

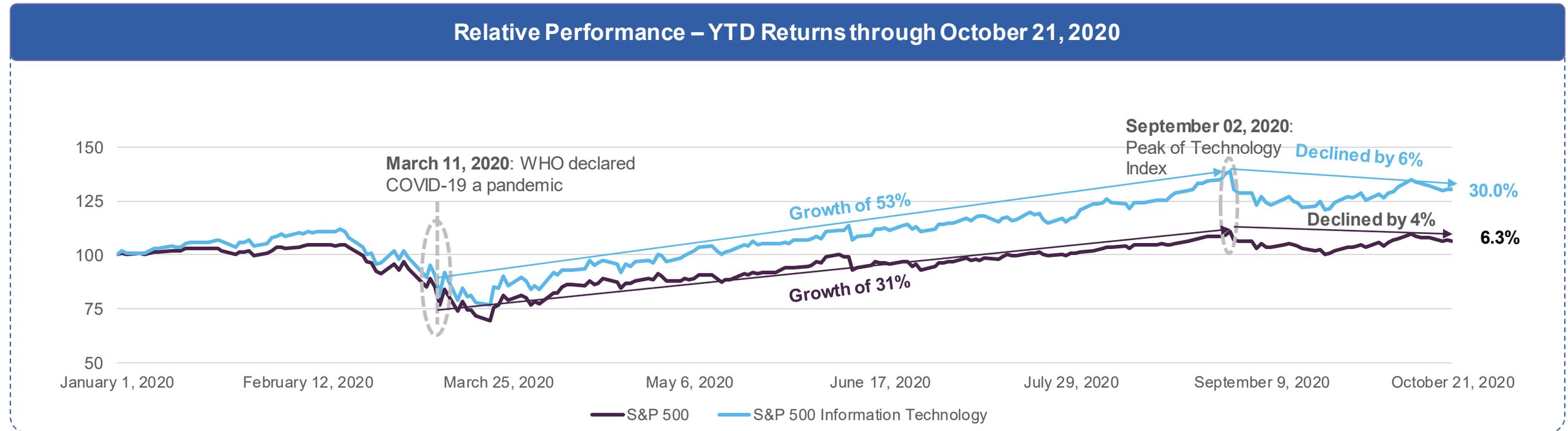


Technology Sector Q3 2020 Update

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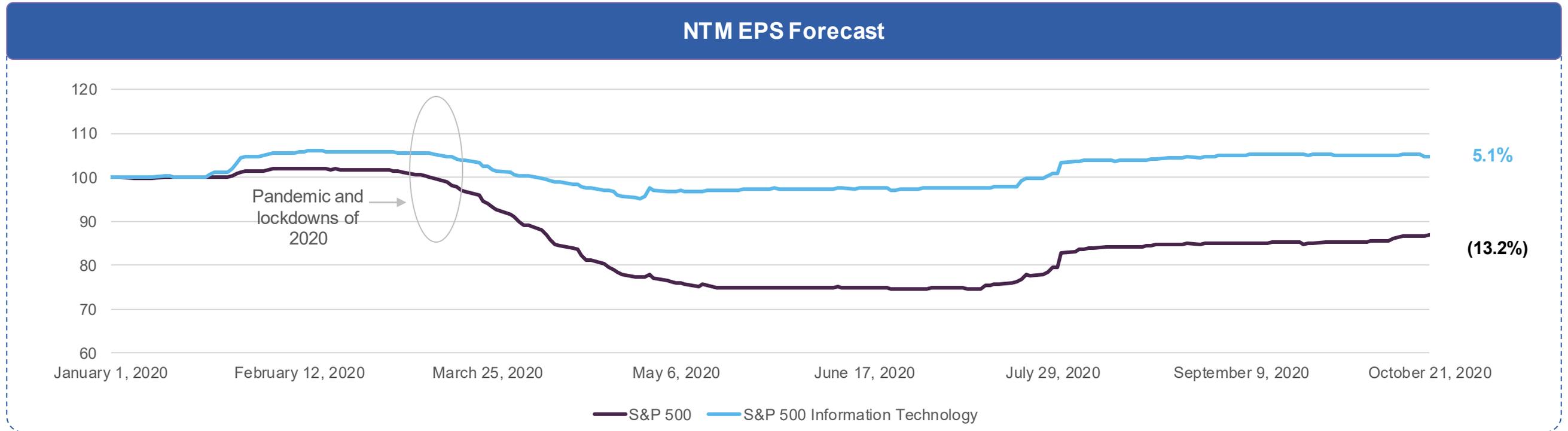
Corporate and Investment Banking Practice

