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Business Services Cross-Sector Spotlight

Gartner's Research CV trends as a read-through to enterprise tech spending

Business Services Cross-Sector Spotlight
Bridging data points across industries
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In this month's edition of the Business Services Cross-Sector Spotlight series, we examine Gartner's Research contract value (CV) trends as a read-through to broader enterprise technology spending. Companies leverage Gartner's research to optimize their tech spend since its IT research provides insights on the latest technologies, vendors, implementation best practices, peer benchmarking, risks and costs. Over the past year, Gartner's Research CV trends have strengthened, with growth in 2Q and 3Q accelerating from 1Q on improving tech vendor performance. We believe this improving CV growth trajectory has positive implications for enterprise tech spending, corroborated by a strong correlation between Gartner's Research revenue over the past 15 years and our GS IT Spending Index, which posted a healthy reading in 2H 2024 that comes meaningfully above 1H 2023 levels. We find public cloud adoption intentions remain strong and CIOs plan to allocate an increasing proportion of their IT budgets to Gen AI. Commentary from Software companies during the 3Q earnings cycle also indicate the enterprise tech spending environment has stabilized, with a constructive outlook for 2025. Against this backdrop, we favor Buy-rated Gartner in the Business Services space given accelerating Research CV growth accompanied by healthy EBITDA margin flow-through. In the Software universe, we believe strengthening enterprise tech spending has positive implications for Buy-rated CRM, DDOG, INFA, MNDY, MSFT, NOW, SNOW and WDAY.

Overview of the Business Services Cross-Sector Spotlight Series

Our Business Services Cross-Sector Spotlight Series takes data points, trends and themes from the Business Services sector and applies them as a read-through to other sectors. The Business Services sector is distinguished by its heterogeneous nature, which we view as a key advantage for investors since it provides exposure to

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multiple corners of the economy spanning numerous industries and diverse operational drivers. Business Services companies are tied to trends in consumer credit (EFX, TRU, FICO), debt capital markets (SPGI, MCO), technology spend (IT), healthcare and IP (CLVT), buy-side and sell-side budgets (FDS, MSCI), staffing and employment (KFY, MAN, RHI), data centers (IRM), insurance (VRSK), commercial and residential real estate (CSGP) and many more. Performance among Business Services companies can provide insights into their respective end-markets and can also uncover surprising relationships, such as employer-sponsored child care center occupancy rates (BFAM) and the health of office REITs or server decommissioning revenues (IRM) and semiconductor component prices. Our Business Services Cross-Sector Spotlight series aims to bridge data points across industries that may not be immediately obvious to uncover attractive investment opportunities.

Pertinent Business Services Data Points

Gartner's research is essential for IT spend. In this month's edition of the Business Services Cross-Sector Spotlight series, we explore Gartner's IT Research contract value (CV) trends as a read-through to broader enterprise technology spending. Enterprises are constantly evaluating new technologies to adopt within their IT organization and across the firm. Exhibit 1 highlights examples of cutting edge IT advancements that enterprises must consider in order to stay competitive, efficient and compliant. Technology advancements, such as Gen AI, are driving corporates to seek out IT research provided by Gartner to guide how their IT budgets should be deployed in order to maximize returns on investment. Gartner's research accomplishes this by providing insights on the latest technologies, vendors, implementation best practices, peer benchmarking, risks and costs in order to inform how technology investments should be directed. Gartner serves as the industry standard for IT research, in our view, given its scale, domain knowledge and positive network effects. The combination of rapid IT advancements and the essentialness of Gartner's IT research in guiding the adoption of these advancements means that Gartner's Research CV trends offer insights into enterprise technology spending.

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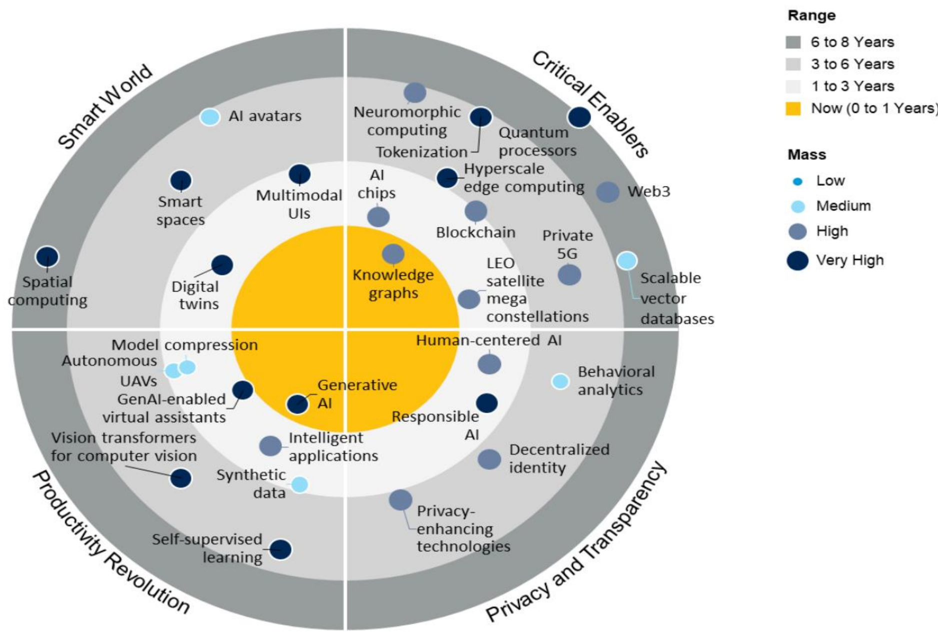
Exhibit 1: Rapid advancements in technology are prompting increased enterprise tech spending and demand for Gartner's IT research
Gartner's view of the highest-impact emerging technologies and trends



Source: Gartner

Research CV trends are improving. Gartner's Research CV growth has recently bottomed and is reaccelerating as demand for IT best practices research is rising. Research CV growth of 7.3% y/y in 3Q was consistent with growth in 2Q and accelerated from 6.9% growth in 1Q, backed by healthy enterprise function leader CV growth of 9%. Small tech vendors, generating approximately 25% of total Research CV, are facing some near-term challenges associated with difficulty in obtaining external funding in the current environment, especially if their focus is not in AI, leading to lower renewal rates at Gartner. That said, tech vendor CV trends turned a corner and inflected to positive growth in 2Q, followed by an acceleration in growth to the low-single-digits in 3Q. Management noted that it is seeing a rebound in tech vendor new business to historical levels among existing clients and new logos. Gartner reaffirmed that 1Q's CV growth of 6.9% should be the low watermark for CV growth this cycle. New business growth for GTS was healthy at 8% y/y in 3Q, consistent with growth in 2Q, providing support for a further acceleration in CV growth. Approximately 75% of Research CV at Gartner originates from Global Technology Sales focused on IT research and the remainder stems from Global Business Sales focused on non-IT research.

