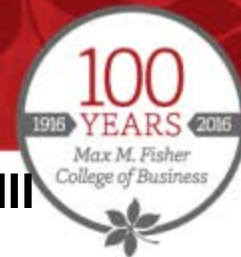


# SIM Sector Presentation: **Information Technology**

Presenters: Evan T. Sarosi, Guillermo A. Schnell, and Regine See

# Agenda



## Part I

Sector Overview

## Part II

Business Analysis

Economic Analysis

Financial Analysis

Valuation Analysis

## Part III

Recommendation



# SECTOR OVERVIEW

# Information Technology Sector - Industries



- 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

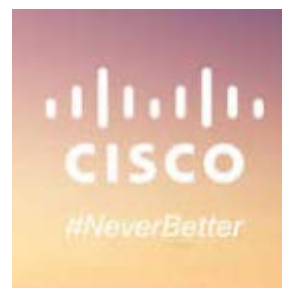


- Market Capitalization - \$5.87 Trillion
- As a % of S&P 500 – 20.02%

# 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
- Cyclicity 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 loo to establish lasting partnerships – lock-in effect

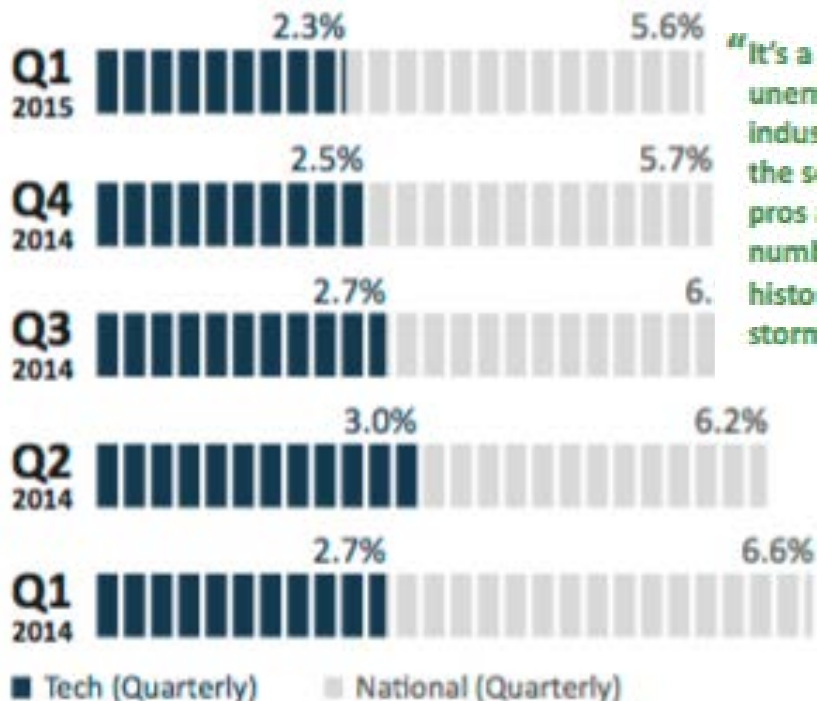


# ECONOMIC ANALYSIS

# Unemployment rate vs. IT Sector



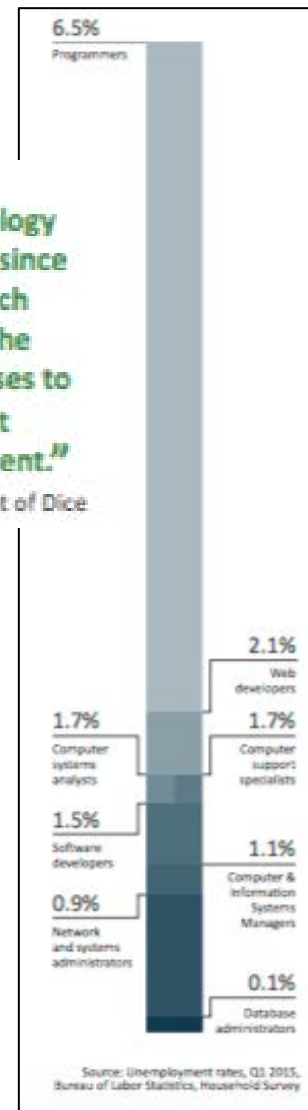
## Tech Unemployment Rates



*"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."*

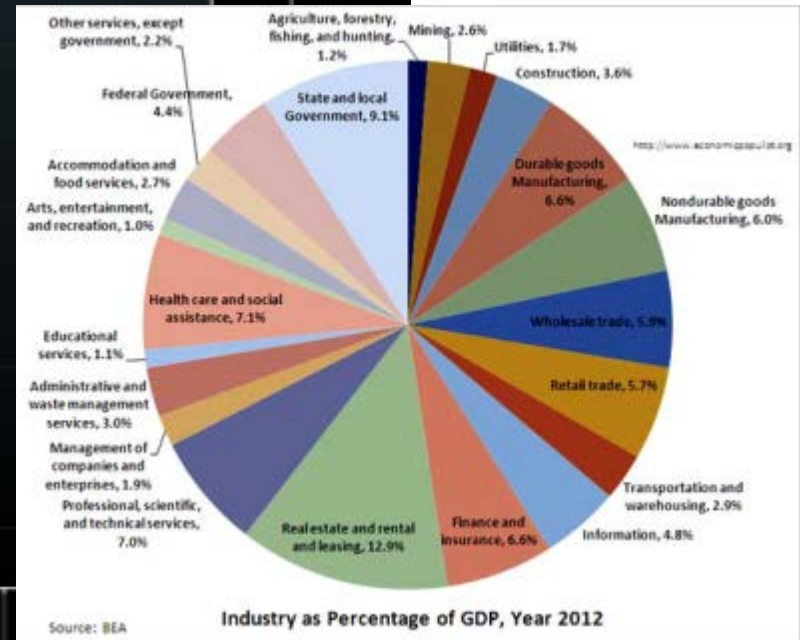
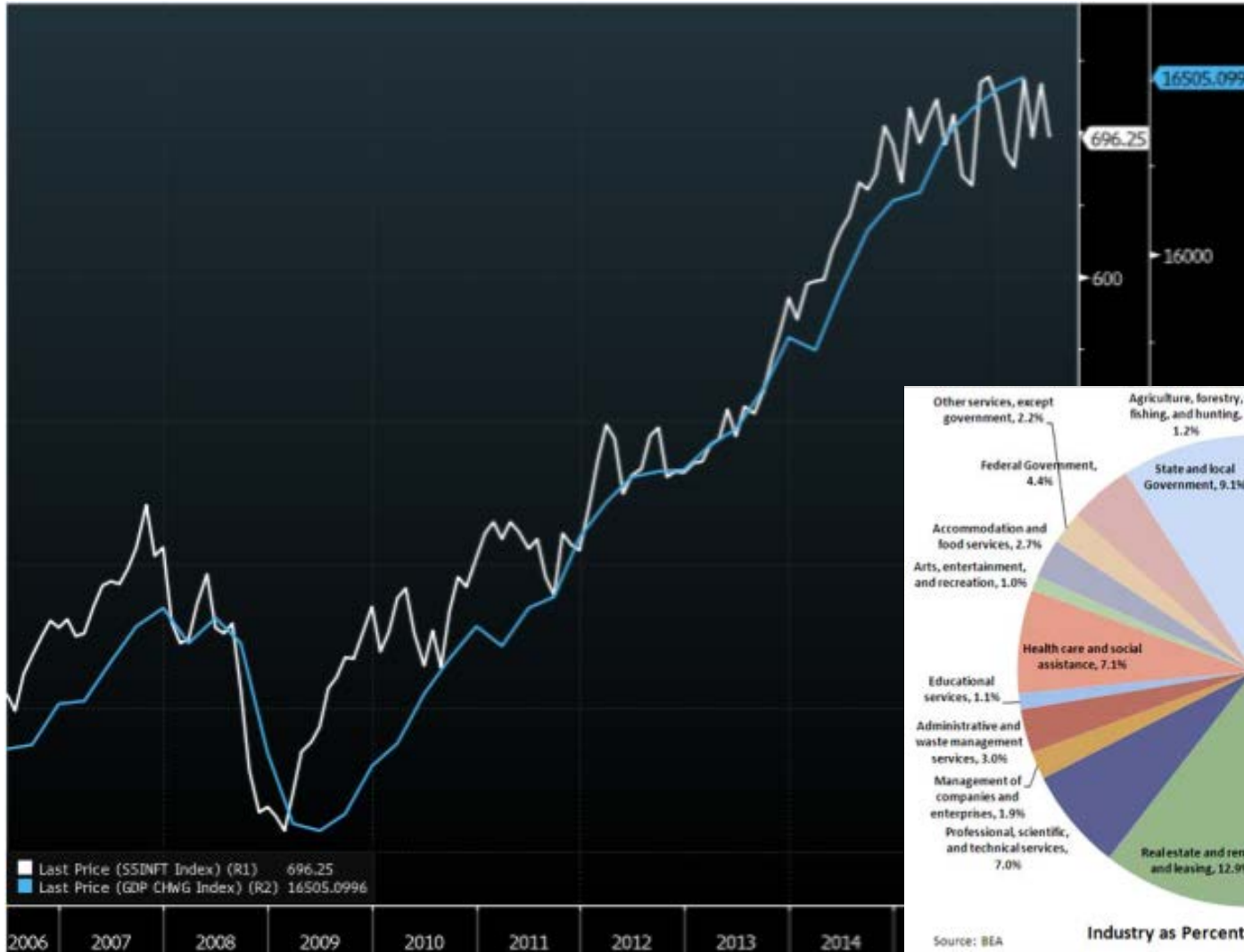
— Shrawan Goli, President of Dice

