



GRANAHAN
INVESTMENT
MANAGEMENT

Desert Island Investments *Among US Small & Mid Caps*



Drew Beja, CFA
Portfolio Manager

Signatory of:



SMALL CAP EQUITY SPECIALISTS



News Flash!

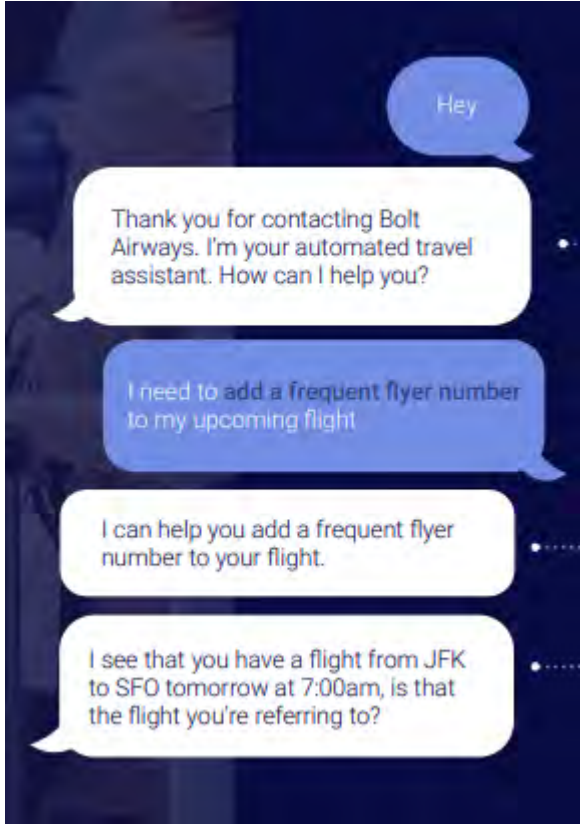


The world was changing rapidly...









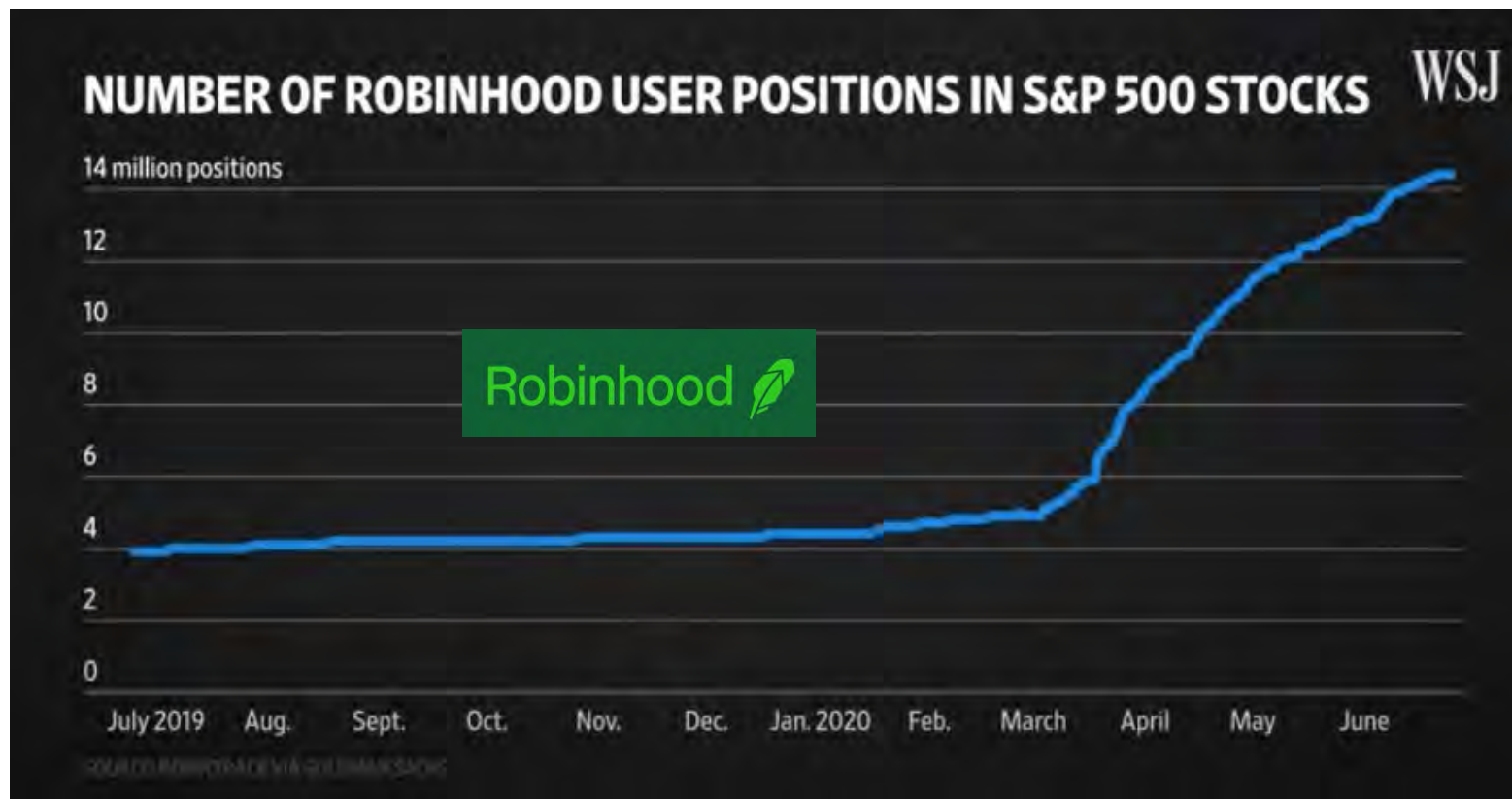
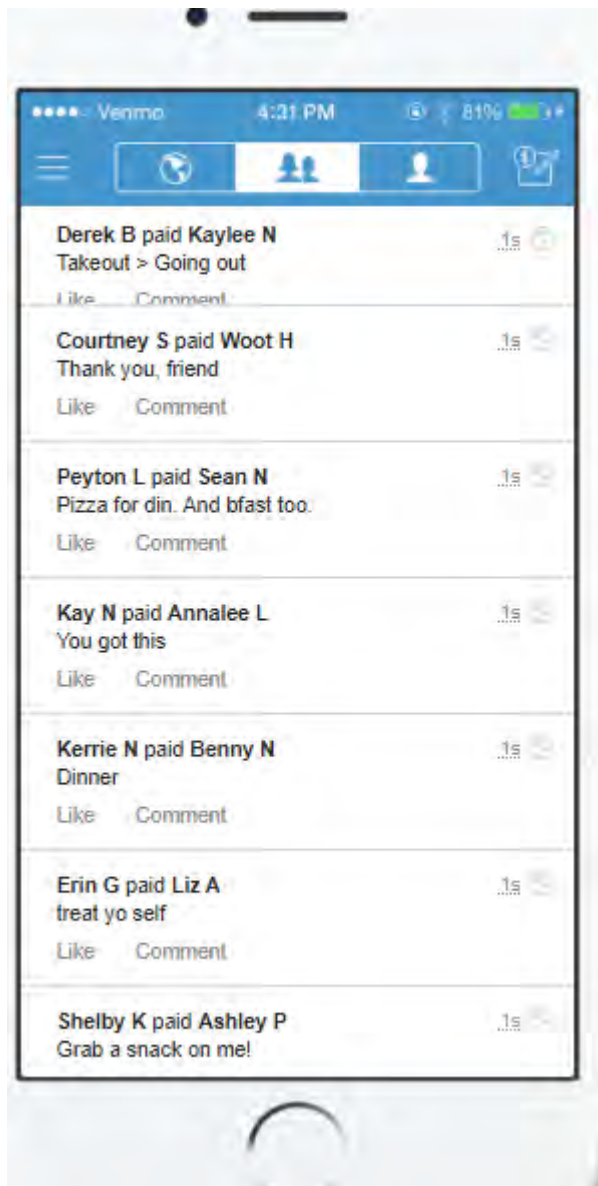




