



## SolarWinds Corporation

# Cash Flow Leverage on Full Display

SolarWinds delivered a healthy end to FY18 with a beat across the board on P&L. The key highlight for us was the much better than expected cash conversion, which resulted in a healthy beat on unlevered free cash flow. The company clearly demonstrated the model's cash flow leverage this quarter, but discussed expectations for limited improvement next year given the tough compare and some headwinds from cash taxes. While we acknowledge this somewhat reflects management conservatism, we also believe it is driven by a limited runway for operating and cash flow margin improvements going forward. Overall, while we like the continued healthy execution, we stay on the sidelines given fair valuation levels (15x CY20E uFCF) relative to cash flow growth prospects. Hence, we reiterate our EW rating, while raising out PT to \$18 (was \$17) on slightly better CY20E uFCF of \$468mn (was \$465mn).

**The Numbers:** The company delivered license revenue growth of 5.5% (beat consensus by 4.4%) and subscription revenue growth of 18.7% this quarter (relatively in-line with consensus). The top-line beat flowed through to profitability, with adjusted EBITDA margin of 50.5% (vs. 49.5% consensus). We also note that uFCF came in at \$111mn (99% conversion vs. our expectations of 88%). The company maintained FY19 revenue growth guidance of 10-12% and provided 48.7% EBITDA margin guidance (in-line with consensus).

**Positives:** (1) Much better than expected EBITDA and uFCF margins (driven by higher than anticipated cash conversion). (2) Another quarter of healthy license outperformance (5.5% growth vs. 0-3% LT expectations). (3) Growing percentage of recurring revenue, with maintenance+subscription comprising 80% of total in FY18 (vs. 79% last year).

**Negatives:** (1) Weaker than expected Q1 guidance, partly driven by FX headwinds. However, management discussed expectations of growth acceleration for maintenance and subscription revenue through FY19. (2) Expectations of no operating leverage for FY19, with EBITDA margin guidance of 48.7% (same as FY18).

**Potential Catalysts:** Q1 earnings tentatively in May.

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

	2018	2019		2020		Change y/y			
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2019	2020
Q1	0.06A	0.16E	0.17E	0.17E	N/A	0.20E	0.20E	183%	18%
Q2	0.17A	0.18E	0.18E	0.19E	N/A	0.22E	0.22E	6%	22%
Q3	0.17A	0.20E	0.21E	0.20E	N/A	0.24E	0.24E	24%	14%
Q4	0.19A	0.22E	0.23E	0.22E	N/A	0.26E	0.25E	21%	13%
Year	0.60A	0.76E	0.79E	0.78E	N/A	0.92E	0.90E	32%	16%
P/E	29.3		22.1			19.0			

Source: Barclays Research.

Consensus numbers are from Refinitiv received on 07-Feb-2019; 14:35 GMT

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## Equity Research

Technology | U.S. Software  
8 February 2019

Stock Rating **EQUAL WEIGHT**  
Unchanged

Industry View **POSITIVE**  
Unchanged

Price Target **USD 18.00**  
raised 6% from USD 17.00

Price (07-Feb-2019) USD 17.55  
Potential Upside/Downside +2.6%  
Tickers SWI

Market Cap (USD mn) 5440  
Shares Outstanding (mn) 309.94  
Free Float (%) 67.86  
52 Wk Avg Daily Volume (mn) 0.8  
52 Wk Avg Daily Value (USD mn) N/A  
Dividend Yield (%) N/A  
Return on Equity TTM (%) N/A  
Current BVPS (USD) 7.40

Source: Refinitiv

Price Performance Exchange-NYSE  
52 Week range USD 19.04-12.25



[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	929	1,043	N/A	N/A
EBITDA (adj)	407	453	511	N/A	N/A
Operating profit (adj)	391	436	493	N/A	N/A
Pre-tax income	-122	48	138	N/A	N/A
Net income (adj)	184	247	292	N/A	N/A
EPS (adj) (\$)	0.60	0.79	0.92	N/A	N/A
Diluted shares (mn)	307.0	311.3	315.3	N/A	N/A
DPS (\$)	0.00	0.00	0.00	N/A	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	48.7	48.7	49.0	N/A	48.8
Operating margin (adj) (%)	46.7	46.9	47.3	N/A	47.0
Pre-tax margin (%)	-14.5	5.2	13.2	N/A	1.3
Net (adj) margin (%)	22.0	26.6	28.0	N/A	25.5
ROIC (%)	2.7	2.9	4.3	N/A	3.3
ROA (%)	-1.9	-0.4	1.0	N/A	-0.4
ROE (%)	-4.1	-0.8	2.1	N/A	-0.9

