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Information Technology Sector Analysis

Sector Overview

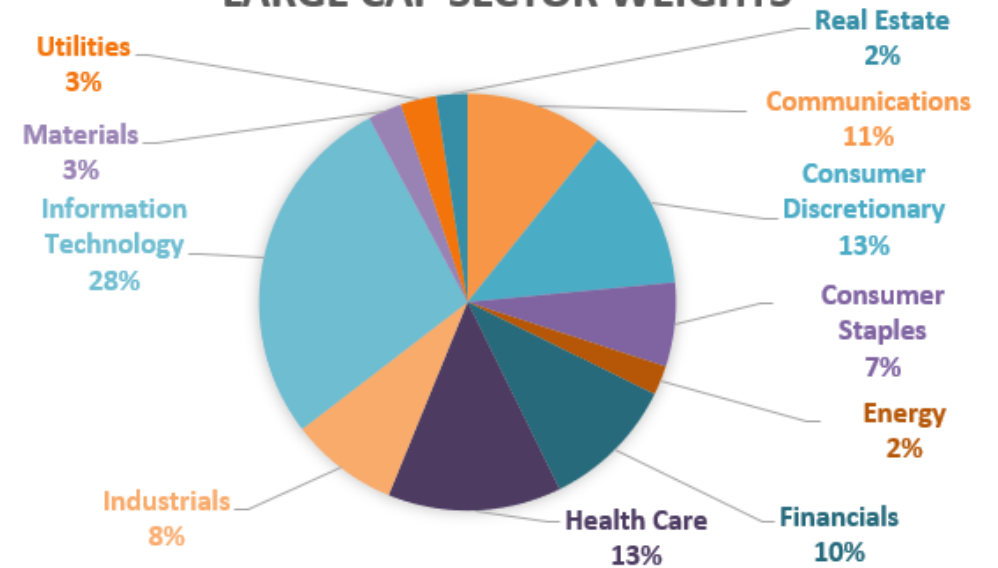
Sector basic characteristics

- ❖ Largest sector in the market
- ❖ Life Cycle: Less cyclical as businesses are becoming centered around technology making it essential
- ❖ Technology sector is currently 28.15% of the S&P 500

Sector Fundamentals AS OF 02/12/2021

P/E (Last Year GAAP Actual)	48.92
P/E (This Year's Estimate)	34.94
Enterprise Value	\$728.89B
EPS (TTM)	\$3.81
EPS Growth (TTM vs. Prior TTM)	30.70%
Revenue Growth (TTM vs. Prior TTM)	18.89%
Return on Equity (TTM)	28.37%
Return on Investment (TTM)	18.42%
Total Debt/Equity (TTM)	87.62
Dividend Yield	1.10%

LARGE CAP SECTOR WEIGHTS



Sector Overview

Sample Firms



- ❖ 5 distinct subsectors
- ❖ Heavily dominated by large cap stocks
- ❖ Represents fast growing and emerging industries

Industry

Market Cap

Top 10 Firms

Software

3T



Semiconductors & Semiconductor Equipment

1.9T



IT Services

1.8T



Electronic Equipment, Instruments & Components

300B



Communication Equipment

116B



3

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Performance



- Index Performance (TTM): **37.67%**
 - ❖ Currently pushing all time highs
 - ❖ All subsectors except Communication Equipment have outperformed the S&P 500
- S&P 500 Performance (TTM): **18.47%**
 - ❖ Growth sector, with historically expensive equities

Semiconductors

52.73% SOXX

Software

54.30% PJS

IT Service

31.41% FBSOX

Communication Equipment

7.46% FDMIX

Electronic Equipment

51.60% Schwab

Sector Business Model

Business Model

Sector covers a wide range of business that push new technology to meet customer demands and wants, through software, computer equipment, and other technologies

Consumer Demand

Business Activities

Consumers for Information Technology are varied from retail consumers, Governments, small businesses, and corporations. Demand is strong and has continued to grow over recent years.

