

# Why tech companies are winning?

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Steven Frazer – News Editor &  
Technology Writer, Shares

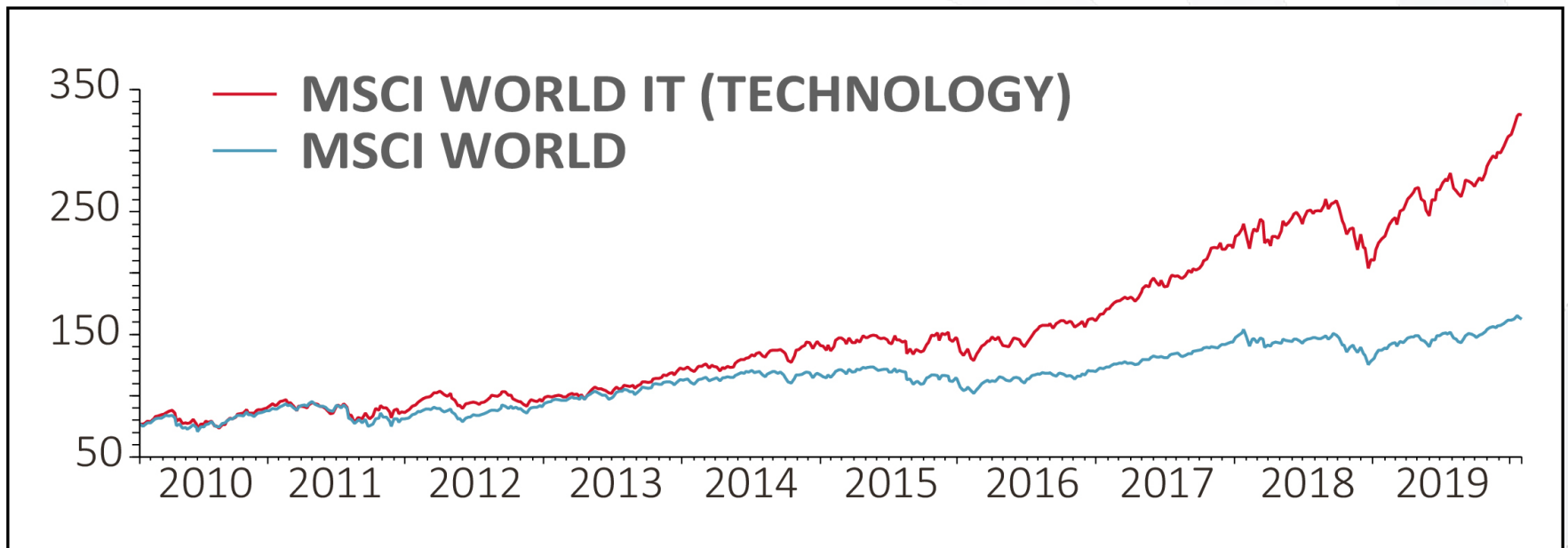
