

Snowflake Inc. (SNOW)

FQ2 Preview: Expect Solid Results and Guidance; Remain Buyers

Remain positive. SNOW reports FQ2 results on Wednesday, August 27, and we expect strong results and solid guidance once again. We expect at least modest upside which could drive an acceleration in YOY product revenue growth vs. FQ1's 26.2%. While investor sentiment has improved in recent quarters, we still see room for further outperformance if SNOW can sustain high-20s% growth in the 2H and into F2027. It trades at 12.7x F2027E revenue and 49x FCF, which we think is attractive given the growth (and improving margin) profile.

- **FQ2 forecasts.** We forecast FQ2 product revenue of \$1.037 billion, YOY growth of 25.1%. We forecast \$86.9 million of adjusted operating income, a margin of 8.0%. Our partner and customer conversations over the past several months remain positive and we expect solid upside to both.
- **Recent beat history.** SNOW beat the FQ1 midpoint by 4.1%, in-line with its typical 3-5% beat range. A similar beat in FQ2 could result in an acceleration in YOY product revenue growth vs. FQ1's 26.2%.
- **Thoughts on F2026 guidance.** We expect a modest increase to F26 guidance (currently 25% product revenue growth) driven by the presumed FQ2 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.
- **FQ3 guidance perspective.** We forecast FQ3 product revenue of \$1.119 billion (YOY growth of 24.3%) with an 8.0% operating margin, in line with consensus. We think FQ3 guidance likely falls in that range, although would note that likely requires SNOW to guide to more sequential dollars added than last year. Refer to the chart below.

Historical FQ3 Product Revenue Guidance; Implied Sequential \$ Added (\$000s)				
	F2023	F2024	F2025	F2026E*
FQ2 Product Revenue	466,268	640,209	829,250	1,079,000
FQ3 Guidance Midpoint	502,500	672,500	852,500	1,118,850
Implied Sequential \$ Added	36,232	32,291	23,250	39,850

*F2026E uses 4% Product revenue beat for FQ2, and Baird's current estimate for FQ3

- **Cloud data trends largely positive.** Google Cloud, Microsoft Azure, and Datadog each posted strong Q2 growth (accelerating YOY), with AWS and DT also posting solid results. Optimizations added a wrinkle to CFLT's outlook, although we believe that's less of a risk for SNOW.
- **Intra-quarter updates positive.** Our industry conversations suggest data modernization remains a core focus for enterprises, with GenAI still early, but a significant long-term tailwind.
 - **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 27.5% YTD, outperforming the IGV (up 7.3%) and the NASDAQ Composite (up 11.3%), though is off recent highs.

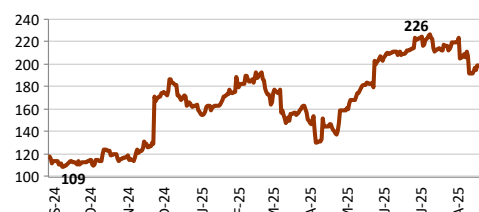
Snowflake offers data storage, processing, and analytics solutions to businesses of all sizes.

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RESEARCH UPDATE

1-Year Price Chart



Stock Data

Rating:	Outperform
Suitability:	Higher Risk
Price Target:	\$215
Price (8/22/25):	\$196.81
Market Cap (mil):	\$72,997
Shares Out (mil):	370.9
Average Daily Vol (mil):	4.19
Dividend Yield:	0.0%

Estimates

FY Jan	2025A	2026E	2027E
Q1	0.14 A	0.24 A	
Q2	0.18 A	0.26 E	
Q3	0.20 A	0.28 E	
Q4	0.30 A	0.29 E	
Fiscal EPS	0.83 A	1.07 E	1.35 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

Details

- **Valuation.** SNOW is currently trading at 12.7x our F27 revenue forecast and 49x FCF. We expect current forecasts likely prove conservative.
- **CFO search update?** SNOW announced on its FQ4'25 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 12.7x our F27 revenue forecast (and 49x FCF), a premium to the broader SaaS group at ~7x C2026, but roughly in line with high-growth/FCF peers at ~13x. Importantly, we expect current forecasts likely prove conservative.
- **Target price.** Our \$215 target price is based on 14x our F2027 revenue estimate, which translates to ~55x F2027E FCF, roughly in-line with the high-growth/FCF SaaS group at ~14x C2026 (F27) revenue and ~50x FCF, reflecting a large TAM and strengthening platform offset by near-term margin pressures.

Estimate review

FQ2 Estimates (\$000s)			
	Year Ago	2QF26E	% Change
Product Revenue	829,250	1,037,270	25.1%
Total Revenue	868,823	1,081,592	24.5%
Adj. Product Gross Profit	633,782	777,953	22.7%
Adj. Product Gross Margin	76.4%	75.0%	(140 bps)
Adj. Gross Profit	636,210	780,169	22.6%
Adj. Gross Margin	73.2%	72.1%	(110 bps)
Adj. Operating Income	43,746	86,868	98.6%
Adj. Operating Margin	5.0%	8.0%	300 bps
Adj. Net Income	63,850	98,287	53.9%
Adj. EPS	\$0.18	\$0.26	49.1%

Source: Company reports, Baird estimates

FQ3 Estimates (\$000s)			
	Year Ago	3QF26E	% Change
Product Revenue	900,282	1,118,850	24.3%
Total Revenue	942,094	1,165,679	23.7%
Adj. Product Gross Profit	686,903	836,900	21.8%
Adj. Product Gross Margin	76.3%	74.8%	(150 bps)
Adj. Gross Profit	687,173	839,241	22.1%
Adj. Gross Margin	72.9%	72.0%	(90 bps)
Adj. Operating Income	58,888	93,206	58.3%
Adj. Operating Margin	6.3%	8.0%	170 bps
Adj. Net Income	73,216	102,877	40.5%
Adj. EPS	\$0.20	\$0.28	36.4%

Source: Company reports, Baird estimates

F2026 Estimates (\$000s)			
	F25A	F26E	% Change
Product Revenue	3,462,422	4,325,128	24.9%
Total Revenue	3,626,396	4,510,224	24.4%
Adj. Product Gross Profit	2,643,303	3,245,778	22.8%
Adj. Product Gross Margin	76.3%	75.0%	(130 bps)
Adj. Gross Profit	2,648,711	3,250,770	22.7%
Adj. Gross Margin	73.0%	72.1%	(100 bps)
Adj. Operating Income	231,723	369,607	59.5%
Adj. Operating Margin	6.4%	8.2%	180 bps
Adj. Net Income	301,341	396,714	31.6%
Adj. EPS	\$0.83	\$1.07	29.0%

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, 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 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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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 F25E.

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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