TO: McIntire Investment Institute  
FROM: Andrew Mueller  
SUBJECT: Long Fund Election Memo: SPSS (NASDAQ: SPSS)  
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**Company Overview**

SPSS is a computer software company that makes analytic software for use in commercial, government, and academic environments. Their software allows for data mining and analysis of otherwise hidden trends obscured in massive volumes of data. These trends can help discern activities ranging from customer behaviors and preferences to the detection of money laundering and illegal activity. These analysis and prediction tools offer a business intelligence edge in the marketplace that allows firms to better understand their customers and their preferences. SPSS’ products run the gamut of data mining to marketing analysis to fraud detection. Their targeted industries encompass a broad spectrum of markets including retail, finance, education, and national security.

The firm is headquartered in Chicago and maintains a global presence on every continent. It was founded in 1968.

**Products**

*SPSS Statistical Package: Flagship Product*
- Takes business statistics beyond spreadsheets and evaluates the numbers beneath spreadsheet figures.
- Allows firms to have a better understanding of their operations.
- Marketed to organizations with an interest in the underlying relationships between the events that characterize their business operations.
- Wide penetration in the academic market.

*Clementine: Second Largest Product*
- Data mining service. Analyzes large quantities of data to discern otherwise unclear information.
- The latest release of Clementine is a major step forward because it is capable of bringing enterprise-wide information into its analysis with prompt results.
- This product is marketed to organizations looking to find weak areas in their operations and use the results to improve their efficiency.

*Other Products: Niche Analytic Fields*
- Cost estimation
- Customer prediction services for marketers and call centers.
- Algorithm building software
- Predictive modeling
Key Statistics

Market Capitalization: $640 million
P/E Ratio: 26
PEG Ratio: 1.04
P/S Ratio: 2.40
Annual Revenue Growth: 12%
Annual Profit Growth: 46%

Investment Overview

- Data analysis will continue to grow as a business intelligence tool and become more important as firms accumulate more data about their customers and operations.
- SPSS’ products evaluate data at deeper levels than their competitors providing customers with a more versatile product and a greater value.
- SPSS is relatively cheaply valued compared with other firms providing similar products.
- The academic nature of some of SPSS’ products will provide them with greater product diversification, offering a measure of protection from cyclical economic moves.
- Movement into emerging markets as they become more sophisticated will offer an opportunity for considerable growth.
- Responsive firm that is reportedly eager to help customers apply to their specific needs.

Thesis Points

- **Data Analysis Growing in Importance for Business**

  Data analysis and mining techniques are going to be at the forefront of business decision making in the near future. The falling price of data storage is encouraging firms to inexpensively store large amounts of data from their business operations. As a result of this sea of data, firms will need more ways to analyze this information and gather insights into their operations.

  An example of a data mining opportunity is how Google preserves every search and records every website that their customers access. While they use this data to a small degree today, it is being stored with the intention that in the future it will allow them to build advanced statistical profiles of their individual customers and users.

  Most firms collect information from their interaction with their customers and the products and services that SPSS provides give them actionable information from their customers buying patterns and trends. This information offers clear and direct ways to increase customer revenue and satisfaction.
• **Better Analytical Products Than Competitors**

Other major players in the business intelligence and statistical analysis field focus on delivering simplified reports to the end users who lack statistical sophistication. SPSS focuses on providing much more rigorous analysis intended for use by a person familiar with statistical reporting. This places their products in a separate category from their competitors like MicroStrategy and Cognos.

MicroStrategy tries to sell its software based on the principles of plug and play and presenting data in the form of scorecards. This offers managers a simple and clear way to measure their performance. As data analysis technology evolves a focus on plug and play will not appeal to sophisticated customers because it does not offer solutions that are optimized for specific operations. Instead it focuses on more macro level analysis that offers a useful barometer for operations, but not suggestions for positive change. MicroStrategy’s scorecard technology helps firms assess their performance, but it is not focused upon executing change.

Cognos offers similar solutions to MicroStrategy, however with an even greater focus on integration and bringing all of the data under one lens. This technology does have a number of uses however positive analytics will be much more significant in the future because it offers solutions for improving the efficiency of specific actions that lead to broader change. Put simply, SPSS focuses on use micro solutions to achieve macro results, while the other major business intelligence firms focus on macro solutions without the micro level analysis to accompany it.