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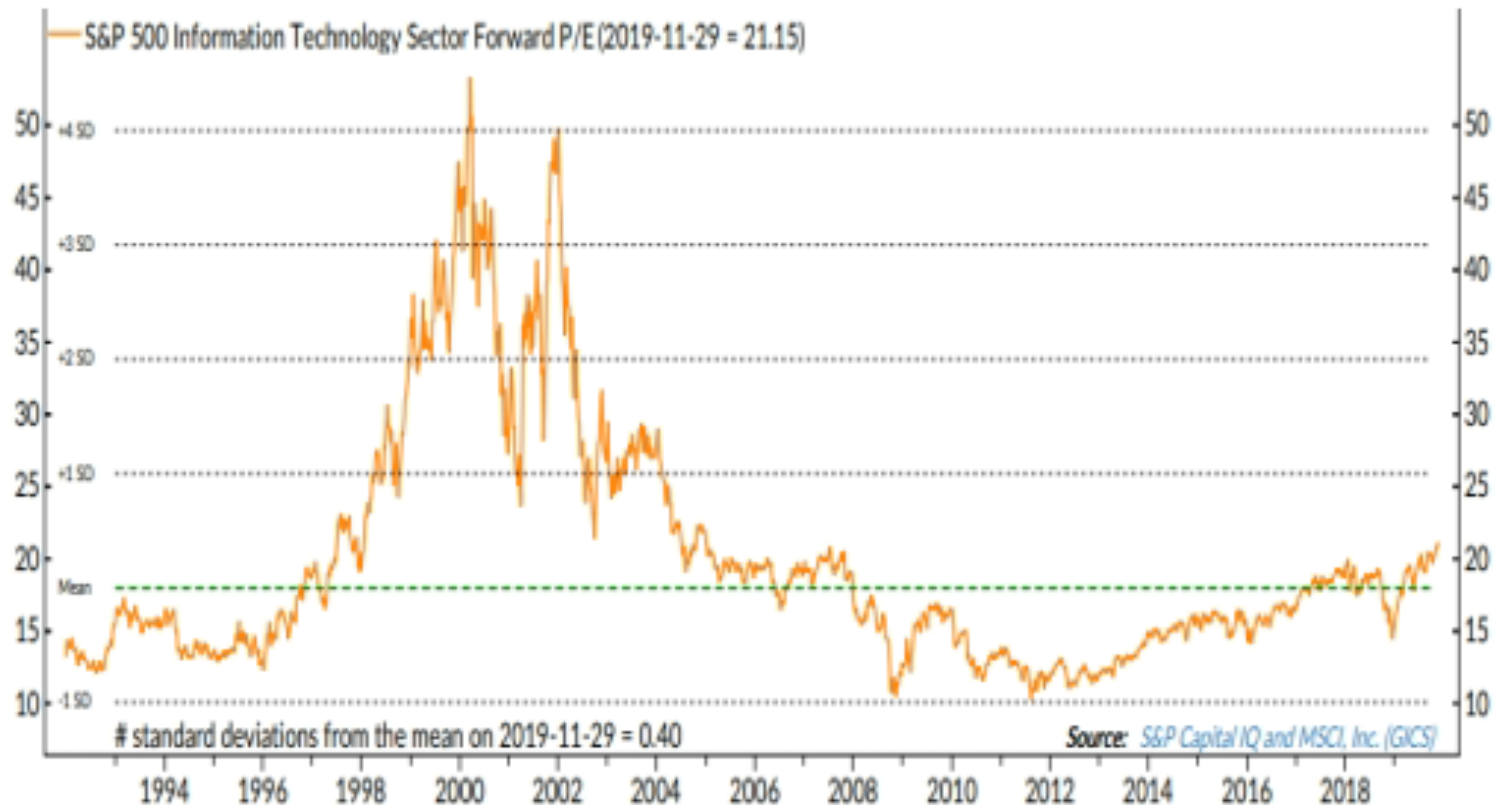
# Technology has significantly outperformed the global stock market



