Americas Technology: Software

Navigating Turbulence Part VIII: Mark-to-Market for Potential Tariff Impact

We remain positive on software, especially given recent pullback, while acknowledging modest potential risk to estimates from tariffs. We explore two key themes: 1) Potential risk to current guidance (CY25) and 2) Best positioned software companies. At best, Management teams will hold guidance unchanged near-term, although it's possible we might enter an air-pocket as the year unfolds as we previously highlighted here. We've conducted a sensitivity analysis around net new revenue (NNR), assuming worst-case scenarios of -5% to -20% NNR cuts, though we do not subscribe to this outcome yet. This implies CY25 average revenue growth (GSe +13%) could see a 100–300 bps reduction (albeit -4% drawdown in USD since C1Q close vs. major currencies could be a partial mitigant). We're also adjusting our PTs to reflect recent software multiple compression but continue to highlight the disconnect between current valuations and fundamentals (GSe 46% discount to Intrinsic Value). We believe the worst is behind us for software fundamentals with leading growth indicators (cRPO, NER, new logos) stabilizing in C2H24 after a multi-year deceleration from peak levels. At ~6x EV/Sales NTM, downside is modest if CY25 estimates are revised lower, while a re-rating to ~8x (normalized multiple) could unlock meaningful upside into CY26. Management teams remain well-equipped to preserve FCF through cost agility, with Gen-AI investments unaffected. We see AI as the sector's key catalyst, especially as focus moves from infra/training CapEx to inferencing use cases at the platform and application layers. We favor companies with the fastest top-line growth and strong FCFM's (NOW, MNDY, TEAM, SNOW, DDOG) and high absolute growth companies in large addressable markets (RBRK, IOT, GTLB). While valuations are compelling, large mature companies like INTU, MSFT, ADBE, WDAY, CRM will likely be range-bound shorter-term.

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Evaluating Near-Term Uncertainty: Stress Testing the Scenarios

Exhibit 1: Adjusting PTs to mark-to-market target multiples given tariff-induced valuation de-rating in broader software
Price Targets are for a 12-month timeframe

Company	Ticker	Rating	Price	EV	Net Cash	Old PT	New PT	% Chg. PT	Old U/D	New U/D
Adobe Systems Inc.	ADBE	Buy	$ 351.96	$158,574	$377	$640	$570	-11%	82%	62%
Atlassian Corp.	TEAM	Buy	$ 208.27	$57,805	$1,482	$370	$305	-18%	78%	46%
Autodesk Inc.	ADSK	Neutral	$ 264.44	$58,710	$1,027	$295	$270	-8%	12%	2%
Bentley Systems Inc.	BSY	Sell	$ 43.42	$14,522	($1,363)	$42	$41	-2%	-3%	-6%
Confluent Inc.	CFLT	Neutral	$ 21.77	$9,557	$768	$31	$25	-19%	42%	15%
Coreweave Inc.	CRWV	Neutral	$ 41.62	$994	$143	$54	$54	0%	30%	30%
Couchbase Inc.	BASE	Sell	$ 16.13	$994	$143	$16	$15	-6%	-1%	-7%
Datadog Inc.	DDOG	Buy	$ 94.58	$38,327	$3,210	$162	$127	-22%	71%	34%
Definitive Healthcare Corp.	DH	Neutral	$ 2.61	$693	$47	$3	$3	0%	15%	15%
Dropbox Inc.	DBX	Sell	$ 27.49	$9,386	($430)	$20	$20	0%	-27%	-27%
Dynatrace Inc.	DT	Buy	$ 44.01	$14,263	$907	$70	$56	-20%	59%	27%
Elastic NV	ESTC	Neutral	$ 77.54	$8,857	($0)	$121	$91	-25%	56%	17%
GitLab Inc.	GTLB	Buy	$ 42.92	$7,363	$177	$80	$63	-21%	86%	47%
Informatica Inc.	INFA	Neutral	$ 17.65	$6,772	($577)	$20	$18	-10%	13%	2%
Intuit Inc.	INTU	Buy	$ 596.05	$170,544	($4,398)	$860	$750	-13%	44%	26%
Microsoft Corp.	MSFT	Buy	$ 374.39	$2,867,500	$26,585	$450	$450	0%	20%	20%
Monday.Com Ltd.	MNDY	Buy	$ 247.99	$14,541	$1,412	$400	$320	-20%	61%	29%
MongoDB Inc.	MDB	Buy	$ 162.66	$16,060	$2,300	$335	$220	-34%	106%	35%
Oracle Corp.	ORCL	Neutral	$ 131.40	$395,050	($78,870)	$165	$145	-12%	26%	10%
PagerDuty, Inc.	PD	Neutral	$ 15.06	$1,958	$165	$18	$16	-11%	20%	6%
Procore Technologies Inc.	PCOR	Buy	$ 60.28	$9,989	$701	$95	$87	-8%	58%	44%
RingCentral	RNG	Neutral	$ 23.51	$2,435	($1,286)	$36	$30	-17%	53%	28%
Rubrik, Inc.	RBRK	Buy	$ 65.55	$13,032	$383	$82	$82	0%	25%	25%
Salesforce.com Inc.	CRM	Buy	$ 250.48	$258,000	$5,599	$400	$340	-15%	60%	36%
Samsara Inc.	IOT	Buy	$ 37.22	$22,336	$633	$50	$46	-8%	34%	24%
ServiceNow Inc.	NOW	Buy	$ 812.70	$174,814	$4,273	$1,150	$1,150	0%	42%	42%
ServiceTitan	TTAN	Neutral	$ 121.03	$8,232	$337	$110	$110	0%	-9%	-9%
Snowflake Inc.	SNOW	Buy	$ 147.39	$56,720	$2,366	$225	$205	-9%	53%	39%
Twilio	TWLO	Buy	$ 87.13	$16,377	$1,394	$185	$130	-30%	112%	49%
Unity Software Inc.	U	Neutral	$ 20.95	$11,779	($721)	$20.5	$20.5	0%	-2%	-2%
Weave Communications Inc.	WEAV	Neutral	$ 9.40	$771	$86	$15	$10	-33%	60%	6%
Workday Inc.	WDAY	Buy	$ 224.87	$61,881	($1,819)	$345	$275	-20%	53%	22%
Zoom Video Communications Inc.	ZM	Neutral	$ 72.83	$30,856	$7,792	$86	$82	-5%	18%	13%
ZoomInfo Technologies Inc.	ZI	Sell	$ 8.23	$3,086	($1,088)	$8.4	$7.5	-11%	2%	-9%

* Snowflake is on Americas Conviction List

Source: Goldman Sachs Global Investment Research

Our tariff sensitivity analysis contemplates -5% to -20% cuts to net new revenue to account for tariff uncertainty. Following the April 2nd tariff announcement, we are following up on our initial Tariff Note to provide a range of Revenue/FCF scenarios (Exhibit 2) for our broader coverage to help investors better assess the potential knock-on effects to broader software purchasing behavior relative to the operating assumptions implicit in Management guidance exiting C4Q24. Note that at a sector-level, we believe C1Q results will largely be insulated from any potential demand fallout associated with the tariff announcement (albeit April-close C1Q's may observe a modest degree of impact on Revenue and cRPO), but we acknowledge the modest risk potential that Management teams may opt to provide more conservative guidance on C2Q (vs. Street and implied guidance) and CY25. For subscription and consumption models alike, Management teams are likely to call out some level of deal cycle elongation, reduced contract sizes and/or broader freezes in software procurement entering the June quarter (April/May); at a minimum, they're likely to acknowledge the risk of such a dynamic impacting upcoming quarters. As a result, we have developed a top-down framework to gauge the potential impact to Revenue and FCF growth under various scenarios.

- **Our downside scenario contemplates a slowdown in key drivers of the software growth algorithm relative to Management guidance.** To determine the impact, we evaluated the implied Net New Revenue for CY25 based on Management guidance and reduced that assumption anywhere from -5% to -20%, which we see as an appropriate starting point given broad uncertainty as to what shape tariff policy ultimate takes in the comings days, weeks and months. We believe this approach also effectively captures the potential degradation to all or some critical components of the software growth algorithm: 1) Net expansion, 2) New logos and 3) Customer retention. In addition, we assessed the impact to FCF growth across various reductions in net new revenue (-5% to -20%) under the assumption that Management teams could conceivably deliver an incremental +100 bps of FCFM expansion vs. CY25 Guidance (or GSe). Our basis centers on the material op. leverage cycle observed in the past few years as software growth slowed considerably, with most companies right-sizing their cost basis through a combination of vendor consolidation, hiring pauses (or RIFs) and broader discretionary/variable expense containment.

Revenue growth could be impacted by -70 to -280 bps assuming -5% to -20% cut to current NNR, albeit FCF growth can remain resilient if our slowdown scenario transpires. Our net new revenue sensitivity analysis implies that average revenue growth for our coverage in CY25 (GSe: 13%) could come down -70 bps in a more conservative scenario of a -5% cut to NNR and upwards of -280 bps in a downside scenario where NNR is cut by -20% (Exhibit 2). As we will address in this report, we believe that the sector holistically is better positioned to absorb cuts given the -21%+ de-rating in EV/S (NTM) multiples, which is now near multi-year lows. One key reason is that the sector is structurally more profitable as companies right-sized their cost structures following a post-COVID growth slowdown (CY22-24). In addition, while we appreciate that investors are likely to ascribe a premium to an incremental point of revenue growth vs. FCF margin expansion, our scenarios also analyze the impact to FCF growth under various cuts to NNR. We assume at a base level that companies will be able to deliver an incremental +50 bps of FCFM in the event top-line growth does slowdown (relative to GSe or guidance). Notably, under all scenarios (-5% to -20% cut to NNR), a +50 bps improvement in FCFM vs. current CY25 expectations translates to FCF growth above our current estimates (on average, for our coverage). Assuming Management teams can deliver on expense agility, we believe this should further support sector valuations once headline risk associated with any guidance revisions is in the rearview exiting C1Q.

