



January 4, 2019

## 2019 Software Sentiment Survey

**Our proprietary survey asked questions focused on overall sentiment toward the software sector and specific sub-sectors heading into 2019. 75 investors participated, of which 72% were long-only.**

- **57% of survey respondents feel the software sector is fairly valued with 31% feeling it is overvalued and 12% undervalued.** Heading into 2018, 72% of survey respondents felt the software sector was fairly valued with 20% feeling it was overvalued and 8% undervalued.
- **53% of survey respondents feel the software sector will outperform the S&P 500, 35% feel it will perform in-line with the S&P 500 and 12% feel the sector will underperform.** Heading into 2018, 49% of respondents felt the software sector would outperform the S&P 500, 37% felt it would perform in-line with the S&P 500 and 14% felt the sector would underperform.
- **60% of investors plan to maintain their net exposure to the software sector in 2019, 29% plan to increase, and 11% plan to decrease.** Long-only investors are roughly in-line with the broader group, with 24% expecting to increase exposure, 63% to maintain, and 13% to decrease compared to long-short investors who are more bullish with 33% expecting to increase, 61% to maintain, and 6% to decrease.
- **In terms of exposure to specific areas of software:** 1) 80% of investors plan to either maintain or increase exposure to fast-growing software names; 2) 89% of investors plan to either maintain or increase exposure to higher-margin software names; and 3) 72% of investors plan to either maintain or increase exposure to security software names.
- **61% of respondents expect M&A to increase in 2019 compared to 2018.** This was down slightly vs expectations heading into 2018 where 81% of respondents expected M&A to increase in 2018 compared to 2017.
- **When looking at the factors for out-performance in 2019, 36% said FCF growth would be the most important tied with revenue growth at 36%.** This is vs. last year where 39% said FCF growth would be the most important while the second highest was revenue growth at 31%.
- **When asked which themes investors were most interested in heading into 2019 the highest response was SaaS applications** followed by migration to public and hybrid cloud and machine learning/ artificial intelligence.
- **Respondents' favorite long ideas include CRM, NOW, RPD, PANW, DATA, MSFT and NTNX.** This was in order of popularity.
- **Respondents' favorite short ideas include ORCL, FFIV, CHKP, FTNT and TDC.** This was in order of popularity.

**Additional details are included on the following pages.**



## Enterprise Software

Software investor sentiment survey

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This report is priced as of market close January 2nd, 2019.  
All values in US dollars unless otherwise noted.



## Software investor sentiment survey: Key takeaways

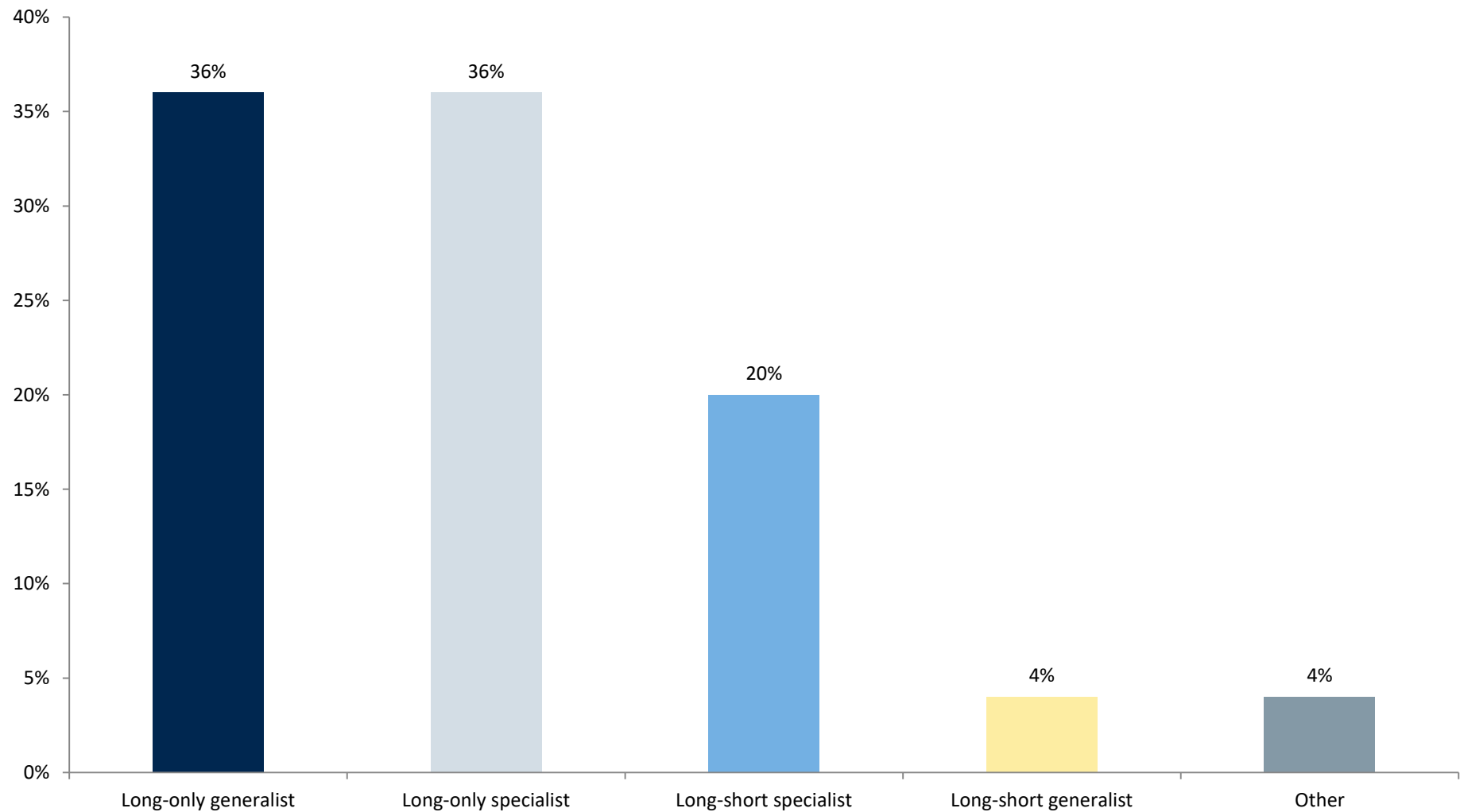
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- Surveyed 75 participants; 36% long-only generalists, 36% long-only specialist, 20% long-short specialists, 4% long-short generalists and 4% other
- 57% feel that the software sector is fairly valued while 31% feel it is overvalued and 12% undervalued
- Despite that, 53% expect the sector to outperform the S&P 500 while only 12% expect it to underperform
- 29% plan to increase their exposure to the software sector with 60% planning to maintain
- 24% plan to increase their exposure to fast growing software names with 56% planning to maintain
- 34% plan to increase their exposure to fast growing software names with 55% planning to maintain
- 20% plan to increase their exposure to security software with 51% planning to maintain
- 61% expect software M&A to increase in 2019
- Investors feel that FCF growth and revenue growth will be the most important factor for software stock performance in 2019
- Investors feel that SaaS applications, migration to public and hybrid cloud and machine learning and artificial intelligence as the themes they are most interested in heading into 2019
- Investors favorite long ideas were CRM, NOW and RPD while ORCL, FFIV and CHKP were the most common short ideas



