

U.S. Software

Earnings Recap: APPN, DOCN, IAS, OTEX, PCTY, SPT

In a reversal from Q2, we expect the main positive moves for Q3 post earnings will be DOCN (reset guidance beaten and outlook raised), SPT (clean beat and raise quarter) and IAS (better revenue in both optimization and measurement). Paylocity will likely move down after an only in-line quarter and lower guidance.

Appian (\$35 PT): Q3 was a solid quarter for Appian. We think investors will likely focus on guidance which was below consensus for Q4. We sense a level of conservatism here, especially around the cloud revenue guidance. However, with the risk of a potential government shutdown and Appian's large exposure to the federal segment we see this as a prudent move. Shares have been very solid in recent weeks but we could see pressure in the short term as investors digest the lower Q4 guidance and potential implications for the FY24 growth outlook.

DigitalOcean (\$30 PT): At face value, DOCN has turned the corner and shares can move higher from here again. The key to the quarter was that the company exceeded the reset guidance it established in Q2 and was able to raise guidance for Q4 as well. Management commentary seems to confirm this picture that we have found a floor and can look ahead to a brighter future.

Integral Ad Science (\$15 PT): IAS should see a positive share price reaction. Both Measurement and Optimization revenue saw healthy growth above consensus, that also drove a profitability beat. Management sounded positive about the outlook and the larger Meta opportunity remains a positive optionality for the coming quarters.

OpenText (\$40 PT): We see Q1 results as a positive for OTEX. The highlight of the quarter was a return to y/y organic growth (1.2% in Q1), following two consecutive quarters of a y/y decline. The Micro Focus integration also seems to be progressing well with growth expected in FY24 and a high 80s renewal rate, compared to mid 80s in FY23. Management noted that the company followed a similar renewals playbook with Documentum and we think that OTEX's long history and experience with acquisitions is a meaningful point in their favor when it comes to bringing in Micro Focus.

Paylocity (\$180 PT): The HCM space is under special scrutiny post PAYC's surprisingly low CY24 outlook earlier this week. Paylocity's quarter was better, but also was only in-line on recurring revenue and management guided below Street for the next quarter due to employment levels

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being less of a revenue driver. Profitability and cash flow remain a highlight, although given the heightened nervousness around the space, results should weigh on shares in the short-term.

Sprout Social (\$59 PT): Sprout's Q3 should help to further strengthen the investment case that the company is successfully moving upmarket which enables above industry growth. 32% YoY ARR growth this quarter for Sprout is above what we are seeing for most vendors in our space including some of the perceived high growth consumption names. Q4 guidance of 30% ARR YoY shows management optimism, but makes sense when we consider the driver for this growth (Social Studio conversions, focus on larger customers). In this respect, we see the interesting logo wins this quarter as confirmation points for this momentum. We believe shares should move higher from here.

Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	2-Nov-23	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
U.S. Software	Pos	Pos										
Appian Corporation (APPN)	UW	UW	41.72	35.00	35.00	-	-0.96	-1.09	-14	-0.40	-0.41	-2
DigitalOcean (DOCN)	OW	OW	21.23	30.00	30.00	-	1.40	1.47	5	1.62	1.74	7
Integral Ad Science Holding Corp. (IAS)	EW	EW	11.86	15.00	15.00	-	0.94	0.88	-6	0.70	0.69	-1
OpenText Corp. (OTEX)	EW	EW	34.46	40.00	40.00	-	4.70	4.67	-1	4.92	4.85	-1
Paylocity Holding Corp (PCTY)	EW	EW	171.86	223.00	180.00	-19	6.08	6.23	2	7.23	7.26	-
Sprout Social, Inc. (SPT)	OW	OW	42.57	62.00	59.00	-5	0.07	0.13	86	0.18	0.19	6

Source: Barclays Research. Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency. FY1(E): Current fiscal year estimates by Barclays Research. FY2(E): Next fiscal year estimates by Barclays Research. Stock Rating: OW: Overweight; EW: Equal Weight; UW: Underweight; RS: Rating Suspended Industry View: Pos: Positive; Neu: Neutral; Neg: Negative

Appian

Results Summary

APPN posted a beat across the board for cloud subscription revenue (\$77.2mn vs \$76.5mn), total revenue (\$137.1mn vs \$135.3mn), adjusted EBITDA (-\$5.3mn vs -\$14.0mn), and adjusted EPS (-\$0.20 vs -\$0.25). Underlying cloud NRR ticked up to 117% after 4 quarters in a row of 115%.

FIGURE 1. Summary of Results vs. Consensus

\$, mn	3Q 22	3Q 23	3Q 23	Actual	3Q 23	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons.	vs. Cons.
Billings	129.4	139.5	144.7	(5.5)%	147.7	(5.5)%
% growth	28.6%	7.8%	11.8%		14.2%	
Cloud Subscriptions	60.6	77.2	78.6	1.0%	76.5	1.0%
% growth	29.8%	27.3%	29.7%		26.1%	
Total Subscription	86.5	103.8	105.0	0.7%	103.1	0.7%
% growth	28.7%	20.0%	21.4%		19.2%	
Professional Services	31.4	33.3	30.1	4.2%	32.0	4.2%
% growth	24.5%	6.2%	-4.0%		1.9%	
Total Revenue	117.9	137.1	135.1	1.3%	135.3	1.3%
% growth	27.5%	16.3%	14.6%		14.8%	
Gross profit, non-GAAP	85.8	102.771	102.7	1.4%	101.3	1.4%
% margin	72.8%	75.0%	76.0%		74.9%	
Adj. EBITDA	(23.0)	(5.3)	(13.9)	nm	(14.0)	nm
% margin	-19.5%	-3.9%	-10.3%		-10.4%	
Net income, adjusted	(30.9)	(14.6)	(12.3)	nm	(18.0)	nm
EPS, adjusted	(0.43)	(0.20)	(0.17)	nm	(0.25)	nm

Source: Barclays Research, Company Data, Bloomberg

Company Guidance

APPN provided 4Q23 guidance and updated FY23 guidance. APPN's solid quarter was undermined by subpar 4Q23/FY23 guidance. APPN conservatively chose not to flow through its beat to guidance (partially citing the macro environment with a potential government shutdown), which could cause near-term selling pressure on questions of a weaker end to the year.

FIGURE 2. Guidance vs. Consensus Estimates

\$, mn	4Q23					FY23				
	Low	High	Barclays	Consensus	Diff to Mid	Low	High	Barclays	Consensus	Diff to Mid
Cloud Sub. Revenue	78.6	79.6	84.1	80.7	-2.0%	300.0	301.0	306.9	301.3	-0.3%
Total Revenue	138.0	143.0	142.6	143.0	-1.7%	538.0	543.0	540.7	541.2	-0.1%
Adj. EBITDA	(16.1)	(12.1)	(11.4)	(10.5)	nm	(62.0)	(58.0)	(65.8)	(64.9)	nm
EPS	(0.29)	(0.24)	(0.13)	(0.19)	nm	(1.13)	(1.07)	(0.96)	(1.84)	nm

Source: Bloomberg, Company Data, Barclays Estimates (ingoing).

Changes to Estimates and Valuation

We maintain our PT at \$35 (unchanged) based on a ~4x sales multiple (unchanged) and CY24 sales of \$632mn (vs. \$627mn prior).

