

## BILL

# Channel points to stable trends: expect upside to conservative Q2 guide

Reiterate Rating: BUY | PO: 90.00 USD | Price: 74.93 USD

## Stable net adds; consistent tone on macro

We conducted calls with a dozen accounting partners. Feedback suggests overall steady deal activity in F2Q24, in an SMB macro environment that is largely holding with Q1. A modest uptick in cross border and Divvy cross sell (following tighter integration with the revamped platform) represent an incremental positive. On competition, Ramp is seen more frequently in the sales cycle, especially in the corporate card for more price sensitive small businesses. We did not note incremental pressure from QuickBooks' Bill Pay offering in BILL's target market (businesses with 20 - 100 employees).

## BofA Institute data holds with conservative guide

We look to the [BofA Institute](#) (see note) total payments per small business client growth as a lateral for BILL's core TPV (Exhibit 1). We note that the C4Q23 average was -2.5% y/y (Oct -2%, Nov -0.5%, Dec -4.9%), a slight downtick from the revised -2% y/y in Sep (at time of guidance). Our base case conservatively assumes core TPV per customer to decline 9.6% y/y in F2Q24. We expect upside to this metric (-3% q/q vs. -6% base), which should drive better standalone transaction revenue of \$93mn (+15% y/y) versus \$89mn base. Similarly, upside to a conservative Divvy TPV per customer assumption (-3% q/q vs -7%) is likely to drive Divvy revenue upside (\$108mn (+25% y/y) vs. our \$104mn base). We expect total core revenue of \$269mn (+17% y/y) vs. our base case for \$260mn.

## See path back to 30%+ growth by Q2FY25

The stock has bounced 11% post Q1 earnings on modestly improving sentiment. At current levels, the shares are trading at 5x CY25e revenue, or 0.2x adjusted for 21% growth, a meaningful discount to the mid cap group (0.4x 13% growth). The lowered FY24 guidance, implies 12% to 15% transaction revenue growth for the remainder of the year, assuming very conservative TPV per customer and monetization. We believe that this was the model reset and expect healthy beat and raise quarters from here, even without improving macro (as the channel suggests). Better upsell of cross border, virtual card and Divvy is possible following the integration of these offerings onto the new platform and could provide an added source of upside. In a reasonable upside case, we model a reacceleration back to solid 30%+ growth by Q2FY25. We continue to believe BILL is positioned to capture share of the \$130 billion SMB B2B payables and payments market with the best of breed offering. We reiterate our Buy rating and are raising our PO to \$90 (6.3x C25e rev, 0.3x growth adjusted) from \$80 (5.5x) on expected Q2 transaction revenue upside.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.24)	1.65	1.81	1.97	2.55
GAAP EPS	(3.21)	(2.12)	(1.16)	(1.13)	(1.37)
EPS Change (YoY)	-60.0%	NM	9.7%	8.8%	29.4%
Consensus EPS (Bloomberg)			1.87	2.20	2.60
DPS	0	0	0	0	0
<b>Valuation (Jun)</b>					
P/E	NM	45.4x	41.4x	38.0x	29.4x
EV / EBITDA*	NM	42.2x	39.6x	29.3x	19.8x
Free Cash Flow Yield*	-0.4%	2.0%	1.3%	1.8%	3.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 12.

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Timestamp: 24 January 2024 06:00AM EST

24 January 2024

## Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	80.00	90.00

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## Stock Data

Price	74.93 USD
Price Objective	90.00 USD
Date Established	23-Jan-2024
Investment Opinion	C-1-9
52-Week Range	51.94 USD - 139.50 USD
Mkt Val (mn) / Shares Out (mn)	7,999 USD / 106.8
Free Float	96.8%
Average Daily Value (mn)	137.17 USD
BofA Ticker / Exchange	BILL / NYS
Bloomberg / Reuters	BILL US / BILLN
ROE (2024E)	4.0%
Net Dbt to Eqty (Jun-2023A)	7.2%
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](#)".

SMB = small/medium businesses

Txn = transaction

VCC = virtual credit card

TPV = total payment volume

ASP = average selling price

TAM = total addressable market

# iQprofile<sup>SM</sup> BILL

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-0.3%	3.0%	2.7%	2.5%	3.4%
Return on Equity	-0.7%	4.8%	4.0%	3.6%	4.8%
Operating Margin	-2.3%	11.1%	9.9%	11.7%	14.4%
Free Cash Flow	(32)	157	104	145	251

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	1.0x	0.7x	0.8x	0.9x
Asset Replacement Ratio	1.5x	2.8x	2.4x	2.5x	2.6x
Tax Rate	1.3%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	6.4%	7.2%	-39.0%	-41.1%	-43.0%
Interest Cover	-1.5x	NA	NA	NA	NA

## Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	642	1,058	1,225	1,420	1,752
% Change	169.4%	64.9%	15.8%	15.9%	23.4%
Gross Profit	542	917	1,025	1,184	1,475
% Change	191.8%	69.1%	11.8%	15.5%	24.6%
EBITDA	(4)	128	137	185	273
% Change	57.2%	NM	6.6%	34.9%	48.1%
Net Interest & Other Income	(10)	80	96	78	78
<b>Net Income (Adjusted)</b>	<b>(24)</b>	<b>193</b>	<b>216</b>	<b>243</b>	<b>327</b>
% Change	-96.6%	NM	11.5%	12.5%	34.8%

## Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(326)	(224)	(134)	(139)	(176)
Depreciation & Amortization	11	11	16	18	21
Change in Working Capital	(14)	(9)	(40)	28	59
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	313	409	300	283	401
Capital Expenditure	(16)	(31)	(37)	(44)	(55)
<b>Free Cash Flow</b>	<b>-32</b>	<b>157</b>	<b>104</b>	<b>145</b>	<b>251</b>
% Change	-94.8%	NM	-33.6%	39.4%	73.2%
Share / Issue Repurchase	1,948	8	(15)	1	1
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(3)	60	11	33	44

## Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,597	1,617	4,536	4,715	5,011
Trade Receivables	24	28	31	44	53
Other Current Assets	4,659	5,028	5,384	5,298	5,430
Property, Plant & Equipment	57	82	85	85	85
Other Non-Current Assets	2,920	2,881	2,455	2,494	2,498
<b>Total Assets</b>	<b>9,256</b>	<b>9,636</b>	<b>12,492</b>	<b>12,636</b>	<b>13,077</b>
Short-Term Debt	75	135	146	179	223
Other Current Liabilities	3,334	3,618	3,858	3,967	4,097
Long-Term Debt	1,781	1,777	1,780	1,798	1,820
Other Non-Current Liabilities	23	19	22	28	35
<b>Total Liabilities</b>	<b>5,212</b>	<b>5,550</b>	<b>5,806</b>	<b>5,973</b>	<b>6,175</b>
<b>Total Equity</b>	<b>4,044</b>	<b>4,086</b>	<b>6,686</b>	<b>6,664</b>	<b>6,903</b>
<b>Total Equity &amp; Liabilities</b>	<b>9,256</b>	<b>9,636</b>	<b>12,492</b>	<b>12,636</b>	<b>13,077</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 12.

## Company Sector

Server & Enterprise Software

## Company Description

BILL, headquartered in San Jose, CA, is a cloud software provider of accounts payable, accounts receivable software integrated with payments processing service (ACH, check writing, cross border payments and virtual credit cards) to small and medium sized businesses. BILL software automates the payables cycle from purchase order to payment, as well as the accounts receivable process from shipping to payment.

## Investment Rationale

We believe that BILL is well positioned to continue gaining share of the \$9 billion payables and payments market (US alone) given a number of compelling competitive advantages, including: 1) breadth of offering spanning accounts payable, receivable and payment, 2) multi channel go to market strategy across inbound sales, 4,000 accounting firm partners and large financial institutions, and 3) installed base of over 90,000 customers.

## Stock Data

Average Daily Volume 1,830,679

## Quarterly Earnings Estimates

	2023	2024
Q1	0.14A	0.54A
Q2	0.42A	0.40E
Q3	0.50A	0.37E
Q4	0.59A	0.49E

## BofA Institute Small Business Checkpoint

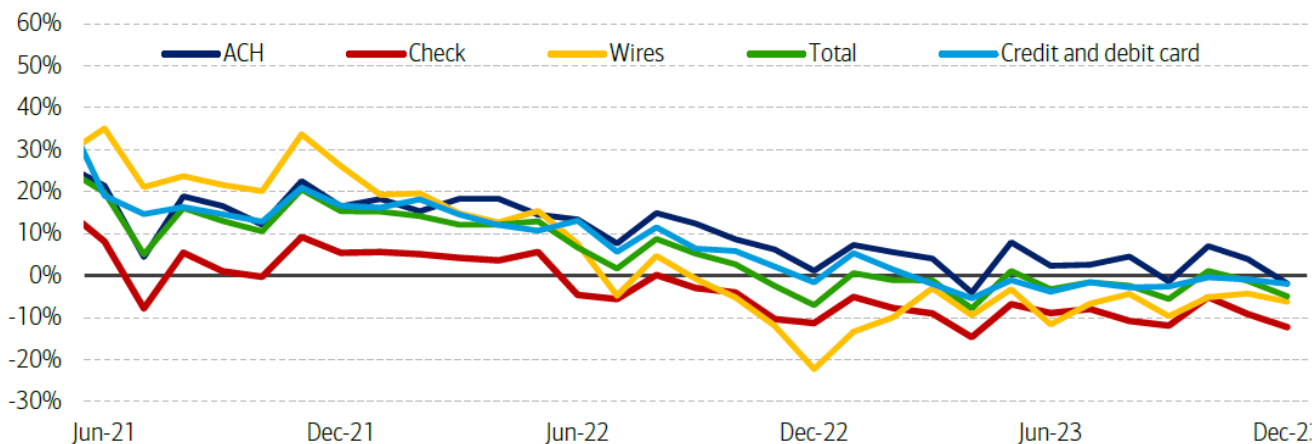
Small Business Checkpoint is a monthly publication from the Bank of America Institute. It aims to provide a real-time assessment of small business spending activities, leveraging Bank of America proprietary data.

Specifically, we look at small business payments per client growth as a proxy for BILL's total payment volume. According to [BofA Institute published in January](#) (see note) for December 2023, total payments per small business client were at -4.9% y/y. We note that this is down from -0.5% y/y in November and -2% in October (See Exhibit 1).

We note that the C4Q23 (or F2Q24) average was -2.5% y/y (Oct -2%, Nov -0.5%, Dec -4.9%), a slight downtick from the revised -2% y/y in Sep (at time of guidance). With our base model assuming core TPV per customer to decline 9.6% y/y in Q2, we expect upside to this metric (-3% q/q versus -6% base). This upside should drive better standalone BILL transaction revenue of \$93mn (+15% y/y) versus \$89mn base, assuming take rate of -0.4 bps q/q. See published model for our detailed base case and upside case.

### Exhibit 1: Payments per small business client across select channels (monthly, %YoY)

In December 2023, total payments per small business client were down -4.9% YoY. Among the major components, ACH showed the smallest decrease, down 1.9% YoY in December. Conversely, the largest decrease %YoY was payments by check.