## How would you describe your investment strategy?

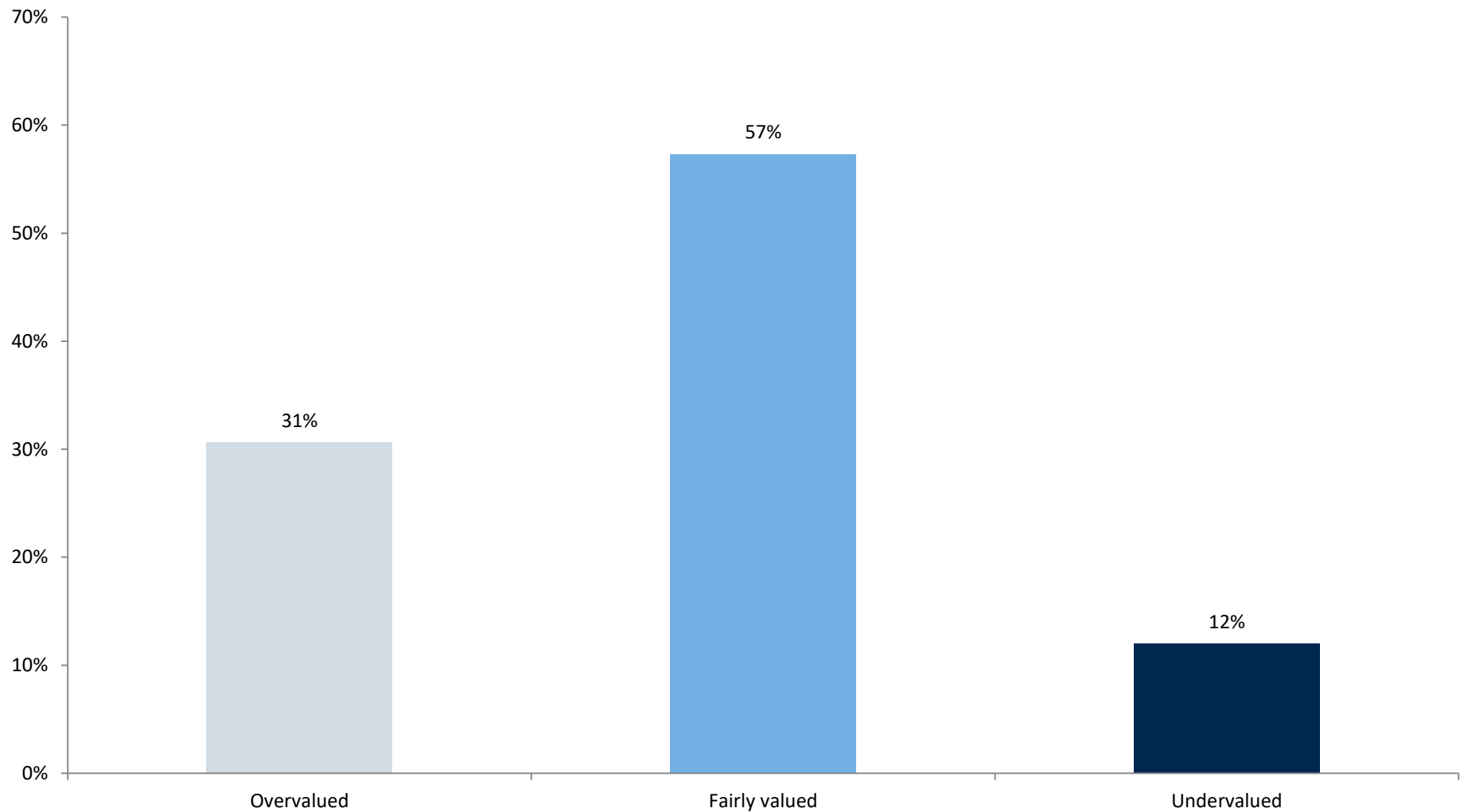
Of our 75 participants, 72% long-only vs. 24% long-short investors / 56% specialists vs. 40% generalists





