



SolarWinds Corporation

License Woes and Lower FCF Conversion to Weigh on Shares

We expect shares to go in the penalty box after SolarWinds delivered another quarter of license miss, this time due to NA mis-execution. The bulls will point to reaffirmed guidance, which indicates that the execution issues are manageable and largely behind the company. However, we continue to see risk to organic growth targets due to uneven execution and a challenging competitive landscape in observability. Also, the lower FCF conversion means that cash flows expectations will remain in check despite solid profitability management. We reiterate our UW rating.

The Numbers: The company delivered license revenue of \$44.6mn, which came 5% below consensus. Subscription revenue grew 29% ccy and came in slightly above consensus. Total revenue grew 13.3% ccy vs. management guidance of 13.3-16.0%, and came in slightly below consensus. The company delivered adjusted EBITDA margin of 49.3% (vs. 47.9% consensus). FY20 revenue guidance range was reiterated from the December Analyst Day of \$1.035-1.055bn vs. consensus of \$1.049bn. FY20 adjusted EBITDA margin guidance was reiterated at 46% as well.

Positives: (1) Another quarter of solid leverage, with EBITDA margin rising above 49% despite the miss on license, or 130bps higher than guidance. (2) Maintained longer-term guidance of mid-teens revenue CAGR, meaning that revenue should accelerate in FY21. (3) EMEA saw a “meaningful” level of improvement this quarter and APAC was stable, which reduces some risk heading into FY20.

Negatives: (1) License revenue miss in Q4 due to NA execution issues. However, management commented that January saw an improvement already after sales changes. (2) FY19 uFCF conversion was ~82% and is expected to increase to only mid-80% in FY20 (due to one-time factors), both below target of ~90%. (3) Subscription net retention for FY19 was 105%, or at the low end of company’s guidance of 105-108%.

Potential Catalysts: Q1 earnings tentatively in April.

SWI: Quarterly and Annual EPS (USD)

	2019		2020		2021		Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	2020	2021
Q1	0.20A	0.20E	0.20E	0.20E	N/A	0.24E	0.24E	0%
Q2	0.20A	0.21E	0.22E	0.21E	N/A	0.26E	0.25E	10%
Q3	0.21A	0.23E	0.24E	0.23E	N/A	0.28E	0.26E	14%
Q4	0.24A	0.23E	0.23E	0.24E	N/A	0.29E	0.28E	-4%
Year	0.85A	0.87E	0.88E	0.89E	N/A	1.07E	1.03E	4%
P/E	24.8		23.9			19.7		22%

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 04-Feb-2020; 15:50 GMT

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

Equity Research

Technology | U.S. Software
5 February 2020

Stock Rating	UNDERWEIGHT Unchanged
Industry View	POSITIVE Unchanged
Price Target	USD 17.00 Unchanged

Price (04-Feb-2020)	USD 21.10
Potential Upside/Downside	-19.4%
Tickers	SWI

Market Cap (USD mn)	6566
Shares Outstanding (mn)	311.18
Free Float (%)	17.10
52 Wk Avg Daily Volume (mn)	0.6
Dividend Yield (%)	N/A
Return on Equity TTM (%)	27.57
Current BVPS (USD)	8.45

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 21.66-16.21



Source: IDC; Link to Barclays Live for interactive charting

U.S. Software

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

Income statement (\$mn)	2019A	2020E	2021E	2022E	CAGR
Revenue	938	1,049	1,216	1,422	14.9%
EBITDA (adj)	454	484	572	683	14.6%
Operating profit (adj)	436	460	543	657	14.6%
Pre-tax income	28	81	189	324	127.6%
Net income (adj)	264	281	345	434	18.1%
EPS (adj) (\$)	0.85	0.88	1.07	1.34	16.3%
Diluted shares (mn)	309.8	317.2	321.9	323.9	1.5%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	48.3	46.1	47.1	48.0	47.4
Operating margin (adj) (%)	46.5	43.9	44.7	46.2	45.3
Pre-tax margin (%)	2.9	7.7	15.5	22.8	12.2
Net (adj) margin (%)	28.1	26.7	28.4	30.5	28.4
ROIC (%)	2.4	3.1	4.7	6.6	4.2
ROA (%)	0.4	0.0	1.6	3.4	1.3
ROE (%)	0.7	0.1	3.3	6.8	2.7

