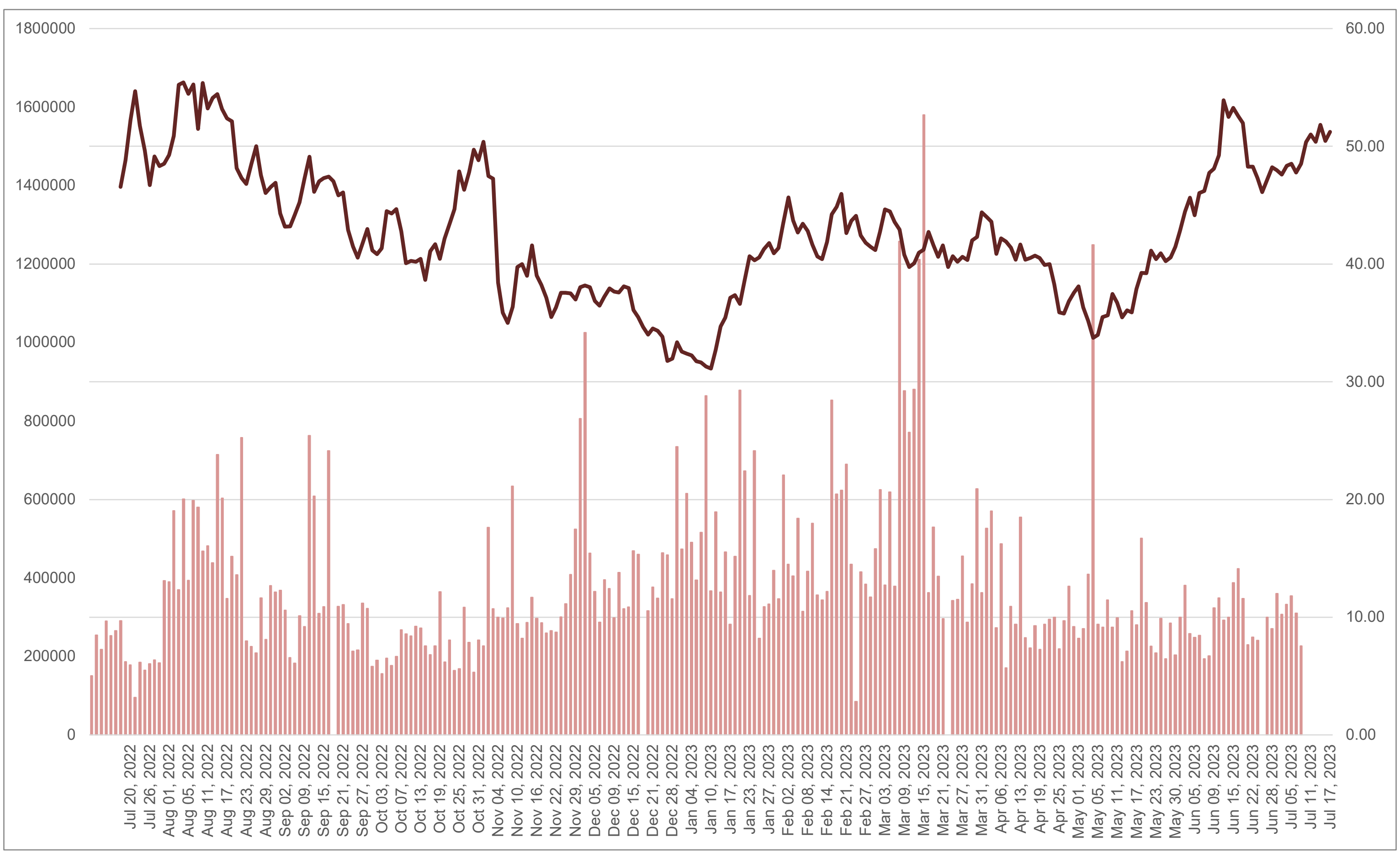
Baptista Research

Appian Corporation (APPN)

Industry View:	In-Line
Stock Rating:	Hold
Price Target:	$55.0
Current Price:	$51.2
Shares Outstanding:	415.52 MM
Average Daily Volume (3 months):	1.55 MM
52-Week High:	$261.59
52-Week Low:	$192.26

Company Overview

Appian Corporation provides low-code automation platform in the United States and internationally. The company's platform automates the creation of forms, workflows, data structures, reports, and other software elements that are needed to be manually coded. The company also offers professional and customer support services. Its customers financial services, government, life sciences, education, technology, media and telecommunications, consumer, and industrials. The company was incorporated in 1999 and is headquartered in McLean, Virginia.



Investment Thesis

Appian Corporation managed to surpass the revenue expectations and the earnings expectations of Wall Street. Appian reported a 31% year-over-year increase in cloud subscription revenue in the quarter, reaching $69.7 million. Overall subscription revenue came close to crossing the $100 million mark but ended up being $99.0 million. It was influenced by a larger mix of new cloud bookings during the quarter as well as by reduced on-prem license revenue, as some customers switched to the cloud this quarter. Total income increased in the quarter. Cost subscription revenue exceeded expectations. The reported number of $36.3 million in professional services revenue represented a 19% year-over-year increase. New, substantial projects with long-standing clients and the recognition of revenue from Q4 helped boost services revenue this quarter. Cloud subscription revenue is anticipated to reach $72 million to $74 million in the second quarter of 2023, reflecting a 26% to 30% increase year over year. Besides that, in the quarter, the company announced the launch of a new partner program to assist partner growth, market distinctiveness, and the success of its shared customers. We give Appian Corporation a 'Hold' rating with a revised target price.

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.

Financial Performance & Expectations

Appian Corporation reported a top-line of $135.24 million for the most recent quarterly result for the period ended 3/31/23 which implies a 22.88% change as compared to the $114.27 million number reported in the corresponding quarter of the previous year.The company beat the analyst consensus estimate of $0.13 billion.

These revenues translated into a gross margin of 73.30% and an operating margin of -26.10% which was lower than that in the same quarter of last year. Appian Corporation reported an EBITDA of $-32.92 million which translated into a Net Income of $-36.83 million. The company's adjusted EPS of $-0.27 was below the analyst consensus estimate of $-0.3.

