



Investment views

The future of work: going digital

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The past year has proved to be a seismic one for disrupting the way we work and accelerating transformational change in the businesses we invest in. One trend at the heart of this change is digital transformation. From cloud computing to signing contracts online and remote working to business communication platforms, we explore how three companies in our portfolios have taken advantage of the shift to digital in 2020 and how they are positioned to prosper from the future of work.



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Digital transformation did not begin in 2020. Yet the COVID-19 pandemic has accelerated the shift to digital, according to some 70% of company executives surveyed in 2020.¹ This acceleration has come hand-in-hand with the need for many companies to operate remotely during consecutive waves of regional and nationwide lockdowns. Few industries have been left untouched by the acceleration in digital transformation – examples include:

- **banks** moving client meetings online and infrastructure to the cloud (see ‘Cloud thinking’);
- **healthcare** services launching online medical consultation and prescription apps; and
- **property** businesses embedding e-signatures and digital contracts for virtual exchange and completion of properties.

A key area of adapting to the 2020 health crisis has been the rapid development of working-from-home solutions for employees. Coupled with the rise in cloud services, this has led to a spike in businesses investing in digital software, office collaboration tools and home-office hardware. This has benefited companies servicing this area like **Microsoft**, **Adobe** and **Logitech**. Satya Nadella, CEO of **Microsoft**, says:

“We have witnessed two years of digital transformation in two months due to COVID-19.”²

Cloud thinking

From **Microsoft’s** Azure to **Amazon Web Services** and **Adobe’s** Creative and Document Cloud services, the cloud has become a critical piece of infrastructure for businesses during the 2020 pandemic. Highly scalable, resilient, secure and more cost-effective than onsite infrastructure, businesses are increasingly confident about moving their mission-critical business processes to the cloud. In our view, one consequence of the pandemic for businesses is an acceleration of their mid- to long-term migration plans and demand for cloud services will continue to grow.



Case studies



¹ DMEXCO survey for the DACH region (Germany, Austria, Switzerland), 3 April 2020

² Microsoft 365 Blog, ‘2 years of digital transformation in 2 months’, 30 April 2020

Looking ahead to 2021 and beyond, will digital transformation provide long-term growth opportunities for these companies, or will it lead to a one-off bumper year in financial results? Our research and industry surveys suggest that the future of work will not revert to its 2019 'normality'. Data taken at Europe's largest trade fair for digital industries – held entirely virtually in 2020 with 20,000 participants – illustrates this point (Figure 1).

Such data is corroborated by the world's largest commercial real estate services and investment firm, the CBRE, which suggests that over 70% of organizations anticipate more employee choice over when and where they work.³

With this in mind, we believe that a hybrid model of remote and onsite work environments will become the norm for a number of key sectors, although this will depend on the type of activity (Figure 2).⁴

This new normal will be made possible by the investments in digital transformation companies have committed to during the 2020 pandemic. As noted by an investor relations officer at Adobe:

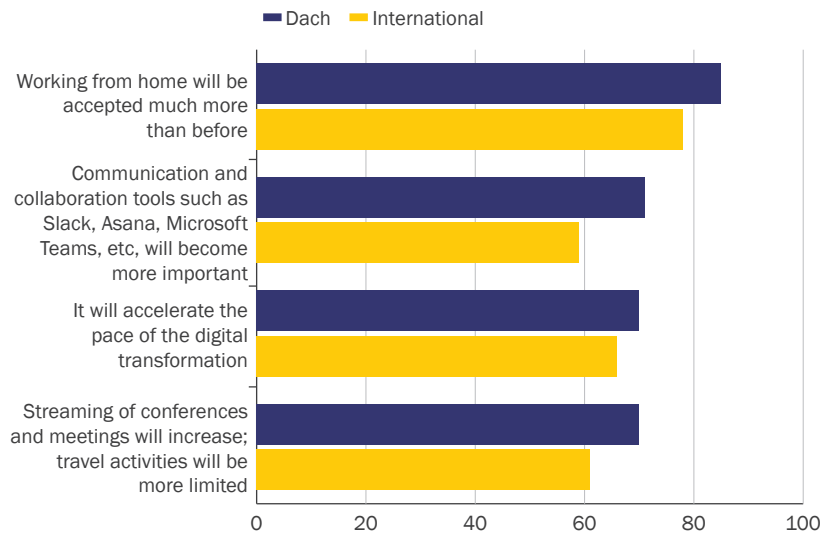
“Once companies go digital they don't go back... 2020 was not so much a change in direction so much as a leap forward by a couple of years for existing digital trends.”

For Adobe this means creative and document cloud services as well as customer experience management tools are likely to enjoy long-term growth visibility. In hybrid work environments, customers and businesses need to exchange, sign and share documents digitally while governments and legal entities are migrating to electronic signatures software, banishing printers, ink and scanners. With this shift to paperless transactions, Adobe's document cloud tools and services will remain in prime position to capture as well retain business customers through its subscription business model – a concept we explore in more detail in this *Instant Insights*.

