



SolarWinds Corporation

Uncertainties Abound from the Cyberattack, Reiterate UW and Lower PT

Cyberattack Adds an Unfortunate Dimension to Muddled Fundamentals: We believe the still-unfolding cyberattack incident creates an uncertain path ahead for SWI. This incident couldn't have come at a more unfortunate time for the company, in the midst of management transition and a potential MSP business spin-off, while trying to fend off the tough competitive landscape in observability (see "*Picking Sides in Observability Wars*", 2/28/20). Overall, we see tough times ahead for the company until we have more clarity on the scope and the impact of the breach. Reiterate Underweight.

Uncertainty for Core SWI Financial Trajectory as Cyberattack Investigations Continue: We see a wide range of possible scenarios in terms of financial impact from the incident. Some customer churn may be expected among the 18k active maintenance Orion customers, or 45% of total revenue at stake. We also expect impact on the new business cycles, further reducing predictability to the transactional business, along with the macro impact from COVID-19. Overall, we believe it's too early to gauge the financial implications, but management's target of low to mid-single digit growth for the core SolarWinds business that was issued prior to the incident, now seems to be at risk.

SOTP Shows MSP Spin-off Could Have Been Value Accretive, but Cyberattack Creates Doubts on Timeline and SOTP Valuations: We believe the rally in shares prior to the cyberattack was driven largely by expectations of value unlock post the potential MSP business spin-off this year, rather than by a change in the fundamental narrative. Our illustrative SOTP analysis (see herein) does suggest value accretion from the spin-off, but we expect the cyberattack will now raise questions on the timeline and the correct valuation multiples for the core SolarWinds and MSP segments.

Downside Risk to Street Estimates, with Multiple to Remain Contracted; Lowering PT to \$14: We see negative Street estimate revisions likely near term, and while some investors may see a value play at these levels, we expect the valuation multiple to remain challenged given the high profile nature and the high degree of uncertainty from the cyberattack. Overall, we expect shares to continue to underperform, and we lower our PT to \$14.

SWI: Quarterly and Annual EPS (USD)

	2019		2020		2021		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2020	2021
Q1	0.20A	0.20A	0.20A	0.20A	0.25E	0.25E	0.24E	0%	25%
Q2	0.20A	0.25A	0.25A	0.25A	0.26E	0.26E	0.25E	25%	4%
Q3	0.21A	0.28A	0.28A	0.28A	0.28E	0.28E	0.27E	33%	0%
Q4	0.24A	0.25E	0.25E	0.25E	0.29E	0.29E	0.28E	4%	16%
Year	0.85A	0.98E	0.98E	0.98E	1.08E	1.08E	1.04E	15%	10%
P/E	17.3		15.0			13.6			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 08-Jan-2021; 13:50 GMT

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 9.

Equity Research

Technology | U.S. Software
11 January 2021

Stock Rating **UNDERWEIGHT**
Unchanged

Industry View **POSITIVE**
Unchanged

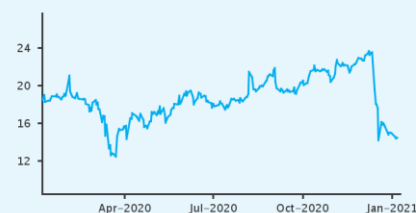
Price Target **USD 14.00**
lowered -30% from USD 20.00

Price (07-Jan-2021) USD 14.68
Potential Upside/Downside -4.6%
Tickers SWI

Market Cap (USD mn) 4610
Shares Outstanding (mn) 314.04
Free Float (%) 24.16
52 Wk Avg Daily Volume (mn) 0.9
Dividend Yield (%) N/A
Return on Equity TTM (%) 1.44
Current BVPS (USD) 8.94

Source: Bloomberg

Price Performance Exchange-NYSE
52 Week range USD 24.34-11.50



Source: IDC; Link to Barclays Live for interactive charting

U.S. Software

Raimo Lenschow, CFA

+1 212 526 2712

raimo.lenschow@barclays.com

BCI, US

Mohit Gogia

+1 212 526 1053

mohit.gogia@barclays.com

BCI, US

U.S. Software	Industry View: POSITIVE
SolarWinds Corporation (SWI)	Stock Rating: UNDERWEIGHT

Income statement (\$mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	938	1,021	1,156	1,342	12.7%
EBITDA (adj)	454	488	548	641	12.2%
Operating profit (adj)	436	465	523	617	12.3%
Pre-tax income	28	63	114	228	102.5%
Net income (adj)	264	309	345	419	16.7%
EPS (adj) (\$)	0.85	0.98	1.08	1.31	15.4%
Diluted shares (mn)	309.8	315.5	318.8	320.8	1.2%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	48.3	47.8	47.4	47.7	47.8
Operating margin (adj) (%)	46.5	45.5	45.2	46.0	45.8
Pre-tax margin (%)	2.9	6.2	9.9	17.0	9.0
Net (adj) margin (%)	28.1	30.3	29.9	31.2	29.9
ROIC (%)	2.4	2.4	3.1	4.7	3.2
ROA (%)	0.4	0.5	0.3	1.9	0.8
ROE (%)	0.7	1.0	0.6	3.6	1.5