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	36	36	35	N/A	N/A
Goodwill	3,684	3,684	3,684	N/A	N/A
Cash and equivalents	383	680	1,043	N/A	N/A
Total assets	5,195	5,269	5,422	N/A	N/A
Short and long-term debt	1,924	1,924	1,924	N/A	N/A
Other long-term liabilities	134	134	134	N/A	N/A
Total liabilities	2,579	2,650	2,721	N/A	N/A
Net debt/(funds)	1,541	1,244	881	N/A	N/A
Shareholders' equity	2,616	2,619	2,701	N/A	N/A
Change in working capital	2	40	43	N/A	N/A
Cash flow from operations	253	316	383	N/A	N/A
Capital expenditure	19	19	19	N/A	N/A
Free cash flow	371	414	468	N/A	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	29.3	22.1	19.0	N/A	23.5
EV/sales (x)	8.4	7.5	6.7	N/A	7.5
EV/EBITDA (adj) (x)	17.2	15.5	13.7	N/A	15.5
Equity FCF yield (%)	4.4	5.4	6.6	N/A	5.5
Dividend yield (%)	0.0	0.0	0.0	N/A	0.0
Net debt/EBITDA (adj) (x)	3.8	2.7	1.7	N/A	2.8
Total debt/capital (%)	42.4	42.4	41.6	N/A	42.1

Selected operating metrics	CAGR				
License revenue (\$mn)	165	168	171	N/A	N/A
Maintenance revenue	405.5	443.6	484.2	N/A	N/A
Services revenue	N/A	N/A	N/A	N/A	N/A
Deferred revenue	296.1	328.0	353.0	N/A	N/A

Price (07-Feb-2019) USD 17.55  
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.

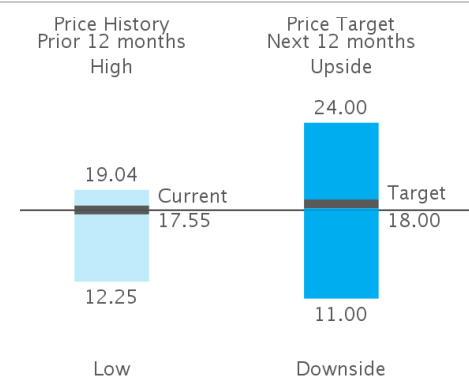
**Upside case** USD 24.00

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

## 4Q18 Results Review

SolarWinds delivered a healthy end to FY18 with a beat across the board. For a summary of the company's complete results this quarter vs. Barclays estimates, please refer to Figure below.

FIGURE 1

### Summary of Actual vs. Barclays Estimates

\$, mn	4Q 17	4Q 18	4Q 18	Actual	4Q 18	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons.	vs. Cons.
Billings	209.8	233.6	239.2	(2.4)%	231.3	1.0%
License Revenue	43.8	46.2	44.3	4.5%	44.3	4.4%
Maintenance Revenue	97.3	105.7	105.6	0.1%	105.3	0.4%
Subscription Revenue	58.6	69.6	69.3	0.5%	69.3	0.5%
Total Revenue	199.8	221.6	219.1	1.1%	219.1	1.1%
Adjusted EBITDA	100.1	111.9	108.4	3.2%	108.4	3.2%
% margin	50.1%	50.5%	49.5%	1.0%	49.5%	1.0%
Operating profit, Non-GAAP	96.4	107.8	104.3	3.4%	104.0	3.7%
% margin	48.3%	48.7%	47.6%	1.1%	47.4%	1.2%
Net income, Non-GAAP	7.5	57.7	58.2	(0.9)%	56.6	1.8%
Non-GAAP EPS	0.02	0.19	0.18	4.6%	0.18	5.6%

Source: Company Data, Barclays Research

### Summary of Guidance

The company provided 1Q19 and FY19 guidance. We note that Q1 guidance came below expectations, partly impacted by FX headwinds (11-12% ccy revenue growth guidance vs. 8-10% reported). Management also discussed its expectations of growth acceleration for maintenance and subscription through FY19, driven by (1) recent license outperformance flowing through to maintenance revenue stream, and (2) uplift from price increases and better cohort growth for MSP, especially in 2H FY19.