With the future of work looking increasingly hybrid for many in professional services, companies have also invested heavily in communication platforms, with Microsoft benefiting from a surge in demand for its Office 365 software and collaboration platform, Microsoft Teams. To illustrate how 2020 accelerated this transition, the UK's National Health Service, which employs more than 1.2 million people, moved its staff on to Microsoft Teams in a matter of weeks at the start of the pandemic. Going forward, Microsoft notes:

Figure 1: How we work is unlikely to go back to 'normal'

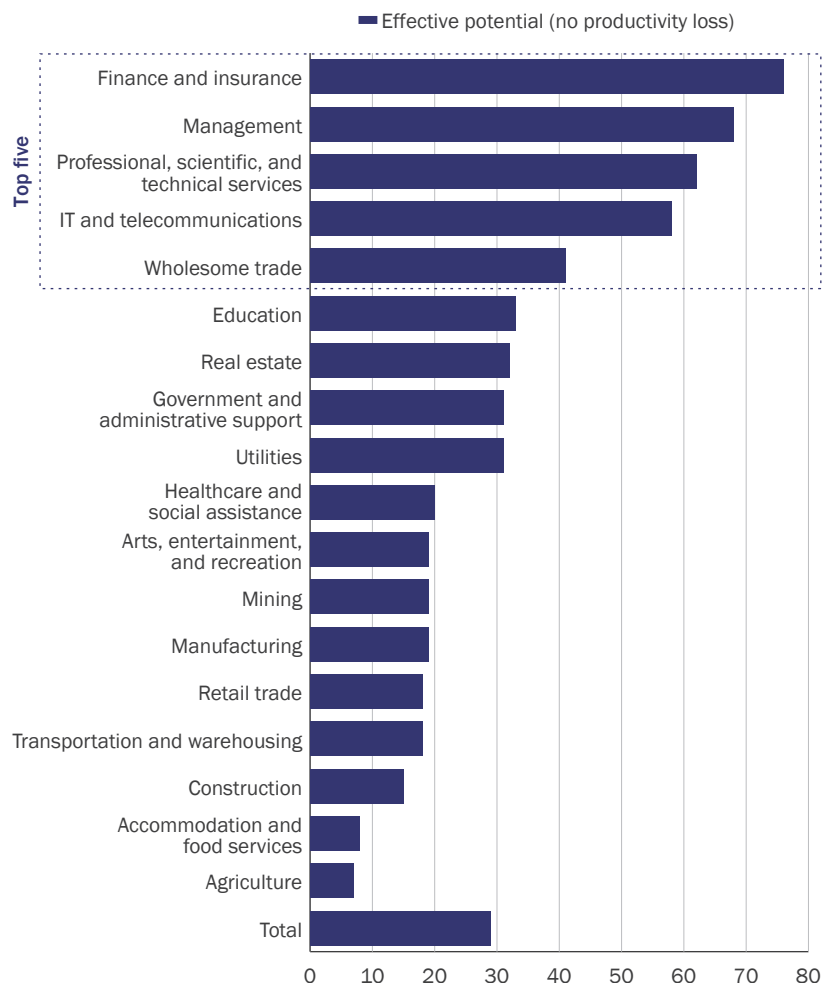
Respondents were asked questions about the future of business and the digital industry after the pandemic (%)



Source: DMEXCO Survey, 3 April 2020

Figure 2: Hybrid work environments could be the future for some sectors

Potential share of time spent working remotely by sector in the US (%)



Source: McKinsey Global Institute, 'What's next for remote work', November 2020

³ CBRE, 'The Future of the Office', September 2020

⁴ McKinsey Global Institute, 'What's next for remote work', November 2020

“Although there may be fewer spikes in demand for these platforms in a post-COVID world, customers and workers will need to remain connected in a hybrid world of on-site and remote working.”

Meanwhile, most employees working from home require Windows software for their laptops. This will drive a trend towards two Windows devices per worker, fuelling demand.

Far from becoming redundant when we go back to the office, the demand for digital integration will drive sales in virtual collaboration platforms and Windows software going forward.

Where does that leave the world of physical hardware? While the age of office desktops is waning, hardware provider **Logitech** has cornered a market in the sale of computer peripherals such as mice, keyboards as well as PC webcams. Similar to sales of Windows software, sales in these products have boomed with the shift to remote working. Replicating onsite office equipment at home for the 2020 pandemic was a clear factor in tripling **Logitech**'s PC webcam sales during this period.

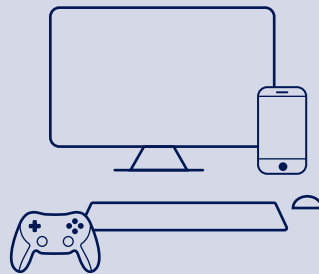
Yet while this surge in demand may have peaked, a hybrid workspace, requiring strong digital platforms for the interconnection of onsite and at-home employees, will rely heavily on the sophisticated hardware that companies like **Logitech** provide (see 'From Lausanne to California'). We expect company and personal spend to remain high in this area in a post-COVID world.

Across the companies we have looked at, it is clear that 2020 has seen a paradigm shift in businesses going digital. The winners of this trend, however, do not depend on lockdowns to thrive. Instead companies like **Adobe**, **Microsoft** and **Logitech** have been selling into the need for digital transformation over a number of years. From our interviews with these companies it's clear they will continue to prosper long after we return to the office.

From Lausanne to California

A Swiss–American company founded in Canton Vaud in 1981, we believe **Logitech** is well placed to grow beyond the current COVID-19 crisis and will benefit from:

- a permanent increase in company spend on the hardware needed to enable video collaboration and communication;
- a growth in online gaming and eSports requiring state-of-the-art input and interface devices; and
- as more people work from home, at-home PC setups become outfitted for greater connectivity and productivity standards.



Find out more

If you are interested to learn more about our research and investment process, or wish to find out more about the impact digital transformation is having on the companies we invest in, a client adviser will be ready to answer your questions.

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If you have enjoyed reading this article and wish to find out more, please do not hesitate to contact your client adviser.

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