



SolarWinds Corporation

Solid Q2 with Prudence for 2H

The beat across the board in Q2 should reassure investors given the relatively tough setup going into the print. Management also discussed its confidence in 2H targets and the steady infrastructure IT spending backdrop, while being prudent in terms of its FY19 guidance to reflect the uncertain environment in EMEA. This, along with some moving parts from FX, explains the modest raise to FY19 guidance, which we believe will keep investor enthusiasm in check despite the outperformance this quarter. As such, we expect shares to remain rangebound and reiterate our EW rating and \$18 PT.

The Numbers: The company delivered license revenue of \$39.2mn (5.2% ccy growth), which came 1.5% ahead of consensus. Subscription revenue grew 26% ccy and came 2.9% ahead of consensus. Total revenue grew 15.4% ccy vs. management guidance of 12-15% and came 1.8% ahead of consensus. The company delivered adjusted EBITDA margin of 48.1% (vs. 47.5% consensus). FY19 revenue guidance range was revised modestly higher to \$938-950mn (same ccy growth rate as prior guidance of 13-15%) vs. consensus of \$940.8mn. FY19 adjusted EBITDA margin guidance was reiterated at 48%.

Positives: (1) Broad-based solid performance across the core IT (10% ccy growth) and subscription portfolio (26% ccy growth) highlights the company's hybrid IT positioning. (2) Beat on margins despite the impact from Samanage and higher mix of subscription revenue in Q2 (35% of total vs 32% last year). (3) Growing percentage of recurring revenue, with maintenance+subscription comprising 83.0% of total this quarter (vs. 81.4% last year).

Negatives: (1) FY19 underlying ccy growth guidance was maintained despite the outperformance this quarter (\$3.6mn ccy revenue outperformance vs. midpoint of guidance in Q2, while FY19 ccy revenue guidance raised \$0.5mn at the midpoint). (2) Weaker than expected Q3 margin guidance as the company plans to reinvest some of the Q2 margin outperformance in 2H.

Potential Catalysts: Q3 earnings tentatively in November.

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	0.20A	0.20A	0.20A	0.21E	0.21E	0.21E	43%	5%
Q2	0.09A	0.19E	0.20A	0.19E	0.23E	0.23E	0.22E	122%	15%
Q3	0.17A	0.20E	0.20E	0.21E	0.24E	0.25E	0.24E	18%	25%
Q4	0.19A	0.23E	0.23E	0.22E	0.27E	0.27E	0.26E	21%	17%
Year	0.60A	0.82E	0.82E	0.81E	0.96E	0.96E	0.93E	37%	17%
P/E	29.8		21.8			18.7			

Source: Barclays Research.

Consensus numbers are from Refinitiv received on 01-Aug-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
2 August 2019

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

Price (01-Aug-2019)	USD 17.90
Potential Upside/Downside	+0.6%
Tickers	SWI

Market Cap (USD mn)	5548
Shares Outstanding (mn)	309.95
Free Float (%)	17.11
52 Wk Avg Daily Volume (mn)	0.7
52 Wk Avg Daily Value (USD mn)	N/A
Dividend Yield (%)	N/A
Return on Equity TTM (%)	N/A
Current BVPS (USD)	8.51

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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U.S. Software	Industry View: POSITIVE
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SolarWinds Corporation (SWI)	Stock Rating: EQUAL WEIGHT
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Income statement (\$mn)	2018A	2019E	2020E	2021E	CAGR	Price (01-Aug-2019)	USD 17.90
Revenue	837	946	1,076	1,201	12.8%	Price Target	USD 18.00
EBITDA (adj)	408	453	520	584	12.7%	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.	
Operating profit (adj)	391	435	501	565	13.0%		
Pre-tax income	-122	40	136	225	N/A		
Net income (adj)	184	255	303	350	23.9%		
EPS (adj) (\$)	0.60	0.82	0.96	1.10	22.4%		
Diluted shares (mn)	307.0	310.3	316.0	318.8	1.3%		
DPS (\$)	0.00	0.00	0.00	0.00	N/A		