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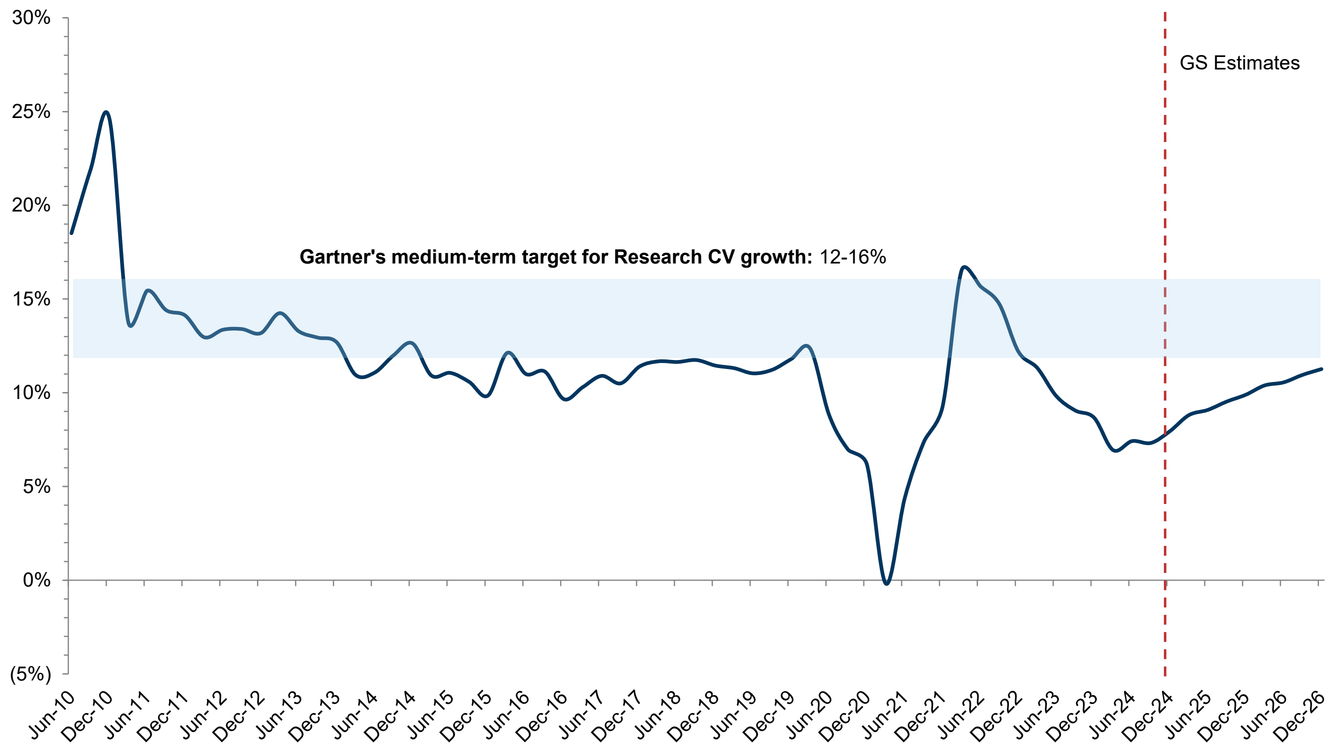
Exhibit 2: Gartner's Research CV growth has bottomed and is reaccelerating
Gartner Research CV growth trends



Source: Company data, Goldman Sachs Global Investment Research

Read-Through to Enterprise Tech Spending

Gartner's Research revenue growth highly correlated with IT spending intentions. Improving Gartner Research CV and revenue trends have positive implications for broader enterprise tech spending. We find a positive 65% correlation between Gartner's Research revenue and our GS IT Spending Index derived from our IT Spending Survey. Our IT Spending Index gauges forward-year spending expectations. Survey responses indicating "spending growth" in the coming year receive a weighting of 1.0, responses of "no change" receive a weighting of 0.5, and responses indicating "declining spending" receive a weighting of zero. Thus, an index value above 50 indicates expected spending growth, while a value below 50 indicates expected contraction.