Source: Bureau of Labor Statistics; overall unemployment rate is seasonally adjusted – Technology (computer and math) is not seasonally adjusted.

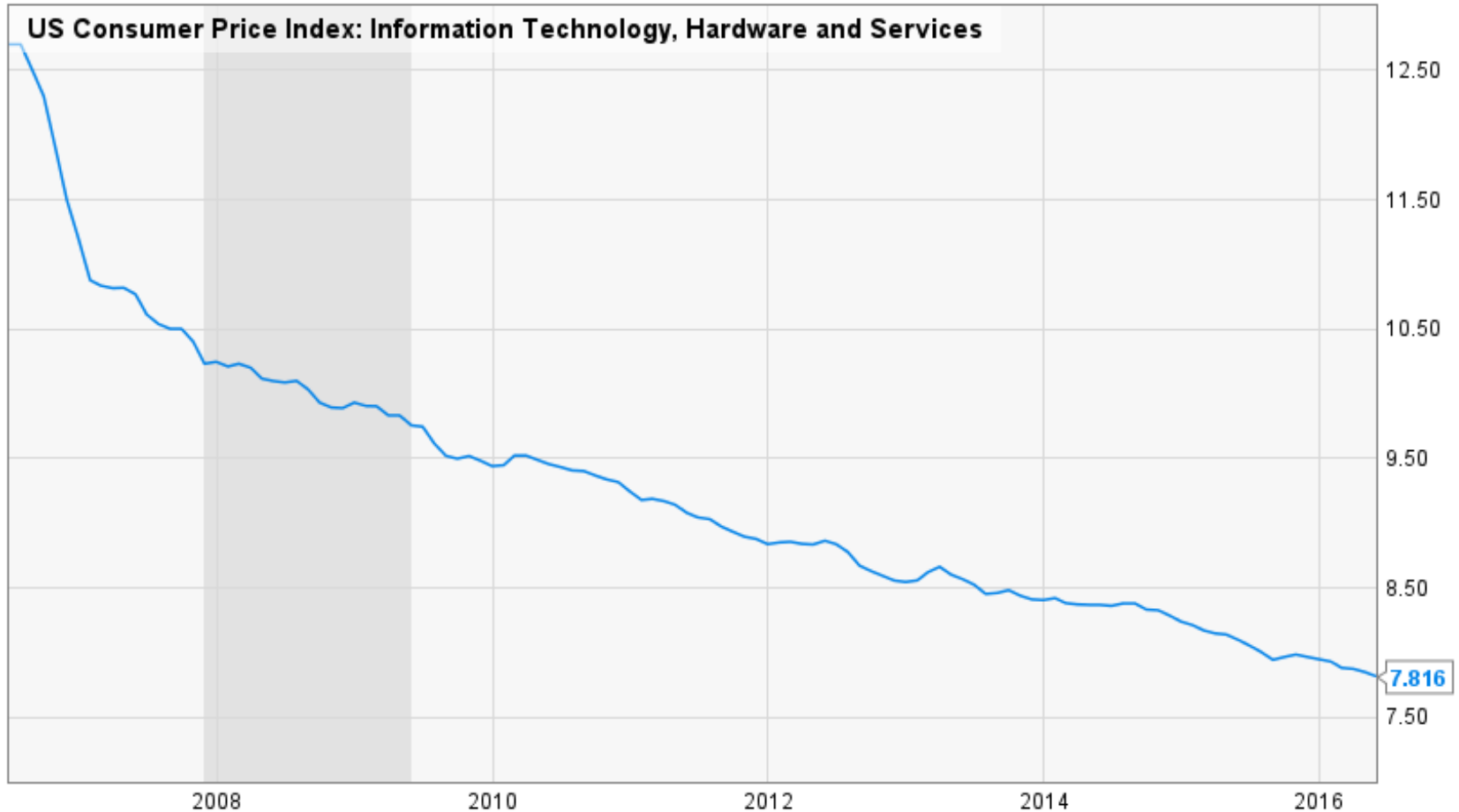


Source: Unemployment rates, Q1 2015, Bureau of Labor Statistics, Household Survey