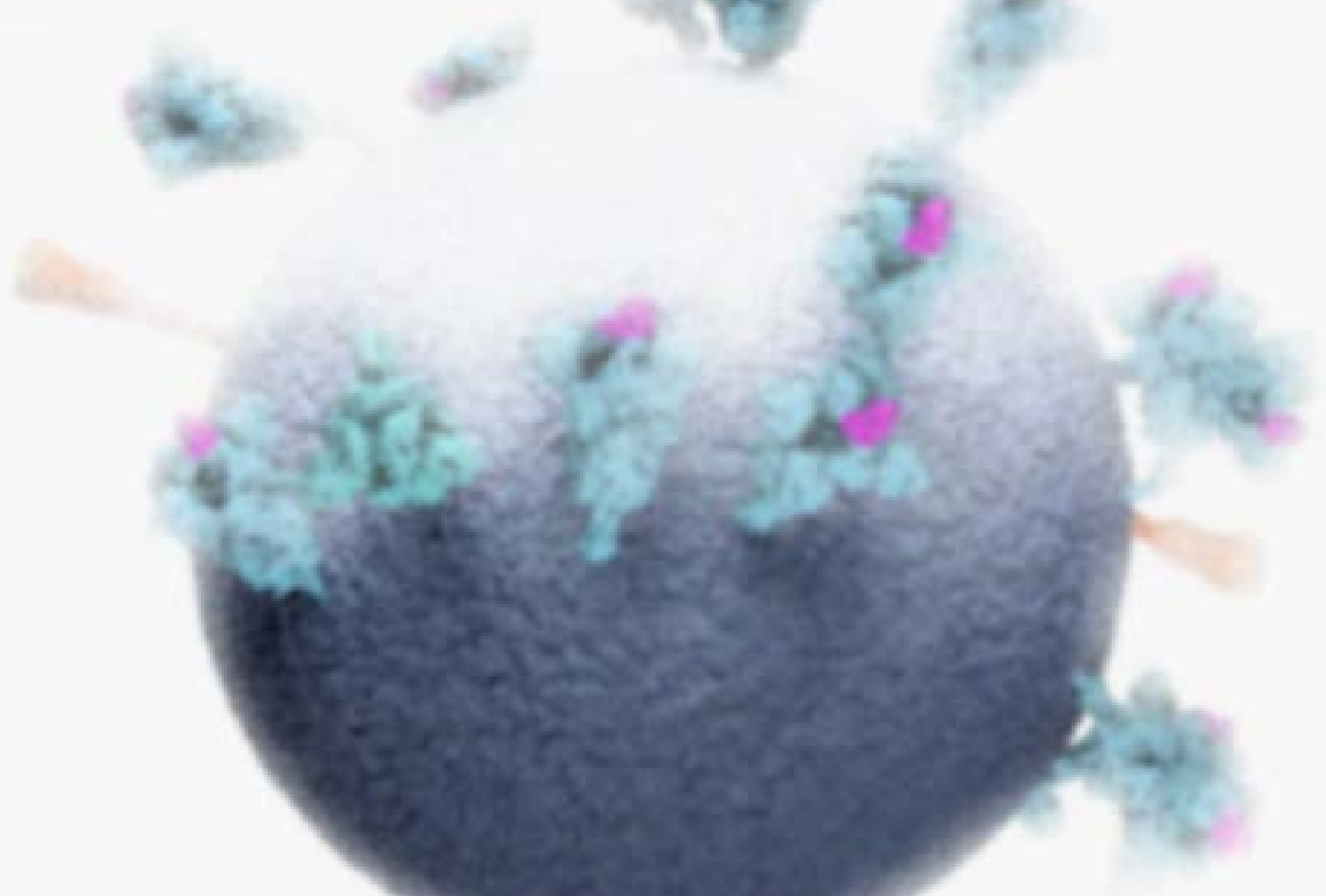
we work



venmo











The New York Times

Sept. 4, 2020

**Fed's Powell Says Economy Likely Will Need More Government Spending,
Low Interest Rates**

Sept. 8, 2020

**The Electoral College Will
Destroy America**

Sept. 9, 2020,

*Newsom Vows to 'Face Climate Change
Head On'*

Sept. 4, 2020

**Trump Faces Uproar Over Reported Remarks
Disparaging Fallen Soldiers**

Sept. 2, 2020

**U.S. Debt Is Set to Exceed Size of the Economy Next Year, a First Since
World War II**

Aug. 27, 2020

*Unemployment Claims Are 'Stubbornly
High' as Layoffs Persist*

Sept. 7, 2020

Will Courts Pick the Next President?

Sept. 9, 2020,

*Portland Police Arrest 11 After
Overnight Protests*

Sept. 7, 2020

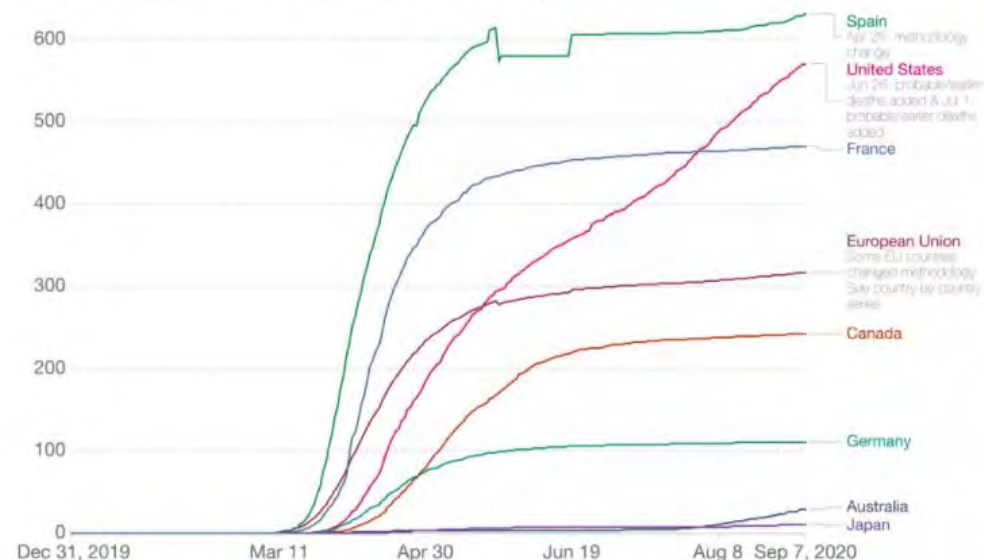
How to Navigate the Fog of Sustainable Investing



Cumulative confirmed COVID-19 deaths per million people

Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.

Our World
in Data



CC BY

U.S. unemployment rate

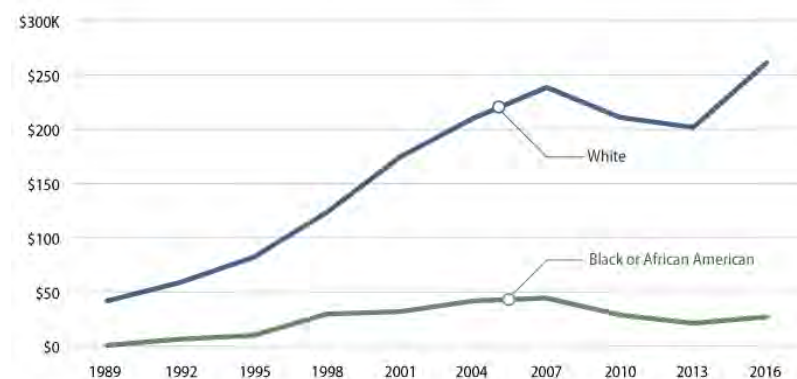


CHART: LANCE LAMBERT • SOURCE: U.S. DEPARTMENT OF LABOR

FORTUNE

Black or African American households have increasingly faced systematic obstacles to building wealth

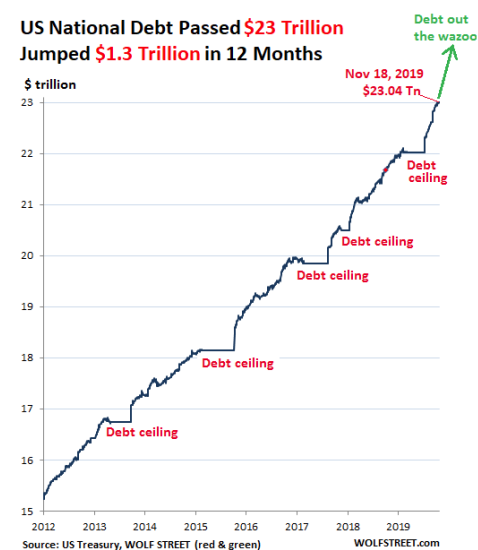
Median wealth for households as they aged, by race and year



Note: All dollar figures are in 2016 dollars. Nominal dollars are deflated by Consumer Price Index for Urban Consumers Research Series. Sample includes a cohort of nonretired households as they aged from between 23 to 38 years in 1989 to between 50 and 65 years in 2016. Source: Authors' calculations based on data in survey years from 1989 to 2016 from Board of Governors of the Federal Reserve System, "Survey of Consumer Finances (SCF)," available at <https://www.federalreserve.gov/econres/scfindex.htm> (last accessed October 2017).