In terms of cash flows, Appian Corporation reported $-25.27 million in the form of operating cash flows and spent $12.32 million in investing activities during the previous quarter. The company produced lower cash flows as compared to the same period in the previous year. For the coming quarterly result, we expect Appian Corporation to report a top-line of $0.12 billion and an adjusted EPS of $-0.4253.

Key Drivers

Appian-Low Code & Robotic Process Automation

The Appian Low-Code Platform and RPA or Robotic Process Automation are the company's key offerings to corporates. Let us analyze their value addition through the case of Poste Italiane, a key client of Appian. Using the Digital Desk app of Appian that is powered by these offerings, the Poste Italiane Customer Operations crew to administer and monitor all back-office operations to achieve continuous improvement and save costs, and boost productivity. The Italian company has been collaborating with Appian since 2018 to lower service costs and improve manufacturing efficiency. It also reduces inheritance processing time from over 30 days to just eight days and the time it takes to respond to a credit declaration from 15 to 7 days. By digitizing and streamlining operations, applications built on the Appian Low-Code Platform simplify the processing of back-office paperwork. On the other hand, the customer care representatives at Poste Italiane can now manage cases and conduct fraud analysis on a single platform with Appian's user-friendly interface. Additionally, Appian offers auditing features that let Poste Italiane easily manage and keep an eye on all of its operations, including those that use RPA, from beginning to end. Overall, the management is pleased that Poste Italiane chose Appian for its strategic digital transformation initiative and the long-term strategic cooperation aided the decision that it has established. Thus, the company's products have a strong value proposition.

New Partner Program Launch

Appian announced the launch of a new partner program to assist partner growth, market distinctiveness, and the success of its shared customers. This vision involves a redesigned partner program structure, improved and streamlined training access, as well as monetary incentives and awards. With the looming economic uncertainty, customers require strong business cases with a distinct ROI and quick market entry. This new partner-driven strategy improves Appian's position as the go-to vendor for end-to-end process automation. Customers will benefit from additional access to Appian's unique value proposition, a unified platform to design, automate, and optimize their most complex process difficulties. The new program enables Appian to increase the value it offers to clients and quickly find solutions to all of their problems through fostering co-innovation and agility. Furthermore, partners will be eligible for increased financial incentives, awards, and discounts as they achieve increasing levels of engagement and performance. In order to support shared go-to-market plans, Appian has enhanced lead generation possibilities and marketing budgets.

Collaboration With Kepner-Tregoe

Appian recently announced its collaboration with Kepner-Tregoe, a key player in critical thinking skill development and process improvement. Clients of Kepner-Tregoe benefit from this new collaboration by getting a better end-to-end approach to process analysis through process mining, workflow enhancement, and automation. According to the company, KT's digital practice will handle the new services' integration and introduction. These capabilities will strengthen and further expand the current KT offerings in business diagnostics and process improvement solutions. Process mining is a ground-breaking technology that applies data science and machine learning to process management by examining the digital trail left by a business process. Since, Kepner-Tregoe and Appian serve across the Americas, Europe, and the Asia-Pacific, this global footprint will support customers in the manufacturing and service sectors. The alliance between KT and Appian also represents the enthusiasm with which both businesses serve clients who aspire to increase performance across crucial business processes through digital transformation. The Appian platform is used in integration to deliver superior process mining and workflow automation, with KT's solutions for streamlining business procedures and IT systems and its systematic approach to problem-solving. Overall, Kepner-Tregoe's combined capabilities provide clients with accelerating discovery and analysis, significantly enhancing efficiency and cutting costs, conforming to regulations with certainty, and boosting automation in crucial functional areas.

Historical Quarterly Statement Analysis - Income Statement & Cash Flows (USD Million)

Particulars	6/30/22	9/30/22	12/31/22	3/31/23
Revenues	110	118	126	135
% growth		*7.1%*	*6.7%*	*7.5%*
Cost of Goods Sold	-33	-34	-35	-36
% of revenue	*-30.2%*	*-28.6%*	*-28.0%*	*-26.7%*
Gross Income (excl. D&A)	77	84	91	99
% of revenue	*69.8%*	*71.4%*	*72.0%*	*73.3%*
EBITDA	-41	-36	-39	-33
% of revenue	*-37.2%*	*-30.6%*	*-30.7%*	*-24.3%*
Depreciation & Amortization	1	3	2	3
% of Fixed Assets	*1.5%*	*2.8%*	*2.2%*	*2.6%*
Extraordinary Expenses	0	-1	-1	-1
EBIT	-43	-38	-41	-35
% of revenue	*-38.8%*	*-32.0%*	*-32.3%*	*-26.1%*
Pretax Income	-49	-44	-33	-36
% of revenue	*-44.5%*	*-37.1%*	*-26.1%*	*-26.4%*
Income Tax	0	0	2	1
% rate	*-0.8%*	*-0.6%*	*-4.9%*	*-3.2%*
Net Income	-49	-44	-34	-37
% of revenue	*-44.8%*	*-37.3%*	*-27.4%*	*-27.2%*

