

HOLT TMT Insights

Memory Group When Trading Below Book, TMT Activist Screen & GOOGL vs. MSFT

14 February 2023
HOLT | Americas



John Talbott, CFA, CPA
HOLT U.S. TMT Specialist
+1 212 325 1813
john.talbott@credit-suisse.com

Erica Smith
HOLT U.S. TMT Team
+1 212 325 8704
erica.smith@credit-suisse.com



Market Commentary

The information provided herein is not intended to provide a sufficient basis on which to make an investment decision

Memory Group When Trading Below Book, TMT Activist Screen & GOOGL vs. MSFT

This commentary addresses timely topics in the TMT space through the HOLT Framework.

1. Memory Group When Trading Below Book: The HOLT Price-to-Book for the Memory aggregate (MU, Samsung & SK Hynix) currently sits at .79x which is below the decade median of 1.0x. Notably, when the group trades below its decade median, the average 12-month forward stock price return for the group is 27%.

- [See Memory Stocks in HOLT Lens](#)

2. TMT Activist Screen: Activists have recently taken stakes¹ in several prominent TMT firms. Shown within is a framework that identifies TMT firms that are down at least 20% in the past 3 years, have margin profiles lower than industry medians and appear inexpensive vs. history.

- [See 40+ Firms in the TMT Activist Screen in HOLT Lens](#)

3. Alphabet (GOOGL) vs. Microsoft (MSFT): GOOGL has come under pressure due to potential disruption fears from ChatGPT-like tools² (backed by MSFT). Market expectations imply GOOGL's CFROI® levels will be nearly halved longer term (15% to 8%) whereas MSFT is priced for a comparatively modest fade (23% to 17%).

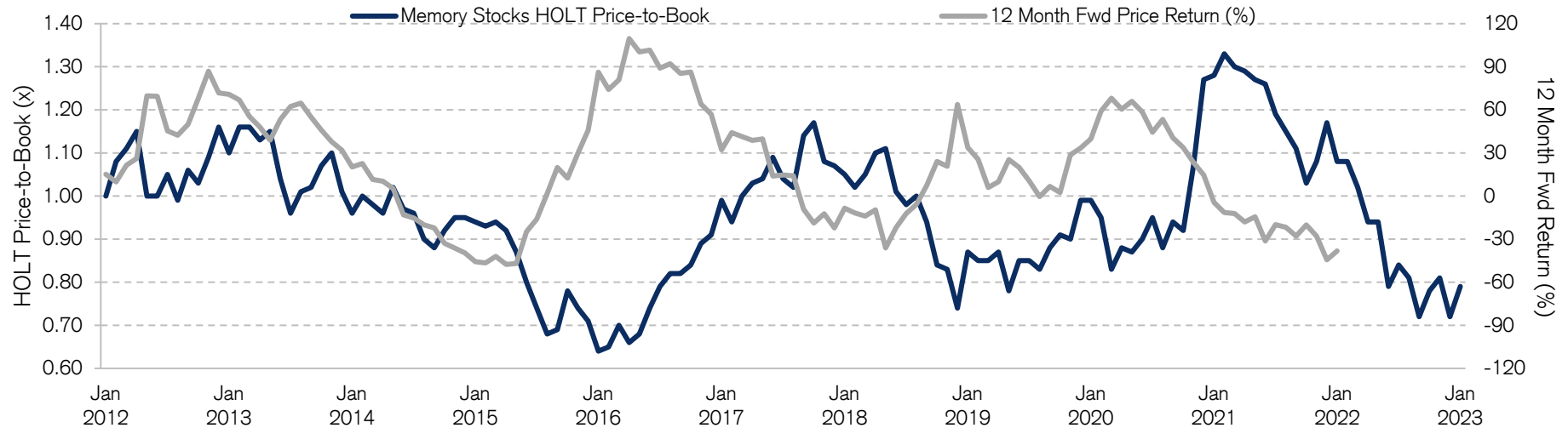
- [GOOGL and MSFT in HOLT Lens](#)

Links to Prior HOLT TMT Content:

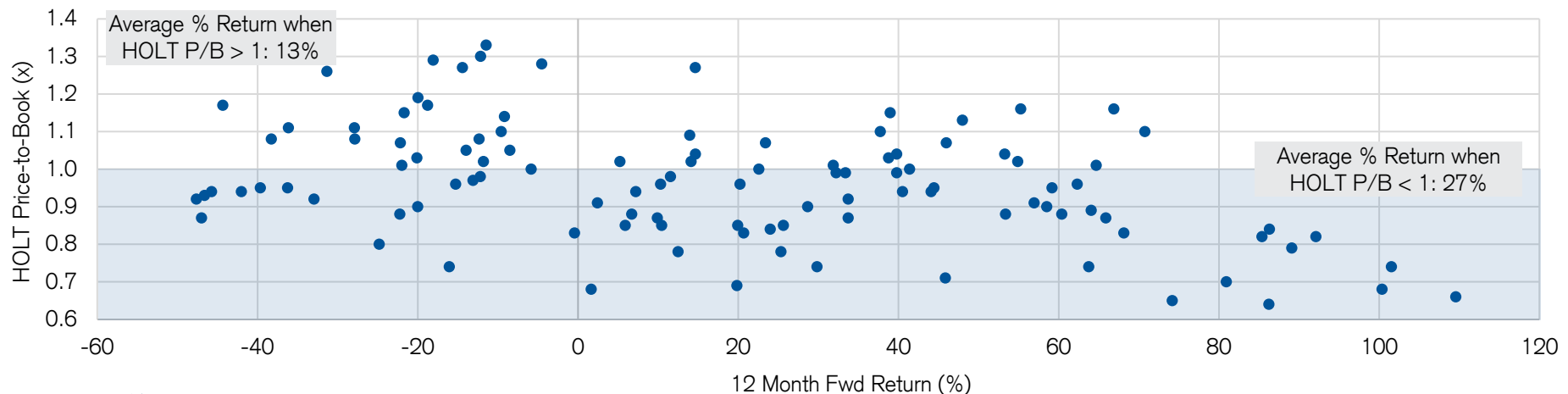
- [HOLT TMT: Key Charts & Quick Insights on AMD, INTC, META & AAPL](#)
- [HOLT TMT Overview: Expectations, Opportunities & Outliers Entering Into 2023](#)
- [HOLT TMT: Framing Opportunities Across the Life Cycle, Estimate Trends Into Earnings & Netflix](#)
- [HOLT TMT: What Is/Isn't Working, US tech vs. International Tech and High Quality Opportunities Abroad](#)
- [HOLT TMT: Value Abounds in Comm Services, Underfollowed Ideas and Alphabet & Constellation Software](#)

Memory Stocks When Trading Below Book: With earnings for Memory stocks forecasted for low levels in calendar 2023¹, traditional valuation metrics are difficult to use. As such, we look at HOLT Price-to-Book for the group which currently sits at .79x (below the decade median of 1.0x). When the memory group trades below this median, the average 12-month forward stock price return for the group is 27%.

Memory Stocks HOLT Price-to-Book (x) and 12 Month Forward Stock Price Return



Memory Stocks HOLT Price-to-Book (x)



TMT Activist Screen: Activists have recently taken stakes¹ in several prominent TMT firms. Below is a screen that identifies TMT firms that are down at least 20% in the past 3 years, have margin profiles lower than industry medians and appear inexpensive vs. history.

