

Confluent

Better Q4 from platform deals; unchanged FY24 outlook reflects sales transition

Reiterate Rating: UNDERPERFORM | PO: 28.00 USD | Price: 24.29 USD

Backlog deceleration not as severe as expected

Confluent reported overall healthy Q4 results, with revenue upside (+4%) from platform deal strength. cRPO growth moderated only slightly (to 29% y/y from 31% in Q3), though on a 15% point easier comparison, underscoring a still tough macro weighing on growth. FY24 guidance for 22% growth is unchanged, reflecting headwinds from the transition to consumption go-to-market model in H1 with some reacceleration expected in H2. The outlook for breakeven margin in FY24 is also unchanged.

Encouraged by platform deal strength

Q4 subscription revenue upside suggests somewhat improving consumption trend and good execution on closing larger platform deals, which carry an upfront revenue recognition component (20%). Platform strength also drove better than expected cRPO deceleration (29% versus 31% in Q3). We are encouraged by platform deal strength, though we question the sustainability of this as a growth driver, given the move to the cloud and the sales incentive change moving to less upfront commitment.

Though transition and macro weighing on cloud growth

Cloud is the key growth driver, which decelerated to 46% from 61% on a 10% point easier comparison. Also, customer net adds of 50 compares to 290 in Q4FY22. These metrics suggest that the tough environment is still weighing on growth. Commentary suggests that sales incentive changes are tracking to expectation. However, the outlook for breakeven margin in FY24 on a larger revenue base suggests that sales efficiency gains are not expected until the H2 reacceleration.

Raising PO, though reiterate U/P pending growth reaccel

In summary, we are encouraged by platform deal strength. However, leading indicators suggest that the sales incentive transition and current macro are likely to continue weighing on near term growth. We are raising our PO to \$28 from \$24 to reflect platform revenue upside, though we reiterate our Underperform rating pending better visibility for improving growth. Our new PO is based on EV/sales of 6.5x our C25e (5.5x prior), or 0.3x adjusted for 25% growth (0.2x prior), a discount to the mid-cap software group at 0.4x 17% growth, reflecting lower profitability.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.58)	0.04	0.17	0.35	0.47
GAAP EPS	(1.62)	(1.47)	(0.92)	(0.67)	(0.48)
EPS Change (YoY)	33.3%	NM	325.0%	105.9%	34.3%
Consensus EPS (Bloomberg)			0.17	0.32	0.49
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	607.3x	142.9x	69.4x	51.7x
EV / EBITDA*	NM	NM	876.5x	124.6x	72.3x
Free Cash Flow Yield*	-2.0%	-1.4%	0%	0.4%	1.3%

* For full definitions of *IQmethod*SM measures, see page 7.

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Timestamp: 07 February 2024 10:23PM EST

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	24.00	28.00
2024E Rev (m)	936.4	950.1
2025E Rev (m)	1,177.4	1,189.4
2026E Rev (m)	NA	1,492.1
2024E EPS	0.24	0.17
2025E EPS	0.36	0.35
2026E EPS	NA	0.47

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Stock Data

Price	24.29 USD
Price Objective	28.00 USD
Date Established	7-Feb-2024
Investment Opinion	C-3-9
52-Week Range	14.69 USD - 41.22 USD
Mkt Val (mn) / Shares Out (mn)	8,610 USD / 354.5
Free Float	86.2%
Average Daily Value (mn)	108.57 USD
BofA Ticker / Exchange	CFLT / NAS
Bloomberg / Reuters	CFLT US / CFLT.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	-234.5%
ESGMeter TM	NLA

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".

cRPO = current remaining performance obligation

RPO = remaining performance obligation

iQprofileSM Confluent

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-8.1%	-2.7%	0%	2.9%	4.9%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	-30.2%	-7.4%	0%	5.5%	8.0%
Free Cash Flow	(172)	(124)	(1)	38	108