FIGURE 3. Summary of Estimates Changes

\$, mn	2023E			2024E		
	New	Old	% Chg.	New	Old	% Chg.
Cloud Subscriptions	300.3	306.9	(2.1)%	371.6	382.3	(2.8)%
Total Software Subscriptions	378.7	383.7	(1.3)%	462.4	476.7	(3.0)%
Support	25.7	26.1	(1.6)%	27.2	27.5	(1.3)%
Professional Services	137.7	130.9	5.2%	142.5	123.0	15.8%
Total Revenue	542.1	540.7	0.3%	632.0	627.2	0.8%
Gross profit, non-GAAP	402.7	405.3	(0.7)%	479.8	487.6	(1.6)%
% margin	74.3%	75.0%		75.9%	77.7%	
EBITDA	(60.4)	(65.8)	nm	(3.4)	(14.5)	nm
% margin	(11.1)%	(12.2)%		(0.5)%	(2.3)%	
EPS, adjusted	(1.09)	(0.96)	nm	(0.41)	(0.40)	nm

Source: Barclays Research

DigitalOcean

Results Summary

DigitalOcean posted Q2 ARR about 2% ahead of consensus estimates, resulting in net new ARR rebounding nicely (~\$31.3mn) from the lower levels of the last three quarters. Q3 revenue was also ahead of consensus estimates, with the beat here flowing through to the bottom line. NRR did decline to 96% as management noted, (vs. 104% last quarter), although we note the tone on the call was more positive than last quarter as cohort expansion appears to have bottomed, and a path to NRR re-accelerating to 100%+ looks possible in FY24. Also important to note is that despite the better than expected profitability in-quarter, the company maintained its FY EBITDA and FCF guides as it continues to reinvest in the business and build out the Paperspace offering further.

FIGURE 4. Summary of Results vs. Consensus

	3Q 22	3Q 23	3Q 23	Actual	3Q 23	Actual
\$, mn	Actual	Actual	Barclays	vs. Barclays	Cons	vs. Cons
Ending Total ARR	640.6	713.3	699.7	1.9%	699.9	1.9%
y/y growth	40.8%	11.3%	9.2%		9.3%	
Total Revenue	152.1	177.1	172.7	2.5%	173.1	2.3%
y/y growth	36.5%	16.4%	13.5%		13.8%	
EBITDA, adj.	65.4	75.8	66.9		66.7	13.5%
% margin	43.0%	42.8%	38.8%		38.6%	
Operating Cash Flow	54.4	54.1	64.4	-16.1%	67.4	-19.8%
Total CapEx	(31.9)	(21.4)	(28.1)	-23.7%	(28.3)	-24.3%
Adjusted FCF	22.4	56.1	36.3	54.3%	39.1	43.5%

Source: Barclays Research, Company Data, Bloomberg

Company Guidance

The company provided Q4 and updated FY23 top-line guidance ahead consensus expectations on account of flattening trends in cohort expansion from its existing customer base. For Q4, the top-line target of \$178mn was 2% above consensus, and the FY23 guide implies top-line growth of ~20% for the year. Adj. EBITDA and FCF margins were reiterated, although FCF margins are expected to exit FY23 at lower levels vs. prior guidance as DOCN increases CapEx to invest properly in Paperspace.

FIGURE 5. Guidance vs. Consensus Estimates

	4Q23					FY23				
\$, mn	Low End	High End	Barclays	Consensus	Diff vs. Consensus	Low End	High End	Barclays	Consensus	Diff vs. Consensus
Total Revenue	178.0	178.0	173.7	174.5	2.0%	690.0	690.0	681.4	681.5	1.3%
Adj EBITDA	64.1	65.9	69.2	68.7	-5.5%	262.2	269.1	267.3	263.3	0.9%
% margin	36.0%	37.0%	39.9%	39.4%		38.0%	39.0%	39.2%	38.6%	
FCF			37.8	39.6		144.9	151.8	145.0	140.5	5.6%
% margin			21.7%	22.7%		21.0%	22.0%	21.3%	20.6%	
Non-GAAP EPS	0.36	0.37	0.37	0.36	0.5%	1.52	1.54	1.40	1.41	8.3%

Source: Bloomberg, Company Data, Barclays Estimates (ingoing)

Changes to Estimates and Valuation

Our PT remains \$30, based on ~26x EV/CY24E FCF (unchanged) and CY24E FCF of \$182.3mn (vs. ~27x \$177.1mn prior). We maintain our PT despite the improved in-quarter trends to account for macro impacts that continue to weigh on expansion within DOCN's existing customer base, and FCF headwinds from increased CapEx investments for Paperspace.

FIGURE 6. Summary of Estimates Changes

\$, mn	2023E			2024E		
	New	Old	% Chg	New	Old	% Chg
ARPU (ending monthly)	88.15	88.15	0.0%	98.29	98.29	0.0%
Ending Total ARR	744.8	721.8	3.2%	868.4	842.5	3.1%
Total Revenue	690.3	681.4	1.3%	787.2	760.0	3.6%
Non-GAAP Gross Profit	419.1	406.9	3.0%	479.0	459.1	4.3%
% margin	60.7%	59.7%		60.9%	60.4%	
Adjusted EBITDA	271.9	267.3	1.7%	322.6	308.1	4.7%
% margin	39.4%	39.2%		41.0%	40.5%	
Non-GAAP Operating Profit (loss)	164.2	155.9	5.3%	188.8	178.9	5.5%
% margin	23.8%	22.9%		24.0%	23.5%	
Operating Cash Flow	206.9	230.8	-10.3%	308.2	298.7	3.2%
Capex	(100.1)	(106.0)	-5.6%	(125.9)	(121.6)	3.6%
Adj. Free Cash Flow	150.4	145.0	3.8%	182.3	177.1	2.9%

Source: Barclays Research

Integral Ad Science

Results Summary

IAS posted a solid quarter in the face of investor scrutiny in the ad verification space headed into the print. Strong beats in both Advertiser segments and a better than expected outlook should give confidence in the overall ad landscape heading into the seasonally important Q4. Also, we believe the commentary that the company is on track to begin client testing for Meta's feed and reels in Q4 and expects to go GA in early 2024 gives some optionality to the model.

For a summary of the company's results this quarter vs. Barclays and consensus estimates, please refer to the figure below.

FIGURE 7. Summary of Results vs. Consensus

\$, mn	3Q 22	3Q 23	3Q 23	Actual	3Q 23	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons	vs. Cons
Measurement	39.0	47.8	43.5	9.8%	45.7	4.7%
y/y growth	13.1%	22.6%	8.5%		17.1%	
Optimization	47.1	57.0	52.6	8.3%	52.0	9.6%
y/y growth	39.7%	21.0%	8.5%		10.4%	
Publisher	15.3	15.5	16.6	(6.9)%	15.8	(1.6)%
y/y growth	41.5%	1.3%	8.7%		3.0%	
Total Revenue	101.3	120.3	112.8	6.7%	113.1	6.4%
y/y growth	28.3%	18.7%	11.3%		11.6%	
Gross Profit	82.3	94.9	88.5	7.1%	89.5	6.0%
% margin	81.2%	78.8%	78.5%		79.2%	
EBITDA, adj.	30.1	40.6	36.1	12.5%	35.9	13.1%
% margin	29.7%	33.7%	32.0%		31.8%	
EPS, GAAP	0.00	(0.09)	0.02	nm	0.03	nm

Source: Barclays Research, Company Data, Bloomberg

Company Guidance

Top-line guidance for Q4 was slightly ahead of expectations at ~12% growth, and adj EBITDA also came in better than expected. The FY23 guide was raised by the beat or more for both revenue and adj. EBITDA, and paints a similar picture of confidence in the macro and operating model. The raised top-line for FY23 implies ~15.5% growth, and the raised EBITDA guidance for FY23 now to implies 33.5% margin.

For detailed guidance vs. our estimates and consensus, please see the table below.

