



Monthly Newsletter - April

Hello there,

Welcome to the April newsletter.

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

In this edition you'll find:

- Market rotation continues
- Beyond Meat pursues win at all costs strategy
- Updates from portfolio companies

April Performance

Please find performance data by clicking on the links below.

[Wholesale Strategy](#)

[Retail Strategy](#)

The stock market is compelled to regularly make illogical decisions, fortunately we are under no obligation to follow. The last few weeks have seen significant volatility in our portfolios as the rotation away from perceived “growth” and “tech” stocks continues as described in both the February and March newsletters.

When markets reverse we return to our analysis reviewing the fundamentals of our positions. We review our valuations, their calculations and our assumptions therein. If everything is in order we have no reason for concern no matter the mismatch between our valuation and that of the markets. It is the analysis that provides assurance, and time that provides the validation. **We have reviewed the data, reviewed our calculations and we are comfortable with our positions and decisions.**

Portfolio companies that are to report this quarter have now all reported. Below I outline high-level facts and narratives around these investments and disclose an indication of current valuations. Note that I will not give an exact stock price or target price for valuations for two main reasons. Firstly, given the magnitude and dynamics of factors involved, valuations are a matter of probability and should not be thought of as an exact price per share. Secondly, our method of valuation has significant conservatism built into each assumption and so to provide you with the exact figures without the full data set underpinning all assumptions would be misleading in their interpretation. **Over 90% of the portfolio is now fair or undervalued giving us confidence of outperformance in the mid-term, even after last year’s exceptional growth.**

The last thing that I need to say before diving into the details is that investors should consider market rotations and downturns as positive outcomes. It's dangerous for markets to remain exuberant and by the very nature of humanity, being propelled by greed, must end in valuations far removed from fundamentals which is in a land detached from reality. Reality always catches up with theory. This principle is still in play when fear sets in and the reverse becomes true. The dichotomy has led some people to ask why we don't sell down on stocks when they become overvalued and you may be asking yourself the same question right now. The reason is the same for real estate in that good property always brings good prices. Good companies can remain overpriced for many years whilst growing considerably through that time. If you bought a good company for a fair or discounted price and then sold it the moment it became overvalued you may find it continues to rise far above your sale price, perhaps never to return. **Our approach is to buy quality companies at fair or discounted prices and then hold them for the long-term through periods of overvaluation and undervaluation. We are invested in intrinsic value which is reflected in market price over time.**

Beyond Meat Pursues Win at all Costs Strategy

We advocate for sustainable investment, we back companies making positive disruption but we will not place our and our investors funds in reckless companies who decide they must win at all costs.

Beyond Meat's update on April 3rd presented a company doing just that. In a radical change of capitalisation strategy, the company closed over \$1 billion USD in new debt. This takes Beyond's long-term debt from \$12m in December 2020 to \$1.14 billion in April 2021.

The company previously adopted a capital light model of partnership manufacturing and now is pursuing a strategy of owning its own facilities fundamentally changing its capitalisation requirements This radical shift pushes the company far outside of our quality tolerances. We do not invest in companies without sustainable cash flows from operations that can easily service any debt.

Management is investing in capacity far ahead of its current demand and exposing the company to significant probability of extreme losses over the next few years coming from:

- A significant probability of low factory throughput with excess capacity.
- A significant probability of large net income losses as huge depreciation expense begins to come across from factory investments on the balance sheet to depreciation expense on the income statement.
- A continued drive for price parity with beef narrowing margins and exacerbating the two points above.

Many decisions are difficult but must be made all the same. We purchased Beyond Meat less than a year ago after a painstaking two months of analysis with many long days in the data. The evidence as presented offered a compelling investment case. However, the

potential of management to radically change course lies outside predictability and in this case we were left with a difficult choice but one which had to be made.

Raising over a billion dollars may well be the right thing for Beyond to do in terms of winning in its market and rapidly advancing the adoption of alternative meats that is indeed very necessary for our planet. However, ours is a strategy that makes sensible investments in sustainable companies. Companies falling outside of these confines no longer represent investing but speculating.

Updates from portfolio companies

SolarEdge - Significantly Undervalued

Our largest portfolio holding, SolarEdge, delivered solid quarterly results given the ongoing interruption Covid is bringing in its major markets of Europe and North America. The PV industry is set to add 158 GW in 2021. Delayed projects from 2020 together with increased attention on renewables worldwide has led to projections of 34% year-on-year growth in 2021 (Berg, 2021).