Source: Datastream. Data: 10 years to 31 Jan 2020

# Absolute sector valuation (PE)

## Compelling vs history (1992 – 2019)

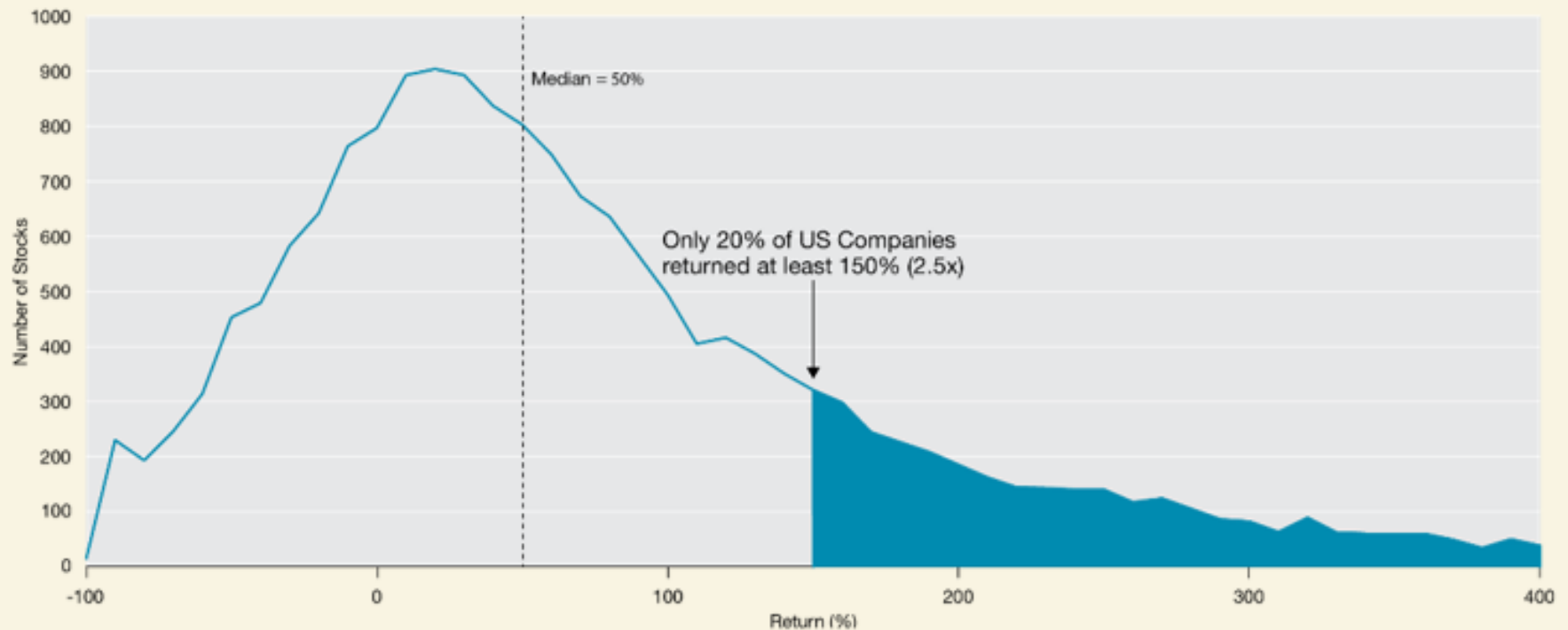




**“Big brands are being nibbled to death”**

— IAB CEO Randall Rothenberg

## S&P 500 rolling five year stock returns from 1984–2013



Source: Baillie Gifford & Co, Datastream and S&P.

‘It seems very likely that the technology industry will continue to eat the other sectors alive.’