TMT Activist Screen

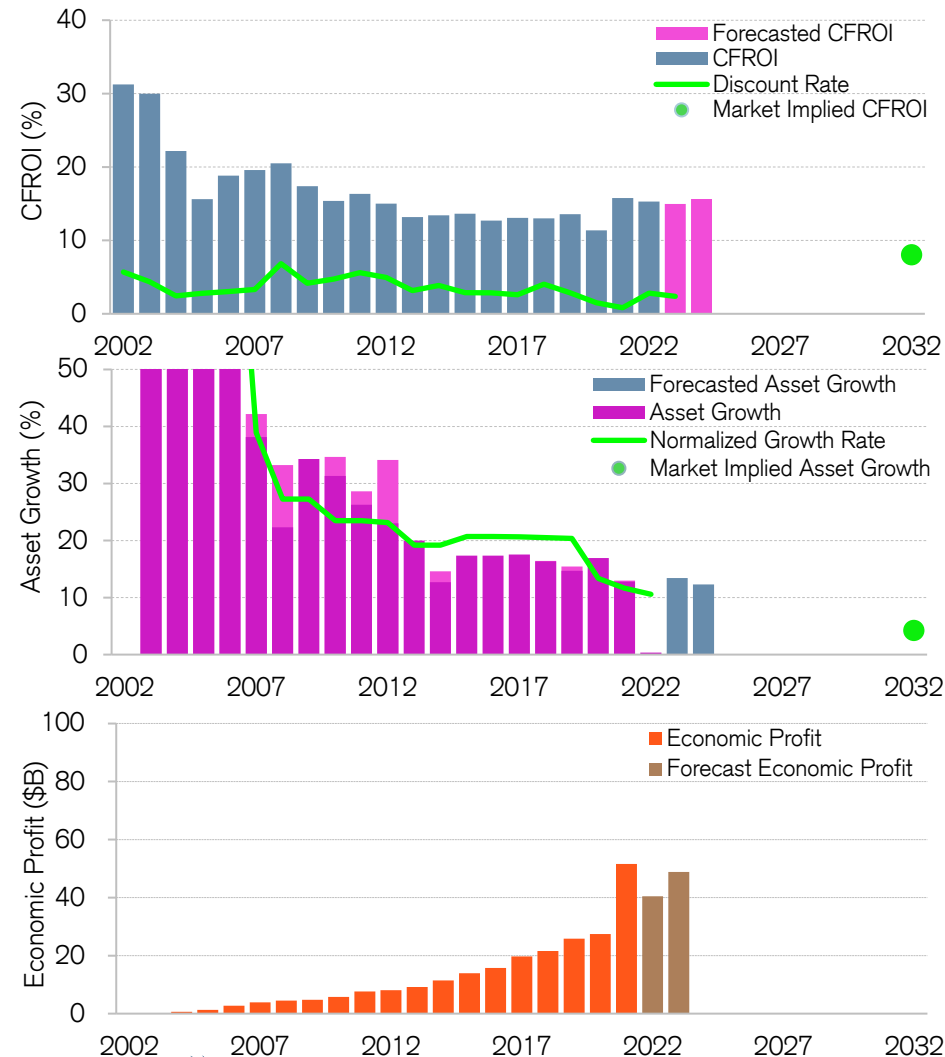
		Sorted by	Display	> 60	= Yes	< -20%	
Ticker	Company	Market Cap (\$B)	CFROI (%)	Valuation Factor Relative to History	LFY EBITDA Less than Industry EBITDA?	Total Shareholder Return - 3 Yrs	Industry
CRM	SALESFORCE INC	165.5	11.1	98	Yes	(25)	Application Software
CMCSA	COMCAST CORP	161.9	9.9	83	Yes	(21)	Cable & Satellite
PYPL	PAYPAL HOLDINGS	92.7	12.4	99	Yes	(66)	Data Processing
SQ	BLOCK INC	50.9	4.8	90	Yes	(65)	Data Processing
WDAY	WORKDAY INC	48.0	1.4	93	Yes	(22)	Application Software
CRWD	CROWDSTRIKE	25.1	4.1	99	Yes	(49)	Systems Software
SPOT	SPOTIFY TECH	24.2	2.3	63	Yes	(55)	Movies & Entertainment
NET	CLOUDFLARE INC	19.7	2.0	75	Yes	(21)	Internet Services
ZS	ZSCALER INC	19.3	(1.8)	80	Yes	(33)	Systems Software
SPLK	SPLUNK INC	17.1	(0.9)	86	Yes	(38)	Application Software
SNAP	SNAP INC	16.8	(2.6)	76	Yes	(79)	Interactive Media & Services
PLTR	PALANTIR TECH	15.6	(11.5)	92	Yes	(68)	Application Software
MDB	MONGODB INC	14.6	(4.0)	94	Yes	(41)	Internet Services
MTCH	MATCH GROUP	12.6	48.0	66	Yes	(70)	Interactive Media & Services
OKTA	OKTA INC	12.2	(7.0)	96	Yes	(70)	Internet Services
DOCU	DOCUSIGN INC	12.2	5.6	91	Yes	(73)	Application Software
CDAY	CERIDIAN HCM	11.8	6.4	70	Yes	(28)	Application Software
TWLO	TWILIO INC	11.1	(4.4)	96	Yes	(82)	Internet Services
U	UNITY SOFTWARE	10.7	(5.8)	92	Yes	(77)	Application Software
ZI	ZOOMINFO TECH	10.4	43.3	96	Yes	(47)	Interactive Media & Services

