

Company Update — May 19, 2025

## U.S. Software

## Snowflake Inc.

## 1Q Preview—Threading a Needle into Summit

## Our Call

*Looking ahead to SNOW's 1Q print, elevated expects from on-cycle EPS likely create an incrementally tougher setup (need to pass through beat). Expect new product cycles cont to layer on this yr, w/ Snowpark + Cortex increasingly in focus. Keep OW.*

**Thoughts into 1Q print:** We think a beat and flow-through (or very modest raise) is likely necessary on SNOW's upcoming print given elevated expects post-MSFT & the stock's run-up afterward. The co is currently guiding to 21-22% Y/Y on 1Q and 24% on FY26 (already implying 2H re-accel). Given historical pattern, 1Q beat of 3%+ likely viewed positively (i.e., \$980M+ product revs vs current St. est \$955M) while 2% or lower likely comes w/ increased scrutiny.

**Takes from 1Q Checks, \$1M Customer Survey:** Checks this quarter were mixed on the NT, with more positive sentiment around new product cycles (esp Snowpark + some mentions of Cortex) but more negative skewed anecdotes pointing to macro headwinds weighing on deal velocity (i.e., elongating sales cycles, specifically on discretionary projects). From our survey (results inside), we note 3 key takes: 1) a modest rebound in NTM growth expects, 2) increasing Cortex usage, 3) optimizations now behind us.

**1Q Cloud Reads Mixed:** As touched on in [our 1Q on-cycle earnings recap](#), calendar 1Q cloud results were somewhat mixed, incl better-than-expected print from MSFT but somewhat lighter prints from AMZN and GOOGL. AI capacity constraints again represented a headwind to hyperscalers' cloud growth across the board. Despite mixed results, RPO growth from the hyperscalers (i.e., broader cloud commits—perhaps more important), cont to accel across the basket, driven by robust underlying cloud + AI demand.

**\$100M AI Headlines:** Recent [headlines](#) have suggested that SNOW is internally targeting \$100M ARR from its AI products, which would represent ~2.5% of FY26 Product revs (given \$4.28B guide). This target feels fair to us given most AI offerings are still not yet a yr old, with various GAs over past yr: Cortex LLM Functions/May'24, Snowflake Copilot/July'24, Cortex Search/Oct'24, Document AI/Oct'24, & Cortex Analyst/Feb'25. Cortex Agents possible GA at Summit '25; entered [public preview in Feb '25](#).

**Valuation:** SNOW shares are trading at 15x EV/S and 57.5x EV/ FCF on NTMe, in premium territory for software. Our \$200 PT is based on 50x EV/FCF (implies 13.5x EV/S) on Fwd NTM, fair given improving underlying fundamentals & a favorable backdrop for data and AI.

Overweight  
Price Target: \$200.00

Ticker	SNOW
Upside/(Downside) to Target	9.9%
Price (05/19/2025)	\$182.05
52 Week Range	\$107.13 - 194.40
Market Cap (MM)	\$60,337
Enterprise Value (MM)	\$57,107
Average Daily Value (MM)	\$975
Dividend Yield	0.0%

\$ (Jan)	Q1	Q2	Q3	Q4	FY
EPS					
2026E	0.20 E	0.23 E	0.29 E	0.39 E	1.10 E
2027E	0.25 E	0.28 E	0.36 E	0.50 E	1.41 E

Source: Company Data, Wells Fargo Securities estimates, and Factset.  
NA = Not Available, NC = No Change, NE = No Estimate

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## Wells Fargo Express Takeaways

**Snowflake Inc. (SNOW) | Rating: Overweight | Price Target: \$200.00**

**Analyst: Michael Turrin**

### Financials

FY (Jan)	2025A	2026E	2027E
<b>\$</b>			
<b>ESTIMATES</b>			
<b>EPS</b>			
Q1	0.14 A	0.20 E	0.25 E
Q2	0.18 A	0.23 E	0.28 E
Q3	0.20 A	0.29 E	0.36 E
Q4	0.30 A	0.39 E	0.50 E
AN	0.83 A	1.10 E	1.41 E
<b>Rev. (MM)</b>	3.63B A	4.43B E	5.41B E
<b>EBIT (MM)</b>	231.7 A	351.3 E	509.8 E
<b>FCF (MM)</b>	941.5 A	1,123.9 E	1,427.1 E

### WELLS FARGO vs. CONSENSUS

Consensus Estimate	0.70 A	1.17 E	1.59 E
Difference from Consensus		(6.4)%	(12.8)%

### VALUATION

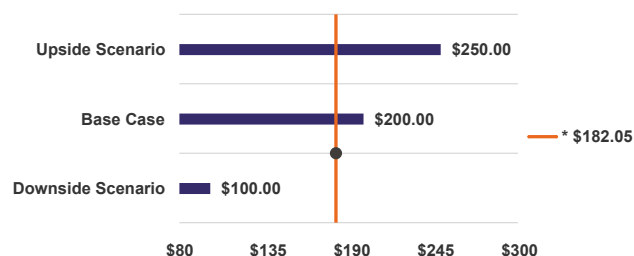
P/E	NM	NM	NM
EV/Revenue	15.7x	12.9x	10.6x
EV/EBIT	NM	NM	NM
EV/FCF	60.7x	50.8x	40.0x
FCF Yield	1.6%	1.9%	2.4%

Consensus Estimate: EPS; Source: FactSet  
Source: Company Data, Wells Fargo Securities estimates, and Factset.  
NA = Not Available, NE = No Estimate

### Investment Thesis

We believe SNOW is among a few leaders in the cloud data space and poised to continue its momentum as a new mgmt team doubles down on its AI ambitions. We rate SNOW Overweight.

