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WELCOME:

THANK YOU & 3 WISHES FOR 2021

Hello, Fools, and Happy New Year!

Thank you for being a part of everything that we brought to the world together.

As you know, 2020 was a survival year, and now we head into one of the greatest rebuilding opportunities in our lifetime, certainly in the 27-year history of The Motley Fool — the opportunity to be supportive of entrepreneurs and innovators, to invest our time and our capital in solving the most important problems.

I'm happy that we get to do it together.

Our mission is to make the world smarter, happier, and richer in all of our Foolish experiences together. So I have three wishes I'd love to share with you for the new year.

First, we take even more pleasure and find even more success in identifying the great organizations of our time. How they're priced in the short term really is a secondary or tertiary concern. It's much more about where they're going, what they're trying to solve, and how much they care about all the stakeholders, all the partners, everyone connected to that organization.

The great companies are going to build a pathway to prosperity over the next 25 years. They're going to be innovating, they're going to be organizing and prioritizing their work to make sure that they're doing something of consequence. Those are the businesses that we want to support here at The Motley Fool, and I wish that for you and for me and for all of us that we continue to do a better and better job of locating them and preparing to invest in them for the long term.

That's my second wish. As the days and weeks pass, I want to demonstrate even more that the Motley Fool community is dedicated to being the investor that great organizations deserve — and that is not the short-term thinker. Not the investor who's using leverage to juice



TOM GARDNER

results, not the investor who's ignoring all of the stakeholders in an organization and hoping that their position as a shareholder will be the primary focus of a company.

Instead, we are all stakeholders and long-term thinkers hoping we can find great companies that are going to make a difference in the world and profit from being associated with them. So I hope for you and for all of us that we continue to look at the data that shows that really all the wealth of the public markets ends up in the hands and in the pockets and the digital accounts of long-term, business-focused investors.

And my third wish for you, and in the year ahead, is that we do everything we can to make the lives of the people around us smarter, happier, and richer — and that we do so for ourselves as well. We want to do everything we can to make 2021 the unforgettable year that it deserves to be and that we all hope for.

Thank you for being a part of The Motley Fool in 2020. So many of you have been with us since 2015, 2010, 2000, 1993. We debuted in the spring of 1993, and some of you are still hanging out in Fooldom with us and investing for the long term.

Thank you so much for being a part of our mission, helping to lead our mission and co-owning our brand with us as we try to help as many people as we can make better decisions in their financial and their professional lives. So thank you.

Best of good health and happiness for you and your family, and let's go make 2021 a year that we'll never forget.

Fool on!

A handwritten signature in black ink that reads "Tom Gardner".

LOOKING AHEAD:

WHAT 2020 TAUGHT ME ABOUT THE FUTURE



MORGAN HOUSEL

This was the year that felt like a decade.

That's probably the most common thing you'll hear about 2020: the feeling that time slowed down. The early days of spring, when COVID-19 first entered our lives, felt like it lasted an eternity. February feels like a different lifetime ago.

The leading theory for why time occasionally feels like it slows is that time perception is driven by the number of memories formed in a period, and memories are created by experiences that are new and surprising. It's why the monotony of commuting to work on the same road for 20 years passes without leaving a mark, but summer break seems to last forever for a child experiencing her first summer camp.

Time seems to have slowed in 2020 because for the first time since childhood many of us have been bombarded with new and surprising experiences.

We learned how to work from home.

How to use new technologies.

How powerful exponential growth can be.

We learned that the economy can stop overnight.

And that isolation is exhausting, even for introverts.

Entrepreneur Derrick Sivers once wrote:

“ People only really learn when they're surprised. If they're not surprised, then what you told them just fits in with what they already know. No minds were changed. No new perspective. Just more information. ”

As we head into a new year — a vaccine in hand, light seemingly at the end of the tunnel despite a virus still raging — I've been thinking about what I've learned from this surprising year and what it means for 2021 and beyond.

Three things come to mind.

1. Risk is what you don't see, aren't talking about, and aren't prepared for.

The investment industry spent the better part of the last decade debating what the biggest risk to the stock market and economy was.

We wondered: Was it budget deficits? The Federal Reserve printing money? Trade wars? High valuations? Profit margins? Interest rate hikes? Tax hikes?

An incredible amount of energy was

spent on these topics.

But in hindsight, we know none of those things were the biggest risk.

The biggest risk by far was a virus no one was talking about until this year, because no one knew it existed before this year.

This year was a blunt-force reminder that the biggest economic and investing risk is what no one's talking about, because if no one's talking about it, no one's prepared for it, and if no one's prepared for it, its damage will be amplified when it arrives.

Think about the four biggest economic and investing risks of the last century. They were, I'd argue: the Great Depression, Pearl Harbor, September 11, and COVID-19.

The common denominator of these events is how surprising they were to virtually everyone when they occurred.

Sure, some people warned the economy was getting overheated in the late 1920s, and epidemiologists have been warning about a viral pandemic for years. But a Great Depression? Or an economic shut-down requiring trillions of dollars in government stimulus? It just wasn't on people's radar.

Surprise wreaks economic havoc for two reasons.

One, people aren't prepared financially. The amount of debt they hold, the size of their emergency funds, and their annual budget forecasts can break under the pressure of an event they never anticipated.

Two, people aren't prepared psychologically. Surprises can

shake your beliefs about how you assume the world works in ways that leave you paranoid, pessimistic, and overestimating the odds of the recent surprise occurring again.

Paying attention to known risks is smart. But we should acknowledge that what we can't see and aren't talking about will likely be more consequential than all the known risks combined.

That's usually how it works every year. I doubt 2021 will be much different.

Nobel-prize winning psychologist Daniel Kahneman once said:

“Whenever we are surprised by something, even if we admit that we made a mistake, we say, ‘Oh I’ll never make that mistake again.’ But, in fact, what you should learn when you make a mistake because you did not anticipate something is that the world is difficult to anticipate. That’s the correct lesson to learn from surprises: that the world is surprising.”

The solution isn't to become a fatalist. It's to value room for error, and expect that things like recessions and bear markets can occur at any moment, rather than relying on specific forecasts of when they will occur.

The Foolish investing approach is, in many ways, centered around long-term optimism and an acceptance that market volatility does not prevent a company from innovating and creating value over the long run. Buying good companies and holding them for a long time

does not rely on knowing when the next recession will come, what the market will do next quarter, or whether the biggest economic risk is an interest rate hike, a change to the tax code, or a pandemic. And good thing, too — because I don't think anyone can forecast those things.

2. Innovation and progress don't tend to happen when everyone is calm, happy, and safe. They happen when there's a shock to the system and problems are solved out of necessity.

In some ways, 2020 is what technologists in 1995 assumed the world would look like in 2000.

At the beginning of the dot-com boom in the early 1990s, the vision was that the internet would create a world where you could work from anywhere, buy everything online, and do most of your socialization online instead of in person.

But fast forward to, say, 2019, and that vision hadn't really played out — at least not to its full potential.

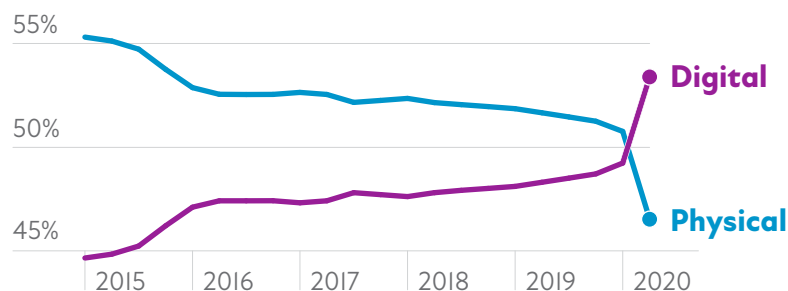
Physical offices were packed, and if your company was based in Chicago, you probably had to live in Chicago. Grocery stores were packed. Airlines had their best year ever as business travel was in record demand.

Then 2020 hit.

In April, Microsoft CEO Satya Nadella said, “We've seen two years' worth of digital transformation in two months.”

He's not exaggerating. Consider this chart from investment firm Alger:

U.S. business investment



When technology was nice to have, companies embraced it warmly. When it was essential to survival, they bet the farm on it virtually overnight.

A lot of the history of innovation works that way.

The biggest innovations rarely occur when everyone's happy and safe, or when the future looks bright. They happen when people are a little panicked and worried, and when the consequences of not acting quickly are too painful to bear.

That was true during World War II and the Cold War, when everything from penicillin to jets to rockets to atomic energy, interstate highways, synthetic rubber, microprocessors, GPS, radar, and digital photography were created.

It was true in the 1930s during the Great Depression, which, according to economist Alexander Field, was the most productive decade the U.S. economy has ever seen. For all the suffering and unemployment, surviving businesses were forced — not nudged, but forced — to find new efficiencies and new ways to sell products to consumers who had less money and patience. That gave rise to the supermarket, laundromats, and the

widespread adoption of assembly lines.

It's true in 2020, too. And I think it bodes well for 2021 and beyond.

The hardest thing about stress-induced innovation is reconciling that positive long-term trends can be born when people are suffering the most. It makes the topic difficult to even discuss without looking insensitive.

But think about what's happened in the past year.

The first documented case of COVID-19 was December 1, 2019. Twelve months and two weeks later, tens of millions of vials of a 95%-effective vaccine are being shipped around the world. That is the fastest vaccine development in history, by far. And we've done it with a technology — mRNA — that's not only the first of its kind but has the potential to teach us things useful in treating other diseases, most notably cancer. Nicole Lurie of the Coalition for Epidemic Preparedness Innovations recently said: "I don't think the world of vaccine development will ever be the same again."

