

BIGTECHCOMPANY

Financial Overview

QUARTERLY PERFORMANCE

BigTech Company (\$ in thousands)	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Revenues	\$501,430	\$513,924	\$523,843	\$539,652	\$550,744	\$557,910	\$554,791	\$549,644	\$571,305
Quarterly Growth		2%	2%	3%	2%	1%	-1%	-1%	4%
Operating Income (EBITDA)	\$137,190	\$129,334	\$122,868	\$44,224	\$138,014	\$110,480	\$107,311	\$38,493	\$120,002
Quarterly Growth		-6%	-5%	-64%	212%	-20%	-3%	-64%	212%
Net Income	\$119,470	\$94,711	\$101,435	\$42,520	\$111,821	\$100,867	\$97,877	\$3,870	\$102,019
Quarterly Growth		-21%	7%	-58%	163%	-10%	-3%	-96%	2536%
Net Income per Share	\$3.85	\$3.05	\$3.27	\$1.37	\$3.60	\$3.24	\$3.14	\$0.12	\$3.27
Non GAAP Free Cash Flow (FCF)	\$48,416	-\$12,253	-\$7,438	-\$39,848	\$56,118	\$891	\$33,030	\$23,259	\$56,812

Financial Metrics	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
EBITDA Margin	27%	25%	23%	8%	25%	20%	19%	7%	21%
Net Income Margin	24%	18%	19%	8%	20%	18%	18%	1%	18%
FCF per Diluted Share	\$1.52	-\$0.38	-\$0.23	-\$1.25	\$1.77	\$0.03	\$1.05	\$0.74	\$1.79

CUSTOMER TRENDS

Key Takeaways:

- BigTechCompany increased its subscription cost in Q1 2022.
- This led to a spike in the number of customers canceling their services; however, the number of new users also increased during this time.
- While the company experienced an atypically high churn rate in Q2 2022, this has now decreased to the levels seen before the price increase.

Customer Trends #s in thousands	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Cost of Subscription (Quarterly)	\$33	\$33	\$33	\$33	\$34	\$34	\$34	\$34	\$34
Number of Users (Beginning of Period)	15,195	15,573	15,874	16,353	16,198	16,409	16,317	16,166	16,803
Customer Attrition	89	200	204	444	2,446	5,000	1,655	1,244	322
New Users	468	501	683	289	2,657	4,908	1,504	1,881	1,965
Number of Users (End of Period)	15,573	15,874	16,353	16,198	16,409	16,317	16,166	16,803	18,446
<i>Change in # of Users</i>		2%	3%	-1%	1%	-1%	-1%	4%	10%
Net Change in Customers	379	301	479	(155)	211	(92)	(151)	637	1,643
Churn Rate	0.6%	1.3%	1.3%	2.7%	15.1%	30.5%	10.1%	7.7%	1.9%

PROJECTIONS

	FY	FY	FY	FY	FY	2020-2024E
<u>Financial Highlights</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023E</u>	<u>2024E</u>	<u>CAGR</u>
Revenues	\$1,999,444	\$2,078,849	\$2,213,089	\$2,285,221	\$2,628,004	7%
<i>Annual Growth</i>		4%	6%	3%	15%	
Operating Income (EBITDA)	\$371,461	\$433,616	\$394,298	\$480,009	\$528,010	9%
<i>Annual Growth</i>		17%	-9%	22%	10%	
Net Income	\$247,641	\$358,136	\$314,435	\$408,075	\$440,721	16%
<i>Annual Growth</i>		45%	-12%	30%	8%	
Net Income per Share	\$12.11	\$11.55	\$10.11	\$13.09	\$14.14	4%
Non GAAP Free Cash Flow (FCF)	\$755	-\$11,123	\$113,297	\$227,248	\$222,703	314%
<u>Financial Metrics</u>						
EBITDA Margin	19%	21%	18%	21%	20%	
Net Income Margin	12%	17%	14%	18%	17%	
Debt/EBITDA	2.7x	2.4x	2.5x	2.0x	1.9x	
FCF per Diluted Share	\$0.02	-\$0.35	\$3.58	\$7.18	\$7.03	

CONCLUSIONS

Company Highlights

- BigTechCompany has seen steady revenue growth over the past two years and is expected to continue growing in the future.
- The company is cash flow positive and will continue to be in the future.
- The company's debt/EBITDA is currently 2.4x and is expected to continue to decrease. This is low compared to the industry average of 4.0x, suggesting the company has a healthy leverage ratio.

