

Dynatrace

F3Q results: Leadership positioned unchanged, but guide a bit soft; Reit. Buy

Reiterate Rating: BUY | PO: 70.00 USD | Price: 60.65 USD

Good F3Q, but prudence leads to softer ARR outlook

Reiterate Buy and \$70 PO, as F3Q results were ahead of the Street. However, constant currency ARR growth guidance was lowered by 100bps to 18-19% y/y, due to a more conservative approach to large deal sales cycles. Positively, pipeline commentary was healthy (+39% growth in \$1mn ACV new/expand pipeline), suggesting end-market positioning remains strong. While the lowered ARR guidance is a disappointment and could be an overhang on the stock, we remain positive on DT and would view any weakness as an opportunity. Revise forecast for F3Q results and guidance.

Pipeline expanding, sets up ARR/rev growth reaccel

Consistent with [our checks at Perform last week](#), top of funnel demand generation appears to be working, specifically around large deals in the upmarket. The total pipeline growing faster than ARR growth creates an attractive medium-term reaccelerating ARR and revenue growth setup. While increased sales cycles variability is leading to a more prudent outlook, our view that Dynatrace is a differentiated enterprise DevSecOps vendor is unchanged. Win rates likely to remain consistent and could improve, which should result in the business becoming a long-term share gainer in the category.

Positive: DPS ramping, supports NRR expand potential

1) DPS adoption is ramping and now represents 10% of the customer base, up from approximately 6% last quarter (BofA est.), which could help drive NRR expansion as early DPS expansion trends are encouraging, 2) closed a seven figure deal with a major social media platform through the GSI partner channel, and 3) log management and AppSec are expected to continue ramping in FY25, and are on track to reach the \$100mn ARR target, which could help drive ARR growth over the medium-term.

Negative: RPO growth decelerated to 15% y/y

1) RPO grew 15% y/y to \$1,956mn, which is a deceleration from +17% last quarter, and cRPO grew 19% y/y to \$1,174mn, down from +25% last quarter; 2) NRR contracted 1pt sequentially to 113% from 114%, and is the fifth straight quarter of contraction; 3) North America revenue grew 21% y/y to \$218mn, which is a deceleration from +25% last quarter; and 4) adjusted for currency and perpetual license roll-off, NNARR declined 11% y/y to \$71.8mn, compared to +1% last quarter.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.68	0.97	1.17	1.29	1.51
GAAP EPS	0.18	0.38	0.46	0.46	0.62
EPS Change (YoY)	7.9%	42.6%	20.6%	10.3%	17.1%
Consensus EPS (Bloomberg)			1.11	1.27	1.53
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	89.2x	62.5x	51.8x	47.0x	40.2x
GAAP P/E	336.9x	159.6x	131.8x	131.8x	97.8x
EV / EBITDA*	66.3x	54.9x	41.6x	34.8x	29.0x
Free Cash Flow Yield*	1.3%	1.9%	1.9%	2.3%	2.8%

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

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 08 February 2024 05:21PM EST

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	1,414.0	1,425.0
2025E Rev (m)	1,674.7	1,689.5
2026E Rev (m)	1,985.7	1,992.7
2024E EPS	1.11	1.17
2025E EPS	1.22	1.29
2026E EPS	1.40	1.51

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Stock Data

Price	60.65 USD
Price Objective	70.00 USD
Date Established	6-Feb-2024
Investment Opinion	C-1-9
52-Week Range	37.21 USD - 61.41 USD
Mrkt Val (mn) / Shares Out (mn)	17,498 USD / 288.5
Free Float	88.9%
Average Daily Value (mn)	130.62 USD
BofA Ticker / Exchange	DT / NYS
Bloomberg / Reuters	DT US / DT.N
ROE (2024E)	18.8%
Net Dbt to Eqty (Mar-2023A)	-34.6%
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"](#).

