

nCino, Inc.

Interest rate volatility prompts cautious buying patterns exiting Q3

Reiterate Rating: BUY | PO: 34.00 USD | Price: 29.98 USD

Solid Q3 P&L but cautious Q4 guide

nCino reported solid Q3 from a P&L perspective, though guided to Q4 revenue below the Street estimates, primarily reflecting 1) incremental churn from IMBs, 2) the earlier-than-expected loss of a large bank customer post the liquidity crisis earlier this year, and 3) continued caution from US large banks. Total revenue of \$121.9mn (+16% y/y) was ahead of our \$120.5mn, though upside was capped for the same reasons mentioned above that constrained the Q4 guide. Q3 PF OpM of 16.7% was meaningfully ahead of our 11.8%, though partially helped by a one-time accrual of \$2.8mn. Adjusting for this one-time accrual, margin would have been 14.4%. Reiterate Buy.

Revised churn outlook for the year to 9%

The elevated churn in the IMB segment likely occurred mostly in October as the 10Y spiked, paired with the loss of the large bank customer, prompted a revised outlook for 9% churn for the full year (from 6%). Mathematically, the 9% outlook suggests churn in the 4th quarter is expected/could be in the double digits, which we think could represent a near term trough with interest rates coming back down thus far into Q4 (4.27% today from 4.94% high on Oct 31) and therefore easing some pressure in the IMB segment.

No clear forward-leading metric but Q3 billings +17% y/y

Investors will continue to have to look at some combination of revenue growth, billings, cRPO/RPO, and cRPO/RPO-based bookings to come to a conclusion regarding nCino's growth trajectory. The flat and +4% y/y growth total RPO and cRPO do prompt caution from us regarding the longer-term trajectory of the business. For now, however, the +17% y/y billings growth in Q3 could provide solace to investors regarding where C24E revenue numbers could land, especially as comps get meaningfully easier in C24E.

Lower PO to \$34 to reflect choppy growth trajectory

We lower our C24E (FY25E) revenue growth to +14% y/y (from +16% y/y) to reflect the incremental headwinds prompting the weaker Q4 outlook. While the macro and evolving interest rate environment continues to create volatility in the near term given nCino's financial services exposure, we think nCino remains well positioned to take share of the banking software market. We lower our PO to \$34 (7.0x C24E revenue) from \$35 (was 7.0x) to reflect our lower C24E revenue estimate and the choppy growth trajectory.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.04	(0.03)	0.42	0.57	0.70
GAAP EPS	(0.51)	(0.93)	(0.48)	(0.24)	(0.10)
EPS Change (YoY)	NM	NM	NM	35.7%	22.8%
Consensus EPS (Bloomberg)			0.40	0.50	NA
DPS	0	0	0	0	5.00
Valuation (Jan)					
P/E	749.5x	NM	71.4x	52.6x	42.8x
Dividend Yield	0%	0%	0%	0%	16.7%
EV / EBITDA*	NM	91.4x	52.2x	36.7x	29.5x
Free Cash Flow Yield*	-0.7%	-1.0%	2.1%	2.4%	2.4%

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

30 November 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	35.00	34.00
2024E Rev (m)	477.9	477.4
2025E Rev (m)	555.9	545.4
2026E Rev (m)	650.5	628.0
2024E EPS	0.39	0.42
2026E EPS	0.69	0.70

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Stock Data

Price	29.98 USD
Price Objective	34.00 USD
Date Established	30-Nov-2023
Investment Opinion	C-1-9
52-Week Range	19.58 USD - 33.73 USD
Mkt Val (mn) / Shares Out (mn)	3,392 USD / 113.1
Free Float	61.2%
Average Daily Value (mn)	14.99 USD
BofA Ticker / Exchange	NCNO / NAS
Bloomberg / Reuters	NCNO US / NCNO.OQ
ROE (2024E)	4.7%
Net Dbt to Eqty (Jan-2023A)	-8.0%
ESGMeter TM	Medium

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"](#).

IMB = independent mortgage bank

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Timestamp: 30 November 2023 01:09AM EST

iQprofileSM nCino, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-1.5%	0.2%	4.7%	6.7%	4.3%
Return on Equity	0.6%	-0.4%	4.7%	6.6%	7.9%
Operating Margin	-6.4%	0.5%	12.2%	15.7%	17.0%
Free Cash Flow	(25)	(34)	73	81	81

