic subscriptions. Customers are billed a lower upfront amount, but the retention rate is improved, and longer-lasting commercial relationships established.

- The billing model shift triggered negative cash flows (a short term issue) but improved annual recurring revenues by 86%.

Strengthening and diversifying its business through M&A

Splunk grows its product portfolio by being very active in acquiring smaller players in niche markets. By doing so, its product offering expands and improves competitiveness vs. similar players.

- The SignalFX deal in 2019 was the largest ever for Splunk ($1.05bn), plugging a hole in the monitoring portfolio.

Bright future to offset recent headwinds

Management expects $1bn in operating cash flow (OCF) by FY2023. The $300mn OFC loss expected for FY2021 and FY2022 is now well priced by the Street.

- Annual Recurring Revenues were $1.439bn during last quarter (+53% YoY).

SPLUNK

(SPLK US)

Catalysts

- **Rising geopolitical tensions.** Demand for event management (SIEM) systems should rise with heightened geopolitical tensions.
- **SignalFX acquisition.** SignalFX upped the competitive profile of Splunk, vs. competitors such as **Cisco (CSCO US)**, **New Relic (NEWR US)** and **Dynatrace (DT US)** as it enables the monitoring of data in real-time in hybrid environments.
- **Additional contracts with government agencies.** Higher exposure to government agencies add to the company's long-term visibility.

Risks

- **Competition to increase pricing pressure.** Competition is fierce in this space and pricing pressure is to be expected going forward.
- **Customer dissatisfaction with Splunk's pricing model.** Services are paid on data consumption-based model. As the deployment of data grows, customers may switch to open-source solutions.
- **Failed integration of broader services in the offering.** Failure to properly integrate Signal FX would give competitors with a broader offering a leading advantage.

Bottom Line

- Data management is essential to extract value from raw data. The immediacy at which errors or threats are detected is pivotal and Splunk is, in our view, the undisputed leader.
- We believe that the shift in the revenue model (from license to subscription) will pay-off handsomely in the next few quarters.

BIOTELEMETRY

(BEAT US)

Key drivers behind our strong conviction

The leader in the expanding remote cardiac monitoring market

BioTelemetry has been leading this market since acquiring its main rival LifeWatch. Cardiovascular diseases are the most expensive to treat and the leading cause of mortality worldwide.

- Early detection is a crucial step to save patients' life.
- Driven by demographic factors, the number of deaths is expected to rise from 17.3mn to >23mn by 2030.

Diversification: looking beyond the heart

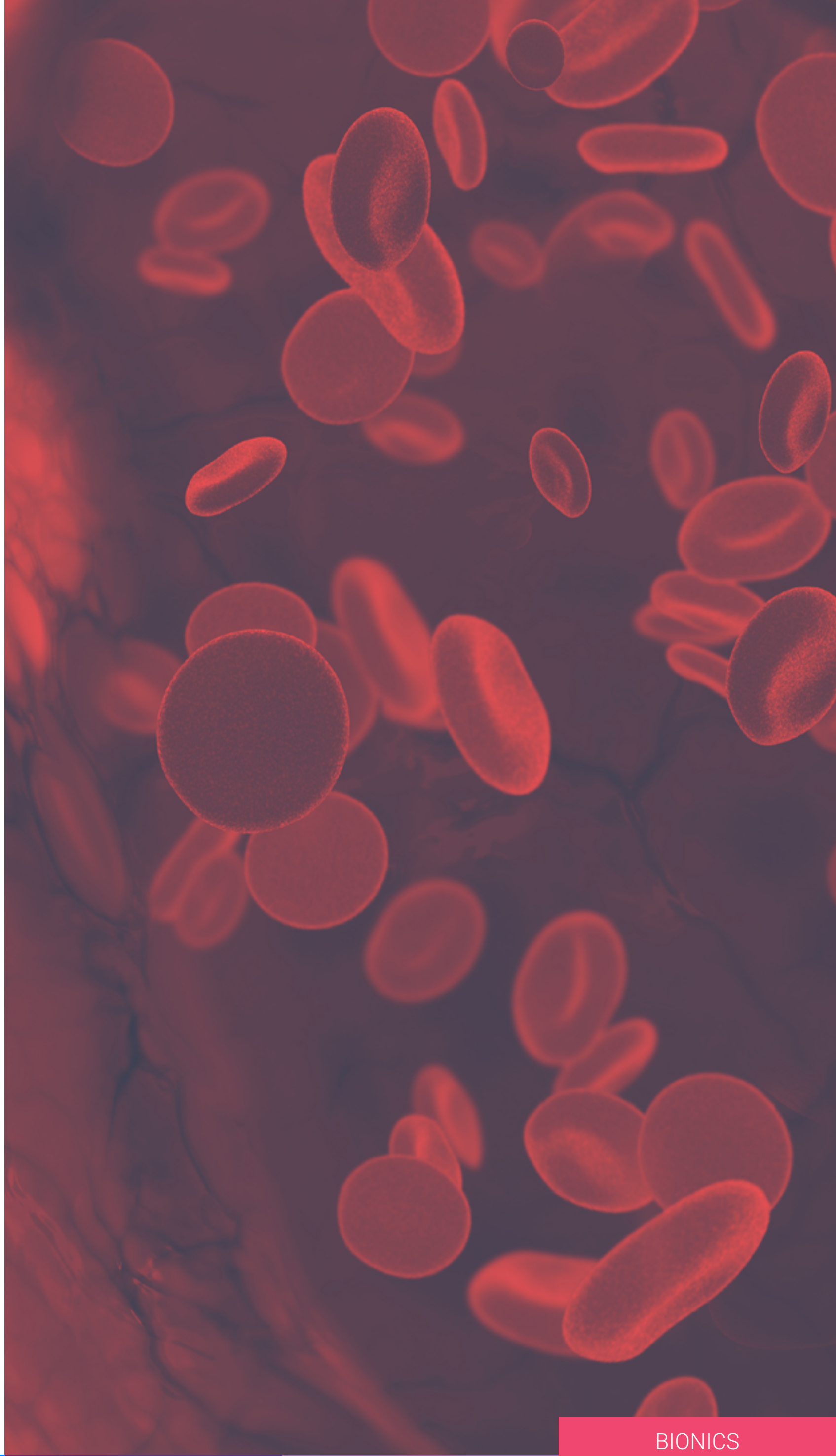
BioTelemetry is banking on diversification to ensure its leading position in a sector where reimbursement cuts and regulatory changes could drastically affect the business.

- Remote monitoring technology holds the potential to be employed across several other indications, most notably diabetes.
- New cloud-based software allows physicians to collect and analyze data from many competing implantable devices.

BioTelemetry is building the largest cardiac database

BioTelemetry has been able to collect massive amounts of data and build the largest cardiac database in the market. It provides a valuable data-source for companies developing drugs and medical devices for heart diseases.

- More than 30k physicians are prescribing BioTelemetry's products each month.
- A comprehensive study with more than 400k patients took place in 2017.



BIOTELEMETRY
(BEAT US)

About the company

Applying Machine Learning (ML) to heart diseases' detection

BioTelemetry's proprietary algorithm enhances its diagnostic yield and uses data collected from all monitoring devices. This provides industry-leading accuracy to its products which dominate the Mobile Cardiac Telemetry (MCT) segment.

- Devices use ML to interpret data in real-time and detect arrhythmias.
- BioTelemetry's MCOT proved to be nearly 3x superior to standard monitoring devices at detecting clinically significant arrhythmias.

Cutting healthcare costs

Outpatient monitoring replaces more expensive and less effective inpatient care. Compared to more traditional remote cardiac monitoring options, MCOT diminishes healthcare costs as a result of better diagnostic yield.

- MCOT has a 13x higher return in cost savings compared to Holter and Event technologies.
- Insurance companies and the Center for Medicare & Medicaid Services (CMS) are reimbursing MCOT products.

BioTelemetry has been very active on M&A

Acquisitions played an essential role in the top-line growth and product offering of the company. Its next strategical moves are likely to focus on consolidating its position in the MCT segment and increase exposure to diabetes.

- The acquisition of Geneva Health Solutions (a cloud-based platform) positions BioTelemetry as a data-management firm, expanding its addressable market by over $1bn.

BIONICS

BIOTELEMETRY

(BEAT US)

BioTelemetry inc

Catalysts

- **Tech companies expanding the market.** Cardiac events are spotted upstream by devices (e.g., Apple watch) worn by asymptomatic people.
- **A new reimbursement opportunity.** The Center for Medicare & Medicaid Services (CMS) new billing codes are likely to boost the adoption of monitoring devices.
- **M&A.** BioTelemetry is likely to remain actively engaged in M&A as a strategy to both expand its geographical footprint and strengthen its diabetes offering, which is still in its infancy.

Risks

- **Regulatory changes.** The company is highly dependent on third-party reimbursements. Regulatory changes could lower reimbursement policies or reduce medical prescriptions.
- **Highly dependent on one product.** MCOT represents 50% of BioTelemetry's total revenue. An unexpected reimbursement cut on the product would severely affect revenues.
- **Ongoing innovation.** BioTelemetry's patents expire between 2018 and 2032, endangering the company's position in the market.

Bottom Line

- BioTelemetry leads the Mobile Cardiac Telemetry niche. New markets, such as diabetes, offer untapped opportunities.
- New reimbursement opportunities are likely to increase the company's growth profile. BioTelemetry continues to leverage its position through a more diversified platform vs. the competition

INSULET CORPORATION
(PODD US)

Insulet Corporation

Key drivers behind our strong conviction

The Insulin pump pure player

The insulin pump market is highly underpenetrated; approximately 200mn people worldwide require insulin treatment, and only about 1mn people use an insulin pump for diabetes management.

- Insulet is gaining market share and still has room to grow.
- The company has a 5% market share in Type-1 diabetes in the US and 2% globally.
- **Medtronic (MDT US)** holds an estimated 63% market share, but is likely to face some erosion from competitors such as Insulet.

Insulet enjoys unmatched product differentiation

Diabetes management significantly affects people's quality of life. Insulet's main product, Omnipod, is the best in terms of size and comfort. Omnipod simplifies life and improves clinical outcomes.

- Omnipod System delivers programmed doses of insulin for up to 3 days vs. multiple daily injections.
- It improves glycemic control, reduces hypoglycemic episodes, and lowers the total daily dose of insulin intake.

Targeting Type-2 patients

Type-2 diabetes represents the most substantial market opportunity for insulin pumps. In the U.S., the development of the Pharmacy channel has allowed Insulet to gain traction among Type 2 patients.

- Type-2 diabetes (90% of the global diabetes population) accounts for less than 20% of revenues.
- Omnipod is the best-suited insulin pump for the Type-2 diabetes population.
- Most of Type-2 diabetes patients are Medicare beneficiaries. Omnipod System is now the most covered insulin pump in the U.S.

INSULET CORPORATION
(PODD US)

Insulet Corporation

About the company

2020: a slew of innovations

In 2020 Insulet plans to launch its first artificial pancreas, the first-ever insulin pump directly controlled by a smartphone. Besides, the company will continue to penetrate new markets and increase productivity.

- Its first artificial pancreas, Omnipod Horizon, is planned for 2H20.
- Omnipod DASH is being rolled out on selected European markets throughout 2020.

Diabetes devices are starting to talk to each other

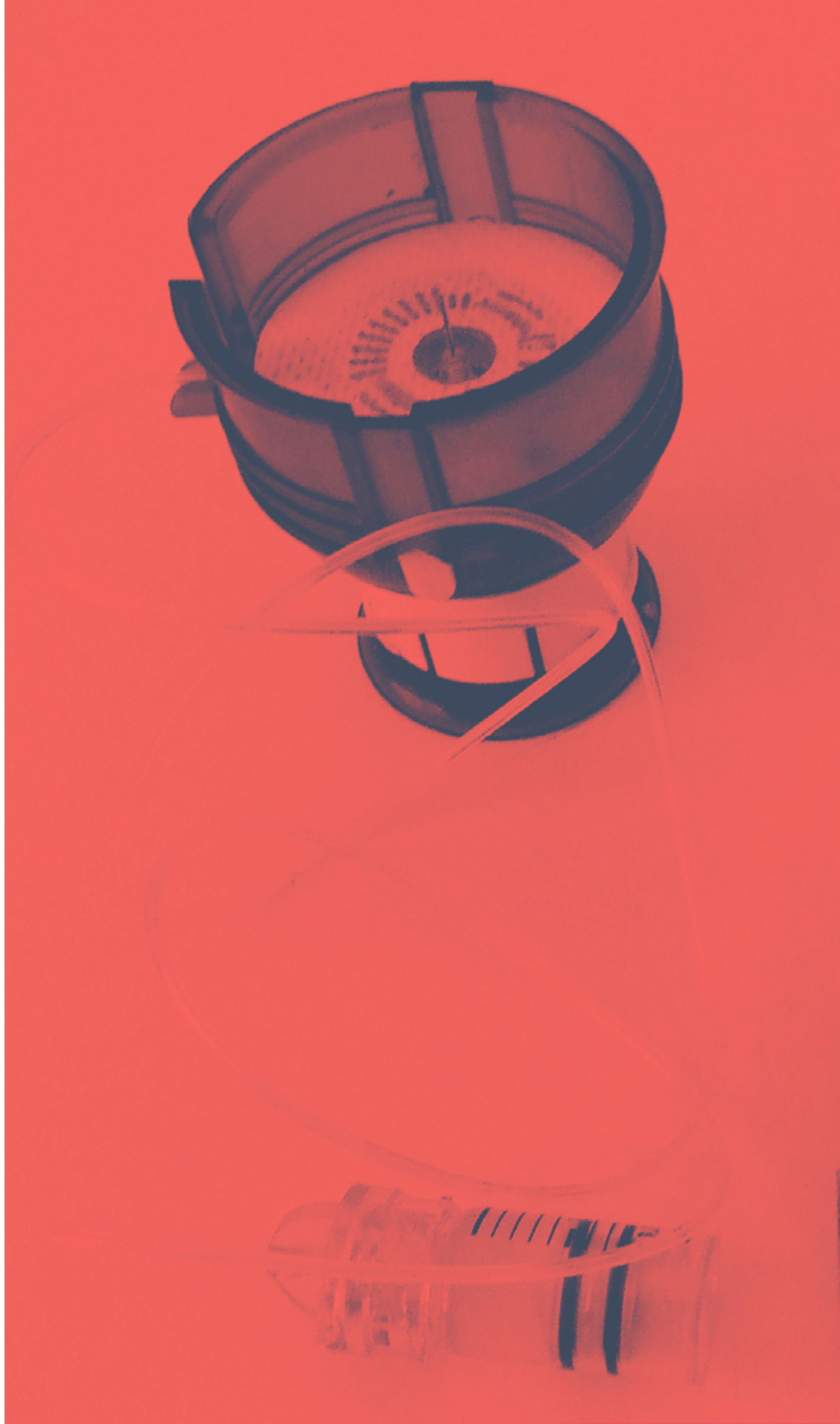
Insulet answers to one of the most important requirements of the diabetes community: free choice and flexibility in suppliers of treatment, as it allows integrating its insulin pump to any other compatible Continuous Glucose Monitoring device (CGM).

