

First Read

European Technology

What "Leave" vote means for UK Technology

EquitiesEurope including UK
Technology**Generally technology should be relative beneficiaries**

Given most of the UK sector has a limited UK sales exposure and generates a high proportion of USD revenues, it should prove relatively protected and actually may benefit from short term weakness in the GBP. The knock-on economic impact is difficult to gauge as are softer issues: ARM has discussed publicly the ease with which it recruits talent from Europe (indeed ARM cites it has 23 EU nationalities working at its Cambridge headquarters). Other issues such as the future of EU grants for R&D within universities may also impact the longer term technological capabilities of the UK.

Hardware: FX should help in the short-term

Putting aside the potential negative macro related issues, the weaker GBP should help several companies. For every 10% decline in the GBP vs USD/Euro we believe the beneficiaries at the EPS level are ARM (14%), IMG (>20%), Spirent (5%) and Laird (12%). For Worldpay, it is the most exposed of the hardware/platform names to the UK with domestic UK acquiring accounting for c40% of net revenues and EBITDA and hence would see an impact if UK consumer spending slows.

Software: Most will benefit from FX, but some have high UK sales exposures

The back-end loaded nature of software businesses means disruption post-Brexit on sales cycles in the next week could be more material than at Services companies near-term. However, looking at economic risks, Just Eat has the highest UK sales exposure (64%) and any slowdown might impact growth in sales. Fidessa's high UK sales exposure (39%) and the risk of disruption to its sell-side financial services clients in the UK post-Brexit also makes it a potential loser. Micro Focus (58%) and WANdisco (66%) have the highest US sales exposures so would benefit most from a stronger USD. While Aveva and Sophos are less international, they will also likely benefit from a UK-centric cost base relative to sales (as would Fidessa). Our interactive currency sensitivity model for the sector is available [here](#).

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Valuation Method and Risk Statement

Investing in technology stocks involves a high degree of risk because of rapid changes in technology and competitor actions. Moreover, it is extremely difficult to project the financial results of tech companies since their operating models are highly volatile and unpredictable. Neither traditional nor non-traditional valuation measures have provided much insight into how these stocks trade.

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Neutral	FSR is between -6% and 6% of the MRA.	38%	26%
Sell	FSR is > 6% below the MRA.	14%	19%
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Source: UBS. Rating allocations are as of 31 March 2016.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
ams AG ^{5, 59}	AMS.S	Buy	N/A	CHF27.90	23 Jun 2016
ARM Holdings Plc ^{4, 5, 7, 14, 16}	ARM.L	Buy	N/A	1,019p	23 Jun 2016
AT&T Inc. ^{4, 5, 6, 7, 16}	T.N	Buy	N/A	US\$41.88	23 Jun 2016
Aveva Group	AVV.L	Buy	N/A	1,735p	23 Jun 2016
Fidessa Group plc	FDSA.L	Sell	N/A	2,222p	23 Jun 2016
Imagination Technologies	IMG.L	Buy	N/A	181p	23 Jun 2016
Just Eat	JE.L	Sell	N/A	453p	23 Jun 2016
Laird Plc	LRD.L	Neutral	N/A	340p	23 Jun 2016
Micro Focus Intl Plc ^{2, 4, 13}	MCRO.L	Buy	N/A	1,611p	23 Jun 2016
Sophos Group PLC ^{2, 4}	SOPH.L	Buy	N/A	179p	23 Jun 2016
Spirent Plc ¹⁴	SPT.L	Neutral	N/A	78p	23 Jun 2016
STMicroelectronics ^{5, 7, 16}	STM.PA	Neutral	N/A	€5.44	23 Jun 2016
WANdisco PLC ¹⁴	WAND.L	Buy	N/A	148p	23 Jun 2016
Worldpay Group PLC ^{2, 4, 13}	WPG.L	Buy	N/A	295p	23 Jun 2016

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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