

US Strategy Comment

Thematic Report: The Mobile Worker

Remote Work and the New Normal

The coronavirus (COVID-19) pandemic has forced several unprecedented events and behavioral changes to say the least, none more invasive than the literal shutdown of society as we know it. While sectors such as Communication Services and Technology have played an integral part of the forced transition to a societal remote existence, mobility = trends have been gaining incremental momentum for years. However, given the structural and behavioral changes brought on by the COVID-19 virus, as society and the economy begin to open up again, the focus and demand to accommodate the mobile workplace are unlikely to dissipate for the foreseeable future.

This thematic examination of the mobile worker is a follow-up to our March 2020 reports on coronavirus positioning ([US Strategy Comment](#), [CDN Strategy Snapshot](#)), which also incorporates thoughts, trends, and individual ideas that fit the broader mobile worker theme derived from BMO Capital Markets research analysts in the U.S. and Canada.

Main Points

- **Remote Work and the New Normal**
 - ✓ A record number of people are working from home due to the COVID-19 pandemic
 - ✓ An increasingly remote society is a secular trend
- **Technology Driving a Smoother Transition to Remote Work**
 - ✓ Cloud-based enterprise software tools ramping at the right place and right time
 - ✓ Video conferencing becoming a way of life
- **Society Needs to be Connected**
 - ✓ Online activity surged in March following the pandemic
 - ✓ Trend toward remote work could potentially affect the rollout of 5G technology

Investment Strategy

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Major US Indices Price % Performance

Sector	1M	YTD	6M	12M
DJ Industrial Average	22.4	-19.6	-12.4	-11.4
DJ Transportation	14.7	-28.7	-27.0	-28.6
DJ Utilities	24.5	-12.6	-7.9	4.3
NASDAQ 100	23.9	-5.7	10.0	12.3
NASDAQ Composite	23.5	-9.5	4.8	6.0
Russell 1000	21.8	-16.4	-7.2	-4.7
Russell 1000 Growth	23.8	-10.1	3.4	6.3
Russell 1000 Value	19.2	-23.3	-18.0	-15.9
Russell 2000	18.5	-28.7	-22.5	-23.0
S&P 500	21.4	-15.7	-6.6	-3.7
S&P 500 Growth	23.2	-10.6	1.3	3.2
S&P 500 Value	19.2	-21.7	-15.3	-11.7
S&P Mid Cap 400	20.2	-27.4	-22.3	-22.3
S&P Small Cap 600	15.6	-32.1	-27.3	-27.0

Source: BMO Capital Markets Investment Strategy, FactSet. Performance figures reflect close prices as of 4/22/20

S&P 500 GICS Sector Price % Performance

Sector	1M	YTD	6M	12M
Communication Services	17.0	-15.4	-4.7	-3.2
Consumer Discretionary	27.4	-9.6	-5.3	-3.8
Consumer Staples	16.6	-8.7	-3.8	2.8
Energy	32.1	-41.3	-41.0	-49.5
Financials	14.3	-30.2	-24.2	-21.0
Health Care	25.1	-6.0	7.9	15.3
Industrials	18.7	-26.8	-22.1	-22.1
Information Technology	22.8	-10.2	8.6	12.3
Materials	20.8	-18.9	-14.2	-14.6
Real Estate	23.2	-16.0	-16.5	-4.9
Utilities	24.6	-12.6	-8.2	3.2

Source: BMO Capital Markets Investment Strategy, FactSet. Performance figures reflect close prices as of 4/22/20

Thematic Report: The Mobile Worker

Remote Work and the New Normal

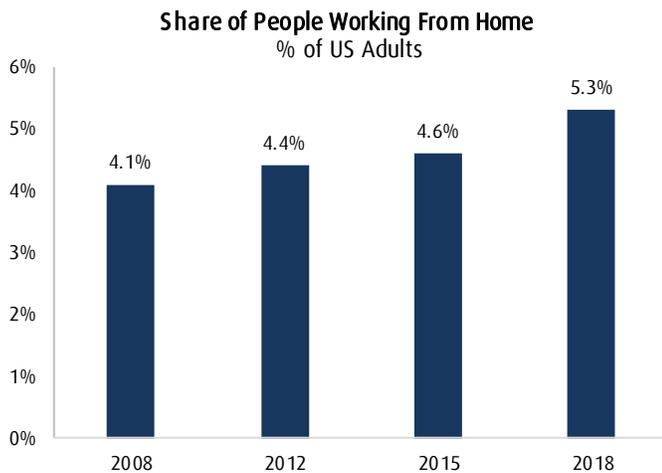
Record Number of People Are Working From Home Due to Coronavirus

The coronavirus (COVID-19) pandemic has effectively shut down society as we know it, changing the way we conduct everyday life. Schools and businesses are closed, and the workforce has transitioned from office to home, with the goal of reopening the economy still unclear. This much we all know. While the sheer numbers of people working at home have risen during the pandemic, the societal shift to exist and operate in a mobile fashion has steadily increased over the past several years, representing a secular shift in work culture. While the US Census Bureau estimates 5.3% of the workplace was working from home in 2018 (Exhibit 1), that figure obviously exploded closer to 60-70% during the pandemic, according to consulting firm Global Workplace Analytics. As a result, people and businesses must rely more on technology to create an efficient and productive work environment from home.

