SIM Sector Presentation: Information Technology

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Agenda

Part I
- Sector Overview

Part II
- Business Analysis
- Economic Analysis
- Financial Analysis
- Valuation Analysis

Part III
- Recommendation
SECTOR OVERVIEW
• Technology Software and Services (software in fields such as Internet, applications, systems, databases, management, home entertainment)

• Information Technology Consulting Services

• Data Processing and Outsourced Services

• Technology Hardware and Equipment (manufacturers/distributors of communication equipment, computers/peripherals, electronic equipment/related instruments)

• Semiconductor and Semiconductor Equipment Manufacturers
• Market Capitalization - $5.87 Trillion
• As a % of S&P 500 – 20.02%
Prominent Companies

- Apple
- HP
- IBM
- Amazon
- Microsoft
- Google
- Intel
- Cisco
- Oracle
- Dell
Performance

• Year to Date – (3.47%)

• Quarter to Date – (4.23%)
Business Analysis

- User/Geography
  - Customers include households and businesses across the world
  - IT is indispensable for nearly every other sector/industry

- Rapidly changing competitive environment
  - Companies must keep pace with technological trends to maintain/capture market share
Life Cycle/Business Cycle

- IT generally overperforms during early/middle states of the business cycle
- IT consistently underperforms during late and recession stages of business cycle
- Cyclicality is affected by a number of factors
  - Interest rates/credit movements affect business customers’ ability to finance products
  - Economic factors impact disposable income available to households
  - IT is generally heavily capital intensive – interest rates/credit environment heavily affect the firms’ ability to finance their investments
- IT is becoming increasingly globalized – strong growth opportunities in emerging markets
- General decrease in product life cycles – result of technology change/innovation
Porter’s Five Forces

- Competitive Rivalry – High
- Competition based on price, product offering, technological development, market economics
- Barriers to Entry – High
  - Capital Intensive
  - Network Effects
  - Large Economies of Scale
- Availability of Substitutes
  - New innovations help to dictate market shares
  - Industries are highly fragmented
Porter’s Five Forces (continue)

• Buyer Power – Medium
  - Buyers willing to pay premium for quality, reliability
  - Switching costs vary by customer
  - Buyers of large amounts do hold clout, some power

• Supplier Power – Medium
  - Firms demand reliability from suppliers, provides pricing leverage for reliable suppliers
  - Vendors look to establish lasting partnerships – lock-in effect
ECONOMIC ANALYSIS
Tech Unemployment Rates

“It's a great time to be in tech. The unemployment rate for the technology industry dipped to the lowest rate since the second quarter of 2008, and tech pros are feeling very confident as the number of voluntary departures rises to historical highs, setting up a perfect storm for the tech-hiring environment.”

— Shravan Goli, President of Dice

Source: Bureau of Labor Statistics; overall unemployment rate is seasonally adjusted — Technology (computer and math) is not seasonally adjusted.
Gross Domestic Product (GDP) vs. IT Sector
Consumer Price Index (CPI) vs. IT Sector

US Consumer Price Index: Information Technology, Hardware and Services

Source: BLS
Consumer Price Index (CPI) vs. IT Sector
FINANCIAL ANALYSIS
Revenue vs. Gross Margin vs. Profit Margin

S&P 500 INFO TECH INDEX

221.05 48.41 15.51
Gross Margin IT vs. Others
Profit Margin IT vs. Others
ROA and ROE

ROA 9.17%

ROE 19.41%
ROE IT vs. Others

INFO TECH
VALUATION ANALYSIS
IT Sector Basic EPS
IT Sector P/E
IT Sector P/B
IT Sector P/S
### P/E Multiples

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<th>High</th>
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RECOMMENDATION
Recommendation

• Sell in short term
  ✓ IT sector is cyclical
  ✓ Current state of business cycle is late (IT tends to underperform late in the business cycle).
  ✓ Current portfolio is overweight relative to the S&P500.

• Hold in long term
  ✓ IT sector has historically outperformed the S&P500.
    ▪ EPS ratio is higher.
    ▪ Customer demand will continue to be strong given the indispensability of the products offered by the sector.
Questions?