## What is your current view of the software sector relative to the broader market?

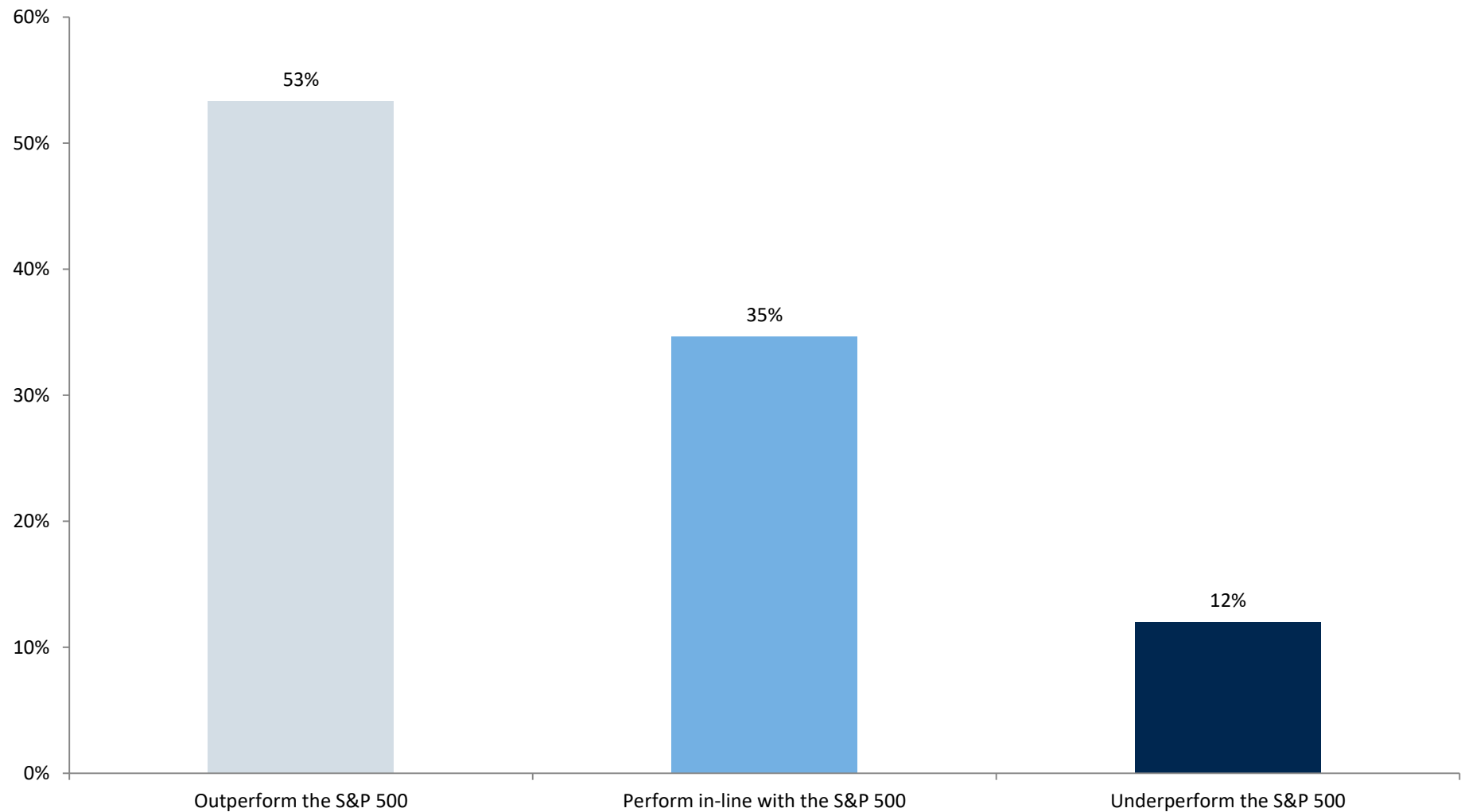
57% of investors feel that the software sector is fairly valued with 31% overvalued and 12% undervalued





## What is your current view of the software sector relative to the broader market?

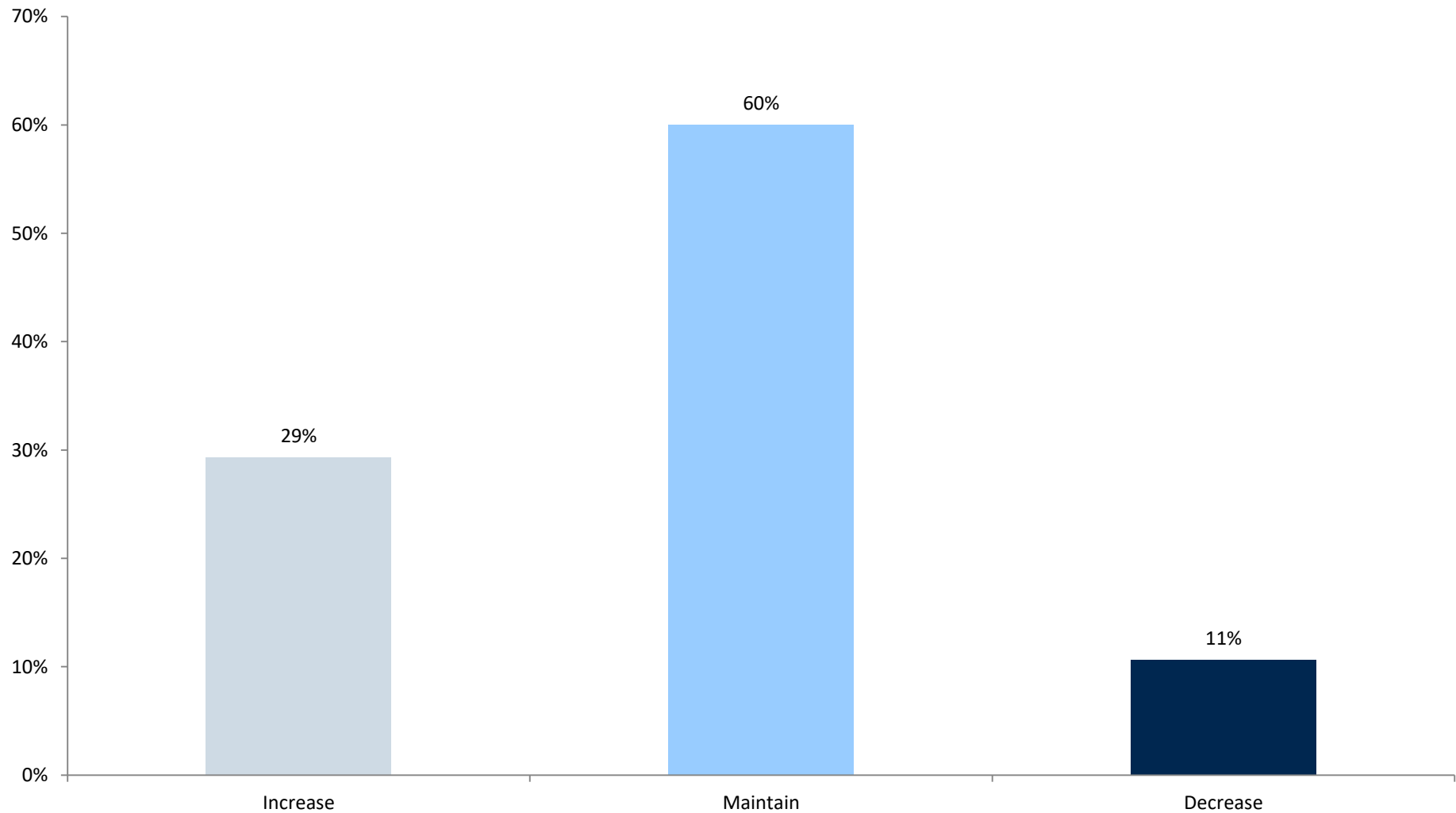
53% of investors expect software to outperform the broader market compared to 35% who expect it to be in-line





