



## SolarWinds Corporation

# Solid Start to the Return to Public Life

SolarWinds delivered healthy execution in its first quarter as a public company with a beat across the board vs. our expectations and the preliminary results. Management discussed the strong license growth (8%) this quarter to be driven by broad-based healthy performance in its core IT portfolio. We also highlight the meaningful outperformance in profitability and cash flows, but note that FY18 EBITDA margin guidance came in line with our prior estimate. While recognizing management conservatism, we believe this highlights the relatively limited runway for margin expansion going forward. Overall, we like the company's healthy combination of growth and profitability, but remain on the sidelines based on fair valuation level relative to cash flow growth trajectory. Hence, we reiterate our EW rating and \$16 PT.

**The Numbers:** The company delivered license and maintenance revenue growth of 8.0% and subscription revenue growth of 21.8% this quarter. Total revenue growth came in at 12%. We also note that adjusted EBITDA of \$106.5mn represented 49.8% of total revenue, while uFCF came in at \$86.5mn (81% uFCF conversion for 3Q). Management's guidance for FY18 came in ahead of our estimates. We also believe the FY19 preliminary outlook of 10-12% revenue growth (vs. our estimate of 11.3%) and 25-30bps in EBITDA margin expansion (vs. our estimate of 30bps) reflects a conservative starting point and would expect gradual positive estimate revisions in the coming quarters.

**Positives:** (1) Much better than expected license revenue growth of 8% (vs. 0-3% long-term expectations). (2) Growing percentage of recurring revenue, with maintenance+subscription comprising 80% of total in 3Q (vs. 79% last year). (3) Continued healthy large deal momentum, with 697 deals >\$100k over last 12 months.

**Negatives:** (1) Adjusted EBITDA guidance for Q4 came in lower than our expectations. (2) We note that the billings outperformance (0.8% vs. our estimate) was relatively modest, while recognizing the upside potential in FY19 based on conversion of subscription customers to longer billings terms (primarily monthly billings currently).

**Potential Catalysts:** Q4 and FY18 earnings tentatively in early February.

### SWI: Quarterly and Annual EPS (USD)

	2017		2018		2019		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2018	2019
Q1	0.09A	0.03A	0.06A	N/A	0.16E	0.16E	N/A	-33%	167%
Q2	0.20A	0.13A	0.17A	N/A	0.18E	0.18E	N/A	-15%	6%
Q3	0.16A	0.13E	0.17A	N/A	0.19E	0.20E	N/A	6%	18%
Q4	0.09A	0.16E	0.18E	N/A	0.22E	0.22E	N/A	100%	22%
Year	0.55A	0.44E	0.58E	N/A	0.75E	0.76E	N/A	5%	31%
P/E	27.5		26.1			19.9			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters received on 13-Nov-2018; 14:35 GMT

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## Equity Research

Technology | U.S. Software  
14 November 2018

Stock Rating	<b>EQUAL WEIGHT</b> Unchanged
Industry View	<b>POSITIVE</b> Unchanged
Price Target	<b>USD 16.00</b> Unchanged

Price (13-Nov-2018)	USD 15.06
Potential Upside/Downside	+6.2%
Tickers	SWI

Market Cap (USD mn)	4668
Shares Outstanding (mn)	309.94
Free Float (%)	67.96
52 Wk Avg Daily Volume (mn)	1.1
52 Wk Avg Daily Value (USD mn)	19.14
Dividend Yield (%)	N/A
Return on Equity TTM (%)	N/A
Current BVPS (USD)	7.52

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 15.50-13.90



[Link to Barclays Live for interactive charting](#)

### U.S. Software

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## SolarWinds Corporation (SWI)