### Risk vs. Reward – Upside/Downside Price Target Scenarios



\*As of 05/19/25  
Source: Wells Fargo Securities, LLC estimates and Factset.

### Base Case | \$200.00

Our \$200 PT is based on 50x EV/FCF (implies 13.5x EV/S) on Fwd NTM, fair given improving underlying fundamentals & a favorable backdrop for data and AI.

### Upside Scenario | \$250.00

In our upside scenario, SNOW is able to grow FY25-FY27 revenue at a high-20s % 3-year CAGR, yielding ~\$5.9B of FY27 revenue and FCF margin expansion to 34% (~\$2Bn in FY27 FCF). This upside scenario should allow SNOW to continue to trade near the high end of high-growth peers, or ~14.5x EV/S and ~52.5x EV/FCF multiples into next year, which would suggest \$250 for SNOW shares, derived using FY27 estimates.

### Downside Scenario | \$100.00

In our downside scenario, SNOW's revenue growth decelerates to just 10% in FY27, joined with FCF margin contraction as the company continues to invest without a commensurate level of growth in revenue, yielding ~22% FCF margin by FY27 or ~\$1.0B. Extending this scenario, we think a rapid decline in revenue growth rates and margin compression could warrant 7.5x EV/S and 30x EV/FCF, which suggests \$100 for SNOW shares derived using FY27 estimates.

### Upcoming Catalysts

- Adoption of emerging workloads, including Cortex and Snowpark Container Services
- FQ2 earnings call in late August

### Company Description

With the launch of its cloud-based data warehouse in 2014 and subsequent launches of use cases aimed at newer workloads, Snowflake has emerged as a leading vendor in the cloud data landscape. Natively built for the cloud (and benefiting from the scalability, performance, and elasticity that the cloud provides), Snowflake's platform is built to support a growing number of workloads beyond data warehousing.

## Survey Results

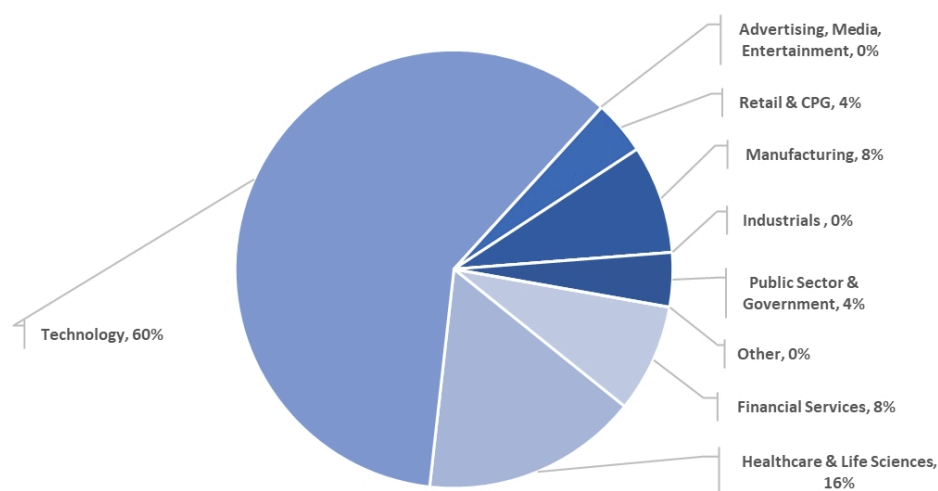
### Our key takeaways include:

- **Growth rates holding mostly steady, but slight uptick emerging in NTM expectations:** From our May'25 survey of 25 customers >\$1M in ARR, growth rates appear to be holding relatively steady on both a trailing 3-month basis (prior qtr) and trailing 12-month basis (prior year), with respondents citing largely the same growth bands as we saw last qtr (flat to up 10%). Additionally, we noticed an uptick in customers who now expect a bigger increase of the next 12-month period, where 28% of respondents expect 10-25% growth now (vs. 16% last qtr). **See Exhibits 5, 6, 7.**
- **Moving beyond optimizations:** Our May'25 survey continued the trend of increasing responses around completed optimization initiatives, demonstrating a 10%+ cost reduction in spend. As a reminder, the number of customers in our survey who had completed optimization efforts has increased for three quarters in a row, now reaching 36% of total respondents. The number of customers who have yet to start remained flat at 1. **See Exhibit 8.**
- **Cortex adoption picked up again:** The number of respondents that noted that they are using Cortex increased to 12 in the May'25 survey (up from 0 in May 2024, 2 in August, 7 in November, and 9 in February 2025). In our view, this again highlights that Cortex adoption may be taking off more significantly, but we acknowledge also may reflect SNOW's increasing number of products within the Cortex AI umbrella. We also note that 15 of 25 respondents (60% of total) expect to use Snowflake as part of their genAI strategies (which is relatively consistent with prior qtrs), while 12 of 25 respondents (48% of total) specifically are already using Cortex. **See Exhibits 15, 16, 17.**