Do you expect to increase, maintain or decrease your net exposure to the software sector heading into 2019?

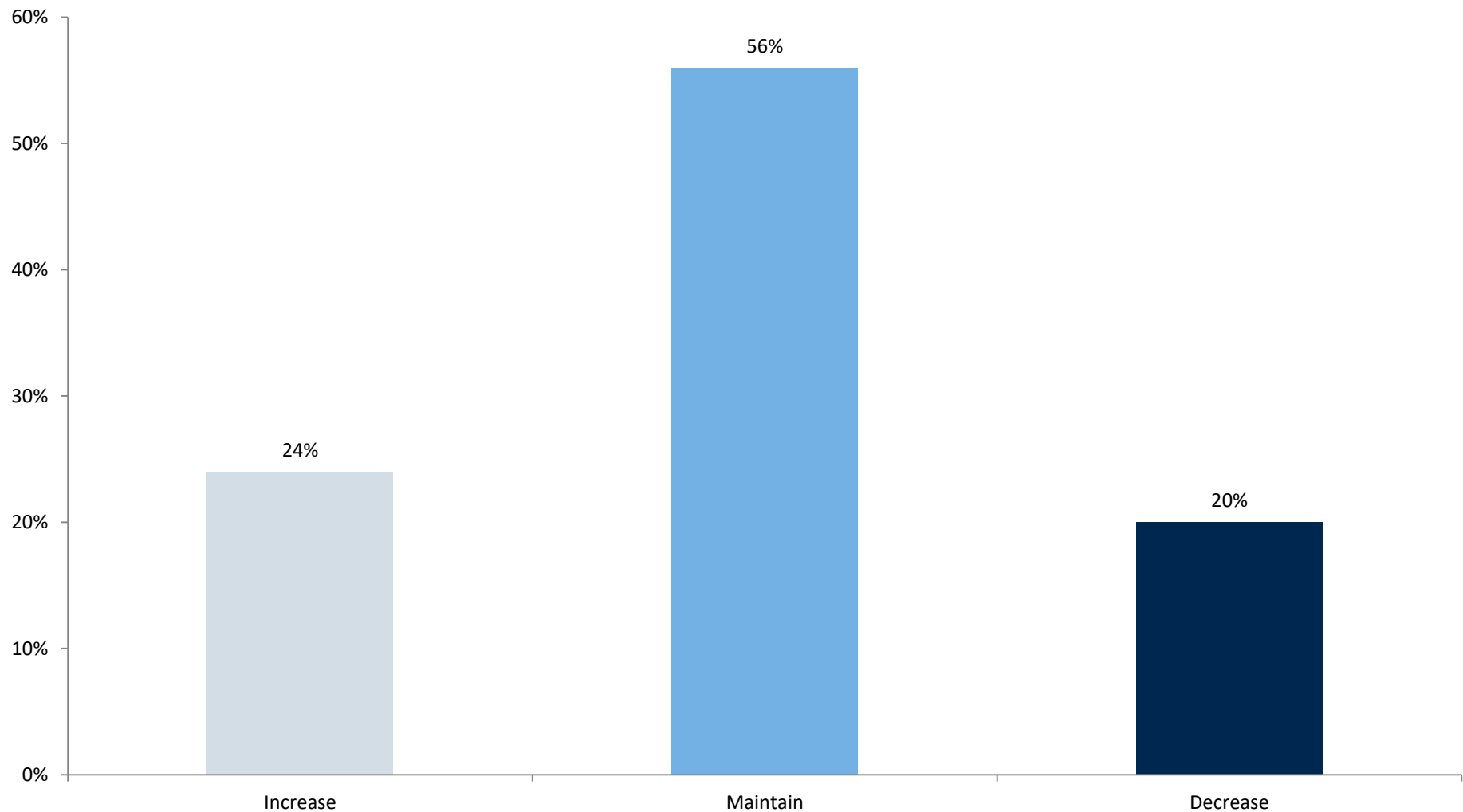
A majority of investors plan to maintain their net exposure to the software sector in 2019





Do you expect to increase, maintain or decrease your net exposure to faster growing software names heading into 2019?