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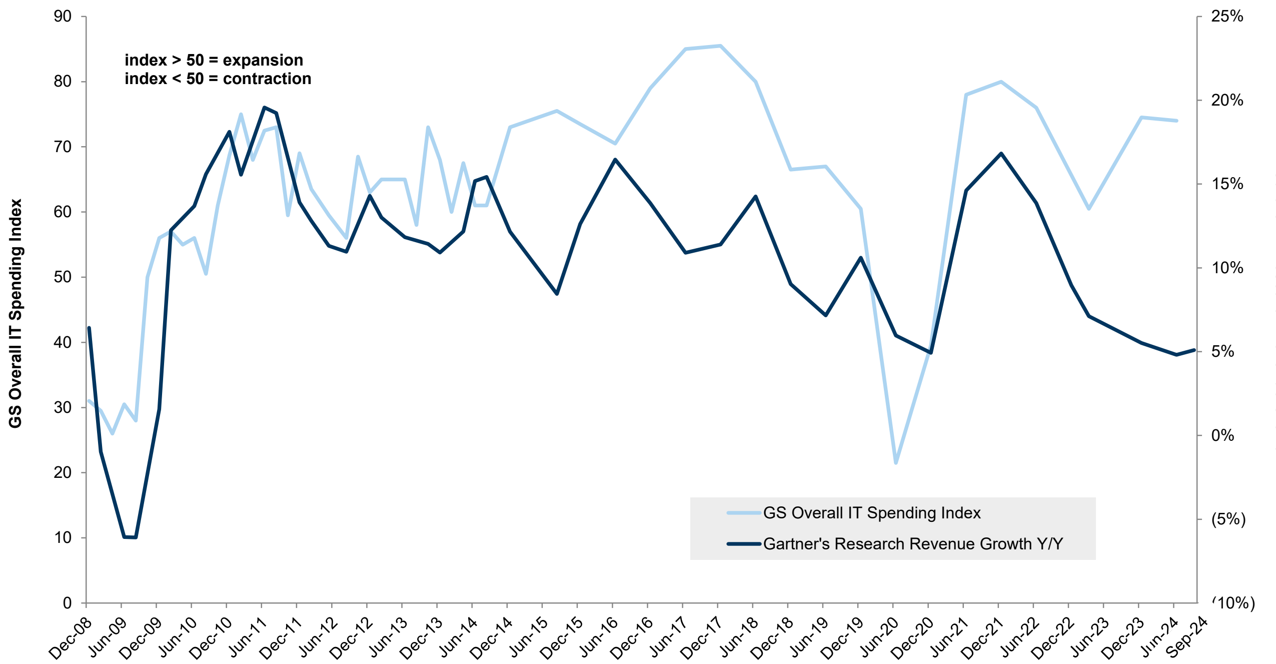
Exhibit 3: High correlation between GS IT Spending Index and Gartner's Research revenue
Correlation: +64.7%



Source: Company data, Goldman Sachs Global Investment Research

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GS IT Spending Survey signals expansion vs. 2023. Our July 2024 IT Spending Survey signals expansionary enterprise technology spending trends, though the reading dipped marginally from our January 2024 survey. The GS IT Spending Index decreased marginally from 74.5 in January 2024 to 74.0, while our IT Capital Spending Index decreased from 61.5 in January 2024 to 60.0. That said, readings come meaningfully above March 2023 levels of 60.5 and 50.5, respectively. Over the past ~20 years, the averages for Overall IT Spending & IT Capital Spending have been 63.0 & 60.5, respectively. For context, the average Overall IT Spending Index and IT Capital Spending Index figures starting in October 2013 (and excluding COVID-impacted results in June & December 2020) are 70.8 and 67.2, respectively. At their respective highs, our Overall IT Spending Index reading was 85.5 in December 2017 and the IT Capital Spending index was 86.5 in June 2017. Our survey highlights that CIOs are likely adjusting amid broader macro uncertainties but appreciate the need to pursue digital transformation initiatives given the associated efficiencies.

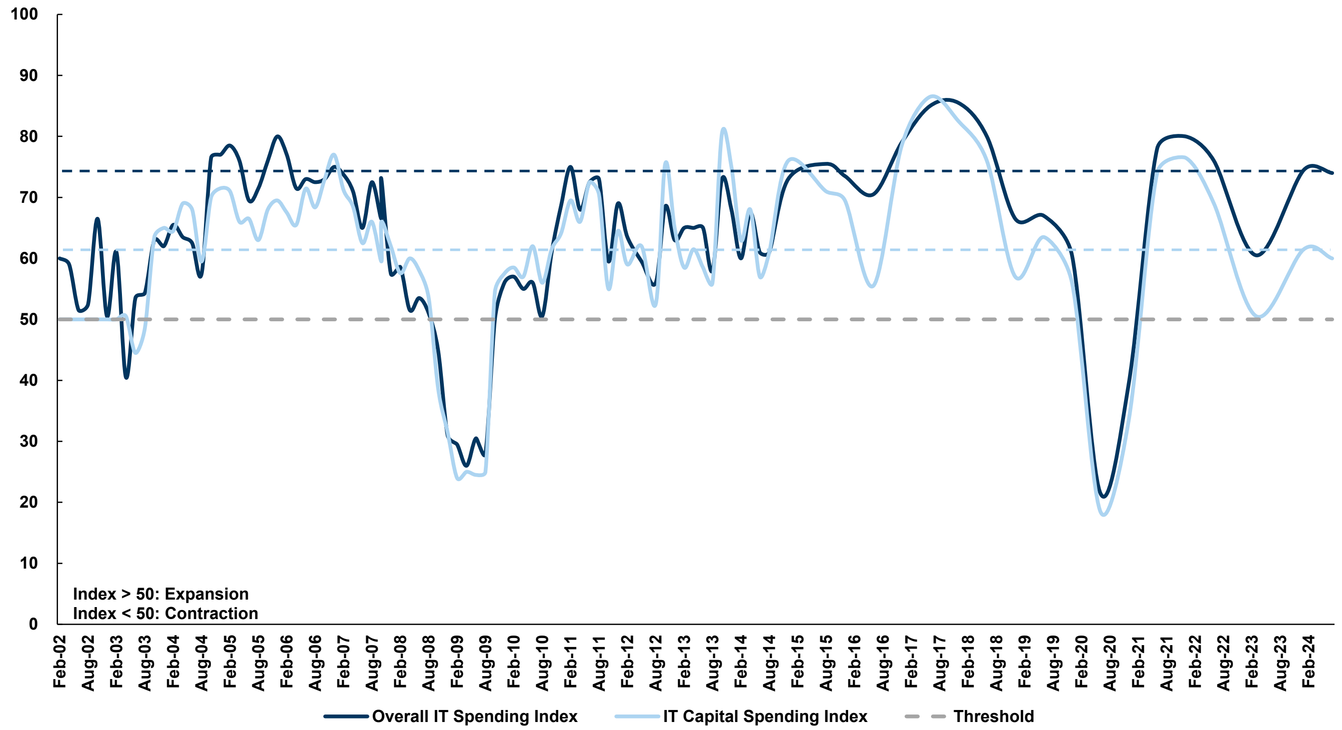
Exhibit 4: Survey Data Indicates an IT Spending Rebound in 2024

CIOs Anticipate IT Spending Marginally Dips in 2H24

	Mar-23	Jan-24	Jul-24
GS IT Spending Index	60.5	74.5	74.0
GS IT Cap Spending Index	50.5	61.5	60.0

Source: Goldman Sachs Global Investment Research

Exhibit 5: Overall IT Spending remained at historically elevated levels; IT Capital Spending levels marginally deviated below historical average levels



Index based on your current thinking, how do you expect your overall 2024 IT spending growth to be relative to 2023? What do you expect your IT capital spending growth (spending on new equipment and software only; not including staffing, services, depreciation, occupancy, or other) to be in 2024?