Exhibit 2: Sensitivity analysis points to -70 to -280 bps reduction in coverage average revenue growth for CY25; FCF growth can remain intact if Management teams prioritize cost containment

Company	Ticker	CY25E Sales Growth					CY25E FCF Growth				
		Current GSe	-5% NNR	-10% NNR	-15% NNR	-20% NNR	Current GSe	-5% NNR	-10% NNR	-15% NNR	-20% NNR
Adobe Systems Inc.	ADBE	10%	10%	9%	9%	8%	20%	21%	21%	20%	20%
Atlassian Corp.	TEAM	21%	20%	19%	18%	17%	19%	20%	19%	18%	17%
Autodesk Inc.	ADSK	13%	12%	12%	11%	10%	53%	54%	54%	53%	52%
Bentley Systems Inc.	BSY	9%	9%	8%	8%	7%	3%	5%	4%	4%	3%
Confluent Inc.	CFLT	21%	20%	19%	18%	17%	107%	124%	122%	120%	118%
Couchbase Inc.	BASE	10%	9%	9%	8%	8%	--	--	--	--	--
Datadog Inc.	DDOG	19%	18%	17%	16%	15%	3%	4%	3%	2%	1%
Definitive Healthcare Corp.	DH	-7%	-7%	-7%	-8%	-8%	-1%	1%	1%	0%	0%
Dropbox Inc.	DBX	-3%	-3%	-3%	-3%	-4%	-2%	-1%	-1%	-1%	-1%
Dynatrace Inc.	DT	16%	15%	15%	14%	13%	20%	21%	20%	19%	19%
Elastic NV	ESTC	17%	16%	15%	14%	13%	33%	36%	35%	34%	33%
GitLab Inc.	GTLB	27%	25%	24%	23%	21%	--	--	--	--	--
Informatica Inc.	INFA	3%	3%	3%	3%	3%	9%	11%	11%	10%	10%
Intuit Inc.	INTU	13%	13%	12%	11%	11%	27%	28%	27%	26%	25%
Microsoft Corp.	MSFT	14%	13%	12%	11%	11%	0%	1%	1%	0%	0%
Monday.Com Ltd.	MNDY	27%	26%	25%	23%	22%	7%	8%	7%	5%	4%
MongoDB Inc.	MDB	14%	13%	13%	12%	11%	30%	39%	38%	37%	36%
Oracle Corp.	ORCL	12%	11%	11%	10%	9%	-71%	-67%	-67%	-67%	-68%
PagerDuty, Inc.	PD	8%	7%	7%	7%	6%	-3%	-1%	-2%	-2%	-3%
Procore Technologies Inc.	PCOR	12%	11%	11%	10%	10%	49%	53%	52%	51%	51%
RingCentral	RNG	5%	5%	5%	4%	4%	22%	24%	24%	24%	23%
Rubrik, Inc.	RBRK	31%	29%	28%	26%	25%	208%	236%	232%	228%	224%
Salesforce.com Inc.	CRM	9%	9%	8%	8%	7%	12%	13%	13%	12%	12%
Samsara Inc.	IOT	27%	26%	25%	23%	22%	40%	46%	44%	43%	41%
ServiceNow Inc.	NOW	19%	18%	17%	16%	15%	23%	24%	23%	22%	21%
ServiceTitan	TTAN	18%	17%	16%	15%	14%	544%	600%	595%	590%	584%
Snowflake Inc.	SNOW	24%	23%	21%	20%	19%	26%	28%	26%	25%	24%
Twilio	TWLO	10%	10%	9%	9%	8%	34%	37%	36%	35%	35%
Unity Software Inc.	U	-5%	-6%	-6%	-6%	-6%	41%	43%	43%	43%	42%
Weave Communications Inc.	WEAV	15%	14%	13%	13%	12%	27%	36%	35%	34%	33%
Workday Inc.	WDAY	13%	12%	12%	11%	10%	23%	24%	23%	23%	22%
Zoom Video Communications Inc.	ZM	3%	3%	2%	2%	2%	-3%	-2%	-2%	-2%	-2%
ZoomInfo Technologies Inc.	ZI	-2%	-2%	-2%	-2%	-2%	27%	29%	29%	29%	29%
Coverage Average		**12.8%**	**12.1%**	**11.4%**	**10.7%**	**10.0%**	**42.7%**	**48.2%**	**47.3%**	**46.3%**	**45.3%**

Source: Company data, Goldman Sachs Global Investment Research

We also provide an illustrative downside scenario analysis where cuts to net new revenue are not met with a commensurate step-up in operating leverage. Assuming a worst-case scenario where CY25 NNR is cut by -10% vs. initial guidance and fully flows through to the FCF line, our coverage would see an average ~100 bps reduction in CY25 FCFM's and a ~200 bps decline in their 'Rule of' profiles (Exhibit 3). This downside case assumes no variable cost flexibility and illustrates the potential margin degradation if software companies are unable to dynamically adapt to a slower demand environment. That said, we do not view this as our base case. In a more probable scenario, companies could hold margins flat even if revenue growth slows relative to initial forecasts, as software models provide room to adjust variable costs, particularly in S&M, without compromising strategic R&D investments like Gen-AI.

Exhibit 3: Downside case assumes a -10% cut to CY25 NNR and equivalent dollar impact to FCF, which leads to a ~200 bps avg. decrease in our coverage Rule Of (Sales Growth + FCFM) profile

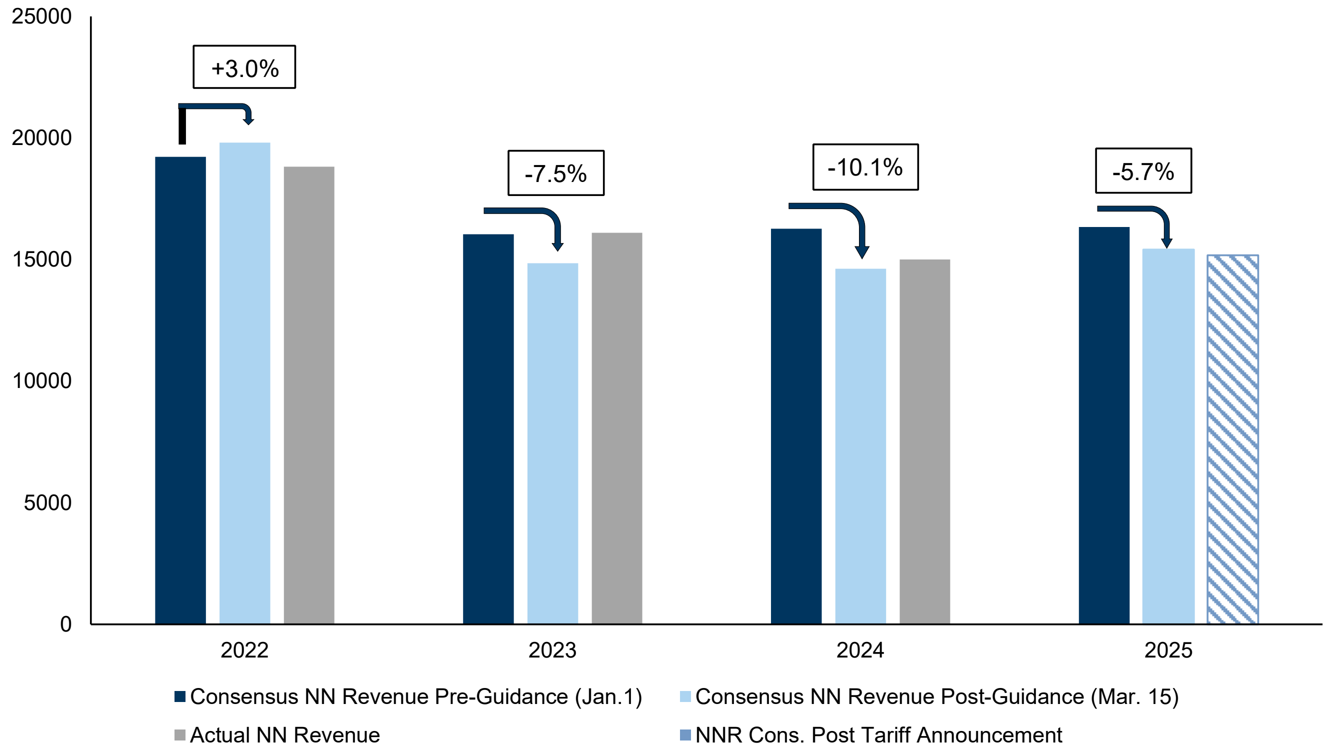
		CY25E Sales Growth			CY25E FCF Growth			CY25E FCFM			CY25E Rule Of (Sales Growth + FCFM)		
Company	Ticker	Current GSe	10% NNR Cut	Difference	Current GSe	10% NNR Cut	Difference	Current GSe	10% NNR Cut	Difference	Current GSe	10% NNR Cut	Difference
Adobe Systems Inc.	ADBE	10%	9%	-101 bps	20%	18%	-273 bps	40%	40%	-55 bps	50%	49%	-156 bps
Atlassian Corp.	TEAM	21%	19%	-210 bps	19%	12%	-687 bps	30%	29%	-124 bps	51%	48%	-334 bps
Autodesk Inc.	ADSK	13%	12%	-129 bps	53%	47%	-581 bps	30%	29%	-81 bps	43%	41%	-210 bps
Bentley Systems Inc.	BSY	9%	8%	-90 bps	3%	0%	-290 bps	29%	29%	-59 bps	39%	37%	-149 bps
Confluent Inc.	CFLT	21%	19%	-209 bps	107%	42%	-6530 bps	5%	4%	-166 bps	26%	23%	-376 bps
Couchbase Inc.	BASE	10%	9%	-100 bps	--	--	--	-3%	-4%	-94 bps	7%	5%	-193 bps
Datadog Inc.	DDOG	19%	17%	-190 bps	3%	-4%	-659 bps	25%	24%	-122 bps	44%	41%	-312 bps
Definitive Healthcare Corp.	DH	-7%	-7%	-34 bps	-1%	-5%	-375 bps	19%	19%	-59 bps	12%	12%	-93 bps
Dropbox Inc.	DBX	-3%	-3%	-15 bps	-2%	-3%	-87 bps	35%	34%	-20 bps	32%	31%	-35 bps
Dynatrace Inc.	DT	16%	15%	-163 bps	20%	13%	-677 bps	25%	24%	-107 bps	41%	38%	-270 bps
Elastic NV	ESTC	17%	15%	-166 bps	33%	21%	-1128 bps	17%	16%	-120 bps	33%	30%	-286 bps
GitLab Inc.	GTLB	27%	24%	-268 bps	--	--	--	17%	15%	-180 bps	44%	39%	-448 bps
Informatica Inc.	INFA	3%	3%	-34 bps	9%	8%	-136 bps	26%	26%	-24 bps	29%	29%	-58 bps
Intuit Inc.	INTU	13%	12%	-135 bps	27%	22%	-442 bps	34%	33%	-79 bps	47%	45%	-214 bps
Microsoft Corp.	MSFT	14%	12%	-135 bps	0%	-5%	-494 bps	24%	23%	-91 bps	38%	35%	-226 bps
Monday.Com Ltd.	MNDY	27%	25%	-272 bps	7%	-2%	-895 bps	26%	24%	-163 bps	53%	48%	-435 bps
MongoDB Inc.	MDB	14%	13%	-140 bps	30%	7%	-2302 bps	7%	6%	-116 bps	21%	18%	-255 bps
Oracle Corp.	ORCL	12%	11%	-117 bps	-71%	-79%	-829 bps	4%	3%	-102 bps	15%	13%	-219 bps
PagerDuty, Inc.	PD	8%	7%	-79 bps	-3%	-7%	-349 bps	20%	20%	-59 bps	28%	27%	-137 bps
Procore Technologies Inc.	PCOR	12%	11%	-120 bps	49%	38%	-1087 bps	15%	14%	-93 bps	27%	25%	-213 bps
RingCentral	RNG	5%	5%	-50 bps	22%	19%	-264 bps	22%	22%	-38 bps	27%	26%	-88 bps
Rubrik, Inc.	RBRK	31%	28%	-310 bps	208%	58%	-15059 bps	5%	3%	-231 bps	36%	30%	-541 bps
Salesforce.com Inc.	CRM	9%	8%	-93 bps	12%	9%	-287 bps	33%	33%	-57 bps	42%	41%	-150 bps
Samsara Inc.	IOT	27%	25%	-273 bps	40%	6%	-3329 bps	9%	7%	-200 bps	36%	32%	-473 bps
ServiceNow Inc.	NOW	19%	17%	-186 bps	23%	17%	-599 bps	32%	31%	-108 bps	51%	48%	-294 bps
ServiceTitan	TTAN	18%	16%	-179 bps	544%	356%	-18818 bps	5%	4%	-146 bps	23%	20%	-325 bps
Snowflake Inc.	SNOW	24%	21%	-238 bps	26%	17%	-969 bps	25%	24%	-147 bps	49%	45%	-385 bps
Twilio	TWLO	10%	9%	-100 bps	34%	27%	-629 bps	19%	19%	-74 bps	29%	28%	-174 bps
Unity Software Inc.	U	-5%	-6%	-27 bps	41%	37%	-359 bps	22%	22%	-45 bps	17%	16%	-72 bps
Weave Communications Inc.	WEAV	15%	13%	-148 bps	27%	2%	-2525 bps	6%	5%	-122 bps	21%	19%	-270 bps
Workday Inc.	WDAY	13%	12%	-129 bps	23%	18%	-495 bps	28%	27%	-83 bps	41%	39%	-211 bps
Zoom Video Communications Inc.	ZM	3%	2%	-27 bps	-3%	-4%	-70 bps	36%	36%	-17 bps	38%	38%	-43 bps
ZoomInfo Technologies Inc.	ZI	-2%	-2%	-8 bps	27%	27%	-64 bps	32%	32%	-11 bps	31%	31%	-19 bps
Coverage Average		**13%**	**11%**	**-136 bps**	**43%**	**23%**	**-1977 bps**	**21%**	**20%**	**-97 bps**	**34%**	**32%**	**-232 bps**

