

## Software

## SoftNotes: ADSK/Payapps Deal &amp; SMB Spending Trends

Industry Overview

## ADSK/Payapps acquisition expands construction offering

**What Happened:** Autodesk (ADSK) announced a definitive agreement to acquire Australia-based Payapps, which follows a prior partnership in Sep'22. Financial details of the acquisition have not been disclosed.<sup>1</sup>

**Our Take:** ADSK's acquisition of Payapps further expands its Construction Cloud offering to include a more efficient and transparent payments and compliance management solution. We view ADSK's acquisition as an indication that construction management software vendors, including ADSK, Bentley Systems (BSY) and Procore (PCOR), will remain acquisitive as they look to edge into new categories and potentially take market share from those with less holistic offerings.<sup>2</sup> ADSK's acquisition may ultimately mitigate potential market share loss as competitors expand their own offerings, but we anticipate near-term revenue volatility.<sup>3</sup> Over the longer term, we see the potential for ADSK's acquisition to expand its TAM by enabling a more holistic solution for the traditionally low-margin construction management industry as it transitions away from manual processes.

"Construction companies are looking for ways to increase profitability through cost efficiencies and reduce risks by implementing improved compliance processes. The adoption of back-office technology is becoming more critical to automate what has been historically very time-consuming and error-prone manual processes in managing subcontractor billing."

—Geoff Tarrant, Payapps Executive Chairman, Jan'24

## SMB spending data signals that headwinds remain

**What Happened:** According to the BofA Institute's [most recent report](#), SMB monthly payroll payments rose 1.7% in Dec y/y on a 3-month rolling basis after largely decelerating since the peak in Mar'22 (Exhibit 1). However, the inflow-to-outflow ratio for SMB checking/savings accounts, which provides a comparison of revenues to expenses, fell to 0.93 in Dec'23, relatively unchanged from 0.92 in Dec'22, which marked the lowest ratio in 5 years (Exhibit 2). SMBs, generally defined as businesses with fewer than 1,000 full-time employees, represent approximately half of all US employment and approximately half of all US technology spending, according to McKinsey.

**Our Take:** We view our internal BofA spending data on SMBs as a leading indicator of SMB IT spending, a key growth driver for our software coverage universe, specifically for companies with relatively high SMB exposure, including Intuit (INTU), BILL (BILL), HubSpot (HUBS), Zoom (ZM), Dropbox (DBX) and Lightspeed (LSPD). Our BofA internal data on SMBs reinforces our view that SMB IT budgets may be approaching an inflection point, but will likely remain constrained in 1H24 before reaccelerating in 2H24. See our [Software Year Ahead report](#) for a deep dive on SMB and enterprise spending. See [page 2 for more](#).

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**SMB** = Small and Midsize Business

<sup>1</sup> Payapps is a cloud-based construction management platform that provides payment and compliance management solutions globally. It was the leading construction management software vendor in Australia and the UK and the number two provider in the US behind Oracle-owned Textura.

<sup>2</sup> ADSK also announced partnerships last year with Toric, a construction data analytics platform, and Shepherd, a tech-focused insurance provider.

<sup>3</sup> For example, Procore acquired Levelset in Sep'22 to incorporate a lien rights management solution into its offering.

## SMB spending signals continued...

The small acceleration in Dec's payroll payments is positive, in our view, but potentially driven by wage inflation, rather than headcount expansion due to an improving macro sentiment. The Dec figure may also be potentially misleading, given the 3-month rolling basis masks plateauing growth during Q4'23. We also note that Dec's payroll payments increase remains well below the peak of ~16% growth in Mar'22 y/y on a 3-month rolling basis. [Management commentary during Q3 earnings](#) indicated that continued macro uncertainty and resulting SMB spending deceleration were producing headwinds to growth, but the SMB inflow-to-outflow ratio from our BofA internal data remains near 5-year lows, suggesting that SMB growth headwinds remain.