Stock Rating: EQUAL WEIGHT

Income statement (\$mn)	2017A	2018E	2019E	2020E	CAGR
Revenue	741	834	929	1,040	12.0%
EBITDA (adj)	362	404	453	510	12.1%
Operating profit (adj)	347	387	436	492	12.3%
Pre-tax income	-61	-92	78	168	N/A
Net income (adj)	175	185	243	286	17.9%
EPS (adj) (\$)	0.55	0.58	0.76	0.88	17.1%
Diluted shares (mn)	319.7	320.2	321.4	325.8	0.6%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	48.8	48.4	48.7	49.0	48.7
Operating margin (adj) (%)	46.9	46.4	46.9	47.3	46.9
Pre-tax margin (%)	-8.3	-11.0	8.4	16.1	1.3
Net (adj) margin (%)	23.6	22.1	26.1	27.5	24.9
ROIC (%)	1.3	3.0	3.4	4.8	3.1
ROA (%)	-1.6	-1.6	0.1	1.6	-0.4
ROE (%)	-3.5	-3.4	0.3	3.1	-0.9

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	34	37	37	36	1.4%
Goodwill	3,696	3,699	3,699	3,699	0.0%
Cash and equivalents	278	386	681	1,039	55.3%
Total assets	5,327	5,237	5,322	5,488	1.0%
Short and long-term debt	2,263	1,921	1,921	1,921	-5.3%
Other long-term liabilities	148	142	142	142	-1.5%
Total liabilities	2,910	2,586	2,662	2,743	-2.0%
Net debt/(funds)	1,985	1,535	1,240	882	-23.7%
Shareholders' equity	2,417	2,652	2,660	2,746	4.3%
Change in working capital	186	0	39	40	-40.0%
Cash flow from operations	233	235	314	378	17.6%
Capital expenditure	12	19	20	20	16.9%
Free cash flow	312	355	407	459	13.7%

Valuation and leverage metrics	Average				
P/E (adj) (x)	27.5	26.1	19.9	17.1	22.6
EV/sales (x)	8.7	7.7	6.9	6.2	7.4
EV/EBITDA (adj) (x)	17.8	15.9	14.2	12.6	15.1
Equity FCF yield (%)	4.6	4.5	6.1	7.3	5.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	5.5	3.8	2.7	1.7	3.4
Total debt/capital (%)	48.3	42.0	41.9	41.2	43.4

Selected operating metrics	CAGR				
License revenue (\$mn)	157	163	166	169	2.6%
Maintenance revenue	369.1	405.4	443.4	483.4	9.4%
Services revenue	N/A	N/A	N/A	N/A	N/A
Deferred revenue	261.8	304.2	343.2	378.1	13.0%

Price (13-Nov-2018) USD 15.06  
Price Target USD 16.00

**Why Equal Weight?** Secular tailwinds from increasing IT complexity should allow SolarWinds to sustain solid double-digit growth in the coming years. The company's efficient S&M model should continue to drive best-in-class profitability and cash flow conversion. However, we remain on the sidelines given current fair valuation relative to uFCF growth trajectory.

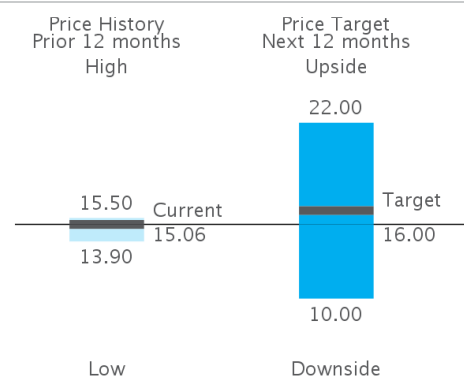
**Upside case** USD 22.00

SolarWinds top-line growth may come in better than expected based on improved competitive positioning. This, along with operating leverage may drive better uFCF growth. Our upside case assumes 20% upside to CY20E uFCF and multiple expansion to 16x CY20E uFCF.

**Downside case** USD 10.00

The company's growth may come under pressure due to a tougher than anticipated competitive landscape, which may pressure margins and free cash flows. Our downside case assumes a 20% discount to CY20E uFCF and multiple contraction to 13x CY20E uFCF.

