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Technology Research

Industry Update

February 3, 2018

Thoughts on Friday's Sell Off and Panic in the Air; Focus on Tech and Strong Secular Themes/Names

Daniel Ives, Head of Technology Research | 917.210.3220 | daniel.ives@gbhinsights.com

With Friday's massive sell off we are seeing risk rapidly being taken off the table as investors anxiously await post the Super Bowl what Monday markets and the week ahead will bring in terms of either more "red tape" or a potential rebound. While we can fret about a 3% 10 year and where it is heading and various technical analysis/charts, ultimately its hand holding time again and we encourage investors to see the forest through the trees on the massive secular themes, growth drivers, and profitability/margin prospects especially within the technology sector for 2018 and beyond. To this point, fundamentally speaking looking back on 4Q earnings season thus far the vast majority (75%) of S&P 500 companies have reported positive EPS surprises/beats and roughly 80% have reported positive revenue upside. According to Factset, this would be the highest quarterly beat for the S&P 500 (if it holds for the rest of earnings season) since this metric started being tracked over 9 years ago and speaks to the healthy enterprise/consumer spending environment heading into 2018 in our opinion.

From a high level, we have seen strong outlooks and guidance for 2018, a step up in hiring plans/R&D initiatives, tax reform tailwinds, and healthy underlying growth drivers across the enterprise, infrastructure, and consumer ecosystem. On the technology front, we have witnessed blow out results and guidance from the likes of stalwarts Amazon and Netflix over the past few weeks with also robust results despite some blemishes from Alphabet (TAC expense issues) and Facebook (News Feed overhang). On the consumer names, the ad growth trends, consumer e-commerce spending patterns, streaming engagement metrics and net subs adds, and content trends have all been very bullish for FANG names in particular heading into 2018 and should translate into multiple expansion (despite near term volatility) and Street numbers steadily moving higher throughout the year in our opinion. Apple continues to be a "battleground stock" which although the supercycle thesis have been shelved for now, we still believe rising ASPs, 350 million iPhones in the window for an upgrade over the next 12 to 18 months, 3 major smart phone launches planned in the next 9 months, and a $200 billion+ cash outlay to investors during 2018 in the form of buybacks/dividends should enable the stock to stabilize and move higher from these levels back into the $180-

$200 range by year end as Cook & Co. have another "prove me" period ahead to get the bulls back on board the Cupertino train. On the enterprise spending market, we strongly believe cloud, big data/analytics, and cyber security are the core secular trends to play in this market with Microsoft's "eye popping" Azure cloud growth numbers this past week speaking to this transformation cloud trend manifesting in the field with Redmond front and center. We continue to believe big data/analytics driven product cycle names such as Splunk and Tableau remain front and center as core ways to play this growth theme in 2018 with next generation cyber security spending trends looking strong in the field despite heated competition with Palo Alto, Check Point, Qualys, Fortinet, and Proofpoint as the stocks disproportionably well positioned to benefit from this key enterprise spending theme over the coming year in our opinion. Overall, while it's been a nerve-racking week for the Street and the bulls, we believe the tech sector led by our favorite secular winners have massive underlying growth drivers and compelling fundamental stories (coupled by roughly $350 billion of repatriated cash being deployed based on our estimates) in 2018 that create attractive risk/rewards on these near-term market pullbacks, despite the bears coming out of their hibernation and caves.

Daniel H. Ives
917.210.3220
daniel.ives@gbhinsights.com