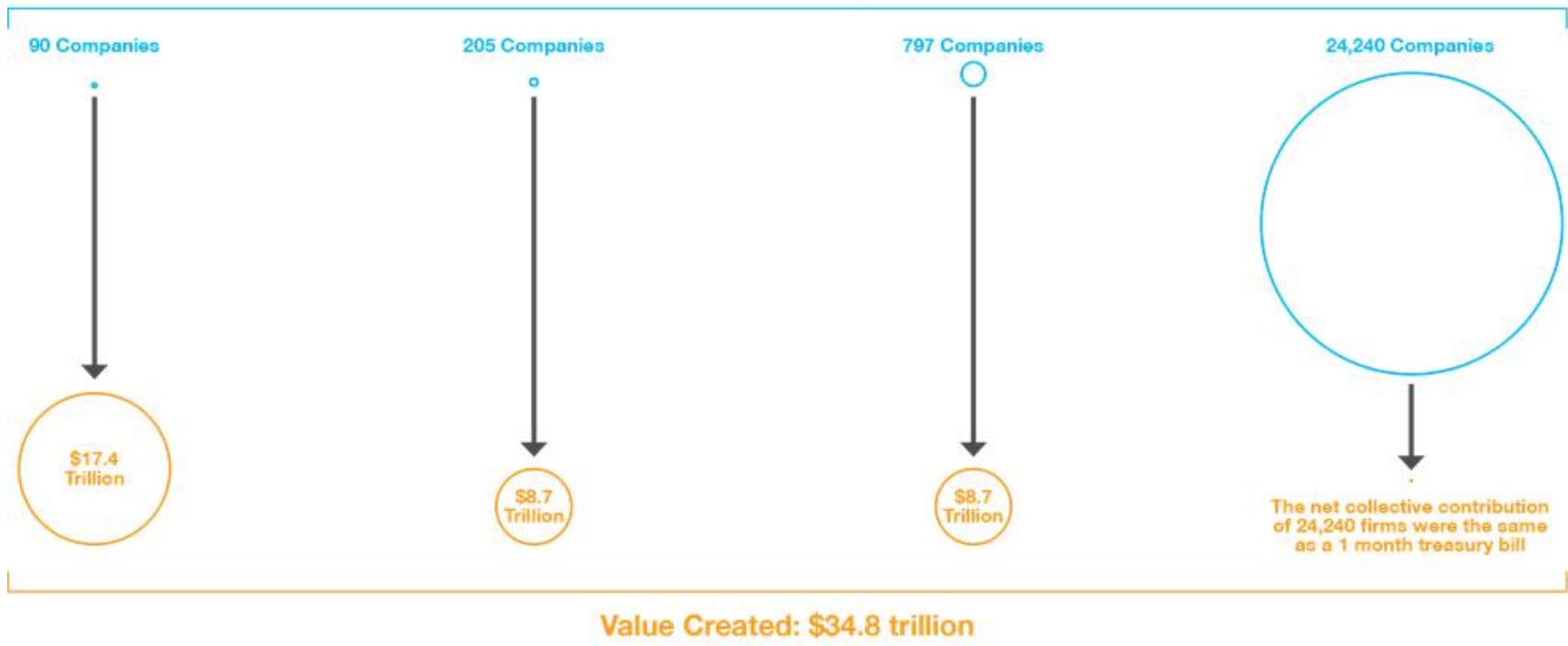


**WILLIAM DE GALE**  
**BlueBox Global**  
**Technology Fund**

# 90 firms, 0.4% of all US stocks, created half the wealth

Total net wealth created