Source: Bank of America Institute, Small Business Checkpoint, published on 1/18/2024; See here for [Full report](#)

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# Preview summary

## Exhibit 2: Preview summary table

We are modeling \$298mn (3.5% upside versus base) for F2Q24

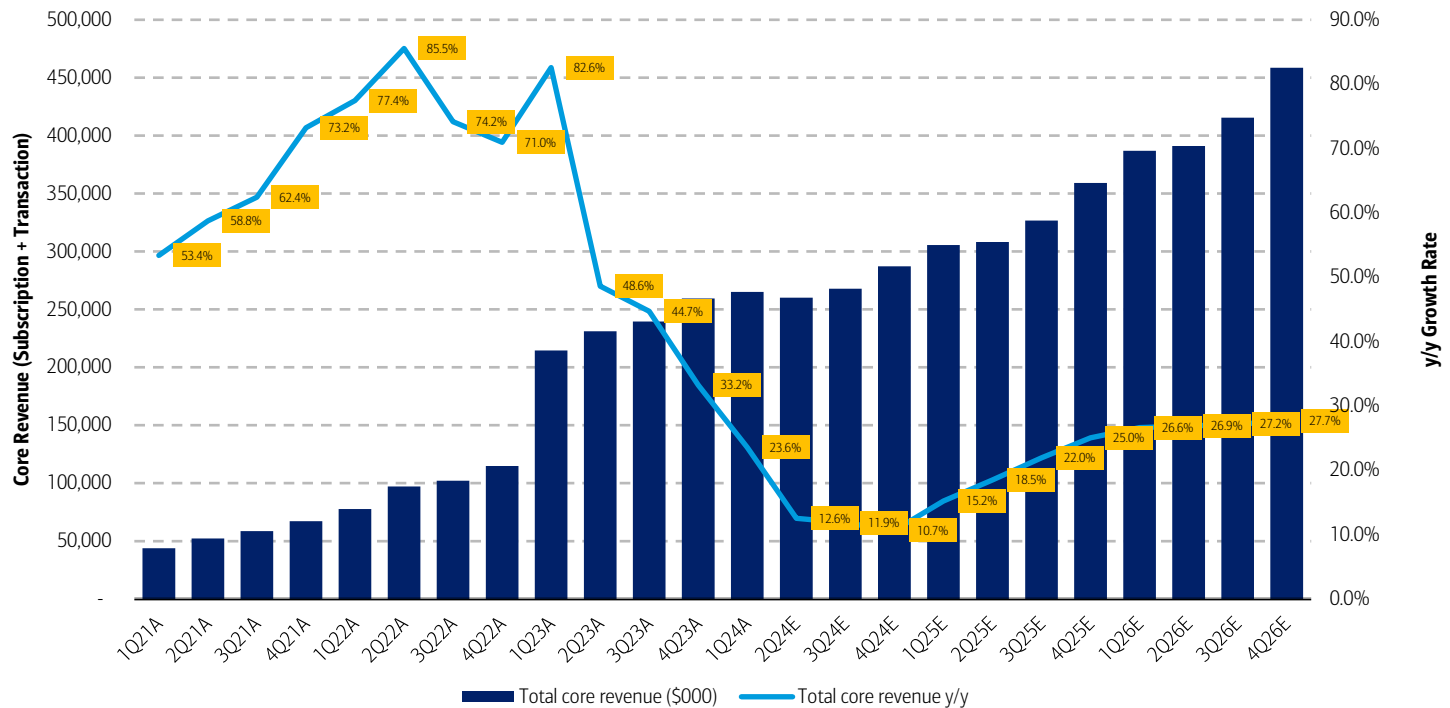
	2Q24E			3Q24E			2024E	
	Consensus Estimate	BofA (Base) Estimate	BofA (Upside) Estimate	Consensus Estimate	BofA (Base) Estimate	BofA (Upside) Estimate	Consensus Estimate	BofA (Base) Estimate
<b>Total revenue</b>	<b>\$298,063</b>	<b>\$298,112</b>	<b>\$308,560</b>	<b>\$301,579</b>	<b>\$301,385</b>	<b>\$315,190</b>	<b>\$1,227,480</b>	<b>\$1,225,191</b>
y/y	14.6%	14.7%	18.7%	10.6%	10.6%	15.6%	16.0%	15.8%
<b>Total core revenue (subscription + transaction)</b>	<b>\$259,407</b>	<b>\$260,112</b>	<b>\$269,426</b>	<b>\$267,444</b>	<b>\$267,885</b>	<b>\$280,653</b>	<b>\$1,081,853</b>	<b>\$1,080,348</b>
y/y	12.2%	12.6%	16.6%	11.7%	11.9%	17.2%	14.5%	14.4%
<b>Subscription revenue</b>	<b>\$64,807</b>	<b>\$65,848</b>	<b>\$67,190</b>	<b>\$68,632</b>	<b>\$71,106</b>	<b>\$72,639</b>	<b>\$266,672</b>	<b>\$270,675</b>
y/y	5.4%	7.1%	9.3%	2.9%	6.6%	8.9%	5.3%	6.9%
<b>Transaction revenue</b>	<b>\$194,546</b>	<b>\$194,264</b>	<b>\$202,236</b>	<b>\$198,886</b>	<b>\$196,779</b>	<b>\$208,014</b>	<b>\$815,252</b>	<b>\$809,673</b>
y/y	14.7%	14.5%	19.2%	15.1%	13.9%	20.4%	17.9%	17.1%
<b>Key transaction revenue metrics:</b>								
<b>Bill standalone transaction revenue (ex. Divvy)</b>	<b>\$88,333</b>	<b>\$89,244</b>	<b>\$92,803</b>	<b>\$90,531</b>	<b>\$90,688</b>	<b>\$95,351</b>	<b>\$375,312</b>	<b>\$373,237</b>
y/y	9.9%	11.0%	15.4%	8.8%	9.0%	14.6%	13.3%	12.6%
<b>Bill standalone TPV (\$mn)</b>	<b>\$64,053</b>	<b>\$63,789</b>	<b>\$65,653</b>	<b>\$63,614</b>	<b>\$64,846</b>	<b>\$66,742</b>	<b>\$262,489</b>	<b>\$264,172</b>
y/y	0.6%	0.1%	3.1%	4.3%	6.1%	9.2%	4.4%	5.0%
<b>Bill standalone take rate</b>	<b>13.8bps</b>	<b>14.0bps</b>	<b>14.1bps</b>	<b>14.3bps</b>	<b>14.0bps</b>	<b>14.3bps</b>	<b>14.3bps</b>	<b>14.1bps</b>
q/q or y/y ramp	-0.7bps	-0.5bps	-0.4bps	0.5bps	0.0bps	0.2bps	1.1bps	1.0bps
<b>Divvy transaction revenue</b>	<b>\$105,115</b>	<b>\$103,920</b>	<b>\$108,334</b>	<b>\$106,897</b>	<b>\$104,991</b>	<b>\$111,563</b>	<b>\$435,200</b>	<b>\$431,894</b>
y/y	21.4%	20.0%	25.1%	20.7%	18.5%	25.9%	23.3%	22.3%
<b>Divvy TPV (\$mn)</b>	<b>\$4,006</b>	<b>\$3,918</b>	<b>\$4,084</b>	<b>\$4,073</b>	<b>\$3,958</b>	<b>\$4,206</b>	<b>\$16,544</b>	<b>\$16,283</b>
y/y	21.4%	18.7%	23.8%	19.8%	16.4%	23.7%	22.5%	20.6%

