Wealth Management
Get Inspired by Companies Due to Benefit from Digital Transformation

WEALTH MANAGEMENT RESEARCH
wmr@forsythbarr.co.nz
+64 4 499 7464

In this report, we highlight five companies that we believe will benefit from new technology innovations that: i) help them to transform their businesses and/or, ii) produce technology that will help drive productivity and competitive advantages for customers. In screening for these five companies we searched through 80 inspiring companies to identify a short list that meets our investment criteria: i) have supporting research from our affiliates; ii) are already profitable and well advanced to deliver above average EPS growth over the medium term; iii) have a minimum market capitalisation of US$5bn; and iv) are offering good value for risk. Our five new inspiring companies are:

Deere & Company (DE.N), an agricultural heavy equipment manufacturer that gives exposure to the industrial sector. Deere & Co has made great advancements and shown innovation in artificial intelligence (AI), automation and robotics.

Qualcomm (QCOM.O), a 'fabless' semiconductor company that supplies modems and antennas for handset devices to the top smart phone manufacturing companies: Apple, Samsung Electronics, OPPO and Foxconn to name a few. Qualcomm has invested time and money into securing crucial intellectual property (IP) and as a result will be one of the biggest beneficiaries from the global transition to 5G.

Schneider Electric (SCHN.PA), a global company that provides energy and automation solutions, using an Internet-of-Things (IoT)-enabled architecture platform to assist with construction of buildings ranging from homes to data centres and power plants. Schneider Electric uses AI and data analytics to constantly improve its offerings.

ServiceNow (NOW.N), a Platform-as-a-Service (PaaS) provider that enables global companies to outsource IT and HR departments while also improving work flow and worker productivity. As companies transfer off their legacy platform, we believe this will accelerate demand for the NOW platform.

Taiwan Semiconductor Manufacturing Company (2330.TW), a semiconductor foundry that dominates the semiconductor industry with 56% share of the global market. TSMC is leading in the race to develop the smallest semiconductor.

Figure 1. Thematic exposures of our five preferred inspiring companies

|	Brief Description	Deere	Qualcomm	Schneider Electric	ServiceNow	TSMC
5G	The next generation of mobile connectivity, with faster speeds, lower latency and ability to connect to more devices.		X			X
Industrial Automation and Robotics	Using smart technology to increase the productivity of manufacturing companies.	X				X
Material Science	These companies help create the building blocks of technology. Advancements in this field enable and enhance others.		X			X
AI and Data Analytics	'Big Data' and rapidly increasing computing power is enabling a smart and intelligent world which can provide valuable insights.	X		X	X	

Source: Forsyth Barr analysis

The five companies outlined below were selected to complement leading global innovators that are already well represented across our client portfolios, such as: Alibaba, Alphabet, NVIDIA, Tencent, Microsoft, Siemens, Apple, Salesforce, Tesla and Intel.

Figure 2. Forecast return based on dynamic PE framework
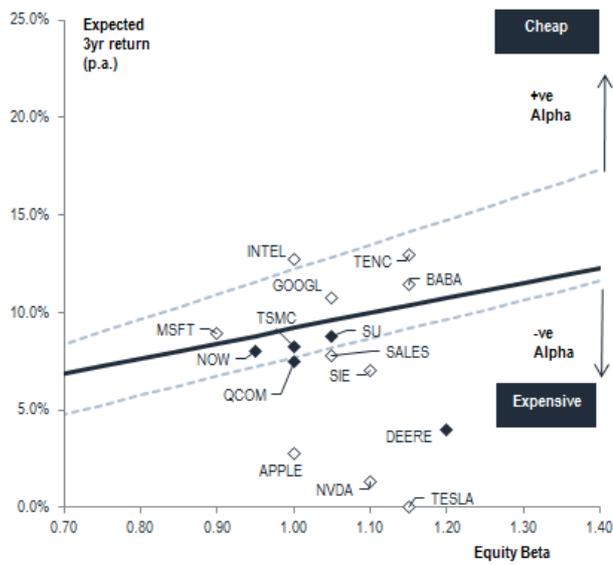
Source: Forsyth Barr analysis, Bloomberg