An Increasingly Remote Society Is a Secular Trend

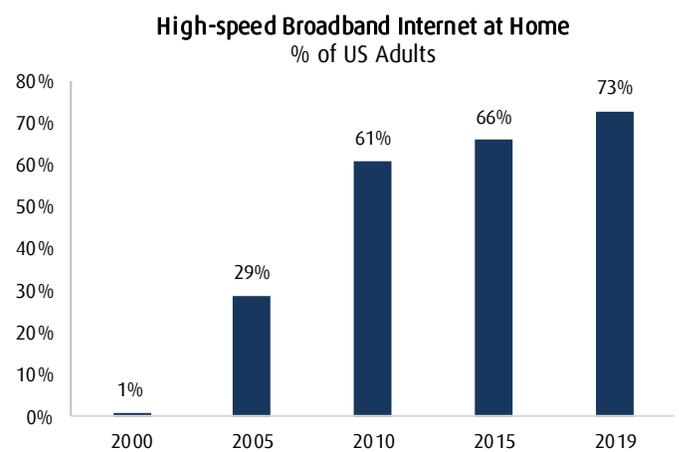
In our reports from March 23, 2020, and March 24, 2020, on US and Canada coronavirus positioning, respectively, we provided various investment strategy themes and scenarios. Specifically, one of our secular themes discussed was the Mobile Worker, which centers around the societal shift to work and exist remotely (away from the traditional workplace, and in some cases, familial infrastructure). While the economy will open again, it is safe to say workplace behaviors will take some time to normalize and regain confidence with respect to proximity to colleagues and commuting, let alone communication, to name a few. Thus, we believe a secular shift to increased societal mobility is very likely, requiring 1) technological advances; 2) greater accommodation by company cultures; and 3) demand for greater work-life flexibility. In fact, Global Workplace Analytics predicts 30% of people will work from home multiple days a week within a few years. Even during the current crisis, despite the sudden and unexpected change, the transition from office to home for companies has not been as bumpy as expected due to the steady increase in domestic technology and communication over the past 20 years. For instance, in the US alone, the proportion of adults with high-speed broadband Internet at home has increased rapidly since 2000, reaching roughly 75% from just 1% in 2000 (Exhibit 2).

Exhibit 1: Steady Increase in Number of Americans Working From Home



Source: BMO Capital Markets Investment Strategy Group, US Census Bureau.

Exhibit 2: High-Speed Broadband Internet Reaches Almost 75% of Adult Households in the US



Source: BMO Capital Markets Investment Strategy Group, Pew Research Center.

Technology Driving a Smoother Transition to Remote Work

Cloud-based Enterprise Software Tools = Right Place, Right Time

Technology has provided multiple tools that enable people to efficiently work from home. In the earlier stages of the outbreak, employers and employees spent money on new technology such as enterprise software, conferencing subscriptions, and new equipment. According to expense management provider Emburse, the most frequent employee expenses in the first half of March included computer monitors, desks, office supplies, and keyboards. For larger businesses, a key operational tool is enterprise software, which provides organizations the integrated platforms on which companies can function normally in a secure setting. BMO’s Software and IT Services Analyst Keith Bachman notes in his April 13 note on the upgrade of Okta ([Moving to Outperform; A Lot of Market Opportunity](#)), a cloud-based identity management company, that as a result of the COVID-19 pandemic, more people will be more consistently working remotely and consumers will want improved user experiences. Therefore, a handful of companies, including Okta, Zscaler, Smartsheet, and Atlassian among others, will likely maintain high growth and volume increases post COVID-19. In addition, BMO’s Internet and Media Analyst Dan Salmon notes that tools including Google’s enterprise software and other education initiatives (G Suite, Chromebooks), as well as Vimeo, the enterprise video software business owned by IAC could also benefit ([Convergence Catch-Up, Alphabet - Upgrade to Outperform: We See Relative Outperformance Upon Rebound](#)).