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	-7.9x	0.4x	0.6x	0.8x
Asset Replacement Ratio	1.9x	1.5x	2.1x	2.1x	2.1x
Tax Rate	NM	NM	0.5%	1.5%	2.7%
Net Debt-to-Equity Ratio	-250.4%	-234.5%	-244.6%	-220.1%	-195.0%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	586	777	950	1,189	1,492
% Change	51.1%	32.6%	22.3%	25.2%	25.5%
Gross Profit	417	586	717	890	1,106
% Change	54.7%	40.4%	22.4%	24.1%	24.3%
EBITDA	(169)	(43)	11	79	137
% Change	-7.8%	74.3%	NM	603.7%	72.4%
Net Interest & Other Income	20	76	54	54	54
Net Income (Adjusted)	(161)	13	55	123	178
% Change	0.9%	NM	324.6%	120.9%	45.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(453)	(443)	(298)	(236)	(184)
Depreciation & Amortization	8	14	11	14	18
Change in Working Capital	(32)	(56)	(72)	(117)	(118)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	320	381	382	406	430
Capital Expenditure	(14)	(21)	(24)	(30)	(38)
Free Cash Flow	-172	-124	-1	38	108
% Change	-50.7%	27.6%	99.2%	NM	186.9%
Share / Issue Repurchase	48	49	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	1,927	1,901	1,901	1,939	2,048
Trade Receivables	178	230	269	334	420
Other Current Assets	93	121	120	144	181
Property, Plant & Equipment	29	54	67	83	103
Other Non-Current Assets	118	155	95	112	139
Total Assets	2,345	2,461	2,451	2,612	2,890
Short-Term Debt	NA	0	0	0	0
Other Current Liabilities	424	487	470	506	591
Long-Term Debt	NA	0	0	0	0
Other Non-Current Liabilities	1,151	1,163	1,204	1,225	1,249
Total Liabilities	1,575	1,650	1,674	1,731	1,840
Total Equity	769	810	777	881	1,050
Total Equity & Liabilities	2,345	2,461	2,451	2,612	2,890

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Server & Enterprise Software

Company Description

Confluent (NASDAQ: CFLT) is a data infrastructure vendor providing data integration to highly scalable and mission critical applications, systems, and data sources for applications requiring real time connectivity to multiple systems simultaneously. Confluent was founded in 2014 by Jay Kreps (who currently serves as the CEO), Jun Rao, and Neha Narkhede, the original creators of Apache Kafka. Confluent is headquartered in Mountain View, California.

Investment Rationale

Confluent's advantages - 1) large & active open source Kafka community, 2) ease of use, 3) enterprise grade scalability, security & data governance, 4) interoperability, 5) multi-cloud deployment options, 6) referenceable customer base - are offset by the niche nature of the addressable streaming data market which presents limitations to long-term expansion. Confluent currently operates in a rule of low 20s with limited visibility for timing of reacceleration and profitability. Underperform.

Stock Data

Average Daily Volume 4,469,710

Quarterly Earnings Estimates

	2023	2024
Q1	-0.09A	0E
Q2	0A	0.02E
Q3	0.02A	0.06E
Q4	0.10A	0.08E

Earnings recap

Confluent reported Q4 total revenue of \$213.2 million (+26% y/y) exceeding our \$204.5 million, with subscription revenue of \$202.8 million (+31% y/y) exceeding our \$189.5mn. cRPO of \$591 million (+29% y/y) and current bookings of \$269 million (+22% y/y) were slightly below our \$601 million and \$270 million. Total net revenue retention (NRR) was slightly above 125%. Q3 cloud revenue was above expectation (\$100 million reported versus \$97.5 million guided). The company now has 4,960 total customers (+9% y/y), up from 4,910 in the 3Q23 and 4,530 in FY22, with 1,229 customers (+21% y/y) each contributing >\$100K in ARR, versus 1,184 in 2Q23 and 1,015 in FY22. Operating margin of 5.3% easily exceeded our 0.4% from disciplined expense management.

Management provided 1Q24 revenue guidance of \$211.5 million at the mid (+21% y/y), versus our prior \$210 million (20% y/y) and FY24 revenue of \$950 million (+22% y/y), versus the prior implied \$936 million (+22% y/y). The revenue guidance assumes some headwinds from the consumption transition in 1H24 with reacceleration opportunity in the second half. Lastly, 1Q24 operating margin guidance of -4% compares to our prior -4.9%, driven by continued prudent expense management. Management reiterated the breakeven target for operating margin and now expects FCF to breakeven in FY24.