Source: Company data, Goldman Sachs Global Investment Research

Our analysis of net new revenue trends pre- and post-guidance points suggests potential for modest cuts if trends softened post-tariff announcement. In an effort to size the impact of potential negative guidance revisions during C1Q reporting season (to the extent software companies observed weaker trends post-tariff announcement), we evaluated the historical cut to Consensus net new revenue before and after companies issued guidance. In CY22, NNR guidance came in +3% above Consensus as many companies were still observing healthy demand signals from the COVID-induced demand pull-forward as digitization trends accelerated. However, in both CY23 and CY24, NNR estimates came down -7% to -10% when company guidance was issued as Management teams adjusted to the new reality of rising interest rates and macroeconomic uncertainty, which led to tightening IT budgets and the relative prioritization of cost optimization over new digital initiatives. The earliest representation of this dynamic began in C2H22, when net new business growth started to contract sharply for broader software (Exhibit 8). The sector has been contending with a sluggish macro ever since, representative in growth for our coverage decelerating from +31% in CY22 to +15% in CY24 (Exhibit 5). While there were reasons to be optimistic that CY25 would mark a year of growth stability – stabilizing NER, improving new logo acquisition and an emerging Gen-AI product cycle (Exhibit 6, Exhibit 7) – the far-reaching implications of the new Administration's tariff policy was an unforeseen variable. We note that since the announcement of tariffs, net new revenue estimates for our coverage have come down -1.5% (now -7.1% vs. pre-guidance); this, however, is still well within the historical window Management teams typically guide to (-7-10%). As such, we acknowledge the modest risk potential that Management teams incrementally de-risk expectations for 2Q and CY25 during the upcoming March/April quarter reporting season to better factor for any short-term demand fallout from tariff uncertainty. We believe investors' willingness to buy into any cut (or lack thereof) will be largely predicated on Management's assessment of end-market demand, deal cycles, pipeline health, renewal activity and cRPO growth (more on this below, Exhibit 9).

Exhibit 4: Net new revenue cut -5.7%, comparatively better than the prior two years as core components of software growth algorithm stabilized in C2H24

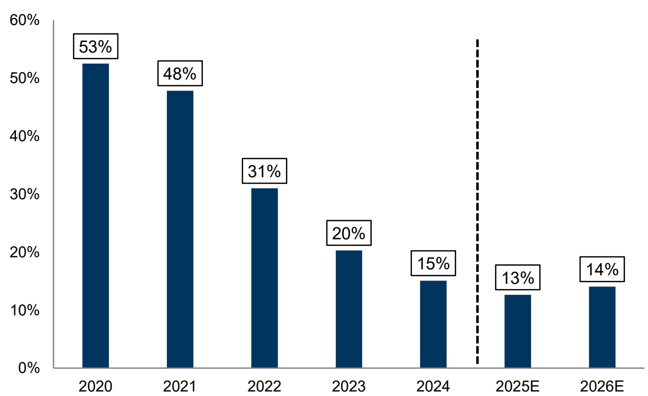
Potential for further cuts to CY25 as potential demand fallout from tariff announcement not contemplated in initial FY guidance



Source: FactSet, Goldman Sachs Global Investment Research

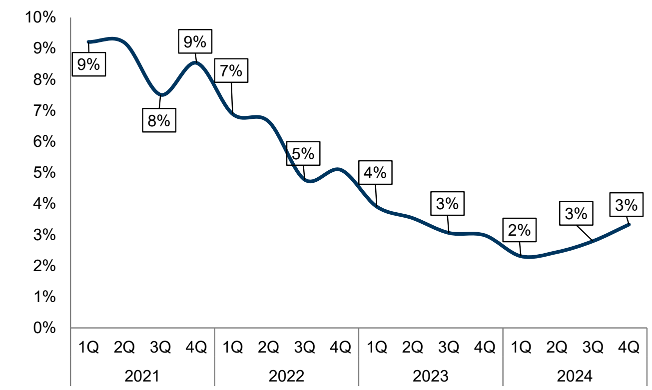
Stability in critical software growth components supported slightly less conservative company guidance vs. past years but tariff uncertainty may cause Management teams to revisit growth assumptions. As we highlight above, there were reasons to be optimistic as CY25 would mark a much-needed year of growth stability for software (a possibility we also laid out in our CY25 Outlook) as the sector has contended with several years of growth deceleration from the CY20/21 highs (Exhibit 5). Leading indicators for revenue growth were beginning to firm up in C2H24, with NER stabilizing in the low-110's (Exhibit 7) and sequential customer growth inflecting modestly to +3% (from a +2% trough in C1H24, Exhibit 6) across our coverage. Our analysis of implied net new revenue cuts pre- and post-guidance for CY25, which shows a less substantial reduction in NNR vs. Consensus pre-guidance in CY23/24 (Exhibit 4), provides insight into how Management teams formulated guidance. Namely, we anticipate that Management teams modestly de-risked NER and new logo growth to account for any macro volatility, generally consistent with the prior two years, albeit with slightly less conservatism considering this marks the first year since CY21 that software companies saw multiple Q's of stability in their key growth metrics. However, we don't rule out the possibility that the impact of tariffs may cause Management teams to revisit their assumptions around NER and new logo acquisition if there were to be any demand degradation in the month of April. On net, we anticipate that the knock-on effect of tariffs could cause many enterprises to temporarily pause hiring plans (impacting software seat growth), delay ongoing purchasing decisions, and/or generally pull back on more transformational projects until tariff policies crystallize. **Below we provide a chart pack that provides a state of play on software fundamentals exiting C4Q24:**

Exhibit 5: GS estimates a 200 bps slowdown in CY25 revenue growth, largely predicated on Management guidance; we don't rule out negative growth revisions into 1Q earnings on tariff-induced uncertainty
Avg. revenue growth across our coverage



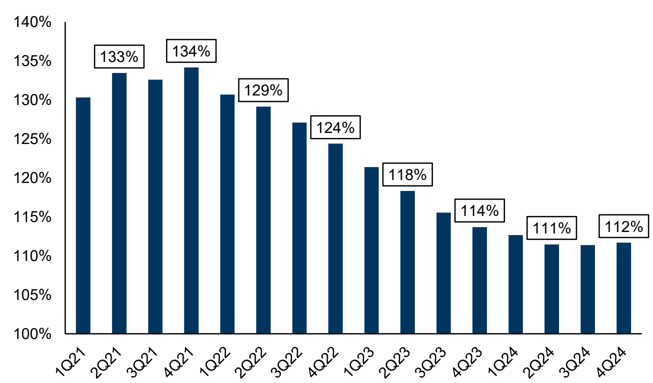
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 6: QoQ customer growth remained stable at +3% in C2H24
Avg. growth in customer count (QoQ)



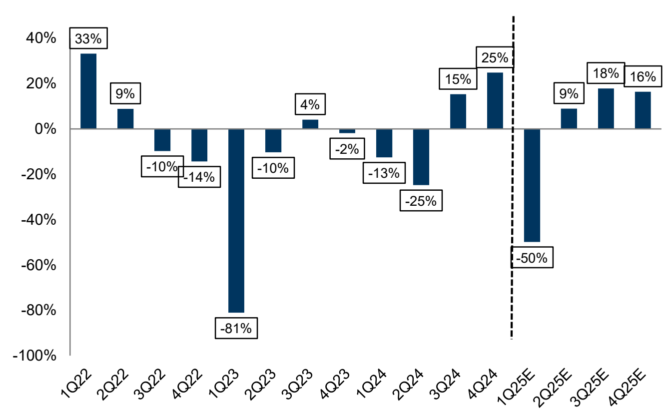
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 7: NER slightly inflected to 112% after 10 consecutive quarters of decline and 1 quarter of stability
Avg. NER across coverage



Source: Company data, Goldman Sachs Global Investment Research

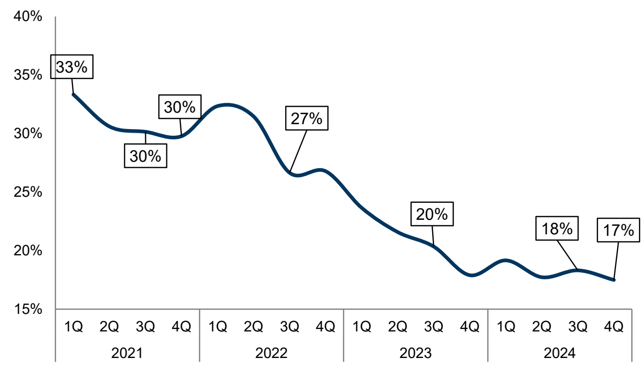
Exhibit 8: Coverage average NNARR growth
Avg. Net New ARR growth across our coverage (GSe)



Source: Company data, Goldman Sachs Global Investment Research

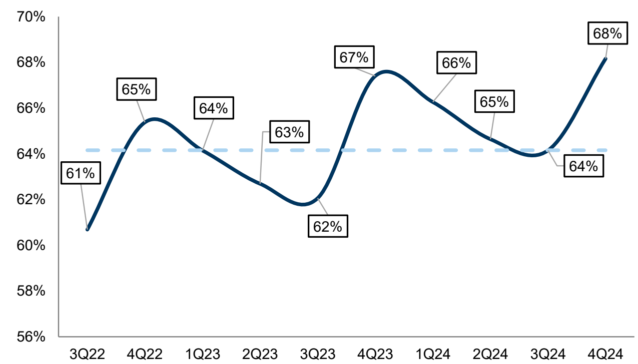
cRPO growth rate and revenue coverage ratio will be an important gauge of investors' confidence in underwriting CY25 expectations. In periods of uncertainty, software companies tend to observe varying degrees of degradation to cross-sell and upsell, new logo acquisition and retention rates. As mentioned in our prior Tariff Note, we believe the software sector is better positioned to absorb cuts to forward expectations if they were to occur, particularly following a -21% de-rating in NTM EV/S (near multi-year lows, Exhibit 14) since recent peak. However, we believe a key debate emerging out of C1Q earnings season will be which stocks investors can own for the remainder of CY25. One key measure will be how supportive the company's cRPO growth is relative to CY25 Revenue growth guidance (Exhibit 9), which can also be measured as cRPO % of NTM Revenue (Exhibit 10). While this is simply one measure amongst many (e.g. we anticipate NER will also be a key forward indicator, Exhibit 7), we believe this will help underpin investor confidence in companies' ability to execute against (unchanged and/or revised) CY25 guidance. While the environment has clearly changed, we note that companies in our coverage are entering CY25 with a slightly higher proportion of committed revenue vs. NTM guidance relative to the prior years (68% vs. 67% in C1Q24), which could help put a ceiling on the magnitude of potential negative guidance revisions (if any at all).