CAP

US National Debt Passed \$23 Trillion Jumped \$1.3 Trillion in 12 Months



WOLFSTREET.com







Desert Island Worthy Companies





Desert Island Companies

Key Attributes:

- Large Open-Ended Opportunities
- Great Customer Value Propositions
- Strong Management & Corporate Culture
- Strong Financials





Yesterday's "Desert Island" Companies



EQUINIX



COGNEX





We Want Companies on the Positive Side of Disruptive Change

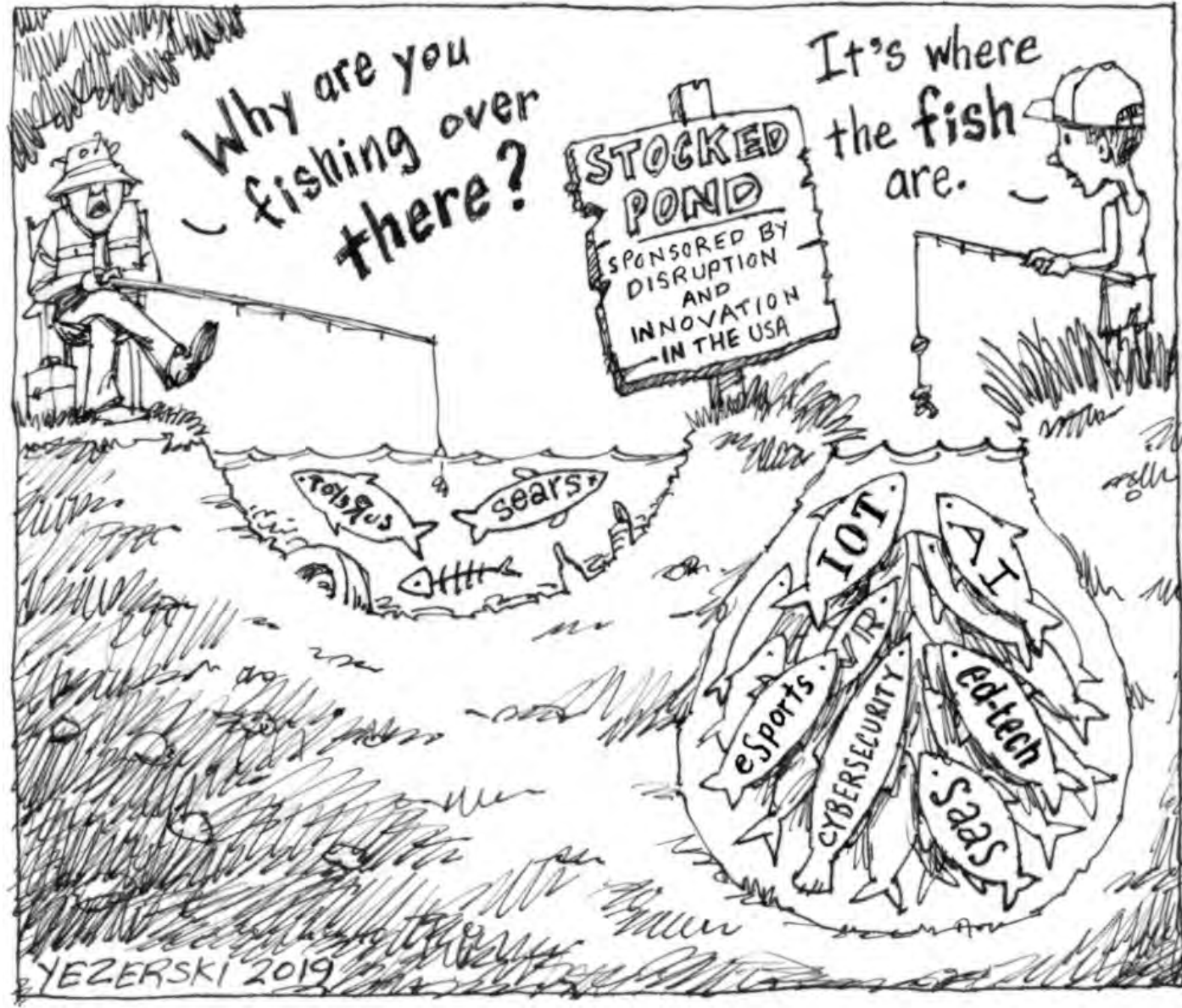


Fish Where the Fish Are

HubSpot



Etsy



LIVEPERSON

everbridge

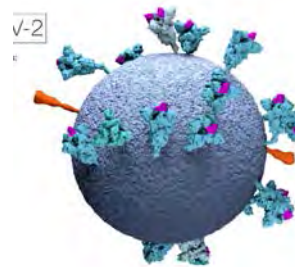


TELADOC



Covid

Pulled forward secular trends already underway







Etsy



Custom embroidery (2, 3, 4 Layers ...

SunnuBunnu

★★★★★ (937)

\$23.00

🏆 Bestseller



More colors

Cotton Washable Face Mask Made i...

LiloPresets

\$8.99 ~~\$9.99~~ (10% off)



More colors

Bandana for Women, Mens Bandana...

maryink

★★★★★ (3,722)

\$20.00

🏆 Bestseller



More colors

Cotton Washable Face Mask Made i...

GeofiltersShop

★★★★★ (285)

\$3.15 ~~\$3.50~~ (10% off)



More colors

Adult Face Mask - Pack of 4 - Reusa...

Ad by JoyNg93

★★★★★ (2,807)

\$19.49 ~~\$25.99~~ (25% off)



• NOSE WIRE • FILTER POCKET

Face Mask with Nose Wire Filter Poo...

Ad by CustomHappinessShop

★★★★★ (1,839)

\$8.03 ~~\$9.45~~ (15% off)

FREE shipping



More colors

Face Mask Cover w/ Filter Pocket for...

Ad by NeovicGoods

★★★★★ (14,932)

\$5.00



More colors

Face Masks by V3RY 4-Pack | 3-Ply R...

Ad by BeV3RYwell

★★★★★ (1,489)

\$24.95 ~~FREE shipping~~





Northeastern dismisses 11 first-year students for partying. They won't get their \$36,500 tuition back

The students were caught violating COVID-19 distancing requirements; their \$36,500 tuition for the semester will not be refunded.

By [Laura Krantz](#) Globe Staff, Updated September 4, 2020, 5:02 p.m.