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	39	52	44	40	0.7%
Goodwill	4,058	4,109	4,209	4,309	2.0%
Cash and equivalents	173	500	799	1,175	89.2%
Total assets	5,311	5,518	5,739	6,080	4.6%
Short and long-term debt	1,913	1,905	1,905	1,905	-0.1%
Other long-term liabilities	123	119	119	119	-1.0%
Total liabilities	2,661	2,709	2,810	2,922	3.2%
Net debt/(funds)	1,740	1,405	1,106	730	-25.1%
Shareholders' equity	2,650	2,809	2,929	3,157	6.0%
Change in working capital	13	23	39	49	55.7%
Cash flow from operations	300	374	427	505	19.0%
Capital expenditure	-23	-41	-28	-30	N/A
Free cash flow	372	407	484	564	14.9%

Valuation and leverage metrics	Average				
P/E (adj) (x)	17.3	15.0	13.6	11.2	14.3
EV/sales (x)	6.6	6.1	5.3	4.6	5.6
EV/EBITDA (adj) (x)	13.6	12.7	11.3	9.6	11.8
Equity FCF yield (%)	6.1	7.2	8.5	10.1	8.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	3.8	2.9	2.0	1.1	2.5
Total debt/capital (%)	41.9	40.4	39.4	37.6	39.8

Selected operating metrics (\$mn)	CAGR				
License revenue	165	151	146	142	-5.0%
Maintenance revenue	446	476	508	536	6.3%
Deferred revenue	343	388	458	514	14.4%

Price (07-Jan-2021)	USD 14.68
Price Target	USD 14.00

Why Underweight? Broad IT monitoring portfolio with market leadership in network monitoring, but lagging behind in cloud observability. We see execution risk to LT organic top-line growth targets and limited upside to margins.

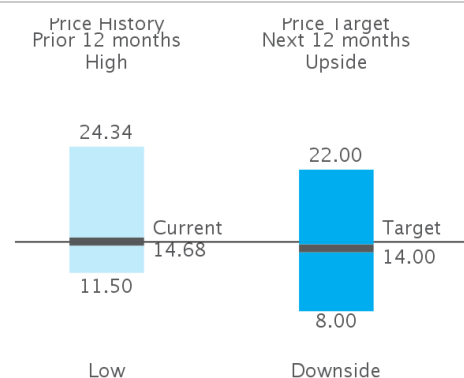
Upside case	USD 22.00
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SolarWinds top-line growth may come in better than expected based on improved competitive positioning. This, along with operating leverage may drive better uFCF growth. Our upside case assumes 10% upside to CY22E uFCF and 14x CY22E uFCF.

Downside case	USD 8.00
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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 30% discount to CY22E uFCF and 10x CY22E uFCF.

Upside/Downside scenarios



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

Uncertainties Abound from the Cyberattack, Reiterating UW and Lowering PT

We are reiterating our UW rating on SolarWinds and lowering our PT to \$14. We expect the company to face some tough times ahead as it navigates through the security breach incident (see “*The News of Cyberattacks is Unfortunate Distraction Amidst Management Transition and Potential MSP Spin-off*”, 12/14/20), while simultaneously working through a CEO transition and potential MSP business spin-off. The fundamental competitive landscape in the meantime remains challenging (as we had discussed in our deep dive report), and we expect competitors to make opportunistic moves to try and benefit from the negative developments for SolarWinds coming out of the ongoing investigations into the scope and impact of the security breach. Based on current information, we are of the opinion that a sophisticated attack like this one could have happened to even the most secure vendors, but nonetheless, SolarWinds finds itself in the wrong place at the wrong time. As such, we expect some customer churn and delayed new sales cycles, and see downside risk to the Street estimates. Also, we now expect that the valuation multiple, which prior to the cyberattack news had benefited from the expectation of potential value accretion due to the MSP business spin-off (discussed below), may remain under pressure. Overall, until we get more clarity and a path to resolution of the cyberattack (the investigation into which may prove to be of longer duration than prior consumer breaches of this scale [e.g., Equifax] due to federal agencies and enterprises being involved), we expect shares to remain in the penalty box, and we reiterate our UW rating.

Shares Had Rallied Post the MSP Spin-off Announcement without Any Fundamental Catalysts

Prior to the cybersecurity incident coming to light, SWI shares had re-rated, we believe in reflection of investor optimism around potential value accretion from the MSP business spin-off planned for later in 2021, rather than as a result of any fundamental catalysts. Infact, we also believed that if the spin-off went through, the two businesses separately could have resulted in some value unlock based on more focused execution, with core SolarWinds managed for FCF and shareholder returns, while MSP business managed for profitable mid-teens growth. Below, we show the targets for the two businesses post the spin-off that management had laid out during the Q2'20 earnings.