Areas of Concern

- The company has volatile quarterly expenses, particularly in the 4th quarter of each year.
- The company's EBITDA margin is low compared to the industry average of 39%.

Recommendation

- We should develop a relationship with BigTechCompany, as they are continuing to grow and could be a valuable client in the future.
- We should ask the company to clarify why expenses are higher in some quarters vs. others.
- We should ask about the company's plans to increase prices in the future, as this may lead to customer attrition.

TRANSCRIPT

Hi, thanks for having me share some information on BigTechCompany.

For this analysis, I looked at the company's historical financials, customer information, and future projections based on management figures.

Let's start with page two.

You'll see that the company has fairly stable and consistent revenues hovering around 500 million per quarter. There is, however, some variability in the company's operating income. This is driven by the company's cost of revenues which are higher in Q1 of 2021 and Q4 of 2022.

There was no clear explanation as to what drove these expenses higher in the financial statements I reviewed.

The company also has a fairly stable net income, with the exception of those quarters in which the expenses were much higher. As for free cash flow, the company's free cash is quite volatile. There have been several quarters in which the company had negative free cash flow. That said, free cash flow has been positive for the past four quarters.

As for some financial metrics, the EBITDA margin has ranged from around 19-27%. Obviously, there were some quarters in which it was much lower due to the higher expenses, and the average net income margin is around 18%.

I did a bit of digging into the revenues in the customer trends, which you can find on page 3.

I looked into whether or not the company was gaining or losing customers, as in Q4 of 2021, the company announced that it was increasing prices which led to an uptick in cancellations.

The churn rate topped out at 32% in Q2 2022, which is far above the industry average. That said, the company also began growing its newer users faster during this time, so the net change in users was around plus or minus 1%. The good news is that the churn rate is now back down to its normal levels of 1.9%, and the company saw a 10% increase in new users in Q1 of 2023.

TRANSCRIPT

Next, I looked into the company's future projections based on management guidance on growth in a few key areas.

Annually the company earns around 2 billion in revenues each year, and it's expected to continue at a moderate growth trajectory seeing up to 15% revenue growth in 2024. Overall revenue CAGR from 2022-2024 is 7%.

Based on management projections, the company is expected to have over 600 million in free cash flow in 2023 and 2024. The company's EBITDA margin is expected to be 20-21%, and its net income margin is expected to be 17-18%. Its EBITDA ratio is currently 2.5 times, and it's expected to decrease to 1.9 times by 2024. This is compared to the industry average of four times, so BigTechCompany has a fairly healthy leverage ratio.

Now, let's take a look at my conclusions which are on page 5. The company has seen steady revenue growth over the past two years and is expected to keep growing. The company is cash flow positive and will continue to be. As I mentioned on the previous slide, the company's debt to EBITDA margin is currently 2.4 times, and it's expected to continue to decrease.

Some areas of concern highlighted: the company has volatile quarterly expenses, particularly in the 4th quarter of each year. We should ask the company to clarify why expenses are higher in some quarters than others and if they expect this to continue.

The company's EBITDA margin is low compared to the industry average of 39%. As for whether we should develop a relationship with the client, I would say yes, as the company is continuing to grow, is profitable, and could be a valuable client in the future.

We should ask the company to clarify some details on their financials, and we should ask them whether they plan to increase prices in the future, as this might lead to customer attrition.

Thanks so much! Does anyone have any questions?