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Which companies are standing in line to become the next big tech sensation?

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MICHAEL SMITH
Head of Research and
Senior Investment advisor

Finding the next generation of tech unicorns

Which companies are standing in line to become the next big tech sensation?

Spotting the next diamond in the rough is every investors dream. After all, a start-up with blue sky opportunity and the prospects of year-on-year growth would be enough to capture anyone's attention.

What's more, amid a market where technology is increasingly being recognised as fundamental to the new-age economy, the competition to be recognised is pushing more and more companies to innovate.

Often referred to as unicorns, start-up companies that pass US$1bn valuations have enjoyed a long history of success.

Consider Alphabet (GOOGL) and Facebook (FB) as two of the highest-profile unicorns to list on the NASDAQ. It's no wonder every other tech company wants to follow in their footsteps.

Finding the next unicorn is no easy task. Even then, gaining access to invest in one of these opportunities is even more difficult.

Nonetheless, being able to identify these companies is a vital aspect of foreseeing the trends that are likely to not only propel these stocks to sky-high valuations, but set the tone for other themes and companies to follow suit.

We've identified three companies that we believe have great future potential to become the next tech unicorns.

Capsule

Equity Raised: US$270m

Estimated 2019 revenue: US$100m

Lead investors: TCV, Glade Brook Capital, M13, G Squared, Thrive Capital

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Capsule, a digital pharmacy business, allows consumers to order and schedule free delivery of prescription medicine within two hours via its digital app or text messaging.

Its software also provides customers with information on prescription medicines, refills and alternate drugs, as well as access to speak with a pharmacist via text, call or secure chat.

The business has sought to tap into the online pharmacy theme, where competitors are all vying for as much as US$333bn in prescription drug expenditure.

While Capsule's operations have been limited to New York City thus far, the company has seen significant growth in its home market. Its customer base consists of 60,000 customers. Now, however, Capsule has its eyes set further afield.

Capsule raised US$200m in September last year, hoping to expand into other cities over the coming 18 to 36 months. Flush with cash, the start-up is currently navigating the pharmacy license landscape.

The impact of COVID-19 has all but raised the urgency for the company's expansion plans, with more and more consumers now seeking out digital methods of fulfilling their prescriptions.

Capsule emerges as a competitor to the likes of CVS Health, Walgreens and Amazon's PillPack. The latter was acquired in 2018 for US$753m, at the same time Capsule was valued at just US$110m.

Since then, however, the company's growth suggests that a unicorn valuation isn't out of the question for this fast-growing tech disruptor. Meanwhile, start-ups hold only a small sliver of the industry's market share, providing immense upside.

Gong

Equity Raised: US$133m

Estimated 2019 revenue: US$30m

Lead investors: Battery Ventures, Norwest Venture Partners, Sequoia, Shlomo Kramer, Wing Venture Capital, NextWorld Capital, Cisco Investments

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Launched in 2015, Israeli start-up Gong is a cloud-based conversation intelligence software designed to optimise sales conversions. It relies on AI to record, transcribe and analyse sales conversations – including emails, calls and video – making it easier for sales teams to convert opportunities into revenue.

Gong captures all customer interaction data and harnesses its AI to understand said interactions. Using this data, the technology then develops actionable insights for sales teams to implement in order to improve business performance. For example, Gong may alert sales staff about which customers are likely to be more receptive to 'bundling' or an upgrade.

The start-up recorded five-fold revenue growth in 2018 and over three-fold growth in 2019. It serves as many as 700 companies, having pushed its software to more than 45,000 sales professionals, including those from GE, Hubspot and LinkedIn. The company sells subscriptions to generate revenue, thus providing it with 'sticky', recurring income.

In a Series C round led by Sequoia Capital in December last year, Gong raised US$65m. The funds have been earmarked for further research, engineering and development of its core product, while also equipping its go-to-market teams.

With the importance that customer relationship management (CRM) systems hold today, revenue intelligence software is potentially the next area we see future upside. The utilisation of AI provides a vast opportunity to help close gaps in sales pipelines for companies from a wide range of industries.

Algolia

Equity Raised: US$184m

Estimated 2019 revenue: US$50m

Lead investors: Accel, Alven, SaaStr Fund, Salesforce Ventures

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Touted as the next Google, Algolia is a search-as-a-service provider for websites and apps. It is vying for market share in the enterprise search industry, which is estimated to reach a value of US$8.9bn by 2024.

Whereas Google holds a commanding position over the rest of the market in terms of capturing inbound traffic to a website, Algolia is focused on helping web users navigate business web sites through its search engine tool.

