

Big Data Goes Hollywood: Alfred Maydorn

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COMPANIES MENTIONED

- Gener8 Media Corp.
- Qlik Technologies Inc.
- Splunk Inc.
- Tableau Software Inc.

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And now a word from Europe: Investment advisor and author Alfred Maydorn publishes the *Maydornreport* in Kulmbach, Germany, where he researches disruptive high-tech companies with great growth prospects. In this interview with Streetwise Reports' *Special Situations*, Maydorn reveals his top North American picks in the exponentially expanding media and big data spaces, highlighting firms with low profiles, remarkable products and what look to be explosive futures.

Source: [Peter Byrne for Streetwise Reports' *Special Situations*](#)

Special Situations: The ability to introduce technological innovations that disrupt established markets has long been a hallmark of capitalist success, as new firms with cutting-edge technologies overtake older, less-nimble companies tied to outmoded systems. What are some notable examples of innovations that have changed the way information and data services are sold?

Alfred Maydorn: The major technological transformation of our time is in how information is created and distributed on the Internet. Within that historic disruption there continue to be multiple disruptions and opportunities for gutsy investors. Never forget that Amazon.com Inc. (AMZN:NASDAQ) and Google Inc. (GOOG:NASDAQ) began as small, disruptive start-ups. These companies are now e-commerce giants, rivaling Wal-Mart Stores Inc. (WMT:NYSE) for market share.

Another disruptive innovation in information technology was the advent of the smartphone, which, incidentally, was not developed by a small company. It was invented by Apple Inc. (AAPL:NASDAQ) and launched in 2007, with incredible results. At the time, cell phones manufactured by BlackBerry Ltd. (BBRY:NASDAQ) and Nokia Corp. (NOK:NYSE) dominated the talk and texting industry. It did not take long for the iPhone to take over and spawn countless imitators.

"Gener8 Media Corp.'s big data software business could be even bigger than its bread-and-butter 3-D business."

Apple brings to mind a great example of disruption in the high-tech realm: the film industry. Pixar was cofounded by Steve Jobs when he left Apple—temporarily, as it turned out. Risking all its capital, Pixar entered the multibillion-dollar film business market with a fresh technology, and quickly

produced major motion pictures that captivated audiences. At the time, The Walt Disney Co. (DIS:NYSE) was a big player in the film production space. At first, it took no notice of Pixar. But then Disney not only noticed, it became very afraid and, in the end, it bought Pixar at a premium.

Large or small, a truly innovative company will risk everything to fundamentally disrupt the status quo with a breakthrough product. The smaller firms are usually more eager to challenge the status quo, since they have nothing to lose.

SS: Speaking of Pixar, filmmakers are increasingly dependent upon using the latest developments in advanced graphics technology, such as three-dimensional

technology (3-D), to make the next blockbuster even more spectacular than the last one. What companies are realizing success in the virtual-reality creative space in Hollywood?

AM: Because moviegoers absolutely love special effects, the film industry is focusing more on creating snazzy, spectacle-filled shows with state-of-the-art computers. The 3-D film business is growing fast, and several small, specialized companies in this space are gaining market share.

For instance, [Gener8 Media Corp. \(GNR:CNX\)](#) is a Vancouver-based company that works in 3-D for most of the big Hollywood studios. Its proprietary software, G83D, can transform two-dimensional (2-D) movies into 3-D movies after the film is shot. It can also enhance the quality of films originally shot in 3-D format. Gener8 essentially created the content of *The Amazing Spider-Man* and *Harry Potter and the Deathly Hallows: Part 2* inside its computers.

SS: Would Gener8 be able to take a movie like, say, *Gone with the Wind* and turn it into a 3-D film?

AM: Yes. Even large parts of new movies are filmed in 2-D and then converted to 3-D. It typically takes six months to turn a 2-D film into 3-D, working scene by scene, frame by frame. It requires a lot of human sweat and advanced technology, but the final product is worth it, since 3-D is the future of film entertainment.

SS: Given its massive computational abilities, is Gener8 able to diversify into other types of technology markets?

AM: Gener8 recently started up a new division specializing in visual effects called The Feder8tion. The company already employs 200 people, and is growing very fast. It is based in Vancouver, where many film companies are relocating because of the well-educated people who live there. Gener8 is constantly hiring programmers to keep up with the increasing demand for its services. And it is branching out into other functions in the big data field.