# Gross Domestic Product (GDP) vs. IT Sector



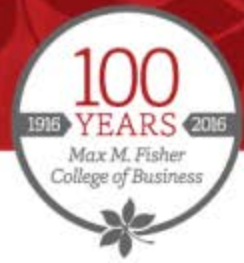
# Consumer Price Index (CPI) vs. IT Sector



Source: BLS



# Consumer Price Index (CPI) vs. IT Sector



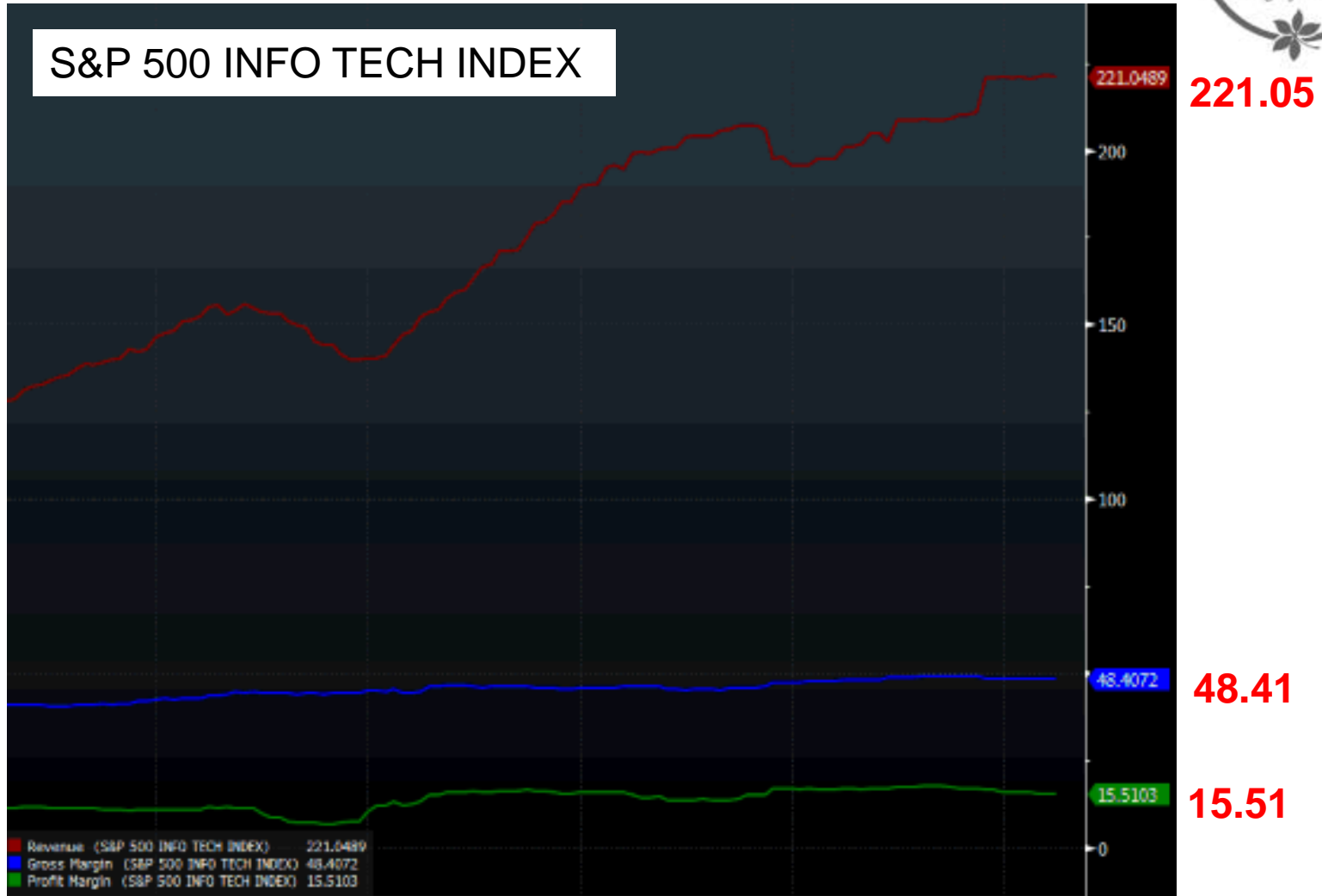
18.69

1.02



# FINANCIAL ANALYSIS

# Revenue vs. Gross Margin vs. Profit Margin



# Gross Margin



## Gross Margin

### Gross Margin Statistics

High	Average	Low
54.62 %	45.75 %	41.23 %
1. quarter 2015		1. quarter 2005



### EBITDA Margin Statistics

High	Average	Low
29.96 %	20.65 %	7.68 %
3. quarter 2014		2. quarter 2015

### Operating Margin Statistics

High	Average	Low
