

Informatica Inc.

Investor meeting takeaways: Attractive setup heading into 2024; Maintain Buy

Maintain Rating: BUY | PO: 39.00 USD | Price: 34.09 USD

Taking share of next-gen enterprise data management

Maintain Buy and \$39 PO after hosting a very well attended group investor meeting last Friday with Informatica's CEO, Amit Walia, and CFO, Michael McLaughlin, where we come away more confident in its ability to take share in the next-gen data management opportunity. Bottom line: We expect the good execution to continue in the future, which should drive INFA's discount valuation multiples higher towards its infrastructure peer group average (6.2x EV/CY24E revs vs. 8.1x; and 26.3x EV/CY24E FCF vs. 43.1x peers). No changes to estimates.

Attractive fundamental setup into 2024 and beyond

Following a [solid 4Q23 earnings](#) print, which featured a beat and initial 2024 guidance above the Street, topics of conversation included: 1) confidence and visibility into its 35% Cloud ARR growth guide; 2) partner channel expansion strategy; and 3) legacy PowerCenter and IDMC self-managed migration to IDMC Cloud opportunity. The healthy pace of digital transformations and the adoption of cloud, hybrid cloud, and multi-cloud, along with generative AI tailwinds, should result healthy demand for IDMC, in our view.

Workload modernizations to Cloud to drive ARR uplift

A fair amount of time was spent on the potential for the \$1bn (as of 4Q23) of legacy PowerCenter ARR and self-managed ARR to modernize (i.e., migrate) to IDMC cloud. With a cloud-first selling motion, its usage based Informatica Pricing Unit (IPU), and relatively new PowerCenter Cloud Edition, we believe the majority of PowerCenter and IDMC self-managed workloads will migrate to IDMC over time. With an average ARR uplift of 2.1x upon conversions, we believe the migration opportunity has the potential to be a healthy Cloud ARR growth driver over the medium-term. As of 4Q23, only 5% of the total conversion opportunity has been realized, and we anticipate the pace of conversions to increase in 2024/25 as organizations accelerate digital transformations.

Inflection reflection: INFA is the enterprise data crucible

We are not surprised that Informatica executed well in 2023, as we detected strong end-market demand at [Informatica World last May](#). Since then, it has become more entrenched with partners such as Amazon/AWS, Microsoft, and other next-gen data lakehouse vendors. New partnerships (i.e., MongoDB) demonstrate it is being viewed as strategic and mission critical for driving long-term digital transformation strategies.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.78	0.92	1.08	1.12	1.17
EPS Change (YoY)	13.0%	17.9%	17.4%	3.7%	4.5%
Consensus EPS (Bloomberg)			1.08	1.20	1.38
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	43.7x	37.1x	31.6x	30.4x	29.1x
EV / EBITDA*	24.9x	19.4x	16.5x	15.3x	14.2x
Free Cash Flow Yield*	2.4%	3.2%	4.8%	5.2%	5.8%

* For full definitions of *IQmethod*SM measures, see page 4.

20 February 2024

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Stock Data

Price	34.09 USD
Price Objective	39.00 USD
Date Established	15-Feb-2024
Investment Opinion	B-1-9
52-Week Range	13.29 USD - 36.00 USD
Mkt Val (mn) / Shares Out (mn)	8,423 USD / 247.1
Free Float	20.2%
Average Daily Value (mn)	43.23 USD
BoFA Ticker / Exchange	INFA / NYS
Bloomberg / Reuters	INFA US / INFAN
ROE (2024E)	14.6%
Net Dbt to Eqty (Dec-2023A)	49.4%
ESGMeter™	NLA

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IDMC = Intelligent Data Management Cloud

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Timestamp: 20 February 2024 04:22PM EST

iQprofileSM Informatica Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.9%	9.4%	10.4%	10.4%	10.4%
Return on Equity	11.1%	12.7%	14.6%	14.1%	13.7%
Operating Margin	23.3%	29.0%	32.0%	32.5%	33.0%
Free Cash Flow	200	266	401	436	486