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	39	61	50	44	4.1%
Goodwill	4,058	4,108	4,208	4,308	2.0%
Cash and equivalents	173	445	765	1,208	91.0%
Total assets	5,311	5,478	5,759	6,188	5.2%
Short and long-term debt	1,913	1,913	1,913	1,913	0.0%
Other long-term liabilities	123	123	123	123	0.0%
Total liabilities	2,661	2,777	2,910	3,072	4.9%
Net debt/(funds)	1,740	1,468	1,148	705	-26.0%
Shareholders' equity	2,650	2,701	2,849	3,116	5.6%
Change in working capital	13	48	39	80	83.9%
Cash flow from operations	300	377	447	572	24.0%
Capital expenditure	-23	-55	-27	-29	N/A
Free cash flow	374	412	506	631	19.1%

Valuation and leverage metrics	Average				
P/E (adj) (x)	24.8	23.9	19.7	15.7	21.0
EV/sales (x)	9.0	8.0	6.9	5.9	7.5
EV/EBITDA (adj) (x)	18.6	17.4	14.7	12.3	15.8
Equity FCF yield (%)	4.2	4.8	6.2	7.9	5.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	3.8	3.0	2.0	1.0	2.5
Total debt/capital (%)	41.9	41.5	40.2	38.0	40.4

Selected operating metrics (\$mn)	CAGR				
License revenue	165	169	172	175	1.8%
Maintenance revenue	446	484	525	564	8.1%
Deferred revenue	343	421	524	628	22.3%

Price (04-Feb-2020)	USD 21.10
Price Target	USD 17.00

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

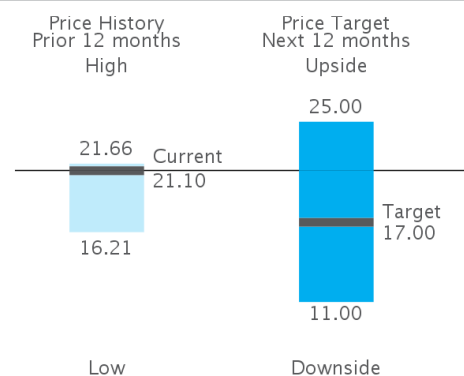
Upside case	USD 25.00
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SolarWinds top-line growth may come in better than expected based on improved competitive positioning. This, along with operating leverage may drive better uFCF growth. Our upside case assumes 20% upside to CY21E uFCF and 16x CY21E uFCF.

Downside case	USD 11.00
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The company's growth may come under pressure due to a tougher than anticipated competitive landscape, which may pressure margins and free cash flows. Our downside case assumes a 20% discount to CY21E uFCF and 14x CY21E uFCF.

Upside/Downside scenarios



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

4Q19 Results Review

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	4Q 18	4Q 19	4Q 19	Actual	4Q 19	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons.	vs. Cons.
Billings	222.0	268.7	264.6	1.6%	268.0	0.3%
License Revenue	43.7	44.6	47.6	(6.3)%	47.0	(5.1)%
Maintenance Revenue	102.4	115.6	115.6	0.0%	116.1	(0.4)%
Subscription Revenue	67.9	89.2	88.4	0.9%	88.5	0.8%
Total Revenue	214.0	249.4	251.6	(0.9)%	251.7	(0.9)%
Adjusted EBITDA	106.5	122.9	120.6	1.9%	120.6	1.9%
% margin	49.8%	49.3%	47.9%	1.3%	47.9%	1.4%
Operating profit, Non-GAAP	102.2	118.3	116.0	2.0%	116.5	1.5%
% margin	47.8%	47.4%	46.1%	1.3%	46.3%	1.1%
Net income, Non-GAAP	54.5	76.0	69.1	10.0%	69.0	10.2%
Non-GAAP EPS	0.17	0.24	0.22	8.4%	0.22	9.1%

Source: Company Data, Barclays Research, StreetAccount

Summary of Guidance

The company provided 1Q20 and FY20 guidance. During its Analyst Day in December, the company provided FY20 revenue outlook of \$1.035-1.055bn (10-12% growth) and FY20 EBITDA outlook of \$475-485mn. Both of those metrics were re-iterated.