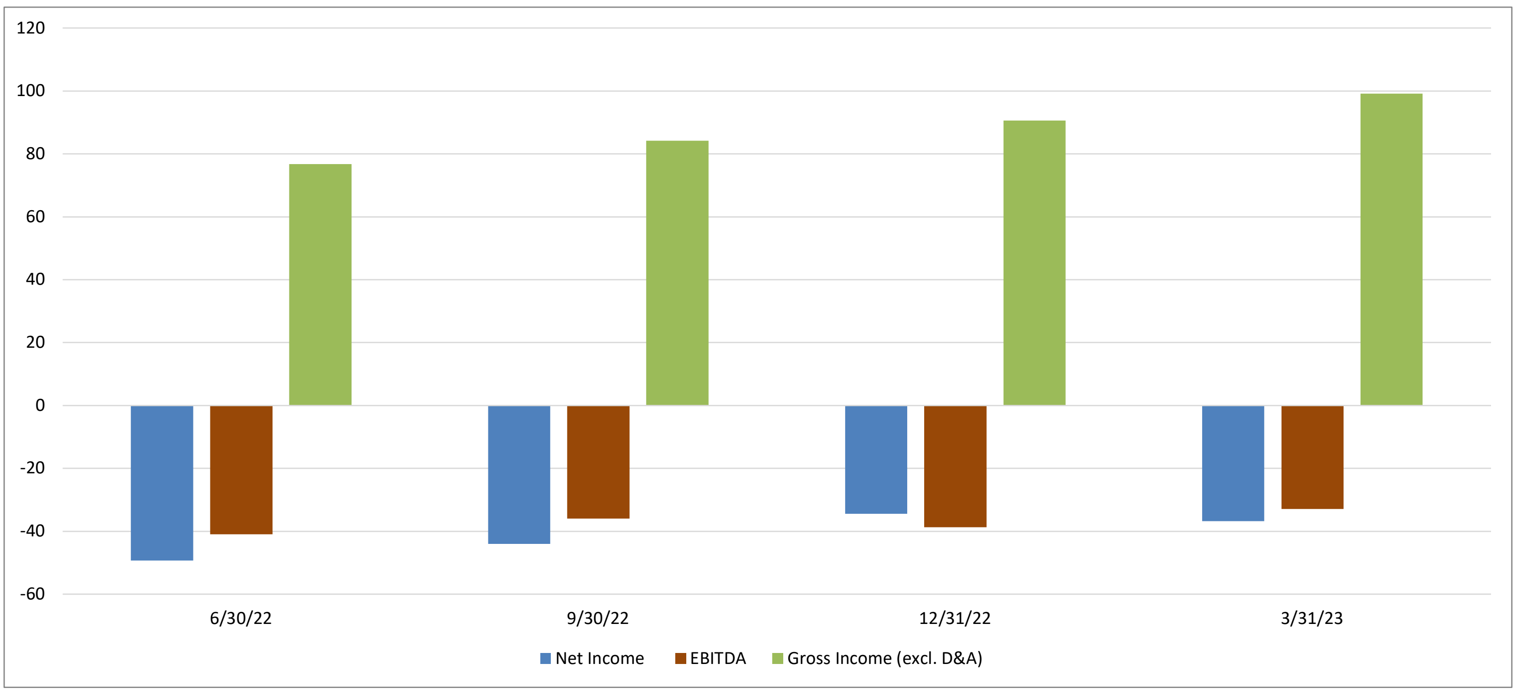
Quarterly Cash Flow Summary (USD Million)

Particulars	6/30/22	9/30/22	12/31/22	3/31/23
Cash from Operations	-30	-44	-13	-25
% of revenue	*-26.9%*	*-37.1%*	*-10.0%*	*-18.7%*
Cash from Investing	2	-20	10	12
% of Fixed Assets	*-1.6%*	*19.8%*	*-9.1%*	*-10.8%*
Free Cash Flows	-31	-24	-23	-38
% of revenue	*-28.3%*	*-20.3%*	*-18.0%*	*-27.8%*

- Let us start off with analyzing the most recent and historical quarterly data reported by the company.
- Appian Corporation has reported a top-line of $135.24 million in its recent quarterly result which is a 7.51% appreciation over the previous quarter.

- The company reported a positive gross margin of 73.31% for the quarter ended 3/31/23.
- Its EBITDA for the quarter was $-32.92 million and the EBITDA margin was -24.34%.
- This was a 6.39% margin expansion at the EBITDA level which is definitely a positive outcome.
- Appian Corporation's operating income (EBIT) was reported at $-35.27 million and a margin of -26.08%.
- This EBIT margin grew by 6.21% in this quarter.
- The company's pre-tax margin for the quarter was -26.39%.
- Appian Corporation reported a net income of $-36.83 million which resulted in a diluted earnings per share (EPS) of $-0.51.
- The company's net margin was -27.23%

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



- Now let us move on to the cash flow generation in the recent quarter.
- Appian Corporation burnt $-25.27 million in terms of operating cash flows for the quarter ended 3/31/23.
- The company was able to convert about -18.69% of its revenues into operating cash flows in the recent quarter.
- This quarter's EBITDA-to-operating cash flow conversion ratio is 76.76%
- Overall, Appian Corporation delivered a negative free cash flow of $37.59 million for the past quarter.

Historical Quarterly Statement Analysis - Balance Sheet (USD Million)

