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TMT

COVID-19 Playbook for Tech Investors; Stick With Cloud Themes in the Dark Storm

Tech investors head into another volatile and uncertain week ahead with the coronavirus pandemic creating tragic health as well near-term economic chaos. As we have discussed often with investors and highlighted in our research over the last few weeks, we believe having a playbook of tech themes and stocks that can navigate this dark storm remain the best way to invest in this landscape. As we have seen in 20 years of covering tech stocks through many shock events, during the darkest period of a shock event with doomsday worries front and center, fundamentals and valuations get thrown out the window as pure fear/panic take over with red screens the result. However this creates opportunity for those tech investors with the risk tolerance and patience to own the tech names with attractive risk/rewards, strong secular themes, and stress tested models for the other side of this dark valley. Below we summarize our ***Wedbush Tech COVID -19 Top 10 (see note)*** to focus on during this massive period of uncertainty.

1. **Software remains a defensive and offensive sector.** Over the last week we have spoken to many of our checks in the field to help us better figure out the software names/themes/deals getting signed to bet on during this period while helping us avoid others at the same time heading into a white-knuckle earnings season, even though the valuations look cheap across the board. To this point, the last few weeks we have been highlighting our ***Wedbush Software Shopping List (see note)*** for those tech investors trying to sift through the rubble and look for software names with stress-tested models and compelling risk/rewards that will emerge on the other side. Clearly a trend we are already seeing in the field is that those vendors heavily depending on renewal business for ACV growth are seeing far less disruption thus far than these vendors that are hunting after new business.

2. **Move to cloud will accelerate more quickly.** We believe this coronavirus pandemic is a key turning point in the technology world around deploying cloud driven/remote learning environments as our long standing projections of moving from 33% of workloads in the cloud to 55% by 2022 now look conservative as these targets could be reached a full year ahead of expectations given this pace. With our expectations of a trillion dollars to be spent in the cloud over the next decade there will be many beneficiaries (cyber security, data center plays, cloud stack/enablers, hybrid cloud, applications) across the technology landscape with Microsoft (Azure) and Amazon (AWS) two of the core vendors that will continue to see an acceleration of cloud infrastructure spending during and after this dark coronavirus storm passes. We also expect a surge of strategic/financial buyer M&A to take place in the cloud space over the coming months given the depressed valuations and growth dynamics at play.

3. **Microsoft remains the Rock of Gibraltar cloud stock to own in our view.** While Redmond has roughly a third of its revenue exposed to PCs and supply chain, the vast majority of its revenue and 80%-90% of its valuation, in our opinion, is based on its flagship Azure, Office 365, and core enterprise driven franchise. MSFT at these levels we view as a golden cloud tech name to own for those willing to navigate the volatility and is poised to see an acceleration of cloud deployments moving ahead.

DATA SIGNAL RATING SYSTEM

Positive (+): Proprietary data set with correlation to a given historical company-reported metric indicates that the respective current/mid-quarter company-reported metric trends are better than consensus and/or better than management guidance.

Negative (-): Proprietary data set with correlation to a given historical company-reported metric indicates that the respective current/mid-quarter company-reported metric trends are below consensus and/or lower than management guidance.

Non-Conclusive/No Call (NC): Proprietary data set does not have a strong enough correlation to be **Positive** or **Negative**.

Analyst Certification

We, Daniel Ives and Strecker Backe, certify that the views expressed in this report accurately reflect our personal opinions and that we have not and will not, directly or indirectly, receive compensation or other payments in connection with our specific recommendations or views contained in this report.

Mentioned Companies

Company	Rating	Price	Target
Microsoft	OUTPERFORM	$149.70	$210.00
Amazon.com	OUTPERFORM	$1,900.10	$2,325.00

Investment Rating System:

OUTPERFORM: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
NEUTRAL: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
UNDERPERFORM: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe of the next 6-12 months.
The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating distribution (as of March 29, 2020)	Investment Banking Relationships (as of March 29, 2020)
OUTPERFORM: 59.83% NEUTRAL: 38.76% UNDERPERFORM: 1.40%	OUTPERFORM: 9.86% NEUTRAL: 2.17% UNDERPERFORM: 0.00%

