

## SolarWinds Corporation (SWI)

Industry View:	In-Line
Stock Rating:	Buy
Price Target:	\$12.9
Current Price:	\$10.3
Shares Outstanding:	415.52 MM
Average Daily Volume (3 months):	1.55 MM
52-Week High:	\$261.59
52-Week Low:	\$192.26

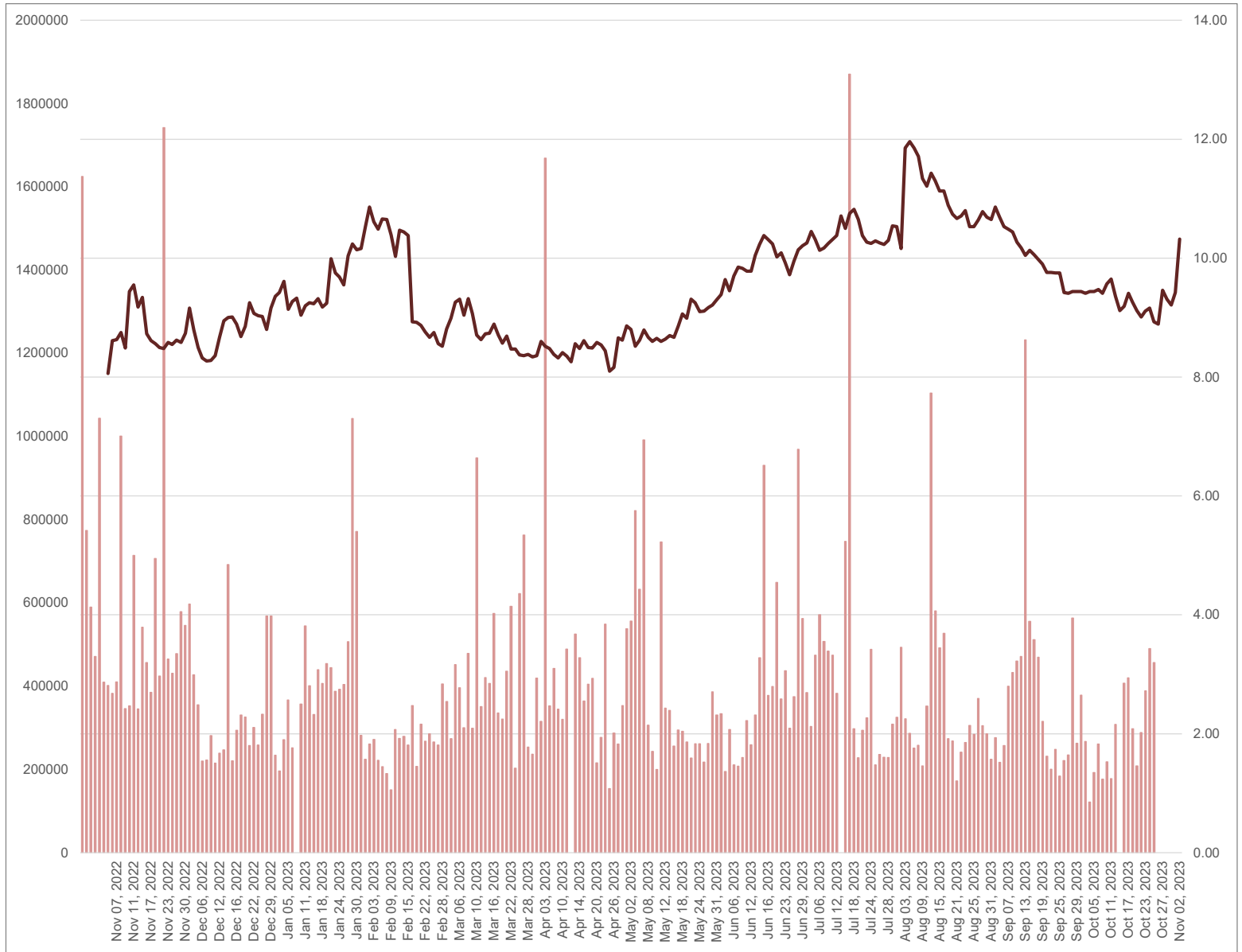
### Objective Of The Report

Baptista Research looks to evaluate the different factors that could influence the company's price in the near future and attempts to carry out an independent valuation of the company using a Discounted Cash Flow (DCF) methodology. In this report, we have carried out a fundamental analysis of the historical financial statements of the company. We have added reasonable forecasts of the annualized income statement and cash flows and carried out a DCF valuation of the company using its Weighted Average Cost of Capital (WACC) to determine a forecasted share price. We have further incorporated a sensitivity analysis/ scenario analysis to understand how changes in key assumptions could impact the valuation under 3 scenarios - a base case, a bull case, and a bear case. These additional layers of analysis serve to provide a comprehensive and robust valuation, giving investors a nuanced understanding of the inherent risks and opportunities.

### Company Overview

SolarWinds Corporation provides information technology (IT) infrastructure management software products in the United States and internationally. It offers products to monitor and manage network, system, desktop, application, storage, and database and website infrastructures, whether on-premise, in the public or private cloud, or in a hybrid IT infrastructure. The company provides a suite of network management software that provides real-time visibility into network utilization and bandwidth, as well as the ability to detect, diagnose, and resolve network performance problems; and a suite of infrastructure management products, which monitor and analyze the performance of applications and their supporting infrastructure. It offers suite of application performance management software that enable visibility into log data, cloud infrastructure metrics, applications, tracing, and Web performance management; and AppOptics, which integrates application performance, server infrastructure monitoring, and custom metrics into one unified cloud-based solution, as well as provides service management software. In addition, the company provides IT service management solutions to enable managed service providers (MSPs) to deliver outsourced IT services and manage their own businesses. Its remote monitoring and management software, which monitors desktops, laptops, servers, and mobile devices across operating systems and platforms. Further, it offers an email protection and archiving platform on a standalone basis that protects businesses from phishing, malware, and other email-borne threats. The company markets and sells its products directly to network and systems engineers, database administrators, storage administrators, DevOps professionals, and managed service providers.

## Stock Price Chart - 1 Year



## Investment Thesis

SolarWinds Corporation has become a focal point of investor interest, experiencing a significant surge in after-hours trading due to reports of the company actively exploring strategic options, potentially including a sale. SolarWinds, a leading provider of information technology (IT) management software products, is working in collaboration with financial advisors to prepare for a potential sale process set to commence early next year. This revelation is creating ripples in the investment landscape as market participants assess the factors driving interest in SolarWinds and its potential as an investment opportunity. SolarWinds offers a comprehensive suite of IT management software solutions, serving both domestic and international markets. Their diverse portfolio includes products designed to empower technology professionals in monitoring, managing, and optimizing various IT components, such as networks, systems, applications, storage, databases, website infrastructures, and IT service desks. The exploration of strategic options, including a potential sale, suggests that SolarWinds is attracting attention as a valuable asset in the IT management software space. Investors are closely watching developments, recognizing the company's extensive product portfolio, strong market presence, and potential for future growth in the evolving IT landscape. We give SolarWinds Corporation a 'Buy' rating with a revised target price.

## Key Factors Influencing Future Growth

### Subscription-First Strategy & Revenue Mix Shift

SolarWinds has embarked on a subscription-first strategy in 2021, transitioning from historically selling on-premises licenses and maintenance to a subscription-based model. This strategic shift represents a major driver for potential acquisition interest. The company's focus on converting existing maintenance relationships to hybrid cloud observability products and launching SaaS solutions (SolarWinds Observability) has led to a significant transformation in its revenue mix. As of the latest earnings call, SolarWinds reported that 92% of its total revenue comes from recurring sources. This shift towards subscription-based revenue is attractive to potential acquirers as it provides a more predictable and stable income stream. It also aligns with industry trends where businesses are increasingly adopting cloud-based and subscription services. The company's ability to convert maintenance customers to subscription arrangements and achieve a higher-than-1:1 conversion ratio demonstrates the success of its subscription-first efforts. This transition to a subscription model not only drives recurring revenue but also aligns with market demands for cloud and SaaS solutions. Acquiring SolarWinds could provide a potential buyer with an established customer base already accustomed to subscription-based services, positioning them well in the evolving software landscape.

### Strong Financial Performance & Growth

SolarWinds' strong financial performance and consistent growth make it an attractive candidate for acquisition. In the latest earnings call, the company reported robust financial results, demonstrating its ability to thrive in a competitive market. These financial metrics are a major driver of interest from potential acquirers. The 5% increase in total revenue compared to the prior year showcases SolarWinds' resilience and capacity to generate consistent income. The company's total ARR of \$657 million, with a 6% year-over-year growth, further illustrates its growth trajectory. The substantial 33% year-over-year growth in subscription ARR is a testament to the success of the subscription-first strategy, as it aligns well with the industry's shift toward subscription-based models. SolarWinds' ability to drive subscription revenue growth, marked by a 44% year-over-year increase, demonstrates the effectiveness of its strategy. This growth is a result of both new subscription sales and the conversion of maintenance customers to the hybrid cloud observability solution. Even though license revenue declined by approximately 38%, the company managed to offset this decline through increased subscription sales. The company's strong non-GAAP profitability is also noteworthy. With a second-quarter adjusted EBITDA of \$79.1 million, growing by 18% year-over-year and representing an adjusted EBITDA margin of 43%, SolarWinds is achieving higher profitability both in absolute dollars and margins. This financial strength is attractive to potential acquirers looking for a stable and profitable investment.

### **Diversified Customer Base & Strategic Positioning**

SolarWinds' diversified customer base across various sizes and industries positions it as an attractive acquisition target. The company's ability to cater to a broad spectrum of customers, including mid-market and larger enterprises, offers stability and potential growth opportunities. This diversification helps mitigate risks associated with dependence on a specific customer segment or industry. The company's commitment to improving efficiency and profitability aligns with industry trends, making it appealing to potential acquirers seeking cost-effective operations and strategic growth. SolarWinds' investments in artificial intelligence (AI) capabilities over the past two years also position it as a forward-thinking player in the industry. While the exact extent of AI integration was not detailed in the earnings call, it indicates the company's readiness to enhance its product offerings. Additionally, SolarWinds' strategic positioning in the IT management and observability space is valuable. Its hybrid cloud observability solutions, including the ability to transition customers from on-premises to SaaS, align well with the evolving needs of businesses. This strategic advantage could make SolarWinds an attractive asset for potential buyers looking to strengthen their position in the cloud and subscription-based software market.

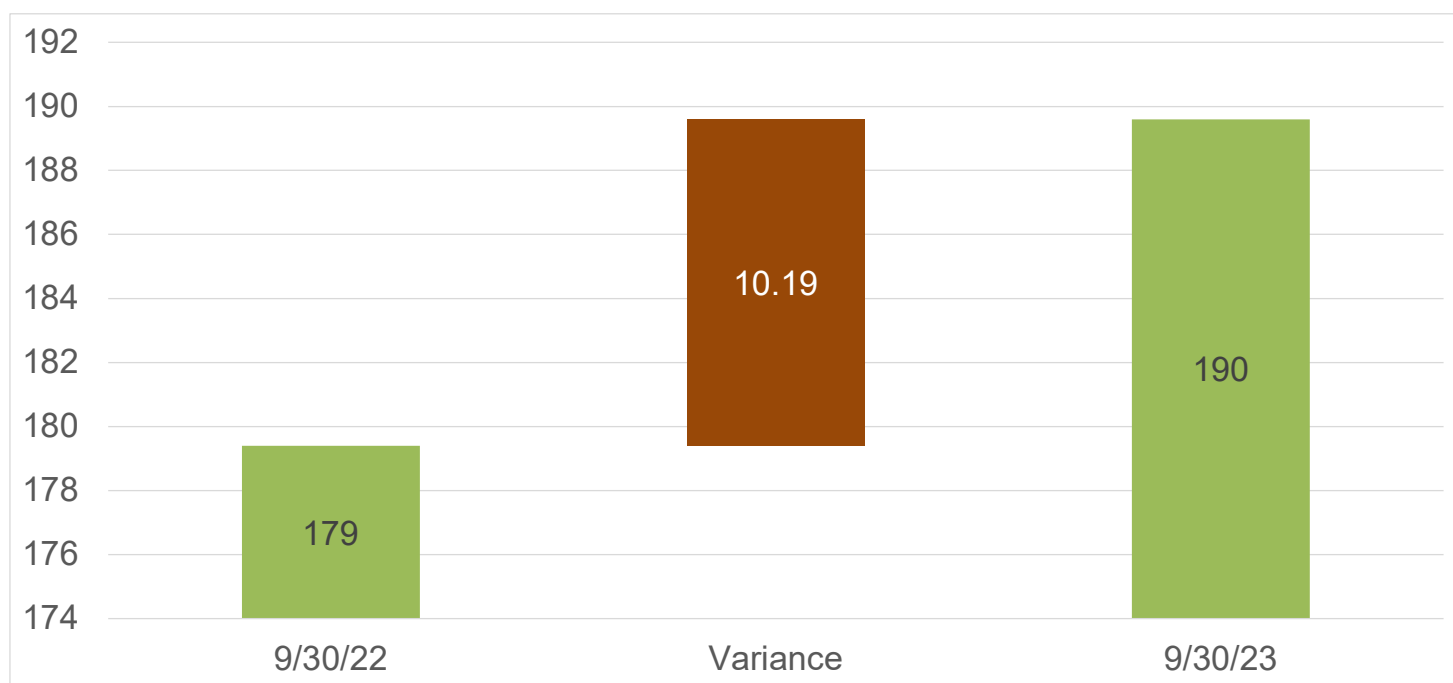
## Comparative Analysis - Quarterly Income Statement (USD Million)

Particulars	9/30/23	9/30/22	Variance	% Variance
<b>Revenues</b>	<b>190</b>	<b>179</b>	<b>10</b>	<b>5.7%</b>
Cost of Goods Sold	-18	-17	-1	8.5%
Gross Income (excl. D&A)	172	163	9	5.4%
<b>EBITDA</b>	<b>65</b>	<b>49</b>	<b>16</b>	<b>31.6%</b>
Depreciation & Amortization	27	16	10	61.6%
Extraordinary Expenses	0	0	0	NA
<b>EBIT</b>	<b>39</b>	<b>33</b>	<b>6</b>	<b>16.8%</b>
Pretax Income	9	-288	297	-103.2%
Income Tax	12	4	8	196.1%
<b>Net Income</b>	<b>-3</b>	<b>-292</b>	<b>289</b>	<b>-98.9%</b>

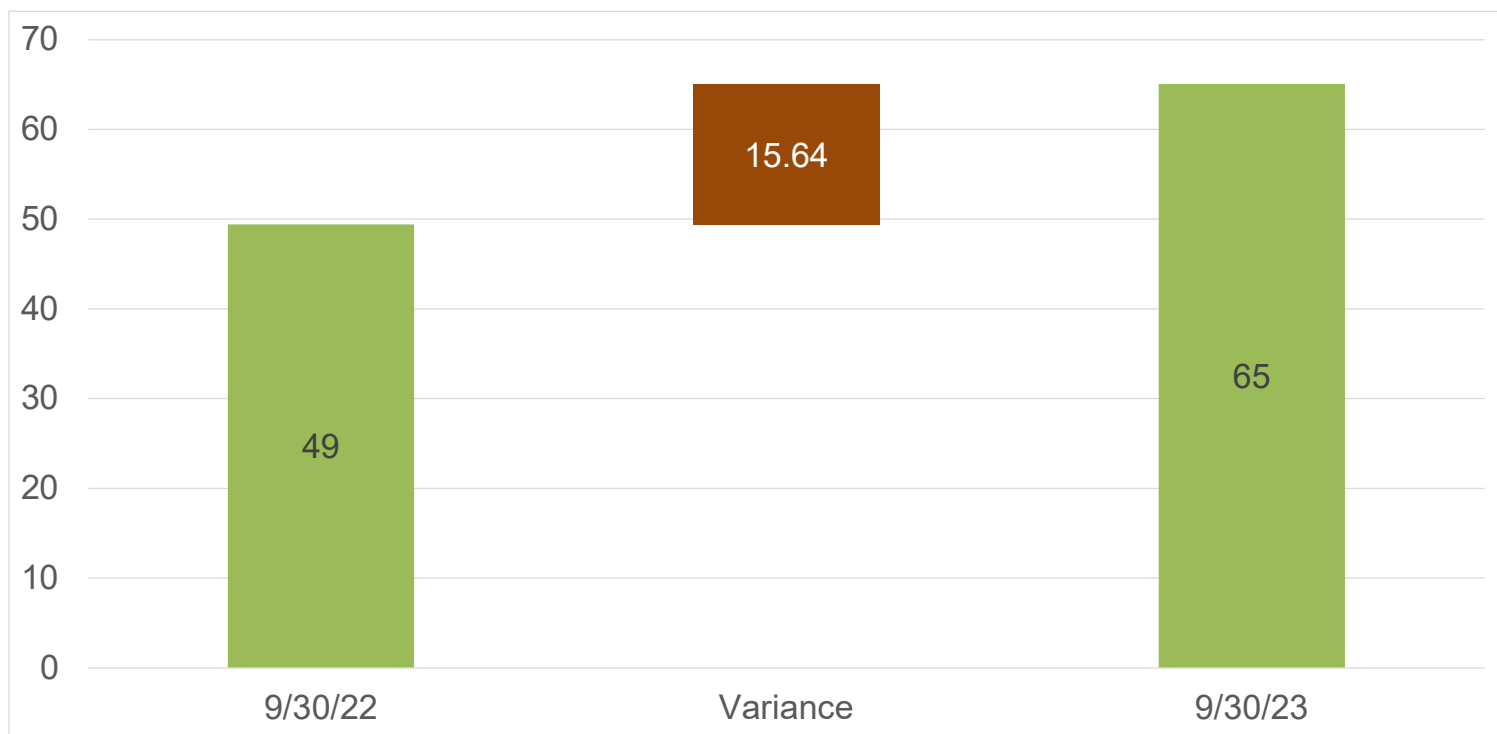
\* Let us start off by doing a side-by-side comparative analysis of the company's most recent quarterly result as against the quarterly result in the corresponding quarter of the previous year.

\* SolarWinds Corporation reported a top-line of \$189.59 million for the most recent quarterly result for the period ended 9/30/23 which implies a 5.68% change as compared to the \$179.40 million number reported in the corresponding quarter of the previous year.