FIGURE 1

Target Financial Profiles for the two Segments Post Spin-off

	Core SolarWinds	MSP
Revenue Scale	>\$700mn for 2020E	~\$300mn for 2020E
Target Growth Rate	Low to mid-single digits	17% CAGR since Q1'18
Growth + Profitability Target	Well above Rule of 50	Approaching Rule of 50

Source: Company Data

For illustrative purposes, we provide a Sum-of-the-Parts for the two businesses *prior to the cyberattack*, implying a theoretical \$20/share valuation for the combined entity. Some of our assumptions in the below SOTP include:

- **Core SolarWinds:** We believe low to mid-single digit revenue growth with 50%+ EBITDA margin would be an achievable mid to long-term financial profile for this business, which tends to be sticky (low to mid-90s renewal rates) and has an established customer base. Based on this profile, we compare this business to Oracle and believe that 13x EV/CY22E uFCF would be the right multiple here (same as our PT for Oracle).
- **MSP:** This business has grown at a CAGR of 17% since 2018, and based on the TAM and also looking at comps like Datto (covered by our analyst Saket Kalia) we believe

mid-teens growth would be achievable once the near-term headwinds from COVID-19 dissipate. As such, we believe 8x EV/CY22E revenue would be justified for this business.

FIGURE 2

For Illustrative Purposes, Our SOTP for SolarWinds Prior to the Cyberattack

Core SolarWinds	
CY20E Revenue (\$, mn)	720
<i>Estimated Growth</i>	4%
CY22E Revenue (\$, mn)	779
<i>CY22E EBITDA Margin</i>	50%
<i>CY22E uFCF Conversion</i>	90%
CY22E uFCF (\$, mn)	350
EV/CY22E uFCF Multiple	13x
EV (\$, mn)	4,556
MSP	
CY20E Revenue (\$, mn)	300
<i>Estimated Growth</i>	15%
CY22E Revenue (\$, mn)	397
EV/CY22E Revenue Multiple	8x
EV (\$, mn)	3,174
Consolidated Valuation	
Total EV (\$, mn)	7,730
Net Debt (\$, mn)	1480
Implied Market Cap (\$, mn)	6,249
Fully Diluted Shares (mn)	320
Theoretical Price per share	\$20

Source: Barclays Research

Overall, this would have implied a theoretical price per share of \$20 (our prior PT), and we believe the rally in shares around and above these levels prior to the cyberattack news was factoring in this spin-off scenario. However, we believe the cyberattack has muddied the waters, not just in terms of what it will mean for the core SolarWinds financial profile, but also will continue to raise investor questions around timeline for the spin-off and the right valuations for the two businesses. We discuss this and our new PT next.

Cyberbattack Muddies the Waters for both Core SolarWinds Business and the MSP Business Spin-off—We Lower our PT to \$14

Based on the ongoing investigations, we highlight that the current understanding is that only the SolarWinds Orion family of products was breached (18k active maintenance customers and 45% of total revenue) and MSP product portfolio was not impacted. We also note that the company has not yet indicated that there will be any delay or hindrance to the MSP business spin-off going ahead as planned. However, we believe this incident will create a perceived risk to the spin-off timeline and also the right multiple for the MSP business even if the LT financial profile remains unchanged. At the same time, our conversations indicate that there is a very wide range of possible scenarios in terms of customer churn and risk to new business for core SolarWinds. Some event-driven bulls may argue that the MSP business spin-off will go ahead as planned this year with limited financial impact to core SolarWinds, but we argue that investors are likely to remain wary of financial and valuation prospects for the two businesses as long as visibility remains limited as investigations into the scope, customer impact and SWI involvement of the attack remain ongoing. As such, we are lowering our PT to \$14, which is based on ~11x CY22E uFCF (was

14x), and we also use the below illustrative SOTP to inform our consolidated target multiple. We note that given the high degree of uncertainty regarding the impact of the breach, the below scenario does not constitute our base model assumptions, as we await Q4 results and management commentary on the impact from the breach.