Things tend to move quickly from there. In his book *How We Got to Now*, Steven Johnson writes:

“Innovations usually begin life with an attempt to solve a specific problem, but once they get into circulation, they end up triggering other changes that would have been extremely difficult to predict. ... An innovation, or cluster of innovations, in one field ends up triggering changes that seem to belong to a different domain altogether.”

That, I believe, is happening in medicine as we speak. There's currently so much experimentation, with stakes so high, that you know we're going to look back in the future — maybe next year, maybe next decade — and recognize the incredible developments that happened that wouldn't have been possible without the frenzied rush to find a cure for COVID-19 in 2020.

This doesn't end with medicine. New business applications for all industries surged 77% in the third quarter. More people than ever are striking out on their own, starting something new, trying something different.

Or think about entire cities. If just a handful of big tech companies allow their employees to work remotely, one of the biggest social problems of the last generation

— affordable housing — suddenly moves in the right direction.

Having so much economic potential clustered in a few neighborhoods in California and New York created \$2 million starter homes in cities with good jobs and cheap homes in cities with poor economic prospects. Even a small shift to permanent remote work could make cities more livable, with less traffic and more affordable homes, and rural areas more prosperous with good, high-paying jobs. It's a rebalancing of geographic advantages that wouldn't have been possible without COVID-19.

As we look ahead to 2021, the focus is mostly on recovery from the damage inflicted in 2020. That's how it should be: some 10 million fewer Americans have jobs today than did a year ago, and the top priority should be getting them back to work.

But beyond recovery, we should also recognize that we are — right now — in what is probably the greatest period of stress-induced, necessity-is-the-mother-of-invention periods we've seen in perhaps 80 years.

I'm always a long-term optimist. But I think there's good reason to believe the future of innovation is brighter today than it was a year ago.

3. Optimism begins well before it's obvious.

On February 24, Warren Buffett went on CNBC and said "We certainly won't be selling" stocks during the decline.

A few weeks later he sold billions of dollars of airline stocks, exiting his entire position in the industry.

You can call this hypocritical, but I think it's just an acknowledgment of how the economy turned so bad, so fast, creating a business catastrophe potentially more severe than the Great Depression.

Things were bad. They're still bad.

And yet.

The S&P 500 looks like it'll finish the year up about 12% — pretty close to its historic average annual return.

The Nasdaq will finish the year up something close to 40%. That's the kind of thing you might expect to see during the strongest economy in history, not the weakest in a century.

The bull market that began in late March caught many by surprise. It didn't seem to make any sense given how bad things were on the ground.

It was easy to view the disconnect between Wall Street and Main Street as a sign of a bubble, perhaps propped up by the Federal Reserve's easy-money policies.

And maybe it is. This story isn't over yet.

But there's a long history of the stock market rebounding well ahead of the economy, leaving many confused investors in its wake.

It happened during the last recession, when the stock market bottomed and began surging higher in March 2009 even though the economy kept shedding jobs for another year, and there wasn't a decent level of sustained economic growth for another three years.

I'm not big on economic forecasting, both because it's not important to how I invest and because I think so few can do it

accurately. But as we sit here in December 2020, you can imagine a world where widespread vaccination allows businesses to reopen in the coming months, and tens of millions of Americans who have been cooped up for a year are desperate to go on vacation, eat at a restaurant, and travel to see family. The amount of pent-up demand that could be unleashed in the coming months could be extraordinary, especially given the amount of stimulus money circulating around the economy.

Perhaps the market saw that coming in March. Perhaps that's why the market has been surging since then.

That wasn't obvious to many people in March, because we live our lives day to day, in the moment, when job losses and the constant threat of infection dominated our view of the world. The market, though, wasn't that concerned with what was happening then. It was looking six to 12 months ahead.

Doing well as a Foolish investor requires long-term optimism. But optimism has an important nuance that was reinforced in 2020: It does not mean you think that everything will go right and there will only be good news. Optimism means things will likely work out in the long run, even if the short run is filled with bad news, setback, decline, disappointment, and damage. That's why the stock market can grow even when the economy is a mess.

Buffett summarized this perfectly in 2008 when he wrote: "If you wait for the robins, spring will be over."

So it goes in 2020. And may we await the robins in 2021. ■

NEW TOOL:

THE ALLOCATOR



AMANDA KISH,
CFA, CFP

As we flip the calendar to 2021, many investors are grappling with uncertainty. And while the new year is a time when many of us dust off resolutions to eat better or get more exercise, there is one task that we think every investor should check off their to-do list early in the year — reviewing their portfolio’s asset allocation. Getting asset allocation right at the outset can help mitigate quite a bit of the uncertainty surrounding us now and may also help keep investors on track no matter what surprises 2021 throws our way.

While our primary focus as Fools will always be on identifying stocks we think will outpace the market over the long run, we believe asset allocation is a vital part of building a successful investment portfolio. Just owning excellent stocks isn’t enough — we consider how those stocks interact with each other and what the portfolio looks like as a whole.

Asset allocation addresses the question of what an investment portfolio looks like on a top-down basis. In other words, how much have you invested in asset classes such as large-cap stocks, small-cap stocks, international stocks, bonds, and cash? We think looking at a portfolio through the lens of asset allocation is important for two primary reasons.

First, taking an allocation-level view helps investors avoid missing out on any significant investment opportunities around the globe. An investor can build a portfolio consisting solely of solid U.S. large-cap companies, but that means they could be missing out on all the returns from small-cap stocks or overseas emerging market stocks. Investors who have a target allocation to all major asset classes can add an important layer of diversification to their portfolio while still ensuring that they can devote the most shelf space to those companies and corners of the market that have the greatest return potential.

Second, asset allocation helps investors manage risk and potentially avoid catastrophic mistakes that could endanger their hard-earned wealth. Every investor has their own unique set of life circumstances and financial goals, so it makes sense that everyone’s portfolio will look a little bit different.

Depending on an investor’s age and investment time horizon, they might want to be heavily invested in stocks — or it may be more prudent to balance their allocation more evenly between stocks and cash or bonds. Likewise, investors who are more risk tolerant

and not bothered by short-term market drops can invest more aggressively, which means more exposure to stocks. Folks who are more cautious and who may lose sleep at night when the market falls probably want a more conservative allocation, which means a lighter allocation to stocks.

People generally don't get excited about investing in safety assets such as cash and bonds, but they are one of the best investment vehicles for protecting capital and reducing volatility within a portfolio. Homing in on the right asset allocation can help investors not only maximize returns but also minimize risk, so we think it's not a step that should be skipped!

Fortunately, The Motley Fool has a handy new tool that can help members consider allocations that may be of interest when assessing their portfolio. If you haven't checked it out already, we strongly encourage you to head over to our Allocator tool. This tool aims to point members in the direction

of several model allocations that might be interesting to them. Allocator uses the factors of risk tolerance and potential investing time horizon to show you model allocations.

And when it comes to identifying specific investments to fill those asset class roles, Allocator screens the stocks in members' Foolish services that might fit into those specific allocation criteria. Our model allocations also include an ETF allocation, so if you want to see which ETFs we recommend, make sure you check out those models in Allocator!

We know that as soon as 2021 kicks off, life will get busy for all of us. But don't let the year get away from you before you get a chance to sit down and review your current asset allocation and consider what changes you might want to consider making. [Check out Allocator today](#), and make sure your portfolio is set up as we face a new year of challenges and opportunities!

See you in the New Year, Fool! 📊

Please note, this tool is not personalized guidance (we are not an investment adviser and cannot offer personalized financial advice) but rather a framework you can use when reviewing your current portfolio. Every portfolio is different. Houses offer model portfolios based on risk tolerances and time horizons to understand different ways a portfolio can be constructed. Please see our [Tools Terms of Service](#).

THE STOCKS:

10 FAVORITES FROM ACROSS THE MOTLEY FOOL



RICH GREIFNER

Greetings, Fools, and welcome to our *10 Stocks for 2021* report! This is a diversified collection of 10 of our favorite opportunities from across the Foolish investing spectrum. We have Best Buys Now from *Stock Advisor* and *Rule Breakers*, promising small caps from *Discovery: Rising Stars 2020*, high-growth companies from *Extreme Opportunities: Platinum* and *Next-Gen Supercycle*, and some well-run, founder-led businesses from *Discovery: The Ownership Portfolio*.

You'll likely find a few familiar names in this report. **Shopify** [NYSE: SHOP], **Zoom Video Communications** [NASDAQ: ZM], and **Appian** [NASDAQ: APPN] are among the most widely owned Foolish recommendations and have generated multi-bagger returns for many of our members. Hopefully you'll also discover some new investing ideas from recent recommendations such as **Fulgent Genetics** [NASDAQ: FLGT], **Lemonade** [NASDAQ: LMND], and **Cloudflare** [NYSE: NET].

We've provided a wide variety of opportunities in this report, spanning a range of investment approaches, industries, geographies, and market caps. But while these companies are diversified by design, they tend to share several common characteristics:

1. Opportunity Knocks

The companies in this report are young and dynamic, with savvy management teams and growth-oriented cultures. When the world shut down amid the COVID-19 pandemic this spring, these businesses were able to quickly adapt, innovate, and capture market share from their less nimble competitors. Think of Shopify, which developed new features such as curbside pickup and cash advances to help its small and mid-sized merchant customer base. Or Appian, which launched two new solutions to help companies and schools track the health of their people and safely reopen their facilities. Or Zoom, which scaled to accommodate an exponential surge in demand with minimal service disruption.

These businesses were always going to win. The world was already moving in their direction. But COVID-19 has dramatically accelerated that shift and helped these companies realize years of progress in a matter of months.

2. Winners Keep Winning

This progress has not been lost on investors, as many of the companies in this report have seen their share prices surge in recent months. When faced with a big gain in a short time period, many investors feel the urge to sell shares to “lock in” a profit. But while we understand that impulse, we think such a move would be a mistake.

