

Unity

Business reorientation firmly underway; RIFs enhance EBITDA line of sight

Reiterate Rating: BUY | PO: 55.00 USD | Price: 38.98 USD

Headcount rightsizing announced

Yesterday, after the Market close, Unity announced plans to reduce approximately 1,800 employee roles (roughly 25% of its current workforce) as it restructures and refocuses on its core business. This news follows a November 28th announcement that U had elected to cut 265 employees (we believe predominantly Weta engineers) and close offices in 14 locations (see our [SoftNote](#) for further analysis).

Strategic review bearing results

Unity's recent headcount reductions are in line with 3Q messaging surrounding its intention to review its product portfolio and cost structure. We view the decisive action of recently appointed CEO Jim Whitehurst favorably, and reiterate our belief that Unity's business reorientation is likely to result in an improved financial profile and operational focus. We expect additional announcements in the coming months regarding operating efficiencies and non-strategic monetization opportunities.

We project annualized cost savings of \$202mn

Assuming average total annual compensation per employee of \$160K and a 70/30 mix of cash/stock compensation, total annualized gross savings in association with the 25% RIF are \$202mn on a non-GAAP basis, or 8.5% of consensus 2024 revenue estimates. Including the November 2023 RIF announced subsequent to 3Q earnings, we expect U to derive roughly \$231mn in non-GAAP savings from headcount rightsizing in 2024. We update our estimates to reflect the recent headcount reductions; most notably, we have increased our 2024 EBITDA estimate from \$665mn to \$727mn.

Reiterate Buy rating, increasing PO to \$55 (from \$46)

Our new \$55 PO is based on 11.1x 2024E EV/Revenue (previously 8.8x, on improved line of sight to \$1bn EBITDA run rate), representing 0.8x growth adjusted. Our growth adjusted multiple of 0.8x is a discount to the design software peer group at 1.0x. We believe a discount multiple is warranted based on lower revenue visibility and profitability, partially offset by Unity's entrenched competitive position and various levers for growth.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(0.15)	(0.36)	0.81	1.49	2.06
GAAP EPS	(1.59)	(2.40)	(1.54)	(0.90)	(0.43)
EPS Change (YoY)	40.0%	-140.0%	NM	84.0%	38.3%
Consensus EPS (Bloomberg)			0.72	0.90	1.42
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	48.1x	26.2x	18.9x
EV / EBITDA*	NM	NM	51.9x	27.3x	19.3x
Free Cash Flow Yield*	-0.8%	-0.6%	1.6%	3.4%	5.5%

* For full definitions of *IQmethod*SM measures, see page 5.

09 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	46.00	55.00
2024E Rev (m)	2,603.5	2,430.7
2025E Rev (m)	3,250.3	3,002.2
2024E EPS	1.37	1.49

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Stock Data

Price	38.98 USD
Price Objective	55.00 USD
Date Established	9-Jan-2024
Investment Opinion	C-1-9
52-Week Range	22.20 USD - 50.08 USD
Mrkt Val (mn) / Shares Out (mn)	18,470 USD / 473.8
Free Float	68.6%
Average Daily Value (mn)	461.18 USD
BofA Ticker / Exchange	U / NYS
Bloomberg / Reuters	U US / U.N
ROE (2023E)	10.6%
Net Dbt to Eqty (Dec-2022A)	32.6%
ESGMeter™	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"](#).

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Timestamp: 09 January 2024 07:11AM EST

iQprofileSM Unity

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-1.2%	-1.4%	5.5%	10.2%	13.3%
Return on Equity	-2.3%	-4.5%	10.6%	20.3%	25.7%
Operating Margin	-3.8%	-6.0%	18.0%	30.3%	34.5%
Free Cash Flow	(153)	(117)	297	631	1,022