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					FY20				
	Low	High	Barclays	Consensus	Diff	Low	High	Barclays	Consensus	Diff
Total Revenue	243.5	248.5	245.6	243.9	0.9%	1035	1055	1,050.3	1,049.0	-0.4%
Adjusted EBITDA	108	112	111.6	111.5	-1.3%	475	485	481.4	471.6	1.8%
% margin	44.4%	45.1%	45.4%	45.7%		45.9%	46.0%	45.8%	45.0%	
Non-GAAP EPS	0.20	0.21	0.20	0.20	2.5%	0.88	0.91	0.87	0.89	1.1%

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 \$17, which is based on 14x (unchanged) and slightly revised CY21E uFCF estimate of \$506mn (was \$513mn).

FIGURE 3
Summary of Estimate Changes

\$, mn	2020E			2021E		
	New	Old	% Chg.	New	Old	% Chg.
License and Maintenance	652.3	656.6	(0.7)%	696.3	701.9	(0.8)%
Subscription	396.8	393.7	0.8%	519.7	516.3	0.6%
Total Revenue	1,049.1	1,050.3	(0.1)%	1,216.0	1,218.2	(0.2)%
Gross profit, adjusted	959.9	958.9	0.1%	1,110.2	1,112.2	(0.2)%
% margin	91.5%	91.3%		91.3%	91.3%	
S&M	292.5	288.4	1.4%	334.5	330.6	1.2%
% margin	27.9%	27.5%		27.5%	27.1%	
R&D	120.3	120.4	(0.1)%	135.2	135.4	(0.2)%
% margin	11.5%	11.5%		11.1%	11.1%	
G&A	87.0	86.6	0.5%	97.3	96.2	1.1%
% margin	8.3%	8.2%		8.0%	7.9%	
Adjusted EBITDA	483.7	481.4	0.5%	572.5	568.6	0.7%
% margin	46.1%	45.8%		47.1%	46.7%	
Operating profit, Non-GAAP	460.1	463.5	(0.7)%	543.3	550.0	(1.2)%
% margin	43.9%	44.1%		44.7%	45.1%	
Non-GAAP EPS	0.88	0.87	1.4%	1.07	1.07	0.1%
uFCF	411.8	437.8	(5.9)%	506.2	512.9	(1.3)%