FIGURE 3

Illustrative SOTP for SolarWinds Post the Cyberattack Incident

Core SolarWinds	
CY20E Revenue (\$, mn)	700
<i>Estimated Growth</i>	0%
CY22E Revenue (\$, mn)	700
<i>CY22E EBITDA Margin</i>	50%
<i>CY22E uFCF Conversion</i>	90%
CY22E uFCF (\$, mn)	315
EV/CY22E uFCF Multiple	10x
EV (\$, mn)	3,150
MSP	
CY20E Revenue (\$, mn)	300
<i>Estimated Growth</i>	15%
CY22E Revenue (\$, mn)	397
EV/CY22E Revenue Multiple	7x
EV (\$, mn)	2,777
Consolidated Valuation	
EV (\$, mn)	5,927
Net Debt (\$, mn)	1,480
Implied Market Cap (\$, mn)	4,447
Fully Diluted Shares (mn)	320
Implied Price	\$14

Source: Barclays Research

FIGURE 4
SolarWinds P&L

USD, m	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20	2Q20	3Q20	4Q20E	FY2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
Total Billings	231.5	237.3	248.3	268.7	985.7	260.6	237.4	273.0	294.2	1,065.3	299.7	282.6	311.2	332.5	1,226.0	1,397.6
y/y growth	9.8%	15.9%	11.8%	15.1%	13.2%	12.6%	0.1%	10.0%	9.5%	8.1%	15.0%	19.0%	14.0%	13.0%	15.1%	14.0%
q/q growth	-0.9%	2.5%	4.6%	8.2%		-3.0%	-8.9%	15.0%	7.8%		1.9%	-5.7%	10.1%	6.8%		
License & Maintenance Revenue	144.2	150.0	157.4	160.2	611.8	153.3	150.2	160.4	162.6	626.5	159.7	158.4	167.1	168.7	654.0	677.9
y/y growth	7.1%	9.3%	7.7%	5.4%	7.3%	6.3%	0.1%	1.9%	1.5%	2.4%	4.2%	5.5%	4.2%	3.7%	4.4%	3.7%
q/q growth	-5.1%	4.0%	4.9%	1.8%	0.0%	-4.3%	-2.0%	6.8%	1.4%	0.0%	-1.8%	-0.8%	5.5%	0.9%	0.0%	0.0%
% total	66.8%	65.0%	64.8%	64.2%	65.2%	61.7%	60.9%	61.4%	61.5%	61.4%	59.0%	56.8%	56.2%	54.6%	56.6%	50.5%
Subscription Revenue	71.6	80.6	85.3	89.2	326.7	95.1	96.4	100.9	101.7	394.1	111.1	120.6	130.3	140.1	502.0	664.0
y/y growth	12.4%	22.9%	25.7%	28.1%	22.5%	33.0%	19.6%	18.2%	14.1%	20.6%	16.7%	25.1%	29.1%	37.8%	27.4%	32.3%
q/q growth	2.8%	12.6%	5.9%	4.5%	0.0%	6.7%	1.3%	4.6%	0.9%	0.0%	9.2%	8.6%	8.0%	7.6%	0.0%	0.0%
% total	33.2%	35.0%	35.2%	35.8%	34.8%	38.3%	39.1%	38.6%	38.5%	38.6%	41.0%	43.2%	43.8%	45.4%	43.4%	49.5%
Total Revenue	215.8	230.6	242.7	249.4	938.5	248.5	246.6	261.3	264.4	1,020.7	270.8	279.0	297.4	308.8	1,156.0	1,341.9
y/y growth	8.8%	13.7%	13.4%	12.5%	12.1%	15.1%	6.9%	7.7%	6.0%	8.8%	9.0%	13.2%	13.8%	16.8%	13.3%	16.1%
q/q growth	-2.6%	6.8%	5.3%	2.8%		-0.4%	-0.8%	6.0%	1.2%		2.4%	3.0%	6.6%	3.8%		
Cost of Revenue	17.7	18.9	20.2	20.8	77.6	22.0	21.3	22.7	22.9	88.9	23.6	24.3	25.9	26.9	100.6	118.1
% margin	91.8%	91.8%	91.7%	91.6%	91.7%	91.1%	91.4%	91.3%	91.3%	91.3%	91.3%	91.3%	91.3%	91.3%	91.3%	91.2%
y/y growth	5.5%	7.4%	12.3%	17.4%	10.7%	24.1%	12.4%	12.5%	10.1%	14.5%	7.1%	14.1%	14.1%	17.1%	13.1%	17.4%
q/q growth	-74.7%	6.8%	6.5%	3.4%	0.0%	-71.7%	-3.3%	6.6%	1.2%	0.0%	2.7%	3.0%	6.6%	3.8%	0.0%	0.0%
