

# Technology-stock valuations are returning to Earth

By [Philip van Doorn](#)

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Price-to-earnings ratios are falling faster for tech stocks than for the S&P 500 Index

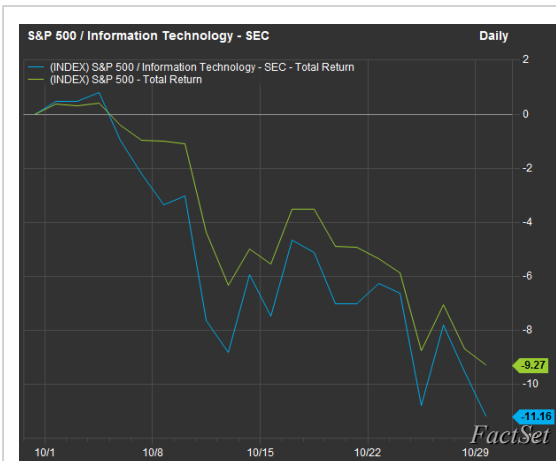


Bloomberg

Shares of Amazon.com and Netflix are in bear markets, with declines of more than 20% in October.

Many of the best-known technology stocks have suffered in recent weeks. But the declines in price-to-earnings ratios have been even sharper. Which means some of those same stocks have gotten relatively more attractive.

The S&P 500 Index [SPX, +0.69%](#) has been hit hard this earnings season, pulled down by the information-technology sector. Here are total returns for both from the end of September through Oct. 29:



The S&P 500 was down 9.3% from Sept. 28 through Oct. 29 (with dividends reinvested), while

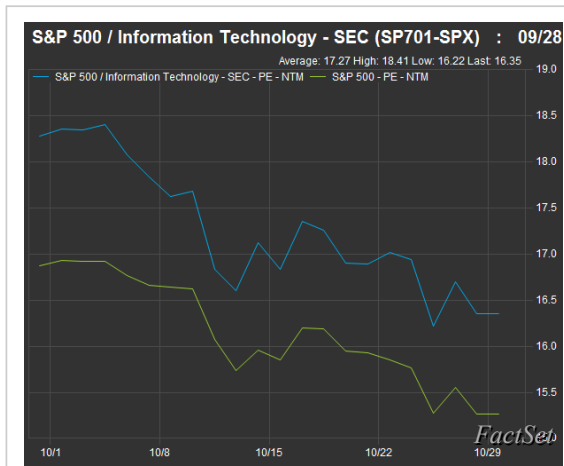
Now look at the declines in forward price-to-earnings (P/E) ratios based on consensus earnings estimates for the following 12 months among analysts polled by FactSet:

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the S&P 500 information-technology sector was down 11.2%.



The forward price-to-earnings ratio (based on EPS estimates for the following 12 months among analysts polled by FactSet) declined to 15.3 from 16.9 for the S&P 500 from Sept. 28 through Oct. 29 and to 16.4 from 18.3 for the S&P 500 information-technology sector.

Tech valuations have declined faster than that of the benchmark index. This is easily illustrated by two tech high-flyers that are not actually included in the information-technology sector by S&P Dow Jones Indices. Amazon.com [AMZN](#), -1.10% is in the consumer-discretionary sector and Netflix [NFLX](#), +0.40% is in the new communications-services sector.

Both companies have had very high P/E ratios for many years as investors have traditionally rewarded the pioneering aspects of the companies' businesses and their rapid growth. But check out these figures for the two:

	Total return - Sept. 28 through Oct. 29	Forward P/E ratio - Sept. 28	Forward P/E ratio - Oct. 29
Amazon.com	-23%	97.9	65.1
Netflix	-24%	111.7	84.5

Source: FactSet

Investors initially reacted well to Netflix's third-quarter earnings report, although analyst reaction was mixed and the company's bond offering received a low rating. Amazon disappointed investors with its third-quarter results, even though its sales were up 29% from a year earlier. We have seen similar downturns for both stocks over the years, only to watch them rebound. But there's no question those valuations remain very high, and there's no way to predict when investors will look more at profits, rather than sales growth, when assessing the worth of both companies' shares. There's also no way to predict how severe this tech rout will be.

**Also see:** [AMD's poor outlook, crypto-chip slowdown intensify swoon in semiconductor sector](#)

## Tech stocks with declines in P/E ratios

There are 66 companies in the S&P 500 information-technology sector. If we add Amazon and Netflix, three video game developers, Twitter TWTR, +4.38% Facebook FB, +0.39% and Google holding company Alphabet GOOG, +0.64% GOOGL, +0.56% we have 74 S&P 500 “tech” companies.

