

MONTHLY RESEARCH WEBINAR

COMMUNICATION SERVICES: OPPORTUNITIES IN AN OVERSOLD SECTOR

Moderator:

Jim Kelleher, CFA

Director of Research

February 1, 2023

- **Communication Services:
Opportunities in an Oversold Sector**
 - Jim Kelleher, CFA, Director of Research
 - Joe Bonner, CFA, Senior Analyst
 - John Eade, Argus President

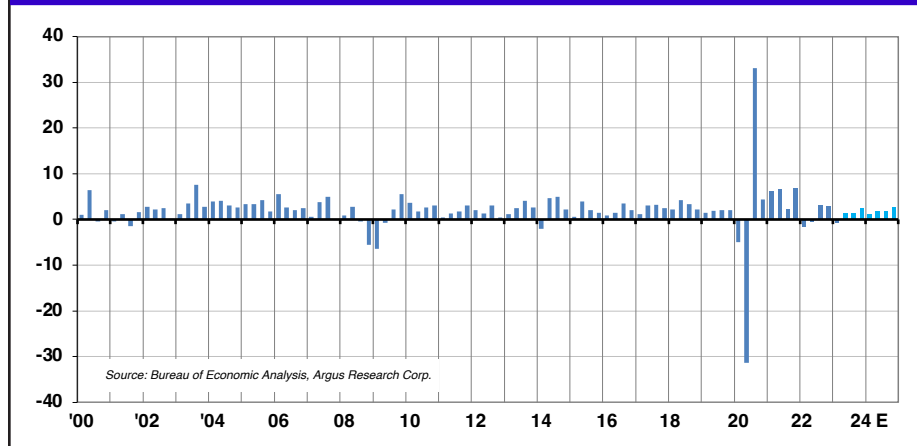
- **Argus Quick Notes**
 - Fire Sale on Beaten-Down Tech
 - Cautious Consumer
 - Dividend Growers
 - Argus Analysts' Top Picks for 2023
 - Find these on the homepage of our website

- **Portfolio Update: the Argus Min Vol Model Portfolio**
 - During 2022 bear market, value outperformed growth
 - Given market-timing risks from exit, better to focus on lower volatility
 - Min Vol: an all-weather strategy timely in any investing climate
 - Find the Argus Min Vol MP on the homepage of our website

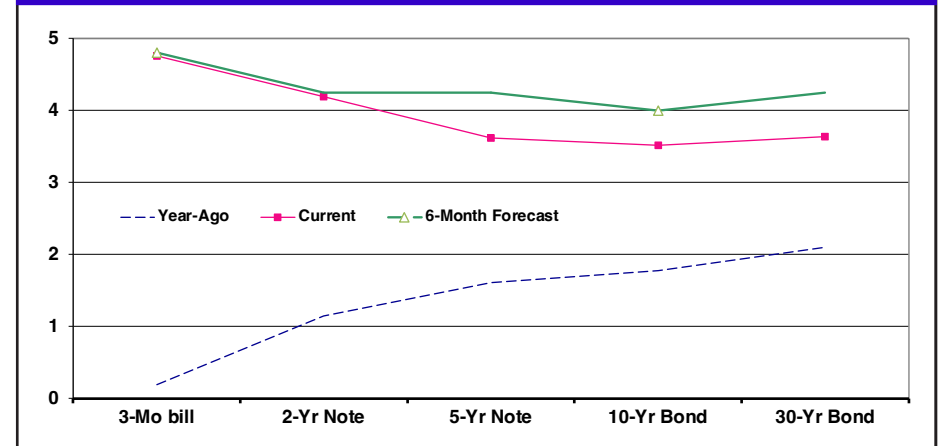
MACRO FORECASTS



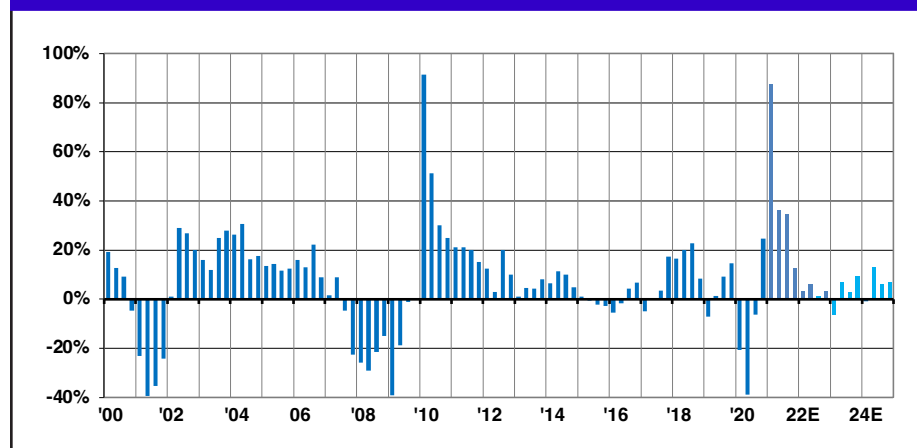
REAL GDP W/FORECASTS (%)



