

Trending Topics from J.P. Morgan Corp Fin Advisory | Week of June 11, 2018

Digging into the data: CapEx/R&D spend led by the Tech sector

Key takeaways:

- Technology companies have been investing the most money (in absolute dollars), via CapEx and R&D, of any sector
- While tax reform and access to offshore cash is likely a contributing factor, this trend was also evident in the pre-tax reform world
- Non-tech companies may need to reconsider their own investment strategy to stay competitive in an increasingly disruptive world

In 2017, four technology companies (Amazon, Alphabet, Intel, and Apple) collectively spent over \$100bn in CapEx and R&D. Year-over-year, this represents approximately a +50% increase for Amazon, +25% for Alphabet, +10% for Intel, and +5% for Apple. While these four companies were the top four largest domestic spenders, other technology companies were also well represented. Of the top fifteen largest spenders, an additional two came from the technology sector, with two companies only in each of the consumer discretionary, health care, telecommunications, and energy sectors (plus one industrial company). This is a contrast from 2010, in which only three technology companies made the top fifteen.

Equity analysts are expecting that this investment trend will continue into 2018. While explicit estimates for R&D are less common for most companies, CapEx estimates have the Tech sector outspending other industries. Of the top ten expected CapEx spenders for 2018, five are in the technology space (Amazon, Alphabet, Intel, Apple and Facebook). Today's investment is likely to be tomorrow's growth and recent spending trends likely solidify large-cap tech's ongoing role in both US and global economic growth.

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J.P. Morgan Corporate & Investment Bank Marketing, 4 New York Plaza, Floor 12, NY 10035, New York, NY, 10004-2413, United States.

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