Forward P/E ratios have declined for all but two during October, including Red Hat RHT, +0.11% which has agreed to be acquired by International Business Machines IBM, -1.78% for a 63% cash premium, and Western Digital Corp. WDC, +0.85% whose forward P/E ratio increased to a relatively low 6.4 as of the close on Oct. 29 from 5.2 at the end of September, even though the shares declined 7%.

Here’s how valuations for the 72 remaining S&P 500 tech companies have dropped in October. They are sorted by their forward P/E ratios at the end of September:

Company	Ticker	Industry	Forward P/E - Sept. 28	Forward P/E - Oct. 29	Total return - Sept. 28 through Oct. 29 2018	Total return - Oct. 29 through Oct. 29 2018
Netflix Inc.	<u>NFLX</u> , +0.40%	Cable/Satellite TV	111.7	84.5	-24%	48%
Amazon.com Inc.	<u>AMZN</u> , -1.10%	Internet Retail	97.9	65.1	-23%	32%
Autodesk Inc.	<u>ADSK</u> , +1.22%	Software	79.2	63.0	-20%	18%
Salesforce.com Inc.	<u>CRM</u> , -0.72%	Software	67.1	55.2	-18%	28%
Advanced Micro Devices Inc.	<u>AMD</u> , -0.66%	Semiconductors	62.2	32.0	-45%	64%
Fortinet Inc.	<u>FTNT</u> , +1.48%	Computer Communications	52.1	43.5	-16%	77%
Twitter Inc.	<u>TWTR</u> , +4.38%	Internet Software/Services	40.4	38.5	14%	35%
Gartner Inc.	<u>IT</u> , +0.96%	Miscellaneous Commercial Services	39.8	35.6	-11%	14%
Nvidia Corp.	<u>NVDA</u> , +3.99%	Semiconductors	39.1	25.9	-34%	-4%
ANSYS Inc.	<u>ANSS</u> , +1.47%	Software	36.2	28.0	-23%	-3%
Adobe Inc.	<u>ADBE</u> , -0.48%	Software	35.5	31.1	-11%	37%
Intuit Inc.	<u>INTU</u> , +0.90%	Software	35.1	31.0	-12%	28%
PayPal Holdings Inc.	<u>PYPL</u> , +0.25%	Data Processing Services	34.3	29.8	-8%	10%
Arista Networks Inc.	<u>ANET</u> , +2.92%	Computer Communications	34.2	28.1	-18%	-8%
VeriSign Inc.	<u>VRSN</u> , +1.87%	Internet Software/Services	32.4	26.4	-15%	18%
Mastercard Inc. Class A	<u>MA</u> , -1.77%	Miscellaneous Commercial Services	32.4	27.8	-14%	27%
Visa Inc. Class A	<u>V</u> , -1.53%	Miscellaneous Commercial Services	29.5	25.2	-11%	18%
Automatic Data Processing Inc.	<u>ADP</u> , -0.16%	Data Processing Services	29.1	26.1	-10%	17%
Broadridge Financial Solutions Inc.	<u>BR</u> , +1.03%	Miscellaneous Commercial Services	28.3	24.2	-14%	26%
Activision Blizzard Inc.	<u>ATVI</u> , +1.59%	Recreational Products	28.2	22.6	-22%	4%
Alphabet Inc. Class A	<u>GOOGL</u> , +0.56%	Internet Software/Services	27.7	23.1	-14%	-2%
Xilinx Inc.	<u>XLNX</u> , +1.81%	Semiconductors	26.8	23.5	-2%	18%

