

Elastic NV

Good F3Q, subscription revs (ex-monthly) growth accelerates; Reit Buy, \$150 PO

Reiterate Rating: BUY | PO: 150.00 USD | Price: 133.81 USD

Maybe we shouldn't focus so much on just Cloud...

Reiterate Buy and \$150 PO, as F3Q results were good with total revenue 2.5% above, PF operating margins 140bps above our estimates, and guidance raised above the Street. However, the key growth metric, Cloud revenue, grew 29.5% y/y (+29% CC) to \$143.4mn, which is a deceleration from 30.8% (+30% CC) last quarter, and is likely below expectations which could pressure shares in the near-term. Positively, demand commentary and its positioning in the generative AI future sound bullish. This is leading the business to step up its investment profile over the medium-term to capture share, although this will likely lead to less operating margin expansion in FY25 compared to FY24. We continue to be bullish on Elastic's potential to be a long-term share gainer in the search enabled generative AI, observability, and security opportunities. Any weakness should present opportunity. We update our model for F3Q results and guidance.

...Subs revs (ex-Monthly) accelerated. That's a positive.

We recognize that Cloud revenue is viewed as the key growth metric. However, given that the company isn't actively pushing for Cloud over self-managed (although Cloud is preferred), we believe that looking at subscription revenues ex-monthly contributions is a better gauge of fundamental growth. This is because monthly is primarily SMBs, and soft demand there is creating a growth drag. Subscription revs (ex-Monthly) grew 23.6% y/y, which is an acceleration from 21.2% last quarter. Furthermore, net-new subs revs (ex-Monthly) was \$20.6mn, which is \$5.6mn more than the \$15.0mn added last quarter.

Positives: Total revenue growth accelerated

1) Total revenue growth accelerated to 19.4% y/y (+18% CC) from +17.5% (+18% CC) last quarter; 2) total subscription revenue growth accelerated to 20.4% y/y from +19.3% last quarter, 3) added 50 net-new \$100k+ ACV customers, up from 30 last quarter, and 4) operating margin increased 530bps y/y due to good cost controls.

Negatives: NRR compresses to 109%

1) NRR down contracted 1pt sequentially to 109%, and is the straight quarter of sequential contraction in the metric, 2) monthly cloud revenue was 14% of total revenue and declined 1.5% sequentially to \$45.9mn, 3) RPO grew 18% y/y to \$1,176mn, a deceleration from +24% last quarter, and 4) added 100 net-new total customers, 50% lower than the 200 net-new last quarter.

Estimates (Apr) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.33)	0.26	1.16	1.41	1.85
GAAP EPS	(2.20)	(2.47)	0.51	(1.37)	(0.96)
EPS Change (YoY)	-266.7%	NM	346.2%	21.6%	31.2%
Consensus EPS (Bloomberg)			1.13	1.51	2.04
DPS	0	0	0	0	0
Valuation (Apr)					
P/E	NM	514.7x	115.4x	94.9x	72.3x
GAAP P/E	NM	NM	262.4x	NM	NM
EV / EBITDA*	647.1x	202.4x	85.4x	71.7x	57.5x
Free Cash Flow Yield*	0%	0.2%	0.9%	1.2%	1.5%

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

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Timestamp: 29 February 2024 10:03PM EST

29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	1,250.0	1,261.4
2025E Rev (m)	1,449.9	1,476.6
2026E Rev (m)	1,681.2	1,721.4
2024E EPS	1.07	1.16
2025E EPS	1.44	1.41
2026E EPS	2.02	1.85

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Stock Data

Price	133.81 USD
Price Objective	150.00 USD
Date Established	26-Feb-2024
Investment Opinion	C-1-9
52-Week Range	50.21 USD - 136.06 USD
Mrkt Val (mn) / Shares Out (mn)	13,332 USD / 99.6
Free Float	81.8%
Average Daily Value (mn)	179.24 USD
BofA Ticker / Exchange	ESTC / NYS
Bloomberg / Reuters	ESTC US / ESTC.N
ROE (2024E)	21.0%
Net Dbt to Eqty (Apr-2023A)	-162.1%
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".