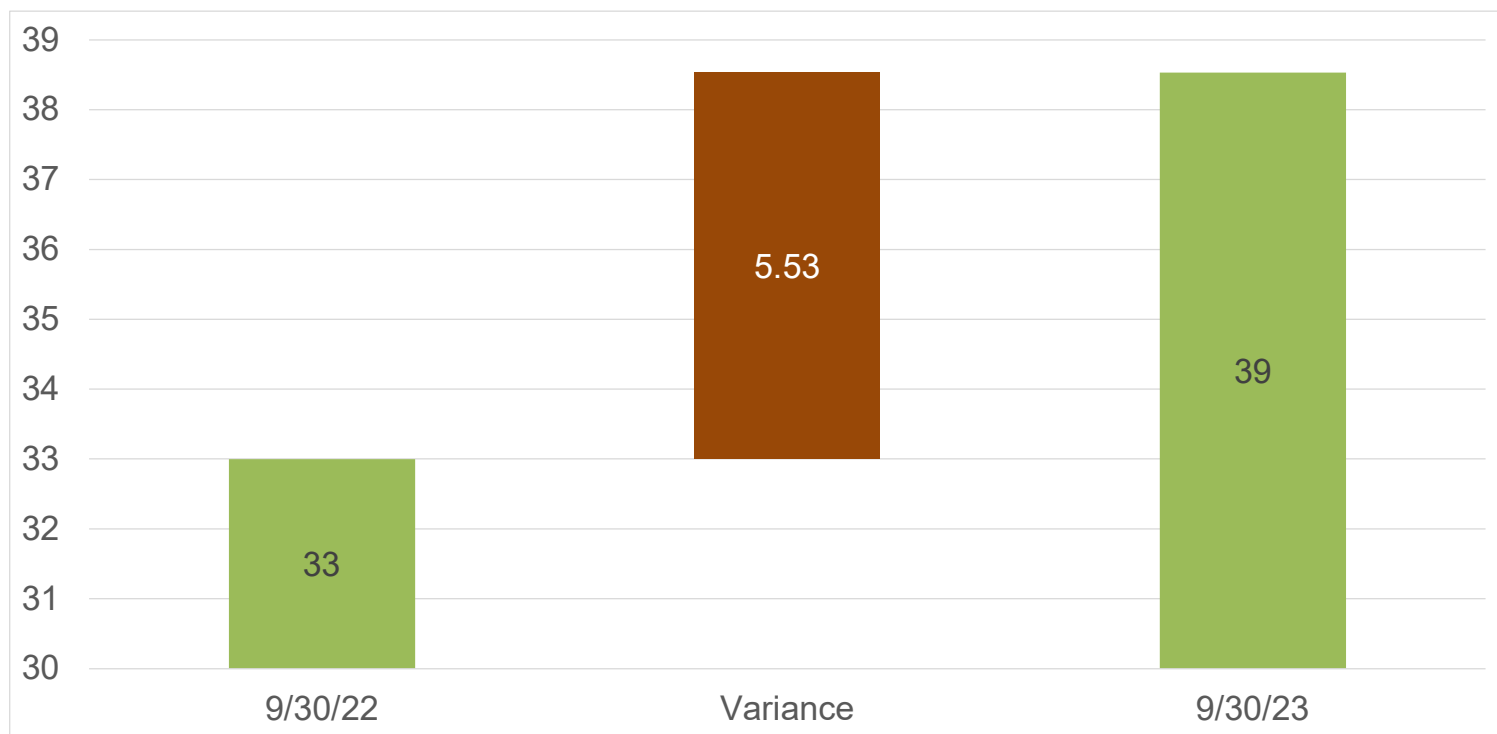
## Total Revenues - Quarter-on-Quarter Variance Bridge (USD Million)



- The company beat the analyst consensus estimate of \$0.18 billion.
- SolarWinds Corporation's gross profit of \$171.63 million showed an increase of 5.40% as compared to the value reported in the quarter ended 9/30/22.
- These revenues translated into a gross margin of 90.50% and an operating margin of 20.30% which was higher than that in the same quarter of last year.
- SolarWinds Corporation reported an EBITDA of \$65.06 million which translated into a Net Income of \$-3.17 million. The company's adjusted EPS of \$0.23 outperformed the analyst consensus estimate of \$0.18.
- We can see a graphical representation of the quarter-on-quarter evolution and variance of EBITDA of the company of the corresponding quarter of the previous year versus the recent quarterly number.

**EBITDA - Quarter-on-Quarter Variance Bridge (USD Million)**

\* We can see in the below chart that SolarWinds Corporation's operating income/ EBIT grow from \$33 million to \$38.53 million, a 16.76% change.

**Operating Income - Quarter-on-Quarter Variance Bridge (USD Million)**

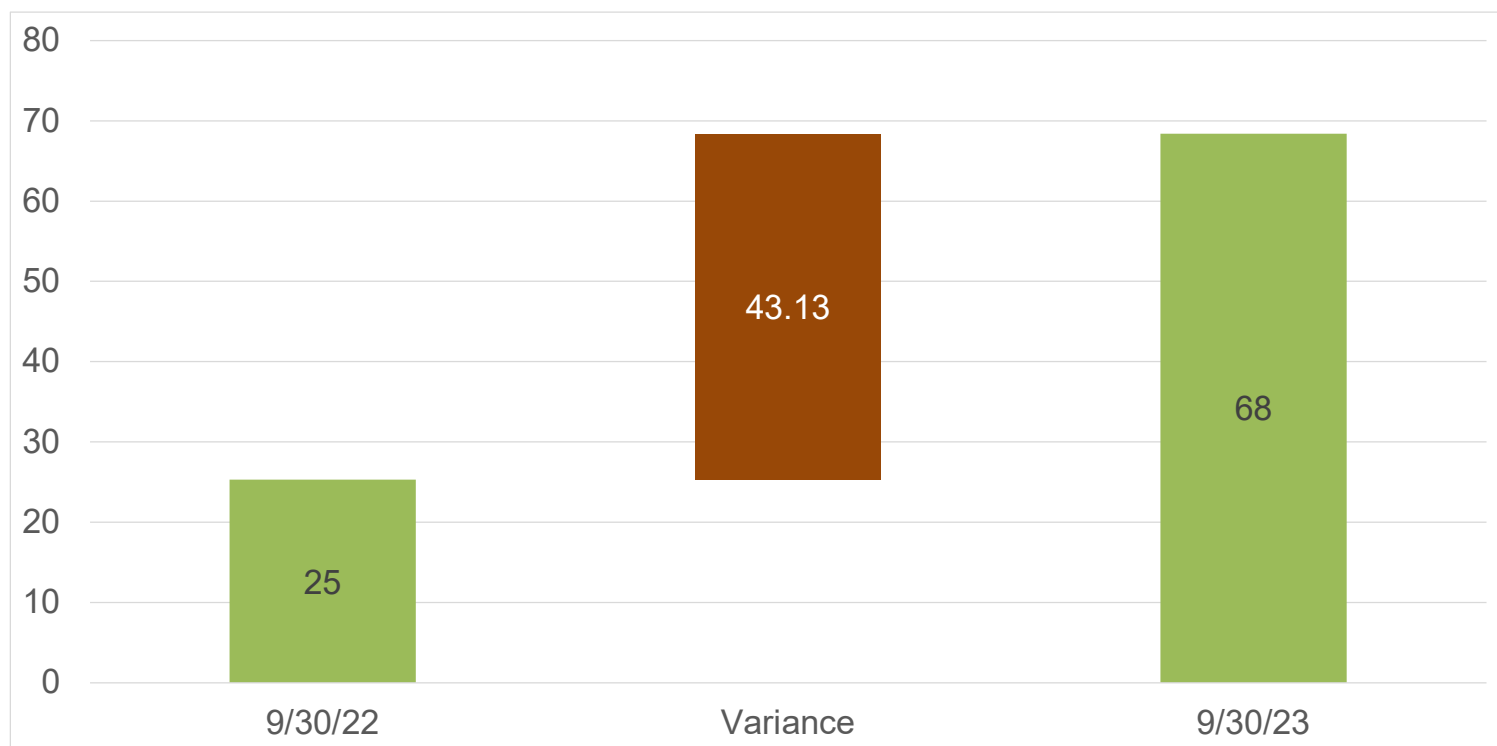
- We see a positive variance of -103.16% in the company's pretax income.
- For the coming quarterly result, we expect SolarWinds Corporation to report a top-line of \$0.19 billion and an adjusted EPS of \$0.19.

## Comparative Analysis - Quarterly Cash Flow Summary (USD Million)

Particulars	9/30/23	9/30/22	Variance	% Variance
Cash from Operations	68	25	43	170.5%
Cash from Investing	-7	-1	-6	915.7%
Free Cash Flows	61	25	37	149.3%

- When we do a side-by-side comparative analysis of the company's most recent quarterly cash flows as against the quarterly cash flows in the corresponding quarter of the previous year, we see a 170.54% rise in the operating cash flows.

## Operating Cash Flow - Quarter-on-Quarter Variance Bridge (USD Million)

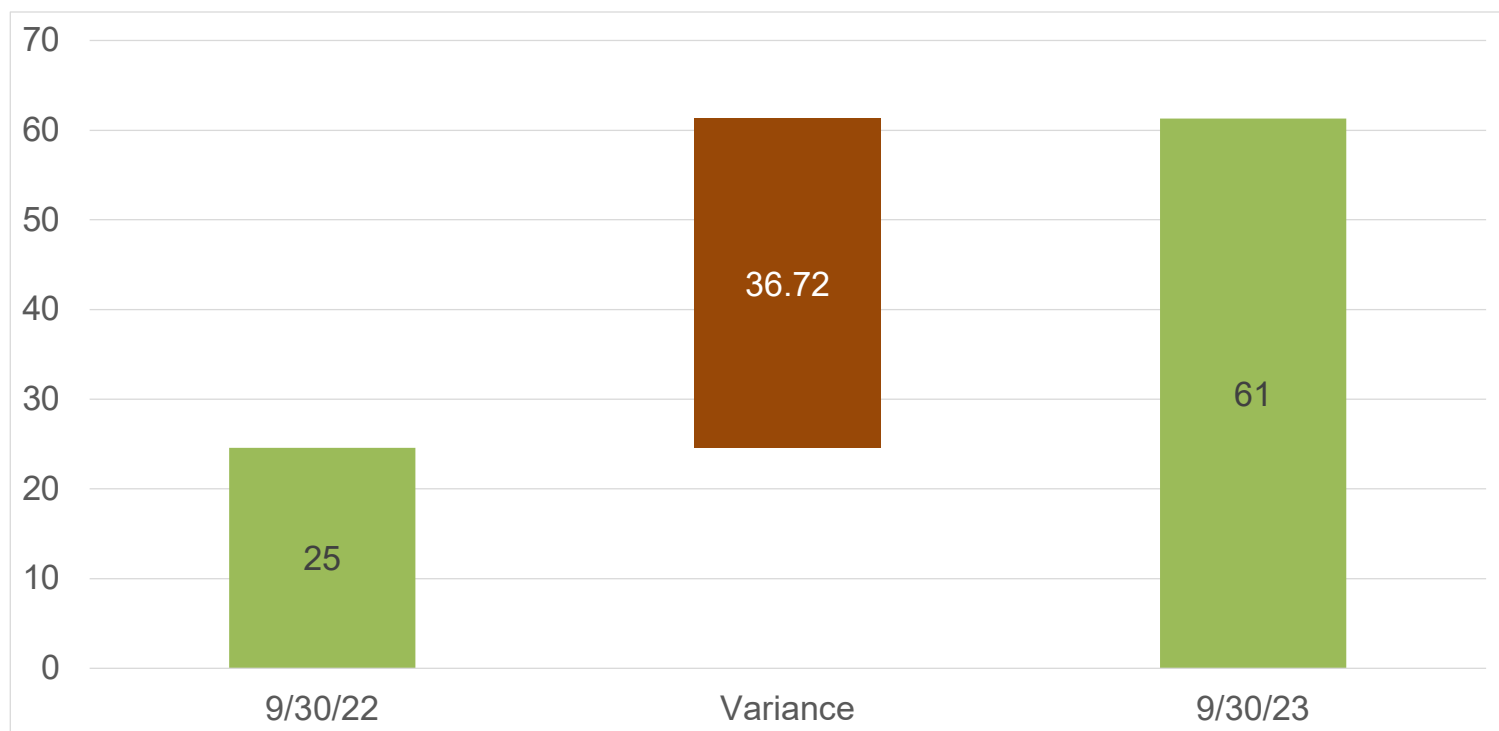




\* As compared to the prior year quarter, this year, SolarWinds Corporation has spent \$6.41 million less in Investing Activities than the previous quarter.

\* In effect, the company's free cash flows had a variance of 149.33% We can see a graphical representation of the variance in the chart below:

## Free Cash Flow - Quarter-on-Quarter Variance Bridge (USD Million)



## Comparative Analysis - Quarterly Balance Sheet (USD Million)

Balance Sheet	9/30/23	9/30/22	Variance	% Variance
<b>Assets</b>				
Net Intangible Fixed Assets	2568	2584	-16	-0.6%
Net Tangible Fixed Assets	65	91	-26	-28.1%
<b>Total Fixed Assets</b>	<b>2634</b>	<b>2675</b>	<b>-41</b>	<b>-1.5%</b>
LT Investments	0	0	0	NA

Inventories	0	0	0	NA
Accounts Receivable	93	94	-1	-1.2%
Cash and ST Investments	235	493	-257	-52.2%
Other Current Assets	33	49	-16	-32.1%
<b>Total Current Assets</b>	<b>361</b>	<b>635</b>	<b>-274</b>	<b>-43.2%</b>
Other Assets	183	168	15	8.7%
<b>Total Assets</b>	<b>3178</b>	<b>3479</b>	<b>-301</b>	<b>-8.6%</b>

### Liabilities & Shareholder's Equity

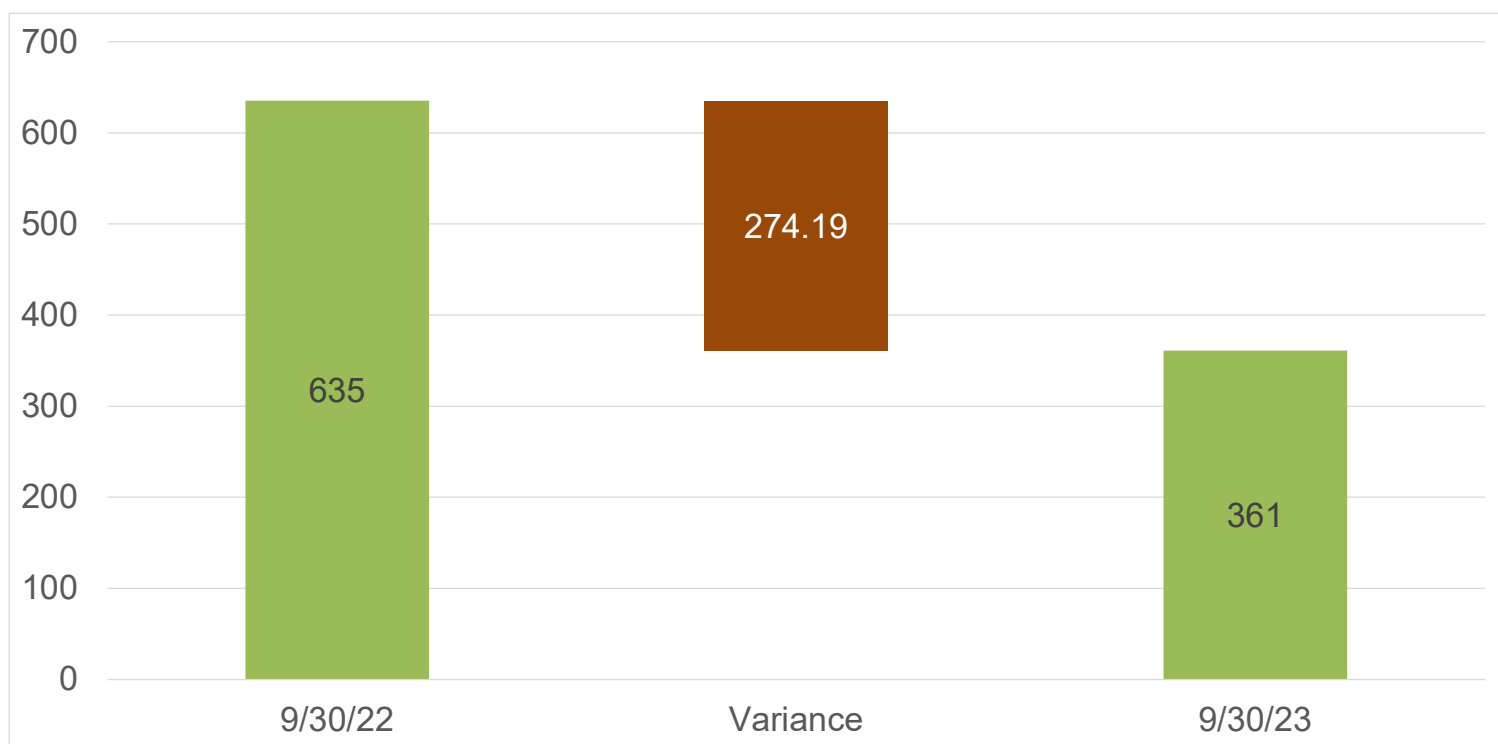
Equity & Minorities	1395	1300	94	7.3%
LT Debt	1191	1564	-373	-23.8%
Other LT Liabilities	156	180	-24	-13.6%
<b>Total LT Liabilities</b>	<b>1347</b>	<b>1745</b>	<b>-397</b>	<b>-22.8%</b>
ST Debt	0	0	0	NA
Accounts Payable	9	10	-1	-6.2%

Other ST Liabilities	427	424	3	0.6%
<b>Total Current Liabilities</b>	<b>436</b>	<b>433</b>	<b>2</b>	<b>0.5%</b>
<b>Total Liabilities</b>	<b>1783</b>	<b>2178</b>	<b>-395</b>	<b>-18.2%</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>3178</b>	<b>3479</b>	<b>-301</b>	<b>-8.6%</b>

\* Now let us move on to a side-by-side comparative analysis of SolarWinds Corporation's most recent quarterly balance sheet versus the quarterly balance in the corresponding quarter of the previous year.

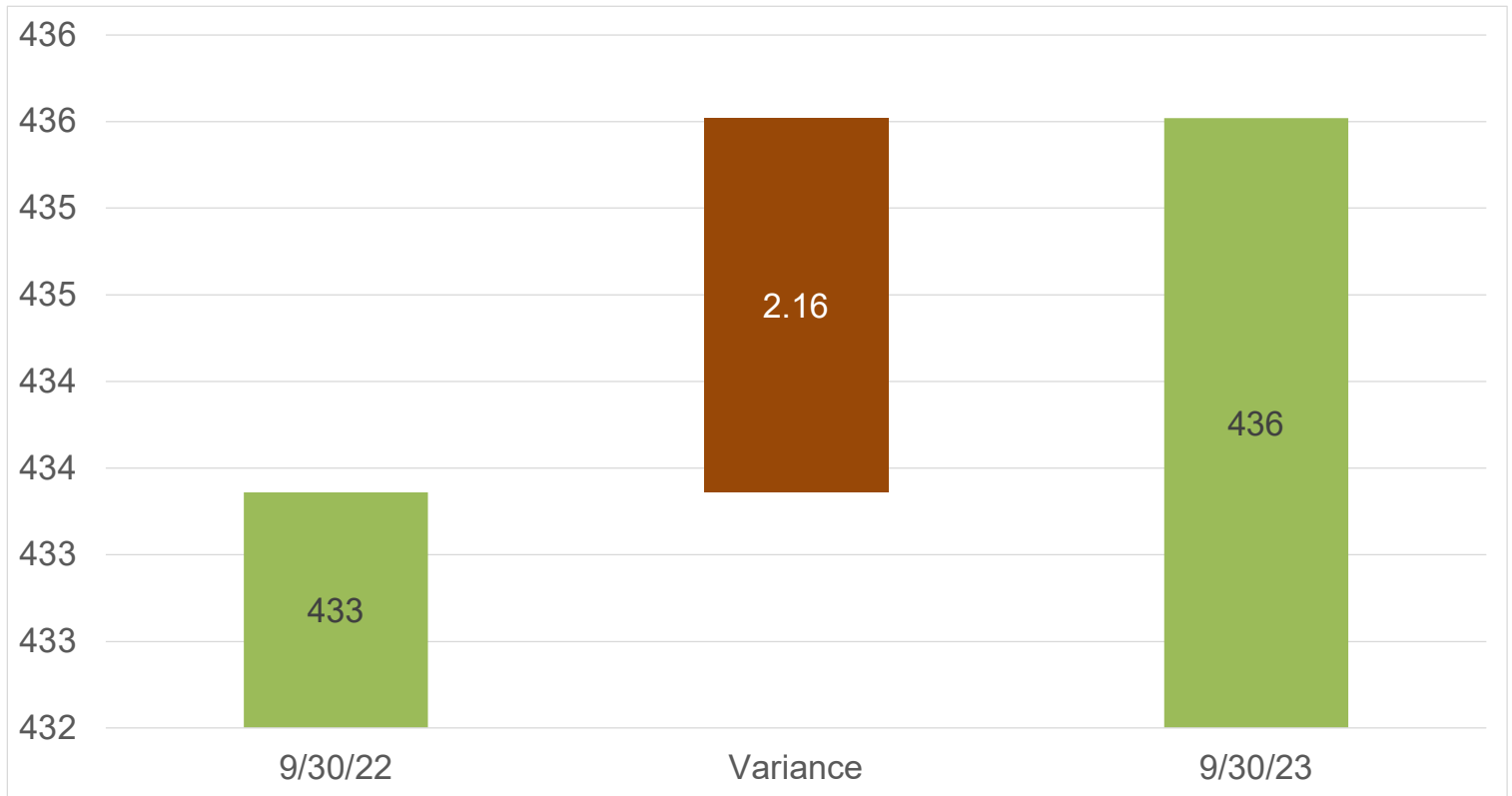
\* We can see a graphical representation of the variance in the level of the capital blocked by the company in Current Assets in the chart below.