These stocks are up for a reason: because their businesses are performing exceptionally well. And one of the core principles of Foolish investing is that winners tend to keep winning. These wonderful businesses all still have long growth runways ahead and plenty of opportunity to boost profitability thanks to their recurring revenue bases and asset-light operating structures. We think these businesses are only going to be bigger and better five, 10, and 20 years down the road — and instead of selling and collecting profits, long-term-oriented investors should consider buying today.

3. Great Minds Think Alike

Finally, it’s important to note that all but one of these companies have been recommended by multiple Foolish services. We love when analysts with different backgrounds, world views, and investing styles independently arrive at the same conclusion: These are exceptional businesses that we want to own for the long haul.

How to Use This Report

We’re sure you’re eager to get to the stocks, so we’ll keep this introduction brief. This report contains 10 of our favorite opportunities from all corners of the Foolish investing universe. These dynamic businesses have enjoyed tremendous success in 2020, and we think they are well positioned to build on that momentum for years to come.

We’re excited about the returns these 10 companies can generate over the next 10 years. But simply buying these stocks isn’t enough.

As 2020 has shown us, life — and the stock market — can be unpredictable. A portfolio with just 10 stocks could be extremely volatile. And while we clearly think highly of these companies, there are plenty of other promising Foolish recommendations that could grow into tomorrow’s biggest winners.

That’s why we recommend that you build a diversified portfolio of at least 25 Motley Fool recommendations and commit to holding them for at least five years. We hope you’ll consider investing in these stocks as part of your Foolish portfolio, and we look forward to watching these businesses grow ever stronger in the years to come.

Here’s to a smarter, happier, and richer New Year! 🍷

APPIAN

RECOMMENDED: **Discovery: Rising Stars 2020**

TICKER

Nasdaq: **APPN**

MARKET CAP

\$10.7 billion

DIVIDEND

none

SECTOR

Technology

HEADQUARTERS

**Tysons,
Virginia**

Appian's [NASDAQ: APPN] "low-code" software-development platform helps its customers quickly and easily build custom applications, saving them time and money in the process. Demand for low-code software services is set to boom in the coming decade, providing Appian — and its investors — with the opportunity for exponential gains.

Why This Business Will Thrive

The digital transformation megatrend is driving more businesses to digitize their processes and shift their operations to the cloud. Mobile apps, in turn, are quickly becoming necessities for companies of all sizes. And these businesses are increasingly turning to Appian for their app-development needs.

Appian's revenue rose 17% year over year to \$77 million in the third quarter of 2020, fueled by a 40% surge in its cloud subscription revenue to \$34 million. The gains were driven by new-customer additions and higher spending by existing clients, as seen in Appian's cloud subscription revenue retention rate of 115%.

Better still, Appian's profitability is improving as it scales its operations and cloud-based subscriptions become a larger portion of its overall business. Its overall gross margin increased to 73%, up from 64% a year ago. So while Appian is

Key Takeaways

Appian is one of our **Highest Conviction** companies, meaning we believe this stock has the best chance at growing by 6x in 10 years.

Appian's profitability is improving as its overall gross margin increased to 73%, up from 64% a year ago.

Appian's third-quarter performance, released at the end of October, revealed a revenue increase of 17% or \$77 million.

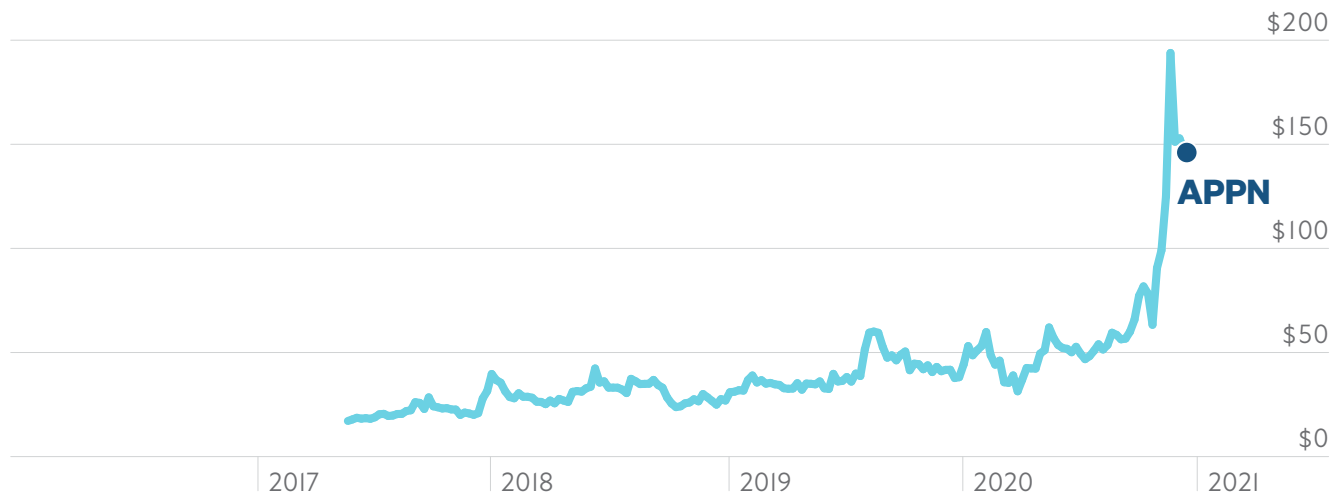
not yet profitable on a GAAP basis, its profit margin is moving in the right direction. And with more than \$250 million in cash reserves, Appian has the capital it needs to continue funding its expansion initiatives while it works toward achieving sustained profitability.

Why We Like Leadership

Founder and CEO Matt Calkins has been at Appian's helm since he launched the company in his basement in 1999. He still owns more than 40% of Appian's stock — a stake worth over \$2.8 billion — which helps align his interests with those of long-term shareowners.

Calkins has fostered an innovative

APPIAN STOCK CHART



culture at Appian built on core principles such as speed and simplicity, which help make its services fast and intuitive. He subscribes to the idea that “talented and passionate people, given the power to be heard and the autonomy to excel, will deliver amazing results.”

Calkins is right. Happy employees — 74% would recommend Appian to a friend, according to Glassdoor — make for happy customers, who in turn drive strong shareowner value creation. It’s a virtuous cycle that’s helped Appian deliver market-crushing returns of more than 540% to investors since its IPO in May 2017 — and one that should continue to propel its growth for many years to come.

Why This Company Will 6× in 10 Years

Despite years of rapid expansion, Appian’s growth story is still in its early chapters. Management expects its 2020 full-year revenue to increase by 14% to \$297 million. Yet it pegs Appian’s current addressable market at \$35.9 billion — and perhaps as much as \$133.6 billion by 2024.

Thus, Appian’s revenue in 2020 will likely account for less than 1% of its total market opportunity. Obtaining just a 5% share of this large and quickly growing industry would likely be enough for Appian’s shares to deliver a 6× return, and perhaps much more, to investors in the coming decade. We think the odds of Appian doing so are strongly in its favor, which is why we suggest you consider buying shares of this software star today. ▣

CLOUDFLARE

RECOMMENDED: **Extreme Opportunities: Next-Gen Supercycle**

TICKER
NYSE: NET

MARKET CAP
\$25.1 billion

DIVIDEND
none

SECTOR
Technology

HEADQUARTERS
San Francisco

We introduced **Cloudflare** [NYSE: NET] as a Radar Stock in November, and the more we've dug into this company, the more impressed we've become. It was founded in 2009 by friends in business school attempting to find out who was responsible for sending spam emails. Two of the co-founders, Matthew Prince and Michelle Zatlyn, remain, serving as CEO and COO.

Cloudflare has made robust growth since its IPO in September 2019, with its market cap increasing from \$4.4 billion to more than \$20 billion today, and it continues to expand its offerings to help make the internet one that 2007 Kanye West would approve of: harder, better, faster, stronger. Now we're thrilled to bring it into our *Next-Gen Supercycle* universe as this month's recommendation.

The Business

Cloudflare is a global cloud platform that helps businesses become more secure, more speedy, and more reliable through its suite of products that include infrastructure protection, content optimization, and secure VPN access. Since Cloudflare exists on a single software stack, it is easy for customers to upgrade their services, which is an important feature for a company that runs on a freemium business model.

Thanks to its architecture, Cloudflare is able to optimize the performance of its highest-paying customers while also effectively leveraging idle capacity across its network. Wisely, management has chosen to use this idle capacity to create

Key Takeaways

Cloudflare is a global cloud computing platform that helps businesses become more secure, more speedy, and more reliable.

Cloudflare generates revenue via pay-as-you-go channels as well as subscription and contractual offerings, meeting customers on their terms.