NRR= net revenue retention

iQprofileSM Elastic NV

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	0.1%	4.0%	5.8%	11.0%	12.3%
Return on Equity	-7.1%	6.3%	21.0%	18.6%	20.7%
Operating Margin	0.1%	4.3%	11.0%	12.0%	13.0%
Free Cash Flow	2	33	120	162	204

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	1.4x	1.0x	1.1x	1.0x
Asset Replacement Ratio	0.2x	0.1x	0.2x	0.4x	0.3x
Tax Rate	NM	NM	141.2%	NM	NM
Net Debt-to-Equity Ratio	-207.9%	-162.1%	-76.2%	-80.8%	-83.5%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	862	1,069	1,261	1,477	1,721
% Change	41.7%	24.0%	18.0%	17.1%	16.6%
Gross Profit	657	803	970	1,140	1,333
% Change	40.0%	22.2%	20.9%	17.5%	16.9%
EBITDA	21	66	157	187	233
% Change	107.3%	219.8%	137.1%	19.1%	24.6%
Net Interest & Other Income	(24)	2	8	4	4
Net Income (Adjusted)	(31)	26	120	153	208
% Change	-288.0%	NM	370.6%	27.1%	36.5%

Free Cash Flow Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(204)	(236)	51	(143)	(103)
Depreciation & Amortization	20	20	18	10	8
Change in Working Capital	(21)	(35)	(60)	(74)	(105)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	210	287	115	372	407
Capital Expenditure	(4)	(3)	(4)	(4)	(2)
Free Cash Flow	2	33	120	162	204
% Change	-91.8%	NM	264.9%	34.5%	26.3%
Share / Issue Repurchase	36	17	29	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	864	647	566	728	932
Trade Receivables	215	261	270	370	427
Other Current Assets	85	367	619	599	640
Property, Plant & Equipment	7	5	5	5	4
Other Non-Current Assets	472	464	705	729	739
Total Assets	1,643	1,743	2,165	2,430	2,742
Short-Term Debt	0	0	0	0	4
Other Current Liabilities	593	717	796	898	994
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	634	628	626	632	636
Total Liabilities	1,227	1,345	1,422	1,530	1,634
Total Equity	415	399	742	900	1,112
Total Equity & Liabilities	1,643	1,743	2,165	2,430	2,746

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

Company Sector

Server & Enterprise Software

Company Description

Elastic is the equivalent of "Google" for enterprises. Elastic is a search company and was founded from an open source project Elasticsearch, and has subsequently added Observability and Security products. Elasticsearch has a strong ecosystem and an open source community that helped foster rapid innovation. The company invested significantly products that fast, scalable, and relevant. The company has 20,000+ customers and caters to a wide range of industry verticals.

Investment Rationale

Elastic is an enterprise software company that provides enterprise search, observability and security products that are designed to make business go faster, more securely with high quality delivery of service. We believe Elastic is disrupting a large \$57bn TAM, and helping solve a pain point that is prevalent across organizations of all sizes across all industries. We believe the business has the ability to grow at an above software industry profile for the foreseeable future.

Stock Data

Average Daily Volume 1,339,503

Quarterly Earnings Estimates

	2023	2024
Q1	-0.15A	0.25A
Q2	0A	0.37A
Q3	0.17A	0.36A
Q4	0.22A	0.18E

Key F3Q metrics

- Total revenue of \$328mn (+19.4% y/y, +18% in cc) exceeded our/Street \$320.1/\$320.4mn prior from strength in Elastic Cloud.
- Cloud revenue of \$143.4mn (+29.5% y/y, +29% in cc) was above our/Street \$140.8mn/\$142.2mn.
- Added another 5 net-new 100k+ ACV customers in F3Q (vs +30 last qtr).
- NRR was 109% in F3Q, down from 110% last quarter, marking the 6th straight quarter of contraction.
- PF OpM of 13.2% was above our/Street 11.8%/11.8%.