Margin and return data	Average					Upside case	USD 24.00
EBITDA (adj) margin (%)	48.7	47.9	48.3	48.6	48.4	Upside case 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.	
Operating margin (adj) (%)	46.7	45.9	46.6	47.0	46.6		
Pre-tax margin (%)	-14.5	4.3	12.7	18.7	5.3		
Net (adj) margin (%)	22.0	26.9	28.2	29.2	26.6		
ROIC (%)	2.6	2.6	4.2	5.4	3.7		
ROA (%)	-1.9	-0.0	1.0	2.2	0.3		
ROE (%)	-4.1	-0.0	1.9	4.4	0.5		

Balance sheet and cash flow (\$mn)	CAGR					Downside case	USD 11.00
Net PP&E	36	39	37	36	0.4%	Downside case 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.	
Goodwill	3,684	3,990	3,990	3,990	2.7%		
Cash and equivalents	383	332	699	1,122	43.1%		
Total assets	5,195	5,258	5,423	5,656	2.9%		
Short and long-term debt	1,924	1,919	1,919	1,919	-0.1%		
Other long-term liabilities	134	137	137	137	0.9%		
Total liabilities	2,579	2,610	2,689	2,761	2.3%		
Net debt/(funds)	1,541	1,587	1,220	796	-19.8%		
Shareholders' equity	2,616	2,648	2,734	2,895	3.4%		
Change in working capital	2	51	37	46	187.9%		
Cash flow from operations	253	331	389	447	20.8%		
Capital expenditure	19	24	22	23	7.2%		
Free cash flow	371	412	468	520	12.0%		

Valuation and leverage metrics	Average					Upside/Downside scenarios 	
P/E (adj) (x)	29.8	21.8	18.7	16.3	21.6		
EV/sales (x)	8.9	7.8	6.9	6.2	7.4		
EV/EBITDA (adj) (x)	18.2	16.4	14.3	12.7	15.4		
Equity FCF yield (%)	4.3	5.5	6.5	7.4	5.9		
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	42.0	41.2	39.9	41.4		

Selected operating metrics (\$mn)	CAGR				
License revenue	165	168	172	175	2.1%
Maintenance revenue	405	447	488	525	9.0%
Deferred revenue	296	334	367	398	10.3%

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

2Q19 Results Review

SolarWinds delivered a solid beat and raise in Q2. 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	2Q 18	2Q 19	2Q 19	Actual	2Q 19	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons.	vs. Cons.
Billings	204.7	237.3	225.7	5.1%	229.8	3.3%
License Revenue	37.7	39.2	38.2	2.5%	38.6	1.5%
Maintenance Revenue	99.6	110.8	110.2	0.6%	109.6	1.1%
Subscription Revenue	65.6	80.6	78.5	2.6%	78.3	2.9%
Total Revenue	202.8	230.6	226.9	1.6%	226.5	1.8%
Adjusted EBITDA	94.1	110.9	108.6	2.1%	107.5	3.1%
% margin	46.4%	48.1%	47.9%	0.2%	47.5%	0.6%
Operating profit, Non-GAAP	90.4	106.3	104.4	1.9%	103.4	2.9%
% margin	44.6%	46.1%	46.0%	0.1%	45.6%	0.5%
Net income, Non-GAAP	28.9	60.1	60.0	0.1%	58.4	3.0%
Non-GAAP EPS	0.09	0.20	0.19	3.7%	0.19	5.3%

Source: Company Data, Barclays Research, StreetAccount

Summary of Guidance

The company provided 3Q19 and FY19 guidance. We note that the new FY19 ccy guidance came in at \$948-960mn vs. prior \$946-\$961mn (\$0.5mn raise at the midpoint). We also note that the company delivered Q2 ccy revenue of \$234.1mn vs. guidance of \$228-233mn (\$3.6mn outperformance at the midpoint).