## Upside/Downside scenarios



Source: Company data, Barclays Research  
Note: FY End Dec

## 3Q18 Results Review

SolarWinds delivered a solid first quarter as a public company. For a summary of the company's complete results this quarter vs. Barclays estimates, please refer to Figure below.

FIGURE 1

### Summary of Actual vs. Barclays Estimates

\$, mn	3Q 17	3Q 18	3Q 18	Actual
	Actual	Actual	Barclays	vs. Barclays
Billings	199.1	222.0	220.4	0.8%
License and Maintenance	135.3	146.1	141.1	3.6%
Subscription	55.7	67.9	66.4	2.2%
Total Revenue	191.0	214.0	207.4	3.2%
Adjusted EBITDA	99.3	106.5	101.1	5.3%
% margin	52.0%	49.8%	48.7%	
Operating profit, Non-GAAP	96.0	102.2	97.1	5.3%
% margin	50.2%	47.8%	46.8%	
Net income, Non-GAAP	52.0	54.5	40.8	33.4%
Non-GAAP EPS	0.16	0.17	0.13	33.3%

Source: Company Data, Barclays Research

### Summary of Guidance

The company provided 4Q18 and FY18 guidance, along with FY19 preliminary outlook for revenue (\$918-933mn, vs. our estimate of \$919.4mn) and adjusted EBITDA margin (25-30bps margin expansion vs. our estimate of 30bps). For a detailed summary of the company's guidance versus our estimates, please refer to the figure below.

FIGURE 2

### Company Guidance vs. Prior Barclays Expectations

\$,mn	Q4				FY18			
	Low	High	Barclays	Diff	Low	High	Barclays	Diff
Total Revenue	218.0	220.0	217.2	0.8%	833.2	835.2	825.8	1.0%
Adjusted EBITDA	107.8	108.9	109.1	-0.7%	403.5	404.6	399.3	1.2%
% margin	49.4%	49.5%	50.2%		48.4%	48.4%	48.4%	
Non-GAAP EPS	0.17	0.18	0.16	10.3%	0.57	0.58		

Source: Company data, Barclays Research

### Estimate Changes

We have adjusted our numbers to reflect management's guidance. We summarize the changes to our model in the table below. We are reiterating our PT of \$16, which is based on 15x (unchanged) EV/CY20E FCF and slightly revised CY20E FCF estimate of \$459mn (was \$453mn).

FIGURE 3  
Summary of Estimate Changes

\$, mn	2018E			2019E		
	New	Old	% Chg.	New	Old	% Chg.
License and Maintenance	568.0	561.3	1.2%	609.3	601.9	1.2%
Subscription	266.4	264.5	0.7%	319.3	317.6	0.5%
Total Revenue	834.3	825.8	1.0%	928.5	919.4	1.0%
Gross profit, adjusted	764.2	756.6	1.0%	850.6	842.3	1.0%
% margin	91.6%	91.6%		91.6%	91.6%	
S&M	221.3	219.9	0.6%	245.0	242.6	1.0%
% margin	26.5%	26.6%		26.4%	26.4%	
R&D	93.7	93.8	(0.1)%	103.4	102.8	0.5%
% margin	11.2%	11.4%		11.1%	11.2%	
G&A	61.9	59.9	3.3%	66.6	66.0	1.0%
% margin	7.4%	7.3%		7.2%	7.2%	
Adjusted EBITDA	404.0	399.3	1.2%	452.5	447.4	1.1%
% margin	48.4%	48.4%		48.7%	48.7%	
Operating profit, Non-GAAP	387.4	383.1	1.1%	435.6	430.9	1.1%
% margin	46.4%	46.4%		46.9%	46.9%	
uFCF	354.5	348.6	1.7%	407.3	402.9	1.1%

