

Unity

4Q23 Wrap: Pruning for growth

Reiterate Rating: BUY | PO: 45.00 USD | Price: 33.04 USD

Cutting the fat on way to rule of 40

Unity's 4Q23 results mark a clearing event for estimates and strategy. The company has largely completed its strategic review which resulted in the termination of Weta, de-emphasis of Professional Services and exiting the Luna business. Businesses which generated \$283mn in revenue in 2023 at an Adjusted EBITDA loss. The remaining core operations are well positioned to accelerate revenue growth throughout 2024 as China growth headwinds ebb, Industries growth ramps and mobile advertising revenue growth improves. Margin improvement will ramp throughout the year as headcount reductions benefit 2Q to a greater degree than 1Q and the benefits of the Capgemini agreement (close 2Q) emerge. Revenue growth reset from the strategic review and projected operational efficiencies create a strong line of sight to the company's rule of 40 target by year end 2024.

A lot of moving pieces in 4Q clouds results

4Q results were impacted by incremental revenue from the dissolution of Weta FX. Total revenue increased 35% Y/Y including a \$99mn transaction benefit and declined 2% on a pro-forma basis. Create Solutions revenue of \$290mn increased 47% Y/Y and declined -4% on a pro-forma basis excluding incremental revenue from Weta FX. Grow Solutions revenue of \$319mn grew 26% Y/Y and was flat excluding one-time benefits. Management noted the company received \$72mn in customer credits from customers who did not convert to LevelPlay per agreements with ironSource.

Lowering estimates to reflect strategic review

Our estimate changes take into account the company's strategic review, 4Q23 results, and management's guidance for total Strategic Portfolio revenue (which includes the Engine, Cloud and Monetization). While we view FY24 guidance as conservative, we lower our FY24E Adjusted EBITDA estimate to reflect the company's forecast.

Reiterate Buy rating, but lowering PO to \$45

Our new \$45 PO (from \$55) implies a 11.0x 2025 EV/Revenue multiple (we roll our multiple forward), representing 0.7x growth adjusted. Our growth adjusted multiple of 0.7x is a discount to the design software peer group at 0.9x. 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.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.36)	0.96	0.87	1.54	1.92
GAAP EPS	(2.40)	(1.74)	(1.28)	(0.58)	(0.28)
EPS Change (YoY)	-140.0%	NM	-9.4%	77.0%	24.7%
Consensus EPS (Bloomberg)			1.04	1.50	3.17
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	34.4x	38.0x	21.5x	17.2x
EV / EBITDA*	NM	37.0x	40.6x	22.4x	17.5x
Free Cash Flow Yield*	-0.7%	1.1%	2.5%	4.6%	-1.1%

* For full definitions of *IQmethod*SM measures, see page 8.

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	55.00	45.00
2024E Rev (m)	2,430.7	1,806.2
2025E Rev (m)	3,002.2	2,076.6
2026E Rev (m)	NA	2,405.4
2024E EPS	1.49	0.87
2025E EPS	2.06	1.54
2026E EPS	NA	1.92

Michael J. Funk
Research Analyst
BofAS
+1 646 855 5664
michael.j.funk@bofa.com

Matt Bullock
Research Analyst
BofAS
+1 646 556 2903
matthew.bullock2@bofa.com

Stock Data

Price	33.04 USD
Price Objective	45.00 USD
Date Established	27-Feb-2024
Investment Opinion	C-1-9
52-Week Range	22.20 USD - 50.08 USD
Mkt Val (mn) / Shares Out (mn)	15,656 USD / 473.8
Free Float	68.6%
Average Daily Value (mn)	310.01 USD
BofA Ticker / Exchange	U / NYS
Bloomberg / Reuters	U US / U.N
ROE (2024E)	12.4%
Net Dbt to Eqty (Dec-2023A)	32.8%

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](#)".

