

May 29, 2020

Dear Clients and Colleagues:

Investor euphoria and optimism has led to the fastest market recovery in history. In fact, a recent Barron's article titled "Day Trading Has Replaced Sports Betting as America's Pastime" chronicles how a halt in sports and online gambling has led to retail mania of buying and selling small lots of stocks and options¹. Who can blame these investors? Trading platforms are luring first-time traders with zero commission trades and offering fractional shares for those short of cash. All the while, governments around the world are pouring trillions of dollars in stimulus policies to save the economy.

A Whole New World

It is safe to say that COVID-19 will have a lasting impact on deglobalization, social unrest, near shoring of global supply chain, and an eventual central bank quantitative failure.

Many governments are now developing policies around virus containment, many of which may pose a serious threat to personal privacy. For example, more than 30 governments around the world have begun tracking citizens using smartphone data, in an effort to better understand virus transmission². Large tech companies like Apple and Google are working together to develop programs to help governments collect and analyze the data. At what point does health care monitoring become invasive surveillance?

Retailers are also facing unprecedented challenges; even as some stores begin to reopen, they are hampered by strict social distancing rules and hygiene requirements. How can productivity and efficiency improve if restaurants can only run at half capacity? What will happen to the millions employed by hospitality industry? These and many other unanswered questions remain, and will continue to impact economic data over the next few months.

For example, equity markets have bounced back strongly, suggesting economic data may have bottomed and can only go up from here. However, the numbers are still not good. We have a long

¹ <https://www.barrons.com/articles/day-trading-has-replaced-sports-betting-as-americas-pastime-it-cant-support-the-stock-market-forever-51590174899>

² <https://www.businessinsider.com/countries-tracking-citizens-phones-coronavirus-2020-3>

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way to go before the economy returns to its previous peak, and equity markets maybe running ahead of themselves.

One of the central themes of this new COVID-19 reality is the major shift to working from home (WFH). Many experts are speculating that remote work will become the new normal, even after the pandemic is over. Has the traditional office seen its last days?

The New Office

Before COVID-19, working from home was a growing trend, but still far from the norm in many corporate settings. Not many companies were prepared to let their employees work remotely and “unmonitored”. Corporate leaders expressed concerns around work ethic and claimed productivity would suffer if employees WFH. We’ve seen many of those myths get busted in recent months, since WFH went from a choice to a necessity.

Many companies have embraced this new reality, developing innovative strategies for connecting with customers, maintaining supply chains, and salvaging revenue streams. Some of these solutions have been strikingly innovative, and even beneficial.

In the last few months, we’ve seen rapid adoption of technologies like VPN, Zoom, Teams, Slack, etc. Companies moved quickly to procure the necessary computer hardware for remote users and teach them how to connect and manage projects from home. Most CIOs did not plan to make these investments, but as organizations settle into a more flexible approach to work, purchasing and utilizing these tools is becoming a necessary cost of doing business.

Meeting in Cyberspace

In particular, Zoom and Microsoft Teams have stood out as preferred options for video conferencing. Microsoft shops largely favor Teams, while those not on Office 365 are split evenly between Teams and Zoom. Zoom was seen as the best option for rapid deployment, but for many users, Teams offers a greater breadth of functionality. Plus, Teams is included with Office 365 and is effectively "free" for existing users.

Our portfolio is well positioned to benefit from the virtual conferencing trend. In today’s weekly, we’ll look at a company who will be a clear winner as they are platform agnostic, and already benefitting from the WFH movement.

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AudioCodes (AUDC US - \$35.30)

www.audiocodes.com

Business overview

Based in Israel, AudioCodes is a play on the transition of business communication from the PBX phone system to an integrated cloud-based VoIP service based on Session Initiation Protocol (SIP) connectivity and unified communication (UC). AudioCodes is vertically integrated and designs its own VoIP processors and blades. AudioCodes' products deliver the highest voice quality and lowest cost.

In the simplest of terms, they ensure voice quality is crisp and clear no matter which conferencing tool the user has chosen, including Zoom, Microsoft Teams, or any other voice application. Their software delivers an authentic meeting experience supporting both traditional voice conferencing and video-enabled collaboration, while allowing for features such as call recording and data analytics.

Target market

- Global UC addressable market is expected to reach US\$45 billion by 2022 from the current US\$20 billion
- UCaaS user penetration in North America is at 20% vs 5% in the rest of the world and expected to double by 2024
- MobilityPlus Business edition enables enterprises to convert mobile phones to virtual extensions

Competitive advantages

- Strong partnership with companies like Microsoft, Amazon, Google, Zoom, Genesys, Interactive Intelligence and Avaya
- Lowest cost per bit in the market and the highest voice quality

Growth strategy

- Continue to grow its Microsoft team expansion
- Zoom and various other platforms offer faster growth opportunities
- Artificial Intelligence chatbots can drive higher penetration into existing clients

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Management

Insiders own approximately 30% of the company. CEO Shabtai Adlersberg is the co-founder of the company, and owns around 16%.

Risks

- Data breach
- Loss of large customers as distributors are primary sales channel

Global small cap companies are not always known by name, but they invariably touch our daily lives in important ways. The next time you have a meeting in cyberspace, it is possible that AudioCodes software was what ensured a crisp and clear voice call.

Have a great weekend.

The Global Alpha team

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