Technology sector has significantly outperformed most other sectors



- Technology stocks have witnessed unprecedented gains in recent months
 - As of October 21, 2020, the S&P 500 Information Technology index reported a remarkable 30% increase since the beginning of 2020
 - Both software and hardware stocks significantly outperformed those of most other industries during the COVID-19 pandemic
- However, there is a widespread concern of a tech bubble and continued worries around tech stock valuations being too high
 - In contrast to the dot-com bubble (in the late 1990s when tech-valuations were very high), the current growth in the technology sector has been supported by strong earnings delivery and is reflective of the increased demand for "essential" services, strong balance sheets, superior profitability, and consistent free cash flow generation
- As of October 21, 2020, the tech index witnessed about 6% correction, after it had peaked on September 2, 2020 levels
 - This was mainly due to uncertainty around the new US fiscal stimulus, as well as rising number of global coronavirus cases (due to second and third wave of COVID-19)

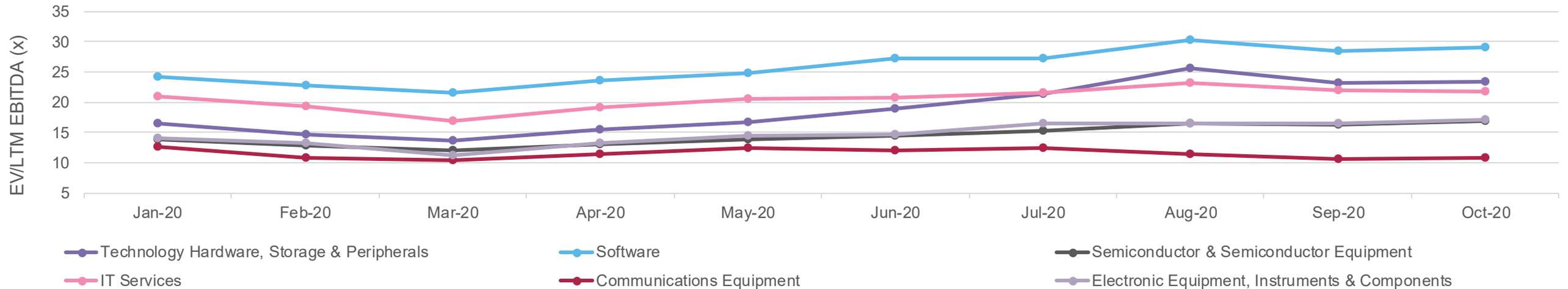
Fundamentals are supportive; earnings estimates for technology sector have moved above their pre-pandemic highs



- Consensus estimates expect 5% earnings growth for the technology sector in 2020, the best among the earnings growth of all 11 S&P 500 sectors
 - Earnings for S&P 500 technology companies is likely to decline by just 0.6% from that in the previous year's third quarter, the smallest decline among all sectors. Earnings for the entire S&P 500 is expected to fall by 21.3% y-o-y in Q3 2020
 - In fact, apart from healthcare and utilities, technology was the only other sector to produce earnings growth in in Q2 2020
- These earnings justify the sector's premium valuation
 - The tech sector is trading at a PE ratio of ~24.0x estimated 2021 earnings, which is ~22% above that of the broader S&P 500 group
 - The sector accounts for 15% of trailing 12-month S&P 500 earnings and an even higher proportion of forecast earnings (20% of 2023 earnings)

Technology sub-sector valuations witnessed upward trend during Q3 2020

Technology Sub-sectors Valuations – EV/LTM EBITDA through October 21, 2020



Software

- ✓ Software has outperformed other tech verticals
 - Rapid digital transformation and migration to cloud has enabled significant growth for cloud companies, such as Salesforce.com and ServiceNow

Semiconductor & Semiconductor Equipment

- ✓ Sustained momentum through Q3 2020
 - Logic and memory sub-segments showed resilience, owing to continued investment in data centers and hardware sales to support work-from-home, gaming, and 5G phones
 - Weak auto and industrial markets affected the analog and microcontroller verticals

Hardware, Storage & Peripherals

- ✓ Hardware segment has benefited from work-from-home trends
 - Increase in demand for PCs for home entertainment and distance learning, as a result of the COVID-19 pandemic
 - Cloud-related IT infrastructure investments will help the segment to remain resilient over the years

