



SolarWinds Corporation

Q1 Revenue Miss, but Better Underlying FY19 Guidance

SolarWinds delivered a mixed start to the year with a miss on license and total revenue in Q1. However, despite less than ideal execution in Q1, management raised FY19 top-line guidance adjusted for the Samanage acquisition and FX headwinds. Management remains confident about 2H organic growth acceleration due to positive indicators from Q1 such as better than expected MRR, maintenance renewal rates and benefit from price increases for MSPs. While we acknowledge these positives, and like the company's move into ITSM, we believe a wait and see approach is warranted given mixed Q1 execution. We remain on the sidelines given fair valuation levels (~16.5x CY20E uFCF) relative to cash flow growth prospects. We reiterate our EW and \$18 PT.

The Numbers: SWI delivered license revenue of \$37.7mn (4% ccy license growth under 605), 1% below consensus. Total revenue grew 11.2% ccy vs. guidance of 11-12% and slightly below consensus. SWI's 1Q19 adjusted EBITDA margin was 48% (vs. 47% consensus). Adjusted for the \$11.5-12.5mn contribution from Samanage, FY19 revenue guidance came in at \$922.5-936.5mn vs. consensus of \$928.8mn. Adjusted EBITDA margin guidance revised to 48% (vs. 48.7% consensus) on the Samanage acquisition.

Positives: (1) Better than expected FY19 revenue guidance adjusted for Samanage and incremental FX headwinds of \$4mn. (2) Strong uptick in TTM maintenance renewal rate to 97% (vs. 95% for FY18). (3) Growing percentage of recurring revenue, with maintenance+subscription comprising 82.5% of total in Q1 (vs. 81.4% last year).

Negatives: (1) License revenue missed expectations despite easiest comps for the year (0.5% license growth last year). (2) Expectations for y/y declining margins for FY19 despite the benefit from 606 adoption due to the \$8-10mn headwind from Samanage (3) uFCF came below expectations (77% conversion vs. 81% last year) due to the seasonal impact from annual bonus payments.

Potential Catalysts: Q2 earnings tentatively in July.

SWI: Quarterly and Annual EPS (USD)

	2018	2019		2020		Change y/y			
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2019	2020
Q1	0.14A	0.17E	0.20A	0.17E	0.20E	0.21E	0.20E	43%	5%
Q2	0.12A	0.18E	0.19E	0.19E	0.22E	0.23E	0.22E	58%	21%
Q3	0.17A	0.21E	0.20E	0.21E	0.24E	0.24E	0.24E	18%	20%
Q4	0.19A	0.23E	0.23E	0.23E	0.26E	0.27E	0.26E	21%	17%
Year	0.63A	0.79E	0.82E	0.80E	0.92E	0.96E	0.92E	30%	17%
P/E	31.5		24.0			20.6			

Source: Barclays Research.

Consensus numbers are from Refinitiv received on 24-Apr-2019; 13:35 GMT

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 8.

Equity Research

Technology | U.S. Software
25 April 2019

Stock Rating	EQUAL WEIGHT Unchanged
Industry View	POSITIVE Unchanged
Price Target	USD 18.00 Unchanged

Price (24-Apr-2019)	USD 19.72
Potential Upside/Downside	-8.7%
Tickers	SWI

Market Cap (USD mn)	6112
Shares Outstanding (mn)	309.95
Free Float (%)	15.96
52 Wk Avg Daily Volume (mn)	0.6
52 Wk Avg Daily Value (USD mn)	N/A
Dividend Yield (%)	N/A
Return on Equity TTM (%)	N/A
Current BVPS (USD)	8.58

Source: Refinitiv

Price Performance	Exchange-NYSE
52 Week range	USD 21.22-12.25



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

U.S. Software

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SolarWinds Corporation (SWI)

Stock Rating: EQUAL WEIGHT

Income statement (\$mn)	2018A	2019E	2020E	2021E	CAGR
Revenue	837	942	1,072	1,197	12.7%
EBITDA (adj)	407	451	518	582	12.6%
Operating profit (adj)	391	433	499	563	12.9%
Pre-tax income	-122	59	148	236	N/A
Net income (adj)	192	256	304	351	22.2%
EPS (adj) (\$)	0.63	0.82	0.96	1.10	20.5%
Diluted shares (mn)	307.0	312.6	318.0	320.8	1.5%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	48.7	47.9	48.3	48.6	48.4
Operating margin (adj) (%)	46.7	46.0	46.6	47.0	46.6
Pre-tax margin (%)	-14.5	6.2	13.8	19.7	6.3
Net (adj) margin (%)	23.0	27.2	28.4	29.4	27.0
ROIC (%)	2.7	2.9	4.3	5.5	3.9
ROA (%)	-1.9	0.1	1.2	2.4	0.4
ROE (%)	-4.1	0.1	2.3	4.7	0.8