Source: BofA Global Research, Visible Alpha

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## Exhibit 3: Historical total core revenue (subscription + transaction) – base case

Note that from F4Q21 to F4Q22, data presents organic BILL (excluding Divvy and Invoice2Go)

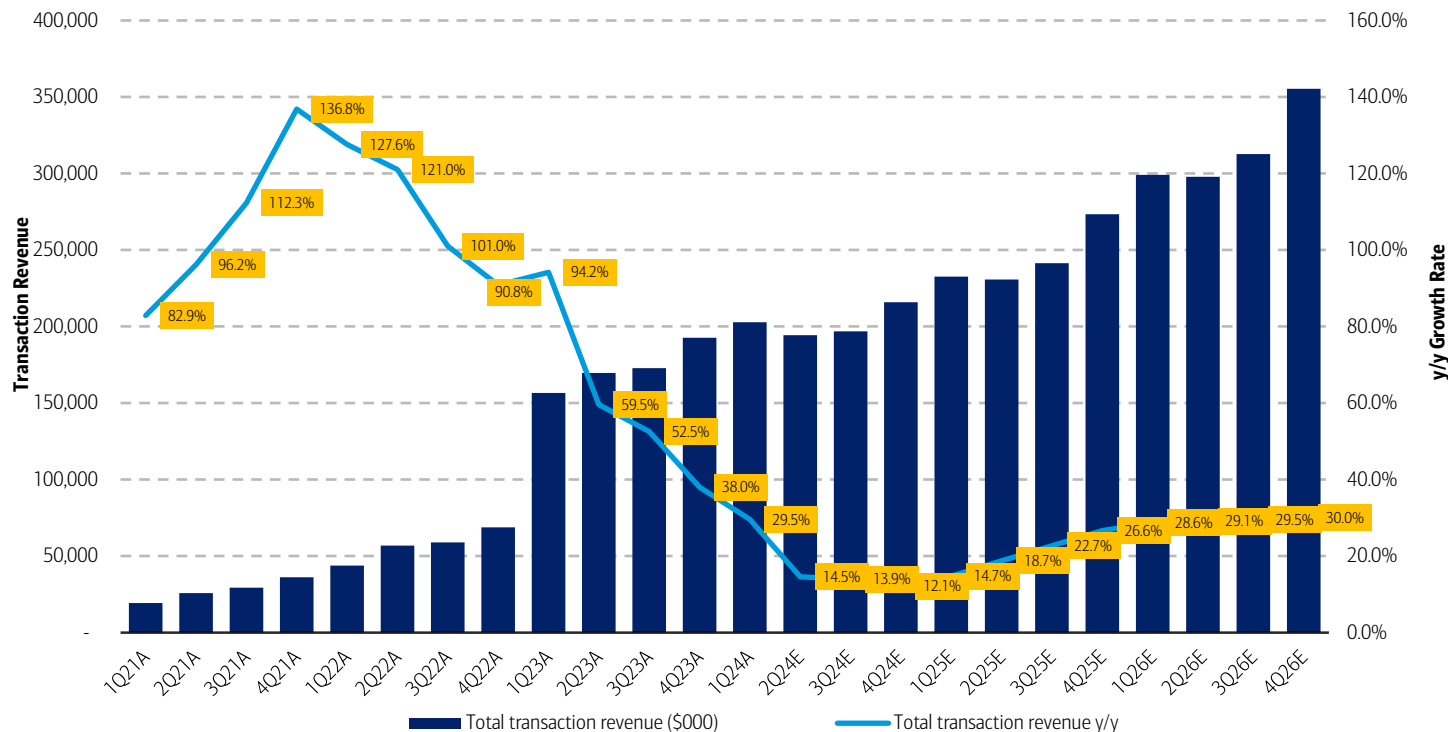


Source: BofA Global Research estimates, Company reports

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**Exhibit 4: Historical total transaction revenue – base case**

Note that from F4Q21 to F4Q22, data presents organic BILL (excluding Divvy and Invoice2Go)