A majority of investors plan to maintain their net exposure to the faster growing software sector in 2019

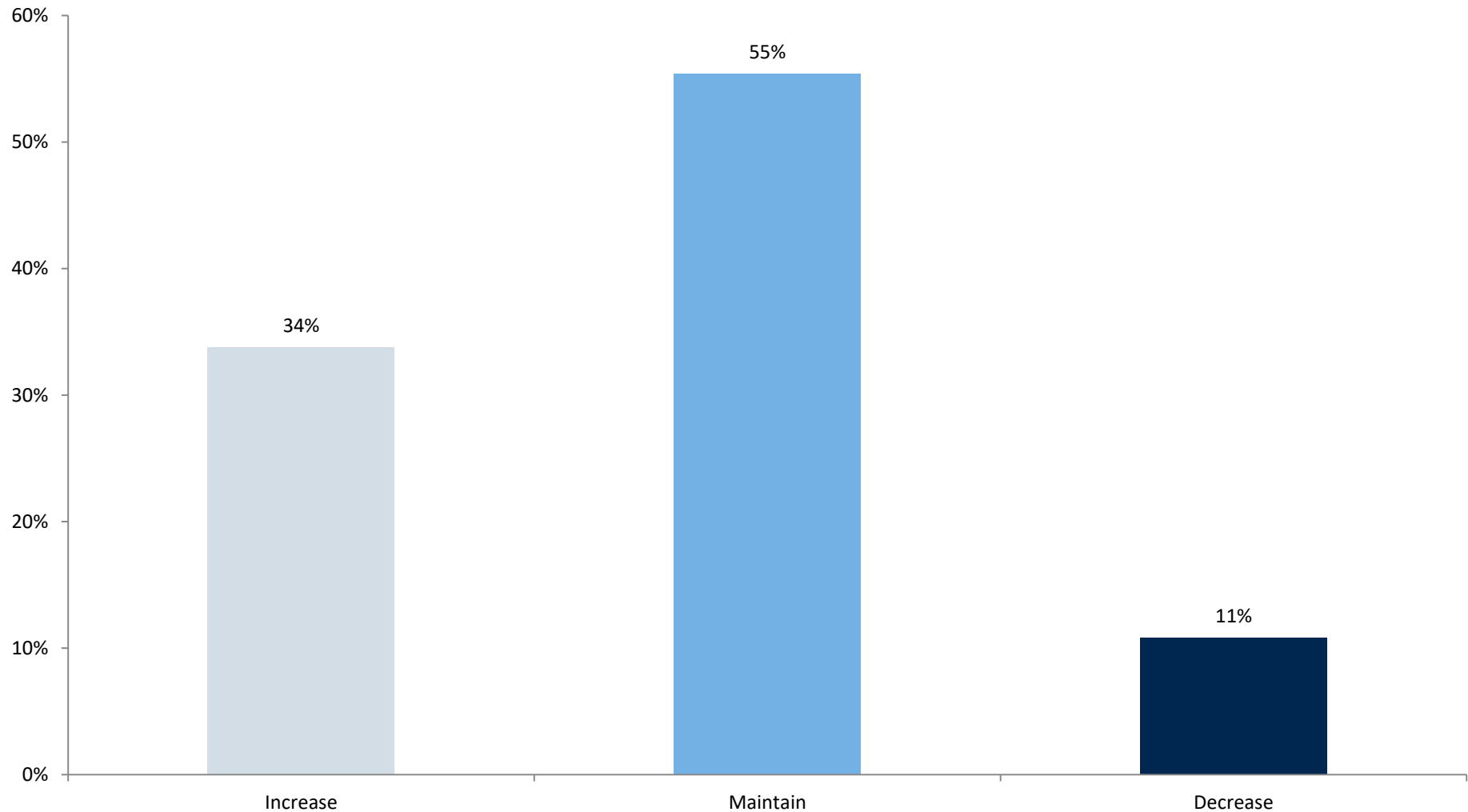






Do you expect to increase, maintain or decrease your net exposure to higher margin software names heading into 2019?

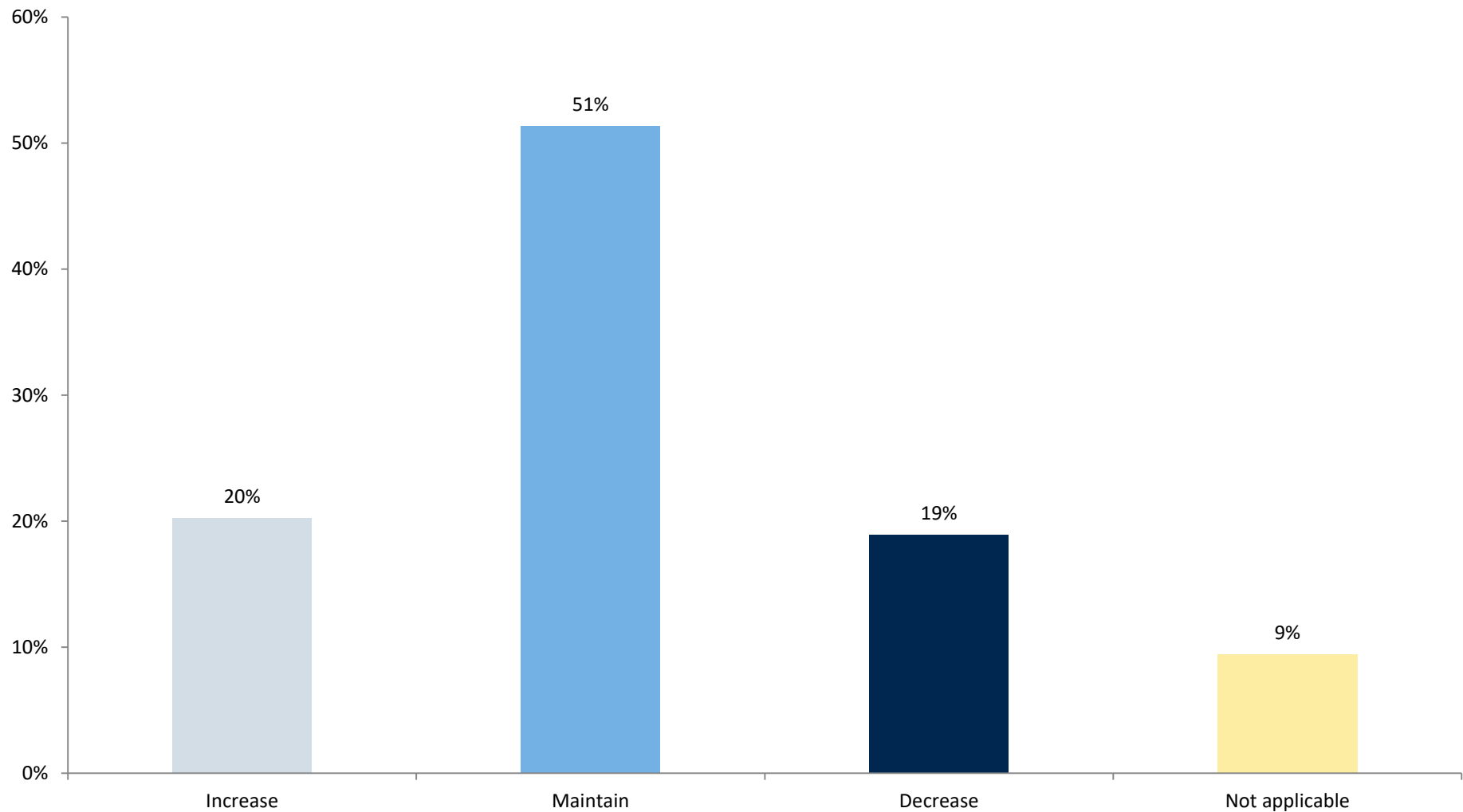
A majority of investors plan to maintain their net exposure to higher margin software names in 2019