Source: Barclays Research

FIGURE 4

## SolarWinds Income Statement

USD, m	FY2016A	FY2017A	1Q18A	2Q18A	3Q18	4Q18E	FY2018E	1Q19E	2Q19E	3Q19E	4Q19E	FY2019E	FY2020E
<b>Total Billings</b>		<b>785.1</b>	<b>210.8</b>	<b>204.7</b>	<b>222.0</b>	<b>239.2</b>	<b>876.7</b>	<b>233.3</b>	<b>224.3</b>	<b>244.8</b>	<b>265.0</b>	<b>967.5</b>	<b>1,075.1</b>
y/y growth			8.8%	12.3%	11.5%	14.0%	11.7%	10.7%	9.6%	10.3%	10.8%	10.3%	11.1%
q/q growth			0.5%	-2.9%	8.5%	7.7%		-2.5%	-3.9%	9.2%	8.2%		
License & Maintenance Revenue	490.1	525.8	134.7	137.3	146.1	149.8	568.0	144.2	147.4	156.6	161.1	609.3	652.4
y/y growth	0.0%	7.3%	9.4%	8.8%	8.0%	6.2%	8.0%	7.0%	7.4%	7.1%	7.5%	7.3%	7.1%
q/q growth	0.0%	0.0%	-4.6%	2.0%	6.4%	2.5%	0.0%	-3.8%	2.3%	6.2%	2.9%	0.0%	0.0%
% total	77.7%	71.0%	67.9%	67.7%	68.3%	68.4%	68.1%	66.3%	65.5%	65.7%	65.1%	65.6%	62.7%
Subscription Revenue	140.7	215.2	63.7	65.6	67.9	69.3	266.4	73.4	77.6	81.8	86.4	319.3	387.8
y/y growth	0.0%	52.9%	29.5%	26.9%	21.8%	18.1%	23.8%	15.3%	18.4%	20.5%	24.7%	19.8%	21.5%
q/q growth	0.0%	0.0%	8.6%	3.0%	3.5%	2.1%	0.0%	6.0%	5.7%	5.3%	5.6%	0.0%	0.0%
% total	22.3%	29.0%	32.1%	32.3%	31.7%	31.6%	31.9%	33.7%	34.5%	34.3%	34.9%	34.4%	37.3%
<b>Total Revenue</b>	<b>630.8</b>	<b>741.0</b>	<b>198.4</b>	<b>202.8</b>	<b>214.0</b>	<b>219.1</b>	<b>834.3</b>	<b>217.6</b>	<b>225.1</b>	<b>238.4</b>	<b>247.5</b>	<b>928.5</b>	<b>1,040.2</b>
y/y growth		17.5%	15.1%	14.0%	12.0%	9.7%	12.6%	9.7%	11.0%	11.4%	12.9%	11.3%	12.0%
q/q growth			-0.7%	2.2%	5.5%	2.4%		-0.7%	3.4%	5.9%	3.8%		
Cost of Revenue	48.8	60.3	16.8	17.6	17.9	17.7	70.1	18.5	19.1	20.3	20.0	77.9	87.1
% margin	92.3%	91.9%	91.5%	91.3%	91.6%	91.9%	91.6%	91.5%	91.5%	91.5%	91.9%	91.6%	91.6%
y/y growth	0.0%	23.6%	16.9%	16.3%	18.9%	12.9%	16.2%	10.1%	8.7%	12.9%	12.9%	11.2%	11.8%
q/q growth	0.0%	0.0%	6.9%	4.7%	2.0%	-1.1%	0.0%	4.2%	3.4%	5.9%	-1.1%	0.0%	0.0%
<b>Gross Profit, Non-GAAP</b>	<b>582.0</b>	<b>680.7</b>	<b>181.6</b>	<b>185.2</b>	<b>196.1</b>	<b>201.4</b>	<b>764.2</b>	<b>199.1</b>	<b>205.9</b>	<b>218.1</b>	<b>227.4</b>	<b>850.6</b>	<b>953.1</b>
% Margin	92.3%	91.9%	91.5%	91.3%	91.6%	91.9%	91.6%	91.5%	91.5%	91.5%	91.9%	91.6%	91.6%
y/y growth	0.0%	0.0%	15.0%	13.8%	11.4%	9.4%	0.0%	9.7%	11.2%	11.2%	12.9%	0.0%	0.0%
Sales and marketing	170.3	201.6	51.9	55.7	56.0	57.6	221.3	59.4	58.5	62.7	64.3	245.0	272.7