- In 2019 the FDA gave the green light to connect the Omnipod DASH system to other compatible diabetes devices.
- It developed a version of Omnipod DASH compatible with **Tidepool's (not listed)** open-source algorithm for insulin management.
- Omnipod Horizon will be able to connect to **DexCom's (DXCM US)** CGM.

A unique pay-as-you-go distribution model

The upfront cost of insulin pumps can be a hurdle for many patients. Insulet offers the most affordable pump on the market today, available without an upfront charge or four-year lock-in period. Upfront revenue losses are more than offset by higher market share and recurring revenues from consumables.

- People using Omnipod DASH only pay for insulin pods, which lasts up to 3 days.



INSULET CORPORATION

(PODD US)

Insulet Corporation

Catalysts

- **Final stages of its first artificial pancreas development.** Insulet expects to bring its automated insulin delivery system, Omnipod Horizon, to the market in the second half of the year. Horizon will be the first-ever pump directly controlled by a smartphone.
- **Collaboration with Tidepool.** Omnipod Horizon could be the first FDA approved pump to be able to communicate with Tidepool Loop app. The company is likely to launch the system in 2H 2020.
- **International development.** By relying less on intermediaries outside the U.S., profitability will increase. The latest products, e.g., Omnipod DASH are sold directly in selected European markets throughout 2020.

Risks

- **FDA denial.** If the FDA decides to turn down the approval of the Omnipod Horizon or Tidepool system, Insulet's business could be negatively affected.
- **Fierce competition.** The diabetes market is competitive and fragmented. **Tandem Diabetes Care (TNDM US)** has recently received approval for its first artificial pancreas, and **Beta Bionics (not listed)** plans to introduce its disruptive Bionic pancreas between 2022 and 2023.
- **Reimbursement.** In the United States, the Omnipod system is reimbursed under Medicare part D (prescription drugs). Any regulatory change to this program could significantly impact the company.

Bottom Line

- Insulet has been able to differentiate itself from competitors by designing a simpler and more affordable device. The company is building brand awareness and gaining market share in a multi-billion dollar market by improving the quality of life of millions of people.
- We believe Insulet is uniquely positioned to maintain significant growth for the foreseeable future driven by a surge in demand for insulin pump technology.

THERMO FISHER SCIENTIFIC
(TMO US)

Thermo Fisher
SCIENTIFIC

Key drivers behind our strong conviction

Capturing synthetic biology and genomics' growth

Thermo Fisher serves some of the most disruptive healthcare sectors, such as synthetic biology and genomics. The company's exposure to these fast-growing markets coupled with strong financials and good diversification makes it an attractive long-term opportunity.

- With a CAGR of 38% between 2017-2024, Synthetic Biology is one of the fastest-growing Bionics' sectors.

Best exposure to both Pharma & Biotech opportunities

The Biotech & Pharma sectors are experiencing rapid growth, driven by supportive policies, and technological advancements. Thermo Fisher continues to expand its offering in this segment.

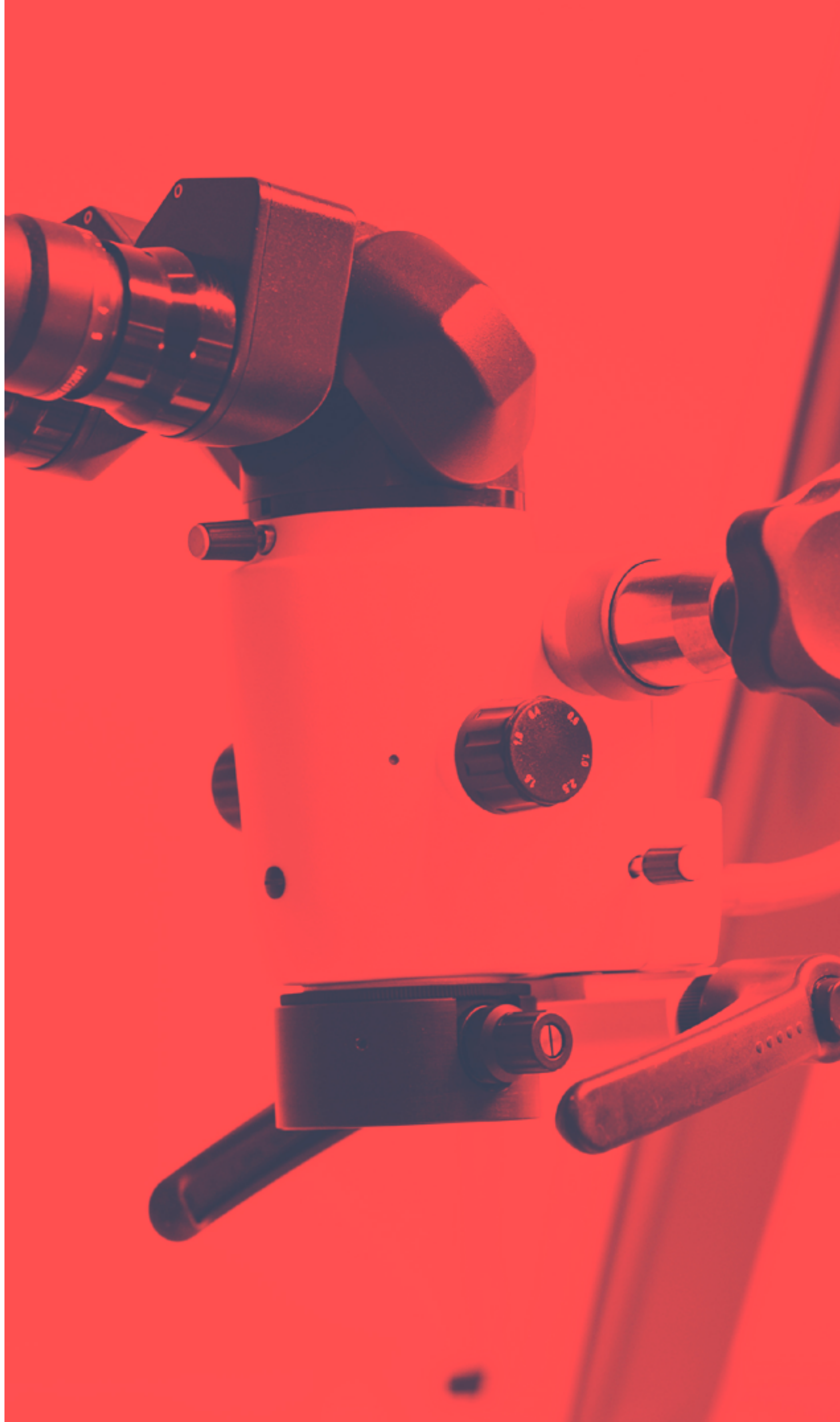
- Pharma & Biotech represents 39% of the company's total revenue.
- The company recently acquired a **GlaxoSmithKline's (GSK LN)** manufacturing facility in Cork to bolster its Pharma services' business.

Riding the wave of China Biotech revolution

China is rapidly transforming Pharma and Biotech industries, supported by several government initiatives, and is the second-largest market for Thermo Fisher.

- Thermo Fisher launched a new Bioprocess Design Center in Shanghai in 2018.

Source: https://www.industryarc.com/Report/15142/synthetic-biology-market.html



THERMO FISHER SCIENTIFIC
(TMO US)

About the company

A global leader in the Lifesciences industry

The company offers a range of products used in medical and biological research while also providing services for the discovery and production of drugs and vaccines.

- Thermo Fisher continues its expansion across the fast-growing emerging markets, which accounts for over 20% of its business.
- The company operates in a $160bn Total Addressable Market (TAM) with a 5-year CAGR of 5%.

"Razor and Blades" strategy

The instruments sold by Thermo Fisher to laboratories require a continuous supply of consumables, providing the company with a significant recurring revenue stream.

- Consumables represent 50% of Thermo Fisher's revenues.
- Such a strategy allows the company to achieve substantial scalability and margin expansion (+2% YoY Operating margin increase).

Driving innovation across healthcare through strategic acquisitions

Thermo Fisher continues to grow through partnerships and M&A. The company has massive financial resources and recently announced a $2.5bn share-repurchase program.

- The recent acquisition of Brammer Bio gives Thermo Fisher access to cell and gene therapies market, while HighChem adds value to its analytical instruments segment.

THERMO FISHER SCIENTIFIC

(TMO US)

Catalysts

- **Positive Pharma & Biotech growth.** High-quality services offering in the fastest-growing segments of the Pharma & Biotech industries will ensure high and sustainable revenue growth for Thermo Fisher.
- **Expanding global presence with a focus on China.** Chinese Government initiatives, i.e., to tackle diabetes, cancer, and high morbidity of chronic diseases represents additional opportunities for the company.
- **Growing market of next-generation sequencing.** Next-Generation Sequencing is revolutionizing the diagnostics space giving rise to entirely new markets, e.g., liquid biopsy and cancer tests. Thermo Fisher is looking to expand in this area, and **Pacific Bioscience (PACB US)** and **Qiagen (QGEN US)** are possible targets.

Risks

- **Competitive environment.** Fast-growing markets such as Synthetic Biology and Precision Medicine have attracted the attention of many players, all striving to get a slice of the cake. New synthetic biology startups such as Ansa Biotech, Humane Tech, iMean, and Pairwise Plants raised over $1bn in 2019.
- **Slow innovation.** With technology evolving faster than ever, Thermo Fisher must sustain or even increase its R&D expenses to remain competitive.
- **Organic growth pace.** The company's strong organic growth (8%) deserves the premium valuation of the stock. Should the company fail to sustain these levels of growth, the stock might derate.

Bottom Line

- We believe that Thermo Fisher will continue to dominate the synthetic biology and genomics markets for the foreseeable future.
- It is one of our top convictions in the bionics certificate as we believe that the company will capture most of the end-markets growth thanks to their dominant market position and expertise. Expansion into other high performing markets such as China represents an additional catalyst.

ACADIA PHARMACEUTICALS
(ACAD US)

ACADIA Pharmaceuticals

Key drivers behind our strong conviction

The Central Nervous System (CNS) pure player

The global neurological market has seen limited innovation over the last decade, while diseases such as Alzheimer, Parkinson's, dementia, etc. are progressing and are still treated by nonspecific drugs.

- R&D expenses flowing to CNS diseases are the 2nd largest in the Biotech/Pharma industry.
- The CNS market is expected to reach $130.8bn by 2025, almost doubling from 2017 levels.

Promising newsflow

Acadia's NUPLAZID was granted Breakthrough Designation and the company presented very strong Phase III results for dementia-related psychoses.

- Patients showed a 65% decrease in the relapse rate of dementia-related psychosis.
- NUPLAZID checked all boxes: symptoms reduction, psychosis stabilization, reduced risk of relapse, and a strong safety profile compared to placebo.

M&A appeal

Acadia plans to submit its New Drug Application (NDA) for dementia-related psychosis to the FDA during this summer. We believe that the company's CNS focus might be closely considered by some of the larger Pharma players such as **Astra Zeneca (AZN LN)**, **Eli Lilly (LLY US)** and **Novartis (NOVN SW)**.

- With 2.4mn patients in the United States alone (a $1.8bn market opportunity) the company might represent a very interesting target.

Source: https://www.credenceresearch.com/press/global-neurological-diseases-treatment-market

ACADIA PHARMACEUTICALS

(ACAD US)

About the company

NUPLAZID aims to treat several disorders

Acadia's NUPLAZID (pimavanserin) is the only medication approved by the FDA for treating hallucinations and delusions associated with Parkinson's disease psychosis. It is currently being tested for several other conditions.

- The Phase III HARMONY trial study for psychosis related to dementia was stopped early as it was statistically superior over placebo.
- In patients with negative symptoms of schizophrenia, the Phase II Advance study results were strong.

Encouraging results on dementia-related psychosis

Last September, the company had already announced the early termination of NUPLAZID Phase III trial on supportive interim data. The final data presented during the CTAD medical conference were impressive.

- Patients showed a 65% decrease in the relapse rate of dementia-related psychosis.
- Nearly 3x lower risk of relapse compared to placebo patients.
- Risk of discontinuation for any reason is reduced by 2.2-fold.

Rett Syndrome Phase III study ongoing

Acadia announced to have initiated a Phase III LAVENDER placebo-controlled study to evaluate the efficacy and safety of trofinetide – a compound to treat the Rett syndrome, a neurological disorder caused by a gene mutation.

- The incidence of Rett Syndrome in the U.S. is estimated at 1 in 10k girls by age 12.
- Peak annual sales (potential) of $500mn.

Source: https://www.nature.com/articles/5201580

ACADIA PHARMACEUTICALS
(ACAD US)

Catalysts

- **Approval of new therapeutic indication.** NUPLAZID would have a monopoly in dementia-related psychosis, a market of over 2.4mn patients only in the U.S. An aging population increases the incidence rate for CNS diseases.
- **Phase III trials for major depressive disorders.** Each positive news on the trials side would de-risk its pipeline.
- **Positive outcome from Phase III for Rett syndrome.** Positive results may show the effectiveness of another compound, trofinetide, on top of pimavanserin, enriching the company's portfolio. This would also be the first cure against Rett syndrome.