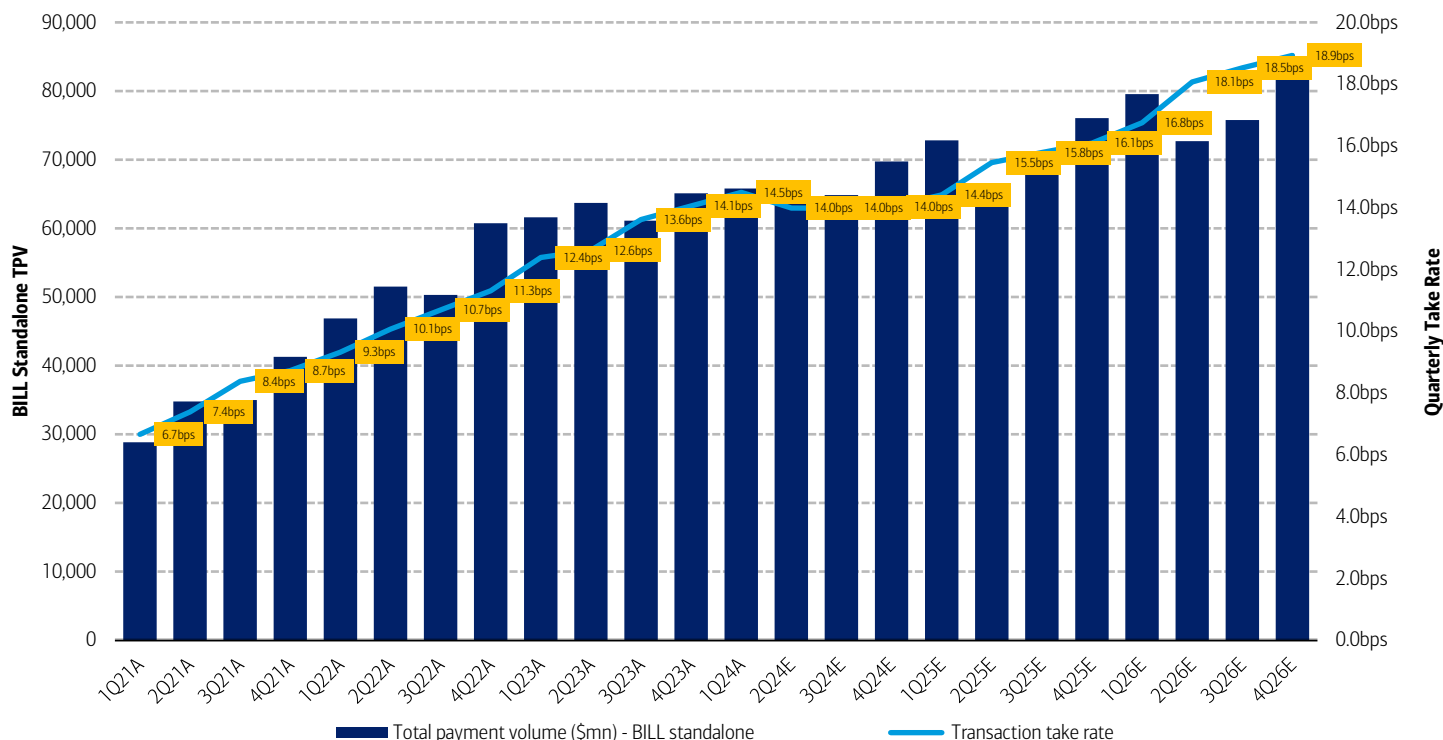


Source: BofA Global Research estimates, Company reports

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**Exhibit 5: Historical BILL standalone total payment volume – base case**

BILL standalone TPV presents organic BILL (excluding Divvy and Invoice2Go)

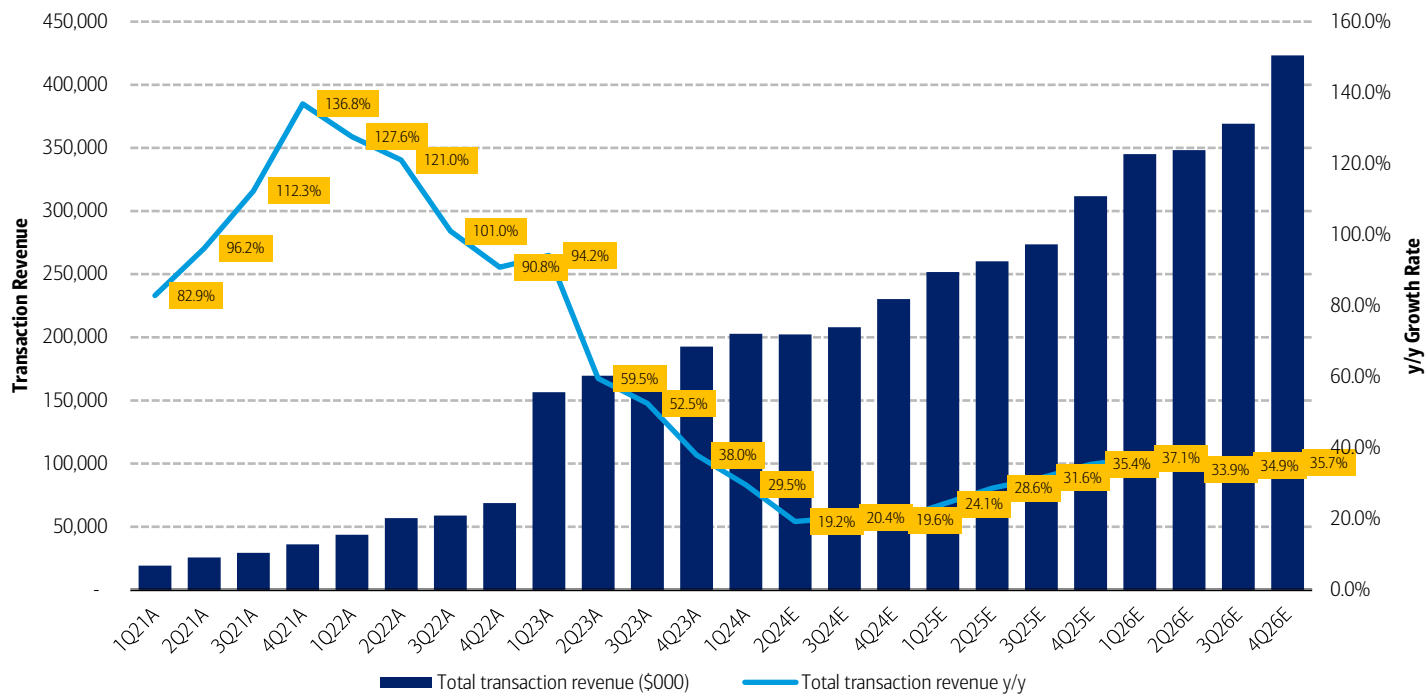


Source: BofA Global Research estimates, Company reports

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**Exhibit 6: Historical total transaction revenue – upside case**

We believe we can start seeing revenue reacceleration as soon as F2Q25 and a sustained 30%+ growth thereafter