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Refer to important disclosures on page 9 to 11. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

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iQprofileSM Unity

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-1.4%	6.6%	6.4%	11.1%	13.2%
Return on Equity	-4.5%	12.7%	12.4%	21.8%	25.1%
Operating Margin	-6.0%	20.5%	23.9%	36.8%	41.1%
Free Cash Flow	(117)	179	388	716	(167)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	0.5x	1.1x	1.1x	-0.1x
Asset Replacement Ratio	0.3x	0.1x	0.2x	0.2x	0.3x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	32.6%	32.8%	22.4%	0.6%	4.7%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,391	2,187	1,806	2,077	2,405
% Change	25.3%	57.2%	-17.4%	15.0%	15.8%
Gross Profit	1,058	1,801	1,490	1,731	2,019
% Change	19.0%	70.3%	-17.3%	16.2%	16.7%
EBITDA	(71)	448	409	741	947
% Change	-246.1%	NM	-8.7%	81.2%	27.9%
Net Interest & Other Income	0	35	17	17	0
Net Income (Adjusted)	(138)	454	417	750	957
% Change	-166.9%	NM	-8.1%	79.7%	27.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(919)	(826)	(611)	(284)	(140)
Depreciation & Amortization	212	564	444	406	413
Change in Working Capital	77	(176)	127	138	(944)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	571	673	501	549	611
Capital Expenditure	(57)	(56)	(72)	(93)	(108)
Free Cash Flow	-117	179	388	716	-167
% Change	24.0%	NM	117.2%	84.4%	NM
Share / Issue Repurchase	(437)	(174)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,485	1,590	1,973	2,689	2,521
Trade Receivables	634	612	539	580	697
Other Current Assets	246	123	107	116	138
Property, Plant & Equipment	122	141	174	222	277
Other Non-Current Assets	5,347	4,778	4,330	3,991	3,661
Total Assets	7,834	7,243	7,123	7,597	7,294
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,010	894	907	1,106	287
Long-Term Debt	2,707	2,712	2,712	2,712	2,712
Other Non-Current Liabilities	362	223	181	203	237
Total Liabilities	4,080	3,829	3,824	4,034	3,260
Total Equity	3,754	3,414	3,304	3,569	4,040
Total Equity & Liabilities	7,834	7,243	7,129	7,603	7,300

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Server & Enterprise Software

Company Description

Unity Software provides a platform for creating and operating interactive, real-time 3D (RT3D) content with creators from different verticals including gaming (mobile, PC, console), art and architectural and automotive design. Unity's solution allows creators to develop, run, monetize and fully operate real-time 2D and 3D content for mobile phones, PCs, tablets, consoles, and augmented and virtual reality devices.

Investment Rationale

Improved monetization of U's industry leading mobile game creation engine paired with a stabilizing mobile game advertising market create a compelling risk-reward profile, in our view. With well-understood idiosyncratic execution and integration risks abating, we expect the stock to re-rate higher.

Stock Data

Average Daily Volume

9,382,866

Quarterly Earnings Estimates

	2023	2024
Q1	0.07A	0.10E
Q2	0.20A	0.21E
Q3	0.28A	0.25E
Q4	0.40A	0.31E

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Management noted the company received \$72mn in customer credits from customers who did not convert to LevelPlay per agreements with ironSource. Management introduced FY24 Strategic Portfolio revenue guidance of \$1,760mn-\$1,800mn (+2%-4%) and Adjusted EBITDA guidance of \$400mn-\$425mn.

Exhibit 1: Unity reported 4Q23 revs above our estimate due to one-time benefits from Weta

Unity 4Q23 variance analysis

\$ in Thousands (except per share data)	BofA Estimates	4Q23 Actuals	Variance
Revenues			
Total revenue	\$553	\$609	10.1%
Total cost of revenues	\$102	\$87	-15%
Gross profit	\$452	\$523	16%
Operating expenses			
R&D	\$152	\$154	0.9%
S&M	\$116	\$123	6.2%
G&A	\$61	\$60	-1.3%
Total operating expense	\$329	\$337	2%
Income/(Loss) from operations	\$122	\$186	52%
Other income (expense), net	\$4	\$15	253%
Income before taxes	\$126	\$200	58%
Income tax expense	\$6	\$10	55%
Pro forma net income	\$120	\$191	59%
Pro forma EPS	\$0.25	\$0.40	59%
GAAP Net Income	(\$162)	(\$254)	NA
GAAP EPS	(\$0.34)	\$(0.53)	NA
Growth Analysis Y-Y			
Create solutions	-2.0%	-5.8%	NA
Grow Solutions	42.0%	-100.0%	-338%
Total revenue	22.7%	35.1%	55%
Margin Analysis			
Gross margin	81.6%	85.8%	5%
Research and development	27.5%	25.2%	-8%
Sales and marketing	21.0%	20.3%	-3%
General and administrative	11.0%	9.9%	-10%
Operating margin	22.1%	30.5%	38%
Net Margin	21.7%	31.3%	44%
BS & CFS			
Total cash and equiv.	\$1,680	\$1,590	-5%
Cash Flow from Operations	201	72	-64%
Free Cash Flow	179	61	-66%