See 40+ Firms in the TMT Activist Screen in HOLT Lens

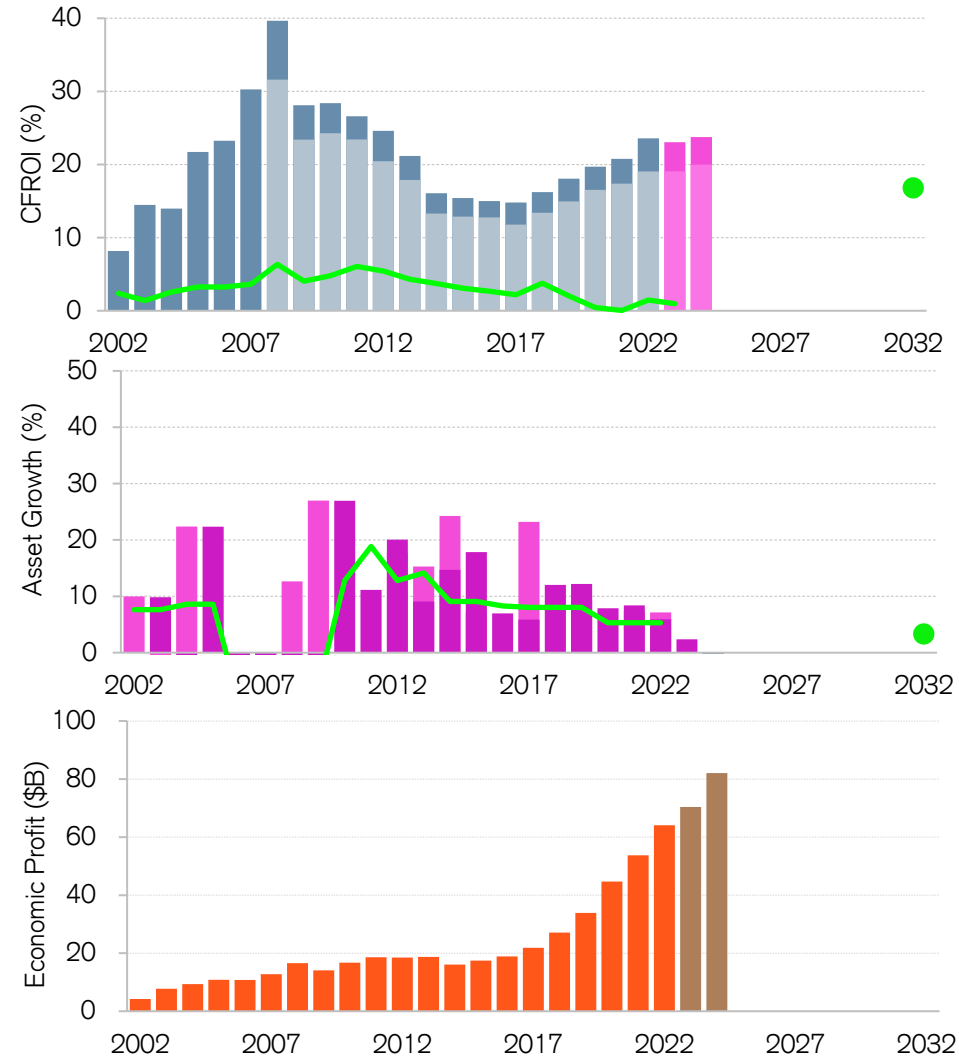
Criteria: Domicile = US, Sector = Information Technology and Communication Services, Market Cap between \$2B-\$400B, Valuation Factor Relative to History [Region Sector Size Relative] > 60, Total Shareholder Return – 3 Years < -20%, LFY EBITDA is Less than the Industry EBITDA LFY.

Alphabet (GOOGL) vs. Microsoft (MSFT): GOOGL has come under pressure due to potential disruption fears from ChatGPT-like tools¹ (backed by MSFT). Both firms have earned high CFROI levels along with strong growth, leading to robust Economic Profit generation. Market expectations imply GOOGL's CFROI levels will be nearly halved longer term (15% to 8%) whereas MSFT is priced for a comparatively modest fade (23% to 17%).

Alphabet (GOOGL) – CFROI, Asset Growth, Economic Profit



Microsoft (MSFT) – CFROI, Asset Growth, Economic Profit



Global Market Commentary Disclaimer

References to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse AG operating under its Investment Banking division. For more information on our structure, please follow the attached link: <https://www.credit-suisse.com/us/en/about-us/our-company.html>.

This material has been prepared by individual traders or sales personnel of Credit Suisse identified in this material as "Authors" and not by Credit Suisse's research department. The information contained in this document has been provided as general market commentary only and does not constitute any form of regulated financial advice, legal, tax or other regulated financial service. It is intended only to provide observations and views of these traders or sales personnel, which may be different from, or inconsistent with, the observations and views of Credit Suisse research department analysts, other Credit Suisse traders or sales personnel, or the proprietary positions of Credit Suisse. Observations and views expressed herein may be changed by the trader or sales personnel at any time without notice. Credit Suisse accepts no liability for losses arising from the use of this material.