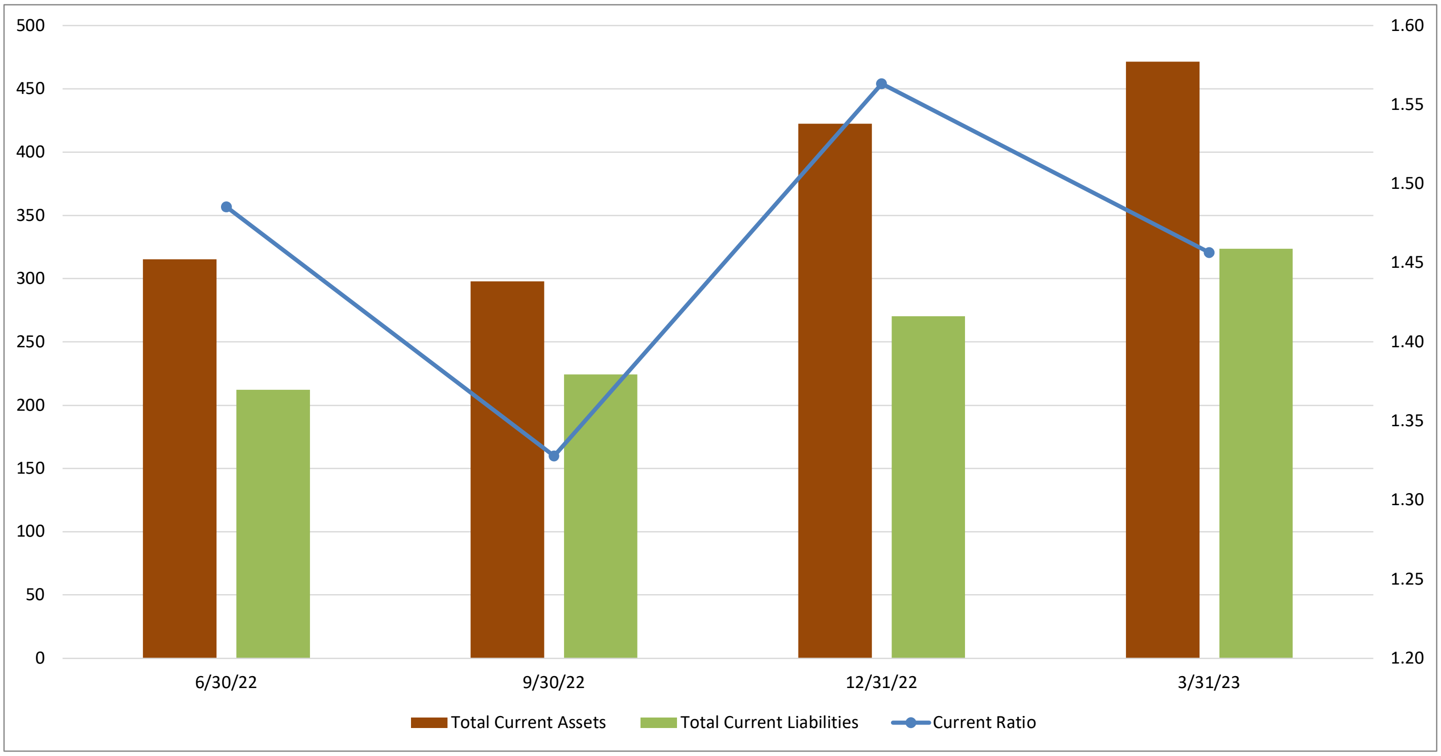
Balance Sheet	**6/30/22**	**9/30/22**	**12/31/22**	**3/31/23**
Assets				
Net Intangible Fixed Assets	31	29	32	33
Net Tangible Fixed Assets	66	71	79	81
Total Fixed Assets	**97**	**100**	**111**	**114**
% of revenue	*88.2%*	*84.6%*	*88.0%*	*84.2%*
LT Investments	2	0	0	0
Inventories	0	0	0	0
% of revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Accounts Receivable	120	143	166	148
% of revenue	*109.4%*	*121.6%*	*131.9%*	*109.1%*
Cash and ST Investments	136	93	196	254
% of revenue	*123.5%*	*78.6%*	*155.8%*	*188.2%*
Other Current Assets	59	62	61	70
Total Current Assets	**315**	**298**	**423**	**472**
Other Assets	55	57	61	59
Total Assets	**470**	**455**	**594**	**645**
Liabilities & Shareholder's Equity				
Equity & Minorities	205	173	146	116
% of capital employed	*79.7%*	*75.1%*	*45.0%*	*36.3%*
LT Debt	0	0	115	144
Other LT Liabilities	52	57	63	61
Total LT Liabilities	**52**	**57**	**178**	**205**
% of capital employed	*20.3%*	*24.9%*	*55.0%*	*63.7%*

ST Debt	0	0	0	0
% of capital employed	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Accounts Payable	7	5	8	4
% of COGS	*6.2%*	*4.3%*	*6.4%*	*2.9%*
Other ST Liabilities	206	219	262	320
% of revenue	*186.8%*	*186.0%*	*208.5%*	*236.5%*
Total Current Liabilities	**212**	**224**	**270**	**324**
Total Liabilities	**265**	**282**	**449**	**528**
Total Liabilities & Shareholder's Equity	**470**	**455**	**594**	**645**

- When we look at the quarterly Balance Sheet of the company, we see that the Fixed Asset base has evolved from $110.7 million to $113.85 million over the last 2 quarters.
- The current level of fixed assets, including tangibles & intangibles, is around 84.18% of the company's quarterly turnover.

- The company's receivables were around 109.12% of the quarterly top-line.
- As a result of the negative free cash flows, the company had a final cash and short-term investment balance of $254.48 million.
- When we analyze the capital structure of Appian Corporation, we realize that the company relies more on debt to finance its operations.
- The company's equity accounts for 36.26% of its total capital employed whereas debt (both long-term and short-term) accounts for about 63.74% of the total capital.
- Appian Corporation's payables account for 2.86% of its cost of goods sold.
- The following chart demonstrates the evolution of the company's working capital elements and its current ratio over the past 4 quarters.

Current Assets & Current Liabilities (USD Million)



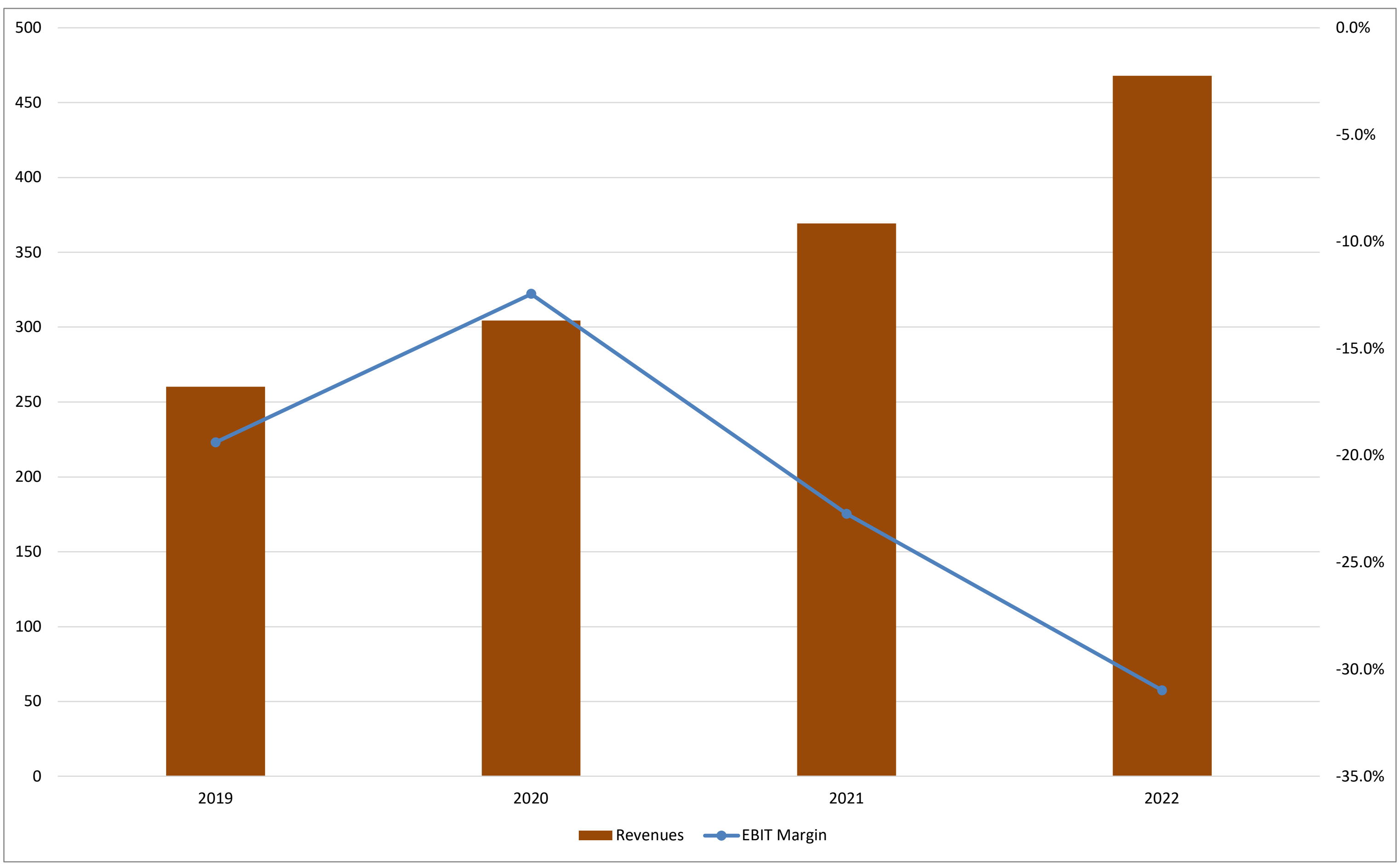
Historical Income Statement - Annual (USD Million)

