

## Software

## SoftNotes: ZETA/BIGC Read Throughs &amp; Spot BTC ETP Approval

Industry Overview

## ZETA &amp; BIGC – accelerating ad spend read throughs

**What Happened:** BofA Global Research's Internet team hosted a call on Jan 8 with Ben Legg, former CEO of Ad Parlor, to discuss [digital platform advertising trends](#) for Alphabet, Amazon, Meta, among others. Mr. Legg shared that 4Q23 ad spend accelerated slightly above expectations, a trend that has continued this quarter as budgets are deployed earlier in 1Q24 y/y. He also noted that AI features from Alphabet and Meta are driving higher ROI and that AI automation features are enabling on-ramps to new platforms for SMB advertisers, resulting in incremental ad spend (Exhibit 1).

**Our Take:** We expect 4Q23 and 1Q24 ad spend acceleration to have positive implications for Zeta Global (ZETA) and BigCommerce (BIGC), given ad-spend exposure.<sup>1</sup> We view signs of accelerating ad spend as a leading indicator for software spending more broadly, supported by [management commentary and our IT Spend Survey](#), which increases our confidence that ZETA and BIGC will achieve or beat full-year guidance and that 1Q24 guidance will be above consensus. We reiterate our Buy rating for ZETA and maintain our Neutral rating for BIGC.

## Spot BTC ETPs – the wait is over, trading begins today

**What Happened:** The SEC approved the listing and trading of 11 spot bitcoin ETPs (SBEs) on Jan 10, which will begin trading today on NYSE Arca, Nasdaq and Cboe BZX.<sup>2</sup> It's been a long journey to SBE approval with 20+ application disapprovals since the first application filing in 2013, a court ruling (Grayscale Order) in Aug'23 and more recent requests for application revisions. The structure of approved SBEs are similar, although differences exist around fees, listing exchanges, APs and custody providers.

**Our Take:** SEC approval of 11 SBEs likely increases the breadth and depth of interest in BTC and moves the most known and owned token further into the mainstream.<sup>3</sup> SBE listings may drive near-term volatility and incremental demand from both retail and institutional investors over the longer term, but we do not anticipate significant near-term demand. Our ETF trading colleagues note SBE interest today is almost exclusively from APs and not from institutional investors. We now await regulatory clarity for a diversified spot token ETP, but we're not holding our breath.

We provide responses to common SBE talking points, which largely regard expected demand and resulting BTC inflows, BTC price implications, comparisons between SBEs and spot gold ETPs and alternative token read throughs.

"While we approved the listing and trading of certain spot bitcoin ETP shares today, we did not approve or endorse bitcoin."

– Gary Gensler, SEC Chairman, Jan 10, 2024

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<sup>1</sup> ZETA provides advertising campaign management solutions to corporates through its AI-powered Zeta Marketing Platform (ZMP) and BIGC provides streamlined social-media advertising solutions to brands through its Feedonomics platform.

<sup>2</sup> The 11 SBE applications approved are from issuers, including ARK Invest/21Shares (ARKB), Bitwise (BITB), BlackRock (IBIT), Fidelity (FBTC), Franklin Templeton (EZBC), Grayscale (GBTC), Hashdex (DEFI), Invesco/Galaxy (BTCO), Valkyrie (BRRR), VanEck (HODL) and WisdomTree (BTCW).

<sup>3</sup> See page 3 for an overview of how we view the digital asset ecosystem.