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	36	38	37	36	0.2%
Goodwill	3,684	3,994	3,994	3,994	2.7%
Cash and equivalents	383	359	732	1,121	43.1%
Total assets	5,195	5,253	5,423	5,660	2.9%
Short and long-term debt	1,924	1,921	1,921	1,921	0.0%
Other long-term liabilities	134	134	134	134	0.1%
Total liabilities	2,579	2,620	2,690	2,751	2.2%
Net debt/(funds)	1,541	1,563	1,190	800	-19.6%
Shareholders' equity	2,616	2,633	2,733	2,909	3.6%
Change in working capital	2	47	37	5	33.4%
Cash flow from operations	253	338	395	412	17.6%
Capital expenditure	19	24	22	23	7.1%
Free cash flow	371	411	465	477	8.8%

Valuation and leverage metrics	Average				
P/E (adj) (x)	31.5	24.0	20.6	18.0	23.5
EV/sales (x)	9.2	8.2	7.2	6.4	7.8
EV/EBITDA (adj) (x)	18.9	17.1	14.9	13.2	16.0
Equity FCF yield (%)	3.9	5.1	5.9	6.2	5.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	3.8	3.5	2.3	1.4	2.7
Total debt/capital (%)	42.4	42.2	41.3	39.8	41.4

Selected operating metrics (\$mn)	CAGR				
License revenue	165	168	171	174	1.9%
Maintenance revenue	406	444	485	522	8.8%
Services revenue	N/A	N/A	N/A	N/A	N/A
Deferred revenue	296	327	351	370	7.7%

Price (24-Apr-2019) USD 19.72
Price Target USD 18.00

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

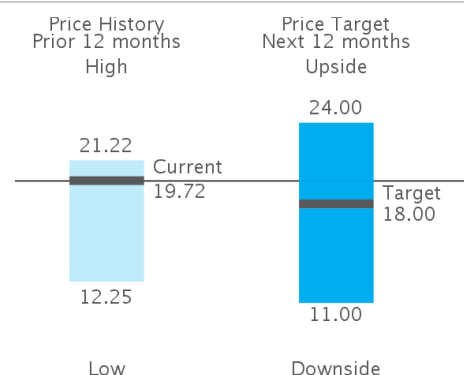
Upside case USD 24.00

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

Downside case USD 11.00

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

Upside/Downside scenarios



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

1Q19 Results Review

SolarWinds delivered a mixed Q1 with a slight miss on revenue but better than expected profitability. For a summary of the company's complete results this quarter vs. Barclays estimates, please refer to Figure below.

FIGURE 1

Summary of Actual vs. Barclays Estimates (under ASC 605)

\$, mn	1Q 18	1Q 19	1Q 19	Actual	1Q 19	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons.	vs. Cons.
Billings	210.8	231.6	233.3	(0.7)%	229.4	1.0%
License Revenue	36.9	37.7	38.0	(0.6)%	38.2	(1.2)%
Maintenance Revenue	97.8	106.5	106.8	(0.3)%	106.6	(0.1)%
Subscription Revenue	63.7	71.7	71.8	(0.2)%	71.6	0.1%
Total Revenue	198.4	216.0	216.6	(0.3)%	216.5	(0.2)%
Adjusted EBITDA	95.1	103.6	102.0	1.6%	101.7	1.9%
% margin	47.9%	48.0%	47.1%	0.9%	47.0%	1.0%
Operating profit, Non-GAAP	90.5	99.4	97.9	1.5%	97.6	1.8%
% margin	45.6%	46.0%	45.2%	0.8%	45.1%	0.9%
Net income, Non-GAAP	43.0	59.7	53.0	12.5%	53.4	11.8%
Non-GAAP EPS	0.14	0.19	0.17	11.0%	0.17	11.8%

Source: Company Data, Barclays Research, StreetAccount

Summary of Guidance

The company provided 2Q19 and FY19 guidance. We note that guidance reflects the adoption of 606 under the modified retrospective method. Management discussed a neutral impact to the top-line but \$5mn benefit to EBITDA from 606 adoption, offset by an \$8-10mn headwind to EBITDA from the Samanage acquisition. Management expects \$11.5-12.5mn contribution from Samanage for FY19 and \$4mn incremental FX headwind to the top-line.