Exhibits/model

Exhibit 1: Variance

Total revenue came in 4% ahead of expectation

\$ in thousands (except per share data)	BofA Estimates	3Q23 Actuals	Variance
Revenues			
Confluent Platform	\$92,069	\$102,787	12%
Confluent Cloud	\$97,447	\$100,000	3%
Subscription revenues	\$189,516	\$202,787	7%
Professional services	\$14,991	\$10,397	-31%
Total revenues	\$204,507	\$213,184	4%
COGS	\$50,604	\$47,930	-5%
Gross profit	\$153,903	\$165,254	7%
Operating expenses			
Sales and marketing	\$90,359	\$87,429	-3%
Research and development	\$43,854	\$46,135	5%
General and administrative	\$18,789	\$20,441	9%
Total operating expense	\$153,002	\$154,005	1%
Income/(Loss) from operations	\$901	\$11,249	1148%
Growth Analysis Y-Y			
Total revenues	21.2%	26.4%	24%
Gross profit	25.1%	34.3%	37%
Margin Analysis			
Gross margin	75.3%	77.5%	3%
Sales and marketing	44.2%	41.0%	-7%
Research and development	21.4%	21.6%	1%
General and administrative	9.2%	9.6%	4%
Operating margin	0.4%	5.3%	5%
GAAP Tax Rate	-5.5%	-49.6%	NA
Tax rate - pro forma	16.4%	5.3%	-67%
Net income Margin	7.9%	15.1%	90%
Key Metrics			
RPO	\$925,214	\$919,900	-1%
cRPO	\$601,389	\$591,496	-2%
Bookings	\$305,621	\$308,984	1%
Current bookings	\$270,231	\$269,015	0%
Balance Sheet & Cash Flow Analysis			
Total cash and equiv.	\$1,910,808	\$1,900,770	-1%
Cash Flow from Operations	\$43,324	\$12,235	-72%
Free Cash Flow	\$39,214	\$6,820	-83%

Source: BofA Global Research, company filing

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Exhibit 2: Estimates

We expect FY24 total revenue to grow at 22.3% y/y (slightly above our prior 21.9% y/y estimate)

	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
Confluent Platform	\$90,151	3.7%	\$93,794	7.8%	\$382,976	3.6%	\$418,811	10.1%	\$394,804	3.1%	\$466,684	11.4%
Confluent Cloud	\$104,135	41.5%	\$105,309	43.1%	\$494,427	42.8%	\$488,262	40.0%	\$716,217	44.9%	\$674,237	38.1%
Subscription revenues	\$194,286	21.0%	\$199,103	24.0%	\$877,403	22.6%	\$907,073	24.4%	\$1,111,021	26.6%	\$1,140,921	25.8%
Professional services	\$15,452	12.5%	\$12,362	-10.0%	\$58,988	12.5%	\$43,056	-10.0%	\$66,361	12.5%	\$48,438	12.5%
Total revenues	\$209,738	20.3%	\$211,465	21.3%	\$936,391	21.9%	\$950,129	22.3%	\$1,177,382	25.7%	\$1,189,359	25.2%
RPO	\$963,961	29.8%	\$962,372	29.6%	\$1,216,185	31.4%	\$1,201,538	30.6%	\$1,616,512	32.9%	\$1,582,417	31.7%
cRPO	\$626,574	31.2%	\$618,805	29.6%	\$790,520	31.4%	\$772,589	30.6%	\$1,050,733	32.9%	\$1,017,494	31.7%
Bookings	\$248,484	41.0%	\$253,937	44.1%	\$1,227,362	28.8%	\$1,231,767	28.8%	\$1,577,709	28.5%	\$1,570,239	27.5%
Current bookings	\$234,923	22.0%	\$238,774	24.0%	\$1,125,522	23.6%	\$1,131,222	24.4%	\$1,437,594	27.7%	\$1,434,265	26.8%
Proforma net income	\$8,541	n/a	\$827	n/a	\$76,213	n/a	\$55,482	n/a	\$124,780	n/a	\$122,586	n/a
Pro forma EPS	\$0.03	n/a	\$0.00	n/a	\$0.24	n/a	\$0.17	n/a	\$0.36	n/a	\$0.35	n/a

