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# How to Make a Killing on Spatial Computing's "Killer Apps"

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CHRISTIAN DEHAEMER'S

**BULL & BUST REPORT**

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## HOW TO MAKE A KILLING ON SPATIAL COMPUTING'S "KILLER APPS"

If you've seen the blockbuster movie *The Avengers*, you'll remember how Tony Stark, aka Iron Man, works in his laboratory and manipulates data and diagrams in 3D. He expands, changes, and swipes them away.

This is now real-world stuff.



Using spatial computing (SC), designers at Nike create shoes using these apps. GE engineers work over complex systems when designing wind turbines, not in flat diagrams but in three-dimensional space where they can be manipulated.

Doctors can look over real images and practice surgery on exact 3D replicas of their patients' organs. General Motors and Maserati are using them to design cars.

Today, the spatial computing market is already worth close to \$9 billion, and it's expected to multiply by nearly 15 times... to approximately \$130 billion by 2027.

And Gartner, the world's leading IT research and advisory company, named spatial computing one of its top 10 strategic tech trends... not one, not two, but three years running.

But companies need sensors and special glasses in order to create and use these types of data. I've found two companies that will benefit from this dynamic trend.

## KING OF SENSORS: LUMENTUM HOLDINGS

Lumentum Holdings (NASDAQ: LITE) creates and manufactures the hardware needed for spatial computing. It makes optical and photonic products that enable optical networks and laser application.

Its products are everywhere — in telecom, cloud data centers, semiconductor testing, and submarines. Its lasers can cut thick sheet metal or micro medical products.

It is the go-to company for next-generation 3D-sensing capabilities, including facial recognition and security.

LITE also has road maps for building out its consumer electronics lines. Its technologies increase integration of components and enable 3D cameras to produce higher density and larger arrays for better 3D performance. Its lasers will be used in mobile devices and printing.

As we have seen in the 3D printing company I recommended a few months ago, Materialise NV (NASDAQ: MTLN), 3D printing has been hot during the COVID-19 lockdowns. Materialise is up nearly 191% since the summer.

LITE saw a boom there as well.

Overall, the company reported solid earnings in the face of some COVID-19 slowdowns in manufacturing during Q3 2020. Here are the numbers from the conference call:

- Net revenue for the first quarter was \$452.4 million, which was up 23% sequentially and 1% year on year.
- GAAP gross margin for the first quarter was 45.5%, GAAP operating margin was 21.9%, and GAAP diluted net income per share was \$0.86.
- First-quarter non-GAAP net income was \$139.2 million. Non-GAAP diluted net income per share was \$1.78 based on a fully diluted share count of 78.2 million.

In regard to the balance sheet, the company has plenty of cash at \$1.61 billion, which is up \$57 million over last quarter. Looking forward, Lumentum expects the following for the fiscal second quarter of 2021:

- Net revenue in the range of \$465 million–\$485 million.
- Non-GAAP operating margin of 32.0%–34.0%.
- Non-GAAP diluted earnings per share of \$1.70–\$1.90.

The upshot of this is that the company experienced some hardship regarding COVID in the manufacturing sector, especially in China, which should change to the positive going forward.

It also hit record margins and saw pretty good revenue growth that beat Wall Street expectations. When COVID ends and people get back to work, the company should do even better.

On a company earnings call, CEO Alan Lowe said the future is bright:

*Long-term market trends and industry dynamics are very favorable. The world is accelerating its shift to increasingly digital and virtual approaches to work, entertainment, education, health care, social interaction, and commerce...*

*Since we became an independent public company five years ago, we have shipped approximately \$1.5 billion [of 3D sensing equipment] in revenue. [We] continue to believe we have a larger addressable opportunity over this product cycle. This is due to the significant increase in 3D printing content per consumer device.*

*We are optimistic about [3D sensing] demand in the coming quarters and years in addition to increasing content. We believe there's potential for a strong consumer upgrade cycle driven by new features, including 5G, augmented and virtual reality, and computational photography.*

It is hard to argue with that. The company is hitting all the hot trends.

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Here is the six-month chart:



The stock has been trending higher for the past five months. A recent agreement to buy Coherent, a laser giant, has made this a "buy the dip" opportunity.

Check out Lumentum's website [here](#).

Now for my next company...

## VERTEBRAE IS THE BACKBONE OF AUGMENTED REALITY SHOPPING

Vertebrae is a pre-IPO startup founded in 2015. The company believes that augmented reality (AR) is the future of online shopping. It built a platform that uses 3D and AR to do just that.

It works, it's cool, and people are using it. Vertebrae has had over 30 billion product interactions and 3 million people per day using its platform, and it is growing fast.