SS: Please explain what you mean by big data.

AM: Gener8 was originally set up to focus on 3-D film technologies, which require huge amounts of data to generate every scene. It invented special big data software to make sense of very large, cinematic, pixelated data sets. It turns out that this software can also be used for other businesses, which is very exciting. Thus, Gener8's second venture is building big data software for a variety of business applications. It has entered the cloud-based data management business with its Cumul8 product. The cloud is taking over the information world as we speak.

SS: Wikibon author Jeff Kelly [estimates](#) that the total market for big data will be \$47 billion (\$47B) by 2017. How much of a role will this part of the business have in moving Gener8's stock forward?

AM: Gener8's big data software business could be even bigger than its bread-and-butter 3-D business. Big data is an exponentially growing market because society generates so much new information every day. The trick is not so much about collecting this data; the disruptive issue is to be able to analyze data to find meaningful behavioral patterns. Gener8's patented software performs this task within a convenient user format.

A lot of companies are in the business of developing big data analytics, but the space

"A truly innovative company will risk

is growing so fast there are seemingly no limits to growth for true disrupters. For a lot of tech guys, big data has become their sole obsession.

everything to fundamentally disrupt the status quo with a breakthrough product."

SS: What attracts you to a particular start-up company in this arena?

AM: In the end, only a few start-ups will get really big. The current situation with big data is comparable to the first days of the Internet. In the late 1990s thousands of companies were competing for market share, but only a few survived the shakeout of 2001. It will be the same in the big data business.

SS: What is the key to survival?

AM: To survive, a junior firm needs a great product—a unique, disruptive, saleable and *friendly* product. Gener8's big data software is not only powerfully competent, it is user friendly.

SS: Gener8 has a corporate interest in Reelhouse Media Ltd., an online entertainment distribution start-up. How does Reelhouse compare to giants like Netflix Inc. (NFLX:NASDAQ) and Redbox, which is owned by Outerwall Inc. (OUTR:NASDAQ)?

AM: Reelhouse is Gener8's third business, existing alongside its big data and the 3-D/special effects lines. It owns a 66% share of Reelhouse, which is an online movie platform. Reelhouse is not directly competing with Netflix, Amazon, Hulu LLC (private) or the other platforms. It started out presenting small, private, independent movies for online streaming, and now it has a pilot project with Warner Bros. and a working pay-to-watch model.

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The Reelhouse concept is unique because it allows customers to not only watch movies, but also extras, such as special scenes and interviews with the stars. It is a flexible platform that allows the big studios to market their movies online, which they had tried to do on their own unsuccessfully.

The basic idea is to grow Reelhouse's

market share, and then sell it to a big studio for a profit.

SS: Is Gener8's customer base international?

AM: The company has plans for Reelhouse to broaden internationally, and it also plans for the big data component to go international. But Gener8 is currently focused on North America, except for the 3-D business, where it is working very closely with a Chinese partner. China is poised to be one of the biggest markets for 3-D movies, so that is a really good combination.

SS: Will Reelhouse and Gener8 play the same kind of disruptive role in the film business that, say, iTunes played in the music business?

AM: iTunes is focused on promoting the interest of Apple, as we all know. And Apple wants 30% of the revenues. The big film studios want their own online distribution platform, and Reelhouse could be the solution that they seek.

SS: Any business with a retail consumer base needs to parse the big data tied to their customers' purchasing behaviors. Vast streams of mobile data have

overwhelmed the ability of cyberspace to extract useful information from white noise. Are you following any firms using new technological innovations to collect, sort, tag and visualize these mammoth data sets?

AM: I follow them avidly. A lot of junior companies are in the big data space because the big, established companies are not eager to disrupt themselves. I particularly like [Splunk Inc. \(SPLK:NASDAQ\)](#), which went public two years ago. Its stock price doubled on the first trading day, to \$34. Splunk stock is now worth about \$74/share. Splunk is a fast-growing company—valued at an amazing \$7.9 billion—and investors are paying a high valuation for it. That valuation is about 20x its annual revenue.

SS: What is so special about Splunk that it has attracted all of this capital?

AM: Splunk is tech-focused. It is not so much concerned with data presentation issues as it is with discovering new ways to analyze unfathomable numbers of data points. It is an expensive stock, but well worth buying.

SS: Are there firms similar to Splunk in North America?