Source: BofA Global Research, company filing

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Exhibit 3: Comp sheet

The mid cap software group is trading at 5.6x C25e or 0.4x on a growth adjusted basis

Company name		Last 11/01/23	Mkt Cap (\$mn)	Ent. Value (\$mn)	2023 Sales	2024 Sales	2025 Sales	2023 Rev Growth	2024 Rev Growth	2025 Rev Growth	EV/2023 Sales	EV/2024 Sales	EV/2025 Sales	2023 EV/Rev/ Growth	2024 EV/Rev/ Growth	2025 EV/Rev/ Growth
Mid Cap																
BILL	BILL HOLDINGS INC	\$74.93	8,004	7,269	1,172	1,296	1,574	37%	11%	21%	6.2x	5.6x	4.6x	0.2x	0.5x	0.2x
CFLT	CONFLUENT INC-CLASS A	\$24.29	7,916	7,130	768	936	1,177	31%	22%	26%	9.3x	7.6x	6.1x	0.3x	0.3x	0.2x
DBX	DROPBOX INC-CLASS A	\$32.89	11,380	12,332	2,498	2,580	2,680	7%	3%	4%	4.9x	4.8x	4.6x	0.7x	1.5x	1.2x
DOCU	DOCUSIGN INC	\$51.31	10,675	9,920	2,747	2,918	3,128	9%	6%	7%	3.6x	3.4x	3.2x	0.4x	0.5x	0.4x
ESTC	ELASTIC NV	\$125.50	12,863	11,897	1,204	1,390	1,623	17%	15%	17%	9.9x	8.6x	7.3x	0.6x	0.6x	0.4x
FIVN	FIVE9 INC	\$74.74	5,282	5,377	912	1,061	1,253	17%	16%	18%	5.9x	5.1x	4.3x	0.3x	0.3x	0.2x
FRSH	FRESHWORKS INC-CL A	\$21.15	6,831	5,671	596	707	838	20%	19%	19%	9.5x	8.0x	6.8x	0.5x	0.4x	0.4x
GLBE	GLOBAL-E ONLINE LTD	\$39.59	7,085	6,854	567	752	1,016	39%	33%	35%	12.1x	9.1x	6.7x	0.3x	0.3x	0.2x
GTLB	GITLAB INC-CL A	\$72.75	11,996	11,007	574	712	916	35%	24%	29%	19.2x	15.5x	12.0x	0.5x	0.6x	0.4x
GWRE	GUIDEWIRE SOFTWARE INC	\$115.40	9,427	9,153	927	1,035	1,169	7%	12%	13%	9.9x	8.8x	7.8x	1.5x	0.8x	0.6x
INFA	INFORMATICA	\$30.20	8,956	9,978	1,580	1,627	1,752	5%	3%	8%	6.3x	6.1x	5.7x	1.3x	2.1x	0.7x
NICE	NICE LTD - SPON ADR	\$217.14	14,516	13,607	2,375	2,599	2,898	9%	9%	12%	5.7x	5.2x	4.7x	0.6x	0.6x	0.4x
PATH	UIPATH INC - CLASS A	\$23.48	13,314	11,561	1,286	1,587	1,953	22%	23%	23%	9.0x	7.3x	5.9x	0.4x	0.3x	0.3x
PAYC	PAYCOM SOFTWARE INC	\$199.03	11,390	11,125	1,694	1,871	2,107	23%	10%	13%	6.6x	5.9x	5.3x	0.3x	0.6x	0.4x
PCTY	PAYLOCITY HOLDING CORP	\$168.30	9,573	9,337	1,291	1,523	1,783	29%	18%	17%	7.2x	6.1x	5.2x	0.3x	0.3x	0.3x
TWLO	TWILIO INC - A	\$69.71	13,050	9,882	4,127	4,384	4,819	8%	6%	10%	2.4x	2.3x	2.1x	0.3x	0.4x	0.2x
U	UNITY SOFTWARE INC	\$32.52	10,662	12,016	2,131	2,431	3,002	53%	14%	24%	5.6x	4.9x	4.0x	0.1x	0.4x	0.2x
ZI	ZOOMINFO TECHNOLOGIES INC				1,234	1,253	1,333	12%	2%	6%	5.6x	5.5x	5.2x	0.5x	3.5x	0.8x
Average					3,187	3,566	4,047	20%	14%	17%	7.7x	6.7x	5.6x	0.5x	0.8x	0.4x
Median					1,580	1,627	1,953	17%	15%	17%	6.4x	6.0x	5.3x	0.4x	0.5x	0.4x