by all listed US common stocks 1926-2016

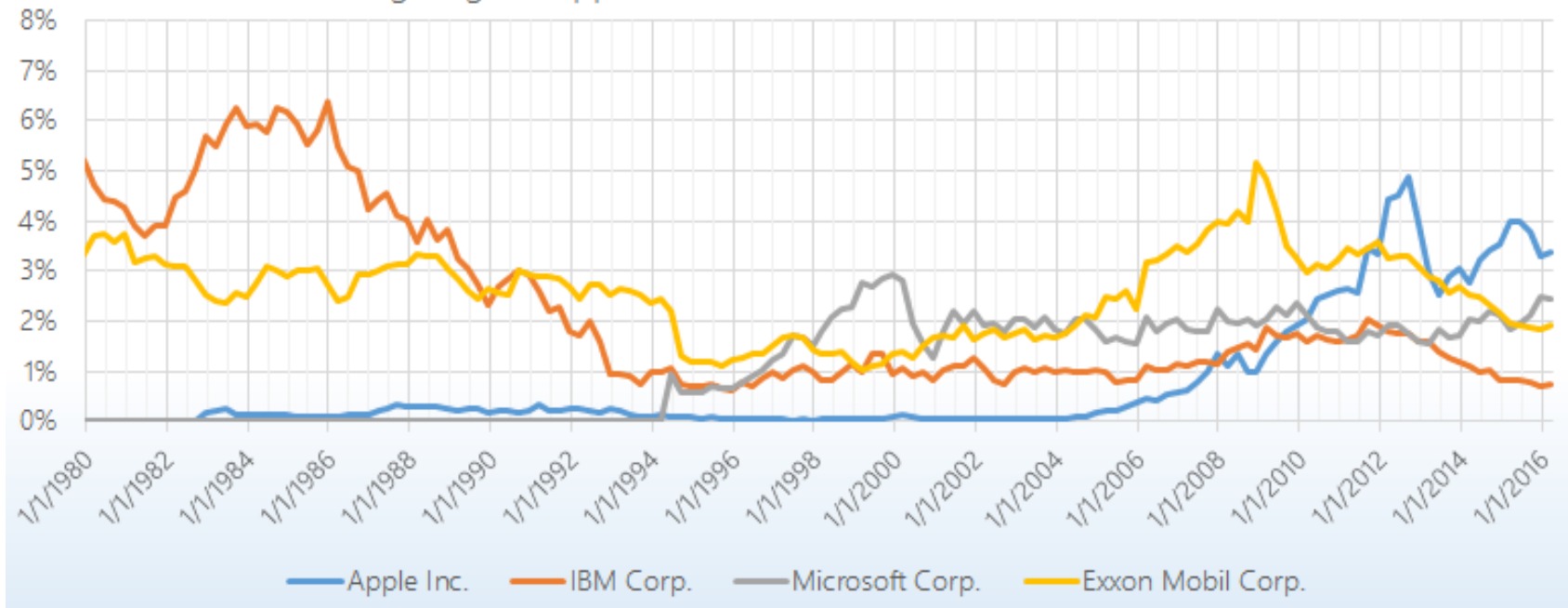
Number of companies



Source: Bessembinder, Hendrik, *Do stocks outperform Treasury Bills?* (November 2017)

