

# Pathways

**Global Small Cap Value Chains**

**Complimentary Membership Invitation**

**links**analytics

# Pathways: value drivers and value chains



## Challenging Environment for Small Cap Research

- Traditional broker research paradigm is failing small companies
- Over half of small caps are without coverage due to poor economics and high coverage costs
- Sell-side analysts overly focused on short-term earnings and maintenance, possibly missing the big picture
- Due to economic constraints, analysts nearly always rely on company management for industry insights
- Sell-side has frequent trading bias; company's and investors' interests are more aligned

## Pathways

7	Value Chains
358	Companies
\$ 133 bln.	Market cap
\$ 6 trillion	Value drivers

## ABOUT LINKS:

Established in 2009, LINKS counts some of the largest institutional investors among its clients. With expertise in global supply chains and related modelling, LINKS is based in the Netherlands, with research and production offices in Eastern Europe.

## Request Your Complimentary Membership



## Pathways focuses on what matters for buy-side

### Global Small Cap Value Chains

- Focus on long-term value chain drivers: **technology, demographic and regulatory shifts**
- Each value driver paired with a value chain and corresponding 20-60 small cap companies
- Deep industry research, bypassing company's top management and getting to the source
- Member access to industry mid-level people, with unbiased deep knowledge of the field
- Instead of short-term earnings forecasts, quarterly detailed accounting analysis and assessment of unexpected changes by a qualified accountant

- Member access to the accountants, who understands the accounting treatments and changes better than most sell-side analysts.

### COMPLIMENTARY INVITATION-ONLY MEMBERSHIP

#### Membership Tiers:

	Associate Membership	Full Membership
Access to research reports and models	☞	☞
Bloomberg research distribution via NOTE	☞	☞
Access analysts via LINKS chat	☞	☞
Direct access to industry experts		☞
Direct access to accounting experts		☞
<u>Membership tier requirement</u> New members may elect either of the tiers. At the end of full-year membership LINKS will upgrade/downgrade membership according to use.	None	A soft commitment of number of companies and value invested per value chain in a year

# Pathways Research Schedule 2019: Value Chains and Drivers



39 Companies

\$ 14.8 bln. Market cap

\$ 1.1 trillion Trigger value



54 Companies

\$24.4 bln. Market cap

\$ 3.3 trillion Trigger value



145 Companies

\$58 bln. Market cap

\$ 1 trillion Trigger value

## Automotive

Barriers to broad adoption of electric vehicles continue to shrink. There are currently three real or perceived hurdles: charging infrastructure, charging speed and the price. In 2017 in Europe there were 121,000 fuel stations compared to 112,500 charging points (Source: FuelsEurope, EAFO).

Core European countries are rolling out fast charging stations at an accelerated pace. Total cost of ownership (TCO) parity is expected by 2024 (ING estimates). Traditional car makers' core competence lies in Internal Combustion Engine powertrain. ICE powertrain has 1,400 components and is a market of \$ 217 billion (Source: Roland Berger). The shift of this annual value away from the OEMs and to suppliers will define the next decade of the supply chain.

## Building & Construction

Private investment in industrial infrastructure in the US is rising fast. The new trade policies, although controversial, are only the most recently observed signs of the longer-term trend of reversal in globalization.

In order to stay competitive at scale, the US companies need modern industrial capacity. In the petrochemicals industry, for instance, the number of announced projects has increased to ~300 per month compared to 200 a year earlier, with 25% increase in value terms (Source: American Chemistry Council). The American Society of Civil Engineers (ASCE) study estimates the infrastructure investment needs of \$3.3 trillion through 2025.

## Consumer Choice

According to the UN estimates, the proportion of retirement age population in the developed countries will increase by 5 percentage points before 2035. Spending patterns of individuals at the pension age change dramatically, with all expenses falling on the average by 30% (e.g. insurance – 65%, education – 79%, transportation – 30%, source: US BLS), with a notable exception of health care (up 43%) and books (up 71%).

This translates into an increase of health care spending of approximately 2.1% of GDP in that period, or \$ 1 trillion. Although the general trend has been clear for a while now, the true scale of the impact is yet to be appreciated by the market, as the first wave of baby boomers is reaching retirement age this decade.

# Pathways Research Schedule 2019: Value Chains and Drivers



19 Companies

\$ 6.3 bln. Market cap

\$ 20 billion Trigger value

## Agriculture

Nearly two-thirds of the world's population lives in areas with severe water shortages (source: FAO of the UN), which combined with growing population, increasing demand for food and loss of arable land creates strong demand for more sustainable and efficient technologies in agriculture.

Available technology set under the umbrella of "precision agriculture" is being rolled out: remote sensors on the field, smart connected equipment, crop monitoring with drones, nitrogen monitoring, agricultural robotics and machine learning and other analytics to make crop-related timing decisions. Expected growth rates in precision agriculture market is 13.1%, with combined new demand over the next five years of \$ 15 billion (Source: Research & Markets).



22 Companies

\$ 4.6 bln. Market cap

\$ 300 billion Trigger value

## Aerospace

The civil aerospace supply chain will be reshaped by changes in both supply and demand. The fast pace of new technological advances creates entry opportunities for new companies: moving from hydraulic to electric systems, from metal to composite and from jet engines to electric motors changes the required competences from the supply chain. Best available batteries at present are approaching energy density of 500Wh/kg - sufficient for short haul flights (Source: Roland Berger). Demand has been steadily shifting too, with rapid growth of air traffic in Emerging Markets and Asia. The regional aircraft market will be the first affected by these changes, with total market value of ~\$300 billion in the next 15 years (Source: LINKS estimates, Forecast International).



46 Companies

\$ 13.3 bln. Market cap

\$ 200 billion Trigger value

## Energy

Global oil demand continues to rise, while oil majors cut capital expenditure. The emerging gap is expected to be filled by shale oil. A central difference between shale and traditional oil production is the reliance of the former on continuous drilling to maintain production; variable costs of shale oil production – sand, water, drilling crews, equipment and other services are much higher than at traditional wells, creating large boom-bust cycles.

If shale oil is to survive this uncertainty, it requires a permanent solution – digitization of drilling, leveraging data to maximize a well's output, automated drilling and drilling data consolidation and analysis. The new value added to the oil & gas industry by digitization is estimated at \$220 billion by 2025 (Source: World Economic Forum).

# Pathways Research Schedule 2019: Value Chains and Drivers



33 Companies

\$ 12 bln. Market cap

\$ 100 billion Trigger value

## Power

Increasing penetration level of wind and solar energy in all geographies requires additional reserve capacity to maintain system security. Additional costs incurred by the industry as a result of the transition is estimated at GBP 5/MWh at a 30% renewable energy penetration and up to GBP 45/MWh at 50% penetration (Source: UKERC). Many European countries are already over 30% penetration and slowly approaching 50%. With increasing renewable energy penetration, existing thermal power plants experience lower efficiency, because they have to continuously adjust output levels to fill the gaps in the grid. The cost over five years is \$ 100 billion, which can be remedied by storage, smart grid and distributed energy solutions.

Request Your Complimentary Membership



## **LINKS Analytics B.V.**

Kluzenaarsbocht 6  
2614 GT Delft  
The Netherlands  
Phone: +31708919282  
[info@linksanalytics.com](mailto:info@linksanalytics.com)  
[www.linksanalytics.com](http://www.linksanalytics.com)



Scan the QR code with your smart phone to request a membership invitation or go to [www.linksanalytics.com](http://www.linksanalytics.com)