Microsoft Corp.	<u>MSFT,</u> <u>-1.48%</u>	Software	26.8	23.2	-9%	23%
FLIR Systems Inc.	<u>FLIR,</u> <u>-11.80%</u>	Aerospace & Defense	26.7	23.1	-13%	15%
Cadence Design Systems Inc.	<u>CDNS,</u> <u>+0.52%</u>	Electronic Production Equipment	26.3	23.1	-2%	6%
Paychex Inc.	<u>PAYX,</u> <u>+0.31%</u>	Data Processing Services	25.9	22.0	-13%	-4%
Synopsys Inc.	<u>SNPS,</u> <u>+0.59%</u>	Software	25.2	22.2	-12%	2%
Electronic Arts Inc.	<u>EA,</u> <u>+1.56%</u>	Recreational Products	25.1	19.1	-24%	-13%
Take-Two Interactive Software Inc.	<u>TTWO,</u> <u>+9.44%</u>	Recreational Products	25.0	20.8	-19%	2%
Fiserv Inc.	<u>FISV,</u> <u>+0.39%</u>	Data Processing Services	25.0	23.4	-6%	18%
Amphenol Corp. Class A	<u>APH,</u> <u>+1.83%</u>	Electronic Components	24.9	21.8	-9%	-2%
Accenture PLC Class A	<u>ACN,</u> <u>+0.68%</u>	Information Technology Services	23.6	21.2	-9%	2%
Global Payments Inc.	<u>GPN,</u> <u>+1.14%</u>	Data Processing Services	23.1	19.7	-15%	9%
Facebook Inc. Class A	<u>FB,</u> <u>+0.39%</u>	Internet Software/Services	22.7	19.8	-14%	-19%
Total System Services Inc.	<u>TSS,</u> <u>-0.74%</u>	Data Processing Services	21.6	18.8	-10%	13%
FleetCor Technologies Inc.	<u>FLT,</u> <u>+0.12%</u>	Miscellaneous Commercial Services	20.5	16.5	-20%	-5%
Akamai Technologies Inc.	<u>AKAM,</u> <u>+15.35%</u>	Internet Software/Services	20.4	16.0	-15%	-5%
Fidelity National Information Services Inc.	<u>FIS,</u> <u>+3.53%</u>	Data Processing Services	19.8	18.0	-9%	6%
Citrix Systems Inc.	<u>CTXS,</u> <u>+0.30%</u>	Software	19.8	17.2	-9%	15%
NetApp Inc.	<u>NTAP,</u> <u>+4.37%</u>	Computer Peripherals	19.5	16.3	-16%	32%
F5 Networks Inc.	<u>FFIV,</u> <u>+1.02%</u>	Computer Communications	19.4	15.8	-15%	28%
IPG Photonics Corp.	<u>IPGP,</u> <u>+1.14%</u>	Electronic Equipment/Instruments	19.3	17.7	-16%	-39%
Qualcomm Inc.	<u>QCOM,</u> <u>+1.25%</u>	Telecommunications Equipment	19.1	16.7	-14%	0%
Motorola Solutions Inc.	<u>MSI,</u> <u>+0.79%</u>	Aerospace & Defense	18.6	16.7	-10%	31%
Texas Instruments Inc.	<u>TXN,</u> <u>+2.26%</u>	Semiconductors	18.5	16.7	-16%	-12%
Corning Inc.	<u>GLW,</u> <u>+1.18%</u>	Electronic Components	18.1	15.1	-13%	-3%
Apple Inc.	<u>AAPL,</u> <u>+0.71%</u>	Telecommunications Equipment	16.9	15.8	-6%	27%
Cognizant Technology Solutions Corp. Class A	<u>CTSH,</u> <u>-3.67%</u>	Information Technology Services	16.3	14.2	-10%	-2%
Cisco Systems Inc.	<u>CSCO,</u> <u>+1.03%</u>	Computer Communications	16.2	14.6	-9%	18%
Juniper Networks Inc.	<u>JNPR,</u> <u>+0.64%</u>	Computer Communications	15.9	14.0	-6%	0%
Analog Devices Inc.	<u>ADI,</u> <u>+1.33%</u>	Semiconductors	15.8	13.8	-13%	-8%
CA Inc.	<u>CA,</u> <u>+0.20%</u>	Software	15.7	15.6	0%	35%
TE Connectivity Ltd.	<u>TEL,</u> <u>+1.47%</u>	Electronic Components	15.2	13.2	-14%	-19%
Oracle Corp.	<u>ORCL,</u>	Software	14.9	13.6	-8%	1%