FIGURE 8. Guidance vs. Consensus Estimates

\$, mn	4Q 23					FY 23				
	Low End	High End	Barclays	Consensus	Diff vs. Consensus	Low End	High End	Barclays	Consensus	Diff vs. Consensus
Total Revenue	130.0	132.0	130.7	130.1	1%	470.0	472.0	463.2	463.2	2%
y/y growth (%)	10.8%	12.5%	11.3%	10.8%		15.1%	15.6%	13.5%	13.4%	
EBITDA, adj.	45.0	47.0	45.1	44.0	4%	157.0	159.0	149.5	151.0	5%
margin (%)	34.6%	35.6%	34.5%	33.8%		33.4%	33.7%	32.3%	32.6%	

Source: Bloomberg, Company Data, Barclays Estimates (ingoing)

Changes to Estimates and Valuation

Based on our updated estimates following Q3 results (seen in the figure below), we maintain our Equal Weight rating, and our PT of \$15. This valuation is based on 15x EV/CY24E EBITDA (was 14x) and CY24E EBITDA of \$181mn (was \$182mn).

FIGURE 9. Summary of Estimates Changes

\$, mn	2023E			2024E		
	New	Old	% Chg	New	Old	% Chg
Total Revenue	471.5	463.2	1.8%	538.1	541.0	-0.5%
<i>y/y growth</i>	15.5%	13.5%		14.1%	16.8%	
Gross Profit, adj.	374.4	367.5	1.9%	432.6	434.9	-0.5%
<i>% margin</i>	79.4%	79.3%		80.4%	80.4%	
EBITDA, adj.	158.0	149.5	5.7%	180.6	181.6	-0.5%
<i>% margin</i>	33.5%	32.3%		33.6%	33.6%	
Net income, adj.	140.7	149.2	-5.7%	107.4	108.0	-0.6%
EPS, adj.	0.88	0.94	-5.8%	0.69	0.70	-0.6%
Operating cash flow	105.6	130.2	-18.9%	127.6	132.3	-3.5%
<i>% margin</i>	22.4%	28.1%		23.7%	24.4%	

Source: Barclays Research

OpenText

Results Summary

OpenText reported solid results highlighted by total revenue of \$1.425bn, up 67.3% on a y/y basis (65.4% in cc) and +1.2% organically. ARR came in at ~\$1.149bn or up 59.1% y/y (57.5% in cc), and cloud revenue grew +11.5% (10.9% in cc), which was slightly below consensus expectations. We note that Micro Focus contributed \$563mn in the quarter. Adj. EBITDA margin of 34.7% was up 370bps q/q, with the company continuing to make progress here following the decline from Micro Focus in 3Q23.

FIGURE 10. Summary of Results vs. Consensus

\$, mn	1Q23 Actual	1Q24 Actual	1Q24 Barclays	Actual vs. Barclays	1Q24 Cons	Actual vs. Cons
Cloud Services	404.7	451.0	445.1	1.3%	442.3	2.0%
Customer Support	317.4	697.7	672.8	3.7%	674.9	3.4%
License	62.5	173.0	168.9	2.4%	186.7	(7.4)%
Service & Other	67.5	103.7	108.0	(4.0)%	102.0	1.7%
Total Revenue	852.0	1,425.4	1394.8	2.2%	1,405.8	1.4%
y/y growth	2.4%	67.3%	63.7%		65.0%	
Gross profit, adjusted	1147.0	1,101.2	1066.2	3.3%	1,086.0	1.4%
% margin	75.2%	77.3%	76.4%		77.3%	
Operating profit, adjusted	280.9	460.8	424.6	8.5%	427.4	7.8%
% margin	33.0%	32.3%	30.4%		30.4%	
Net income, adjusted	206.8	274.3	236.1	16.2%	243.3	12.8%
EPS, adjusted	0.77	1.01	0.87	15.6%	0.90	12.2%

Source: Barclays Research, Company Data, Bloomberg

Company Guidance

OpenText reiterated its FY24 guidance including cloud growth of 6-8% y/y in cc and total revenue of \$5.85 - 5.95bn in cc, implying 30-33% growth y/y. Organic growth is set at 1-2% y/y and Adj. EBITDA margin at 36-38%.

FIGURE 11. Guidance vs. Consensus Estimates

FY'24 Outlook			FY'26 Aspirations			
Total Growth	Organic Growth	Total Cloud Growth	Total Organic Growth	ARR Organic Growth	Adj. EBITDA Margin	Free Cash Flow
~30-33%	1-2%	6-8%	2-4%	2-4%	38-40%	\$1.5bn+

Source: Company Data, Barclays Estimates

Changes to Estimates and Valuation

We are revising our estimates following the updated results and commentary from management. We maintain our Equal Weight rating and price target of \$40 (unchanged) based on 13x CY24 uFCF (unchanged) of \$1.405bn (was \$1.442bn). Please see below for more details on our estimate changes.

FIGURE 12. Summary of Estimates Changes

\$,mn	2024E			2025E		
	New	Old	% Chg.	New	Old	% Chg.
Cloud Services	1833.9	1831.2	0.1%	1978.3	1975.3	0.2%
Customer Support	2722.1	2696.6	0.9%	2776.6	2737.0	1.4%
License	825.9	925.3	-10.7%	800.1	896.4	-10.7%
Service & Other	431.8	430.2	0.4%	440.4	438.8	0.4%
Total Revenue	5813.7	5850.0	-0.6%	5995.3	6047.5	-0.9%
Gross profit, adjusted	4499.5	4568.8	-1.5%	4644.7	4699.9	-1.2%
% margin	77.4%	78.1%		77.5%	77.7%	
Sales & Marketing	1064.2	1108.9	-4.0%	1109.1	1118.8	-0.9%
% margin	18.3%	19.0%		18.5%	18.5%	
Research & Development	851.9	844.9	0.8%	854.3	861.4	-0.8%
% margin	14.7%	14.4%		14.3%	14.2%	
General & Administrative	438.2	432.8	1.3%	397.0	400.3	-0.8%
% margin	7.5%	7.4%		6.6%	6.6%	
Total OpEx	2461.6	2496.1	-1.4%	2495.4	2516.1	-0.8%
Operating profit, adjusted	2037.8	2072.7	-1.7%	2149.2	2183.7	-1.6%
% margin	35.1%	35.4%		35.8%	36.1%	
Net income, adjusted	1269.4	1270.8	-0.1%	1319.9	1331.2	-0.9%
EPS, adjusted	4.67	4.70	-0.7%	4.85	4.92	-1.4%

Source: Barclays Research

Paylocity

Results Summary

Paylocity reported mixed fiscal 1Q24 earnings results, with in-line recurring revenue (vs. 1.4% beat in Q4) and much better profitability and cash flow than expected (see difference table below). There was heightened nervousness around HCM/payroll end market demand given the worse than expected results from PAYC this week, and PCTY's Q1 results provide only small levels of comfort with below Street top-line guidance for Q2 and reiterated FY guidance. Management continues to remain constructive about its pipeline, customer reception around new products and sales execution. The slight recurring revenue short-fall in the quarter was attributed to marginally lower than expected y/y employees on the platform growth, which PCTY sees as a headwind to the quarter and FY. This is a small negative and read-through to the broader HCM space as PAYC's miss earlier this week could be seen as somewhat idiosyncratic to themselves with the company focusing on migrating customers to its new payroll solution, which is serving as a short-term headwind (see [Paycom: Some Self-Inflicted Pain And Some Macro Headwinds Drive Weak Guidance - Timing Key Now, 11/1/2023](#)). Overall, we see these results as mixed particularly given the heightened nervousness in the space and see shares under pressure in the short-term. We continue to see PCTY as a high-quality HCM asset with above average growth and FCF, although we see current sentiment and performance limiting near-term upside. We maintain our Equal Weight rating and lower our price target to \$180. For a summary of the company's complete results this quarter vs. Barclays and consensus estimates, please refer to the figure below.