Particulars	2019	2020	2021	2022
Revenues	260	305	369	468
% growth		*17.0%*	*21.2%*	*26.7%*
Cost of Goods Sold	-94	-89	-104	-133
% of revenue	*-36.0%*	*-29.1%*	*-28.2%*	*-28.5%*
Gross Income (excl. D&A)	167	216	265	335
% of revenue	*64.0%*	*70.9%*	*71.8%*	*71.5%*
EBITDA	-46	-32	-78	-138
% of revenue	*-17.6%*	*-10.5%*	*-21.2%*	*-29.4%*
Depreciation & Amortization	5	7	7	9
% of Fixed Assets	*7.4%*	*10.2%*	*7.1%*	*7.9%*
Extraordinary Expenses	0	-2	-1	-1
EBIT	-50	-38	-84	-145
% of revenue	*-19.4%*	*-12.4%*	*-22.7%*	*-31.0%*
Pretax Income	-50	-33	-88	-150
% of revenue	*-19.2%*	*-10.7%*	*-23.8%*	*-32.1%*

Income Tax	1	1	1	1
% rate	*-1.6%*	*-2.7%*	*-0.9%*	*-0.5%*
Net Income	-51	-33	-89	-151
% of revenue	*-19.5%*	*-11.0%*	*-24.0%*	*-32.2%*

- When we analyze the company's annualized historical income statement, we see that the top-line was $467.99 million for the previous financial year ending in 2022.
- The revenue growth was 26.74% in 2022 as compared to around 21.24% in 2021.
- Appian Corporation's cost of goods sold has decreased from -28.19% to -28.49% as a percentage of the top-line resulting in a rise in the gross margins.
- The company's overall annual EBITDA margin of -29.43% 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 up as compared to the result in 2021.

Revenue & Operating Margin (USD Million)



- In terms of the bottom-line, Appian Corporation reported an operating income (EBIT) of $-145.01 million and a net income of $-150.92 million resulting in an EPS of $-2.08.
- The slightly worrying news for investors holding the stock is that its net margin had decreased from -24.00% in 2021 to -32.25% in 2022.

Historical Balance Sheet - Annual (USD Million)

Particulars	2019	2020	2021	2022
Assets				
Net Intangible Fixed Assets	0	7	35	32
Net Tangible Fixed Assets	64	66	65	79
Total Fixed Assets	**64**	**73**	**100**	**111**
% of revenue	*24.5%*	*23.9%*	*27.0%*	*23.7%*
LT Investments	0	36	12	0
Inventories	0	0	0	0
% of revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Accounts Receivable	70	97	130	166
% of revenue	*27.0%*	*31.9%*	*35.2%*	*35.5%*
Cash and ST Investments	160	222	156	196
% of revenue	*61.4%*	*73.0%*	*42.2%*	*41.9%*
Other Current Assets	47	46	52	61
Total Current Assets	**278**	**365**	**338**	**423**
Other Assets	30	38	54	61
Total Assets	**371**	**513**	**505**	**594**
Liabilities & Shareholder's Equity				
Equity & Minorities	205	297	234	146
LT Debt	0	0	0	115

Other LT Liabilities	54	60	55	63
Total LT Liabilities	**54**	**60**	**55**	**178**
ST Debt	0	0	0	0
Accounts Payable	5	3	6	8
% of COGS	*2.0%*	*1.0%*	*1.6%*	*1.7%*
Other ST Liabilities	107	153	210	262
Total Current Liabilities	**112**	**156**	**216**	**270**
Total Liabilities	**166**	**216**	**271**	**449**
Total Liabilities & Shareholder's Equity	**371**	**513**	**505**	**594**

- 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 27.01% to 23.65%
- Its receivables of $165.96 million are about 35.46% of the top-line.
- Appian Corporation has close to $196 million in terms of liquidity i.e. cash and short term investments.
- On the other hand, its payables for 2022 account for around 1.71% of the cost of goods sold.
- The company's long term debt is around 1.2x times its equity.