Source: BofA Global Research, company filings

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Exhibit 2: We lower our estimates to reflect U's strategic review, results, and guidance

Unity estimate revisions

	1Q24E				2024E				2025E			
	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth
Total revenue	\$565	13.0%	\$435	-13.0%	\$2,431	14.0%	\$1,806	-17.4%	\$3,002	23.5%	\$2,077	15.0%
Adjusted EBITDA	\$130	301.3%	48	46.9%	\$727	NM	\$409	NM	\$1,025	168%	\$741	65.4%

Source: BofA Global Research

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Exhibit 3: We expect Strategic revenue of \$1,783mn in FY24

Unity Income statement

	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23A	2023A	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
	Dec-21	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Dec-24	Dec-25	Dec-26
Create (Strategic)			114	125	125	128	492	125	129	135	149	537	630	724
% Y/Y								10%	3%	8%	17%	9.3%	17%	15%
Q/Q				10%	0%	2%		-2%	3%	5%	10%			
Grow (Strategic)			304	327	314	296	1,241	293	298	313	342	1,246	1,447	1,681
% Y/Y								-4%	-9%	0%	16%	0.4%	16%	16%
Q/Q				8%	-4%	-6%		-1%	2%	5%	9%			
Non-Strategic revenue								18	5	-	-	23	-	-
Total strategic revenue			418.0	452.0	439.0	423.0	1,732.0	417.5	427.1	448.4	490.2	1,783.2	2,076.6	2,405.4
Total revenue								435.5	432.1	448.4	490.2	1,806.2	2,076.6	2,405.4
Total revenues	1,110.5	1,391.0	500.4	533.5	544.2	609.3	2,187.3	435.5	432.1	448.4	490.2	1,806.2	2,076.6	2,405.4
Y/Y rev growth	43.8%	25.3%	56.3%	79.6%	68.5%	35.1%	57.2%	-13.0%	-19.0%	-17.6%	-19.5%	-17.4%	15.0%	15.8%
Cost of Revenue	221.1	332.9	106.4	99.2	93.7	86.6	385.8	78.4	75.6	77.6	84.3	315.9	345.6	385.9
% Revenue	19.9%	23.9%	21.3%	18.6%	17.2%	18.4%	17.6%	18.0%	17.5%	17.3%	17.2%	17.5%	16.6%	16.0%
Gross Profit	889.4	1,058.1	394.0	434.3	450.5	522.7	1,801.5	357.1	356.5	370.9	405.9	1,490.3	1,731.0	2,019.5
% Gross Margin	80.1%	76.1%	78.7%	81.4%	82.8%	85.8%	82.4%	82.0%	82.5%	82.7%	82.8%	82.5%	83.4%	84.0%
Operating expenses														
Research and Development	476.6	576.0	173.0	158.5	148.8	153.5	633.8	148.1	125.3	116.6	122.5	512.5	447.2	462.6
% Revenue	42.9%	41.4%	34.6%	29.7%	27.3%	25.2%	29.0%	34.0%	29.0%	26.0%	25.0%	28.4%	21.5%	19.2%
Sales and Marketing	256.1	340.9	130.2	120.9	111.0	123.5	485.6	108.9	95.1	94.2	93.1	391.2	369.1	396.3
% Revenue	23.1%	24.5%	26.0%	23%	20%	20.3%	22.2%	25.0%	22.0%	21.0%	19.0%	21.7%	17.8%	16.5%
General and Administrative	198.9	224.7	58.4	56.1	59.7	60.1	234.3	47.9	32.4	35.9	39.2	155.4	150.5	172.6
% Revenue	17.9%	16.2%	11.7%	10.5%	11.0%	9.9%	10.7%	11.0%	7.5%	8.0%	8.0%	8.6%	7.2%	7.2%
Total operating expense	931.7	1,141.7	361.5	335.5	319.6	337.1	1,353.7	304.8	252.8	246.6	254.9	1,059.2	966.8	1,031.6
% Revenue	83.9%	82.1%	72.3%	62.9%	58.7%	55.3%	61.9%	70.0%	58.5%	55.0%	52.0%	58.6%	46.6%	42.9%
Income/(Loss) from operations	(42.3)	(83.6)	32.5	98.7	131.0	185.6	447.8	52.3	103.7	124.2	151.0	431.2	764.3	987.9
Adj EBITDA	(20.5)	(71.0)	32.5	98.7	131.0	185.6	447.8	47.7	98.8	117.8	144.4	408.7	740.6	947.3
Interest and other income, net	0.4	(0.2)	7.5	2.9	9.9	14.7	34.9	4.2	4.2	4.2	4.2	16.7	16.7	0.0
Income/(Loss) before taxes	(41.9)	(83.8)	39.9	101.7	140.8	200.3	482.8	56.4	107.9	128.4	155.1	447.8	780.9	987.9
Income tax expense	9.7	27.8	6.2	4.8	7.8	9.7	28.5	7.1	7.3	8.0	8.0	30.5	31.0	31.2
Tax Rate (pro forma)	-23.2%	33.2%	15.5%	4.7%	5.5%	4.8%	5.9%	12.6%	6.8%	6.2%	5.2%	7%	4%	3%
Adj. Net Income	(51.6)	(111.6)	33.7	96.9	133.1	190.6	454.3	49.3	100.5	120.4	147.1	417.3	749.9	956.7
Non-GAAP EPS	(\$0.18)	(\$0.36)	\$0.07	\$0.20	\$0.28	\$0.40	\$0.96	\$0.10	\$0.21	\$0.25	\$0.31	\$0.87	\$1.54	\$1.92
Basic Share Count -- Adj	282.2	310.5	375.9	380.4	383.7	381.8	380.5	384.3	386.8	389.3	391.8	388.0	398.0	408.0
Diluted Share Count -- Adj	334.2	382.5	475.0	473.8	470.6	481.6	475.3	474.0	476.5	479.0	481.5	477.8	487.8	497.8