FIGURE 13. Summary of Results vs. Consensus

\$, mn	1Q 23	1Q 24	1Q 24	Actual	1Q 24	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons.	vs. Cons.
Recurring & Other Revenue	245.4	291.7	292.6	(0.3)%	292.1	(0.1)%
y/y growth	35.7%	18.9 %	19.3%		19.0%	
Interest Income on Funds Held	7.9	25.9	23.7	9.4%	24.2	7.0%
y/y growth	801.9%	228.9 %	200.6%		207.3%	
Total Revenue	253.3	317.6	316.3	0.4%	316.3	0.4%
y/y growth	39.4%	25.4 %	24.9%		24.9%	
Gross profit, Non-GAAP	182.7	233.1	230.9	1.0%	228.4	2.1%
% margin	72.1%	73.4 %	73.0%		72.2%	
EBITDA, Adjusted	66.6	104.9	91.7	14.4%	91.8	14.3%
% margin	26.3%	33.0 %	29.0%		29.0%	
Net income, Non-GAAP	55.4	79.4	66.8	18.8%	65.1	21.9%
Non-GAAP EPS	0.98	1.40	1.17	nm	1.14	nm
OCF	16.4	62.1	25.9	139.6%	35.4	75.8%
% margin	6.5%	19.6 %	8.2%		11.2%	

Source: Barclays Research, Company Data, Bloomberg

Company Guidance

Paylocity provided fiscal 2Q24 and updated FY24 guidance in the release. For Q2, total revenue is expected to be in the range of \$322.5-\$326.5mn (vs. cons \$330.5), for growth of approximately 19% y/y. Q2 adj. EBITDA is expected to be \$100-103mn (vs. cons \$100.6mn). For FY24, management now expects total revenue in the range of \$1.405-\$1.410bn (vs. cons \$1.409bn), or

~20% y/y growth, with FY24 adj. EBITDA of \$474-478mn (vs. prior \$464-468mn and consensus \$454.1mn). In regard to float revenue, PCTY expects an average daily balance of \$2.4-2.45n for Q3, with an average annual yield of approximately 4.35% (vs. ~4.50% in Q1). For FY24, PCTY continues to expect an average daily balance of client funds in the range of \$2.5-2.6bn for FY24, with an average annual yield of ~4.20%. We note this implies a lower float yield in Q2 and 2H compared to Q1, which may be slightly conservative given current Fed rate expectations. Management continues to note lower client workforce levels across its customer base, which it considered in its updated full-year guidance.

For a more detailed summary of the company's guidance versus our estimates and consensus, please refer to the figure below.

FIGURE 14. Guidance vs. Consensus Estimates

\$,mn	Q2 FY24					FY24				
	Low	High	Barclays	Consensus	Diff	Low	High	Barclays	Consensus	Diff
Revenue	322.5	326.5	329.7	330.5	-1.8%	1,405.0	1,410.0	1,408.9	1,408.9	-0.1%
y/y growth	18%	20%	21%	21%		20%	20%	20%	20%	
Non-GAAP EBITDA, Adj.	100.0	103.0	101.7	100.6	0.9%	474.0	478.0	465.5	466.4	2.1%
% margin	30.8%	31.7%	30.9%	31.9%		33.7%	34.0%	33.0%	33.1%	

Source: Bloomberg, Company Data, Barclays Research estimates (ongoing)

Changes to Estimates and Valuation

We are revising our estimates following the updated results and commentary from management. We maintain our Equal Weight rating and decrease our price target to \$180 (from \$223) based on a 34x EV/CY24E FCF (from 41x) and slightly lower FCF estimates. Our lower multiple reflects our slightly lower estimates for FY25 revenue growth and lower peer group valuations. Please see below for more details on our estimate changes.

FIGURE 15. Summary of Estimates Changes

\$, mn	2024E			2025E			2026E		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
Recurring & other revenue	1,296	1,302	(0.4)%	1,535	1,539	(0.3)%	1,845	1,858	(0.7)%
Interest income	109	107	1.8%	124	127	(2.5)%	141	132	6.5%
Total revenue	1,405	1,409	(0.3)%	1,658	1,666	(0.5)%	1,986	1,990	(0.2)%
Gross profit, non-GAAP	1,042	1,040	0.2%	1,234	1,236	(0.2)%	1,482	1,484	(0.1)%
% margin	74.1%	73.8%		74.4%	74.2%		74.6%	74.6%	
Operating profit, adjusted	402	390	3.1%	475	472	0.8%	585	585	0.1%
% margin	28.6%	27.7%		28.7%	28.3%		29.5%	29.4%	
EBITDA, adjusted	476	466	2.3%	566	563	0.6%	693	693	0.0%
% margin	33.9%	33.0%		34.1%	33.8%		34.9%	34.8%	
Net income, adjusted	357	351	1.6%	423	424	(0.3)%	527	527	0.1%
EPS, adjusted	6.23	6.08	2.4%	7.26	7.23	0.4%	8.89	8.82	0.8%
FCF	274	273	0.3%	321	327	(1.7)%	396	403	(1.8)%

Source: Barclays Research estimates

Sprout Social

Results Summary

The third quarter showed good progress for Sprout and should help to push back against many potential bear points. ARR growth of 32.5% was better than consensus, and this should be key to investors. We also liked the interesting new large logos the company announced, showing that the move upmarket is really working. Lastly, the Social Studio migrations this quarter were fewer, but came at a higher ACV, which speaks to the level of customers gained here.

For a summary of the company's results this quarter vs. Barclays and consensus estimates, please refer to the figure below.

FIGURE 16. Summary of Results vs. Consensus

\$, mn	3Q 22	3Q 23	3Q 23	Actual	3Q 23	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons	vs. Cons
ARR	271.3	359.5	349.3	2.9%	349.2	2.9%
y/y growth	32.6%	32.5%	28.7%		28.7%	
Total Revenue	65.3	84.8	84.1	0.8%	84.2	0.7%
y/y growth	33.0%	29.9%	28.8%		28.9%	
Gross profit, adjusted	50.7	66.8	65.8	1.4%	65.3	2.2%
% margin	77.6%	78.7%	78.3%		77.6%	
Operating profit, adjusted	(1.4)	(0.6)	(2.7)	nm	(2.7)	nm
% margin	-2.2%	-0.7%	-3.2%		-3.2%	
Net income, adjusted	(1.0)	(0.6)	(2.8)	nm	(2.8)	nm
EPS, adjusted	(0.02)	(0.01)	(0.05)	nm	(0.05)	nm

Source: Barclays Research, Company Data, Bloomberg

Company Guidance

Management provided guidance for both Q4 and FY23. ARR is seen at around 30% growth confirming the above industry growth story for another quarter. For detailed guidance vs. our estimates and consensus, please see the table below.

FIGURE 17. Guidance vs. Consensus Estimates

\$, mn	4Q 23					FY 23				
	Low End	High End	Barclays	Cons.	Diff vs. Cons.	Low End	High End	Barclays	Cons.	Diff vs. Cons.
Total Revenue	90.5	90.6	90.5	90.1	0.5%	330.6	330.7	328.6	329.0	0.5%
y/y growth %	29.9%	30.1%	29.9%	29.3%		30.2%	30.3%	29.7%	29.4%	
Non-GAAP Operating Profit	0.6	0.7	0.5	0.5	nm	3.6	3.7	1.4	1.5	nm
% margin	0.7%	0.8%	0.6%	0.6%		1.1%	1.1%	0.4%	0.4%	
Non-GAAP EPS	0.00	0.01	(0.01)	0.00	nm	0.12	0.13	0.07	0.07	nm

Source: Bloomberg, Company Data, Barclays Estimates (ingoing)

Changes to Estimates and Valuation

Based on our updated estimates following Q3 results (seen in the figure below), we update our price target methodology. We maintain our Overweight rating, but lower our PT slightly to \$59 (was \$62). This valuation is now based on 8x EV/CY24E Sales (unchanged) and CY24E Sales of \$431mn (was \$428mn). This change is primarily due to changing net debt around the Tagger acquisition.