• **Cheaply Valued Compared to Public Competitors**

SPSS trades with a price to earnings growth ratio of 1.04 which compares favorably to its public competitors MicroStrategy (1.52), SAP (1.63), and Sybase (1.20). Additionally its price to sales ratio at 2.40 is as much as 50% lower than competitors MicroStrategy (4.89) and SAP (4.19).

I believe that SPSS trades at a discount to the other public firms because its products are viewed as being on the fringe of the business intelligence industry and is a relatively small player in the field. As a result Wall Street discounts SPSS on the basis that it is not one of the larger players in the emerging field.

• **Non-Business Applications Offer Counter-Cyclical Diversification**

A number of SPSS’ products appeal to customers from outside the business community. This means that the firm has some diversification from an economic downturn. If business spending were to drop, academic and government spending would at least remain stable. Aside from the academic demand for statistical packages, SPSS has had sales to tax agencies, law enforcement, and national security customers.

• **Emerging Markets: An Untapped Field**

Presently, SPSS only gets approximately 6% of its revenues from emerging markets. The firm has made an effort to expand its presence developing markets. As
companies in the developing world become more sophisticated and adopt western business practices, business intelligence tools will become an important part of their internal analytics.

Since 2004, SPSS’ financial statements have indicated considerable growth in the emerging markets they target. As their revenues from these countries continue to grow they will become a considerable part of their future revenue stream.

- **Customer Friendly and Responsive Firm**

  One of my VAR contacts expressed that SPSS is a more customer centric service provider than the other firms he deals with. SPSS is willing to tailor their products so that they are customized to meet the customer’s specific demands. This is a product differentiation between SPSS and its competitors and will allow SPSS to gain market share in the business intelligence field.

- **Risks**

  - **Competitors May Potentially Develop a Better Product**

    In light of corporate interest in business intelligence, other firms can pursue more advanced products that could render existing products obsolete. While this is possible in fast paced sectors like software, SPSS’ research and product pipeline should help protect them from this risk.

  - **Growth in Business Intelligence Can Falter**

    While the business intelligence field has been growing rapidly over the past few years, its growth can falter or plateau if firms lose interest in enterprise analytics. Such a change would have negative consequences for SPSS because of the firm’s sizeable investments in business intelligence and the high proportion of revenues it derives from these products and services.

  - **SPSS is a smaller firm than most of its competitors**

    SPSS’ relatively small size vis-à-vis other business intelligence firms means that the other firms can drive the sector in a different direction from SPSS’ products. Additionally, dominant software companies with large product suites can use their existing connections with customers to sell their products and block smaller firms like SPSS.

    While this is a notable risk, especially in light of IBM’s recent acquisition of Cognos, I believe SPSS is able to offer a better and more flexible product that will ultimately offer a more compelling sell than mere sales force penetration.
Conclusion

SPSS offers MII an opportunity to invest in a well positioned and innovative firm in an emerging field. The burgeoning business intelligence and data analysis fields are poised for growth because of the positive and quantifiable benefits the software and analysis can offer customers. It has favorable product differentiation with its competitors and current customers favorably review the products and the company’s service. Additionally, among the other public firms in its sector it has the cheapest valuation based on future growth prospects and current sales.

VAR

- Brent Beringer, Regional District Manager ARAMARK
- Cynthia Gasman, Professor, McIntire School of Commerce
- Edward Hall, PhD. Mathematics Products Specialist
- Tim Tolson, Manager, University of Virginia ITC
Idea List

1. I feel like some of the companies in the portfolio have been there for years and we no longer know what the original thesis behind the investment were because of the cyclical nature of MII’s management. I think that we should try to document the key ideas behind an investment somewhere that is semi permanent like the spreadsheet that contains the portfolio. This way the information behind ideas will be readily available so decisions can be made that take into account the original reasoning behind an idea.

2. I think that making the stock picking process more interactive will be very appealing to the club’s general members. We can do this by adding a voting function to the website so people can voice their opinions about the company that was presented that week. It is quite easy to make it so that the results are only viewable by the managers, providing a barometer of the club’s members.

3. MII should look into brief monthly commentary on the portfolio and the markets as a whole. We can put this on the website and probably publish it in the Cavalier Daily. This will serve to bring more attention to the club, both at UVA and off-grounds.