Guidance

- FY24 total revenue guidance is raised by \$9-13mn to \$1,260-1,262mn (+18% y/y, +17% in cc) from \$1,247-1,253mn, above our \$1,250mn and in line with the Street at \$1,251.4mn.
- PF OpM guidance is raised by 50bps to 11% from 10.25-10.75%, comparable with our/Street 10.6%/10.6% prior.
- PF EPS guidance is raised by \$0.03-0.09 to a range of \$1.15-1.18 from 1.06-\$1.15 prior, above our \$1.07 and in line with the street at \$1.12.

Exhibit 1: Variance

Elastic Cloud revenue was 1.8% higher than our prior estimate

	\$ in millions		
	BofA Estimate	Actual	Variance
Total Revenue	320,061	327,957	2.5%
Y/Y change %	16.6%	19.4%	288bps
Guidance (mn)			
Elastic Cloud	140,827	143,379	1.8%
Y/Y change %	27.2%	29.5%	230bps
Billings based on CFS	373,668	373,724	0.0%
Y/Y change %	18.8%	18.8%	2bps
Income (Loss) from Operations	37,883	43,311	14.3%
Operating Margin	11.8%	13.2%	137bps
Guidance			
Adjusted EBITDA	42,522	47,383	11.4%
Adjusted EBITDA margin	13.3%	14.4%	116bps
EPS (Pro Forma)	\$0.31	\$0.36	13.8%
Guidance			
Adjusted Cash Flow from Operations	31,684	52,389	39.5%
Adj. OCF margin	9.9%	16.0%	607bps
Adjusted free cash flow	42,084	63,171	33.4%
Adj. FCF margin	13.1%	19.3%	611bps

Source: Company filings, BofA Global Research estimates

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Exhibit 2: Estimate revisions

We now forecast FY2025 Elastic Cloud revenue growth of 23.8%

	4Q24E			FY24E			FY25E			FY26E		
	New BofA Est	Old Estimate	Change %	New BofA Est	Old Estimate	Change %	New BofA Est	Old Estimate	Change %	New BofA Est	Old Estimate	Change %
Total Revenue	329,112	325,567	1.1%	1,261,434	1,249,993	0.9%	1,476,614	1,449,883	1.8%	1,721,391	1,681,203	2.4%
Y/Y change %	17.6%	16.3%	127bps	18.0%	16.9%	107bps	17.1%	16.0%	107bps	16.6%	16.0%	62bps
Guidance (mn)	328-330			1,260-1,262								
Elastic Cloud	146,455	144,877	1.1%	545,995	541,865	0.8%	675,964	663,694	1.8%	811,434	792,451	2.4%
Y/Y change %	30.4%	29.0%	140bps	28.8%	27.8%	97bps	23.8%	22.5%	132bps	20.0%	19.4%	64bps
Billings based on CFS	398,702	402,226	(0.9%)	1,354,213	1,357,681	(0.3%)	1,570,816	1,545,749	1.6%	1,766,924	1,727,540	2.3%
Y/Y change %	11.5%	12.5%	(99bps)	16.3%	16.6%	(30bps)	16.0%	13.9%	214bps	12.5%	11.8%	72bps
Income (Loss) from Operations	24,940	23,669	5.4%	138,590	131,892	5.1%	176,861	181,368	(2.5%)	224,483	243,613	(7.9%)
Operating Margin	7.6%	7.3%	31bps	11.0%	10.6%	44bps	12.0%	12.5%	(53bps)	13.0%	14.5%	(145bps)
Guidance	7.4-7.8%			11%								
Adjusted EBITDA	29,392	28,122	4.5%	156,895	150,765	4.1%	186,885	189,960	(1.6%)	232,907	250,605	(7.1%)
Adjusted EBITDA margin	8.9%	8.6%	29bps	12.4%	12.1%	38bps	12.7%	13.1%	(45bps)	13.5%	14.9%	(138bps)
EPS (Pro Forma)	\$0.18	\$0.14	20.3%	\$1.16	\$1.07	7.4%	\$1.41	\$1.44	(2.0%)	\$1.85	\$2.02	(9.4%)
Guidance	0.18-0.20			1.15-1.18								
Adjusted Cash Flow from Operations	36,787	58,468	(58.9%)	124,601	125,577	(0.8%)	165,418	176,514	(6.7%)	206,812	239,572	(15.8%)
Adj. OCF margin	11.2%	18.0%	(678bps)	9.9%	10.0%	(17bps)	11.2%	12.2%	(97bps)	12.0%	14.3%	(224bps)
Adjusted free cash flow	35,142	56,840	(61.7%)	144,069	144,680	(0.4%)	185,909	196,436	(5.7%)	228,445	260,538	(14.0%)
Adj. FCF margin	10.7%	17.5%	(678bps)	11.4%	11.6%	(15bps)	12.6%	13.5%	(96bps)	13.3%	15.5%	(223bps)