FIGURE 18. Summary of Estimate Changes

	FY23E			FY24E		
	New	Old	% Chg.	New	Old	% Chg.
ARR	384.5	380.9	0.9%	504.5	503.3	0.2%
y/y growth	29.6%	28.4%		31.2%	32.1%	
Total Revenue	330.6	329.1	0.5%	430.9	427.7	0.7%
y/y growth	30.2%	29.7%		30.3%	30.0%	
Gross profit, adjusted	258.9	257.9	0.4%	338.9	336.4	0.7%
% margin	78.3%	78.4%		78.7%	78.7%	
Sales & Marketing	135.0	134.8	0.2%	167.5	166.2	0.7%
% margin	40.8%	41.0%		38.9%	38.9%	
Research & Development	61.0	62.5	-2.4%	76.9	76.3	0.7%
% margin	18.5%	19.0%		17.8%	17.8%	
General & Administrative	63.8	59.6	7.0%	80.0	79.4	0.7%
% margin	19.3%	18.1%		18.6%	18.6%	
Total OpEx	255.2	256.5	-0.5%	324.3	322.0	0.7%
Operating profit, adjusted	3.7	1.4	157.4%	14.6	14.5	0.6%
% margin	1.1%	0.4%		3.4%	3.4%	
Net income, adjusted	7.0	4.0	73.5%	11.0	10.0	9.9%
EPS, adjusted	0.13	0.07	74.0%	0.19	0.18	9.7%

Source: Barclays Research, Company Data

Data Tables

U.S. Software

POSITIVE

Appian Corporation (APPN)

UNDERWEIGHT

Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR
Revenue	468	542	632	732	16.1%
EBITDA (adj)	-76	-60	-3	28	N/A
Operating profit (adj)	-83	-74	-37	-6	N/A
Pre-tax income (adj)	-89	-79	-29	2	N/A
Net income (adj)	-89	-80	-30	0	N/A
EPS (adj) (\$)	-1.23	-1.09	-0.41	0.00	N/A
Diluted shares (mn)	72.5	73.1	73.5	73.8	0.6%
DPS (\$)	0.00	0.00	0.00	0.00	N/A
Margin and return data	2022A	2023E	2024E	2025E	Average
EBITDA (adj) margin (%)	-16.2	-11.1	-0.5	3.9	-6.0
Operating margin (adj) (%)	-17.8	-13.6	-5.8	-0.8	-9.5
Pre-tax (adj) margin (%)	-18.9	-14.5	-4.5	0.3	-9.4
Net (adj) margin (%)	-19.1	-14.7	-4.8	0.0	-9.6
ROIC (%)	-100.3	-260.0	-2,610.6	76.2	-723.7
ROA (%)	-25.4	-19.3	-10.4	-6.7	-15.5
ROE (%)	-103.6	-270.5	-2,279.7	616.3	-509.4
Balance sheet and cash flow (\$mn)	2022A	2023E	2024E	2025E	CAGR
Net PP&E	42	44	48	54	8.7%
Goodwill	0	0	0	0	N/A
Cash and equivalents	148	128	152	137	-2.6%
Total assets	594	671	795	924	15.8%
Short and long-term debt	0	0	0	0	N/A
Other long-term liabilities	0	0	0	0	N/A
Total liabilities	449	623	792	934	27.7%
Net debt/(funds)	-82	-42	0	20	N/A
Shareholders' equity	146	48	4	-10	N/A
Change in working capital	-2	-37	7	-1	N/A
Cash flow from operations	-107	-116	-28	-4	N/A
Capital expenditure	-9	-12	-13	-16	N/A
Free cash flow	-116	-128	-41	-20	N/A
Valuation and leverage metrics	2022A	2023E	2024E	2025E	Average
P/E (adj) (x)	N/A	N/A	N/A	N/A	N/A
EV/sales (x)	6.6	5.7	4.9	4.2	5.4
EV/EBITDA (adj) (x)	-40.8	-51.3	-919.7	109.8	-225.5
Equity FCF yield (%)	-3.8	-4.2	-1.3	-0.6	-2.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	1.1	0.7	0.1	0.7	0.6
Total debt/capital (%)	0.0	0.0	0.0	0.0	0.0
Selected operating metrics (\$mn)	2022A	2023E	2024E	2025E	CAGR
Deferred revenue	200	264	360	489	34.7%

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

Price (02-Nov-2023) **USD 41.72**
 Price Target **USD 35.00**

Why UNDERWEIGHT?

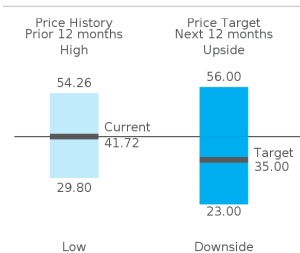
Appian plays in a greenfield market opportunity with its end-to-end process automation platform that leverages its differentiated data fabric technology. However, the current valuation levels are driven by technical factors, and are unjustified given the company's current growth prospects and profitability trajectory.

Upside case USD 56.00

Upside scenario is based on a 10% premium to our CY24 revenue estimate and a ~6.5x EV/sales multiple.

Downside case USD 23.00

Downside scenario is based on a 10% discount to our CY24 revenue estimate and a ~3.5x EV/sales multiple.

Upside/Downside scenarios

U.S. Software

POSITIVE

DigitalOcean (DOCN)

OVERWEIGHT

Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR
Revenue	576	690	787	924	17.0%
EBITDA (adj)	204	272	323	382	23.2%
Operating profit (adj)	102	164	189	234	31.9%
Pre-tax income (adj)	104	186	219	266	36.7%
Net income (adj)	104	154	172	209	26.1%
EPS (adj) (\$)	0.88	1.47	1.74	2.18	35.2%
Diluted shares (mn)	118	105	99	96	-6.8%
DPS (\$)	0.00	0.00	0.00	0.00	N/A
Margin and return data	2022A	2023E	2024E	2025E	Average
EBITDA (adj) margin (%)	35.4	39.4	41.0	41.3	39.3
Operating margin (adj) (%)	17.7	23.8	24.0	25.3	22.7
Pre-tax (adj) margin (%)	18.1	26.9	27.8	28.8	25.4
Net (adj) margin (%)	18.1	22.3	21.8	22.6	21.2
ROIC (%)	6.8	14.3	14.9	16.4	13.1
ROA (%)	5.7	11.1	11.7	13.1	10.4
ROE (%)	204.0	-38.7	-53.6	-101.1	2.7
Balance sheet and cash flow (\$mn)	2022A	2023E	2024E	2025E	CAGR
Net PP&E	273	283	276	266	-0.8%
Goodwill	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	141	30	132	275	25.0%
Total assets	1,816	1,388	1,469	1,597	-4.2%
Short and long-term debt	1,470	1,476	1,476	1,476	0.1%
Other long-term liabilities	130	124	124	124	-1.7%
Total liabilities	1,765	1,787	1,790	1,804	0.7%
Net debt/(funds)	606	1,141	1,039	896	13.9%
Shareholders' equity	51	-399	-321	-206	N/A
Change in working capital	-14	-35	16	19	N/A
Cash flow from operations	195	207	308	362	22.8%
Capital expenditure	-115	-100	-126	-139	N/A
Free cash flow	75	150	182	223	43.8%
Valuation and leverage metrics	2022A	2023E	2024E	2025E	Average
P/E (adj) (x)	24.0	14.4	12.2	9.7	15.1
EV/sales (x)	5.6	5.4	4.6	3.8	4.9
EV/EBITDA (adj) (x)	15.8	13.8	11.3	9.2	12.5
Equity FCF yield (%)	-2.1	-0.6	1.9	2.8	0.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	3.0	4.2	3.2	2.3	3.2
Total debt/capital (%)	96.6	137.0	127.8	116.3	119.4

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

Price (02-Nov-2023) **USD 21.23**
Price Target **USD 30.00**

Why OVERWEIGHT?

