Technology

2023 CIO Survey | The Year of Change

CONCLUSION

2023 CIO Survey: For Piper Sandler's 12th annual CIO Survey, we surveyed 128 IT decision makers having an estimated \$1.6B in average annual revenue. Results suggest that 2023 could be the 'year of change' with >50% planning to consolidate vendors within infrastructure software and application sectors (71% cited cost savings as a contributing factor). Intent to 'maintain' budgets overall also fell to the lowest level in years at 10% (vs. 18% average). Overall, 2023 IT budget expectations were surprisingly healthy rising +4.9% Y/Y, a +70 bps increase compared to 2022. Security and application software were top spending priorities in 2023, with devices, unified communications, and database falling to the bottom.

- Security (Owens): 1) Security remains the top priority, with 74% expecting increased spend and 48% looking to consolidate; 2) While the macro may influence some appliance sweating and increased focus on pricing dynamics, overall demand for security should hold strong. We see vendors that address high priority segments of the security stack alongside offering consolidation opportunities as best positioned going into 2023. *Stock implications: OKTA (+; OW), CRWD (+; OW), PANW (+; OW), TENB (+; OW).*
- **Applications (Bracelin):** 1) 64% are planning to consolidate application vendors in 2023 with cost savings as a key driver; 2) multi-cloud preferences are gaining popularity across the broader enterprise; 3) spend priority was most favorable for application software and data analytics; 4) most at risk categories included procurement, work management, marketing, and CX. *Stock implications: MSFT (+; OW), ORCL (+/-; N), SNOW (+; OW), and AYX (+; OW).*
- Infrastructure Software (Fish/Owens): 1) Priorities are shifting more towards "keeping the lights on", automation, & 5G services rather than "nice to haves" around transformational infrastructure (ex: containers, edge compute, etc.); 2) Spending intentions strongest for areas like Security, Switching, ITSM, Backup, Storage / HCI; 3) CIOs are looking to most consolidate infrastructure vendors, making "true-platforms" differentiated and well-setup. Stock implications: NET (+; N), NOW (+; OW), NTNX (+; OW), and ANET (+; OW).
- Communication Software (Fish): 1) While the space remains a low relative priority relative to the rest of IT, spending intentions did return to above pre-pandemic levels, pointing to a better 2023; 2) Cloud migrations in contact center & voice remain strong in 2023 and over the next 3 years; 3) As the #3 area CIOs most desire to consolidate, this will most impact platform plays across voice, video, and chat / messaging. *Stock implications: FIVN (+; OW), NICE (+; N), and ZM (+; N).*
- IT Services & HCM Software (Ramnani): 1) 20% of respondents expect IT Services to be most exposed in a recession. 49% are looking to consolidate vendors as a mechanism to save costs. In our view, larger players such as ACN, CTSH (not covered) are likely to be more pressured relative to the digital players (EPAM, GLOB) given their scale and consulting exposure; 2) 86% looking to increase/spend the same on HCM Apps given it's a non-discretionary spend. We expect cloud HCM (PCTY, PAYC, CDAY) to continue to benefit from stable/healthy spend and churn from legacy vendors (ADP, PAYX, both not covered). Stock implications: EPAM (+/-; OW), ACN (-; UW), PCTY (+; OW).

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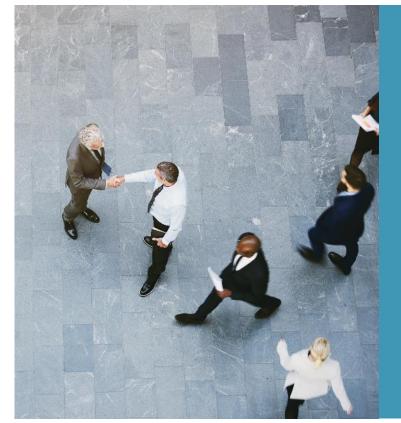
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INDUSTRY RISKS

Macroeconomy, IT Spending, Competition, ASPs, and Valuations.

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Table of Contents

Executive Summary		4
a)	Piper Sandler's Most Robust CIO Survey to Date	5
b)	2023 Final Takeaway	6
c)	Section Overview	7
d)	Piper Sandler Key Stock Callouts from the 2023 CIO Survey	8

Ger	9	
a)	IT Budget Growth	10-13
b)	Top 2023 IT Spending Priorities and Changes	14
c)	Vendor Consolidation in 2023	15-16
d)	Who Could Benefit the Most?	17
e)	Top Concerns Impacting Your Budget?	18
Security Owens		19
a)	Conclusion	20
b)	Spending Intentions	21-22
c)	Securing Remote Workers	23
Application Software Bracelin 24		
a)	Conclusion	25
b)	Vendor Consolidation	26-27
c)	Cloud Growth and Penetration	28-29
d)	Spending Intentions	30-33

Infrastructure Software Fish & Owens		34
a)	Conclusion	35
b)	Spending Intentions	36-41
c)	Vendor Consolidation	42
d)	Technology Implementation Over the Next Three Years	43

Communication Software / Unified Communications & Collaboration (UCC) | Fish 44 44

a)	Conclusion	45
b)	Spending Intentions	46-50
c)	Cloud Communication Migrations	51
d)	Special-Take	52

IT Services & HCM Software Ramnani		53
a)	Conclusion	54
b)	IT Services Budgets Could Be Pressured	55
c)	Spending Intentions Remain Healthy for Cloud HCM	56

Survey Demographics 57

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