Gross Profit, Non-GAAP	198.1	211.6	222.5	228.6	860.8	226.5	225.3	238.6	241.4	931.8	247.2	254.7	271.5	281.9	1,055.4	1,223.8
% Margin	91.8%	91.8%	91.7%	91.6%	91.7%	91.1%	91.4%	91.3%	91.3%	91.3%	91.3%	91.3%	91.3%	91.3%	91.3%	91.2%
y/y growth	9.1%	14.3%	13.5%	12.1%	0.0%	14.3%	6.5%	7.2%	5.6%	0.0%	9.2%	13.1%	13.8%	16.8%	0.0%	0.0%
Sales and marketing	56.7	61.8	64.8	66.8	250.3	69.0	66.0	66.4	72.7	274.1	74.5	75.9	80.3	82.4	313.1	356.9
% Margin	26.3%	26.8%	26.7%	26.8%	26.7%	27.8%	26.8%	25.4%	27.5%	26.9%	27.5%	27.2%	27.0%	26.7%	27.1%	26.6%
y/y growth	9.3%	11.1%	15.7%	15.1%	12.9%	21.6%	6.7%	2.4%	8.8%	9.5%	8.0%	15.0%	20.9%	13.4%	14.2%	14.0%
Research and development	23.3	25.3	26.7	24.9	100.2	28.5	26.9	26.7	28.6	110.7	29.8	30.7	32.7	34.0	127.2	144.9
% Margin	10.8%	11.0%	11.0%	10.0%	10.7%	11.5%	10.9%	10.2%	10.8%	10.8%	11.0%	11.0%	11.0%	11.0%	11.0%	10.8%
y/y growth	-2.0%	9.5%	17.6%	9.9%	8.6%	22.5%	6.6%	-0.2%	14.8%	10.5%	4.3%	14.0%	22.6%	19.0%	14.9%	14.0%
General and Administrative	17.4	18.2	20.0	18.6	74.2	23.3	19.5	18.2	21.1	82.2	21.7	22.3	23.8	24.7	92.5	104.7
% Margin	8.1%	7.9%	8.2%	7.5%	7.9%	9.4%	7.9%	7.0%	8.0%	8.1%	8.0%	8.0%	8.0%	8.0%	8.0%	7.8%
y/y growth	13.3%	13.2%	32.6%	21.3%	20.0%	33.9%	7.2%	-9.0%	13.7%	10.7%	-7.0%	14.3%	30.7%	16.8%	12.5%	13.2%
Operating Profit (loss)	100.6	106.3	111.0	118.3	436.2	105.6	112.9	127.3	119.0	464.8	121.3	125.8	134.7	140.8	522.7	617.3
% Margin	46.6%	46.1%	45.7%	47.4%	46.5%	42.5%	45.8%	48.7%	45.0%	45.5%	44.8%	45.1%	45.3%	45.6%	45.2%	46.0%
Adjusted EBITDA	104.8	110.9	115.0	122.9	453.6	110.9	119.1	132.7	125.3	487.9	127.4	132.7	140.5	147.6	548.0	640.7
% Margin	48.6%	48.1%	47.4%	49.3%	48.3%	44.6%	48.3%	50.8%	47.4%	47.8%	47.0%	47.5%	47.2%	47.8%	47.4%	47.7%
y/y growth	10.2%	17.9%	8.0%	9.9%	11.3%	5.8%	7.4%	15.3%	1.9%	7.6%	14.8%	11.4%	5.9%	17.8%	12.3%	16.9%
Interest income / expense	(27.4)	(28.2)	(27.4)	(25.1)	(108.1)	(24.1)	(18.3)	(16.8)	(16.8)	(76.0)	(20.0)	(20.0)	(20.0)	(20.0)	(80.0)	(80.0)
Other Income / (expense)	1.3	(1.1)	0.3	(0.1)	0.4	(0.8)	0.4	(0.5)	0.0	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0
Income tax expense	13.6	17.0	17.1	17.1	64.7	16.9	17.0	22.3	22.5	78.6	22.3	23.3	25.2	26.6	97.4	118.2
Effective Tax Rate	18.3%	22.0%	20.4%	18.3%	19.7%	20.9%	17.9%	20.3%	22.0%	20.3%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Net Income (loss) Non-GAAP	60.9	60.1	66.7	76.0	263.8	63.9	77.9	87.7	79.7	309.2	79.0	82.6	89.5	94.2	345.3	419.1
% Margin	28%	26%	28%	30%	28%	26%	32%	34%	30%	30%	29%	30%	30%	31%	30%	31%
FDSO (millions)																
Net Income (loss) per share	\$ 0.20	\$ 0.20	\$ 0.21	\$ 0.24	\$ 0.85	\$ 0.20	\$ 0.25	\$ 0.28	\$ 0.25	\$ 0.98	\$ 0.25	\$ 0.26	\$ 0.28	\$ 0.29	\$ 1.08	\$ 1.31