## Customer Survey Results

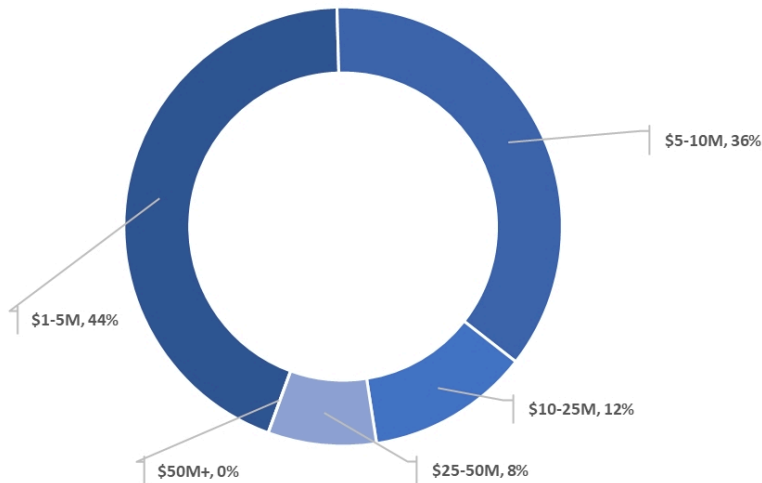
### Customer Profile

Exhibit 1 - What vertical is your organization in?



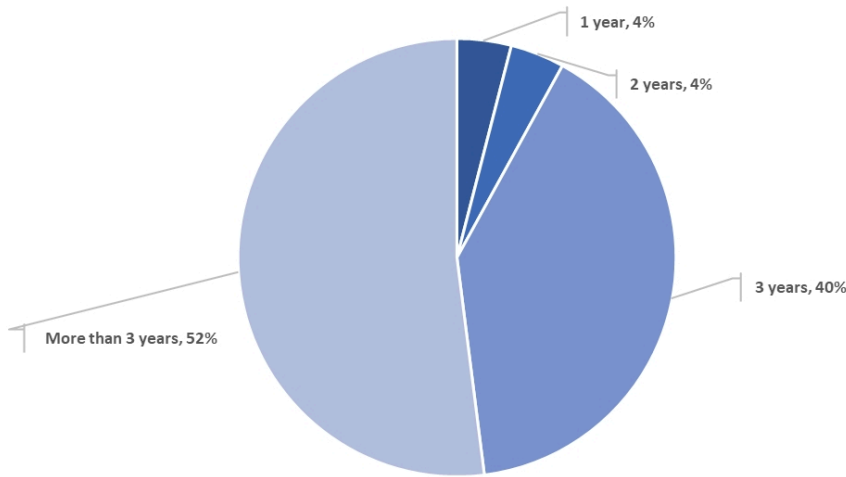
Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 2 - What is your current annual consumption on Snowflake?



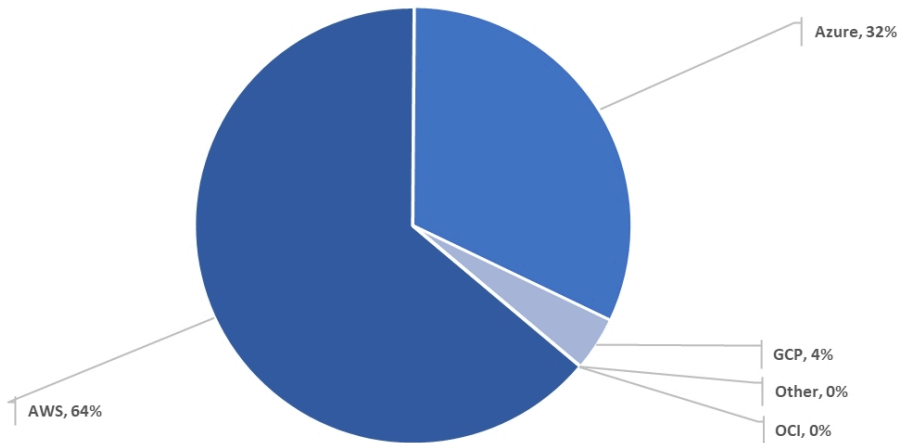
Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 3 - How long have you been a Snowflake customer?