Commercial installations make up a large portion of SolarEdge's revenues and during the first quarter sales in this segment began to return, and are expected to reach pre-pandemic levels in the second or third quarter. This will coincide with strong demand from the retail sector, particularly in North America.

SolarEdge continues to innovate and is seeing growing demand for its battery-ready Energy Hub inverter that now makes up 20% of US residential orders (SolarEdge Q1 Report). Interest is also growing in its EV Charging and hot water systems. Most notably the company expects to begin delivering its residential battery product in Q3 this year with active testing currently taking place in the US.

The Trade Desk - Fair Value

The Trade Desk (TTD) reported an exceptional quarter with revenue growth of 37% year over year or 42% excluding the impact of political ad spend this time last year with strong cash flows from operations (The Trade Desk Q1 Report). Bear in mind also that the first quarter is seasonally the weakest.

TTD Continues to both take market share and make its own market, growing far in excess of the digital advertising industry which dropped 5.4% last year (Zenith) and is expected to grow 14% this year (Group M) vs The Trade Desk which grew revenues 26% last year and is on track to grow over 35% this year (Factset). See chart one below. Much of that growth is coming from the terrific story unfolding in CTV.

Industry Growth vs The Trade Desk

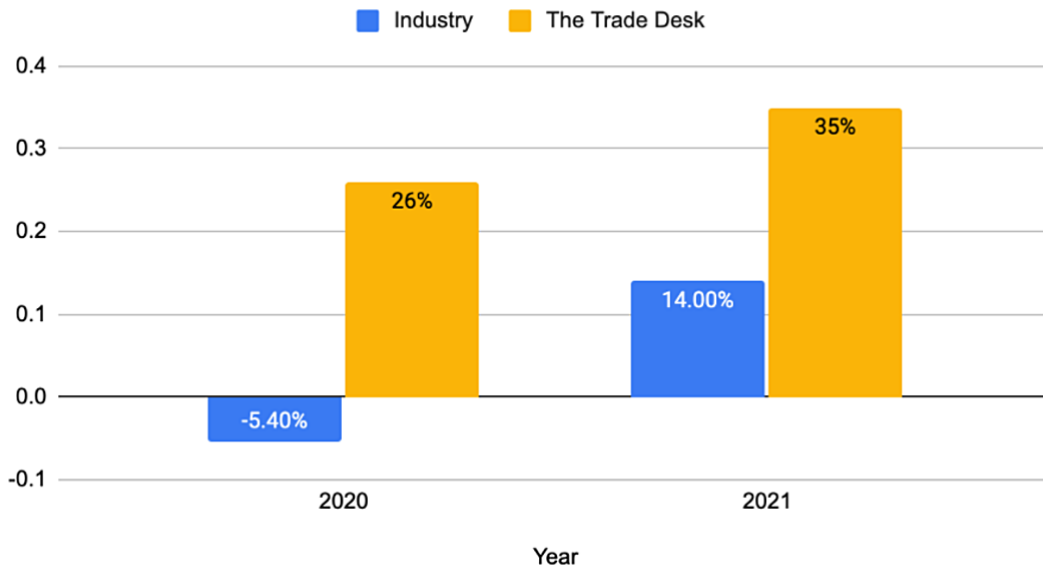


Chart One. Digital advertising industry growth in 2020 and forecast for 2021 versus that of The Trade Desk (Zenith media and The Trade Desk, 2021).

Connected TV is accelerating at its fastest pace ever as cord cutting gathers pace brought about by a better value proposition and Covid. CTV advertising is expected to reach over \$120 billion USD by 2024 (Omida). TTD is in a perfect position to capture significant market share in this space and is currently working with some of the largest platforms in the world such as Disney, NBCUniversal, Sky TV, and Nielson. Many of these players have also been early adopters of UID2.0.

UID2 is seeing mass adoption across the internet outside of Facebook and Google. The coming end of cookies has forced the internet to take action. Publishers must find alternatives to cookies or risk significant declines in revenues. Never in the history of the internet has such a large transition taken place (see my recent article on this [here](#)).

Mass adoption of UID2.0 is recognition of an industry forced to act and that sees a significantly improved value proposition for both publishers, advertisers and consumers. It is particularly the benefit to consumers in being able to better control the use of their data that is driving real change. Brands are tremendously loyal to their customers. In many instances those customer relationships are over 10 years old with those brands having to continuously work to hold their position. They in no way want to do anything that could erode that trust. UID2 gives them a far better tool to ensure that trust is maintained and we can see evidence of that in recent TTD partnerships such as Walmart. No other company has better consumer data and they place their trust in TTD to use it responsibly.

