

Software

SoftNotes: SNOW -ve/CRM +ve, U Reset, BOX/MSFT AI Partnership

Industry Overview

Iceberg Tables – SNOW headwind drives CRM tailwind

What happened: Snowflake (SNOW) reported healthy [Q4 results on Feb 28](#), but a disappointing FY25 product rev outlook (+22% y/y vs our +31% y/y), primarily due to weaker-than-expected consumption amid ongoing performance optimizations. Mgmt also noted that customer adoption of Iceberg Tables may drive incremental headwinds for storage rev (10-11% of total rev) and, to a lesser extent, compute rev.¹ Iceberg Tables enable customers to leverage SNOW's platform features and compute for querying and analyzing large data sets. However, they also enable customers to store data in open formats or in customer-managed cloud storage, instead of SNOW's data cloud platform (Exhibit 1).

Our Take: SNOW's price is down 27% post-earnings as of Mar 6 close, following the guide down and questions as to what is driving such a large disconnect to the Street. However, given the ability to store SNOW data outside of the platform for query by competing data warehouses via Iceberg Tables, we are watchful of potential headwinds. Salesforce (CRM) Data Cloud is gaining traction within the sales analytics category, the most common use case for data warehouse. CRM mgmt noted during its [Q4 earnings](#) call last week that Data Cloud was included in ~25% of the >\$1mn deals and achieved \$400mn ARR, growing at +90% y/y. We would not underestimate the potential headwind to SNOW as Salesforce Data Cloud gains more traction.

We maintain our Neutral rating and \$212 PO for SNOW and our Buy rating and \$360 PO for CRM, both covered by Brad Sills.

U repurchase signals “company reset” continues

What happened: Unity (U) reported [Q4 results on Feb 26](#) and announced on Mar 4 the repurchase of \$480mn of 0% Convertible Senior Notes due 2026 for a repurchase price of \$415mn. Following the expected close of the repurchase on Mar 7, \$1.25bn of the Notes will remain outstanding.

Our Take: We view U's Notes repurchase as an indication that the company intends to continue its “[company reset](#)” by refocusing on core operations and profitability. Phase 1 included cutting headcount and closing offices. Phase 2 will likely include cost structure optimizations, such as the Notes repurchase, and balance sheet management through reduced investment in emerging tech and unprofitable businesses. CEO Whitehurst's recent actions demonstrate his commitment to responsible capital allocation, in our view. We note that the repurchase also reduces refinancing risk in a higher rate environment, given \$30bn+ of software industry debt matures in 2024 and 2025.

We maintain our Buy rating and \$45 PO for U, covered by Mike Funk.

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ARR = Annual Recurring Revenue

KPI = Key Performance Indicator

PO = Price Objective

Rev = Revenue

¹ Netflix initially developed Iceberg Tables in 2018 before donating the project to the Apache Software Foundation. Iceberg Tables launched in Jun'22 and are expected to be become generally available in Jun'24.

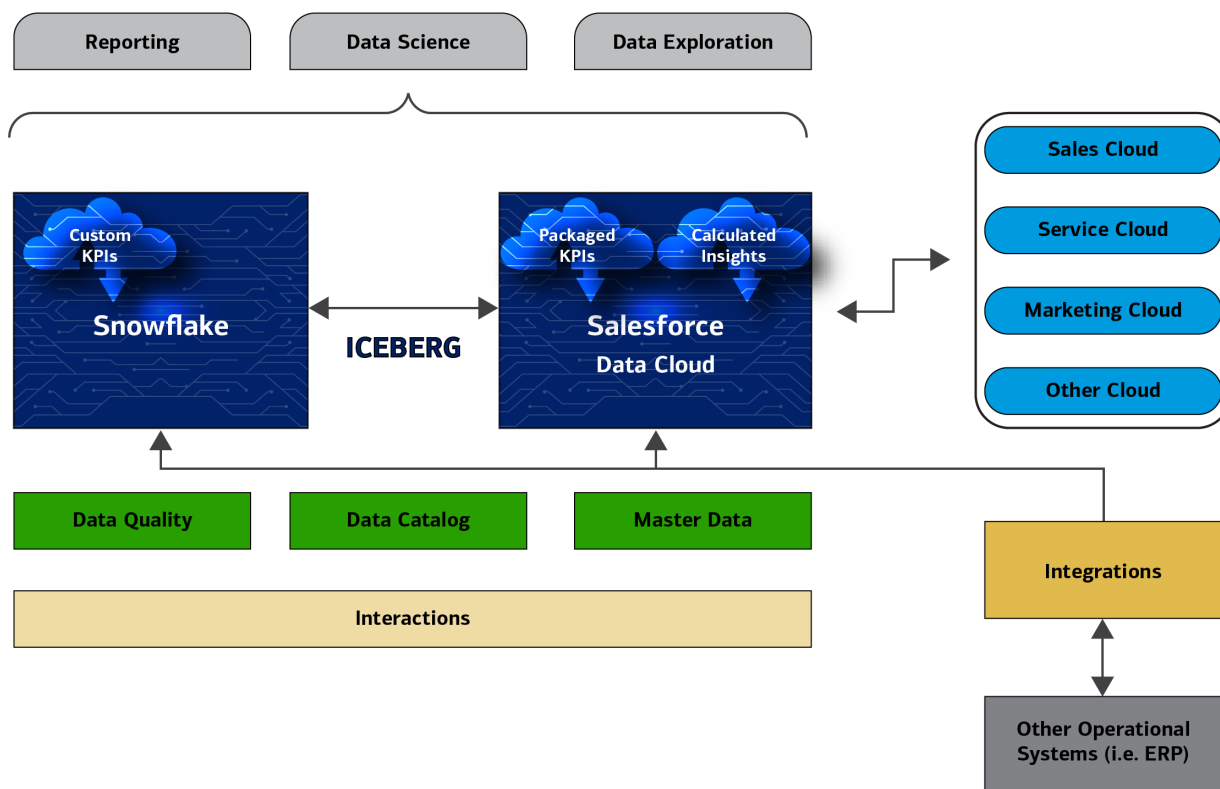
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Timestamp: 06 March 2024 08:52PM EST