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

FIGURE 2

Company Guidance vs. Prior Barclays Expectations

\$,mn	Q2					FY19				
	Low	High	Barclays	Consensus	Diff	Low	High	Barclays	Consensus	Diff
Total Revenue	224.0	229.0	224.2	224.4	0.9%	934	949	929.3	928.8	1.4%
Adjusted EBITDA	107	109	107.5	107.5	0.5%	446	453	452.7	452.0	-0.6%
% margin	47.8%	47.6%	47.9%	47.9%		47.8%	47.7%	48.7%	48.7%	
Non-GAAP EPS	0.18	0.19	0.18	0.19	-2.6%	0.80	0.82	0.79	0.80	1.3%

Source: Company data, Barclays Research, StreetAccount

Estimate Changes

We have adjusted our numbers to reflect management's guidance. We summarize the changes to our model in the table below. We are reiterating our PT of \$18, which is based on 15x (unchanged) EV/CY20E uFCF and slightly revised CY20E uFCF estimate of \$465mn (was \$468mn).

FIGURE 3
Summary of Estimate Changes

\$, mn	2019E			2020E		
	New	Old	% Chg.	New	Old	% Chg.
License and Maintenance	611.8	611.2	0.1%	655.6	655.1	0.1%
Subscription	330.3	318.2	3.8%	416.2	388.1	7.2%
Total Revenue	942.1	929.3	1.4%	1,071.8	1,043.2	2.7%
Gross profit, adjusted	862.2	851.3	1.3%	982.1	955.8	2.7%
% margin	91.5%	91.6%		91.6%	91.6%	
S&M	252.0	245.2	2.8%	284.1	273.4	3.9%
% margin	26.7%	26.4%		26.5%	26.2%	
R&D	106.2	103.2	2.9%	122.0	116.1	5.1%
% margin	11.3%	11.1%		11.4%	11.1%	
G&A	70.8	66.7	6.2%	76.5	72.8	5.1%
% margin	7.5%	7.2%		7.1%	7.0%	
Adjusted EBITDA	450.8	452.7	(0.4)%	517.7	510.8	1.4%
% margin	47.9%	48.7%		48.3%	49.0%	
Operating profit, Non-GAAP	433.3	436.3	(0.7)%	499.4	493.5	1.2%
% margin	46.0%	46.9%		46.6%	47.3%	
uFCF	410.6	413.6	(0.7)%	465.2	468.3	(0.7)%

