12/30/2024
Paragon Global Investments Pod 3

Executive Summary:

As the future of "Office of the CFO" software turns to platform solutions, OneStream is uniquely positioned as a highly attractive enterprise SaaS company. Having recently IPO'd, data on the company is limited – meaning Paragon is on a level playing field with institutional investors and may potentially catch OneStream while the company is still mispriced. **We recommend a long position in OneStream, with a potential for ~30% upside as future financial performance validates the company's disruptive offerings.**

Company/Industry Overview:

Company History. Founded in 2011, OneStream passed 1,000 customers globally by 2022 and now implements AI and Machine Learning into their solutions. On July 15, 2024, OneStream IPO'd, now serving 1,423 customers and >15% of F500 companies by logo. With ~30% YoY revenue growth ($437M LTM Revenue) and FCF margins of ~12% ($54M of LTM FCF), OneStream satisfies the SaaS rule of 40. The company also boasts $480M of ARR currently.

Product, Mission, and Pricing Model. OneStream is a top provider of Corporate Performance Management (CPM) solutions, focused on aiding mid to large-sized companies with the optimization and enhancement of their financial processes. Leveraging its cloud-based OneStream XF platform, the company offers a unified, scalable solution that consolidates budgeting, planning, reporting, and financial consolidation into a single, streamlined system. OneStream's vision is to simplify and consolidate the complexities and limitations of existing corporate performance management (CPM) solutions. OneStream primarily uses a subscription-based pricing model that allows for their customers to only pay for the services, solutions, and tools that they need on a recurring (annual or multi-year) basis. Depending on the models and features that the customer needs, OneStream allows companies to have access to three core modules (Financial Close and Consolidation, Financial and Operational Planning and Analysis, and Financial and Operational Reporting) or additional advanced modules.

Industry Overview. Competitors to OneStream include Oracle Hyperion (end-to-end EPM Solutions, mixed integration results), Anaplan (flexible, difficult to maintain), IBM Planning Analytics TM1 (difficult to implement and maintain, requiring specialized skill sets), and Workday Adaptive Planning (limited CFO capabilities). In terms of industry trends, cloud migration in enterprise financial management has boomed; 60% of organizations now leverage cloud-based platforms for financial consolidation, reporting, and planning. This drives growth in the market for enterprise performance management software, which is projected to see double-digit expansion and currently stands at a valuation of $7 billion. A recent PNC bank survey also revealed that 75% of CFOs would look to increase their organizations spend on technology following a rate cut. AI is also set to benefit CFO software, and it is currently incorporated in OneStream's offerings (Sensible ML). The global market for AI in the financial services market is expected to grow at a 19.5% CAGR through 2028.

Situation Overview and Setup:

PGI is in a unique position to conduct a value-based approach to understanding OneStream due to limited available public information. Having IPO'd in July of 2024, OneStream has published just two quarterly reports and has limited equity research coverage. The sheer lack of both *quantity* (stemming from the limited earnings reports) and *analysis* (stemming from the lack of depth in ER coverage) of financial data for the company makes it very difficult to create forward looking projections. This manifests itself across the board, but is arguably most apparent in our "Mid-Market" thesis, as there is simply no published quantitative information from the company regarding its mid-market customer base (despite management citing it as a growth channel). This has forced us to make research-based inferences about these numbers to arrive at appropriate projections.

While this can certainly be seen as a challenge, we view it as a distinct advantage for PGI, as we are on as level a playing field as possible with other educated investors. In a world where we can be outmatched by the data-analyzing firepower of large institutional investors, OneStream's lack of data presents a unique opportunity for us to craft a thesis that may not yet be market consensus. Additionally, the company is young and actively disrupting its space by constantly releasing and updating new products and features (CPM Express and SensibleML, for example), meaning there are plenty of potential near-term catalysts.

Thesis 1: Disruptive Offering for Enterprise Clients

Platforms Rising Above ERPs and Best-of-Breed Offerings. ERPs, such as SAP and Oracle, integrate solutions that are meant to span all business disciplines. While they might offer breadth, they often do not provide as much depth of functionality in EPM/financial areas. On the other hand, best-of-breed solutions will provide depth in their respective niche areas but might require integration with other systems. This may cause data fragmentation and add IT complexity. A platform like OneStream fills the gap between broad ERPs and specialized best-of-breed tools by providing an integrated solution that is still finance-centric. OneStream offers considerable depth across a variety of specialized financial tools, all consolidated into one cloud-based interface.

We ultimately believe that the future of CFO software is a migration to platforms like OneStream. According to Guggenheim Equity Research, 70% of Legacy Hyperion users are considering moving off the platform. Of these, 50% expect to evaluate alternative solutions within the next year, and 88% plan to make a decision within two years. 13% of OneStream's new customers cited the "end-of-life" of legacy Hyperion systems as their reason for transitioning. Capturing this 13% of legacy Hyperion ARR could contribute ~$65M in New ARR over the next 12 months, which is more than half of the New ARR required to meet consensus estimates for the period.

