EQUITY RESEARCH INITIATION

RBC Capital Markets

RBC Capital Markets, LLC
Matthew Hedberg (Analyst)
(612) 313-1293
matthew.hedberg@rbccm.com
Dan Bergstrom (Analyst)
(612) 313-1254
dan.bergstrom@rbccm.com
Ross MacMillan (Analyst)
(212) 428-7917
ross.macmillan@rbc.com
Matthew Swanson (Senior Associate)
(612) 313-1237
matthew.swanson@rbccm.com

November 13, 2018

SolarWinds Corporation

Solar powered; initiating at OP and $18 PT

Our view: Through a wide portfolio of IT management tools and a differentiated go-to-market model, SolarWinds has a unique combination of growth and best-in-class margins that positions it as a stand-out on a "Rule of 40" basis. Since going private in 2016, SolarWinds has significantly more recurring revenue, estimated at 79% this year vs 59% four years ago, which improves the quality of the model.

Key points:

"The SolarWinds Model": SolarWinds has developed a unique go-to-market approach through: 1) a wide portfolio of differentiated, competitively priced IT management tools; 2) selling directly to the IT professional; 3) free trials as the basis of a disruptive business model; and 4) a low-touch digital marketing and “sell from the inside” approach that is difficult to replicate. This is what is referred to as “The SolarWinds Model” and is key to its growth and the leading margin profile, in our opinion.

A large and fragmented opportunity: SolarWinds addresses a large and fragmented opportunity across IT operations, security, and backup and storage management. According to IDC, the global software revenue for these categories is expected to be $53.6B in 2021E, up from $41.5B in 2017. What we like is that the SolarWinds model and MSP partnerships enable effective targeting of all aspects of the market, including the mid-to-lower-end of the market, which we view as underpenetrated, while counting 499 of the Fortune 500 as customers.

Driving recurring and subscription revenue: Since going private in 2016, SolarWinds has pivoted to more of a recurring revenue model while maintaining best-in-class margins. As such, we believe its revenue could be 84% recurring by 2020E vs 66% when it went private in 2016. This has the effect of not only limiting volatility in the model, but also creating a more attractive growth profile as the percentage of slower-growing license revenue is modeled to decline to 16% of revenue by 2020E vs 26% in 2016 and is offset by faster-growing subscription revenue.

Stand-out from a margin perspective: The unique go-to-market approach and attractive recurring revenue growth form the basis of a financial model that has a leading margin profile with a 92% gross margin, 49% adjusted EBITDA margin and 49% uFCF margin in 2017. When looking across software, SolarWinds is a standout from a “Rule of 40” basis with a score of 60 based on our 2018 published estimates, which has few rivals and compares to an average score of 34 across the group.

Thinking through valuation: Since the IPO, shares are down 2% as we think the debate is on EV/S where the stock looks in line to expensive vs EV/EBITDA where it looks attractive relative to peers. As the company continues to execute its plan, we think the stock can move higher with upside to estimates. Initiate coverage with an OP rating and $18 PT.

Outperform

NYSE: SWI; USD 14.70

Price Target USD 18.00

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
10.00	14.70	18.00	22.00
↓ 32%		↑ 22%	↑ 50%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	320.0	Market Cap (MM):	4,704
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	NA

RBC Estimates

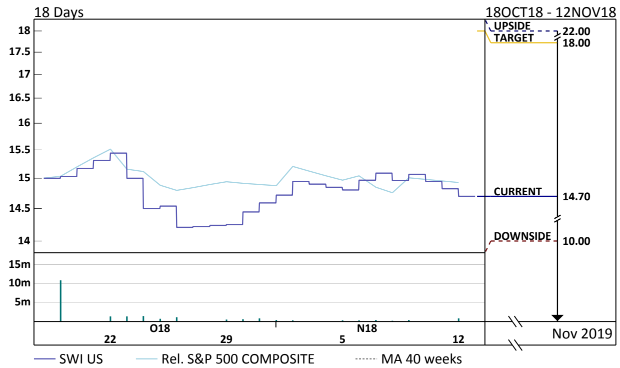
FY Dec	2017A	2018E	2019E	2020E
Revenue	740.9	825.3	924.0	1,033.0
EPS, Ops Diluted	0.55	0.65	0.71	0.82
P/E	26.7x	22.6x	20.7x	17.9x
EBITDA, Adj	361.9	398.9	449.9	506.3

Revenue	Q1	Q2	Q3	Q4
2017	172.3A	177.9A	191.0A	199.7A
2018	198.4A	202.9A	207.0E	217.0E
2019	217.0E	225.0E	235.0E	247.0E
EPS, Ops Diluted				
2017	0.10A	0.12A	0.17A	0.17A
2018	0.15A	0.17A	0.15E	0.17E
2019	0.15E	0.17E	0.18E	0.20E

All values in USD unless otherwise noted.

Target/Upside/Downside Scenarios

Exhibit 1: SolarWinds Corporation



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/base case

We calculate our base-case price target of $18 using a 14.5x EV/EBITDA multiple on our CY/20E EBITDA estimate of $506M. This multiple is in-line to slightly higher vs slower-growing peers, but a significant discount to faster-growing peers. Our price target and multiple, in our view, are warranted due to a large and expanding TAM that leads to reasonable revenue growth and above-average margins.

Upside scenario

Our upside case of $22 is based on EBITDA growth of 16% in both CY/19 and CY/20, or 300 bps above our base-case estimates in both years. To reach this level of growth, we believe there would need to be some combination of higher cross-selling, better new customer additions, and a stable to better macro environment. We believe upside to EBITDA and margins could point to 16x CY/20E EV/EBITDA, or a slight premium to our base-case scenario.

Downside scenario

Our downside case of $10 is based on EBITDA growth of 11% in CY/19 and CY/20, or 200 bps below our base-case estimates in both years. To reach this level of growth, we believe there would need to be a fall-off in tech spending, less success expanding into new customers, and lower renewal rates. Additionally, with a less attractive growth and margin profile, we believe the stock could receive a lower multiple. We believe downside to EBITDA and margins could point to 10x CY/20E EV/EBITDA, which would be a discount to peers.

Investment summary

High-level overview of SolarWinds

SolarWinds is a provider of IT infrastructure management software to monitor and manage networks, systems and applications across on-premise, cloud and hybrid IT environments without the need for customization or professional services. Products are designed for IT professionals and built on a common technology platform that enables products to be purchased individually, scaled as needed, or as part of a larger suite. Products have been developed organically and through strategic acquisitions, with a number of recent acquisitions to expand core IT, MSP and Cloud offerings.

Our investment thesis centers around relatively consistent license revenue going forward and subscription revenue that we think continues to grow at 20%+ levels over the next several years. We believe as long as these trends persist, the percentage of recurring revenue should continue to track higher, which should drive consistent to increasing revenue growth rates and increasing operating margins, albeit modestly given the leading margin profile. Ultimately, we think these trends should enable the stock to work toward our $18 price target.

Potential catalysts:

1) Increased subscription traction; 2) cross- and up-sell into a large and growing base of customers; 3) incremental margin gains; 4) international expansion; 5) leverage from MSP partnerships; and 6) potential M&A to further extend the portfolio of products.

Risks:

1) Licenses still account for ~20% of revenue and could prove volatile; 2) potential variance in subscription and maintenance expansion and renewal rates; 3) competition and technology change; and 4) Silver Lake and Thoma Bravo own a majority of shares and have a controlling interest over stockholders.

Key questions

Our view

1. What has changed with SolarWinds since it went private in 2016?

In short a lot. While the senior management team is largely intact, the biggest change, in our opinion, is the growth in recurring revenue. The company has transitioned to a model that by CY/20, 84% of revenue should be recurring vs. a model that was 66% recurring when it was taken private in early 2016. Part of this was due to the LOGICnow acquisition, which contributed $57.5 million in subscription revenue from the acquisition date of May 27, 2016 to December 31, 2016, but also an overall expansion of subscription offerings. This mix-shift has improved not only revenue visibility, but also the overall growth profile and margin expansion.

2. How do we think about the market opportunity?

SolarWinds addresses a large and fragmented opportunity across IT operations, security, and backup and storage management. According to IDC, the global software revenue for these categories is expected to be $53.6 billion in 2021E, up from $41.5 billion in 2017. What we like is that the SolarWinds model and MSP partnerships enable effective targeting of all aspects of the market, including the mid-to-lower-end of the market, which we view as under-penetrated, while counting 499 of the Fortune 500 as customers.

3. How do we think about the tradeoff between growth and profitability?

We estimate the subscription business should grow 23% and represent 32% of revenue in 2018, while the maintenance business should grow at 9% and represent 49% of revenue in 2018. The unique go-to-market approach and attractive recurring revenue and subscription growth form the basis of a financial model that has a leading margin profile with a 92% gross margin, 49% adjusted EBITDA margin and 49% uFCF margin in CY/17. When looking across software, SolarWinds is a standout from a "Rule of 40" basis, which software investors use to evaluate companies at different stages of maturity. Based on our CY/18 published estimates when adding total revenue growth of 11.4% and an adjusted EBITDA margin of 48.3%, we come up with a score of 60 on a "Rule of 40" basis. This compares to an average score of 34 across comparable group peers with only Atlassian at 64 having a higher score.

4. Who does SolarWinds compete with given its numerous product offerings?

Considering the depth and breadth of SolarWinds' product offerings that now total over fifty, the competitive landscape is large and fragmented. In terms of vendors that offer a wide variety of solutions similar to SolarWinds, the company competes with large network management and IT vendors such as NetScout, MicroFocus, CA Technologies, IBM and BMC Software. Outside of these large network management vendors, SolarWinds competes with a variety of vendors in categories such as: 1) infrastructure and appliance vendors; 2) APM vendors; 3) cloud and application monitoring vendors; 4) MSPs; 5) open source; and 6) RMM vendors. We believe SolarWinds is in a unique position to consolidate share.

5. What are the proper valuation metrics?

Given SolarWinds' faster subscription growth and uniquely high-margin profile, we believe an EV/EBITDA multiple should be the primary valuation metric with EV/S as a secondary metric. That said, we think the shares look attractive based on profitability and a best-in-class "Rule of 40" score.

6. What control do shareholders have given SolarWinds is a controlled company?

The sponsors, Silver Lake and Thoma Bravo, own approximately 88% of the company and will therefore be able to control all matters that require approval by stockholders.

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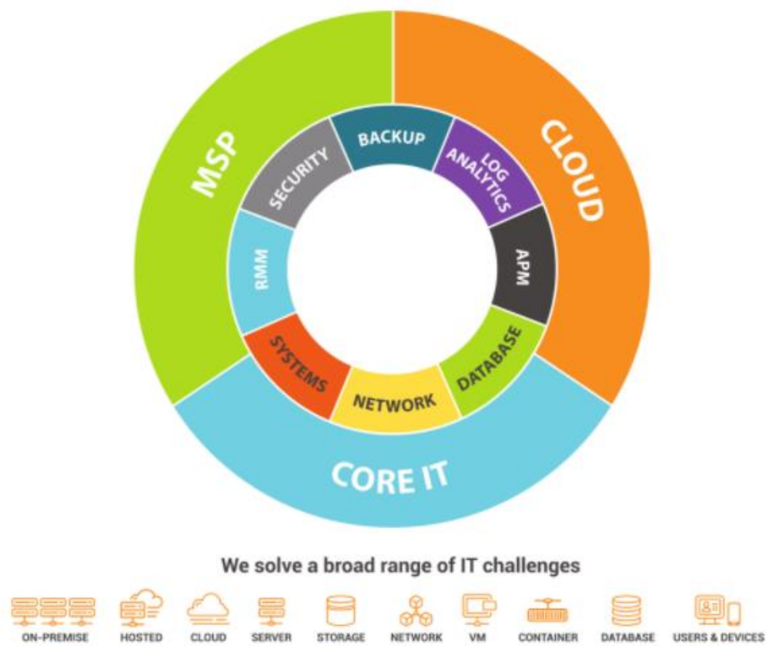
Matthew Hedberg, (612) 313-1293; matthew.hedberg@rbccm.com

Executive summary

Quick thumbnail description of SolarWinds

SolarWinds is a provider of IT management software. Its solutions provide organizations regardless of type, location, size or IT infrastructure complexity, the power to monitor and manage the performance of IT environments, whether on-premise, in the cloud, or in hybrid models. The secret sauce, in our opinion, is a combination of powerful, scalable, affordable, easy-to-use products sold through a high-velocity, low-touch sales model that produces solid subscription growth at scale and significant cash flow.