ARR = annualized recurring revenue

CC = constant currency

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iQprofileSM Dynatrace

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.4%	15.4%	18.2%	16.0%	15.8%
Return on Equity	16.0%	19.2%	18.8%	16.9%	16.5%
Operating Margin	25.2%	25.2%	27.4%	27.4%	27.8%
Free Cash Flow	233	333	328	396	491

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.3x	1.0x	1.1x	1.1x
Asset Replacement Ratio	0.3x	0.4x	0.5x	0.3x	0.3x
Tax Rate	26.8%	NM	8.4%	18.0%	18.0%
Net Debt-to-Equity Ratio	-14.5%	-34.6%	-42.9%	-50.4%	-57.3%
Interest Cover	27.9x	NA	NA	NA	NA

Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	929	1,159	1,425	1,689	1,993
% Change	32.1%	24.6%	23.0%	18.6%	17.9%
Gross Profit	786	971	1,206	1,441	1,711
% Change	31.2%	23.5%	24.3%	19.5%	18.7%
EBITDA	252	304	401	480	576
% Change	15.5%	20.7%	32.0%	19.6%	20.0%
Net Interest & Other Income	(8)	4	36	20	20
Net Income (Adjusted)	193	279	344	389	465
% Change	7.1%	44.5%	23.4%	12.9%	19.4%

Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	52	108	137	140	189
Depreciation & Amortization	57	55	54	59	66
Change in Working Capital	53	92	(13)	(57)	(44)
Deferred Taxation Charge	(12)	(54)	(50)	0	0
Other Adjustments, Net	101	154	224	270	299
Capital Expenditure	(18)	(22)	(25)	(17)	(20)
Free Cash Flow	233	333	328	396	491
% Change	12.9%	42.9%	-1.7%	20.8%	24.0%
Share / Issue Repurchase	39	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(120)	(283)	0	0	0

Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	463	555	885	1,281	1,772
Trade Receivables	351	443	398	496	669
Other Current Assets	135	120	199	297	348
Property, Plant & Equipment	45	54	53	70	90
Other Non-Current Assets	1,548	1,594	1,681	1,705	1,741
Total Assets	2,541	2,765	3,216	3,849	4,620
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	866	1,037	1,076	1,245	1,454
Long-Term Debt	274	0	0	0	0
Other Non-Current Liabilities	97	123	75	63	74
Total Liabilities	1,237	1,160	1,151	1,307	1,528
Total Equity	1,304	1,605	2,065	2,542	3,091
Total Equity & Liabilities	2,541	2,765	3,216	3,849	4,620

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

Company Sector

Server & Enterprise Software

Company Description

Dynatrace provides a unified application and infrastructure monitoring platform for enterprises. Dynatrace is used by sales, marketing, C-suite, IT application support, IT infrastructure support, and DevOps, standing out as the enterprise leader in the monitoring and observability market.

Investment Rationale

We believe Dynatrace is poised for multiple years of high growth in a large and expanding market. Moreover, high margins create a compelling well above the average financial profile. Dynatrace has a very unique artificial intelligence (AI)-based technology platform that is difficult to replicate, in our view.

Stock Data

Average Daily Volume 2,153,594

Quarterly Earnings Estimates

	2023	2024
Q1	0.18A	0.27A
Q2	0.22A	0.31A
Q3	0.25A	0.32A
Q4	0.31A	0.27E

F3Q24 Performance

- ARR of \$1,425.3mn was above our/Street \$1,411.3mn/\$1,410.2mn by 1.0%/1.1%
- Total revenue of \$365.1mn was above our/Street \$357.5mn/\$357.7mn by 2.1%/2.1%
- PF Operating income of \$104.6mn was above our/Street \$95.3mn/\$95.7mn by 9.8%/9.3%

FY24 Guidance

- ARR guidance is raised by \$5mn to \$1,485-1,495mn, from \$1,480-1,490mn, comparable with our/Street \$1,484.7mn/\$1,499.3mn
- Total revenue guidance is raised by \$23-28mn to \$1,422-1,427mn, from \$1,409-1,419mn, above our/Street \$1,414mn/\$1,415.0mn
- PF Operating income guidance is raised \$7-11mn to \$388-393mn, from \$377-386mn, above our/Street \$381.5mn/\$382.4mn

