

Snowflake Inc. (SNOW)

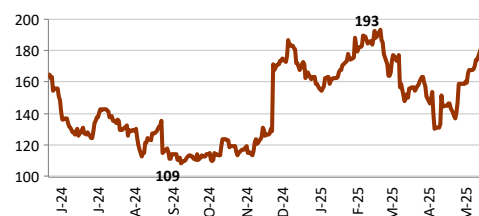
FQ1 Preview: Looking for Strong Results

Remain positive. SNOW reports FQ1 results this Wednesday, May 21, and we expect strong results and solid guidance. Our industry conversations have suggested limited macro impact and a continued customer focus on cloud migrations and data modernization. Investors will be focused on consumption trends broadly, along with progress with Cortex AI (we picked up positive feedback at events intra-quarter) and other newer products. Investor sentiment has improved in recent months, though we also still hear concerns over competition with privately held Databricks.

- **FQ1 forecasts.** We forecast FQ1 product revenue of \$957.4 million, YOY growth of 21.3%. We forecast \$49.4 million of adjusted operating income, a margin of 4.9%. We expect solid upside to both.
- **Macro in focus.** We do not believe macro has exerted a significant impact on FQ1 results, though any commentary on macro and consumption trends generally will be a key investor focus.
- **Thoughts on F2026 guidance.** We expect a modest increase to current F26 guidance (24% product revenue growth), driven by the presumed FQ1 beat, though it's possible that's tempered somewhat by 2H macro conservatism. Guidance currently assumes accelerating growth through the year, driven by stable consumption in its core data warehouse offering, with newer products layered on as increasing growth contributors through the year. Comments on Cortex AI trends, as well as Snowpark, Dynamic Tables, and the broader data engineering bundle, will be a key investor focus.
- **Cloud data trends positive.** Hyperscaler cloud growth trends remain strong, and within our coverage, both DDOG and DT posted strong Q1 growth with solid outlooks. Macro headwinds did not seem to be a major factor for any of them.
- **Intra-quarter updates positive.** We attended multiple intra-quarter customer events sponsored by Snowflake as well as privately held Databricks. Our conversations suggest data modernization remains a core focus for enterprises, with GenAI still early, but a significant long-term tailwind.
 - **New product traction.** We picked up evidence of growing Cortex traction, led by Cortex Analyst (enables business users to build a semantic model using natural language), and came away feeling better about Snowflake's ability to drive AI-related consumption from the business analyst persona it has appealed to for years. It was also clear to us that Snowflake's newer products are increasingly appealing to the data engineering persona, a key positive.
 - **Contact us if you'd like to discuss the events or our takeaways in more detail.**
- **Stock performance.** SNOW has gained 18.6% YTD, outperforming the IGV (up 5.0%) and the NASDAQ Composite (down 0.5%).
- **Valuation.** SNOW is currently trading at 14.5x our F26 revenue forecast and 58x FCF. We expect current forecasts likely prove conservative.

RESEARCH UPDATE

1-Year Price Chart



Stock Data

Rating:	Outperform
Suitability:	Higher Risk
Price Target:	\$200
Price (5/16/25):	\$183.08
Market Cap (mil):	\$67,868
Shares Out (mil):	370.7
Average Daily Vol (mil):	5.37
Dividend Yield:	0.0%

Estimates

FY Jan	2025A	2026E	2027E
Q1	0.14 A	0.21 E	
Q2	0.18 A	0.26 E	
Q3	0.20 A	0.33 E	
Q4	0.30 A	0.38 E	
Fiscal EPS	0.83 A	1.18 E	1.42 E
Fiscal P/E	NM	NM	NM

Chart/Table Sources: FactSet and Baird Data. Price chart reflects most recent closing price.

Please refer to Appendix
- Important Disclosures
and Analyst Certification

Snowflake offers data storage, processing, and analytics solutions to businesses of all sizes.

Details

- **CFO search update?** SNOW announced on its FQ4 call that CFO Mike Scarpelli plans to retire, though will remain as CFO until a replacement is named. The timing of a new CFO announcement remains uncertain, though we'd expect some sort of update on the process on the call.

Valuation

- **Current valuation.** SNOW is currently trading at 14.5x our F26 revenue forecast (and 58x FCF), a premium to the broader SaaS group at ~8x, but roughly in-line with high growth/FCF peers at ~14x. Importantly, we expect current forecasts likely prove conservative.
- **Target price.** Our \$200 target price is based on 16x our F2026 revenue estimate, which translates to ~60x F2026E FCF, slightly above the high-growth/FCF SaaS group at ~15x C2025 (F26) revenue and ~55x FCF, reflecting a large TAM, a strengthening platform, and stronger-than-average growth partially offset by near-term margin pressures.

