

Snowflake Inc. (SNOW)

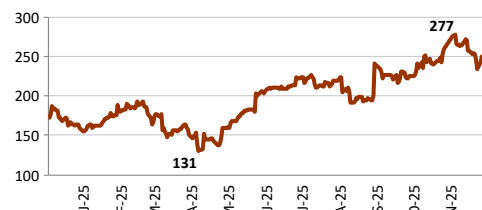
Expect Strong FQ3, Though Expectations Also High

Remain positive. SNOW reports FQ3 results on Wednesday, December 3, and we expect strong results and solid guidance once again. Trends in the data/AI space remain strong; we expect solid upside for SNOW, which could drive product revenue growth close to 30% once again (though we are not banking on continued acceleration vs. FQ2's 31.8%). While investor sentiment has improved in recent quarters (high expectations into the print), we think SNOW could continue to outperform long term with growth close to 30% coupled with improving margins--rare in software today.

- **FQ3 forecasts.** We forecast FQ3 product revenue of \$1.127 billion, YOY growth of 25.2%. We forecast \$104.5 million of adjusted operating income, a margin of 8.9%. As with past quarters, we expect solid upside to both.
- **Recent beat history.** SNOW beat the FQ2 midpoint by 5.1%, towards the high end of its typical 3-5% beat range. Although we aren't expecting a 5%+ beat again, a more typical beat could still result in product revenue growth of ~30% in FQ3.
- **Thoughts on F2026 guidance.** We expect a modest increase to F26 guidance (currently 27% product revenue growth) driven by the presumed FQ3 beat. Guidance currently factors its core data warehouse offering as the largest growth contributor for the balance of the year, with newer products continuing to ramp. Comments on Cortex AI trends, as well as Snowpark, Dynamic Tables, and the broader data engineering bundle, will be a key investor focus.
- **FQ4 guidance perspective.** We forecast FQ4 product revenue of \$1.18 billion (YOY growth of 25.2%) with an 8.3% operating margin, in line with the company's implied guidance. We think FQ4 guidance likely remains in that range to slightly higher.
- **Cloud data trends very positive.** AWS, Microsoft Azure, Google Cloud, and Datadog each posted strong Q3 growth (most accelerated YOY growth).
- **Intra-quarter updates positive.** We recently attended several industry events/conferences, including a SNOW [customer event in Chicago](#) last month, and believe tailwinds across the data and AI space remain strong. Simply put, cloud data migration and modernization efforts remain a focus at the enterprise level (many organizations still in the early or middle innings!), with SNOW a key beneficiary.
 - **We continue to believe Cortex represents an upside opportunity in the 2H and into F2027.** Through this year, we've picked up evidence of growing Cortex traction and have been feeling better about Snowflake's ability to drive AI-related consumption from the business analyst persona it has appealed to for years. Snowflake's newer products are also increasingly appealing to the data engineering persona, a key positive.
- **Stock performance.** SNOW has gained 61% YTD, outperforming the IGV (up 3%) and the NASDAQ Composite (up 20%), though is slightly off recent highs.
- **Valuation perspective.** SNOW is currently trading at 16.1x our F27 revenue forecast and 64x FCF. We expect current forecasts likely prove conservative.

RESEARCH UPDATE

1-Year Price Chart



Stock Data

| | |
|--------------------------|-------------|
| Rating: | Outperform |
| Suitability: | Higher Risk |
| Price Target: | \$260 |
| Price (11/28/25): | \$251.24 |
| Market Cap (mil): | \$93,562 |
| Shares Out (mil): | 372.4 |
| Average Daily Vol (mil): | 4.55 |
| Dividend Yield: | 0.0% |

Estimates

| FY Jan | 2025A | 2026E | 2027E |
|-------------------|---------------|---------------|---------------|
| Q1 | 0.14 A | 0.24 A | |
| Q2 | 0.18 A | 0.35 A | |
| Q3 | 0.20 A | 0.30 E | |
| Q4 | 0.30 A | 0.30 E | |
| Fiscal EPS | 0.83 A | 1.18 E | 1.50 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