Source: Barclays Research

FIGURE 4
SolarWinds P&L

Solar Winds - Non-GAAP P&L																			
Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
		785.1	871.1	231.5	237.3	248.3	268.7	985.7	256.9	272.9	285.5	311.7	1,127.0	300.6	319.3	334.0	364.7	1,318.6	1,525.9
Total Billings																			
y/y growth			11.0%	9.8%	15.9%	11.8%	15.1%	13.2%	11.0%	15.0%	15.0%	16.0%	14.3%	17.0%	17.0%	17.0%	17.0%	17.0%	15.7%
q/q growth				-0.9%	2.5%	4.6%	8.2%		-4.4%	6.2%	4.6%	9.2%		-3.6%	6.2%	4.6%	9.2%		
License & Maintenance Revenue	490.1	525.8	570.0	144.2	150.0	157.4	160.2	611.8	154.5	160.0	167.5	170.3	652.3	165.4	170.8	178.5	181.5	696.3	738.9
y/y growth	0.0%	7.3%	8.4%	7.1%	9.3%	7.7%	5.4%	7.3%	7.1%	6.7%	6.4%	6.3%	6.6%	7.1%	6.7%	6.6%	6.6%	6.7%	6.1%
q/q growth	0.0%	0.0%	0.0%	-5.1%	4.0%	4.9%	1.8%	0.0%	-3.6%	3.6%	4.6%	1.7%	0.0%	-2.8%	3.3%	4.5%	1.7%	0.0%	0.0%
% total	77.7%	71.0%	68.1%	66.8%	65.0%	64.8%	64.2%	65.2%	62.8%	62.3%	62.1%	61.6%	62.2%	58.9%	57.8%	57.0%	55.6%	57.3%	52.0%
Subscription Revenue	140.7	215.2	266.8	71.6	80.6	85.3	89.2	326.7	91.5	96.9	102.4	105.9	396.8	115.3	124.9	134.7	144.7	519.7	683.1
y/y growth	0.0%	52.9%	23.9%	12.4%	22.9%	25.7%	28.1%	22.5%	27.9%	20.3%	20.0%	18.8%	21.5%	26.0%	28.9%	31.5%	36.6%	31.0%	31.4%
q/q growth	0.0%	0.0%	0.0%	2.8%	12.6%	5.9%	4.5%	0.0%	2.7%	5.9%	5.6%	3.4%	0.0%	8.9%	8.3%	7.8%	7.4%	0.0%	0.0%
% total	22.3%	29.0%	31.9%	33.2%	35.0%	35.2%	35.8%	34.8%	37.2%	37.7%	37.9%	38.4%	37.8%	41.1%	42.2%	43.0%	44.4%	42.7%	48.0%
Total Revenue	630.8	741.0	836.8	215.8	230.6	242.7	249.4	938.5	246.0	257.0	269.9	276.2	1,049.1	280.8	295.8	313.2	326.2	1,216.0	1,422.0
y/y growth		17.5%	12.9%	8.8%	13.7%	13.4%	12.5%	12.1%	14.0%	11.5%	11.2%	10.8%	11.8%	14.1%	15.1%	16.0%	18.1%	15.9%	16.9%
q/q growth				-2.6%	6.8%	5.3%	2.8%		-1.3%	4.5%	5.0%	2.4%		1.7%	5.3%	5.9%	4.2%		
Cost of Revenue	48.8	60.3	70.1	17.7	18.9	20.2	20.8	77.6	20.9	21.8	22.9	23.5	89.2	24.4	25.7	27.2	28.4	105.8	125.1
% margin	92.3%	91.9%	91.6%	91.8%	91.8%	91.7%	91.6%	91.7%	91.5%	91.5%	91.5%	91.5%	91.5%	91.3%	91.3%	91.3%	91.3%	91.3%	91.2%
y/y growth	0.0%	23.6%	16.3%	5.5%	7.4%	12.3%	17.4%	10.7%	18.0%	15.4%	13.8%	12.7%	14.8%	16.8%	17.8%	18.8%	20.9%	18.6%	18.3%
q/q growth	0.0%	0.0%	0.0%	-74.7%	6.8%	6.5%	3.4%	0.0%	0.4%	4.5%	5.0%	2.4%	0.0%	4.0%	5.3%	5.9%	4.2%	0.0%	0.0%
Gross Profit, Non-GAAP	582.0	680.7	766.7	198.1	211.6	222.5	228.6	860.8	225.1	235.1	246.9	252.7	959.9	256.4	270.0	285.9	297.8	1,110.2	1,296.8
% Margin	92.3%	91.9%	91.6%	91.8%	91.8%	91.7%	91.6%	91.7%	91.5%	91.5%	91.5%	91.5%	91.5%	91.3%	91.3%	91.3%	91.3%	91.3%	91.2%
y/y growth	0.0%	0.0%	0.0%	9.1%	14.3%	13.5%	12.1%	0.0%	13.7%	11.1%	11.0%	10.6%	0.0%	13.9%	14.8%	15.8%	17.8%	0.0%	0.0%