PayCom - Undervalued

Paycom creates business efficiency by digitising tasks related to human resource management. We like this business because it has such a large effect on unlocking low level processes and freeing up resources that can be directed towards initiatives driving real progress such as research and development. It does this with some of the highest growth in revenues and return on invested capital of any business we've seen.

PayCom had a very strong Q1 in 2020, combined with materiality of Covid that peaked in May, and made for difficult comps this quarter, however revenue was still up 12.3% on the prior corresponding period. Growth is coming from onboarding new clients and this is ramping up now in the 2nd quarter. Strong demand for their product by new clients has been fueled by the Covid environment and improvements in their technology.

No other competitor offers the same level of functionality that Paycom has. Demand for its product is strong and at only 5% of the US market, Paycom has tremendous room for growth. We expect a strong second quarter with a significant probability of a very strong second half.

Alfen - Undervalued

Alfen reported a solid quarter given the ongoing impact of Covid with €53.8m revenue, growing 22% year on year with a gross margin of 36.5% growing 2% from the same period last year. Revenues from energy storage, EV charging equipment and smart grids were €6.8m (+111%), €19.3m (+46%) and €27.8m (+1%) respectively. Of particular note is growth in EV charging that we expect to continue at very high rates and will shortly become a large portion of Alfen's overall revenues. See table two below.

Revenue in million Euros and % share in revenue from each business line

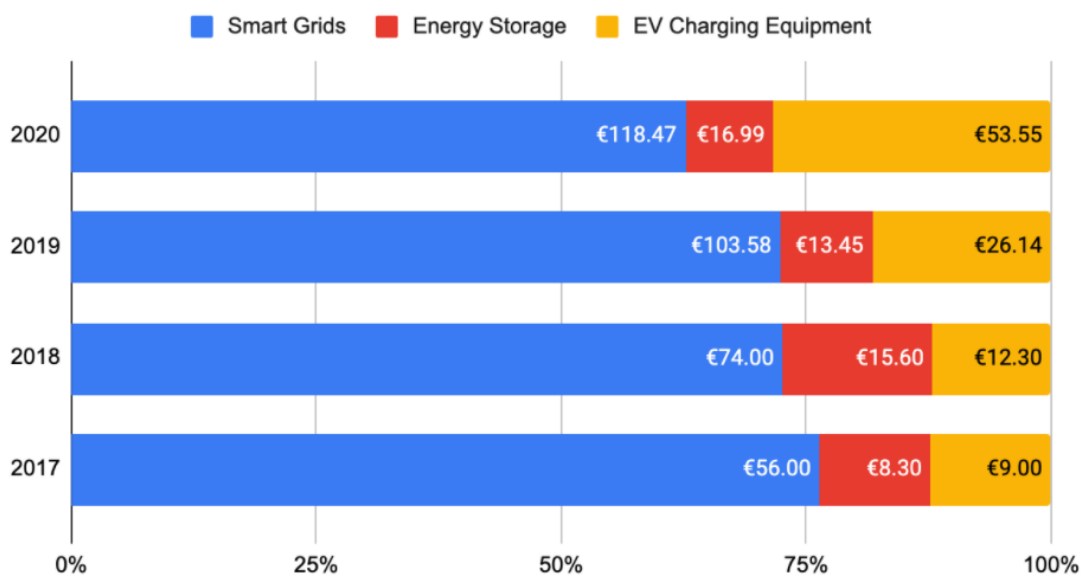


Chart Two. Growth in Alfen's revenues lines from 2017 to 2020 (Alfen annual reports).

The highest growth was in the energy storage segment. Here Alfen is benefitting from the growing demand for renewable energy, which in turn increases the need for energy storage solutions required to balance renewable energy supply and demand gaps.

In this quarter, Alfen produced approximately 20,800 charge points, a growth of 58% year over year. There is a shortage of EV charging infrastructure and the growing demand for EVs has created an even greater demand for EV charging equipment. At the same time, however, due to a high demand for electrical components, supply chains are struggling to meet demand. If this causes a shortage of components, there is a risk Alfen might not be

able to completely meet the demand for its products, or it might need to spend more on sourcing those components.