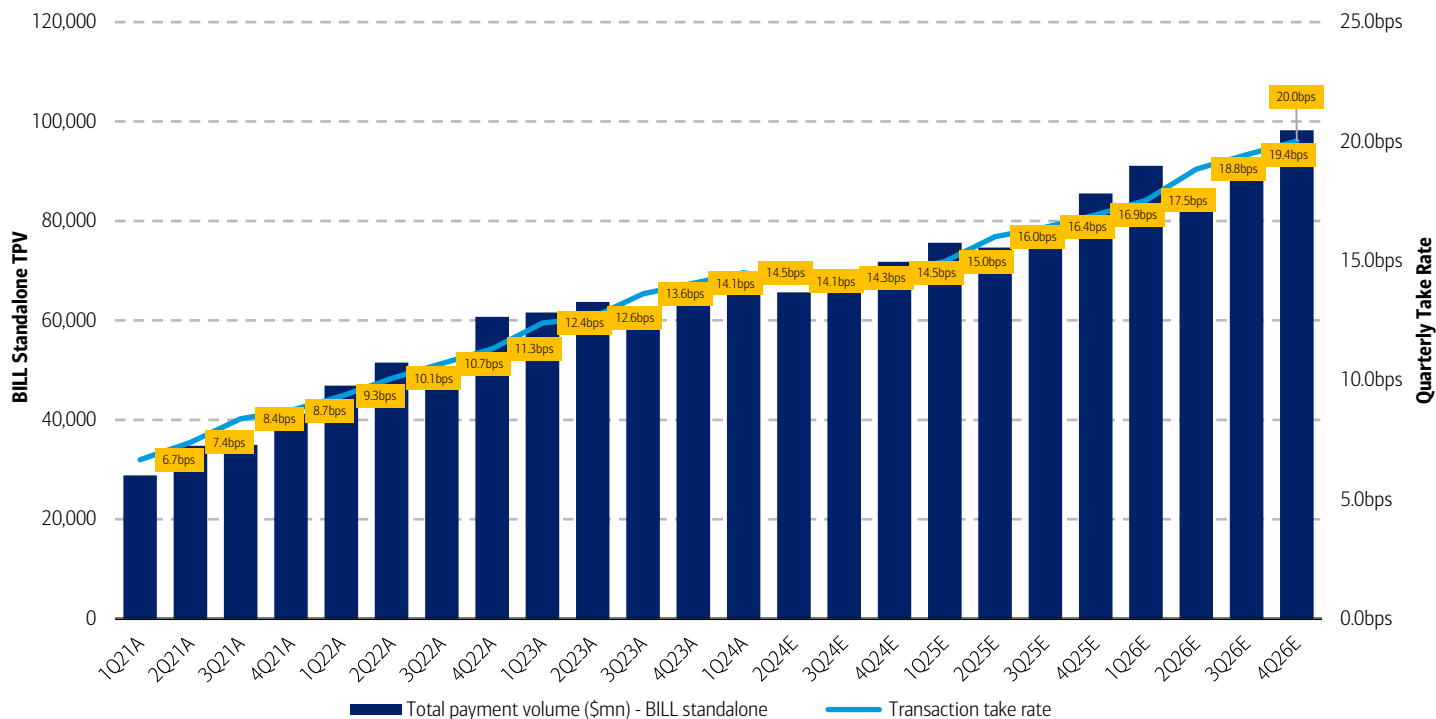


Source: BofA Global Research estimates, Company reports

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**Exhibit 7: Historical BILL standalone total payment volume – upside case**

We believe take rate to gradually ramp each quarter driven by adoption of premium ad valorem products – Divvy, Vendor Direct (virtual card) and CrossBorder



Source: BofA Global Research estimates, Company reports

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## Partner Commentary

“We onboard basically all of our clients to BILL's platform. In Q4, deal activity performed within expectation and trended similar to Q3. Overall, our clients are still impacted by a reduction of VC funding. Vertical sector wise, we saw a slight rebound in the software sector with eCommerce plateauing and fintech lagging. Pipeline feels fairly steady and has been stabilized for the past three quarters though still weaker than historical average. We believe there could be a potential recovery in deal volume and sales cycle in 2h24, largely driven by an expected increase in VC funding. Any material recovery will likely be delayed to 2025, given there is usually a three-to-four-month lag for VC funding to be reflected in our deal activity. SMB spending trended slightly higher than Q3 while still lower than 2022 level. Companies are still running their business prudently but are slowly increasing their budget. CrossBorder remains the most adopted premium payment product with adoption of VCC and Divvy lagging. In fact, most of our clients choose Ramp for their corporate card/virtual card function. Feedback we've heard is that Ramp credit card is easier to use and integrates better with QuickBooks. With that said, BILL is still the number one AP/payment solution for the SMB market given its established brand image and massive 2-sided network.” – **North America Accounting Partner**

“In the past quarter, BILL's deal activity performed within our expectation. We closed more deals in Q4 than Q3, driven by regular seasonality and a slight recovery in willingness to spend. Although elongated sales cycles remains an issue, we expect deal activity to be stable in Q1. Pipelines remain steady, driven by SMBs' increasing focus on digital transformation of back-office software. Total payment volume trended up from Q3 with consumer goods industry seeing the largest rebound. Although still under some macro pressure, SMB spending in 2024 should see slight increase year over year driven by a potential cut in interest rates. In fact, some of our clients are already considering increasing their spending again. The adoption of premium payment solutions such as CrossBorder, VCC and Divvy, is still nascent. In the longer term, we believe SMBs will shift from ACH to faster payment methods.” – **North America Accounting Partner**

“Deal activity in Q4 held in steadily from Q3. We were able to onboard some of our larger clients to BILL. Looking ahead, we expect deal activity to start turning upward in 2024. So far, we have seen healthy pipeline and strong engagement, and we expect to onboard around 50 new clients to BILL this year. This is driven by the increasing need to automate manual bookkeeping process and an ongoing shortage of accounting professionals in the field. On the payment side, SMB spending has been holding fairly stable in Q4. We anticipate Q1 level to be the same to slight increase depending on how the macro shakes out. The majority of our clients are still processing payments using ACH. We have one Divvy user as of now and, we are planning to deepen our effort to promote Divvy in 2024. The adoption of virtual credit card is still nascent. A major concern is around the premium transaction fees associated with the card.” – **North America Accounting Partner**