Exhibit 2: The SolarWinds platform



Source: Company reports

In what is often referred to in the industry as “The SolarWinds Model”, the company markets and sells products directly to technology professionals with a high-velocity, low-touch digital marketing and direct inside sales approach it terms “selling from the inside”. Over the years, a highly flexible and analytics-driven marketing model has been built and designed to efficiently drive website traffic and high-quality leads. The sales team uses a prescriptive approach designed to manage leads and quickly sell products, and does not utilize an outside salesforce or provide professional services.

Technology professionals use SolarWinds products in organizations ranging in size from very small businesses to large enterprises, including 499 of the Fortune 500. As of June 30, 2018, there were over 275,000 customers in 190 countries. Customers have increased by approximately 6,000 per quarter over the last eight quarters. Furthermore, SolarWinds has extended its sales reach through Managed Service Provider (MSP) customers that provide IT management as a service and rely on SolarWinds products to manage and monitor the IT environments of their end customers. The MSP customer base reaches a fragmented market opportunity of millions of organizations and accesses a broader universe of customers. As of June 30, 2018, there were over 22,000 MSP customers that served over 450,000 organizations globally.

The company has transitioned to a model that by CY/20 should be 84% recurring by our estimate from a model that was 66% recurring when it was taken private in 2016. While driving higher levels of subscription and recurring revenue, margins have remained best-in-class as adjusted EBITDA margins should be 49% in CY/20 by our estimate.

Key points to consider

- **Leading IT management platform:** SolarWinds is a leading provider of IT infrastructure management software to monitor and manage networks, systems and applications across on-premise, cloud and hybrid IT environments without the need for customization or professional services. Products are designed for IT professionals and built on a common technology platform that enables SolarWinds to consolidate spending within accounts.
- **Large and growing opportunity:** SolarWinds addresses a large and fragmented opportunity across IT operations, security, and backup and storage management. According to IDC, the global software revenue for these categories is expected to be $53.6 billion in 2021E, up from $41.5 billion in 2017. What we like is that the SolarWinds model and MSP partnerships enable effective targeting of all aspects of the market, including the mid-to-lower-end of the market, which we view as under-penetrated, while counting 499 of the Fortune 500 as customers.
- **Unique go-to-market approach drives "The SolarWinds Model":** SolarWinds has a unique go-to-market approach in software through: 1) a differentiated, competitively priced product offering; 2) selling directly to the IT professional; 3) free trials as the basis of a disruptive business model; and 4) a low-touch digital marketing and "sell from the inside" sales approach that is difficult to replicate. This is what is referred to as "The SolarWinds Model" and what is key to the leading margin profile, in our view. The model's reach is extended further into the SMB market through 22,000 MSP customers that manage the IT infrastructure for over 450,000 organizations. The result is a 275,000-customer base with some spending as little as $100, but 625 customers that have spent over $100,000 on a trailing 12-month basis.
- **Attractive recurring revenue and subscription growth:** The company has transitioned to a model that by 2020 should be 84% recurring by our estimate from a model that was 66% recurring when it was taken private in 2016. We estimate that in 2020, subscription revenue should account for 38% of revenue and grow at a 22% CAGR rate from 2017 and maintenance revenue should account for 46% of revenue and grow at a 9% CAGR from 2017. We like that the subscription net retention has averaged approximately 105% and that maintenance renewals have trended in the low-to-mid 90% range.
- **Leading margin profile:** The unique go-to-market approach and attractive recurring revenue growth form the basis of a financial model that has a leading margin profile with a 92% gross margin, 49% adjusted EBITDA margin and 49% uFCF margin in 2017. Maintenance plays a large roll in driving margin as it is designed to create long-term value, with full list price billed annually upfront at 94% gross margin. When looking across software, SolarWinds is a standout from a "Rule of 40" basis, which software investors use to evaluate companies at different stages of maturity. Based on our 2018 published estimates when adding revenue growth of 11.4% and an adjusted EBITDA margin 48.3%, we come up with a score of 60 on a "Rule of 40" basis. This compares to an average score of 34 across comparable group peers with only Atlassian at 64 having a higher score.
- **SolarWinds is a controlled company:** The sponsors, Silver Lake and Thoma Bravo, own approximately 88% of the company and will therefore be able to control all matters that require approval by stockholders.

Key investment points

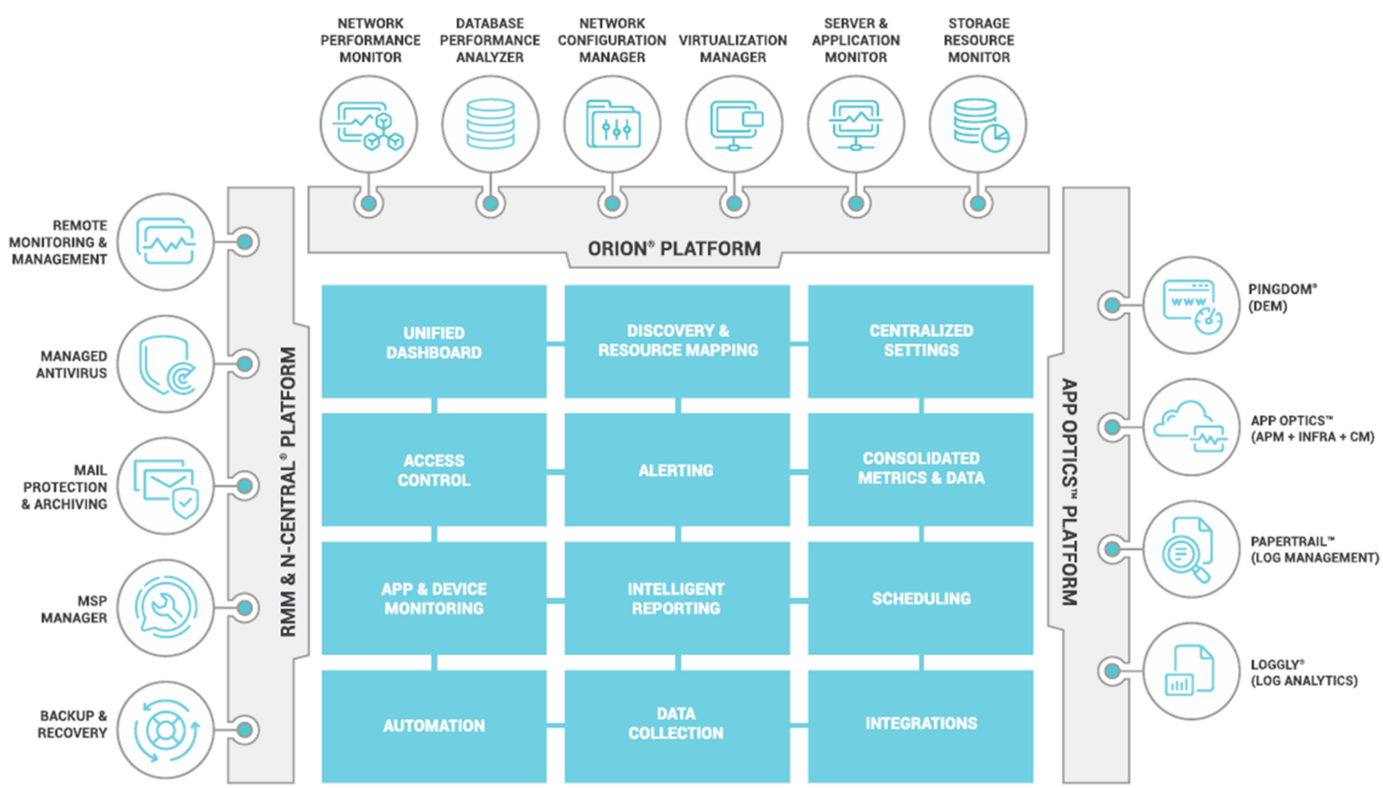
Leading IT management platform

SolarWinds is a leading provider of IT infrastructure management software to monitor and manage networks, systems and applications across on-premise, cloud and hybrid IT environments without the need for customization or professional services. Products are designed for IT professionals and built on a common technology platform that enables products to be purchased individually, scaled as needed, or as part of a larger suite. Products have been developed organically and through strategic M&A, with a number of recent acquisitions to expand core IT, MSP and Cloud offerings.

Originally, products were largely point solutions in network management, but the product portfolio evolved to include network and systems monitoring, management and emerging cloud management, and MSP products. Today the product portfolio has broadened to a full IT management platform for on-premise, cloud and hybrid environments with over 50 products across network management, systems management, database management, IT security, IT help desk and DevOps, and a number of accompanying free IT monitoring and analysis tools.

The SolarWinds platform combines data from multiple parts of the IT stack to provide a single, unified, real-time application-centric view and customer experience regardless of how or where applications are deployed.

Exhibit 3: Products and platform



Source: Company reports

Large and growing market opportunity

SolarWinds addresses a large market opportunity across IT operations, security, and backup and storage management. We look to two main sources to attempt to size the market – 1) IDC estimates and 2) the company's own commissioned and proprietary market opportunity analysis.

According to IDC, the global software revenue for the IT operations, security and backup and storage management categories is expected to be $53.6 billion in 2021, up from $41.5 billion in 2017, reflecting a CAGR of 6.6%. What we like is that the SolarWinds model and MSP partnerships enable effective targeting of all aspects of the market, including the mid-to-lower-end of the market, which we view as underpenetrated, as well as counting 499 of the Fortune 500 as customers. The company, however, views this and other industry estimates as underestimating the opportunity on the lower end of the market.

In order to better assess the market opportunity, especially on the lower-end of the market, the company commissioned a study by Compass Intelligence Research to perform a bottom-up analysis of the opportunity. The analysis made assumptions around the number of global addressable customers by size, estimated the number of independent purchasing units within larger enterprises and around the number of SolarWinds products that would likely be adopted by customers according to size.

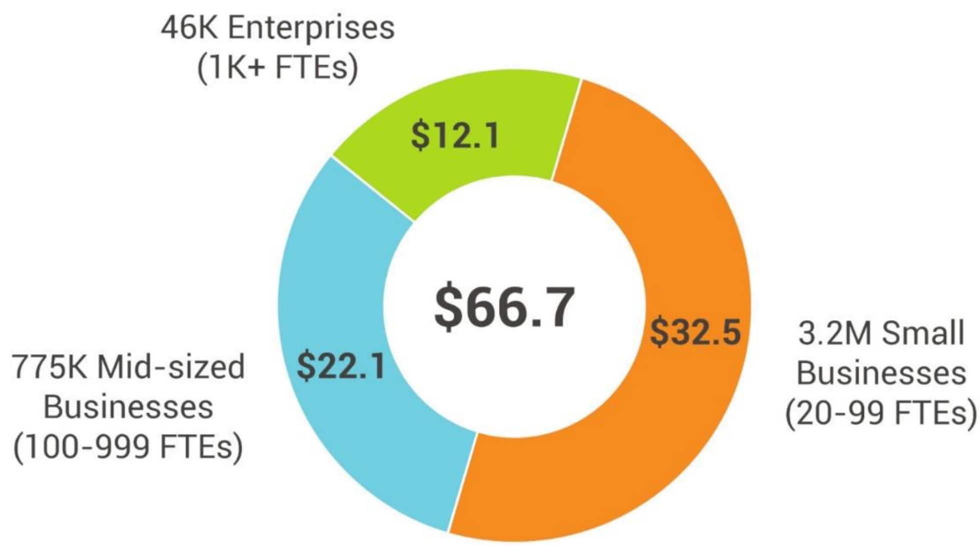
The analysis came up with an annual recurring revenue opportunity of $66.7 billion. In the build up to this total estimate, the total license revenue opportunity was sized at $61.9 billion, which would imply an annual maintenance revenue opportunity of $25.3 billion (maintenance priced at 41% of license). The annual subscription opportunity was sized at $41.5 billion. When adding together the annual maintenance revenue opportunity of $25.3 billion and annual subscription opportunity of $41.5 billion, the total annual recurring revenue opportunity is $66.7 billion.

In breaking down the annual recurring opportunity of $66.7 billion by market segment, the enterprises market (46,000 enterprises over 1,000 employees) is $12.1 billion, the mid-sized businesses market (775,000 businesses with more than 100, but less than 1,000 employees) is $22.1 billion and the small business market (3.2 million small businesses with more than 20 but less than 100 employees) is $32.5 billion.

We can also look at the opportunity within the core 42,000 customer base (out of a total of 275,000 customers). The company estimates it has a $3.6 billion opportunity to sell additional license products here. This would result in an average annual maintenance opportunity of $1 billion.

