

Monthly Newsletter - September

Hello there,

Welcome to the September 2020 Blue Oceans Capital newsletter.

To our investors - thank you for investing alongside us for the long term.

In this edition you'll find:

- Market downturn comes to an end
- Sale of A2 Milk and purchase of PayPal and Beyond Meat
- Beyond Meat article

Market downturn comes to an end

A rally in markets beginning in the final week of September saw the month end relatively flat for our strategies. October has seen a rapid rise in valuations of companies in our portfolio with prices now higher than before the market reversal. Some of these stocks sat at or near fair valuations during the correction based on July quarter results. The market seems to have recognised this and the prospect of huge fiscal stimulus being released in the near future in the US and piled in. With the September quarter ended, what the market now needs is company results to discern if these valuations are warranted or not. Those results begin coming in this month.

Sale of A2 Milk and purchase of PayPal and Beyond Meat

This last month has seen as a frantic pace of activity in the office with us completing a record breaking three things. 1. Available cash moved to PayPal

2. Sale of A2 Milk

3. Purchase of Beyond Meat

Cash moved to PayPal

The portfolio has had a small allocation of cash ever since the sale of Hypebeast in July. PayPal presented itself through our global scanning and demanded our attention. Its revenues are supported by multiple macro trends including the transition to cashless societies, online shopping, buy now pay later, payments by multiple digital channels, data capture and leverage by merchants and person to person money transfers. Our analysis indicates the business model is durable with a likelihood of both high growth rates in revenues and return on invested capital.

Sale of A2 Milk

Accelerating trends towards dairy substitutes on the basis of health and environmental concerns has demanded our attention this year. A growing body of evidence is showing dairy to be detrimental to our health and the environmental consequences of farming cattle is now well-established. Given these concerns and those surrounding humane treatment of animals, the position of A2 Milk in our sustainable portfolio had become problematic. The issue has been finding a suitable replacement. That opportunity presented itself in September with our completed analysis on Beyond Meat and the market downturn providing a sensible valuation. We sold A2M on the 17th of September for a price of \$16.41.

Purchase of Beyond Meat

Mounting evidence has established the long-term over-consumption of red meat with serious health consequences including cardiovascular disease, colorectal cancer, type 2 diabetes and all-cause mortality. It is also now clear that farming red meat is by far the single biggest contributor to climate change and environmental degradation within the food supply chain. The facts of the status quo are becoming well-known and significant portions of global populations are now reducing their red meat intake and are on the lookout for tasty meat substitutes. This situation has seen rapid growth in the meat substitute sector, especially in those products most closely replicating the taste and mouthfeel of red meat. We became aware of Beyond Meat through our March global screening and have been building our knowledge of the company and the sector since that time. July quarter earnings and market downturn in September saw a sensible valuation for Beyond Meat and we were able to take our position in the company at \$144 USD per share on the 14/09. Please see article below on Beyond Meat.

Latest articles



BEYOND MEAT®

Beyond Meat

Beyond Meat (BYND) has developed a plant-based meat substitute that closely resembles the flavour and mouthfeel of animal-based meat and has seen a rapid rise in the popularity of its products in recent years. Analysing BYND gave us several challenges outside of usual company analysis. This report focuses on our approach to those challenges and findings from analysis.

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All the best

Will Simpson

Portfolio Manager



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