**AP** = Authorized Participant

**BTC** = Bitcoin

**ETP** = Exchange Traded Product

**SBE** = Spot Bitcoin ETP

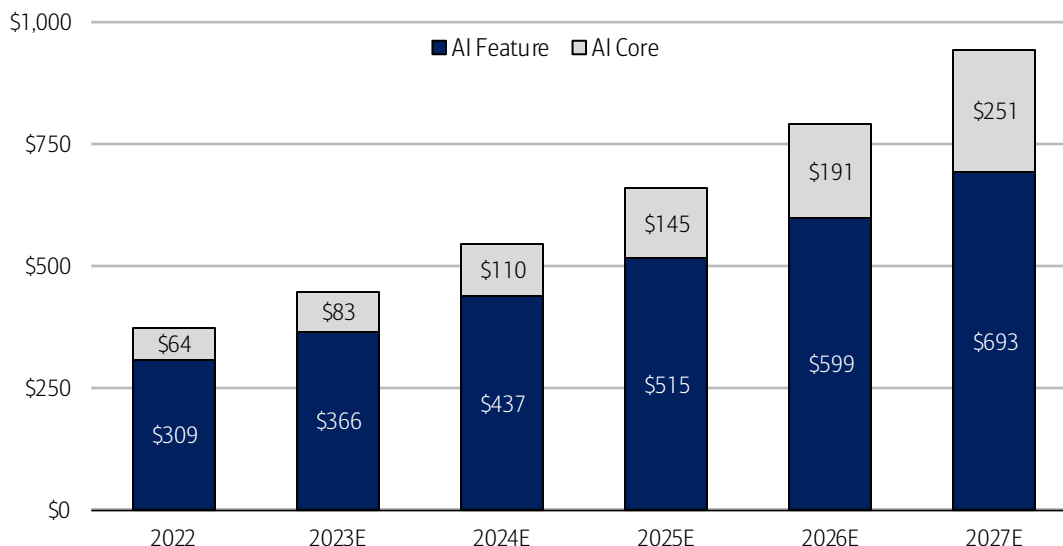
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Timestamp: 11 January 2024 02:33PM EST

**Exhibit 1: The AI software market is expected to grow to \$944bn by 2027, +153% vs 2022**

Global AI software revenues (\$bn) from 2022-2027E



Source: BofA Global Research, IDC

AI Feature software includes software product offerings that were already developed and in production before AI features were embedded. AI Feature software would continue to function even if AI capabilities were removed. AI Core software includes software product offerings that were developed with AI features as the core component of functionality. AI Core software would not continue to function if AI capabilities were removed.

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AI products developed by our covered companies largely fall in the AI Feature category.

See our [Software Year Ahead 2024](#) report for more.

**Spot bitcoin ETP approval continued**

We provide our views on common SBE talking points below.

**Debate #1**

SEC approval of 11 SBEs will drive significant BTC inflows and push the token's price higher as APs purchase the token in the open market to meet investor demand.

**Our Thoughts:** SBE listings may enable new investors to obtain exposure who were uncomfortable buying the token previously on an application (app) or due to the complexity of trading on a new platform and selecting a [custody solution](#), but BTC accessibility has changed significantly since we [launched coverage in Oct'21](#). We expect SBE listings to drive near-term volatility. However, regulated spot token ETPs have been listed globally ex-US since 2021 and US-based investors have been able to obtain direct exposure through numerous trading platforms and apps and indirect exposure through companies like MicroStrategy for which performance is highly correlated with BTC's.

Our client conversations indicate that many hedge funds already trade token volatility, but are focused on the digital asset ecosystem more broadly instead of just BTC. Potential financial advisor demand may materialize over the longer term, but is unlikely in the near-term, given the need for compliance processes and approvals to occur first.

**Debate #2**

SBE demand and price implications will be similar to implications resulting from the listing of the first US spot gold ETP in 2004.

**Our Thoughts:** We do not view SBE listings and the potential demand and price implications as comparable to implications that resulted from the first US-listed spot gold ETP. However, we note that the SEC's approval of SBEs was relatively speedy

compared to approval of a spot gold ETP, which occurred for the SPDR Gold Shares ETP (GLD) in Nov'04, 30 years after gold futures began trading.

Prior to GLD's listing, investors seeking exposure to gold's price could purchase futures or purchase physical gold through dealers, but these investment vehicles come with drawbacks related to cost, storage, settlement and/or liquidity. GLD enabled investors to easily obtain spot gold exposure for the first time. As a result, gold prices rose as new demand entered the market, particularly from retail investors, who were unlikely to purchase gold futures or buy and store physical gold. In contrast, BTC has been accessible to most investors for several years.

### Debate #3

The SEC's SBE approvals provide positive read throughs for other tokens like ETH, the token that powers the Ethereum blockchain.

**Our Thoughts:** ETH's price as of 8:30am this morning was up ~5% since 4:30pm yesterday and ~11% since Jan 9 at midnight, likely due to anticipation that the token may be next in line to be packaged into an ETP. However, SEC Chair Gensler noted that SBE approval is not transferable to other tokens.