“We saw stable deal volume in Q4 although overall level was still compressed given a weak macro. We saw slightly more elongated sales cycle in Q4. So far in Q1, we have seen some improvement in engagement with a solid number of prospects in the pipeline. It is still too early to gauge or forecast deal activity for the year. On spending, TPV held in from Q3. SMBs are still very cautious about where and what to spend on. We expect similar spending trends in 2024 until we see clear signal on macro weaknesses abating. There is a healthy amount CrossBorder users. Divvy adoption has also been ramping given the new integration effort. Virtual credit card has been lagging, consistent with what we have seen in the past year or so.” – **North America Accounting Partner**

“Things were generally steady in Q4. Some larger clients had budget flush, but the rest of our client base continued to spend according to their 2023 year-end budget. Deal activity remained steady in Q1. Pipeline remains solid, and sales cycles have shortened slightly. We see some clients are in purchasing mode again. This green shoot might





materialize in deal activity starting in Q2. On spending, Q4 payment volume remained largely stable. We expect a similar level in 2024 with no significant uptick or downtick in spending. We do not have much adoption on the cross-border front. Divvy adoption has been strong since the full integration with BILL's platform. This newly rebranded "Spend and Expense" product resonates with the heightened need of visibility and control on business spending. In fact, Divvy has shown up more in land deals. We also saw strong adoption of core BILL among existing Divvy customers who were not on BILL. On competition, Ramp is likely the most relevant given the overlap in targeted customers and platform functionalities. The strength of Ramp is its freemium pricing model while BILL is known for its massive payment network and a faster onboarding process." –

**North America Accounting Partner**

"BILL met our expectation in Q4 with steady deal and customer net add activity. Pipeline in Q4 was slightly weaker compared to the rest of 2023, due to loss of funding among startups. Q1 to date we have seen steady pipeline build, but we don't expect any material uptick until venture funding returns to a healthy level. Business spending in Q4 largely held in, with weaknesses in some accounts. SMBs overall are still tightening their belt and not ready to increase their spend anytime soon. Therefore, we don't expect to see a recovery in spending this year. Currently, 10% of our BILL customers adopted Divvy and, we are seeing great traction on the product. Virtual card is still very early due to limited acceptance on the vendor side. On QuickBooks bill pay versus BILL, we would much prefer to migrate QuickBooks users to BILL rather than the other way around. On Ramp, our internal team is expecting to onboard as many clients to Ramp bill pay as to BILL. In the near term, we believe BILL will continue to enjoy the incumbent advantage and its massive channel networks. In the long term, we are just as keen on Ramp." –

**North America Accounting Partner**

"BILL met our expectation in Q4. Customer net addition was steady, and we have not seen a slowdown. Q1 however is typically the slowest quarter of the year, and we usually see deal signings to be more backend loaded. We expect deal activity to remain healthy to slightly improving in 2024, given that SMBs continue to reduce in-house controllers and bookrunners. VC-backed startups, however, are still experiencing a headwind due to the weak funding environment. We have around 10% revenue contribution from this segment. Pipeline excluding startups remained healthy, but we don't expect any material recovery in deal activity until the second half of 2024. Adoption of virtual card is still early. Divvy has been gaining traction since the full integration with BILL's core platform. On competition, Ramp has come up in customer conversations more frequently. The company provides a cheaper offer with core functionalities largely on par with BILL, while its premium products (such as cross-border) are still lagging. BILL has a more matured product suite as of now, but given we are in a price-sensitive environment, Ramp has seen solid customer net adds." –

**North America Accounting Partner**

"Overall deal activity was largely stable to slightly decelerating. The macro weaknesses continued to impact customer net adds. The headwind was particularly severe among venture-backed clients which contribute around 50% of revenue in mix. Pipeline was down sequentially in Q4. We expect an uptick in pipeline build in Q1, with sales cycles shortening as well. Total payment volume in Q4 trended down slightly due to ongoing macro pressure. We expect spending volume to stay flat at least in first half of the year, with potential for reacceleration for the back half. Around 70% of our clients who have FX exposure adopted BILL's cross border product. Adoption of virtual card continues to be early due to lacking product awareness, especially on the vendor side. We currently have one or two clients on Divvy. The integration with BILL's core platform still needs some more work. On competition, the corporate card and expense management space has become more crowded. Overall feedback we have been hearing is that Brex and Ramp are easier to use for a small startup. These companies do not need as comprehensive a platform as BILL which is usually more expensive. However, for companies that are bigger in size, BILL is still their preferred option." –

**North America Accounting Partner**



"In Q4, we continued to onboard new customers at the same rate as Q3. Pipelines have been healthy though not necessarily accelerating. We have seen greater business confidence among the SMBs which might reflect in their 2024 budget. Overall, we expect deal activity to pick up and might start seeing multi-year contracts again. We saw a slight uptick in spending in Q4, and we expect business performance to improve as they lap the tough periods seen in 2022 and 2023. Cross border continues to see great adoption. In fact, majority of our clients who have international businesses chose BILL over their banks or products like Wise. We have a few clients using Divvy while adoption of virtual card is still nascent. On competition, Ramp has made some great progress on product functionalities. However, it is going to take some time for Ramp to catch up on market share, given BILL's established brand awareness and partner channels" – **North America Accounting Partner**

"Deal activity in Q4 held in from Q3. So far in Q1, pipeline has been healthy. More SMBs now realize that the total cost of outsourcing accounting and adopting a digital solution is cheaper than self-managing the workflow. Given this reason, we are positive on BILL's deal activity for 2024. Total payment volume on the platform was largely steady in Q4. More of our clients are aware of Divvy, and we are seeing great traction since the full integration with BILL's core platform. With that said, a majority of our clients are still using corporate cards from their banks. In terms of competition, Ramp is a very similar product to Divvy, and our clients do not necessarily prefer one to the other. BILL's biggest competitor in our opinion might be QuickBooks Payments. Existing QuickBooks clients are more likely to adopt this native product than to adopt BILL. New clients, however, would probably choose to go with BILL which has more advanced functionalities such as placing restrictions based on transaction or vendor types." – **North America Accounting Partner**