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	Q3					FY19				
	Low	High	Barclays	Consensus	Diff	Low	High	Barclays	Consensus	Diff
Total Revenue	241.5	246.0	242.0	243.5	0.1%	938	950	942.1	940.8	0.3%
Adjusted EBITDA	112	113.5	113.4	115.1	-2.0%	450	453	450.8	449.6	0.4%
% margin	46.4%	46.1%	46.9%	47.3%		48.0%	47.7%	47.9%	47.8%	
Non-GAAP EPS	0.19	0.2	0.20	0.21	-7.1%	0.81	0.82	0.82	0.81	0.6%

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 16x (was 15x, increased due to higher net debt position driven by the Samanage acquisition) EV/CY20E uFCF and slightly revised CY20E uFCF estimate of \$468mn (was \$465mn).

FIGURE 3
Summary of Estimate Changes

\$, mn	2019E			2020E		
	New	Old	% Chg.	New	Old	% Chg.
License and Maintenance	615.9	611.8	0.7%	659.6	655.6	0.6%
Subscription	330.1	330.3	(0.0)%	416.1	416.2	(0.0)%
Total Revenue	946.0	942.1	0.4%	1,075.6	1,071.8	0.4%
Gross profit, adjusted	866.9	862.2	0.5%	985.6	982.1	0.4%
% margin	91.6%	91.5%		91.6%	91.6%	
S&M	254.2	252.0	0.9%	284.9	284.1	0.3%
% margin	26.9%	26.7%		26.5%	26.5%	
R&D	105.5	106.2	(0.6)%	122.5	122.0	0.4%
% margin	11.2%	11.3%		11.4%	11.4%	
G&A	72.5	70.8	2.5%	76.8	76.5	0.4%
% margin	7.7%	7.5%		7.1%	7.1%	
Adjusted EBITDA	452.7	450.8	0.4%	520.0	517.7	0.4%
% margin	47.9%	47.9%		48.3%	48.3%	
Operating profit, Non-GAAP	434.7	433.3	0.3%	501.5	499.4	0.4%
% margin	45.9%	46.0%		46.6%	46.6%	
uFCF	412.4	410.6	0.4%	467.5	465.2	0.5%