Key Ratios - Annual

Other Metrics	2019	2020	2021	2022
Total Cash Dividends Paid	0.00	0.00	0.00	0.00
% growth		*NA*	*NA*	*NA*
Total Common Shares Outstanding	67	71	72	73
% change		*4.8%*	*2.2%*	*0.8%*
Dividend Per Share	0.00	0.00	0.00	0.00
% change		NA	NA	NA

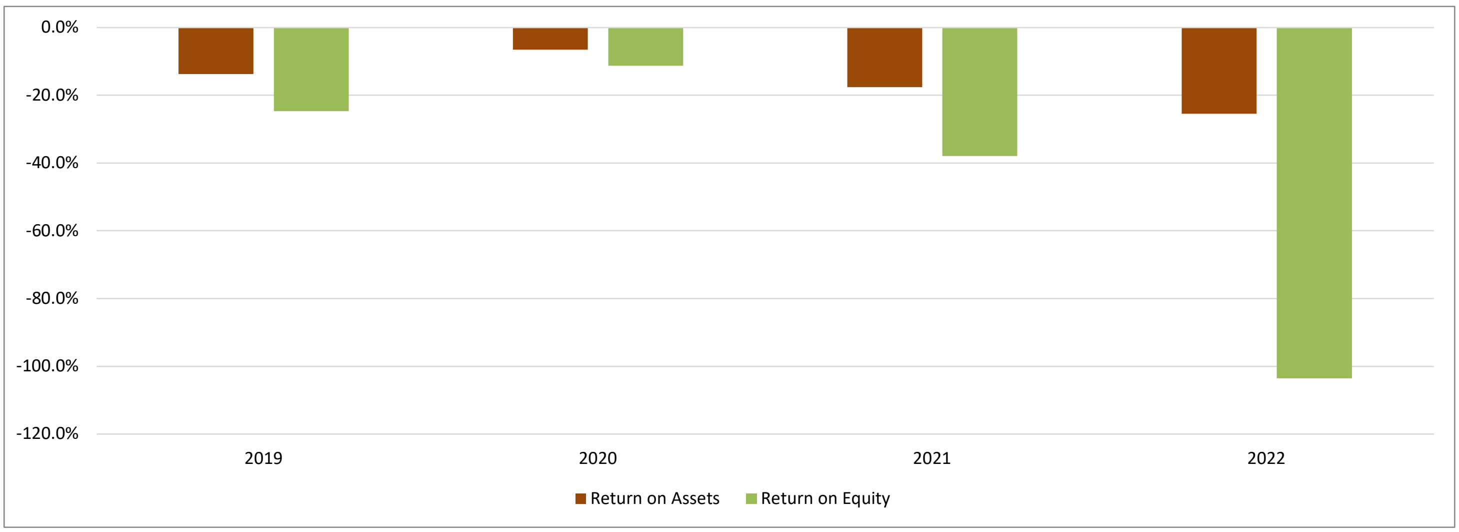
Operating Ratios	2019	2020	2021	2022
Receivables Turnover	3.7	3.1	2.8	2.8
Days Receivable	98.7	116.6	128.5	129.4
Inventory Turnover	NA	NA	NA	NA
Inventory Days	NA	NA	NA	NA
Payables Turnover	18.0	29.9	18.0	16.7
Days Payable	20.3	12.2	20.2	21.9
Fixed Asset Turnover	4.1	4.2	3.7	4.2
Total Asset Turnover	0.7	0.6	0.7	0.8

Other Performance Ratios	2019	2020	2021	2022
Return on Assets	-13.7%	-6.5%	-17.6%	-25.4%
Return on Equity	-24.7%	-11.3%	-37.9%	-103.6%

- The company does not pay any dividend.
- Appian Corporation's total common shares outstanding have increased in 2022 by 0.84% 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 129.4 days to collect money from its clients which appears to be on the higher side and blocking its working capital.
- 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 21.9 days to pay off its creditors which appears to be on the lower side and implies that it gets limited credit.

- 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.
- Appian Corporation's fixed assets turnover ratio of 4.2 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.
- Appian Corporation's total assets turnover has increased to 0.79 in 2022.

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.
- 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 -25.40%.
- Appian Corporation's Return on Equity is -103.58%. 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.

Forecasted Income Statement - Annual (USD Million)

Particulars	2021	2022	2023E	2024E	2025E
Revenues	369	468	537	619	731

% growth		*26.7%*	*14.7%*	*15.3%*	*18.2%*
Cost of Goods Sold	-104	-133	-153	-175	-207
% of revenue	*-28.2%*	*-28.5%*	*-28.4%*	*-28.3%*	*-28.3%*
Gross Income (excl. D&A)	265	335	384	443	525
% of revenue	*71.8%*	*71.5%*	*71.6%*	*71.7%*	*71.7%*
EBITDA	-78	-138	-67	-32	-2
% of revenue	*-21.2%*	*-29.4%*	*-12.5%*	*-5.1%*	*-0.2%*
Depreciation & Amortization	7	9	9	12	10
EBIT	-84	-145	-76	-43	-12
% of revenue	*-22.7%*	*-31.0%*	*-14.2%*	*-7.0%*	*-1.6%*
EBT (GAAP)	-88	-150	-135	-92	-62
% of revenue	*-23.8%*	*-32.1%*	*-25.1%*	*-14.9%*	*-8.5%*
Net Income (GAAP)	-89	-151	-136	-89	-63
% of revenue	*-24.0%*	*-32.2%*	*-25.3%*	*-14.4%*	*-8.6%*
Earnings Per Share (GAAP)	-1.25	-2.08	-1.83	-1.18	-0.86

Forecasted Cash Flow Statement (USD Million)

Particulars	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Net Income (GAAP)	-89	-151	-136	-89	-63
+ Depreciation & Amortization	7	9	9	12	10
+/- Working Capital, Deferred Taxes & Other Adjustments	28	36	60	52	66
Cash Flow from Operations	**-54**	**-107**	**-66**	**-25**	**14**
% of EBITDA	*69.0%*	*77.4%*	*99.0%*	*80.3%*	*-796.6%*
Capital Expenditure	-6	-9	-14	-10	-9
% of revenues	*1.6%*	*1.9%*	*2.5%*	*1.6%*	*1.2%*
Other Investment Cash Flow	-36	-1	-1	-1	-1
Cash Flow after Investments	**-42**	**-10**	**-15**	**-11**	**-10**