Matthew Hedberg, (612) 313-1293; matthew.hedberg@rbccm.com

Exhibit 4: Annual recurring revenue opportunity ($B)



Source: Company reports

Unique go-to-market drives "The SolarWinds Model"

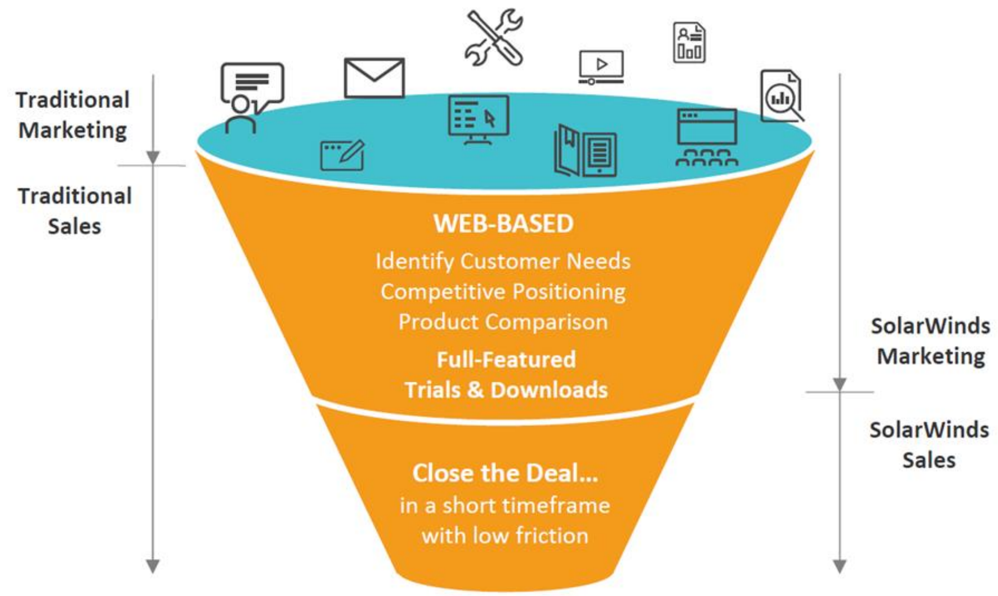
SolarWinds has a differentiated approach to customers, products and go-to-market that ultimately fosters revenue growth and drives profitability, in our view. In what is often referred to in the industry as "The SolarWinds Model", the company markets and sells products directly to technology professionals with a high-velocity, low-touch digital marketing and direct inside sales approach that it terms "selling from the inside". The key to this is a highly flexible and analytics-driven marketing model that has been built and designed to efficiently drive website traffic and high-quality leads.

The sales team uses a prescriptive approach designed to manage leads and quickly sell products, and does not utilize an outside salesforce or provide professional services. Rather, focus is placed on engagement with technology professionals on a one-to-many basis, identifying customer needs and providing free full-feature trials and downloads to meet those needs and challenges while keeping an eye on the long-term value of the relationship. These free trials lead to trial-to-sale transition and are key to a low-cost customer acquisition strategy and overall profitability.

SolarWinds has direct access to over 150,000 registered technology professionals at its online community, THWACK, where members interact with one another and the company on forums, are trained and receive product information and are kept up to date on new offerings.

The go-to-market reach is extended further into the SMB market through 22,000 MSP customers that manage the IT infrastructure for over 450,000 organizations.

Exhibit 5: The "SolarWinds Model"



Source: Company reports

Strong customer adoption and growing within the base

SolarWinds currently has over 275,000 customers located in over 190 countries with over 6,000 new customers added in each of the last eight quarters. A customer is defined as an organization with an active subscription or one that has purchased a license product, and due to the selling motion and model targeting IT professionals, there can be considered more than one customer within an organization. Customers range in size from small businesses to large enterprises, with 499 of the Fortune 500 as current customers. Average spend can range from as little as $100 to over $100,000 annually with 625 customers that have spent more than $100,000 over the last 12 months. Often a customer only purchases one product initially for a known use case and may expand product purchases over time.

Exhibit 6: Customer representation

Source: Company reports

The company also reaches over 450,000 organizations that are served by its 22,000 MSP customers, which cost-effectively target the SMB market. Revenue from MSP partners increases as they take a more active role in the management of customer IT infrastructure needs and as managed devices and services expand.

Key drivers for the install base include a net retention rate of 105% for subscription customers and the renewal of maintenance contracts, with renewal rates in the low-to-mid 90% range. Maintenance is designed to drive long-term value with renewals priced at full list (41% of license) and billing annually upfront at a 94% gross margin.

Within the install base, management estimates that its opportunity to sell additional core licensed products is approximately $3.6 billion, which would drive an annual maintenance revenue opportunity of approximately $1 billion. Looking at the targeted core 42,000 install base of customers and making some assumptions around an average ASP, we can come up with a range of potential new license bookings and associated annual maintenance opportunity with the adoption of one or more additional products per customer. For example, the adoption of four incremental products per customer would result in incremental new license bookings of approximately $1.2 billion and an annual maintenance opportunity of $356 million.

Exhibit 7: Opportunity in the install base

Targeted Install Base Customers	Incremental Products per Customer	New License Bookings (M)	Annual Maintenance Opportunity (M)
42,000	1	$307	$89
42,000	2	$613	$178
42,000	3	$920	$267
42,000	4	$1,226	$356

Source: Company reports and RBC Capital Markets estimates

Acquisitions and adjacencies key to new market expansion

SolarWinds has used a combination of internally developed products and acquisitions to drive adjacent and new market expansion. Following its founding in the network management area, the company has expanded into the systems management, MSP, APM and WPM, and log management markets. When expanding into adjacent areas, the company looks for large markets with IT problems that are well understood, but not adequately addressed by current vendors, in its view. Ideally, buyers would be the same as with current products, or ones that could be effectively targeted with the same selling motion.

M&A has been effective in broadening the product portfolio and extending markets as well with 17 deals since 2010 focused around core IT products, MSP business and Cloud offerings. Acquired properties are integrated onto the SolarWinds platform and adopt the SolarWinds go-to-market strategy, which we believe likely drives immediate value. We like the strategy and would look for acquisitions to continue at a pace of several a year going forward. Key adjacencies that we think could make sense for targeted M&A include security, developer apps and ITSM.

Matthew Hedberg, (612) 313-1293; matthew.hedberg@rbccm.com

Exhibit 8: Acquisition history

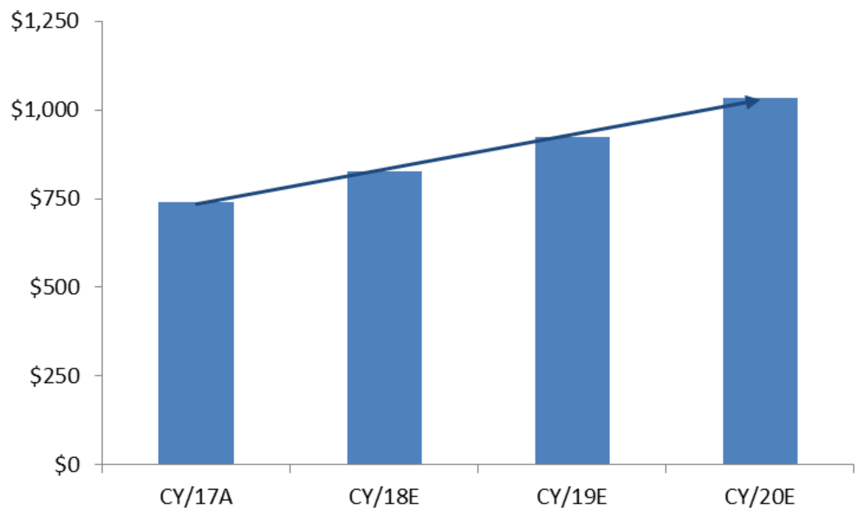
Acquisition	Date	Technology	Product Area
Loggly	2018	Log monitoring and analytics	Cloud
TrustedMetrics	2018	Threat monitoring and management	Core IT
Spam Experts	2017	Email security solutions	MSP
Scout	2017	Server monitoring	Core IT
LOGICnow	2016	Remote monitoring and management, and backup	MSP
papertrail	2015	Log management	Cloud
librato	2015	Cloud app and infrastructure performance monitoring	Cloud
pingdom	2014	Web performance management	Cloud
N-able	2013	Remote monitoring and management	MSP
Confio Software	2013	Database performance management	Core IT
RhinoSoft	2012	File transfer management	Core IT
Athena Security	2012	Firewall audit software tools	Core IT
dameware	2011	Remote management	Core IT
DNSstuff.com	2011	Research, monitoring and troubleshooting applications for DNS, email, web and IP addresses	Core IT
TriGeo Network Security	2011	Log and event management	Core IT
hyper9	2011	Application performance and virtualization management	Core IT
Tek-Tools Software	2010	Storage resource management	Core IT

Source: Company reports

Consistent revenue growth

The following illustrates the growth in total revenue, which represents a 12% CAGR from CY/17 to CY/20. The consistency is a result of the recurring nature of the subscription and maintenance revenue components of the model with a comparatively smaller license component.

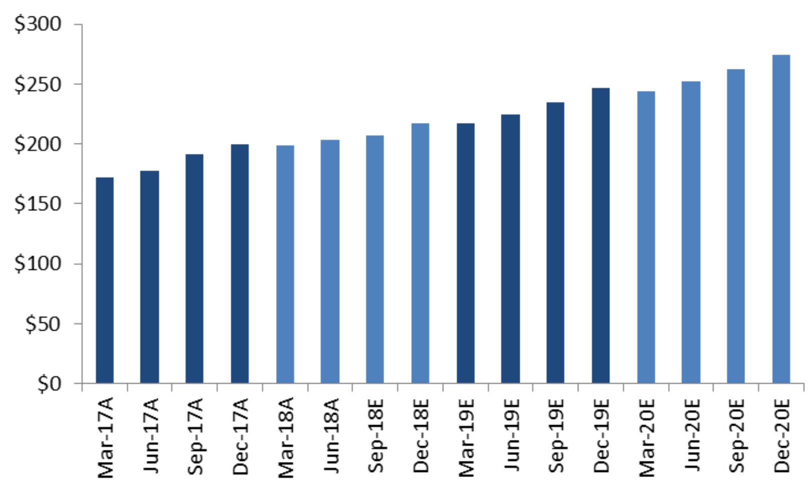
Exhibit 9: Total revenue ($M), CY/17A to CY/20E



Source: Company reports, RBC Capital Market estimates

The following exhibit illustrates the growth in total revenue by quarter from Q1/17 to Q4/20. There is some seasonality in the license component of the model as license revenue builds through the year, peaks in the fourth quarter and then drops off in the first quarter. This is the normal seasonal pattern displayed by most software license models.

Exhibit 10: Total quarterly revenue ($M), CY/17A to CY/20E

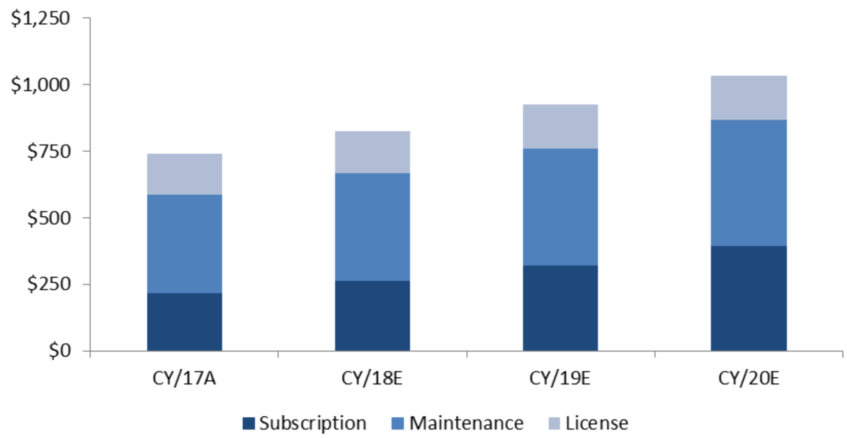


Source: Company reports, RBC Capital Market estimates

Revenue mix

We look for fairly consistent revenue growth by line-item going forward. We look for subscription revenue to grow by 21-23% annually and be driven by retention and renewal rates, which have historically been approximately 105%. We look for maintenance revenue to grow by 8-10% annually. Maintenance revenue is priced at 29% of perpetual license cost, billed annually upfront and at full price upon renewal. Maintenance has historically had a low-to-mid 90% renewal rate. We look for license revenue to grow 1-2% annually. Perpetual licenses are sold to both new and existing customers, and we look for some fluctuation quarter-to-quarter. Overall, total recurring revenue should grow by 14% annually, and we look for total recurring revenue to account for 84% of total revenue in CY/20 vs. 79% of total revenue in CY/17. Revenue growth rates are skewed in CY/17 due to the acquisition of LOGICnow for $500 million in cash in June 2016, which contributed $57.5 million in subscription revenue from its acquisition date until year-end 2016.

