

Snowflake Inc. (SNOW)

Stable Core Plus Emerging AI Vectors Could Support Re-Rating Higher

Buy CL

SNOW

12m Price Target: **\$220.00**

Price: **\$125.46**

Upside: **75.4%**

We reiterate our Buy rating (on CL) and \$220 Price Target after attending Snowflake's BUILD Conference (11/12). We came away more optimistic on Snowflake's ability to emerge as a key enabler of AI-native applications while reinforcing its strategic relevance to Enterprises in core data use cases. Competition from Hyperscalers/Databricks is discounted in the current stock price, evidenced by 64 pp. of underperformance vs. NASDAQ (YTD). Less than 1-year under the new CEO, product innovation velocity has accelerated dramatically (see Summit 2024), with notable and long-awaited BUILD announcements including: 1) Unistore (GA on AWS), supporting the development of lightweight transactional apps that unlocks the OLTP Database TAM, 2) New Cortex AI features simplifying conversational app development, from multi-modal support to integrations with third-party unstructured data sources to RAG enablement and AI Observability, 3) Document AI (GA) for information extraction to derive insights from unstructured data sources, and 4) Innovations against core DW opportunity, including Open Catalog (Apache Iceberg), features to better manage storage costs and compliance (Storage Lifecycle Policies), and augmentations to native code conversion tooling from legacy relational systems (via SnowConvert). We believe that as the narrative regarding the strategic position of Snowflake as having a solid and durable core growth business coupled with upside in AI crystallizes, the stock could re-rate higher vs. 12x Rule-of 50+ peers (ADBE, DDOG, NOW, TEAM, MNDY). Furthermore, we believe the re-rating of TEAM in the last quarter demonstrates how powerful a clear narrative can be in terms of valuation driver. We look to F3Q earnings (11/20) as the next potential positive catalyst for the stock assuming Snowflake can deliver a +3-4% Product Revenue beat (implying +26-27% Product Revenue growth) vs. Consensus (compared to +2% beat in F2Q) coupled with a guide-up on F4Q

Kash Rangan

+1(215)249-7318 | kash.rangan@gs.com
Goldman Sachs & Co. LLC

Matthew Martino

+1(212)902-0695 | matt.martino@gs.com
Goldman Sachs & Co. LLC

Selina Zhang

+1(212)357-9979 | selina.zhang@gs.com
Goldman Sachs & Co. LLC

Gili Naftalovich

+1(917)343-4286 | gili.naftalovich@gs.com
Goldman Sachs & Co. LLC

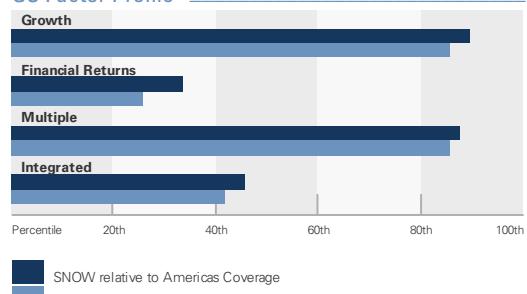
Key Data

Market cap: \$45.1bn
Enterprise value: \$42.0bn
3m ADTV: \$774.0mn
United States
Americas Software
M&A Rank: 3
Americas Conviction List

GS Forecast

	1/24	1/25E	1/26E	1/27E
Revenue (\$ mn)	2,806.5	3,519.0	4,281.4	5,161.5
EBITDA (\$ mn)	349.6	293.5	429.7	646.8
EBIT (\$ mn)	229.7	107.2	258.4	466.9
EPS (\$)	0.97	0.57	0.91	1.37
P/E (X)	169.7	NM	137.9	91.9
EV/EBITDA (X)	143.5	132.8	91.3	60.7
FCF yield (%)	1.4	2.1	2.8	3.4
Dividend yield (%)	—	—	—	—
Net debt/EBITDA (X)	(11.0)	(10.6)	(8.1)	(6.8)
	7/24	10/24E	1/25E	4/25E
EPS (\$)	0.18	0.16	0.10	0.21

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
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**Snowflake Inc. (SNOW)**