IT Services

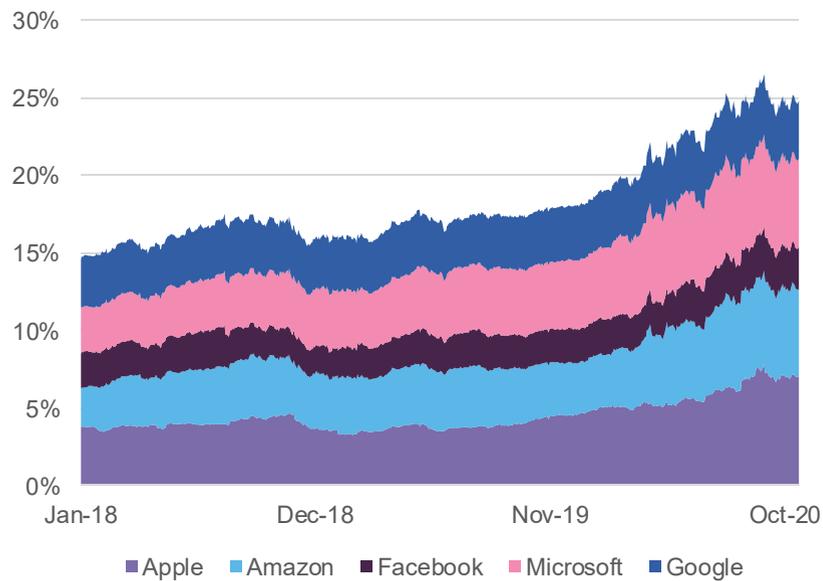
- ✓ IT services expected to remain slow
 - Digital transformation continues across businesses, with IT spending focused on projects to ensure employee productivity
 - Growth-oriented projects that have longer payback periods have largely been delayed

Source: S&P Dow Jones Indices website

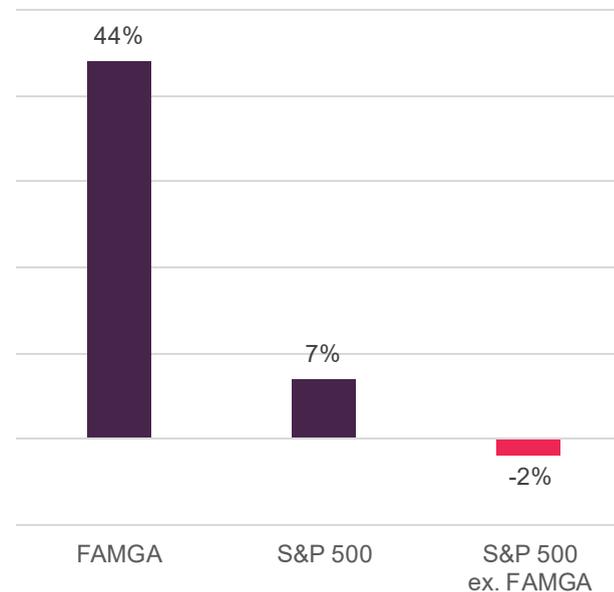
Big Tech is boosting stock market returns