### Current Assets - Quarter-on-Quarter Variance Bridge (USD Million)



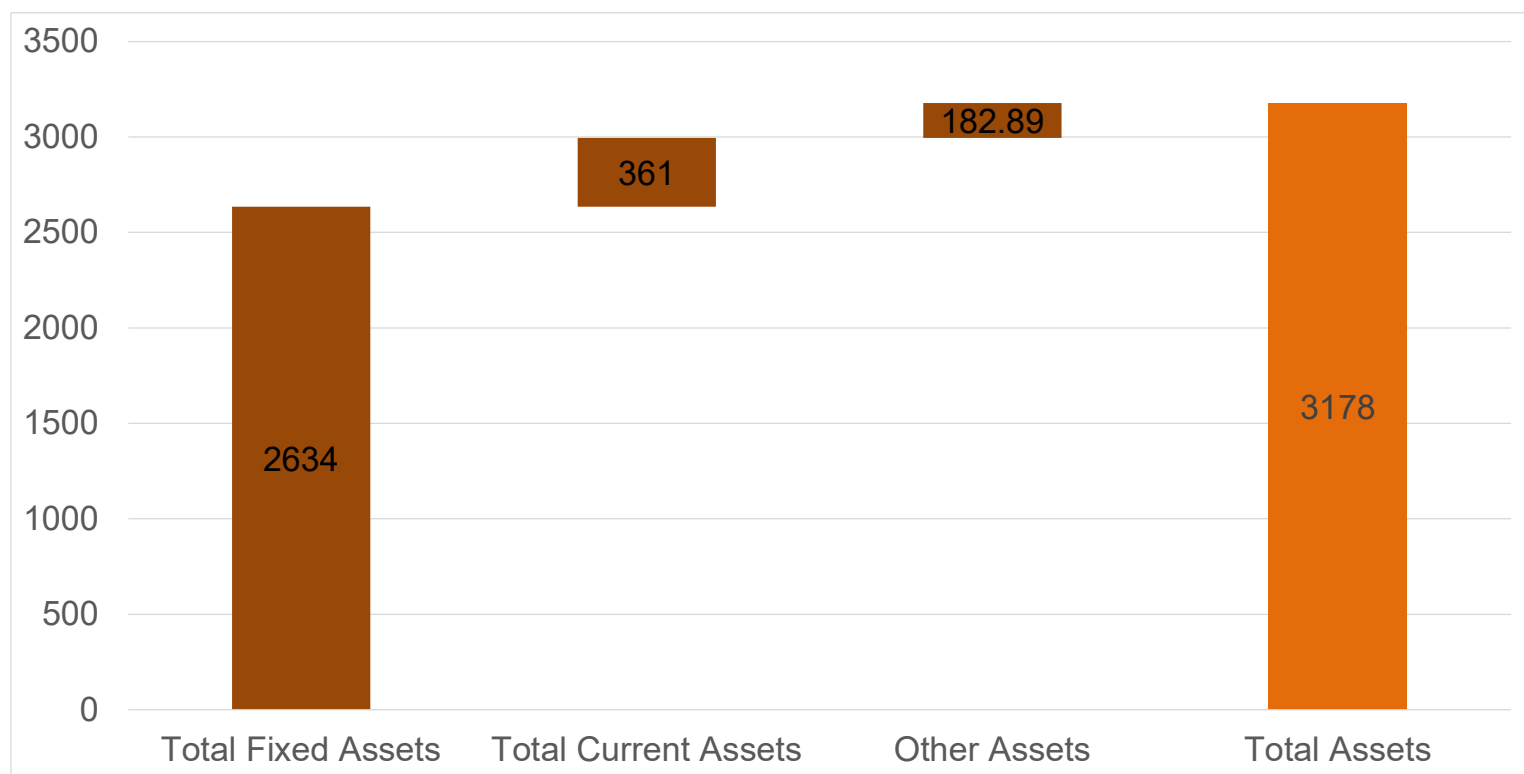
\* On the liability side, we see that the company's total long term liabilities have decreased by \$397.49 million as compared to the quarter ending 9/30/22.

\* On the other hand, SolarWinds Corporation's total current liabilities have increased by 0.50% versus the quarter ending 9/30/22 as shown in the chart below.



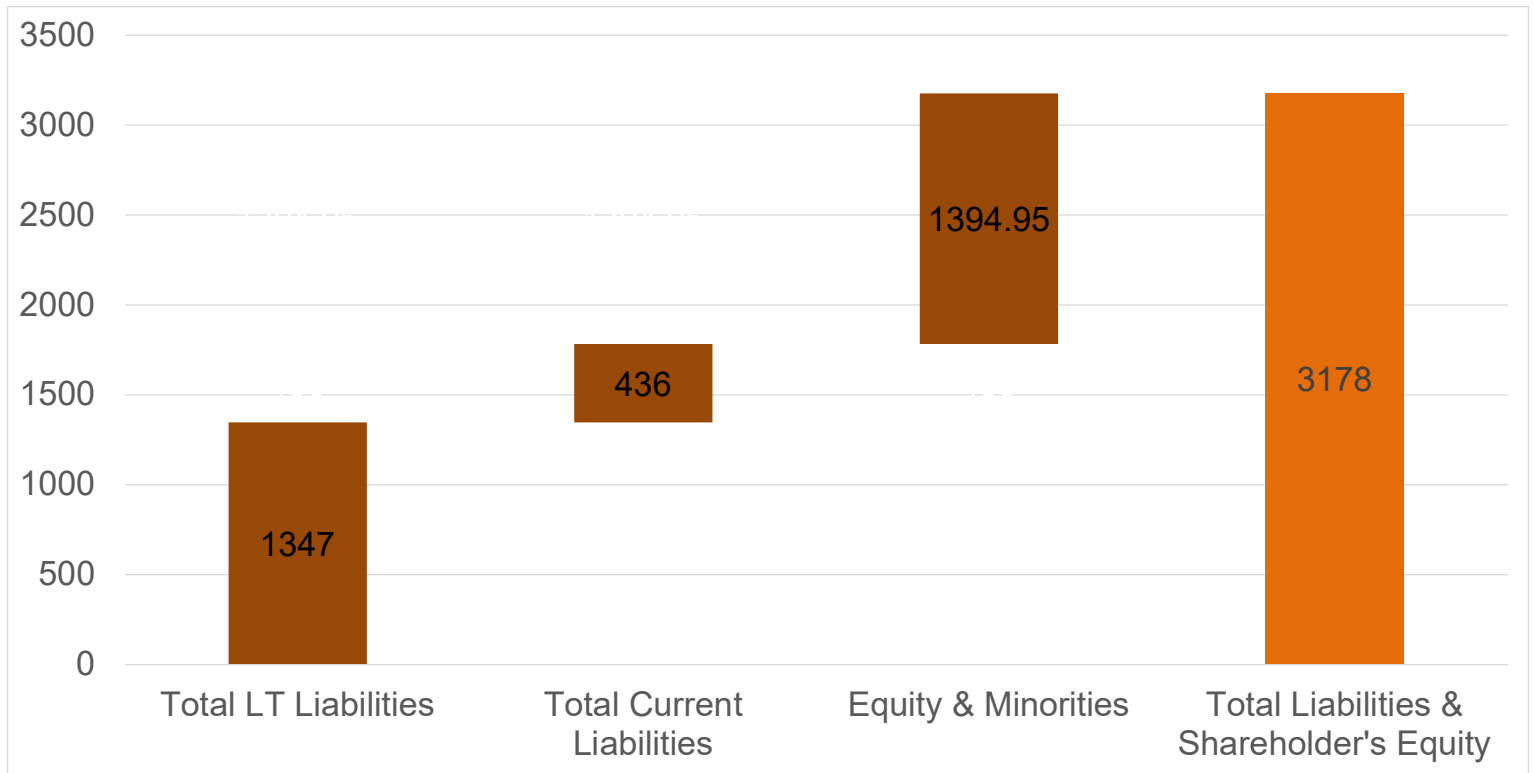
- \* We see that SolarWinds Corporation's total assets have decreased by -8.65% as compared to the corresponding quarter of the previous year.
- \* We can see a complete breakdown of the composition of the total assets of the company in a waterfall structure in the chart below.

## Total Assets As On 9/30/23 - Waterfall Analysis (USD Million)



- \* Moving on to the Total Liabilities & Shareholder's Equity, we can also see a complete breakdown of its composition in a waterfall structure in the chart on the following page.

## Shareholders' Equity As On 9/30/23 - Waterfall Analysis (USD Million)



## Sequential Quarter-On-Quarter Analysis - Income Statement (USD Million)

Particulars	12/31/22	3/31/23	6/30/23	9/30/23
Revenues	187	186	185	190
<i>% growth</i>		-0.6%	-0.5%	2.5%
Cost of Goods Sold	-18	-18	-19	-18
<i>% of revenue</i>	-9.6%	-9.9%	-10.0%	-9.5%
Gross Income (excl. D&A)	169	168	167	172
<i>% of revenue</i>	90.4%	90.1%	90.0%	90.5%
EBITDA	62	47	58	65
<i>% of revenue</i>	33.1%	25.1%	31.4%	34.3%
Depreciation & Amortization	13	19	18	27

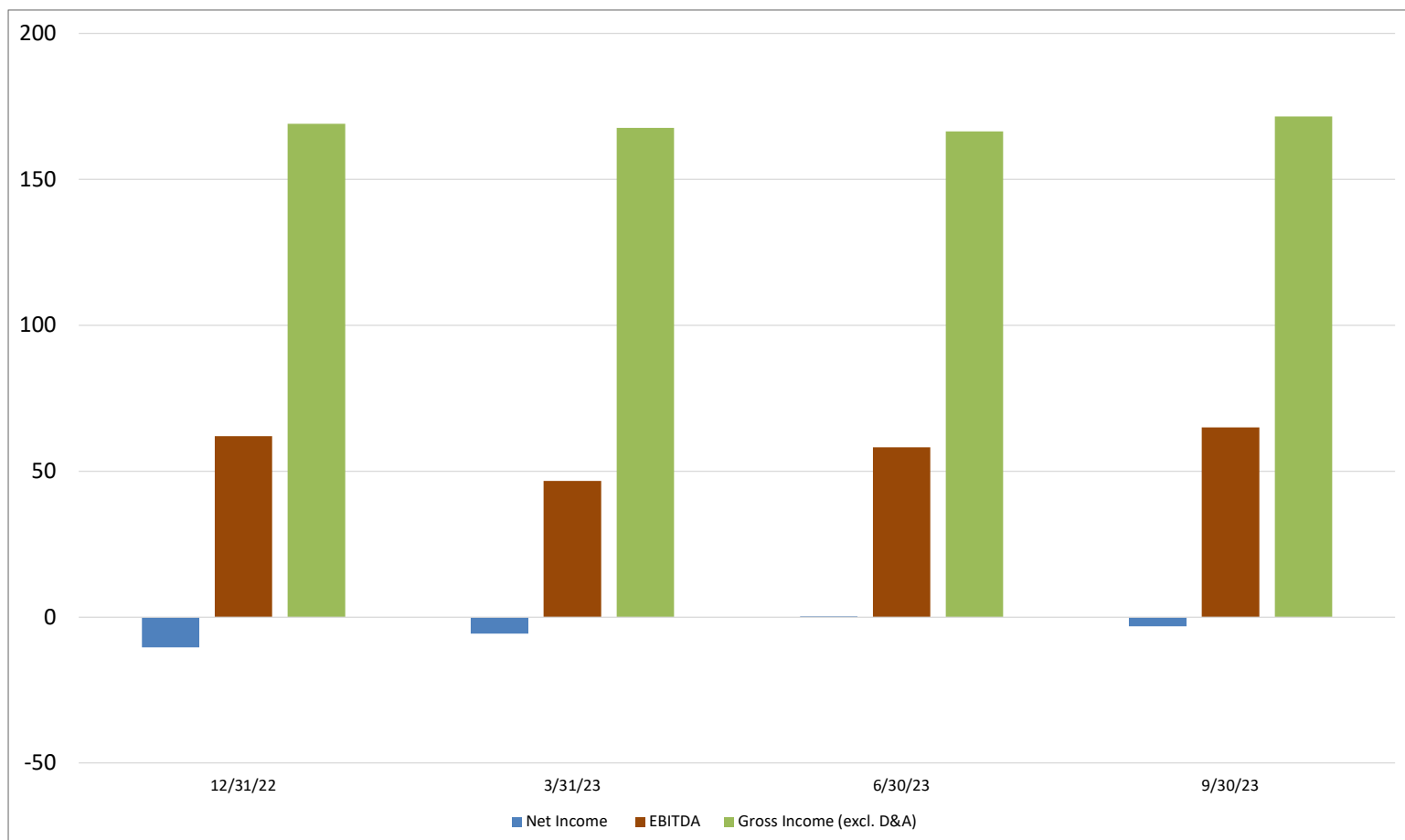
% of Fixed Assets	0.5%	0.7%	0.7%	1.0%
Extraordinary Expenses	0	0	0	0
EBIT	49	28	40	39
% of revenue	26.2%	15.1%	21.9%	20.3%
Pretax Income	-1	7	3	9
% of revenue	-0.5%	3.8%	1.7%	4.8%
Income Tax	10	13	3	12
% rate	-1083.0%	178.5%	91.9%	134.9%
Net Income	-10	-6	0	-3
% of revenue	-5.6%	-3.0%	0.1%	-1.7%

- \* Now let us move to a sequential, quarter-on-quarter analysis of the company's income statement as see the gradual evolution of revenues and profitability
- \* SolarWinds Corporation has reported a top-line of \$189.59 million in its recent quarterly result which is a 2.46% appreciation over the previous quarter.
- \* The company reported a positive gross margin of 90.53% for the quarter ended 9/30/23.
- \* Its EBITDA for the quarter was \$65.06 million and the EBITDA margin was 34.32%.
- \* This was a 2.89% margin expansion at the EBITDA level which is definitely a positive outcome.
- \* SolarWinds Corporation's operating income (EBIT) was reported at \$38.53 million and a margin of 20.32%.
- \* This EBIT margin dropped by 1.54% in this quarter.
- \* The company's pre-tax margin for the quarter was 4.79%.
- \* SolarWinds Corporation reported a net income of \$-3.17 million which resulted in a diluted earnings per share (EPS) of \$-0.02.
- \* The company's net margin was -1.67%

## Sequential Quarter-On-Quarter Analysis - Cash Flow Statement (USD Million)

Particulars	12/31/22	3/31/23	6/30/23	9/30/23
Cash from Operations	48	1	49	68
<i>% of revenue</i>	25.5%	0.4%	26.5%	36.1%
Cash from Investing	20	12	6	-7
<i>% of Fixed Assets</i>	0.7%	0.4%	0.2%	-0.3%
Free Cash Flows	68	13	55	61
<i>% of revenue</i>	36.1%	6.9%	29.6%	32.3%

## Evolution Of Gross Income, EBIT, & Net Income (USD Million)





- Now let us move on to the cash flow generation in the recent quarter.
- SolarWinds Corporation generated \$68.42 million in terms of operating cash flows for the quarter ended 9/30/23.
- The company was able to convert about 36.09% of its revenues into operating cash flows in the recent quarter.
- This quarter's EBITDA-to-operating cash flow conversion ratio is 105.16%
- Overall, SolarWinds Corporation delivered a positive free cash flow of \$61.31 million for the past quarter.

## Sequential Quarter-On-Quarter Analysis - Balance Sheet (USD Million)

Balance Sheet	12/31/22	3/31/23	6/30/23	9/30/23
<b>Assets</b>				
Net Intangible Fixed Assets	2643	2617	2599	2568
Net Tangible Fixed Assets	88	76	65	65
<b>Total Fixed Assets</b>	<b>2731</b>	<b>2693</b>	<b>2664</b>	<b>2634</b>
<i>% of revenue</i>	<i>1460.1%</i>	<i>1448.3%</i>	<i>1440.0%</i>	<i>1389.1%</i>
LT Investments	0	0	0	0
Inventories	0	0	0	0
<i>% of revenue</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Accounts Receivable	101	109	85	93
<i>% of revenue</i>	<i>54.1%</i>	<i>58.8%</i>	<i>46.2%</i>	<i>48.8%</i>
Cash and ST Investments	149	141	178	235
<i>% of revenue</i>	<i>79.6%</i>	<i>75.7%</i>	<i>96.3%</i>	<i>124.1%</i>
Other Current Assets	57	64	67	33
<b>Total Current Assets</b>	<b>307</b>	<b>314</b>	<b>331</b>	<b>361</b>

Other Assets	161	184	185	183
<b>Total Assets</b>	<b>3200</b>	<b>3191</b>	<b>3180</b>	<b>3178</b>
<b>Liabilities &amp; Shareholder's Equity</b>				
Equity & Minorities	1370	1386	1399	1395
<i>% of capital employed</i>	<i>49.9%</i>	<i>50.2%</i>	<i>51.0%</i>	<i>50.9%</i>
LT Debt	1193	1192	1192	1191
Other LT Liabilities	181	183	153	156
<b>Total LT Liabilities</b>	<b>1374</b>	<b>1375</b>	<b>1345</b>	<b>1347</b>
<i>% of capital employed</i>	<i>50.1%</i>	<i>49.8%</i>	<i>49.0%</i>	<i>49.1%</i>
ST Debt	0	0	0	0
<i>% of capital employed</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Accounts Payable	14	9	11	9
<i>% of COGS</i>	<i>7.5%</i>	<i>4.8%</i>	<i>5.9%</i>	<i>4.7%</i>
Other ST Liabilities	443	421	426	427
<i>% of revenue</i>	<i>236.6%</i>	<i>226.6%</i>	<i>230.0%</i>	<i>225.0%</i>
<b>Total Current Liabilities</b>	<b>457</b>	<b>430</b>	<b>436</b>	<b>436</b>
<b>Total Liabilities</b>	<b>1830</b>	<b>1806</b>	<b>1782</b>	<b>1783</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>3200</b>	<b>3191</b>	<b>3180</b>	<b>3178</b>

- When we look at the quarterly Balance Sheet of the company, we see that the Fixed Asset base has evolved from \$2.66444 billion to \$2.63368 billion over the last 2 quarters.
- The current level of fixed assets, including tangibles & intangibles, is around 1389.14% of the company's quarterly turnover.
- The company's receivables were around 48.81% of the quarterly top-line.
- As a result of the positive free cash flows, the company had a final cash and short-term investment balance of \$235.21 million.
- When we analyze the capital structure of SolarWinds Corporation, we realize that the company relies more on equity to finance its operations.
- The company's equity accounts for 50.87% of its total capital employed whereas debt (both long-term and short-term) accounts for about 49.13% of the total capital.
- SolarWinds Corporation's payables account for 4.75% of its cost of goods sold.