"Importantly, today's Commission action is cabined to ETPs holding one non-security commodity, bitcoin. It should in no way signal the Commission's willingness to approve listing standards for crypto asset securities. Nor does the approval signal anything about the Commission's views as to the status of other crypto assets under the federal securities laws..."

– Gary Gensler, SEC Chairman, Jan 10, 2024

## Digital asset ecosystem breakdown

1. **Bitcoin:** Bitcoin is a supply/demand commodity for which supply is capped at 21mn tokens and demand is variable. Bitcoin may be used increasingly as a medium of exchange (money) over time, but it is largely viewed by investors as a store of value. Bitcoin generates cash flows in the form of newly issued tokens and from token tips to prioritize transaction settlement, but these cash flows are retained by [Bitcoin miners](#) instead of holders.
2. **Blockchain-native tokens powering operating systems and applications with intrinsic value:** Tokens like [ETH](#), [AVAX](#), [SOL](#) and [NEAR](#) power the Ethereum, Avalanche, Solana and NEAR Protocol blockchain operating systems, respectively, and provide holders with a call on cash flows via transaction fees. These cash flows are either distributed to token holders directly or indirectly through token burns, which remove them from circulation, similar to a share buyback. Tokens like LINK power the [Chainlink](#) decentralized oracle network, which is not a blockchain, but also provides holders with a call on cash flows. Tokens also power the emerging ecosystem of [Web3 applications](#), which run on top of blockchains, and provide holders with a call on cash flows.
3. **Blockchain-native tokens powering nothing and without intrinsic value:** Tokens like [UNI](#) are associated with Uniswap, a decentralized exchange, but do not provide holders with a call on cash flows. Instead, they act as governance tokens and provide holders with a vote on platform changes. The majority of tokens in circulation, many of which are not even associated with a platform, fall into this category.
4. **Tokenized traditional and alternative financial and non-financial assets with or without intrinsic value:** Tokenization refers to the process of creating digital



representations of traditional and alternative financial and non-financial assets that can be exchanged and tracked on distributed ledgers or blockchains. For example, assets that have already been tokenized include [demand deposits](#), [currencies/CBDCs](#), [repos](#), money market funds, bonds, ETFs, letters of credit, [physical gold](#), interests in [venture capital](#) and [private equity](#) funds, real estate, insurance contracts, blue-chip art, royalties, [loyalty programs](#) and mangos. We expect all financial assets and most high-value non-financial assets to ultimately be tokenized.

See our [Tokenization Primer](#) and [State of Crypto](#) report for deep dives.

### Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BIGC	BIGC US	Bigcommerce	US\$ 8.57	C-2-9
ZETA	ZETA US	Zeta Global	US\$ 9.21	C-1-9

## Price objective basis & risk

### BigCommerce Holdings, Inc. (BIGC)

Our \$11 PO is based on 2.7x EV/C24E revenue or 0.3x EV/R/G. The multiple we use to calculate our PO is a discount to its horizontal SaaS peers at 6.6x (0.5x EV/R/G), which we believe is warranted given BigCommerce is disrupting a large, growing, and attractive digital commerce TAM, balanced against execution risks on its recent pivot to focus primarily on the upmarket.

Risks to our PO are: 1) competition, 2) pandemic driven supply chain bottlenecks, 3) tough pandemic comps, 4) cyclical spending pressures, 5) SMB exposure, and 6) execution risk.

### Zeta Global (ZETA)

Our \$14 PO is 3.6x EV/C24E revenue, representing a growth adjusted multiple of 0.2x. The 3.6x multiple we use is a premium to its advertising / marketing-tech peers at 1.9x, warranted given steady revenue growth, coupled with faster EBITDA growth and strong recent execution.

Risks to our price objective: Zeta's proprietary customer data set is disrupted and end customers shift their budgets to other data source vendors and platforms, execution risk in scaling Zeta's business efficiently and customer concentration risk.

## Analyst Certification

I, Alkesh Shah, 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.