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	Q1					FY19				
	Low	High	Barclays	Consensus	Diff	Low	High	Barclays	Consensus	Diff
Total Revenue	215.0	218.0	217.6	218.1	-0.7%	921	936	928.5	928.9	0.0%
Adjusted EBITDA	101	103	101.9	102.4	-0.4%	448	456	452.5	451.0	0.2%
% margin	47.0%	47.2%	46.8%	47.0%		48.6%	48.7%	48.7%	48.7%	
Non-GAAP EPS	0.16	0.18	0.16	0.17	0.0%	0.78	0.80	0.76	0.78	1.3%

Source: Company data, Barclays Research

### Estimate Changes

We have adjusted our numbers to reflect management's guidance. We summarize the changes to our model in the table below. We are revising our PT to \$18 (was \$17), which is based on 15x (unchanged) EV/CY20E FCF and slightly revised CY20E FCF estimate of \$468mn (was \$465mn).

FIGURE 3  
Summary of Estimate Changes

\$, mn	2019E			2020E		
	New	Old	% Chg.	New	Old	% Chg.
License and Maintenance	611.2	609.3	0.3%	655.1	652.4	0.4%
Subscription	318.2	319.3	(0.3)%	388.1	387.8	0.1%
Total Revenue	929.3	928.5	0.1%	1,043.2	1,040.2	0.3%
Gross profit, adjusted	851.3	850.6	0.1%	955.8	953.1	0.3%
% margin	91.6%	91.6%		91.6%	91.6%	
S&M	245.2	245.0	0.1%	273.4	272.7	0.3%
% margin	26.4%	26.4%		26.2%	26.2%	
R&D	103.2	103.4	(0.2)%	116.1	115.8	0.3%
% margin	11.1%	11.1%		11.1%	11.1%	
G&A	66.7	66.6	0.0%	72.8	72.6	0.3%
% margin	7.2%	7.2%		7.0%	7.0%	
Adjusted EBITDA	452.7	452.5	0.0%	510.8	509.6	0.2%
% margin	48.7%	48.7%		49.0%	49.0%	
Operating profit, Non-GAAP	436.3	435.6	0.2%	493.5	492.1	0.3%
% margin	46.9%	46.9%		47.3%	47.3%	
uFCF	413.6	407.3	1.5%	468.3	465.0	0.7%