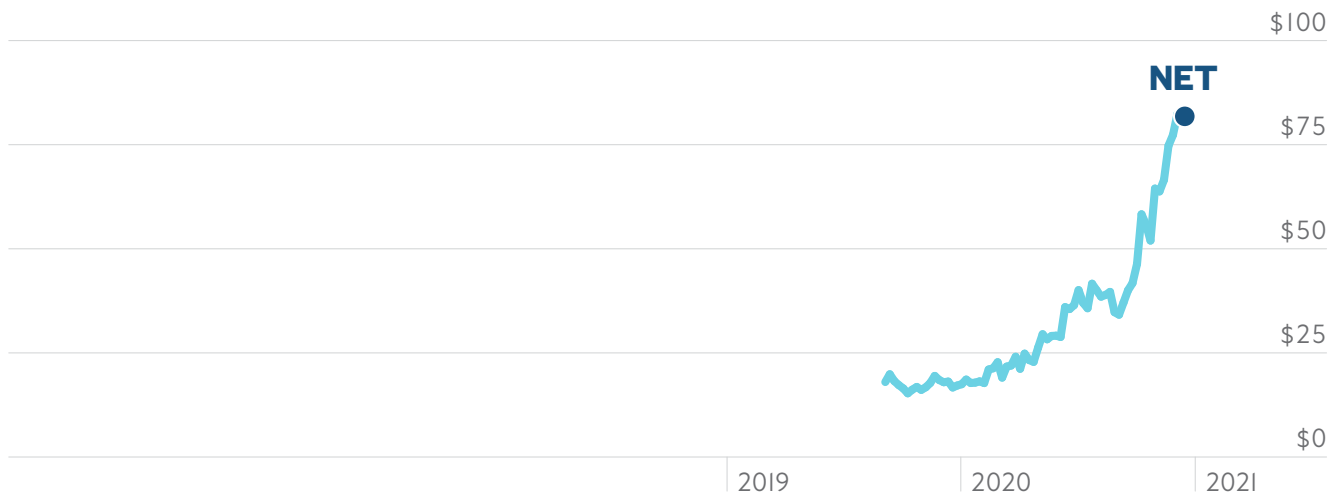
Launched three years ago, Cloudflare Workers is now one of the largest and most widely used edge computing platforms in the world.

Cloudflare's business is on the rise. Management recently raised its guidance: For 2020, it expects revenue of \$422.5 million to \$423.5 million, representing growth of 47% to 48% from 2019.

a free tier of service, which has helped it generate meaningful global scale. Cloudflare generates revenue via pay-as-you-go channels as well as subscription and contractual offerings, meeting customers on their terms. This dynamic business model is an advantage that will serve Cloudflare well as it continues to grow.

As of last quarter, Cloudflare had more than 100,000 paying customers and landed its first customer paying more than \$10 million annually. That customer, a Fortune 500 software company, initially signed up with Cloudflare in 2016 with an

CLOUDFLARE STOCK CHART



annual contract of \$60,000. This is one example of the massive upsell opportunities due to the breadth of the offerings through Cloudflare, resulting in a dollar-based net retention rate of 116% last quarter. Cloudflare's key offerings can be broken out into three groups:

- **Cloudflare for Infrastructure:** These products help ensure that companies' internet-exposed infrastructure remains safe, fast, and reliable. The offerings include security (firewall, DDoS, bot management), performance (content delivery networks, intelligent routing, content optimization), and reliability (load balancing, helping clients remain always online).
- **Cloudflare for Teams:** Launched last January, these products help companies protect internal resources. It includes Cloudflare Access, which offers access management and security for internal applications. It is also a part of the Secure Web Gateway, which has been released in stages in 2020.

- **Cloudflare Workers:** This serverless computing platform is one of the largest and most widely used edge computing platforms and continues to be widely adopted by new users. Last quarter, 27,000 developers wrote and deployed their first Cloudflare Workers application, making it more popular than all other edge computing platforms combined.

Cloudflare's mission is simple: to help build a better internet. Initiatives beyond simple applications include Project Galileo, which helps at-risk public-interest groups protect themselves for free. Another initiative, the Athenian Project, was utilized by more than half of states in the U.S. election to make sure voting was secure. The beauty in the serverless architecture is that as one attack is deflected, the whole infrastructure gets stronger. And with more than 3.2 million paid and free customers, Cloudflare's infrastructure gets stronger every millisecond, helping to advance its mission.

The Next-Gen Supercycle Angle

Given its diversity of offerings, Cloudflare plays an important and growing role in our tech-driven lives. Of all the concepts we discuss in the world of 5G and connectivity, edge computing is among the most important. Edge computing brings computing physically closer to the source of the data that's being used, and Cloudflare is a large and growing player in this space thanks to Cloudflare Workers. Launched three years ago, Cloudflare Workers is now one of the largest and most widely used edge computing platforms in the world.

As we mentioned earlier, more than 27,000 developers wrote and deployed their first Cloudflare Workers application in the most recent quarter, up from 15,000 a year ago. And customers are doing all sorts of things with Workers. One of the most-viewed publications during the 2020 elections used Cloudflare Workers to power its elections news platform and ensure it scaled during an

unprecedented spike in traffic. A popular health-food company uses Workers to power its online ordering system. Marketing firms use Workers to customize content on a per-visitor basis. And one of the largest online learning platforms uses Workers to deliver its customized content.

While speed is often seen as the killer feature in edge computing, co-founder and CEO Matthew Prince takes a bit of a different view after watching developers use Workers. Speed, he says, is the “icing on the cake,” but the real differentiator in the coming years will be regulatory compliance. Protecting consumers’ data is a growing issue, and as governments impose new data regulations, companies will need to find ways to comply with these new laws while remaining efficient. Cloudflare Workers can already run locally in more than 100 countries worldwide, allowing it to help developers meet data sovereignty requirements as they see fit. As this new regulatory landscape takes shape, Cloudflare will continue to build tools that give developers options for meeting regulatory obligations without having to sacrifice the efficiencies the cloud has enabled.

What to Watch

Research and development is the lifeblood of tech companies establishing a position in a nascent and important market, and R&D represents about 30% of Cloudflare’s total revenue. That number will come down, but it’s a delicate balancing act, as management will need to continue investing in the business to bring new offerings to market.

Security is paramount for a company like Cloudflare, and the threat is ever evolving, meaning that it must always be a priority. Any breach or failure, no matter the size, could result in customers losing faith and defecting.

Valuation is likely one of the bigger risks for investors in Cloudflare in the short term. As with many businesses in this space, Cloudflare has yet to turn a profit, and it’s not cash flow positive yet, either. But we’re confident it’s only a matter of time.

Financials and Valuation

Cloudflare’s business is gaining traction. Management recently raised guidance and, for the full year 2020 now expects revenue of \$422.5 million to \$423.5 million, representing growth of 47% to 48% from 2019. Looking farther out, Wall Street projects revenue of \$975 million by 2023, representing annualized growth of 32%. The

business generates a gross margin of 76%, meaning that as it grows, investors can expect impressive bottom-line economics, although it will take some time.

As percentages of revenue, management is targeting longer-term goals of 19% for R&D and 28% for sales and marketing (versus 45% today), leading to an operating margin over 20%. Assuming revenue hits management’s full-year target, shares trade for 48 times sales and 64 times gross profit, so there are clearly some great expectations baked into the price today. However, Cloudflare is pursuing a large and growing market opportunity with many potential avenues for growth.

The Foolish Bottom Line

Cloudflare does many things, providing security, performance, reliability, and more. Management’s focus from day one has been to build a network that customers can plug into and instantly move data securely, reliably, quickly, and efficiently in any application. In fact, that focus on building a total network solution is what led the team to choose the ticker NET when Cloudflare went public. We love this approach and believe that the founders’ vision and execution line up perfectly with the type of business we want to be a part of *Next-Gen Supercycle*. ■

FIVERR

RECOMMENDED: **Discovery: Rising Stars 2020**

TICKER

NYSE: FVRR

MARKET CAP

\$7.2 billion

DIVIDEND

none

SECTOR

Communications

HEADQUARTERS

Tel Aviv

Quick Overview

Online freelance marketplace **Fiverr** [NYSE: FVRR] connects buyers and sellers of digital services for as little as five bucks (hence the name “Fiverr”), but projects can also reach into the thousands of dollars. Founded in 2010 by entrepreneurs Micha Kaufman and Shai Wininger, the company has grown exponentially to become one of the world’s largest gig economy platforms.

Fiverr debuted on the public markets in June 2019, and its stock has had a spectacular run so far, soaring nearly sixfold since *Rising Stars 2020* first recommended it in October 2019. But we believe that Fiverr is still in the early stages of its growth, with significant gains on the horizon for patient investors.

Fiverr’s Latest Developments

Shareholders shouldn’t be surprised that Fiverr has enjoyed a huge boost during the COVID-19 pandemic. Buyers have flocked to the platform, using freelancers’ services to speed up digital transformation at companies of all sizes. Fiverr’s third-quarter performance, released at the end of October, revealed blistering year-over-year revenue growth of 88%.

More crucially for its long-term prospects, Fiverr’s active buyer base has grown to 3.1 million buyers so far this year — an improvement of nearly 30% since the end of 2019. This expansion reinforces Fiverr’s already strong network effects, as increased demand from purchasers attracts new sellers and boosts

Key Takeaways

Fiverr is one of our **Highest Conviction** companies, meaning we believe this stock has the best chance at growing by 6x in 10 years.

Fiverr is headed to profitability much sooner than investors likely expected at this time last year.

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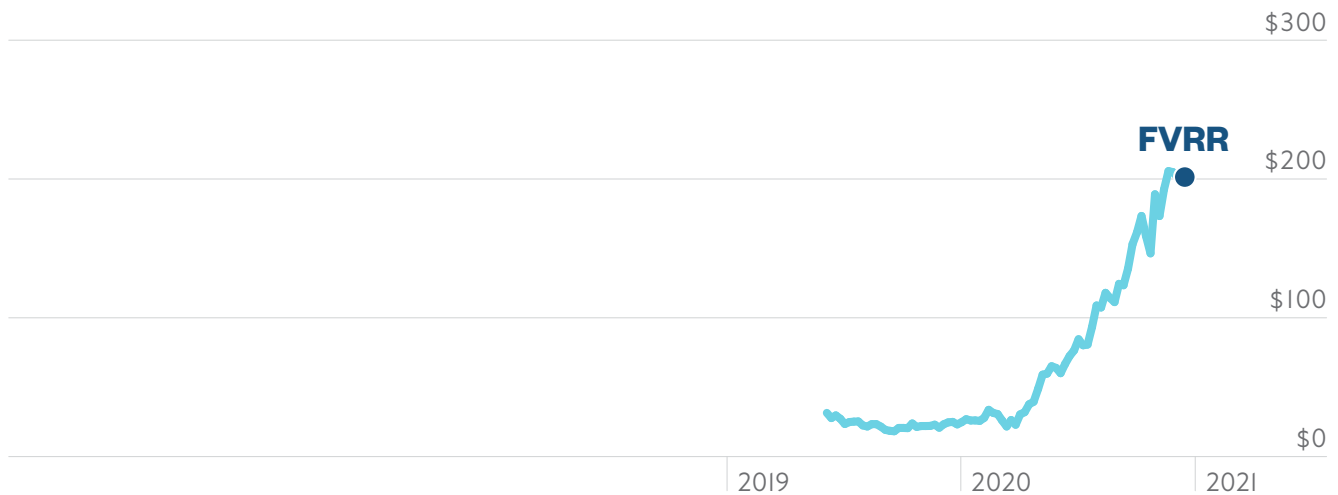
the total amount of business transacted over the platform.