Exhibit 11: Revenue projections by line item ($M), CY/17A to CY/20E



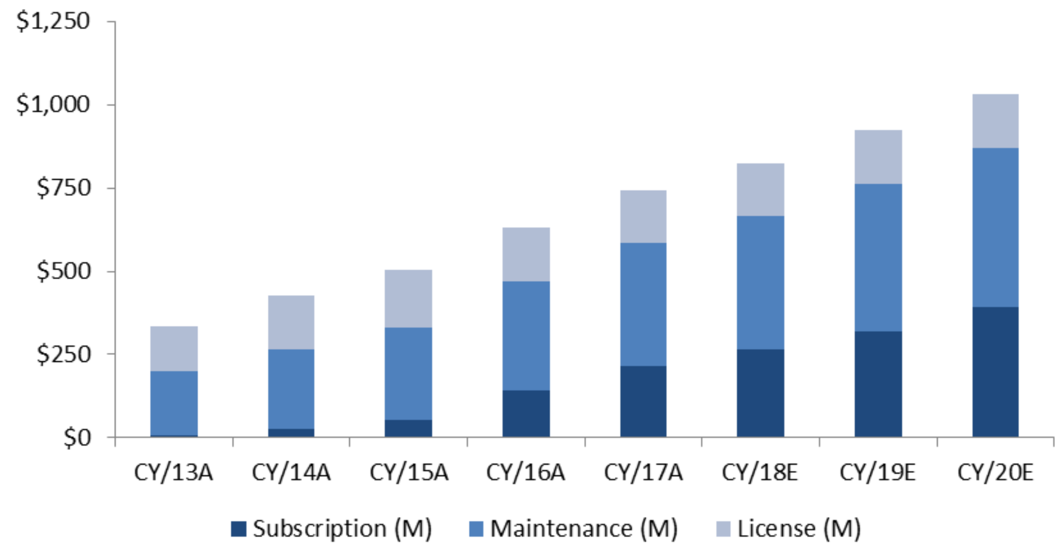
	CY/17A	CY/18E	CY/19E	CY/20E	CAGR
Subscription (M)	$215	$264	$321	$394	22%
Maintenance (M)	$369	$401	$441	$474	9%
Total Recurring (M)	$584	$665	$761	$868	14%
License (M)	$157	$160	$163	$165	2%
	CY/17A	**CY/18E**	**CY/19E**	**CY/20E**	
Subscription (%)	29%	32%	35%	38%	
Maintenance (%)	50%	49%	48%	46%	
Total Recurring (%)	79%	81%	82%	84%	
License (%)	21%	19%	18%	16%	
	CY/17A	**CY/18E**	**CY/19E**	**CY/20E**	
Subscription (Y/Y growth)	61%	23%	21%	23%	
Maintenance (Y/Y growth)	111%	9%	10%	8%	
Total Recurring (Y/Y growth)	90%	14%	14%	14%	
License (Y/Y growth)	-3%	2%	2%	1%	

Source: Company reports, RBC Capital Market estimates

Transition to recurring revenue and subscriptions

The company has transitioned to a model that by CY/20 should be 84% recurring by our estimate from a model that was 66% recurring when it was taken private in 2016 and 59% recurring in CY/13. We estimate that in CY/20, subscription revenue should account for 38% of revenue and see a 22% CAGR from CY/17, and maintenance revenue should account for 46% of revenue and see a 9% CAGR from CY/17. We like that the subscription net retention has averaged approximately 105% and that maintenance renewals have trended in the low-to-mid 90% range.

Exhibit 12: Revenue by line item ($M) CY/13A to CY/20E



	CY/13A	CY/14A	CY/15A	CY/16A	CY/17A	CY/18E	CY/19E	CY/20E
Subscription (M)	**$8**	**$28**	**$55**	**$141**	**$215**	**$264**	**$321**	**$394**
Maintenance (M)	$191	$239	$278	$328	$369	$401	$441	$474
Total Recurring (M)	$200	$267	$332	$469	$584	$665	$761	$868
License (M)	$136	$162	$172	$162	$157	$160	$163	$165
Total Revenue (M)	$335	$429	$504	$631	$741	$825	$924	$1,033
Subscription (%)	**2%**	**7%**	**11%**	**22%**	**29%**	**32%**	**35%**	**38%**
Recurring (%)	59%	62%	66%	74%	79%	81%	82%	84%

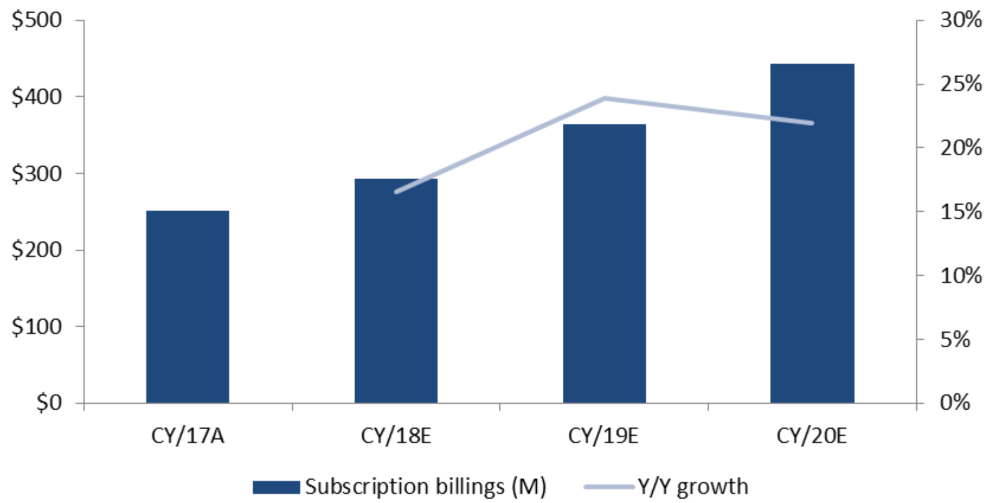
Source: Company reports, RBC Capital Markets estimates

Matthew Hedberg, (612) 313-1293; matthew.hedberg@rbccm.com

Subscription billings

We will be focused on subscription billings as a leading metric with subscription billings defined as in-period subscription revenue plus the difference in the current portion of deferred revenue from the prior quarter. Overall, we look for subscription billings growth rates of 17-24% annually going forward.

Exhibit 13: Subscription billings ($M), CY/17A to CY/20E



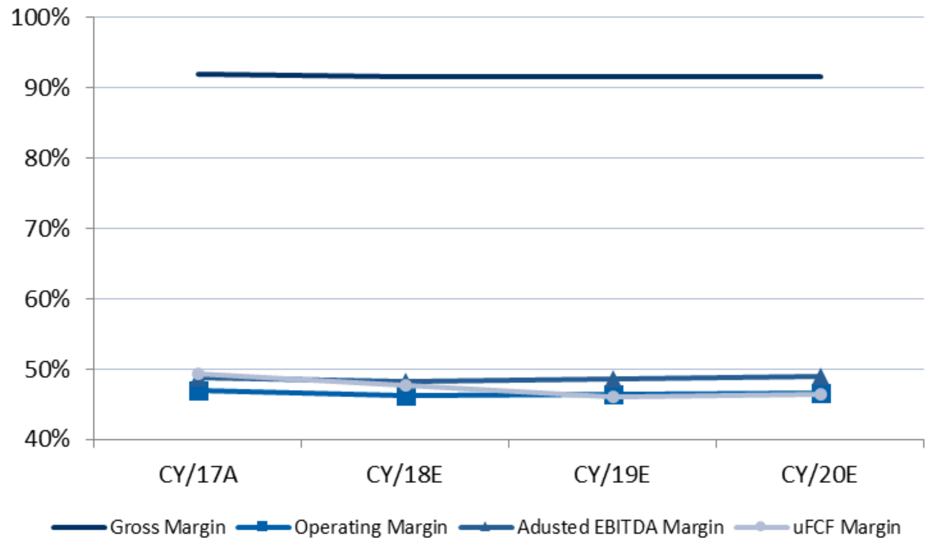
	CY/17A	CY/18E	CY/19E	CY/20E
Subscription billings (M)	$252	$294	$364	$444
Y/Y growth		17%	24%	22%

Source: Company reports and RBC Capital Markets estimates

Leading margin trends

SolarWinds' differentiated approach to customers, products and go-to-market forms the basis of a profitable financial model and leading margin profile. Gross margins were 91.9% in CY/17, and we look to be consistent at 91.6% going forward. We also look for slight expansion in operating margin, by 20-30bps annually, and in adjusted EBITDA margin, by 30-50bps annually.

Exhibit 14: Margin trends, CY/17A to CY/20E



	CY/17A	CY/18E	CY/19E	CY/20E
Gross Margin	91.9%	91.6%	91.6%	91.6%
Operating Margin	46.9%	46.2%	46.5%	46.7%
Adusted EBITDA Margin	48.8%	48.3%	48.7%	49.0%
uFCF Margin	49.4%	47.7%	46.0%	46.4%

Source: Company reports, RBC Capital Markets estimates

Turning to the long-term financial model, while the company is operating at close to scale today, we believe there are still efficiencies across line items yet to be realized. We look for incremental improvements largely in general and administrative and in research and development over the near term, but also believe sales and marketing should see some efficiencies over the mid-to-longer term. Given the maturity of the model and leading margin profile, the magnitude in difference between the current margin profile and long-term operating model targets are less than in many newly public companies. In sum, we look for SolarWinds to maintain to slightly improve its leading margin profile rather than realize dramatic margin leverage. Longer term, we look for adjusted EBITDA margins of 50-51% vs. 49% in CY/17 and free cash flow conversion in the low 90% range vs. 86% in CY/17.

Exhibit 15: Long-term operating model

	CY/17A	CY/18E	CY/19E	CY/20E	LTOM
Gross Margin	92%	92%	92%	92%	**92-93%**
Adjusted EBITDA Margin	49%	48%	49%	49%	**50-51%**
uFCF Conversion	86%	90%	88%	89%	**Low 90%s**

Source: Company reports and RBC Capital Market estimates

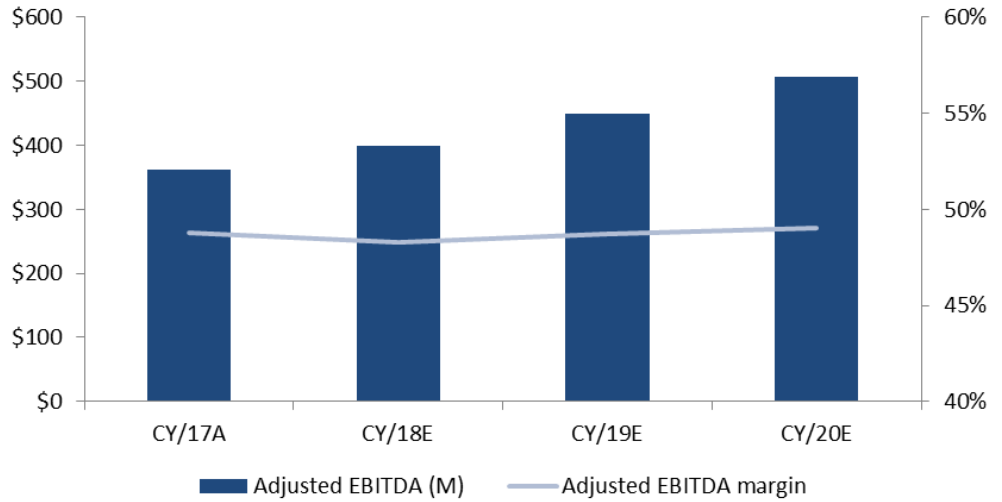
Adjusted EBITDA

We will be focused on adjusted EBITDA margin as a proxy for operating margin and upon the efficiency in its conversion into free cash flow. Over the near term, we look for adjusted EBITDA

Matthew Hedberg, (612) 313-1293; matthew.hedberg@rbccm.com

margins to improve by 30-50bps annually, while longer term we look for adjusted EBITDA margins of 50-51% vs. 49% in CY/17.

