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Tech sector more crash-proof than it was in 2000

More sustainable business models now than during dot-com boom

Recent technology sector events, such as King Digital Entertainment's IPO and Facebook's \$19 billion acquisition of WhatsApp, have investors talking about a bubble. Price-earnings ratios in the sector are certainly high, and some valuations may not be realistic, but data show the sector itself is in much better shape than fourteen years ago.

PwC reports that 64 technology companies around the globe went public in the fourth quarter of 2013 (issue size greater US\$40 million), garnering US\$11.4 billion in total proceeds. American firms led with 35 IPOs representing 66% of total proceeds. The U.S. also recorded the top five IPOs of the year including Twitter Inc.'s US\$1 billion IPO.

These numbers seem large but are smaller than previous years. In comparison, 2011 saw 87 global IPOs with US\$15.9 billion total proceeds and 2012 brought 69 IPOs with US\$23.2 billion total proceeds whereas, in 1999 alone, 308 technology companies went public.

As well as fewer IPOs than prior years, the companies going public now are generally more stable. Facebook Inc, who raised \$US16 billion in its May 2012 IPO, reported revenues of US\$2.59 billion in the fourth quarter of 2013, a 63% increase year over year. The company has 1.23 billion active users and boasts adjusted operating margins of 56%.

Technology sector heavy hitters include Apple Inc who recently reported revenues of US\$57.6 billion and Google Inc at US\$16.9 billion. Facebook, Apple, and Google clearly have a more sustainable business model than the headline makers of the dot-com boom, and the sector as a whole has grown remarkably since then.

Cisco Systems Inc reports that last year's mobile data traffic was nearly 18 times the size of the entire global Internet in 2000. A single exabyte of traffic traversed the global Internet in 2000, in contrast with 2013 when mobile networks carried nearly 18 exabytes of traffic. Cisco predicts that by 2018 global mobile data traffic will increase almost 11-fold, reaching 15.9 exabytes per month.

The sector also has corporate side support as businesses use more information technology. Research provider Gartner Inc, says worldwide IT spending is projected to total \$3.8 trillion in 2014, a 3.1% increase over the year prior. Enterprise software spending growth ranks the strongest at an expected growth rate of 6.8%.

Those seeking individual equity exposure may wish to revisit established names like Cisco, Intel and Microsoft. According to Canaccord Genuity analyst Martin Roberge, rising capex intentions, improving global growth prospects and more demanding market valuations will likely cause investors to re-enter those names. Roberge notes that while these companies are still reinventing

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themselves, investors are paid nicely to wait for the turnaround via dividends on average 3.3%. The shares should provide a solid margin of safety trading at 12.5x one-year forward EPS.

Investors wanting a risk-adjusted way of accessing the space can opt for an exchange-traded fund. First Asset has a Tech Giants Covered Call ETF (TSX: TXF) that provides exposure to the 25

largest technology companies and incorporates a covered call option writing program to provide downside protection and income.

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