Fiverr’s potential is also evident in an important recent trend: The company’s average spending per buyer has advanced by 15% since the end of 2019, to \$195. The organization is actively targeting larger companies through dedicated portals like Fiverr Business, which offers curated access to freelancers and a more thorough customer service experience. Management very appropriately describes its strategy of lifting average spending per buyer as “continuously going upmarket.”

The Long-Term View Is Promising

Thanks to sales, which have leapfrogged previous benchmarks, Fiverr is headed to profitability much sooner than investors likely expected at this time last year. The platform generated a loss of \$6.7 million on \$134 million in revenue over the first three quarters of 2020. That’s markedly

FIVERR STOCK CHART



better than the \$26.1 million in red ink Fiverr reported during the same period in 2019. A healthy gross margin of 82% will provide operating leverage for the organization to scale into profitability in the near future.

And it doesn't hurt that Fiverr captures roughly 27% of the value of each gig transacted over its platform via fees charged to both buyers and sellers. This "take rate" has improved by more than a percentage point over the last several quarters, and it's roughly double the current 13.6% take rate that rival freelance platform **Upwork** [NASDAQ: UPWK] captures from its own marketplace volume.

Fiverr has many paths to

unleashing its potential. It's enhancing its revenue streams by offering new services like content creation, e-learning, and even seller advertising through Promoted Gigs. The company also plans to lean into global development. While Fiverr counts buyers and sellers from more than 160 countries, it obtains most of its revenue from English-speaking countries. Pushing into new geographies will help it capture a bigger slice of what management estimates as a \$115 billion market opportunity. With projected 2020 revenue of just \$186.5 million, Fiverr has ample space to continue to provide multibagger wins for investors in the coming years. ■

FULGENT GENETICS

RECOMMENDED: **Extreme Opportunities: Fintech Fortunes**

TICKER

Nasdaq: **FLGT**

MARKET CAP

\$1.1 billion

DIVIDEND

none

SECTOR

Healthcare

HEADQUARTERS

**Temple City,
California**

A recommendation for **Fulgent Genetics** [NASDAQ: FLGT] in *Fintech Fortunes* might seem a little unexpected. On the surface, Fulgent is a healthcare company providing genetic testing for single-gene mutations, rare diseases, and whole-genome sequencing. Most recently, Fulgent has used its testing expertise to jump into the COVID-19 testing arena.

But at its core, Fulgent is a technology platform company. Its lab management systems and software were all developed in-house. The company's substantial investments over the last decade have helped Fulgent recognize the need for and then quickly develop new tests.

How Fulgent Genetics Will Be a Leader in Fintech

Like any good fintech company, Fulgent's ability to scale allows it to increase its profits substantially faster than its revenue. Last quarter, for example, revenue rose 880% thanks to the addition of tests for COVID-19, and earnings per share skyrocketed 2,375% from \$0.08 a year ago to \$1.98.

Fulgent's technological capabilities, which allow it to turn around 90% of its COVID-19 tests in 24 hours or less, are largely responsible for the quick adoption of its COVID-19 testing. The company has won contracts to test for COVID-19 from a variety of institutions, including large cities for drive-through testing, Fortune

What It Does

Fulgent Genetics uses its technology platform to make genetic testing flexible and affordable.

100 companies, and even a major NCAA conference.

What Makes Fulgent Genetics a Good Investment?

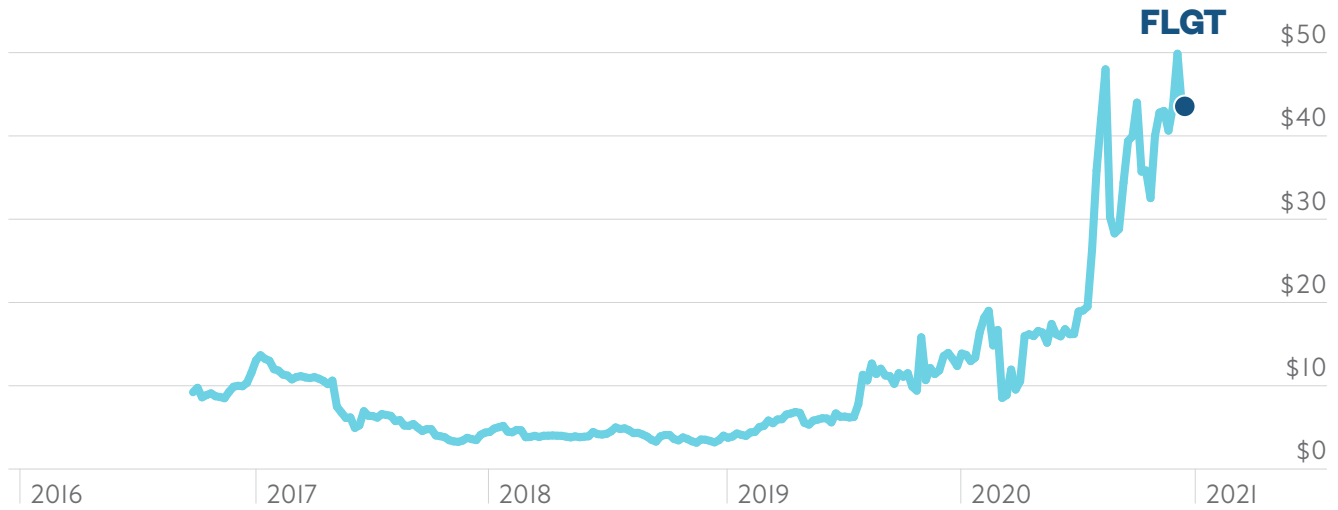
Fulgent has constantly improved its product offerings and now sells tests to examine more than 18,000 single genes and more than 800 rare diseases. It also offers whole-genome sequencing and other types of sequencing.

The company's focus on technology has allowed it to lower the cost to run its tests over the years. In the first quarter of 2017, it cost Fulgent \$420 to run its tests. Three years later, in the first quarter of 2020, that figure had fallen to \$308. Fulgent has passed that savings on to its customers, with the average selling price cut in half from \$1,200 down to \$589 over the same time frame.

COVID-19 testing has clearly provided Fulgent an opportunity for quick revenue growth, with test volume soaring almost 5,000% year over year and revenue rising nearly 900% in the third quarter of 2020.

But COVID-19 testing also appears to be helping accelerate the company's

FULGENT GENETICS STOCK CHART



legacy genetic testing business. Management had expected the business to decline from the second quarter to the third quarter due to patients postponing visits to their doctors. Instead, genetic testing increased 57% after the company won new clients. It seems likely that the increased interactions with insurance companies covering COVID-19 tests — insurance claims spiked almost 9,000% quarter over quarter — helped Fulgent gain new insurance coverage for its genetic tests.

Finally, Fulgent’s management is definitely an asset. CEO Ming Hsieh founded the company after he sold Cogent, a biometric identification business he co-founded, to **3M** [NYSE: MMM]. Hsieh funded much of Fulgent’s early growth and didn’t draw a salary until after it went public in 2016. As a result, Hsieh owns about 34% of Fulgent, giving him plenty of incentive to grow the company — and the share price along with it.

Risks & How Fulgent Genetics Could Be Left Behind

Fulgent is currently highly reliant on a small number of customers. One of the company’s clients contributed 37% of its revenue in the third quarter; two other customers added 29% and 26% of total accounts receivable.

The company is also dependent on **Illumina** [NASDAQ: ILMN] for the genetic sequencing machines that are responsible for running Fulgent’s tests. Any disruption in the supply of the consumable reagents used to run the machines could mean that Fulgent wouldn’t be able to perform its genetic tests. Illumina is also constantly introducing new machines, which generally lower the cost of sequencing but might require Fulgent to adjust its testing procedures.

In the short term, Fulgent is dependent on the COVID-19 pandemic continuing. A full-fledged stop in testing would have a huge impact on its overall sales. However, the company has

contracts with many customers that run through 2021.

A likely scenario is that COVID-19 testing will decline over time, starting with symptomatic patients as the vaccines roll out and protect people. Routine monitoring will likely continue for many months or even years as the number of COVID-19 cases recedes. A slower timeline would allow Fulgent to refocus on its genetic tests. And the new insurance contacts made during the pandemic should continue to help the company increase coverage for its suite of tests.

The Foolish Bottom Line

Fulgent Genetics has used its technological prowess to grow its revenue and take advantage of opportunities like COVID-19 testing. While revenue is likely to recede at some point as COVID-19 testing wanes, we expect Fulgent will continue to use its technology to improve its margins and discover new opportunities for growth in the future. ■

LEMONADE

RECOMMENDED: **Discovery: Rising Stars 2020**

TICKER

NYSE: LMND

MARKET CAP

\$4.9 billion

DIVIDEND

none

SECTOR

Financials

HEADQUARTERS

New York

Quick Overview

Lemonade [NYSE: LMND] is a tech-focused insurance company that uses artificial intelligence and other technologies to make the insurance process simpler, more efficient, and more profitable. Lemonade's core offerings include renters and homeowners insurance for the time being, and the company recently added pet insurance to its product list.

