

PowerSchool Holdings, Inc.

Mixed 4Q results but long-term thesis still attractive; Reiterate Buy, \$30 PO

Reiterate Rating: BUY | PO: 30.00 USD | Price: 22.59 USD

Missed 4Q revs due to large deal push out

Reiterate Buy, \$30 PO as 4Q23 were mixed with adj. EBITDA beating Street but revenue missing. The shortfall was due to deal slippage, which led to NRR compressing 50bps q/q to 106.7%. Because PowerSchool has exposure to large deals, quarterly bookings can be volatile due to deal timing, and implementations. However, when looking at the business on an annual basis, the fundamentals are trending positively. As such, 2024 revenue guidance is comparable to the Street (\$786-792mn vs. \$789mn Street), and adj EBTIDA guidance is above (\$267-272mn vs. \$264mn Street), which suggests overall pipeline visibility is pretty good. Our Buy thesis remains unchanged and we continue to believe it's a long-term share gainer in the K-12 ed-tech market. Our \$30 PO is based on 25.4x EV/CY24E EBITDA. Update forecast for 4Q results/guidance.

Early days for new AI products, looks promising

Investments into AI products are still in the early innings, but initial launches and beta testing shows that the offerings are being received positively, which could mean healthy cross-selling opportunities over the medium-term. Contributions from AI add-ons are not included in the guidance, and could drive upside. PowerBuddy and ContentNav are the first AI produced being released. PowerBuddy helps teachers create material, and ContentNav helps educators explore repositories of teaching material. PowerSchool's datalake platform, Connected Intelligence, has also displayed strong demand, and could be a good growth driver in the future.

Positives: ARR growth boosted by SchoolMessenger

1) ARR grew 18% y/y to \$701.5mn, accelerating from +9% in 3Q23, and was above Street of +15%; 2) billings grew 37% y/y to \$148.3mn, accelerating from +14% in 3Q23; 3) adjusted EBITDA margin of 32.6% exceeded the 31.3% Street from operational scale and efficiencies in the services business; and 4) international ARR grew nearly +50% y/y in 2024, though we estimate its still low single digit % of total ARR.

Negatives: NRR lumpy, could continue to be lumpy

1) NRR compressed 50bps q/q to 106.7%, though it was affected by one large pushed deal (Indiana) and would have been flat if it closed in 4Q23; 2) free cash flow was \$32.3mn (17.7% margin), missing the \$38.8mn; and 3) license/other revenue is expected to decline y/y in 2024 (we estimate by 30%), due to some very large upfront deals in 2023 (Los Angeles Unified School District licenses, and Puerto Rico hardware).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.17)	(0.24)	(0.23)	(0.10)	(0.02)
EPS Change (YoY)	37.0%	-41.2%	4.2%	56.5%	80.0%
Consensus EPS (Bloomberg)			0.98	1.13	1.23
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	30.0x	25.4x	21.8x	19.7x	17.8x
Free Cash Flow Yield*	3.2%	3.7%	4.3%	4.9%	5.5%

* For full definitions of *IQmethod*SM measures, see page 6.

26 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	796.8	789.0
2025E Rev (m)	869.5	863.7
2026E Rev (m)	NA	945.8
2024E EPS	-0.13	-0.23
2025E EPS	0.01	-0.10
2026E EPS	NA	-0.02

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Stock Data

Price	22.59 USD
Price Objective	30.00 USD
Date Established	13-Aug-2023
Investment Opinion	C-1-9
52-Week Range	16.41 USD - 25.16 USD
Mrkt Val (mn) / Shares Out (mn)	4,562 USD / 201.9
Free Float	46.1%
Average Daily Value (mn)	11.17 USD
BofA Ticker / Exchange	PWSC / NYS
Bloomberg / Reuters	PWSC US / PWSC.N
ROE (2024E)	-2.7%
Net Dbt to Eqty (Dec-2023A)	44.5%
ESGMeter TM	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 26 February 2024 11:07PM EST

iQprofileSM PowerSchool Holdings, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	0.1%	0.7%	0.7%	1.1%	1.5%
Return on Equity	-2.0%	-2.8%	-2.7%	-1.1%	-0.2%
Operating Margin	0.9%	3.5%	3.2%	4.9%	6.4%
Free Cash Flow	145	168	198	225	250