Source: Barclays Research

FIGURE 4  
SolarWinds P&L

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19E	2Q19E	3Q19E	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E
<b>Total Billings</b>		<b>785.1</b>	<b>871.1</b>	<b>233.3</b>	<b>224.3</b>	<b>244.8</b>	<b>258.8</b>	<b>961.2</b>	<b>259.7</b>	<b>249.2</b>	<b>271.0</b>	<b>288.3</b>	<b>1,068.2</b>
y/y growth			11.0%	10.7%	9.6%	10.3%	10.8%	10.3%	11.3%	11.1%	10.7%	11.4%	11.1%
q/q growth				-0.1%	-3.9%	9.2%	5.7%		0.3%	-4.0%	8.8%	6.4%	
License & Maintenance Revenue	490.1	525.8	570.1	144.8	147.1	155.8	163.5	611.2	155.8	158.1	166.8	174.4	655.1
y/y growth	0.0%	7.3%	8.4%	7.5%	7.2%	6.6%	7.6%	7.2%	7.6%	7.5%	7.1%	6.7%	7.2%
q/q growth	0.0%	0.0%	0.0%	-4.7%	1.6%	5.9%	4.9%	0.0%	-4.7%	1.5%	5.5%	4.5%	0.0%
% total	77.7%	71.0%	68.1%	66.8%	65.6%	65.5%	65.2%	65.8%	63.1%	62.4%	62.8%	62.8%	62.8%
Subscription Revenue	140.7	215.2	266.8	71.8	77.0	81.9	87.4	318.2	91.2	95.2	98.6	103.1	388.1
y/y growth	0.0%	52.9%	24.0%	12.8%	17.4%	20.7%	25.4%	19.3%	27.0%	23.6%	20.3%	18.0%	22.0%
q/q growth	0.0%	0.0%	0.0%	3.2%	7.2%	6.4%	6.6%	0.0%	4.4%	4.3%	3.6%	4.5%	0.0%
% total	22.3%	29.0%	31.9%	33.2%	34.4%	34.5%	34.8%	34.2%	36.9%	37.6%	37.2%	37.2%	37.2%
<b>Total Revenue</b>	<b>630.8</b>	<b>741.0</b>	<b>836.8</b>	<b>216.6</b>	<b>224.2</b>	<b>237.7</b>	<b>250.8</b>	<b>929.3</b>	<b>247.0</b>	<b>253.3</b>	<b>265.4</b>	<b>277.5</b>	<b>1,043.2</b>
y/y growth		17.5%	12.9%	9.2%	10.5%	11.1%	13.2%	11.1%	14.0%	13.0%	11.6%	10.6%	12.2%
q/q growth				-2.3%	3.5%	6.1%	5.5%		-1.5%	2.6%	4.8%	4.5%	
Cost of Revenue	48.8	60.3	70.1	18.4	19.1	20.2	20.3	78.0	21.1	21.5	22.6	22.2	87.3
% margin	92.3%	91.9%	91.6%	91.5%	91.5%	91.5%	91.9%	91.6%	91.5%	91.5%	91.5%	92.0%	91.6%
y/y growth	0.0%	23.6%	16.2%	9.6%	8.3%	12.6%	14.4%	11.3%	14.5%	12.8%	11.7%	9.3%	12.0%
q/q growth	0.0%	0.0%	0.0%	3.7%	3.5%	6.1%	0.5%	0.0%	3.7%	2.0%	4.9%	-1.6%	0.0%
<b>Gross Profit, Non-GAAP</b>	<b>582.0</b>	<b>680.7</b>	<b>766.7</b>	<b>198.2</b>	<b>205.1</b>	<b>217.5</b>	<b>230.5</b>	<b>851.3</b>	<b>225.9</b>	<b>231.8</b>	<b>242.9</b>	<b>255.3</b>	<b>955.8</b>
% Margin	92.3%	91.9%	91.6%	91.5%	91.5%	91.5%	91.9%	91.6%	91.5%	91.5%	91.5%	92.0%	91.6%
y/y growth	0.0%	0.0%	0.0%	9.2%	10.8%	11.0%	13.1%	0.0%	14.0%	13.0%	11.6%	10.8%	0.0%
Sales and marketing	170.3	201.6	221.7	58.5	59.0	62.5	65.2	245.2	66.7	65.6	69.0	72.1	273.4