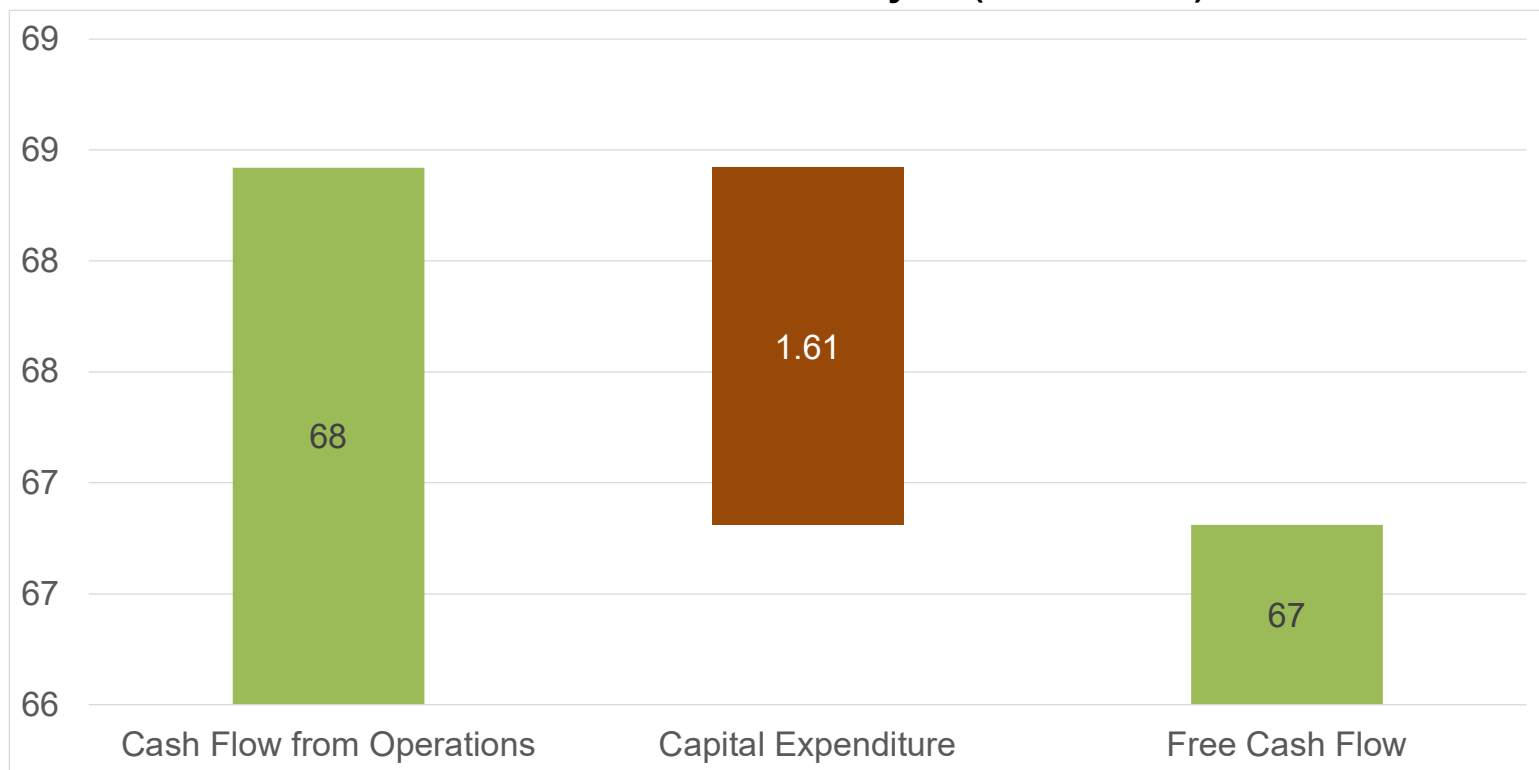
## Sequential Quarter-On-Quarter Analysis - Cash Flow Statement (USD Million)

Particulars	12/31/22	3/31/23	6/30/23	9/30/23
Net Income (GAAP)	-10	-6	0	-3
+ Depreciation & Amortization	13	19	18	27
+/- Working Capital, Deferred Taxes & Other Adjustments	45	-12	31	45
<b>Cash Flow from Operations</b>	<b>48</b>	<b>1</b>	<b>49</b>	<b>68</b>
<i>% of EBITDA</i>	<i>77.1%</i>	<i>1.7%</i>	<i>84.2%</i>	<i>105.2%</i>
Capital Expenditure	-2	0	-1	-2
<i>% of revenues</i>	<i>-1.0%</i>	<i>-0.2%</i>	<i>-0.6%</i>	<i>-0.8%</i>
Other Investment Cash Flow items	22	12	7	-6

<b>Cash Flow from Investments</b>	<b>20</b>	<b>12</b>	<b>6</b>	<b>-7</b>
<b>Free Cash Flow</b>	<b>46</b>	<b>0</b>	<b>48</b>	<b>67</b>
<i>% of EBITDA</i>	<i>74.0%</i>	<i>1.0%</i>	<i>82.4%</i>	<i>102.7%</i>
<b>Cash Flow from Financing</b>	<b>-388</b>	<b>-5</b>	<b>-6</b>	<b>-6</b>
<b>Net Change In Cash</b>	<b>-321</b>	<b>8</b>	<b>49</b>	<b>55</b>

- \* Moving on to the company's sequential quarterly cash flow statement, we see that its EBITDA to Operating Cash Flow conversion ratio has increased from 84.21% to 105.16% in the most recent quarter.
- \* SolarWinds Corporation generated \$68.42 million from operating activities and reported \$-7.11 million as cash flow from investments which implies a free cash flow of \$66.81 million for the quarter ended 9/30/23.
- \* We can see a breakdown of the Free Cash Flow of the company through a waterfall chart on the following page.

### Free Cash Flow As On 9/30/23 - Waterfall Analysis (USD Million)



- The company reported a Cash Flow from Financing of \$-5.97 million.

## Sequential Quarter-On-Quarter Analysis - Key Ratios (USD Million)

Working Capital Ratios	12/31/22	3/31/23	6/30/23	9/30/23
Receivables Turnover	7.76	7.14	7.73	8.67
Days Receivable	47.4	50.4	47.1	42.4
Inventory Turnover	NA	NA	NA	NA
Inventory Days	NA	NA	NA	NA
Working Capital Turnover	-5.01	-6.40	-7.00	-10.19
Days Payable	60.5	56.0	48.6	51.0
Current Ratio	0.67	0.73	0.76	0.83
Quick Ratio	0.55	0.58	0.60	0.75

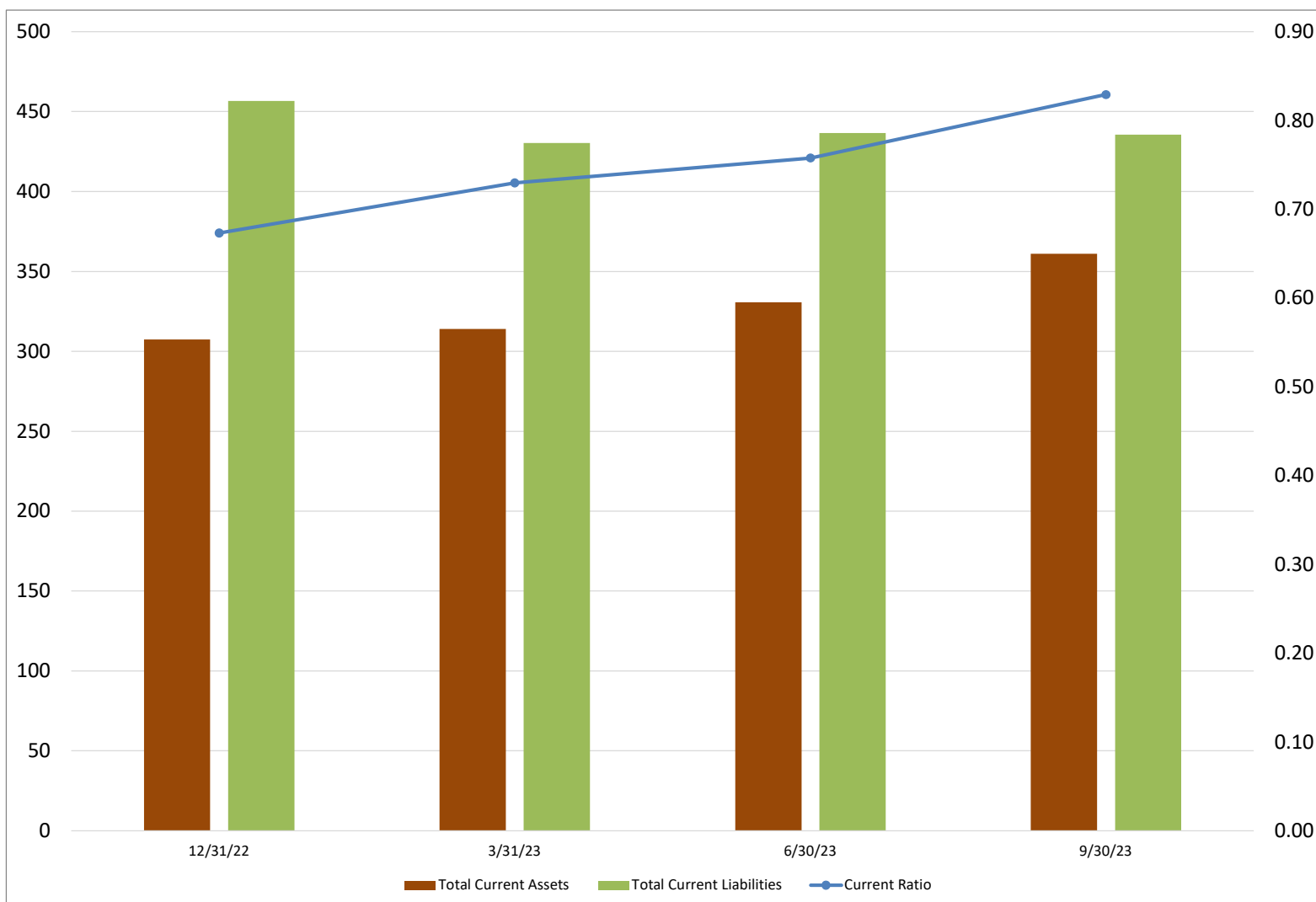
Solvency Ratios	12/31/22	3/31/23	6/30/23	9/30/23
Total Debt / Equity	93.20%	92.10%	90.90%	91.10%
Total Debt / Capital	48.10%	47.70%	47.50%	47.60%
Total Liabilities / Total Assets	57.20%	56.60%	56.00%	56.10%
EBIT / Interest Expense	1.91	0.98	1.37	1.31
EBITDA / Interest Expense	2.58	1.78	2.12	2.36
(EBITDA - Capex) / Interest Expense	2.50	1.77	2.08	2.31
FFO Interest Coverage	1.86	0.03	1.66	2.33
FFO to Total Debt (x)	0.15	0.00	0.15	0.22

Total Debt / EBITDA	4.82	6.27	5.10	4.59
Net Debt / EBITDA	4.26	5.58	4.38	3.74
Net Debt / (EBITDA - Capex)	4.38	5.61	4.46	3.83

Return Ratios	12/31/22	3/31/23	6/30/23	9/30/23
Return on Assets %	3.7%	2.2%	3.2%	3.0%
Return on Capital %	7.4%	4.2%	6.1%	5.8%
Return On Equity %	-3.1%	-1.6%	0.1%	-0.9%
Return on Common Equity %	-3.1%	-1.6%	0.1%	-0.9%

- \* Now let us take a closer look at the evolution of some of the key quarterly ratios of the company. The most important ratios to look at in terms of quarterly evolution are essentially the working capital ratios.
- \* We see SolarWinds Corporation's receivable days fall from 47.09 to 42.42 over the past two quarters.
- \* On the other hand, the company's days payable have risen from 48.55 to 51.04 over the past couple of quarters.
- \* When we analyze the working capital turnover over the company, we see that SolarWinds Corporation's revenues are as much as -10.19 times its total exposure to working capital investment.
- \* In the FFO/ Total Debt ratio, FFO stands for funds from operations. This is a leverage ratio that an investor can use to evaluate a company's financial risk. It measures the ability of a company to pay off its debt using net operating income alone.
- \* We see SolarWinds Corporation's FFO/ Total Debt ratio as 0.22 which means that from a financial leverage and capital gearing standpoint, the company has a VERY LOW RISK profile.

## Current Assets & Current Liabilities (USD Million)



## Historical Income Statement - Annual (USD Million)

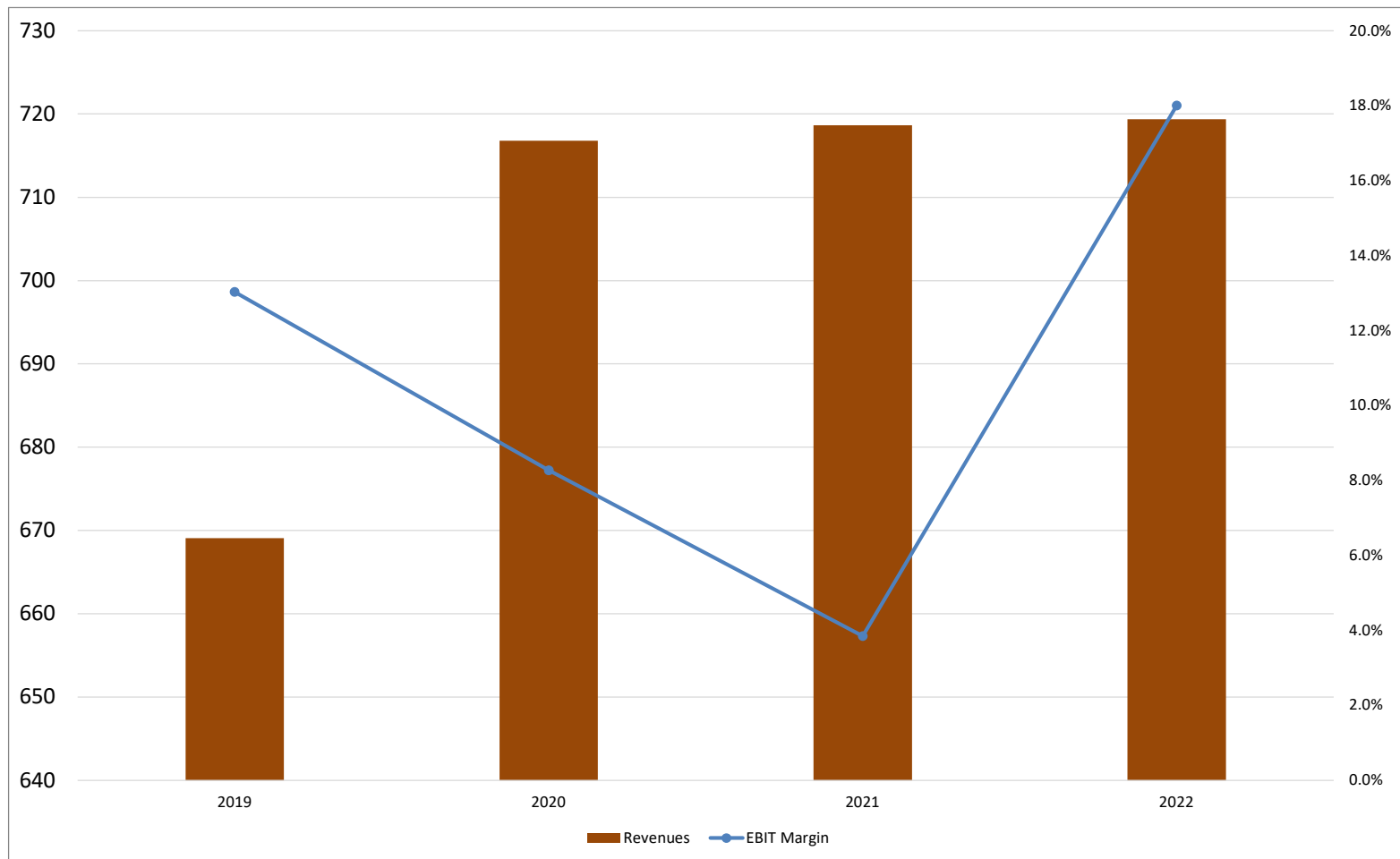
Particulars	2019	2020	2021	2022
Revenues	669	717	719	719
<i>% growth</i>		7.1%	0.3%	0.1%
Cost of Goods Sold	-46	-54	-65	-68
<i>% of revenue</i>	-6.9%	-7.6%	-9.0%	-9.4%
Gross Income (excl. D&A)	623	662	654	652
<i>% of revenue</i>	93.1%	92.4%	91.0%	90.6%

EBITDA	142	121	95	192
<i>% of revenue</i>	<i>21.2%</i>	<i>16.8%</i>	<i>13.2%</i>	<i>26.7%</i>
Depreciation & Amortization	55	61	67	63
<i>% of Fixed Assets</i>	<i>1.1%</i>	<i>1.5%</i>	<i>1.8%</i>	<i>2.3%</i>
Extraordinary Expenses	0	0	0	0
EBIT	87	59	28	130
<i>% of revenue</i>	<i>13.0%</i>	<i>8.3%</i>	<i>3.9%</i>	<i>18.0%</i>
Pretax Income	-28	-24	-97	-908
<i>% of revenue</i>	<i>-4.2%</i>	<i>-3.4%</i>	<i>-13.5%</i>	<i>-126.2%</i>
Income Tax	-47	-183	-46	21
<i>% rate</i>	<i>166.1%</i>	<i>757.6%</i>	<i>47.0%</i>	<i>-2.4%</i>
Net Income	19	158	-51	-929
<i>% of revenue</i>	<i>2.8%</i>	<i>22.1%</i>	<i>-7.2%</i>	<i>-129.2%</i>

- \* When we analyze the company's annualized historical income statement, we see that the top-line was \$719.37 million for the previous financial year ending in 2022.
- \* The revenue growth was 0.10% in 2022 as compared to around 0.26% in 2021.
- \* SolarWinds Corporation's cost of goods sold has decreased from -9.03% to -9.41% as a percentage of the top-line resulting in a rise in the gross margins.
- \* The company's overall annual EBITDA margin of 26.71% is lower than the reported quarterly EBITDA margin for the most recent quarter.
- \* Non-cash expenses in the form of depreciation and amortization have gone down as compared to the result in 2021.



## Revenue & Operating Margin (USD Million)



\* In terms of the bottom-line, SolarWinds Corporation reported an operating income (EBIT) of \$129.52 million and a net income of \$-929.41 million resulting in an EPS of \$-5.78.

\* The slightly worrying news for investors holding the stock is that its net margin had decreased from -7.15% in 2021 to -129.20% in 2022.