Exhibit 16: Adjusted EBITDA ($M) and adjusted EBITDA margins, CY/17A to CY/20E



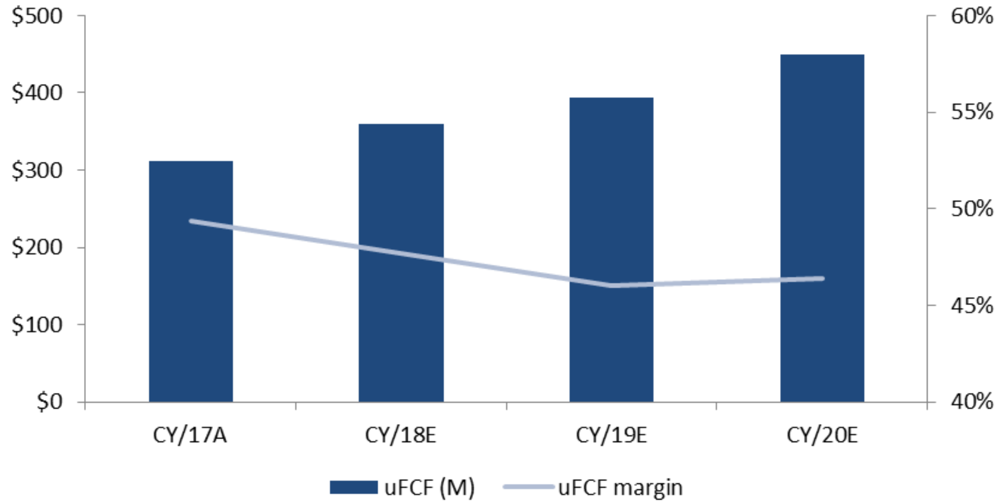
	CY/17A	CY/18E	CY/19E	CY/20E
Adjusted EBITDA (M)	$362	$399	$450	$506
Adjusted EBITDA margin	48.8%	48.3%	48.7%	49.0%

Source: Company reports, RBC Capital Markets estimates

Free cash flow

In our view, the most likely use of cash will be general working capital including investments in sales and marketing, and research and development, debt pay down and for potential tuck-in technology acquisitions, which has been a historical strategy that we look to continue. On a quarterly basis, there is some fluctuation in FCF margin levels, with the second half of the year having slightly higher levels than the first half of the year, a trend we expect to continue. Key drivers for free cash flow should include any acceleration in revenue growth, adjusted EBITDA margin expansion, effective net working capital management, controlled CAPEX spending relative to adjusted EBITDA and any increase in average subscription billings term. Overall, we look for adjusted EBITDA to convert to free cash flow at an 88-90% rate going forward and for a free cash flow margin of 46.4% in CY/20 vs. 49.4% in CY/17.

Exhibit 17: Free cash flow ($M) and FCF margins, CY/17A to CY/20E



	CY/17A	CY/18E	CY/19E	CY/20E
uFCF (M)	$312	$360	$394	$449
uFCF margin	49.4%	47.7%	46.0%	46.4%

Source: Company reports, RBC Capital Markets estimates

Debt levels

Post the IPO, we believe SolarWinds has approximately $2.3 billion of debt, and $1.6 billion of net debt, which equates to 5.9x 2018E debt to EBITDA and 4.1x 2018E net debt to EBITDA. The level of net-debt to EBITDA is down from approximately 7.5x when the company went private. As mentioned above, we think the company could use some of their cash generation to pay down debt, but current levels of net-debt to EBITDA are acceptable, in our opinion.

Thinking through valuation

Given SolarWinds' more mature growth profile and relatively unique high-margin structure, we believe an EV/EBITDA multiple should be the primary valuation metric with EV/S as a secondary benchmark. We also utilize a DCF to triangulate valuation. In terms of a comparable group, we looked at a blend of core legacy infrastructure software providers such as CHKP, CTXS, IBM, NTCT, RHT and VMW, and higher-growth infrastructure software providers such as CLDR, DATA, MDB, NEWR, NOW, PVTL, SPLK, TEAM and TLND.

Our $18 price target and Outperform rating is based on a 14.5x EV/EBITDA multiple on our CY/20 estimates. This multiple compares to the core legacy infrastructure software mean of 13.7x that is composed of companies that have a similar, but lower, average revenue growth rate and EBITDA margin, and to the higher-growth infrastructure software mean of 46.7x, which is composed of companies that have a higher average revenue growth rate and much lower average EBITDA margin. On an EV/S basis, our price target reflects 7.1x our CY/20 EV/S estimates. This multiple compares to the core legacy infrastructure software mean of 4.7x and the higher-growth infrastructure software mean of 6.6x.

A close valuation parallel could be considered Check Point, which is in a different market, but similar to SolarWinds, has lower growth but higher margins vs higher growth peers. Relative to Check Point, where the consensus forecast is for revenue to grow 4% in 2020E and EBITDA 3% to 52% in 2020E, we forecast SolarWinds could grow revenue 12% and EBITDA 13% to 49% in 2020E. Shares of Check Point trade at 6.6x 2020E EV/S and 13.0x EV/EBITDA. This is roughly in-line with SolarWinds, but at a lower growth profile and similar margins.

Our DCF analysis points to an $18 price target by using a 5% revenue CAGR from 2017 to 2031, a 2% terminal growth rate, operating margins of 47%, and a WACC of 10.2%.

As the company continues to execute its plan, we think the stock can move higher with upside to estimates. Initiate coverage with an Outperform rating and $18 target.

Risks to rating and price target

- Though largely a subscription and maintenance model, which tends to be less volatile than license models, licenses still account for approximately 20% of revenue and quarterly revenue and operating results may fluctuate as a result.
- Revenue growth and operating results are dependent upon new customer acquisition and upsell to existing customers.
- Sales leads are generated from a differentiated digital marketing model that will need to continue to produce qualified new business opportunities.
- SolarWinds competes in highly fragmented and competitive markets against large network management and IT companies, infrastructure and appliance vendors, APM vendors, cloud and application monitoring/MSP IT tools companies, remote monitoring and management vendors, and open source providers.
- The company has historically made several acquisitions and is likely to continue to do so going forward, which represents some degree of risk.
- With approximately one-third of revenue originating internationally, the company is subject to foreign exchange movements and other related risks.
- Silver Lake and Thoma Bravo own a majority of shares (approximately 88%) and have a controlling interest over stockholder approval.
- A large number of shares are currently restricted from resale as a result of market standoff and "lock-up" agreements. These shares will become available to be sold 180 days after the IPO, or on April 17, 2019.

Exhibit 18: Comparable group analysis

Core Legacy Infrastructure Software		Price ($)	M-Cap ($M)	EV ($M)	Rev. Growth '18E	Rev. Growth '19E	Rev. Growth '20E	EV/S '18E	EV/S '19E	EV/S '20E	EBITDA Growth '18E	EBITDA Growth '19E	EBITDA Growth '20E	EBITDA Margin '18E	EBITDA Margin '19E	EBITDA Margin '20E	EV/EBITDA '18E	EV/EBITDA '19E	EV/EBITDA '20E	18 "Rule of 40" - Rev Growth + EBITDA Margin
CHKP	Check Point Software Technolo	110.78	17,836	13,836	3%	4%	4%	7.2x	6.9x	6.6x	-1%	3%	3%	54%	53%	52%	13.4x	13.1x	12.7x	**57**
CTXS	Citrix Systems, Inc.	105.55	16,782	16,468	5%	4%	5%	5.6x	5.3x	5.1x	0%	2%	5%	36%	35%	35%	15.5x	15.1x	14.4x	**41**
IBM	International Business Machin	120.90	111,712	133,049	1%	-1%	0%	1.7x	1.7x	1.7x	3%	3%	2%	24%	25%	26%	6.9x	6.7x	6.5x	**25**
NTCT	NetScout Systems, Inc.	26.36	2,135	2,283	-9%	0%	4%	2.4x	2.4x	2.3x	-16%	8%	19%	21%	23%	26%	11.2x	10.3x	8.7x	**12**
RHT	Red Hat, Inc.	172.88	31,983	30,731	16%	15%	15%	9.3x	8.1x	7.1x	18%	19%	15%	26%	27%	27%	35.4x	29.7x	25.9x	**43**
VMW	VMware, Inc. Class A	148.13	63,252	54,164	11%	8%	7%	6.2x	5.7x	5.3x	16%	7%	7%	39%	39%	38%	15.7x	14.8x	13.8x	**50**
Group Mean					**4%**	**5%**	**6%**	**5.4x**	**5.0x**	**4.7x**	**3%**	**7%**	**8%**	**34%**	**34%**	**34%**	**16.4x**	**14.9x**	**13.7x**	**38**
Group Median					**4%**	**4%**	**5%**	**5.9x**	**5.5x**	**5.2x**	**1%**	**5%**	**6%**	**31%**	**31%**	**31%**	**14.5x**	**13.9x**	**13.3x**	**42**
Higher Growth Infrastructure																				
CLDR	Cloudera, Inc.	12.26	2,231	1,853	23%	20%	19%	4.2x	3.5x	3.0x	-	-	-	-15%	-9%	-4%	-	-	-	**8**
DATA	Tableau Software, Inc. Class A	110.90	10,314	9,357	12%	39%	17%	9.6x	6.9x	5.9x	-	-	157%	-1%	4%	8%	-	-	75.6x	**11**
MDB	MongoDB, Inc. Class A	69.83	4,679	4,366	45%	37%	32%	19.5x	14.2x	10.8x	-	-	-	-32%	-18%	-6%	-	-	-	**13**
NEWR	New Relic, Inc.	83.38	5,003	4,668	33%	27%	27%	10.6x	8.3x	6.5x	420%	19%	87%	13%	12%	17%	83.9x	70.4x	37.7x	**45**
NOW	ServiceNow, Inc.	172.37	33,957	33,143	35%	29%	27%	12.7x	9.8x	7.7x	48%	40%	34%	25%	28%	29%	50.1x	35.6x	26.6x	**60**
PVTL	Pivotal Software, Inc. Class A	17.81	5,174	4,502	28%	21%	24%	6.9x	5.7x	4.6x	-	-	-	-10%	-3%	8%	-	-	61.0x	**18**
SPLK	Splunk Inc.	96.36	15,418	16,226	33%	25%	23%	9.8x	7.9x	6.4x	59%	34%	36%	15%	16%	18%	-	48.3x	35.4x	**48**
TEAM	Atlassian Corp. Plc Class A	70.80	17,558	16,591	38%	30%	26%	16.2x	12.4x	9.8x	28%	24%	12%	26%	25%	22%	61.0x	49.4x	44.1x	**64**
TLND	Talend SA Sponsored ADR	41.30	1,476	1,387	38%	23%	20%	6.8x	5.5x	4.6x	-	-	-	-15%	-11%	-8%	-	-	-	**23**
Group Mean					**32%**	**28%**	**24%**	**10.7x**	**8.2x**	**6.6x**	**139%**	**29%**	**65%**	**1%**	**5%**	**9%**	**65.0x**	**50.9x**	**46.7x**	**32**
Group Median					**33%**	**27%**	**24%**	**9.8x**	**7.9x**	**6.4x**	**54%**	**29%**	**36%**	**-1%**	**4%**	**8%**	**61.0x**	**48.8x**	**40.9x**	**23**
SWI	**Solarwinds - downside case**	**10**	**3,236**	**4,885**	**11%**	**10%**	**10%**	**5.9x**	**5.4x**	**4.9x**	**10%**	**11%**	**11%**	**48%**	**49%**	**49%**	**12.2x**	**11.1x**	**10.0x**	**60**
SWI	**Solarwinds - current price**	**14.70**	**4,705**	**6,354**	**11%**	**12%**	**12%**	**7.7x**	**6.9x**	**6.2x**	**10%**	**13%**	**13%**	**48%**	**49%**	**49%**	**15.9x**	**14.1x**	**12.5x**	**60**
SWI	**Solarwinds - base case**	**18**	**5,698**	**7,347**	**11%**	**12%**	**12%**	**8.9x**	**8.0x**	**7.1x**	**10%**	**13%**	**13%**	**48%**	**49%**	**49%**	**18.4x**	**16.3x**	**14.5x**	**60**
SWI	**Solarwinds - upside case**	**22**	**6,889**	**8,538**	**11%**	**15%**	**15%**	**10.3x**	**9.0x**	**7.8x**	**10%**	**16%**	**16%**	**48%**	**49%**	**49%**	**21.4x**	**18.5x**	**16.0x**	**60**

Priced as of market close ET, November 12, 2018
Source: Company reports, RBC Capital Markets estimates for SWI, all others are consensus estimates from FactSet

DCF analysis

Our DCF analysis points to an $18 target and assumes a revenue CAGR of 5% between 2017 and 2031, a terminal growth rate of 2%, and a WACC of 10.2%.