% Margin	27.0%	27.2%	26.5%	27.0%	26.3%	26.3%	26.0%	26.4%	27.0%	25.9%	26.0%	26.0%	26.2%
y/y growth	0.0%	18.4%	10.0%	12.6%	5.8%	11.6%	12.3%	10.6%	14.0%	11.3%	10.4%	10.6%	11.5%
Research and development	67.0	82.4	92.2	25.6	25.1	25.7	26.8	103.2	29.4	28.4	28.9	29.4	116.1
% Margin	10.6%	11.1%	11.0%	11.8%	11.2%	10.8%	10.7%	11.1%	11.9%	11.2%	10.9%	10.6%	11.1%
y/y growth	0.0	0%	12.0%	7.5%	8.7%	13.0%	18.5%	11.9%	15.0%	13.0%	12.7%	9.6%	12.5%
General and Administrative	40.8	49.5	61.9	16.2	17.5	16.6	16.3	66.7	18.0	18.7	18.6	17.5	72.8
% Margin	6.5%	6.7%	7.4%	7.5%	7.8%	7.0%	6.5%	7.2%	7.3%	7.4%	7.0%	6.3%	7.0%
y/y growth		21%	25.1%	5.8%	8.6%	10.3%	6.3%	7.8%	11.0%	7.2%	11.6%	7.2%	9.2%
<b>Operating Profit (loss)</b>	<b>303.8</b>	<b>347.3</b>	<b>390.9</b>	<b>97.9</b>	<b>103.6</b>	<b>112.7</b>	<b>122.1</b>	<b>436.3</b>	<b>111.8</b>	<b>119.1</b>	<b>126.3</b>	<b>136.2</b>	<b>493.5</b>
% Margin	48.2%	46.9%	46.7%	45.2%	46.2%	47.4%	48.7%	46.9%	45.3%	47.0%	47.6%	49.1%	47.3%
<b>Adjusted EBITDA</b>	<b>315.1</b>	<b>361.9</b>	<b>407.5</b>	<b>102.0</b>	<b>107.5</b>	<b>116.7</b>	<b>126.6</b>	<b>452.7</b>	<b>115.9</b>	<b>123.4</b>	<b>130.6</b>	<b>140.9</b>	<b>510.8</b>
% Margin	50.0%	48.8%	48.7%	47.1%	47.9%	49.1%	50.5%	48.7%	46.9%	48.7%	49.2%	50.8%	49.0%
y/y growth		14.8%	12.6%	7.2%	14.3%	9.6%	13.2%	11.1%	13.7%	14.8%	11.9%	11.3%	12.8%
Interest income / expense	(170.4)	(169.8)	(142.0)	(29.9)	(29.9)	(29.9)	(29.9)	(119.6)	(29.9)	(29.9)	(29.9)	(29.9)	(119.6)
Other Income / (expense)	(57.2)	38.7	(75.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax expense	(149.8)	22.4	(10.5)	15.0	16.2	18.2	20.3	69.7	18.0	19.6	21.2	23.4	82.2
Effective Tax Rate	-196.6%	10.4%	-6.1%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
<b>Net Income (loss) Non-GAAP</b>	<b>226.0</b>	<b>154.8</b>	<b>184.1</b>	<b>53.0</b>	<b>57.5</b>	<b>64.6</b>	<b>71.9</b>	<b>247.0</b>	<b>63.9</b>	<b>69.6</b>	<b>75.2</b>	<b>82.9</b>	<b>291.6</b>
% Margin	35.8%	21%	22%	24%	26%	27%	29%	27%	26%	27%	28%	30%	28%
FDSO (millions)													
<b>Net Income (loss) per share</b>	<b>\$ -</b>	<b>\$ 0.49</b>	<b>\$ 0.60</b>	<b>\$ 0.17</b>	<b>\$ 0.18</b>	<b>\$ 0.21</b>	<b>\$ 0.23</b>	<b>\$ 0.79</b>	<b>\$ 0.20</b>	<b>\$ 0.22</b>	<b>\$ 0.24</b>	<b>\$ 0.26</b>	<b>\$ 0.92</b>