% Margin	27.0%	27.2%	26.2%	27.5%	26.2%	26.3%	26.5%	27.3%	26.0%	26.3%	26.0%	26.4%	26.2%
y/y growth	0.0%	18.4%	7.1%	9.9%	12.5%	9.5%	9.8%	14.4%	5.1%	11.9%	11.7%	10.7%	11.3%
Research and development	67.0	82.4	23.8	23.1	22.7	24.1	93.7	25.7	25.2	25.7	26.7	103.4	115.8
% Margin	10.6%	11.1%	12.0%	11.4%	10.6%	11.0%	11.2%	11.8%	11.2%	10.8%	10.8%	11.1%	11.1%
y/y growth	0.0	0%	19%	11%	17.4%	8.5%	13.7%	7.9%	9.1%	13.3%	10.9%	10.3%	12.0%
General and Administrative	40.8	49.5	15.4	16.1	15.1	15.3	61.9	16.3	17.6	16.7	16.1	66.6	72.6
% Margin	6.5%	6.7%	7.7%	7.9%	7.0%	7.0%	7.4%	7.5%	7.8%	7.0%	6.5%	7.2%	7.0%
y/y growth		21%	15%	29%	39.2%	19.8%	25.1%	6.3%	9.0%	10.6%	4.9%	7.7%	9.0%
<b>Operating Profit (loss)</b>	<b>303.8</b>	<b>347.3</b>	<b>90.5</b>	<b>90.4</b>	<b>102.2</b>	<b>104.3</b>	<b>387.4</b>	<b>97.7</b>	<b>104.7</b>	<b>113.0</b>	<b>120.3</b>	<b>435.6</b>	<b>492.1</b>
% Margin	48.2%	46.9%	45.6%	44.6%	47.8%	47.6%	46.4%	44.9%	46.5%	47.4%	48.6%	46.9%	47.3%
<b>Adjusted EBITDA</b>	<b>315.1</b>	<b>361.9</b>	<b>95.1</b>	<b>94.1</b>	<b>106.5</b>	<b>108.4</b>	<b>404.0</b>	<b>101.9</b>	<b>108.7</b>	<b>117.1</b>	<b>124.8</b>	<b>452.5</b>	<b>509.6</b>
% Margin	50.0%	48.8%	47.9%	46.4%	49.8%	49.5%	48.4%	46.8%	48.3%	49.1%	50.4%	48.7%	49.0%
y/y growth		14.8%	19.2%	13.7%	7.2%	8.3%	11.7%	7.2%	15.6%	10.0%	15.2%	12.0%	12.6%
Interest income / expense	(170.4)	(169.8)	(42.1)	(34.4)	(35.6)	(30.6)	(142.7)	(30.6)	(30.6)	(30.6)	(30.6)	(122.4)	(122.4)
Other Income / (expense)	(57.2)	38.7	(48.1)	(26.3)	(0.0)	0.0	(74.5)	0.0	0.0	0.0	0.0	0.0	0.0
Income tax expense	(149.8)	22.4	(18.4)	(23.7)	12.1	15.5	(14.4)	15.1	16.7	18.5	20.2	70.5	83.2
Effective Tax Rate	-196.6%	10.4%	-7342.8%	-79.7%	18.2%	21.0%	-8.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
<b>Net Income (loss) Non-GAAP</b>	<b>226.0</b>	<b>175.0</b>	<b>18.6</b>	<b>53.3</b>	<b>54.5</b>	<b>58.2</b>	<b>184.6</b>	<b>52.0</b>	<b>57.4</b>	<b>63.8</b>	<b>69.5</b>	<b>242.7</b>	<b>286.5</b>
% Margin	35.8%	24%	9%	26%	25%	27%	22%	24%	25%	27%	28%	26%	28%
FDSO (millions)													
<b>Net Income (loss) per share</b>	<b>\$ -</b>	<b>\$ 0.55</b>	<b>\$ 0.06</b>	<b>\$ 0.17</b>	<b>\$ 0.17</b>	<b>\$ 0.18</b>	<b>\$ 0.58</b>	<b>\$ 0.16</b>	<b>\$ 0.18</b>	<b>\$ 0.20</b>	<b>\$ 0.22</b>	<b>\$ 0.76</b>	<b>\$ 0.88</b>