23.04 %	15.85 %	2.91 %
4. quarter 2014		4. quarter 2015

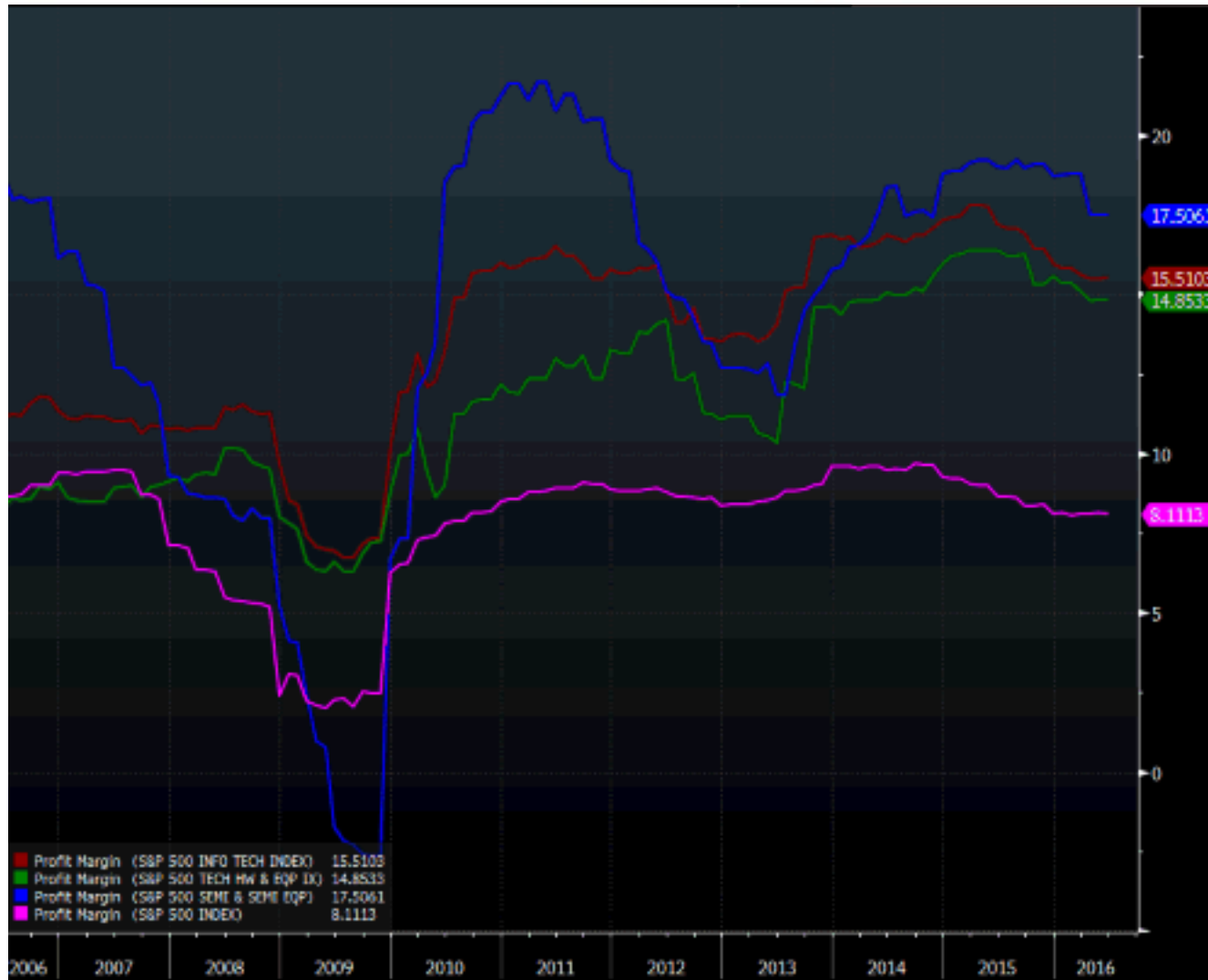
	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	Current	CY 2016 Est	CY 2017 Est
12 Months Ending	12/31/2009	12/31/2010	12/30/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	06/24/2016	12/31/2016	12/31/2017
Gross Margin	44.89	46.29	45.81	45.13	47.45	48.80	48.50	48.41		
EBITDA Margin	22.13	25.64	26.00	26.25	26.99	28.99	27.05	26.49		
Operating Margin	16.27	20.74	21.01	20.57	21.08	21.98	20.48	19.89		
Profit Margin	10.13	16.01	15.78	13.51	16.86	17.33	15.95	15.51		