Video Conferencing Becoming a Way of Life

One of the most notable changes during this crisis is how society communicates. From “FaceTime” with family, friends, or neighbors, to Zoom, Skype, and Web-ex from the home office, person-to-person contact has increased through “screens.” In terms of business, travel has plunged (for now), and virtual meetings and video conferences have replaced in-person meetings, a trend which is only likely to continue and increase in volume. While previously mentioned personal video communication tools such as Skype, FaceTime, and WhatsApp have been in play for several years, they were rarely used for business purposes. However, since the crisis has forced shelter-in-place orders across North America, Zoom, Slack, Skype for Business, Google Hangouts, and Microsoft Team have displayed record growth as demand for video conferencing has skyrocketed. According to Fortune Business Insights, the global video conferencing market was \$3.0Bn in 2018 and is expected to grow to \$6.4Bn by 2026, at a CAGR of 9.8% (Exhibit 3). Adjusted for COVID-19, these figures will likely only go up. Although Zoom does not report official user figures, BMO’s Dan Salmon notes it was the most downloaded app in the month of March and estimates daily users spiked to 200 million in March alone, up from 10 million in December ([Initial Estimate & Target Revisions to Reflect COVID-19 Impact on Internet Stocks](#)).

Exhibit 3: Video Conferencing Market is Experiencing Significant Growth



Source: BMO Capital Markets Investment Strategy Group, Fortune Business Insights.

Society Needs to Be Connected

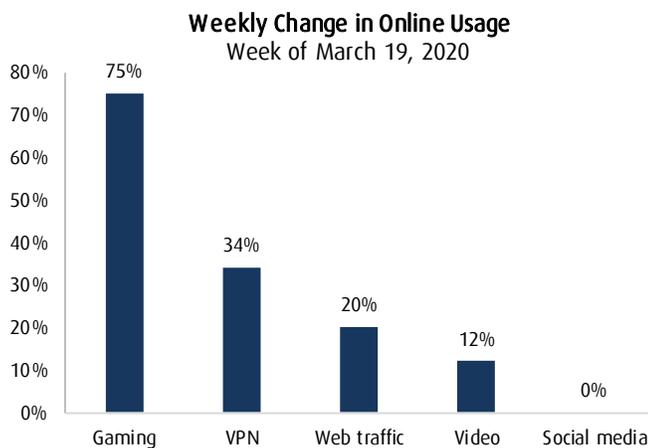
Online Activity Surged in March

As home office logins exploded during regular business hours the past few months, there has obviously been a spike in wireless and broadband activity. For instance, Verizon’s March 17 usage report shows online gaming volume was up 75% on a weekly basis, while VPN, overall web traffic and video streaming were up 34%, 20%, and 12% respectively (Exhibit 4). OpenVault, a provider of technology solutions and industry analytics for broadband operators, said that business-hour broadband consumption was up more than 41% one week after the CDC declared that COVID-19 was a pandemic on March 11. It also found that subscribers’ average usage during the 9 a.m.-5 p.m. workday rose to 6.3 GB, 41.4% higher than the January figure of 4.4 GB. During the same timeframe, usage increased 17.2% from 5 GB per subscriber in January to ~6 GB in March.

Trend Toward Remote Work May Affect Rollout of 5G

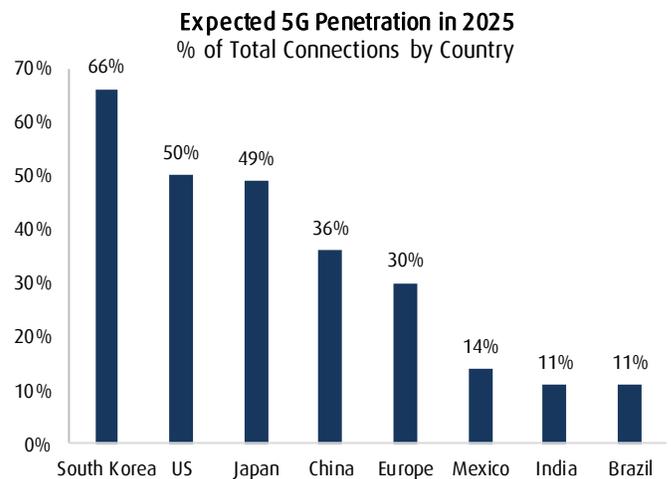
Given the trend toward remote work and increased demand for high-speed connectivity, we believe there could be more interest around 5G technology. While the technology has been around and even introduced in some cities (e.g., Sprint’s service in nine cities), it is still very early days. BMO’s Telecom Analyst Tim Casey notes in his 5G primer from June 2019 ([5G's Field of Dreams: If You Build It, Will They Come?](#)) that 5G technology is a major step-function improvement in wireless network speed, latency, and capacity/connections. Compared with 4G, it will improve wireless network speeds by ~100x and latency by ~10x, and the number of connected devices by ~10x. As more workplaces become equipped for 5G, it will secure the high bandwidth and low latency that will make video collaboration lightning fast. According to Ericsson, one of the major vendors in the space, 5G penetration in the US is expected to reach 50% by 2025 (Exhibit 5). That said, 5G requires significant investments, and wireless operators are expected to take a measured and success-based approach with regard to 5G. As BMO’s Tim Casey also notes, there could be changes in the landscape involving the largest 5G vendors (Huawei, Ericsson, Nokia) stemming from geopolitical issues post COVID-19 ([Crisis Highlights the Core Business: Broadband, TELUS- Upgrading to Outperform: Stability for Now and Future Growth Opportunities](#)).