Source: Barclays Research

FIGURE 4
SolarWinds P&L

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19	2Q19E	3Q19E	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E
Total Billings		785.1	871.1	231.5	225.7	250.9	264.6	972.7	266.2	255.1	278.5	295.9	1,095.6
y/y growth			11.0%	9.8%	10.3%	13.0%	13.3%	11.7%	15.0%	13.0%	11.0%	11.8%	12.6%
q/q growth				-0.9%	-2.5%	11.2%	5.5%		0.6%	-4.2%	9.2%	6.2%	
License & Maintenance Revenue	490.1	525.8	570.1	144.2	148.4	155.8	163.4	611.8	155.2	159.2	166.8	174.4	655.6
y/y growth	0.0%	7.3%	8.4%	7.1%	8.1%	6.6%	7.5%	7.3%	7.6%	7.3%	7.1%	6.7%	7.2%
q/q growth	0.0%	0.0%	0.0%	-74.7%	2.9%	5.0%	4.9%	0.0%	-5.0%	2.6%	4.7%	4.5%	0.0%
% total	77.7%	71.0%	68.1%	66.8%	65.4%	64.4%	63.5%	64.9%	61.3%	61.0%	61.3%	61.1%	61.2%
Subscription Revenue	140.7	215.2	266.8	71.6	78.5	86.2	94.0	330.3	97.9	101.9	105.4	111.0	416.2
y/y growth	0.0%	52.9%	24.0%	12.4%	19.7%	27.0%	35.0%	23.8%	36.8%	29.8%	22.3%	18.1%	26.0%
q/q growth	0.0%	0.0%	0.0%	-73.2%	9.7%	9.7%	9.1%	0.0%	4.2%	4.1%	3.4%	5.3%	0.0%
% total	22.3%	29.0%	31.9%	33.2%	34.6%	35.6%	36.5%	35.1%	38.7%	39.0%	38.7%	38.9%	38.8%
Total Revenue	630.8	741.0	836.8	215.8	226.9	242.0	257.4	942.1	253.1	261.1	272.2	285.3	1,071.8
y/y growth		17.5%	12.9%	8.8%	11.9%	13.1%	16.2%	12.6%	17.3%	15.1%	12.5%	10.8%	13.8%
q/q growth				-74.2%	5.1%	6.6%	6.4%		-1.7%	3.2%	4.2%	4.8%	
Cost of Revenue	48.8	60.3	70.1	17.7	19.7	21.1	21.4	79.9	21.6	22.2	23.1	22.8	89.7
% margin	92.3%	91.9%	91.6%	91.8%	91.3%	91.3%	91.7%	91.5%	91.5%	91.5%	91.5%	92.0%	91.6%
y/y growth	0.0%	23.6%	16.2%	5.5%	12.2%	17.3%	20.4%	14.0%	21.9%	12.3%	9.9%	6.8%	12.3%
q/q growth	0.0%	0.0%	0.0%	-74.7%	11.4%	6.6%	1.5%	0.0%	1.1%	2.6%	4.4%	-1.4%	0.0%
Gross Profit, Non-GAAP	582.0	680.7	766.7	198.1	207.1	220.9	236.1	862.2	231.5	239.0	249.0	262.5	982.1
% Margin	92.3%	91.9%	91.6%	91.8%	91.3%	91.3%	91.7%	91.5%	91.5%	91.5%	91.5%	92.0%	91.6%
y/y growth	0.0%	0.0%	0.0%	9.1%	11.9%	12.7%	15.8%	0.0%	16.9%	15.4%	12.7%	11.2%	0.0%
Sales and marketing	170.3	201.6	221.7	56.7	59.9	66.1	69.2	252.0	69.1	68.4	71.9	74.8	284.1
% Margin	27.0%	27.2%	26.5%	26.3%	26.4%	27.3%	26.9%	26.7%	27.3%	26.2%	26.4%	26.2%	26.5%
y/y growth	0.0%	18.4%	10.0%	9.3%	7.5%	17.9%	19.3%	13.6%	21.8%	14.2%	8.8%	8.0%	12.8%
Research and development	67.0	82.4	92.2	23.3	25.2	28.1	29.6	106.2	30.4	29.5	30.8	31.4	122.0
% Margin	10.6%	11.1%	11.0%	10.8%	11.1%	11.6%	11.5%	11.3%	12.0%	11.3%	11.3%	11.0%	11.4%
y/y growth	0.0	0%	12.0%	-2.0%	9.0%	23.6%	30.7%	15.1%	30.4%	17.2%	9.6%	6.0%	14.9%
General and Administrative	40.8	49.5	61.9	17.4	17.7	17.7	18.0	70.8	18.5	19.3	19.6	19.1	76.5
% Margin	6.5%	6.7%	7.4%	8.1%	7.8%	7.3%	7.0%	7.5%	7.3%	7.4%	7.2%	6.7%	7.1%
y/y growth		21%	25.1%	13.3%	9.9%	17.1%	17.5%	14.4%	6.2%	9.2%	10.9%	6.1%	8.1%
Operating Profit (loss)	303.8	347.3	390.9	100.6	104.4	109.1	119.2	433.3	113.6	121.7	126.8	137.2	499.4
% Margin	48.2%	46.9%	46.7%	46.6%	46.0%	45.1%	46.3%	46.0%	44.9%	46.6%	46.6%	48.1%	46.6%
Adjusted EBITDA	315.1	361.9	407.5	104.8	108.6	113.4	123.9	450.8	118.0	126.3	131.3	142.1	517.7
% Margin	50.0%	48.8%	48.7%	48.6%	47.9%	46.9%	48.1%	47.9%	46.6%	48.4%	48.3%	49.8%	48.3%
y/y growth		14.8%	12.6%	10.2%	15.5%	6.5%	10.8%	10.6%	12.5%	16.3%	15.8%	14.7%	14.8%
Interest income / expense	(170.4)	(169.8)	(142.0)	(27.4)	(27.4)	(27.4)	(27.4)	(109.5)	(27.4)	(27.4)	(27.4)	(27.4)	(109.5)
Other Income / (expense)	(57.2)	38.7	(75.3)	1.3	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0
Income tax expense	(149.8)	22.4	(10.5)	13.6	16.9	18.0	20.2	68.7	19.0	20.8	21.9	24.2	85.8
Effective Tax Rate	-196.6%	10.4%	-6.1%	18.3%	22.0%	22.0%	22.0%	21.1%	22.0%	22.0%	22.0%	22.0%	22.0%
Net Income (loss) Non-GAAP	226.0	154.8	192.4	60.9	60.0	63.8	71.6	256.3	67.2	73.6	77.6	85.7	304.1
% Margin	35.8%	21%	23%	28%	26%	26%	28%	27%	27%	28%	28%	30%	28%
FDSO (millions)													
Net Income (loss) per share	\$ -	\$ 0.49	\$ 0.63	\$ 0.20	\$ 0.19	\$ 0.20	\$ 0.23	\$ 0.82	\$ 0.21	\$ 0.23	\$ 0.24	\$ 0.27	\$ 0.96