# Gross Margin IT vs. Others



**INFO TECH**

# Profit Margin IT vs. Others



**INFO TECH**

# ROA and ROE



**ROE  
19.41%**

**ROA  
9.17%**

Return On Equity Statistics		
High	Average	Low
24.77 %	18.03 %	-1.15 %
2. quarter 2011		1. quarter 2016

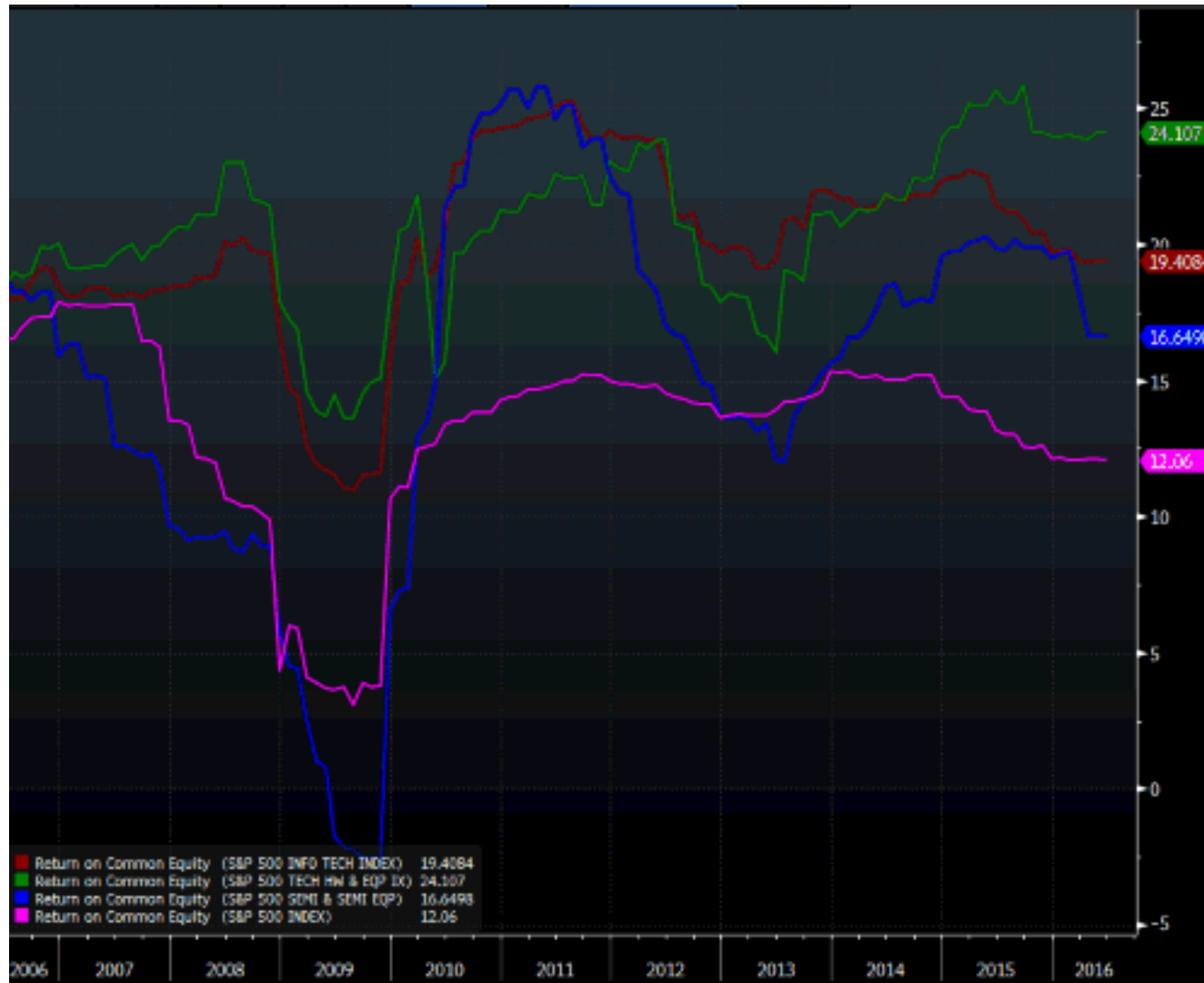
Return On Equity Sector Ranking	
Within:	No.
S&P 500	# 12