### Exhibit 1: Payroll payments growth increased in the last few months of 2023

Payroll payments per small business client (3-month moving average (ma), %YoY)

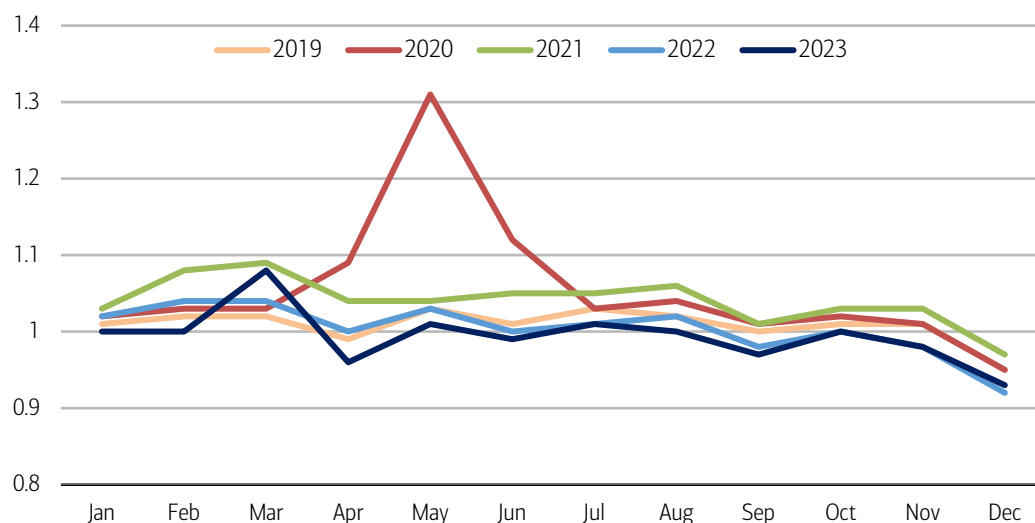


Source: Bank of America Institute

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### Exhibit 2: The inflow-to-outflow ratio for small businesses ticked up slightly compared to last December

Inflow-to-outflow ratio for small businesses, based on Bank of America internal data (monthly, 1+ = inflow greater than outflow)



Source: Bank of America Institute

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**Stocks mentioned**

Prices and ratings for stocks mentioned in this report

<b>BofA Ticker</b>	<b>Bloomberg ticker</b>	<b>Company name</b>	<b>Price</b>	<b>Rating</b>
ADSK	ADSK US	Autodesk	US\$ 43.10	B-2-9
BSY	BSY US	Bentley Systems	US\$ 264.75	B-2-7
BILL	BILL US	BILL	US\$ 203.05	C-1-9
DBX	DBX US	Dropbox	US\$ 57.67	B-1-9
HUBS	HUBS US	HubSpot	US\$ 476.46	C-1-9
INTU	INTU US	Intuit	US\$ 171.47	B-1-7
LSPD	LSPD US	Lightspeed	US\$ 245.12	C-2-9
YLSPD	LSPD CN	Lightspeed	US\$ 229.40	C-2-9
ZM	ZM US	Zoom	US\$ 68.93	C-2-9

**Price objective basis & risk****Autodesk (ADSK)**

Our \$250 PO is based on an EV/EBITDA multiple of 23x our CY24 EBITDA estimate. The 23x multiple is slightly below the design software peer group average of 26x. We believe a slight discount multiple is warranted by a cloudier short-term outlook, partially offset by ADSK's durable business model and favorable margin profile.

Downside risks to our PO are increased competition leading to higher churn, greater than expected headwinds to FCF in association with Autodesk's billing transition, spending reductions in the company's end markets arising from an economic slowdown and lower than expected net subscriber additions.

Upside risks to our PO are better than expected economic activity, greater than projected net subscriber additions and NR3, lower than expected impact of billing transition on FCF and better than expected execution leading to heightened operating margin expansion.

**Bentley Systems (BSY)**

Our PO of \$57 is based on an EV/FCF multiple of 46x our C24 free cash flow estimate, a premium to the SaaS group (40x), which we believe is warranted given strong secular growth drivers and defensive exposure, as well as its high visibility revenue and attractive margin profile.