     555

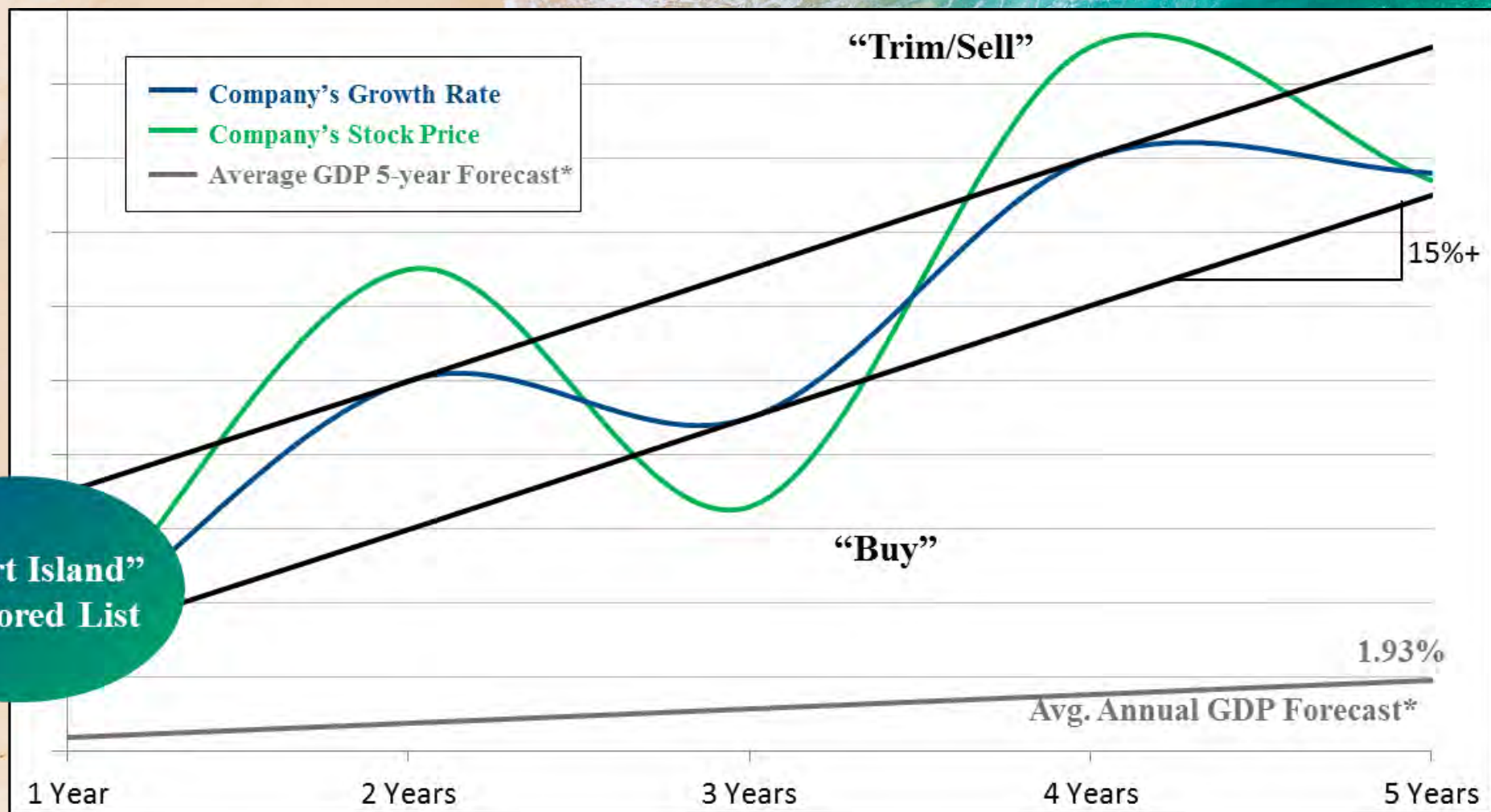






Focused Growth Philosophy & Process

Desert Island Companies + Strict Risk/Reward Discipline on Stocks

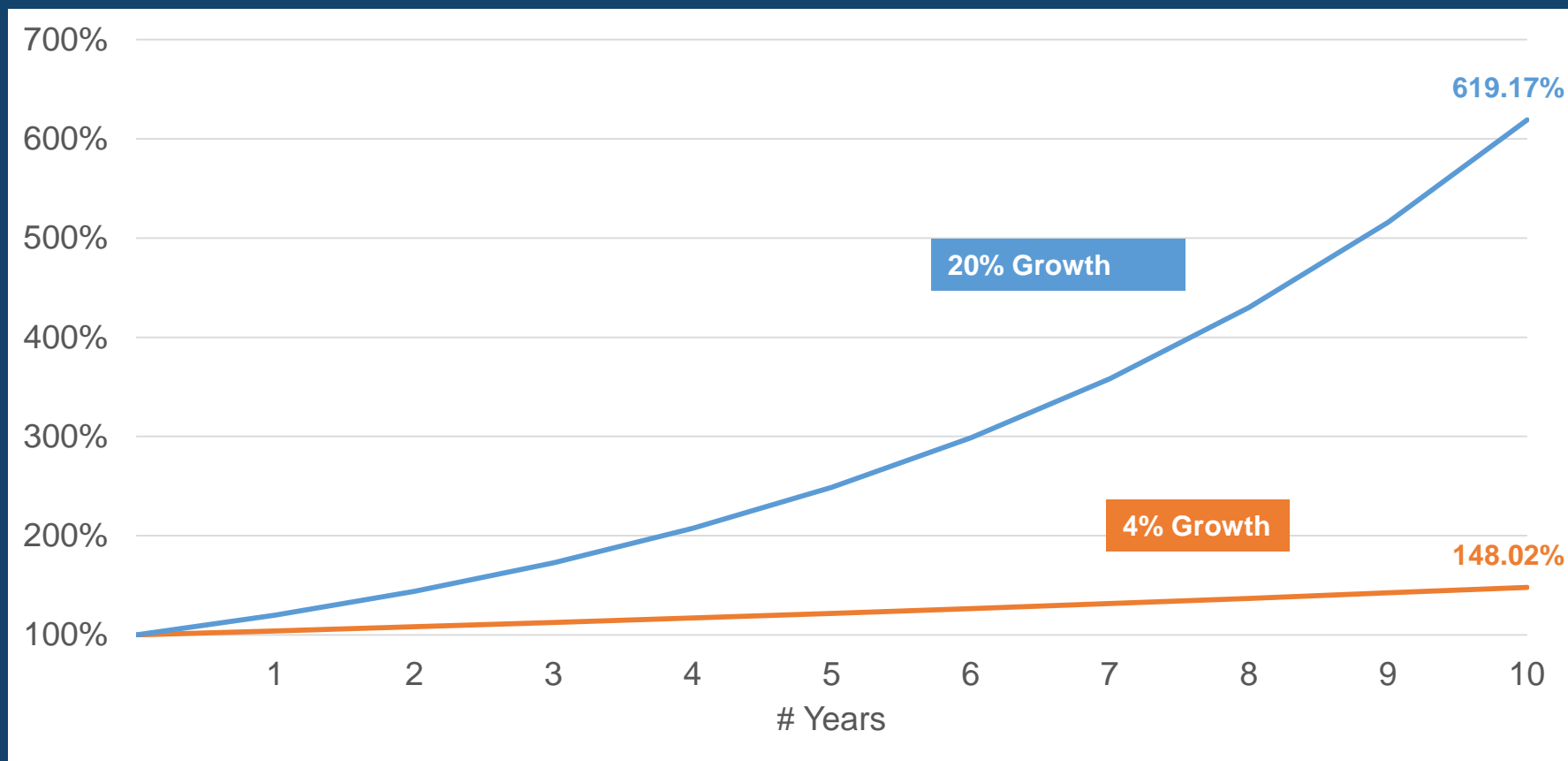


“Desert Island”
Monitored List

* Source: FOMC Economic Projections, March 2019

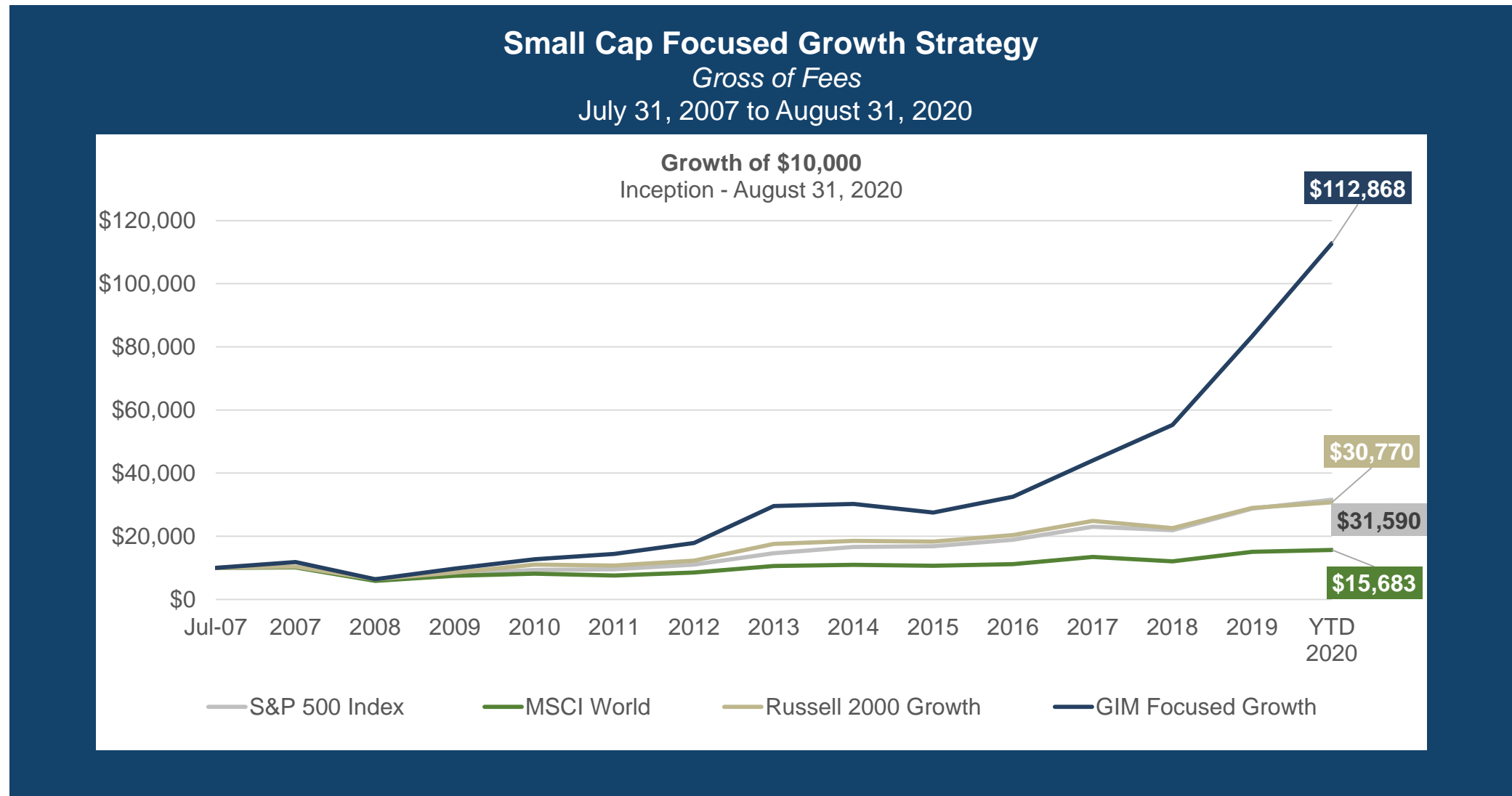


The Power of Compounding





The Power of Compounding Extends to the GIM Focused Growth Strategy



Gross of fees. The composite includes returns from the portfolio manager's prior firm, from inception of August 1, 2007 through December 30, 2011.