Exhibit 1: Variance

Total revenue was 2.1% above our estimate

	\$ in millions		
	BofA Estimate	Actual	Variance
Revenue build			
Subscription Revenue	338,712	348,294	2.8%
Y/Y change %	21.3%	24.8%	+343bps
Guidance			
Services Revenue	18,807	16,802	(10.7%)
Y/Y change %	2.8%	(8.2%)	-1096bps
Reported ARR, end of period	1,411,299	1,425,284	1.0%
Y/Y change %	21.4%	22.6%	+120bps
Guidance			
Total Revenues	357,519	365,096	2.1%
Y/Y change %	20.2%	22.7%	+255bps
Guidance			
Total billings	447,010	449,322	0.5%
Y/Y change %	14.0%	14.6%	+59bps
Income from operations	95,296	104,636	9.8%
Operating Margin	26.7%	28.7%	+201bps
Guidance			
EBITDA adj. (non GAAP)	98,871	108,527	9.8%
Adjusted EBITDA margin	27.7%	29.7%	+207bps
EPS (Pro Forma)	\$0.28	\$0.32	15.5%
Guidance			
Cash Flow from Operations	50,371	75,657	50.2%
OCF margin	14.1%	20.7%	+663bps
Free cash flow	47,576	72,012	51.4%
FCF margin	13.3%	19.7%	+642bps

Source: Company filings, BofA Global Research estimates

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Exhibit 2: Estimate revisions

We now forecast FY2025 revenue growth of 19%

	4Q24E			FY24E			FY25E			FY26E		
	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %
Revenue build												
Subscription Revenue	356,040	349,636	1.8%	1,355,285	1,339,299	1.2%	1,612,833	1,592,561	1.3%	1,910,538	1,895,319	0.8%
Y/Y change %	21.4%	19.2%	+218bps	25.1%	23.6%	+148bps	19.0%	18.9%	+9bps	18.5%	19.0%	-55bps
Guidance												
Services Revenue	19,257	22,219	(13.3%)	69,694	74,661	(6.7%)	76,663	82,128	(6.7%)	82,211	90,340	(9.0%)
Y/Y change %	(9.0%)	5.0%	-1400bps	(7.3%)	(0.7%)	-661bps	10.0%	10.0%	-0bps	7.2%	10.0%	-276bps
Reported ARR, end of period	1,489,709	1,484,654	0.3%	1,489,709	1,484,654	0.3%	1,770,871	1,780,005	(0.5%)	2,106,293	2,134,506	(1.3%)
Y/Y change %	19.5%	19.1%	+41bps	19.5%	19.1%	+41bps	18.9%	19.9%	-102bps	18.9%	19.9%	-97bps
Guidance												
Total Revenues	375,297	371,855	0.9%	1,424,979	1,413,960	0.8%	1,689,496	1,674,689	0.9%	1,992,749	1,985,659	0.4%
Y/Y change %	19.3%	18.2%	+109bps	23.0%	22.0%	+95bps	18.6%	18.4%	+12bps	17.9%	18.6%	-62bps
Guidance												