AM: Two highly valued juniors in the space are [Tableau Software Inc. \(DATA:NYSE\)](#) and [Qlik Technologies Inc. \(QLIK:NASDAQ\)](#). The valuations of these companies are also very high. Tableau is valued 16x this year's revenue, and Qlik is valued at 5x revenue. Tableau is still not profitable, and the 2014 price/earnings ratio of Qlik is more than 100.

The best way to think about this special situation with big data is that people who invest in a wide range of the newest information technologies are positioning themselves to make a lot of money when one or several of the smaller firms finds its feet and becomes a Splunk, Tableau or Qlik.

"Information is the oil of the 21st century, and the trick is to learn how to drill for it quickly and profitably."

SS: Is there still room for Splunk, Tableau or Qlik stock to move up?

AM: Splunk, Tableau and Qlik are not cheap, but they are also not overvalued. On the other hand, Amazon has been overvalued for the last 16 years. And its stock is up 5,000%. In the end, if an investor wants to make money in this fast-growing space, he or she has to take on some high valuations alongside the riskier but cheaper companies.

SS: Are these firms paying dividends?

AM: Most of the smaller companies of this type are not generating profits right now. It is like in the old days of the Internet. This is a thought worth repeating: Some companies will survive, and will make big money for early investors, and some companies will disappear in the inevitable shakeout.

SS: Who are the primary customers for young firms inventing and developing power apps to negotiate the oceans of big data collected every hour by billions of interlinked devices located all over the planet?

AM: The big e-commerce companies are most in need of the new technologies that start-ups are developing. They want to analyze the kinds of products and services people are looking at in definite places and at specific times. For instance, the ability to crunch big data allows the large e-marketers to target special offers to people at the point of purchase.

But the applications for big data platforms are endless. For example, mining companies can collect and analyze immensely complicated, nonlinear data about drilling operations to better predict pay-offs. And nonprofit organizations engaged in social engineering are jumping to purchase big data analytics and cloud-based data platforms. Governments everywhere are contracting with companies that can provide big data services. And so is the military. Not to mention the National Security Agency.

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In short, all business pursuits need software to parse and model growing streams of data, or they will be left behind. Information is the oil of the 21st century, and the trick is to learn how to drill for it quickly and profitably. In the end, there is so much

space for young companies to grow in this market that a truly innovative and disruptive technology is almost guaranteed success.

SS: What about applying big data technologies in the life science sector, such as investigating the huge data sets in cancer-related genetics? Is there an opening there for the smaller companies?

AM: Yes. A huge opportunity lies ahead in medical research, as you can well imagine. Also in healthcare. Doctors are getting much better about computerized record keeping. Thousands of hospitals across the country generate incredible amounts of information about their clients, which can be invaluable for research if it can be collected, collated and patterned into user-friendly formats.

SS: Are there any other companies that you would like to bring to our attention today?

AM: Frankly, while there are a lot of private companies in the big data space, there are not many public companies available at this time, although that will change. The big plays right now are comparable to Splunk, Qlik and Tableau. Gener8 is a real find. It is an established 3-D company that is branching out as a big data start-up.

Big companies are working hard to find their market niches in this space. Amazon is very active in the cloud arena, as are EMC Corp. (EMC:NYSE) and International Business Machines Corp. (IBM:NYSE). But the young, dynamic companies, like Gener8, have the potential to truly disrupt the status quo and become the next Apple.

SS: How much longer will Gener8 stock remain cheap?

AM: Gener8's current valuation is for its core 3-D business, and its big data business is getting a free ride. If the big data unit gets really big for Gener8, which is a real possibility, the company will be a fantastic growth story. But it is still in a very early stage compared to its potential. It is clearly a worthwhile play.

SS: Thank you, Alfred, for your expertise.

AM: You are welcome.

***Alfred Maydorn** is a German journalist and newsletter writer. He began writing about the stock market 20 years ago and is the cofounder of Der Aktionär. With a weekly circulation of about 40,000, it is Germany's top-selling stock magazine. In his own newsletter, Maydornreport, he focuses on fast-growing technology stocks,*

mainly from North America. Maydorn appears regularly on German financial television as a stock market expert.

If you would like to comment on the content of this interview, engage with the interviewee or any of the companies discussed in this interview, or if you would like to be interviewed by *Streetwise Reports' Special Situations*, please contact Judy Luther at jluther@streetwisereports.com, (707) 981-8999 x311.

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