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	31.6%	1.2%	5.0%	5.0%	5.0%
Net Debt-to-Equity Ratio	34.5%	44.5%	35.5%	24.6%	14.1%
Interest Cover	0.1x	0.4x	0.4x	0.7x	0.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	631	698	789	864	946
% Change	12.9%	10.6%	13.1%	9.5%	9.5%
Gross Profit	358	414	470	519	573
% Change	12.8%	15.5%	13.6%	10.5%	10.3%
EBITDA	196	232	269	298	331
% Change	21.9%	18.1%	16.2%	10.6%	11.1%
Net Interest & Other Income	(46)	(64)	(65)	(65)	(65)
Net Income (Adjusted)	(34)	(48)	(47)	(21)	(4)
% Change	37.8%	-42.6%	2.6%	55.2%	79.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(28)	(39)	(38)	(21)	(4)
Depreciation & Amortization	122	131	153	161	178
Change in Working Capital	(10)	6	0	3	(7)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	65	73	87	90	93
Capital Expenditure	(4)	(2)	(4)	(8)	(9)
Free Cash Flow	145	168	198	225	250
% Change	4.5%	15.9%	17.4%	13.6%	11.5%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	(22)	(8)	(8)	(8)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	137	39	181	341	522
Trade Receivables	54	77	92	114	169
Other Current Assets	37	40	61	100	123
Property, Plant & Equipment	6	5	1	1	1
Other Non-Current Assets	3,248	3,504	3,413	3,419	3,437
Total Assets	3,583	3,777	3,862	4,089	4,365
Short-Term Debt	8	8	8	8	8
Other Current Liabilities	406	509	561	639	736
Long-Term Debt	729	811	811	811	811
Other Non-Current Liabilities	707	693	685	689	693
Total Liabilities	1,849	2,022	2,065	2,148	2,248
Total Equity	1,734	1,755	1,796	1,942	2,117
Total Equity & Liabilities	3,583	3,777	3,862	4,089	4,365

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Server & Enterprise Software

Company Description

PowerSchool is a software and services provider for the K-12 ed-tech space. Its core applications, the SIS and enrollment platform, are mission critical for many schools and districts to operate. Over the years, PowerSchool has built a platform of applications organically and through acquisition, that enable schools and districts to provide good student outcomes and to optimize school operations and workflows.

Investment Rationale

We rate PowerSchool Buy. We believe PowerSchool is well positioned to take share of a \$5.3bn near term TAM opportunity in the K-12 ed-tech space with its leading platform of software and services that address the student lifecycle. We see the potential for revenue and profitability upside given the counter-cyclical nature (i.e., defensive) of PWSC end-markets, improving sales cycles, and execution.

Stock Data

Average Daily Volume 494,430

Quarterly Earnings Estimates

	2023	2024
Q1	-0.09A	-0.10E
Q2	-0.03A	-0.05E
Q3	-0.01A	-0.04E
Q4	-0.11A	-0.05E

Key Metrics

4Q23 Performance

- ARR of \$701.5mn (+18%) was above our/Street \$693.1mn/\$683.8mn
- Total revenue of \$182.1mn was below our/Street \$183.5mn/\$183.4mn
- Adjusted EBITDA of \$59.4mn, 32.6% margin, was above our/Street \$57.2mn/\$57.2mn (31.1/31.3% margin)

FY24 Guidance

- Total revenue guidance of \$786-792mn compares to our/Street \$796.8mn/\$787.6mn
- Adjusted EBITDA guidance of \$267-272mn is above our/Street \$260.7mn/\$263.9mn

Exhibit 1: Variance

Total revenue missed our estimate by (0.8%).

	4Q23A		
	BofA Estimate	Actual	Variance
Subscription and support revenue	166,904	163,623	(2.0%)
Y/Y growth %	17.9%	15.6%	(232bps)
Service revenue	14,524	15,403	6.1%
Y/Y growth %	(5.0%)	0.8%	575bps
Net revenue retention (NRR)	108.5%	106.7%	(180bps)
Net-new ARR	52,669	61,100	16.0%
Y/Y growth %	387.7%	465.7%	7806bps
ARR, end of period	693,069	701,500	1.2%
Y/Y growth %	16.2%	17.7%	141bps
Total revenue	183,530	182,136	(0.8%)
Y/Y change %	13.9%	13.1%	(87bps)
Guidance (mn)	182-185		
Billings	131,825	148,283	12.5%
Y/Y growth %	21.8%	37.1%	1521bps
Income (Loss) from Operations	5,254	3,332	(36.6%)
Operating Margin	2.9%	1.8%	(103bps)
Adjusted EBITDA	57,154	59,365	3.9%
Adjusted EBITDA margin	31.1%	32.6%	145bps
Guidance (mn)	56.5-58.5		
EPS (Pro Forma)	\$0.21	\$0.17	(22.1%)
Cash Flow from Operations	50,430	42,941	(17.4%)
OCF margin	27.5%	23.6%	(390bps)
Free cash flow	38,500	32,297	(19.2%)
FCF margin	21.0%	17.7%	(325bps)

