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2021 BEST IDEAS - PART 4

Growth In A World In Flux

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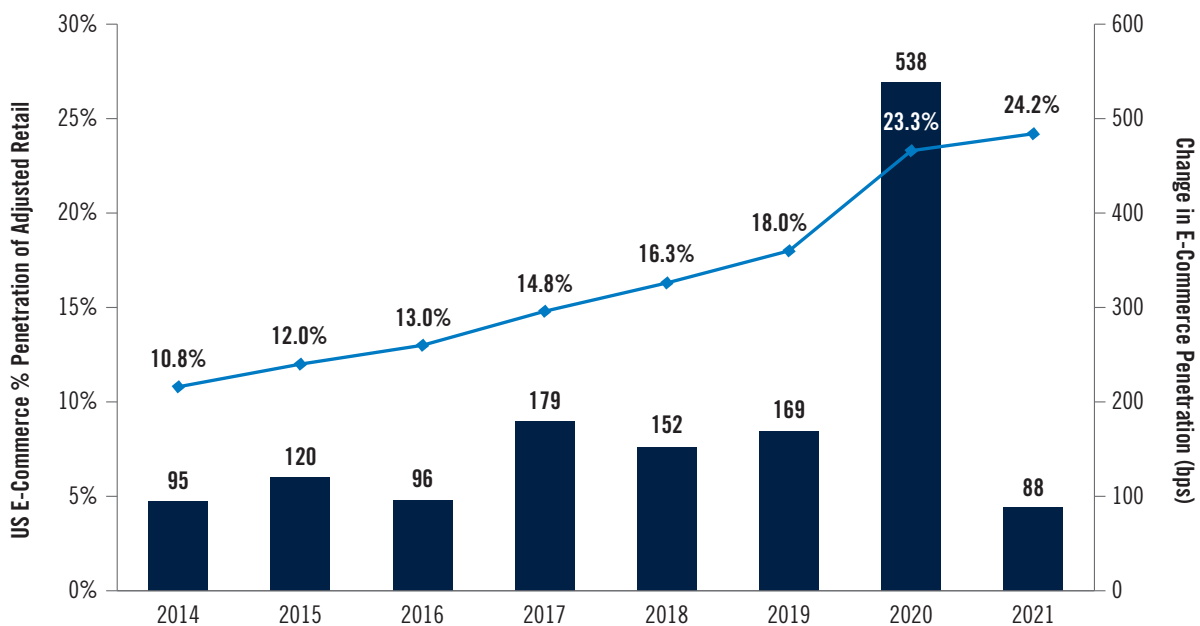
GROWTH IN A WORLD IN FLUX

The onslaught of the COVID-19 pandemic left many growth investors wondering if things would ever be the same. With the crisis now many months old, its effects on people’s behavior have become clearer: Consumers have altered their approach to daily life, lifting companies with attractive outlets for growth in a future post-pandemic world to the detriment of companies with bleak prospects for expansion.

We believe we’re in the early stages of a paradigm shift in how companies enable growth. Companies need to be innovative in how they deliver their products and services, they need to adapt to improvements in technology, implement productivity tools, and connect with customers globally more efficiently. Companies that fail to adapt will either not survive or will perform poorly.

Growth companies have done well because their growth rates of revenue, cash flow, and earnings have consistently outpaced those of the overall market for the past decade, and we project that these fundamental drivers will continue. COVID-19 and the monetary policy response to the crisis have extended the “low for longer” outlook, and in a period where growth is scarce, we

E-COMMERCE ADOPTION IN THE U.S. HAS ACCELERATED



Sources: Company Data, Morgan Stanley Research.

expect companies that can exhibit consistently faster growth than the overall investable universe will be rewarded. In particular, we see two broad areas of the market that offer compelling opportunities:

Digital transformation: E-commerce is a major component of the global digital transformation. The pandemic appears to be spurring an acceleration in the rate of e-commerce adoption. Indeed, we believe 2020 will likely represent a year in which about two years of e-commerce adoption was pulled forward. Given the convenience and ease of shopping digitally, this long-term shift in consumer behavior is unlikely to ever revert to a preference for physical shopping at brick-and-mortar locations.

The work-from-home trend has led to greater e-commerce engagement, increased demand for food and grocery and faster adoption of streaming media, fitness, and entertainment, with attendant needs for robust internet infrastructure. The transformation of the workplace is equally notable and starts with the same necessity of robust connectivity. Face-to-face meetings, business travel, and office needs are being re-imagined, giving rise to Zoom meetings, cloud-based telephony, and remote working.

The impressive performance of many growth stocks since March reflects indications that the digital transformation of the global economy is accelerating meaningfully in the COVID-19 environment, as social-distancing and shelter-in-place directives necessitated by the pandemic have underscored the value, utility, and resilience of e-commerce, digitally enabled payments, cloud computing, and streaming business models.

Healthcare: The pandemic could have a permanent and beneficial impact on the health care sector. The crisis highlighted inefficiencies within the system and the serious implications of

administrative mismanagement. At the same time, the world has witnessed phenomenal speed of discovery and the multiple modalities available within the biotechnology, life sciences, and health care technology industries to address unmet medical needs. As a result, many companies may be able to penetrate their total addressable markets at accelerated rates.

Other possible post-COVID changes include:

- Increased use of telemedicine.
- An accelerated shift to alternative sites of care. For example, more surgeries and procedures performed in ambulatory surgical centers rather than hospitals.
- Increased awareness of personal health and use of self-monitoring technologies.
- Touchless check-ins at doctor's offices.
- Increased use of noninvasive diagnostics like liquid biopsy and noninvasive prenatal testing, as well as the acceptance of advanced technologies that monitor immune responses by monitoring the behavior of immune cells.
- Increased use of virtual clinical trials that could accelerate drug development and lower costs.

Investors have demonstrated their preference for businesses that were thriving before COVID-19 and that have benefitted from pandemic-related tailwinds and enhanced competitive positions. Prospects for their continued growth at above-average rates remain strong.

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