

EQUITY RESEARCH QUICK TAKE



Capital
Markets

RBC Capital Markets, LLC
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November 2, 2023

SolarWinds Corporation

Q3/23 First Glance: Solid results as CY/23 guidance is raised across the board

NYSE: SWI | USD 9.42 | Sector Perform | Price Target USD 13.00

Sentiment: Neutral

First Glance: SolarWinds delivered solid Q3/23 results with a beat across the board and CY/23 guidance was raised for revenue, adjusted EBITDA, and EPS. Total revenue was ahead of expectations and the high end of guidance at \$189.6M or +6% growth vs. consensus of \$183.7M and the prior midpoint guide of \$184M. On the profitability side, adjusted EBITDA also outperformed expectations and guidance at \$85.1M or 44.9% margin vs. consensus at \$75.4M along with EPS at \$0.23 vs. consensus at \$0.18. Q3/23 revenue, adjusted EBITDA, and EPS guidance also came ahead of expectations. Additionally, CY/23 revenue/adj-EBITDA/EPS midpoint guidance was raised to \$751M/\$323M/\$0.84 compared to \$744M/\$310.5M/\$0.775 previously. Management noted that their subscription strategy continues to deliver strong results while their product teams provide multi-cloud solutions on the platform to improve customer productivity and reduce costs. The conference call is scheduled for 8.30 AM ET.

Q3/23 results:

- Revenue of \$189.6M, +6% y/y vs. guidance of \$182-\$186M and RBC/consensus at \$184.0M/\$183.7M.
- Adjusted EBITDA of \$85.1M vs. guidance of \$74-\$76.5M and RBC/consensus at \$75.2M/\$75.4M.
- EPS of \$0.23 vs. guidance of \$0.17-\$0.19 and RBC/consensus at \$0.18.

Q4/23 guidance:

- Revenue of \$188.5-\$192.5M (\$190.5M midpoint) vs. RBC/consensus at \$189.0M/\$189.7M. This represents +2% y/y growth at the midpoint.
- Adjusted EBITDA of \$80.5-\$82.5M (\$81.5M midpoint) vs. RBC/consensus at \$78.4M/\$78.5M. This represents an adjusted EBITDA margin of 42.7% of total revenue at the midpoint.
- EPS of \$0.20-\$0.22 vs. RBC/consensus at \$0.18/\$0.19.

CY/23 guidance:

- Revenue of \$749-\$753M (\$751M midpoint) compared to prior guidance of \$740-\$748M (\$744M midpoint) vs. RBC/consensus at \$744.0M/\$744.4M. This represents +4% y/y growth at the midpoint.
- Adjusted EBITDA of \$322M-\$324M (\$323M midpoint) compared to prior guidance of \$308M-\$313M (\$310.5M midpoint) vs. RBC/consensus at \$310.2M. This represents an adjusted EBITDA margin of 43% of total revenue at the midpoint.
- EPS of \$0.83-\$0.85 (\$0.84 midpoint) compared to prior guidance of \$0.76-\$0.79 (\$0.775 midpoint) vs. RBC/consensus at \$0.77/\$0.78.



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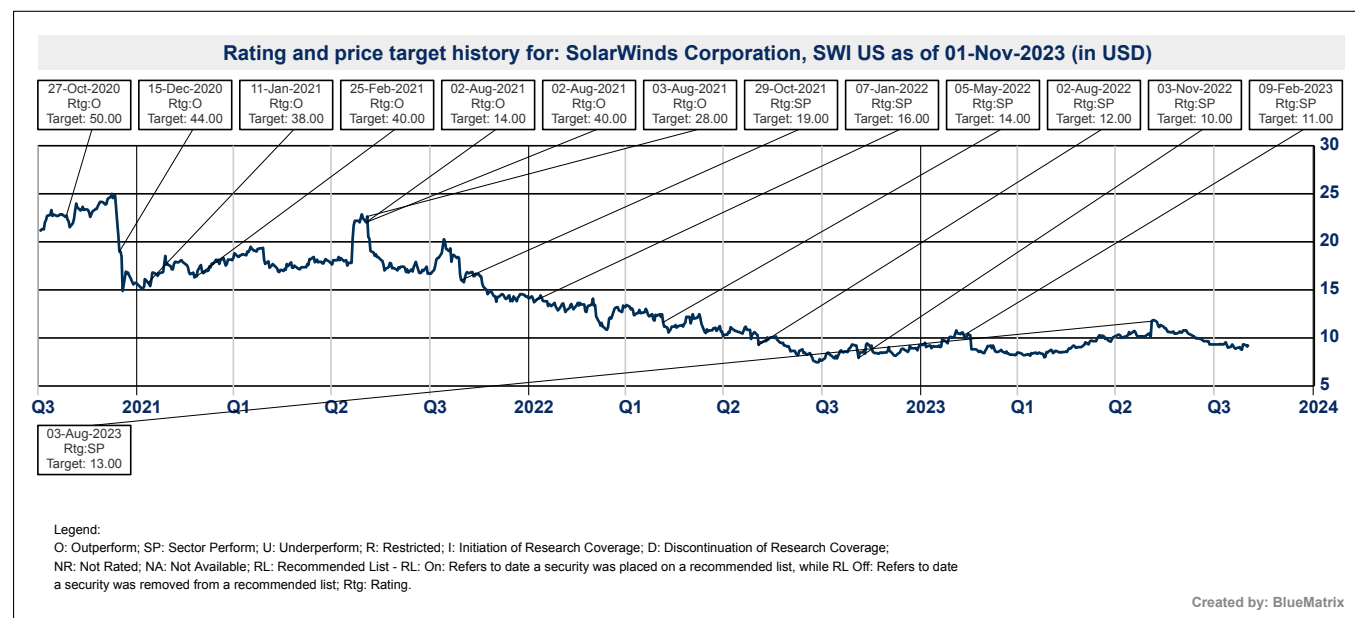
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			Serv./Past 12 Mos.	
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HOLD [Sector Perform]	590	40.27	148	25.08
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SolarWinds Corporation

Valuation

We calculate our base-case price target of \$13 using a 10.4x multiple on our CY/23 EBITDA estimate of \$310M, in line with the estimated historical stand-alone average multiple. Our price target and multiple reflect peer multiple compression and balance



an increasing subscription mix with an uncertain macro outlook and unknown impacts from the Sunburst hack. Our price target supports a Sector Perform rating.

Risks to rating and price target

1) Licenses still account for ~20% of revenue and could prove volatile; 2) potential variance in subscription and maintenance expansion and renewal rates; 3) competition and technology change; 4) macroeconomic challenges including but not limited to the impact of COVID-19; 5) Silver Lake and Thoma Bravo own a majority of shares and have a controlling interest over stockholders; and 6) the 2020 cyberattack.

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