## Historical Balance Sheet - Annual (USD Million)

Particulars	2019	2020	2021	2022
<b>Assets</b>				
Net Intangible Fixed Assets	4830	3941	3660	2643
Net Tangible Fixed Assets	129	136	104	88
<b>Total Fixed Assets</b>	<b>4958</b>	<b>4077</b>	<b>3764</b>	<b>2731</b>

% of revenue	741.1%	568.8%	523.8%	379.7%
LT Investments	0	0	0	0
Inventories	0	0	0	0
% of revenue	0.0%	0.0%	0.0%	0.0%
Accounts Receivable	123	87	96	101
% of revenue	18.4%	12.1%	13.4%	14.1%
Cash and ST Investments	173	271	732	149
% of revenue	25.9%	37.8%	101.9%	20.7%
Other Current Assets	23	155	31	57
<b>Total Current Assets</b>	<b>320</b>	<b>513</b>	<b>859</b>	<b>307</b>
Other Assets	32	1121	169	161
<b>Total Assets</b>	<b>5311</b>	<b>5710</b>	<b>4792</b>	<b>3200</b>
<b>Liabilities &amp; Shareholder's Equity</b>				
Equity & Minorities	2650	3011	2288	1370
LT Debt	1893	1883	1871	1193
Other LT Liabilities	345	326	220	181
<b>Total LT Liabilities</b>	<b>2238</b>	<b>2209</b>	<b>2090</b>	<b>1374</b>

ST Debt	0	0	0	0
Accounts Payable	14	12	7	14
% of COGS	2.1%	1.7%	1.0%	2.0%
Other ST Liabilities	409	479	407	443
<b>Total Current Liabilities</b>	<b>423</b>	<b>491</b>	<b>414</b>	<b>457</b>
<b>Total Liabilities</b>	<b>2661</b>	<b>2700</b>	<b>2504</b>	<b>1830</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>5311</b>	<b>5710</b>	<b>4792</b>	<b>3200</b>

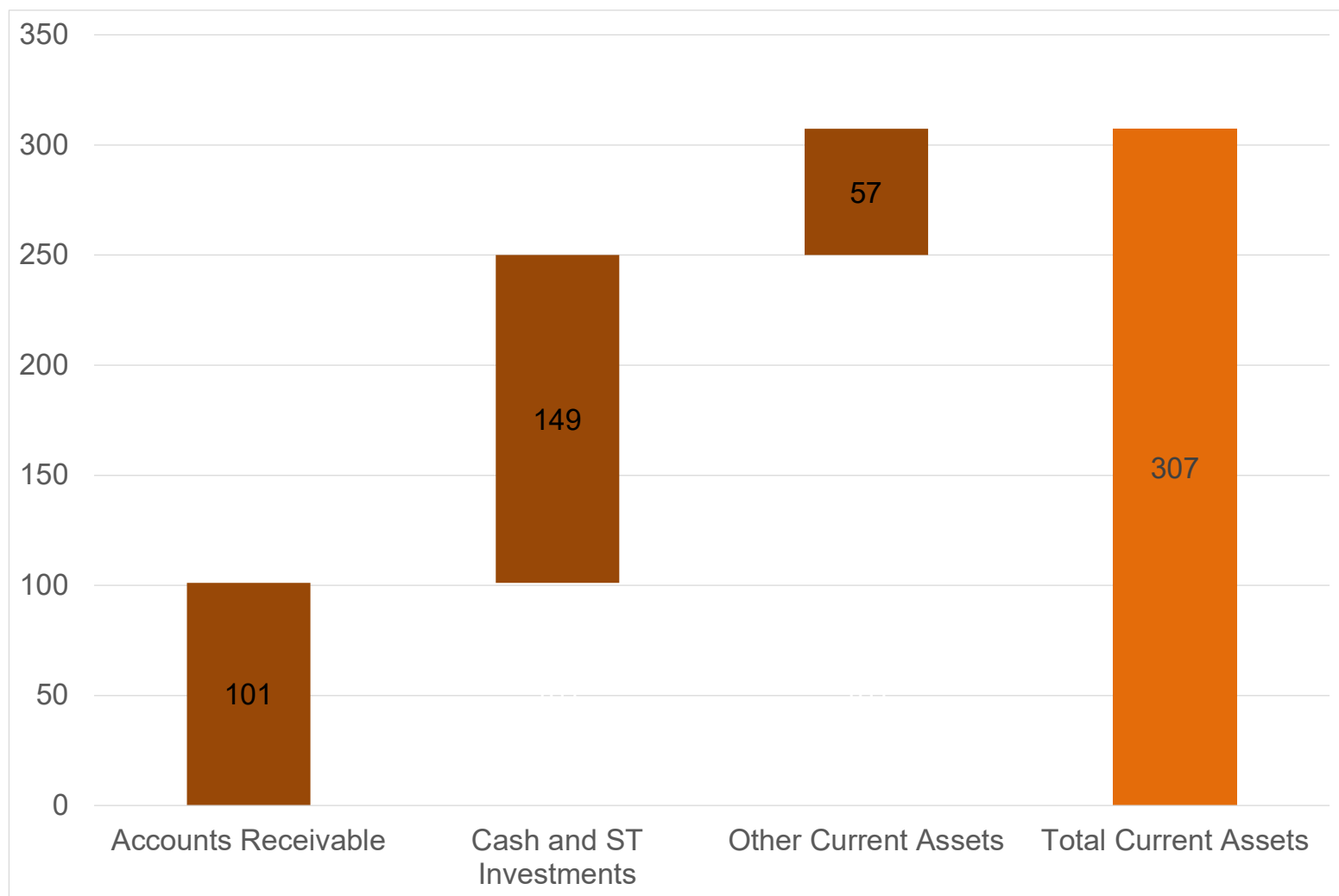
\* Moving on to the company's historical annualized balance sheet, when we analyze the fixed assets versus the revenues, we see that the percentage has evolved from 523.80% to 379.69%

\* Its receivables of \$101.19 million are about 14.07% of the top-line.

\* SolarWinds Corporation has close to \$148.85 million in terms of liquidity i.e. cash and short term investments.

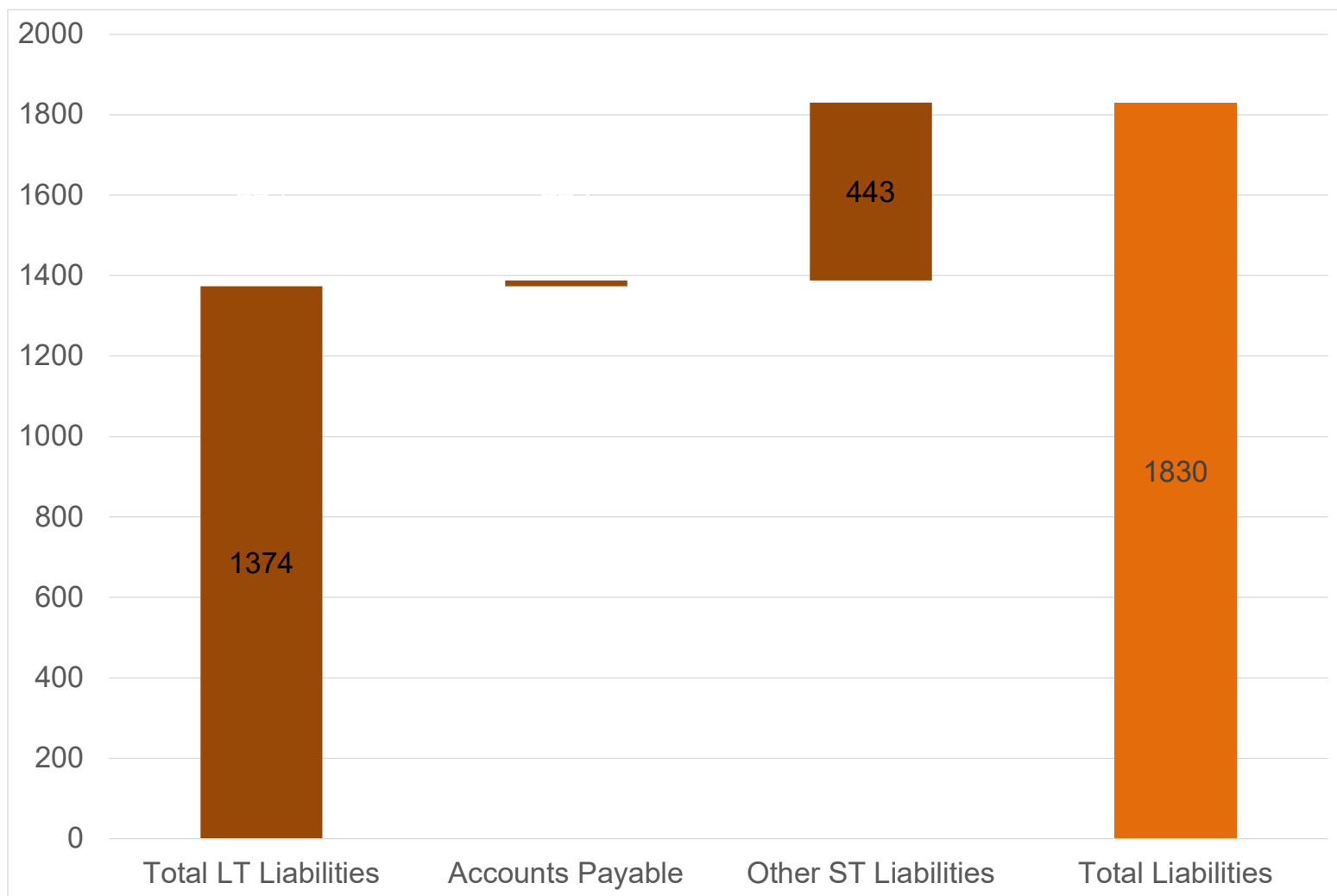
\* On the other hand, its payables for 2022 account for around 1.95% of the cost of goods sold. We can see a more detailed breakdown of the total current assets in the chart on the following page.

### Total Current Assets (2022) - Waterfall Analysis (USD Million)



- The company's long term debt is around 1.0x times its equity.
- Apart from the long term debt, we can also see the level of short term debt, equity and all other forms of long and short term liabilities and how they come together to total up to the Total Liabilities & Shareholders Equity of the company.

### Total Liabilities (2022) - Waterfall Analysis (USD Million)



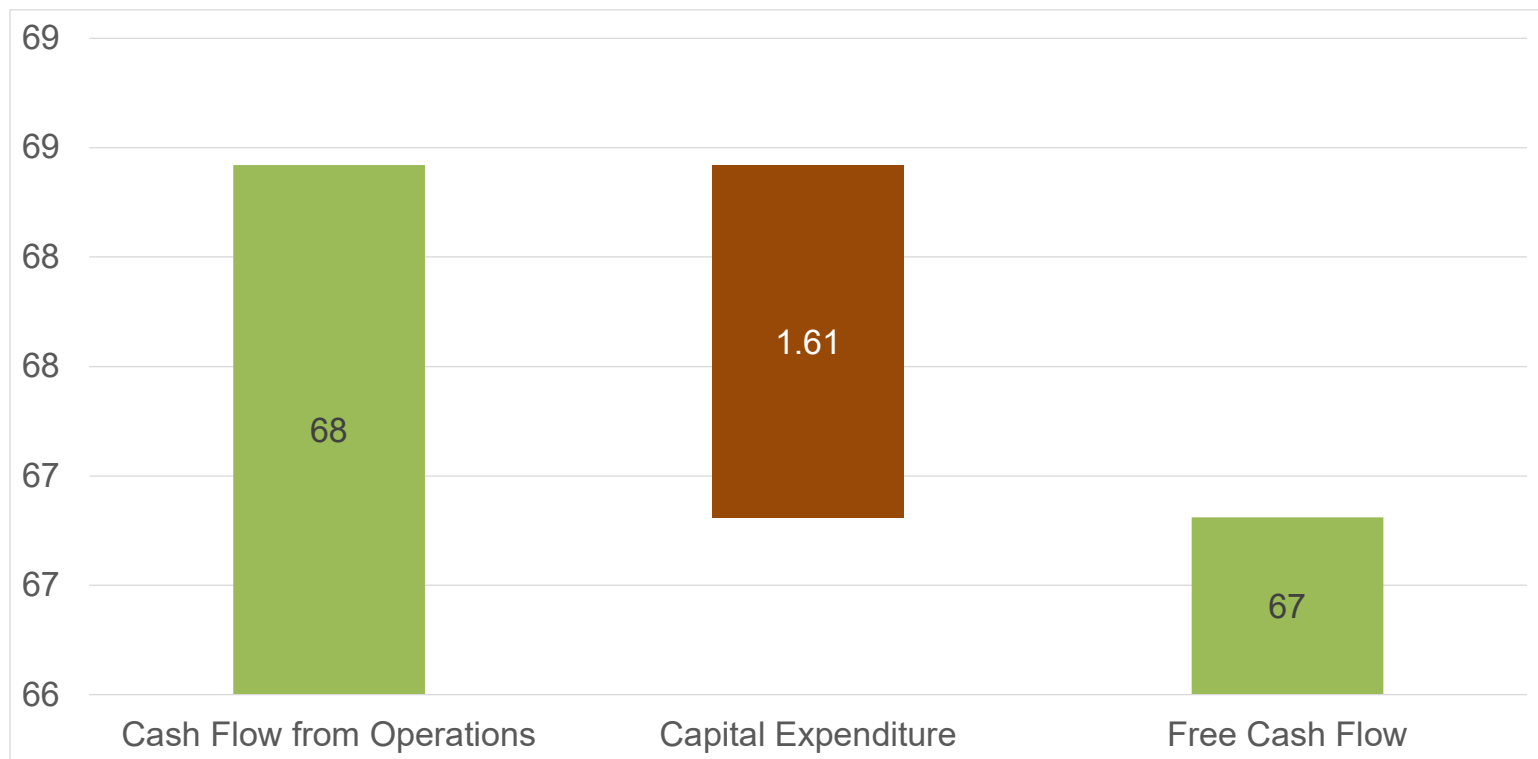
### Historical Cash Flow Statement - Annual (USD Million)

Particulars	2019	2020	2021	2022
Net Income (GAAP)	19	158	-51	-929
+ Depreciation & Amortization	55	61	67	63
+/- Working Capital, Deferred Taxes & Other Adjustments	226	169	142	1021

<b>Cash Flow from Operations</b>	<b>300</b>	<b>389</b>	<b>157</b>	<b>155</b>
<i>% of EBITDA</i>	<i>211.1%</i>	<i>322.7%</i>	<i>166.2%</i>	<i>80.4%</i>
Capital Expenditure	-11	-17	-9	-7
<i>% of revenues</i>	<i>-1.7%</i>	<i>-2.4%</i>	<i>-1.3%</i>	<i>-1.0%</i>
Other Investment Cash Flow items	-471	-163	-19	-47
<b>Cash Flow from Investments</b>	<b>-482</b>	<b>-180</b>	<b>-28</b>	<b>-54</b>
<b>Free Cash Flow</b>	<b>289</b>	<b>372</b>	<b>148</b>	<b>147</b>
<i>% of EBITDA</i>	<i>203.1%</i>	<i>308.7%</i>	<i>156.4%</i>	<i>76.5%</i>
<b>Cash Flow from Financing</b>	<b>-26</b>	<b>-26</b>	<b>238</b>	<b>-709</b>
<b>Net Change In Cash</b>	<b>-208</b>	<b>183</b>	<b>367</b>	<b>-609</b>

- SolarWinds Corporation's Cash Flow from Operations as a % of EBITDA went down which is a bad sign.
- The company delivered a positive free cash flow of \$147.05 million in 2022.
- It was able to convert about 76.52% into free cash flows which was lower than the previous financial year.
- SolarWinds Corporation reported \$-709.2 million as Cash Flow from Financing for 2022 which was lower than the previous year.
- We can see a complete breakdown of the Net Change in Cash of the company in the waterfall chart on the following page.

## Free Cash Flow (2022) - Waterfall Analysis (USD Million)



## Key Ratios - Annual

Other Metrics	2019	2020	2021	2022
Total Cash Dividends Paid	0.00	0.00	0.00	0.00
<i>% growth</i>		NA	NA	NA
Total Common Shares Outstanding	156	158	160	162
<i>% change</i>		1.4%	1.7%	0.9%
Dividend Per Share	0.00	0.00	0.00	0.00
<i>% change</i>		NA	NA	NA

Operating Ratios	2019	2020	2021	2022
Receivables Turnover	5.4	8.3	7.5	7.1

Days Receivable	67.1	44.1	48.9	51.3
Inventory Turnover	NA	NA	NA	NA
Inventory Days	NA	NA	NA	NA
Payables Turnover	3.4	4.4	8.9	4.8
Days Payable	108.7	83.3	41.2	75.8
Current Ratio	0.76	1.04	2.08	0.67
Quick Ratio	0.70	0.73	2.00	0.55
Working Capital Turnover	-6.49	33.29	1.62	-4.82
Fixed Asset Turnover	0.1	0.2	0.2	0.3
Total Asset Turnover	0.1	0.1	0.1	0.2

\* The company does not pay any dividend.

\* SolarWinds Corporation's total common shares outstanding have increased in 2022 by 0.94% implying a share issuance.

\* The receivables turnover helps quantify a company's effectiveness in collecting the money owed by clients and demonstrates how well it uses and manages the credit it extends to customers.

\* As per the days receivable, the company takes an average period of 51.3 days to collect money from its clients which appears to be reasonable.

\* The inventory turnover shows the number of times a given company has sold and replaced inventory during the year and is an indicator of how many days of working capital is blocked in inventory.

\* The inventory days ratio is not applicable as the company has no inventory.

\* The accounts payable turnover is a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. It shows how many days of credit a company gets from its suppliers.

\* As per the days payable, the company takes an average period of 75.8 days to pay off its creditors which appears to be reasonable.

\* The fixed asset turnover ratio measures how well a company generates sales from its tangible as well as intangible fixed assets. The higher the ratio, the greater the company's efficiency to its assets to generate revenues.

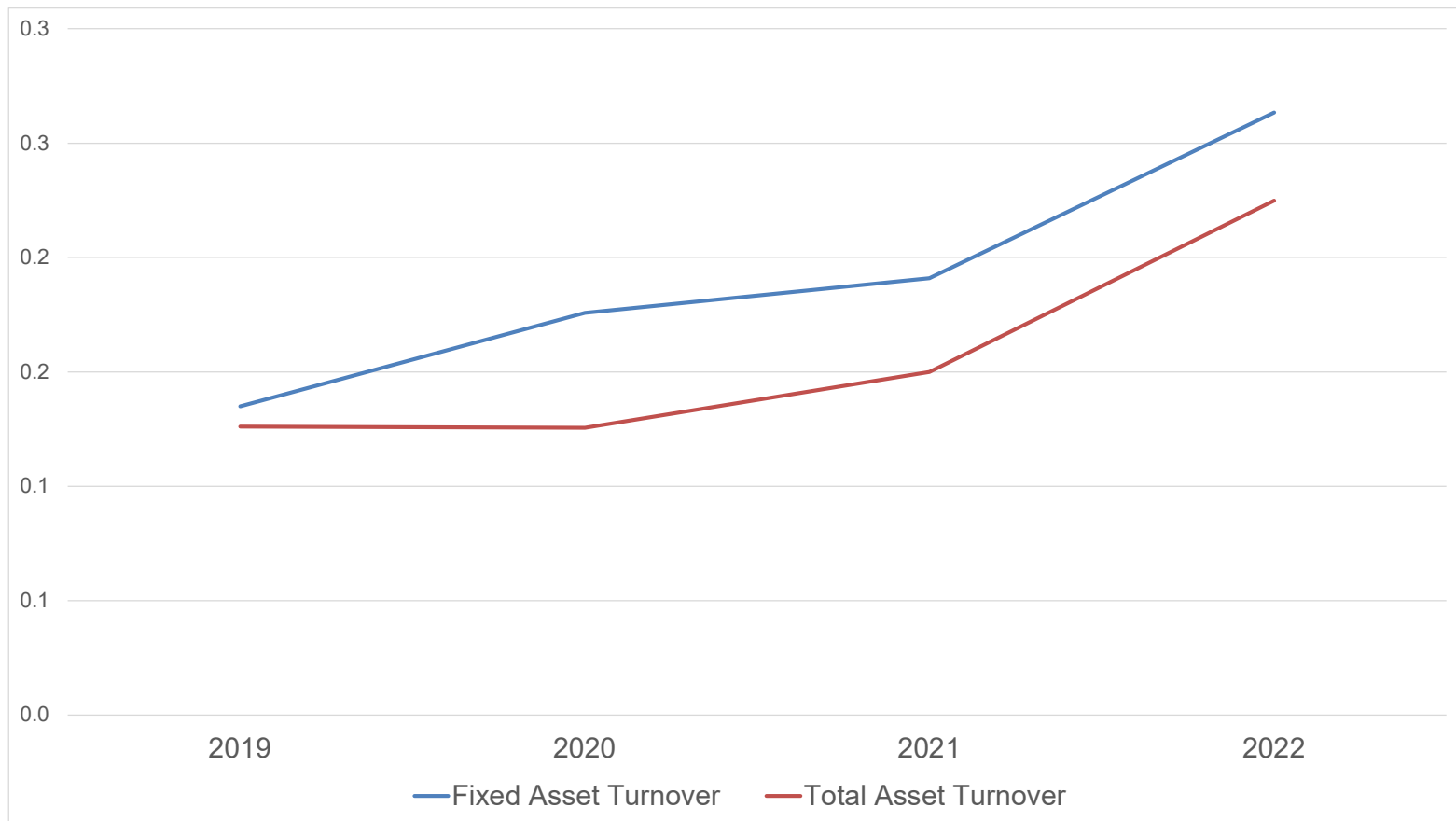
\* SolarWinds Corporation's fixed assets turnover ratio of 0.3 has increased in 2022 indicating that the company is generating greater revenues from its fixed assets.