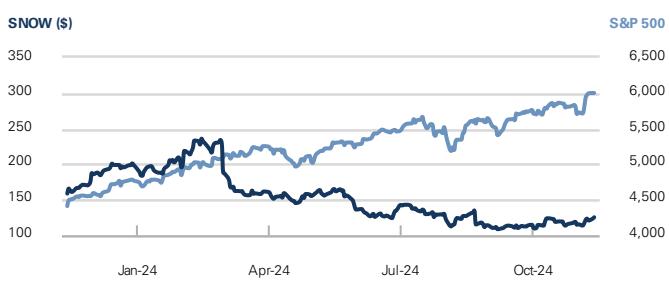
Rating since May 14, 2021

Ratios & Valuation

	1/24	1/25E	1/26E	1/27E
P/E (X)	169.7	NM	137.9	91.9
EV/EBITDA (X)	143.5	132.8	91.3	60.7
EV/sales (X)	17.9	11.1	9.2	7.6
FCF yield (%)	1.4	2.1	2.8	3.4
EV/DACF (X)	163.4	196.9	145.4	90.9
CROCI (%)	7.7	6.4	11.0	22.7
ROE (%)	6.6	4.7	10.3	17.7
Net debt/EBITDA (X)	(11.0)	(10.6)	(8.1)	(6.8)
Net debt/equity (%)	(74.1)	(87.3)	(115.8)	(154.2)
Interest cover (X)	NM	NM	NM	NM
Inventory days	NM	NM	NM	NM
Receivable days	106.8	101.3	92.5	85.7
Days payable outstanding	19.0	29.3	34.7	34.0

Growth & Margins (%)

	1/24	1/25E	1/26E	1/27E
Total revenue growth	35.9	25.4	21.7	20.6
EBITDA growth	120.1	(16.0)	46.4	50.5
EPS growth	188.2	(41.2)	59.4	50.1
DPS growth	NM	NM	NM	NM
Gross margin	74.2	72.2	71.9	72.4
EBIT margin	8.2	3.0	6.0	9.0

Price Performance

Source: FactSet. Price as of 12 Nov 2024 close.

Income Statement (\$ mn)

	1/24	1/25E	1/26E	1/27E
Total revenue	2,806.5	3,519.0	4,281.4	5,161.5
Cost of goods sold	(723.6)	(979.9)	(1,201.0)	(1,427.0)
SG&A	(1,241.1)	(1,520.0)	(1,763.4)	(2,035.9)
R&D	(612.1)	(911.9)	(1,058.5)	(1,231.7)
Other operating inc./exp.)	—	—	—	—
EBITDA	349.6	293.5	429.7	646.8
Depreciation & amortization	(119.9)	(186.4)	(171.3)	(179.8)
EBIT	229.7	107.2	258.4	466.9
Net interest inc./exp.)	200.7	200.1	197.2	232.3
Income/(loss) from associates	—	—	—	—
Pre-tax profit	475.3	278.0	455.6	699.3
Provision for taxes	(123.6)	(72.1)	(118.4)	(181.8)
Minority interest	—	—	—	—
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	351.7	205.9	337.1	517.4
Net inc. (post-exceptionals)	(838.0)	(1,386.3)	(1,536.4)	(1,616.0)
EPS (basic, pre-except) (\$)	1.07	0.61	0.99	1.49
EPS (diluted, pre-except) (\$)	0.97	0.57	0.91	1.37
EPS (ex-ESO exp., dil.) (\$)	--	--	--	--
DPS (\$)	—	—	—	—
Div. payout ratio (%)	0.0	0.0	0.0	0.0
Wtd avg shares out. (basic) (mn)	328.0	335.4	340.5	347.8
Wtd avg shares out. (diluted) (mn)	362.2	360.9	370.5	378.8

Balance Sheet (\$ mn)