Source: Company Data, Barclays Research Estimates

FIGURE 5

## SolarWinds Balance Sheet

USD, m	FY2016A	FY2017A	1Q18A	2Q18A	3Q18	4Q18E	FY2018E	FY2019E	FY2020E
<b>Assets</b>									
Cash, equivalents and ST investments	103.6	277.7	223.5	278.1	278.3	386.2	386.2	680.9	1,039.2
Cash, cash equivalents	101.6	277.7	223.5	278.1	278.3	386.2	386.2	680.9	1,039.2
Short term investments	2.0	-	-	-	-	-	-	-	-
Accounts receivable	80.4	85.1	87.4	83.9	98.0	110.2	110.2	111.2	108.9
Income tax receivable	36.2	1.7	2.1	2.1	1.8	1.8	1.8	1.8	1.8
Deferred Taxes	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	19.3	24.3	15.9	14.4	16.1	16.1	16.1	16.1	16.1
<b>Total Current Assets</b>	<b>239.6</b>	<b>388.9</b>	<b>328.9</b>	<b>378.4</b>	<b>394.2</b>	<b>514.2</b>	<b>514.2</b>	<b>809.9</b>	<b>1,166.0</b>
Property and equipment, net	37.2	34.2	35.5	37.7	37.9	37.1	37.1	36.6	35.7
Long-term investments	-	-	-	-	-	-	-	-	-
Deferred Taxes	1.7	4.4	4.5	4.3	4.7	4.7	4.7	4.7	4.7
Goodwill	3,533.4	3,695.6	3,735.7	3,670.4	3,699.3	3,699.3	3,699.3	3,699.3	3,699.3
Intangible assets, net	1,377.7	1,194.5	1,150.3	1,071.9	1,021.0	970.9	970.9	760.6	571.4
Other assets	13.1	9.4	11.3	10.9	11.2	11.2	11.2	11.2	11.2
<b>Total Assets</b>	<b>5,202.7</b>	<b>5,327.1</b>	<b>5,266.3</b>	<b>5,173.6</b>	<b>5,168.3</b>	<b>5,237.4</b>	<b>5,237.4</b>	<b>5,322.3</b>	<b>5,488.2</b>
<b>Liabilities</b>									
Accounts payable	9.0	9.7	6.1	10.7	5.8	12.0	12.0	13.6	16.5
Accrued liabilities	53.7	39.6	38.2	44.0	50.6	50.6	50.6	50.6	50.6
Accrued Interest Payable	-	11.6	1.1	0.7	1.1	1.1	1.1	1.1	1.1
Income taxes payable	1.2	9.0	7.9	3.5	2.5	2.5	2.5	2.5	2.5
Current portion of deferred revenue	204.7	241.5	250.2	251.4	259.5	277.0	277.0	312.3	344.2
Current debt obligation	17.0	17.0	19.9	19.9	19.9	19.9	19.9	19.9	19.9
<b>Total Current Liabilities</b>	<b>285.7</b>	<b>328.4</b>	<b>323.4</b>	<b>330.3</b>	<b>339.5</b>	<b>363.2</b>	<b>363.2</b>	<b>400.0</b>	<b>434.8</b>
Deferred revenue, net of current portion	13.0	20.3	24.1	24.7	24.7	27.3	27.3	30.9	33.9
Non-current deferred taxes	264.7	167.5	169.1	153.4	152.4	152.4	152.4	188.4	231.0
Other long-term liabilities	36.6	148.1	137.7	141.4	141.5	141.5	141.5	141.5	141.5
LT debt, net of current portion	2,242.9	2,245.6	2,221.1	2,218.7	2,216.3	1,901.3	1,901.3	1,901.3	1,901.3
<b>Total Liabilities</b>	<b>2,842.8</b>	<b>2,909.94</b>	<b>2,875.3</b>	<b>2,868.5</b>	<b>2,874.4</b>	<b>2,585.6</b>	<b>2,585.62</b>	<b>2,662.13</b>	<b>2,742.52</b>
<b>Equity</b>									
Common Stock									
Convertible Common Stock A	2,879.5	3,146.9	3,216.7	3,288.9	3,363.5	-	-	-	-
Common Stock Class B	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Additional paid-in capital	-	-	-	-	-	3,720.7	3,720.7	3,720.7	3,720.7
Accumulated other comprehensive loss	(66.0)	75.3	108.6	49.7	39.2	39.2	39.2	39.2	39.2
Accumulated Earnings	(453.7)	(805.2)	(934.5)	(1,033.6)	(1,108.8)	(1,108.3)	(1,108.3)	(1,099.9)	(1,014.3)
<b>Total Equity</b>	<b>2,359.9</b>	<b>2,417.1</b>	<b>2,390.9</b>	<b>2,305.2</b>	<b>2,294.0</b>	<b>2,651.8</b>	<b>2,651.8</b>	<b>2,660.2</b>	<b>2,745.7</b>
<b>Total Liabilities + Equity</b>	<b>5,202.7</b>	<b>5,327.1</b>	<b>5,266.3</b>	<b>5,173.6</b>	<b>5,168.3</b>	<b>5,237.4</b>	<b>5,237.4</b>	<b>5,322.3</b>	<b>5,488.2</b>