\* The total asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The higher the asset turnover ratio, the more efficient a company is, with respect to using its assets to generate revenues.

\* SolarWinds Corporation's total assets turnover has increased to 0.22 in 2022.

## Evolution of Fixed Assets Turnover & Total Assets Turnover



Operating Ratios	2019	2020	2021	2022
Total Debt / Equity	76.30%	67.00%	86.50%	93.20%
Total Debt / Capital	42.40%	39.70%	46.20%	48.10%
Total Liabilities / Total Assets	50.10%	47.30%	52.30%	57.20%
EBIT / Interest Expense	0.81	0.78	0.43	1.55
EBITDA / Interest Expense	1.48	1.84	1.78	2.51

(EBITDA - Capex) / Interest Expense	1.38	1.62	1.64	2.42
FFO Interest Coverage	1.94	3.60	1.83	1.85
FFO to Total Debt (x)	0.10	0.14	0.06	0.12
Total Debt / EBITDA	12.62	14.43	17.24	6.11
Net Debt / EBITDA	11.53	12.49	10.87	5.40
Net Debt / (EBITDA - Capex)	12.42	14.21	11.82	5.60

Other Ratios	2019	2020	2021	2022
Return on Assets %	1.0%	0.7%	0.3%	2.0%
Return on Capital %	1.8%	1.2%	0.6%	4.9%
Return On Equity %	-1.0%	4.1%	-2.4%	-50.8%
Return on Common Equity %	-1.0%	4.1%	-2.4%	-50.8%

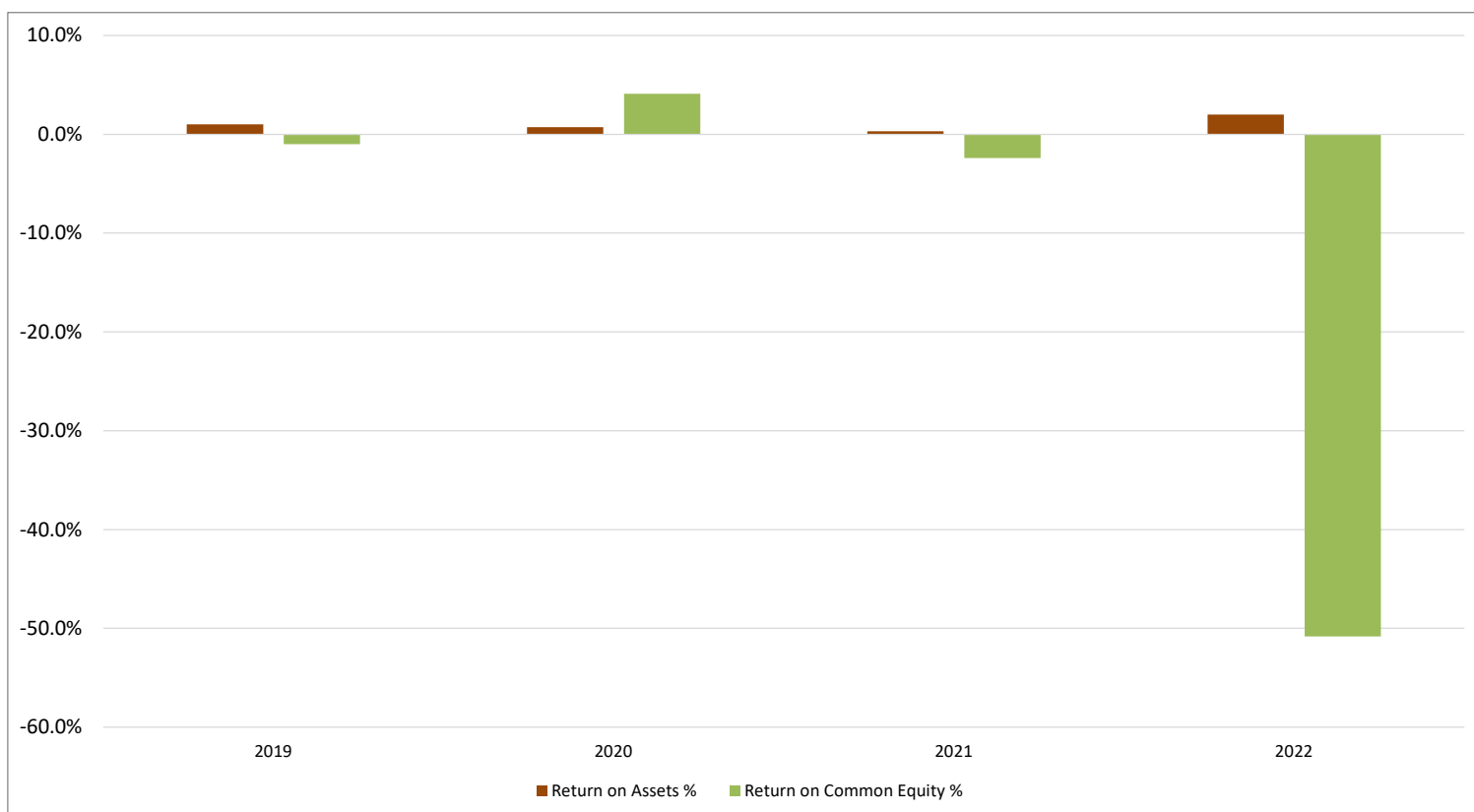
\* Return on assets is an excellent indicator of how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet.

\* On the other hand, the return on equity of a company measures the value creation of the management and profitability in relation to stockholders' equity.

\* The company's overall Return on Assets is 2.00%.

\* SolarWinds Corporation's Return on Equity is -50.80%. The company's Return on Equity is lower than its Return on Assets and this is because it does not resort to using significant capital gearing.

## Evolution of Return on Equity & Return on Assets



- In the above chart, we see the evolution of the company's return on equity and its return on assets.

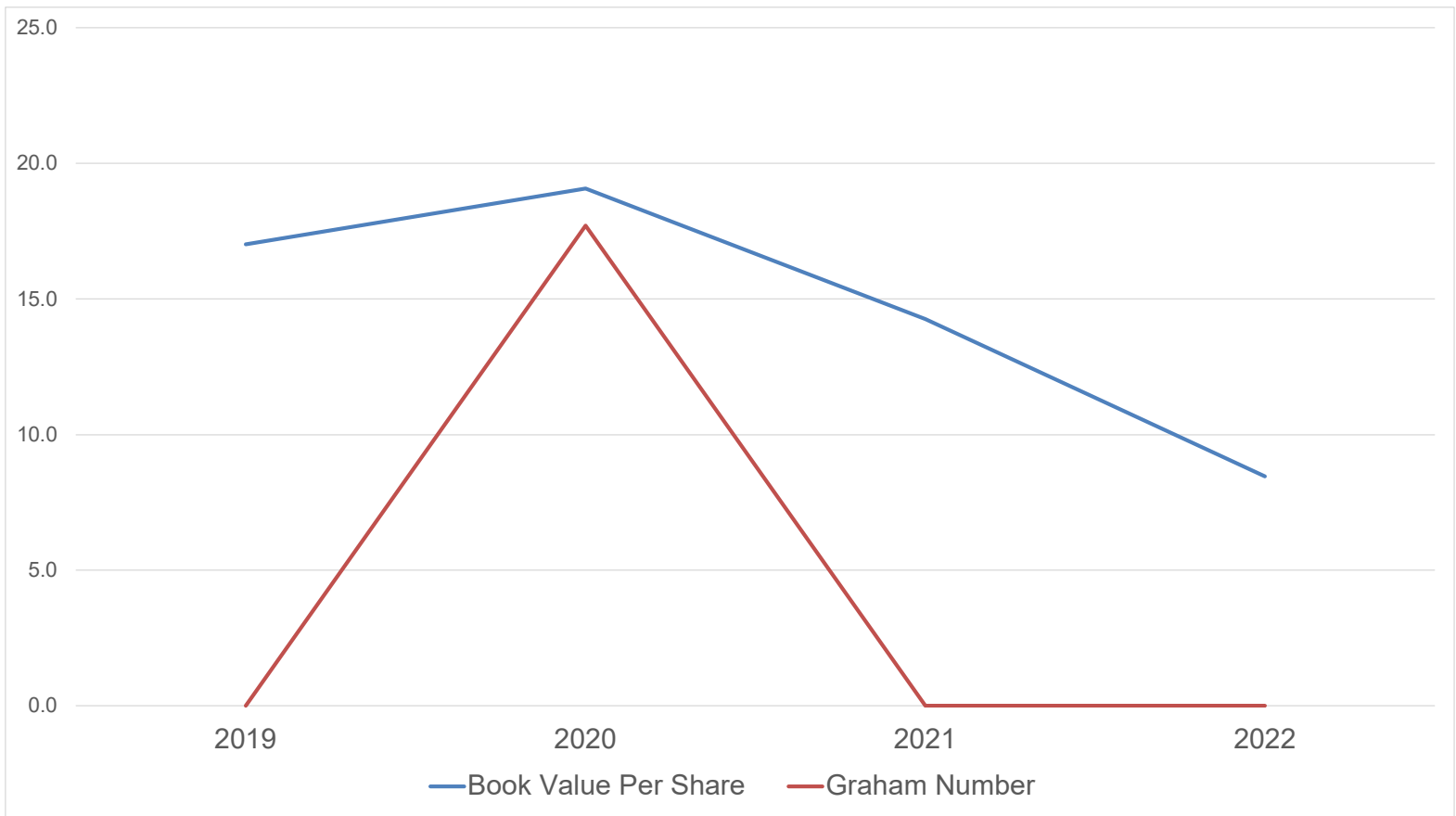
## Book Value Per Share, Price-to-Book Ratio & Graham Number Analysis

We can see the evolution of the book value per share and the Graham Number of the company in the table below:

Particulars	2019	2020	2021	2022
Book Value Per Share	17.0	19.1	14.3	8.5
Graham Number	NA	17.7	NA	NA

- \* We can see that SolarWinds Corporation's Book Value Per Share is 8.46 which results in a Price-to-Book ratio of 1.22.
- \* You can also see in the above table that we have shown the evolution of the Graham number, a popular metric evaluates a stock's fundamental worth by examining the company's earnings per share (EPS) and book value per share.
- \* This concept was developed by renowned value investor and 'father of value investing', Benjamin Graham and sets a maximum price an investor should pay for a stock.
- \* It is calculated as the geometric mean of 2 components: the stock price assuming a Price-to-Earnings ratio of 15x and the stock price assuming a book value per share of 1.5x.
- \* This is the reason why the Graham Number metric incorporates a factor of 22.5, stemming from Graham's criteria that a price-to-earnings ratio below 15x and a book value per share below 1.5x are the maximum valuation multiples an investor should pay for a stock.
- \* While useful, the Graham number omits some critical investment factors like management quality, industry insights, and the competitive environment; fundamental analysis of stocks often considers these alongside key metrics to gauge value.
- \* SolarWinds Corporation's Graham Number as per its latest annual balance sheet is NA which is ABOVE the current stock price, a rare scenario indicating that the stock is undervalued.
- \* We can see an evolution of the company's Book Value Per Share & its Graham Number in the chart on the following page.

## Evolution Of Book Value Per Share & Graham Number



## Top Institutional Shareholders

Investor Name	Value of Shares Held (MM)	% Of Shares Outstanding Held	# Shares Held	% Change in # of Shares Held	This Holding as % of Firm's Portfolio
Silver Lake Partners	634.4	37.32%	61473871	-0.07%	3.73%
Thoma Bravo, L.P.	516.9	30.41%	50090648	0.00%	6.26%
The Vanguard Group, Inc.	60.6	3.56%	5870028	13.23%	0.00%
Dimensional Fund Advisors, L.P.	39.9	2.35%	3870120	11.25%	0.01%
HarbourVest Partners, L.L.C.	38.4	2.26%	3719600	0.00%	9.75%
BlackRock Institutional Trust Company, N.A.	35.8	2.10%	3467186	8.37%	0.00%
Neuberger Berman, LLC	25.6	1.51%	2479807	0.00%	0.02%
AlpInvest Partners B.V.	25.6	1.51%	2479736	0.00%	0.00%
Legal & General Investment Management Ltd.	23.6	1.39%	2282197	31.08%	0.00%
Graham Partners LP	18.1	1.06%	1750371	0.00%	0.00%

\* We can see the list of the largest institutional shareholders of SolarWinds Corporation in the above table.

- \* As we can see above Silver Lake Partners is the currently the largest institutional shareholder in the company and currently holds 37.32% of the total outstanding shares of the company.
- \* They are followed by Thoma Bravo, L.P. which holds a 30.41% in SolarWinds Corporation.
- \* In the above list of institutions, we see that Legal & General Investment Management Ltd. has shown a particular interest in increasing their stake in SolarWinds Corporation.
- \* Similarly, if we analyze the SolarWinds Corporation stock as a percentage of the total holdings of the above mentioned institutions, we see that HarbourVest Partners, L.L.C. in the above list, has the highest exposure to the company i.e.,9.75%.
- \* We can see the list of the recent list of the insider transactions in SolarWinds Corporation in the table below:

## Recent Insider Transactions

Insider	Date	# Shares	Price	Type	Filing
Ramakrishna (Sudhakar)	10/3/23	-21156	9.44	DIR	Form 4
Ramakrishna (Sudhakar)	8/14/23	-12392	11.13	DIR	Form 4
Ramakrishna (Sudhakar)	8/14/23	-28704	11.13	DIR	Form 4
Kasturi (Rohini)	8/14/23	-3888	11.13	DIR	Form 4
Kasturi (Rohini)	8/14/23	-6732	11.13	DIR	Form 4
Webb (Andrea)	8/14/23	-4938	11.13	DIR	Form 4
Webb (Andrea)	8/14/23	-9146	11.13	DIR	Form 4
Kalsu (James Barton)	8/14/23	-4320	11.13	DIR	Form 4
Kalsu (James Barton)	8/14/23	-13991	11.13	DIR	Form 4
Bliss (Jason W)	8/14/23	-4320	11.13	DIR	Form 4

## Forecasted Income Statement - Annual (USD Million)

Particulars	2021	2022	2023E	2024E	2025E
Revenues	719	719	747	777	820
<i>% growth</i>		0.1%	3.9%	4.0%	5.5%
Cost of Goods Sold	-65	-68	-70	-64	-67
<i>% of revenue</i>	-9.0%	-9.4%	-9.3%	-8.3%	-8.2%
Gross Income (excl. D&A)	654	652	678	713	753
<i>% of revenue</i>	91.0%	90.6%	90.7%	91.7%	91.8%
EBITDA	95	192	315	331	354
<i>% of revenue</i>	13.2%	26.7%	42.1%	42.6%	43.2%
Depreciation & Amortization	67	63	10	25	99
EBIT	28	130	305	306	255
<i>% of revenue</i>	3.9%	18.0%	40.8%	39.4%	31.1%
EBT (GAAP)	-97	-908	20	46	0
<i>% of revenue</i>	-13.5%	-126.2%	2.6%	5.9%	0.0%
Net Income (GAAP)	-51	-929	-7	25	27
<i>% of revenue</i>	-7.2%	-129.2%	-0.9%	3.3%	3.3%
Earnings Per Share (GAAP)	-0.33	-5.78	-0.04	0.15	0.17

\* Now let us move on to Baptista Research's forecasts for SolarWinds Corporation's income statement and cash flows.

\* We forecast a top-line growth of 3.9% for 2023, around 4.0% for 2024, and about 4.0% for 2025.

\* This growth is expected to translate into an EBITDA of \$314.532894 million in 2023 with a margin of 42.09%

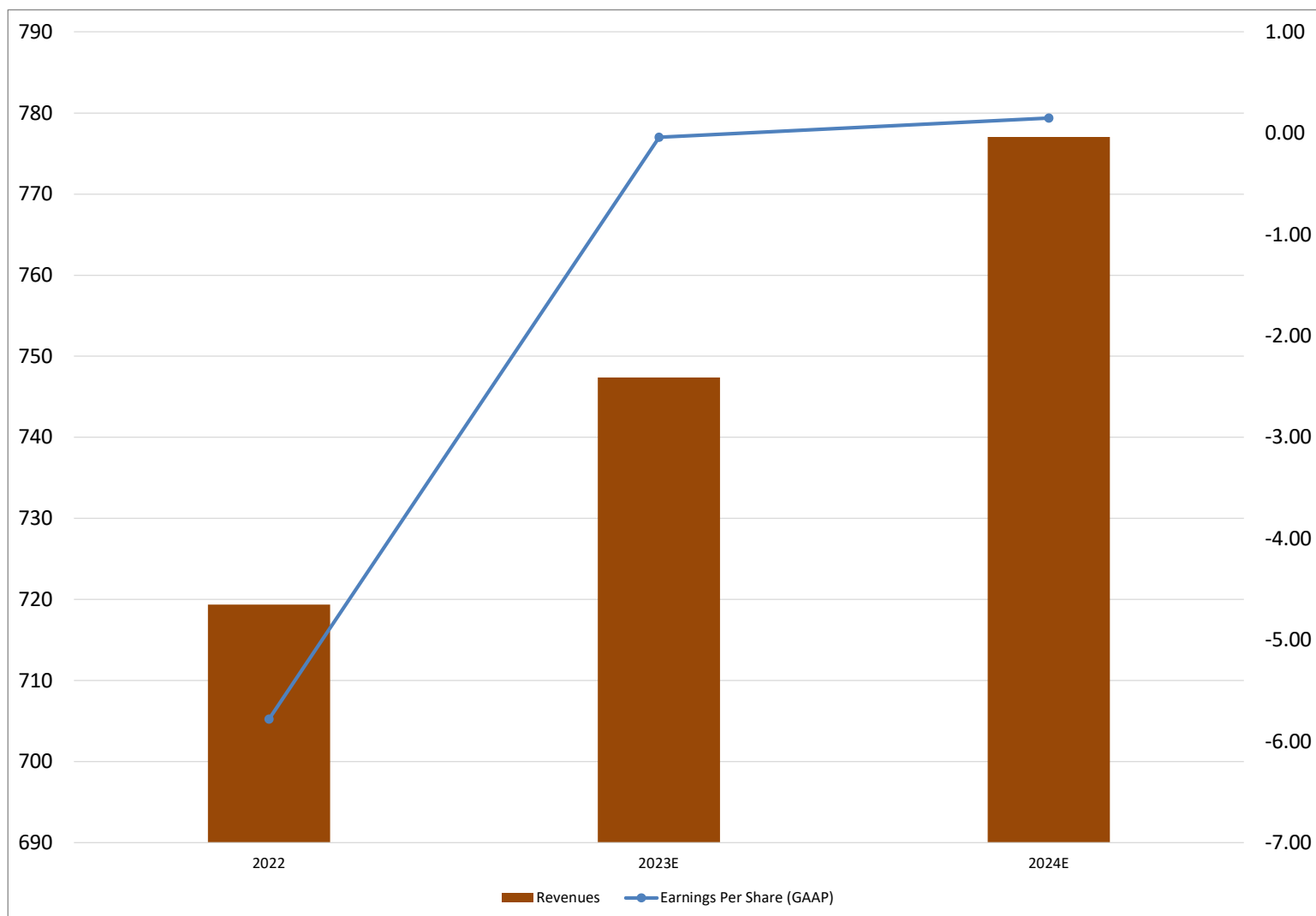
\* SolarWinds Corporation's EBIT margin is expected to be 40.76% in 2023, about 39.38% in 2024, and 39.38% in 2025.