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-4.5x	NM	1.6x	1.3x	1.0x
Asset Replacement Ratio	0.5x	0.5x	0.1x	0.1x	0.2x
Tax Rate	33.1%	NM	NM	NM	3,860.3%
Net Debt-to-Equity Ratio	-8.2%	-8.0%	-13.0%	-19.8%	-25.6%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	274	408	477	545	628
% Change	34.1%	49.1%	16.9%	14.2%	15.2%
Gross Profit	171	269	316	376	437
% Change	39.8%	57.2%	17.4%	19.0%	16.2%
EBITDA	(8)	37	64	92	114
% Change	-12.9%	NM	75.2%	42.3%	24.5%
Net Interest & Other Income	(3)	(4)	(6)	(6)	(6)
Net Income (Adjusted)	4	(4)	48	69	88
% Change	NM	NM	NM	43.6%	27.2%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(49)	(103)	(55)	(29)	(13)
Depreciation & Amortization	10	35	47	39	40
Change in Working Capital	(18)	(13)	12	4	(15)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	38	66	73	73	75
Capital Expenditure	(5)	(18)	(4)	(5)	(6)
Free Cash Flow	-25	-34	73	81	81
% Change	NM	-36.6%	NM	11.6%	-0.4%
Share / Issue Repurchase	16	7	6	0	0
Cost of Dividends Paid	0	7	6	0	0
Change in Debt	0	7	6	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	88	82	133	214	295
Trade Receivables	75	99	104	105	105
Other Current Assets	21	20	23	27	31
Property, Plant & Equipment	61	84	80	74	67
Other Non-Current Assets	1,057	1,036	1,010	1,017	1,026
Total Assets	1,301	1,322	1,350	1,437	1,524
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	174	205	228	249	252
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	56	94	102	109	118
Total Liabilities	231	300	330	358	370
Total Equity	1,071	1,028	1,020	1,078	1,154
Total Equity & Liabilities	1,301	1,327	1,350	1,437	1,524

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

Company Sector

Server & Enterprise Software

Company Description

nCino, headquartered in Wilmington, North Carolina, is a leading cloud software provider of back office and front office applications for financial institutions. nCino's offering spans loan origination, customer onboarding, and customer portals for commercial, retail, and small business banks, as well as treasury management, asset leasing, and portfolio analytic features.

Investment Rationale

We believe that nCino is well positioned to continue gaining share of the \$27 billion banking vertical apps market, given advantages such as 1) first mover in the cloud, 2) breadth of offering spanning loan origination and account onboarding across commercial, retail, treasury and asset leasing, 3) global SI partner channel of 2,000+ consultants, and 4) 1,850+ total customers.

Stock Data

Average Daily Volume 499,913

Quarterly Earnings Estimates

	2023	2024
Q1	-0.06A	0.07A
Q2	-0.04A	0.09A
Q3	0.03A	0.14A
Q4	0.04A	0.11E

Exhibits

Exhibit 1: Reported vs estimates

Subscription revenue exceeded our estimates by 1%.

\$ in Thousands (except per share data)	3Q24 Actuals	3Q24 Estimates	Variance
Subscription revenue	\$103,299	\$104,759	1.4%
Professional services revenue	\$17,176	\$17,183	0.0%
Total revenue	\$120,475	\$121,942	1.2%
Cost of subscription	\$25,100	\$26,088	3.9%
Cost of services	\$13,741	\$14,741	7.3%
Total cost of revenue	\$38,841	\$40,829	5.1%
Gross Profit	\$81,634	\$81,113	-0.6%
Sales and marketing	\$25,602	\$21,389	-16.5%
Research and development	\$27,261	\$24,570	-9.9%
General and administrative	\$14,594	\$14,771	1.2%
Total operating expenses	\$67,458	\$60,730	-10.0%
Income / (Loss) from operations	\$14,176	\$20,383	43.8%
Pretax income (loss)	\$14,436	\$17,894	24.0%
Net Income (Pro Forma)	\$13,085	\$16,195	23.8%
EPS (Pro Forma)	\$0.11	\$0.14	24.2%
Net Income (GAAP)	(\$4,192)	(\$16,379)	290.7%
Diluted EPS (GAAP)	(\$0.04)	(\$0.15)	262.5%
Shares outstanding	115,695	115,261	-0.4%
Growth Analysis y/y			
Subscription revenue	17.0%	18.7%	1.7%
Professional services revenue	1.0%	1.0%	0.0%
Total revenue	14.4%	15.8%	1.4%
Margin Analysis			
Cost of subscription	75.7%	75.1%	-0.6%
Cost of services	20.0%	14.2%	-5.8%
Gross Margin	67.8%	66.5%	-1.2%
Sales and marketing	21.3%	17.5%	-3.7%
Research and development	22.6%	20.1%	-2.5%
General and administrative	12.1%	12.1%	0.0%
Operating Margin	11.8%	16.7%	4.9%
Net Margin	10.9%	13.3%	2.4%
Balance Sheet & Cash Flow Analysis			
Billings	\$80,499	\$82,936	3.0%
Cash & equivalents	\$118,556	\$100,475	-15.3%
Cash Flow from Operations	\$16,070	\$5,870	-63.5%
Free Cash Flow	\$15,187	\$5,251	-65.4%