	1/24	1/25E	1/26E	1/27E
Cash & cash equivalents	1,762.7	1,167.6	1,547.7	2,448.5
Accounts receivable	926.9	1,027.0	1,142.0	1,282.5
Inventory	—	—	—	—
Other current assets	2,349.6	2,211.3	2,186.9	2,160.5
Total current assets	5,039.3	4,405.9	4,876.6	5,591.5
Net PP&E	499.6	518.8	553.8	600.2
Net intangibles	1,307.3	1,211.2	1,122.7	1,038.3
Total investments	916.3	697.4	697.4	697.4
Other long-term assets	460.9	484.3	511.5	532.9
Total assets	8,223.4	7,317.6	7,761.9	8,760.3
Accounts payable	51.7	105.6	122.5	143.6
Short-term debt	—	—	—	—
Current lease liabilities	33.9	42.9	87.1	144.1
Other current liabilities	2,645.6	3,212.7	3,914.7	4,741.0
Total current liabilities	2,731.2	3,361.2	4,124.3	5,028.7
Long-term debt	—	—	—	—
Non-current lease liabilities	254.0	324.4	514.0	718.7
Other long-term liabilities	47.5	62.5	105.6	161.7
Total long-term liabilities	301.6	386.9	619.5	880.4
Total liabilities	3,032.8	3,748.1	4,743.8	5,909.1
Preferred shares	—	—	—	—
Total common equity	5,180.3	3,560.9	3,009.5	2,842.6
Minority interest	10.3	8.6	8.6	8.6
Total liabilities & equity	8,223.4	7,317.6	7,761.9	8,760.3
BVPS (\$)	14.33	9.89	8.15	7.53

Cash Flow (\$ mn)

	1/24	1/25E	1/26E	1/27E
Net income	(838.0)	(1,386.3)	(1,536.4)	(1,616.0)
D&A add-back	119.9	186.4	171.3	179.8
Minority interest add-back	—	—	—	—
Net (inc)/dec working capital	390.7	585.8	878.0	1,029.8
Others	1,175.5	1,519.0	1,785.0	2,049.0
Cash flow from operations	848.1	934.0	1,297.8	1,642.7
Capital expenditures	(98.0)	(58.1)	(117.7)	(141.9)
Acquisitions	(275.7)	(8.9)	—	—
Divestitures	—	—	—	—
Others	1,205.9	276.8	—	—
Cash flow from investing	832.3	209.8	(117.7)	(141.9)
Dividends paid	—	—	—	—
Share issuance/(repurchase)	(591.7)	(1,516.3)	(800.0)	(600.0)
Inc/(dec) in debt	—	—	—	—
Others	(265.8)	(222.6)	—	—
Cash flow from financing	(857.5)	(1,738.9)	(800.0)	(600.0)
Total cash flow	822.8	(595.1)	380.1	900.8
Free cash flow	750.2	875.9	1,180.1	1,500.8
Free cash flow per share (basic) (\$)	2.29	2.61	3.47	4.31

Source: Company data, Goldman Sachs Research estimates.

Product Revenue growth to +21-22% (vs. Street at +20.8%). We believe this would position Snowflake well to deliver an initial FY26 Product Revenue guide of at least 20%, with upside nodes as the year progresses from a healthy core opportunity overlaid with growing contributions from emerging AI and non-AI products and features (Cortex AI, Document AI, Snowpark Container Services, Native Apps, Iceberg Tables).

Our Thesis

Given the company's strong competitive positioning, we continue to view Snowflake as well positioned to capitalize on a generational shift of data and analytics to the cloud, with strong secular tailwinds including cloud adoption, big data, AI/ML, and secure data sharing which we expect will drive durable growth for the foreseeable future. As we have seen dominant vendors emerge in SaaS, IaaS, and PaaS, we believe Snowflake is well positioned to capitalize on the shift in data and database to the cloud, which remains in relatively early stages. We believe Snowflake will continue to replace incumbent warehousing solutions owing to its scalable and elastic cloud native data platform, while also capitalizing on net new workloads and use cases as DX drives greater digitization within the enterprise, and business intelligence (BI) and analytics remains a top priority for spending. Moreover, while we believe the company's current large and rapidly growing TAM provides runway for continued expansion, we see opportunity for Snowflake to continue to expand its addressable market as the platform's scalability, ease of use, and efficiency enable new use cases like secure data sharing through the company's data exchange.

Key Trends Driving the SNOW Platform

We believe Snowflake's cloud native data platform remains well positioned to take share from incumbent data warehousing solutions and will continue to capitalize on long-term secular growth drivers as enterprises grapple with analyzing large and growing volumes of data across disparate sources. Relative to the competition, our customer conversations point to ease of use and maintenance, elasticity and scalability, the ability to support global multi-cloud deployments, and the ability to facilitate secure data sharing as key differentiators of Snowflake's Cloud Data Platform. While our industry conversations point to Snowflake's heritage as a data warehouse addressing the \$12bn relational data warehouse market, as the cloud data platform has continued to expand alongside new use cases and the growing importance of business intelligence and analytics more broadly, we believe Snowflake will continue to expand its opportunity set over time.