Source: Company filings, BofA Global Research estimates

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Price objective basis & risk

Elastic NV (ESTC)

Our \$150 PO is based on 11.0x EV/C24E revenue multiple, which represents an EV/revenue/growth adjusted multiple of 0.7x, comparable to its infrastructure software peers at 8.4x/0.7x, warranted for its potential growth profile, differentiation, and positioning in the attractive AI opportunity, and balanced against a contracting net revenue retention (NRR) metric.

Risks to our PO are: 1) competition, 2) relatively unproven profitability, 3) M&A could weigh on margins and execution, 4) application spending is highly cyclical, 5) increasing SaaS demand could weigh on gross margins, and 6) conversion ratio to paid subscriptions could decrease.

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
	Asana	ASAN	ASAN US	Michael J. Funk
	BILL	BILL	BILL US	Brad Sills
	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



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	Smartsheet	SMAR	SMAR US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk
	Vertex, Inc.	VERX	VERX US	Brad Sills

RSTR

	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	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

IQmethodSM 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 valuations. 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.

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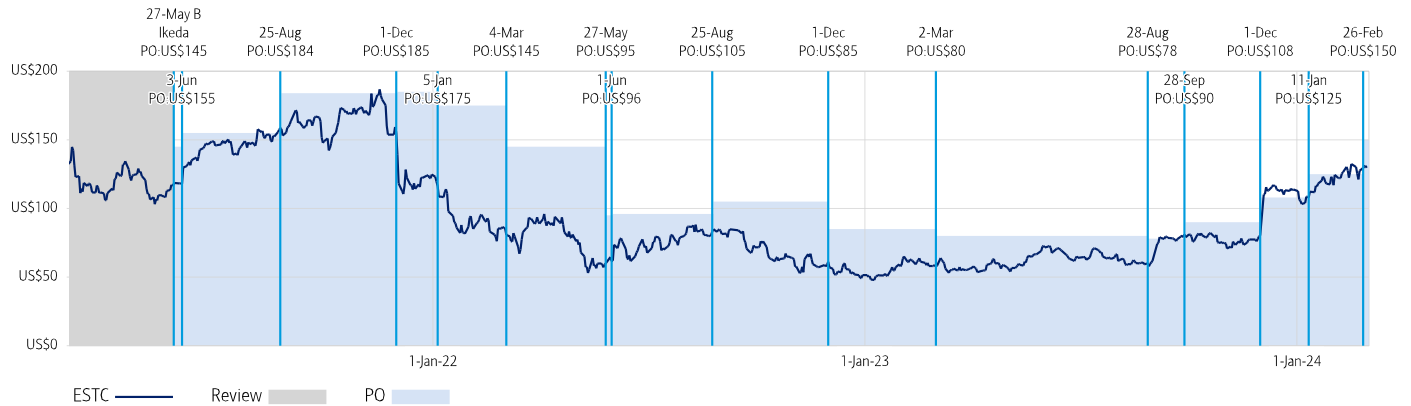
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Disclosures

Important Disclosures

Elastic (ESTC) 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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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%

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