Source: BofA Global Research, Bloomberg

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Price objective basis & risk

Confluent (CFLT)

Our PO of \$28 is based on an EV/Revenue multiple of 6.5x our C25 revenue estimate. The 6.5x multiple represents an EV/Revenue/Growth multiple of 0.3x, at a discount to the midcap group trading at 0.4x C25e growth averaging 17% for lower margin profile.

Downside risks: 1) Confluent shares trade at a premium to the software group on an EV/revenue basis. This premium presents the risk of a pullback, which could occur in the event of changes to market sentiment stemming from global macro uncertainty or potentially disappointing quarterly revenue growth. 2) It has high exposure to cyclical trends of application software spend. Enterprise application software has proven to be highly cyclical, during an economic slowdown when firms are faced with shrinking IT budgets, application upgrades, migrations, or new installations are often deferred, which could present a high degree of risk for bookings deceleration. 3) Confluent competes in a market with deep pocketed vendors, such as the top three cloud hyperscaler (AWS, Azure, and GCP), which may decide to invest more aggressively against the emerging data-in-motion/event stream processing opportunity.

Upside risks: 1) Confluent Cloud operates in a consumption model (versus typical SaaS subscription). 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

Analyst Certification

I, Brad Sills, 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
	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



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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
	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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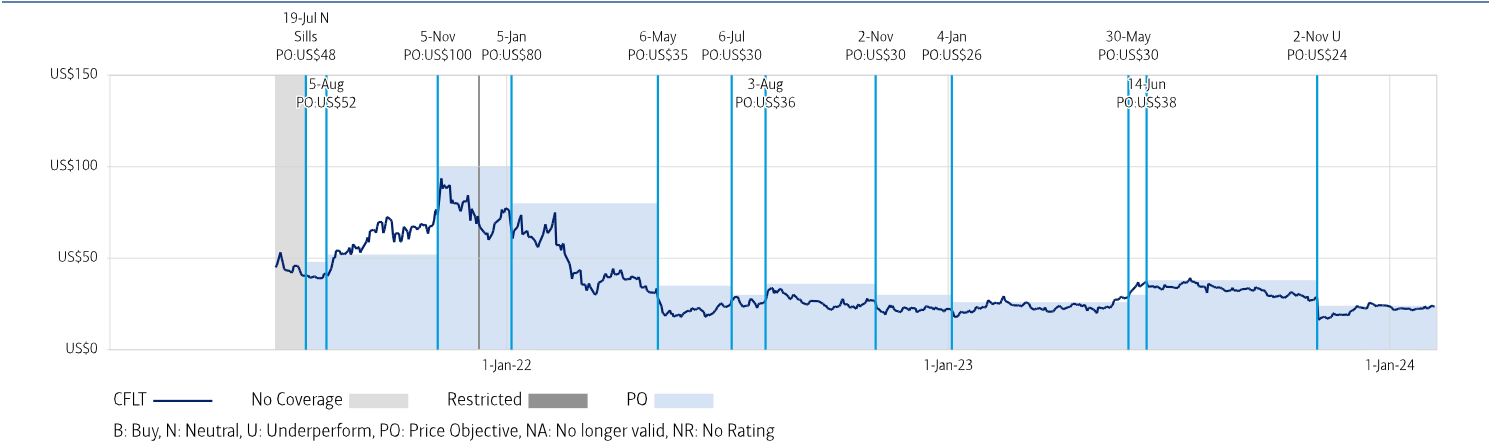
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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

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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