Industry Top Trends Update

Technology

Positive rating actions bias for 12 months and counting

David Tsui
San Francisco
david.tsui@
spglobal.com
+1 415 371 5063

What's changed?

Broad-based semi supply shortage to last through 2021. Relief is coming from higher utilization of existing fabs and capacity additions, which take longer, but strong demand from macroeconomic recovery and the boost in information technology (IT) spending following delayed spending in 2020 result in demand that is outstripping supply.

Demand within the sector is leading to positive rating actions. We took 50 positive rating actions (including outlook revisions) in the first half 2021 as tech companies faced the best demand environment in years. This is in contrast with the 31 positive rating actions we took in the second half 2020, when many rating actions were to reverse pandemic-related negative actions from the first half of 2020.

Risk of antitrust actions on Big Tech is rising. U.S. lawmakers have introduced bipartisan bills aimed at beefing up antitrust law. Still, we believe significant breakups that would cause downgrades are unlikely. New antitrust laws with more rigorous enforcement is possible, but Big Tech companies will likely be able to manage these potentially negative effects while preserving their credit profiles.

How is recovery taking shape?

We revised our global IT spending forecast upward in April 2021. We expect about 6% growth in 2021, double the 3% growth expectation we set in December 2020.

Hardware sales have recovered faster than we expected. The earnings recovery we've observed so far bodes well for 2021 operating performance and credit ratios, even though capacity constraints and component shortages could limit material improvement in the second half of year.

What are the key risks around the baseline?

U.S. tech companies' profitability and cash flow could suffer if inflation picks up and turns out to be more lasting. Thus far, the higher cost pressure on account of COVID-19 or supply chain component shortages, though pervasive, has been benign. End-customer demand is strong, but persistent inflation pressure could lead to compressed margins, higher consumer prices, and softer demand.

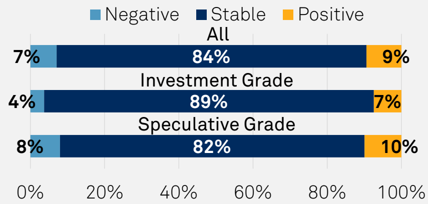
U.S.-China tension remains a wildcard. While the Biden Administration's approach includes more allies and may be more predictable, supply bans on Chinese firms, tariffs, and high scrutiny of mergers and acquisitions (M&As) remain. China's ambitions to be more self-reliant will challenge U.S. tech firms.

M&A valuations for tech companies have risen significantly. Excessive exuberance on business outlook and aggressive M&As could impair credit profiles even if acquisition rationales are sound. We see more M&As in the hardware and software sectors than in semiconductors.

Latest Related Research

- Latest Views On Hot Tech Topics--Semiconductor Supply Shortage, Inflation, And Big Tech Regulation, July 9, 2021
- Stronger For Longer: Good Demand, Capacity Constraints, And Low Inventory To Bolster U.S. Tech Into 2022, May 7, 2021

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	54	200	254
Downgrades	2	4	6
Upgrades	5	14	19

Ratings data as of end-June, 2021

COVID-19 Heat Map

Technology - Software	
Estimated Recovery To 2019 Credit Metrics	No decline
Potential Negative Long-Term Industry Disruption	--

2020 v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
No decline	No decline	No increase

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
≥2019	≥2019

Technology - Hardware/Semiconductors	
Estimated Recovery To 2019 Credit Metrics	1H 2021
Potential Negative Long-Term Industry Disruption	--

2020 v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
0% to 5%	0% to 10%	<5%

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
>2019	>2019