Exhibit 9: cRPO growth (YoY) broadly stable through C2H24, outpacing coverage NTM revenue growth expectations
Avg. cRPO growth across our coverage (YoY)



Source: Company data, Goldman Sachs Global Investment Research

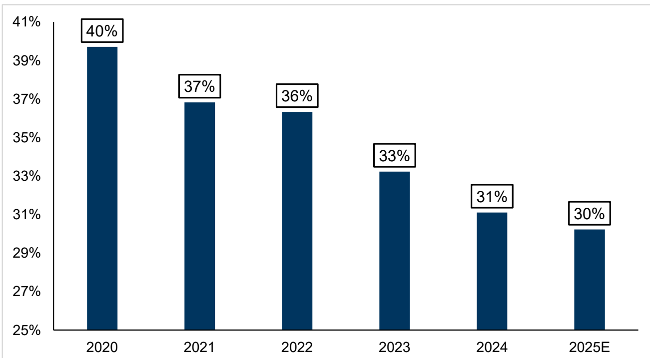
Exhibit 10: Solid base of committed revenue entering CY25 could limit magnitude of negative revisions
cRPO as a % of Point-in-Time NTM FactSet Consensus revenue estimates across our coverage



Source: Company data, Goldman Sachs Global Investment Research, FactSet

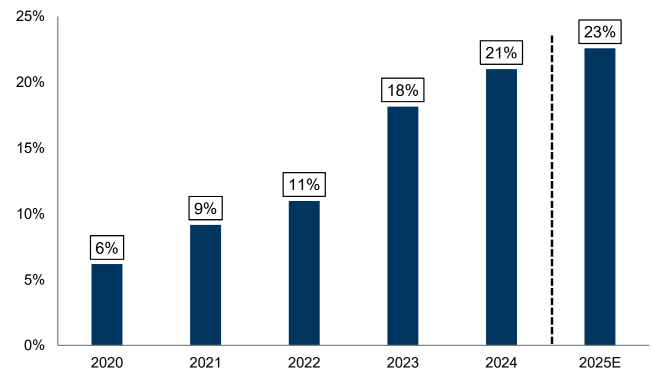
Variable cost leverage can likely blunt the impact of any potential revenue growth slowdown. If growth slows on the back of tariff policy uncertainty, we believe software companies are better positioned to dynamically adjust operating costs to better reflect any change to the current demand environment than in past years. Companies are already running leaner following a multi-year period of workforce optimization and vendor consolidation; therefore, we would anticipate that the primary levers will largely be centered on reducing hiring plans in the GTM organization and selectively pulling back on marketing budgets (Exhibit 11). Recall that in CY22, our coverage only expanded OpM's +200 bps (Exhibit 12) despite revenue growth slowing from +48% (CY21) to +31% (CY22). We believe this dynamic is partially attributable to Management teams' initial optimism over the durability of current digitization trends within the enterprise (coming off two years of impressively strong growth), with budget growth and hiring plans broadly commensurate with that backdrop. It wasn't until the new reality of a higher-for-longer rates environment and more constrained budgetary outlook set in did Management teams begin deliberately optimizing for cost takeout, with CY23 OpM's expanding +700 bps. Conversely, in CY25, Management teams have the benefit of hindsight having managed their businesses more prudently through a sluggish macro backdrop in the past 2-3 years. In addition, the timing of the tariff policy announcement (in early-April) leaves Management teams with more time to evolve their hiring plans and discretionary budget allocations to better optimize for FCF generation in lieu of healthier top-line growth prospects. This rings particularly true considering OpM's are only expected to expand +200 bps across our coverage in CY25, with many companies highlighting additional GTM hiring and investments in R&D for Gen-AI initiatives. We expect the latter to be relatively insulated from any cost reduction initiatives considering the strategic importance of a strong Gen-AI product roadmap.

Exhibit 11: Coverage companies have managed down S&M intensity as growth has slowed; anticipate S&M will be key driver of leverage if tariffs impact broader software demand
Avg. S&M intensity across our coverage



Source: Company data, Goldman Sachs Global Investment Research

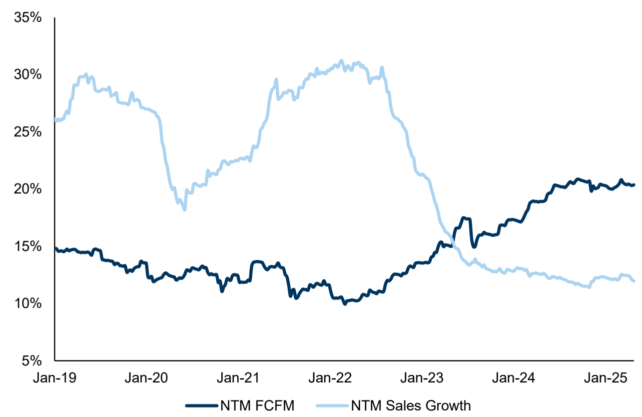
Exhibit 12: Expectations for +200 bps of OpM expansion in CY25 could prove conservative if tariffs weaken software growth outlook
Avg. operating margin across our coverage



Source: Company data, Goldman Sachs Global Investment Research

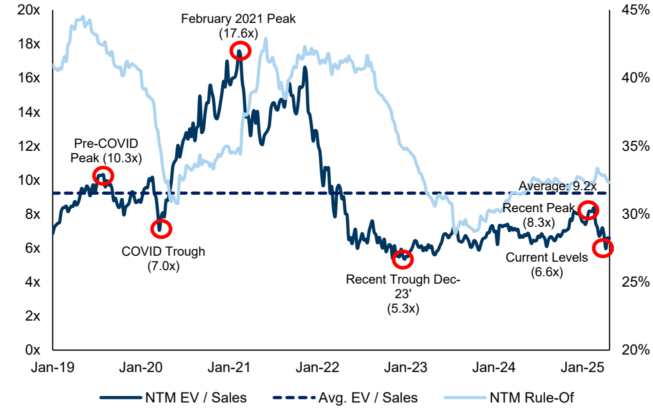
Software companies better positioned to manage through period of macro uncertainty with structurally improved profitability. We believe software companies are better equipped to navigate through a potential growth slowdown relative to prior cycles considering most companies undertook significant cost reduction initiatives post-COVID that translated to structurally improved margins, namely though workforce reductions, vendor consolidation and broader IT optimization. Reflecting back, we note that NTM EV/S multiples contracted from ~16x to ~5x from peak-to-trough (Dec. 21 to Jan. 23) as investors contended with a rising interest rate environment and early signals of a weaker demand backdrop set against still demanding top-line growth expectations, all with very little FCF support (Consensus NTM FCFM of +13% in early-2022). By contrast, software companies today are expected to deliver an average 20% FCFM in the NTM (per Consensus, Exhibit 13). We believe this leaves the sector better positioned to absorb a potential top-line growth slowdown with less pronounced risk of another severe de-rating in valuations, especially with software multiples now -21%+ off their recent peak of 8.3x (now ~6.6x, Exhibit 14). Importantly, we also don't rule out the potential for incremental margin improvement if growth does slow, as software companies' largest expense, S&M, can be toggled lower if demand trends diverge from expectations set at the start of the year. This margin resilience not only provides a buffer against potential near-term revenue headwinds but also underpins a more attractive risk/reward profile for high-conviction names (more mentioned below) poised to capitalize on an eventual Gen-AI-driven recovery.

Exhibit 13: Fundamentally, software remains an attractive sector sustained by strong profitability with growth upside potential in CY26 on Gen-AI driven recovery



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 14: Current valuation levels provide a solid entry point for the broader comp group, especially with prospects of a Gen-AI driven recovery in CY26



Source: FactSet, Goldman Sachs Global Investment Research

Gen-AI Remains the Defining Force in Software Post-Tariffs

Gen-AI is poised to drive the next leg of software growth despite short-term tariff-induced volatility. While it’s tempting to extrapolate near-term turbulence into a prolonged downturn, Gen-AI presents a meaningful secular tailwind poised to drive value creation across the software ecosystem. Tariff disruptions, even if indirect, have the potential to accelerate adoption as enterprises seek productivity gains. In a productivity-starved economy, Gen-AI is a compelling lever to offset hiring constraints and cost pressures, making AI readiness and operational agility central to navigating the next leg of the cycle. Albeit, this year may not mark a meaningful inflection point for Gen-AI given potential budgetary constraints against a more volatile macro backdrop, but we do expect many software companies to foster engagement and adoption of products that can drive real productivity against across the enterprise. As such, if we see stability in the macro environment and AI becomes more pervasive across workflows, we believe this can pave the way for upside for software growth expectations in CY26. Against multi-year historical low valuation levels, this presents a compelling upside opportunity for the sector.

- **AI-native application companies have yet to reach the public markets.** While there are early signs of AI revenue contribution from some large public software vendors, the absence of application-layer Gen-AI-native private companies entering the public markets has left investors largely confined to incumbents. As such, we note that the market might be slow to participate in the Gen-AI theme until early signals of an ‘killer application’ with meaningful utilization and monetization emerges, which we then believe can become a catalyst for the sector. At our recent PCSIC Conference, we noted that Gen-AI traction at the application layer remains limited outside of DevOps use cases. In contrast, periods like 2012-2014 saw a build-up of fresh IPO supply out of an emerging tech cycle (cloud natives). Until that occurs for Gen-AI, much of the market's focus may remain centered around incumbents.

Laying the groundwork in fostering AI adoption could translate to growth upside in 2026. We acknowledge that while 2025 may not mark the breakout year for Gen AI or the emergence of a "killer app," we believe it is setting the foundation for a more robust value creation cycle in 2026. With most enterprises are still in the experimentation and early roll-out phases, we understand investors' hesitation around underwriting AI as a material revenue driver in the near-term, particularly amidst broader macro and budgetary uncertainty. That said, we expect continued investment in AI innovation given the strategic importance of Gen-AI adoption for enterprise customers. In a tighter budgetary environment, AI tools that drive internal productivity and cost optimization are best poised to see adoption. Specifically, we believe platforms with hybrid consumption models (e.g., ServiceNow Assist, Salesforce's Agentforce, Zoom AI companion, etc.) are well positioned to scale AI experimentation and roll-out first within pockets of an organization that can ultimately convert into broader wall-to-wall deployment. As pricing models shift and feature sets mature throughout 2025, we believe user conferences in late-Q2/Q3 (such as ServiceNow Knowledge, Salesforce Dreamforce, Adobe Max) could be a turning point in the Gen-AI narrative, where we expect to gain greater visibility around AI adoption and revenue contribution.

Product innovation cycle in 2025 can pave the way to AI-driven value creation in 2026. We believe AI-driven value creation will more meaningfully permeate in 2026 with a potentially more contained inflationary environment, improvement in economic growth, and stability from tariff-induced volatility. With a cleaner macro backdrop, we see the sector entering 2026 on firmer footing, creating a more constructive setup for positive estimate revisions and potential valuation re-rating. As outlined in our IVA analysis below, we underline the dislocation of current valuations relative to company fundamentals. At the same time, we highlight that fundamentals have yet to incorporate the magnitude of growth contribution that can be brought upon by the Gen-AI product cycle. If adoption continues to scale and companies can successfully monetize, we could see a positive revision cycle as the market shifts towards CY26/CY27 outlooks. With valuations already at multi-year historical lows, we believe the combination of less demanding fundamentals, continued innovation velocity increasingly point to a compelling risk/reward skew for the sector, particularly as macro uncertainty recedes and broader deployments take shape.

