

# Global change- what is happening now, and what comes next?

13 May 2020 | Alex Pollak (CIO), Harry Morrow (Analyst), Loftus Peak

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From the outset, Loftus Peak has positioned clients to benefit from the changes that are occurring in business across the globe. The internet and digitisation have been the catalyst for many of those changes and dramatically impacted the way we connect, work and consume. Some of these changes are visible in our everyday lives. E-commerce continues to grow, and currently makes up 11% of global retail\*. The share of homes with a streaming video subscription, be it Netflix, Hulu, Amazon and such, was up from 61% to 67% of homes\*\*.

Other changes are not so obvious, like the growth of cloud computing and data centres, machine learning and artificial intelligence, the roll-out of 5G and healthcare to name a few. These are trends which we expect to continue playing out over coming years, and so too the investment return from the companies we invest in that are capitalising on these changes. While we recognise that growth is never linear – and indeed the pace of change – the lockdowns the world is currently experiencing have forced consumers and businesses to quickly adapt, and with that we are beginning to notice the pace of change is accelerating.

We are currently experiencing the largest living and working-from-home experiment ever. Businesses that were on the fence about the usefulness of conferencing tools such as Zoom, **Microsoft's** Teams and **Google's** Hangouts now find themselves utilising these solutions every day. The same goes for those that operated with on-premise servers and were considering moving much of their workloads to the cloud. Here in Australia, NAB is re-platforming its call centres to run on Amazon Connect in the hope of resolving customer queries faster - banking on-line is already a mainstream proposition for most in Australia and beyond. Telehealth - seeing a health professional via a video or phone link - is now a rebate-able item from Medicare. On the consumer side, many individuals, unable to make a trip to the local shopping centre for their purchases, will instead be doing so online. The value of the time consuming trip to a store, often accompanied by higher prices due to shopping centre rent costs and parking charges, is being questioned.

Entertainment is also in the crosshairs. Many Foxtel users (and cable TV customers in the US) already know there is little-to-no live sport currently being broadcast, and this comes at a time when individuals arguably have more free time than ever. Consumers are therefore looking for alternatives. **Netflix** is the largest direct-to-consumer streaming service currently available - in terms of subscribers and quantity/quality of catalogue - making it the first and potentially only alternative many will need to trial. Just recently, Netflix showed the strength of its digital solution when it announced first quarter net subscriber additions of 15.8 million paid subscribers; the market was expecting 8.2 million. This shows how ill-prepared investors are for the tectonic shifts coming to all industries because of digitisation and the internet, and now accelerating because of the current environment we find ourselves in.

And at the heart of all these **distance** solutions is the cloud. COVID-19 is a new and powerful factor driving an increase in capital into the cloud to enable work and leisure anywhere, in the office, on the commute and at the beach. This has been happening at speed for some years, and the value of **Microsoft, Amazon, Google, Alibaba** and **Tencent** have increased as a result.

This is not to suggest that businesses and consumers won't return to their old ways after the outbreak has been contained - some will. However, in being exposed to products which deliver better solutions through the utilisation of new tools, many will decide the new solutions superior.

The market is currently viewing companies such as **Netflix, Amazon** and **Tencent** as safe-havens because of the digital solutions they deliver in the current environment. These companies' share prices fell less than the general market because investors were focusing on which companies stood to benefit in the short-term. However, the market is only beginning to understand what comes next - the changing behaviours and subsequent acceleration in the pace of change from which these companies will benefit in the long-term. We believe this will create the opportunity for further risk-adjusted returns in the next 3-5 years.

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\*Source: US Census Bureau, 2020

\*\*Source: Nielsen, Broadcasting and Cable

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