Risks

- **FDA denial.** An FDA rejection of the application for dementia-related psychosis would have a very negative impact on the stock.
- **Competition.** New compounds developed by other players such as **Minerva Neurosciences (NERV US)** currently in Phase III for a cure on schizophrenia, would jeopardize Acadia's potential.
- **Delay in clinical trials.** Recruitment is an issue as it is difficult to spot people affected by Alzheimer's in its early stages. If clinical trials are delayed, competitors may play catch-up and erode Acadia's first-mover advantage.

Bottom Line

- NUPLAZID has the potential to become the standard of care for dementia-related psychosis and this indication alone could fetch $1.8bn to $2bn in revenue.
- We maintain our positions on the stock as we believe that the company could be an excellent candidate for a takeover.

NEUROCRINE

(NBIX US)

Key drivers behind our strong conviction

Ingrezza: continued commercial uptake

Neurocrine's main product, Ingrezza, is the first approved treatment for Tardive Dyskinesia (TD), a $700mn market. It beat consensus estimates for the tenth consecutive quarter. The next leg of growth will come by improving diagnostics.

- Estimates indicate that only about 10% of the patients are currently diagnosed.

Potential approvals in the near term

Neurocrine might have three additional treatments approved by the FDA in several indications very soon.

- Huntington's disease chorea ($1.5bn market by 2023), expected in 2021
- Elagonix, for the treatment of Uterine Fibrosis (9mn women, of which only 1/3 are currently diagnosed) expected in Q2-2020.
- Opicapone, for Parkinson's (1mn people in the U.S. alone) with an approval date set for the end of April 2020.

Entry into the gene therapy space

Gene therapy could bring new hope for CNS (central nervous system)-related diseases. Neurocrine has made a strategic move by developing gene therapy programs that might be approved for several neurological disorders.

- In early 2019, Neurocrine signed an agreement with **Voyager Therapeutics (VYGR US)** on four neurological gene therapy programs: one for Parkinson's Disease (Phase II), one for Friedreich's Ataxia (preclinical), and two additional undisclosed programs in Phase I.

NEUROCRINE
(NBIX US)

About the company

Expertise on central nervous system (CNS) disorders

Neurocrine is the leader in Tardive Dyskinesia, currently affecting 500k people in the U.S. alone.

- Ingrezza's approval was supported by impressive Phase III data showing a reduction in involuntary movements.
- The lack of black box warnings on depression or suicidality gives Neurocrine a competitive advantage over its main rival, **Teva's (TEVA US)** Austedo.

Promising drugs on women's health

Neurocrine received approval for Elagolix in collaboration with **AbbVie (ABBV US)** for the treatment of endometriosis, uterine fibroids, and PCOS.

- Phase III response rates were impressive at 75% for the high dose vs. 20% for placebo.
- Neurocrine receives 20% royalties on sales by AbbVie.

A rich and diversified pipeline

Neurocrine is expanding its pipeline with new products that leverage its expertise in CNS and women's health.

- It entered a collaboration with **Xenon Pharmaceutical (XENE US)** to develop novel epilepsy assets using a new method of action.
- Final Phase II data from NBIX-74788 with Congenital Adrenal Hyperplasia (CAH), a hormonal disorder affecting women, will be presented in 2020.

NEUROCRINE

(NBIX US)

Catalysts

- **An exciting pipeline.** Two likely approvals next year have the potential to drive substantial long-term upside.
- **Gene therapy catalyst.** The recent partnership with Voyager allows Neurocrine to expand its pipeline on gene therapies for neurological diseases.
- **Continued Ingrezza market penetration.** Awareness campaign to physicians and rising use of antipsychotics will boost Ingrezza's expansion.

Risks

- **Competition.** Since 2018, Teva's Austedo is competing with Ingrezza in Tardive Dyskinesia and could slow down its future expansion.
- **No manufacturing capabilities.** Neurocrine depends mainly on third parties contract manufacturers.
- **Development risk.** Elagonix and Opicapone's FDA rejections would hurt the stock price.

Bottom Line

- Neurocrine benefits from a strong franchise, Ingrezza, which has the potential to become a standard of care in Tardive Dyskinesia ($1.5bn to $2bn of expected US revenues by 2024) and many other indications.
- We believe that the stock has a significant upside with two potential approvals in 2020 (Opicapone and Elagonix).

VERTEX PHARMACEUTICALS

(VRTX US)

Key drivers behind our strong conviction

The leader in Cystic Fibrosis market

Vertex dominates the Cystic Fibrosis (CF) market, which is expected to grow at a CAGR of 18.4% from $3.6bn in 2017 to $13.9bn in 2025.

- In October 2019, the FDA approved the triple combo, Trikafta, offering the potential of treating up to 90% of all U.S. patients.
- EvaluatePharma expects Trikafta's sales to surpass $4.3bn by 2024.

Purely focused on a rapidly growing rare diseases market

Vertex concentrates on creating high-value transformative medicines for rare diseases.

- All of Vertex's drugs benefit from FDA/EMA breakthrough and fast track designations.
- Recent approvals in the UK and France shows governments' willingness to cover drugs for life-threatening disorders.

Successful ongoing expansion into other specialized high growth markets

Vertex's objective is to grow its pipeline beyond CF. It has several Phase II trials on neuropathic, acute, and musculoskeletal pain management.

- For Rare blood diseases, it presented positive early data (Phase I/II) from the first two patients treated for Sickle Cell Disease and Beta-Thalassemia.
- For Duchenne Muscular Dystrophy and Type-1 Myotonic Dystrophy, Vertex acquired gene therapy programs through the Exonics' takeover in June 2019.

VERTEX PHARMACEUTICALS

(VRTX US)

About the company

Targeting rare diseases with transformative drugs

Vertex focus on Cystic Fibrosis (CF), a severe and rare disease caused by the CFTR gene mutations and responsible for the production of mucus, sweat, and digestive juices.

- The disease leads to frequent lung infections and affects 75'000 people worldwide.

Significant expertise in Cystic Fibrosis (CF)

Vertex already addresses around 50% of patients with three commercialized CF drugs and CFTR modulator therapies, Kalydeco, Symdeko/Symkevi, Orkambi.

- The fourth therapy, Trikafta, performs better, and targets even more patients, a tangible differentiator from competitors.

And diversifying outside CF

Thanks to strategic partnerships with **CRISPR Therapeutics (CRSP US)** and **Moderna (MRNA US)** as well as acquisitions of early-stage companies (**Semma, Exonics**), the company has programs on five other therapeutic areas, i.e., rare blood diseases, Diabetes 1, Alpha-1 Antitrypsin Deficiency and Duchenne muscular dystrophy.

- Vertex has three gene therapy programs already in phase II.

VERTEX PHARMACEUTICALS

(VRTX US)

VERTEX

Catalysts

- **Gene editing proof-of-concept.** Data supporting the efficacy and safety of CRISPR/CAS 9 for treating genetic diseases would drive long-term value.
- **Phase I/II result in rare blood diseases.** Vertex and CRISPR Therapeutics plan to present initial results from two clinical trials by early 2021.
- **Phase II data on VX-814 for alpha-1 antitrypsin (AAT) deficiency in 1H20.** Positive data support Vertex's potential to diversify outside its core CF franchise.

Risks

- **Dependence on CF franchise.** The pipeline outside CF is exciting but still in its infancy with high clinical risks.
- **Intensifying competitive landscape. AbbVie (ABBV US)**, **Eloxx Pharmaceuticals (ELOX US)**, or **Proteostasis Therapeutics (PTI US)** also have triple CFTR combinations candidates.
- **Pricing pressure.** Pricing pressure on expensive new drugs brings volatility.

Bottom Line

- We believe that Vertex will continue to dominate the Cystic Fibrosis market as it is still three to four years ahead of the competition.
- Additionally, to new and innovative products in the Cystic Fibrosis franchise, Vertex's growth is supported by its plans to diversify into other high-growth fields.

FISERV INC
(FISV US)

fiserv.

Key drivers behind our strong conviction

Focused on becoming a leader in transaction-based technology solutions.

Innovative technology upgrades, and leveraging data management expertise, ensure a steady flow of customers, recurring revenues, and drive growth to double-digit levels.

- Fiserv is outpacing a high growth industry (+35% 5Y CAGR), by gaining market share and significant client additions.
- Its Popmoney and Zelle solutions brought a 100% growth in 2019 for P2P and Debit transactions.

Grows market share through strategic mergers

To offer new and improve existing payment solutions and to widen its customer base, Fiserv completed in 2019 one of the most significant Fintech mergers of the decade by acquiring **First Data** and gaining access to the STAR Network.

- STAR Network provides debit acceptance at over 2mn retail POS, ATM, and outlets for 33% of all U.S. debit cards.

Operational effectiveness and remarkable cash flow generation

To boost its profitability, Fiserv has implemented a five-year operational effectiveness program to achieve $250mn in savings through labor optimization and procurement initiatives.

- This program already resulted in significant margin expansion of +6p.p. to 30% in 3 years and a free cash flow conversion of around 115%.

FISERV INC

(FISV US)

fiserv.

About the company

Fintech with an advanced delivery model.

Fiserv provides a multitude of financial services, i.e., payment, processing, optimization, risk, and analytics solutions. Still, unlike competitors, its delivery model is an "on-demand solution", which does not require software installations, a strong differentiator vs. competitors.

- Their platform offers instant access to industry experts and data sources.

Differentiates itself with IP-protected technology

Fiserv has a proven track record of being a leader in product disruption, providing the first-ever modular platform, which can be easily scaled and customized and allows Fiserv's customers to stay ahead of the market.

- Payments and Industry Products concentrates on digital P2P payments and lending services, representing 60% of revenues.
- Financial Institution Services focuses on the account and item processing, consulting services, loan origination, and represents 40% of revenues.

The platform successfully relies on Human and AI collaboration

The company developed a unique and effective model, which fully automates a complex thought process by combining human Bank Strategists with intelligence derived from >30 databases, proprietary methodology, and online tools, resulting in a steady growth of the client base.

- New clients' growth is in the high teens.
- Serviced accounts represent AuM of over $1.4tn.

FINTECH

FISERV INC
(FISV US)

Catalysts

- **Rising demand for digital banking and payment services.** A boom in the number of digital financial transactions and P2P lending requires more customer management and processing services, providing significant growth opportunities for Fiserv.
- **Credit Union mergers.** Already serving 16k clients, Fiserv will continue to grow its revenues from a series of credit union mergers, e.g., on the 8th of January, Fiserv was selected for its open architecture to service loans of Verve Credit Union.
- **Digitization and easier loan applications.** A user-friendly all-digital process attracts more customers, including retail and SMEs, boosting demand for Fiserv's products and services, and driving growth to double digits.

Risks

- **Highly competitive market.** Fiserv's core products attract a lot of competition from several non-banking bodies, e.g., data processing departments and affiliates of large companies, while maintaining healthy and long-term client relationships remains a difficult task.
- **Highly leveraged balance sheet.** With a long-term debt of $22bn and cash levels at $1bn as of Q3 2019, Fiserv must generate enough cash for debt servicing and be profitable enough to maintain its 4x Debt/EBITDA covenant (FY18 at 2.7x, and FY19E 3.94x).
- **Elevated integration risk.** Multiple M&As may negatively impact its balance sheet or bring operational inefficiencies harming growth; the acquisition of First Data raised Fiserv's debt levels from $6bn to 18$bn and forced the company to renegotiate its debt covenants.

Bottom Line

- Fiserv Inc. continues to enhance its product portfolio on course to grow its market share in the Fintech market. Following the "Fintech deal of the decade" with First Data, Fiserv still has a lot of M&A opportunities in a very fragmented industry.
- We consider Fiserv as an excellent investment. Our belief is supported by the company's innovative vision, broad and sticky customer base, superior IP-protected technology, and an acquisition strategy coupled with strong operational efficiency.

SQUARE

(SQ US)

Square

Key drivers behind our strong conviction

U.S. market opportunity is still huge

Square is starting to tackle the large merchant segment with some success and with small acquisition costs, but their most important driver remains the micro and small merchant vertical (SMB), where it continues to gain market share.

- The micro and the SMB market is fragmented and offers the highest spreads.
- Square's total market share is only about 1.5%, but 5.5% for SMB.

Cross-selling of subscriptions and services

There is a significant monetization opportunity among the subscriptions and services that Square is offering, as its first-mover advantage and its solid brand awareness are two key differentiating factors.

- With product development expenses running at 13% of sales we believe Square will remain at the forefront of the innovation cycle.

International business offers long-term potential

Even if it's still a small portion of the current overall business (5%), the long term opportunity for Square lies in the expansion of its international operations, where the company is gaining market share thanks to continuous investments.

- To accelerate its international expansion, Square is likely to make small acquisitions as the company is Net-Debt-free and already FCF positive.

SQUARE
(SQ US)

About the company

The pioneer of integrating payments into technology

Square serves nowadays close to 3mn merchants on its platform, offering payment processing services as well as a wide range of additional services (including Cash App and Square Capital).

- Square, processing more than $84bn of Gross Payment Volume in 2018, is the undisputed market leader in the U.S. on the SMB segment.
- Thanks to Square, SMBs are managing inventories, orders, and payrolls and gain access to business loans through Square Capital.

Cash App the leader among all financial apps

The company's strategy is to use P2P as a tool for consumer acquisitions, subsequently positioning Square to cross-sell a suite of paid financial services.

- Cash App enables individuals to send and track peer-to-peer (P2P) payments as well as transfer funds to their bank account via Instant Deposit.
- Square's clients can use their Cash Card anywhere Visa/Mastercard is accepted, charging them an interchange fee and receiving instant discounts when they buy from a merchant "branded" Square.

Square Capital is a source of growth that is just at its infancy

Square Capital has already extended to more than 275k merchants over $5.5bn of business loans.

- Square Capital's delinquency rate remains low as only Square merchants are eligible, making the due diligence process easier and more transparent.

SQUARE
(SQ US)

Catalysts

- **Negative earning revision is almost done.** Square is one of the few companies in the space that have suffered multiple contractions in 2019. The first quarter of 2020 might be the end of it.
- **2021 should accelerate to past growth rates.** Following 2020 characterized by significant investments, we expect Square to go back to ~30% EPS growth from 2021, driving the share price to historical multiples.
- **Square, more prey than predator.** Given their best in class product offering, brand awareness, and market positioning, we believe that many C-levels would be tempted to buy them, **PayPal (PYPL US)** in primis.