One of Lemonade's biggest differentiators is how it makes — and spends — its money. While most insurers' profits vary dramatically over time in response to things like natural disasters (an especially big problem for homeowners insurers), Lemonade wants to keep things consistent. It takes 25% of its premium income to cover operating expenses and hopefully produce a profit and uses the other 75% to mainly purchase reinsurance policies — which limit losses — and to pay claims. And if anything is left over, it goes to charity. In 2020, Lemonade's "Giveback" was more than \$1.1 million, about 80% higher than in 2019.

Latest Developments

In the second quarter of 2020, Lemonade's customer base increased by 84% from a year earlier, and the average customer is spending 17% more on premiums. As a result of this winning combination, in-force premiums (the premiums on all policies not expired or canceled) more than doubled. Lemonade's gross loss ratio (the percentage of premiums that is used to pay claims) fell to 67%.

Key Takeaways

Lemonade is one of our **Highest Conviction** companies, meaning we believe this stock has the best chance at growing by 6x in 10 years.

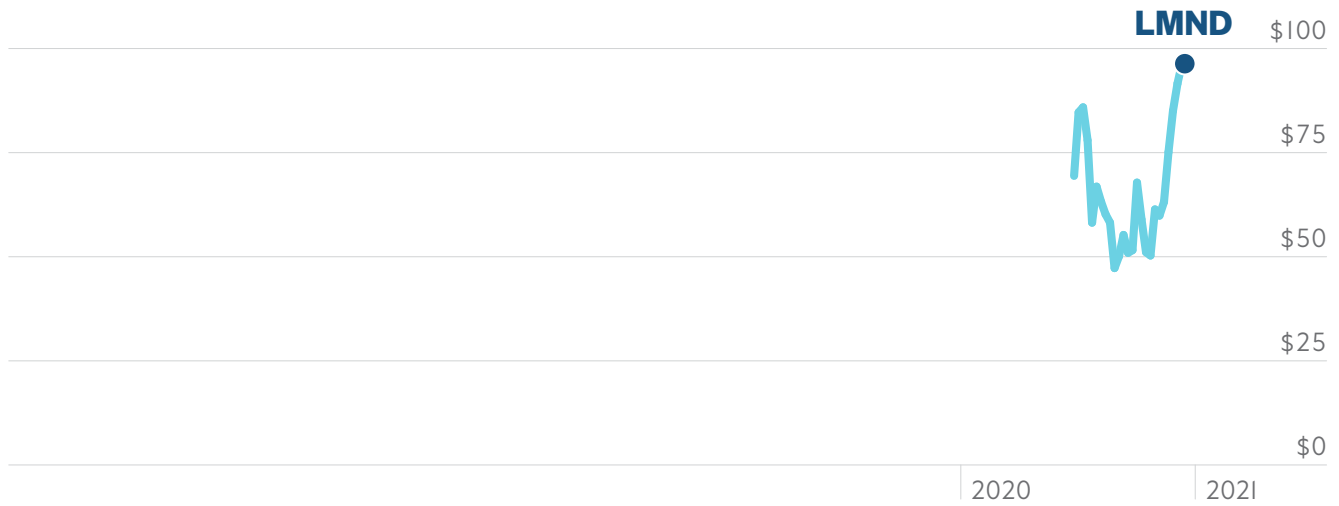
Lemonade's core offerings include renters and homeowners insurance for the time being, and the company recently added pet insurance to its product list.

The COVID-19 pandemic had no material impact on demand, conversion rates, and most other important business metrics.

Perhaps even more noteworthy is what *didn't* happen in the second quarter. The COVID-19 pandemic had no material impact on demand, conversion rates, and most other important business metrics. Fewer than 1% of Lemonade's customers chose to defer their payments during the spring 2020 lockdowns. So not only is Lemonade's business a rapidly growing one, but it is also quite resilient. To be sure, some recession-resistance is to be expected in the insurance business — after all, most people *need* either renters or homeowners insurance — but this level of resilience is impressive.

Lemonade is also expanding fairly aggressively internationally, which we see as an encouraging sign. It expanded to Germany in 2019 and the Netherlands earlier in 2020, and recently announced that it will be doing business in France by the end of the year.

LEMONADE STOCK CHART



Long-Term Advantage

Based on its second-quarter gross earned premium, the company currently has about 0.003% of the \$5 trillion global insurance market. In other words, Lemonade is in the early stages of growth.

However, building an insurance operation is a marathon, not a sprint. And we're thrilled with the approach Lemonade is taking. For one thing, by putting significant effort into selling renters insurance to younger adults, the company is not only creating a customer base that could stick with Lemonade for years,

but also drawing customers who should spend more as time goes on. Homeowners insurance is significantly more expensive than renters insurance, and Lemonade is likely to add other insurance lines that it could cross-sell to satisfied and charitable customers (pet insurance for Fido is just warming up).

While Lemonade isn't a cheap stock based on traditional insurance valuation metrics, the company's early performance shows tremendous execution on its vision, and we think there's a bright future for this innovator, with lots of 6x potential for long-term investors. ■

MERCADOLIBRE

RECOMMENDED: **Extreme Opportunities: Platinum**

TICKER

Nasdaq: MELI

MARKET CAP

\$83.9 billion

DIVIDEND

none

SECTOR

Consumer
cyclical

HEADQUARTERS

Buenos Aires

MercadoLibre [NASDAQ: MELI] is often referred to as the **Amazon** [NASDAQ: AMZN] of Latin America due to its market-leading e-commerce platform. But there's more to the company than that.

In fact, in addition to its fast-growing marketplace, MercadoLibre is also emerging as a fintech leader thanks to its Mercado Pago payments platform. This isn't just like buying Amazon, though; MercadoLibre is like the Amazon, the **PayPal** [NASDAQ: PYPL], and maybe even the **eBay** [NASDAQ: EBAY] of Latin America all rolled into one. The company currently serves Brazil, Argentina, Mexico, Chile, and several other countries in the region.

While the growth in the marketplace side of the business has been impressive, the payments side has been the biggest growth driver recently. And although growth has been spectacular on both sides of the business for years, we think there's still a long growth runway ahead.

What We Said Previously

MercadoLibre is a recommendation of our *Extreme Opportunities: Fintech Fortunes* portfolio. Simply put, the company is the clear leader in cashless payments in areas of the world where most payments still take place in cash — so there's a tremendous opportunity to grow, and MercadoLibre has a big head start.

Since our initial write-up focused on the fintech side of the business, we were especially drawn to the Mercado Pago payments platform. In a nutshell, Mercado Pago has grown dramatically over the past few years. Payment volume on the

What It Does

MercadoLibre is an e-commerce company that operates an online marketplace in Latin America and a cashless payments platform called Mercado Pago.

platform reached \$14.5 billion in the third quarter of 2020, 15 times the payment volume it was generating six years ago.

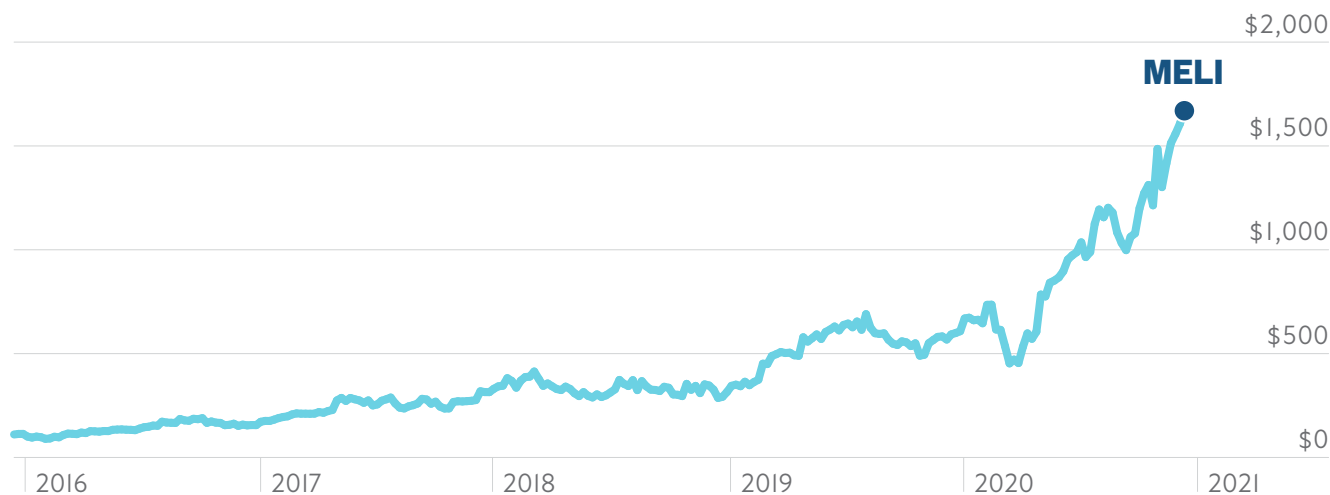
Not only is Mercado Pago's overall growth impressive, but the bulk of the growth is coming from outside of MercadoLibre's e-commerce platform. We see lots of similarities to PayPal when it was still a part of eBay — the online auction site comprised the bulk of PayPal's revenue at one point and now is just a tiny fraction of the nearly \$1 trillion in annualized payment volume flowing through PayPal.