\* Our estimate for the company's Net Income (GAAP) is \$-6.811362 million implying a net margin of -0.91% and resulting in an earnings per share of \$-0.04.

\* We expect the growth to follow a similar trend in 2024 and 2025.

## Forecasted Revenues & Earnings Per Share



## Forecasted Cash Flow Statement (USD Million)

Particulars	2021	2022	2023E	2024E	2025E
Net Income (GAAP)	-51	-929	-7	25	27
+ Depreciation & Amortization	67	63	10	25	99
+/- Working Capital, Deferred Taxes & Other Adjustments	142	1021	192	170	540
<b>Cash Flow from Operations</b>	<b>157</b>	<b>155</b>	<b>195</b>	<b>220</b>	<b>667</b>
<i>% of EBITDA</i>	<i>166.2%</i>	<i>80.4%</i>	<i>62.1%</i>	<i>66.4%</i>	<i>188.0%</i>
Capital Expenditure	-9	-7	-8	-17	-34
<i>% of revenues</i>	<i>1.3%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>2.2%</i>	<i>4.1%</i>
Other Investment Cash Flow items	38	62	62	61	61
<b>Cash Flow after Investments</b>	<b>28</b>	<b>54</b>	<b>54</b>	<b>44</b>	<b>27</b>
<b>Free Cash Flow</b>	<b>148</b>	<b>147</b>	<b>187</b>	<b>202</b>	<b>633</b>

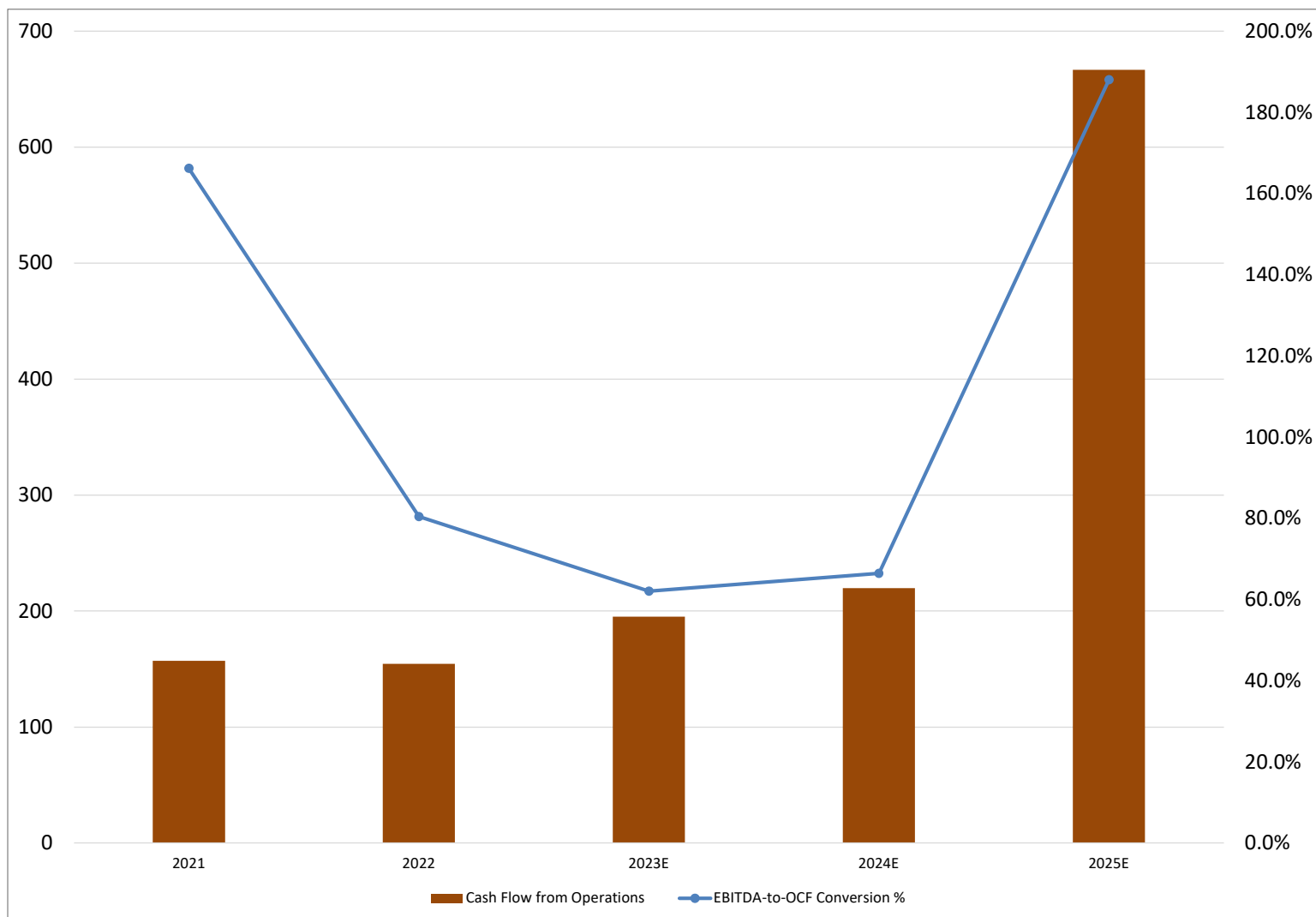
\* In terms of the cash flows, we expect SolarWinds Corporation to generate around \$195.19 million in operating cash flows in 2023.

\* This implies an EBITDA-to-Operating-Cash-Flow conversion ratio of 62.06%

\* SolarWinds Corporation is expected to invest a higher amount in capex and other investing activities in 2023.

\* Overall, the company is expected to generate free cash flows to the tune of \$187.39 million in 2023.

## Forecasted Operating Cash Flows & EBITDA-to-OCF Conversion %



\* We can see the evolution of the operating cash flows and the conversion of EBITDA into operating cash in the above chart. We can also see the margin assumption summary and other elements in the tables below.

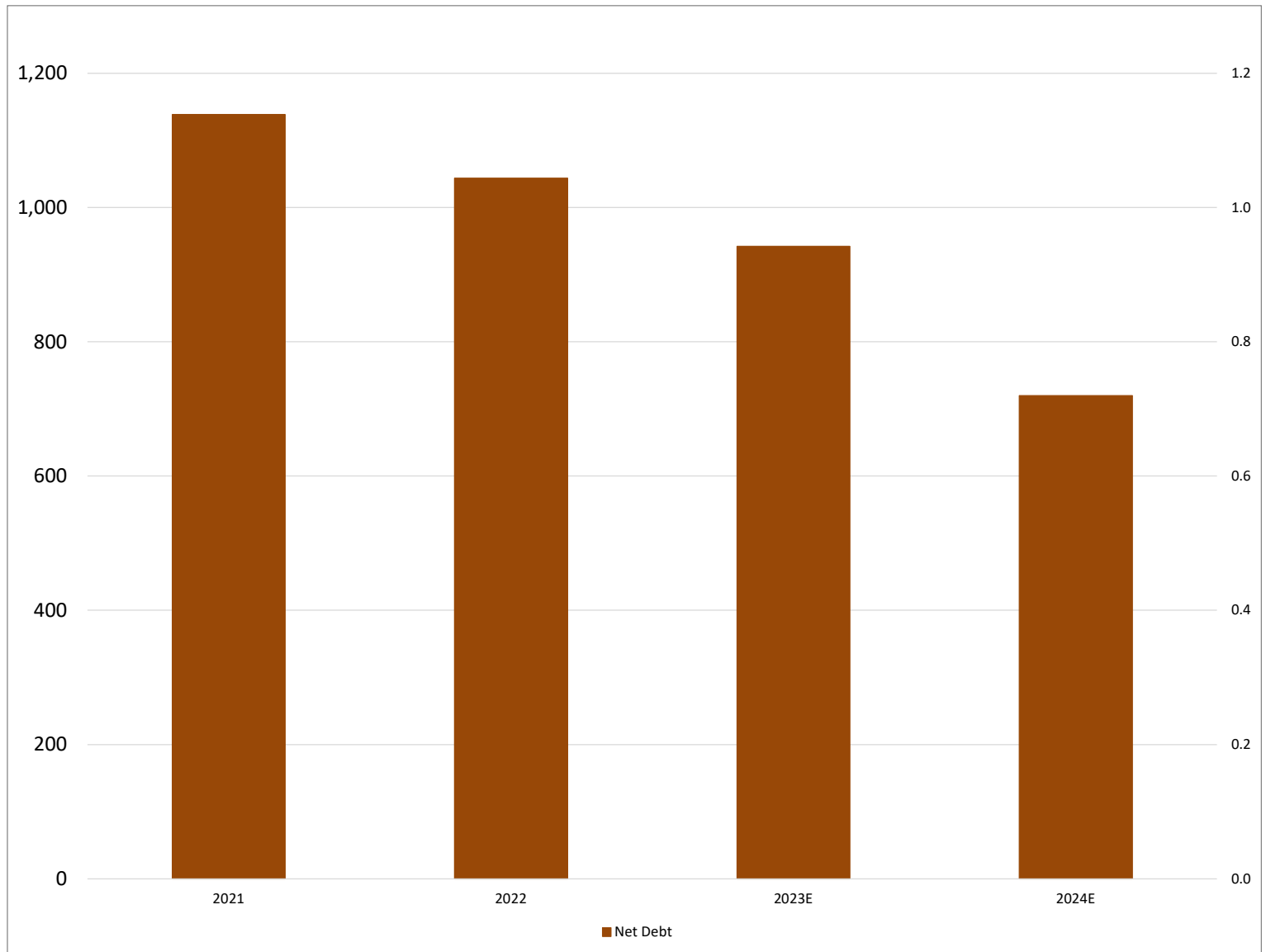
## Key Ratios

Growth & Margins	2021	2022	2023E	2024E	2025E
Sales Growth	0.3%	0.1%	3.9%	4.0%	5.5%
EBITDA Margin	13.2%	26.7%	42.1%	42.6%	43.2%
EBIT Margin	3.9%	18.0%	40.8%	39.4%	31.1%
Net Profit Margin	-7.2%	-129.2%	-0.9%	3.3%	3.3%

Leverage Ratios	2021	2022	2023E	2024E	2025E
Net Debt	1,139	1,044	942	720	533
Net Debt/ Equity	0.5	0.8			
Net Debt/ EBITDA	12.0	5.4	3.0	2.2	1.5

- \* SolarWinds Corporation's Net Debt is expected to decrease in 2023 and is expected to follow a similar trend over the coming years.
- \* The Net Debt-to-EBITDA ratio is a measure of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. It shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
- \* SolarWinds Corporation's Net Debt-to-EBITDA ratio is expected to be 3.00 in 2023 which indicates that the company is reasonably leveraged.
- \* Net-Debt-to-Equity ratio, also known as the gearing ratio shows how encumbered a company is with its debt.
- \* The company's Net Debt-to-Equity ratio for 2022 is 0.76 and it indicates that the company has reasonable gearing.

## Evolution of Net Debt Levels



## Discounted Cash Flow Valuation With A Scenario Analysis

- \* Baptista Research looks to provide a comprehensive discounted cash flow (DCF) valuation for SolarWinds Corporation coupled with a detailed sensitivity analysis for key assumptions in three main scenarios - a base case scenario, a bull case scenario, and a bear case scenario.
- \* Based on our analysis, we have provided a target price for the company's stock for the next three years, in each of the 3 scenarios, offering investors a forward-looking assessment of the company's potential market value. However, the Base Case scenario is the most realistic scenario in our view and that is how the main target price in this report is determined.

### Base Case Scenario

#### Key DCF Assumptions

WACC	10.2%
CoD	9.7%
CoE	10.5%
Market Rate	6.0%
Risk Free Rate	4.8%
Beta	0.947
Perpetual Growth Rate (g)	-10.5%
Terminal Value	3047
Tax Rate	-2.4%

- \* For the purpose of carrying out the discounted cash flow valuation of SolarWinds Corporation, we have used the standard capital asset pricing model (CAPM).
- \* We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- \* The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 4.84%.
- \* The company's stock is more volatile than the market as a whole and has a beta of 0.9 which we shall use without leveraging the same as we are going for the enterprise value approach.
- \* This is used in order to arrive at the cost of equity (CoE) of 10.5% which appears reasonable for a company like SolarWinds Corporation.
- \* Based on the company's long term debt and interest payments, the cost of debt is 9.7%.

- After incorporating the CoE and the CoD and average tax rate of -2.4%, we arrive at a Weighted Average Cost of Capital (WACC) of 10.2%.
- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 3.9 to our forecasted revenues of 2025 which has resulted in an assumed perpetual growth rate of -10.54%.
- It is important to note that the Perpetual Growth rate and the EV/ Sales ratio (along with the other resultant valuation ratios) are the key differentiators between the Base Case, the Bull Case, & the Bear Case scenarios.

EV and Market Cap	Current	2023E	2024E	2025E
Price (\$)	10.32	12.9	14.6	16.8
Outstanding Number of shares (million)	166	166	166	160
Total Market Cap (billion)	1.71	2.14	2.42	2.69
Net Debt	1044	942	720	533
Enterprise Value (billion)	2.76	3.08	3.14	3.22

- After applying the discount rate (WACC) of 10.2%, we arrive at a price target of \$12.9 for 2023.
- Our target price at the end of 2024 is \$14.6 and for 2025 is \$16.8 which implies a total appreciation of nearly 62.8% in the coming 3 years in the stock price.

Valuation Ratios	Current	2023E	2024E	2025E
EV/ Sales	3.8	4.1	4.0	3.9
EV/ EBITDA	14.3	9.8	9.5	9.1
EV/ EBIT	21.3	10.1	10.3	10.5
Price/Earnings	NA	NA	95.9	99.7

- During this phase, we see the EV/ EBITDA to be in the range of 9.09 and 9.80
- The EV/ EBIT will be in the range of 10.12 to 10.52 over the coming 3 years.

- \* As a part of the comparables analysis for the sake of valuation, we are looking to establish a peer group consisting of similar companies in the same industry and compare their valuation multiples with those of SolarWinds Corporation.

## Bull Case Scenario

### Key DCF Assumptions

WACC	10.2%
CoD	9.7%
CoE	10.5%
Market Rate	6.0%
Risk Free Rate	4.8%
Beta	0.947
Perpetual Growth Rate (g)	-3.0%
Terminal Value	4769
Tax Rate	-2.4%

- \* For the purpose of carrying out the discounted cash flow valuation of SolarWinds Corporation, we have used the standard capital asset pricing model (CAPM).
- \* We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
  - \* The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 4.84%.
  - \* The company's stock is more volatile than the market as a whole and has a beta of 0.9 which we shall use without leveraging the same as we are going for the enterprise value approach.
  - \* This is used in order to arrive at the cost of equity (CoE) of 10.5% which appears reasonable for a company like SolarWinds Corporation.
  - \* Based on the company's long term debt and interest payments, the cost of debt is 9.7%.
  - \* After incorporating the CoE and the CoD and average tax rate of -2.4%, we arrive at a Weighted Average Cost of Capital (WACC) of 10.2%.



- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 5.6 to our forecasted revenues of 2025 which has resulted in an assumed perpetual growth rate of -3.05%.
- It is important to note that the Perpetual Growth rate and the EV/ Sales ratio (along with the other resultant valuation ratios) are the key differentiators between the Base Case, the Bull Case, & the Bear Case scenarios.

EV and Market Cap	Current	2023E	2024E	2025E
Price (\$)	10.32	21.0	22.9	25.6
Outstanding Number of shares (million)	166	166	166	160
Total Market Cap (billion)	1.71	3.48	3.79	4.09
Net Debt	1044	942	720	533
Enterprise Value (billion)	2.76	4.42	4.51	4.62

- After applying the discount rate (WACC) of 10.2%, we arrive at a price target of \$21.0 for 2023.
- Our target price at the end of 2024 is \$14.6 and for 2025 is \$16.8 which implies a total appreciation of nearly 62.8% in the coming 3 years in the stock price.

Valuation Ratios	Current	2023E	2024E	2025E
EV/ Sales	3.8	5.9	5.8	5.6
EV/ EBITDA	14.3	14.1	13.6	13.0
EV/ EBIT	21.3	14.5	14.8	15.1
Price/Earnings	-1.8	-511.2	150.1	151.8

- During this phase, we see the EV/ EBITDA to be in the range of 9.09 and 9.80

- The EV/ EBIT will be in the range of 10.12 to 10.52 over the coming 3 years.

## Bear Case Scenario

### Key DCF Assumptions

WACC	10.2%
CoD	9.7%
CoE	10.5%
Market Rate	6.0%
Risk Free Rate	4.8%
Beta	0.947
Perpetual Growth Rate (g)	-13.7%
Terminal Value	2643
Tax Rate	-2.4%

- For the purpose of carrying out the discounted cash flow valuation of SolarWinds Corporation, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 4.84%.
- The company's stock is more volatile than the market as a whole and has a beta of 0.9 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 10.5% which appears reasonable for a company like SolarWinds Corporation.
- Based on the company's long term debt and interest payments, the cost of debt is 9.7%.
- After incorporating the CoE and the CoD and average tax rate of -2.4%, we arrive at a Weighted Average Cost of Capital (WACC) of 10.2%.

- \* The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- \* In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 3.5 to our forecasted revenues of 2025 which has resulted in an assumed perpetual growth rate of -13.72%.
- \* It is important to note that the Perpetual Growth rate and the EV/ Sales ratio (along with the other resultant valuation ratios) are the key differentiators between the Base Case, the Bull Case, & the Bear Case scenarios.

EV and Market Cap	Current	2023E	2024E	2025E
Price (\$)	10.32	11.0	12.8	14.7
Outstanding Number of shares (million)	166	166	166	160
Total Market Cap (billion)	1.71	1.82	2.12	2.36
Net Debt	1044	942	720	533
Enterprise Value (billion)	2.76	2.77	2.83	2.89

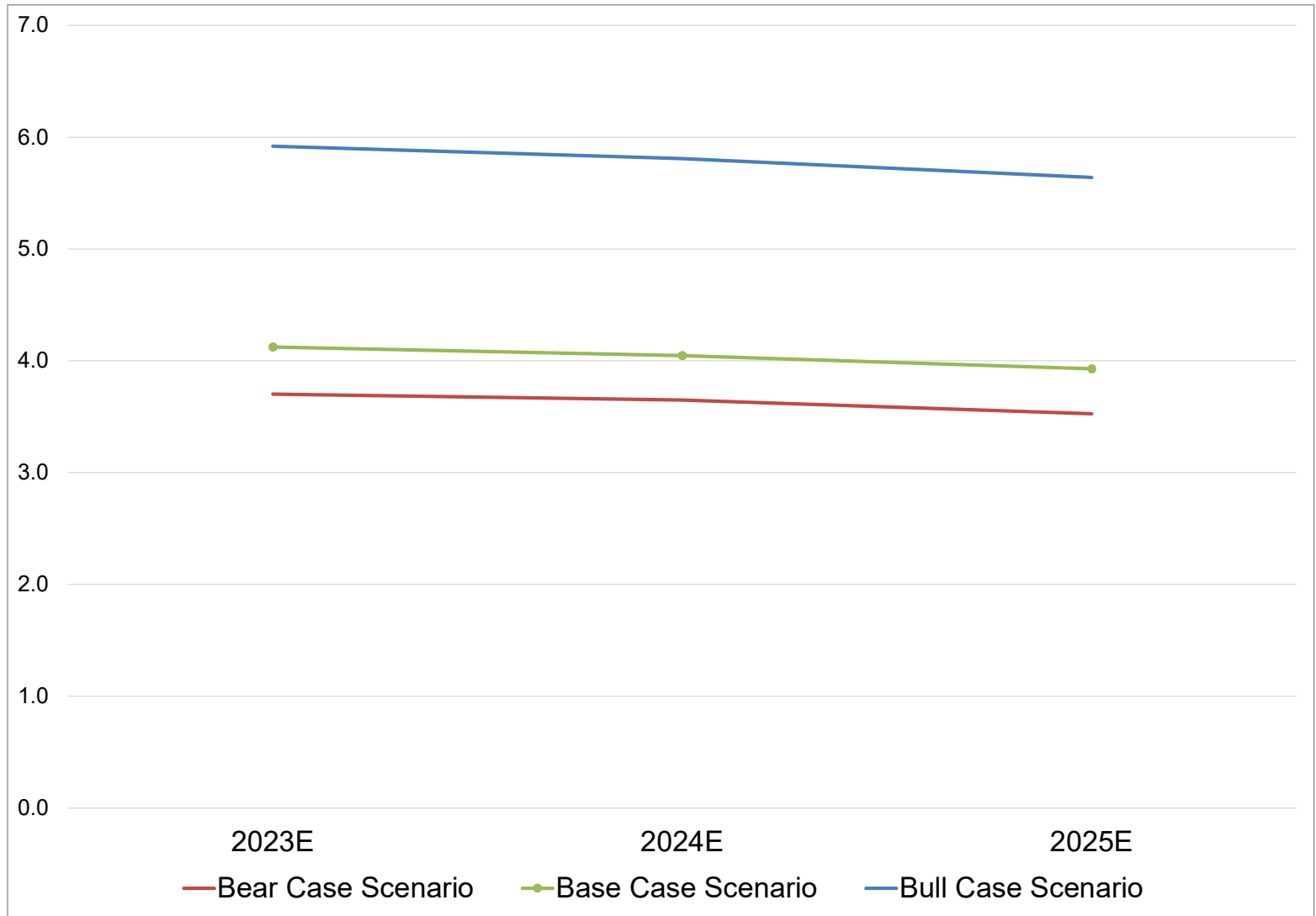
- \* After applying the discount rate (WACC) of 10.2%, we arrive at a price target of \$11.0 for 2023.
- \* Our target price at the end of 2024 is \$14.6 and for 2025 is \$16.8 which implies a total appreciation of nearly 62.8% in the coming 3 years in the stock price.