Risks

- **Competition is intensifying.** Fintech, Banks and new entrants, through recent acquisitions of software content or through in-house developments, are now ready to compete more aggressively than before.
- **Increasing investment spend.** Due to incremental investment in sales and marketing that reduce Square's EPS growth to single-digit this year, it's unclear if the market will be willing to look beyond 2020.
- **SMB segment is very cyclical.** Square's positioning on the SMB segment makes them more cyclical as this market has a high structural attrition rate.

Bottom Line

- Square's robust and unique ecosystem of products and services among U.S. merchants will continue to drive a healthy market share gain in merchant acquiring.
- Subscription and Services, representing almost 50% of 2020 revenues, are the future growth engine of Square that will allow the company to grow well above the market over the next five years.

TEMENOS
(TEMN SW)

Key drivers behind our strong conviction

Banks are pursuing a digital transformation

Tech newcomers are disrupting the banking industry, and margins are under pressure. Temenos' software allows banks to transition to a digital strategy, reduce operating costs on IT, and reduce the time to market for new products.

- According to Temenos, banks spent approx. $57bn on software in 2019. By 2022, the addressable market shall reach $66bn.

Acquisition of Kony

Kony is the first digital banking Software-as-a-Service ("SaaS") provider in the United States. Thanks to this acquisition, Temenos added state-of-the-art technology but also the ability to meet mid-term financial targets.

- Among its client base of 100 banks, Kony had over 50 clients based in the United States, with asset sizes mostly above $10bn.
- Accretive for revenues (10-15% CAGR) and EPS (>15% CAGR).

Potential with top-tier banks

In the last few years, Temenos has switched its effort to tier-1 and tier-2 banks. The potential is huge, as they have captured less than 5% of the addressable market within this segment yet. Large banks usually require multi-year projects that have the potential to increase revenue and improve financial visibility significantly.

- More than 50% of revenue came from these high potential clients in 2018.
- Gains in market shares are to be expected.

TEMENOS

(TEMN SW)

About the company

World's leader as a banking software company

Temenos implemented software at over 3'000 financial companies in 150 countries. This critical client base offers good revenue diversification and brand recognition.

- Strong cash flow generation facilitates large acquisitions like Kony.

Comprehensive product portfolio

Unlike many competitors, Temenos offers a full range of banking solutions; it can bid with all types of financial organizations, which brings customer diversification. Clients receive the same Temenos software and have the flexibility to request the development of personalized modules or the use of open APIs to match their needs. For clients, it is a clear advantage to deal with a single counterparty for all banking software needs.

- It offers core banking systems, front-office interface, payment processors, software for wealth managers, and solutions for fund administrators.

Innovation at the center of the process

Temenos invests a significant amount of its revenue to maintain a competitive advantage and offer the most innovative solutions to its clients. All its products are available on the cloud and integrate the key IT trends in banking.

- Higher R&D expenses than its peers – 20% of revenue vs. 10% on average.

TEMENOS

(TEMN SW)

Catalysts

- **Shift to SaaS license.** Financial visibility improves thanks to the recurring nature of SaaS revenues. Even if it takes time for clients to decide to switch their license, upbeat figures on this side in the coming quarters are likely to surprise investors positively.
- **Acquisitions.** The company is pursuing a strategy of organic growth combined with selected acquisitions. The purchase of Kony will be consumed by the end of 2020. By then, a transaction involving another cloud specialist like Kony would not surprise us.
- **U.S. revenues.** Kony acquisition increases Temenos presence in the United States. A domino effect on the number of U.S. clients and revenue is expected within the coming years.

Risks

- **Next-generation competition.** New entrants such as **Mambu (not listed)** or **Finxact (not listed)** offers competitive solutions. We anticipate these new entrants will expand their product offerings to traditional banks and compete directly with Temenos in the mid-term.
- **Less regulatory changes.** Regulatory changes drive market participants to replace legacy systems. The latest banking regulations look more like adjustments of existing ones, rather than a real change. If this continues, IT spending is likely to slow down in the long-term, as software updates will be sufficient to match the legal framework.
- **Sensitive data of the clients.** Temenos is moving towards cloud-based applications; the reputation risk would be huge in case of a significant cyber-attack.

Bottom Line

- As a global leader in core banking software, Temenos is well-positioned to capture the required upgrade of legacy software.
- The continuous innovation applied to its extensive portfolio of products allows the company to meet the latest customers' needs and to stay ahead of the competition.

CATALENT
(CTLT US)

Catalent.

Key drivers behind our strong conviction

R&D outsourcing on an uptrend

As a contract development and manufacturing organization ("CDMO"), Catalent provides support and services to Biotech companies. Smaller Biotech companies do not have all the in-house capabilities to develop new drugs and then rely on CDMOs.

- Developments costs to launch new drugs reach approx. $2bn.
- The CDMO industry's growth rate of 7-8% p.a. is outpacing the pharmaceutical sector as a whole (5-6% p.a.).

Robust R&D pipeline globally

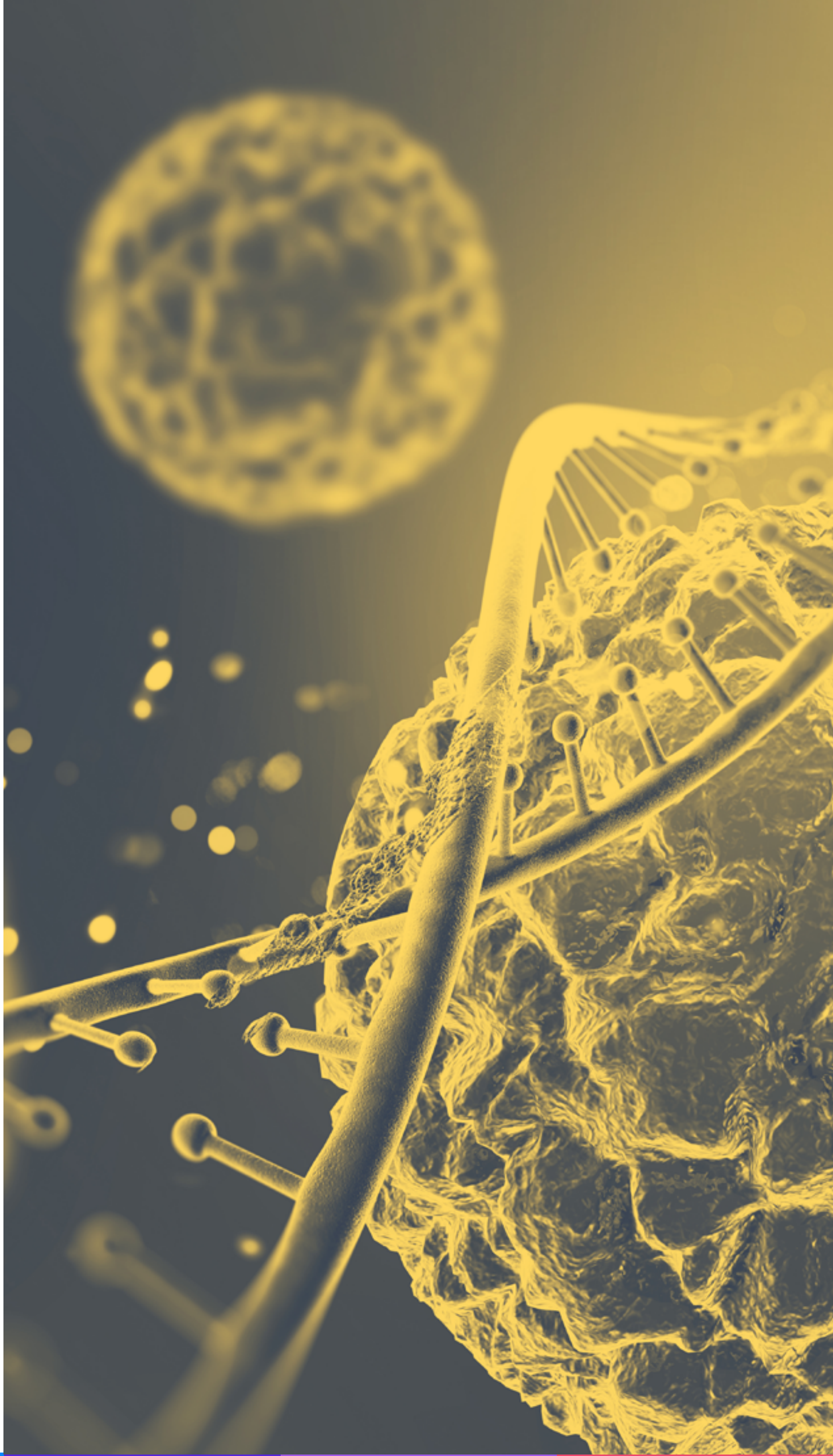
The number of clinical trials keeps increasing each year. Investments in healthcare R&D is beating records - oncology and rare diseases lead the growth. Estimates call for more than 70% of the total pipeline requiring advanced delivery technologies.

- Almost 50k clinical trials were registered globally in 2018 (5x more than 2004).
- Catalent is active for its clients on 16k products at various clinical trial phases, up by 2k in just one year.

Able to serve their clients complex needs on gene therapy

Catalent geared its business mix towards biologics and gene therapy following the acquisition in 2019 of Paragon Bioservices. A key strategic move as the current supply capacity for viral vectors is unlikely to satisfy growing demand.

- The number of gene therapy pipeline projects is expected to increase from 300 in 2019 to 1'100 in 2026.
- 10-15% yearly growth expected for the biologics segment in the mid-term.



CATALENT
(CTLT US)

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 developed capabilities to address the full spectrum of the pharmaceutical industry, including small molecules, protein, gene therapy biologics, and consumer health products.

- They manufacture over 70bn doses each year for approved drugs.

A platform serving blue-chip customers

The quality of Catalent's products is recognized by over 1'000 pharmaceutical companies, including the largest players in the industry. Its know-how allowed the company to develop an extensive range of products available globally.

- In FY2019, they did business with 83 of the top 100 branded drug marketers, 21 of the top 25 generic marketers, 23 of the top 25 biologics marketers, and 21 of the top 25 consumer health marketers.

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.

- Biologics increased from less than 10% of revenues in 2014 to 25% today.
- It expects to generate 50% of its total revenue from this segment by 2024.

CATALENT

(CTLT US)

Catalysts

- **Gene therapy and the complexity of delivery technologies.** Gene therapy has a market potential of $35bn by 2026 (CAGR of 22%). The number of clinical trials requiring complex delivery technologies keeps increasing.
- **Paragon Biosciences acquisition.** Demand for viral vector is booming thanks to the increase in gene therapy pipelines globally. As this market keeps growing, the product pipeline of Paragon will benefit the entire company.
- **Margin expansion.** The company is expecting to increase its EBITDA margin from 23.5% in FY2019 to 27-28% in FY2023, driven primarily by the shifting business mix toward biologics and by other strategic initiatives.

Risks

- **Financial leverage.** The strategy of external acquisitions put pressure on the balance sheet. Net-debt-to-EBITDA is north of 5, a bit high compared to peers. The company aims to reduce its leverage in the short-term.
- **The threat of competition from low-cost jurisdictions.** India and China are making substantial investments to fill the technological gap in CDMO and advanced delivery technologies.
- **Regulations.** We expect a decision in the drug pricing issues in the United States ahead of the presidential election. Any solutions that would hurt the pharmaceutical industry will also have an impact on Catalent.

Bottom Line

- As a market leader, Catalent is well-positioned to benefit from the increased complexity of the supply chain for vectors and other delivery technologies.
- Given its size and its portfolio, Catalent is a good candidate for M&A activities. It could either act as an industry consolidator or as a target for some big Pharma that want to acquire the technology developed by Catalent.

ILLUMINA
(ILMN US)

illumina®

Key drivers behind our strong conviction

Best positioned to benefit from a new national coverage policy

Illumina is the leader in Next-Generation Sequencing (NGS) technology. Medicare's expanded reimbursement of NGS tests will drive demand for Illumina's products.
- Increased NGS reimbursement will encourage oncologists to use sequencing to help identify patients earlier.
- The CMS (Centers for Medicare and Medicaid Services) will finalize its plan on January 27, 2020.

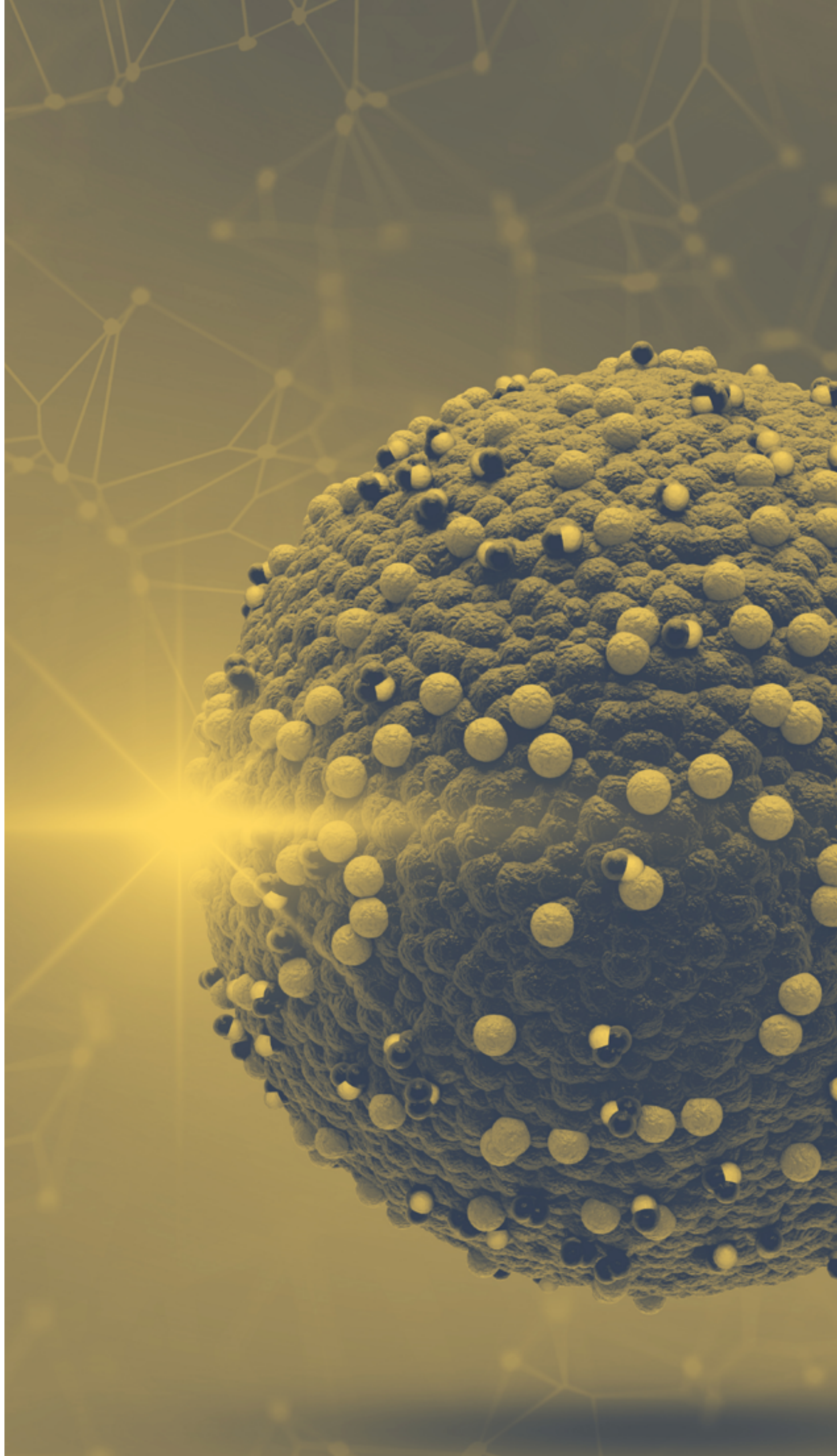
Expanding applications of genomic sequencing

80% of rare diseases have a genetic root leading to the development of new drugs. Consequently, the research process relies on the constant evolution of more modern and more cost-friendly sequencers.
- 18% of revenues are devoted to R&D, expecting to achieve 14% growth in this segment.
- A new NextSeq system was announced, with a 2.5x increase in output, and a 50% reduction in operating costs over the previous system.