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH



Exhibit 2: Estimate revisions

We forecast FY24 total revenue of \$789.0mn

	1Q24E			FY24E			FY25E			FY26E		
	New BofA est.	Old Estimate	Change %	New BofA est.	Old Estimate	Change %	New BofA est.	Old Estimate	Change %	New BofA est.	Old Estimate	Change %
Total revenue	184,537	186,448	(1.0%)	788,992	796,802	(1.0%)	863,709	869,541	(0.7%)	945,754	N/A	N/A
Y/Y change %	15.7%	16.9%	(120bps)	13.1%	14.0%	(89bps)	9.5%	9.1%	34bps	9.5%	N/A	N/A
Guidance (mn)	183-186			786-792								
Income (Loss) from Operations	(664)	2,473	(126.9%)	25,366	37,305	(32.0%)	42,739	66,856	(36.1%)	60,320	N/A	N/A
Operating Margin	(0.4%)	1.3%	(169bps)	3.2%	4.7%	(147bps)	4.9%	7.7%	(274bps)	6.4%	N/A	N/A
Adjusted EBITDA	57,701	55,853	3.3%	269,454	260,673	3.4%	298,011	297,615	0.1%	331,093	N/A	N/A
Adjusted EBITDA margin	31.3%	30.0%	131bps	34.2%	32.7%	144bps	34.5%	34.2%	28bps	35.0%	N/A	N/A
Guidance (mn)	56.5-58.5											
Free cash flow	(92,190)	(106,779)	15.8%	150,341	158,638	(5.5%)	168,404	186,747	(10.9%)	188,864	N/A	N/A
FCF margin	(50.0%)	-57.3%	731bps	19.1%	19.9%	(85bps)	19.5%	21.5%	(198bps)	20.0%	N/A	N/A

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH

Price objective basis & risk

PowerSchool Holdings, Inc. (PWSC)

Our \$30 PO is based on 25.4x EV/C24E EBITDA. The 25.4x multiple we use is a discount to its vertical software peers that are currently trading at a 29.7x average, warranted for slower revenue growth (10% organic vs. 12%), balanced against less end-market demand risk and PowerSchool's category leadership in its target K-12 end-market.

Risks to our PO are: 1) M&A risk, increasing acquisition/integration/execution risks in the future, 2) high penetration rates, 3) school and district budget constraints, 4) international expansion could take time, 5) new regulations negatively affecting sales/adoption cycles, 6) increasing competition, and 7) ed-tech software spending can be cyclical

Analyst Certification

I, Koji Ikeda, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	8x8	EGHT	EGHT US	Michael J. Funk
	Adobe	ADBE	ADBE US	Brad Sills
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	Asana	ASAN	ASAN US	Michael J. Funk
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dynatrace	DT	DT US	Koji Ikeda, CFA
	Elastic NV	ESTC	ESTC US	Koji Ikeda, CFA
	GitLab Inc.	GTLB	GTLB US	Koji Ikeda, CFA
	Global-e Online Ltd.	GLBE	GLBE US	Koji Ikeda, CFA
	HubSpot	HUBS	HUBS US	Brad Sills
	Informatica Inc.	INFA	INFA US	Koji Ikeda, CFA
	Intapp Inc.	INTA	INTA US	Koji Ikeda, CFA
	Intuit	INTU	INTU US	Brad Sills
	JFrog Ltd	FROG	FROG US	Koji Ikeda, CFA
	MeridianLink, Inc.	MLNK	MLNK US	Koji Ikeda, CFA
	Microsoft Corporation	MSFT	MSFT US	Brad Sills
	Monday.com	MNDY	MNDY US	Michael J. Funk
	MongoDB Inc	MDB	MDB US	Brad Sills
	nCino, Inc.	NCNO	NCNO US	Adam Bergere
	NICE Ltd.	NICE	NICE US	Michael J. Funk
	NICE Ltd.	NCSYF	NICE IT	Michael J. Funk
	PagerDuty	PD	PD US	Koji Ikeda, CFA
	PowerSchool Holdings, Inc.	PWSC	PWSC US	Koji Ikeda, CFA
	RingCentral	RNG	RNG US	Michael J. Funk
	Salesforce.com	CRM	CRM US	Brad Sills
	ServiceNow	NOW	NOW US	Brad Sills
	UiPath	PATH	PATH US	Brad Sills
	Unity	U	U US	Michael J. Funk
	Weave	WEAV	WEAV US	Michael J. Funk
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zeta Global	ZETA	ZETA US	Koji Ikeda, CFA
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA
NEUTRAL				
	Autodesk	ADSK	ADSK US	Michael J. Funk
	Bentley Systems	BSY	BSY US	Michael J. Funk
	BigCommerce Holdings, Inc.	BIGC	BIGC US	Koji Ikeda, CFA