Source: BofA Global Research estimates, company report

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Exhibit 2: Estimate change summary

We revise our estimates to reflect the updated outlook

	4Q24E				2024E				2025E			
	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth
Subscription rev	\$107,680	16.0%	\$106,752	15.0%	\$408,217	18.4%	\$408,748	18.6%	\$475,641	16.5%	\$473,243	15.8%
Prof serv rev	\$18,806	15.0%	\$17,825	9.0%	\$69,653	9.6%	\$68,679	8.0%	\$80,297	15.3%	\$74,173	8.0%
Total revenue	\$126,486	15.9%	\$124,577	14.1%	\$477,870	17.0%	\$477,427	16.9%	\$555,939	16.3%	\$547,416	14.7%
Operating margin	12.7%	...	12.5%	...	11.0%	...	12.2%	...	14.1%	...	15.7%	...
Pro forma EPS	\$0.12	...	\$0.11	...	\$0.39	...	\$0.42	...	\$0.57	44.2%	\$0.58	38.2%
Billings	\$169,489	13.5%	\$170,761	12.4%	\$169,489	11.8%	\$170,761	12.0%	\$178,199	14.7%	\$176,138	12.1%
FCF	(\$1,205)	NM	\$26,828	NM	\$54,785	NM	\$72,882	171.7%	\$63,484	15.9%	\$77,480	6.3%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Price objective basis & risk

nCino, Inc. (NCNO)

Our PO of \$34 is based on an EV/sales multiple of 7.0x our C24E revenue estimate (0.4x growth adjusted), in line with the SMID cap software group trading at 0.4x C24E. We believe nCino will drive ongoing share gains in the \$18 billion addressable market for financial applications.

Downside risks are 1) instability in nCino's end market, 2) inability to achieve long term targets profitability - the company targets a future long term (4 to 6 years) operating margin of approximately 35% and, 3) enterprise application spending has proven to be highly cyclical - in the event of an economic slowdown, nCino could see deferred projects which could present a higher degree of risk for a bookings deceleration.

Analyst Certification

I, Adam Bergere, 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
	Alteryx, Inc	AYX	AYX US	Koji Ikeda, CFA
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dropbox	DBX	DBX 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
	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
	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
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
	Coveo	YCVO	CVO CN	Koji Ikeda, CFA



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA

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
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Everbridge	EVBG	EVBG US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE 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

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

Denominator

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

Quality of Earnings

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

Numerator

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

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

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

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

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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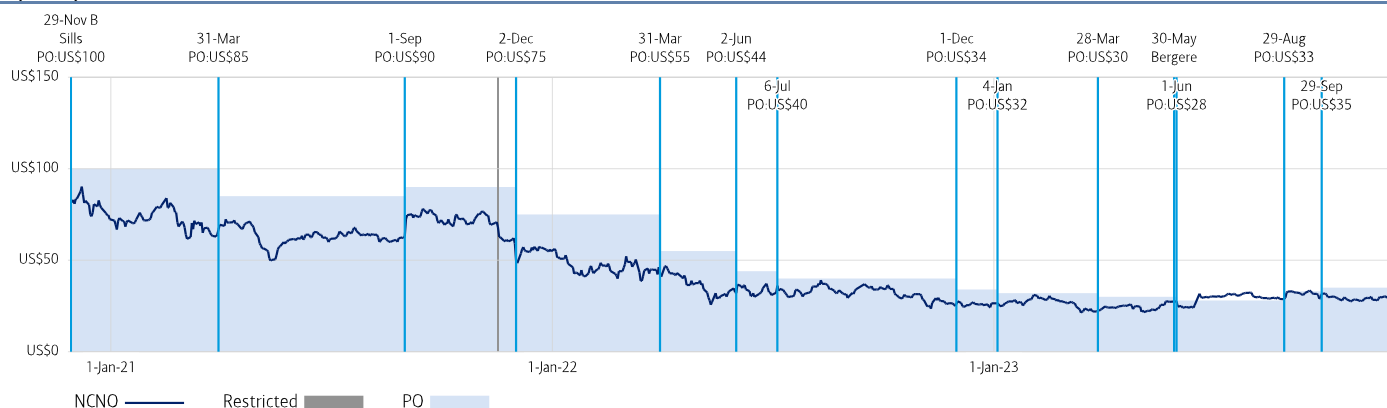
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Disclosures

Important Disclosures

nCino (NCNO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	204	51.52%	Buy	104	50.98%
Hold	95	23.99%	Hold	45	47.37%
Sell	97	24.49%	Sell	27	27.84%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{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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