Source: Goldman Sachs Global Investment Research

A majority of respondents expect IT spending to be flat-to-up slightly. In our latest IT Spending Survey, a majority of respondents expect Overall IT Spending to be flat-to-up slightly, with fewer anticipating declines, pointing to a turning point in spending levels, consistent with Gartner Research CV trends. The number of respondents expecting to increase Overall IT Spending decreased marginally to 65% from 68% in our January 2024 survey, while the number expecting to decrease Overall IT Spending improved to 17% from 19% prior. A higher proportion of respondents, or 18%, expect Overall IT Spending to be unchanged compared to our last survey reading of 13%.

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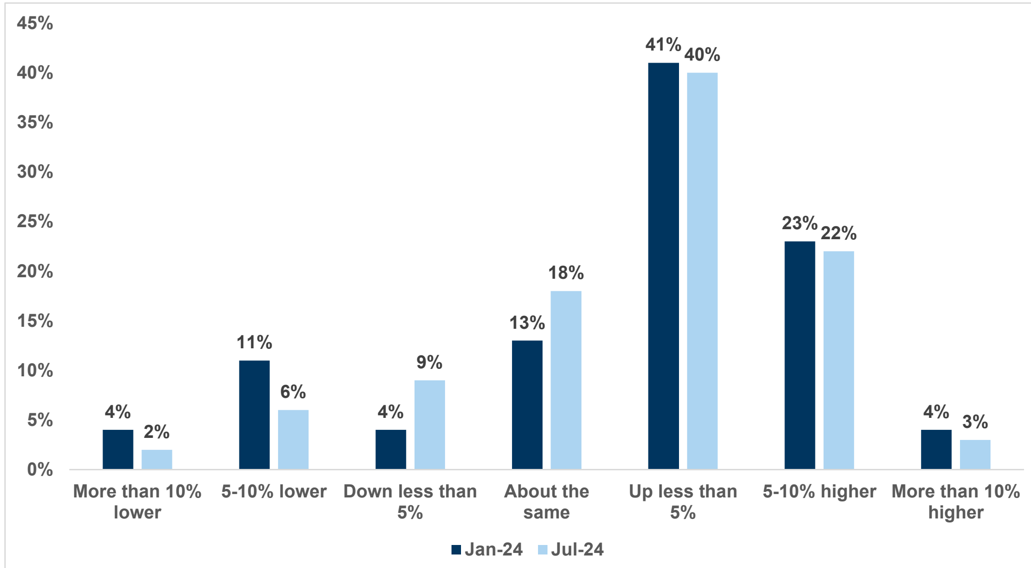
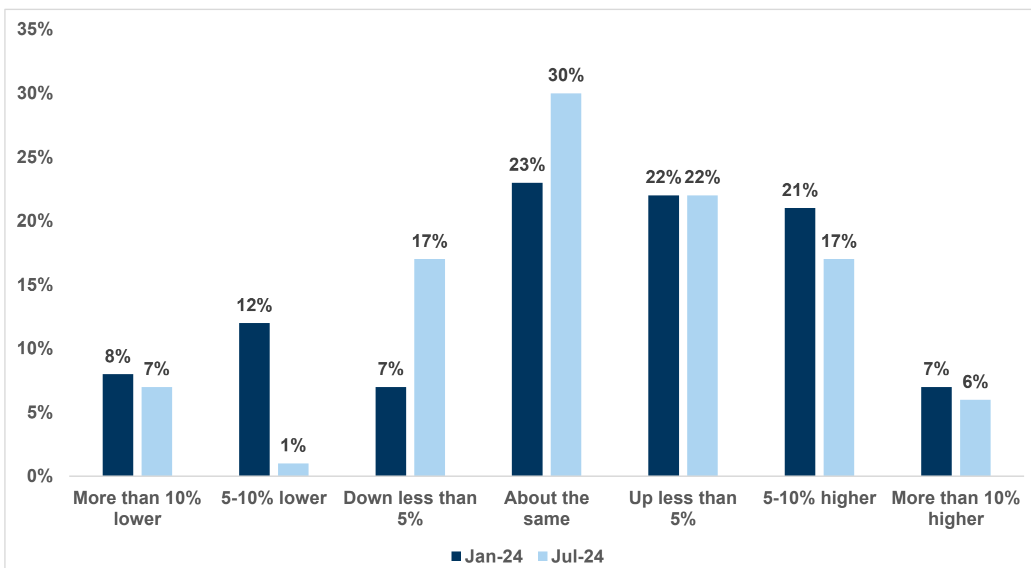
Meanwhile, the number of respondents expecting an upward trend in IT Capital Spending decreased to 45% from 50% prior. That said, the number expecting a downward trend in IT Capital Spending also decreased to 25% from 27% prior.

Exhibit 6: CIOs expect IT Spending to increase modestly over the next year
Distributions of forward-year IT Spending intentions