We highlight tangible proof points of growing Gen-AI adoption at the application layer. Tangible proof points already include Adobe generating over $125M of AI-specific ARR and influencing more than $3.5B of AI-enabled bookings;ServiceNow saw Pro Plus deals more than quadruple yoy, including 39 deals with 3+ Now Assist products; Salesforce counting 3,000 paid AgentForce customers and roughly $900M of combined Data Cloud and AI ARR; Intuit reporting a 20% higher ecosystem attach rate for AI-powered QuickBooks Live users; and Microsoft disclosing a $13B annualized run rate from AI services; and Datadog attributing 6% of both yoy growth (CY24) and total ARR to AI-native clients. Twilio also reported $260M in revenue from customers building in the AI space at its latest Investor Day. These results confirm that AI is moving from pilot to production, reinforcing our conviction that AI-ready, operationally disciplined franchises will emerge as clear winners once macro volatility subsides.

Intrinsic Value Analysis

Exhibit 15: Intrinsic Value Analysis

						Zero-Growth Scenario - 3% WACC				Zero-Growth Scenario - 4% WACC				Zero-Growth Scenario - 5% WACC			
	Rating	Current Price	Price Target	U / D	Revenue	EV / Sales	Share Price	Maintenance	Growth	EV / Sales	Share Price	Maintenance	Growth	EV / Sales	Share Price	Maintenance	Growth
ADBE	Buy	$352	$570	82%	$22.58	15.9x	$831	236%	-136%	11.9x	$624	177%	-77%	9.5x	$499	142%	-42%
ADSK	Neutral	$264	$270	12%	$6.13	15.5x	$445	170%	-70%	11.6x	$335	127%	-27%	9.3x	$269	102%	-2%
BASE	Sell	$16	$15	-1%	$0.21	9.6x	$39	246%	-146%	7.2x	$29	185%	-85%	5.8x	$24	148%	-48%
BSY	Sell	$43	$41	-3%	$1.35	15.8x	$60	135%	-35%	11.8x	$44	101%	-1%	9.5x	$34	81%	19%
CFLT	Neutral	$22	$25	42%	$0.92	13.0x	$32	141%	-41%	9.8x	$23	106%	-6%	7.8x	$18	85%	15%
CRM	Buy	$250	$340	60%	$37.90	11.4x	$444	177%	-77%	8.6x	$333	133%	-33%	6.8x	$267	106%	-6%
DDOG	Buy	$95	$127	71%	$2.68	14.1x	$106	112%	-12%	10.6x	$79	84%	16%	8.5x	$64	67%	33%
DT	Buy	$44	$56	59%	$1.63	15.7x	$88	206%	-106%	11.8x	$66	155%	-55%	9.4x	$54	124%	-24%
ESTC	Neutral	$78	$91	56%	$1.43	12.7x	$170	220%	-120%	9.5x	$128	165%	-65%	7.6x	$102	132%	-32%
GTLB	Buy	$43	$63	86%	$0.71	17.5x	$75	178%	-78%	13.1x	$57	133%	-33%	10.5x	$46	107%	-7%
INTU	Buy	$596	$750	44%	$17.17	14.3x	$857	143%	-43%	10.8x	$639	107%	-7%	8.6x	$509	86%	14%
IOT	Buy	$37	$46	34%	$1.25	13.8x	$30	80%	20%	10.3x	$23	60%	40%	8.3x	$18	48%	52%
MDB	Buy	$163	$220	106%	$2.01	13.0x	$313	196%	-96%	9.7x	$237	147%	-47%	7.8x	$190	118%	-18%
MNDY	Buy	$248	$320	61%	$0.97	16.7x	$332	138%	-38%	12.5x	$256	104%	-4%	10.0x	$210	83%	17%
MSFT	Buy	$374	$450	34%	$261.80	12.7x	$440	117%	-17%	9.5x	$329	88%	12%	7.6x	$263	70%	30%
NOW	Buy	$813	$1,150	29%	$10.98	16.7x	$884	109%	-9%	12.5x	$665	82%	18%	10.0x	$534	65%	35%
ORCL	Neutral	$131	$145	26%	$55.78	12.4x	$214	152%	-52%	9.3x	$153	114%	-14%	7.5x	$117	91%	9%
PCOR	Buy	$60	$87	58%	$1.15	14.2x	$109	185%	-85%	10.6x	$83	139%	-39%	8.5x	$67	111%	-11%
PD	Neutral	$15	$16	20%	$0.47	12.8x	$64	413%	-313%	9.6x	$48	310%	-210%	7.7x	$38	248%	-148%
RBRK	Buy	$66	$82	25%	$0.89	14.6x	$68	104%	-4%	11.0x	$51	78%	22%	8.8x	$41	62%	38%
RNG	Neutral	$24	$30	53%	$2.40	9.5x	$230	654%	-554%	7.1x	$169	490%	-390%	5.7x	$133	392%	-292%
SNOW	Buy	$147	$205	53%	$3.63	12.9x	$134	90%	10%	9.7x	$102	68%	32%	7.7x	$83	54%	46%
TEAM	Buy	$208	$305	78%	$4.79	16.9x	$309	150%	-50%	12.7x	$233	112%	-12%	10.1x	$187	90%	10%
TTAN	Neutral	$121	$110	-9%	$0.77	13.3x	$105	86%	14%	10.0x	$79	65%	35%	8.0x	$64	52%	48%
TWLO	Buy	$87	$130	112%	$4.46	7.5x	$205	230%	-130%	5.6x	$153	173%	-73%	4.5x	$122	138%	-38%
WDAY	Buy	$225	$275	53%	$8.45	12.0x	$371	163%	-63%	9.0x	$277	123%	-23%	7.2x	$220	98%	2%
WEAV	Neutral	$9	$10	60%	$0.20	12.2x	$35	394%	-294%	9.2x	$26	296%	-196%	7.3x	$21	237%	-137%
ZM	Neutral	$73	$82	18%	$4.67	4.8x	$75	103%	-3%	3.6x	$57	77%	23%	2.9x	$46	62%	38%
Average						**13.3x**		**190%**	**-90%**	**9.9x**		**143%**	**-43%**	**8.0x**		**114%**	**-14%**

**Intrinsic Value Analysis as of 04/23/25 market close*

***Excludes INFA, DBX, DH, U, ZI, SWI from our coverage*

Intrinsic Value Analysis is based on stock prices as of 04/23/25 Market Close

Source: FactSet, Company data, Goldman Sachs Global Investment Research

We reiterate our Intrinsic Value Analysis, which indicates that most of our coverage universe now trades at a discount. Our coverage is down -15% YTD, underperforming the NASDAQ by ~2 pp., as a combination of macroeconomic headwinds- tariff concerns, public sector austerity, and broader market volatility- has weighed on investor sentiment and raised concerns around weakening enterprise software demand. Despite the aforementioned macro headwinds, we see multiple fundamental catalysts enabling software companies to execute against guidance once we get past a potential expectations reset exiting this calendar year. Given the current market volatility, our intrinsic value analysis offers a useful framework for identifying attractive investment opportunities within the software sector.

We triangulate current valuations across our software coverage against the intrinsic value of software companies' current maintenance base versus the 'growth' optionality embedded in the current price. We attempt to determine the EV/S multiple of a software company in a zero-growth environment (no net new growth), akin to a bond with a fixed yield. In our zero-growth methodology, we use our standardized 4% WACC (in line with the current interest rate environment) and assume that companies limit S&M spend to replace churn, with no net new spending on growth. We also make assumptions regarding R&D and G&A intensity under a no-growth scenario, with limited investments in new product development, hiring, etc.

Using a 4% yield, the average revenue multiple for our coverage would be 9.9x. As 9.9x remains higher than what the coverage is valued at currently (6.8x, excluding the stocks excluded in the Intrinsic Value Analysis), we believe there is room for upward revision in multiples. Furthermore, with our current coverage trading at valuation levels well-below our zero-growth scenario, we'd note that should even modest growth be accounted for, our coverage would still screen dislocated relative to its intrinsic value. We also flex our assumptions to include a 3% and 5% yield, accounting for bull and bear cases. A 3% and 5% yield imply intrinsic values of 13.3x and 8.0x (+94% / +17%) from current levels, respectively.

Best Positioned Names for Navigating a Slowdown

Framework for identifying the best-positioned names to weather macro slow-down. As we evaluate our coverage to determine the most compelling investment opportunities in an uncertain macro environment, we note that the market historically favors names with a healthy balance of strong growth and profitability. At the same time, during periods of broader economic slowdown, investors are likely to lean towards companies with absolute growth potential that is likely to support a premium valuation. Therefore, similar to the framework we applied to determine the best positioned names going into CY25, we are employing a barbell approach that centers on identifying names that are either: 1) High-quality assets delivering a mix of strong growth (20%+) and profitability (25%+ FCF margin) that are likely to see solid valuation support despite a potentially more tempered growth outlook under macro uncertainty, or 2) High-growth stocks that can continue to execute despite a more dynamic macro backdrop with the defining characteristics of expansive market opportunities, clear product-market fit, and strong operational execution. In our high-quality list, we highlight: DDOG, NOW, MNDY, SNOW, TEAM. In our durable high-growth list, we highlight: RBRK, IOT, and GTLB.

High Quality Assets with a Balanced 'Rule Of' Profile

Datadog (12-month PT $127): We highlight Datadog in the current macro environment as a high-quality asset with an attractive combination of 26% top-line growth and 29% FCFM as of FY24. We continue to believe that Datadog's strategic positioning as a leading end-to-end observability platform should enable it to sustain a growth rate of 20%+ for the foreseeable future. Despite near-term macro uncertainty, we believe that Datadog will remain resilient and continue to deliver strong execution, given the mission-critical use-cases supported by its observability and monitoring solutions. Our conviction is further supported by the increasing contribution from AI revenue (comprising 6% of ARR in F4Q24 vs. 3% in F4Q23), which we believe can continue outpacing the growth of the 'Core'. Coupled with healthy in-quarter metrics (NRR inflecting from mid-110's to high 110's in F4Q), we remain constructive on Datadog's ability to scale into a $10bn business, support by secular tailwinds such as platform consolidation and DX / Gen-AI value garnering at the platform layer near-term as a robust expansion opportunity.

ServiceNow (12-month PT $1,150): We highlight ServiceNow as a high-quality asset with 20%+ long-term Subscription Revenue growth potential, a strong and expanding FCF margin profile (>30%), and a solid balance sheet, meeting the key characteristics of a defensive software asset while still providing growth at-scale. We see additional support from ServiceNow's broadly reiterated FY25 Subscription Revenue guidance of

+19.5% CC (albeit -25 bps below prior), underpinned by strong cRPO growth (+22% CC in F1Q) and healthy pipeline trends. We also believe the current guidance appropriately contemplates risk from ongoing geopolitical uncertainty and potential Federal IT spending rationalization – Management is assuming ~flat Fed NNACV from 2Q-4Q despite +30% PubSec NNACV growth in F1Q. With NOW >20% off all-time highs (and at ~36x EV/FCF CY26), we believe the stock is priced at an attractive entry point, notwithstanding the turbulent macro period. ServiceNow remains the standard for selling on customer value, which we believe will enable the company to continue to gain share of IT budgets against a potentially more constrained spending backdrop, as in prior cycles. This is further complemented by ServiceNow's deeper foray into the massive CRM market as well as through the rollout of its AI-enabled Pro Plus SKUs, which we believe can be further augmented by the company's pending Moveworks acquisition.