Do you expect to increase, maintain or decrease your net exposure to the security software sector heading into 2019?

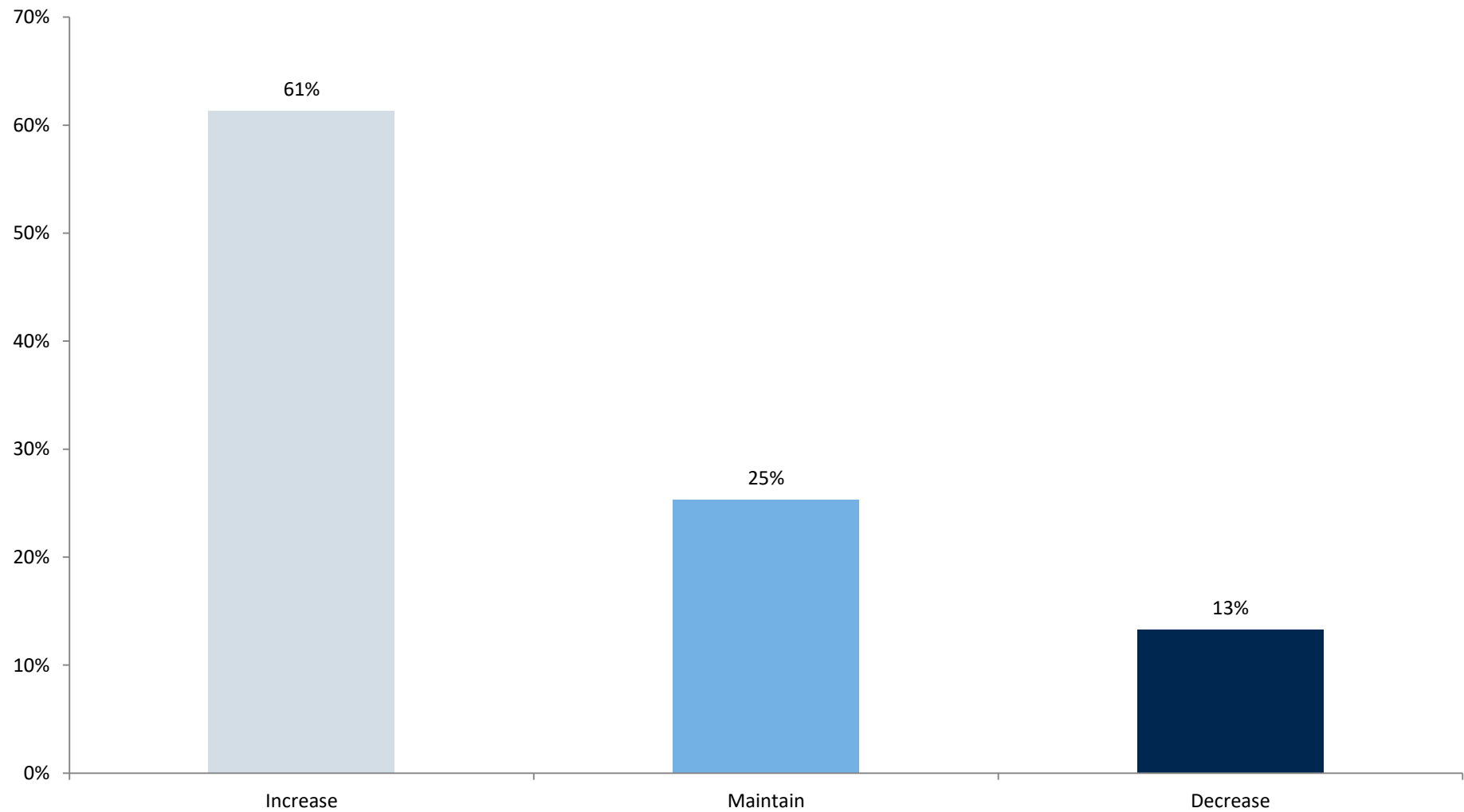
A majority of investors plan to maintain their net exposure to the security software sector in 2019