Source: Wells Fargo Securities, LLC proprietary survey; N=25

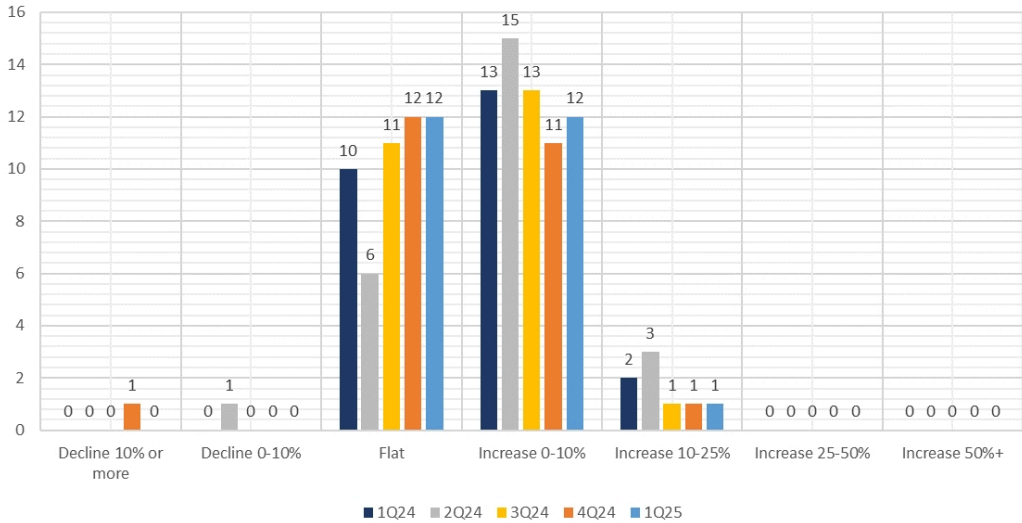
Exhibit 4 - Who is your primary cloud vendor?



Source: Wells Fargo Securities, LLC proprietary survey; N=25

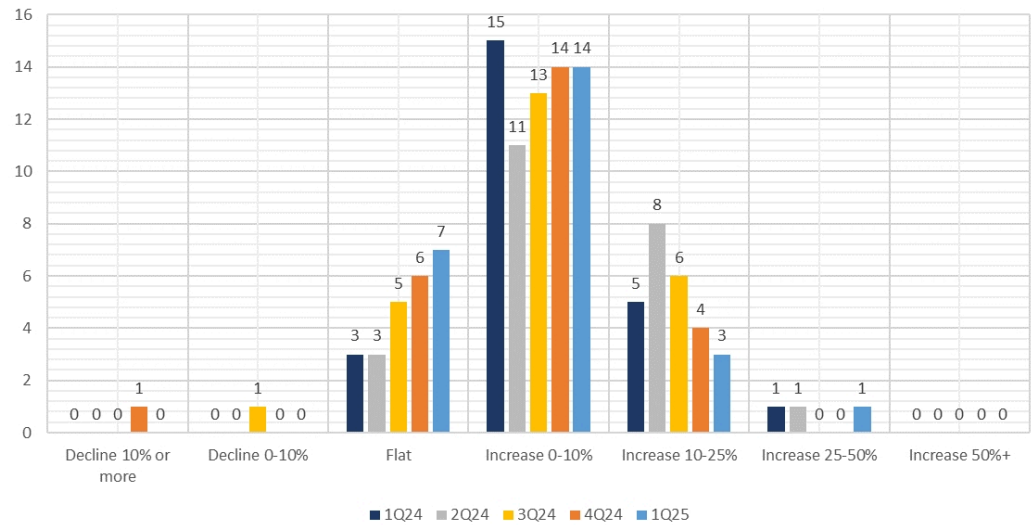
**Spend Growth**

Exhibit 5 - By how much has your Snowflake consumption changed over the last 90 days?



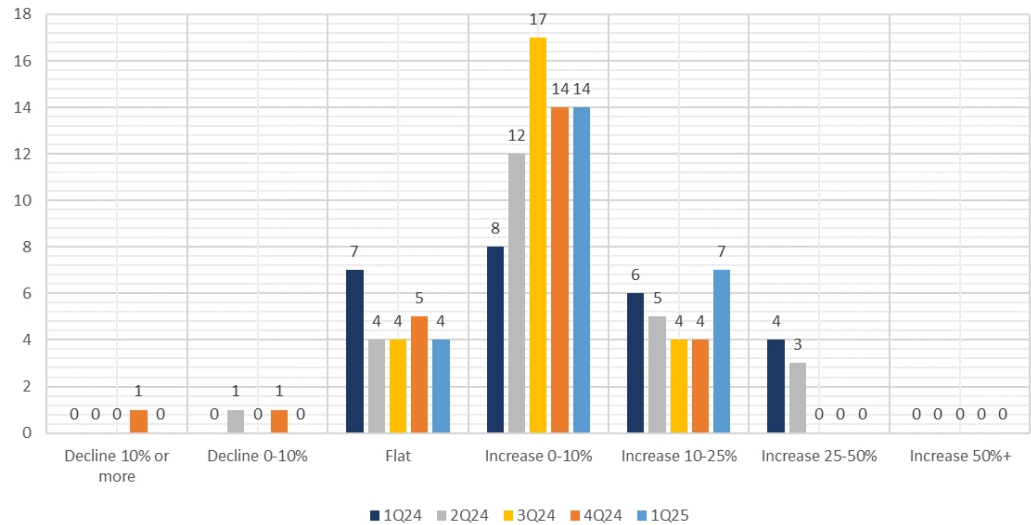
Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 6 - By how much has your Snowflake consumption changed over the last year?