Sales and marketing	170.3	201.6	221.7	56.7	61.8	64.8	66.8	250.3	68.9	70.7	72.9	80.1	292.5	77.2	81.3	84.6	91.3	334.5	378.2
% Margin	27.0%	27.2%	26.5%	26.3%	26.8%	26.7%	26.8%	26.7%	28.0%	27.5%	27.0%	29.0%	27.9%	27.5%	27.5%	27.0%	28.0%	27.5%	26.6%
y/y growth	0.0%	18.4%	10.0%	9.3%	11.1%	15.7%	15.1%	12.9%	21.4%	14.3%	12.4%	19.8%	16.9%	12.1%	15.1%	16.0%	14.0%	14.3%	13.1%
Research and development	67.0	82.4	92.2	23.3	25.3	26.7	24.9	100.2	29.5	29.0	30.5	31.2	120.3	32.3	32.5	34.4	35.9	135.2	155.0
% Margin	10.6%	11.1%	11.0%	10.8%	11.0%	11.0%	10.0%	10.7%	12.0%	11.3%	11.3%	11.3%	11.5%	11.5%	11.0%	11.0%	11.0%	11.1%	10.9%
y/y growth	0.0	0%	11.9%	-2.0%	9.5%	17.6%	9.9%	8.6%	26.7%	14.9%	14.1%	25.5%	20.1%	9.4%	12.0%	13.0%	15.0%	12.4%	14.7%
General and Administrative	40.8	49.5	61.9	17.4	18.2	20.0	18.6	74.2	20.9	21.3	22.4	22.4	87.0	22.5	23.7	25.1	26.1	97.3	106.6
% Margin	6.5%	6.7%	7.4%	8.1%	7.9%	8.2%	7.5%	7.9%	8.5%	8.3%	8.3%	8.1%	8.3%	8.0%	8.0%	8.0%	8.0%	8.0%	7.5%
y/y growth		21%	25.1%	13.3%	13.2%	32.6%	21.3%	20.0%	20.2%	17.1%	12.0%	20.3%	17.3%	7.4%	10.9%	11.9%	16.6%	11.8%	9.6%
Operating Profit (loss)	303.8	347.3	390.9	100.6	106.3	111.0	118.3	436.2	105.8	114.1	121.2	119.1	460.1	124.4	132.5	141.9	144.5	543.3	656.9
% Margin	48.2%	46.9%	46.7%	46.6%	46.1%	45.7%	47.4%	46.5%	43.0%	44.4%	44.9%	43.1%	43.9%	44.3%	44.8%	45.3%	44.3%	44.7%	46.2%
Adjusted EBITDA	315.1	361.9	407.5	104.8	110.9	115.0	122.9	453.6	110.3	119.6	127.4	126.5	483.7	131.4	140.4	148.5	152.2	572.5	683.2
% Margin	50.0%	48.8%	48.7%	48.6%	48.1%	47.4%	49.3%	48.3%	44.8%	46.5%	47.2%	45.8%	46.1%	46.8%	47.5%	47.4%	46.7%	47.1%	48.0%
y/y growth		14.8%	12.6%	10.2%	17.9%	8.0%	9.9%	11.3%	5.2%	7.9%	10.7%	3.0%	6.6%	19.2%	17.4%	16.6%	20.3%	18.3%	19.3%
Interest Income / expense	(170.4)	(169.8)	(142.0)	(27.4)	(28.2)	(27.4)	(25.1)	(108.1)	(25.1)	(25.1)	(25.1)	(25.1)	(100.4)	(25.1)	(25.1)	(25.1)	(25.1)	(100.4)	(100.4)
Other Income / (expense)	(57.2)	38.7	(75.3)	1.3	(1.1)	0.3	(0.1)	0.4	0.0	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	(2.3)	13.6	17.0	17.1	17.1	64.7	17.8	19.6	21.1	20.7	79.1	21.8	23.6	25.7	26.3	97.4	122.4
Effective Tax Rate	-196.6%	10.4%	-1.3%	18.3%	22.0%	20.4%	18.3%	19.7%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Net Income (loss) Non-GAAP	226.0	154.8	184.1	60.9	60.1	66.7	76.0	263.8	62.9	69.4	74.9	73.3	280.6	77.5	83.8	91.1	93.1	345.5	434.1
% Margin	35.8%	21%	22%	28%	26%	28%	30%	28%	26%	27%	28%	27%	27%	28%	28%	29%	29%	28%	31%
FDSO (millions)																			
Net Income (loss) per share	\$ -	\$ 0.49	\$ 0.60	\$ 0.20	\$ 0.20	\$ 0.21	\$ 0.24	\$ 0.85	\$ 0.20	\$ 0.22	\$ 0.24	\$ 0.23	\$ 0.88	\$ 0.24	\$ 0.26	\$ 0.28	\$ 0.29	\$ 1.07	\$ 1.34