Smart Grids grew just 1%, held back by Covid restrictions, and also by the development of a new substation range for major client Enxsis that had to be completed before any new installations. These updates are now finished and ready to be rolled out. The momentum for smart grids is increasing with the backlog now 27% higher compared to the same period last year (Alfen Q1 report).

Alfen has been working on more complex and larger renewable customised projects for its customers. For example, in January, Alfen signed a three-year framework agreement with PerPetum Energy to supply transformer substations to the latter's new energy projects in the Netherlands. The first joint project through this was to supply transformer substations to a 14.1-hectare solar park (Alfen website). Such projects and agreements reflect on Alfen's competitiveness to solve complex renewable energy problems.

Alfen is well positioned in all three of its business lines to reap the benefits of the ongoing renewable energy sector and e-mobility tailwinds in Europe.

Zip - Undervalued

Zip has a very exciting business model. Its buy now pay later (BNPL) model is differentiated from other providers and is growing rapidly, particularly in the world's largest market, America. Here Zip saw 130% growth from September to February.

Zip is a BNPL provider but BNPL is not the most exciting thing about Zip. What's really exciting is the potential for Zip to further monetise its large and rapidly growing user base. Zip currently has 5.7 million users interacting with the brand on a regular basis. Those users require other services such as stock trading, money transfers, access to brand promotions and the ability to transact in digital currencies. Each of these can be very profitable business lines for Zip who already has the infrastructure to rapidly roll out new services at very low incremental cost. Zip can purchase, build or partner to create new user services for far less than the value created when those services are rolled out to 5.7 million engaged users. This is the PayPal model. PayPal buys businesses at a fraction of what they are worth once inside their ecosystem. When PayPal identifies a need in their user base, they often purchase a business to meet that need. However they're only buying

the business at a valuation based on its current user base and growth trajectory. When that business is rolled out to 392 million users in the PayPal ecosystem (PayPal Q1 earnings report) it becomes worth multiples of what PayPal paid for it and then increases exponentially as the value add of the ecosystem improves the everyday lives of its users with each new service.

We believe that BNPL apps will evolve into multi service offerings like PayPal. After securing their position in the BNPL market, we would expect these apps to move into other services and we can see this trend emerging now. Afterpay has announced its move into consumer deposits (banking) and Zip has launched into merchant finance and stated its intention to add stock trading and cryptocurrency exchange in the US market as soon as possible (Derwin, 2021). These business lines are tremendously profitable for PayPal and Zip has a real opportunity to capture the same value across its user base. This move would further differentiate Zip from other BNPL providers and significantly add to its operational cash flow.

PayPal - Overvalued

Paypal reported a record quarter with 29% YoY revenue growth attributed to extended holiday season and travel recuperating sooner than expected in the US, as well as the more sustainable ongoing consumer shift to digital. The company also added 14.5 million net new active accounts during Q1 to bring its total active accounts to 392 million. Furthermore, it has raised annual targets for earnings per share (EPS), total payment volumes (TPV), and net new active accounts (PayPal Q1 Report).

Paypal has a two- fold strategy. Firstly, it continues to strengthen its core products like payment services and payment processing for merchants to attract and add new customers and merchants. Partnerships with Alibaba and Flutterwave, the upcoming launch of 'Pay in 4' in Australia, addition of 'Cash a Check' feature in the Venmo app, enabling US, UK, Canada and Europe customers to send money transfers directly to mobile wallets in key markets across Africa through Xoom, acquisition of Happy Returns a returns solution provider, etc. are some recent initiatives by the company to reach out to new prospective customers and merchants.

Secondly, with the introduction of additional services on its core platform and integration of their existing services within the core platform, for example, with initiatives like the addition of crypto services, and the planned integration of Honey with its digital wallet, it is creating more engagement opportunities for existing users, which in turn, increases average revenue per user.

Through its next generation digital wallet to be launched in Q3, Paypal will consolidate its existing functions in one app, and the plan is to eventually develop it into a super app. With superapp, Paypal plans to include and integrate a host of additional services within the three different elements- payments, shopping, and financial services within their digital wallet.

Fragmentation is eroding value through friction and silos. Users within the PayPal ecosystem are spread across multiple disconnected domains each with different logins. By combining all PayPal's services into the one super app, PayPal stands to realise enormous value from a flywheel effect of each user benefiting from all services. We would like to add to our PayPal holdings however the current valuation prohibits us from doing so.

All the best

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