Exhibit 19: Discounted cash flow analysis ($M)

Cash Flow Projection (CYE)

	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Total Revenue	741	825	924	1,033	1,131	1,216	1,283	1,347	1,401	1,443	1,486	1,531	1,561	1,593	1,624
Y/Y Growth	*17%*	*11%*	*12%*	*12%*	*10%*	*8%*	*6%*	*5%*	*4%*	*3%*	*3%*	*3%*	*2%*	*2%*	*2%*
NG Operating Income	347	381	430	482	526	565	597	626	651	671	691	712	726	741	755
NG Op Margin	*47%*	*46%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*
Tax Expense	0.00	29.78	66.16	77.86	134	130	137	138	143	134	138	142	145	148	151
Tax Rate	*0%*	*13%*	*23%*	*23%*	*25%*	*23%*	*23%*	*22%*	*22%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*
NG NOPAT	347	351	364	404	392	435	459	489	508	537	553	569	581	592	604
NOPAT Margin	47%	43%	39%	39%	35%	36%	36%	36%	36%	37%	37%	37%	37%	37%	37%
Add: D&A	251	258	258	258	277	298	314	263	273	281	290	298	304	311	317
D&A as a % of Revs	34%	31%	28%	25%	*25%*	*25%*	*25%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*
Less: Capex	(8)	(16)	(14)	(15)	(27)	(29)	(31)	(32)	(34)	(35)	(36)	(37)	(37)	(38)	(39)
Capex as a % of Revs	1%	2%	2%	2%	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*
Less: Increase in WC	186	1	29	38	34	29	23	22	19	14	15	15	11	11	11
Y/Y Growth in WC	*185%*	*-99%*	*1954%*	*34%*	*-12%*	*-14%*	*-21%*	*-4%*	*-16%*	*-22%*	*3%*	*3%*	*-31%*	*2%*	*2%*
Y/Y Change in Revs ($)	110	84	99	109	98	85	67	64	54	42	43	45	31	31	32
WC as a % of Change in Rev	*169%*	*2%*	*29%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
uFCF	776	596	636	685	676	733	766	741	766	798	822	847	858	876	893
Y/Y Growth	*23%*	*-23%*	*7%*	*8%*	*-1%*	*8%*	*4%*	*-3%*	*3%*	*4%*	*3%*	*3%*	*1%*	*2%*	*2%*
PV of uFCF	705	491	476	464	416	409	388	341	320	302	282	264	243	225	208
Terminal Value	2,427														10,419

Present Value of Equity		*($ in Ms)*
PV of FCF	4,828	67%
PV of Terminal Value	2,427	33%
Enterprise Value	7,256	100%
Less: Debt	2,295	
Add: Cash	646	
Equity Value	5,607	
FDS	320	
Equity Value/ Share	$ 18	

DCF Assumptions	
WACC	10.2%
Perpetual Growth Rate	2%
Tax Rate	20%

Source: Company reports, RBC Capital Markets estimates

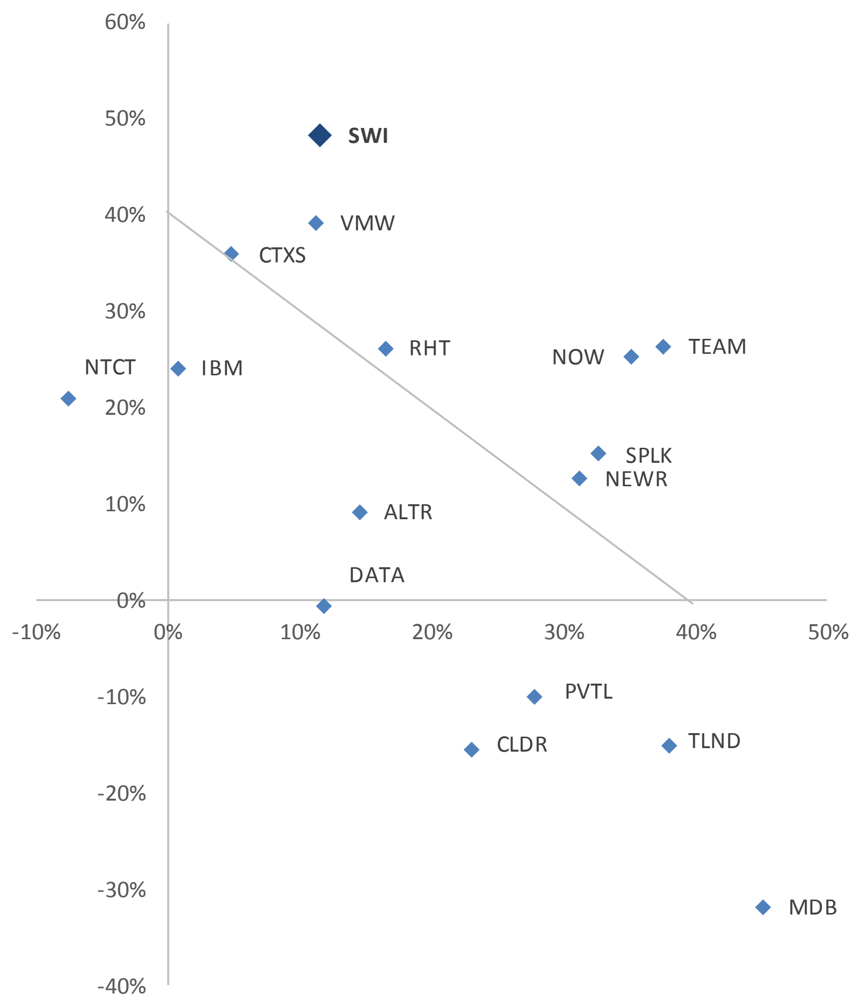
Rule of 40 comparison

Software investors use the "Rule of 40" as a way to evaluate companies at different stages of maturity, balancing revenue growth with profitability in terms of EBITDA margins, in this case. The Rule of 40 adds revenue growth to EBITDA margin to derive a comparable value.

Looking at comparable group peers, the average Rule of 40 score when looking at CY/18 is 34. As per our published estimates, in CY/18 we expect SolarWinds to have revenue growth of 11.4% and EBITDA margins of 48.3% for a Rule of 40 score of 60. Within our comparable group only Atlassian at 64 would have a higher score on a Rule of 40 basis.

Matthew Hedberg, (612) 313-1293; matthew.hedberg@rbccm.com

Exhibit 20: CY/18E Rule of 40 (revenue growth + EBITDA margin)



Source: RBC Capital Markets estimates for SWI, all other company estimates from FactSet

Company background, timeline and recent events

Company background

SolarWinds is a provider of IT management software. Its solutions provide organizations regardless of type, location, size or IT infrastructure complexity, the power to monitor and manage the performance of IT environments, whether on-premise, in the cloud, or in hybrid models. The secret sauce, in our opinion, is a combination of powerful, scalable, affordable, easy-to-use products sold through a high-velocity, low-touch sales model that produces solid subscription growth at scale and significant cash flow.

The company began in 1998/1999 in Tulsa Oklahoma selling a set of software tools directly to network engineers. In 2009, it went public as a point provider of on-premise network management products. After its first IPO, the company broadened its product offerings to address the needs of a wider variety of technology professionals. In February 2016, the company was taken private by Thoma Bravo and Silver Lake for $4.5 billion. Following the acquisition, it pursued its focus of cloud-based offerings and MSP markets, growing its product offerings and expanding market opportunities through organic product development and targeted acquisitions, while at the same time continuing to invest in its on-premise IT management product portfolio.

The company is headquartered in Austin Texas and has over 2,500 employees.

Matthew Hedberg, (612) 313-1293; matthew.hedberg@rbccm.com

Company timeline

2018: Company goes public for the second time on October 18, 2018
Acquires Loggly and Trusted Metrics

2017: Acquires SampExperts and Scout
Revenue of $741 million, which grew 17%

2016: Taken private by Thoma Bravo and Silver Lake for $4.5 billion, or $60.10 per share
Acquired LogicNow
Revenue of $631 million, which grew 25%

2015: Acquired Papertrail and Librato
Revenue of $504 million, which grew 17%

2014: Acquired Pingdom to enter the cloud-monitoring market
Revenue of $429 million, which grew 28%

2013: Acquired N-able to add RMM capabilities for the MSP market and Confio
Revenue of $335 million, which grew 25%

2012: Acquired Rhino Software and Athena Security
Revenue of $269 million, which grew 36%

2011: Expanded the portfolio by adding physical and virtual server management capabilities
Acquired DameWare Development, DNS Enterprise, TriGeo Network Security, and Hyper9
Revenue of $198 million, which grew 30%

2010: Acquired Tek-Tools to expand beyond network management into areas such as storage and backup
Revenue of $152 million
Kevin Thompson named President and CEO

2009: Initial IPO on the NYSE under the ticker SWI

2007: Expands internationally by opening an office in Cork, Ireland
Bart Kalsu joins the company

2006: Kevin Thompson joins the company

2001: Released Network Performance Monitoring offering

1998: SolarWinds founded by Don Yonce in Tulsa, OK

Matthew Hedberg, (612) 313-1293; matthew.hedberg@rbccm.com

Recent developments

IPO on October 18, 2018

- On October 18, 2018, SolarWinds completed its IPO by issuing 25 million primary shares at $15 with a 3.75 million overallotment option.
- The initial offering was 42 million shares consisting of 17 million primary and 25 million secondary with an initial range of $17-19.
- The stock opened trading at $15.30, or up 2% compared to the offering price of $15, and closed the first day at $15.03, or flat on the day.
- Since the IPO, shares of SWI are down 2%.
- We believe the proceeds from the IPO are most likely to be used for general working capital and to expand business operations.

Pending lock-up expiration

- A large number of shares are currently restricted from resale as a result of market standoff and “lock-up” agreements. These shares will become available to be sold 180 days after the IPO. According to our math, the lock-up expires on April 17, 2019. Shares held by directors, executive officers and other affiliates will be subject to volume limitations under Rule 144 under the Securities Act and various vesting agreements.

The competitive landscape

Considering the depth and breadth of SolarWinds' product offerings (more detail on this in the subsequent section), we believe the competitive landscape is large and fragmented.

In terms of vendors that offer a wide variety of solutions similar to SolarWinds, the company competes with large network management and IT vendors such as Netscout, MicroFocus, CA Technologies, IBM and BMC Software.

Exhibit 21: Large network management and IT competition

Source: Company reports

Outside of these large network management vendors, SolarWinds competes with a variety of vendors in categories such as: 1) infrastructure and appliance vendors; 2) APM vendors; 3) cloud and application monitoring vendors; 4) MSPs; 5) open source; and 6) RMM vendors.

Exhibit 22: Infrastructure and appliance vendors

Source: Company reports

Exhibit 23: APM vendors

Source: Company reports

Exhibit 24: Cloud and application monitoring / MSP IT tools companies

Source: Company reports

Exhibit 25: Open-source offerings

Source: Company reports

Exhibit 26: Remote monitoring and management (RMM) vendors

Source: Company reports

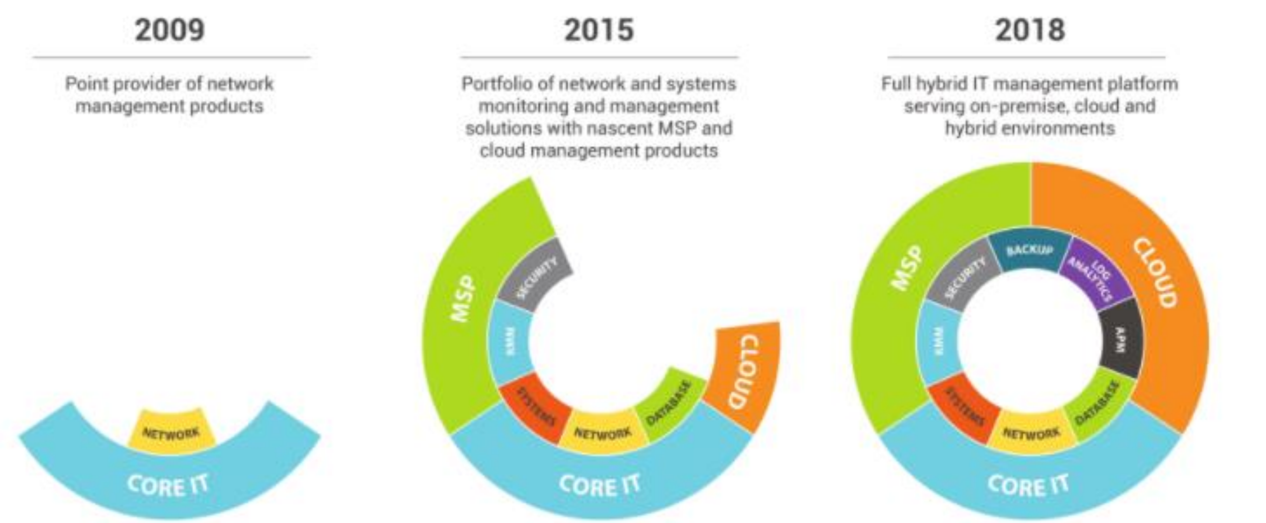
Overall, we believe SolarWinds differentiates itself from the competition based on the depth and breadth of its solutions as well as our belief that it is often: 1) more affordable; 2) easier to try and buy; and 3) easier to use.