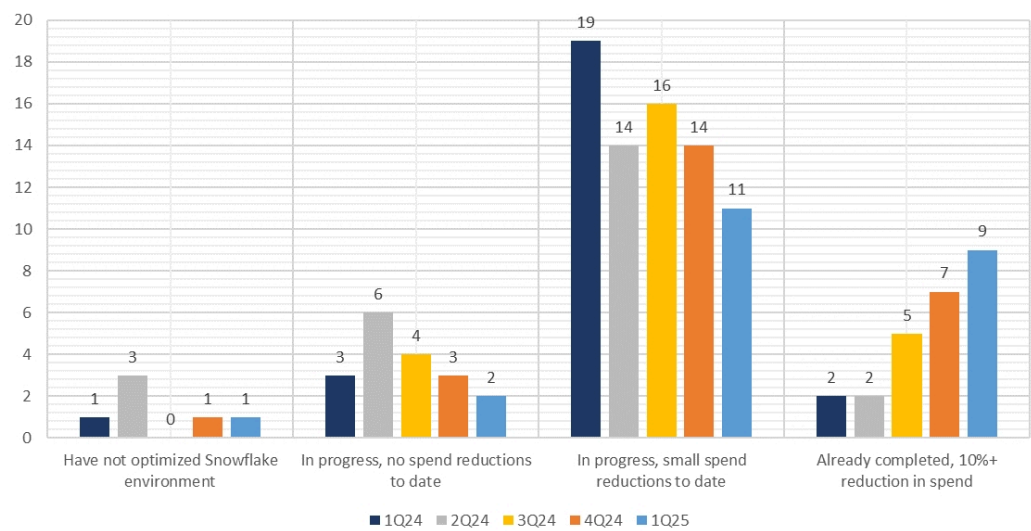
Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 7 - By how much do you expect your Snowflake consumption to change over the next year?



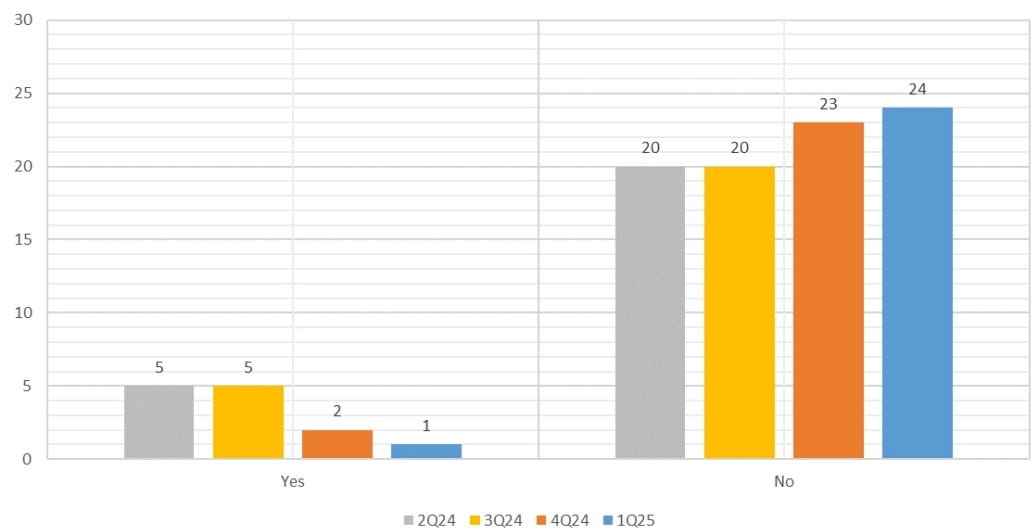
Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 8 - To what extent have you optimized your Snowflake environment?



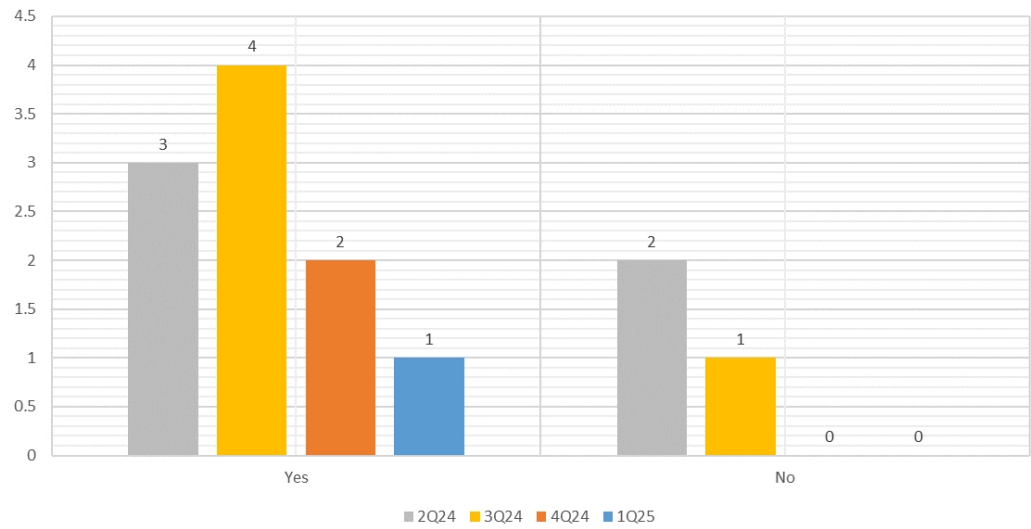
Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 9 - Was your organization one of the 165 customers impacted in the recent data breach?