Monday.com (12-month PT $320): We highlight Monday.com in the current macro environment as a high-quality asset with best-in-class unit economics, at a Rule of 60+ profile in FY24, which we believe justifies a premium vs. peers. We enter FY25 positive on Monday's strong product foundation, scaling go-to-market initiatives, and durable margin profile. We remain constructive on Monday's path to becoming a strategic software provider and supporting sustained high 20% growth as: 1) Newer products scale (like CRM, Dev, and Service), 2) Bolstered Work Management capabilities drive wider deployments and support expansion upmarket, and 3) An increasing focus on AI products should support customer retention and eventual monetization. We highlight Monday's tangible momentum in AI usage last quarter, with ~10mm total AI actions (vs. ~3mm/~1mm in Q3/Q2), Monday Expert launching in March, and the introduction of consumption-based pricing for AI Blocks (priced per successful request/block).

Snowflake (12-month PT $205): We highlight Snowflake in the current macro environment as a high-quality asset with an attractive combination of mid-20s topline growth and 25%+ FCFM, supported by stabilizing fundamentals and solidification of long-term growth strategy under the current management. We believe Snowflake is on a firmer footing to re-establish itself as a compounding growth asset with FCF support, underpinned by stabilizing core business, growth optionality via new products, and a more efficient GTM motion. We highlight that the core Data Warehousing/Engineering opportunity remains intact with NRR steadying at +126% (vs. +127% in 2Q/3Q), coupled with product velocity accelerating across Snowpark, Iceberg, and Cortex AI. At the same time, we also see Snowflake delivering OpM expansion following an AI investment cycle in CY25 coupled with a more efficient GTM motion, offering FCF support going forward. Looking ahead, we believe that as Snowflake can become core to the development of AI applications at the platform layer and a long-term beneficiary of the Gen-AI cycle as spend permeates from Infrastructure into the Platform layer.

Atlassian (12-month PT $305): We highlight Atlassian in the current macro environment as a high-quality asset with durable 20%+ revenue growth and high-20s/low-30% FCF margin through FY27. As Atlassian's GTM business evolves and AI services continue to scale, we expect conviction to grow around Atlassian executing on its 20% Cloud CAGR through FY27 and, long term, for Atlassian to grow to become a

$10bn business. In particular, with >1mn monthly users of AI capabilities and growing customer enthusiasm around adoption, the company's competitive pricing leaves us increasingly positive around Atlassian's long-term positioning, despite less near-term revenue upside from AI contribution. With customers expressing slight hesitation in buying behavior (though not a pause/freeze) given macro uncertainty, this strategy may prove strategically sound longer-term, supporting near-term experimentation with Rovo that can further establish Atlassian over time.

High Growth Assets

GitLab (12-month PT $63): We highlight GitLab as a best-in-class compounding growth asset that can continue to drive mid-20s growth and expanding FCF margins amid broader macro uncertainty. In particular, as we highlighted in our Private Software Company Conference note, we see the developer tool ecosystem as first movers in the AI adoption cycle, noting many tools are already seeing strong adoption and capturing budget share. We believe Gitlab's strong competitive positioning, best-of-breed Gen-AI products, steadfast execution, and upmarket motion position the company well to execute on this opportunity. More broadly, with GitLab's focus refined around 1) Adding new paying customers (particularly in the mid-market/enterprise), 2) Customer expansion, and 3) Pace of innovation, we believe there remain multiple opportunities to drive long-term growth. GitLab is emerging as a clear leader in the fragmented DevOps market driven by its full suite covering the stages in the entire SDLC market, ease-of-use, scalability and focus on R&D and innovation, all of which can drive expanding wallet-share in a $40bn+ opportunity.

Samsara (12-month PT $46): We highlight Samsara as a best-in-class compounding growth asset that can continue to deliver 30%+ topline growth amid broader macro uncertainty. Our outlook is underpinned by Samsara's significant competitive advantages in a large, underpenetrated TAM while delivering consistent product innovation with operating leverage. We are further encouraged by Samsara's expanding DBNRR across the core at >115% and large customers at >120%, growing contribution from emerging products (contributing 15% of NNACV), accelerating international growth (contributing 17% NNACV), and strength across key verticals (e.g., Construction). Over time, we see Samsara evolving into a broader workflow application platform beyond its core telematics and driver safety products, expanding its footprint across a significantly larger asset management market outside of core domains. With a compounding growth trajectory within a largely underpenetrated TAM, we remain constructive on the potential for Samsara to eventually break into the $5bn scale over the long-term.

Rubrik (12-month PT $82): We highlight Rubrik in the current macro environment as a best-in-class growth asset that can drive 20%+ ARR growth long-term with an elevated FCF margin expansion cadence. We believe Rubrik is uniquely suited to continue to disrupt legacy competitors in the $11B+ Backup and Recovery market given its next-gen data security platform with ever-expanding functionality. We remain compelled by Rubrik's ongoing innovation velocity - extending workload coverage (re: Postgres, Red Hat OpenShift, OCI), launching new products such as Identity Recovery and natively integrating DSPM within RSC – reaffirming our view that Rubrik can expand its Cyber Resilience TAM. Even in a constrained macro environment, we see Rubrik well-positioned to execute given the company's already strong value proposition to the enterprise that enables CIOs to repurpose existing backup budgets for a next-generation data security platform that often comes with considerable TCO reduction vs. incumbent offerings.

Valuation and Key Risks

ADBE: We lower our 12-month price target to $570 (vs. $640 prior) on the back of the recent sell-off due to macroeconomic uncertainty. Our price target is based on a three-pronged valuation framework based on equal weights to a DCF, EV/Sales multiple, and a P/E multiple. Our DCF assumes a 4% perpetual growth rate (unchanged). We use a 7x Q5-Q8 EV/Sales (vs. 9x prior) to mark-to-market our multiple to better align with Rule-of-50+ peers and a 24x Q5-Q8 P/E multiple (vs. 28x prior) to better align with large-cap peers.

Key risks include: 1) slower and more volatile Digital Experience growth, 2) slower net new subscriber additions, 3) higher expense growth limiting margin expansion, and 4) increased competition.

ADSK: We lower our 12-month price target to $270 (vs. $295 prior) as we mark-to-market our target multiples on the back of the recent sell-off across broader software. Our price target is based on a three-pronged valuation framework based on equal weights to a DCF, EV/FCF multiple, and a P/E multiple. Our DCF assumes a 3% perpetual growth rate (unchanged). We use a 27x Q5-Q8 EV/FCF (vs. 32x prior) and a 28x Q5-Q8 P/E multiple (vs. 30x prior) to better align with large-cap, as well as Engineering and Design vertical peer group.

Key upside risks include: 1) Faster than expected adoption of construction software, 2) More resilient demand in cyclical end-markets such as manufacturing and commercial construction, 3) Greater pace of monetization of non-compliant users, and 4) Faster margin expansion.

Key downside risks include: 1) A pressured macro backdrop resulting in continued cost-consciousness amongst end-markets, 2) Reduced ability to generate pricing leverage should customers decide the inherent value of the product suite doesn't justify the updated pricing, and 3) The new transaction model roll out in Western Europe and Japan proving more difficult than initial expectations.

BASE: We lower our 12-month price target to $15 (vs. $16 prior) as we mark-to-market our target multiples on the back of the recent sell-off due to macroeconomic uncertainty. Our price target is based on a three-pronged valuation framework based on a 42.5% weight to a DCF, 42.5% weight to a target EV/Sales multiple, and a 15% weight to an M&A target theoretical multiple. Our DCF assumes an implied perpetuity growth rate of ~2% (unchanged). Our EV/Sales valuation is based on 2.5x our Q5-Q8 (vs. 2.7x previously) revenue estimate. For our M&A framework, we apply a 8x EV/Sales multiple (unchanged).

Key upside risks include 1) Faster-than-expected cloud momentum, as Couchbase Capella remains in relatively early stages of adoption, Capella exhibiting meaningful adoption momentum and / or contributing a larger portion to Total ARR could result in upside. 2) Faster-than-expected growth in NoSQL database as digital transformation and re-platforming of legacy applications drive growth in the marketplace, and 3) Better-than-expected operating leverage as high gross margins alongside a building partner ecosystem and incremental focus on bottom-up adoption should provide operating leverage over time. Namely, should these factors contribute to accelerated profitability timeline, investors could become more comfortable with the name.

BSY: We lower our 12-month price target to $41 (vs. $42 prior) as we mark-to-market our target multiples on the back of the recent selloff in software. Our price target is derived from an equal weighting of a DCF and EV/FCF. Our DCF implies a ~3.5% perpetuity growth rate (unchanged), and we apply 31x EV/FCF on Q5-Q8 estimates (vs. 33x prior). We lower our EV/FCF multiple to better align with broader Engineering and Design peer group, as well as considering peers that share comparable Rule-of-40 operating profiles.

Key upside risks include: 1) Stronger-than-expected expansion momentum within installed base (via mix accretion and consumption) supports upside to top-line guidance in F25, 2) Public infrastructure investments globally (including U.S. IIJA bill) become more meaningful contributors to revenue, supporting higher and more durable revenue growth, 3) More difficult selling environment in China subsides, providing marginal upside relative to guidance set forth by management, and 4) Commercial facilities market proves more resilient, despite expectations for softening demand in the sub-sector, 5) Material revenue contribution from better-than-expected consumption on E365, SMB-focused Virtuosity, and new opportunities (e.g., Asset Analytics), 6) Stronger-than-expected execution in driving incremental operating efficiencies, delivering greater OpM expansion above current expectations.

CFLT: We lower our 12-month price target to $25 (vs. $31 prior) as we adjust our target multiple to reflect recent sell-off in software. Our price target is derived from an equal weighting of a DCF (~4% risk-free-rate, unchanged; ~3% perpetuity growth rate, unchanged), and 3.5x Q5-Q8 EV/Sales (6.5x prior) to better align with Rule-Of-30 and infrastructure peers.

Key upside risks include: 1) faster than expected adoption of event stream processing technology, 2) accelerated adoption of Confluent's platform, particularly given strong developer mindshare and widespread Apache Kafka usage, 3) faster than expected profitability.

Key downside risks include: 1) incremental competition, particularly from CSPs with established go-to-market relationships and broader platform offerings, 2) execution risks, as much of the senior leadership is relatively new to the company, 3) free cash flow burn, and 4) slower than expected adoption of event stream processing technology.

CRM: We lower our 12-month Price Target to $340 (vs. $400 prior) as we adjust our target multiple to reflect the broader de-rating in software, particularly to better align with large cap peers. Our price target is derived from an equal weighting of a DCF (~2% perpetuity growth rate, unchanged), 24x Q5-Q8 EV/FCF (vs. 29x prior), and 7x Q5-Q8 EV/Sales (vs. 9x prior).

Key downside risks include: 1) Sales execution, 2) Macroeconomic slowdown, 3) Unsustainable pace of acquisitions, 4) Slower than expected operating margin expansion or higher than expected expense growth, and 5) Adverse changes in the IT spending environment.