Technology and solutions

A broad and expanding portfolio of offerings

We believe SolarWinds has one of the broadest product portfolios of IT monitoring and management software, providing visibility into web, application, database, virtual resources, storage, and network performance. Products monitor applications and their supporting infrastructure, whether the applications are located on-premise, in the cloud, or in a hybrid environment. Products monitor applications in the cloud via an agent, agentlessly, or by using information from cloud providers' APIs.

Exhibit 27: The SolarWinds Platform over the years



Source: Company reports

Core IT products

Targeted for IT professionals, core IT products provide hybrid IT performance management with visibility into application and IT infrastructure across both on-premise and cloud infrastructures. Its suite of network management software provides real-time visibility into network utilization and bandwidth as well as the ability to quickly detect, diagnose and resolve network-performance problems. Its suite of system management products monitors and analyzes the performance of applications and their supporting infrastructure, including websites, servers, physical, virtual and cloud infrastructure, storage and databases. It also helps customers strengthen their security and compliance posture with automated network configuration, backup and log and event management products.

Its core IT offerings are scalable and can be added alongside existing products in a modular fashion. Integrating network and systems management products, the SolarWinds platform combines data from multiple parts of the IT stack to provide a single, unified application-centric view and customer experience. Its platform also enables a single dashboard to view real-time application metrics regardless of whether the applications are deployed across multiple data centers or cloud vendors globally.

Its core IT products include both licensed products and tools. Core licensed products are typically server-based with a browser interface, have a higher average selling price than tools and are a focus to drive revenue growth. Its tools can be server or laptop-based, typically have a lower average selling price than core licensed products, and are not the focus of revenue growth opportunities.

Cloud management products

Targeted for DevOps professionals, SolarWinds' cloud management products provide cloud-based monitoring of the full IT stack whether deployed in the cloud or on-premise. Its cloud management products enable visibility into log data, cloud infrastructure metrics, applications, tracing and web performance management. In addition to individual products that address each of these areas, it also offers AppOptics, which integrates application performance, server infrastructure monitoring and custom metrics into one unified, cloud-based solution.

MSP products

SolarWinds' portfolio targeted for MSPs delivers broad, scalable IT service management solutions to enable MSPs to deliver outsourced IT services for their SMB end-customers and more efficiently manage their own businesses. Its core remote monitoring and management software, which remotely monitors desktops, laptops, servers and mobile devices across operating systems and platforms, integrates with a broad offering of MSP-focused products on a common platform including patch management, backup, anti-virus, web protection, risk assessment, help desk/service ticketing and application management.

Individual products categories

Network management

SolarWinds offers a wide variety of network performance management software to help administrators monitor and manage their network.

Exhibit 28: Network management solutions

Source: Company reports

- **Network Performance Monitor:** Reduce network outages and improve performance with advanced network-monitoring software. Starts at $2,955 for a license and first year maintenance.
- **Network Configuration Manager:** Automated network configuration and compliance management. Starts at $2,895.
- **ipMonitor:** Essential up/down and performance monitoring for networks, servers, and applications. Starts at $1,495.
- **Log Manager for Orion:** Log management software built to aggregate, search, and chart log data within the Orion Platform. Starts at $1,495.
- **IP Address Manager:** IP address management software designed to save time and prevent costly errors. Starts at $1,995.
- **User Device Tracker:** Network device tracking software that can locate users and devices on a network. Starts at $1,895.
- **NetFlow Traffic Analyzer:** NetFlow analyzer and bandwidth monitoring software. Starts at $1,915.
- **VoIP and Network Quality Manager:** VoIP monitoring software designed for deep critical call QoS metrics and WAN performance insights. Starts at $1,615.

- **Engineer's Toolset:** Network software that includes over 60 important tools. Starts at $1,495.
- **Network Topology Mapper:** Network mapping software built to automatically and quickly plot a network. Starts at $1,495.
- **Kiwi CatTools:** Network automation and configuration management software. Starts at $787 with no monthly fees.
- **Kiwi Syslog Server:** Centralize and simpliCY log message management across network devices and servers. Starts at $295 with no monthly fees.

Systems management

SolarWinds offers a wide variety of systems management software to help administrators monitor and manage their network.

Exhibit 29: Systems management solutions

Source: Company reports

- **Server & Application Monitor:** Server monitoring software built to find and resolve application problems. Starts at $2,995.
- **Virtualization Manager:** Virtual machine designed to optimize performance and fix issues in minutes. Starts at $2,995.
- **Storage Resource Monitor:** Storage management software built with multi-vendor performance monitoring. Starts at $2,995.
- **Server Configuration Monitor:** Server configuration and change monitoring tool that's built to be easy to use. Starts at $1,750.
- **Application Performance Monitor:** Extending Server & Application Monitor with in-depth performance monitoring of .NET applications on Microsoft IIS. Starts at $2,995.
- **Web Performance Monitor:** Website monitoring software built for comprehensive web and SaaS application performance monitoring. Starts at $1,995.
- **Log Manager for Orion:** Log management software built to aggregate, search, and chart log data within the Orion Platform. Starts at $1,495.
- **SolarWinds Backup:** Server backup software designed to be modern and reliable, without the cost and complexity. Starts at $2,995.
- **ipMonitor:** Essential up/down and performance monitoring for networks, servers, and applications. Starts at $1,495.

Database management

SolarWinds offers database performance monitoring solutions to solve complex application performance problems and accelerate response times.

- **Database Performance Analyzer:** Database and SQL query performance monitoring, analysis, and tuning. Starts at $1,995 and available for these database engines: SQL Server, Oracle, MySQL, DB2, and SAP ASE.

IT security

SolarWinds offers IT security management tools that are powerful, affordable and easy to use to help secure an environment.

Matthew Hedberg, (612) 313-1293; matthew.hedberg@rbccm.com

Exhibit 30: IT security solutions

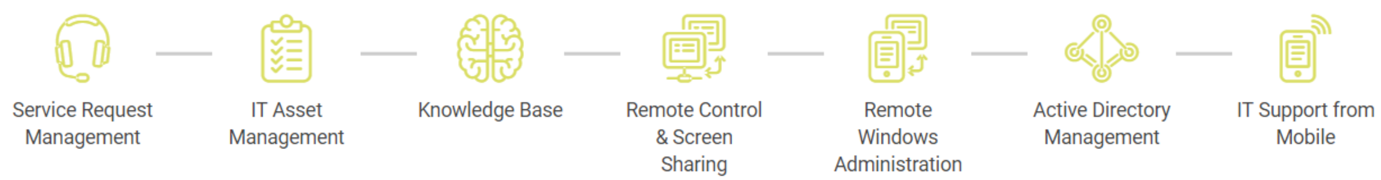
Source: Company reports

- **Access Rights Manager:** Manage and audit user access rights across IT infrastructure. Starts at $2,995.
- **Threat Monitor - IT Ops Edition:** Monitor, respond, and report security threats in near real time. Starts at $4,500.
- **Security Information and Event Management (SIEM) Tool:** Log & Event Manager makes it easy to use logs for security, compliance, and troubleshooting. Starts at $4,585.
- **Patch Manager:** Patch management software designed for quickly addressing software vulnerabilities. Starts at $3,690.
- **Serv-U Managed File Transfer Server:** Enhance security and control over file transfers in and outside of an organization. Starts at $2,995 per server and supports unlimited concurrent sessions.
- **Serv-U File Transfer Protocol Server:** Simple, affordable, easy-to-use FTP server software. Starts at $495 per server and supports up to 100 concurrent sessions.

IT help desk

SolarWinds offers IT help desk and remote support software to simpliCY help desk ticketing, IT asset management and end-user support.

Exhibit 31: IT help desk solutions



Source: Company reports

- **Web Help Desk:** Affordable Help Desk Ticketing and Asset Management Software. Starts at $700 with no monthly fees, support unlimited end-users.
- **Dameware Remote Support:** Remote control and systems management tools in one easy-to-use package. Starts at $370 with no monthly fees, connect to unlimited end devices.
- **Dameware Mini Remote Control:** Affordable remote control software for customer support and help desk needs. Starts at $265 with no monthly fees, connect to unlimited end devices.
- **Mobile Admin:** Get help simpliCYing IT administration and management from a mobile device. Starts at $695.

DevOps

SolarWinds offers monitoring solutions for cloud applications to get visibility into logs, metrics, tracing and hosts to improve a customer's digital experience.

Exhibit 32: DevOps solutions

Source: Company reports

- **AppOptics:** Application and infrastructure monitoring. Starts at $7.50 per host/month.
- **Pingdom:** Web performance management. Starts at $9.95 per month.
- **Papertrail:** Cloud-hosted log management. Starts at $7.00 per month.
- **Loggly:** Cloud-hosted log monitoring and log analytics. Starts at $99.00 per month.

Matthew Hedberg, (612) 313-1293; matthew.hedberg@rbccm.com

Key management

Kevin Thompson, President, CEO and Board Member

Mr. Thompson has been President and CEO since March 2010. He served as the company's CFO and Treasurer since July 2006 and assumed the title and responsibilities of COO in July 2007 and President in January 2009. Prior to joining SolarWinds, Mr. Thompson was CFO of Surgient from November 2005 until March 2006 and was SVP and CFO at SAS Institute from September 2004 until November 2005. From October 2000 until August 2004, Mr. Thompson served as EVP and CFO of Red Hat. He holds a B.B.A. from the University of Oklahoma. He also serves on the Boards of SolarWinds, Instructure, and Blackline.

J. Barton Kalsu, EVP and CFO

Mr. Kalsu joined the Company in August 2007 as Chief Accountant and VP, Finance, and has been responsible for managing the company's financial operations since joining. He was promoted to SVP, Finance in 2011. Prior to joining the company, he worked for JPMorgan Chase Bank as VP, Commercial Banking, from June 2005 until August 2007. From April 2002 until June 2005, Mr. Kalsu worked for Red Hat as Senior Director of Finance.

David Gardiner, EVP, Core IT

Mr. Gardiner is the EVP of International Business for the EMEA and APAC markets at SolarWinds. He brings more than 17 years of IT sales, business development, and senior management experience, of which nine years have been at SolarWinds. At SolarWinds, he is responsible for driving the international strategy, business development, partnerships, and overseeing the international sales teams. Prior to SolarWinds, Mr. Gardiner worked as Director, Business Development for Motive; Manager, Business Development for BroadJump; and in channel business development for Trilogy.

Joe Kim, EVP, Engineering and CTO

Mr. Kim is the EVP of Engineering and Global CTO at SolarWinds, responsible for the overall technology strategy, direction, and execution for SolarWinds 30+ IT management products and systems. Previously, he was the GM of HPE's Transform business unit and has held other executive leadership roles at General Electric, Berkshire Hathaway, and several start-ups.

Christoph Pfister, EVP, Products

Mr. Pfister is the EVP of Products at SolarWinds, leading strategy, product management and product marketing. He brings a wealth of relevant experience building world-class software products, having served in a variety of executive positions at HPE, most recently as the VP and GM of a $1B+ software division.