Valuation

- **Current valuation.** SNOW is currently trading at 16.1x our F27 revenue forecast (and 64x FCF), a premium to the broader SaaS group at ~7x C2026, but more in line with high-growth/FCF peers at ~14x. Importantly, we expect current forecasts likely prove conservative.
- **Target price.** Our \$260 target price is based on 17x our F2027 revenue estimate (which we expect to prove conservative); that translates to ~65x F2027E FCF, above the high-growth/FCF SaaS group at ~14x C2026 (F27) revenue and ~50x FCF, reflecting a large TAM, strengthening platform/growth, and improving margins.

Estimate Review

| FQ3 Estimates (\$000s) | | | |
|---------------------------|----------|-----------|-----------|
| | Year Ago | 3QF26E | % Change |
| Product Revenue | 900,282 | 1,127,350 | 25.2% |
| Total Revenue | 942,094 | 1,174,179 | 24.6% |
| Adj. Product Gross Profit | 686,903 | 843,258 | 22.8% |
| Adj. Product Gross Margin | 76.3% | 74.8% | (150 bps) |
| Adj. Gross Profit | 687,173 | 844,194 | 22.9% |
| Adj. Gross Margin | 72.9% | 71.9% | (100 bps) |
| Adj. Operating Income | 58,888 | 104,461 | 77.4% |
| Adj. Operating Margin | 6.3% | 8.9% | 260 bps |
| Adj. Net Income | 73,216 | 110,948 | 51.5% |
| Adj. EPS | \$0.20 | \$0.30 | 46.7% |

Source: Company reports, Baird estimates

| FQ4 Estimates (\$000s) | | | |
|---------------------------|----------|-----------|-----------|
| | Year Ago | 4QF26E | % Change |
| Product Revenue | 943,303 | 1,180,696 | 25.2% |
| Total Revenue | 986,770 | 1,229,379 | 24.6% |
| Adj. Product Gross Profit | 715,306 | 883,160 | 23.5% |
| Adj. Product Gross Margin | 75.8% | 74.8% | (100 bps) |
| Adj. Gross Profit | 716,212 | 884,134 | 23.4% |
| Adj. Gross Margin | 72.6% | 71.9% | (70 bps) |
| Adj. Operating Income | 92,845 | 102,249 | 10.1% |
| Adj. Operating Margin | 9.4% | 8.3% | (110 bps) |
| Adj. Net Income | 112,115 | 111,619 | -0.4% |
| Adj. EPS | \$0.30 | \$0.30 | -1.1% |

Source: Company reports, Baird estimates

| F2026 Estimates (\$000s) | | | |
|---------------------------|-----------|-----------|----------|
| | F25A | F26E | % Change |
| Product Revenue | 3,462,422 | 4,395,354 | 26.9% |
| Total Revenue | 3,626,396 | 4,590,601 | 26.6% |
| Adj. Product Gross Profit | 2,643,303 | 3,314,173 | 25.4% |
| Adj. Product Gross Margin | 76.3% | 75.4% | (90 bps) |
| Adj. Gross Profit | 2,648,711 | 3,315,739 | 25.2% |
| Adj. Gross Margin | 73.0% | 72.2% | (80 bps) |
| Adj. Operating Income | 231,723 | 425,940 | 83.8% |
| Adj. Operating Margin | 6.4% | 9.3% | 290 bps |
| Adj. Net Income | 301,341 | 439,140 | 45.7% |
| Adj. EPS | \$0.83 | \$1.18 | 42.7% |

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. We ultimately expect high- to high-20s% (and perhaps 30%) growth in F2026 (and mid-20s%+ for several years thereafter), which with improving profitability over time, is attractive in our view.

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, in our view. 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 above 50x F27E.

Risks & Caveats

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CFO transition. CFO Mike Scarpelli, well-regarded for significant past successes at ServiceNow and Data Domain previously, recently retired as SNOW's CFO (a position he held since 2019). Brian Robins took over in September, which 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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