Source: Company Data, Barclays Research

FIGURE 5
SolarWinds Balance Sheet

Fiscal = Dec USD, m	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20	2Q20	3Q20	4Q20E	FY2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
Assets																
Cash, equivalents and ST investments	434.5	155.3	221.1	173.4	173.4	237.0	331.4	425.0	500.4	500.4	603.6	687.1	687.1	799.1	799.1	1,174.9
Cash, cash equivalents	434.5	155.3	221.1	173.4	173.4	237.0	331.4	425.0	500.4	500.4	603.6	687.1	687.1	799.1	799.1	1,174.9
Short term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	109.8	96.3	102.2	121.9	121.9	121.7	104.3	115.6	148.2	148.2	151.8	156.4	160.1	169.7	169.7	193.7
Income tax receivable	1.1	0.7	0.7	1.1	1.1	1.6	1.2	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	20.8	27.8	24.1	23.5	23.5	25.4	22.2	19.1	19.1	19.1	19.1	19.1	19.1	19.1	19.1	19.1
Total Current Assets	566.3	280.1	348.1	319.9	319.9	385.7	459.1	563.1	671.0	671.0	777.9	866.0	869.7	991.3	991.3	1,391.1
Property and equipment, net	36.9	37.9	35.7	38.9	38.9	41.6	43.5	48.2	52.5	52.5	50.5	47.9	46.6	44.5	44.5	39.8
Long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	6.9	6.9	6.7	4.5	4.5	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Goodwill	3,661.8	3,990.0	3,929.6	4,058.2	4,058.2	4,033.8	4,058.3	4,108.7	4,108.7	4,108.7	4,108.7	4,108.7	4,208.7	4,208.7	4,208.7	4,308.7
Intangible assets, net	892.0	873.1	815.8	771.5	771.5	704.1	644.4	587.5	543.4	543.4	486.9	436.5	391.6	351.6	351.6	197.5
Other assets	16.7	19.3	20.2	27.8	27.8	29.4	31.5	33.1	33.1	33.1	33.1	33.1	33.1	33.1	33.1	33.1
Total Assets	5,180.5	5,207.4	5,156.1	5,310.7	5,310.7	5,289.0	5,349.2	5,450.0	5,518.1	5,518.1	5,566.5	5,601.6	5,659.2	5,738.7	5,738.7	6,079.7
Liabilities																
Accounts payable	10.1	11.5	10.3	13.8	13.8	10.8	11.1	12.9	15.9	15.9	10.8	8.4	5.9	6.2	6.2	23.2
Accrued liabilities	40.9	49.0	47.9	47.0	47.0	39.7	47.1	56.8	56.8	56.8	56.8	56.8	56.8	56.8	56.8	56.8
Accrued Interest Payable	0.9	0.8	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Income taxes payable	17.9	9.4	18.5	15.7	15.7	18.4	25.2	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Current portion of deferred revenue	285.2	289.2	293.4	312.2	312.2	323.2	314.1	323.3	353.3	353.3	379.6	382.8	395.4	417.0	417.0	467.7
Current debt obligation	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9
Total Current Liabilities	374.8	379.9	390.3	423.0	423.0	425.3	432.8	445.4	478.3	478.3	499.6	500.4	510.6	532.4	532.4	600.1
Deferred revenue, net of current portion	26.6	29.3	30.7	31.2	31.2	32.4	32.3	34.8	34.8	34.8	37.4	37.7	38.9	41.0	41.0	46.0
Non-current deferred taxes	137.5	128.8	114.9	97.9	97.9	89.2	82.3	73.2	82.0	82.0	92.0	102.0	112.0	122.0	122.0	162.0
Other long-term liabilities	133.9	137.0	130.6	122.7	122.7	123.7	116.5	118.9	118.9	118.9	118.9	118.9	118.9	118.9	118.9	118.9
LT debt, net of current portion	1,901.4	1,898.7	1,896.1	1,893.4	1,893.4	1,890.7	1,888.0	1,885.4	1,885.4	1,885.4	1,885.4	1,885.4	1,885.4	1,885.4	1,885.4	1,885.4
Total Liabilities	2,574.1	2,573.7	2,562.5	2,661.2	2,661.22	2,656.7	2,663.5	2,667.6	2,709.2	2,709.22	2,743.1	2,754.2	2,775.6	2,809.6	2,809.55	2,922.25
Equity																
Common Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Convertible Common Stock A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock Class B	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Additional paid-in capital	3,019.7	3,027.8	3,037.8	3,041.9	3,041.9	3,054.7	3,067.5	3,092.6	3,092.6	3,092.6	3,092.6	3,092.6	3,092.6	3,092.6	3,092.6	3,092.6
Accumulated other comprehensive loss	(10.7)	10.5	(44.0)	(5.2)	(5.2)	(35.7)	(7.9)	51.1	51.1	51.1	51.1	51.1	51.1	51.1	51.1	51.1
Accumulated Earnings	(402.9)	(405.0)	(400.6)	(387.4)	(387.4)	(387.0)	(374.2)	(361.7)	(335.2)	(335.2)	(320.7)	(296.6)	(260.5)	(215.0)	(215.0)	13.4
Total Equity	2,606.4	2,633.6	2,593.6	2,649.5	2,649.5	2,632.4	2,685.7	2,782.4	2,808.9	2,808.9	2,823.4	2,847.5	2,883.6	2,929.1	2,929.1	3,157.4
Total Liabilities + Equity	5,180.5	5,207.4	5,156.1	5,310.7	5,310.7	5,289.0	5,349.2	5,450.0	5,518.1	5,518.1	5,566.5	5,601.6	5,659.2	5,738.7	5,738.7	6,079.7