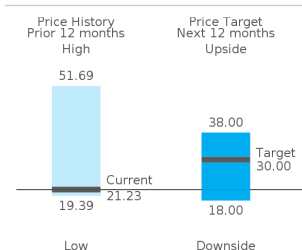
DigitalOcean should benefit from long-term cloud migration and digital transformation secular tailwinds, increased focused on customer retention and expansion as the company rolls out and grows its direct sales and partner initiatives, and product rollouts that expand the breadth and depth of its IaaS and PaaS portfolio.

Upside case USD 38.00

Our upside case is based on a 10% FCF premium on CY24E FCF and a ~29.0x EV/FCF multiple.

Downside case USD 18.00

Our downside case is based on a 10% FCF discount on CY24E FCF and a ~17.0x EV/FCF multiple.

Upside/Downside scenarios

U.S. Software

POSITIVE

Integral Ad Science Holding Corp. (IAS)

EQUAL WEIGHT

Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR
Revenue	408	471	538	634	15.8%
EBITDA (adj)	127	158	181	220	20.3%
Operating profit (adj)	127	158	181	220	20.3%
Pre-tax income (adj)	125	145	173	212	19.4%
Net income (adj)	127	141	107	132	1.3%
EPS (adj) (\$)	0.81	0.88	0.69	0.85	1.5%
Diluted shares (mn)	157	158	155	156	-0.2%
DPS (\$)	0.00	0.00	0.00	0.00	N/A
Margin and return data	2022A	2023E	2024E	2025E	Average
EBITDA (adj) margin (%)	31.0	33.5	33.6	34.7	33.2
Operating margin (adj) (%)	31.0	33.5	33.6	34.7	33.2
Pre-tax (adj) margin (%)	30.5	30.8	32.1	33.5	31.7
Net (adj) margin (%)	31.1	29.8	20.0	20.8	25.4
ROIC (%)	13.2	15.6	12.0	16.0	14.2
ROA (%)	10.8	11.5	7.8	8.4	9.6
ROE (%)	15.6	15.6	11.0	12.5	13.7
Balance sheet and cash flow (\$mn)	2022A	2023E	2024E	2025E	CAGR
Net PP&E	2	-4	-37	-77	N/A
Goodwill	674	674	674	674	0.0%
Cash and equivalents	87	122	243	401	66.5%
Total assets	1,169	1,228	1,371	1,576	10.5%
Short and long-term debt	79	-41	-282	-599	N/A
Other long-term liabilities	47	37	31	36	-8.0%
Total liabilities	360	328	388	486	10.5%
Net debt/(funds)	166	81	-40	-198	N/A
Shareholders' equity	810	901	976	1,054	9.2%
Change in working capital	-31	-14	6	11	N/A
Cash flow from operations	72	106	128	165	31.5%
Capital expenditure	-2	-4	-7	-6	N/A
Free cash flow	75	110	134	171	32.0%
Valuation and leverage metrics	2022A	2023E	2024E	2025E	Average
P/E (adj) (x)	14.6	13.4	17.1	14.0	14.8
EV/sales (x)	5.3	4.4	3.6	2.8	4.0
EV/EBITDA (adj) (x)	16.9	13.0	10.7	8.1	12.2
Equity FCF yield (%)	3.8	5.5	6.8	8.7	6.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	1.3	0.5	-0.2	-0.9	0.2
Total debt/capital (%)	8.9	-4.7	-40.7	-131.9	-42.1
Selected operating metrics (\$mn)	2022A	2023E	2024E	2025E	CAGR
Deferred revenue	0	13	71	152	1054.1%

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

Price (02-Nov-2023) **USD 11.86**
 Price Target **USD 15.00**

Why EQUAL WEIGHT?

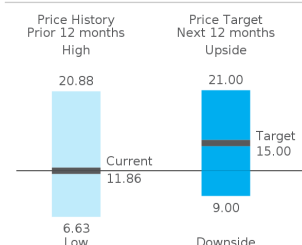
IAS is a story with a large potential opportunity on the horizon, but the company needs to prove that it can execute before it can be assigned a more premium multiple.

Upside case **USD 21.00**

If IAS can prove its ability to execute better and quickly raise its growth rate to converge with faster-growing competitors, the multiple could see some upside.

Downside case **USD 9.00**

If IAS continues to operate as a company that is growing slower than its largest competitor, the current implied valuation discount could persist.

Upside/Downside scenarios

U.S. Software

POSITIVE

OpenText Corp. (OTEX)

EQUAL WEIGHT

Income statement (\$mn)	2023A	2024E	2025E	2026E	CAGR
Revenue	4,485	5,814	5,995	6,205	11.4%
EBITDA (adj)	1,473	2,145	2,284	2,453	18.5%
Operating profit (adj)	1,365	2,038	2,149	2,329	19.5%
Pre-tax income (adj)	1,036	1,476	1,692	1,933	23.1%
Tax rate (%)	14	14	22	25	21.3%
Net income (adj)	891	1,269	1,320	1,450	17.6%
EPS (adj) (\$)	3.29	4.67	4.85	5.32	17.3%
Diluted shares (mn)	270.4	272.1	272.2	272.4	0.2%
DPS (\$)	3.89	4.00	94.00	2,500.00	763.1%
Margin and return data	2023A	2024E	2025E	2026E	Average
EBITDA (adj) margin (%)	32.8	36.9	38.1	39.5	36.8
Operating margin (adj) (%)	30.4	35.1	35.8	37.5	34.7
Pre-tax (adj) margin (%)	23.1	25.4	28.2	31.2	27.0
Net (adj) margin (%)	19.9	21.8	22.0	23.4	21.8
ROIC (%)	9.7	14.8	14.3	15.1	13.5
ROA (%)	7.1	11.5	11.0	10.6	10.1
ROE (%)	22.1	31.3	26.3	24.0	25.9
Balance sheet and cash flow (\$mn)	2023A	2024E	2025E	2026E	CAGR
Net PP&E	357	398	451	521	13.4%
Goodwill	8,663	8,619	8,619	8,619	-0.2%
Cash and equivalents	1,232	831	1,059	2,255	22.3%
Total assets	17,089	15,970	16,172	17,367	0.5%
Short and long-term debt	8,883	8,175	7,475	7,475	-5.6%
Other long-term liabilities	618	538	538	538	-4.5%
Total liabilities	13,067	11,915	11,150	11,314	-4.7%
Net debt/(funds)	7,651	7,344	6,416	5,220	-12.0%
Shareholders' equity	4,022	4,055	5,023	6,054	14.6%
Change in working capital	-207	-378	-107	114	N/A
Cash flow from operations	779	956	1,348	1,688	29.4%
Capital expenditure	-124	-147	-187	-194	N/A
Free cash flow	939	1,292	1,517	1,791	24.0%
Valuation and leverage metrics	2023A	2024E	2025E	2026E	Average
P/E (adj) (x)	10.5	7.4	7.1	6.5	7.9
EV/sales (x)	6.3	4.9	4.7	4.6	5.1
EV/EBITDA (adj) (x)	19.2	13.2	12.4	11.5	14.1
Equity FCF yield (%)	10.1	13.8	16.2	19.1	14.8
P/BV (x)	2.3	2.3	1.9	1.6	2.0
Dividend yield (%)	11.3	11.6	272.8	7,254.8	1,887.6
Total debt/capital (%)	68.8	66.8	59.8	55.3	62.7
Net debt/EBITDA (adj) (x)	5.2	3.4	2.8	2.1	3.4
Selected operating metrics (\$mn)	2023A	2024E	2025E	2026E	CAGR
License revenue	539	826	800	783	13.3%
Cloud Services revenue	1,700	1,834	1,978	2,137	7.9%
Customer Support revenue	1,915	2,722	2,777	2,832	13.9%
Professional services and other	331	432	440	454	11.1%

Note: FY End Jun

Source: Company data, Bloomberg, Barclays Research

Price (02-Nov-2023) **USD 34.46**
 Price Target **USD 40.00**

Why EQUAL WEIGHT?