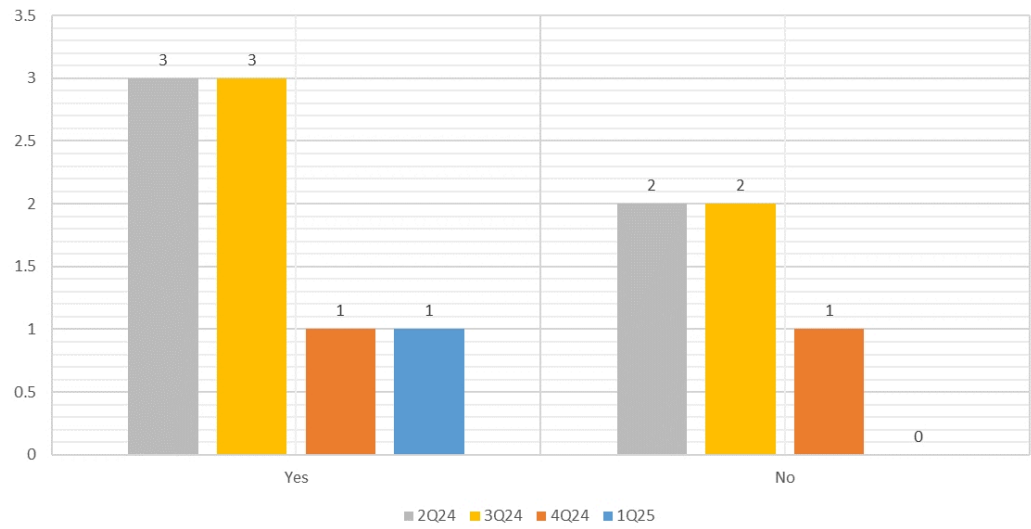
Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 10 - If impacted by the recent data breach, are you planning to reduce your usage of Snowflake?



Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 11 - If impacted by the recent data breach, are you planning to move off of Snowflake altogether?