A year ago, Mercado Pago derived more payment volume from off-platform sources than from MercadoLibre's marketplace for the first time ever. In just the past year, off-platform gross merchandise volume has grown to where it's 40% larger than on-platform volume. And we think this could be just the starting point.

Why Is This a Platinum Opportunity?

To put it mildly, MercadoLibre has grown at a very impressive pace on both sides of the business, and we think it could have a tremendous amount of runway ahead of it. On the marketplace side of its business,

MERCADOLIBRE 5-YEAR STOCK CHART



GMV rose 117% year over year in the third quarter as consumers shopped from home more than ever. Over 205 million items were sold on the platform during those three months, more than twice the volume of the third quarter of 2019.

As if that weren't impressive enough, it pales in comparison to the growth in Mercado Pago. Total payment volume on the platform was \$14.5 billion, a staggering 161% year-over-year growth, with 60 million unique payers making transactions. While much of the growth was from the higher volume on MercadoLibre's marketplace, the biggest driving force came from off-platform payments growth, the most important element of long-term growth. Payment volume from sources other than the company's own marketplace nearly tripled from a year ago.

Together, MercadoLibre's revenue rose by 148% in the most recent quarter, but we think this could be just a starting point. For comparison, the \$5.9 billion in GMV on the company's marketplace is actually less than Amazon did during its latest Prime Day event, and

payment volume through Mercado Pago is about 6% of PayPal's.

In a nutshell, not only is an investment in MercadoLibre like investing in Amazon and PayPal in a single company, but it's like investing in both at a much earlier stage. This is a business whose management team is doing a fantastic job of executing on its growth strategies and has a big addressable market opportunity to pursue.

What Could Go Wrong?

When investing in a foreign company like MercadoLibre, it's important for investors to be aware of the associated risks. In addition to obvious ones like currency fluctuations, MercadoLibre has exposure to political and economic issues in its core markets.

Also, there's quite a bit of credit risk in MercadoLibre's relatively new lending business, which had \$284 million of loans on its balance sheet as of the end of the third quarter. To be clear, we think lending is more of an opportunity than a risk for MercadoLibre, but in a deep recession or other adverse

environments, it creates the potential for losses.

Finally, MercadoLibre is by no means a cheap stock. The company isn't profitable (not consistently, anyway) and trades for about 22 times trailing-12-month revenue, a lofty multiple. To be sure, we feel the valuation is more than justified by the opportunity, but it's fair to say that a significant amount of future growth is priced into the stock at this point. If growth were to unexpectedly slow down, it could be a major negative catalyst for the stock.

The Foolish Bottom Line

While the stock isn't without risks, MercadoLibre is the dominant player in both e-commerce and cashless payments in markets where both are still very young and fast-growing services. There is still tremendous opportunity for MercadoLibre to grow, and the pandemic has accelerated adoption of its platform and payments technology. We're excited to watch the next chapters of this incredible growth story play out. ■

OKTA

RECOMMENDED: **Stock Advisor's Team David Best Buys Now**

TICKER

Nasdaq: **OKTA**

MARKET CAP

\$35.3 billion

DIVIDEND

none

SECTOR

Technology

HEADQUARTERS

San Francisco

A side effect of the ongoing COVID-19 pandemic is that more employees are working remotely than ever before, leaving behind the safety net of the in-house IT team. At the same time, businesses are adopting the cloud at an accelerated pace. With so many workers now logging into these cloud systems from home, it becomes more crucial than ever to ensure the identities of internet users accessing business networks to help keep them secure.

That's where **Okta** [NASDAQ: OKTA] comes in. The cloud-native company is a clear leader in the fast-growing field of identity and access management and offers a host of identity-verification services, from multifactor authentication to single sign-on across multiple applications.

First recommended on David's side of the *Stock Advisor* scorecard in January 2018, Okta has returned more than 700% for investors. Yet this company is just getting started. It has 9,400 customers in a large and growing market (all companies with employees who connect to digital corporate resources whether on-premise or remote).

The Business Basics

For employees accessing a large and growing number of business software applications, remembering all the login and password information can be a chore. With the requirement to change passwords frequently, it gets even worse. This can lead to users taking shortcuts, which

can in turn lead to compromised credentials and unauthorized access by hackers.

The Okta Identity Cloud solves this problem by securely connecting the right people to the right technologies at the right time. The system provides employees, customers, and contractors with access to all the systems they need with a single sign-in. It also provides app-based multifactor authentication and a number of other systems to ensure users are who they say they are.

Okta is on track to earn \$1 billion in revenue next year. It estimates that the workforce identity total addressable market is \$30 billion, and the customer identity market is \$25 billion. While the number of U.S. businesses with more than 250 employees has certainly changed since the U.S. Bureau of Labor Statistics calculated it to be 50,000 companies in 2019, it is obvious that there is significant opportunity left for Okta to add domestic and international customers.

There is competition in the access management space, including large, well-known companies like **Microsoft** [NASDAQ: MSFT] and smaller, less well-known ones like **Ping Identity** [NYSE: PING] and ForgeRock. Okta was recently named to **Gartner's** [NYSE: IT] Magic Quadrant of Identity Management leadership ranks for the fourth year in a row.

Okta added more than 400 customers in the third quarter. The size of its contracted revenue also increased in the quarter. Through new deals and upsells, Okta added six \$5 million-plus contracts

OKTA STOCK CHART



and 21 that ranged in value from \$1 to \$5 million. In support of international growth, it opened a new office in Japan.

Okta has been recommended twice in *Stock Advisor* and has been a Best Buy Now 11 times. We like this company for its long-term growth opportunity. If you aren't already overweight Okta, we think it might be a great time to start or add to a position. 📊

PINTEREST

RECOMMENDED: **Rule Breakers Best Buys Now**

TICKER
NYSE: PINS

MARKET CAP
\$44.0 billion

DIVIDEND
none

SECTOR
Communications

HEADQUARTERS
San Francisco

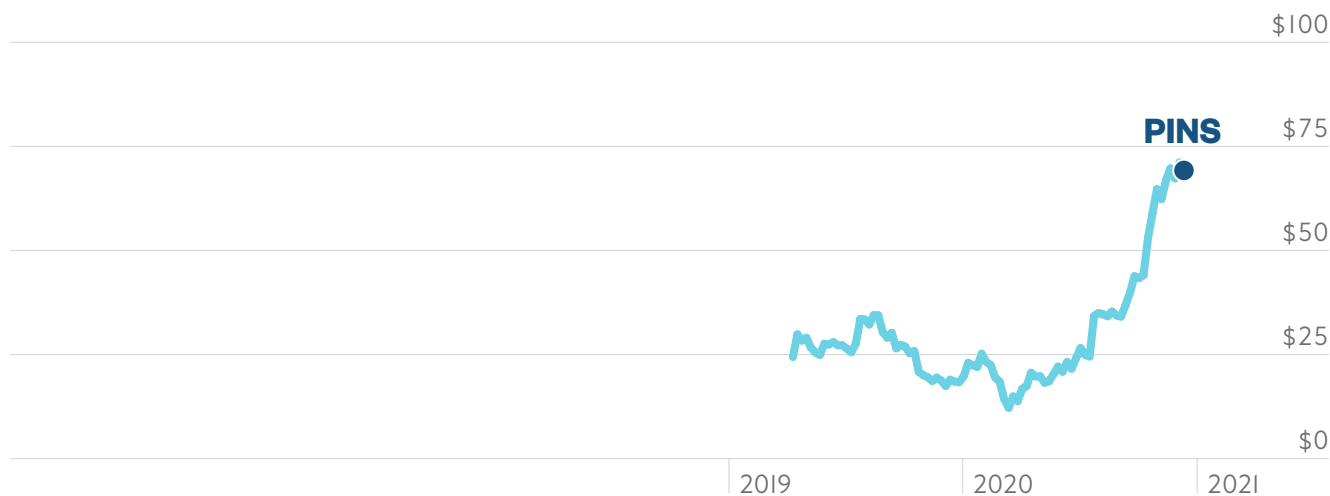
Facebook [NASDAQ: FB] may be relevant despite — or because — of the controversy it stirs. But **Pinterest** [NYSE: PINS] is the feel-good social platform that millions of users have turned to during the coronavirus crisis. Call it the perfect antidote to a troubling news cycle. It's a place to plan your next trip, or just figure out how to reimagine Thanksgiving during a pandemic.

Monthly average users increased 37% to 422 million in the third quarter, driving revenue up 58% to \$443 million. One key question for investors now is whether this

is the new normal or something that will recede along with COVID-19.

Management has admitted some uncertainty on this point — and observed that engagement increases with lockdown conditions. But with that said, newer users have tended to be more engaged with the platform overall, which is one reason that average revenue per user was up 15% in the third quarter. As Pinners get habituated to using Pinterest, we think they'll stick around. And with ARPU at just \$1.03, there's plenty of room to further monetize this fast-growing user base. ■

PINTEREST STOCK CHART



SHOPIFY

RECOMMENDED: **Discovery: The Ownership Portfolio**

TICKER
NYSE: SHOP

MARKET CAP
\$145.5 billion

DIVIDEND
none

SECTOR
Technology

HEADQUARTERS
**Ottawa,
Canada**

At the intersection of entrepreneurship and e-commerce lies **Shopify** [NYSE: SHOP].

More than 1 million merchants rely on its platform to power their online businesses. And as the world shifts increasingly online, Shopify's e-commerce services have never been more important.

Shopify helps to level the playing field for small businesses. For just \$9 per month, you could begin selling products on your website and accept credit card payments. For \$29, you could build a fully functioning online store. Shopify also offers shipping, payment processing, and business loan services, among others. An army of third-party application providers helps to further strengthen Shopify's value proposition to merchants.