Opportunity to grow from Oncology

The use of oncology biomarkers is growing, and Grail, a subsidiary active in liquid biopsy provides a competitive advantage in being the first mover in this market.
- Liquid biopsy is a fast-growing market expanding from $1bn to $3bn by 2024 at a CAGR of 23%.
- Illumina signed a 15-year agreement with **Roche (ROG SW)** to accelerate the availability of products dependent on its sequencing systems.

Source: MarketWatch



ILLUMINA

(ILMN US)

About the company

Generates 90% of the world's sequencing data

Illumina is the leader in the fast-growing Biotech segment of next-generation sequencing (NGS) and the largest provider of nucleic acids (DNA, RNA) sequencing instruments.

- 4Q19 revenues of $950mn, at +10% YoY. The sequencing consumables segment registered a stronger than expected growth of +20% YoY.
- The Chinese segment is expected to grow in the high teens in 2020.
- The 2020 growth will also be supported by the launch of several products, e.g., NextSeq 2000

First-mover in the fastest-growing therapeutics areas

The next-generation sequencing market could grow from $4.5bn in 2018 to $18bn by 2026 at a CAGR of 19%. Being a first-mover, Illumina has built a large customer base and is best positioned to capture all this growth.

- Launch new instruments that require customers to buy consumables, i.e., flowcells and reagents (75% of revenue), sustain its recurring revenue stream.
- It also moved into the high-growth oncology market and launched a cancer test TruSight Oncology 500.

Dominating an oligopolistic market

Illumina earned its market share by differentiating and focusing on short-read data sequencing, a cheaper, faster, and more accurate than long-read sequencing.

- Illumina controls a 75% market share in NGS for human genome analysis, tailed by **Thermo Fisher (TMO US)** – 15% and **Roche (ROG SW)** – 10%.

ILLUMINA

(ILMN US)

Catalysts

- **A multibillion-dollar opportunity in oncology.** The need for early detection in cancer will drive future growth as Illumina has started to penetrate the oncology market.
- **Falling costs.** The cost of whole human genome sequencing will continue to decrease, making sequencers more accessible, increasing demand for Illumina's products.
- **Demand for more personalized treatments.** Targeted drugs and treatments, which may be produced exceptionally using genome sequencers, will positively affect Illumina's top-line growth.

Risks

- **Increased competition from disruptive technologies.** The introduction of new biosimilars to the market would drive the stock value down as there will be less demand for Illumina's products.
- **Dependence on its Market leadership.** Illumina will need to continue to develop new and improved products to preserve its leading market position.
- **Ethics and data privacy.** Next-generation sequencing generates a large amount of private data. Any problems in managing these sensitive data would damage Illumina's reputation.

Bottom Line

- Since making a breakthrough in 2003 and bringing down the cost of assembling one genome from $3bn to $1k, Illumina continues to innovate, penetrate high-growth end-markets like oncology, and dominate the field of NGS.
- We remain bullish on the stock as we are convinced that Illumina will continue to lead Rare Diseases markets and stay on the course of cost-efficiency towards a "$100 Genome", making it an attractive long-term investment.

INTERCEPT

(ICPT US)

Key drivers behind our strong conviction

A huge market opportunity in NonAlcoholic Steatohepatitis (NASH)

Intercept is best positioned on this high potential market. Its key product, Ocaliva (OCA), is scheduled for approval on NASH in early spring: if confirmed, Intercept will enjoy the first-mover status, putting the company years ahead of its major competitors.

- Around 15mn to 40mn people have NASH in the United States alone.
- The global NASH market is estimated to grow at a CAGR of 38% to reach $13bn by 2026.

In the sweet spot for M&A

Ocaliva could bring significant value to a potential buyer. An upcoming approval in a broad indication, such as NASH with strong revenue potential, should spark the interest of Pharma companies like **Pfizer (PFE)** or **Gilead (GILD US)**.

- The FDA has tentatively scheduled an advisory committee meeting (Adcom) for OCA on 22 April 2020 but delayed the PDUFA date to June 26.
- If approved, expectations are for Ocaliva to reach peak sales of $2-2.5 bn by 2025.

Rare Liver diseases offer additional growth potential

So far, Intercept has been focused on the NASH indication. However, OCA is already in Phase II for further indications related to liver diseases.

- In Primary Sclerosing Cholangitis (PSC): Ocaliva has already met the primary endpoint in 2017 on the Phase II AESOP trial. A Phase III trial initiation would have a positive impact on Intercept's share price.

Source:
Reports and Data
Intercept's annual report

INTERCEPT
(ICPT US)

About the company

Ocaliva: first commercial success in PBC

Ocaliva, obeticholic acid, is the first and only approved second-line treatment for primary biliary cholangitis ("PBC"), a rare and chronic liver disease that affects approximately 100’000 people in the United States, 90% of whom are women aged between 40 and 60.

- Ocaliva is indicated for patients who are intolerant or do not respond to UDCA (ursodeoxycholic acid).
- Intercept increased Ocaliva's sales guidance for fiscal 2019 to between $245 and $250 million, a 41% increase over 2018.

A pipeline focused exclusively on liver diseases

Ocaliva, Intercept’s lead drug, is also being tested in NASH, Primary Sclerosing Cholangitis (PSC) and Biliary Atresia.

- NASH is a chronic disease which is characterized by a buildup of fat in the liver, leading to fibrosis (scarring).
- Primary Sclerosing Cholangitis (“PSC”) and Biliary Atresia are rare liver diseases, where liver transplantation is currently the only solution.

On track for a second approval in 2020

Intercept Pharmaceuticals’ drug was the first and only drug to show positive results in improving fibrosis. Last year, the FDA agreed to review the New Drug Application (NDA) with a priority review on Ocaliva for the treatment of NASH.

- Positive Phase III top-line data support the review as they show consistent improvement in liver fibrosis of at least one stage without NASH deterioration at 18 months (REGENERATE study).
- In December 2019, Gilead’s Phase II ATLAS study failed to meet this primary endpoint.

INTERCEPT

(ICPT US)

Catalysts

- **First-in-class opportunity in the large NASH market.** OCA is on track to become the first drug approved on NASH, likely already this year.
- **Future expansion of Ocaliva.** Intercept also has trials in Primary Sclerosing Cholangitis and Biliary Atresia, all rare liver diseases.
- **Less invasive diagnosis tools.** Invasive liver biopsy is still the golden-standard to confirm NASH. The development of non-invasive tests will increase the number of patients and, therefore, the future OCA's demand.

Risks

- **Intercept's failure to obtain NASH approval.** OCA may fail primarily because of its security profile. OCA is known to increase LDL levels significantly.
- **Continued competition.** Many companies have Phase II/III trials underway for both PBC and NASH.
- **Reimbursement.** In the early stage of NASH, a high proportion of patients are asymptomatic, and lifestyle changes could reverse the disease. Therefore, payers could limit reimbursement to the advanced stages of NASH (stage F4).

Bottom Line

- Intercept is one of our main convictions for 2020. Since its approval in 2016 on PBC, Ocaliva has demonstrated its strength.
- After several clinical failures by competitors like **Gilead, CymaBay, Conatus (CNAT US), Novartis (NOVN SW), and Boehringer (Not listed)**, Intercept is almost the only player left in the lucrative NASH landscape. If approved, Intercept will be on the buyout radar of pharmaceuticals and Biotech giants.

GLOBAL PAYMENTS

(GPN US)

Key drivers behind our strong conviction

The leading global provider of payment technology and software solutions

Unlike competitors, Global Payments owns and operates the entire ecosystem of payment solutions (hardware, software, and payments) in many verticals in over 40 geographical markets, with a dominant market share and strong business development strategy.

- Selling a complete ecosystem is a strong differentiating factor vs. competitors.

Long term innovative strategic vision to expand in multiple verticals

Continuous strategic investments for future growth have set the path for strong double-digit growth. Examples are the entry in a retail vertical (merger with Total System Services) and the restaurant business (acquisition of SICOM).

- Merging with rival TSS opened cross-sell opportunities resulting in $325mn annual synergies over the next three years.

Strong cash flow generation and successful refinancing of credit facilities

Significant FCF generation (~$2bn in FY19E) allows the company to pursue acquisitions and strategically grow through M&A while keeping leverage under control.

- Recent significant acquisitions include APT, PayPros, AdvancedMD, SICOM, among others, which required substantial capital to invest.
- Pro-forma leverage stands at 3x, low in absolute and relative-to-industry terms.

GLOBAL PAYMENTS
(GPN US)

About the company

An integrated and complete payments solution

By providing a complete solution, Global Payments can perform multi-factor authentication without needing a third-party network for authorization by combining issuing, processing, validating, and acquiring in one integrated solution. A key advantage in eCommerce.

- Most competitors require third-parties for the validation step.

Growing the business through the cloud

The stand-alone platform is run primarily in the cloud where a lot of the software businesses already operate, making it simple for merchants and companies to choose and integrate into their product the solution provided by Global Payments.

- It offers data and analytics through the cloud, providing an additional revenue stream for the company.

Already explores multiple verticals

Universal compatibility, global reach, and experience in different verticals will accelerate the verticalization of omnichannel payments and boost earnings, further increasing their competitive advantage over competitors.

- A robust suite of universal Point-of-Sale solutions servicing merchants of varying sizes
- Extensive experience in combining merchant businesses in different verticals, e.g., restaurant, gaming, nonprofit, campus, spa, etc.

GLOBAL PAYMENTS

(GPN US)

Catalysts

- **More convenient mobile payments.** Increased adoption of digital wallets will create more use cases and interest in Global Payments' technologies and software.
- **Merchants and SMEs are demanding efficient and complete solutions.** The growing need for price-competitive products will add to the already double-digit growth.
- **M&A opportunities.** New acquisitions in different verticals will further boost revenue growth.

Risks

- **Loss of faith in digital payments.** System failures would impact trust in digital payments and increase concerns over privacy, affecting the stock.
- **Stringent regulations.** Unsupportive regulations may hinder the adoption of mobile payments and affect the company's growth.
- **TSS synergies below expectations.** While GPN has a strong track-record in integrating acquired companies, the TSS cultural integration might be more difficult to achieve and negatively impact the accretive nature of the deal.

Bottom Line

- In addition to developing new products in various verticals, Global Payments has renewed its focus on debit and retail, which will help accelerate growth over time.
- We believe that the company has a strong competitive advantage with its product portfolio and unique platform.

GMO PAYMENT GATEWAY
(3769 JP)

Key drivers behind our strong conviction

Leading payment processor in Japan

GMO Payment has established one of the largest payment processing service in Japan. The company has partnerships with key Japanese institutions, and barriers to entry are very high, given the size of the network.

- Transactions worth ¥4.6tn (+35.3% YoY) processed in FY2019 through 1.8bn transactions.
- A network of more than 110k merchants that includes e-commerce giant **Zozotown (3092 JP)** or the Tokyo Metropolitan Government

High growth potential of Fintech services in Japan

Fintech adoption in Japan is still among the lowest in the world. Early-enablers like GMO Payment are likely to experience massive growth in their business activity as penetration rates normalize.

- 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.

Public policies pushing for a Japanese society less reliant on cash

The Japanese government aims at increasing the ratio of cashless settlement from 20% today to 40% by 2025, and 80% eventually. Thanks to its cashless payment services, GMO Payment is set to benefit. Changes in consumption habits and increase of e-commerce penetration represent additional tailwinds for GMO Payment.

- Following the increase in VAT in 2019, the Japanese government set up rebates for payments done by cashless means.
- The government also plans to use ad campaigns during the 2020 Tokyo Olympics to push towards cashless payments.
- 8'250 ATMs were shut down in Japan between 2009 and 2018 (approx. a 5% decrease) to reduce access to physical money.

GMO PAYMENT GATEWAY
(3769 JP)

About the company

Large portfolio of payment solutions and financial services

GMO Payment has developed numerous solutions to facilitate payments in Japan. Even if payment processing and e-commerce solutions still account for most of its revenues, the company is pursuing a strategy of diversification towards various Fintech services.

- New services include apps on smartphones to receive or send money, payment-after-delivery services, e-wallets services, card payment at vending machines, B2B solutions, etc.
- Added-value services are provided to customers through payment data analysis and inferences.