Source: Company Data, Barclays Research Estimates

FIGURE 5

## SolarWinds Balance Sheet

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19E	2Q19E	3Q19E	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E
<b>Assets</b>													
Cash, equivalents and ST investments	103.6	277.7	382.6	442.5	527.6	601.1	679.7	679.7	759.8	852.7	938.6	1,043.4	1,043.4
Cash, cash equivalents	101.6	277.7	382.6	442.5	527.6	601.1	679.7	679.7	759.8	852.7	938.6	1,043.4	1,043.4
Short term investments	2.0	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	80.4	85.1	100.5	111.9	91.1	94.1	96.5	96.5	97.7	77.9	84.6	81.4	81.4
Income tax receivable	36.2	1.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	19.3	24.3	16.3	16.3	16.3	16.3	16.3	16.3	16.3	16.3	16.3	16.3	16.3
<b>Total Current Assets</b>	<b>239.6</b>	<b>388.9</b>	<b>500.3</b>	<b>571.5</b>	<b>635.9</b>	<b>712.3</b>	<b>793.4</b>	<b>793.4</b>	<b>874.6</b>	<b>947.8</b>	<b>1,040.4</b>	<b>1,142.0</b>	<b>1,142.0</b>
Property and equipment, net	37.2	34.2	35.9	33.9	34.5	34.1	35.9	35.9	35.7	35.5	35.5	35.3	35.3
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	3,684.0	3,684.0	3,684.0	3,684.0	3,684.0	3,684.0	3,684.0	3,684.0	3,684.0	3,684.0
Intangible assets, net	1,377.7	1,194.5	956.3	896.1	839.8	787.1	737.7	737.7	683.0	632.5	585.8	542.6	542.6
Other assets	13.1	9.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4
<b>Total Assets</b>	<b>5,202.7</b>	<b>5,327.1</b>	<b>5,194.6</b>	<b>5,203.8</b>	<b>5,212.4</b>	<b>5,235.7</b>	<b>5,269.2</b>	<b>5,269.2</b>	<b>5,295.6</b>	<b>5,318.1</b>	<b>5,363.9</b>	<b>5,422.1</b>	<b>5,422.1</b>
<b>Liabilities</b>													
Accounts payable	9.0	9.7	9.7	6.5	11.2	13.1	13.8	13.8	11.1	11.4	15.9	16.6	16.6
Accrued liabilities	53.7	39.6	52.1	52.1	52.1	52.1	52.1	52.1	52.1	52.1	52.1	52.1	52.1
Accrued Interest Payable	-	11.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Income taxes payable	1.2	9.0	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7
Current portion of deferred revenue	204.7	241.5	273.1	284.7	284.8	291.2	298.5	298.5	310.2	306.4	311.6	321.4	321.4
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
<b>Total Current Liabilities</b>	<b>285.7</b>	<b>328.4</b>	<b>370.8</b>	<b>379.1</b>	<b>383.9</b>	<b>392.2</b>	<b>400.2</b>	<b>400.2</b>	<b>409.2</b>	<b>405.8</b>	<b>415.4</b>	<b>426.0</b>	<b>426.0</b>
Deferred revenue, net of current portion	13.0	20.3	23.0	28.2	28.2	28.8	29.5	29.5	30.5	30.2	30.7	31.6	31.6
Non-current deferred taxes	264.7	167.5	147.1	156.1	165.1	174.1	183.1	183.1	193.7	204.4	215.1	225.7	225.7
Other long-term liabilities	36.6	148.1	133.5	133.5	133.5	133.5	133.5	133.5	133.5	133.5	133.5	133.5	133.5
LT debt, net of current portion	2,242.9	2,245.6	1,904.1	1,904.1	1,904.1	1,904.1	1,904.1	1,904.1	1,904.1	1,904.1	1,904.1	1,904.1	1,904.1
<b>Total Liabilities</b>	<b>2,842.8</b>	<b>2,909.94</b>	<b>2,578.55</b>	<b>2,601.0</b>	<b>2,614.8</b>	<b>2,632.8</b>	<b>2,650.5</b>	<b>2,650.49</b>	<b>2,671.1</b>	<b>2,678.0</b>	<b>2,698.8</b>	<b>2,720.9</b>	<b>2,720.95</b>
<b>Equity</b>													
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	3,011.1	3,011.1	3,011.1	3,011.1	3,011.1	3,011.1	3,011.1	3,011.1	3,011.1	3,011.1
Accumulated other comprehensive loss	(66.0)	75.3	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Accumulated Earnings	(453.7)	(805.2)	(412.3)	(425.7)	(430.8)	(425.5)	(409.7)	(409.7)	(403.9)	(388.3)	(363.4)	(327.3)	(327.3)
<b>Total Equity</b>	<b>2,359.9</b>	<b>2,417.1</b>	<b>2,616.1</b>	<b>2,602.8</b>	<b>2,597.6</b>	<b>2,602.9</b>	<b>2,618.8</b>	<b>2,618.8</b>	<b>2,624.5</b>	<b>2,640.1</b>	<b>2,665.1</b>	<b>2,701.2</b>	<b>2,701.2</b>
<b>Total Liabilities + Equity</b>	<b>5,202.7</b>	<b>5,327.1</b>	<b>5,194.6</b>	<b>5,203.8</b>	<b>5,212.4</b>	<b>5,235.7</b>	<b>5,269.2</b>	<b>5,269.2</b>	<b>5,295.6</b>	<b>5,318.1</b>	<b>5,363.9</b>	<b>5,422.1</b>	<b>5,422.1</b>