DBX: We reiterate our 12-month price target of $20 while opting to remove our EV/Sales multiple, which we believe is appropriate given Dropbox's slowing growth profile and solid FCF generation. As such, we believe that forward operating outlook will be largely centered around profitability (38% OpM, 35% FCFM in FY25E). Our new valuation methodology is based on a two-pronged valuation framework based on a 50% weight to a DCF, 50% weight to target EV/FCF. Our DCF assumes an implied perpetuity growth rate of ~(1)% perpetuity growth rate (unchanged), and we lower our EV/FCF multiple to 8x Q5-Q8 EV/FCF (vs. 10x prior) to better reflect peers with a similar FCF growth profile.

Key upside risks include: 1) Management's guidance is adequately prudent, leading to upside of current expectations and a potential return to a strong beat-and-raise cadence. Management's guidance methodology is based on current business trends and avenues of growth with a high degree of visibility so any improvement in current trends may support outperformance, 2) stronger than expected growth in the company's paid user base after the first sequential decline in this metric in 4Q and choppier top-of-funnel conversion given recent pricing/packaging changes, 3) better than expected traction of bundled offerings, premium solutions or upselling - which can translate to improved ARPU growth, 4) DBX is able to introduce compelling new products that can re-accelerate revenue growth at a faster rate than currently modeled, and 5) DBX is able to show outsized margin leverage on both OM and FCF despite investments in product, sales and hiring.

DDOG: We lower our 12-month price target to $127 (vs. $162 prior) as we modestly reduce our EV/Sales in light of recent sell-off in software. We opt to maintain a premium to Rule-of-50 peers given our conviction in Datadog as a compounding growth asset with durable 20%+ topline growth rate at scale and 25%+ FCFM. Our Price Target is based on a 50%/50% weighting of EV/Sales and DCF. We use an EV/NTM Sales multiple of 8.5x (vs. 15x previously). Our 10-year DCF assumes a perpetuity growth rate of ~3% (unchanged).

Key downside risks include: 1) Decline in sales growth from lower SMB contribution, 2) Declining sales productivity, 3) Increased competition from both observability and hyperscaler vendors, 4) Lack of traction of newer products, and 5) optimization headwinds persist.

DT: We lower our 12-month Price Target to $56 (vs. $70 prior) as we update our multiple to mark-to-market given the recent sell-off in software. Our price target is derived from an equal weighting of a DCF with a ~3.5% perpetuity growth rate (unchanged), 7x

EV/Sales (vs. 10.5x prior) and 26x EV/uFCF (vs. 35x prior) on Q5-Q8 estimates to better align with Rule-Of-40+ peers.

Key downside risks include: 1) Increased competition in observability and monitoring from hyperscale cloud providers such as Microsoft, Google, and AWS, and point providers such as Datadog, Elastic, AppDynamics (Cisco), New Relic, 2) Slower-than-expected traction with new modules, 3) Execution risk from incremental investments into sales and marketing, 4) Risk of increased churn from customer renewals, and 5) Slower-than-expected new logo additions.

ESTC: We lower our 12-month price target to $91 (vs. $121 prior) as we mark-to-market our target EV/Sales multiple to Elastic's Rule-Of-30 peers. Our price target is based on our fundamental valuation framework (equal blend of DCF and EV/Sales). Our DCF assumes an implied perpetuity growth rate of ~2% (unchanged). Our EV/Sales valuation is based on 4x (vs. 7.5x previously) on our Q5-Q8 estimates.

Key upside risks include: 1) Faster market adoption of secular trends such as search, logging, APM, big data and SIEM, and 2) Elastic potentially being acquired.

Key downside risks include: 1) Sales execution, 2) Macroeconomic slowdown resulting in increased deal scrutiny and longer sales cycles, 3) Slower than expected operating margin expansion or higher than expected expense growth, and 4) Adverse changes in the IT spending environment.

GTLB: We lower our 12-month price target to $63 (vs. $80 prior) and lower our EV/Sales multiple to mark-to-market in light of de-rating across broader software. Our price target is derived from an equal weighting of a DCF and EV/Sales. Our DCF implies a ~3% perpetuity growth rate (unchanged) and we apply a 4x Q5-Q8 EV/Sales (vs. 9x prior) to better align with Rule-Of and industry peers.

Key downside risks include: 1) Incremental competition from a number of large software platform companies such as Microsoft and Atlassian, and a number of pure-play DevSecOps vendors such as JFrog, Jenkins, CircleCI, and Grafana, 2) Slower-than-expected adoption of expanded platform stages such as Plan, Secure, Package, Verify, and Configure, 3) Slower-than-expected traction with the upmarket motion and enterprise customer growth, 4) Higher-than-expected customer attrition, and 5) Longer-than-expected FCF burn.

INFA: We lower our 12-month Price Target to $18 (vs. $20 prior). Our Price Target is derived from an equal weighting of a DCF and EV/uFCF. Our DCF implies a ~2% perpetuity growth rate (unchanged) as we adjust our long-term expectations for a slowing cloud transition, and we use a 10x Q5-Q8 EV/uFCF (vs. 13x prior) based on a discount attributed to the lower ARR growth expectation and lowered FY25 topline guidance.

Key upside risks include: 1) Faster than expected adoption of cloud products, 2) Lower-than-expected churn and attrition, 3) Better than expected traction with the upmarket motion, 4) Better than expected conversion uplift from the potential maintenance base migration, 5) Outperforming competing products.

Key downside risks include: 1) Heightened competition from large software companies like Salesforce, Microsoft, AWS. 2) Slower than expected enterprise customer growth and upmarket motion, 3) Lower than expected conversion uplift from the Maintenance/Self-Managed ARR base, 4) Higher than expected customer attrition.

INTU: We lower our 12-month price target to $750 (vs. $860 prior) as we update our multiples to mark-to-market given the recent sell-off in software. Our PT is derived from a three-pronged, equal-weighted blend of an EV/FCF multiple, P/E multiple and DCF. We lower our EV/FCF target multiple to 27x our Q5-Q8 FCF estimates (vs. 32x prior) and our P/E target multiple to 26x Q5-Q8 EPS (vs. 33x prior) to better align with large-cap peers. Our 10-year DCF assumes a perpetual growth rate of ~3% (unchanged).

Key downside risks include: 1) Increased SMB failures and churn related to macro headwinds, 2) Higher than expected competition in both SMB and consumer businesses limiting Intuit share gains, 3) Decelerating customer growth and higher than expected attrition, 4) Slower than expected adoption of QuickBooks Online, QuickBooks Advanced, and TurboTax Live, 5) Slower adoption of Intuit's higher priced assisted offerings, thereby limiting ARPC growth, 6) Online ecosystem growth slowing and not reaching long-term targets for 30% growth, 7) Synergies between core Intuit, Credit Karma, and Mailchimp taking longer than expected to materialize, 8) Incremental competition from Microsoft, Salesforce, Hubspot in the SMB segment, 9) Slower than expected margin expansion.

IOT: We lower our 12-month price target to $46 (vs. $50 prior) as we mark-to-market our multiple for the recent de-rating in broader software. At the same time, we lower our EV/S multiple to better align with best-in-class growth peers with a modest premium, which we view as appropriate given our conviction in Samsara's ability to deliver durable high-20's% topline growth while achieving meaningful FCF expansion, underpinned by the company's leadership position in a large underpenetrated market. Our Price Target is derived from an equal weighting of a DCF (~3% perpetuity growth rate, unchanged) and 13x Q5-Q8 EV/Sales (vs 15x prior).

Key downside risks include: 1) Potential risk of increase in competition from solutions such as Verizon Connect, Omnitracs, etc, 2) Higher than expected exposure to industries sensitive to supply chain constraints / macroeconomic uncertainty could result in revenue downside, and 3) Potential data privacy issues: any breach/delay in the implementation of or attendance to regulatory concerns and demands could negatively affect official views of Samsara and concomitantly reduce customer confidence in the reliability of the company's data management processes.

MDB: We lower our 12-month Price Target to $220 (vs. $335 prior) as we lower our EV/Sales multiple to better reflect MongoDB's forward growth profile to commensurate with Rule-of-35+ peers, and introduce an EV/FCF multiple of 28x to reflect MongoDB's progress in delivering material positive FCF's in the past two years and our expectation for continued FCF growth ahead (>40% from FY25-27).

Our new valuation methodology is now based on a three-pronged valuation framework based on a 33.33% weight to a DCF, 33.33% weight to target EV/FCF multiple and

33.33% weight to a target EV/Sales multiple. Out DCF assumes an implied perpetuity growth rate of ~3.5% perpetuity growth rate (unchanged), and we lower our EV/Sales multiple to 5x Q5-Q8 EV/Sales (vs. 9x prior). Our EV/FCF valuation is based on 28x our Q5-Q8 FCF estimate, comparable to industry peers growing FCF 40%+.

Key downside risks include: 1) Adverse changes in the IT spending environment and spending priorities, 2) Competition in the non-relational database market, particularly from proprietary offerings from cloud service providers (CSPs), 3) The ramp to profitability as the company continues to invest ahead of a large and growing market opportunity, 4) Slowing pace in public cloud adoption, and 5) Potential for rising interest rates.

MNDY: We lower our 12-month price target to $320 (from $400 prior) as we mark-to-market in light of the de-rating across broader software. Our price target is based on an equal weighted DCF analysis and EV/Sales multiple. Our DCF assumes a 3% perpetual growth rate (unchanged). We apply an 8.5x Q5-Q8 EV/Sales multiple (vs. 14x prior) to better align with other Rule Of 50+ peers.

Key downside risks to our thesis include: 1) incremental competition as Monday.com faces competition from a number of pure-play project management vendors such as Asana, Smartsheet, Atlassian, and Microsoft, 2) slower-than-expected adoption of adjacent use-cases, 3) slower-than-expected traction with the upmarket motion and enterprise customer growth, 4) higher-than-expected customer attrition, and 5) longer-than-expected free cash flow burn.

MSFT. Our 12-month price target to $450 is derived from an equal weighting of a DCF (~3% perpetuity growth rate, unchanged), 33x Q5-Q8 EV/FCF, and 27x Q5-Q8 P/E.

Key downside risks include: 1) slower than anticipated public cloud adoption, 2) overall slowdown in IT spending, 3) slower pace of margin expansion, and 4) adverse competitive landscape.

NOW: We reiterate our 12-month Price Target of $1,150. Our Price Target is derived from an equal weighting of a DCF (perpetuity growth rate of ~3%, unchanged), 45x Q5-Q8 EV/FCF (unchanged) and 14x Q5-Q8 EV/S (unchanged).

Key downside risks include: 1) Execution risk limiting growth in new markets, 2) Slower new business growth and longer sales cycles, and 3) Higher expense growth limiting margin expansion. We also note a potential slowdown in net new ACV or customer expansion would likely limit revenue growth in the near term. Furthermore, investors may view the potential of a large M&A transaction as a risk to margin expansion

ORCL: We lower our 12-month Price Target to $145 (vs. $165 prior) as we mark-to-market in light of the de-rating across broader software. Our Price Target is derived from an equal weighting of a DCF (~3% perpetuity growth rate, unchanged), 20x Q5-Q8 P/E (vs. 28x prior) to better align with large-cap peers with a modest discount given its relatively weaker Rule-Of profile, and 50x Q5-Q8 EV/FCF (unchanged).

Key upside risks include: 1) Reversal of losses in database market results in higher overall top-line growth relative to expectations, 2) Outsized share gains in the IaaS business via net new logos (e.g. Hyperscaler displacements) and customer migrations supports higher growth, 3) Aggressive cost cuts from Cerner acquisition result in meaningful pull-forward to F26 op. margin target of 45%, 4) Re-acceleration of the Cerner business from mid-single digits, 5) Better-than-expected success of Autonomous Database as Oracle converts its maintenance database customers, and 6) Acceleration in Generative AI workloads understates longer-term revenue potential for IaaS business.