Strong growth in key financials

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 expected to more than triple by 2025.
- Development of next-generation payment platforms with **Visa (V US)** and **Sumitomo Mitsui (8316 JP)** card is in the pipe.
- Collaboration with utility and telecom sectors in Japan to improve their payment platforms.

Innovative contract system in Japan

The company introduced a new contract system for SMEs and startups, charging a spread based on volume processed, disrupting historical operators who charged fixed fees and commissions on transactions. Such an innovative model allowed GMO Payment to gain market share and develop its network of merchants rapidly.

- Only 10% of the total revenue comes from SMEs, but extensive coverage consolidates the firms' position as a market leader and increases brand recognition.

MOBILE PAYMENTS

GMO PAYMENT GATEWAY

(3769 JP)

Catalysts

- **Cashless society.** As Japan is slowly but surely transitioning to a cashless society, GMO Payment may expect its volume of transactions and hence its revenue, to increase.
- **International expansion.** GMO Payment has limited activities outside of Japan. It started investing massively abroad, with the intent to generate 20% of its operating profits from international payment processing and lending activities in the mid-term. The potential from international activities has not been priced in the stock yet.
- **Diversifying the revenue mix.** New products such as money services (payment-after-delivery, lending) and payment enhancement activities (online advertising, security protocols over online payments, etc) add the potential for strong growth on both the top and bottom-line.

Risks

- **Japanese demographics.** 30% of the population in Japan is older than 65, a group age that is reluctant to change its payment habits towards means of payments, and unlikely to go fully digital.
- **Increase in competition.** Gateway providers like **Square (SQ US), Stripe (not listed),** or **Adyen (ADYEN NA)** already have local presence, but have not yet done major sales effort, as they wait for the market to expand.
- **Shareholder pressure.** The dividend payout ratio is about 50% and kept artificially high by the main shareholder **(GMO Internet (9449 JP)** with a 40% stake) who relies on this cashflow. Such payout ratio may limit the company ability to make necessary investments.

Bottom Line

- GMO Payment is part of our top convictions as it is the leader in payment processing in Japan, a country with 130mn people that is pushing towards cashless solutions to fill the gap with other advanced economies.
- The company is entering a new phase of development towards partnerships with larger financial institutions that should help maintain a double-digit growth in earnings for the foreseeable future.

PAYPAL
(PYPL US)

Key drivers behind our strong conviction

Big as a conglomerate, growing as a start-up

The company has been able to maintain a growth pace usually associated with start-ups. Its size allows PayPal to reach a wide user base and offer diversified services, while its agility in innovating leaves room for significant upside.

- Significant firepower given its $130bn market cap and $15bn+ in revenues.
- Growth is outstanding: total payment volume at $179bn in Q3 2019 (+25% YoY), and revenues growing at a high double-digit pace.

Global player

PayPal aims to internationalize its growth. Its cross-border reach diversifies its geographic exposure and contributes to strengthening its brand recognition.

- It is the first foreign platform to access the online payments market in China thanks to the acquisition of a 70% stake in Chinese GoPay in 2019.
- PayPal is present in more than 200 countries, with <50% of revenues from the U.S.

Diversified among merchants and private users

PayPal platform is aimed at both sides of the transaction: the process between payer and receiver can run smoothly (and faster), without handling data to different payment processors. Financial details stay safe, while the money is transferred instantly.

- Users don't need to input their financial data at every merchant's site.
- Venmo, the mobile payment service owned by PayPal, reached $27bn in total payment volume in Q3 2019 (+ 64% YoY).

PAYPAL
(PYPL US)

About the company

Broad service offering

PayPal makes money mostly by processing customers' transactions and by offering other value-added services. Innovations on services boost customer retention.

- PayPal Credit substitutes traditional credit cards by offering an instant online revolving line of credit.
- PayPal OneTouch smooths the payment experience by enabling quick transfers from users to participating merchants' websites or apps.

Dynamically evolving over time

PayPal has historically leveraged high-level partnerships, contributing to developing its brand image, reach vast audiences and make PayPal potentially the payment option for hundreds of millions of users.

- The first major deal was with **eBay (EBAY US)** - their agreement terminates in mid-2020.
- PayPal signed a partnership with Instagram, owned by **Facebook (FB U.S.)**, and **Mercado Libre (MELI US)** in 2019.

Leading position a critical competitive advantage reaching new users

Trust in digital payments players is a crucial hurdle in the adoption of their solutions. PayPal relies on the strength of the ecosystem that it creates and leverages its network to reach a broader user base.

- Brand recognition facilitates its deployment among new users distrustful of digital payments.
- Being an internationally recognized channel, users can move from country to country, relying on it as a means of payment.

PAYPAL
(PYPL US)

Catalysts

- **Venmo's credit card.** The card is expected to be out in 2H20 and help monetizing Venmo. Initially released in 2009, the mobile payment service is still reporting losses.
- **New partnerships with e-commerce platforms.** Paypal will leverage its partnerships with **Uber (UBER US)**, **Facebook (FB US)** or **MercadoLibre (MELI US)** to expand its user base. A new collaboration, especially in China, may come along in 2020.
- **Collaboration on the Blockchain ecosystem.** PayPal joined a Series A funding round with **Cambridge Blockchain (not listed)** in early 2019. If PayPal strengthens its ties to the blockchain world before the competition, control over security increases, and consumers' trust gained quickly.

Risks

- **Agreement with eBay (EBAY US) terminating in mid-2020.** PayPal will not handle all eBay's online payment processing anymore. eBay will account for about 6% of PayPal's payment volume at the time the agreement ends, down from 11% in 3Q18.
- **Brexit impact on customers.** 31 January is the scheduled official date for the U.K. to leave Europe. Brexit may affect consumer spending and reduce the overall transaction amount. PayPal makes around 10% of its revenues in the U.K.
- **Tech giants are penetrating the payments market. Apple (AAPL US)** and **Google (GOOG US)** are increasing their efforts to offer customers payment services. Apple credit card may reach Canada and Europe in 2020; the same timing is expected for Google checking accounts.

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 markets or concentrated on a only few customers.
- Short-term threats are already discounted in the share price and its fast-growing business has still plenty of channels to expand itself. China and its 890mn mobile payment users may be the next real trigger for the company.

FORTINET

(FTNT US)

Key drivers behind our strong conviction

Strong growth in global surface exposed to cyber-attacks

Telecom operators need to massively invest in security as integrating the internet with sprawling physical infrastructure creates new vulnerabilities.

- Fortinet leads the cybersecurity landscape, notably in protecting 5G networks.
- **Orange (ORA FP)** and **Telenor (TEL NO)** were the latest to announce a partnership with Fortinet.

Edge computing, and the proliferation of IoT devices

Fortinet estimates that 40% of enterprises will be using edge computing by 2021. The faster-growing opportunities remain in Endpoint/IoT/OT security ($11bn by 2023) and Cloud Security ($7bn by 2023), where Fortinet is investing massively.

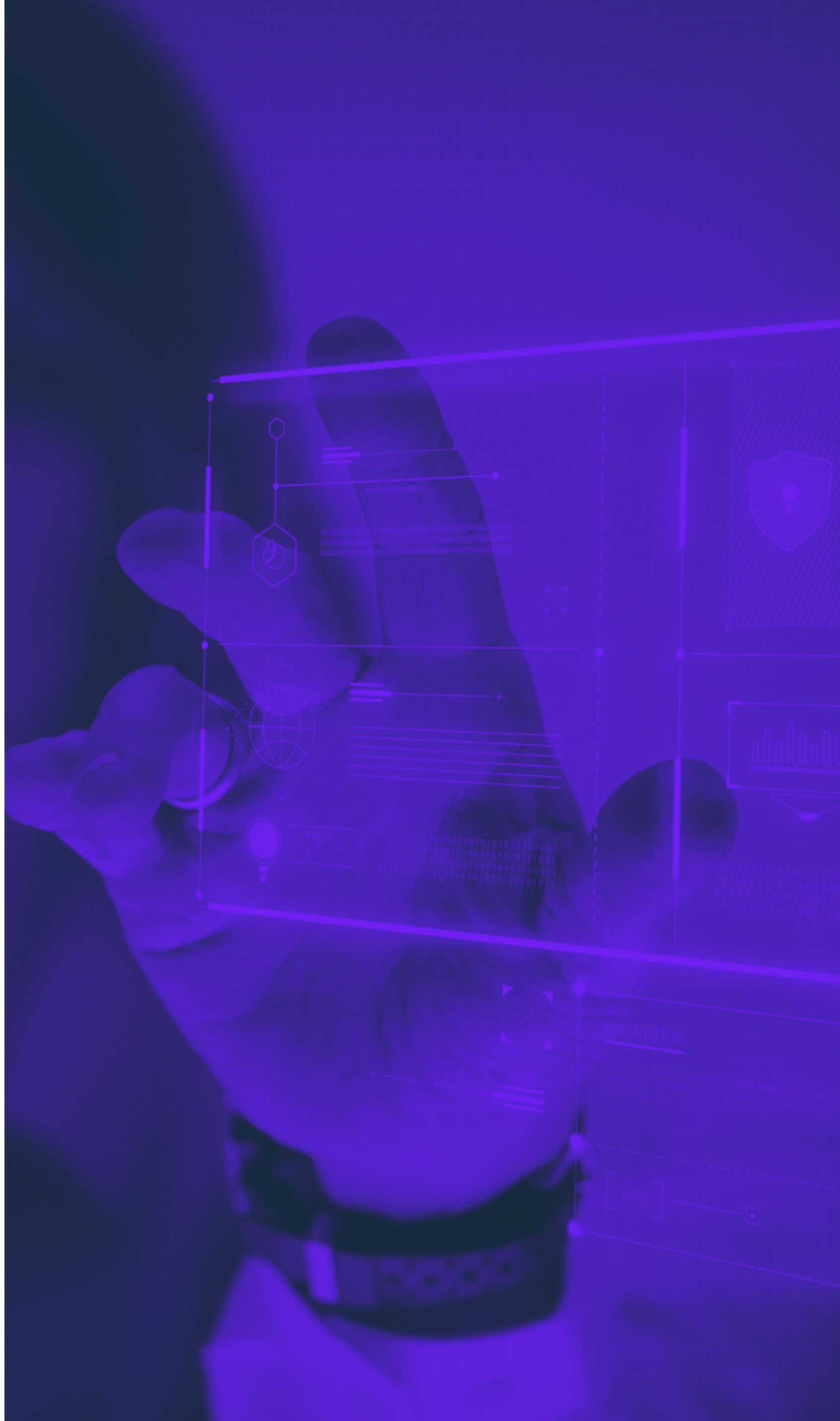
- Fortinet has filed 3x more patents than its competitors in Network Security Solutions.

Secular growth tailwinds with the shift to Cloud

Migration to the cloud triggers an increased decentralization of data centers, requiring a re-thinking of the organization and management of cybersecurity.

- Fortinet's Secure SD-WAN (Software-Defined Wide Area Network) solution is considered as one of the best products in the cloud.
- Fortinet has more than doubled its market share and is now #3 behind **Cisco (CSCO US)** and **VMware (VMW US)**.

Source: https://blog.cloudware.bg/en/what-is-edge-computing-and-will-it-become-a-big-trend/



FORTINET

(FTNT US)

About the company

A pioneer and a leader in the unified threat management market

Fortinet has a robust technology and patent portfolio that address the full spectrum of organizations' cybersecurity. Through their virtual firewall and specific software for cloud environments, Fortinet can offer its products across all major providers.

- Fortinet's revenues come mainly from their FortiGate network security appliances.

Fortinet's broad customer base is a key advantage

Fortinet's customer base is one of the largest in the cybersecurity software market and a critical competitive advantage considering the refresh/upsell optionality.

- It has over 425k customers including medium-sized businesses, large corporations, and government organizations across a wide range of industries.
- It is gaining market share with small/mid-sized businesses by leveraging continuous innovation thanks to a constant 14% R&D/Sales ratio.

High valuation is not a barrier to future price appreciation

A considerable upside remains ahead, driven by future strong top-line growth and margin expansion.

- Fortinet's significant investments in new hiring and marketing are starting to bear
- fruit, especially in the enterprise segment.
- Higher recurring revenues improve the mix and its cash generation.

FORTINET

(FTNT US)

Catalysts

- **Fortinet's marketing efforts will start to bear some fruits.** Prospective customers understand that the new platform offering is more than just a firewall.
- **Street upgrade.** Street estimates are too low: mid-term revenue targets (>15% 2020-2022) are ahead of where consensus is currently (14.3% and 12.6% growth in FY20 and FY21, respectively).
- **Further acquisitions could increase mid-term revenues targets.** Fortinet has invested more than $100m since 2015 to expand its technology capabilities. They have the firepower to target enhancing technologies.

Risks

- **Firewall-as-a-service (FWaaS) shift.** It might impact the traditional firewall space and put pressure on pricing.
- **Trading at historically high multiples.** Fortinet's high valuation represent a risk factor should the company not deliver as expected.
- **Cloud-native security platforms competition.** Cloud-native security platforms **Proofpoint (PFPT US)**, **Zscaler (ZS US)**, and **Crowdstrike (CRWD US)** are serious competitors to Fortinet.

Bottom Line

- Fortinet is to benefit from an ever-increasing number of enterprises shifting their data to the cloud, and from the client's consolidation of their security infrastructure.
- The company's strong competitive position and flawless execution makes it one of the most exciting stocks in the cybersecurity space.

LEIDOS

(LDOS US)

Key drivers behind our strong conviction

Leader in public cybersecurity

Public IT systems are vital, but also big targets for cyberattacks – this forces Governments to increase spending in cybersecurity. Leidos' scale and proved software efficacy makes it the leading U.S. contractor and perfectly positioned to benefit.

- U.S. 2020 Budget includes $17.4bn for cybersecurity-related activities - a 5% YoY increase.
- Leidos has been awarded last December a 5-year contract worth $6.5bn by the Defense Information Systems Agency.

Leading public health care digitization

Leidos is a leader in digitizing public health services, leveraging its technical know-how and long-standing relations with the government. Pressure to reduce cost and optimize processes is leading public health care institutions to go digital.

- Its software offering helps manage electronic medical records (EMR), diagnostic databases, and conduct data analytics.
- A segment offering high single-digit growth.