Source: Barclays Research

FIGURE 4
SolarWinds P&L

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19	2Q19	3Q19E	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E
Total Billings		785.1	871.1	231.5	237.3	250.9	264.6	984.3	266.2	268.2	278.5	295.9	1,108.7
y/y growth			11.0%	9.8%	15.9%	13.0%	13.3%	13.0%	15.0%	13.0%	11.0%	11.8%	12.6%
q/q growth				-0.9%	2.5%	5.7%	5.5%		0.6%	0.7%	3.9%	6.2%	
License & Maintenance Revenue	490.1	525.8	570.0	144.2	150.0	158.1	163.5	615.9	155.3	160.6	169.1	174.6	659.6
y/y growth	0.0%	7.3%	8.4%	7.1%	9.3%	8.2%	7.6%	8.0%	7.7%	7.1%	6.9%	6.7%	7.1%
q/q growth	0.0%	0.0%	0.0%	-74.7%	4.0%	5.5%	3.4%	0.0%	-5.0%	3.4%	5.3%	3.2%	0.0%
% total	77.7%	71.0%	68.1%	66.8%	65.0%	64.8%	64.0%	65.1%	61.3%	61.2%	61.6%	61.1%	61.3%
Subscription Revenue	140.7	215.2	266.8	71.6	80.6	85.9	92.0	330.1	97.9	101.9	105.4	110.9	416.1
y/y growth	0.0%	52.9%	23.9%	12.4%	22.9%	26.6%	32.1%	23.7%	36.8%	26.4%	22.6%	20.6%	26.0%
q/q growth	0.0%	0.0%	0.0%	-73.2%	12.6%	6.6%	7.1%	0.0%	6.4%	4.1%	3.4%	5.3%	0.0%
% total	22.3%	29.0%	31.9%	33.2%	35.0%	35.2%	36.0%	34.9%	38.7%	38.8%	38.4%	38.9%	38.7%
Total Revenue	630.8	741.0	836.8	215.8	230.6	244.1	255.6	946.0	253.2	262.5	274.5	285.5	1,075.6
y/y growth		17.5%	12.9%	8.8%	13.7%	14.0%	15.3%	13.0%	17.3%	13.8%	12.5%	11.7%	13.7%
q/q growth				-74.2%	6.8%	5.9%	4.7%		-0.9%	3.7%	4.6%	4.0%	
Cost of Revenue	48.8	60.3	70.1	17.7	18.9	21.2	21.2	79.1	21.6	22.3	23.3	22.8	90.1
% margin	92.3%	91.9%	91.6%	91.8%	91.8%	91.3%	91.7%	91.6%	91.5%	91.5%	91.5%	92.0%	91.6%
y/y growth	0.0%	23.6%	16.3%	5.5%	7.4%	18.3%	19.5%	12.8%	21.9%	17.7%	9.9%	7.7%	13.9%
q/q growth	0.0%	0.0%	0.0%	-74.7%	6.8%	12.2%	-0.1%	0.0%	1.9%	3.1%	4.7%	-2.1%	0.0%
Gross Profit, Non-GAAP	582.0	680.7	766.7	198.1	211.6	222.8	234.4	866.9	231.6	240.2	251.1	262.7	985.6
% Margin	92.3%	91.9%	91.6%	91.8%	91.8%	91.3%	91.7%	91.6%	91.5%	91.5%	91.5%	92.0%	91.6%
y/y growth	0.0%	0.0%	0.0%	9.1%	14.3%	13.7%	15.0%	0.0%	16.9%	13.5%	12.7%	12.1%	0.0%
Sales and marketing	170.3	201.6	221.7	56.7	61.8	67.1	68.5	254.2	69.1	68.8	72.5	74.5	284.9
% Margin	27.0%	27.2%	26.5%	26.3%	26.8%	27.5%	26.8%	26.9%	27.3%	26.2%	26.4%	26.1%	26.5%
y/y growth	0.0%	18.4%	10.0%	9.3%	11.1%	19.8%	18.0%	14.7%	21.8%	11.2%	8.0%	8.8%	12.1%
Research and development	67.0	82.4	92.2	23.3	25.3	28.3	28.6	105.5	30.4	29.7	31.0	31.4	122.5
% Margin	10.6%	11.1%	11.0%	10.8%	11.0%	11.6%	11.2%	11.2%	12.0%	11.3%	11.3%	11.0%	11.4%
y/y growth	0.0	0%	11.9%	-2.0%	9.5%	24.6%	26.4%	14.4%	30.4%	17.4%	9.5%	9.7%	16.1%
General and Administrative	40.8	49.5	61.9	17.4	18.2	19.0	17.9	72.5	18.5	19.4	19.8	19.1	76.8
% Margin	6.5%	6.7%	7.4%	8.1%	7.9%	7.8%	7.0%	7.7%	7.3%	7.4%	7.2%	6.7%	7.1%
y/y growth		21%	25.1%	13.3%	13.2%	26.2%	16.7%	17.3%	6.2%	6.7%	3.8%	6.9%	5.9%
Operating Profit (loss)	303.8	347.3	390.9	100.6	106.3	108.4	119.3	434.7	113.6	122.3	127.9	137.6	501.5
% Margin	48.2%	46.9%	46.7%	46.6%	46.1%	44.4%	46.7%	45.9%	44.9%	46.6%	46.6%	48.2%	46.6%
Adjusted EBITDA	315.1	361.9	407.5	104.8	110.9	112.8	124.2	452.7	118.1	126.9	132.4	142.5	520.0
% Margin	50.0%	48.8%	48.7%	48.6%	48.1%	46.2%	48.6%	47.9%	46.6%	48.4%	48.3%	49.9%	48.3%
y/y growth		14.8%	12.6%	10.2%	17.9%	5.9%	11.0%	11.1%	12.6%	14.5%	17.5%	14.8%	14.9%
Interest income / expense	(170.4)	(169.8)	(142.0)	(27.4)	(28.2)	(28.2)	(28.2)	(111.9)	(28.2)	(28.2)	(28.2)	(28.2)	(112.7)
Other Income / (expense)	(57.2)	38.7	(75.3)	1.3	(1.1)	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Income tax expense	(149.8)	22.4	(2.3)	13.6	17.0	17.6	20.1	68.3	18.8	20.7	21.9	24.1	85.5
Effective Tax Rate	-196.6%	10.4%	-1.3%	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	184.1	60.9	60.1	62.5	71.1	254.7	66.6	73.5	77.8	85.4	303.2
% Margin	35.8%	21%	22%	28%	26%	26%	28%	27%	26%	28%	28%	30%	28%
FDSO (millions)													
Net Income (loss) per share	\$ -	\$ 0.49	\$ 0.60	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.23	\$ 0.82	\$ 0.21	\$ 0.23	\$ 0.25	\$ 0.27	\$ 0.96