Exhibit 1: Iceberg Tables may drive SNOW headwinds/CRM tailwinds due to potential data cloud migrations

Iceberg Table availability (expected Jun'24) has implications for both SNOW and CRM



Source: BofA Global Research

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BOX expands AI capabilities with MSFT partnership

What happened: Box (BOX, not covered), a cloud storage and content management platform, reported Q4 results on Mar 5 and announced an expanded partnership with Microsoft (MSFT), which includes a new integration with Microsoft Azure OpenAI Service (AOS). The AOS integration enables Box AI customers, specifically those in highly-regulated industries, to access advanced AI foundation models, while also providing MSFT's enterprise-grade security, privacy and compliance standards. BOX also announced Box AI's general availability for Enterprise Plus plan customers.

Our Take: BOX's decision to pay-wall its AI capabilities within its Enterprise Plus plans, rather than selling access as a separate product line, strengthens our view that collaboration software vendors are likely to monetize AI indirectly. See our [collaboration software primer](#) for more. Following BOX's Box AI beta rollout to Enterprise Plus plan customers in Nov'23, numerous existing customers have upgraded to gain access. We expect the availability of AI capabilities to drive up-tiering momentum within the space and support pricing-per-seat as competition intensifies, potentially benefiting [Asana \(ASAN\)](#), [Monday.com \(MNDY\)](#) and [Smartsheet \(SMAR\)](#).

We maintain our Buy rating and \$25 PO for ASAN, our Buy rating and \$280 PO for MNDY and our Underperform rating and \$45 PO for SMAR, all covered by Mike Funk.

"While generative AI is still new to the enterprise, we're already seeing significant excitement from customers who want to apply this technology to their content that is already in Box."

–Ben Kus, Box CFO, Mar'24



Exhibit 2: Companies mentioned

Companies mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ASAN	ASAN US	Asana	US\$ 18.45	C-1-9
MSFT	MSFT US	Microsoft	US\$ 402.09	B-1-7
MNDY	MNDY US	Monday.com	US\$ 224.47	C-1-9
CRM	CRM US	Salesforce.com	US\$ 303.77	B-1-9
SMAR	SMAR US	Smartsheet	US\$ 41.42	C-3-9
SNOW	SNOW US	Snowflake	US\$ 167	C-2-9
U	U US	Unity	US\$ 27.06	C-1-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**Asana (ASAN)**

Our \$25 PO is derived from a 6.4x 2025E EV/Revenue target multiple (0.3x growth adjusted). Our growth-adjusted target multiple is in line with the high-growth software group. We believe this is warranted given Asana's multiple levers for long-term growth, partially offset by its lower margin profile.

Downside risks to our PO are: 1) higher than expected layoffs in the tech sector leading to continued pressure on NRR (net revenue retention), 2) slower than expected progress in the company's go-to-market reorientation, and 3) pricing pressure from intensifying competition in the enterprise market.