Source: Company Data, Barclays Research Estimates

FIGURE 6

## SolarWinds Cash Flows

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19E	2Q19E	3Q19E	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E
Net Income	(334.4)	(83.9)	(102.1)	(19.1)	(11.0)	(0.7)	9.6	(21.2)	(0.8)	9.1	18.2	29.3	55.8
Adjustments from Operating Activities													
Depreciation and amortization	219.2	250.9	258.4	64.9	60.8	57.3	54.4	237.4	59.4	55.4	51.6	48.5	214.9
Provision for Doubtful Accounts	1.8	2.5	2.5	-	-	-	-	-	-	-	-	-	-
Stock-based compensation expense	87.8	0.1	5.8	5.7	5.8	6.0	6.2	23.8	6.5	6.5	6.7	6.8	26.6
Accrued earnout gain	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	18.8	18.9	11.7	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	22.8	18.6	80.1	-	-	-	-	-	-	-	-	-	-
Deferred taxes	(126.6)	(101.5)	(22.1)	9.0	9.0	9.0	9.0	36.0	10.6	10.7	10.7	10.6	42.6
(Gain) loss on foreign currency exchange rates	32.4	(54.9)	13.4	-	-	-	-	-	-	-	-	-	-
Other non-cash expenses	0.9	(3.8)	3.4	-	-	-	-	-	-	-	-	-	-
Adjustments to working capital items													
Accounts receivable	(13.4)	(2.4)	(18.0)	(11.4)	20.7	(2.9)	(2.4)	4.1	(1.2)	19.8	(6.6)	3.2	15.1
Income taxes receivable	(35.0)	35.0	0.7	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	(4.2)	6.2	(5.5)	-	-	-	-	-	-	-	-	-	-
Accounts payable	(5.7)	0.3	(0.0)	(3.2)	4.7	1.9	0.7	4.1	(2.7)	0.3	4.5	0.7	2.9
Accrued liabilities and other	28.1	(7.5)	9.8	-	-	-	-	-	-	-	-	-	-
Accrued Interest Payable	-	0.6	(11.3)	-	-	-	-	-	-	-	-	-	-
Income taxes payable	4.4	119.6	(10.7)	-	-	-	-	-	-	-	-	-	-
Deferred revenue	194.1	34.0	35.5	16.7	0.1	7.1	8.0	31.9	12.7	(4.1)	5.6	10.8	25.0
Other long-term liabilities	(0.6)	0.0	1.5	-	-	-	-	-	-	-	-	-	-
<b>Cash from operations</b>	<b>90.2</b>	<b>232.7</b>	<b>253.1</b>	<b>62.7</b>	<b>90.2</b>	<b>77.7</b>	<b>85.5</b>	<b>316.0</b>	<b>84.6</b>	<b>97.6</b>	<b>90.7</b>	<b>109.9</b>	<b>382.8</b>
y/y growth	-	158.1%	8.8%	77.2%	27.4%	31.7%	-2.9%	24.8%	35.0%	8.3%	16.8%	28.5%	21.1%
Purchases of investments	(2.0)	-	-	-	-	-	-	-	-	-	-	-	-
Maturities of investments	22.8	2.0	-	-	-	-	-	-	-	-	-	-	-
Purchase of PPE	(7.8)	(7.6)	(15.9)	(2.2)	(4.5)	(3.6)	(6.3)	(16.5)	(4.0)	(4.1)	(4.2)	(4.4)	(16.7)
Purchase of intangible assets and other LT	(3.5)	(4.8)	(2.7)	(0.6)	(0.6)	(0.6)	(0.6)	(2.4)	(0.6)	(0.6)	(0.6)	(0.6)	(2.4)
Acquisition of businesses, net cash	(507.5)	(24.0)	(60.6)	-	-	-	-	-	-	-	-	-	-
Acquisitio of SolarWinds, net cash	(4,335.1)	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	-	-	11.2	-	-	-	-	-	-	-	-	-	-
<b>Cash from investing activities</b>	<b>(4,833.0)</b>	<b>(34.4)</b>	<b>(68.0)</b>	<b>(2.8)</b>	<b>(5.1)</b>	<b>(4.2)</b>	<b>(6.9)</b>	<b>(18.9)</b>	<b>(4.6)</b>	<b>(4.7)</b>	<b>(4.9)</b>	<b>(5.0)</b>	<b>(19.1)</b>
<b>Cash from financing activities</b>	<b>4,897.3</b>	<b>(35.4)</b>	<b>(74.7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
FX impact	0.0	13.1	(5.5)	-	-	-	-	-	-	-	-	-	-
<b>Net change in cash</b>	<b>154.4</b>	<b>176.1</b>	<b>104.9</b>	<b>59.9</b>	<b>85.1</b>	<b>73.5</b>	<b>78.7</b>	<b>297.1</b>	<b>80.0</b>	<b>93.0</b>	<b>85.9</b>	<b>104.8</b>	<b>363.7</b>
Cash at Beginning of period	196.9	101.6	277.7	382.6	442.5	527.6	601.1	382.6	679.7	759.8	852.7	938.6	679.7
Cash at End of period	101.6	277.7	382.6	442.5	527.6	601.1	679.7	679.7	759.8	852.7	938.6	1,043.4	1,043.4
<b>Free Cash Flow</b>	<b>78.9</b>	<b>220.3</b>	<b>234.5</b>	<b>59.9</b>	<b>85.1</b>	<b>73.5</b>	<b>78.7</b>	<b>297.1</b>	<b>80.0</b>	<b>93.0</b>	<b>85.9</b>	<b>104.8</b>	<b>363.7</b>
<b>uFCF</b>		<b>311.8</b>	<b>370.8</b>	<b>88.8</b>	<b>114.1</b>	<b>102.7</b>	<b>108.0</b>	<b>413.6</b>	<b>106.1</b>	<b>119.1</b>	<b>112.1</b>	<b>131.1</b>	<b>468.3</b>
% conversion		86.2%	91.0%	87.0%	106.1%	88.0%	85.3%	91.3%	91.6%	96.5%	85.8%	93.0%	91.7%
y/y growth			18.9%	15.7%	19.5%	18.7%	-2.8%	11.5%	19.6%	4.4%	9.1%	21.3%	13.2%

