

Tech companies offer genuine growth in a low-growth world, says RCM

Walter Price, manager of manager of the RCM Technology Trust, explains:

“The technology sector is entering its next secular growth phase characterised by demand for technologies that reduce costs for business, and improve accessibility by expanding a business’s consumer base. It will also include the creation of markets outside of traditional technology. Solid corporate balance sheets and cost controls have also positioned technology firms to maintain, and in some cases grow, their business despite a pressured macroeconomic environment. While technology may continue to face some near term headwinds as the global economy recovers, we believe growth opportunities abound.

Lessons learned

“Technology companies learned hard lessons from their own recession at the start of the century. Following the 2000-2001 dot com burst, technology companies amassed heavy cash positions that have helped to dampen the effects of recent extreme economic swings and avoid some of the free falls in revenues that took place outside of the sector. Simultaneously, technology firms have cut costs quickly in order to preserve margins. Within the S&P 500 Index sectors, they hold the largest percentage of cash¹, often making investments in the space appealing from a valuation perspective and spurring recent M&A activity in the sector.

Consolidation and cost savings

“Companies across the board have quickly moved into massive cost-cutting mode as the rate of decline in the global economy has placed significant pressure on IT budgets. This means that technologies that provide efficiency gains as well as cut costs should realise strong gains following an economic recovery.

“Companies that offer software as a service under the umbrella of ‘cloud computing’ have created economies of scale for the next generation of enterprise technology². Similarly, worldwide virtualisation and the high end server market that support this technology are expected to grow in 2009 and beyond. Virtualisation software enables cloud computing by allowing one server to communicate with many users’ computers³.

“Enterprise costs on storage are significant and cited by firms as one of the biggest technological challenges to manage as they restructure their data centres following the recession. Customer demand for data de-duplication, whereby redundant files are detected and deleted, led storage leaders to enhance capabilities in the data de-duplication space. Evidence of massive increases in the volumes of digital data combined with a slowdown in storage capacity support the thesis of long term growth within the space.

The internet is still in its infancy

“The internet revolution is still in its early stages and many technology companies stand to benefit from global increases in internet usage. For example, China’s expanding population of users should continue to drive growth for companies in the region. Other firms are creating online ‘supermarkets’ for durable goods while search companies stand to benefit from the worldwide migration of advertising dollars to the Internet. Video gaming has also transitioned to the internet

allowing users to download games directly from an online site to a mobile phone or PC as the concept of convergence takes hold.

Technology & the consumer

"Technology's share of consumer spending is increasing around the globe on the heels of demographic trends towards consumer electronics as an essential element of daily life. We are witnessing the evolution of the consumer segment and a convergence of media, software, and entertainment so that the consumer can access 'anything, anytime, anywhere' on one platform. Adding to the growth opportunity, billions of consumers in emerging markets economies are using technology for the first time where companies have yet to grow significant market share. The internet, and in particular, mobile devices, will be a huge deal in China where information is so tightly controlled.

A growth story you can believe in

"With a global outlook for sub-trend growth, technology companies offer genuine growth prospects. The sector also has the added attraction of being able to capture investors' imagination, with a number of companies renowned for their innovation. People are attracted to technology, which is constantly creating new sub-sectors and new ways of doing things."

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Notes to Editors

1 - Source: RCM/ Strategas & Cazenove/ Factset, as at July/09 (latest available).

2 - 'Cloud computing' is a style of computing in which resources are provided as a service over the internet so that customers do not generally own the physical infrastructure, rather they rent it from a third party – consuming resources as a service and paying only for the resources they use.

3 - Virtualisation allows for higher utilisation rates of IT by essentially splitting a computer's operating system, eliminating the need for multiple servers by enabling enterprises to configure computer usage based upon demand, resulting in lower IT, energy, and space costs.

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About RCM (all data source: RCM as at 31/03/09)

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