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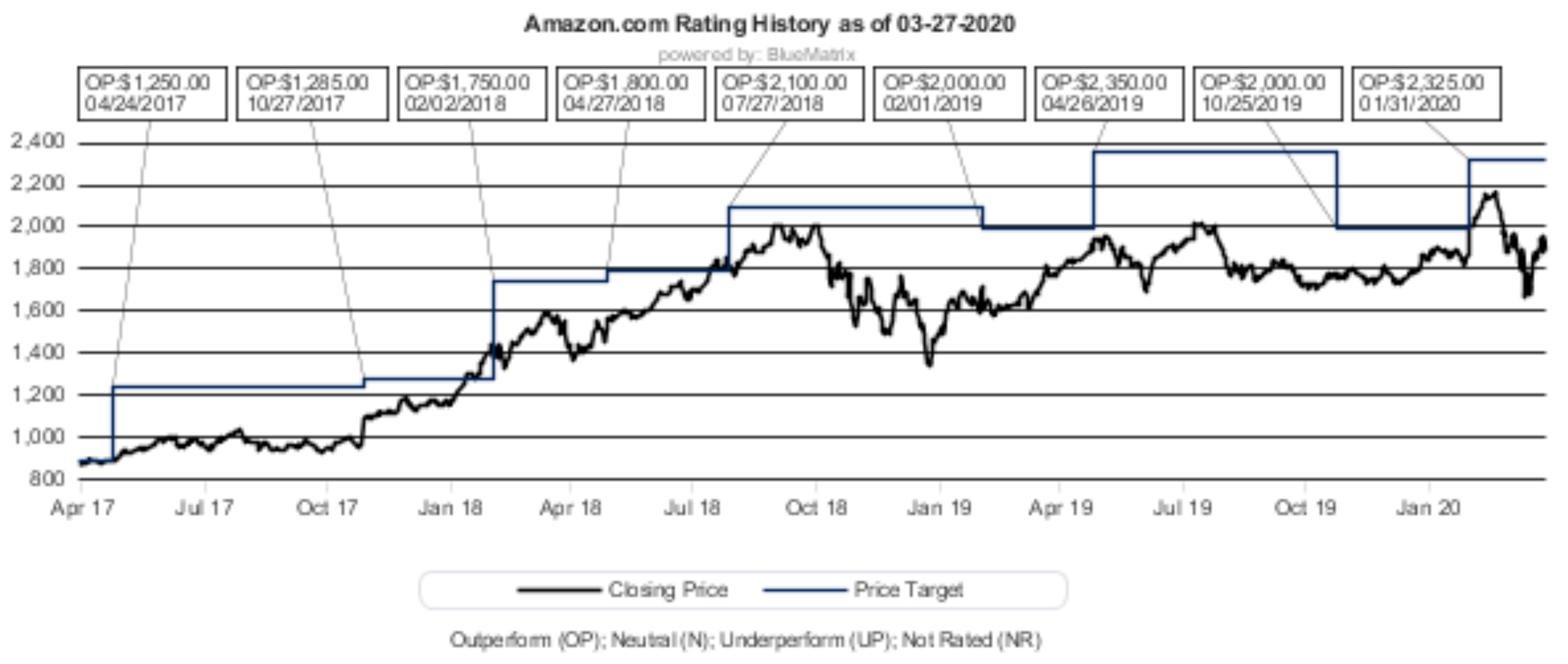
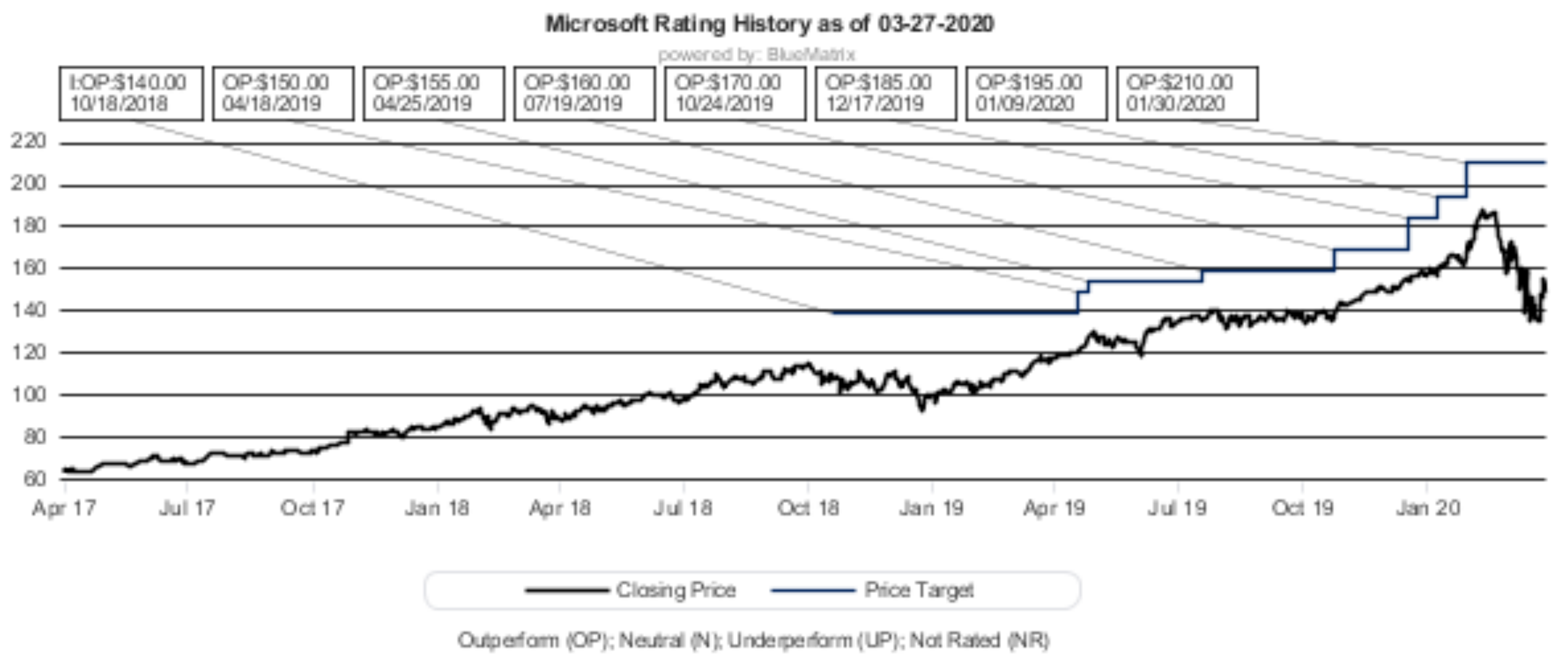
Company Specific Disclosures

1. WS makes a market in the securities of Amazon.com and Microsoft.

Price Charts





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Disclosure information regarding historical ratings and price targets is available: Research Disclosures

*WS changed its rating system from (Strong Buy/ Buy/ Hold/ Sell) to (Outperform/ Neutral/ Underperform) on July 14, 2009.
Applicable disclosure information is also available upon request by contacting Leslie Lippai in the Research Department at (212) 833-1375, by email to leslie.lippai@wedbush.com, or the Business Conduct Department (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.