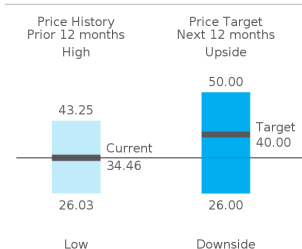
With a history of solid acquisition integration and steady margin profile, OTEX is one of the more defensive names in our coverage. The pushback tends to be on the maturity of the markets it is playing in and the minimal organic growth but valuation is amongst the lowest in our coverage and hence sets the bar lower on performance.

Upside case USD 50.00

Macro pressures ease earlier than anticipated and the geopolitical environment improves, leading to faster organic growth. In addition, management is able to rapidly deploy capital in more accretive acquisition opportunities.

Downside case USD 26.00

Ongoing macro pressures and geopolitical uncertainties persist, causing customers to delay buying well into the medium term, pressuring organic growth for longer than anticipated.

Upside/Downside scenarios

U.S. Software

POSITIVE

Paylocity Holding Corp (PCTY)

EQUAL WEIGHT

Income statement (\$mn)	2023A	2024E	2025E	2026E	CAGR
Revenue	1,175	1,405	1,658	1,986	19.1%
EBITDA (adj)	375	476	566	693	22.7%
Operating profit (adj)	321	402	475	585	22.2%
Pre-tax income (adj)	325	405	475	585	21.7%
Net income (adj)	292	357	423	527	21.8%
EPS (adj) (\$)	5.16	6.23	7.26	8.89	19.9%
Diluted shares (mn)	57	57	58	59	1.5%
DPS (\$)	0.00	0.00	0.00	0.00	N/A
Margin and return data	2023A	2024E	2025E	2026E	Average
EBITDA (adj) margin (%)	31.9	33.9	34.1	34.9	33.7
Operating margin (adj) (%)	27.3	28.6	28.7	29.5	28.5
Pre-tax (adj) margin (%)	27.6	28.8	28.7	29.5	28.6
Net (adj) margin (%)	24.8	25.4	25.5	26.5	25.6
ROIC (%)	104.7	118.9	137.5	153.4	128.6
ROA (%)	27.2	24.5	21.9	20.8	23.6
ROE (%)	34.6	29.9	25.9	24.0	28.6
Balance sheet and cash flow (\$mn)	2023A	2024E	2025E	2026E	CAGR
Net PP&E	64	63	68	75	5.5%
Goodwill	102	102	102	102	0.0%
Cash and equivalents	289	534	856	1,252	63.0%
Total assets	3,696	3,985	4,459	5,059	11.0%
Short and long-term debt	62	61	61	61	-1.0%
Other long-term liabilities	4	4	5	5	12.8%
Total liabilities	2,853	2,792	2,827	2,864	0.1%
Net debt/(funds)	0	0	0	0	-39.3%
Shareholders' equity	843	1,192	1,632	2,195	37.6%
Change in working capital	-77	-126	-143	-197	N/A
Cash flow from operations	283	349	416	509	21.7%
Capital expenditure	-22	-21	-31	-37	N/A
Free cash flow	216	274	321	396	22.4%
Valuation and leverage metrics	2023A	2024E	2025E	2026E	Average
P/E (adj) (x)	33.3	27.6	23.7	19.3	26.0
EV/sales (x)	N/A	N/A	N/A	N/A	N/A
EV/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A
Equity FCF yield (%)	2.2	2.8	3.2	3.9	3.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	-0.6	-1.0	-1.4	-1.7	-1.2
Total debt/capital (%)	6.9	4.8	3.6	2.7	4.5
Selected operating metrics	2023A	2024E	2025E	2026E	CAGR
License revenue	N/A	N/A	N/A	N/A	N/A
Maintenance revenue	N/A	N/A	N/A	N/A	N/A
Services revenue	N/A	N/A	N/A	N/A	N/A
Deferred revenue	N/A	N/A	N/A	N/A	N/A

Note: FY End Jun

Source: Company data, Bloomberg, Barclays Research

Price (02-Nov-2023) **USD 171.86**
 Price Target **USD 180.00**

Why EQUAL WEIGHT?

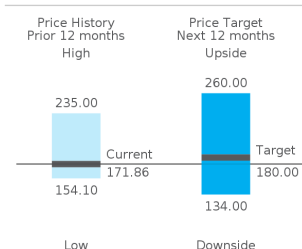
Paylocity offers a differentiated HCM solution that has allowed it to take market share from industry peers. The company is out-investing peers in R&D, and we think the company's product strategy and GTM approach will allow it to take additional share in the market over the medium term. However, current valuation levels limit outperformance.

Upside case **USD 260.00**

If Paylocity increases the pace and quality of its product enhancements, it could drive faster-than-expected growth. This could lead to greater performance than expected.

Downside case **USD 134.00**

If Paylocity fails to innovate at pace with the market or industry incumbents improve retention, then Paylocity may deliver lower-than-expected growth. This paired with above-average valuation levels could lead to underperformance.

Upside/Downside scenarios

U.S. Software

POSITIVE

Sprout Social, Inc. (SPT)

OVERWEIGHT

Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR
Revenue	254	331	431	559	30.1%
EBITDA (adj)	18	26	19	34	24.1%
Operating profit (adj)	-4	4	15	28	N/A
Pre-tax income (adj)	-2	7	12	24	N/A
Net income (adj)	-3	7	11	20	N/A
EPS (adj) (\$)	-0.05	0.13	0.19	0.35	N/A
Diluted shares (mn)	54	56	57	57	1.7%
DPS (\$)	0.00	0.00	0.00	0.00	N/A
Margin and return data	2022A	2023E	2024E	2025E	Average
EBITDA (adj) margin (%)	-20.4	-21.5	-15.0	-11.1	-17.0
Operating margin (adj) (%)	0.0	0.0	0.0	0.0	0.0
Pre-tax (adj) margin (%)	0.0	0.0	0.0	0.0	0.0
Net (adj) margin (%)	-1.8	1.1	3.0	4.2	1.6
ROIC (%)	-0.0	0.0	0.1	0.1	0.0
ROA (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-6.5	4.9	16.8	26.9	10.5
Balance sheet and cash flow (\$mn)	2022A	2023E	2024E	2025E	CAGR
Net PP&E	12	11	11	11	-1.5%
Goodwill	2	123	123	123	276.5%
Cash and equivalents	80	31	44	65	-6.7%
Total assets	294	409	470	558	23.8%
Short and long-term debt	22	19	19	19	-4.6%
Other long-term liabilities	0	0	0	0	N/A
Total liabilities	152	263	313	381	35.9%
Net debt/(funds)	-58	-12	-24	-45	N/A
Shareholders' equity	142	145	156	177	7.5%
Change in working capital	22	18	52	57	36.9%
Cash flow from operations	11	18	44	63	80.8%
Capital expenditure	-2	-2	-4	-6	N/A
Free cash flow	9	16	40	57	86.6%
Valuation and leverage metrics	2022A	2023E	2024E	2025E	Average
P/E (adj) (x)	N/A	N/A	N/A	N/A	N/A
EV/sales (x)	10.0	7.7	5.9	4.5	7.0
EV/EBITDA (adj) (x)	144.3	97.6	134.3	75.5	112.9
Equity FCF yield (%)	0.3	0.5	1.7	2.5	1.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	-3.3	-0.4	-1.3	-1.4	-1.6
Total debt/capital (%)	N/A	N/A	N/A	N/A	N/A
Selected operating metrics (\$mn)	2022A	2023E	2024E	2025E	CAGR
Deferred revenue	96	137	189	256	38.6%

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

Price (02-Nov-2023) **USD 42.57**
Price Target **USD 59.00**

Why OVERWEIGHT?