New Customer Growth (Greenfield Opportunities). Morgan Stanley reports that OneStream added 240 net new customers in FY23, contributing to a 21% YoY customer growth, bringing the total to 1,482 customers as of FY23. A significant portion of new customers came from home-grown solutions/spreadsheets. According to Morgan Stanley's customer due diligence, ~30% of customers transitioned from these non-enterprise solutions, representing a notable greenfield opportunity. The Total Addressable Market (TAM) for OneStream is estimated at $50 billion, but the company has only penetrated 1% of this market so far. Of the TAM, $10 billion represents the opportunity for replacing legacy systems, and OneStream has only achieved 5% penetration into this legacy market so far.

Conversions from Legacy Systems. JPMorgan estimates that there are ~20,000 companies using some form of legacy Corporate Performance Management (CPM) software, with the majority (15,000–16,000) using Oracle Hyperion and the remainder (3,000–4,000) using SAP products (BusinessObjects/BPC umbrella).
Of OneStream's ~1,500 customers, ~1,000 are legacy replacements, translating to ~70% of their customer base coming from conversions, with the remaining 30% from new-to-SaaS customers as stated earlier. This indicates that conversions are a major source of growth for OneStream. Morgan Stanley estimates that there are 12,000 remaining Hyperion customers, representing a $4.2 billion revenue opportunity at OneStream's average SaaS ARR per customer of ~$350,000. The total potential SaaS conversion opportunity could reach $14 billion, according to Morgan Stanley's analysis.

Thesis 2: CPM Express and Success in the Mid-Market

The middle market as a whole is becoming more technologically efficient; indicating a growing need for "Office of the CFO" software. The middle market is undergoing a transformative shift, with smaller companies rapidly increasing their spending on financial technology to modernize operations and scale effectively. Studies show that mid-market SaaS spending, including ERP and CRM, is projected to grow at an annual rate of 18% through 2030, reflecting the sector's increasing technological sophistication. Additionally, Gartner research highlights that mid-market SaaS adoption outpaces enterprise adoption due to the lower complexity and cost advantages of cloud-based solutions. Over the past decade, companies have also stayed private longer—delaying IPOs and reducing their immediate need for enterprise-level financial reporting capabilities. However, this trend has amplified demand for CPM solutions tailored to private firms, which face growing financial complexity and require tools for budgeting, forecasting, and consolidation.

Estimating the TAM for mid-market CPM using broader SaaS benchmarks suggests a substantial opportunity: with ARR per customer expected to grow to ~$1,277,000 by FY28 and a projected 1,168 mid-market customers, the TAM for mid-market CPM solutions could reach $1.49 billion by 2028. Moreover, SaaS companies typically maintain renewal rates of ~90% and achieve high net-dollar retention (120%+ for best-in-class providers), further enhancing monetization potential. By addressing these dynamics with solutions that balance cost efficiency and scalability, companies are positioned to capture a growing share of the mid-market's demand for sophisticated financial tools.

The introduction of CPM Express will overcome the large cost-of-implementation barrier facing MM customers, creating a differentiated advantage for OneStream. The substantial implementation barriers faced by mid-market companies in adopting comprehensive CPM software represent a critical challenge in the industry. Transitioning to platforms like OneStream traditionally entails significant costs, ranging from $750,000 to $2.5 million, alongside lengthy deployment timelines of 6 months to 2 years. Additionally, the majority of these companies are private, and thus lack the need for some of the financial reporting features of the full OneStream platform, making the cost-benefit trade-off difficult to navigate. Recognizing this, OneStream introduced CPM Express in May 2024, a groundbreaking product tailored specifically to the mid-market. CPM Express simplifies financial processes such as close, consolidation, budgeting, forecasting, and reporting, while cutting implementation costs and time by approximately 50%. Positioned as a streamlined version of OneStream's enterprise solution, CPM Express addresses the specific needs of commercial customers, enabling faster deployment and operational efficiency. By reducing barriers to entry, this innovation positions OneStream to capitalize on the mid-market's growing interest in CFO software, positioning the firm for significant revenue expansion. This strategic move underscores OneStream's potential to double or triple deal volume, while aligning with the mid-market's demand for cost-effective and scalable financial solutions—also proving to be another area where OneStream has been able to out-innovate its legacy competitors to capture market share.