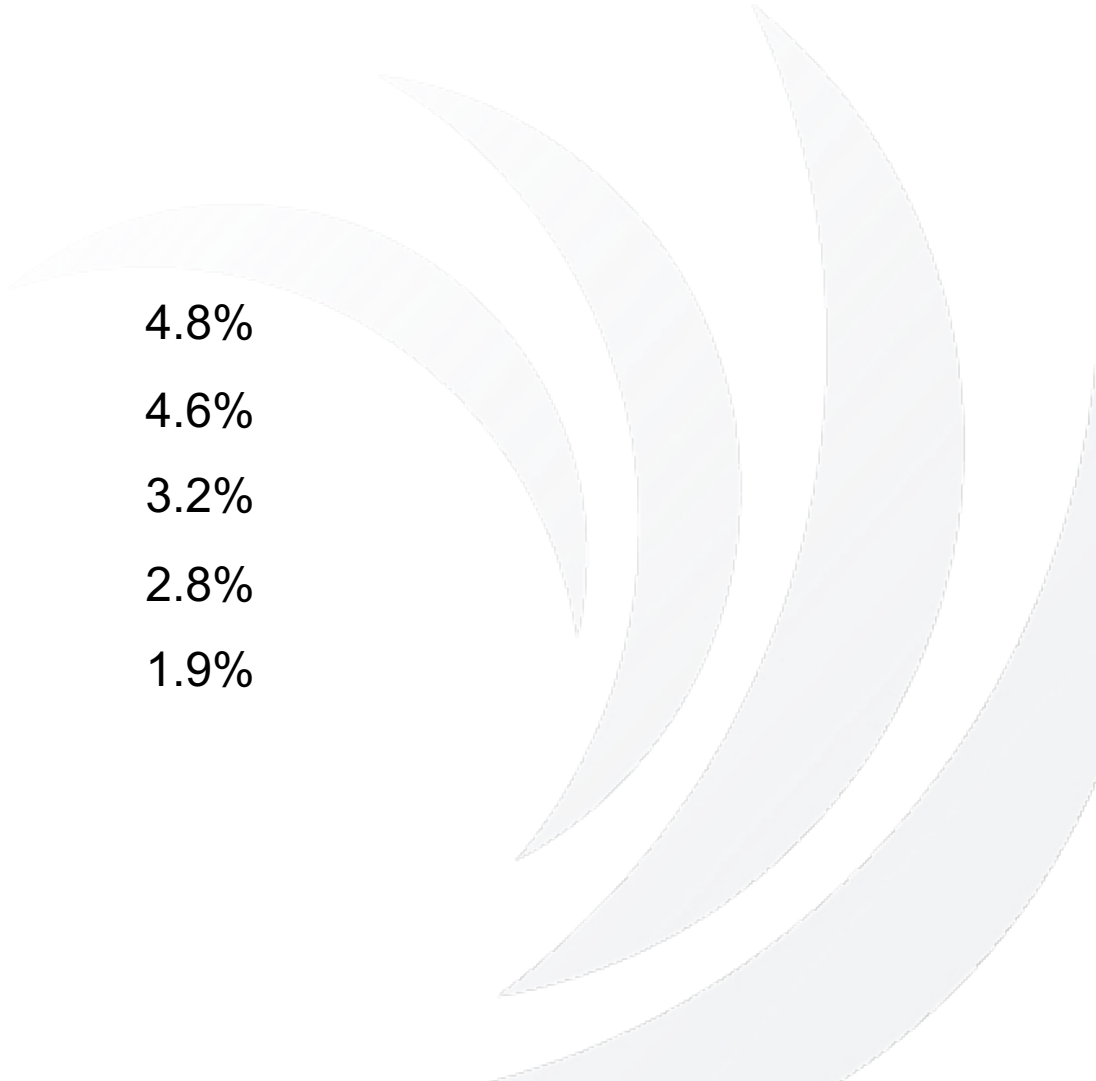


Weightings of Apple, IBM, Microsoft & ExxonMobil since 1980



Source: William de Gale, BlueBox Technology Fund, S&P

# The current top S&P500 weights are as follows:



|                    |      |
|--------------------|------|
| 1. Apple           | 4.8% |
| 2. Microsoft       | 4.6% |
| 3. Alphabet/Google | 3.2% |
| 4. Amazon          | 2.8% |
| 5. Facebook        | 1.9% |