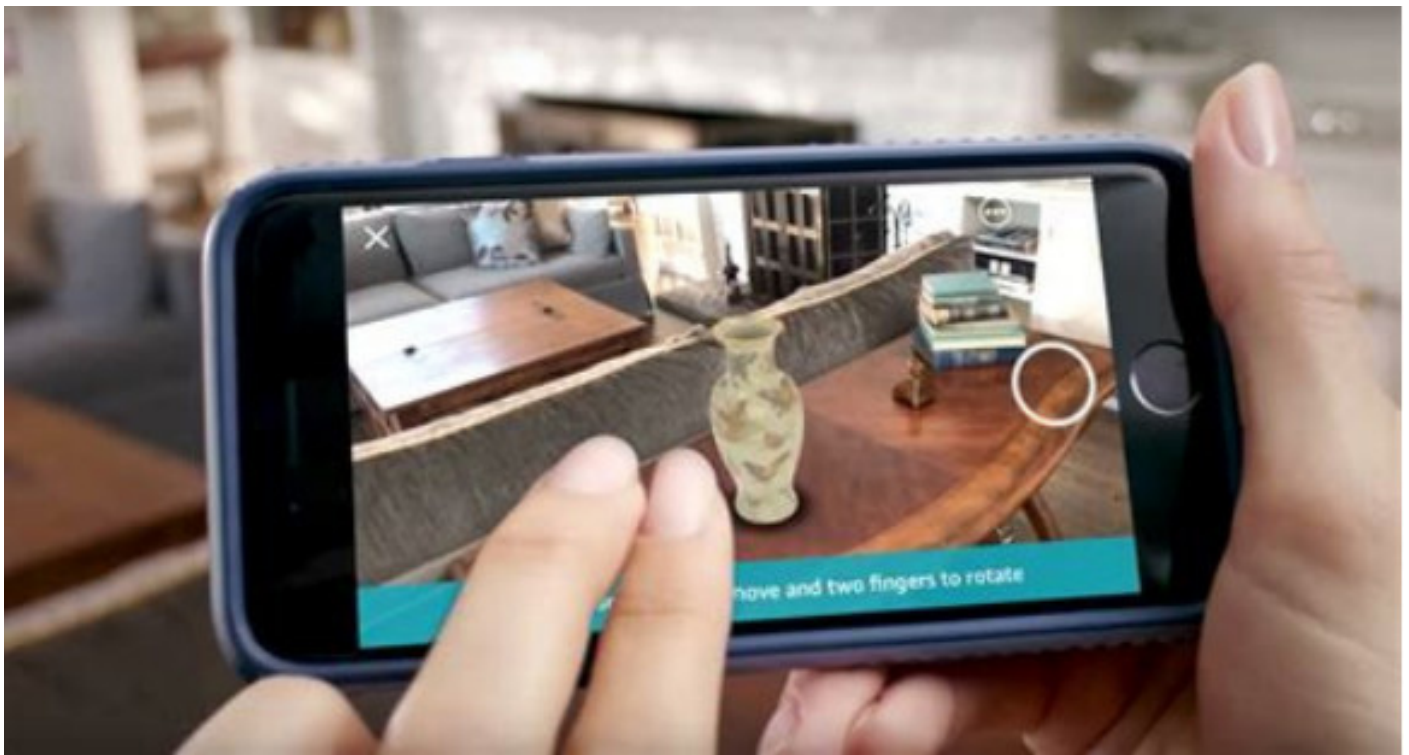


## SOON IT WILL GET BETTER

The new iPhone 12 has four cameras, which add depth and 3D capabilities. This is immensely helpful for a company like Vertebrae, which can then superimpose data on a shopper's head or body at a precise scale. This means the customer doesn't have to go to the mall to try things on. Nor do they have to measure to make sure a couch they buy online will fit between the big chair and the door.

And if something fits and looks good, people won't have to go to the post office and return the product, which saves retailers money.

*Amazon's AR shopping feature*



Source: TechCrunch

COVID-19 quarantine has sped up the implementation of many of these new platforms. E-commerce is expected to have grown 18% last year to a total of more than \$709 billion.

Just look at these numbers:

- 1 in 3 consumers shops online daily.
- 1 in 5 consumers shops online multiple times a day.
- 56% of consumers are unsure if the item delivered will look the same as advertised.
- 37% want to use AR to try on makeup — this is two times as many as in 2018.
- 54% want to be able to place items in their environment.
- 40% have used AR when shopping.
- 76% of those users say the experience increased their confidence in making a purchase.
- 46% of retailers plan to deploy an augmented reality feature this year.

This is a quiet revolution that will change the way people shop forever. The CEO of Levi's says in 10 years, there will be no more standard sizing. Everything will be custom-fit through body scanning and made-to-order finishing.

This is amazing stuff, and few people realize it is coming. Vertebrae solves many online shopping problems. As I've said, the company is a startup with 30 people that has raised \$10 million so far.

The company's first project was a 360-degree video and AR advertising for Lions Gate Entertainment Corp. The company became very good at making AR for movies but turned to e-commerce for the big bucks. Its platform works because it's all web-based. You don't have to download an app like you do for Amazon or use special equipment like virtual reality goggles.

As I wrote above, the turning point will be the new multicamera phones that will add accurate scale. You can see exactly how the earrings or sunglasses will look.



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Obviously, some products are more suited for this than others. But the way to monetize this new trend is to buy the companies that make it work.

Keep an eye on Vertebrae — it, or a company like it, is going to be huge. I'll keep you informed so we can get in early.

You can see how it works [here](#).

All the best,

Christian DeHaemer  
*Bull and Bust Report*

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