Source: Company Data, Barclays Research

FIGURE 5

SolarWinds Balance Sheet

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19	2Q19E	3Q19E	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E
Assets													
Cash, equivalents and ST investments	103.6	277.7	382.6	434.5	191.0	263.8	358.7	358.7	435.8	529.2	622.6	731.7	731.7
Cash, cash equivalents	101.6	277.7	382.6	434.5	191.0	263.8	358.7	358.7	435.8	529.2	622.6	731.7	731.7
Short term investments	2.0	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	80.4	85.1	100.5	109.8	86.0	93.1	80.6	80.6	89.0	71.7	74.8	70.5	70.5
Income tax receivable	36.2	1.7	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	19.3	24.3	16.3	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8
Total Current Assets	239.6	388.9	500.3	566.3	299.0	378.9	461.3	461.3	546.8	622.9	719.3	824.2	824.2
Property and equipment, net	37.2	34.2	35.9	36.9	37.2	36.5	38.2	38.2	37.9	37.5	37.4	37.1	37.1
Long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	1.7	4.4	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Goodwill	3,533.4	3,695.6	3,684.0	3,661.8	3,993.8	3,993.8	3,993.8	3,993.8	3,993.8	3,993.8	3,993.8	3,993.8	3,993.8
Intangible assets, net	1,377.7	1,194.5	956.3	892.0	836.6	784.7	736.2	736.2	682.4	632.7	586.7	544.2	544.2
Other assets	13.1	9.4	11.4	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
Total Assets	5,202.7	5,327.1	5,194.6	5,180.5	5,190.1	5,217.5	5,253.0	5,253.0	5,284.5	5,310.5	5,360.7	5,422.8	5,422.8
Liabilities													
Accounts payable	9.0	9.7	9.7	10.1	11.3	13.3	14.2	14.2	11.4	11.8	16.3	17.1	17.1
Accrued liabilities	53.7	39.6	52.1	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9
Accrued Interest Payable	-	11.6	0.3	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Income taxes payable	1.2	9.0	15.7	17.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9
Current portion of deferred revenue	204.7	241.5	273.1	285.2	282.7	290.8	297.4	297.4	309.4	303.8	309.6	319.2	319.2
Current debt obligation	17.0	17.0	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	285.7	328.4	370.8	374.8	373.5	383.6	391.0	391.0	400.3	395.1	405.5	415.8	415.8
Deferred revenue, net of current portion	13.0	20.3	23.0	26.6	28.0	28.8	29.4	29.4	30.5	29.9	30.5	31.4	31.4
Non-current deferred taxes	264.7	167.5	147.1	137.5	146.5	155.5	164.5	164.5	175.1	185.8	196.5	207.1	207.1
Other long-term liabilities	36.6	148.1	133.5	133.9	133.9	133.9	133.9	133.9	133.9	133.9	133.9	133.9	133.9
LT debt, net of current portion	2,242.9	2,245.6	1,904.1	1,901.4	1,901.4	1,901.4	1,901.4	1,901.4	1,901.4	1,901.4	1,901.4	1,901.4	1,901.4
Total Liabilities	2,842.8	2,909.94	2,578.55	2,574.1	2,583.2	2,603.1	2,620.2	2,620.19	2,641.0	2,646.1	2,667.7	2,689.6	2,689.58
Equity													
Common Stock													
Convertible Common Stock A	2,879.5	3,146.9	-	-	-	-	-	-	-	-	-	-	-
Common Stock Class B	0.1	0.1	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	-	-	3,011.1	3,019.7	3,019.7	3,019.7	3,019.7	3,019.7	3,019.7	3,019.7	3,019.7	3,019.7	3,019.7
Accumulated other comprehensive loss	(66.0)	75.3	17.0	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)	(10.7)
Accumulated Earnings	(453.7)	(805.2)	(412.3)	(402.9)	(402.4)	(395.0)	(376.5)	(376.5)	(365.9)	(344.9)	(316.2)	(276.1)	(276.1)
Total Equity	2,359.9	2,417.1	2,616.1	2,606.4	2,606.9	2,614.3	2,632.8	2,632.8	2,643.4	2,664.4	2,693.0	2,733.2	2,733.2
Total Liabilities + Equity	5,202.7	5,327.1	5,194.6	5,180.5	5,190.1	5,217.5	5,253.0	5,253.0	5,284.5	5,310.5	5,360.7	5,422.8	5,422.8