Exhibit 4: Online Activity Surged During the Week of March 19



Source: BMO Capital Markets Investment Strategy Group, Verizon.

Exhibit 5: US 5G Penetration is Expected to Reach 50% by 2025



Source: BMO Capital Markets Investment Strategy Group, Ericsson.

COVID-19 Has Brought About a Fundamental Change in the Way We Work

What does this mean in terms of investment strategy? There are a few implications. For one, in the near term, select companies within technology-related sectors, including Communication Services and Information Technology, that will benefit as people rely more on technology to work from home. Two, while the efficacy and productivity of the Mobile Worker is yet to be determined, businesses will be forced to reexamine how they communicate with employees and clients, while also attempting to determine whether remote work is a viable, long-term solution. Lastly, it is likely that many people who are now working from home will continue to do so after the pandemic, particularly in light of technological and cultural accommodation and demand by employees for greater work-life flexibility.

Select Stock Positions That Are Relevant to the Mobile Worker

Exhibit 6: Selected Stock Positions That Are Relevant to The Mobile Worker

Ticker	Company	Price	Rating*	BMO Capital Markets Link to Report
OKTA	Okta, Inc.	151.64	OP	Moving to Outperform; A Lot of Market Opportunity
SMAR	Smartsheet, Inc.	52.52	OP	Pretty Good, All Things Considered
ZS	Zscaler, Inc.	66.91	Mkt	Some Unknowns
TEAM	Atlassian Corp.	149.20	Mkt	TEAM Virtual Event
GOOGL	Alphabet Inc.	1,258.41	OP	Upgrade to Outperform: We See Relative Outperformance Upon Rebound
DIS ***	Walt Disney Company	100.99	OP	Lots More DTC + Steady Core Business = Target to \$175 From \$165
AMZN ***	Amazon.com, Inc.	2,363.49	OP	One-Day Delivers and Margin Expansion Gets Back on Track
AAPL**	Apple Inc.	276.10	NR	N/A
FB**	Facebook, Inc.	182.28	Mkt	Remain Market Perform as Majority of Targeting Headwinds Still Lie Ahead
MSFT**	Microsoft Corporation	173.52	OP	Supply, Not Demand
NLFX ***	Netflix, Inc.	421.42	OP	Preview: Accelerated Streaming Shift Should Help Rationalize Content \$ Sooner
ZM	Zoom Video Communications, Inc.	150.25	NR	N/A
WORK	Slack Technologies, Inc.	26.16	NR	N/A
BCE-CA	BCE Inc.	57.19	OP	Business As Usual and Beyond
RCI.B-CA	Roger Communications Inc. Class B	58.15	OP	Stable Free Cash Flow Despite Volatility
T-CA	Telus Corporation	22.43	OP	Upgrading to Outperform - Stability for Now and Future Growth Opportunities

Source: BMO Capital Markets Investment Strategy, FactSet. Prices as of 4/22/2020.

*Rating Key, according to BMO Capital Markets Equity Research: OP: Outperform, Mkt: Market Perform, Und: Underperform, NR: Not rated by BMO Capital Markets Equity Research.

** Apple = FaceTime, Facebook = WhatsApp, Microsoft = Skype

*** AMZN, DIS, and NFLX are part of a broader remote societal theme and therefore correlated in our view from a broader sector, industry and thematic perspective with respect to the consumer

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4/14/2020	Podcast - COVID-19 Outbreak Reaching Peak in U.S., Canada
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Buy	Outperform	43.3 %	26.8 %	53.5 %	45.7 %	55.7 %	57.7%
Hold	Market Perform	52.9 %	18.1 %	44.0 %	51.2 %	42.8 %	37.5%
Sell	Underperform	3.8 %	15.0 %	2.6 %	3.1 %	1.5 %	4.8%

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