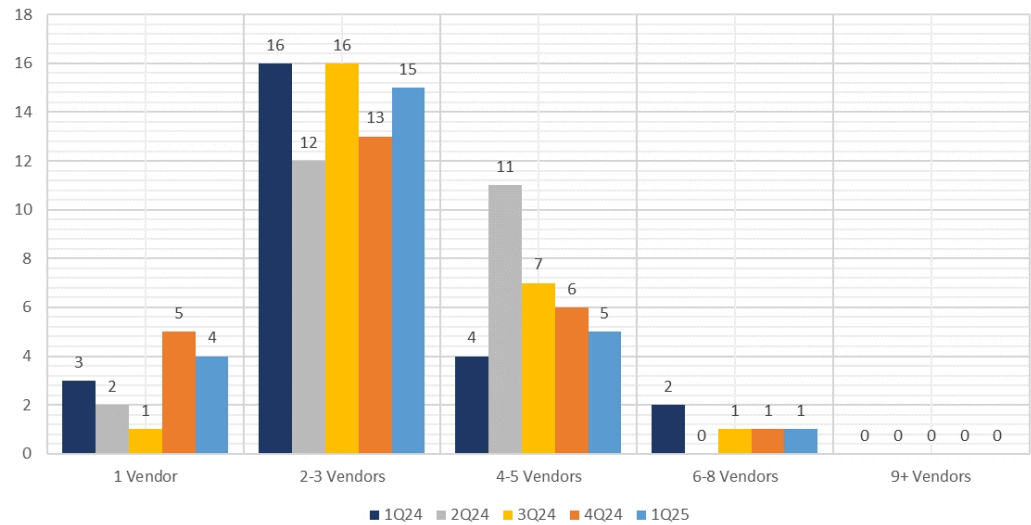


Source: Wells Fargo Securities, LLC proprietary survey; N=25

Competition

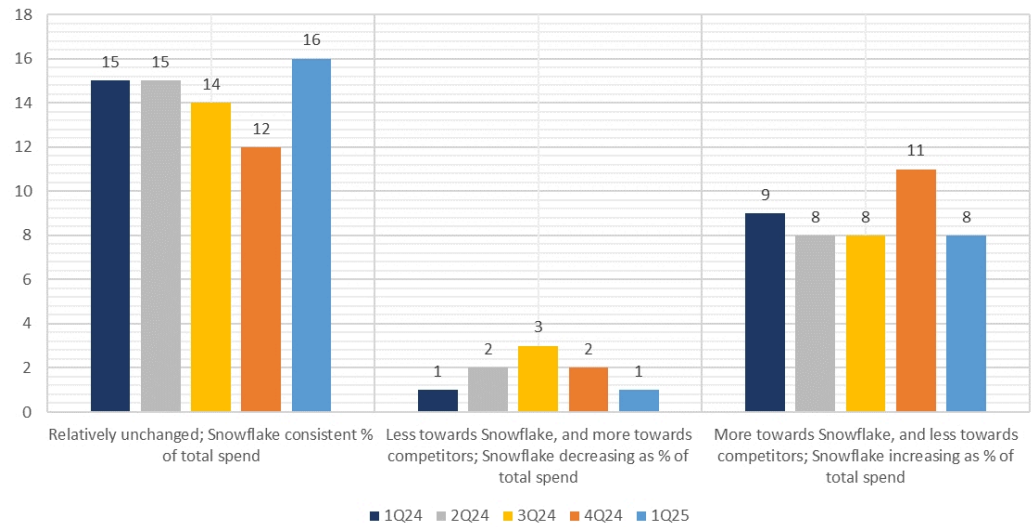


Exhibit 12 - How many vendors do you use in your data estate?



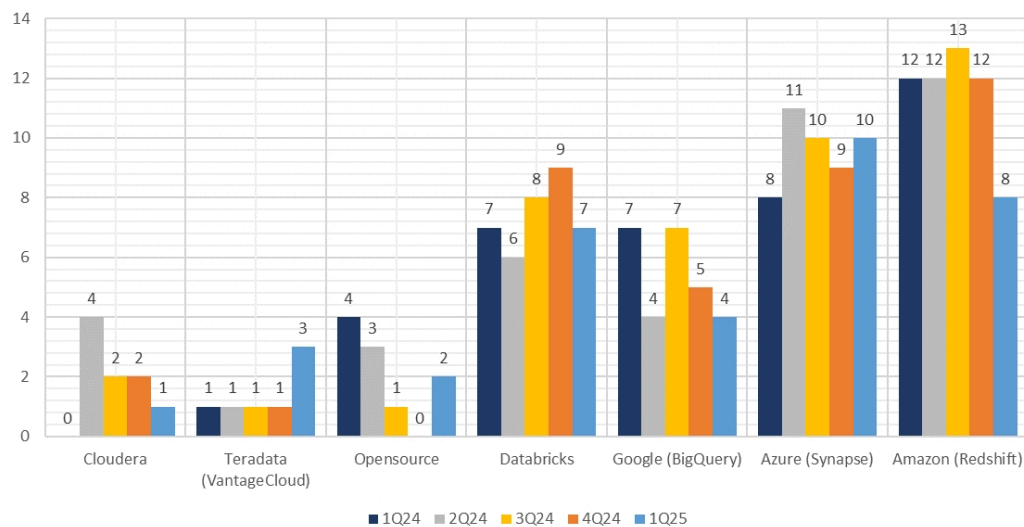
Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 13 - How has the mix of your overall data spend shifted over the past year?



Source: Wells Fargo Securities, LLC proprietary survey; N=25

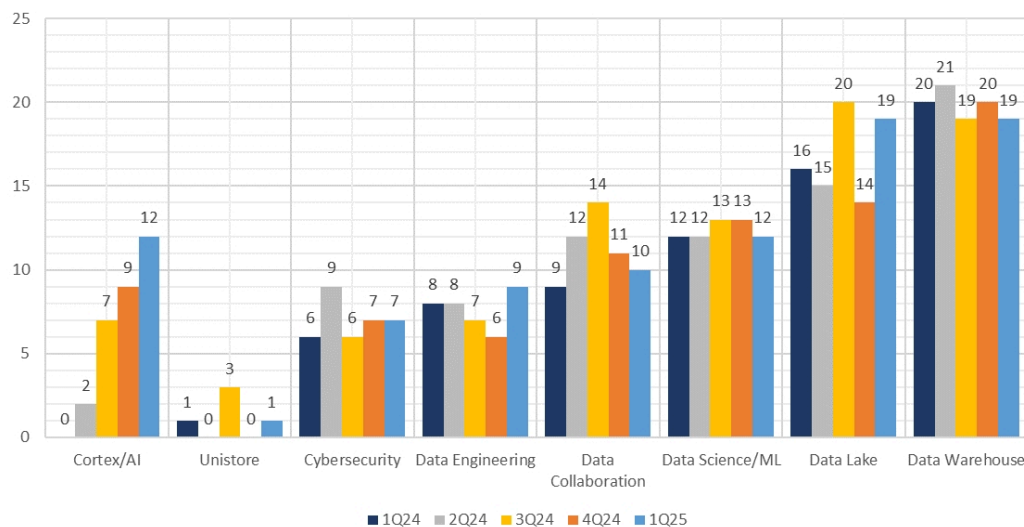
Exhibit 14 - If augmenting/replacing Snowflake, which other vendors are you planning to use?