Source: BofA Global Research, company filings

Exhibit 4: Unity ended 2023 with \$1.85bn in cash and equivalents

Unity balance sheet

	2021A	2022A	2023A	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
	Dec-21	Dec-22	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Dec-24	Dec-25	Dec-26
Current assets										
Cash & Cash Equivalents	1,056	1,485	1,590	1,854	1,940	1,941	1,973	1,973	2,689	2,521
Marketable Securities	681	102	0	0	0	0	0	0	0	0
Accounts Receivable	340	634	612	479	475	493	539	539	580	697
Prepaid Expenses and other current assets	74	144	123	101	95	98	107	107	116	138
Total current assets	2,151	2,365	2,325	2,434	2,510	2,533	2,619	2,619	3,384	3,356
Property, Plant and Equipment, net	106	122	141	149	156	165	174	174	222	277
Operating lease right-of-use assets	98	0	0	0	0	0	0	0	0	0
Goodwill	1,620	3,201	3,166	3,166	3,166	3,166	3,166	3,166	3,166	3,166
Intangible Assets, net	814	1,922	1,407	1,306	1,204	1,103	1,002	1,002	641	280
Other Assets	40	224	205	179	177	170	162	162	184	215
Restricted Cash	11	0	0	0	0	0	0	0	0	0
Total assets	4,841	7,834	7,243	7,232	7,215	7,137	7,123	7,123	7,597	7,294
Current liabilities										
Accounts payable	14	20	15	25	21	21	22	22	17	22
Accrued liabilities	145	326	308	268	230	227	237	237	243	266
Publisher payable	238	446	385	519	540	455	386	386	558	0
Income and Other Taxes Payable	65	0	0	0	0	0	0	0	0	0
Deferred Revenue	141	218	187	221	256	248	261	261	288	0
Current Portion of Operating Lease Liabilities	24									
Total current liabilities	626	1,010	894	1,033	1,047	952	907	907	1,106	287
Long-Term Debt	1,719	2,707	2,712	2,712	2,712	2,712	2,712	2,712	2,712	2,712
Long-Term deferred revenue		103	6	6	6	6	6	6	6	6
Operating Lease Liabilities	93	0	0	0	0	22	25	25	14	24
Other Long-Term Liabilities	10	259	217	155	154	160	175	175	197	231
Total liabilities	2,447	4,080	3,829	3,906	3,919	3,852	3,824	3,824	4,034	3,260
Total stockholders' equity	2,394	3,754	3,414	3,333	3,302	3,292	3,304	3,304	3,569	4,040
Total liabilities and shareholder equity	4,841	7,834	7,243	7,232	7,215	7,137	7,123	7,123	7,597	7,294