Source: Company Data, Barclays Research

FIGURE 5

SolarWinds Balance Sheet

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19	2Q19	3Q19E	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E
Assets													
Cash, equivalents and ST investments	103.6	277.7	382.6	434.5	155.3	231.7	332.0	332.0	404.0	495.9	594.2	698.8	698.8
Cash, cash equivalents	101.6	277.7	382.6	434.5	155.3	231.7	332.0	332.0	404.0	495.9	594.2	698.8	698.8
Short term investments	2.0	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	80.4	85.1	100.5	109.8	96.3	93.9	74.7	74.7	86.3	80.8	75.4	73.7	73.7
Income tax receivable	36.2	1.7	0.9	1.1	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	19.3	24.3	16.3	20.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8
Total Current Assets	239.6	388.9	500.3	566.3	280.1	354.0	435.2	435.2	518.7	605.2	698.1	801.0	801.0
Property and equipment, net	37.2	34.2	35.9	36.9	37.9	37.2	38.7	38.7	38.3	37.9	37.8	37.4	37.4
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	3,990.0	3,990.0	3,990.0	3,990.0	3,990.0	3,990.0	3,990.0	3,990.0	3,990.0
Intangible assets, net	1,377.7	1,194.5	956.3	892.0	873.1	819.0	768.2	768.2	712.3	660.5	612.5	568.1	568.1
Other assets	13.1	9.4	11.4	16.7	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3
Total Assets	5,202.7	5,327.1	5,194.6	5,180.5	5,207.4	5,226.4	5,258.3	5,258.3	5,285.7	5,319.8	5,364.6	5,422.8	5,422.8
Liabilities													
Accounts payable	9.0	9.7	9.7	10.1	11.5	13.4	14.1	14.1	11.4	11.8	16.5	17.1	17.1
Accrued liabilities	53.7	39.6	52.1	40.9	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0
Accrued Interest Payable	-	11.6	0.3	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Income taxes payable	1.2	9.0	15.7	17.9	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4
Current portion of deferred revenue	204.7	241.5	273.1	285.2	289.2	296.1	304.3	304.3	316.3	321.4	325.1	334.5	334.5
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	379.9	388.7	397.6	397.6	406.9	412.4	420.8	430.9	430.9
Deferred revenue, net of current portion	13.0	20.3	23.0	26.6	29.3	29.3	30.1	30.1	31.1	31.6	32.0	32.9	32.9
Non-current deferred taxes	264.7	167.5	147.1	137.5	128.8	137.8	146.8	146.8	157.4	168.1	178.8	189.4	189.4
Other long-term liabilities	36.6	148.1	133.5	133.9	137.0	137.0	137.0	137.0	137.0	137.0	137.0	137.0	137.0
LT debt, net of current portion	2,242.9	2,245.6	1,904.1	1,901.4	1,898.7	1,898.7	1,898.7	1,898.7	1,898.7	1,898.7	1,898.7	1,898.7	1,898.7
Total Liabilities	2,842.8	2,909.94	2,578.55	2,574.1	2,573.7	2,591.5	2,610.2	2,610.23	2,631.1	2,647.9	2,667.3	2,688.9	2,688.94
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	3,027.8	3,027.8	3,027.8	3,027.8	3,027.8	3,027.8	3,027.8	3,027.8	3,027.8
Accumulated other comprehensive loss	(66.0)	75.3	17.0	(10.7)	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Accumulated Earnings	(453.7)	(805.2)	(412.3)	(402.9)	(405.0)	(403.8)	(390.5)	(390.5)	(384.1)	(366.7)	(341.3)	(304.8)	(304.8)
Total Equity	2,359.9	2,417.1	2,616.1	2,606.4	2,633.6	2,634.9	2,648.1	2,648.1	2,654.5	2,671.9	2,697.3	2,733.9	2,733.9
Total Liabilities + Equity	5,202.7	5,327.1	5,194.6	5,180.5	5,207.4	5,226.4	5,258.3	5,258.3	5,285.7	5,319.8	5,364.6	5,422.8	5,422.8