Source: Company Data, Barclays Research

FIGURE 5
SolarWinds Balance Sheet

Solar Winds - Balance Sheet															
Fiscal = Dec															
USD, m	FY2016A	FY2017A	FY2018A	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E	FY2021E	FY2022E
Assets															
Cash, equivalents and ST investments	103.6	277.7	382.6	434.5	155.3	221.1	173.4	173.4	250.1	320.4	357.3	445.4	445.4	765.0	1,208.1
Cash, cash equivalents	101.6	277.7	382.6	434.5	155.3	221.1	173.4	173.4	250.1	320.4	357.3	445.4	445.4	765.0	1,208.1
Short term investments	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	80.4	85.1	100.5	109.8	96.3	102.2	121.9	121.9	113.6	127.1	133.5	154.8	154.8	207.9	249.9
Income tax receivable	36.2	1.7	0.9	1.1	0.7	0.7	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	27.8	24.1	23.5	23.5	23.5	23.5	23.5	23.5	23.5	23.5	23.5
Total Current Assets	239.6	388.9	500.3	566.3	280.1	348.1	319.9	319.9	388.2	472.1	515.4	624.8	624.8	997.5	1,482.5
Property and equipment, net	37.2	34.2	35.9	36.9	37.9	35.7	38.9	38.9	45.5	51.6	57.6	61.1	61.1	50.2	43.9
Long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	1.7	4.4	6.9	6.9	6.9	6.7	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Goodwill	3,533.4	3,695.6	3,684.0	3,661.8	3,990.0	3,929.6	4,058.2	4,058.2	4,058.2	4,058.2	4,108.2	4,108.2	4,108.2	4,208.2	4,308.2
Intangible assets, net	1,377.7	1,194.5	956.3	892.0	873.1	815.8	771.5	771.5	712.7	658.2	608.1	561.9	561.9	380.9	231.0
Other assets	13.1	9.4	11.4	16.7	19.3	20.2	27.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8
Total Assets	5,202.7	5,327.1	5,194.6	5,180.5	5,207.4	5,156.1	5,310.7	5,310.7	5,326.9	5,362.4	5,411.4	5,478.3	5,478.3	5,759.1	6,187.8
Liabilities															
Accounts payable	9.0	9.7	9.7	10.1	11.5	10.3	13.8	13.8	11.1	11.6	16.2	16.6	16.6	6.5	24.6
Accrued liabilities	53.7	39.6	52.1	40.9	49.0	47.9	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0
Accrued Interest Payable	-	11.6	0.3	0.9	0.8	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Income taxes payable	1.2	9.0	15.7	17.9	9.4	18.5	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	285.2	289.2	293.4	312.2	312.2	322.5	337.0	351.2	383.5	383.5	477.0	571.6
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	19.9	19.9
Total Current Liabilities	285.7	328.4	370.8	374.8	379.9	390.3	423.0	423.0	430.6	445.6	464.4	497.1	497.1	580.5	693.3
Deferred revenue, net of current portion	13.0	20.3	23.0	26.6	29.3	30.7	31.2	31.2	31.7	33.2	34.6	37.8	37.8	47.0	56.3
Non-current deferred taxes	264.7	167.5	147.1	137.5	128.8	114.9	97.9	97.9	106.6	115.4	124.2	133.0	133.0	173.0	213.0
Other long-term liabilities	36.6	148.1	133.5	133.9	137.0	130.6	122.7	122.7	122.7	122.7	122.7	122.7	122.7	122.7	122.7
LT debt, net of current portion	2,242.9	2,245.6	1,904.1	1,901.4	1,898.7	1,896.1	1,893.4	1,893.4	1,893.4	1,893.4	1,893.4	1,893.4	1,893.4	1,893.4	1,893.4
Total Liabilities	2,842.8	2,909.94	2,578.55	2,574.1	2,573.7	2,562.5	2,661.2	2,661.22	2,678.1	2,703.3	2,732.4	2,777.0	2,777.04	2,909.63	3,071.72
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	0.3	0.3
Additional paid-in capital	-	-	3,011.1	3,019.7	3,027.8	3,037.8	3,041.9	3,041.9	3,041.9	3,041.9	3,041.9	3,041.9	3,041.9	3,041.9	3,041.9
Accumulated other comprehensive loss	(66.0)	75.3	17.0	(10.7)	10.5	(44.0)	(5.2)	(5.2)	(5.2)	(5.2)	(5.2)	(5.2)	(5.2)	(5.2)	(5.2)
Accumulated Earnings	(453.7)	(805.2)	(412.3)	(402.9)	(405.0)	(400.6)	(387.4)	(387.4)	(388.2)	(377.9)	(357.9)	(335.7)	(335.7)	(187.5)	79.2
Total Equity	2,359.9	2,417.1	2,616.1	2,606.4	2,633.6	2,593.6	2,649.5	2,649.5	2,648.7	2,659.1	2,679.1	2,701.2	2,701.2	2,849.5	3,116.1
Total Liabilities + Equity	5,202.7	5,327.1	5,194.6	5,180.5	5,207.4	5,156.1	5,310.7	5,310.7	5,326.9	5,362.4	5,411.4	5,478.3	5,478.3	5,759.1	6,187.8