Free Cash Flow	-60	-116	-80	-35	5

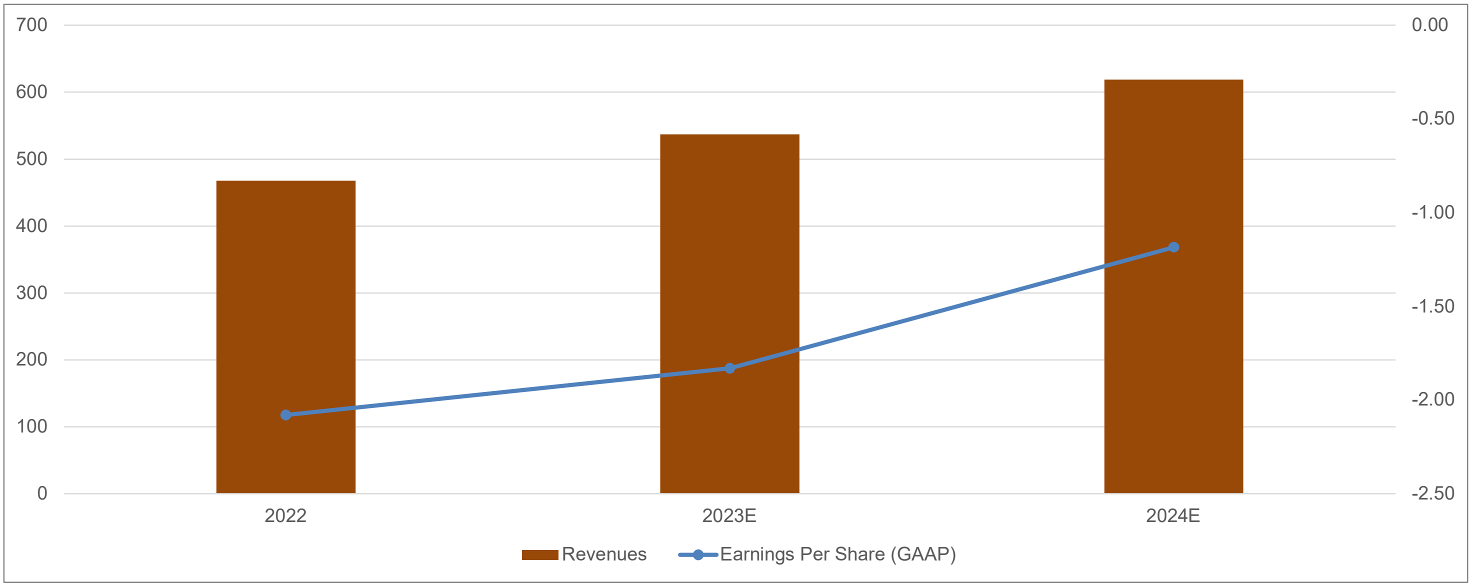
Key Ratios

Growth & Margins	2021	2022	2023E	2024E	2025E
Sales Growth	21.2%	26.7%	14.7%	15.3%	18.2%
EBITDA Margin	-21.2%	-29.4%	-12.5%	-5.1%	-0.2%
EBIT Margin	-22.7%	-31.0%	-14.2%	-7.0%	-1.6%
Net Profit Margin	-24.0%	-32.2%	-25.3%	-14.4%	-8.6%

Leverage Ratios	2021	2022	2023E	2024E	2025E
Net Debt	-156	-81	-12	15	43
Net Debt/ Equity	-0.7	-0.6			
Net Debt/ EBITDA	NA	NA	NA	-0.5	-25.2

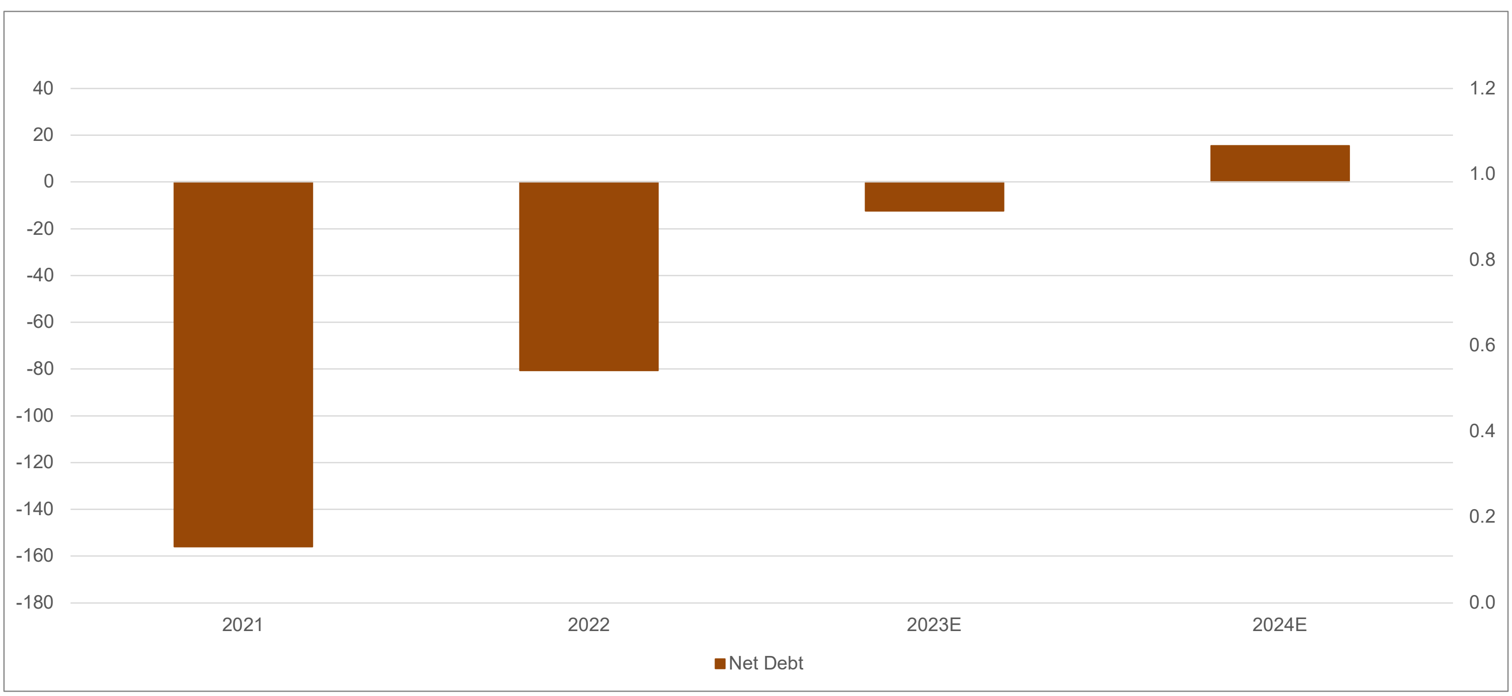
- Now let us move on to Baptista Research's forecasts for Appian Corporation's income statement and cash flows.
- We forecast a top-line growth of 14.7% for 2023, around 15.3% for 2024, and about 15.3% for 2025.
- This growth is expected to translate into an EBITDA of $-67.193436 million in 2023 with a margin of -12.52%
- Appian Corporation's EBIT margin is expected to be -14.18% in 2023, about -7.02% in 2024, and -7.02% in 2025.
- Our estimate for the company's Net Income (GAAP) is $-135.857166 million implying a net margin of -25.31% and resulting in an earnings per share of $-1.83.
- We expect the growth to follow a similar trend in 2024 and 2025.