	<u>+2.00%</u>						
Symantec Corp.	<u>SYMC</u> , <u>-1.17%</u>	Software	13.5	11.5	-15%	-35%	
HP Inc.	<u>HPQ</u> , <u>+2.00%</u>	Computer Processing Hardware	12.1	10.8	-11%	11%	
Skyworks Solutions Inc.	<u>SWKS</u> , <u>+1.70%</u>	Semiconductors	11.9	10.7	-10%	-13%	
Broadcom Inc.	<u>AVGO</u> , <u>+2.71%</u>	Semiconductors	11.6	10.0	-14%	-16%	
Qorvo Inc.	<u>QRVO</u> , <u>+0.91%</u>	Semiconductors	11.5	10.4	-10%	4%	
Intel Corp.	<u>INTC</u> , <u>+3.80%</u>	Semiconductors	11.4	10.0	-4%	0%	
KLA-Tencor Corp.	<u>KLAC</u> , <u>+6.38%</u>	Electronic Production Equipment	11.3	9.9	-16%	-17%	
Microchip Technology Inc.	<u>MCHP</u> , <u>+2.44%</u>	Semiconductors	11.3	9.1	-21%	-28%	
DXC Technology Co.	<u>DXC</u> , <u>+1.79%</u>	Data Processing Services	11.2	8.3	-26%	-15%	
International Business Machines Corp.	<u>IBM</u> , <u>-1.78%</u>	Information Technology Services	11.0	8.6	-21%	-19%	
Hewlett Packard Enterprise Co.	<u>HPE</u> , <u>+1.24%</u>	Computer Processing Hardware	10.5	9.4	-11%	3%	
Western Union Co.	<u>WU</u> , <u>+0.37%</u>	Miscellaneous Commercial Services	10.2	9.4	-8%	-5%	
Lam Research Corp.	<u>LRCX</u> , <u>+1.36%</u>	Electronic Production Equipment	10.2	9.2	-10%	-25%	
Alliance Data Systems Corp.	<u>ADS</u> , <u>+0.23%</u>	Data Processing Services	9.6	8.1	-15%	-20%	
Applied Materials Inc.	<u>AMAT</u> , <u>+2.31%</u>	Electronic Production Equipment	9.5	8.0	-19%	-38%	
Xerox Corp.	<u>XRX</u> , <u>+1.49%</u>	Computer Peripherals	8.1	8.0	2%	-3%	
Seagate Technology PLC	<u>STX</u> , <u>+1.64%</u>	Computer Peripherals	7.6	6.3	-20%	-6%	
Micron Technology Inc.	<u>MU</u> , <u>+0.78%</u>	Semiconductors	4.3	3.3	-23%	-16%	

Source: FactSet

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## Philip van Doorn

Philip van Doorn covers various investment and industry topics. He has previously worked as a senior analyst at TheStreet.com. He also has experience in community banking and as a credit analyst at the Federal Home Loan Bank of New York.

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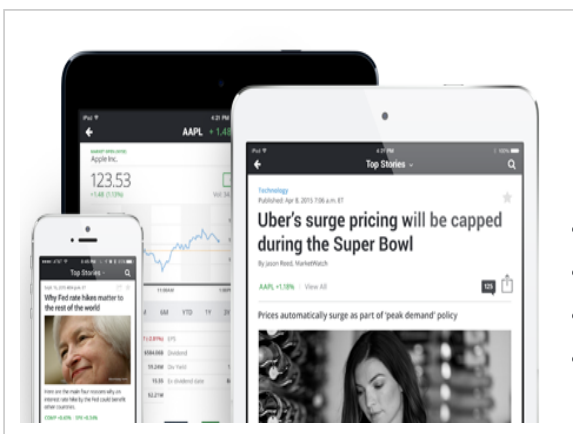
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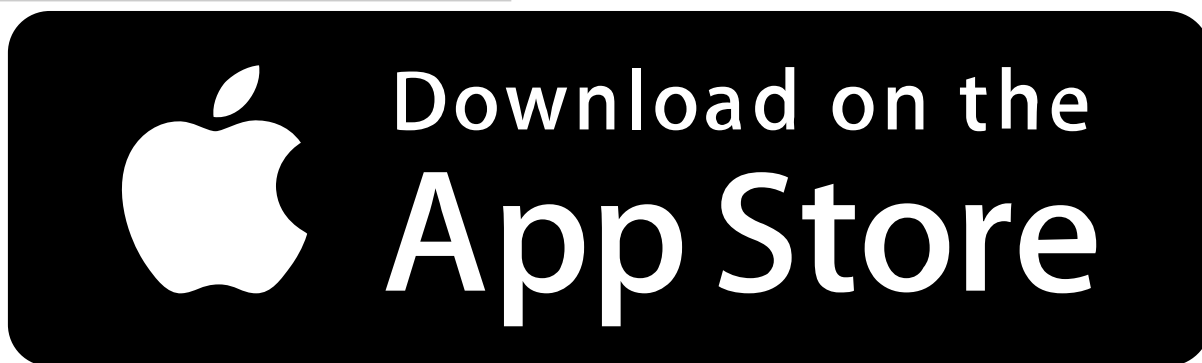
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