Source: Company Data, Barclays Research

FIGURE 6
SolarWinds Cash Flows

SolarWinds - Cash Flow Statement

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
Net Income	(334.4)	(83.9)	(102.1)	3.1	(2.1)	4.4	13.2	18.6	(12.7)	(1.8)	7.4	8.8	1.8	7.9	18.6	29.7	34.9	91.1	201.8
Adjustments from Operating Activities																			
Depreciation and amortization	219.2	250.9	258.4	64.5	65.6	66.6	66.6	263.2	65.5	62.2	58.6	55.9	242.2	61.4	57.5	51.6	48.6	219.2	185.1
Provision for Doubtful Accounts	1.8	2.5	2.5	0.5	0.4	0.5	0.0	1.5	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation expense	87.8	0.1	5.8	7.7	7.4	8.8	10.5	34.4	11.9	12.1	12.6	13.3	50.0	13.3	13.8	14.5	15.4	57.1	64.9
Accrued earnout gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	18.8	18.9	11.7	2.3	2.3	2.3	2.3	9.2	-	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	22.8	18.6	80.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred taxes	(126.6)	(101.5)	(22.1)	(11.3)	(9.1)	(9.3)	(9.9)	(39.6)	8.8	8.8	8.8	8.8	35.2	10.0	10.0	10.0	10.0	40.0	40.0
(Gain) loss on foreign currency exchange rates	32.4	(54.9)	13.4	(1.3)	1.2	(0.8)	(0.0)	(0.9)	-	-	-	-	-	-	-	-	-	-	-
Other non-cash expenses	0.9	(3.8)	3.4	(0.7)	0.3	0.5	0.5	0.5	-	-	-	-	-	-	-	-	-	-	-
Adjustments to working capital items																			
Accounts receivable	(13.4)	(2.4)	(18.0)	(10.6)	17.9	(8.1)	(18.2)	(19.0)	8.4	(13.5)	(6.4)	(21.4)	(32.9)	0.5	(24.5)	(10.5)	(18.6)	(53.1)	(42.0)
Income taxes receivable	(35.0)	35.0	0.7	(0.3)	0.4	(0.0)	(0.4)	(0.2)	-	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	(4.2)	6.2	(5.5)	(4.3)	(1.8)	(0.1)	(4.9)	(11.1)	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	(5.7)	0.3	(0.0)	0.5	1.0	(1.1)	3.4	3.7	(2.7)	0.5	4.6	0.4	2.8	(5.3)	(2.4)	(2.6)	0.3	(10.0)	18.1
Accrued liabilities and other	28.1	(7.5)	9.8	(10.8)	5.8	(0.3)	5.7	0.3	-	-	-	-	-	-	-	-	-	-	-
Accrued Interest Payable	-	0.6	(11.3)	0.6	(0.0)	(0.6)	(0.0)	(0.0)	-	-	-	-	-	-	-	-	-	-	-
Income taxes payable	4.4	119.6	(10.7)	2.5	(6.9)	2.0	(0.7)	(3.0)	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	194.1	34.0	35.5	20.1	(3.3)	9.6	14.9	41.2	10.9	15.9	15.6	35.5	77.9	19.8	23.5	20.8	38.5	102.6	104.0
Other long-term liabilities	(0.6)	0.0	1.5	0.8	(0.6)	0.7	-	0.9	-	-	-	-	-	-	-	-	-	-	-
Cash from operations	90.2	232.7	253.1	63.4	78.3	75.2	83.1	299.9	90.0	84.2	101.3	101.4	376.9	107.6	96.7	113.6	129.0	446.8	571.9
y/y growth	-	158.1%	8.8%	79.2%	10.6%	27.5%	-5.7%	18.5%	42.1%	7.5%	34.7%	22.1%	25.7%	19.5%	14.8%	12.1%	27.2%	18.6%	28.0%
Purchases of investments	(2.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturities of investments	22.8	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of PPE	(7.8)	(7.6)	(15.9)	(4.6)	(4.2)	(1.8)	(6.6)	(17.2)	(11.1)	(11.6)	(12.1)	(11.0)	(45.8)	(4.2)	(4.4)	(4.7)	(4.9)	(18.2)	(19.9)
Purchase of intangible assets and other LT	(3.5)	(4.8)	(2.7)	(1.2)	(1.2)	(1.1)	(2.3)	(5.9)	(2.3)	(2.3)	(2.3)	(2.3)	(9.0)	(2.3)	(2.3)	(2.3)	(2.3)	(9.0)	(9.0)
Acquisition of businesses, net cash	(507.5)	(24.0)	(60.6)	-	(349.5)	-	(112.9)	(462.4)	-	-	(50.0)	-	(50.0)	-	-	(100.0)	-	(100.0)	(100.0)
Acquisition of SolarWinds, net cash	(4,335.1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	-	-	11.2	0.2	1.4	2.5	(1.1)	3.0	-	-	-	-	-	-	-	-	-	-	-
Cash from investing activities	(4,833.0)	(34.4)	(68.0)	(5.6)	(353.5)	(0.4)	(122.9)	(482.5)	(13.3)	(13.8)	(64.4)	(13.3)	(104.8)	(6.5)	(6.7)	(106.9)	(7.1)	(127.2)	(128.9)
Cash from financing activities	4,897.3	(35.4)	(74.7)	(4.9)	(4.9)	(4.0)	(11.8)	(25.6)	-	-	-	-	-	-	-	-	-	-	-
FX impact	0.0	13.1	(5.5)	(1.0)	0.9	(5.0)	4.0	(1.1)	-	-	-	-	-	-	-	-	-	-	-
Net change in cash	154.4	176.1	104.9	51.8	(279.2)	65.8	(47.7)	(209.2)	76.7	70.4	36.9	88.1	272.0	101.1	90.0	6.7	121.9	319.6	443.0
Cash at Beginning of period	196.9	101.6	277.7	382.6	434.5	155.3	221.1	382.6	173.4	250.1	320.4	357.3	173.4	445.4	546.5	636.5	643.2	445.4	765.0
Cash at End of period	101.6	277.7	382.6	434.5	155.3	221.1	173.4	173.4	250.1	320.4	357.3	445.4	445.4	546.5	636.5	643.2	765.0	765.0	1,208.1
Free Cash Flow	78.9	220.3	234.5	57.6	72.8	72.2	74.2	276.9	76.7	70.4	86.9	88.1	322.0	101.1	90.0	106.7	121.9	419.6	543.0
uFCF		311.8	370.8	80.8	99.1	96.1	97.4	373.6	99.0	92.7	109.4	110.7	411.8	122.6	111.6	128.3	143.7	506.2	630.7
% conversion		86.2%	91.0%	77.1%	89.4%	83.6%	79.3%	82.3%	89.8%	77.5%	85.9%	87.5%	85.1%	93.3%	79.5%	86.5%	94.4%	88.4%	92.3%
y/y growth		18.9%	18.9%	5.4%	3.9%	11.1%	-12.3%	0.7%	22.5%	-6.5%	13.8%	13.6%	10.2%	23.8%	20.3%	17.3%	29.8%	22.9%	24.6%