Figure 3. Forecast return based on analyst target price framework
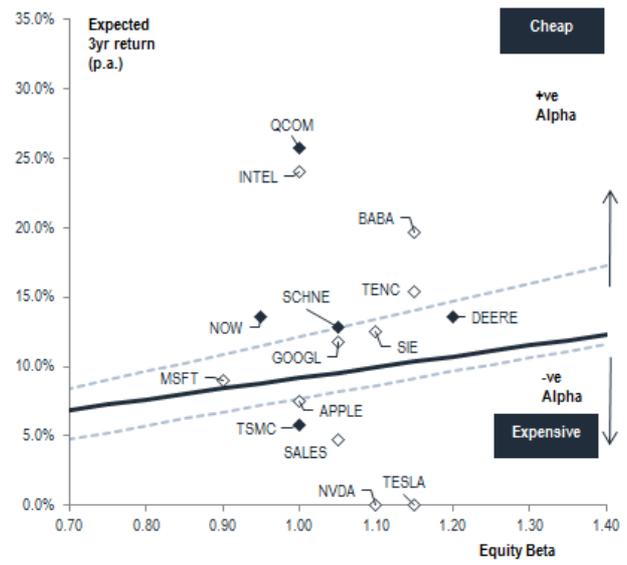
Source: Forsyth Barr analysis, Bloomberg

Figure 4. 3-year return (p.a.) versus equity beta

Chart code	Equity Beta	Price (local)	Target price	Cost of Equity	Div yld	Analyst TP 3yr return p.a.	EPS 3yr CAGR p.a.	Dynamic PE	3Yr Dyn PE	PE Expn/ Cont	Dyn PE 3yr return p.a.	Ave of Dyn PE and TP return
	A	B	C	D	X	E		F	G	Z	(X+Z)/2
DEERE	1.20	191.1	174.37	10.0%	1.7%	+4.0%	+29.0%	20.0x	15.0x	-13.4%	+13.6%	+8.8%
QCOM	1.00	113.7	117.1	8.6%	2.3%	+7.5%	+25.7%	20.5x	17.0x	-2.3%	+25.8%	+16.6%
SCHNE	1.05	102.6	108	9.4%	2.6%	+8.8%	+15.6%	19.0x	18.0x	-4.9%	+12.9%	+10.8%
NOW	0.95	435.7	469	8.2%	0.0%	+8.0%	+27.2%	70.0x	60.0x	-10.7%	+13.6%	+10.8%
TSMC	1.00	427.0	446.1	8.8%	2.7%	+8.2%	+14.1%	21.5x	16.5x	-9.7%	+5.8%	+7.0%
Median Inspired						**+8.0%**					**+13.6%**	**+10.8%**
TESLA	1.15	1,651	881	9.6%	0.0%	+0.0%	+80.9%	100.0x	30.0x	-46.0%	+0.0%	+0.0%
BABA	1.15	254.0	282.8	11.4%	0.0%	+11.4%	+27.1%	35.0x	22.5x	-5.8%	+19.6%	+15.5%
NVDA	1.10	462.6	402.2	9.3%	0.1%	+1.3%	+20.5%	45.0x	25.5x	-19.7%	+0.0%	+0.7%
GOOGL	1.05	1,505	1,720	8.9%	0.0%	+10.7%	+19.4%	25.0x	20.5x	-6.4%	+11.7%	+11.2%
TENC	1.15	506.5	592.7	10.8%	0.3%	+12.9%	+23.8%	35.0x	25.0x	-7.0%	+15.4%	+14.1%
SIE	1.10	116.0	114.0	9.8%	3.2%	+7.0%	+20.0%	18.0x	13.5x	-9.2%	+12.5%	+9.7%
APPLE	1.00	459.6	419.3	8.6%	0.7%	+2.7%	+15.9%	24.5x	23.0x	-7.9%	+7.5%	+5.1%
SALES	1.05	193.5	204	8.9%	0.0%	+7.8%	+24.1%	70.0x	35.0x	-15.6%	+4.8%	+6.3%
INTEL	1.00	48.89	58.1	8.6%	2.8%	+12.8%	+7.2%	17.5x	14.5x	+12.5%	+24.0%	+18.4%
MSFT	0.90	208.9	229.8	7.9%	1.0%	+8.9%	+15.0%	30.0x	26.0x	-6.2%	+9.0%	+9.0%
Median Existing						**+8.3%**					**10%**	**9%**
Median Total						**+8.0%**					**+12.5%**	**+9.7%**

Source: Forsyth Barr analysis

Dynamic PE three-year return methodology: $((1+D)*(1+E)*(1+G))-1 = Z$

Analyst Target Price three-year return methodology: $(((((B/A)+D)*((1+C)^2))^{(1/3)})-1) = X$

Average of Dynamic PE framework and Analyst Target Price framework = $(X+Z)/2$

Source: Forsyth Barr analysis

Overview of transformational technologies

Digitalisation is the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business. Over the last 30 years companies have undertaken this digitalisation process, but who are the drivers and innovators, and who will benefit from the next step in this digitalisation process? The catalyst for the next step in digitalisation is 5G, offering new levels of performance, allowing businesses, cities and countries to run more efficiently and smarter. The key areas where 5G will affect growth are Artificial Intelligence, Robotics & Industrial Automation, and Material Sciences.