## Do you expect software M&A to increase or decrease in 2019?

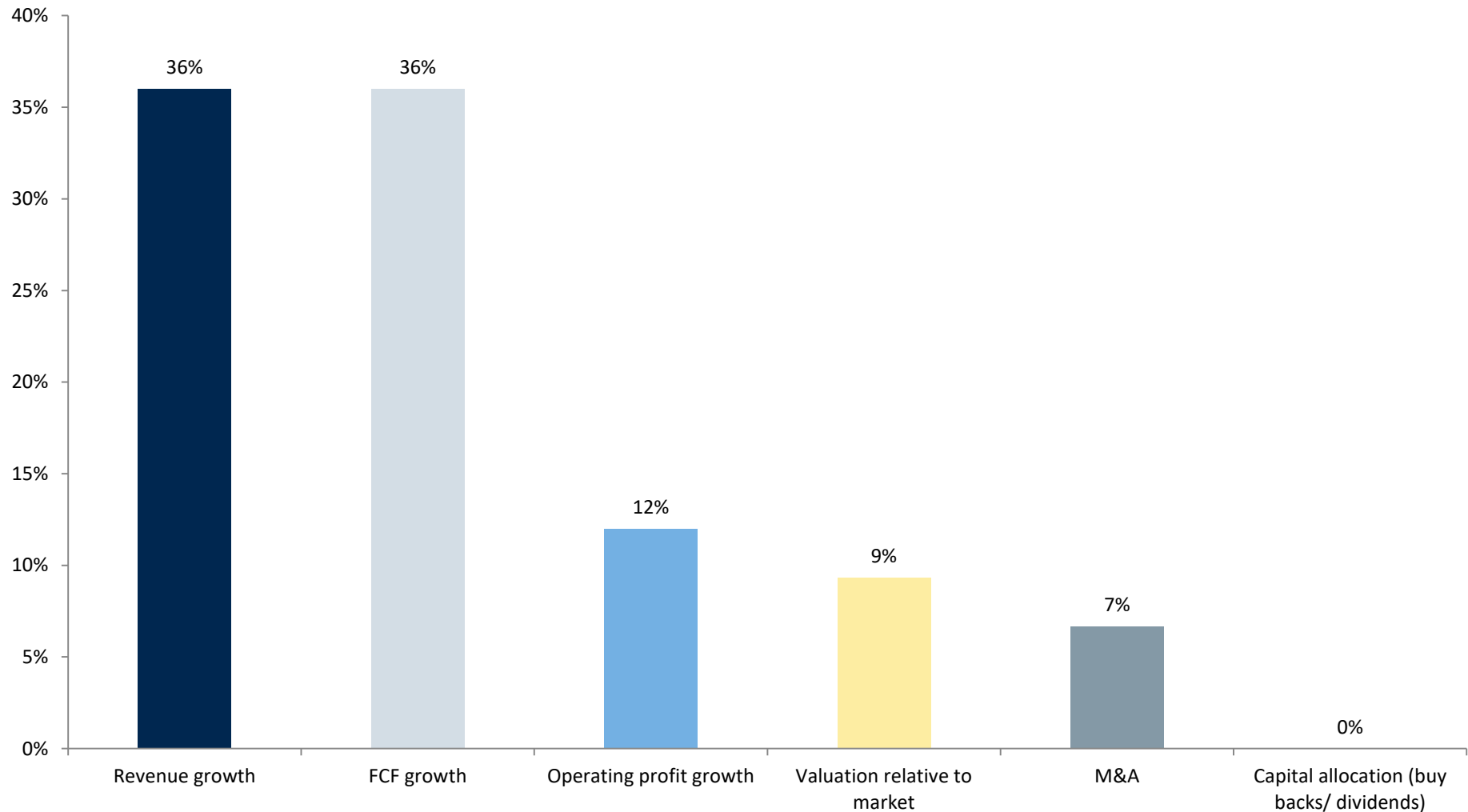
A majority of investors expect software M&A to increase in 2019





## Which of these factors do you think will be the most important for software stock performance in 2019?

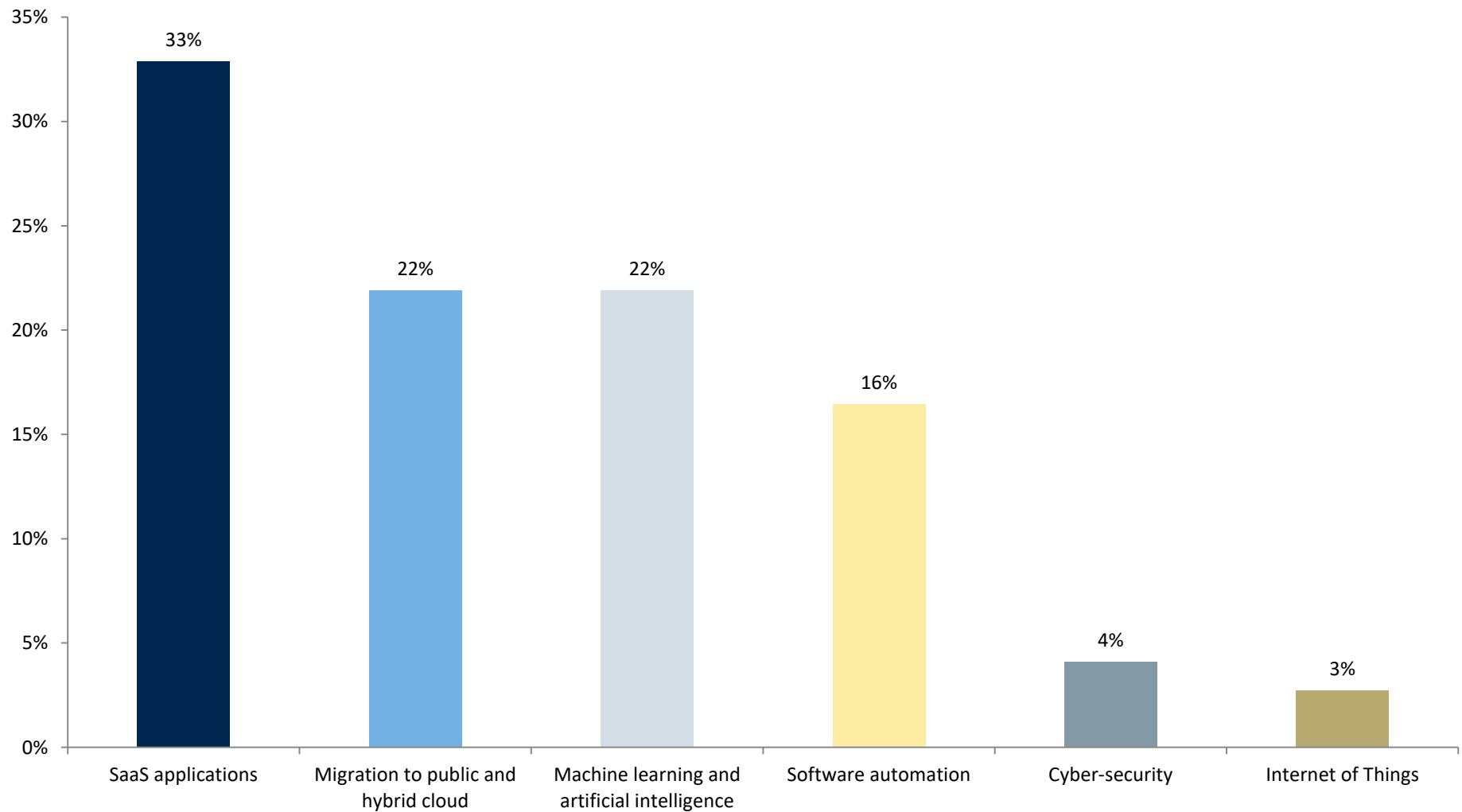
Investors feel that FCF growth and revenue growth will be the most important factors for software stock performance followed by operating profit growth