Exhibit 2: Estimate revisions

We now forecast FY2025 revenue growth of 19%

Total billings	585,770	577,063	1.5%	1,585,620	1,574,602	0.7%	1,870,598	1,855,791	0.8%	2,206,449	2,199,359	0.3%
Y/Y change %	20.3%	18.5%	+179bps	22.9%	22.1%	+85bps	18.0%	17.9%	+11bps	18.0%	18.5%	-56bps
Income from operations	87,282	87,726	(0.5%)	390,428	381,532	2.3%	462,153	457,928	0.9%	554,694	545,233	1.7%
Operating Margin	23.3%	23.6%	-33bps	27.4%	27.0%	+42bps	27.4%	27.3%	+1bps	27.8%	27.5%	+38bps
Guidance												
EBITDA adj. (non GAAP)	91,035	91,445	(0.4%)	401,290	392,044	2.4%	479,824	475,309	0.9%	575,970	566,192	1.7%
Adjusted EBITDA margin	24.3%	24.6%	-33bps	28.2%	27.7%	+43bps	28.4%	28.4%	+2bps	28.9%	28.5%	+39bps
EPS (Pro Forma)	\$0.27	\$0.25	7.1%	\$1.17	\$1.11	5.4%	\$1.29	\$1.22	5.6%	\$1.51	\$1.40	6.9%
Guidance												
Cash Flow from Operations	106,183	114,448	(7.8%)	352,620	335,600	4.8%	412,599	402,436	2.5%	510,754	500,645	2.0%
OCF margin	28.3%	30.8%	-248bps	24.7%	23.7%	+101bps	24.4%	24.0%	+39bps	25.6%	25.2%	+42bps
Free cash flow	102,436	111,541	(8.9%)	332,211	316,880	4.6%	395,731	389,341	1.6%	490,859	485,119	1.2%
FCF margin	27.3%	30.0%	-270bps	23.3%	22.4%	+90bps	23.4%	23.2%	+17bps	24.6%	24.4%	+20bps

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Dynatrace (DT)

Our \$70 PO is based on 53.4x EV/C24E FCF (was 57.4x), a premium to infrastructure software peers at 45.2x, which we think is warranted given our strong revenue forecast and competitive positioning, balanced against a softer ARR outlook given in F3Q24.

For comparison purposes, our \$70 PO implies 12.5x EV/C24E revenue compared to its infrastructure peers at 8.4x.

Downside risks: macroeconomic downturn, increase in competition, ability to hire direct sales reps at a healthy clip, ability to expand into adjacent markets, and ability to sustain high R&D innovation.

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.

Special Disclosures

BofA Securities is currently acting as Financial Advisor to Dynatrace Inc in connection with its proposed acquisition of Runecast Solutions, which was announced on January 29, 2024.

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



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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
	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
	Enfusion, Inc.	ENFN	ENFN 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

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

Valuation Toolkit

Numerator

Denominator

*IQmethod*SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

IQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

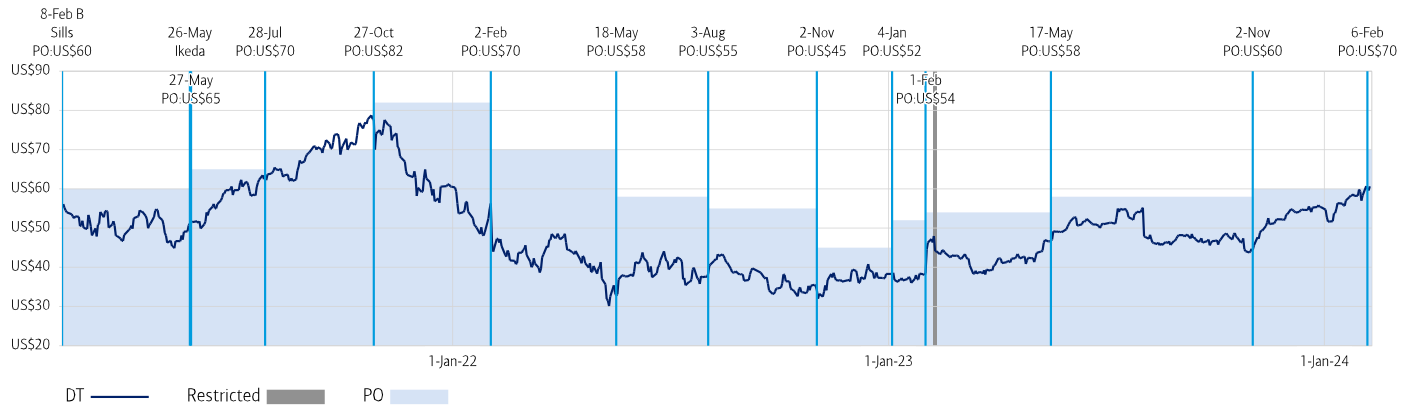
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Disclosures

Important Disclosures

Dynatrace (DT) 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 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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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