This material does not purport to contain all of the information that an interested party may desire and, in fact, provides only a limited view of a particular market. It is not investment research, or a research recommendation for regulatory purposes, as it does not constitute substantive research or analysis. The information provided is not intended to provide a sufficient basis on which to make an investment decision and is not a personal recommendation or investment advice. While it has been obtained from or based upon sources believed by the trader or sales personnel to be reliable, each of the trader or sales personnel and Credit Suisse does not represent or warrant its accuracy or completeness and is not responsible for losses or damages arising from the use of this material.

This material is provided for informational purposes and does not constitute an invitation or offer to subscribe for or purchase any of the products or services mentioned. It is directed exclusively at Credit Suisse's market professional and institutional investor clients (e.g. QIBs) as defined by the rules of the relevant regulatory authority, and must not be forwarded or shared with retail customers or the public. It is not intended for private customers and such persons should not rely on this material. Moreover, any investment or service to which this material may relate will not be made available by Credit Suisse to such private customers.

This material may have previously been communicated to the Credit Suisse trading desk or other Credit Suisse clients. You should assume that the trading desk makes markets and/or currently maintains positions in any of the securities mentioned above. Credit Suisse may, from time to time, participate or invest in transactions with issuers of securities that participate in the markets referred to herein, perform services for or solicit business from such issuers, and/or have a position or effect transactions in the securities or derivatives thereof. Information provided on any trades executed with Credit Suisse will not constitute an official confirmation of the trade details, and all preliminary trade report information is subject to our formal written confirmation.

If this material is issued and distributed in the U.S., it is by Credit Suisse Securities (USA) LLC, a member of NYSE, FINRA, SIPC and the NFA, and CSSU accepts responsibility for its contents. Clients should contact their sales representative and execute transactions through a Credit Suisse subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

FOR IMPORTANT DISCLOSURES on companies covered in Credit Suisse Securities Research reports, please see www.credit-suisse.com/researchdisclosures. To obtain a copy of the most recent Credit Suisse research on any company mentioned please contact your sales representative or go to <http://www.credit-suisse.com/researchandanalytics>.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, expressed or implied is made regarding future performance. Backtested, hypothetical or simulated performance results have inherent limitations. Simulated results are achieved by the retroactive application of a backtested model itself designed with the benefit of hindsight. The backtesting of performance differs from the actual account performance because the investment strategy may be adjusted at any time, for any reason and can continue to be changed until desired or better performance results are achieved. Alternative modeling techniques or assumptions might produce significantly different results and prove to be more appropriate. Past hypothetical backtest results are neither an indicator nor a guarantee of future returns. Actual results will vary from the analysis. Investment principal on securities can be eroded depending on sale price or market price. In addition, there are securities on which investment principal may be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

HOLT Disclaimer

The HOLT methodology does not assign ratings or a target price to a security. HOLT is an analytical tool that involves use of publicly available, fact-based data and applies a set of proprietary quantitative algorithms and warranted value calculations against such data, collectively called the HOLT valuation model. The HOLT methodology is consistently applied to all the companies included in its database. The HOLT valuation model is a discounted cash flow model (DCF). The % upside/downside is the difference between HOLT's default warranted price (as determined by an objective, systematic DCF framework) and a security's most recent closing price, expressed as a percentage. Third-party data (including consensus earnings estimates) are systematically translated into a number of default variables and incorporated into the algorithms available in the HOLT valuation model. The source financial statement, pricing, and earnings data provided by outside data vendors are subject to quality control and may also be adjusted to more closely measure the underlying economics of firm performance. These adjustments provide consistency when analyzing a single company across time, or analyzing multiple companies across industries or national borders.

The default scenario that is produced by the HOLT valuation model establishes a warranted price that represents the expected mean value for a security based upon various factors, including the use of third-party data and empirically derived fade algorithms that forecast a firm's future cash return on capital and growth rates over an extended period of time. A default set of algorithms apply to all the securities. As the data are updated, the warranted price updates automatically. A company's future achieved return on capital or growth rate may differ from the result generated from the default scenario that is produced by the HOLT valuation model. Additional information about the HOLT methodology is available upon request.

CFROI, CFROE, HOLT, HOLT Lens, HOLTfolio, "Clarity is Confidence" and "Powered by HOLT" are trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.

HOLT is a corporate performance and valuation advisory service of Credit Suisse. © 2023 Credit Suisse Group AG and its subsidiaries and affiliates. All rights reserved.