5G

5G is the 5th generation of mobile connectivity. If 1G was vinyl records, 3G would have been CDs and, in comparison, 5G would be Spotify. 5G will supercharge Internet of Things (IoT) technology, with the infrastructure to carry enormous amounts of data, enabling a smarter, more efficient and connected world.

Growth drivers: We see the current key drivers that are set to accelerate the growth within this space as (1) investment in 5G infrastructure, (2) replacement of current devices for 5G enabled phones, tablets etc., and (3) implementation of smart cities and smart homes.

Innovation: Areas where we are expecting the most growth due to the implementation of 5G are (1) semiconductor companies, (2) telecommunications, and (3) the automotive industry.

Industrial Automation and Robotics

The crux of the case for robotics and industrial automation is the demand to increase the productivity of processes. Whether through software or a physical robot, there is a wide range of possibilities within this space.

Growth drivers: We see the current key drivers that are set to accelerate growth within this space as: (1) global recession — which has historically been a catalyst for adoption of automation technology, (2) COVID-19 and social distancing pushing companies to remove human contact where possible, (3) strengthening of supply chains by reducing middle-men between suppliers and consumers, and (4) component cost deflation (better tech is getting cheaper).

Innovation: Areas where we are expecting the most growth are (1) material handling and logistics, and (2) health care and surgical.

Artificial Intelligence and Data Analytics

Rapidly increasing computing power and access to Big Data is enabling a world where computers can solve problems and continuously improve algorithms through machine learning. Companies at the forefront will have insights far beyond their less informed peers.

Growth drivers: We see the current key drivers that are set to accelerate growth within this space as (1) collapsing computing costs increasing affordability, (2) increased ability to gather, store, access, and analyse big data sets, and (3) increased demand for data-driven decision making.

Innovation: Areas where we are expecting the most growth are (1) supply chain management, (2) natural language processing (software understanding and deriving meaning from human language), and (3) data analytics and automation.

Materials Science

Materials science refers to the development of new and improved materials, which is a critical enabler of higher value systems. It is leaps in Materials Science that can enable further advancement in the aforementioned fields.

Growth drivers: We see the current key driver to accelerate the growth within this space as the increasing demand for new frontier technology (e.g. electric vehicles).

Innovation: Areas where we are expecting the most growth are (1) semiconductor companies, (2) clean energy generation and storage, and (3) health care.

Get Inspired

Deere & Co (DE.N)

Deere & Co. is an American corporation that manufactures agricultural, construction and forestry machinery, diesel engines, drivetrains used in heavy equipment and lawn care. Founded in 1837 with the production of innovative farming plows, Deere has remained one of the agricultural heavy equipment power houses globally. With the acquisition of Blue River Technology in 2017, DE has incorporated leading-edge technology into its products. The DE harvester now comes equipped with auto-track GPS which uses satellite imaging to harvest crops without the need for a human operator, and is accurate to within 1 inch. This technology directly benefits the bottom line of farmers by lowering input costs by 5–6%. The kind of innovation that Deere is demonstrating is particularly relevant as the global population increases and the acreage that is suitable for farming decreases.

Qualcomm (QCOM.O)

Qualcomm is an American communications company that started in the late 1980s. Success came fast to QCOM, with large demand in the '90s for satellite communication for trucking companies. QCOM's business strategy has been to invest in fundamental technologies that enable industries and then scale it worldwide. This strategy is currently being applied to 5G; QCOM invested heavily in the 5G transition and now stands to be the leading global supplier of 5G modems and antennas, making it one of the biggest beneficiaries of the rollout of the technology. Qualcomm is a fabless semiconductor company, meaning it designs all its semiconductors, then contracts a foundry (TSMC) to make the semiconductor chips using the design provided. These chips are what powers QCOM's mobile processors, cellular modems, Wi-Fi modems and Bluetooth connectivity. Of QCOM's revenue, 25% comes from the licensing business which collects royalties for the use of QCOM's intellectual property.

Schneider Electric (SCHN.PA)

Schneider Electric is a French multinational company that provides energy and automation digital solutions for efficiency and sustainability. It addresses homes, buildings, data centres, infrastructure and industries, by combining energy technologies, real-time automation, software and services. SCHN has been in the energy business since 1981, but a re-focus in 2015 toward automation, AI and IoT has propelled the company into the modern age. Ecostruxure, SCHN's IoT-enabled architecture platform, is helping make progress in an industry which has been slow to take advantage of technology; construction. Ecostruxure has been shown to decrease engineering costs and time by up to 80%, save around 75% of maintenance costs and help reduce the carbon footprint of a building by 50%. We believe SCHN is positioned to benefit from post-COVID-19 stimulus directed at green construction, especially in Europe.

