

Tech Trends: Bitcoin, ESG and Efficiency

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Bitcoin and ESG continue to be areas of interest for investors. How do these areas affect the technology sector? We interviewed William Sheehan, CFA®, Vice President, Research Analyst, to share our perspectives on upcoming trends in technology.



Bitcoin

Bitcoin was hot through the end of 2017 before its crash. What are the differences between bitcoin and blockchain? What are the current trends you're seeing in blockchain?

Bitcoin is a digital currency based on blockchain technology, using a distributed computer network to record transactions. Ethereum and Litecoin are other prominent cryptocurrencies that use blockchain technology as their ledger. While there may be tremendous value to cryptocurrencies over time, their value is highly volatile and will remain so until the speed and ease of transactions nears parity with cash or other traditional means. Despite all the publicity associated with cryptocurrencies, transaction speed and security still generally remain behind traditional electronic payments.

Beyond cryptocurrency, blockchain offers intriguing business applications. Companies are using blockchain technology for supply chain management to more accurately track products in transit and help monitor product integrity. This extends to health care applications where individual drugs can be tagged to confirm authenticity; securing patient data is another application currently being explored. We believe that many of these applications are still in nascent stages with uncertain monetization paths.

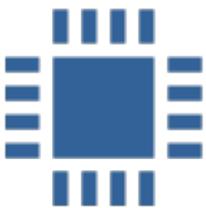


ESG

ESG is becoming increasingly relevant in investing. Do ESG concerns affect your investment process? How do companies use technology to run their businesses in line with ESG principles?

At Westwood we consider Environmental, Social and Governance (ESG) concerns with every investment decision and make sure that our portfolio teams are aware of each position's ESG risks in addition to the stock's traditional, fundamental risk factors. While ESG has become more of a buzzword recently, we believe the general principles of investing in companies with proper ESG considerations is something we have always done.

Technology companies can improve their environmental impact through energy efficient data centers, device recycling programs, or sustainable materials sourcing. We frequently see technology companies use their platforms to promote social causes, sometimes to the point of controversy, yet generally for principles most people agree upon. Governance concerns have become more frequent in tech as companies often go public with founders' class shares that retain voting control while still monetizing their position. While many of these companies may still be excellent investments, we often consider a control discount or need a higher hurdle rate when evaluating these companies.



Efficiency

New innovations in technology are enabling companies to go-to-market with higher quality and efficiency. What trends are you seeing benefit companies? How are analysts thinking about the broader impacts of technology on our day-to-day culture (jobs, information)?

First, technology is inherently deflationary as it creates efficiencies and removes excess profit pools. This can be seen in broader economic data as inflation rates have decelerated, disruption similar to the “Amazon Effect.” Consider how targeted ad campaigns can bring a similar number of customers to a business for a lower cost; conversely, the quick dissemination of information heightens the bar for businesses, making negative reviews potentially lethal. At the end of the day, these trends benefit the consumer by allowing for more efficient spending patterns and time management.

Companies also specifically benefit from these efficiencies – consider how automation and data analysis make knowledge workers more efficient. Consumer relationship management software helps optimize a sales pipeline and track deal progress, thus making sales organizations more efficient. Improved supply chain management has allowed semiconductors to shift toward fabless business models, removing much of their negative operating leverage when end markets soften.

A dark side of efficiency is that fewer workers are needed in certain roles as companies gain efficiencies. While this ends up creating additional higher value jobs necessary to manage automation and interpret data, it also means that existing workers may need training in new skill sets to be eligible for the higher value jobs.

[Read the first part of our interview covering artificial intelligence, augmented reality, 5G and more.](#)



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