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Coveo	YCOV	CVO CN	Koji Ikeda, CFA
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA
	DocuSign	DOCU	DOCU US	Brad Sills
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere
	HashiCorp	HCP	HCP US	Brad Sills
	Jamf	JAMF	JAMF US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	LSPD	LSPD US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	YLSPD	LSPD CN	Koji Ikeda, CFA
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Paycom	PAYC	PAYC US	Adam Bergere
	Paylocity	PCTY	PCTY US	Adam Bergere
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Snowflake	SNOW	SNOW US	Brad Sills
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Zoom Video Communications	ZM	ZM US	Michael J. Funk

UNDERPERFORM

	AvidXchange, Inc.	AVDX	AVDX US	Brad Sills
	Blackbaud, Inc.	BLKB	BLKB US	Koji Ikeda, CFA
	BlackLine, Inc.	BL	BL US	Koji Ikeda, CFA
	C3.ai	AI	AI US	Brad Sills
	Confluent	CFLT	CFLT US	Brad Sills
	CS Disco, Inc.	LAW	LAW US	Koji Ikeda, CFA
	Dropbox	DBX	DBX US	Michael J. Funk
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Smartsheet	SMAR	SMAR US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk
	Vertex, Inc.	VERX	VERX US	Brad Sills

RSTR

	Splunk	SPLK	SPLK US	Brad Sills
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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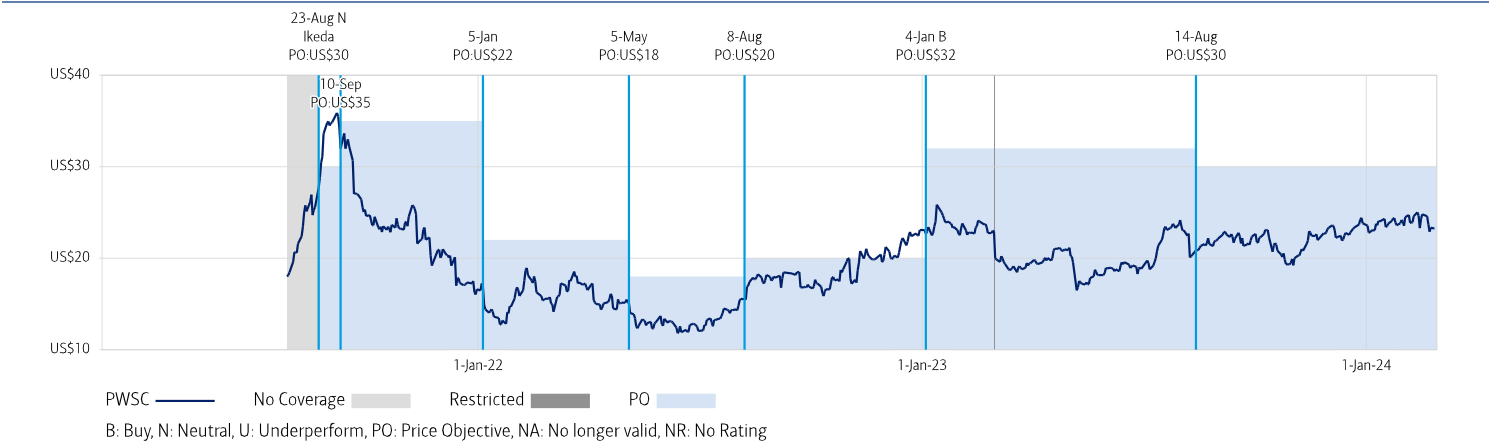
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Disclosures

Important Disclosures

PowerSchool (PWSC) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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