"BILL is the primary AP automation solution that we push to our clients. In Q4, deal activity was holding steady. Pipeline in Q1 has slowed down slightly but is still active. We expect the deal activity for 2024 to be steady to modestly growing. Macro headwinds are still in place, but we expect the increasing demand for outsourced accounting to offset some of that weakness. Spending in Q4 stayed consistent with Q3 level. 2024 spending level is likely to be flat to growing modestly, given the expectation that a tight budget cycle is going to persist as interest rates remain elevated. We have seen ramping adoption of Divvy starting the end of 2023, and we are expecting more material adoption starting this year. CrossBorder has also become more prevalent as more of our clients expand their business to international regions. Adoption of virtual card is still lagging due to pricing sensitivity on the vendor's side. On competition, BILL is likely to sustain their market share given its solid functionalities. We have always been evaluating alternatives but have barely come across a solution that has the functionalities on par with BILL." – **North America Accounting Partner**

"Deal activity was largely steady in Q4. Pipeline in Q1 has been within expectation though still below historical level. We expect steady y/y increase in customer net adds for 2024. This healthy outlook is driven by a potential recovery in the underlying economy and the ongoing solid demand of outsourced accounting. Total spending in Q4 remained stable with construction/real estate and medical verticals seeing the most uptick in dollars spent. Most of our clients are still using ACH with limited adoption of BILL's premium ad valorem products. Vendors as of now still prioritize pricing over payment speed. On Divvy, we acknowledge the advantage of having a fully integrated system, and we plan to be more aggressive on promoting Divvy to our clients this year. Regarding competition, Ramp is considered the biggest competitor to Divvy. Ramp's corporate card is very intuitive to use and smoothly integrated with systems such as QuickBooks. For new customers in need of a corporate card function, we do expect existing BILL customers to adopt Divvy over Ramp for a more integrated expense management experience. On competition with Intuit, we expect QBO customers with very small transaction volume to stay with QuickBooks' bill pay service. For customers with larger payment volume or more frequent transactions, we would likely encourage

them to migrate to BILL due to more advanced functionalities and an established payment network.” – **North America Accounting Partner**

## Price objective basis & risk

### BILL (BILL)

Our PO of \$90 is based on an EV/revenue multiple of 6.3x our CY25 revenue estimate. This represents an EV/Rev/Growth multiple of 0.3x based on our C25e core revenue growth rate of 23%, discount to the mid cap peer group trading at 0.4x for macro and SMB exposure.

Downside risks are: 1) Higher degree of cyclical exposure, given the focus on SMB and variable transaction and float revenue, which, in a recessionary environment, could see declined transaction volume and lower interest rates, 2) Premium valuation presents risk of pullback in the event of changes to market sentiment stemming from global macro uncertainty, or potentially disappointing quarterly revenue, 3) Need to drive brand/product awareness to drive growth - there is relatively low awareness of the BILL brand and BILL is most often competing with status quo (manual/human efforts). Execution on demand generation, with both customers and partners, is critical for BILL to continue growing at its recent growth trend (revenue growth of 67% in FY19).

## Analyst Certification

I, Brad Sills, 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
<b>BUY</b>				
	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

## US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
<b>NEUTRAL</b>				
	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	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
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA
<b>UNDERPERFORM</b>				
	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
<b>RSTR</b>				
	Splunk	SPLK	SPLK US	Brad Sills

## iQmethod<sup>SM</sup> 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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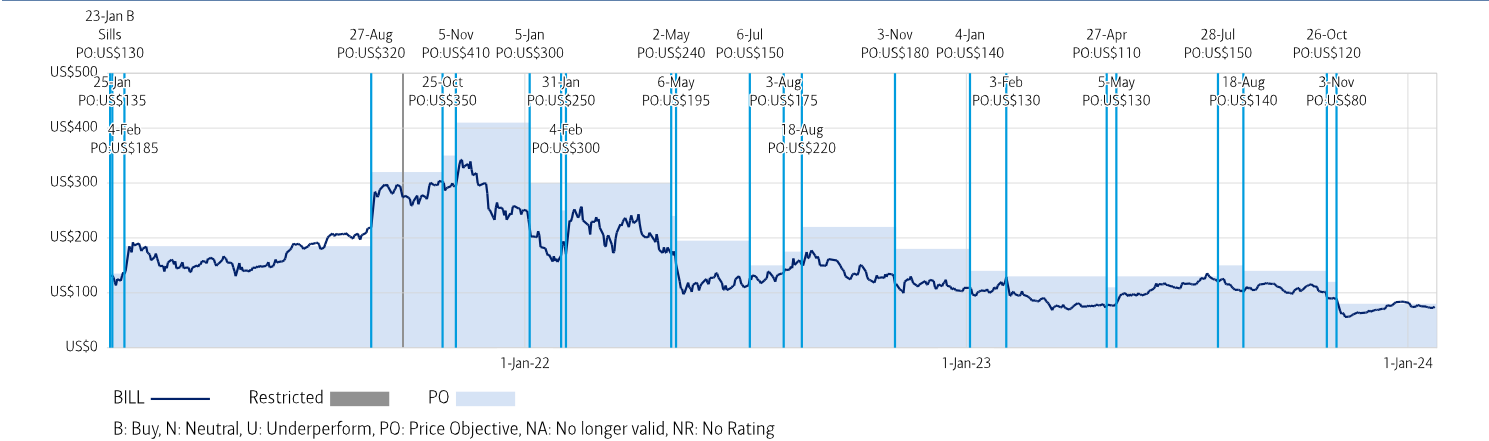
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BILL (BILL) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

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

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