Downside risks: 1) Premium valuation presents risk of pullback in the event of changes to market sentiment stemming from global macro uncertainty, or potentially disappointing quarterly revenue, 2) prolonged COVID headwinds resulting in slower economic activity and decreased company budgets, 3) ability to drive upsell and cross sell through the installed base, 4) increased competition from Autodesk and vertical-specific vendors resulting in elevated churn, 5) execution issues within growth initiatives such as China and Digital Twins.

**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).

### **Dropbox (DBX)**

Our \$34 PO is based on a weighted bull/base/bear case DCF analysis assigned 25%/50%/25% weights respectively. Our \$34 PO represents a 2024E P/FCF multiple of 12.2x, compared to the less than 10% software growers peer group average of 25.3x. We believe the 12.2x multiple is justified given DBX's revenue visibility and favorable margin profile, but acknowledge a discount to the low growth software group is warranted given DBX's limited growth levers and intensifying competitive environment.

Downside risks to our PO: 1) increased competition leading to greater than expected pricing pressure 2) greater than expected user churn, and 3) slower than expected paying user growth.

### **HubSpot (HUBS)**

Our PO of \$650 is based on an EV/revenue multiple of 10.8x our CY25 revenue estimate. The 10.8x multiple represents an EV/Rev/Growth multiple of 0.5x based on our C25E revenue growth rate of +22% y/y, a slight discount to the large cap group on a growth-adjusted basis, at 0.6x EV/Rev/G (+16% y/y growth).

Risks to our PO are: 1) higher customer attrition rate (low teens) may limit future growth, particularly as the company grows and the dollar attrition amount grows, 2) HubSpot shares trade at a premium to where the software stocks have historically traded, presenting the risk of a pullback, which could occur in the event of changes to market sentiment stemming from the global macro uncertainty, or potentially disappointing quarterly revenue growth, 3) we believe that HubSpot's business has a high degree of exposure to the macro economic cycle, given the company's focus on selling applications into the SMB market segment. Applications projects are discretionary and can be delayed in the event of a shrinking IT budget, unlike projects involving more mission critical infrastructure or security technologies. Also, SMB mortality increases during cyclical downturns, which could affect HubSpot's renewal rate.

### **Intuit (INTU)**

Our PO of \$650 is based on 27x our C25E FCF. It implies 1.4x on a growth-adjusted basis (assuming a normalized 17% CAGR for FCF), a premium to the large cap GARP software peer group average of 1.3x to reflect a more durable growth profile.

Risks to our price objective are a deepening of the macroeconomic slowdown, leading to increased pressure on the SMB business, potential government intervention requiring the tax-filing process be free for all users, increased complications in the tax code driving users to professionals for tax filing, increased focus from competitors in the SMB accounting and payroll space.

### **Lightspeed Commerce Inc. (LSPD / YLSPD)**

Our \$20 USD PO / \$26 CAD PO is based on 5.0x EV/C24E gross profit, or an EV/GP/G of 0.24x, which is a discount to its horizontal software peers at 7.6x/0.5x. We believe a discount multiple is warranted given the risks the company is facing due to recessionary pressure, inflationary pressure, and/ waning consumer demand, along with competition risk, and execution risk around its One Lightspeed strategy.

Risks to an investment in LSPD are 1) macro-sensitivity of the company's customer-base, 2) competition, 3) execution risk while integrating acquisitions, 4) payments adoption, and 5) path to profitability.

**Zoom Video Communications (ZM)**

Our \$90 PO is based on free cash flow multiple of 14.0x and represents a free cash flow yield of 7.1%. The 14.0x multiple is a discount to the less than 20% growth software peer group trading at 32.5x. This discount is warranted based on ZM's weaker visibility with regards to future growth trajectory and an increasingly competitive xCaaS environment.

Upside risks to our price objective are stabilization of the non-enterprise user base, successful penetration of enterprise phone and contact center and acquisition.

Downside risks are greater-than-expected attrition of non-enterprise users, failed M&A, a prolonged economic downturn and heightened competitive pressure.

**Analyst Certification**

We, Brad Sills, Koji Ikeda, CFA 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
<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
	ZoomInfo	ZI	ZI 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
<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
<b>RSTR</b>	Splunk	SPLK	SPLK US	Brad Sills

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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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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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