Source: Goldman Sachs Global Investment Research

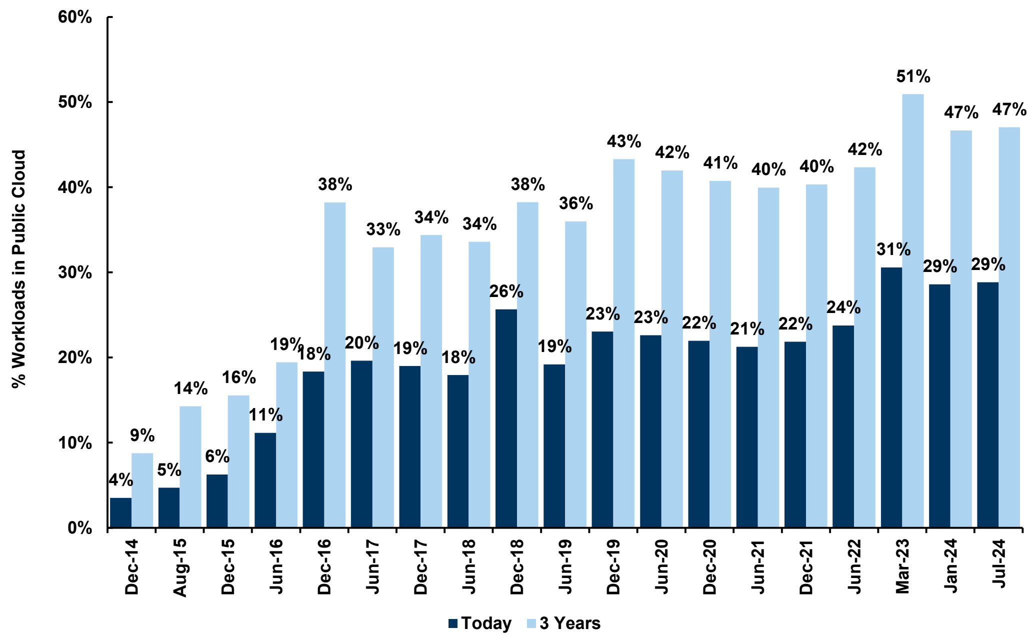
Exhibit 7: A majority of respondents expect IT Capital Spending to be flat-to-up from last year
Distributions of forward-year IT Capital Spending intentions



Source: Goldman Sachs Global Investment Research

Strength across cloud adoption continues. Public cloud adoption intentions, both today and in three years, remain strong, as the overall trend points to an increase in the number of workloads moving to the cloud, underscored by companies resuming digital transformation (DX) initiatives and prioritizing cloud adoption. Our most recent survey indicated that 29% of workloads are in the cloud today with 47% of workloads expected to be in the cloud in three years. We reiterate our confidence in a strong demand environment for SaaS applications and remain Bullish in our longer term view of public cloud services as we expect enterprises to continue investing in longer-term DX initiatives and application modernization efforts despite an elevated rates environment and a persistently challenging macro backdrop. Additionally, we highlight that despite Gen AI's increasing popularity, CIOs continue to show hesitancy in allocating material budget toward this over the next year, albeit with higher spending intentions noted on a three-year timeline.

Exhibit 8: Percentage of workloads in the cloud stabilizes near-term but Gen AI could catalyze migration activity to the cloud
Question: "What percent of your applications have you moved to public cloud platforms today and what do you expect in 3 years from now (e.g., Amazon AWS, Microsoft Azure, Google Cloud Platform, etc.)?



Source: Goldman Sachs Global Investment Research

Gen AI to gain material budget traction within three years. Our most recent survey indicated only 3% of CIO budgets will be allocated toward Gen AI in 2025. Given most companies are at the very beginning of their AI transformation journey, this finding was unsurprising. Approximately 86% of CIOs intend to allocate between 0% (30%) and 1-5% (56%) of budgets toward Gen AI. That said, within three years, CIOs are expecting this figure to triple to 9% of budgets, with 41% looking to allocate 1-5%, 23% looking to allocate 5-10% and 16% looking to allocate 10-15%. Similarly, CIOs are expecting Gen AI cloud workloads to over triple to 10% in three years. While acknowledging these are early data points, we also highlight that our initial responses around public cloud adoption (4% / 9%) mirror the initial Gen AI response rate (3% / 7%), providing a framework in thinking about how this behavior could progress moving forward.

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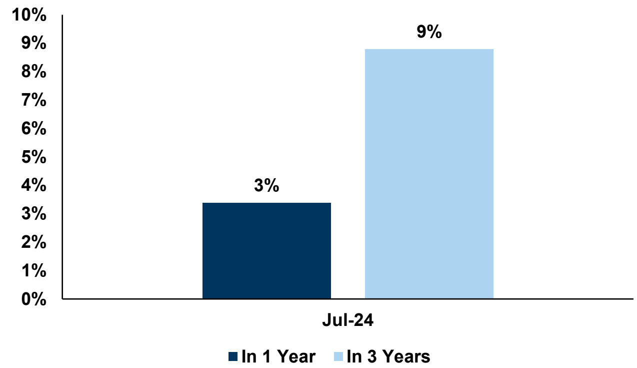
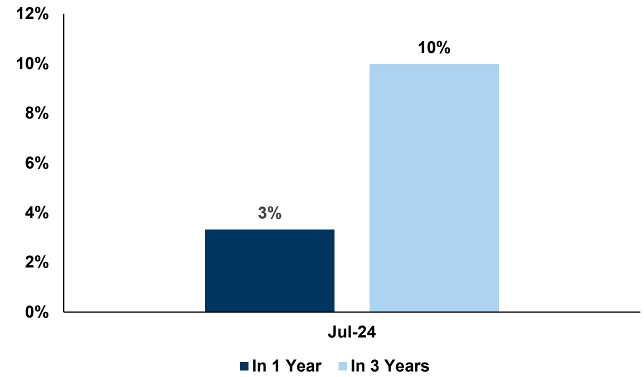
Exhibit 9: Expected Gen AI budget allocations to 3x in 3 years
Question: "What percent of IT budgets could be allocated to Gen AI in the next 1 year? 3 years?"



Source: Goldman Sachs Global Investment Research

Exhibit 10: Gen AI cloud workloads could grow >3x in 3 years
Question: "What percent of cloud workloads do you expect to be Gen AI in 1 year? 3 years?"



Source: Goldman Sachs Global Investment Research

Software earnings emphasized stability in tech spending. Commentary across our Software coverage during the 3Q earnings cycle indicated the enterprise technology spending environment has stabilized. While many companies continued to call out pockets of macro weakness, particularly in Europe, the spending environment appears not to have deteriorated across the last several quarters. This weak macro environment has resulted in elongated deal cycles, more deal scrutiny, and deals getting signed at lower-than-expected headcounts. That said, several companies have noted the potential for macro improvement in 2025 and thus upside to growth, particularly as enterprises begin to allocate more budget to AI projects.

