



Digitalization Crosses Growth Themes

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Why is digitalization an important growth driver? And how will it affect decisions across many other investment themes? In this discussion with Institutional Investor's Mike Corcoran, William Blair's Hugo Scott-Gall provides his take.

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Mike: Hi, I'm Mike Corcoran and we're here today to speak with Hugo Scott-Gall. Hugo is a portfolio manager and co-director of research for William Blair's global equity team. And we're going to be talking about some growth themes he and his team have identified of late. Perhaps there's a common thread that weaves its way through them.

Hugo, could you tell us a little bit about those growth themes and what that common thread might be?

Hugo: Very happy to, Mike.

We spent a lot of time last year on a big exercise to [map out growth and where we saw it for the next decade](#). Pretty ambitious. We really got to five main areas. I'll just rattle them off for you.

First of all, it was "the rise of machines," which was more than robots everywhere; it was just the inexorable growth of automation.

Then we did "connected commerce," which is the architecture that sits underneath and behind all commerce but

really including e-commerce.

Then was “conservation capitalism,” doing more with less. Decarbonization fits into that.

Then we had “edit genetics,” which is basically using the latest advancements in genetics and healthcare to better understand, detect, and cure illnesses with the outcome of better health.

The last one was “digital reality,” which is more of people’s time, attention, dollars being spent in the digital world.

The common thread to all of that is really technological convergence or digitalization. Digitalization is changing pretty much every industry we look at, pretty much every revenue pool we look at. So, that is a thing that binds those five things together. In a word, digitalization.

Mike: And so now that you’ve outlined that for us, why is it important for investors to consider that?

Hugo: For us, we’re growth and quality investors. Growth is super important.

We are looking for underestimated earnings power and a big driver of that is growth. Now, not all growth companies have underestimated earnings power. But nearly always, the cause of underestimated earnings power is underestimated growth. And we found a pretty consistent pattern in history that when growth is underestimated, it’s usually because there are new or different products or services.

Oftentimes, the market is slow to pick up on the true potential of those new products and services. So, growth really matters because growth leads to—not always, but usually leads to—underestimated earnings power. And where do you get underestimated growth? Often it’s when things are new and different.

Mike: Interesting. So, how do you see these growth themes and digitalization evolving?

Hugo: Well, we think digitalization is going to be a big driver in pretty much every industry. It enables better products; different, deeper customer relationships; greater efficiency.

Put it another way, something like connected commerce, which I mentioned earlier—is that going to be less relevant in 10 years’ time? Is the gross domestic product (GDP) of the internet going to stagnate? We would say no.

Of course, it’s hard to precisely forecast. And that’s the real skill, I’d say, in active investing. That’s what we try and seek to do.

Mike: So, maybe you can bundle all that up then into a final thought about how creating that framework for forecasting helps you as active growth investors.

Hugo: Yeah, so I guess two big questions. One is how big could this growth be? How fast could it be? How predictable is it?

But the second thing is footprint. And so sometimes it’s not the first-order effect. It’s the most obvious places to look that are actually the most rewarding. You need to think about the whole footprint of growth. Who are the enablers of that growth? Who are the suppliers to the suppliers? Who’s lurking in the value chain? Who is the

beneficiary of this growth opportunity but may not be so obvious?

So we spend a lot of time trying to frame the growth opportunity. What's the stage? What's the slope? What's the total size? What could be possible? But also, what's the footprint? So, maybe oftentimes we find it's the less obvious places in the footprint, in the ecosystem of that growth, that makes for the best investment opportunities.

Mike: We've been talking with Hugo Scott-Gall about digitalization and growth themes. Thanks for your time, Hugo.

Hugo: Thank you.

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