Having accumulated over 9,000 clients since its formation in Paris in 2012, including companies such as Slack, Discovery and Twitch, the start-up's progress has been impressive to date.

In 2018, its customer count grew by 38% in just the first nine months of the year. It also hosts approximately 1.2 trillion searches per year, which is equivalent to one-sixth of internet users.

Algolia raised US$110m in September 2019. The funds are anticipated to help the company drive its growth in other regions of the world. It is targeting US$100m in annual recurring revenue, with the company having passed the mid-point of its target across the last 12 months.

Even in the midst of today's largely online-driven economy, Algolia has seen an uptick in demand throughout COVID-19. Search volumes are 15% higher than peak usage during Black Friday sales.

All the while, the start-up doesn't see Google as a competitor. Instead, it is looking to convert many of the websites that build their own search functionality, while the company's nearest peer, Elastic, is valued in excess of US$7bn.

With the prospect of expanding its services towards automatically personalised websites offering search-based analytics, Algolia is looking to tap into huge growth channels. So far, the early progress is encouraging.

MICHAEL SMITH
Head of Research and
Senior Investment advisor

Performance:

Index	May Performance	YTD Performance
Dow Jones	4.3%	-11.1%
NASDAQ	6.7%	5.8%
S&P 500	4.5%	-5.8%
Global Growth Portfolio	2.2%	12.4%

Top 10 Holdings:

Code	Company Name	Weighting %
ADBE	Adobe	4.42%
V	Visa	4.37%
MSFT	Microsoft	4.14%
CME	CME Group	4.12%
BABA	Alibaba	4.10%
PYPL	PayPal	3.94%
BRKB	Berkshire	3.92%
COST	Costco	3.61%
AMZN	Amazon	3.52%
TEAM	Atlassian	3.28%

International

International Growth Portfolio

The portfolio increased 2.2% across May.

The equities component of the portfolio contributed 3.4% towards the growth of the portfolio NAV. The majority of positions provided a positive contribution to our returns across the month, with only a small number of stocks marginally weighing on performance.

Despite the encouraging performance of our core holdings, the net result for the portfolio was dampened by foreign currency movements.

For the second month in a row, the USD/AUD rate decreased notably. On this occasion the forex rate fell from 1.5356 to 1.5001. This adverse currency movement reduced portfolio NAV by 1.2%, however, this was half of what it might have been had we not elected to increase the exposure of our cash reserves to Australian dollars.

We entered new positions in Baidu (BIDU), Berkshire Hathaway (BRK B), Facebook (FB), Intuitive Surgical (ISRG), 3M (MMM) and Procter & Gamble (PG).

In addition, we also increased our stake in Amazon (AMZN), Alibaba (BABA), CME Group (CME), Costco (COST), Mastercard (MA), ServiceNow (NOW) and PayPal (PYPL).

As alluded to previously, the backdrop of our investment decisions at the moment concerns digital services and payments, as well as defensive businesses with resilient demand for their products and services.

We previously held call options over Peloton (PTON), however, we were required to sell the head stock in light of the option strike price being exercised. Nonetheless, we made a net gain from the transaction. Our call options in Taiwan Semiconductor Manufacturing Company (TSM) expired without being exercised, providing us with some modest income from the option premium.

Realised income represented 0.3% of NAV from the end of April, while unrealised income represented 2.6%. Cash accounted for around 47.3% of the portfolio at the end of May.

We are looking to mitigate the impact of the increasing Australian dollar, which has been rising due to the strength of iron ore exports, China's resilient demand and the broader risk-off appetite. We will be looking to utilise call options to provide some hedging exposure that works in favour of the AUD/USD rate.

MICHAEL SMITH
Head of Research and Senior Investment advisor

AFIQ MALEK
Research Analyst and Senior Client advisor

Performance:

Index	May Performance	YTD Performance
ASX 200	4.2%	-13.9%
ALLORDS	4.9%	-13.7%
Aus Yield Portfolio	4.4%	-15.6%

Top 10 Holdings:

Code	Company Name	Weighting %
CBA	Comm Bank	6.64%
WPL	Woodside	6.37%
NAB	NAB	6.11%
TLS	Telstra	5.86%
BHP	BHP Group	5.16%
CBAPI	CBA Notes	4.88%
WES	Wesfarmers	4.74%
KKC	KKR Credit	4.44%
MQGPD	MaquarieNote	4.35%
ANZPD	ANZ Note	4.22%

Australian

Australian Yield Portfolio

The portfolio increased 4.4% across May, outperforming the ASX 200, which rose 4.2%.

Amid a strong month for equities, all but four of our holdings delivered a contribution towards the growth of the portfolio NAV in May.