Source: Company Data, Barclays Research

FIGURE 6
SolarWinds Cash Flows

Fiscal = Dec USD, m	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20	2Q20	3Q20	4Q20E	FY2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
Net Income	3.1	(2.1)	4.4	13.2	18.6	0.4	12.8	12.5	2.8	28.5	(9.9)	(1.0)	9.6	18.1	16.8	110.0
Adjustments from Operating Activities																
Depreciation and amortization	64.5	65.6	66.6	66.6	263.2	67.8	68.2	69.5	53.0	258.6	65.2	59.9	53.3	49.4	227.8	188.3
Provision for Doubtful Accounts	0.5	0.4	0.5	0.0	1.5	3.0	(0.1)	(0.3)	-	2.6	-	-	-	-	-	-
Stock-based compensation expense	7.7	7.4	8.8	10.5	34.4	11.3	13.0	21.7	23.7	69.7	24.4	25.0	26.6	27.4	103.4	118.3
Accrued earnout gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	2.3	2.3	2.3	2.3	9.2	2.3	2.3	2.3	-	6.9	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred taxes	(11.3)	(9.1)	(9.3)	(9.9)	(39.6)	(8.7)	(7.3)	(10.0)	8.8	(17.2)	10.0	10.0	10.0	10.0	40.0	40.0
(Gain) loss on foreign currency exchange rates	(1.3)	1.2	(0.8)	(0.0)	(0.9)	1.0	0.7	0.4	-	2.0	-	-	-	-	-	-
Other non-cash expenses	(0.7)	0.3	0.5	0.5	0.5	(0.2)	(0.7)	0.1	-	(0.8)	-	-	-	-	-	-
Adjustments to working capital items																
Accounts receivable	(10.6)	17.9	(8.1)	(18.2)	(19.0)	(4.1)	17.9	(8.8)	(32.6)	(27.5)	(3.6)	(4.6)	(3.8)	(9.5)	(21.5)	(24.1)
Income taxes receivable	(0.3)	0.4	(0.0)	(0.4)	(0.2)	(0.6)	0.5	(2.1)	-	(2.2)	-	-	-	-	-	-
Prepaid and other current assets	(4.3)	(1.8)	(0.1)	(4.9)	(11.1)	(4.1)	2.9	3.3	-	2.1	-	-	-	-	-	-
Accounts payable	0.5	1.0	(1.1)	3.4	3.7	(3.0)	0.3	1.7	3.0	1.9	(5.0)	(2.5)	(2.4)	0.2	(9.7)	17.0
Accrued liabilities and other	(10.8)	5.8	(0.3)	5.7	0.3	(5.8)	7.0	10.7	-	11.9	-	-	-	-	-	-
Accrued Interest Payable	0.6	(0.0)	(0.6)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	-	(0.1)	-	-	-	-	-	-
Income taxes payable	2.5	(6.9)	2.0	(0.7)	(3.0)	4.6	(0.5)	(7.3)	-	(3.2)	-	-	-	-	-	-
Deferred revenue	20.1	(3.3)	9.6	14.9	41.2	14.7	(11.4)	6.9	29.9	40.1	28.9	3.5	13.9	23.7	70.0	55.7
Other long-term liabilities	0.8	(0.6)	0.7	-	0.9	(0.1)	0.2	0.3	-	0.4	-	-	-	-	-	-
Cash from operations	63.4	78.3	75.2	83.1	299.9	78.4	105.7	100.9	88.6	373.6	110.0	90.4	107.1	119.4	426.8	505.3
y/y growth	79.2%	10.6%	27.5%	-5.7%	18.5%	23.7%	35.0%	34.2%	6.7%	24.6%	40.3%	-14.5%	6.1%	34.7%	14.2%	18.4%
Purchases of investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturities of investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of PPE	(4.6)	(4.2)	(1.8)	(6.6)	(17.2)	(6.5)	(5.6)	(8.3)	(10.6)	(31.0)	(4.1)	(4.2)	(4.5)	(4.6)	(17.3)	(18.8)
Purchase of intangible assets and other LT	(1.2)	(1.2)	(1.1)	(2.3)	(5.9)	(1.7)	(2.5)	(2.7)	(2.7)	(9.5)	(2.7)	(2.7)	(2.7)	(2.7)	(10.7)	(10.7)
Acquisition of businesses, net cash	-	(349.5)	-	(112.9)	(462.4)	-	-	-	-	-	-	-	(100.0)	-	(100.0)	(100.0)
Acquisitio of SolarWinds, net cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	0.2	1.4	2.5	(1.1)	3.0	-	-	-	-	-	-	-	-	-	-	-
Cash from investing activities	(5.6)	(353.5)	(0.4)	(122.9)	(482.5)	(8.2)	(8.1)	(11.0)	(13.3)	(40.5)	(6.7)	(6.9)	(107.1)	(7.3)	(128.1)	(129.5)
Cash from financing activities	(4.9)	(4.9)	(4.0)	(11.8)	(25.6)	(4.1)	(5.5)	(1.8)	-	(11.4)	-	-	-	-	-	-
FX impact	(1.0)	0.9	(5.0)	4.0	(1.1)	(2.4)	2.3	5.4	-	5.3	-	-	-	-	-	-
Net change in cash	51.8	(279.2)	65.8	(47.7)	(209.2)	63.6	94.5	93.6	75.4	327.0	103.2	83.5	(0.0)	112.1	298.8	375.8
Cash at Beginning of period	382.6	434.5	155.3	221.1	382.6	173.4	237.0	331.4	425.0	173.4	500.4	603.6	687.1	687.1	500.4	799.1
Cash at End of period	434.5	155.3	221.1	173.4	173.4	237.0	331.4	425.0	500.4	500.4	603.6	687.1	687.1	799.1	799.1	1,174.9
Free Cash Flow	57.6	72.8	72.2	74.2	276.9	70.1	97.6	90.0	75.4	333.1	103.2	83.5	100.0	112.1	398.8	475.8
uFCF	80.8	99.1	96.1	95.6	371.7	90.9	112.9	108.2	94.9	406.9	124.2	104.6	121.4	133.7	483.8	564.1
% conversion	77.1%	89.4%	83.6%	77.8%	81.9%	81.9%	94.8%	81.6%	75.8%	83.4%	97.5%	78.8%	86.4%	90.6%	88.3%	88.0%
y/y growth	5.4%	3.9%	11.1%	-13.9%	0.3%	12.4%	13.9%	12.6%	-0.7%	9.5%	36.7%	-7.4%	12.1%	40.8%	18.9%	16.6%