Risks and Mitigants

Growth Durability Amongst Competition. Maintaining a ~20% growth rate as the company scales is challenging, particularly if it faces increased competition from both legacy providers (Oracle and SAP) and emerging players (Anaplan and FloQast). Furthermore, niche players like Pigment are carving out segments of the financial planning space, offering specialized tools that could erode OneStream's market share.To combat this, OneStream is expanding its partner network for improved go-to-market execution, adding 10 new partners in EMEA and growing to over 250 partners globally. Additionally, OneStream's unique positioning as a single unified platform that handles financial close, consolidation, and planning gives it some advantage in terms of product breadth. Ultimately, a NDR of 118% demonstrates that once customers choose OneStream, they tend to stay loyal.

The AI-Implementation Race. AI adoption in finance is highly competitive, and competitors such as Oracle, Workday, and Anaplan are already leveraging AI in more advanced ways. If OneStream's AI capabilities fall short, it risks losing market share to competitors with more mature AI offerings. As a mitigant, OneStream has made substantial investments in AI, with the acquisition of DataSense and the launch of InfinitySPM. OneStream is also engaged in partnerships with major technology companies like Microsoft (OneStream Certified Power BI Connector).

Financials, Price Targets, and Sensitivity Analysis

Revenue Build. We break down OneStream's revenue somewhat abnormally into enterprise revenue and mid-market revenue in accordance with our theses. Firstly, to project enterprise revenue, we take a top-down approach using projected TAM for enterprise clients and assuming penetration in line with historical figures, with the guidance of sell-side research. It is important to note that our TAM calculation is not directly comparable to the TAM sometimes referred to throughout this report, and we use penetration to the model's TAM as a proxy and data-driven way of backing up our growth assumptions. To project mid-market revenue, we assume a growth rate in new clients and contract revenue per client.

Price Targets and Sensitivity Analysis. We underwrite a somewhat aggressive WACC of 12.8% in our midpoint valuation analysis as well as a terminal exit multiple of 9.0x 2029P revenue (TTM in this case) at the midpoint. We make this revenue multiple assumption based on our projections that OneStream will achieve "Rule of 40" status by 2029 and that their durable competitive advantage continues to grant them a premium valuation. For context, OneStream currently trades at 10.83x TTM revenue and 8.99x NTM revenue.

	NTM Revenue Multiple		
	2017 Median	2021 Median	Today's Median
60%+ Rule of 40	6.3x	24.8x	-
40-60% Rule of 40	8.5x	20.9x	10.8x
20-40% Rule of 40	6.6x	15.0x	6.0x
<20% Rule of 40	3.8x	11.6x	3.5x

WACC	Revenue Exit Multiple						
	7.5x	8.0x	8.5x	9.0x	9.5x	10.0x	10.5x
11.5%	33.5	36.0	38.5	40.9	43.4	45.9	48.3
12.0%	32.7	35.1	37.5	39.9	42.3	44.7	47.2
12.5%	31.9	34.2	**36.6**	**38.9**	**41.3**	43.7	46.0
12.8%	31.3	33.6	**35.9**	**$38.3**	**40.6**	42.9	45.2
13.5%	30.3	32.5	**34.8**	**37.0**	**39.3**	41.5	43.8
14.0%	29.5	31.7	33.9	36.1	38.3	40.5	42.7
14.5%	28.7	30.9	33.1	35.2	37.4	39.5	41.7

QoQ Increase in Mid-Market Clients	QoQ Increase in Enterprise Revenue as % of TAM						
	3.50%	4.00%	4.50%	5.00%	5.50%	6.00%	6.50%
2.00%	28.3	31.7	35.3	39.3	43.7	48.4	53.5
1.75%	27.9	31.3	35.0	38.9	43.3	48.0	53.2
1.50%	27.6	30.9	**34.6**	**38.6**	**42.9**	47.7	52.8
1.25%	27.2	30.6	**34.3**	**$38.3**	**42.6**	47.3	52.5
1.00%	26.9	30.3	**33.9**	**37.9**	**42.3**	47.0	52.2
0.75%	26.6	30.0	33.6	37.6	42.0	46.7	51.9
0.50%	26.3	29.7	33.3	37.3	41.7	46.4	51.6