In addition to our regular holdings, we also participated in two raisings. This included the Share Purchase Plan for NAB (NAB), as well as the note offering issued by Macquarie Group (MQG).

While our NAB allocation was scaled back on a pro rata basis, the approximate 30% differential between the current trading price and the issue price represents an immediate gain for the portfolio. These gains are not represented in the May performance data and will instead appear in the results for June.

Among our best performers were Baby Bunting (BBN), Stockland (SGP), Telstra (TLS) and BHP (BHP).

Baby Bunting has been a consistent high-achiever for us and remains a core stock in our portfolio with great growth prospects. In its recent results update, the company reported consistent sales growth since the beginning of the year. Furthermore, the company also indicated online sales now represent 17% of all sales, which is a 66% improvement. Supporting future growth, management is investing in another online fulfilment hub, which we believe will improve its supply chain.

BHP has been a beneficiary of rapidly increasing iron ore prices, which we believe will persist for some time yet. The Chinese economy has shown remarkable resilience in terms of its recovery, providing momentum for local miners. Adding to the tailwinds are significant supply issues out of Brazil, which are unlikely to abate any time soon.

Unrealised losses represented 18.3% of the closing NAV from April. We are fully invested in the market at this point.

Since our last update, the economic data and rhetoric from the RBA suggests that the extent of the recession is ever so slightly better than expected. Nonetheless, this still means there are considerable challenges ahead. In particular, we remain concerned around the outlook once the JobKeeper stimulus is withdrawn and mortgage repayment holidays are lifted.

DANIEL WONG
Research Analyst

ALEX NEGROH
Research Analyst

Hub 24 - Super

Balanced Portfolio

The portfolio increased by 4.6% last month, compared with a 4.2% gain for the ASX 200.

We shifted our exposure to incorporate a greater leverage towards risk-on assets, which we believe is in alignment with growing risk appetite across the market.

Our focus was prompted by price stabilisation in short-dated fixed income (hybrids). As such, we moved out of these defensive holdings and into equities that we believe will benefit from the economy reopening.

In particular, some of the additions included Flight Centre (FLT), IDP Education (IEL) and REA Group (REA). While the travel, education and real estate sectors have remained under pressure throughout COVID-19, we believe these companies will now see business pick up again.

We also moved to pick up some funds and LITs that were trading at a hefty discount to their NTA. This includes Magellan Global Trust (MGG), as well as L1 Long Short Fund (LSF). It is our view that these stocks are trading on depressed sentiment rather than fundamentals. Given time, we believe these stocks will revert back towards their NTA whilst we collect income along the way.

The portfolio's best performers included Afterpay (APT), thanks to its strong trading update and Tencent taking up a major stake, as well as Fortescue Metals (FMG), which benefitted from the strong rise in iron ore prices.

Notwithstanding an increase in risk tolerance for the portfolio, we still remain cautious around the near-term outlook for the market given the prevailing economic headwinds. We have a 31% weighting towards fixed income and took part in the latest hybrid issuance from Macquarie. It is our view that this opportunity represents compelling value on account of its high yield and superior credit grading.

We expect markets to continue to grind higher due to low interest rates. In order to retain exposure to the market's upswing, we must stay at least partially invested until we see clearer signs that the trend may be turning.

Performance:

Index	*May Performance*	*YTD Performance*
ASX 200	4.2%	-13.9%
ALLORDS	4.9%	-13.7%
Balanced Portfolio	4.6%	-2.01%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
MGG	Magellan Trus	7.5%
CBAPH	CBA Note	5.0%
VGB	Aus Bond	5.00%
HM1	H & M Invest	4.00%
NABPD	NAB Note	4.00%
CBAPE	CBA Note	3.50%
CSL	CSL Limited	3.00%
FMG	Fortescue	3.00%
MQGPC	Mac Note	3.00%
NABPE	NAB Note	3.00%

DANIEL WONG
Research Analyst

ALEX NEGROH
Research Analyst

Performance:

Index	May Performance	YTD Performance
ASX 200	4.2%	-13.9%
ALLORDS	4.9%	-13.7%
Growth Portfolio	5.3%	-7.39%

Top 10 Holdings:

Code	Company Name	Weighting %
VGB	Aus Govt Bon	5.00%
MGG	Maq Trust	4.50%
HM1	H & M Invest	4.00%
CBAPE	CBA Note	3.50%
MHH	Maq High Con	3.25%
COL	Coles	3.00%
FMG	Fortescue	3.00%
GOLD	Gold ETF	3.00%
MQGPC	Mac Note	3.00%
NABPD	NAB note	3.00%

Hub 24 - Super

Growth Portfolio

The portfolio gained 5.3% during May, resulting in modest outperformance compared with the ASX 200.