Source: Company Data, Barclays Research Estimates

FIGURE 6

## SolarWinds Statement of Cash Flows

USD, m	FY2016A	FY2017A	1Q18A	2Q18A	3Q18	4Q18E	FY2018E	FY2019E	FY2020E
Net Income	(334.4)	(83.9)	(59.9)	(27.0)	(0.4)	0.4	(86.9)	7.7	84.8
Adjustments from Operating Activities									
Depreciation and amortization	219.2	250.9	65.2	64.4	64.3	55.0	248.9	230.4	209.9
Provision for Doubtful Accounts	1.8	2.5	0.4	0.7	0.8	-	2.0	-	-
Stock-based compensation expense	87.8	0.1	0.0	0.1	0.2	0.2	0.5	0.7	0.8
Accrued earnout gain	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	18.8	18.9	4.2	2.5	2.6	-	9.3	-	-
Loss on extinguishment of debt	22.8	18.6	60.6	-	-	-	60.6	-	-
Deferred taxes	(126.6)	(101.5)	1.5	(14.5)	(1.0)	-	(14.1)	36.0	42.6
(Gain) loss on foreign currency exchange rates	32.4	(54.9)	(13.5)	26.1	0.2	-	12.7	-	-
Other non-cash expenses	0.9	(3.8)	0.6	0.8	0.1	-	1.5	-	-
Adjustments to working capital items									
Accounts receivable	(13.4)	(2.4)	(0.6)	0.8	(14.1)	(12.1)	(26.1)	(1.0)	2.3
Income taxes receivable	(35.0)	35.0	(0.3)	(0.1)	0.3	-	(0.1)	-	-
Prepaid and other current assets	(4.2)	6.2	(3.5)	1.4	(0.8)	-	(2.9)	-	-
Accounts payable	(5.7)	0.3	(3.8)	4.7	(4.9)	6.2	2.2	1.6	2.9
Accrued liabilities and other	28.1	(7.5)	(2.0)	5.9	5.8	-	9.7	-	-
Accrued Interest Payable	-	0.6	(10.6)	(0.3)	0.4	-	(10.5)	-	-
Income taxes payable	4.4	119.6	(12.1)	(3.6)	(0.3)	-	(16.1)	-	-
Deferred revenue	194.1	34.0	9.5	6.5	6.3	20.1	42.4	38.9	34.9
Other long-term liabilities	(0.6)	0.0	(0.2)	2.4	(0.4)	-	1.8	-	-
<b>Cash from operations</b>	<b>90.2</b>	<b>232.7</b>	<b>35.4</b>	<b>70.8</b>	<b>59.0</b>	<b>69.7</b>	<b>234.7</b>	<b>314.3</b>	<b>378.1</b>
y/y growth	-	158.1%	-6.1%	21.9%	46.6%	-28.0%	0.9%	33.9%	20.3%
Purchases of investments	(2.0)	-	-	-	-	-	-	-	-
Maturities of investments	22.8	2.0	-	-	-	-	-	-	-
Purchase of PPE	(7.8)	(7.6)	(2.9)	(6.3)	(3.5)	(3.3)	(16.1)	(16.4)	(16.6)
