

Dynatrace

Perform '24 takeaways: Checks positive, value prop appears to be resonating

Maintain Rating: BUY | PO: 60.00 USD | Price: 57.90 USD

Come away positive, more confident in our LT bull thesis

Maintain Buy, \$60 PO, after attending its annual customer conference, Perform in Las Vegas. We come away positive on: 1) its position to take share of future cloud migration driven workloads, 2) overall product vision around its observability, Grail platform, and AppSec functionality, and 3) its potential as consolidator of enterprise observability spend onto its platform. We believe the business is properly positioned to drive durable 20%+ ARR growth with expanding operating margins and healthy free cash flow generation over the medium-term

Checks positive, competitive takeaways uncovered

At Perform, we spoke with two dozen customers, prospects, and partners, and our key takeaway is that the demand environment appears to have improved for Dynatrace. We uncovered multiple competitive takeaways from legacy and next-gen observability vendors, suggesting Dynatrace's vision is resonating. Its technology differentiation was stated many times as a core driver to switch to Dynatrace. Moreover, driving high ROI and cost savings were also mentioned as contributing factors when choosing Dynatrace. The checks increase our confidence the business will deliver good results next week.

Introduces AI-stack observability, among others

New products announced include: 1) OpenPipeline, a large scale data ingestion cost management tool, 2) Data Observability for Analytics & Automation, which can natively screen for data anomalies and issues, and cleanse data, and 3) AI Observability that can monitor next-gen AI tech stacks, such as GPUs, AI models (LLMs and others), vector databases, and orchestration frameworks. We believe the new product announcements have the potential to become healthy growth drivers over time.

Runecast acquisition expands the value proposition

Earlier on Monday (1/29), Dynatrace announced the intent to acquire Runecast, a vendor of AI-powered security and compliance solutions for hybrid/multi-cloud environments. The addition of Runecast should enhance the platform value prop and could accelerate growth of AppSec, which may result in the \$100mn ARR by end of FY25 target being achieved faster. Financial terms were not disclosed, and it's expected to close in F4Q24. Runecast was founded in 2014, has roughly 70 employees, and is based in London, UK.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.68	0.97	1.11	1.22	1.40
GAAP EPS	0.18	0.38	0.40	0.43	0.55
EPS Change (YoY)	7.9%	42.6%	14.4%	9.9%	14.8%
Consensus EPS (Bloomberg)			1.11	1.27	1.52
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	85.1x	59.7x	52.2x	47.5x	41.4x
GAAP P/E	321.7x	152.4x	144.8x	134.7x	105.3x
EV / EBITDA*	63.2x	52.3x	40.6x	33.5x	28.1x
Free Cash Flow Yield*	1.4%	2.0%	1.9%	2.3%	2.9%

* For full definitions of *IQmethod*SM measures, see page 5.

01 February 2024

Equity

Koji Ikeda, CFA
Research Analyst
BofAS
+1 415 913 2106
koji.ikeda@bofa.com

George McGreehan
Research Analyst
BofAS
+1 415 913 4315
george.mcgreehan@bofa.com

Natalie Howe
Research Analyst
BofAS
+1 415 436 1103
natalie.howe@bofa.com

Stock Data

Price	57.90 USD
Price Objective	60.00 USD
Date Established	2-Nov-2023
Investment Opinion	C-1-9
52-Week Range	37.21 USD - 59.96 USD
Mrkt Val (mn) / Shares Out (mn)	16,704 USD / 288.5
Free Float	81.6%
Average Daily Value (mn)	120.11 USD
BofA Ticker / Exchange	DT / NYS
Bloomberg / Reuters	DT US / DT.N
ROE (2024E)	18.0%
Net Dbt to Eqty (Mar-2023A)	-34.6%
ESGMeter™	Medium

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ARR: annual recurring revenue

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Timestamp: 01 February 2024 01:00PM EST

iQprofileSM Dynatrace

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.4%	15.4%	17.1%	15.6%	15.3%
Return on Equity	16.0%	19.2%	18.0%	16.7%	16.3%
Operating Margin	25.2%	25.2%	27.0%	27.3%	27.5%
Free Cash Flow	233	333	317	389	485

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.3x	1.0x	1.1x	1.1x
Asset Replacement Ratio	0.3x	0.4x	0.3x	0.2x	0.2x
Tax Rate	26.8%	NM	13.6%	20.0%	20.0%
Net Debt-to-Equity Ratio	-14.5%	-34.6%	-42.0%	-49.6%	-56.7%
Interest Cover	27.9x	NA	NA	NA	NA

Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	929	1,159	1,414	1,675	1,986
% Change	32.1%	24.6%	22.0%	18.4%	18.6%
Gross Profit	786	971	1,195	1,425	1,699
% Change	31.2%	23.5%	23.1%	19.3%	19.2%
EBITDA	252	304	392	475	566
% Change	15.5%	20.7%	28.9%	21.2%	19.1%
Net Interest & Other Income	(8)	4	28	20	20
Net Income (Adjusted)	193	279	329	382	454
% Change	7.1%	44.5%	17.8%	16.1%	19.1%

Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	52	108	117	135	178
Depreciation & Amortization	57	55	54	59	66
Change in Working Capital	53	92	(26)	(59)	(41)
Deferred Taxation Charge	(12)	(54)	(35)	0	0
Other Adjustments, Net	101	154	225	268	298
Capital Expenditure	(18)	(22)	(19)	(13)	(16)
Free Cash Flow	233	333	317	389	485
% Change	12.9%	42.9%	-4.9%	22.9%	24.6%
Share / Issue Repurchase	39	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(120)	(283)	0	0	0

Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	463	555	861	1,250	1,735
Trade Receivables	351	443	398	519	687
Other Current Assets	135	120	231	312	365
Property, Plant & Equipment	45	54	53	66	81
Other Non-Current Assets	1,548	1,594	1,659	1,681	1,718
Total Assets	2,541	2,765	3,201	3,828	4,586
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	866	1,037	1,075	1,244	1,454
Long-Term Debt	274	0	0	0	0
Other Non-Current Liabilities	97	123	75	63	74
Total Liabilities	1,237	1,160	1,150	1,307	1,528
Total Equity	1,304	1,605	2,051	2,520	3,058
Total Equity & Liabilities	2,541	2,765	3,201	3,828	4,586

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Server & Enterprise Software

Company Description

Dynatrace provides a unified application and infrastructure monitoring platform for enterprises. Dynatrace is used by sales, marketing, C-suite, IT application support, IT infrastructure support, and DevOps, standing out as the enterprise leader in the monitoring and observability market.

Investment Rationale

We believe Dynatrace is poised for multiple years of high growth in a large and expanding market. Moreover, high margins create a compelling well above the average financial profile. Dynatrace has a very unique artificial intelligence (AI)-based technology platform that is difficult to replicate, in our view.

Stock Data

Average Daily Volume

2,074,523

Quarterly Earnings Estimates

	2023	2024
Q1	0.18A	0.27A
Q2	0.22A	0.31A
Q3	0.25A	0.28E
Q4	0.31A	0.25E

Price objective basis & risk

Dynatrace (DT)

Our \$60 PO is based on 48.9x EV/C24E FCF, a premium to infrastructure software peers at 42.1x, which we think is warranted given our strong revenue forecast and good execution in F2Q24.

For comparison purposes, our \$60 PO implies 10.8x EV/C24E revenue compared to its infrastructure peers at 7.6x.

Downside risks: macroeconomic downturn, increase in competition, ability to hire direct sales reps at a healthy clip, ability to expand into adjacent markets, and ability to sustain high R&D innovation.

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.

Special Disclosures

BofA Securities is currently acting as Financial Advisor to Dynatrace Inc., in connection with its proposed acquisition of Runecast Solutions, which was announced on 29 January 2024.

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
	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



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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
	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
	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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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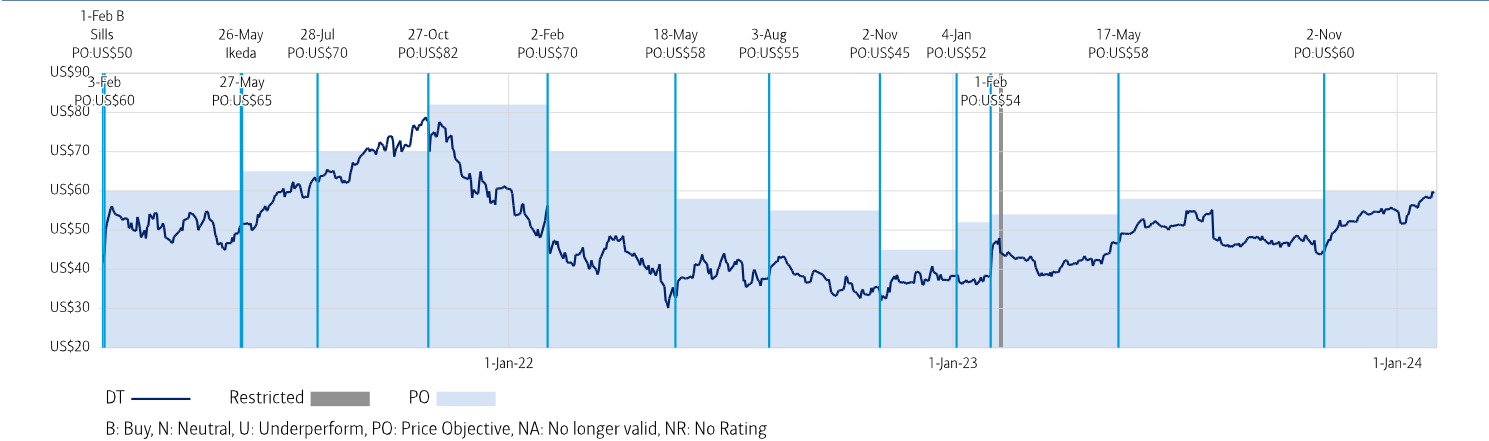
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Dynatrace (DT) Price Chart



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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%

^{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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