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	0.9x	1.0x	1.1x
Asset Replacement Ratio	0.6x	0.3x	0.2x	0.2x	0.3x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	27.7%	32.6%	29.7%	10.8%	-14.5%
Interest Cover	NA	NM	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,111	1,391	2,131	2,431	3,002
% Change	43.8%	25.3%	53.2%	14.0%	23.5%
Gross Profit	889	1,058	1,730	1,982	2,441
% Change	45.5%	19.0%	63.5%	14.5%	23.1%
EBITDA	(20)	(71)	382	727	1,025
% Change	-88.1%	-246.1%	NM	90.2%	41.1%
Net Interest & Other Income	0	0	24	17	17
Net Income (Adjusted)	(52)	(138)	384	729	1,027
% Change	23.7%	-166.9%	NM	89.8%	41.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(533)	(919)	(734)	(437)	(212)
Depreciation & Amortization	65	212	443	460	429
Change in Working Capital	(4)	77	11	32	147
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	361	571	644	674	793
Capital Expenditure	(42)	(57)	(67)	(97)	(134)
Free Cash Flow	-153	-117	297	631	1,022
% Change	-657.5%	24.0%	NM	112.5%	61.9%
Share / Issue Repurchase	1,792	(437)	(185)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(23)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,056	1,485	1,680	2,311	3,333
Trade Receivables	340	634	664	719	812
Other Current Assets	755	246	155	167	205
Property, Plant & Equipment	106	122	150	192	259
Other Non-Current Assets	2,584	5,347	4,924	4,541	4,167
Total Assets	4,841	7,834	7,573	7,930	8,776
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	626	1,010	1,070	1,142	1,331
Long-Term Debt	1,719	2,707	2,711	2,711	2,711
Other Non-Current Liabilities	10	362	303	346	414
Total Liabilities	2,447	4,080	4,111	4,232	4,496
Total Equity	2,394	3,754	3,468	3,705	4,285
Total Equity & Liabilities	4,841	7,834	7,579	7,937	8,782

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Server & Enterprise Software

Company Description

Unity Software provides a platform for creating and operating interactive, real-time 3D (RT3D) content with creators from different verticals including gaming (mobile, PC, console), art and architectural and automotive design. Unity's solution allows creators to develop, run, monetize and fully operate real-time 2D and 3D content for mobile phones, PCs, tablets, consoles, and augmented and virtual reality devices.

Investment Rationale

Improved monetization of U's industry leading mobile game creation engine paired with a stabilizing mobile game advertising market create a compelling risk-reward profile, in our view. With well-understood idiosyncratic execution and integration risks abating, we expect the stock to re-rate higher.

Stock Data

Average Daily Volume 11,831,151

Quarterly Earnings Estimates

	2022	2023
Q1	-0.07A	0.07A
Q2	-0.13A	0.20A
Q3	-0.11A	0.28A
Q4	0A	0.25E

Exhibit 1: Estimate changes

We are increasing our 2024 EBITDA estimate to \$727mn

	4Q23E				2023E				2024E			
	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
Create solutions	\$194	-2.0%	\$194	-2.0%	\$763	6.6%	\$763	6.6%	\$977	28.0%	\$861	12.8%
Grow solutions	\$360	42.0%	\$360	42.0%	\$1,368	102.7%	\$1,368	102.7%	\$1,626	18.9%	\$1,570	14.7%
Total revenue	\$553	22.7%	\$553	22.7%	\$2,131	53.2%	\$2,131	53.2%	\$2,604	22.1%	\$2,431	14.0%
Adjusted EBITDA	\$120	477.9%	120	477.9%	\$382	NM	\$382	NM	\$665	74%	\$727	90.2%

Source: BofA Global Research estimates

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Price objective basis & risk

Unity (U)

Our \$55 PO is based on a 11.1x 2024E EV/Revenue multiple (0.8x growth adjusted). Our growth adjusted multiple is a discount to the design software peer group. We believe a discount multiple is warranted based on lower revenue visibility and profitability, partially offset by Unity's entrenched competitive position and various levers for growth.

Downside risks to our PO are slower than expected recovery in Unity's monetization tool, increased competition, greater than expected churn rate, and greater than expected pull back in ad spend and mobile gaming usage.

Analyst Certification

I, Michael J. Funk, 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
	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
	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
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
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA
	DocuSign	DOCU	DOCU US	Brad Sills
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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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Unity (U) Price Chart



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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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