Microsoft Corporation (MSFT)

Our PO of \$480 is based on an EV/FCF multiple of 43x our C25E free cash flow estimate. The growth-adjusted multiple of 1.8x trades at a premium to the large cap GARP group, which we view as warranted given our view of Microsoft as a leading AI play in software.

Downside risks to our price objective: 1) Microsoft could see some near term gross margin pressure as the Azure business grows as a percentage of overall revenue. While Microsoft's on premise offerings offer a high margin profile, growth in these lines of business is decelerating. 2) Enterprise application spending has proven to be highly cyclical, given the more discretionary nature of applications projects. During an economic slowdown, when firms are faced with shrinking IT budgets, projects involving application upgrades, migrations or new installations are often deferred. This could present a higher degree of risk for a bookings deceleration for Microsoft and other application vendors, in the event of an economic slowdown.

Monday.com (MNDY)

Our \$280 PO is derived from a 10.7x 2025E EV/Revenue target multiple (0.3x growth adjusted). That is a premium to the high growth software and collaboration software peer groups at 8.4x and 5.1x, but in line on a growth-adjusted basis. We think that valuation is merited given MNDY's higher growth profile and margin expansion potential.

Downside risks to our PO: 1) higher-than-expected user churn, 2) slower-than-expected incremental enterprise penetration, 3) weaker-than-expected adoption of recently introduced products, and 4) intensifying competition leading to pricing pressure.

Salesforce.com (CRM)

Our PO of \$360 is based on an EV/FCF multiple of 25x our C25E FCF estimate, representing a growth adjusted multiple of 0.7x. This is a discount to the large cap software group at 1.3x, which we believe is justified for margin expansion.

Downside risks are: 1) Competition from point solutions and platform vendors presents the risk of slowing share gains/share losses if the company fails to continue delivering ongoing roadmap of new features/new modules, 2) Salesforce's history of acquisitions could present a higher degree of execution risk given the need to continuously integrate the technologies and the installed bases of offerings of technology that are not organically built, and 3) enterprise application spending has proven to be highly cyclical, given the more discretionary nature of applications projects - during an economic slowdown, projects involving application upgrades, migrations or new installations are often deferred which could present a higher degree of risk for a bookings deceleration.

Smartsheet (SMAR)

Our \$45 PO is derived from a 4.6x 2025E EV/Revenue target multiple (0.25x growth adjusted). Our growth adjusted multiple of 0.25x is a discount to the high growth software group but relatively in line with the collaboration software peer group. We believe an in line multiple to the collaboration software peer group on an EV/Revenue/Growth basis is warranted given Smartsheet's favorable margin profile and revenue exposure, offset by a lower long-term growth outlook.

Upside risks to our PO are: 1) greater than expected new customer additions, 2) faster than expected improvements in gross user retention and net revenue retention, 3) more rapid adoption than expected of AI-enabled products, and 4) FCF margin expansion ahead of consensus estimates.

Downside risks to our PO are: 1) higher than expected user churn, 2) slower than expected incremental enterprise penetration, and 3) intensifying competition leading to pricing pressure.

Snowflake (SNOW)

Our PO of \$212 is based on EV/sales of 22x our CY25e, or 0.6x our C26E exit revenue growth rate of 28%, in line with the large-cap peers at 0.6x.

Upside risks to our PO: Snowflake recognizes revenue based on actual consumption (versus subscription ratably in arrears). In the event of changes to market sentiment on macro abating and IT spend returning to normal, consumption and revenue growth could quickly reaccelerate which could drive multiple expansion.

Downside risks to our PO: 1) Snowflake trades at a significant premium to its software large-cap peer group. In the event of changes to market sentiment stemming from global macro uncertainty, or potentially disappointing quarterly revenue results, there could be risk of a potential pullback, 2) The company's consumption model implies more revenue volatility than a traditional subscription model, 3) Snowflake serves in a highly competitive market, which consists of deep-pocketed next-gen DBMS vendors, public cloud vendors and legacy DBMS. An inability to execute on a product roadmap for added capabilities could result in slowing share gains or even share losses.

Unity (U)

Our \$45 PO is based on a 11x 2025E EV/Revenue multiple (0.7x 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

We, Alkesh Shah, Brad Sills and Michael J. Funk, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective 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
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	Adobe	ADBE	ADBE US	Brad Sills
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	Asana	ASAN	ASAN US	Michael J. Funk
	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
	Monday.com	MNDY	MNDY US	Michael J. Funk
	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
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
	Vertex, Inc.	VERX	VERX 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

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Smartsheet	SMAR	SMAR US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk

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	Splunk	SPLK	SPLK US	Brad Sills
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Disclosures

Important Disclosures

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}
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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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