

March 10, 2017

Dear clients and colleagues,

Thematic investing has always been an integral part of our investment process. One of the investment themes we focus on is innovation.

What is innovation?

According to the Oxford dictionary, innovation often means to “make changes in something established, especially by introducing new methods, ideas or products.”

With such a wide-sweeping definition, it is clear that innovation goes beyond the technology sector and can be found in all industries. Companies such as Wal-Mart, Home Depot and IKEA could be called innovators as they reinvented the retail industry in the early 1970s. Today, thanks to technology, companies such as Airbnb and Uber are redefining their industries. They did not invent the internet or the technology around it, but rather found a better way to leverage it to reach customers.

What about the FinTech revolution?

The internet and our mobile devices have become core elements of our lives and together have had a significant impact a wide range of industries. The FinTech revolution is a prominent example of this trend. Financial technology, also known as FinTech, refers to companies who use technology (such as mobile payment solutions or telematics usage-based insurance, peer-to-peer lending, etc.) in order to compete with traditional financial institutions. This trend has dramatically transformed the way consumers interact with companies that provide financial products and services.

The vast appeal of FinTech companies lies in their ability to offer a differentiated business model; deliver an enhanced, personalized customer experience; and tap into the power of digital to ensure end-to-end business value. Banks are jumping on board, increasing investment in IT by about \$300B. Market adoption rates are country specific. Adoption has already reached 29.1% in Hong Kong, leading the US at 16.5% and Canada at 8.2%. FinTech innovation is challenging the status quo of every industry in the financial sector from banking, to insurance, to asset management.

Portfolio impact?

Global Alpha is taking advantage of the FinTech revolution through various holdings. This week we introduce you to NICE Systems, a holding in the portfolio since 2013. NICE is a global enterprise software company that provides solutions to major financial institutions with respect to fraud, money laundering and compliance.

NICE Systems (NICE US – \$69.09)

<http://www.nice.com/>

Business overview

Founded in 1986 as a security and defense solution provider, NICE was listed on the Nasdaq in 1996. At IPO the company had sales of \$68M and a market cap of \$72M. NICE grew by selling recording solutions to call

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centres, which helped them achieve a 30%-40% market share. These days, the company continues to grow by selling data analysis software to clients.

What does NICE do exactly?

NICE software can capture data from multiple sources and apply real time analytics and guidance, helping businesses to continuously improve customer interactions. Their analytical software is also used in preventing financial crime and ensures a higher degree of compliance.

Target market

- The worldwide contact centre market is approximately \$15B
- The total addressable market for financial crime prevention software is approximately \$1.2B and growth is projected to be in the double digits as financial crime costs the global economy \$2.1T annually

Competitive advantages

- Market leader
- Industry's only end-to-end analytics-driven cloud platform
- 25,000 customers in 150 countries, including over 85 Fortune 100 companies

Growth strategy

- Focus operation on big data
- Increase business with existing clients
- Strategic M&A

Management

- CEO Barak Eilam has been an industry leader for over 15 years and originally led the data analytics division at NICE

Risks

- Government regulation
- Financial crisis

Global small cap companies are not always known by name, but they invariably touch our daily lives in important ways. The next time you contact a call centre or interact with your financial institution, it is possible that NICE software provided the end-to-end surveillance, supervision and compliance for that call or financial transaction.

Have a good weekend.

The Global Alpha Team

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