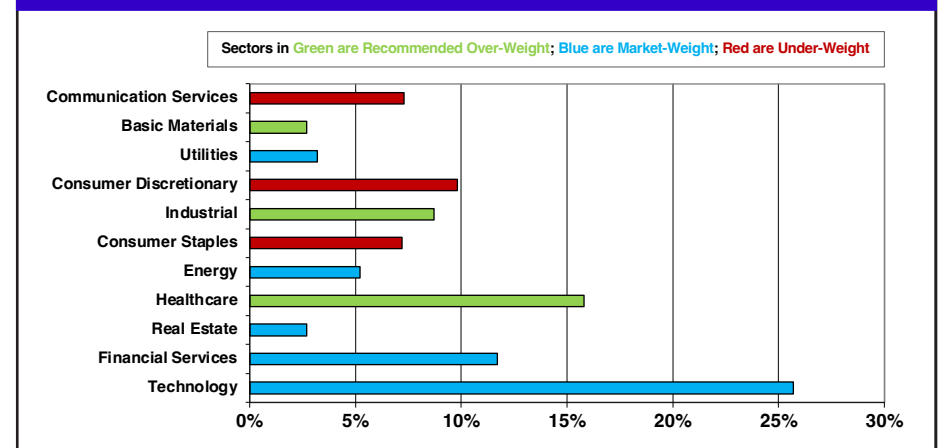
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH

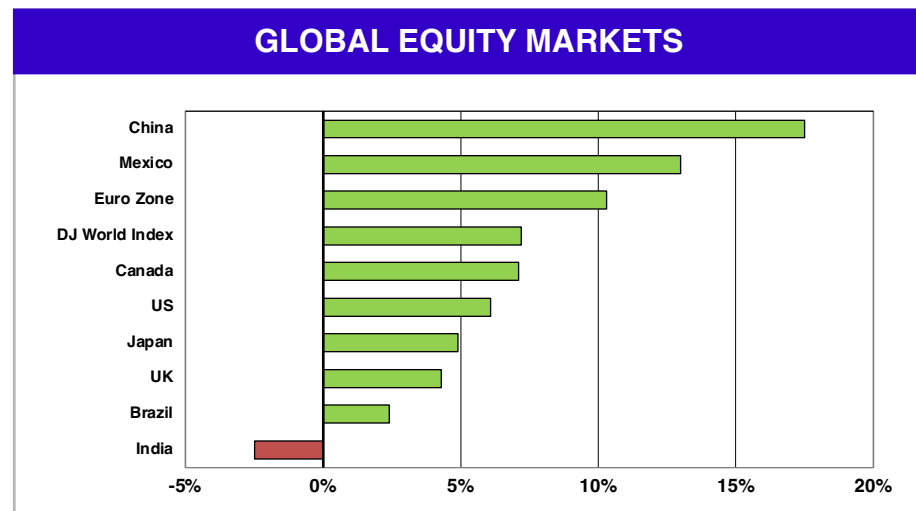
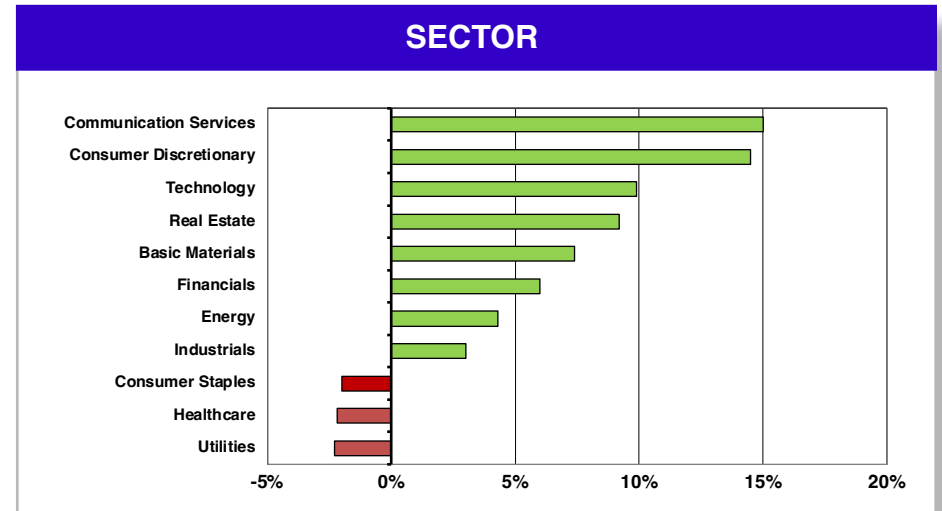
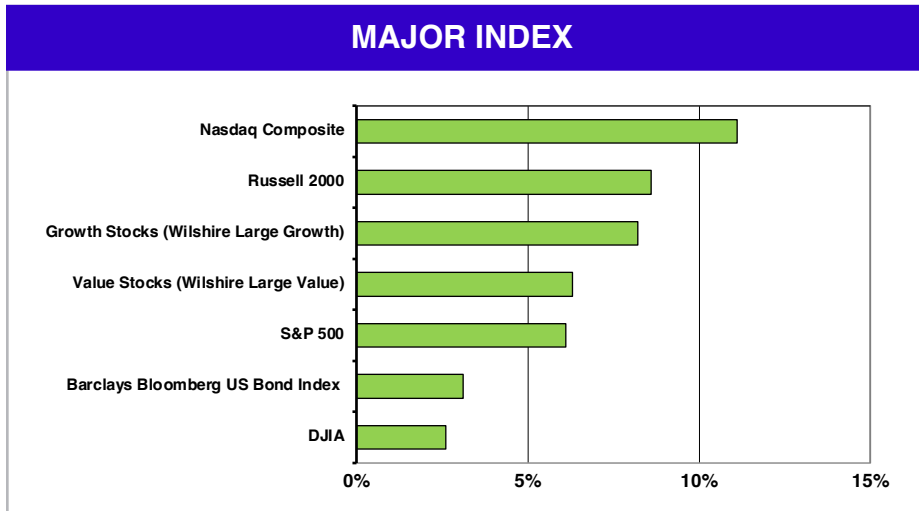


MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500



MARKET PERFORMANCE

DATA AS OF JANUARY 30, 2023



- **The Communication Services sector accounts for 7.5% of the S&P 500**
 - S&P Comms Index is down 23.5%, versus 8% decline for S&P 500 in the last year

- **Communication Services comprises three separate but overlapping industries: Interactive Media/Telecom/Media**

- **Current Industry Perspective**
 - Impact of slower growth/higher interest rates/digital advertising weakness/effects of Apple's ATT change
 - Market demand for (increased) profitability/layoffs & cost cuts/activist interest
 - Telecom – 5G – Highly competitive saturated market but the beginning of the end of the 5G investment cycle.

- **Media - Digital streaming video, still the next big thing or money pit?**
- **Interactive Media – Anti-trust – only getting worse near term**
- **Little appetite for M&A despite depressed valuations**
- **If and when does artificial intelligence/machine learning disrupt/power tech business models?**
- **We recommend investors Under-Weight the Communication Services sector**

■ **Netflix (NFLX)**

Target Price \$390

- **2023, a comeback year**
 - » 2022: -51% v. S&P -19%
 - » YTD: +20% v. S&P +5%

- **Large subscriber base/Large production budget**

- **2023 Growth vectors**
 - » International – native language production
 - » Advertising – slow start but economically positive
 - » Password sharing crackdown – balancing act
 - » Accelerating secular trend toward cord cutting

- **Successfully managing succession**

■ **T-Mobile (TMUS)**

Target Price \$175

- **Sprint merger**

- » provided spectrum backbone for 5G buildout a year ahead of competitors

- **Consistent leader in subscriber acquisition among big three**

- » Low price model/service plan innovations drive customer acquisition

- **New growth opportunities**

- » Rural network buildout

- » Fixed wireless access

- » Business services

- **5G may provide new service opportunities**

■ **ServiceNow (NOW)**

Target Price \$650

- **\$89 billion market cap cloud SaaS enterprise management applications company**
- **Continues to grow revenue and EPS at 20% plus rates in a tough enterprise software market**
 - » margin expansion
- **Looking to take share**
 - » Investing in R&D and sales force as others retrench
- **Provides platform of tools for business process efficiency as clients focus on cost savings in current business environment**

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