Past performance is no guarantee of future results.

Granahan Focused Growth Investment Process

Four Steps

1. *Company Analysis*
2. *Stock Analysis*
3. *Portfolio Construction & Allocation*
4. *Risk Management*



Investment Process: **Step 1** - Company Analysis





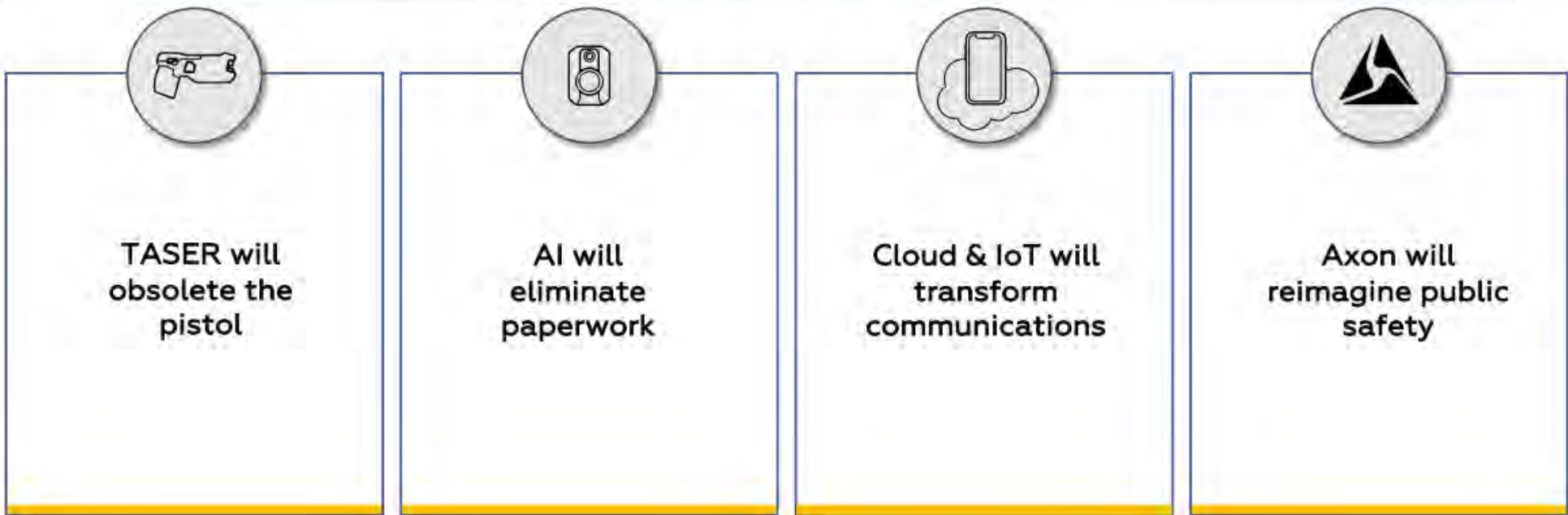
Investment Process: **Step 1 - Company Analysis**