Source: Company Data, Barclays Research

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Primary Stocks (Ticker, Date, Price)

SolarWinds Corporation (SWI, 04-Feb-2020, USD 21.10), Underweight/Positive, A/CE/D/J/L

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SolarWinds Corporation (SWI / SWI)

USD 21.10 (04-Feb-2020)

Stock Rating

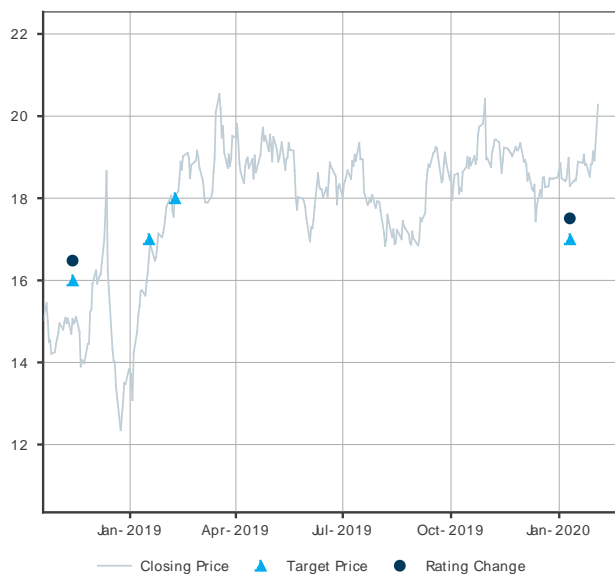
UNDERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - USD (as of 04-Feb-2020)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
10-Jan-2020	18.98	Underweight	17.00
08-Feb-2019	18.05		18.00
17-Jan-2019	16.54		17.00
13-Nov-2018	15.06	Equal Weight	16.00

Source: Bloomberg, Barclays Research

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

Source: IDC, Barclays Research

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

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Valuation Methodology: Our PT of \$17 is based on EV/CY21E uFCF of 14x and CY21E uFCF of \$506mn.

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