Source: Company Data, Barclays Research

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SolarWinds Corporation (SWI, 07-Jan-2021, USD 14.68), Underweight/Positive, CE/J/K/N

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Tufin Software Technologies (TUFN)	Varonis Systems, Inc. (VRNS)	Veeva Systems Inc. (VEEV)
VMware Inc. (VMW)	Workday Inc. (WDAY)	ZoomInfo Technologies Inc. (ZI)
Zscaler, Inc. (ZS)		

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USD 14.68 (07-Jan-2021)

Stock Rating

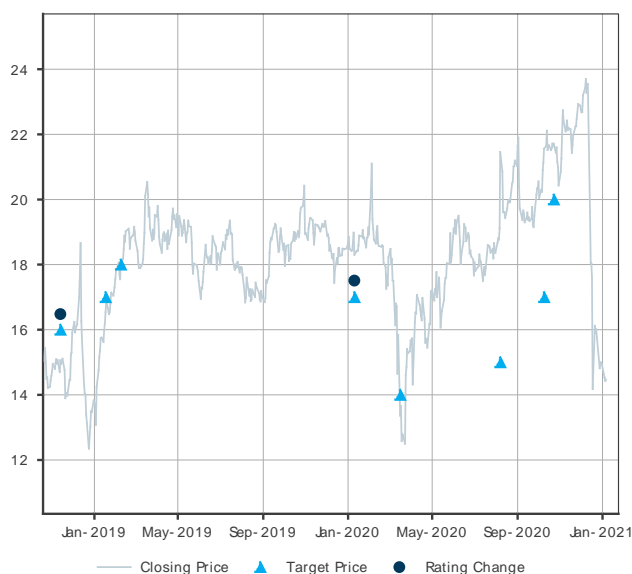
UNDERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - USD (as of 07-Jan-2021)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
23-Oct-2020	21.71		20.00
09-Oct-2020	21.56		17.00
07-Aug-2020	21.46		15.00
16-Mar-2020	13.36		14.00
10-Jan-2020	18.30	Underweight	17.00
08-Feb-2019	18.05		18.00
17-Jan-2019	16.54		17.00
13-Nov-2018	15.06	Equal Weight	16.00

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)**CE:** Barclays Bank PLC and/or an affiliate is a market-maker in equity securities issued by SolarWinds Corporation.**J:** Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities by SolarWinds Corporation and/or in any related derivatives.**K:** Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation (including compensation for brokerage services, if applicable) from SolarWinds Corporation within the past 12 months.**N:** SolarWinds Corporation is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.**Valuation Methodology:** Our PT of \$14 is based on EV/CY22E uFCF of 11x and CY22E uFCF of \$564mn.**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** Faster than expected growth in network monitoring and better than expected ROI from investments in cloud observability may lead to an upside.

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