JAG CAPITAL MANAGEMENT LLC

JAG Team Insights

Putting Recent Tech Layoffs into Context

Total reading time = 2 minutes

Summary

- **A growing number of technology companies are announcing large layoffs, raising concerns about the state of the US economy.**
- **While macro uncertainty persists, we believe tech layoffs are primarily a byproduct of frantic hiring during the pandemic that in many cases led to overstaffing.**
- **Despite negative headlines, we are turning increasingly optimistic on tech stocks. Last year's underperformance and dour investor sentiment may have created a good entry point into specific tech companies we believe have the potential to do well.**

Table 1: Tech Headcount Growth During the Pandemic

Company	Year-End 2019 Headcount[1]	2022 Headcount[2]	% Change	% Laid Off[3]
Spotify	4,405	9,808	123%	6%
Amazon[4]	798,000	1,608,000	102%	1%
Meta	44,942	87,314	94%	13%
ServiceNow	10,371	20,072	94%	--
Nvidia	13,775	22,473	63%	--
Salesforce	49,000	79,000	61%	10%
Google	118,899	186,779	57%	6%
Microsoft	144,000	221,000	53%	5%
Micron	37,000	49,000	32%	10%
Apple	137,000	164,000	20%	--

Source: JAG Capital Management, SEC Filings
[1]2019 headcount is based on annual filing (10-K).
[2]2022 headcount based on most recent data.
[3]Planned layoff announcements in the last three months.
[4]Amazon headcount includes part-time employees.

Almost every day we have been hearing the news of tech layoffs, most recently Alphabet (Google) and Spotify each announcing a 6% workforce reduction. While layoffs often point towards a weakening economy, we believe these headcount reductions primarily reflect idiosyncratic factors in the tech industry and have a relatively limited read-through for the rest of the US economy. The continued tight labor market outside of the tech industry is evidence of this and is also cited by the Federal Reserve as a primary reason for its rate hikes. The US economy continues to expand with Q4 2022 GDP growing 2.9%, quelling fears of an imminent recession.

As COVID lockdowns significantly boosted demand for items such as data center and personal computers, many tech companies grew headcount too quickly (Figure 1), expecting these growth rates to persist. With softening demand, tech companies have been forced to cut costs and lay off people. (Not all tech companies have announced mass layoffs. For example, Apple has only grown its headcount by 20% since 2019, likely explaining why the company has been able to avoid layoffs so far.)

A number of factors had a detrimental impact on consumer demand, causing it to shift quickly. In the PC arena, the initial growth spurred by the pandemic and work-from-home solutions was not sustainable and petered off. According to Gartner, after growing ~+10% y/y in 2021, PC shipments declined -28.5% y/y in Q4 2022 — the largest quarterly shipment decline since the company started tracking the data. For the full year 2022, PC shipments declined by -16.2%, with analysts and companies expecting further weakness in 2023. Customers have been reducing cloud usage and data storage to save on costs. While large enterprise tech spending remains robust, new contracts are coming under more scrutiny and generally take longer to close.

There are multiple factors that cause us to be optimistic about the technology sector. First, most large tech companies continue to grow revenues at a healthy rate, even after accounting for softening demand and significant currency headwinds. Second, tech valuations severely contracted in 2022 and, coupled with the current negative and/or cautious investor sentiment, there is now a lower hurdle for outperformance in 2023. Finally, cost reduction initiatives should help protect earnings, a positive factor for stock prices. Notably, stocks mostly reacted positively to the layoff news (e.g., Google +5%, Spotify +2%), demonstrating investors' focus on profitability and cost controls. We continue to look for attractive opportunities in the technology sector and our research team is dedicated to weighing the risks and the rewards as the environment evolves.

JAG's investment approach helps us identify great companies that can capitalize on durable sector and industry-specific trends and opportunities. We welcome your comments and questions any time!

– George Margvelashvili, CFA®, JAG Investment Team

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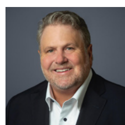

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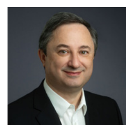

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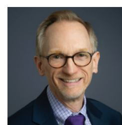

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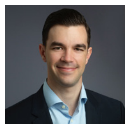

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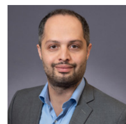

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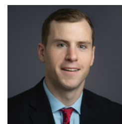

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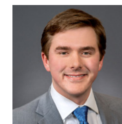

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Ownership: Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

Control and Management: Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

Contribution of Expertise and Capital: Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

Independence: The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

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