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INVESTMENTS

Equity Growth Leaders | Fourth Quarter 2024

Winners: TSLA, AVGO, NOW, AMZN, SPOT

Tesla (TSLA) was the highest contributor to performance during the quarter, as Musk and Company advanced on multiple fronts while maintaining profitability in a challenging EV market. In batteries, the 4680 cell is approaching industry-leading cost competitiveness in the U.S. market; in robots, Optimus poured drinks at robotaxi day and demonstrated 22 degrees of hand freedom; in energy, Tesla's megapack production reached 40 GWh annual run rate at Lathrop; and in autonomy, FSD (full self-driving) version 13 is expected to deliver performance ahead of humans sometime in 2025. Tesla is well-positioned to continue benefitting from structural changes across industries.

Broadcom (AVGO) was the second highest contributor. Despite overall weakness in semis during the quarter, Broadcom was a standout, reporting record revenue (+51% y/y), driven by AI initiatives (custom ASICs and networking) and VMware integration (signed up over 4,500 of its largest 10,000 customers). As a result, the stock jumped 43% during the month of December, and Broadcom joined the trillion-dollar club (market cap). And while some software deals were pushed out, Broadcom announced an 11% increase in its dividend moving into 2025, demonstrating management's confidence in the business.

ServiceNow (NOW) was the third highest contributor during the quarter, as the company continued to displace legacy IT providers, demonstrating strong growth potential in AI and cloud services. During CEO Bill McDermott's tenure, ServiceNow has increased its workforce fourfold, and the momentum has continued with both existing and new customers increasing investments, as the company's AI platform scales. McDermott wants ServiceNow to be the "control tower for AI business transformation," and looking forward, the company has ample opportunity to expand.

Amazon (AMZN) was the fourth highest contributor to performance during the quarter, as choiceful consumers turned to the company for deals, which resulted in record spending during the five-day Thanksgiving to Cyber Monday shopping period. At Amazon Web Services (AWS), the company doubled down on AI by investing an additional $4 billion in Anthropic (total $8 billion), securing a partnership whereby Anthropic will utilize Amazon's silicon chips for AI model training. Finally, AWS CEO Matt Garmin led his first re:Invent conference in December, announcing several "needle-moving changes" within the platform. Amazon has committed over $100 billion for data centers over the next decade, and as capacity comes online, the company is well-positioned to reap the benefits.

Spotify (SPOT) was the fifth highest contributor, as the company continued to execute on its "year of monetization." During the quarter, the company reported both gross and operating margin expansion, EBITDA growth over +700%, and free cash flow of $781 million, or +232%. The results marked a key point where SPOT successfully achieved and even surpassed its growth targets set back at its 2022 Investor Day. Monthly Active Users (MAUs) also returned to growth despite a -7% decline in marketing spend. Moreover, Premium subscriber revenue rose +24% on a constant currency basis, driven by subscriber growth and ARPU (average revenue per user) acceleration associated with price increases. Looking forward, Spotify is well-positioned to continue its dominance in the audio streaming industry.

Losers: UBER, AMD, ADBE, XYL, LRCX

Uber (UBER) was the worst contributor during the quarter, as post-election dynamics created significant volatility, and Tesla CEO Elon Musk's close relationship with the incoming President ignited fears that Uber would take a back seat in the autonomous vehicle (AV) game. While the incoming President's transition team has prioritized creating a federal framework for autonomous vehicles, fears that Uber may be overshadowed by Tesla abounded, and Uber's stock took a hit. Nevertheless, there will likely be more than one winner in this game – Uber is pursuing a platform strategy for AVs, partnering with multiple providers, including Waymo – and the company's asset-light model, combined with its unparalleled delivery/driver network, puts profitability in the crosshairs. As such, Uber is well-positioned to be a winner in autonomous driving.

Advanced Micro Devices (AMD) was the second worst contributor to performance this quarter despite posting an overall solid report. Every metric was in-line with consensus estimates, highlighted by data center revenue up +122% year-over-year. AMD gained server CPU share during the quarter, and the launch of Turin is expected to attract broader adoption due to its enhanced performance and energy efficiency advantages. The company's AI roadmap remains on track – the MI325X launched in early October (shipments planned to start early 2025); the MI350-series is on track to launch in 2H25; and development of the MI400 series is progressing well towards a 2026 launch.

Adobe (ADBE) was the third worst contributor to performance during the quarter, as the company delivered in-line results but issued frustrating guidance. Adobe is facing increased competition from the low-end market and has been relatively slow to monetize its AI technologies. However, Adobe remains one of the few trusted platforms in enterprise software, given its core positioning as the de-facto toolkit for creatives (and in essence, the company has the "right to win"). Only time will tell if CEO Shantanu Narayen takes last year's analyst criticism to heart.

Xylem Inc. (XYL) was the fourth worst contributor to performance during the quarter, as the company narrowed its revenue guidance due to project delays in the Water Solutions and Services (WSS), and the Measurement and Control Solutions (MCS). Despite the slowdown in revenue during the third quarter, margins improved, as the company continued to benefit from increased productivity, driven by cost synergies. According to management, demand remains healthy in these two segments, with MCS expected to grow in mid-teens and WSS expected to grow low-single digits in 2025.

Lam Research (LRCX) was the fifth worst contributor to performance during the quarter, as DRAM showed notable growth, but NAND struggled, and WFE (wafer fabrication equipment - what Lam makes) spending estimates came down. Looking forward, China revenue is expected to normalize, and the company expects to grow faster than general WFE demand, driven by advanced etching and deposition technologies crucial for advanced semiconductors. Lam also expects spending recovery in NAND in the ensuing quarters, driven by technological upgrades and performance needs of advanced AI technologies.

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