Income Statement	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	2026P	2027P	2028P	2029P
Revenue																
Mid-Market Revenue	15,763.8	17,300.8	21,400.8	20,518.8	22,058.2	23,500.2	25,828.0	26,150.9	26,477.7	26,808.7	27,143.8	27,686.7	122,215.8	138,904.8	157,872.8	179,430.9
Enterprise	63,055.2	69,203.2	85,603.2	82,075.2	88,232.8	94,000.8	103,312.0	108,477.6	116,179.5	121,988.5	128,087.9	134,492.3	620,835.8	769,722.4	954,314.5	1,183,174.7
Total Revenue	**$78,819.0**	**$86,504.0**	**$107,004.0**	**$102,594.0**	**$110,291.0**	**$117,501.0**	**$129,140.0**	**$134,628.5**	**$142,657.2**	**$148,797.2**	**$155,231.7**	**$162,179.0**	**$743,051.6**	**$908,627.2**	**$1,112,187.2**	**$1,362,605.6**
Change YoY					*39.9%*	*35.8%*	*20.7%*	*31.2%*	*29.3%*	*26.6%*	*20.2%*	*20.5%*	*22.0%*	*22.3%*	*22.4%*	*22.5%*
				-4.1%												
Total Cost of Revenue	25,768	28,723	29,525	30,486	34,028	36,975	64,401	37,696	38,517	38,687	38,808	38,923	170,902	199,898	233,559	272,521
% Revenue	*32.7%*	*33.2%*	*27.6%*	*29.7%*	*30.9%*	*31.5%*	*49.9%*	*28.0%*	*27.0%*	*26.0%*	*25.0%*	*24.0%*	*23.0%*	*22.0%*	*21.0%*	*20.0%*
Gross Profit	**53,051.0**	**57,781.0**	**77,479.0**	**72,108.0**	**76,263.0**	**80,526.0**	**64,739.0**	**96,932.5**	**104,139.8**	**110,109.9**	**116,423.8**	**123,256.0**	**572,149.7**	**708,729.2**	**878,627.9**	**1,090,084.5**
Operating Expenses																
Sales and Marketing	47,271	46,744	42,226	39,554	48,309	52,216	162,700	75,153	77,294	73,102	81,350	82,668	345,856	380,442	418,486	460,335
% Growth					*2.2%*	*11.7%*	*285.3%*	*90.0%*	*60.0%*	*40.0%*	*-50.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Research & Development	12,529	13,226	13,859	15,675	16,924	19,952	83,040	29,783	27,078	27,933	41,520	34,250	150,398	172,958	198,902	228,737
% Growth					*35.1%*	*50.9%*	*499.2%*	*90.0%*	*60.0%*	*40.0%*	*-50.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
General & Administrative	14,727	14,058	14,391	16,671	16,410	19,929	74,170	31,675	26,256	27,901	37,085	34,842	138,692	152,562	167,818	184,600
% Revenue					*11.4%*	*41.8%*	*415.4%*	*90.0%*	*60.0%*	*40.0%*	*-50.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Total Operating Expenses	74,527.0	74,028.0	70,476.0	71,900.0	81,643.0	92,097.0	319,910.0	136,610.0	130,628.8	128,935.8	159,955.0	151,760.1	634,946.8	705,961.3	785,205.4	873,671.0
Operating Income	**(21,476.0)**	**(16,247.0)**	**7,003.0**	**208.0**	**(5,380.0)**	**(11,571.0)**	**(255,171.0)**	**(39,677.5)**	**(26,489.0)**	**(18,825.9)**	**(43,531.2)**	**(28,504.1)**	**(62,797.0)**	**2,767.9**	**93,422.5**	**216,413.5**
Other Income and Expenses																
Interest Income	523.0	1,046.0	1,133.0	1,360.0	1,636.0	1,661.0	5,022.0	1,768.7	1,768.7	1,768.7	1,768.7	1,768.7	1,768.7	1,768.7	1,768.7	1,768.7
Other Income and Expenses, Net	(1,827.0)	5.0	(1,072.0)	1,829.0	(900.0)	2,391.0	772.0									
EBT	(22,780.0)	(15,196.0)	7,064.0	3,397.0	(4,644.0)	(7,519.0)	(249,377.0)	(37,908.8)	(24,720.3)	(17,057.2)	(41,762.5)	(26,735.4)	(61,028.3)	4,536.6	95,191.3	218,182.2
Provision for (Benefit From) Income Taxes	295.0	175.0	300.0	646.0	315.0	331.0	(32.0)	7,960.8	5,191.3	3,582.0	8,770.1	5,614.4	12,815.9	(952.7)	(19,990.2)	(45,818.3)
Effective Tax Rate	*-1.3%*	*-1.2%*	*4.2%*	*19.0%*	*-6.8%*	*-4.4%*	*0.0%*	*-21.0%*	*-21.0%*	*-21.0%*	*-21.0%*	*-21.0%*	*-21.0%*	*-21.0%*	*-21.0%*	*-21.0%*
Minority Interest Earnings							77,400.0									
Net Income (Loss)	**($23,075.0)**	**($15,371.0)**	**$6,764.0**	**$2,751.0**	**($4,959.0)**	**($7,850.0)**	**($171,945.0)**	**($29,948.0)**	**($19,529.0)**	**($13,475.2)**	**($32,992.4)**	**($21,120.9)**	**($48,212.4)**	**$3,583.9**	**$75,201.1**	**$172,363.9**

Ultimately, we arrive at an implied share price of $38.26 at the midpoint, representing an implied 30.0% upside.