Source: Company Data, Barclays Research

FIGURE 6
SolarWinds Cash Flows

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19	2Q19E	3Q19E	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E
Net Income	(334.4)	(83.9)	(102.1)	3.1	(7.7)	(1.4)	9.2	3.2	1.3	11.7	18.9	30.2	62.1
Adjustments from Operating Activities													
Depreciation and amortization	219.2	250.9	258.4	64.5	60.9	57.4	54.6	237.3	59.4	55.5	51.7	48.7	215.2
Provision for Doubtful Accounts	1.8	2.5	2.5	0.5	-	-	-	0.5	-	-	-	-	-
Stock-based compensation expense	87.8	0.1	5.8	7.7	8.2	8.9	9.3	34.1	9.4	9.3	9.7	9.9	38.4
Accrued earnout gain	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	18.8	18.9	11.7	2.3	-	-	-	2.3	-	-	-	-	-
Loss on extinguishment of debt	22.8	18.6	80.1	-	-	-	-	-	-	-	-	-	-
Deferred taxes	(126.6)	(101.5)	(22.1)	(11.3)	9.0	9.0	9.0	15.7	10.6	10.7	10.7	10.6	42.6
(Gain) loss on foreign currency exchange rates	32.4	(54.9)	13.4	(1.3)	-	-	-	(1.3)	-	-	-	-	-
Other non-cash expenses	0.9	(3.8)	3.4	(0.7)	-	-	-	(0.7)	-	-	-	-	-
Adjustments to working capital items													
Accounts receivable	(13.4)	(2.4)	(18.0)	(10.6)	23.8	(7.0)	12.4	18.6	(8.4)	17.3	(3.0)	4.2	10.1
Income taxes receivable	(35.0)	35.0	0.7	(0.3)	-	-	-	(0.3)	-	-	-	-	-
Prepaid and other current assets	(4.2)	6.2	(5.5)	(4.3)	-	-	-	(4.3)	-	-	-	-	-
Accounts payable	(5.7)	0.3	(0.0)	0.5	1.3	2.0	0.9	4.6	(2.8)	0.4	4.6	0.8	3.0
Accrued liabilities and other	28.1	(7.5)	9.8	(10.8)	-	-	-	(10.8)	-	-	-	-	-
Accrued Interest Payable	-	0.6	(11.3)	0.6	-	-	-	0.6	-	-	-	-	-
Income taxes payable	4.4	119.6	(10.7)	2.5	-	-	-	2.5	-	-	-	-	-
Deferred revenue	194.1	34.0	35.5	20.1	(1.1)	8.9	7.2	35.0	13.0	(6.1)	6.3	10.5	23.8
Other long-term liabilities	(0.6)	0.0	1.5	0.8	-	-	-	0.8	-	-	-	-	-
Cash from operations	90.2	232.7	253.1	63.4	94.3	77.7	102.5	337.9	82.5	98.8	99.0	115.0	395.1
y/y growth	-	158.1%	8.8%	79.2%	33.3%	31.8%	16.4%	33.5%	30.1%	4.7%	27.3%	12.1%	16.9%
Purchases of investments	(2.0)	-	-	-	-	-	-	-	-	-	-	-	-
Maturities of investments	22.8	2.0	-	-	-	-	-	-	-	-	-	-	-
Purchase of PPE	(7.8)	(7.6)	(15.9)	(4.6)	(4.5)	(3.6)	(6.4)	(19.2)	(4.1)	(4.2)	(4.4)	(4.6)	(17.1)
Purchase of intangible assets and other LT	(3.5)	(4.8)	(2.7)	(1.2)	(1.2)	(1.2)	(1.2)	(5.0)	(1.2)	(1.2)	(1.2)	(1.2)	(5.0)
Acquisition of businesses, net cash	(507.5)	(24.0)	(60.6)	-	(332.0)	-	-	(332.0)	-	-	-	-	-
Acquisitio of SolarWinds, net cash	(4,335.1)	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	-	-	11.2	0.2	-	-	-	0.2	-	-	-	-	-
Cash from investing activities	(4,833.0)	(34.4)	(68.0)	(5.6)	(337.8)	(4.9)	(7.7)	(355.9)	(5.3)	(5.4)	(5.6)	(5.8)	(22.1)
Cash from financing activities	4,897.3	(35.4)	(74.7)	(4.9)	-	-	-	(4.9)	-	-	-	-	-
FX impact	0.0	13.1	(5.5)	(1.0)	-	-	-	(1.0)	-	-	-	-	-
Net change in cash	154.4	176.1	104.9	51.8	(243.5)	72.9	94.8	(23.9)	77.2	93.4	93.4	109.1	373.0
Cash at Beginning of period	196.9	101.6	277.7	382.6	434.5	191.0	263.8	382.6	358.7	435.8	529.2	622.6	358.7
Cash at End of period	101.6	277.7	382.6	434.5	191.0	263.8	358.7	358.7	435.8	529.2	622.6	731.7	731.7
Free Cash Flow	78.9	220.3	234.5	57.6	88.5	72.9	94.8	313.8	77.2	93.4	93.4	109.1	373.0
uFCF		311.8	370.8	80.8	112.8	97.4	119.5	410.6	100.2	116.3	116.4	132.2	465.2
% conversion		86.2%	91.0%	77.1%	103.9%	85.9%	96.4%	91.1%	84.9%	92.1%	88.6%	93.1%	89.9%
y/y growth			18.9%	5.4%	18.2%	12.6%	7.6%	10.7%	23.9%	3.1%	19.5%	10.6%	13.3%

