

April 20, 2018

**Dear clients and colleagues,**

In 1999, the term “Big Data” emerged in a landmark publication issued by the Association for Computing Machinery: *Visually Exploring Gigabyte Datasets in Real Time*. The article explores the propensity for storing large amounts of data with no way of adequately analyzing it, an issue that is being lamented once again today. The paper quotes computing pioneer Richard W. Hamming as saying: “The purpose of computing is insight, not numbers.”

Around the same time, venture capital firms began developing a technology platform to analyze, transform and interpret large amounts of data. The first movers in the sector were large management consultants, such as Deloitte, Accenture and PricewaterhouseCoopers, as well as their technological counterparts Oracle, IBM, Microsoft and SAP IQ. In 2017, Big Data vendors pocketed over \$57 billion from hardware, software and professional services sales with an expected compound annual growth rate of 10% over the next four years. There are overheated sectors, such as the \$10 billion security segment which is growing at 17% per annum, and there are slower growing segments, such as business software, where we are seeing commoditization of products (Source: Gartner Data & Analytics Summit 2018 review).

Further insights from Oracle’s last quarterly conference call confirmed that data analytics has hit a wall in advancing benefits to corporations:

“Existing data analytics solutions are incredibly limited as they can’t scale or provide real-time insights on every single user. This prevents marketers from taking advantage of data to increase ROI or inform ideal customer experiences”, said Shashi Seth, senior vice president, Oracle Marketing Cloud. “To unleash this data requires a completely new approach to customer data analytics, which is exactly what we are introducing with Oracle Infinity and Oracle CX Audience. With these innovative new solutions, we are putting very rich and timely behavioral data in motion to help organizations deliver a customer experience that is highly relevant and in context.”

What this means is (1) the value of current data analytics is limited as it is mostly non-real time and lacks granularity and (2) there will be an overlay of new software (which will turn into highly profitable products) that will act and provide automation on the information that is being collected.

Take Boeing for example. The company collects data from its thousands of suppliers to understand and forecast everything about its aircrafts’ components. As deeper and more-timely information is required, it’s not feasible for Boeing to develop new data analytic software to track and further automate supplier activities or each type of instrument used. This will become the responsibility of the suppliers. Therefore, instrument manufacturers and smaller service providers could be the largest benefactors of these new software developments as they will manage most of the data in the future.

We asked some of the instrument manufacturers we hold in our portfolios for their opinion on data analytics and they are excited about the future.

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### **Spectris (SXS LN – £2,692)**

Spectris develops and markets precision instrumentation and control systems. The group's products help customers improve product quality and performance, increase productivity and yield, and reduce downtime and waste. Spectris' individual group businesses are typically leaders in their specialized markets and operate across four segments:

- 31% Materials Analysis (mining, pharma, life science and semiconductor)
- 30% Testing and Measurement (aerospace, automotive, electronics, environmental)
- 21% In-line instrumentation (primary/process industries, energy, pulp)
- 18% Industrial control (manufacturing industries, distributors)

In order to participate in this up-and-coming, fast growing market, the company's strategic plan includes the acquisition of software companies and/or the establishment of an internal development program. Their efforts are in the early stages but represent the future of the company.

### **Horiba, Ltd. (6856 JT– ¥7,760)**

Horiba is a Japan-based manufacturer of measurement equipment specializing in the analytics and measurement of small particles in the fields of environment, health, safety and energy. The company was founded in 1945 and is headquartered in Kyoto, Japan.

Horiba is a group of 37 individual companies located around the world (16 in Europe, 14 in Asia, 7 in America). The regional mix is: 31% Japan, 25% Europe, 18% North America and 26% Asia ex-Japan.

Horiba is further advanced than Spectris in its data analytics efforts. Horiba's newest and fastest-growing segment is Safety and Information Technology where the company is developing driver management, recording and interpretation systems.

Other companies in the portfolio with instrumentation-related data analytical capacity include Germany's Carl Zeiss Meditech in medical optical systems, Omnicell in pharmaceutical dispensing, Globus Medical in surgical instruments and Norway's Tomra Systems ASA in commodity triage. Companies in the global small cap universe will be important benefactors of the next step for Big Data as they will own both the data source and the new software products.

At Global Alpha we are always searching for new themes to add as part of the investment process. Data analytics qualifies well as a sub-theme to innovation as it is a strategy that can be used by many types of small cap companies to secure future growth.

Have a great weekend.

### **The Global Alpha Team**

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