Source: Company Data, Barclays Research

FIGURE 6
SolarWinds Cash Flows

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19	2Q19	3Q19E	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E
Net Income	(334.4)	(83.9)	(102.1)	3.1	(2.1)	(7.0)	5.0	(1.0)	(2.1)	8.9	16.5	27.6	50.9
Adjustments from Operating Activities													
Depreciation and amortization	219.2	250.9	258.4	64.5	65.6	59.8	56.8	246.7	61.6	57.7	53.8	50.6	223.6
Provision for Doubtful Accounts	1.8	2.5	2.5	0.5	0.4	-	-	1.0	-	-	-	-	-
Stock-based compensation expense	87.8	0.1	5.8	7.7	7.4	8.2	8.3	31.6	8.5	8.5	8.9	9.0	34.8
Accrued earnout gain	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	18.8	18.9	11.7	2.3	2.3	-	-	4.6	-	-	-	-	-
Loss on extinguishment of debt	22.8	18.6	80.1	-	-	-	-	-	-	-	-	-	-
Deferred taxes	(126.6)	(101.5)	(22.1)	(11.3)	(9.1)	9.0	9.0	(2.4)	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)	1.2	-	-	(0.1)	-	-	-	-	-
Other non-cash expenses	0.9	(3.8)	3.4	(0.7)	0.3	-	-	(0.4)	-	-	-	-	-
Adjustments to working capital items													
Accounts receivable	(13.4)	(2.4)	(18.0)	(10.6)	17.9	2.4	19.2	28.9	(11.6)	5.5	5.4	1.7	1.0
Income taxes receivable	(35.0)	35.0	0.7	(0.3)	0.4	-	-	0.1	-	-	-	-	-
Prepaid and other current assets	(4.2)	6.2	(5.5)	(4.3)	(1.8)	-	-	(6.2)	-	-	-	-	-
Accounts payable	(5.7)	0.3	(0.0)	0.5	1.0	1.9	0.6	4.0	(2.7)	0.4	4.7	0.7	3.1
Accrued liabilities and other	28.1	(7.5)	9.8	(10.8)	5.8	-	-	(5.0)	-	-	-	-	-
Accrued Interest Payable	-	0.6	(11.3)	0.6	(0.0)	-	-	0.6	-	-	-	-	-
Income taxes payable	4.4	119.6	(10.7)	2.5	(6.9)	-	-	(4.4)	-	-	-	-	-
Deferred revenue	194.1	34.0	35.5	20.1	(3.3)	6.9	9.1	32.7	12.9	5.7	4.1	10.4	33.0
Other long-term liabilities	(0.6)	0.0	1.5	0.8	(0.6)	-	-	0.2	-	-	-	-	-
Cash from operations	90.2	232.7	253.1	63.4	78.3	81.3	107.9	330.9	77.3	97.4	104.0	110.4	389.0
y/y growth	-	158.1%	8.8%	79.2%	10.6%	37.9%	22.6%	30.7%	22.0%	24.4%	27.9%	2.3%	17.6%
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)	(3.7)	(6.4)	(18.8)	(4.1)	(4.2)	(4.4)	(4.6)	(17.2)
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)	-	(349.5)	-	-	(349.5)	-	-	-	-	-
Acquisitio of SolarWinds, net cash	(4,335.1)	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	-	-	11.2	0.2	1.4	-	-	1.7	-	-	-	-	-
Cash from investing activities	(4,833.0)	(34.4)	(68.0)	(5.6)	(353.5)	(4.9)	(7.6)	(371.6)	(5.3)	(5.4)	(5.6)	(5.8)	(22.2)
Cash from financing activities	4,897.3	(35.4)	(74.7)	(4.9)	(4.9)	-	-	(9.8)	-	-	-	-	-
FX impact	0.0	13.1	(5.5)	(1.0)	0.9	-	-	(0.1)	-	-	-	-	-
Net change in cash	154.4	176.1	104.9	51.8	(279.2)	76.4	100.3	(50.7)	72.0	91.9	98.3	104.6	366.8
Cash at Beginning of period	196.9	101.6	277.7	382.6	434.5	155.3	231.7	382.6	332.0	404.0	495.9	594.2	332.0
Cash at End of period	101.6	277.7	382.6	434.5	155.3	231.7	332.0	332.0	404.0	495.9	594.2	698.8	698.8
Free Cash Flow	78.9	220.3	234.5	57.6	72.8	76.4	100.3	307.1	72.0	91.9	98.3	104.6	366.8
uFCF		311.8	370.8	80.8	99.1	104.2	128.2	412.4	97.1	117.0	123.6	129.8	467.5
% conversion		86.2%	91.0%	77.1%	89.4%	92.4%	103.2%	91.1%	82.2%	92.2%	93.3%	91.1%	89.9%
y/y growth			18.9%	5.4%	3.9%	20.4%	15.4%	11.2%	20.1%	18.0%	18.6%	1.3%	13.4%