FAMGA Stocks Outperforming Since the Pandemic

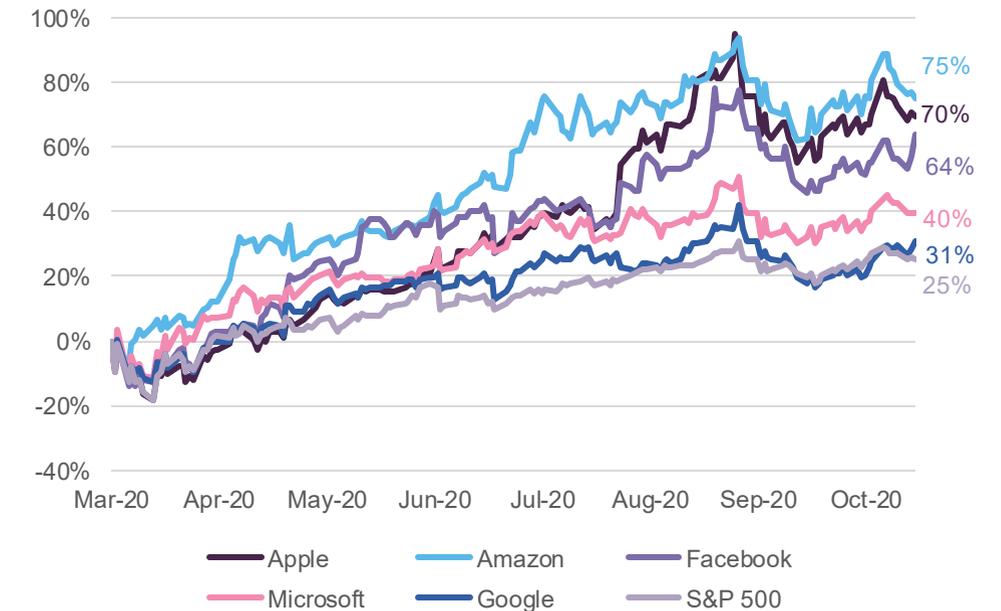
FAMGA Stocks Contribution to S&P 500



YTD Stock Performance



Stock Performance Since Pandemic



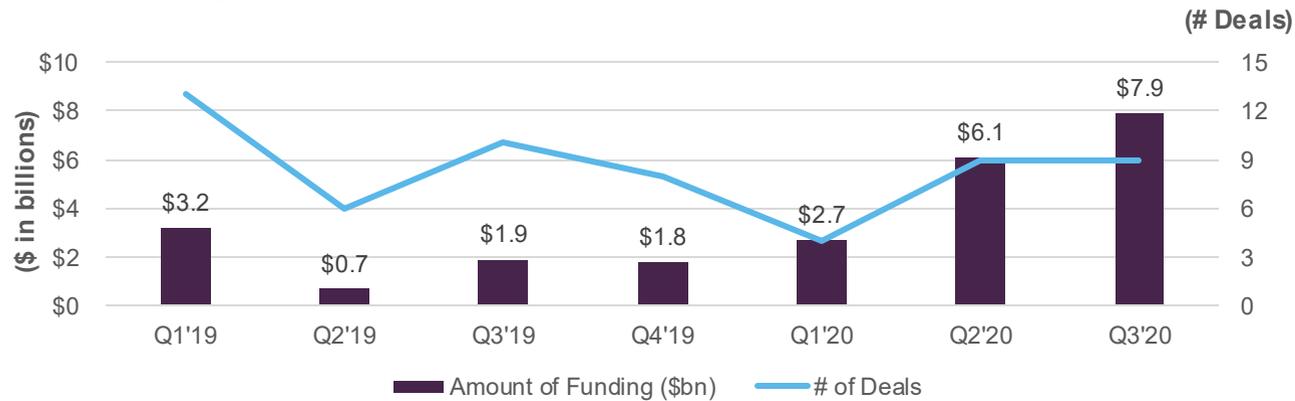
- Top five tech giants FAMGA (Facebook, Apple, Microsoft, Google and Amazon) have been highly profitable
- Increased interest of investors in the technology sector this year has amplified the weight of the FAMGAs in the S&P 500 Index to a record high of 25%, showing 65% increase from their weight three years ago
- FAMGA stocks have been outperforming the overall market since the COVID-19 outbreak was declared a pandemic on March 11, as consumers continue to spend more time and money online
 - The growth has been fueled by a boost in secular trends (such as cloud spending and e-commerce) that continue to be expedited by the pandemic. Consequently, the companies are expected to continue to capture an increasing share of their respective markets

Source: S&P Dow Jones Indices website

Big Tech continues to invest amid the pandemic

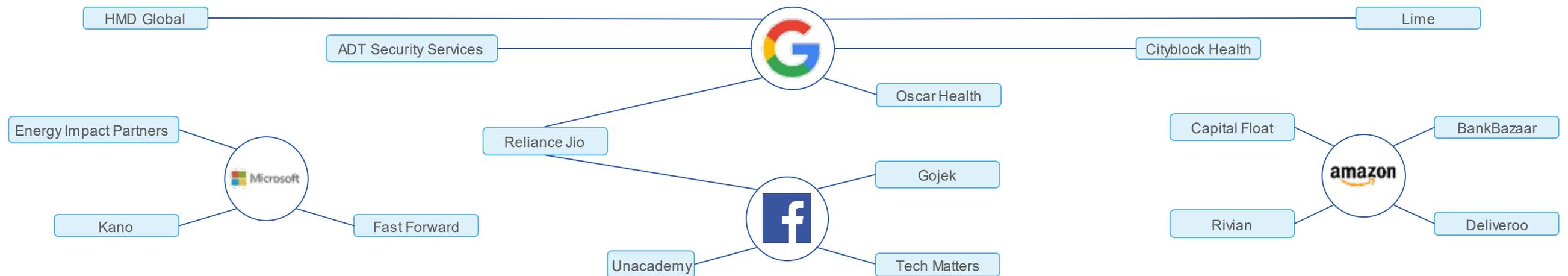
FAMGA's Recent Investments Amid the COVID-19 Pandemic

Equity Investments / Acquisitions with FAMGA Participation



- A third of the investments made by big tech companies in the past six months were in India-based companies
 - Alphabet, **Google's** parent company, has made the most investments among the FAMGA cohort since the start of the pandemic. The company has participated in six deals since March, and made most investments (4 rounds) in Q3 2020
 - In April, **Facebook** invested \$5.7B for a 10% stake in Reliance Jio, three months before Google's investment into the company
 - Two of **Amazon's** 2020 investments were also in India-based companies. Since the declaration of the pandemic, the e-commerce giant has participated in a \$3.8M Series D tranche to loan and insurance policy aggregation platform BankBazaar and a \$15M Series E to SMB lender Capital Float

Big Tech Investments Amid the Covid-19 Pandemic



Source: CB Insights