An Ambitious Mission

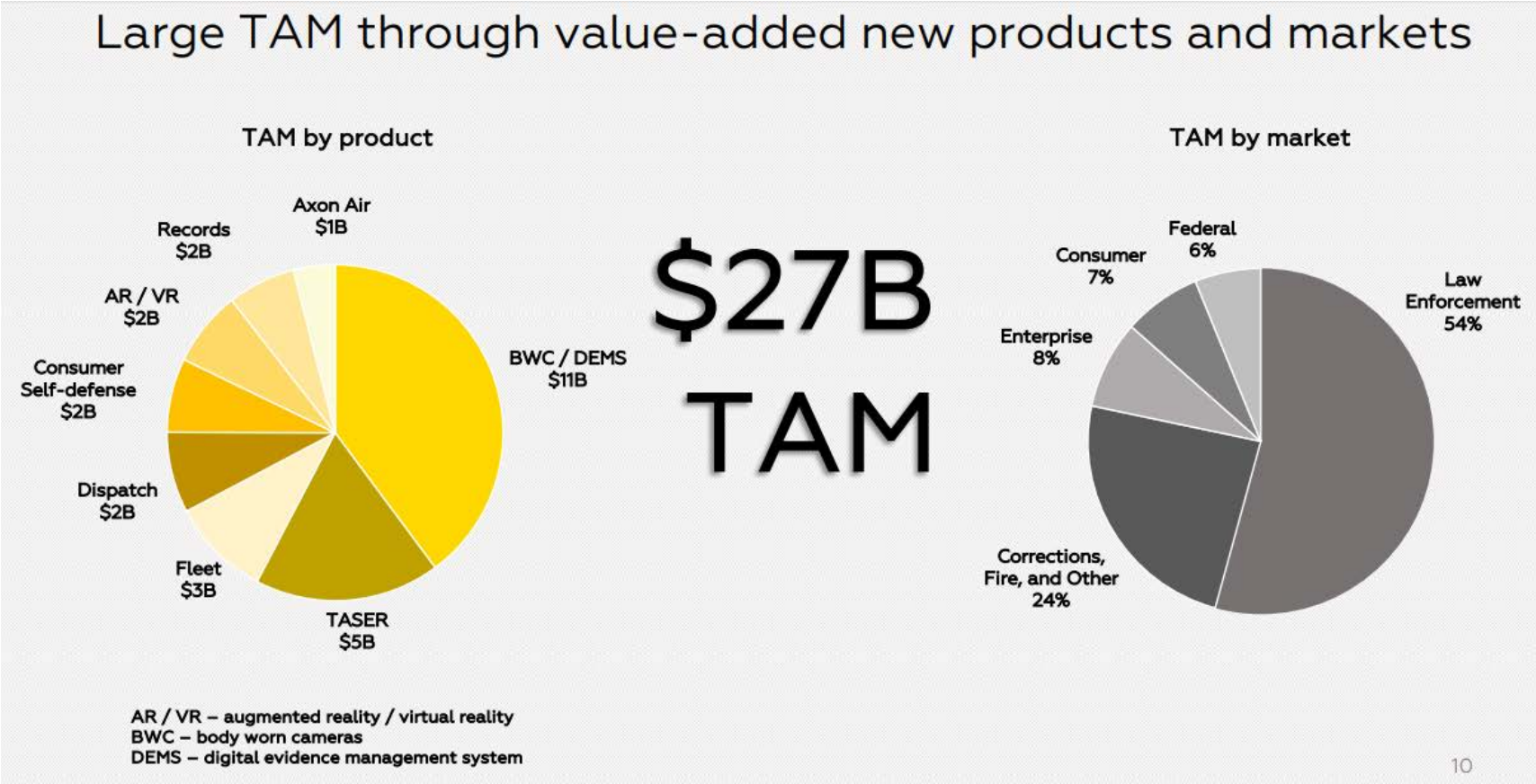
Axon's Path to 2030

BY 2030, WE BELIEVE



Investment Process: Step 1 -
Company Analysis

A \$27 Billion Opportunity

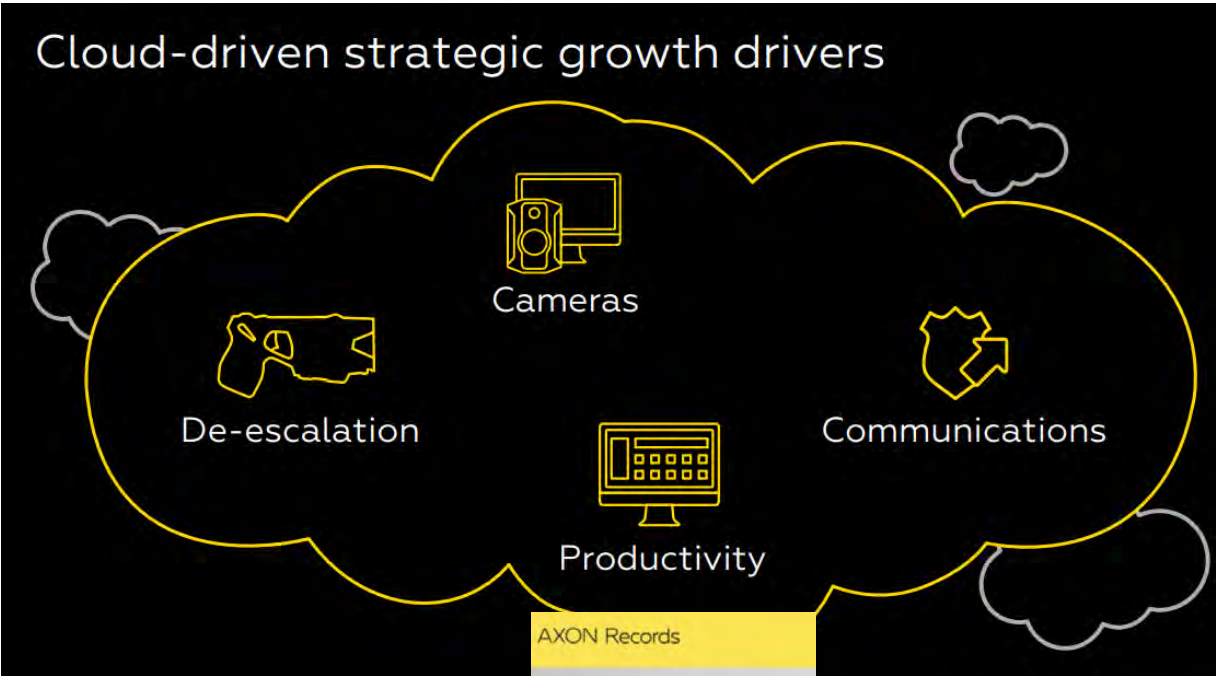




Investment Process: **Step 1 -**
Company Analysis



Four Growth Areas

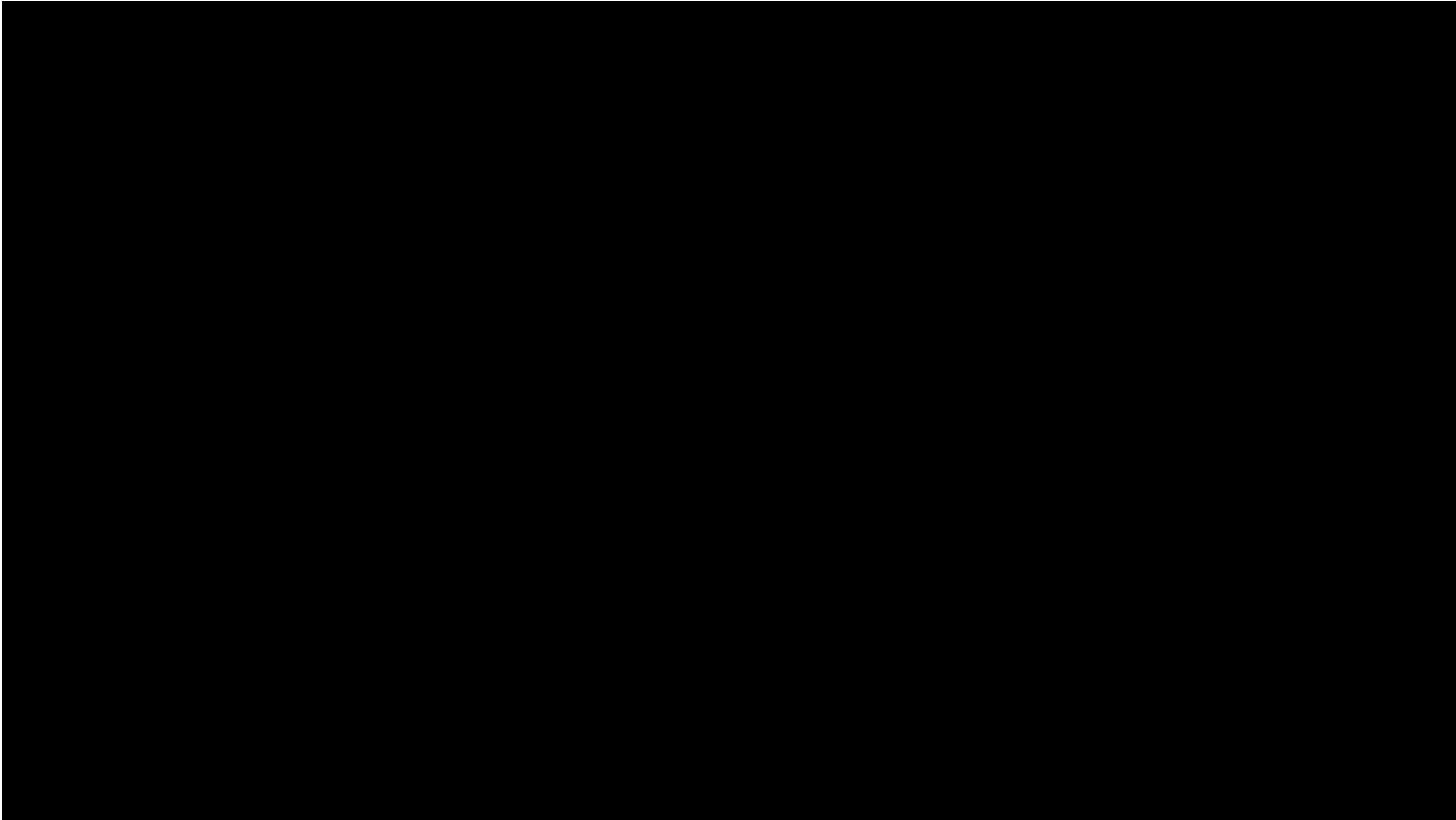


AXON Records





Investment Process: **Step 1 - Company Analysis**





Investment Process: **Step 1** - Company Analysis

Solid Financials



Strong Balance Sheet: \$687M Cash & Investments and \$0 Debt

Solid Free Cash Flow: 2020E: +\$33 Million; 2021E: +\$86 Million



Investment Process: **Step 1** - Company Analysis



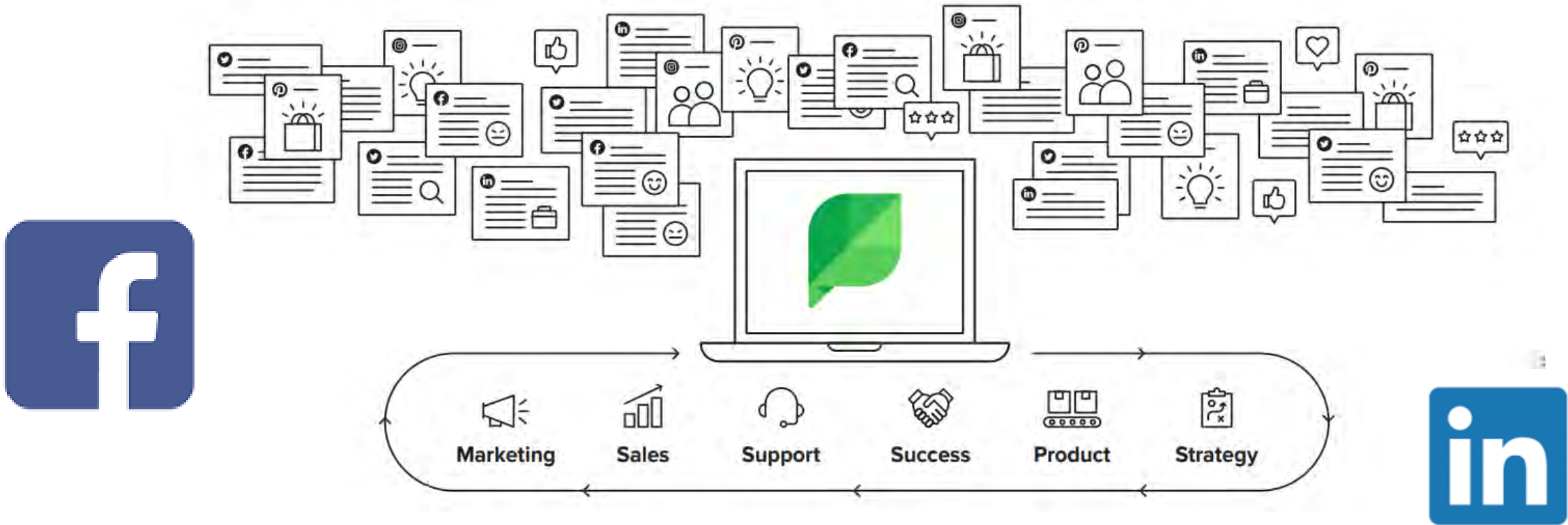


Investment Process: Step 1 - Company Analysis



Sprout is the platform solution

Sprout consolidates the complexity of social channels into a powerful, elegant and seamlessly integrated platform that can be leveraged across an organization.