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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
	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	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
	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



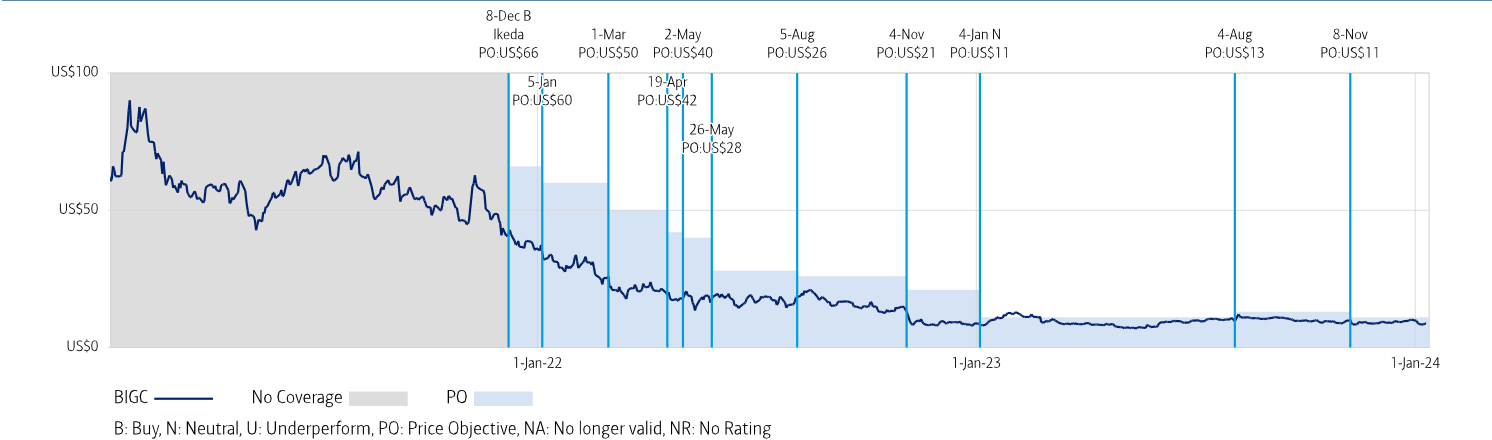
US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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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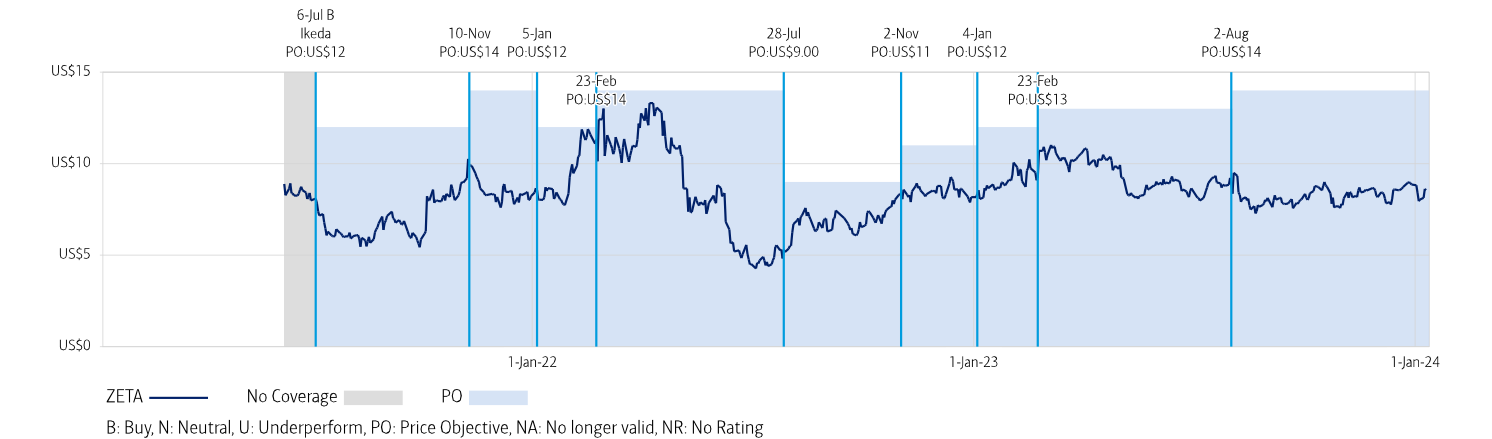
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Bigcommerce (BIGC) Price Chart



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Zeta Global (ZETA) 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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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