European Market Abuse Regulation (Securities Traded on EU-Regulated Markets)

The date and time published on the title page of this material (the "Published Date and Time") are the date and time of completion of production of this material and the date and time of its first dissemination.

The European Market Abuse Regulation (596/2014) and associated rules ("MAR"), as well as corresponding UK laws and regulations (including MAR as retained through the European Union (Withdrawal) Act 2018, as amended by the Market Abuse (Amendment) (EU Exit) Regulations ("UK MAR")), define "investment recommendations" as information recommending or suggesting an investment strategy, explicitly or implicitly, concerning one or several financial instruments or the issuers, including any opinion as to the present or future value or price of such instruments, intended for distribution channels or for the public. To the extent this material contains any "investment recommendation" as defined under MAR and/or UK MAR in relation to a financial instrument admitted to trading, or traded on a regulated market, or other trading venue, in the EU and/or the UK, the Published Date and Time are also the date and time of completion of production, and the date and time of first dissemination, of any such "investment recommendation" (unless otherwise expressly specified in this material).

This material is produced and distributed by Credit Suisse and its subsidiaries and affiliates. Such subsidiaries and affiliates may include: Credit Suisse International; Credit Suisse Securities (Europe) Limited; Credit Suisse Securities (USA) LLC; Credit Suisse Management (Australia) Pty; Credit Suisse Securities (Japan) Limited; Credit Suisse Securities (Europe) Limited, Seoul Branch; Credit Suisse AG, Singapore Branch; Credit Suisse (Hong Kong) Limited; and/or Credit Suisse Bank (Europe), S.A..

Please follow the attached hyperlink for important further information regarding conflicts of interest, disclosures, and a history of our "investment recommendations" as defined by MAR and/or UK MAR: <https://rave.credit-suisse.com/disclosures/view/nr>

PRC Disclaimer

For the purpose of complying with relevant laws and regulations in the People's Republic of China (which for the purpose of this disclaimer does not include Hong Kong, Macau or Taiwan, the "PRC"), certain functions of HOLT have been removed that are otherwise available to users of HOLT outside of the PRC. HOLT is not intended to provide securities investment advisory services in any form nor should HOLT be relied upon as such.

For region specific disclosures, including information about applicable registrations and certain regulatory disclosures, please follow the links below:

Americas: <https://www.credit-suisse.com/legal/en/lb/market-commentary.jsp>

United Kingdom: <https://www.credit-suisse.com/legal/en/lb/europe.jsp> (Credit Suisse International is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom)

Asia: <https://www.credit-suisse.com/legal/en/lb/market-commentary-disclaimer-asia.jsp>

<http://www.credit-suisse.com/asiapac/legal/securities/>

General investors in Japan should open the following link and read it:

<https://www.credit-suisse.com/jp/ja/investment-banking-apac/disclaimer.html>

HOLT Sustainability Dashboard (HSD) Disclaimer

There is currently no universal definition or exhaustive list defining the issues or factors that are covered by the concept of "sustainability" nor "ESG" (Environmental, Social, Governance). If not indicated otherwise, 'ESG' is used interchangeably with the terms 'sustainable' and 'sustainability'. The HOLT Sustainability Dashboard (HSD) is constructed by applying systematic processes on publicly available records and third-party data to generate quantitative measures. The HSD consistently assigns scores using a transparent combination of metrics and weights across financial, environmental and governance inputs. Individual companies can be scored on a global-size and/or region-size relative basis. The HSD is also translated into five textual assessments (e.g. "Highest" or "Lowest") based on their quintile percentile rank. See link to Primer for further details on the HSD methodology [HOLT Sustainability Score Primer](#). The HSD does not constitute or imply any endorsement or recommendation of any individual company. CS has not sought to independently verify information obtained from public and third-party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information due to inconsistent reporting of data by companies. Additionally, as global laws, guidelines and regulations in relation to the tracking and provision of such data are evolving, all such disclosures are made on a non-reliance basis and are subject to change. Any figures, values or other data published in this report are neither designed nor administered in line with the standards of the IOSCO Principles for Financial Benchmarks or the EU Benchmarks Regulation (EU) 2016/1011 or any other benchmark related regulatory guidelines and as such you are prohibited from using those figures, values or data in a way which would amount to use of a financial benchmark under those regimes (or any equivalent rules or regulations in any global jurisdiction). The data driven HSD material is not a product of the Credit Suisse Research Department and is not a research report.