Source: Refinitiv, as of 30 Jan 2020

# THE PEAK OF THE

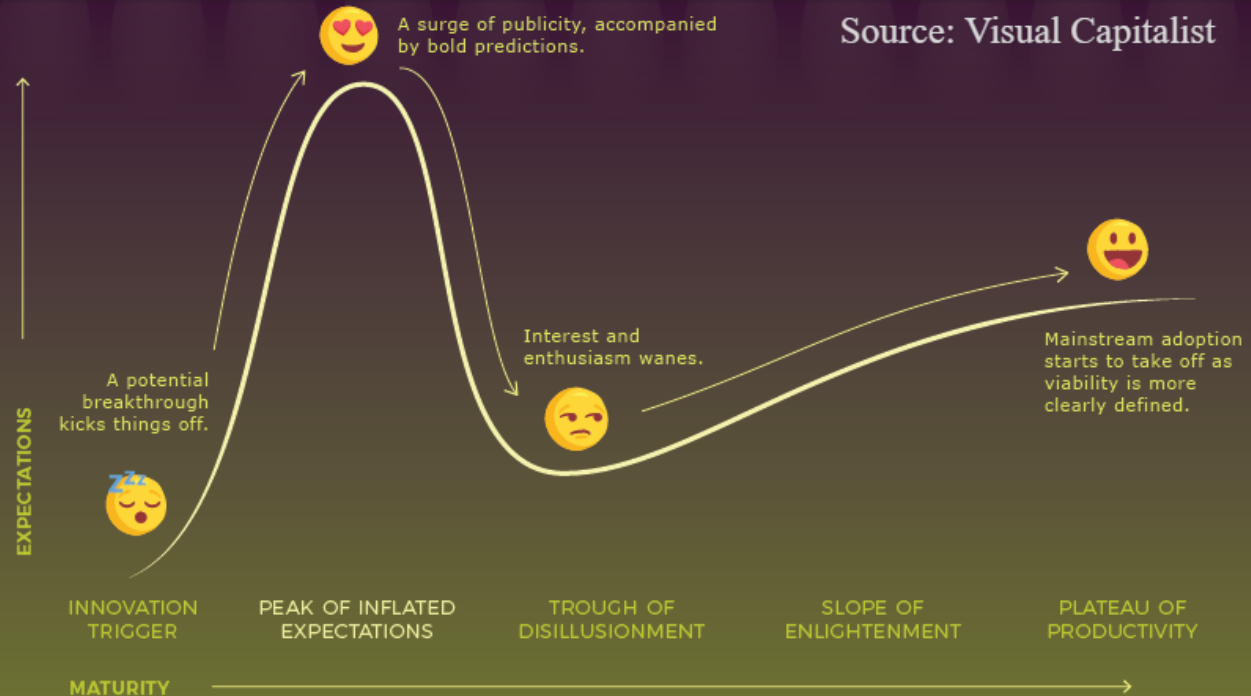
# HYPE CYCLE

When emerging technologies grab the headlines, how can we discern the hype from what's truly commercially viable?

The Gartner Hype Cycle is a graphical representation of a technology's journey, from early public awareness to the point of wide adoption and economic viability.

Today, we'll look back at the history of the **Peak of Inflated Expectations**.

#innovation



## Digital Marketing / Advertising

Internet advertising worth \$273bn in 2018<sup>2</sup>, 43% of total ad spending<sup>2</sup>  
Alphabet and Facebook combined account for c.90% of US market growth<sup>3</sup>

Brand Building → Transaction facilitation

## eCommerce

eCommerce est. \$3.5tr in 2019, c14% of total retail sales<sup>1</sup>

China the largest market at \$1.9tr, more than 3x the US<sup>1</sup>

Number of SKU → Payments, Logistics + Ecosystem

## Payments / Fintech

Global mobile payments worth \$2.73tr by 2023<sup>4</sup>  
2.1bn consumers to pay via mobile wallet in 2019<sup>5</sup>

eCommerce → behavioural change / disruption

## Cloud Infrastructure / Security

By 2021, 44% of application workloads expected to run in Cloud services<sup>5</sup>

Security tailwinds include data breaches, regulation, digitalisation, cyberwarfare

Under-utilisation / cost arbitrage → Elastic Compute / TAM expansion

Source: 1. eMarketer, June 2019; 2. eMarketer, March 2018; 3. BoA / ML / Zenith, US market Jan 18; 4. Payments cards and mobile, 2019. 5. Globe News Wire



## Software / SaaS “Reshaping The World”

Usage based pricing disrupting \$150bn<sup>2</sup> maintenance market  
As penetration rises (~30% today<sup>5</sup>) expect more strategic M&A by incumbents  
SMB adoption / TAM expansion → Enterprise / ‘rip and replace’

## Digital Entertainment

\$122bn gaming market<sup>1</sup> growing to \$152bn by 2020E driven by mobile, DLC / MTX<sup>1</sup>  
eSports: 165m enthusiasts<sup>1</sup> and a market worth \$906m in 2018E, +38% y/y<sup>6</sup>  
Leisure → Connected / Competitive

## Industry 4.0 / Automation

\$381bn TAM by 2023 (c.10% CAGR)<sup>3</sup> enabled by advanced components (e.g. sensors, gears)  
Position repeatability: 0.01mm (robots) / 0.5mm (humans) VS 0.02mm (iPhone6<sup>4</sup>) / 0.1mm (cars)  
Cost savings → Necessity, Flexibility (‘CoBot’) and Consistency

## Connectivity / 5G

Current networks insufficient to support an increasingly connected world  
5G infrastructure spending worth \$26bn by 2022E, +118% CAGR (2018-2022)<sup>7</sup>  
Capacity + latency → IoT enablement

Source: 1. Newzoo, April 2018; 2. UBS, Jan 2016; 3. marketsandmarkets, May 2018; 4. Cult of Mac, 2014. 5. IDC. 6. NewZoo May 2017. 7. ZDNet, 2018.

## Conclusions

1. Disruption happening quicker than you think
2. There is nothing safe in mimicking an index
3. Right side of disruption is critical



**Walter Price, Allianz Technology Trust (ATT)**



**Ben Rogoff, Polar Capital Technology Trist (PCT)**



**James Anderson / Tom Slater,  
Scottish Mortgage IT (SMT)**