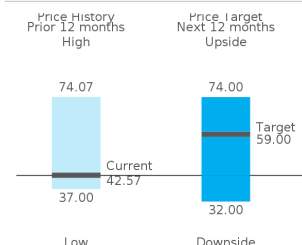
Sprout Social operates in a large and growing market as social media continues to become more important to the customer engagement strategy. Additionally, recent products, such as Social Listening and Premium Analytics, can help the business continue to attack at the enterprise level. We believe this offers an attractive story at a discounted valuation.

Upside case USD 74.00

If Sprout Social can continue to make strides upmarket and maintain a leading position in the growing market, there is room for estimates and the multiple to move higher.

Downside case USD 32.00

If Sprout Social cannot continue to deliver value relative to other offerings in the fragmented space, estimates and the valuation multiple could see a contraction.

Upside/Downside scenarios

Valuation Methodology and Risks

U.S. Software

Appian Corporation (APPN / APPN)

Valuation Methodology: Our \$35 PT is based on a ~4.0x CY24 EV/sales multiple on our CY24 sales estimate of \$632.0mn.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The company's extended path to profitability could result in further multiple compression. The smaller cash balance is notable and the company is accessing the debt markets to shore up its cash position, and if this becomes tougher, the company may need to curtail growth investments to reach profitability faster. Appian won a \$2bn legal judgment against Pega, but it's possible it could see a smaller award or have the verdict repealed in the appellate courts.

DigitalOcean (DOCN / DOCN)

Valuation Methodology: Our \$30 price target is based on ~26x EV/CY24E FCF of \$182.3mn

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The primary risks for DigitalOcean is that hyperscalers drive pricing down for its core IaaS portfolio or increased competition within the IaaS or PaaS portfolio. Additionally, a prolonged weaker macro environment could cause spending to decline across certain verticals (blockchain), regions (Europe), and customer segments (customers spending less than \$50/month).

Integral Ad Science Holding Corp. (IAS / IAS)

Valuation Methodology: Our PT of \$15 is based off of 15x CY24E EBITDA of \$181mn.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: IAS competes with two other fully scaled vendors in an evolving competitive market. In addition to execution risk, the company faces the risk of failing to respond to new and emerging technological challenges, as well as the incremental R&D and S&M spend that could come along with that. Additionally, though not a major risk currently, further privacy regulation could impact the industry moving forward.

OpenText Corp. (OTEX / OTEX)

Valuation Methodology: Our \$40 PT is based on ~13x CY24E uFCF and uFCF of \$1.405bn.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: An unsuccessful integration of the various Micro Focus assets and inability to turn around their declining top line is the biggest risk, in our view. We also see risk from the potential entrance of more modern offerings in the content management space.

Paylocity Holding Corp (PCTY / PCTY)

Valuation Methodology: Our \$180 price target is based on 34x EV/FCF and CY24E FCF of \$298mn.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Paylocity competes in a highly competitive industry and sees a significant amount of new client opportunities via churn from legacy competitors. If legacy providers innovate faster than expected, this could lead to better retention, and therefore less new client growth opportunities for Paylocity. In addition, rising unemployment levels could negatively impact revenue per customer, which may limit PCTY's growth outlook. On the upside, faster than expected US economic growth could offer PCTY more growth opportunities, leading to upside to our estimates. Also, if competitors fail to add enough support capacity as it grows and customer satisfaction levels fall, then PCTY could see more potential client activity than expected.

Sprout Social, Inc. (SPT / SPT)

Valuation Methodology: Our Price Target of \$59 is based on 8x EV/CY24 Sales and a CY24 Sales estimate of ~\$431mn.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: There are several risks that could impede the progress of both Sprout Social's financial performance and our investment thesis. First the market landscape is still fragmented and evolving, which could invite larger players to jump in via acquisition. Next, the platform is dependent on larger social networks for integrations and a failed relationship here could harm the ability to provide end to end value for customers. Additionally, the company has a history of cash burn. Finally, issues around user data privacy could be an obstacle if more stringent Internet regulation is passed.

Source: Barclays Research

Analyst(s) Certification(s):

I, Raimo Lenschow, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Appian Corporation (APPN, 02-Nov-2023, USD 41.72), Underweight/Positive, CE/J

DigitalOcean (DOCN, 02-Nov-2023, USD 21.23), Overweight/Positive, CD/CE/J

Integral Ad Science Holding Corp. (IAS, 02-Nov-2023, USD 11.86), Equal Weight/Positive, A/CE/D/J/L

OpenText Corp. (OTEX, 02-Nov-2023, USD 34.46), Equal Weight/Positive, A/CD/CE/D/E/FA/J/K/L/M/R

Paylocity Holding Corp (PCTY, 02-Nov-2023, USD 171.86), Equal Weight/Positive, J

Sprout Social, Inc. (SPT, 02-Nov-2023, USD 42.57), Overweight/Positive, CE/J

Unless otherwise indicated, prices are sourced from Bloomberg and reflect the closing price in the relevant trading market, which may not be the last available closing price at the time of publication.

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Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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Negative - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

U.S. Software

8x8 Inc. (EGHT)

Adobe Inc. (ADBE)

Alarm.com Holdings, Inc. (ALRM)

Alkami Technology, Inc. (ALKT)	Ansys, Inc. (ANSS)	Appian Corporation (APPN)
Atlassian (TEAM)	AudioCodes Ltd. (AUDC)	Autodesk Inc. (ADSK)
Bandwidth Inc. (BAND)	BigCommerce (BIGC)	Braze Inc. (BRZE)
CCC Intelligent Solutions (CCCS)	Ceridian HCM Holding Inc. (CDAY)	Check Point Software Technologies Ltd. (CHKP)
Confluent, Inc (CFLT)	Couchbase (BASE)	CrowdStrike Holdings, Inc (CRWD)
CyberArk Software (CYBR)	Datadog, Inc. (DDOG)	Definitive Healthcare Corp (DH)
Descartes Systems Group (DSGX)	DigitalOcean (DOCN)	DoubleVerify Holdings, Inc. (DV)
Dynatrace, Inc. (DT)	Elastic N.V. (ESTC)	Everbridge, Inc. (EVBG)
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Intuit Inc. (INTU)	Jamf Holding Corp. (JAMF)	Klaviyo, Inc. (KVYO)
Lightspeed Commerce Inc. (LSPD)	LivePerson, Inc. (LPSN)	MeridianLink, Inc. (MLNK)
Microsoft Corp. (MSFT)	MongoDB, Inc. (MDB)	nCino, Inc. (NCNO)
OpenText Corp. (OTEX)	Oracle Corp. (ORCL)	Palo Alto Networks (PANW)
Paycom (PAYC)	Paylocity Holding Corp (PCTY)	Pegasystems, Inc. (PEGA)
PowerSchool Holdings, Inc (PWSC)	Procore Technologies, Inc. (PCOR)	PTC Inc. (PTC)
Rapid7 (RPD)	RingCentral, Inc. (RNG)	Salesforce.com Inc. (CRM)
SAP SE (SAP)	SecureWorks (SCWX)	SentinelOne, Inc. (S)
ServiceNow, Inc. (NOW)	Similarweb Ltd. (SMWB)	Skillsoft Corp. (SKIL)
Smartsheet Inc. (SMAR)	Snowflake Computing (SNOW)	Splunk Inc. (SPLK)
Sprinklr, Inc. (CXM)	Sprout Social, Inc. (SPT)	Tenable Holdings Inc (TENB)
Teradata Corp. (TDC)	Twilio Inc. (TWLO)	Tyler Technologies, Inc. (TYL)
UiPath, Inc. (PATH)	Varonis Systems, Inc. (VRNS)	Veeva Systems Inc. (VEEV)
VMware Inc. (VMW)	WalkMe Ltd. (WKME)	Workday Inc. (WDAY)
Zeta Global Holdings Corp. (ZETA)	Zoom Video Communications, Inc. (ZM)	ZoomInfo Technologies Inc. (ZI)
Zscaler, Inc. (ZS)		

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