Source: BofA Global Research, company filings

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Exhibit 5: Unity generated \$235mn in CFO during 2023

Unity cash flow statement

	2021A	2022A	2023A	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
	Dec-21	Dec-22	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Dec-24	Dec-25	Dec-26
Net Income	(532.7)	(919.5)	(826.3)	(207.8)	(150.1)	(133.2)	(119.8)	(610.9)	(284.0)	(140.1)
Depr. & Amortization	64.6	211.6	563.9	110.8	110.6	110.9	111.8	444.1	406.0	413.2
Stock-based compensation expense	334.5	550.065	648.7	126.3	118.8	123.3	132.3	500.8	548.8	611.4
Stock-based compensation expense in connection with certain employees	12.7	0.0	0.0					0.0	0.0	0.0
Loss on disposition of property and equipment / other	13.8	21.4	24.6					0.0	0.0	0.0
Changes in Working Capital Accounts	(4.4)	77.0	(176.2)	257.7	23.9	(81.6)	(73.4)	126.6	138.2	(944.1)
Accounts receivable	(65.2)	(9.5)	21.8	132.7	3.7	(18.0)	(45.9)	72.5	(40.9)	(116.4)
Prepaid expenses	(6.8)	(21.7)	20.3	22.2	5.3	(2.8)	(8.7)	16.0	(8.8)	(22.8)
Other assets	(6.6)	36.3	45.0	26.1	1.4	6.7	8.7	42.9	(21.8)	(31.0)
Accounts payable	2.0	(17.6)	(6.3)	10.4	(3.6)	(0.3)	1.0	7.5	(5.1)	4.6
Accrued expenses and other current liabilities	34.6	(1.0)	(21.1)	(39.4)	(38.4)	(2.9)	10.5	(70.3)	5.6	22.7
Publisher Payable	55.4	(50.2)	(60.5)	133.8	21.6	(85.1)	(69.0)	1.3	172.1	(558.5)
Income and other taxes payable	(1.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating lease liabilities	(26.5)	0.0	0.0	0.0	0.0	22.4	2.1	24.5	(10.7)	10.5
Deferred revenue	15.8	166.8	(128.2)	34.0	35.0	(7.5)	13.1	74.6	26.1	(287.5)
Other long-term liabilities	(3.3)	(26.0)	(47.2)	(61.9)	(1.2)	5.8	14.9	(42.5)	21.8	34.2
Total Cash Flow from Operating Activities	(111.5)	(59.4)	234.7	287.0	103.3	19.4	50.9	460.6	809.0	(59.7)
Capital Expenditures	(41.9)	(57.1)	(55.9)	(17.4)	(17.3)	(17.9)	(19.6)	(72.2)	(93.1)	(107.7)
Purchase of marketable securities	(420.7)	(150.9)	(0.2)					0.0	0.0	0.0
Proceeds from principal repayments on marketable securities		71.7	102.7					0.0	0.0	0.0
Maturities/sale of marketable securities		752.1	0.0					0.0	0.0	0.0
Purchase of non-marketable securities		(15.0)	(2.5)					0.0	0.0	0.0
Sale of non-marketable securities		1.0	0.0					0.0	0.0	0.0
Business combinations, net of cash acquired	(1,374.7)	121.5	0.0					0.0	0.0	0.0
			0.0					0.0	0.0	0.0
Total Cash Flow from Investing Activities	(1,837.4)	723.2	44.0	(17.4)	(17.3)	(17.9)	(19.6)	(72.2)	(93.1)	(107.7)
Payment of debt issuance costs	(22.6)	(0.4)	0.0					0.0	0.0	0.0
Proceeds from issuance of convertible preferred stock, net of issuance costs	1,725.0	1,000.0	0.0					0.0	0.0	0.0
Proceeds from issuance of common stock	0.0	7.0	76.0					0.0	0.0	0.0
Capital contribution from non-controlling int		210.3	0.0					0.0	0.0	0.0
Repurchase and extinguishment of convertible preferred stock	0.0	0.0	0.0					0.0	0.0	0.0
Purchases and retirement of treasury/common stock	0.0	(1,500.0)	(250.0)					0.0	0.0	0.0
Proceeds from exercise of stock options	66.7	56.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchased of capped calls	(48.1)	0.0	0.0					0.0	0.0	0.0
Changes in Financing Activities	1,721.0	(226.6)	(174.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency Adjustments	0.5	1.9	(6.1)							
Net increase in cash, cash equivalents and restricted cash	(227.4)	439.1	98.6	269.5	86.0	1.5	31.3	388.3	716.0	(167.4)
Cash, cash equivalents and restricted cash at beginning of the period	1,293.9	1,066.6	1,505.7	1,604.3	1,873.8	1,959.8	1,961.3	1,604.3	1,992.6	2,708.6
								1,992.	2,708.	2,541.
Cash, cash equivalents and restricted cash at end of the period	1,066.6	1,505.7	1,604.3	1,873.8	1,959.8	1,961.3	1,992.6	6	6	2
Restricted cash	10.8	0.0	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9
Cash and Cash equivalents	1,056.1	1,505.7	1,584.4	1,853.9	1,939.9	1,941.4	1,972.7	1,972.7	2,688.7	2,521.3

Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH



Price objective basis & risk

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

I, Michael J. Funk, 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
	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	YCOV	COV CN	Koji Ikeda, CFA
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

	Splunk	SPLK	SPLK US	Brad Sills
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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

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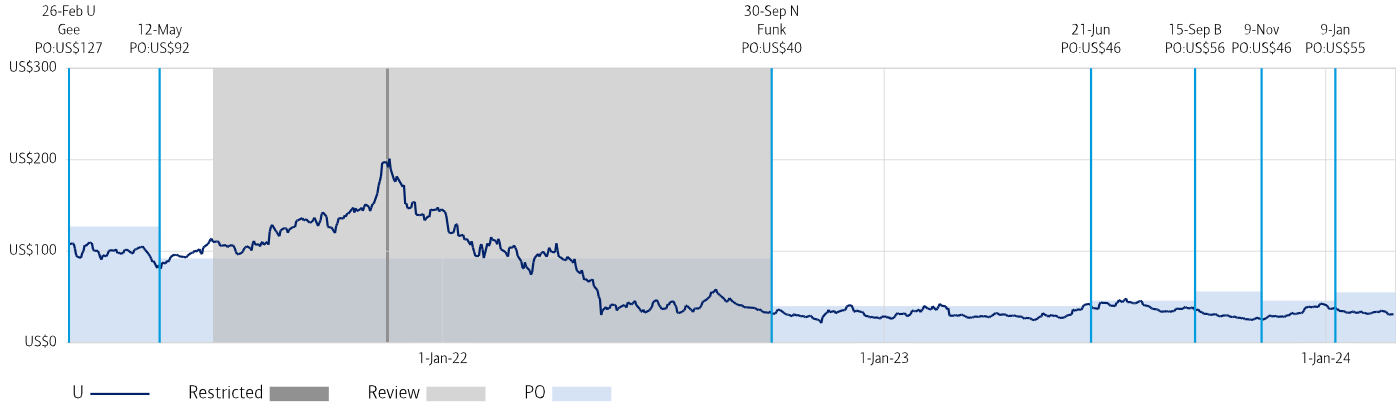
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Important Disclosures

Unity (U) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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%

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