ServiceNow (NOW.N)

ServiceNow is a California-based company that has developed a cloud computing platform to help companies manage digital work flows for enterprise operations in customers' information technology and human resources departments. NOW's core business revolves around management of "incident, problem, and change" IT operational events. NOW's overall strategy is to empower companies with the ability to outsource key functions from IT and HR departments and to invest in growth. NOW bills customers annually or monthly depending on the offering and the cost varies depending on subscription term, volume, mix of products purchased, and discounts. In 2019, NOW had 6200+ customers, of which 892 had an active contract value of greater than US$1m p.a. Annual contract revenue for FY19 was US$3.25bn. NOW also boasts an impressive 97% renewal rate, with a "sticky" customer base and lack of competing products.

Taiwan Semiconductor Manufacturing Company (TSM.N, 2330.TW)

TSM pioneered the pure-play foundry business model when it was established in 1987, and has been the world's largest dedicated semiconductor foundry ever since. The company supports a thriving ecosystem of global customers and partners with the industry's leading process technologies and a portfolio of design solutions to enable innovation in the global semiconductor industry. TSM has a global foundry market share of 56% and growing. TSMC is not only the biggest, but also the best. When it comes to semiconductors, size matters — the smaller the better. TSM was the first company to produce the 16nm, 10nm, 7nm and 5nm semiconductors (each smaller than the last) and is on track to pioneer the 3nm, as well as being the first company to commercialise Extreme Ultraviolet (EU) lithography in high volumes. Foundries such as TSM are set to gain the most margin from the transition to 5G. TSMC's major customers are Qualcomm, Apple, NVIDIA, AMD, STMicroelectronics, Google and possibly soon Intel.

Company fundamentals

Figure 5. Company fundamentals

Company Name	Chart Code	Code	Exchange Code	Currency	Mkt Cap (Local bn)	Mkt Cap (US bn)	Price (local)	12-mth Chg	Fcst 1 PE	Fcst 2 PE	PEG	ROE	Div yld	EPS 3yr CAGR
Deere & Co	DEERE	DE	N	USD	60	60	191	+28.1%	30.7x	22.0x	1.1x	26%	1.7%	+29.0%
Qualcomm	QCOM	QCOM	O	USD	128	128	114	+55.2%	28.9x	17.7x	1.1x	78%	2.3%	+25.7%
Schneider Electric	SCHNE	SCHN	PA	EUR	58	69	103	+41.2%	24.5x	19.4x	1.6x	12%	2.6%	+15.6%
ServiceNow	NOW	NOW	N	USD	84	84	436	+69.6%	99.1x	78.3x	3.6x	39%	0.0%	+27.2%
Taiwan Semiconductor Manufacturing	TSMC	2330	TW	TWD	11,072	376	427	+70.8%	23.3x	22.0x	1.7x	28%	2.7%	+14.1%
Median Inspired								**+55.2%**	**28.9x**	**22.0x**	**1.6x**	**28%**	**+2.3%**	**+25.7%**
Tesla	TESLA	TSLA	O	USD	308	308	1,651	+650.5%	340.9x	128.9x	4.2x	1%	0.0%	+80.9%
Alibaba	BABA	BABA	K	USD	681	681	254	+45.5%	30.1x	23.3x	1.1x	18%	0.0%	+27.1%
Nvidia	NVDA	NVDA	O	USD	285	285	463	+189.9%	55.9x	45.1x	2.7x	29%	0.1%	+20.5%
Alphabet	GOOGL	GOOGL	O	USD	1,025	1025	1,505	+27.6%	29.3x	23.2x	1.5x	15%	0.0%	+19.4%
Tencent Holdings	TENC	0700	HK	HKD	4,853	631	507	+55.2%	35.9x	29.2x	1.5x	20%	0.3%	+23.8%
Siemens AG	SIE	SIEGn	DE	EUR	99	116	116	+34.9%	22.6x	17.9x	1.1x	10%	3.2%	+20.0%
Apple	APPLE	AAPL	O	USD	1,965	1965	460	+122.6%	35.6x	29.2x	2.2x	69%	0.7%	+15.9%
Salesforce.com	SALES	CRM	N	USD	174	174	193	+34.4%	64.8x	54.1x	2.7x	-1%	0.0%	+24.1%
Intel	INTEL	INTC	O	USD	208	208	49	+5.1%	10.1x	10.2x	1.4x	29%	2.8%	+7.2%
Microsoft	MSFT	MSFT	O	USD	1,581	1581	209	+53.5%	32.4x	28.0x	2.2x	41%	1.0%	+15.0%
Median Existing								**+49.5%**	**34.0x**	**28.6x**	**1.8x**	**18.6%**	**+0.3%**	**+20.2%**
Median Total								**+54.3%**	**30.4x**	**23.3x**	**1.6x**	**26.9%**	**+1.0%**	**+22.1%**

Source: Forsyth Barr analysis