SNOW Through the Lens of the GS Framework for Investing in Software

Across our framework for investing in software, we note that Snowflake screens well on a variety of areas, including addressing a large and growing TAM. As the company continues to expand its cloud data platform and enable new use cases through its efficient, cloud-native architecture, we see upside to current TAM estimates. Moreover, we believe several long-term secular trends will continue to underpin sustainable growth over the medium-term, particularly cloud adoption, digital transformation, and AI/ML. As outlined in our CIO Survey, business intelligence and analytics remains a top

spending priority, behind only security software and SaaS applications.

Exhibit 1: SNOW Through the Lens of our Framework for Investing in Software

OUR VIEW ON SNOWFLAKE		
8 KEY FACTORS	TANGIBLE	INTANGIBLE
TAM	Large and expanding TAM (\$290bn in C27), while new use cases driving TAM expansion (Unistore, AI/ML, data sharing)	Potential to expand the overall addressable market The company's ability to continue to gain market share
SECULAR THEMES	Cloud adoption, digital transformation, AI/ML, secure data sharing, transactional/analytical workloads (Unistore)	Key beneficiary of data growth and data migrations to cloud; BI & analytics top CIO priority, #3 only behind Security & SaaS
ENTRY/EXIT POINTS	Stock trades at 10x FY26 EV/Sales	At current levels we view the LT risk/reward as favorable
LT FRAMEWORK RETURN	Compounded Returns: Bear: 0%, Base: 16%, Bull: 28%	The ultimate size of the overall market opportunity and how much market share the company can capture
UNIT ECONOMICS	Best-in-class net expansion and low churn supports operating leverage as Snowflake scales; 30% FCF margin target in F29	Sustainability of current expansion rates Ability to drive higher utilization and better pricing from CSPs
PLATFORM/ BEST OF BREED	The company continues to add support for various data types and workloads, expanding its cloud data platform	Ability to expand use cases and workloads on the platform Potential competition from proprietary solutions from CSPs
COMPETITIVE MOAT	We view the company's cloud native/agnostic architecture and ease of use as differentiated relative to the competition	Ability for CSPs to narrow the feature functionality gap and leverage existing customer relationships to maintain/grow share
ESG	The company's cloud-native architecture drives increased efficiencies while enabling use cases like secure data sharing	Potential for secure data sharing to drive enhanced security and data governance

Source: Company data, Goldman Sachs Global Investment Research

Valuation & Key Risks

We reiterate our 12-month Price Target of \$220. Our Price Target is derived from an equal weighting of a DCF analysis and EV/Sales multiple. Our DCF analysis is based on a terminal growth rate of ~4% (unchanged) and our relative valuation is based on a 17x Q5-Q8 EV/Sales multiple (unchanged).

Key downside risks include: 1) Adverse changes in the IT spending environment, 2) Competition - particularly from cloud service providers (CSPs) and Databricks, and 3) Outages from reliance on CSPs.

Disclosure Appendix

Reg AC

We, Kash Rangan, Matthew Martino, Selina Zhang, Gili Naftalovich, Henry Dane and Nishad Patwardhan, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACP) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

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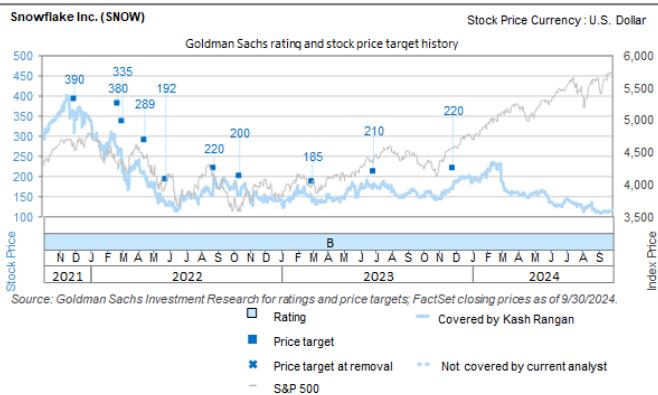
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	Buy	Hold	Sell	Buy	Hold	Sell
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