But it's not just the price or breadth of Shopify's offerings that sets it apart from the competition, it's also the quality. Shopify gives its merchants access to e-commerce technology that's on par with that used by far larger businesses. In fact, massive corporations such as **PepsiCo** [NASDAQ: PEP], **Kraft Heinz** [NASDAQ: KHC], and **Nestle** [OTC: NSRGY] use Shopify's platform to support portions of their online retail operations.

With both individual entrepreneurs and billion-dollar companies flocking to its platform, Shopify's sales are booming. The company's revenue soared from \$205 million in 2015 to \$1.6 billion in 2019. The coronavirus pandemic has only served to accelerate its growth. Sales surged 97% to \$714 million in the second quarter.

Better still, Shopify is becoming more profitable as it expands. Adjusted

Key Takeaways

Shopify is a vital online retail partner for companies large and small.

Despite years of torrid growth, Shopify still has plenty of room for expansion in a global e-commerce market set to top \$6.5 trillion by 2023.

Founder and CEO Tobi Lütke is an outstanding business leader who has consistently delivered market-crushing returns for shareowners.

Shopify's focus on customer satisfaction, a culture of innovation, and high employee morale should all help drive its success.

operating income jumped to \$113.7 million, or 16% of revenue, in the second quarter, up from \$6.4 million, or 2% of revenue, a year ago.

Despite this impressive growth, Shopify remains early in its expansion cycle. Global retail e-commerce sales are forecast to exceed \$6.5 trillion by 2023, up from \$3.5 trillion in 2019, according to Statista.

For its part, Shopify pegs its market opportunity to serve small businesses at a hefty \$78 billion. Its total addressable market expands even further when we include its opportunity to serve larger companies. Shopify has just barely scratched the surface of these massive markets, and its potential for exponential growth remains strong.

SHOPIFY 5-YEAR STOCK CHART



The CEO

Tobi Lütke is exactly the type of leader we like to partner with. As founder and CEO, he manages Shopify with a long-term mindset that aligns his interests well with those of shareowners.

Lütke is a firm believer in the power of entrepreneurship, and he wants to help more people change their lives for the better by building their own businesses. So while Lütke has said that he'd consider handing off the CEO position to another executive in order to focus more on code and product, we expect him to remain intimately involved in key areas of the company for many years to come.

Lütke brings an engineer's analytical mind and a programmer's skill set to the job. He's displayed an impressive ability to foster a strong culture of innovation at Shopify. His people seem to love him: Lütke has a 90% approval rating among Shopify's employees, according to Glassdoor.

Customers

Shopify is widely regarded as a top choice among e-commerce platforms. It gets high ratings for features, ease of use, customer support, and a host of other criteria.

The web is filled with Shopify success stories. Many were started by solo entrepreneurs that then grew into large and highly profitable businesses, thanks in part to Shopify's tools.

Under Lütke's leadership, Shopify is always on the hunt for new ways to create more value for its customers. An ever-growing array of new features and services helps to further ingrain Shopify into its customers' businesses, increasing their switching costs and making it less likely they'll leave the platform for that of a competitor. And the few that do leave tend to return to Shopify, as it has become the platform of choice for small-business e-commerce.

Employees

Shopify understands that if it's to continue to take care of its customers, it must also take care of its employees. The company has embraced the work-from-home trend amid the COVID-19 pandemic, going so far as to give \$1,000 to each of its employees to help them equip their home offices. In addition to helping to keep its people safe during the pandemic, its move toward a distributed workforce should help Shopify source talent from a wider geographic area than its home base of Ottawa.

Shopify encourages idea generation throughout its ranks. Hack days — in which employees break into small teams to plan, create, and launch new projects — help to drive excitement and spur innovation. Many people seem to truly love working at Shopify and believe in the company's mission to "make e-commerce better for everyone." Glassdoor reports that 76% of employees would recommend the

company to a friend — a figure we think could head higher over time as more people come to appreciate Shopify’s work-from-home and employee-development initiatives. And 80% of employees are optimistic about the future of the company.

Shareowners

Shopify’s shareowners have been well rewarded. The stock has delivered staggering returns since its initial public offering in 2015.

Shopify is a top holding of many growth-focused hedge and mutual funds. It’s also rated 4 out of 5 stars on Motley Fool CAPS. Both professional and individual investors are bullish on Shopify, and the stock is a popular holding among Fools.

Like us, many investors appreciate the company’s clear communications with stakeholders. Lütke’s

candor on earnings conference calls is refreshing, and Shopify has time and again delivered on its promises.

Ownership Structure

Lütke is Shopify’s largest shareowner, with a roughly 7% stake worth approximately \$8.2 billion. Lütke’s Class B stock also gives him control of about a third of the company’s voting power. Yet Lütke asks his board of directors every year if they want to replace him as CEO. That humility helps to further endear him to his fellow shareowners.

Investing alongside Lütke has long been a winning move. That’s something we expect to continue in the years and decades ahead. And with so much growth yet to come, Fools who buy shares today should enjoy handsome returns. ■

ZOOM VIDEO COMMUNICATIONS

RECOMMENDED: **Stock Advisor Team Tom's Best Buys Now**

TICKER
Nasdaq: ZM

MARKET CAP
\$115.4 billion

DIVIDEND
none

SECTOR
Communications

HEADQUARTERS
**San Jose,
California**

Just when most of us thought the numbers couldn't get better, they did.

Zoom Video Communications [NASDAQ: ZM] reported a third quarter that blew away even the most optimistic expectations for a quarterly performance. To recap, here's what S&P Global Market Intelligence analysts were anticipating:

- \$693.6 million in revenue, **up 316%**
- \$0.92 a share of adjusted earnings, **a greater than 10x increase**

What we got instead:

- \$777.2 million in revenue, **up 367%**
- \$0.99 a share of adjusted earnings, **an 11x increase**

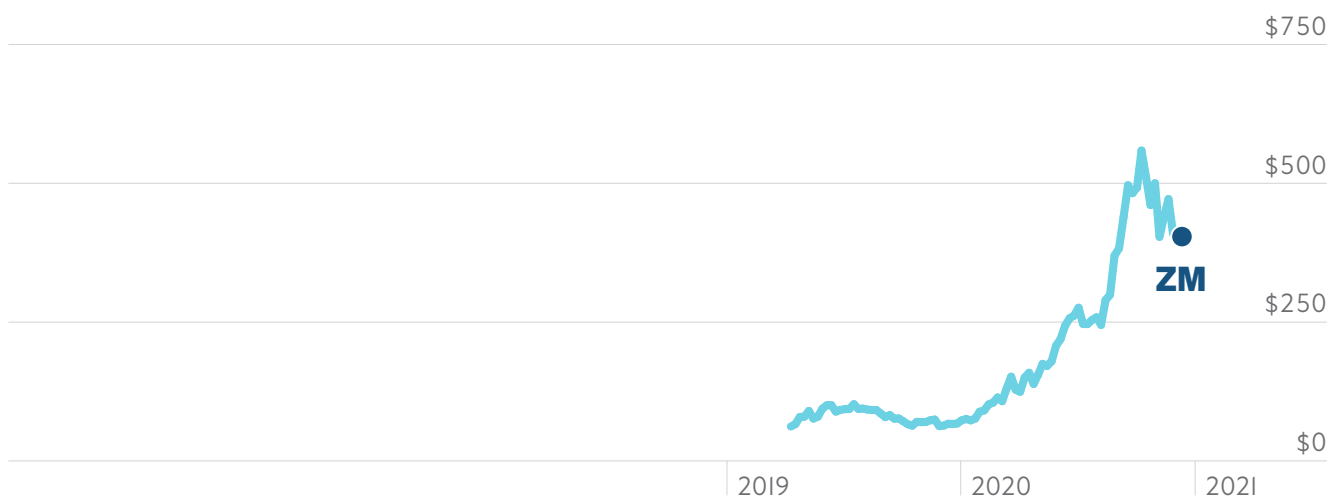
Impressive as those numbers are, they pale compared to the one that matters most: 433,700, the total number of Zoom customers that have 10 or more employees. For the second quarter in a

row, Zoom's customer growth (485%) far outpaced its revenue growth (367%).

This means Zoom is planting seeds for not just years but potentially decades of sustained growth from customers who are only now starting to experiment with the platform. As they increase their usage, they'll contribute billions in new, high-margin revenue and cash flow. And that's saying something: Thanks to strong earnings, Zoom has produced more than \$1 billion in free cash flow over the past 12 months.

There will come a time when Zoom is no longer the growth story it is today. For now, though, the tailwinds remain brisk and exhilarating — and we don't see that changing soon. So long as the company continues to grow its customer base faster than revenue, Zoom's shares will remain worth holding. Or, if you don't yet own any, they're a Best Buy Now. ■

ZOOM VIDEO COMMUNICATIONS STOCK CHART



DISCLOSURES

John Mackey, CEO of Whole Foods Market, an Amazon subsidiary, is a member of The Motley Fool's board of directors. Teresa Kersten, an employee of LinkedIn, a Microsoft subsidiary, is a member of The Motley Fool's board of directors. Randi Zuckerberg, a former director of market development and spokeswoman for Facebook and sister to its CEO, Mark Zuckerberg, is a member of The Motley Fool's board of directors.

Rich Greifner owns shares of Appian and Pinterest.

Tom Gardner owns shares of Appian, Facebook, Fiverr, Okta, Shopify, and Zoom Video Communications.

The Motley Fool owns shares of Amazon, Appian, Cloudflare, Facebook, Fiverr, Fulgent Genetics, Illumina, Lemonade, MercadoLibre, Microsoft, Okta, PayPal, Ping Identity, Pinterest, Shopify, and Zoom Video Communications.

The Motley Fool has a disclosure policy.

Company data as of December 13, 2020.