Broad exposure to the buy-now pay-later segment helped underpin the performance of the Growth Portfolio. In addition to the strong gains realised from Afterpay, we also hold Zip Co (Z1P) in this portfolio, which performed very well throughout May.

Zip Co's performance was bolstered by a strong trading update for April, as well as positive sector sentiment. Since then, the company has begun June in an even stronger fashion, raising funds to acquire Quad Pay and fast-track its US expansion plans.

We have seen a strong shift towards online payments and we expect this to continue with APT and Z1P being major benefactors. Their scalability is a compelling feature in light of the shift being likely to pan out in various markets across the world.

During May we also took a new position in McMillan Shakespeare (MMS). We believe that with the economy slowly starting to open, the company is poised to see an increase in applications for salary packaging and novated leasing for cars. On top of this, we also see the government's stimulus having a positive effect for businesses to support these initiatives.

Another major contributor to last month's performance was Saracen Mineral Holdings (SAR). Rising gold prices helped lift the company's share price by 17.7%.

Electro Optic Systems (EOS) also provided a windfall for the portfolio. The company has completed the acquisition of the satellite communication business of Audacy, as well as two technical initiatives in the expansion of its Communication Systems business.

We reduced our hybrids exposure and took some profits off the table from some of our 'wins' with Afterpay, Fisher & Paykel Health (PFH), APA Group (APA), Galaxy Resources (GXY), Kkr Credit Fund (KKC), Santos (STO) and Tyro Payments (TYR). We will look to press a few positions this month that have done well such as Credit Corp (CCP), Macquarie Group (MQG) and Afterpay.

It is our intention to remain at least partially invested in the market, which looks set to build on its recent gains. Interest rates are likely to stay low for the foreseeable future, while government stimulus and central bank intervention remain conducive in supporting the positive momentum of equities markets.

Nader Snounou
Interest Rate and lending specialist - Mintwell Capital

Interest Rates

Cash rate and economic outlook

Last week, in a widely expected move, the RBA opted to maintain official rates at a record low 0.25%. Nonetheless, recent focus has centred on whether Phillip Lowe might consider pushing Australia into unchartered territory courtesy of negative interest rates.

For the time being, that prospect has been described as "extraordinary unlikely". With economic data slightly better-than-expected, containment of the virus proving largely effective, and conditions in global financial markets continuing to improve, we foresee a steady holding pattern for several years. That said, the RBA has flagged a "highly uncertain" outlook, which could evolve rapidly.

Home loan rates and refinancing

Home loan rates are currently starting as low as 2.09% for two-year fixed rates for owner-occupiers. This is as competitive as we've ever seen.

It is also putting pressure on lenders to offer incentives that increase their appeal, since the fixed rate segment has become significantly competitive.

For example, some banks are offering 'cashbacks' of up to $4,000 when refinancing a mortgage, subject to specific terms and conditions.

Meanwhile, there is only so much scope for lenders to slash variable rates, which is why the major banks have stopped short in passing on recent rate cuts. This means the pronounced differential favouring fixed rates may give good reason for borrowers to consider refinancing their home loan to a more competitive rate.

Nonetheless, turnaround times for processing home loan financing applications remain strong, despite implications arising from COVID-19.

Building approvals and activity

Building permit data from last week showed that the number of dwellings approved in Australia declined by a seasonally-adjusted 1.8% month-over-month in April, led by a sharp drop in activity for NSW. March was revised downwards to a contraction of 2.6%.

Despite successive periods of negative growth, April's result was significantly better than forecast. Analysts expected dwelling approvals to slide 15% last month. An improvement in private sector houses (up 2.7%) offset an 8.9% decline in private sector dwellings excluding houses.

Nonetheless, a significant slump in construction activity for May suggests the recovery could be slow. This is due to the lag impact on approvals, which could diminish.

In light of this, the government is seeking to bolster demand. Last week it announced a new national grant designed to kick start building activity.

The $680m HomeBuilder scheme will offer eligible property owners up to $25,000 for contracts on new home builds and renovations entered into by the end of this year.

This tax-free grant applies to all owner-occupiers for all dwelling types, rather than just first-home buyers. Investment properties and owner-builders will not be eligible for the scheme, while eligibility will be subject to income, valuation and spending thresholds.

Finally, it's worth noting this scheme complements existing stamp duty concessions, grant schemes and programs for first home buyers. The WA state government has increased its own grants, extending $20,000 to owner-occupiers (and investors) for new homes.

It's another sign the government is looking to stimulate the economy, with jobs and housing viewed a pivotal factor.

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