Valuation Ratios	Current	2023E	2024E	2025E
EV/ Sales	3.8	3.7	3.6	3.5
EV/ EBITDA	14.3	8.8	8.6	8.2
EV/ EBIT	21.3	9.1	9.3	9.4
Price/Earnings	-1.8	-267.8	83.7	87.5

- \* During this phase, we see the EV/ EBITDA to be in the range of 9.09 and 9.80

- The EV/ EBIT will be in the range of 10.12 to 10.52 over the coming 3 years.

## Comparative Analysis Of EV/ Sales In The Bull Case, Bear Case & Base Case Scenarios



- We can see a brief summary of the different assumptions in each of the 3 scenarios and the different target prices in the table below:

## Scenario Analysis Summary For 2023

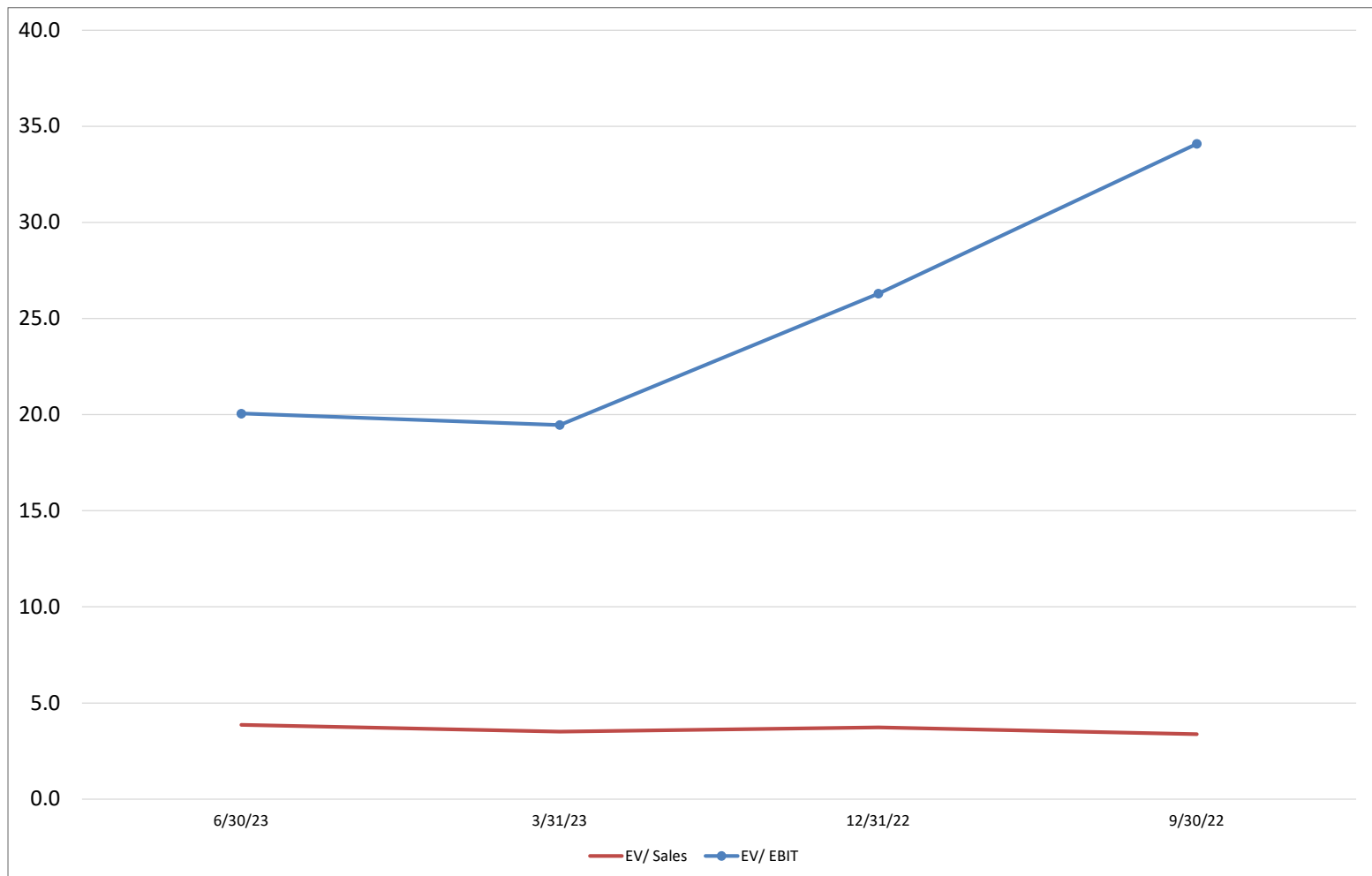
Particulars	Bull Case	Base Case	Bear Case
Target Price - 2023	21.0	<b>12.9</b>	11.0
EV/ Sales	5.9	<b>4.1</b>	3.7
EV/ EBITDA	14.1	<b>9.8</b>	8.8
EV/ EBIT	14.5	<b>10.1</b>	9.1
Price/Earnings	-511.2	<b>NA</b>	-267.8
Perpetual Growth Rate (g)	-3.0%	<b>-10.5%</b>	-13.7%
Terminal Value	4769	<b>3047</b>	2643

## Evolution Of Key Valuation Multiples - Quarter-on-Quarter Data

Valuation Ratios	6/30/23	3/31/23	12/31/22	9/30/22
EV/ Sales	3.9	3.5	3.7	3.4
EV/ Gross Profit	4.3	3.9	4.1	3.7
EV/ EBITDA	13.7	13.1	16.2	18.0
EV/ EBIT	20.1	19.5	26.3	34.1
Price/ Book Value	1.2	1.0	1.2	0.8
EV / Unlevered Free Cash Flow	14.5	10.4	11.4	9.6
Market Cap / Levered Free Cash Flow	11.6	7.0	7.6	5.6

- The valuation multiples of any company are a measure of the market perception of its value. In isolation, those numbers may mean very little but when compared to other industry peers/ the historical values, we can see the evolution of the market perception of a company's value.
- First, let us take a closer look at the evolution of SolarWinds Corporation's valuation multiples over the past 4 quarters before moving on to the year-on-year evolution.
- In the above table as well as the below chart, we see SolarWinds Corporation's EV/ Sales multiple falling, indicating a drop in market perception of the company's stock.
- We also see the company's EV/ EBIT evolving from 19.46 to 34.09 over the past 3 quarters.
- SolarWinds Corporation's Price to Book ratio has decreased from 1.21 to 0.77 over the past four quarters.

## Evolution Of EV/ Sales & EV/ EBIT Valuation Multiples - Quarter-on-Quarter Performance

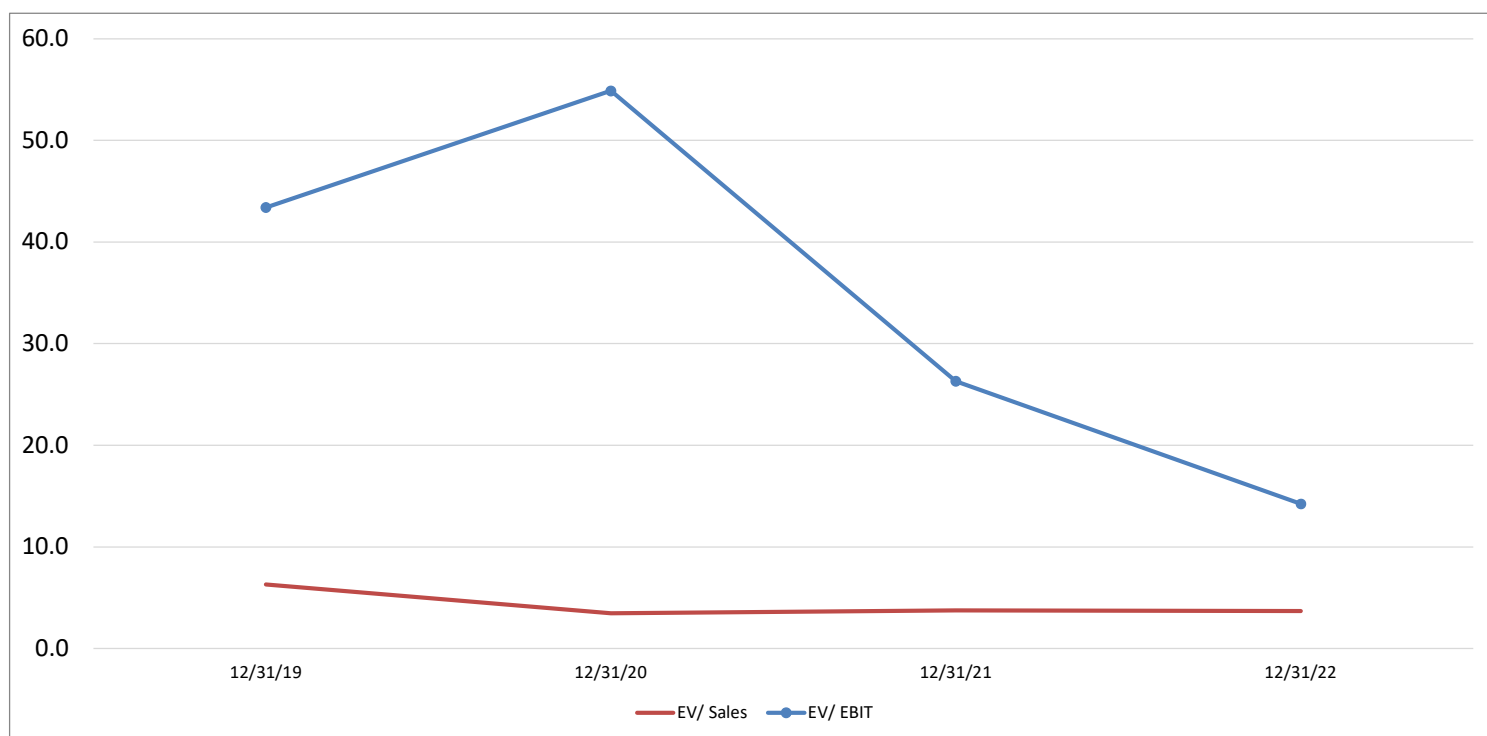


## Evolution Of Key Valuation Multiples - Year-on-Year Data

Valuation Ratios	12/31/19	12/31/20	12/31/21	12/31/22
EV/ Sales	6.3	3.5	3.7	3.7
EV/ Gross Profit	6.9	3.9	4.1	4.1
EV/ EBITDA	26.8	21.9	16.2	11.2
EV/ EBIT	43.4	54.9	26.3	14.2
Price/ Book Value	1.7	1.0	1.2	1.2
EV / Unlevered Free Cash Flow	15.3	9.6	11.4	9.8
Market Cap / Levered Free Cash Flow	12.8	6.7	7.6	7.8

- Now, let us move on to look at the year-on-year evolution of SolarWinds Corporation's valuation multiples.
- If we focus on the most fundamental valuation multiple i.e., the EV/ Sales, we see that it has decreased from 3.73 to 3.67 over the past year.
- Over a 4-year horizon, we see that SolarWinds Corporation's EV/ Sales has fallen from 6.29 to 3.67 which is an interesting development.
- On the other hand, the company's EV/ EBITDA has evolved from 16.24 to 11.24 over the past year which means that its market perception has worsened.
- SolarWinds Corporation's Price to Book ratio has evolved from 0.97 to 1.23 over the past 3 years which is a definite improvement in the market perception of the company.

## Evolution Of EV/ Sales & EV/ EBIT Valuation Multiples - Year-on-Year Performance



## Valuation Multiples Of Comparables

Comparable Name	Forward EV/ Revenue	Forward EV/ EBITDA	Forward P/E	Forward Market Cap/ FCF
SolarWinds Corporation	4.12x	9.80x	NA	11.42x
Microsoft Corporation	10.15x	20.56x	30.99x	38.52x
Oracle Corporation	6.76x	12.94x	18.76x	26.60x
Salesforce, Inc.	5.57x	15.75x	23.76x	21.52x
ServiceNow, Inc.	11.73x	35.21x	50.44x	36.95x



Atlassian Corporation	10.63x	53.94x	79.71x	42.64x
CrowdStrike Holdings, Inc.	11.96x	49.84x	57.50x	40.25x
Datadog, Inc.	10.88x	51.89x	56.00x	54.76x
Zscaler, Inc.	10.93x	54.84x	71.11x	53.20x
Dynatrace, Inc.	8.33x	31.35x	40.46x	38.52x

Median	10.63x	35.21x	50.44x	38.52x
Mean	9.66x	36.26x	47.64x	39.22x
Max	11.96x	54.84x	79.71x	54.76x
Min	5.57x	12.94x	18.76x	21.52x

- As we can see in the above table, the forward EV/ Revenue multiple of SolarWinds Corporation is above that of the industry median.
- We also see that the industry mean of SolarWinds Corporation is less than the forward EV/ Revenue multiple of the company.
- As compared to the peer group, we can say that the company is leaning towards being overvalued.

## Key Risks

It is important to highlight the key risks associated with an investment in SolarWinds Corporation as well as the inherent risks associated with the financial projections and price forecasts presented in this report.

SolarWinds acknowledges the presence of macroeconomic challenges that affect IT spending. These headwinds can impact the company's growth prospects, especially if there is a significant economic downturn or uncertainty in the market. Changes in customer spending behavior due to economic conditions could pose a risk to SolarWinds' revenue growth.

While the company's subscription-first strategy is a driver for potential acquisition, it also represents a risk. The success of the strategy depends on effectively converting existing maintenance customers to subscription arrangements and growing subscription revenue. Any obstacles or delays in this transformation process could impact the company's financial performance and attractiveness as an acquisition target.

SolarWinds operates in a competitive market with numerous IT management and observability solutions providers. Acquiring the company would require potential buyers to navigate a competitive landscape. Changes in market dynamics, evolving customer preferences, or new entrants in the industry could pose challenges to the company's growth and competitive positioning.

Global economic, political and other conditions may adversely affect trends in consumer, business and government spending, which may adversely impact the demand for the company's services and its revenue and profitability.

SolarWinds Corporation operates in highly competitive markets for its products and services. Competitive risk is the risk of losing market share, customers or revenues to competitors who may offer more attractive products, prices, services or distribution channels. Competitive risk can also arise from new entrants or disruptive innovations that could challenge SolarWinds Corporation's business model or value proposition.

SolarWinds Corporation operates in highly regulated jurisdictions, where it is subject to various laws, rules and regulations that govern its products, services, operations and capital requirements. Regulatory risk is the risk of changes in the regulatory environment that could adversely affect SolarWinds Corporation's business, financial condition and results of operations. For example, changes in tax laws, data privacy laws, environmental laws, consumer protection laws or antitrust laws could increase its costs, liabilities, compliance burdens or competitive pressures.

SolarWinds Corporation invests heavily in research and development to create new products and services that meet the evolving needs and preferences of its customers. Innovation risk is the risk of failing to innovate effectively or efficiently that could affect its growth potential or competitive advantage. For example, SolarWinds Corporation could face challenges such as technological obsolescence, customer dissatisfaction, market saturation or intellectual property infringement due to factors such as changing customer demands, emerging technologies, shifting industry trends or aggressive competition.

SolarWinds Corporation often has a high valuation compared to its peers and the market. High valuation is the risk of a downward adjustment in its stock price due to factors such as earnings misses, growth slowdowns, margin compressions or market corrections. For example, SolarWinds Corporation could face a lower valuation due to factors such as lower-than-expected earnings growth, higher-than-expected expenses or taxes, lower-than-expected margins or returns on capital or higher-than-expected discount rates.

SolarWinds Corporation is exposed to various legal claims and disputes arising from its business activities or transactions. Legal risk is the risk of litigation that could result in significant costs, liabilities or penalties for the company or its affiliates.

SolarWinds Corporation relies on various systems, processes, people and third parties to support its business operations and customer service. It faces the risk of cyberattacks, data breaches, fraud or system failures that could compromise its data security, business continuity or customer satisfaction. The company also faces the risk of reputational damage or regulatory actions that could result from cyber incidents.

SolarWinds Corporation pursues an active acquisition strategy to expand its geographic presence, product offerings and customer base. The company faces the risk of integration challenges, goodwill impairments, contingent liabilities or unexpected costs associated with its acquisitions. The company also faces the risk of failing to achieve the expected synergies, benefits or returns from its acquisitions.

With respect to our price projection, we would like to clarify that the valuation of SolarWinds Corporation in this report is specific to the date of the analysis i.e. 03-11-2023.

We must emphasize that the projected valuation and the share price of SolarWinds Corporation are dependent on the realization of the revenue growth, free cash flows and the other assumptions taken into account. Our analysis cannot be directed to providing any assurance about the achievability of these financial forecasts.

There is a possibility that the actual results of the company are different from the projected results as a result of unexpected events and circumstances such as the realization of the threats mentioned in the paragraph above. Lastly, we would like to clarify that we had no interaction with the management of the company and they did not comment on the achievability or the reasonableness of the assumptions underlying the financial forecasts. Please check out our detailed disclosures at the end for further details.

## Analyst Ratings

**Buy:** Expected to outperform market over next 6 to 12 months. Minimal risk to fundamentals and valuation. Good long-term investment.

**Outperform:** Expected to outperform the market over next 6 to 12 months but there is a moderate risk to fundamentals and valuation.

**Sell:** Expected to significantly underperform the market over next 6 to 12 months. There is a strong likelihood of the security delivering negative returns and a very high risk to fundamentals and valuation.

**Underperform:** Expected to underperform the market over next 6 to 12. There is a moderate to high risk to fundamentals and valuation.

**Hold:** Expected to perform in line with the market over next 6 to 12 months. However, there is a moderate to high risk to fundamentals and valuation.

## Analyst Industry Views

**Attractive:** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

**In-Line:** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

**Cautious:** The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America – MSCI Emerging Markets Latin America; Europe – MSCI Europe; Japan - TOPIX; Asia - relevant country index or sub-regional index. Please contact us to know the relevant index in case it is not specified in the report.

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