Return On Assets Statistics		
High	Average	Low
12.79 %	9.38 %	-0.54 %
2. quarter 2011		1. quarter 2016

Return On Assets Sector Ranking	
Within:	No.
S&P 500	# 12

	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	Current	CY 2016 Est	CY 2017 Est
12 Months Ending	12/31/2009	12/31/2010	12/30/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	06/24/2016	12/31/2016	12/31/2017
Return on Assets	7.99	12.34	12.33	10.14	11.41	11.27	9.52	9.17	12.66	11.72
Return on Common Equity	15.76	24.27	24.15	19.64	21.91	22.32	19.72	19.41	26.78	25.81
Return on Capital	12.63	20.07	19.87	16.02	17.51	17.64	15.04	14.49		

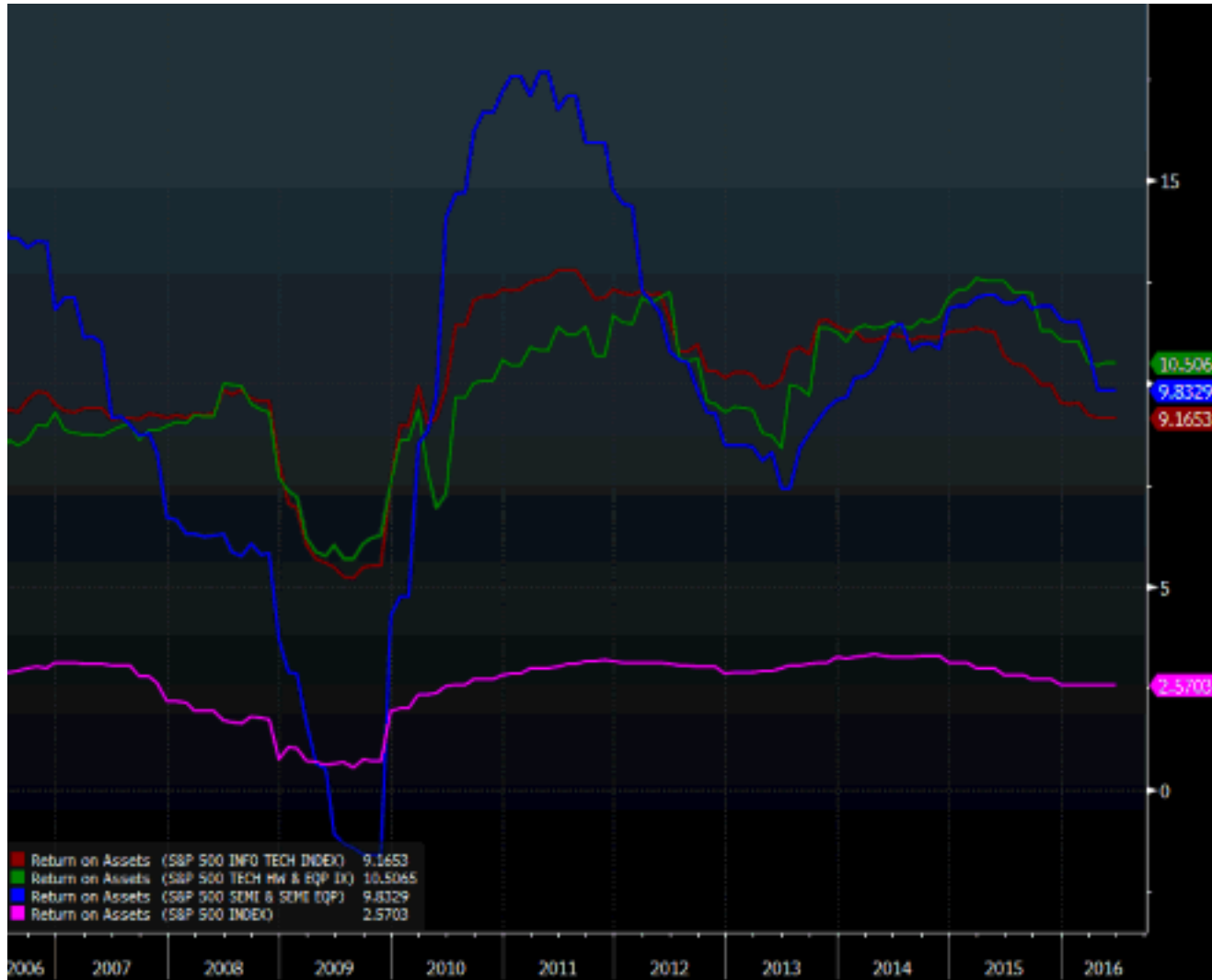
# ROE IT vs. Others



**INFO TECH**



# ROA IT vs. Others



**INFO TECH**



# VALUATION ANALYSIS

# IT Sector Basic EPS



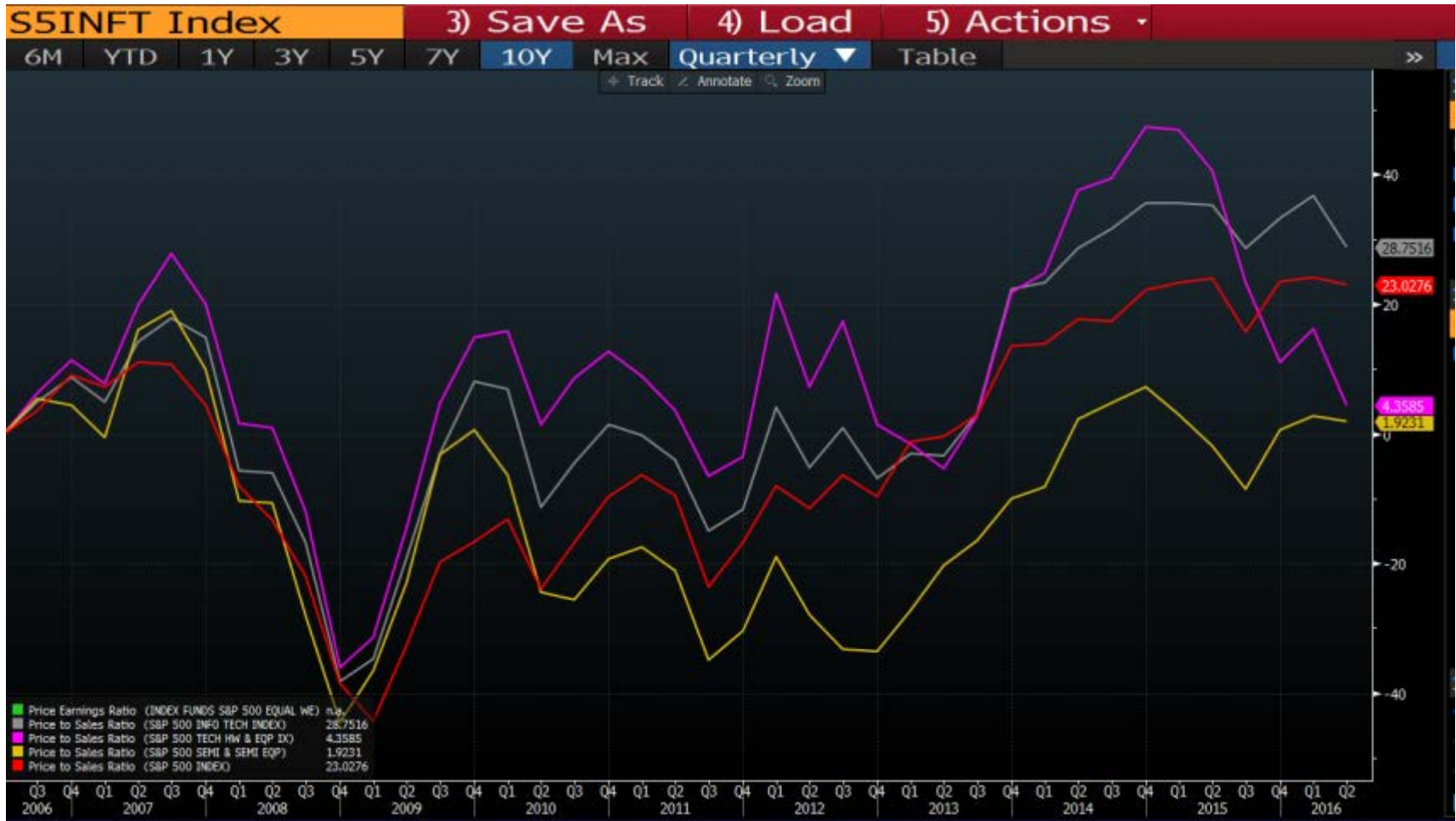
# IT Sector P/E



# IT Sector P/B



# IT Sector P/S



# P/E Multiples



	High	Low	Median	Current
Information Technology	26.4	11.7	18.19	18.66
S&P 500	24.0	11.95	16.62	18.87
Activision	29.10	9.44	17.47	19.94
Vantiv	23.74	14.41	17.76	19.94
Micron	105.63	5.32	9.09	99.32



# 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?