Source: Company Data, Barclays Research

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SolarWinds Corporation (SWI, 24-Apr-2019, USD 19.72), Equal Weight/Positive, A/CE/D/J/L

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SolarWinds Corporation (SWI / SWI)

USD 19.72 (24-Apr-2019)

Stock Rating

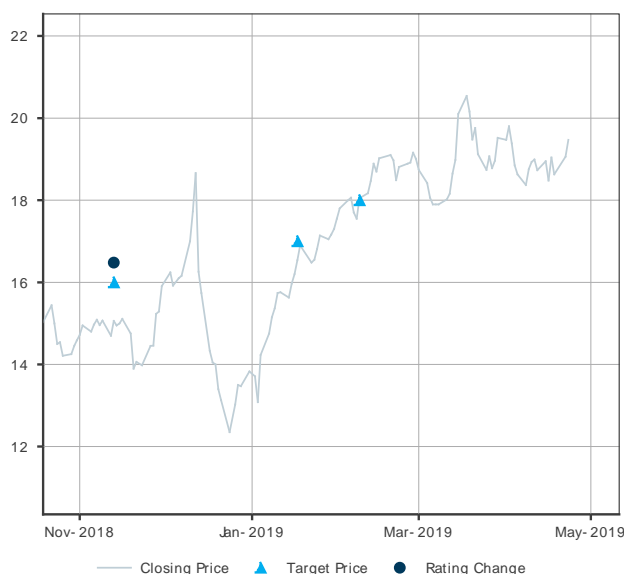
Industry View

EQUAL WEIGHT

POSITIVE

Rating and Price Target Chart - USD (as of 24-Apr-2019)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
08-Feb-2019	18.05		18.00
17-Jan-2019	16.54		17.00
13-Nov-2018	15.06	Equal Weight	16.00

Source: Refinitiv, Barclays Research

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