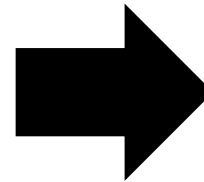
Software, Cloud Platforms, PC Equipment, Semiconductors, Communication Equipment, Payment platforms, and many more

Inputs

Gold Copper Steel Silicon
Silver Aluminum Iron

High Skilled Workers Servers

Computer Equipment



Output

Computer Equipment Semiconductors
Computer Parts

Consumer Software Cloud Platforms

Enterprise Management Software

Industry Drivers

Cloud

- ❖ Fast growing segment of Information Technology
- ❖ Segment expected to triple in revenue in the next 7 to over \$700 Billion

AI

- ❖ High demand from customers for AI driven solutions
- ❖ Segment expected to quadruple in the next 5 years to \$40 Billion

Edge of computing

- ❖ High Demand from businesses who use cloud-based EMS
- ❖ Segment expected to grow 8-fold in the next 5 years to over 8 Billion

Capacity

Manufacturer Capacity

- ❖ Software production equipment
 - Patentability
 - Use and Expense
 - A gap between newly developed software and manufacturing equipment

Foundry Capacity

- ❖ Foundry capacity has been reached with demand far exceeding possible supply
- ❖ Cost of building new foundries is extremely capital intensive
- ❖ Production shifting to new 5nm semiconductors taking capacity of legacy conductors

Drivers

- ❖ Senior Software engineers
- ❖ Equipment & Services
- ❖ End users

Drivers

- ❖ Skilled Employees
- ❖ Raw Materials
- ❖ Factory capacity

Industry Analysis- Porter's 5 Forces

Bargaining Power of Customers

- ❖ -Very attractive industry for new firms
- ❖ -High cost of capital for new firms
- ❖ -Strong retaliation from existing firms

Threat of Substitute Products or Services

- ❖ -Rapid Growth to maintain relevance

Threat of New Entrants

- ❖ -Many firms for customers to choose from
- ❖ -Minimal Switching Costs
- ❖ -Price Sensitivity

Bargaining Power of Suppliers

- ❖ -Difficult to enter as a new supplies
- ❖ -Competitive Pricing is necessary to maintain relationships

Rivalry Among Existing Competitors

- ❖ -Very low threat of substitute to the IT industry

External Factors

Economic Factors

- ❖ Economic Growth Rate
- ❖ Indicators of Industrial Market Development

Social Factors

- ❖ Consumer Preferences

Technological Factors

- ❖ Research & Development (Quantum Computing)

Political Factors

- ❖ Government Policy
- ❖ Political Stability

International Factors

- ❖ Foreign Trade Operation
- ❖ International Marketing

Major Company Business Analysis

Apple – (AAPL)

- Brand Strength, Innovative Products, Product Differentiation, Premium Pricing Strategy
- Best Customer Experience with the Best Products on Earth

Facebook – (FB)

- Cost Leadership, New Product Development, Focus on User Experience
- Providing Services to a Global Market

Microsoft - MSFT Microsoft

- Brand Strength, Innovative Products, Pricing Strategy
- Increasing Productivity to Millions Around the World

Major Company Business Analysis (cont.)

Salesforce – (CRM)

- ❖ Strong Customer Adoption, Improved Efficiency and Service Delivery
- ❖ Aggressive Marketing, Personalized Services

Taiwan Semiconductor Manufacturing – (TSM)

- ❖ Client Base, High Volume Production
- ❖ Reputation, Technology and Manufacturing Leader

Holding Company Business Analysis

Splunk – (SPLK)

- ❖ Data Organization
- ❖ Recent Performance (5 day): 1.98%

Advanced Micro Devices – (AMD)

- ❖ Affordability, Reliability
- ❖ Recent Performance (5 day): 1.20%

DocuSign – (DOCU)

- ❖ Leverages Product Strategies, Differentiates
- ❖ Recent Performance (5 day): 2.74%

Computer Discount Warehouse – (CDW)

- ❖ Scale, Key Partnerships
- ❖ Recent Performance (5 day): 0.96%