Estimate review

FQ1 Estimates (\$000s)			
	Year Ago	1QF26E	% Change
Product Revenue	789,587	957,400	21.3%
Total Revenue	828,709	1,001,217	20.8%
Adj. Product Gross Profit	607,312	718,050	18.2%
Adj. Product Gross Margin	76.9%	75.0%	(190 bps)
Adj. Gross Profit	609,116	720,241	18.2%
Adj. Gross Margin	73.5%	71.9%	(160 bps)
Adj. Operating Income	36,244	49,426	36.4%
Adj. Operating Margin	4.4%	4.9%	60 bps
Adj. Net Income	52,160	80,318	54.0%
Adj. EPS	\$0.14	\$0.21	49.6%

Source: Company reports, Baird estimates

FQ2 Estimates (\$000s)			
	Year Ago	2QF26E	% Change
Product Revenue	829,250	1,013,685	22.2%
Total Revenue	868,823	1,058,007	21.8%
Adj. Product Gross Profit	633,782	760,264	20.0%
Adj. Product Gross Margin	76.4%	75.0%	(140 bps)
Adj. Gross Profit	636,210	762,480	19.8%
Adj. Gross Margin	73.2%	72.1%	(120 bps)
Adj. Operating Income	43,746	70,543	61.3%
Adj. Operating Margin	5.0%	6.7%	160 bps
Adj. Net Income	63,850	96,124	50.5%
Adj. EPS	\$0.18	\$0.26	44.6%

Source: Company reports, Baird estimates

F2026 Estimates (\$000s)			
	F25A	F26E	% Change
Product Revenue	3,462,422	4,279,997	23.6%
Total Revenue	3,626,396	4,463,648	23.1%
Adj. Product Gross Profit	2,643,303	3,209,998	21.4%
Adj. Product Gross Margin	76.3%	75.0%	(130 bps)
Adj. Gross Profit	2,648,711	3,219,180	21.5%
Adj. Gross Margin	73.0%	72.1%	(90 bps)
Adj. Operating Income	231,723	358,991	54.9%
Adj. Operating Margin	6.4%	8.0%	170 bps
Adj. Net Income	301,341	441,081	46.4%
Adj. EPS	\$0.83	\$1.18	42.8%

Source: Company reports, Baird estimates

Investment Thesis

Cloud native data disruptor. SNOW attacked the data warehouse market with a highly elastic cloud-native approach that provides significant price performance and agility benefits.

Large and growing TAM. The expanding portfolio of solutions continues to bolster the TAM, estimated at \$248 billion. Managing data in the cloud is still early innings and mirrors the shift to cloud-based applications.

Strong financial profile. SNOW's platform and sales capabilities have driven strong revenue growth coupled with solid gross margins and positive free cash flow. The strong free cash flow helps it stand out from other high growth software players.

Competition. Privately-held Databricks is Snowflake's biggest competitor, coming to market with an initial focus on data lakehouses (unstructured data), but growing traction with its SQL Warehouse offering as well. However, it's largely a two-horse race, with a TAM large enough to support both. Outside of Databricks, the hyperscalers (Amazon's Redshift, Microsoft's Synapse, and Google's BigQuery) also seemingly present long-term competitive risk, though they are also key partners. Teradata (TDC) is one of the larger legacy providers, and is rapidly trying to shift to the cloud, but in the meantime continues to be a net share donor. And a host of other cloud data providers and legacy database leaders could pose greater competition in the future.

Macro pressure. SNOW noted longer sales cycles and continued optimization impacts in F2024, which led to revenue growth deceleration. The macro has seemingly stabilized since, but recessionary pressures, should they arise, could serve as a headwind to growth once again.

Valuation rich, but off highs. SNOW continues to trade well above the SaaS group with a double-digit revenue multiple and a FCF multiple recently around 50x F26E.

ESG Considerations

Snowflake has a dedicated section on its website that details its many ESG initiatives. On the environmental side, Snowflake's aim is to optimize the use of data and reduce the CO2 footprint of the storage, movement, and processing of data. The Snowflake Data Marketplace features a range of ESG-related data sets which customers can use to understand their partners' ESG risk profiles. Snowflake also engages in environmental savings initiatives around office location, practices, recycling, energy efficient applications, food waste reduction programs and donating edible food to local organizations. On the social front, Snowflake offers a variety of employee training programs, including skills training, management training, and diversity training. It has developed a program to recruit candidates from underserved communities as well as military veterans. On the governance side, 8/10 of Snowflake's directors are independent and 3/10 are women.

Risks & Caveats

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CFO transition. CFO Mike Scarpelli, well-regarded for significant past successes at ServiceNow and Data Domain previously, has served as SNOW's CFO since 2019. He recently announced plans to retire, although plans to stay on board until a successor is named. This follows the CEO change made in early 2024, when CEO Frank Sloatman retired and was replaced by Sridhar Ramaswamy, who has since executed well on the product roadmap.

Company Description

Snowflake offers data storage, processing, and analytics solutions to businesses of all sizes via a consumption-based model. Its data warehouse is the core product, with strong data sharing capabilities, but growing traction with data engineering and data science workloads as well.

Appendix - Important Disclosures and Analyst Certification

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