- **CRM:** Salesforce highlighted a continuation of customer spend unlock with the deployment of Agentforce and GTM motion through new channels, including Agentforce partner network that launched at Dreamforce. Management noted the strength of its data-driven value proposition (>250 petabytes of customer data) in driving AI spend for customers. Specifically, CRM referenced 200 Agentforce deals signed one week post-launch, Data Cloud inclusive of Agentforce was part of 8 of the top 10 deals and annual spend on Slack AI grew ~50% y/y in F3Q 2025. Further, management underlined visibility into the stability of SMB and enterprise spend, with more improvement in SMB than expected.
- **DDOG**: Datadog noted that despite being in the early days, customers' focus on Gen AI innovation is shifting away from experimentation and toward production applications, particularly for infrastructure workloads. Specifically, management highlighted that ~3,000 customers (+20% q/q in F3Q 2024) are using one or more Datadog AI integrations for AI, ML and LLM usage, and hundreds of customers are adopting LLM Observability despite it recently reaching GA in F2Q 2024. Further, management expects continued migration to the cloud and the potential for increased budget allocation for Gen AI workloads. In F3Q 2024, management reiterated a stable-to-upward trend in usage among customers, particularly enterprises, as NRR (mid-110% in F3Q 2024) continues to improve q/q.
- **INFA:** Informatica reported seeing its customers moving consistently from what they called defensive productivity (such as cost saving initiatives) toward

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transformational offense initiatives. Management stated that customers are becoming more comfortable with growth-oriented spending initiatives. Customers are also focused on rolling out Gen AI initiatives, starting out smaller in scope and then increasing their spend over time.

- **MNDY:** Monday noted the demand environment last quarter was stable vs. prior quarters this year. That said, the company is hiring more salespeople in anticipation of significant demand in 2025 from existing and new customers. Management expects demand to improve slightly next year, but noted lingering choppiness in some segments.
- **MSFT:** Management expects underlying Azure consumption growth next quarter to be stable compared to 1Q (Sept end), with Azure growth accelerating in F2H 2025. The company described in-quarter consumption trends as healthy and in-line with expectations. More broadly, MSFT expects customer demand for its differentiated solutions to drive sustained strong growth, expecting 10-11% revenue growth in F2Q (Dec end) and double-digit growth in F2025 (Jun end). This outlook predicts many of the business trends seen in 1Q continue in 2Q.
- **NOW:** ServiceNow noted that digital transformation and Gen AI remain top priorities for C-suites, driving robust demand for its Gen AI product, Now Assist. The company also noted that while the overall macro environment remains complex, similar to earlier quarters of 2024, the market is value-based and companies are seeking innovation and Gen AI capabilities. Customers are increasingly focused on digital transformation within their IT budgets, which management believes will drive increased IT spend, with budgets shifted from other departments, especially the back office.
- **SNOW:** Snowflake highlighted outperformance in its core data warehousing business, along with an uptick in broad-based customer demand across multiple verticals, particularly technology, financial services and healthcare. Further, management underlined notable momentum from the latest data engineering features (>$200M run-rate as of F3Q 2025) such as Snowpark, dynamic tables, connectors and Snowpipe Streaming, where their growth contribution can offset any potential incremental storage headwinds from Iceberg adoption. Management also pointed to strong customer adoption of SNOW's AI capabilities, e.g., Snowflake Cortex AI, with >1,000 deployed use cases and >3,200 accounts using AI and ML features as of F3Q 2025. Additionally, management underlined a strong backlog of new workloads that customers are moving into production next year, as well as increased data ingested through Iceberg Tables that can drive increased consumption trends.
- **WDAY:** Workday noted the demand environment hasn't seen either a significant improvement or further deterioration since the beginning of the year, with continued deal scrutiny in some markets. In particular, management noted continued headwinds in Europe. Post-election, the company has not seen any positive or negative impact, and indicated that deal scrutiny has been relatively consistent both pre- and post-election.

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Investment Conclusions

Gartner (IT, Buy, covered by George Tong): We believe Gartner is a quality growth name capable of sustaining attractive double-digit organic revenue growth annually over the medium-term, led by 12-16% growth in its Research business that comprises over 80% of total revenue. Currently, Research CV growth at IT is approximately 7%, with high-single-digit enterprise function leader CV growth partially mitigated by low-single-digit tech vendor CV growth. Tech vendor CV trends turned a corner in 2Q and further accelerated in 3Q but remains muted due to lower renewals among tech vendors as they face difficulties in securing external funding if their focus is not on AI. We expect Research CV growth to accelerate in 4Q and throughout 2025 driven by further improvements in tech vendor CV trends and rising sales force productivity, with a path to reach low-double-digit CV growth over the next 12-18 months as macro conditions improve and the sales force headcount expands. Rapid technology refresh cycles, including the rise of Gen AI, are a key secular tailwind as corporations require Gartner's research to guide their technology strategy and investments. EBITDA margins at IT are also in an upward estimate revision cycle as management raised its full year margin outlook to ~24.5% on SG&A efficiencies and noted that 2024 is a reasonable new base for operating expenses, pointing to margin expansion ahead from current year levels. We believe double-digit Research CV growth backed by secular tailwinds, proprietary and essential content, and a large unvended market with healthy margin flow-through will drive attractive upside in the shares.

Salesforce (CRM, Buy, covered by Kash Rangan): We believe that Salesforce remains poised to be one of the most strategic application software companies in the $1tn+ TAM cloud industry and is on a path to $50bn in revenue. The pandemic has transformed how companies initiate, build and harness customer relationships digitally, making for steady demand in core products. The company's robust and strategically built product portfolio spanning sales, service, marketing, e-commerce, analytics, artificial intelligence, customer applications, integration and collaboration cover virtually all aspects of Digital Transformation, addressing a combined (F2026) TAM of $284bn, according to the company. During CY2025, we see management continuing to focus on delivering organic growth while balancing profitability at scale. Strong customer interest for Slack as part of CRM's wider portfolio and strong contribution to cRPO (~400-500bps in its first 12 months) offers a proof point to the synergies that can complement the core portfolio and the organic rate of growth going forward. Continued platform traction, improvements in gross retention rates, and an ongoing focus on driving efficiencies within the go-to-market motion are all supportive of higher margins longer term, and we believe operating leverage in the underlying business remains underappreciated. Coming off a series of sizable acquisitions, operating margin has several tailwinds to drive steady, durable expansion despite potentially strong FX/macro headwinds to top line growth. We think revenues and margins have the potential to double in the next 5-6 years, potentially quadrupling earnings in steady state. To that end, we remain bullish on the company's ability to drive continued y/y operating margin expansion beyond F2024. We would point out that companies such as Microsoft, Adobe, Intuit, and Autodesk which embarked on a journey towards improving OM all benefited from their valuation

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multiples getting re-rated significantly higher on an EV/Sales basis. We think CRM could join this list especially as the company grows into a formidable $50bn business, benefiting from a much lower starting point for OM relative to other companies, which on the flip side also offers plenty of room for improvement.