Source: Company Data, Barclays Research Estimates

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**SolarWinds Corporation** (SWI, 07-Feb-2019, USD 17.55), Equal Weight/Positive, A/CE/D/E/J/L

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## SolarWinds Corporation (SWI / SWI)

USD 17.55 (07-Feb-2019)

Stock Rating

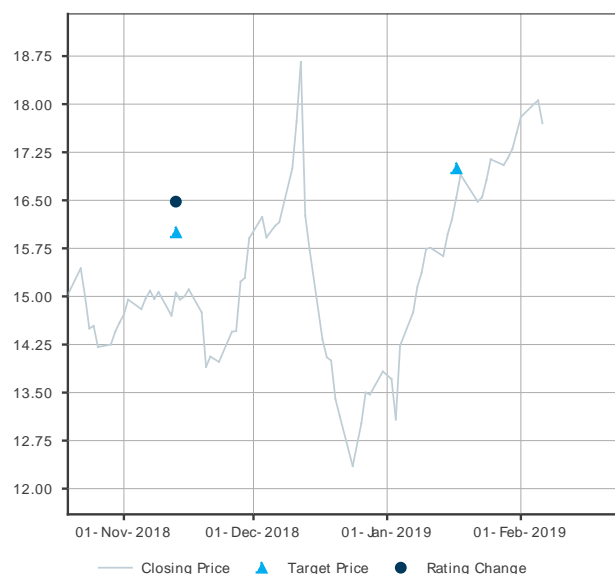
Industry View

EQUAL WEIGHT

POSITIVE

## Rating and Price Target Chart - USD (as of 07-Feb-2019)

Currency=USD



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

Source: Refinitiv, 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](#)

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**Valuation Methodology:** Our PT of \$18 is based on EV/CY20E uFCF of 15x and CY20E uFCF of \$468mn.

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