Diversified revenues

Leidos core competencies are applicable to different fields across multiple markets and geographies. The long-term nature of public contracts, as well as the revenue mix, provide stability across economic cycles and help generate strong cash flow

- The revenue mix touches different sectors: Defense Solutions $5.2bn (49%), Civil $3.6bn (33%), Health $2.0bn (18%).
- The company targets to exceed the 100% Cash Flow Conversion over the 2019-2020 period.

LEIDOS
(LDOS US)

About the company

The largest pure-play government services company

Leidos provides leading solutions to public digital needs, both civil and military. Its size and long-lasting relationships with the public sector are a key competitive advantage in ensuring deal wins.

- US Government accounts for more than 80% of revenue.
- Its solutions answer a broad spectrum of needs: security, monitoring, data collection, and analysis.

Leader in public security business

Data protection is, even more, a priority in public space. Leidos offers solutions to defend global cyber interests, and its scale and breadth in offering give it an edge in competing for large public contracts.

- The six largest project wins were all above the $500mn mark.
- Such a contract size reduces competition.

Resilient business

Its reliance on multiyear governmental contracts, capital-light business and diverse portfolio make Leidos resilient across cycles.

- Multiyear contracts are frequent and give visibility on future revenue.
- The backlog grew over 40% to $23.9bn in the last two years and a half.

LEIDOS

(LDOS US)

Catalysts

- **Escalating tensions in the Middle East.** Further developments of the current U.S.-Iran situation may bring the U.S. to expand its investments to defend from cyber threats.
- **Strategical acquisitions to expand revenue mix.** The significant cash flows the company generates may help to diversify the business through M&A. This may come in a step toward loosening Leidos' ties to the U.S. budget.
- **Navy business to include unmanned vehicles.** Leidos provided the design and technology to allow an autonomous driven ship to travel from San Diego to Hawaii and back. Autonomous ships may be the alternative enabling the Navy to execute its plan to expand its fleet over the next years.

Risks

- **Poor integration of Dynetics.** Leidos announced the acquisition of Dynetics for $1.65bn in December 2019. The company was not a cheap acquisition, whose integration may be a short-term hurdle for Leidos.
- **US elections outcome.** Trump expanded the military budget as promised in his 2016 Presidential campaign. If not re-elected, there may be an inflection in US defense expenditures.
- **Reduction in health spending.** Health accounts for almost 20% of revenues. This election year may trigger an important change to the way the U.S. healthcare system is structured.

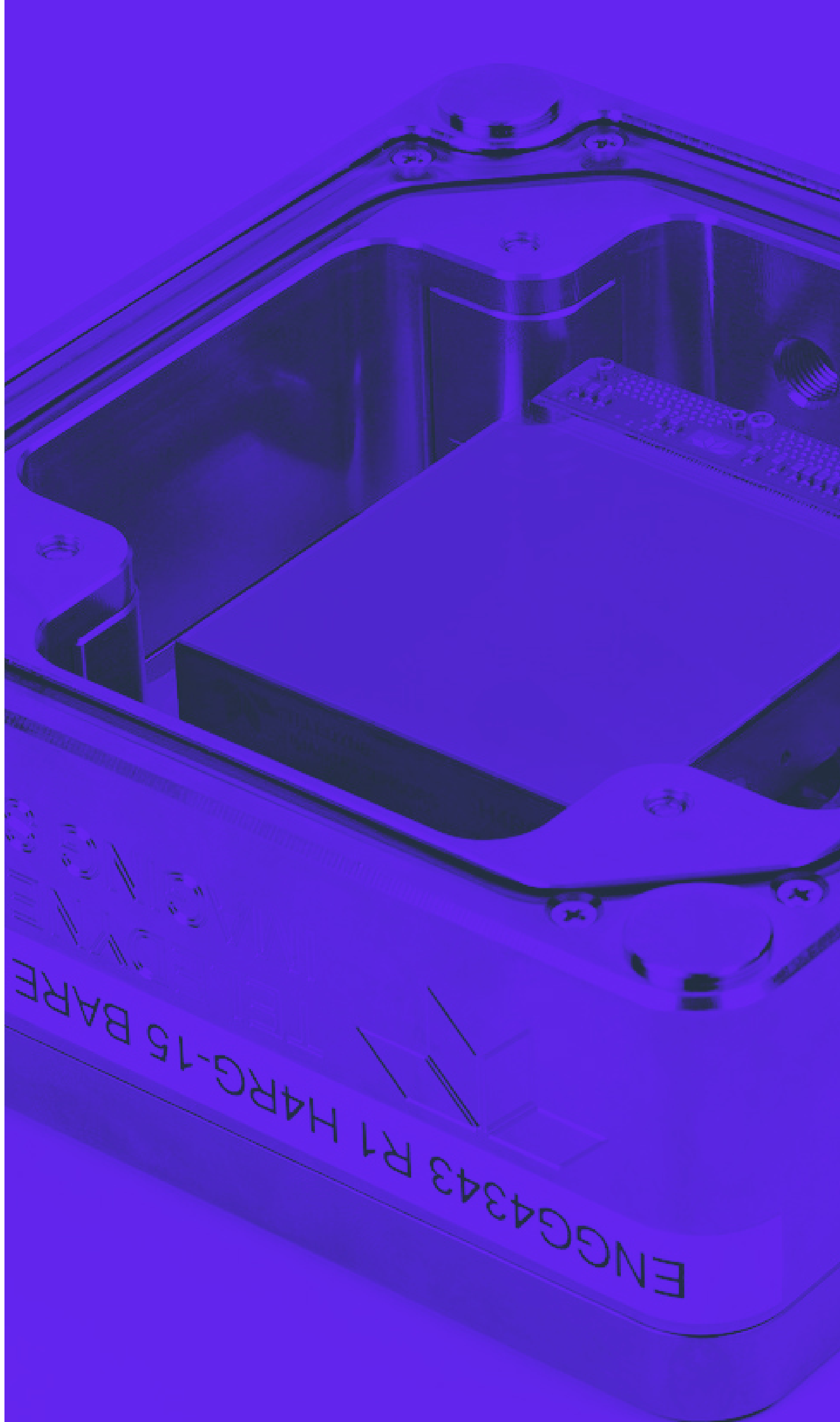
Bottom Line

- Leidos strongly benefits from its relationships with US governmental agencies and occupies the leading position in the security business.
- The company has been strengthening its leadership in the defense and security businesses through the **Lockheed Martin Corp. (LMT US)** deal and the recent acquisition of **Dynetics**.

TELEDYNE

(TDY US)

TELEDYNE TECHNOLOGIES INCORPORATED



Key drivers behind our strong conviction

A key player in digital imaging

Digital imaging is all the rage, with facial recognition making headlines. Teledyne has developed a full vertically integrated supply chain, from sensors to software, and offers comprehensive high-level solutions, mostly in medical, security and surveillance segments.

- Sales of X-ray detectors, used not only for medical testing but also for security and industrial purposes, have driven growth in this division.

Satellite technology provider

The satellite business is experiencing very strong growth thanks to privately-funded low-orbit constellations projects. Teledyne is a leading supplier of key components for satellites and positioned to benefit from surging demand.

- Teledyne has taken part in over 100 space programs with commercial, scientific, military, or government applications.
- The ability to deal with complex counterparties like the NASA or ESA is a valuable competitive advantage.

Catching the autonomous drive trend

The company is deploying its technology and know-how in imaging sensors, communication components and software to cater the self-driving cars market.

- Advanced driver-assistance (ADAS) systems rely on image and sensors data. TDY's tools help developers in validating and fine-tuning ADAS systems.
- Teledyne LeCroy's tools ensure that communication security protocols are implemented correctly to overcome cybersecurity threats.

TELEDYNE

(TDY US)

About the company

A dynamically shifting strategy

Teledyne's revenue mix evolved substantially over time. The management has repeatedly proved its flair in wisely re-orientating the company's strategy to best deploy its technological know-how in promising markets.

- It divested from the Aerospace Engines components business (17% of revenue in 2000) to increase the digital imaging business (from 0% of revenue in 2000 to 31% in 2019).
- Its Instrumentation business grew from 6% in 2000 to more than one third of revenues today.

Pricing power

Teledyne exploits synergies from its technological know-how by deploying products and solutions in niche markets. By vertically integrating the full value-chain, they can provide ad-hoc technical solutions, commanding strong pricing power.

- The Electronics Division provides compound semiconductors and high-speed electronics.
- The Materials and Optics Division includes electronic device packaging, optical devices and biomaterials.

M&A strategy

Teledyne has been strengthening its core businesses with targeted acquisitions. The business mix of the company has significantly evolved over the years. No other company in our portfolios has demonstrated such a capability to question itself constantly, reorganize its activities, and adapt to the evolution of the environment.

- Teledyne acquired over 62 companies since 2001.
- The management team has consistently delivered operational improvements.

SECURITY & SPACE

TELEDYNE

(TDY US)

Catalysts

- **M&A activity.** Recent acquisitions include the scientific imaging businesses of Roper Technologies. As the company wants to reinforce digital imagery, we would not be surprised if another significant acquisition in this industry happens within the next 12-18 months.
- **Emerging markets development.** Teledyne serves mainly customers in developed markets. Emerging countries develop and need to rely on sophisticated instrumentation too. The company is developing a sales team in countries like Brazil or China; important contracts in these countries could have a domino effect in the mid-term.
- **Margins expansion.** EBITDA margin has been on an upward trend since 2001. At 18.5% in 2018, this figure still has room for improvement. The Street estimates (20% in 2021) seem conservative, and we think that Teledyne may surprise investors on this figure by then.

Risks

- **U.S. Government.** The dependence on this client is important. Doing business with U.S. agencies is subject to particular risks, e.g., government funding pressure, special termination rights, or fixed-price clauses. Past government shutdowns impacted Teledyne's business. The current spending deal ends on 30 September 2020.
- **Patents loss.** Patents on flight data acquisition system started expiring in 2018. **Airbus (AIR FP)** and **Boeing (BA US)** did not wait long to enter this market, and Teledyne is redoubling its effort to maintain its position as the top supplier.
- **Growth strategy.** By pursuing a strategy of external growth, Teledyne is exposed to inherent risks linked to acquisitions, such as selecting the wrong target, integration difficulties, or the potential loss of key personnel.

Bottom Line

- Teledyne is a modern conglomerate leveraging its technological know-how to catch rising trends by shifting its revenue mix across many different industries.
- We remain convinced that current exposure to digital imaging, satellites, and autonomous vehicles will bring momentum for future growth.

KINGSPAN

(KGP LN)

Key drivers behind our strong conviction

Buildings as primary contributors to CO2 emissions

Buildings account for about 40% of global energy consumption and 40% of energy-related CO2 emissions. Providing more efficient building envelopes and insulation layers are key.

- Between 2000-2018 construction activity increased by 65% while energy efficiency increased by only 25%.
- In 2018, Kingspan products saved 192.7 million MWh of energy and 28.15 million tones of CO2.

The leader in high-performance insulation and building envelopes

Kingspan develops proprietary technologies to reduce energy costs and construction time, while growing usable space, increasing returns and enhancing architectural design. Competition in this space is lacking.

- No player has its geographical reach and product diversification. Local players are a mean to access new markets through M&A.
- Kingspan leads the market through its broad exposure (Mainland Europe - 46% of revenue; UK - 21%; Americas -20%).

Superior innovation and product differentiator

Kingspan is leading innovation by developing best-in-class insulation systems and leveraging digital technologies to speed-up the adoption of its products.

- Kingspan develops the most advanced insulation materials, featuring thermal properties that are >3X more efficient than traditional stone wool panels.
- On the Building Information Modelling (BIM) front, it has made digitally available all its insulation products for digital representation.

Source: https://www.iea.org/reports/tracking-buildings

KINGSPAN

(KGP LN)

About the company

High-performance building solutions

It offers products enabling buildings to save energy, reduce carbon emissions, and manage water consumption. The company is aligned to fight the environmental problems our society is dealing with.

- Its proprietary insulation products are designed to save energy and space while retaining their performance over time.
- In water-related solutions, Kingspan focuses on using IoT to provide intelligent monitoring.

Committed to reducing environmental impact

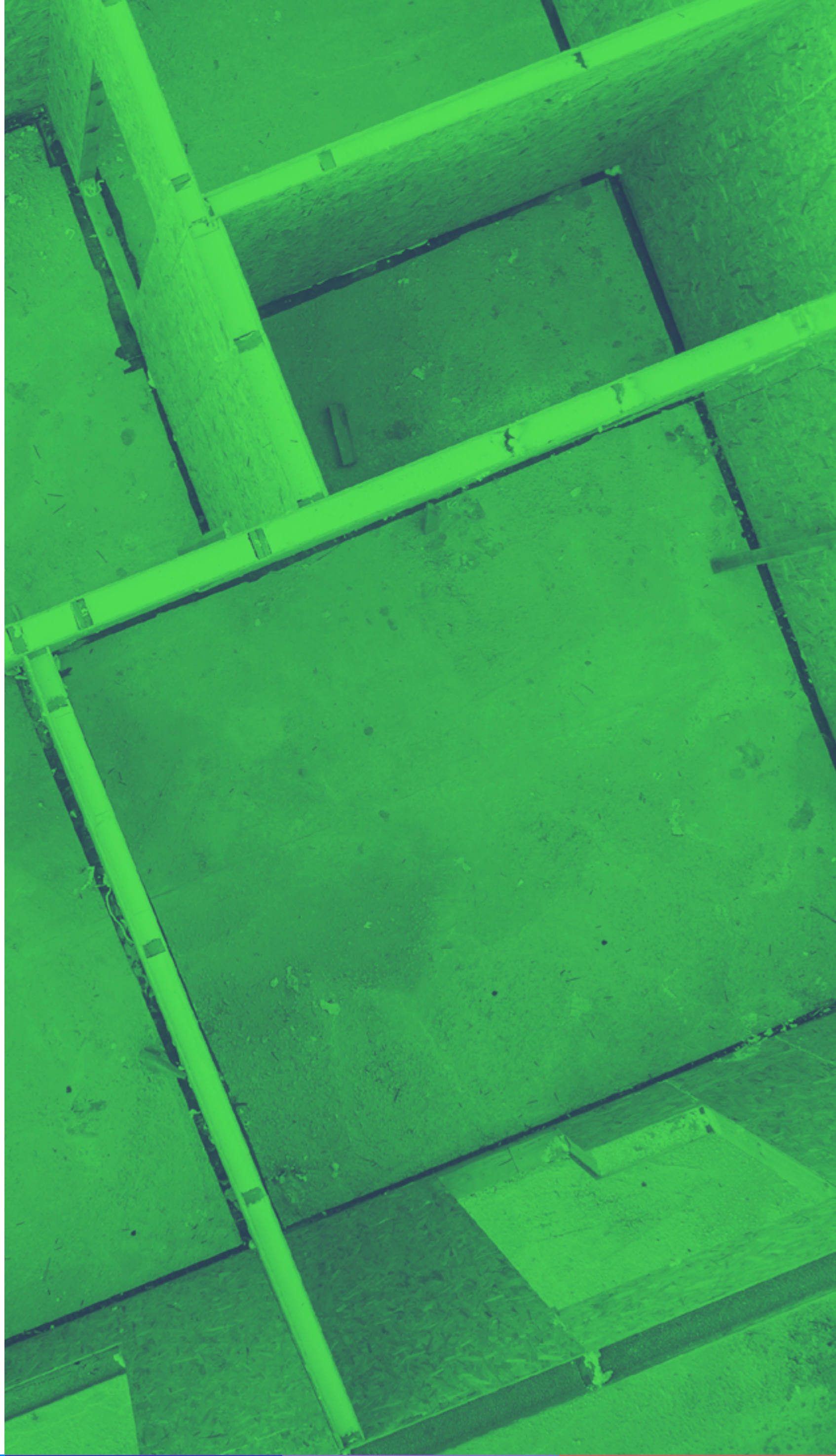
In December 2019, Kingspan launched a major 10-year strategic plan to reduce carbon emissions.