Source: Wells Fargo Securities, LLC proprietary survey; N=25

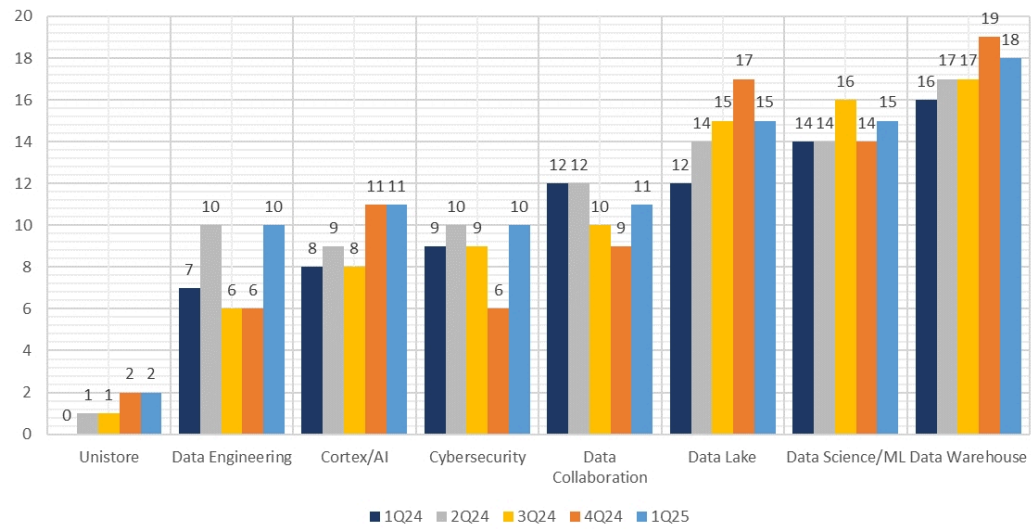
**Product**

Exhibit 15 - What consumption-based services/workloads do you currently use from Snowflake?



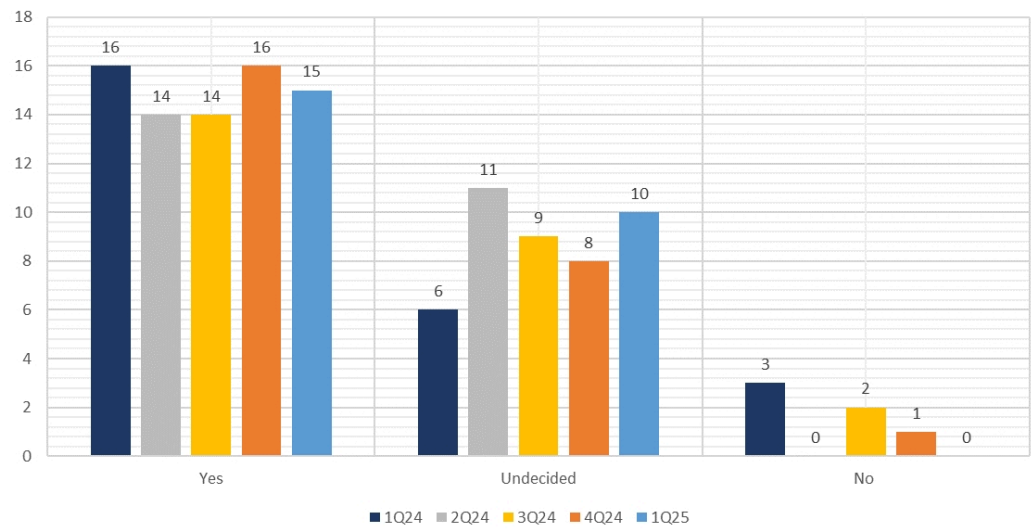
Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 16 - What consumption-based services/workloads do you plan to use from Snowflake in the future?



Source: Wells Fargo Securities, LLC proprietary survey; N=25

Exhibit 17 - Do you plan to use Snowflake as part of your AI/genAI strategy?



Source: Wells Fargo Securities, LLC proprietary survey; N=25

Investment Thesis, Valuation and Risks

Snowflake Inc. (SNOW)

Investment Thesis

We believe SNOW is among a few leaders in the cloud data space and poised to continue its momentum as a new mgmt team doubles down on its AI ambitions. We rate SNOW Overweight.

Target Price Valuation for SNOW: \$200.00 from NC

Our \$200 PT is based on 50x EV/FCF (implies 13.5x EV/S) on Fwd NTM, fair given improving underlying fundamentals & a favorable backdrop for data and AI.

Risks to Our Price Target and Rating for SNOW

Downside risks to our price target include: (1) further macro deterioration, which could result in increased scrutiny on IT budgets; (2) intensifying competition; (3) still-elevated valuation, w/ shares among highest multiples in software.

Companies Mentioned in Report

Company Name	Ticker	Last Price (05/19/25)	Rating
Snowflake Inc.	SNOW	\$182.05	Overweight

Source: Wells Fargo Securities LLC Estimates, FactSet

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