Informatica (INFA, Buy, covered by Kash Rangan): Informatica is a mission-critical part of an enterprise's data-driven digital transformation, which inherently is based on more data and personalized data. Customer use cases include data integration through connectors to push data between data lakes, on-premise systems, data warehouses, and front-office applications, master data management to unify and centralize customer data, and giving enterprises a 360 view into the health of their application, supply chain, and multi-cloud environments. Informatica is a Data Management Software Platform that enables an enterprise to manage, connect, understand, and optimize its growing data assets. Amid the proliferation of digital transformation initiatives and adoption of cloud-native applications, databases, data lakes, storage repositories, end-user devices, and multi/hybrid cloud deployments, the complexity and volume of data is increasing. Informatica's platform covers the entire end-to-end lifecycle of data management, including: data integration, API/application integration, data quality, master data management, customer and business 360, data catalog and governance and privacy.

Datadog (DDOG, Buy, covered by Kash Rangan): We believe that Datadog is a strategic infrastructure software provider with its end-to-end observability platform poised to benefit from IT departments shifting usage from multiple point solutions to an integrated suite. Datadog's product-led and grass roots GTM engine coupled with best-in-class technology stack is resonating increasingly well with customers. Furthermore, with its upmarket motion gaining traction, highlighted by ~13% growth in $100k customers (2Q 2024), we believe the company is ahead of many years of durable revenue growth. With a $2bn+ ARR vs a $50bn+ addressable market, we see substantial runway ahead. Datadog is a unique software asset in that it is one of the very few business models that is operating at the Rule of 50+ (through a combination of >25% revenue growth and >25% FCF margins), well above the peer average at the Rule of 40. Based on the strength of its expanding product portfolio, which addresses critical aspects of customers' cloud migration, coupled with a solidly profitable business model, which generates rising FCF margins alongside hyper-growth, we believe Datadog is poised to grow into a preeminent infrastructure software business.

Monday.com (MNDY, Buy, covered by Kash Rangan): We believe Monday.com is a unique work operating system product cutting across operational silos built on low-code no-code platform. The low-code no-code technology, intuitive interface, robust integrations and network effects of the platform continues to drive customer growth. Given enterprise customers are <1% penetrated into the current installed base, we believe the company's continued momentum in enterprise adoption can potentially, 1) provide upside risk to our estimates, 2) improve unit economics, and 3) will drive long-term growth. Customer expansion into adjacent use cases such as marketing, HR, finance and software development and larger lands at higher priced SKUs continue to be key drivers for growth. We believe the upmarket shift in the GTM strategy can drive operating leverage with sales and marketing expenses shifting from performance based

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marketing to direct sales. Lastly, digital transformation remains a strong tailwind for collaboration and productivity software solutions. With strong top-line growth, shift to the enterprise market, large under penetrated TAM and strong competitive moat, Monday.com has ample runway for growth in our view.

Microsoft (MSFT, Buy, covered by Kash Rangan): We believe Microsoft is one of the most compelling investment opportunities in the technology industry and across sectors. With a strong presence across all layers of the cloud stack, including applications, platforms, and infrastructure, Microsoft is well-positioned, in our view, to capitalize on a number of long-term secular trends, such as Gen AI, public cloud consumption, SaaS adoption, digital transformation, AI/ML, BI/analytics, and DevOps (amongst others). Along with continued operating leverage as its cloud business reaches a ~$100bn run-rate, this should drive sustainable EPS growth leading to a near doubling of earnings per share from F2024 to F2028. While our long-term projection for the Microsoft Cloud business (which largely encompasses Azure and Office) of ~$250bn in F2027 might seem like a very large number, it represents only a ~22% CAGR from F2024 levels. With the release of Microsoft 365 Copilot, Business Chat, Dynamics 365 Copilot, GitHub Copilot, Teams Premium, Azure OpenAI Services, Viva Sales, and more, we believe Microsoft is in a unique position to transform the way software augments human productivity as it showcases the value it can drive in synthesizing, creating, and sharing information across a variety of different use cases. Given the importance of the data input into the underlying models of such technology, Microsoft's productivity suite, cloud services, developer tools and other platforms create a well-rounded data hub that can solidify its competitive moat, which can translate to ongoing strength within its Microsoft Cloud segment, that comprises Azure, Commercial Office 365, Dynamics 365, and LinkedIn Commercial.

ServiceNow (NOW, Buy, covered by Kash Rangan): ServiceNow has the potential to be a relatively defensible business in the event of a macro economic slowdown, in our view. The company has a unique combination of a core IT service management and operations business, which together comprise roughly 70-75% of revenues. The core can be argued as a defensive product category, especially as IT departments gain increasing influence under potentially tightening wallet conditions. The remainder of the product portfolio is focused on employee, customer and creator workflows (custom app development) and can be argued as an offensive share gainer, in our view. As enterprises shift their data center assets to the public cloud in the long term, we believe the value proposition of ServiceNow to its customers will only increase given the physical separation of IT assets from the business owners. Furthermore, with the IT industry facing a shortage of software developers coupled with the increasing backlog of innovative software projects that can truly differentiate customers, we believe ServiceNow's low code development platform stands to gain an increasing share of the customer wallet in the coming years. Since ServiceNow's code base is fairly cohesive and its go-to-market has economies of scale given that the same sales organization can sell simultaneously into multiple customer buying centers, its operating margin can scale very well in the long term and potentially approach best in class margins (40-45%) comparable to those of Adobe and Microsoft in the long-term. The relatively solid growth in the long term despite potentially turbulent macro economic conditions in the near

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term, highlights a business that could approach $35bn in revenue with a path to 40%+ margins longer term, in our view. While the risk to the long-term story is a potential acquisition somewhere along the way, depending on the type and size we think that risk could potentially be a short-term one since ServiceNow has a large distribution and strong relationship with its customers, which should serve well to expand the leverage from any such acquisition.