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.0x	1.2x	1.2x	1.2x
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	23.0%	22.9%	23.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	65.4%	49.4%	28.0%	9.4%	-7.0%
Interest Cover	4.5x	3.1x	3.8x	4.2x	4.5x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,505	1,595	1,696	1,798	1,898
% Change	4.2%	6.0%	6.3%	6.0%	5.5%
Gross Profit	1,218	1,302	1,384	1,472	1,568
% Change	2.3%	7.0%	6.3%	6.3%	6.5%
EBITDA	372	478	562	607	651
% Change	-1.5%	28.6%	17.6%	7.9%	7.3%
Net Interest & Other Income	(60)	(111)	(98)	(94)	(94)
Net Income (Adjusted)	224	271	343	373	405
% Change	28.1%	20.8%	26.6%	8.7%	8.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	224	272	343	373	405
Depreciation & Amortization	21	18	19	22	24
Change in Working Capital	(25)	(10)	27	46	60
Deferred Taxation Charge	(86)	1	(64)	(64)	(64)
Other Adjustments, Net	66	(15)	75	59	62
Capital Expenditure	0	0	0	0	0
Free Cash Flow	200	266	401	436	486
% Change	-12.5%	33.1%	50.5%	8.8%	11.6%
Share / Issue Repurchase	53	40	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(16)	(19)	(20)	(20)	(20)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	498	732	1,113	1,529	1,995
Trade Receivables	455	500	483	529	645
Other Current Assets	446	520	615	624	631
Property, Plant & Equipment	161	149	130	107	84
Other Non-Current Assets	3,412	3,300	3,224	3,168	3,112
Total Assets	4,971	5,202	5,566	5,957	6,467
Short-Term Debt	19	19	19	17	17
Other Current Liabilities	945	1,035	1,132	1,230	1,408
Long-Term Debt	1,822	1,806	1,790	1,774	1,758
Other Non-Current Liabilities	131	130	138	142	148
Total Liabilities	2,917	2,989	3,079	3,164	3,331
Total Equity	2,054	2,213	2,487	2,794	3,136
Total Equity & Liabilities	4,971	5,202	5,566	5,957	6,467

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Server & Enterprise Software

Company Description

Informatica was founded in 1993 and is based in Redwood City, CA. The company provides data management solutions for enterprises. The company recently launched a new product, IDMC, which is powered by CLAIRE AI, to address new data workloads. Its legacy product, PowerCenter, is not a future growth vector, but is still widely used in the end market. Informatica was previously public between 1999-2015, when it was taken private. It became public again in October 2021.

Investment Rationale

We believe that the rapid evolution of technology, applications being deployed everywhere (cloud, on-prem, hybrid), and new architectures is driving an explosion of data volumes from disparate data sources. Organizations need to leverage next-gen data management tools, like Informatica's IDMC platform, to help make sense of it all. We believe end market demand for IDMC will be strong in the coming years, which should drive healthy growth and profitability trends for the business.

Stock Data

Average Daily Volume 1,268,007

Quarterly Earnings Estimates

	2023	2024
Q1	0.15A	0.20E
Q2	0.17A	0.24E
Q3	0.27A	0.28E
Q4	0.32A	0.36E

Price objective basis & risk

Informatica Inc. (INFA)

Our \$39 PO is based on a SOTP valuation analysis. On a consolidated basis, the SOTP implies a 8.0x EV/C24E revenue multiple. For our SOTP, we use a 11.5x EV/C24E subscription revenue multiple, that translates to an EV/R/G of 0.65x, a premium to infrastructure peers at 8.1x/0.5x, warranted for 35%+ growth vs. mid-teens% peers. We use a 2.0x EV/C24E multiple for the rest of the revenue, as its legacy maintenance revenue stream is not a strategic growth vector. This compares to 5.5x for legacy software peers.

Risks to our PO are: 1) competition, 2) transition takes time, 3) execution, 4) shifts in cloud and self-managed could affect recognized revenue, 5) pricing changes that elevate churn, and 6) macro related risks.

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.

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
	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
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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
	Dropbox	DBX	DBX US	Michael J. Funk
	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

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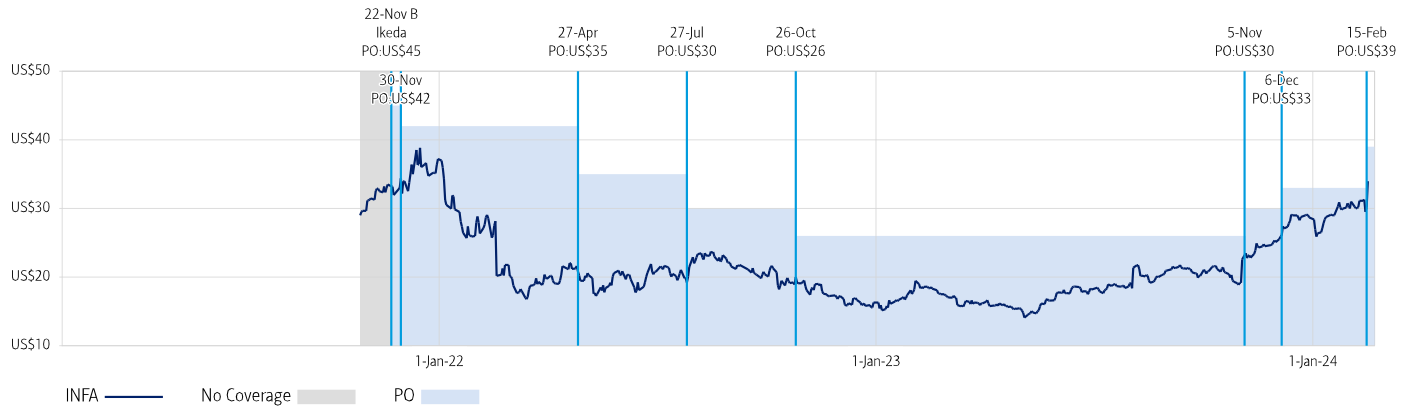
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Disclosures

Important Disclosures

Informatica Inc. (INFA) 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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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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