Forecasted Revenues & Earnings Per Share



- In terms of the cash flows, we expect Appian Corporation to generate around $-66.49 million in operating cash flows in 2023.
- This implies an EBITDA-to-Operating-Cash-Flow conversion ratio of 98.95%
- Appian Corporation is expected to invest a lower amount in capex and other investing activities in 2023.
- Overall, the company is expected to generate free cash flows to the tune of $-80 million in 2023.

Evolution of Net Debt Levels



- Appian Corporation's Net Debt is expected to increase 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.
- Appian Corporation's Net Debt-to-EBITDA ratio is expected to be NA in 2023 which indicates that the company is over-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 -0.55 and it indicates that the company has no gearing.

Discounted Cash Flow Valuation

Key DCF Assumptions	
WACC	13.3%
CoD	3.3%
CoE	13.1%
Market Rate	6.0%
Risk Free Rate	3.5%
Beta	1.6
Perpetual Growth Rate (g)	13.1%
Terminal Value	3648
Tax Rate	-0.5%

- For the purpose of carrying out the discounted cash flow valuation of Appian 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 3.45%.
- The company's stock is more volatile than the market as a whole and has a beta of 1.6 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 13.1% which appears reasonable for a company like Appian Corporation.
- Based on the company's long term debt and interest payments, the cost of debt is 3.3%.
- After incorporating the CoE and the CoD and average tax rate of -0.5%, we arrive at a Weighted Average Cost of Capital (WACC) of 13.3%.
- 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 7.2 to our forecasted revenues of 2025.

EV and Market Cap	Current	2023E	2024E	2025E
Price ($)	51.22	55.0	63.4	72.1
Outstanding Number of shares (million)	73	73	73	73

Total Market Cap (billion)	3.74	4.01	4.63	5.26
Net Debt	-81	-12	15	43
Enterprise Value (billion)	3.66	4.00	4.64	5.30

- After applying the discount rate (WACC) of 13.3%, we arrive at a price target of $55.0 for 2023.
- Our target price at the end of 2024 is $63.4 and for 2025 is $72.1 which implies a total appreciation of nearly 40.7% in the coming 3 years in the stock price.

Valuation Ratios	**Current**	**2023E**	**2024E**	**2025E**
EV/ Sales	7.8	7.5	7.5	7.2
EV/ EBITDA	NA	NA	NA	NA
EV/ EBIT	NA	NA	-61.0	-122.0
Price/Earnings	NA	NA	NA	NA

- During this phase, we see the EV/ EBITDA to be in the range of 0.00 and 0.00
- The EV/ EBIT will be in the range of -122.00 to -61.00 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 Appian Corporation.

Valuation Multiples Of Comparables

Comparable Name	**Forward EV/ Revenue**	**Forward EV/ EBITDA**	**Forward P/E**	**Forward Market Cap/ FCF**
Appian Corporation	7.45x	NA	NA	-50.16x
Microsoft Corporation	11.18x	22.41x	32.83x	35.91x
Salesforce, Inc.	6.25x	17.90x	29.07x	26.37x
SAP SE	4.87x	14.99x	23.32x	28.13x

ServiceNow, Inc.	12.71x	39.04x	59.47x	41.70x
NICE Ltd.	5.12x	15.37x	23.99x	25.49x
UiPath Inc.	6.54x	43.71x	58.87x	56.86x
Pegasystems Inc.	3.56x	26.46x	34.57x	36.60x
Magic Software Enterprises Ltd.	1.07x	-	11.50x	-
00-Jan	00-Jan	00-Jan	00-Jan	00-Jan

Median	6.25x	22.41x	30.95x	35.91x
Mean	6.45x	25.70x	34.20x	35.87x
Max	12.71x	43.71x	59.47x	56.86x
Min	1.07x	14.99x	11.50x	25.49x

- As we can see in the above table, the forward EV/ Revenue multiple of Appian Corporation is above that of the industry median.
- We also see that the industry mean of Appian 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 Appian Corporation as well as the inherent risks associated with the financial projections and price forecasts presented in this report.

Appian continues to be a loss-making company and its break even is not in sight for now. This could be a major deterring factor for shareholders.

The workflow automation domain is highly crowded and Appian competes with many larger players such as ServiceNow, IBM, SAP, Zoho, Oracle, and more. Most of these companies have a greater buying power and more funds at their disposal for innovation and expansion.

Given its scale, Appian could find it challenging to attract the highest quality of tech-related talent into its business.

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.

Rapid technological progress, changing client demands, and developing industry standards may all contribute to the obsolescence of present and future products and services. In addition, the management claims that the success of their client acquisition approach will always be critical to their business.

It is worth highlighting that the extent to which Covid-19 impacts the financial results of the company is highly uncertain and could significantly disrupt the operations including sales, manufacturing and supply chain-related activities. It could also result in social, economic, and labor instability in the countries where the customers and suppliers operate.

With respect to our price projection, we would like to clarify that the valuation of Appian Corporation in this report is specific to the date of the analysis i.e. 19-07-2023.

We must emphasize that the projected valuation and the share price of Appian 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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