Purchase of intangible assests and other LT	(3.5)	(4.8)	(0.8)	(0.5)	(0.8)	(0.8)	(2.9)	(3.1)	(3.1)
Acquisition of businesses, net cash	(507.5)	(24.0)	(13.0)	-	(47.6)	-	(60.6)	-	-
Acquisitio of SolarWinds, net cash	(4,335.1)	-	-	-	-	-	-	-	-
Other investing activities	-	-	10.7	-	-	-	10.7	-	-
<b>Cash from investing activities</b>	<b>(4,833.0)</b>	<b>(34.4)</b>	<b>(6.0)</b>	<b>(6.8)</b>	<b>(51.9)</b>	<b>(4.1)</b>	<b>(68.8)</b>	<b>(19.6)</b>	<b>(19.8)</b>
<b>Cash from financing activities</b>	<b>4,897.3</b>	<b>(35.4)</b>	<b>(85.3)</b>	<b>(4.4)</b>	<b>(6.7)</b>	<b>42.3</b>	<b>(54.0)</b>	<b>-</b>	<b>-</b>
FX impact	0.0	13.1	1.7	(5.0)	(0.1)	-	(3.4)	-	-
<b>Net change in cash</b>	<b>154.4</b>	<b>176.1</b>	<b>(54.2)</b>	<b>54.6</b>	<b>0.3</b>	<b>107.8</b>	<b>108.5</b>	<b>294.7</b>	<b>358.3</b>
Cash at Beginning of period	196.9	101.6	277.7	223.5	278.1	278.3	277.7	386.2	680.9
Cash at End of period	101.6	277.7	223.5	278.1	278.3	386.2	386.2	680.9	1,039.2
<b>Free Cash Flow</b>	<b>78.9</b>	<b>220.3</b>	<b>31.6</b>	<b>64.0</b>	<b>54.6</b>	<b>65.6</b>	<b>215.8</b>	<b>294.7</b>	<b>358.3</b>
<b>uFCF</b>		<b>311.8</b>	<b>76.7</b>	<b>95.4</b>	<b>86.5</b>	<b>95.8</b>	<b>354.5</b>	<b>407.3</b>	<b>458.7</b>
% conversion		86.2%	80.7%	101.5%	81.3%	88.4%	87.7%	90.0%	90.0%
y/y growth			11.1%	12.9%	29.8%	4.6%	13.7%	14.9%	12.6%

Source: Company Data, Barclays Research Estimates

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**SolarWinds Corporation** (SWI, 13-Nov-2018, USD 15.06), Equal Weight/Positive, A/CE/D/E/J/L

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## SolarWinds Corporation (SWI / SWI)

USD 15.06 (13-Nov-2018)

Stock Rating

Industry View

EQUAL WEIGHT

POSITIVE

## Rating and Price Target Chart - USD (as of 13-Nov-2018)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
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Source: Thomson Reuters, Barclays Research

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