Investment Process: Step 1 - Company Analysis





Investment Process: **Step 1** - Company Analysis

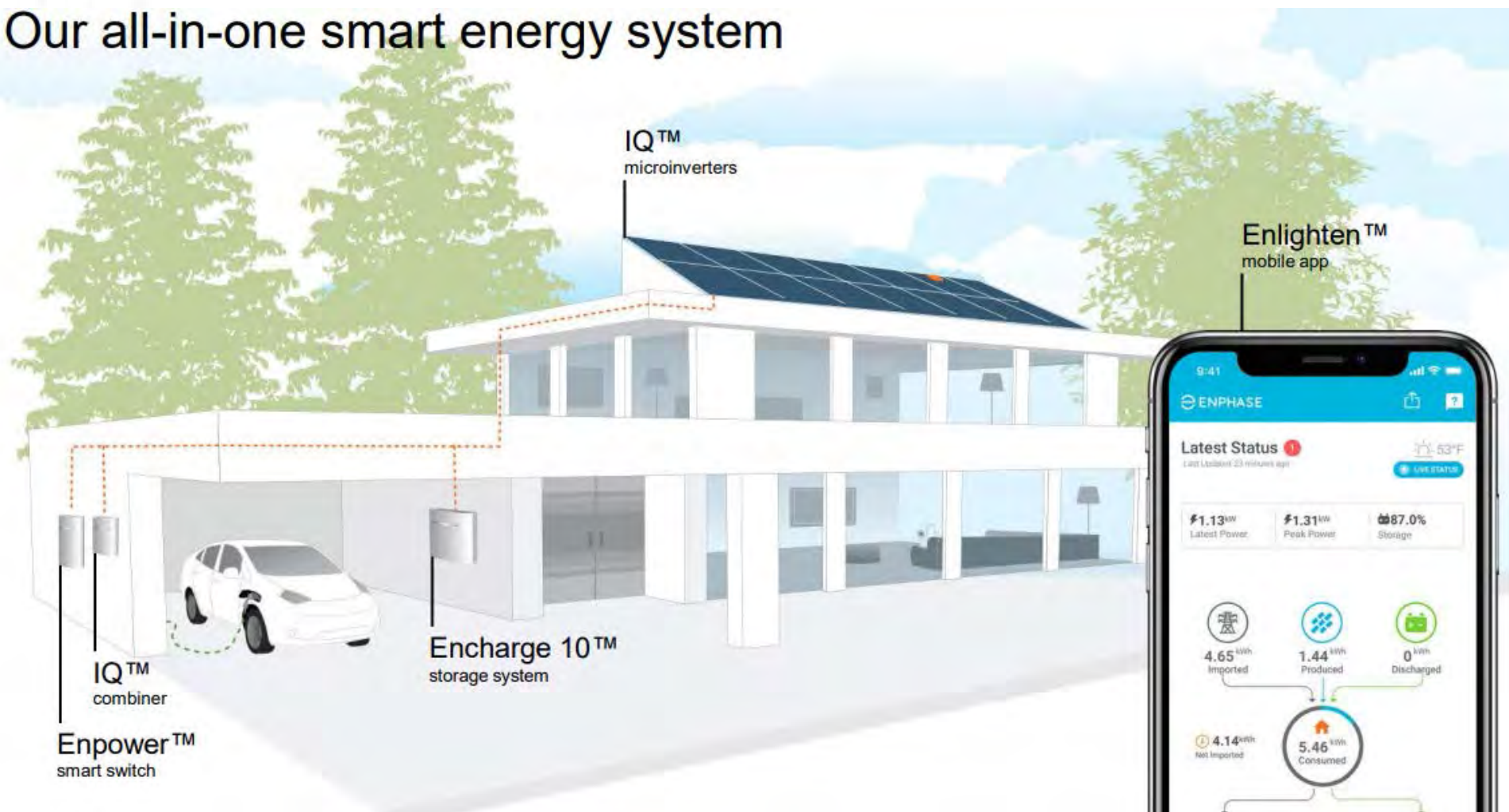




Investment Process: Step 1 - Company Analysis



Our all-in-one smart energy system





Investment Process: **Step 1** - Company Analysis



Modernizing Health Care

A membership-based primary care platform with seamless digital health and inviting in-person care, convenient to where people work, shop, live and click





Investment Process

2. Stock Analysis

Attractive
“Expected
Return”



DATE/TIME 9/8/2020		Avg. Daily Vol 631,626 \$51,382,808		Date Last Modified 9/8/2020		Next Report Date 11/10/2020		
STOCK & MARKET VALUE DATA:				Actual 12/2018	Actual 12/2019	Mean Est. 12/2020	Mean Est. 12/2021	Mean Est. 12/2022
Company Ticker AAXN		Street Est Revenues (M)		\$420	\$531	\$614	\$713	\$843
Company Name AXON ENTERPRISE INC		Y/Y % change		26.4%	26.4%	15.6%	16.2%	18.3%
Last Price \$81.35		Short Interest 3.7		EPS \$0.74	\$1.04	\$0.92	\$1.40	\$1.84
Shares Out (M) 63		Days 2 Cover 5.9		EBITDA 61	88	108	129	149
Market Cap. (M) \$5,163		Cash/Shr WC		EBITDA Mgn % 14.6%	16.5%	17.6%	18.1%	17.6%
Total Cash & Invest.(M) \$687		NetCash/shr hw		FCF 50.1	48.51	21.7	89.9	122
Total Debt \$0		EV/Revenues hw		FCF Yield 1.1%	1.1%	0.5%	2.0%	2.7%
Enterprise Value \$4,476		EV/EBITDA		EV/Revenues 10.7X	8.4X	7.3X	6.3X	5.3X
				PE 109.9X	78.2X	88.5X	58.0X	44.2X
				EV/EBITDA 72.8	51.0	41.5	34.6	30.1

Exepected Return (ER)	Metric Description	Financial Metric	Valuation Metric	Stock Value	% chg. From Curr. Price	Probability	Value	ER
FY1	2021							
Best	EBITDA	\$138	50.0	\$121.06	49%	0.10	12.11	
Some Upside	EBITDA	\$131	45.0	\$104.85	29%	0.25	26.21	
Most Likely	EBITDA	\$123	40.0	\$89.51	10%	0.30	26.85	
Some Downside	EBITDA	\$111	35.0	\$73.23	-10%	0.30	21.97	
Worst	EBITDA	\$103	30.0	\$60.73	-25%	0.05	3.04	
					Must Equal	1.00	\$ 90.18	ER
							11%	Upside
FY2	2022							
Best	EBITDA	\$197	45.0	\$153.99	89%	0.10	15.40	
Some Upside	EBITDA	\$184	40.0	\$130.24	60%	0.25	32.56	
Most Likely	EBITDA	\$157	35.0	\$100.81	24%	0.35	35.28	
Some Downside	EBITDA	\$133	30.0	\$76.77	-6%	0.25	19.19	
Worst	FCF Yield	3.0%	\$93.00	\$59.67	-27%	0.05	2.98	
					Must Equal	1.00	\$ 105.42	ER
							30%	Upside
FY3	2023							
Best	EBITDA	\$274	40.0	\$188.81	132%	0.10	18.88	
Some Upside	EBITDA	\$243	35.0	\$150.15	85%	0.25	37.54	
Most Likely	EBITDA	\$210	30.0	\$115.43	42%	0.35	40.40	
Some Downside	EBITDA	\$159	27.5	\$85.38	5%	0.25	21.35	
Worst	FCF Yield	3.0%	\$104.00	\$64.93	-20%	0.05	3.25	
					Must Equal	1.00	\$ 121.41	ER
							49%	Upside

Downside

2021
Probability-
Weighted
Expected Return



Investment Process: **Step 3 – Portfolio Construction & Allocation**

Criteria for Portfolio Inclusion/Weight

<u>Conviction</u>	<u>Risk/Reward</u>	<u>Diversification</u>
<ul style="list-style-type: none">• Expected Return• Company Fundamentals• How Long Followed• Business Model	<ul style="list-style-type: none">• Range of Outcomes• Downside Risk• Skew of Return Profile• Trading Liquidity• ESG Factors	<ul style="list-style-type: none">• Growth Drivers• Correlated factors• End market customers, geographies, foreign exchange exposure• Style (e.g., growth, financial leverage, etc.)