PCOR: We lower our 12-month Price Target to $87 (vs. $95 prior) as we modestly lower our EV/Sales multiple to better align with vertical SaaS peers. Our Price Target is derived from an equal weighting of a DCF (~3% perpetuity growth rate, unchanged) and 8.0x Q5-Q8 EV/Sales (vs. 9.5 prior).

Key downside risks to our thesis include: 1) Heightened competition from a number of vendors, including Autodesk, which remains focused on the company's construction offering, Autodesk Construction Cloud, 2) Lower-than-expected product attach rates or construction volume expansion within the company's installed base, weighing on potential revenue outperformance, 3) Longer-than-expected GTM transition, 4) Execution challenges in re-accelerating the international business, which remains a key long-term growth vector for the company (and thus limiting the durability of double-digit revenue growth), and 5) Slower-than-expected digitization within the construction industry, limiting Procore's overall addressable market opportunity.

PD: We lower our 12-month Price Target to $16 (vs. $18 prior) as we update our target multiple following the sell-off in software stocks. Our valuation methodology is based on a 50% / 50% split between a DCF and an EV/Sales multiple approach. Our DCF is based on an implied perpetuity growth rate of ~2% (unchanged), while we use a 2x Q5-Q8 EV/Sales (vs 3x prior) to mark-to-market our multiple to better align with Rule-of-25/30 peers like INFA, RNG, WEAV.

Key Upside Risks: 1) Re-accelerating top-line growth via broader-based multi-product adoption, especially given PD is favorably positioned against the existing Long-Term operating model, 2) A more amenable macro backdrop that results in more hiring, thereby leading to heightened customer adoption of Incident Management (which accounts for a majority of ARR), 3) Total Paid Customers and $100K+ Customers see a more accelerated growth cadence (especially as $100K+ customers account for >60% of PD's ARR base)

Key Downside Risks: 1) Increasingly competitive landscape, partially highlighted by DDOG's recent release of CSM which appears to compete with PD's Incident Management product, 2) Customers continuing to view PD as a more discretionary offering, partially evidenced by the growth rate halving from F23 (32%) to F24 (16%), and 3) A longer-than-expected timeline to more broad-based product adoption amongst the customer base, leaving PD overly indexed to Incident Management.

RBRK: We reiterate our 12-month Price Target of $82. Our valuation methodology is based on an EV/S multiple approach. We apply a ~13x NTM EV/S multiple to Rubrik's SNTM sales (unchanged).

Key downside risks to our thesis include: 1) Heightened competition from Cohesity, Commvault and Veeam, amongst others, limits Rubrik's ability to capture a sizable portion of the legacy Backup and Recovery market, 2) Industry consolidation, akin to Cohesity combining with Veritas' data protection business, leading to better-resourced peers with improved distribution footprints and more competitive product offerings, impacting Rubrik's win rates, 3) Elevated product development and sales and marketing expenditures prolong path to breakeven FCF (F26) relative to GSe, and 4) Slower-than-expected adoption of next-generation backup and recovery solutions limits Rubrik's addressable market opportunity.

RNG: We lower our 12-month Price Target to $30 (vs. $36 prior) as we lower our multiple to mark-to-market given the derating in broader software while reflecting UCaaS peers with slowing growth trajectories. We further opt to introduce an EV/FCF multiple in replacement of the EV/Sales multiple, given RingCentral's slowing growth trajectory, we see its stable profitability profile (23% OpM, 20% FCFM in FY25E) to be more representative of the company's forward operating outlook.

Our Price Target is based on a three-pronged valuation framework based on a 42.5% weight to a DCF, 42.5% weight to a target EV/FCF multiple, and a 15% weight to an M&A target multiple. Our DCF assumes an implied perpetuity growth rate of ~1% (unchanged). Our EV/FCF valuation is based on 5x our Q5-Q8 revenue estimate, of which we apply a discount to peers given RingCentral's lower FCF growth trajectory. Our M&A target multiple is based on a discount to precedent transaction multiples (~4.5x) to reflect a more viable takeout premium for RingCentral in lieu of recent share price declines, idiosyncratic risks, and a higher cost of capital environment.

Key upside risks include: 1) Better-than-expected subscription revenue growth in F24/F25 based on an improvement to the macro-environment, 2) Share gains versus larger peers such as Microsoft and Zoom supporting higher and more durable revenue growth than our estimates consider, 3) Higher-than-expected operating leverage beyond F23 via higher S&M efficiency, and 4) Higher contributions from strategic partnerships (including Avaya/Mitel), which to date have been relatively immaterial to overall seat count.

Key downside risks include: 1) Inability to execute on the strategic partnerships, 2) Significant and sustained increase in competition, 3) Revenue deceleration, 4) Macroeconomic slowdown, 5) Slower-than-expected operating margin expansion or higher than expected expense growth, and 6) Adverse changes in the IT spending environment.

SNOW: We lower our 12-month price target to $205 (vs. $225 prior) as we mark-to-market our multiple for the recent de-rating in broader software. We opt to maintain a premium to Rule-of-50+ peers given our conviction in Snowflake's durable mid-20's revenue growth rate at scale with expanding FCFM's. 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 12x Q5-Q8 EV/Sales multiple (vs. 15x prior).

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.

TEAM: We lower our 12-month price target to $305 (vs. $370 prior) as we update our multiples to reflect the recent de-rating across broader software. We opt to maintain a modest premium to Rule-of-50+ peers given our conviction in Atlassian's durable 20%+ revenue growth with expanding FCFM's. Our price target is now derived from an equal weighting of a DCF (~3% perpetuity growth rate, unchanged), an 8x Q5-Q8 EV/Sales multiple (vs. 13x prior), and a 28x EV/FCF multiple (vs. 35x prior) to better align with Rule-of-50 peers.

Key downside risks include: 1) Higher churn from cloud transition, as price increases from cloud products could delay the cloud migration decision, 2) Potential risk of increase in competition, from players like MNDY, GTLB, etc, 3) Decrease in S&M efficiency as TEAM has one of the best in class S&M efficiency. Additional investments in the cloud transition journey could potentially impact S&M efficiency, and 4) Adverse impact on IT spending environment in the current macroeconomic environment could potentially result in IT budgets being trimmed.

TWLO: We lower our 12-month price target to $130 (vs. $185 prior) as we market-to-market our multiple given the de-rating across broader software while opting to remove EV/Sales multiple, which we believe is appropriate given that the company has reached maturity at scale with steady revenue growth. We believe that EV/FCF is more appropriate given Twilio strategic lean-in towards its profitability profile and our expectation for strong FCF growth ahead (>20% from FY24-26). Our new two-pronged valuation framework is based on a 50% weight to a DCF, 50% weight to a target EV/FCF multiple. Our DCF assumes an implied perpetuity growth rate of ~3% (unchanged). Our EV/FCF valuation is based on 12x our Q5-Q8 FCF estimate (vs. 26x prior) to better align with UCaaS peers while applying a premium given our belief in Twilio's solid FCFM expansion ahead.

Key downside risks include: 1) Usage-based model can lead to volatility in quarterly revenue, 2) Increased competition from Microsoft, AWS, open-source or homegrown solutions, 3) Price competition could lead to customer churn and market share losses, 4) Platform outages could risk customer trust, 5) Inability to improve Segment's operating profile could present a headwind to growth and margins and, 6) Inability to drive further operating leverage in the model.

WDAY: We raise our 12-month price target to $275 (vs. $345 prior) as we mark-to-market our multiple given the de-rating across broader software. Our price target is derived from an equal weighting of a DCF (~3% perpetuity growth rate, unchanged), and a 6x Q5-Q8 EV/Sales multiple (vs. 9x prior) to better align with large-cap peers.

Key downside risks include: 1) Financials traction remains in early innings, 2) Changes in the competitive landscape, and 3) Slowing SaaS adoption in HCM.

WEAV: We lower our 12-month Price Target to $10 (vs. $15 prior) as we update our target multiple following the sell-off in software stocks. Our Price Target is derived from an equal weighting of a DCF (~3% perpetuity growth rate, unchanged), and a 2.5x Q5-Q8 EV/Sales multiple (vs. 5.5x previously, in order to better compare with Rule Of 30 peers).

Key upside risks include: 1) Improvements in macroeconomic environment, 2) Upside to revs as sales reps ramp up and sales productivity improves, 3) Incremental improvements in sales from revamp in the GTM engine, and 4) Recovery in in-person events.

Key downside risks include: 1) Incremental competition from a number of large software platform companies such as RingCentral, Twilio, HubSpot, 8x8, Square, and Dentrix, 2) A worsening macro and SMB landscape, 3) Slower than expected customer additions, and 4) A longer than expected return to in-person industry events.

ZI: We lower our 12-month Price Target to $7.50 (vs. $8.40 prior) as we mark-to-market our multiple given the recent de-rating in broader software. We further opt to remove the EV/Sales multiple, given that ZoomInfo is a scaled asset with slowing revenue growth and high FCFM. As such, we believe that investors will lean towards ZoomInfo's profitability profile (36% OpM, 36% FCFM in FY25E) when evaluating the company's forward operating outlook. Our new two-pronged valuation framework is based on 50% weight to a DCF and 50% weight to a target EV/uFCF. Our DCF implies a 2% perpetuity growth rate (unchanged) and 11% WACC (unchanged). We apply a 5x Q5-Q8 EV/uFCF (vs. 6x prior) to better align with Rule-Of-Peers. Given ZoomInfo's lower growth and margin profile in FY25, we believe ZI warrants a modest discount to peers with a similar Rule-Of profile.

Key upside risks include: 1) faster than anticipated rebound in hiring activity that is additive to seat growth and strong upsells, 2) improvement in KPIs such as NRR and cRPO as deal sizes normalize in a stable macro environment, 3) improvement in macro dynamics, positively impacting hiring sentiment and enterprise IT budgets, and 4) diversification of ZI's customer base from tech/ software verticals.

ZM: We lower our 12-month price target to $82 (vs. $86 prior) as we update our target multiple following the sell-off in software stocks. We further opt to remove the EV/Sales multiple, given that Zoom is a scaled asset with stabilizing revenue growth and high FCFM. As such, we believe that investors will lean towards Zoom's profitability profile (39% OpM, 36% FCFM in FY25E) when evaluating the company's forward operating outlook. Our new three-pronged valuation framework is based on a 42.5% weight to a DCF, 42.5% weight to a target EV/FCF multiple, and a 15% weight to an M&A target multiple. Our DCF assumes an implied perpetuity growth rate of ~1% (unchanged). Our EV/FCF valuation is based on 9x our Q5-Q8 FCF estimate (vs. 11x prior) to better align with UCaaS peers. For our M&A framework, we apply a 5.5x EV/S multiple (unchanged), based on precedent transactions.

Key upside risks include: 1) Less-than-expected churn, 2) Faster platform (Phone, Rooms, Events) momentum, 3) Increased channel contribution, and 4) Better-than-feared operating environment (i.e. soft-landing for economy).

Key downside risks include: 1) Potential reversals in pre-COVID work mentality, 2)

Lower-than-expected normalized revenue growth, 3) Significant and sustained increase in competition, 4) Sales execution, 5) Macroeconomic slowdown, 6) Slower-than-expected operating margin expansion or higher-than-expected expense growth, and 7) Adverse changes in the IT spending environment.

Disclosure Appendix

Reg AC

We, Kash Rangan, Matthew Martino, Selina Zhang, 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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