Snowflake (SNOW, Buy, covered by Kash Rangan): Given the Snowflake's strong competitive positioning, we continue to view the company 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.

Workday (WDAY, Buy, covered by Kash Rangan): We continue to believe Workday is a uniquely positioned application software company addressing significant cloud replacement cycles in a $160bn+ TAM spanning human capital management (HCM), financials, analytics, planning, and procurement. We believe Workday is poised to grow into a $20bn+ business catalyzed by financials moving to the cloud following its core HCM marquee product. The pandemic has largely driven customers to accelerate their digital transformation so that they can operate their businesses virtually in the cloud, where we believe Workday remains well positioned to capitalize on rising cloud adoption, particularly within financials. We believe that there is pent-up demand for large strategic projects pertinent to Workday's products which should sustain long-term growth over the next several years. Workday's best-in-class retention rates, success within its cross-sell motion and early adoption of gen-AI services internally (to drive productivity gains) offer viable areas of leverage. With Workday only capturing a fraction of its customer opportunity and investing in high-ROI areas (such as FINS-dedicated go-to-market and gen-AI-oriented R&D), we see Workday on a path to achieving $20bn in revenue with 30-35% operating margins.

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Valuation and Risks

Gartner (IT, Buy, $582 12M PT): We are Buy-rated on IT with a 12-month price target of $582 based on 24.5x our NTM + 1YR EBITDA estimate of $1,822mn, NTM net debt of $221mn and NTM shares outstanding of 76.3mn. Our target EV/EBITDA multiple comes above the Info Services group median of 20.2x to reflect Gartner's robust revenue growth profile and opportunity to capture market share. Key downside risks include: 1) Softening client demand in response to macroeconomic headwinds, 2) tech vendor renewal challenges, 3) pressure on large corporate budgets, 4) margin contraction from sales force expansion, 5) financial leverage and 6) FX risk.

Salesforce (CRM, Buy, $400 12M PT): We are Buy-rated on CRM with a 12-month price target of $400 based on an equal weighting of a DCF (~2% perpetuity growth rate), 29x NTM + 1YR EV/FCF and 8.7x NTM + 1YR EV/Sales. Key downside risks include: 1) Sales execution, 2) a macroeconomic slowdown, 3) an 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.

Datadog (DDOG, Buy, $162 12M PT): We are Buy-rated on DDOG with a 12-month price target of $162 based on a 50%/50% weighting of EV/Sales and a DCF. We use an EV/NTM Sales multiple of 15x and our 10-year DCF assumes a perpetuity growth rate of ~3%. Key downside risks include: 1) Decline in sales growth from lower SMB contribution resulting from COVID-19, 2) declining sales productivity, 3) increased competition from both observability and hyperscaler vendors, 4) lack of traction of newer products and 5) persistent optimization headwinds.

Informatica (INFA, Buy, $38 12M PT): We are Buy-rated on INFA with a 12-month price target of $38 based on an equal weighting of a DCF and EV/uFCF. Our DCF implies a ~3% perpetuity growth rate and we use a 20x NTM + 1YR EV/uFCF multiple. Key downside risks include: 1) Incremental competition as Informatica faces competition from a number of large software companies such as Microsoft, IBM, AWS, Oracle, SAP, Talend, and a number of pure data platform vendors such as Fivetran and Collibra, 2) slower than expected adoption of cloud products, 3) slower than expected traction with the upmarket motion and enterprise customer growth, 4) higher than expected customer attrition, 5) lower than expected conversion uplift from Maintenance and Self-Managed migrations and 6) higher-than-expected expense growth.

Monday.com (MNDY, Buy, $350 12M PT): We are Buy-rated on MNDY with a 12-month price target of $350 based on an equal weighted DCF and EV/Sales multiple. Our DCF assumes a 3% perpetual growth rate and we use an 11x NTM + 1YR EV/Sales multiple. 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.

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Microsoft (MSFT, Buy, $500 12M PT): We are Buy-rated on MSFT with a 12-month price target of $500 based on an equal weighting of a DCF (~3% perpetuity growth rate), 35x NTM + 1YR EV/FCF and 35x NTM + 1YR 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.

ServiceNow (NOW, Buy, $1,050 12M PT): We are Buy-rated on NOW with a 12-month price target of $1,050 based on an equal weighting of a DCF (perpetuity growth rate of 3%), 45x NTM + 1YR EV/FCF and 14x NTM + 1YR EV/Sales. Key downside risks include: 1) Execution risk limiting growth in new markets, 2) slower new business growth and longer sales cycles, 3) higher expense growth limiting margin expansion, 4) a potential slowdown in net new ACV or customer expansion and 5) the potential of a large M&A transaction as a risk to margin expansion.

Snowflake (SNOW, Buy, $220 12M PT): We are Buy-rated on SNOW with a 12-month price target of $220 based on an equal weighting of a DCF and EV/Sales multiple. Our DCF analysis is based on a terminal growth rate of ~4% and our relative valuation is based on a 15x NTM + 1YR EV/Sales multiple. Key downside risks include: 1) Adverse changes in the IT spending environment, 2) competition, particularly from cloud service providers and Databricks and 3) outages from reliance on CSPs.

Workday (WDAY, Buy, $300 12M PT): We are Buy-rated on WDAY with a 12-month price target of $300 based on an equal weighting of a DCF (~3% perpetuity growth rate) and an 8x NTM + 1YR EV/Sales multiple. Key downside risks include: 1) Financials traction in the early innings, 2) changes in the competitive landscape and 3) slowing SaaS adoption in HCM.

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Disclosure Appendix

Reg AC

We, George K. Tong, CFA, Kash Rangan, Sami Nasir, CFA, Gili Naftalovich, Matthew Martino, Henry Dane, Selina Zhang, Anna Wu and Alex Lakritz, 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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