Portfolio = +/- 40 Holdings

Signatory of:

Investment Process: **Step 3** – Portfolio Construction & Allocation

Yesterday: Delivered via Bricks and Mortar

Retailing



Medical Services



Tutoring



Insurance



Education



Banking



Today: Delivered via The Cloud

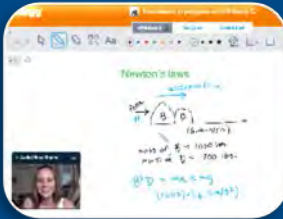
Retailing



Medical Services



Tutoring



Insurance



Education



Banking





Investment Process: **Step 4 – Risk Management**


<u>Company</u>	<u>Stock</u>	<u>Portfolio</u>
<ul style="list-style-type: none">• Ongoing assessment of desert-island worthiness (typically know company for sometime before initial purchase).• Management meetings: Critical• Meetings/calls with competitors, suppliers, customers, analysts, experts• Discussions/debates with other PMs on the investment team• Publish 3-Pointer investment case--Sent to entire investment team & discussed at weekly Investment Meeting	<ul style="list-style-type: none">• Position-size limits (7% at cost; 10% at market)• Hard-coded restrictions in trading order management system (EzeCastle)• Continuously discuss/debate downside scenarios and probabilities• Real-time assessment of ER, risk/reward trimming and adding accordingly• Trading liquidity analysis	<ul style="list-style-type: none">• Ongoing assessment of factor exposures and correlated risks using Desert Island Monitor• Oversight by CEO, CIO, CCO in addition to PM (daily dashboard; exceptions reports; monthly risk reports generated by Bloomberg and Factset)• Transparency with team: Focused Growth philosophy and process are well-known by the entire GIM team



“How do we factor in our opinion
about what the stock market is
going to do?”



The Answer: We Don't



“After nearly 50 years in this business, I do not know of anybody who has [timed the market] successfully and consistently. I don’t even know of anybody who knows anybody who has done it successfully and consistently.”

Vanguard Founder - Jack Bogle





Market Timing: Case Study #2 – GFC October 2007





Market Timing: Case Study #2 – GFC October 2007



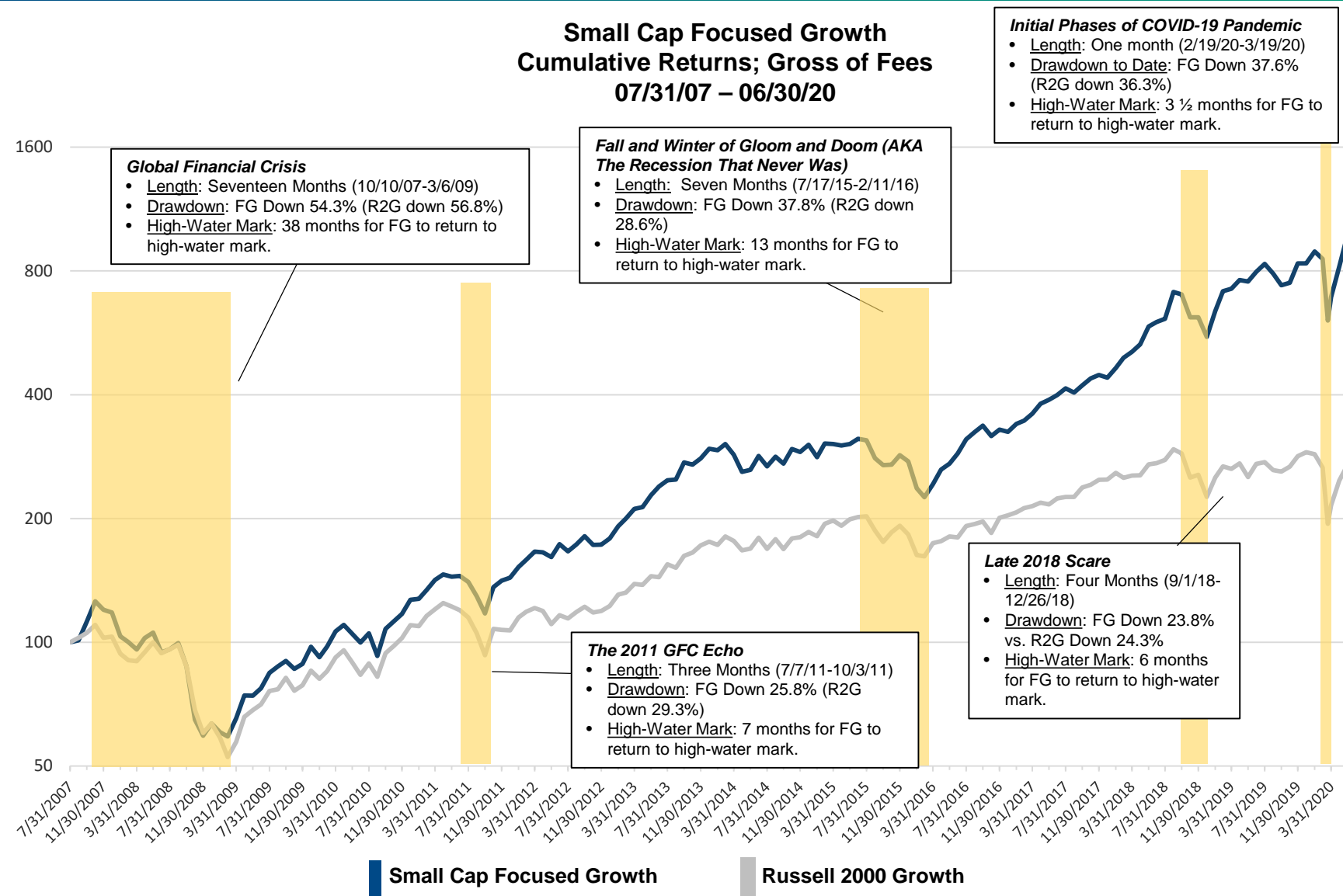
Market Timing: Case Study #3 – “Black Monday” August 2011



Market Timing: Case Study #4 – “Black Monday” August 2011




Granahan Focused Growth: Largest Drawdowns Since Inception



Past performance is no guarantee of future results. This information is supplemental to the complete performance results and disclosures.





“ OK...I hear you about Market
Timing, but what about
valuations? ”

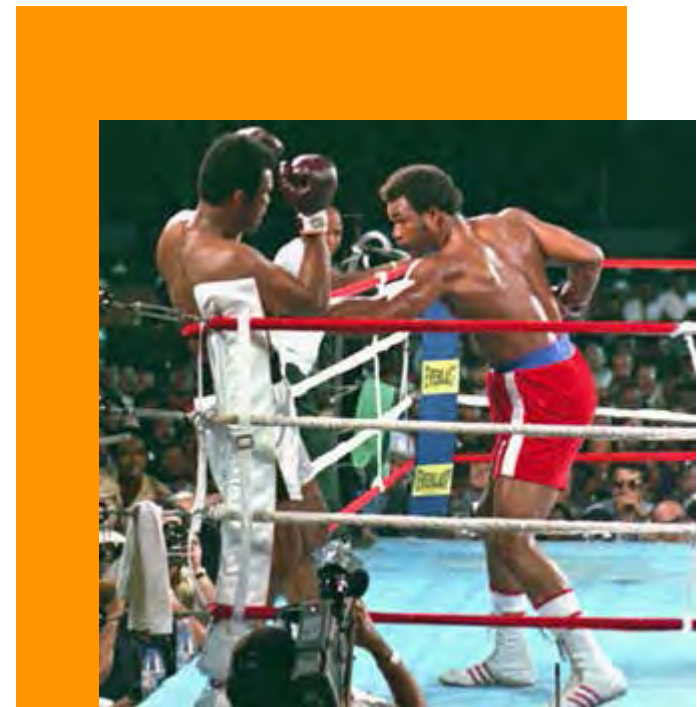


Discounted **Future** Cash Flow

$$DCF = [CF_1 / (1+r)^1] + [CF_2 / (1+r)^2] + \dots + [CF_n / (1+r)^n]$$



amazon









Thank You

Drew Beja, CFA
Portfolio Manager
Granahan US Focused Growth



GRANAHAN INVESTMENT MANAGEMENT INC. • SMALL CAP EQUITY SPECIALISTS