Source: Company Data, Barclays Research

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SolarWinds Corporation (SWI, 01-Aug-2019, USD 17.90), Equal Weight/Positive, A/CE/D/J/L

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SolarWinds Corporation (SWI / SWI)

USD 17.90 (01-Aug-2019)

Stock Rating

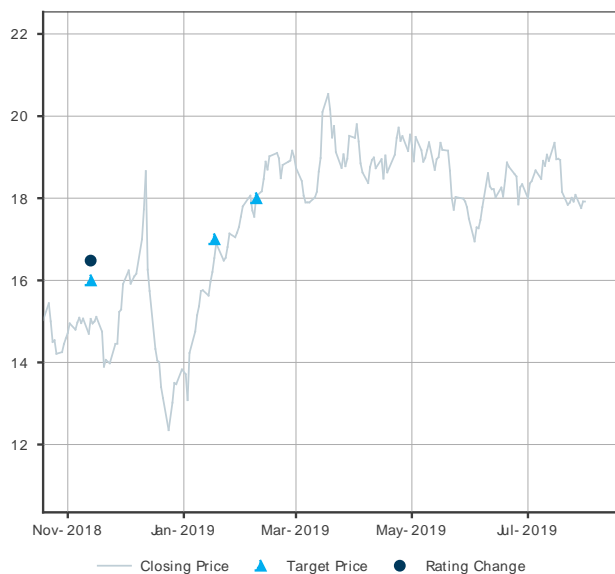
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EQUAL WEIGHT

POSITIVE

Rating and Price Target Chart - USD (as of 01-Aug-2019)

Currency=USD



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