## Which theme are you most interested in heading into 2019?

SaaS applications are the theme investors are the most interested in followed by the migration to public and hybrid cloud and machine learning and artificial intelligence



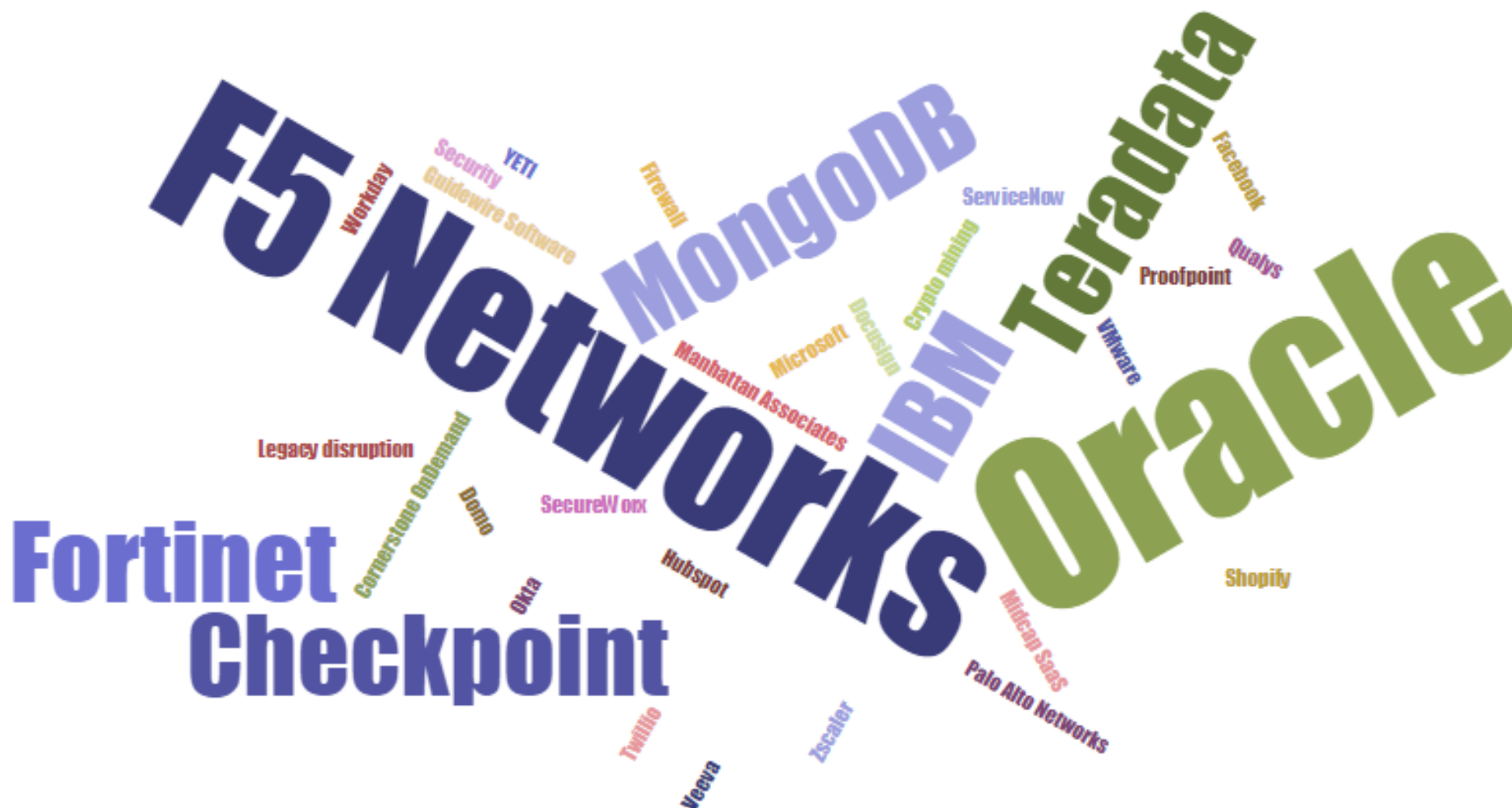


What is your favorite long idea? (company, sector or trend)

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What is your favorite short idea? (company, sector or trend)





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