- The plan consists of 12 targets spread over four areas: energy, carbon, circularity, and water.
- Foremost goals are to power 60% of all Kingspan operations directly from renewable energies and achieve net zero-carbon manufacturing.

Evolution in geographic footprint

Kingspan built up a leading position in its market. M&A has been the main channel to fuel its growth. Most of its business is currently concentrated in Europe and the Americas.

- It grew in Southern Europe and strengthened its presence in Central and Eastern Europe thanks to acquisitions closed in 2018.
- It increased its footprint in Brazil and India through 2017 and 2018 by investments and partnerships with **Isoeste (not listed)** and **Jindal Mected (not listed)**, respectively.



KINGSPAN

(KGP LN)

Catalysts

- **Government supporting investments for energy-efficient buildings.** Switzerland allows the deduction of investments costs to improve energy efficiency beginning 1 January 2020. The Indian Ministry of Economy, Trade, and Industry offers subsidies for the replacement of existing equipment.
- **More stringent building energy codes.** Governments are implementing new policies & supportive measures to improve the energy efficiency of buildings, e.g., the recent amendment of the Energy Performance of Buildings Directive (EPBD) in the EU.
- **Southeastern Asia urbanization.** US-China trade war triggered corporate investments and new constructions in surrounding countries.

Risks

- **Raising interest rates.** Tightening monetary policy, leading to a higher cost of debt, would negatively impact investments in greenfield projects.
- **Developed countries' economic downturn.** 80% of KGP's revenue comes from new buildings, mostly in developed economies. 50% of revenue is from new non-residential buildings in Europe. Kingspan's business remains highly tied to construction activity.
- **Investments slowdown in EM.** Developing countries (Asia and Africa) are the most active in new constructions. Although still a small share of Kingspan's revenues, overall growth would be affected.

Bottom Line

- With its differentiated offering, Kingspan faces little competition in leading the low-carbon buildings market over the short to medium term. High-performance insulation and building envelopes are its spearheads.
- Thanks to its high-performance product offering and its world-leading position in research and innovation, we believe Kingspan is best positioned to benefit from the accelerated transition to more efficient buildings.

NESTE

(NESTE FH)

Key drivers behind our strong conviction

Global leader in renewable diesel

Neste is the world-leading renewable diesel producer with close to 3mn tons of annual production capacity representing 60% of the world's total.

- Demand is forecasted to nearly quadruple to 20mn by 2030.
- Current investments for capacity expansion is on track to reach 4.5 million tons in 2022 and 8 million tons in 2030.

At the vanguard of tomorrow's aviation industry

Neste is a leading provider of renewable fuel for the aviation sector, a critical segment that is growing rapidly.

- Its Renewable Jet Fuel is compatible with existing jet engines and fuel distribution infrastructure. It can be blended with conventional jet fuel up to a 50% ratio.

Strategic business exposure

Neste is best positioned to benefit from the world's decarbonization, leveraging a balanced revenue profile made of high-growth renewable products combined with high-quality oil products, as well as marketing and services.

- The renewable segment remains the most profitable, representing about 80% of operating profits in 2018.

NESTE
(NESTE FH)

About the company

Neste is refining the future

Neste is pushing the refining activity to the next level by focusing on developing new products aimed to provide cleaner & top-performing solutions to an expanding client base.
- 25% of employees are in research, product development, and engineering.
- The use of waste and residues for its renewable diesel production represents today ~80% of annual renewable raw material usage.

A straightforward solution to cut emissions

Transportation represents a third of global energy demand and is responsible for 14% of global greenhouse gas emissions. Mixing liquid biofuel with fossil fuel is a straightforward solution that requires no modification on the vehicle's engine.
- In 2018, the use of Neste's renewable fuel enabled to save 7.9 Mt of greenhouse gas emissions, equivalent to taking 3 million cars off the road.

Exposure to other markets beyond transport

Beyond its strong presence in the transport fuel sector, Neste is also diversifying its activity to reach the chemical industry's applications.
- MY Renewable Isoalkane is a premium quality, sustainable, and safe alternative to traditional mineral oils for the production of paints, glues, coatings, lubricants, detergents, and cosmetics.
- Also, it is a pioneer in the development of bio-based plastic with endless potential applications, including parts for cars, consumer goods, packaging, etc.

Source: https://www.irena.org/transport

NESTE

(NESTE FH)

Catalysts

- **Bioplastic push.** Bioplastic revenues could rise rapidly as 50% of the biggest consumer goods companies aims at switching to renewable or recycle plastics by 2030.
- **Consolidated partnerships.** Intensified collaboration with key airports (Singapore, San Francisco, Amsterdam, etc.) and major aviation fuel suppliers (Air BP) is making Neste's renewable fuel readily available to a growing base of potential customers.
- **Emission reduction targets.** Many countries are stepping up their targets to cut emissions. Notably the recent EU Renewable Energy Directive for 2021-2030, aims for 14% renewables in transport by 2030.

Risks

- **Volatility in oil prices.** Neste's refining activity remains linked to oil prices, and refining margins might be affected by several unpredictable events (oversupply, supply cuts, shortages, attacks, etc.).
- **Changes in regulations.** Unexpected policy changes could impact Neste's profitability, notably the risk of seeing the US biodiesel mandate modified by Trump's administration to gain support from the Oil & Gas industry.
- **Disrupting technologies.** Alternative technologies, such as battery electric vehicles or fuel cell vehicles, could negatively impact the renewable diesel industry in the event of breakthrough advances.

Bottom Line

- The demand outlook for biofuel and biodiesel is getting very bullish, driven by increasing blending requirements and supportive policies.
- With a world-leading position in renewable diesel and strategic business diversification, we are confident that Neste is best suited to benefit from the world's transition to a lower-carbon economy.

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, a CAGR of 37%.
- PV costs fell by more than 70% since 2010 (from 4'621 $/kW to 1'210 $/kW in 2018), 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 research and development and strategic acquisitions

Strong and unlevered balance sheet allow 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:
https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2019/Nov/IRENA_Future_of_Solar_PV_2019.pdf
https://ec.europa.eu/jrc/sites/jrcsh/files/kjna29938enn_1.pdf

SOLAREDGE
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About the company

A complete residential smart energy solution

SolarEdge makes solar inverters, a product which converts current electric power generated by solar arrays into alternating electric power, 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 (97%).
- Expanding high-growth Storage & Energy Management and Smart Modules will diversify its revenues.

Focused on solar products and growing its market share

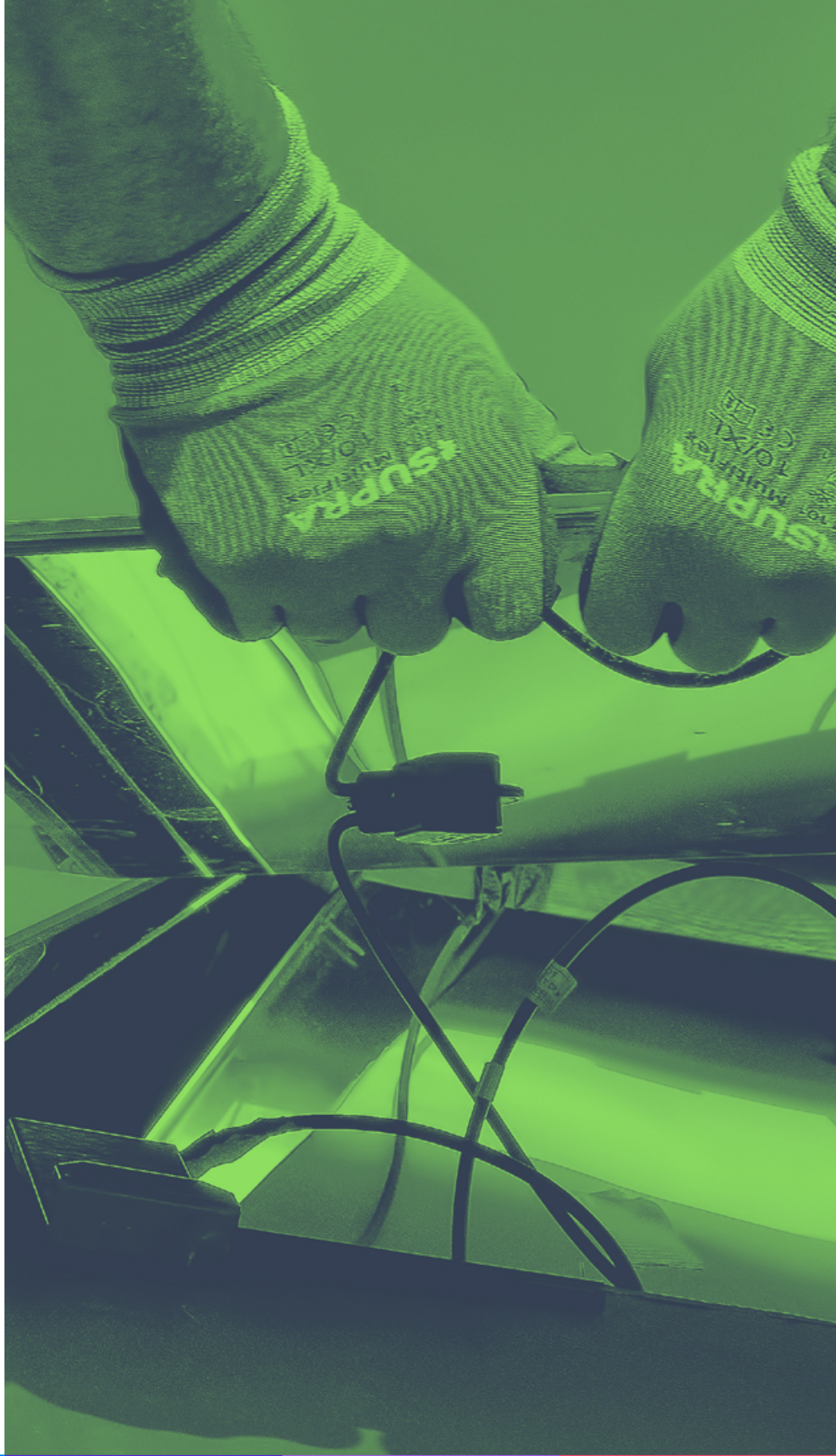
Despite diversifying into adjacent high-growth markets, i.e., EV drive trains, batteries, and power backup, the solar segment remains its key growth driver and area of investment. SolarEdge spends 10% of its revenues on R&D, Capex, and innovation.

- In 2019, SolarEdge shipped ~5700 MW of inverters, representing 4.5% of global inverter shipments and 8% of its addressable market.
- Spending on R&D, Capex, & innovation is 3x more than its main competitors.

Disruptive products

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

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



SOLAREDGE

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Catalysts

- **Rising electricity demand and depleting natural resources.** Solar PV deployment is driven by the ongoing world's electrification as well as the decarbonization of the power mix.
- **Supportive regulations.** SolarEdge's double-digit growth will be positively impacted by regulations such as the California Solar Mandate (a requirement for new homes to integrate solar PV systems).
- **Declining prices of PV panels.** Decreasing the cost of solar PV systems will lead to a subsequently improved PV-based electrification and create a virtuous cycle for inverter growth.

Risks

- **Lower fossil fuel prices and unsupportive macro-legal environment.** Cheaper fossil fuels, i.e., natural gas, or more stringent policies like additional taxation would hamper the cost-competitiveness of solar PV.
- **Vertical integration.** New competition could arise from PV cell manufacturers who may vertically integrate power inverters in their mix.
- **New entrants.** Solar-inverter suppliers must continuously innovate to fight product commoditization and lower-cost-competitors, e.g., **Generac (GNRC US)**. 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 lines and strong technology patents to maintain its status as the leading global solar inverter and power-electronics supplier.

Invest Beyond The Ordinary

Explore our investment themes:

www.atonra.ch/investment-themes/

HEALTHCARE M&A	SUSTAINABLE FUTURE	BIOTECHNOLOGY	AI AND ROBOTICS	FINTECH	SECURITY AND SPACE	MOBILE PAYMENTS	BIONICS

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AtonRâ Partners is an asset management company, founded in 2004 with head office in Geneva, incorporated under Swiss law, duly approved by the Swiss Financial Market Supervisory Authority (FINMA) under the Swiss Collective Investment Schemes Act.

AtonRâ Partners is a conviction-driven asset manager combining industrial and scientific research with financial analysis. AtonRâ Partners focuses on long-term trends powerful enough to be turned into thematic equity portfolios.

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