Board of directors

Kevin Thompson, CEO SolarWinds
Catherine Kinney, Retired from NYSE Euronext
Mike Bingle, Managing Partner Silver Lake
William Bock, Retired from Silicon Labs
Seth Boro, Managing Partner Thoma Bravo
Paul Cormier, President of Red Hat
Kenneth Hao, Managing Partner Silver Lake
Michael Hoffmann, Principal Thoma Bravo
James Lines, Senior Operating Partner Thoma Bravo
Jason White, Director Silver Lake

Ticker: SWI		Dec-17A				Dec-18E				Dec-19E				Dec-20E					
($M) unless noted	Mar-17A	Jun-17A	Sep-17A	Dec-17A	Mar-18A	Jun-18A	Sep-18E	Dec-18E	Mar-19E	Jun-19E	Sep-19E	Dec-19E	Mar-20E	Jun-20E	Sep-20E	Dec-20E	2017A	2018E	2019E	2020E
INCOME STATEMENT																				
Subscription revenue	49.2	51.7	55.7	58.6	63.7	65.6	65.5	69.5	74.0	78.0	82.0	86.5	89.5	95.5	101.5	107.5	215.2	264.3	320.5	394.0
Maintenance revenue	86.4	90.6	94.8	97.3	97.8	99.6	101.0	102.5	105.0	109.0	111.5	115.0	116.0	118.0	119.0	121.0	369.1	400.9	440.5	474.0
Total recurring revenue	135.6	142.3	150.5	155.9	161.5	165.2	166.5	172.0	179.0	187.0	193.5	201.5	205.5	213.5	220.5	228.5	584.3	665.2	761.0	868.0
License revenue	36.7	35.6	40.5	43.8	36.9	37.7	40.5	45.0	38.0	38.0	41.5	45.5	38.5	38.5	42.0	46.0	156.6	160.1	163.0	165.0
Total revenue	172.3	177.9	191.0	199.7	198.4	202.9	207.0	217.0	217.0	225.0	235.0	247.0	244.0	252.0	262.5	274.5	740.9	825.3	924.0	1,033.0
Total cost of revenue	14.4	15.1	15.1	15.6	16.8	17.7	17.3	17.9	18.4	19.1	20.0	20.4	20.7	21.4	22.3	22.6	60.2	69.7	77.9	87.1
Gross profit	157.9	162.8	175.9	184.1	181.6	185.2	189.7	199.1	198.6	205.9	215.0	226.6	223.3	230.6	240.2	251.9	680.7	755.6	846.1	945.9
Sales and marketing	48.5	50.7	49.8	52.6	51.9	55.7	54.4	55.3	59.0	60.1	62.3	63.8	66.9	68.7	68.9	69.4	201.6	217.3	245.2	273.8
Research and development	20.0	20.8	19.4	22.2	23.8	23.1	22.3	23.0	24.8	24.4	24.5	25.2	26.8	26.2	27.1	27.5	82.4	92.2	98.9	107.6
General and administrative	13.3	12.5	10.8	12.8	15.4	16.1	16.6	16.9	17.6	17.6	18.2	18.5	19.4	20.0	21.0	21.9	49.4	64.9	72.0	82.4
Operating expenses	81.8	84.0	79.9	87.7	91.1	94.8	93.3	95.1	101.5	102.1	104.9	107.6	113.1	114.9	117.0	118.9	333.4	374.4	416.0	463.8
Operating income	76.1	78.8	96.0	96.4	90.5	90.4	96.4	104.0	97.1	103.8	110.1	119.1	110.2	115.7	123.2	133.0	347.3	381.3	430.1	482.1
Other income	(43.7)	(40.8)	(42.5)	(42.8)	(42.1)	(34.4)	(34.0)	(34.0)	(34.0)	(34.0)	(34.0)	(34.0)	(34.0)	(34.0)	(34.0)	(34.0)	(169.8)	(144.5)	(136.0)	(136.0)
Pretax income	32.4	38.0	53.5	53.6	48.4	56.0	62.4	70.0	63.1	69.8	76.1	85.1	76.2	81.7	89.2	99.0	177.5	236.8	294.1	346.1
Taxes	-	-	-	-	-	-	14.0	15.7	14.2	15.7	17.1	19.1	17.1	18.4	20.1	22.3	-	29.8	66.2	77.9
Net income	32.4	38.0	53.5	53.6	48.4	56.0	48.4	54.2	48.9	54.1	59.0	65.9	59.0	63.3	69.2	76.7	177.5	207.0	227.9	268.2
Earnings per share	$0.10	$0.12	$0.17	$0.17	$0.15	$0.17	$0.15	$0.17	$0.15	$0.17	$0.18	$0.20	$0.18	$0.19	$0.21	$0.23	$0.55	$0.65	$0.71	$0.82
Diluted shares outstanding	320.1	320.1	320.1	320.1	320.1	320.1	320.1	320.1	320.6	321.0	321.6	322.2	323.5	325.2	326.6	328.0	320.1	320.1	321.4	325.8
KEY METRICS																				
DSO	41	35	36	38	40	37	38	39	40	38	38	40	40	38	38	40				
Cash	137.3	166.6	183.3	277.7	223.5	278.1	646.0	670.7	695.7	715.2	739.1	773.8	817.2	849.3	885.6	934.0	277.7	670.7	773.8	934.0
Cash per share	$0.43	$0.52	$0.57	$0.87	$0.70	$0.87	$2.02	$2.10	$2.17	$2.23	$2.30	$2.40	$2.53	$2.61	$2.71	$2.85	$0.87	$2.10	$2.41	$2.87
Debt	2,301.9	2,282.2	2,282.8	2,393.7	2,358.8	2,360.0	2,295.1	2,360.0	2,360.0	2,360.0	2,360.0	2,360.0	2,360.0	2,360.0	2,360.0	2,360.0	2,393.7	2,360.0	2,360.0	2,360.0
Net cash	(2,164.6)	(2,115.7)	(2,099.4)	(2,116.0)	(2,135.3)	(2,082.0)	(1,649.0)	(1,689.4)	(1,664.3)	(1,644.9)	(1,621.0)	(1,586.3)	(1,542.9)	(1,510.7)	(1,474.4)	(1,426.1)	(2,116.0)	(1,689.4)	(1,586.3)	(1,426.1)
Net cash per share	($6.76)	($6.61)	($6.56)	($6.61)	($6.67)	($6.50)	($5.15)	($5.28)	($5.19)	($5.12)	($5.04)	($4.92)	($4.77)	($4.65)	($4.51)	($4.35)	($6.61)	($5.28)	($4.94)	($4.38)
Deferred revenue	239.3	243.7	251.7	261.8	274.3	276.1	281.7	295.7	313.5	316.6	323.0	339.1	359.4	363.0	370.3	388.8	261.8	295.7	339.1	388.8
Billings	193.8	182.3	199.0	209.8	210.9	204.8	212.5	231.1	234.7	228.1	241.3	263.1	264.3	255.6	269.8	293.0	785.0	859.2	967.4	1,082.7
Subscription billings	67.5	54.8	62.8	66.9	72.4	66.8	71.0	83.6	91.7	81.1	88.3	102.6	109.8	99.1	108.8	126.0	252.0	293.8	363.9	443.7
Unlevered free cash flow	69.0	84.6	66.7	91.7	76.7	95.5	89.5	97.9	92.0	94.0	98.0	110.2	105.8	106.3	111.8	124.8	311.9	359.7	394.2	448.7
Adjusted EBITDA	79.8	82.7	99.3	100.1	95.1	94.1	101.1	108.6	101.9	108.6	115.1	124.3	115.3	121.8	130.1	139.1	361.9	398.9	449.9	506.3
Adjusted EBITDA Margin	46.3%	46.5%	52.0%	50.1%	47.9%	46.4%	48.8%	50.1%	46.9%	48.3%	49.0%	50.3%	47.3%	48.3%	49.6%	50.7%	48.8%	48.3%	48.7%	49.0%
PERCENT OF REVENUE																				
Subscription revenue	28.6%	29.1%	29.2%	29.3%	32.1%	32.3%	31.6%	32.0%	34.1%	34.7%	34.9%	35.0%	36.7%	37.9%	38.7%	39.2%	29.0%	32.0%	34.7%	38.1%
Maintenance revenue	50.1%	50.9%	49.6%	48.7%	49.3%	49.1%	48.8%	47.2%	48.4%	48.4%	47.4%	46.6%	47.5%	46.8%	45.3%	44.1%	49.8%	48.6%	47.7%	45.9%
Total recurring revenue	78.7%	80.0%	78.8%	78.1%	81.4%	81.4%	80.4%	79.3%	82.5%	83.1%	82.3%	81.6%	84.2%	84.7%	84.0%	83.2%	78.9%	80.6%	82.4%	84.0%
License revenue	21.3%	20.0%	21.2%	21.9%	18.6%	18.6%	19.6%	20.7%	17.5%	16.9%	17.7%	18.4%	15.8%	15.3%	16.0%	16.8%	21.1%	19.4%	17.6%	16.0%
Gross margin	91.6%	91.5%	92.1%	92.2%	91.5%	91.3%	91.7%	91.8%	91.5%	91.5%	91.5%	91.8%	91.5%	91.5%	91.5%	91.8%	91.9%	91.6%	91.6%	91.6%
Sales and marketing	28.1%	28.5%	26.1%	26.3%	26.2%	27.5%	26.3%	25.5%	27.2%	26.7%	26.5%	25.8%	27.4%	27.3%	26.2%	25.3%	27.2%	26.3%	26.5%	26.5%
Research and development	11.6%	11.7%	10.2%	11.1%	12.0%	11.4%	10.8%	10.6%	11.4%	10.8%	10.4%	10.2%	11.0%	10.4%	10.3%	10.0%	11.1%	11.2%	10.7%	10.4%
General and administrative	7.7%	7.0%	5.7%	6.4%	7.8%	7.9%	8.0%	7.8%	8.1%	7.8%	7.7%	7.5%	8.0%	7.9%	8.0%	8.0%	6.7%	7.9%	7.8%	8.0%
Operating margin	44.2%	44.3%	50.3%	48.3%	45.6%	44.6%	46.6%	47.9%	44.7%	46.1%	46.9%	48.2%	45.1%	45.9%	46.9%	48.4%	46.9%	46.2%	46.5%	46.7%
Net margin	18.8%	21.4%	28.0%	26.8%	24.4%	27.6%	23.4%	25.0%	22.5%	24.0%	25.1%	26.7%	24.2%	25.1%	26.3%	27.9%	24.0%	25.1%	24.7%	26.0%
Adjusted EBITDA	46.3%	46.5%	52.0%	50.1%	47.9%	46.4%	48.8%	50.1%	46.9%	48.3%	49.0%	50.3%	47.3%	48.3%	49.6%	50.7%	48.8%	48.3%	48.7%	49.0%
GROWTH Y/Y																				
Subscription revenue	4.8%	NA	20.8%	22.9%	29.5%	26.9%	17.6%	18.6%	16.2%	18.9%	25.2%	24.5%	20.9%	22.4%	23.8%	24.3%	52.9%	22.8%	21.3%	22.9%
Maintenance revenue	-45.4%	NA	13.0%	13.4%	13.2%	9.9%	6.5%	5.3%	7.4%	9.4%	10.4%	12.2%	10.5%	8.3%	6.7%	5.2%	12.5%	8.6%	9.9%	7.6%
Total recurring revenue	-33.9%	NA	15.8%	16.8%	19.1%	16.1%	10.6%	10.3%	10.8%	13.2%	16.2%	17.2%	14.8%	14.2%	14.0%	13.4%	24.7%	13.8%	14.4%	14.1%
License revenue	-51.1%	NA	-5.2%	-1.1%	0.5%	5.9%	0.0%	2.7%	3.0%	0.8%	2.5%	1.1%	1.3%	1.3%	1.2%	1.1%	-3.4%	2.2%	1.8%	1.2%
Total revenue	-38.5%	NA	10.6%	12.3%	15.1%	14.1%	8.4%	8.7%	9.4%	10.9%	13.5%	13.8%	12.4%	12.0%	11.7%	11.1%	17.5%	11.4%	12.0%	11.8%
Operating income	NM	NM	NM	NM	18.9%	14.7%	0.4%	7.8%	7.3%	14.8%	14.2%	14.5%	13.4%	11.5%	11.9%	11.7%	-22.2%	9.8%	12.8%	12.1%
EPS	NA	NA	64.6%	38.9%	49.4%	47.4%	-9.6%	1.2%	0.9%	-3.7%	21.4%	20.8%	19.6%	15.5%	15.4%	14.3%	NA	16.6%	9.7%	16.0%
Deferred revenue	NA	NA	33.0%	20.2%	14.6%	13.3%	11.9%	13.0%	14.3%	14.7%	14.7%	14.7%	14.7%	14.7%	14.7%	14.7%	20.2%	13.0%	14.7%	14.7%
Billings	-30.8%	NA	-45.0%	1.7%	8.8%	12.3%	6.8%	10.2%	11.3%	11.4%	13.6%	13.9%	12.6%	12.0%	11.8%	11.4%	-7.5%	9.5%	12.6%	11.9%
Subscription billings	43.9%	NA	-71.9%	-10.8%	7.2%	22.0%	13.0%	24.9%	26.8%	21.5%	24.4%	22.8%	19.7%	22.1%	23.1%	22.8%	-27.1%	16.6%	23.9%	21.9%
Unlevered free cash flow	NA	NA	-23.7%	13.2%	11.2%	13.0%	34.2%	6.9%	19.9%	-1.6%	9.5%	12.5%	15.0%	13.1%	14.1%	13.3%	85.3%	15.3%	9.6%	13.8%
Adjusted EBITDA	NA	NA	17.2%	13.8%	19.2%	13.8%	1.8%	8.5%	7.1%	15.5%	13.9%	14.4%	13.2%	12.1%	13.0%	11.9%	109.6%	10.2%	12.8%	12.5%
GROWTH Q/Q																				
Subscription revenue	3.1%	5.1%	7.7%	5.2%	8.7%	3.0%	-0.2%	6.1%	6.5%	5.4%	5.1%	5.5%	3.5%	6.7%	6.3%	5.9%				
Maintenance revenue	0.7%	4.9%	4.6%	2.6%	0.5%	1.8%	1.4%	1.5%	2.4%	3.8%	2.3%	3.1%	0.9%	1.7%	0.8%	1.7%				
Total recurring revenue	1.6%	4.9%	5.8%	3.6%	3.6%	2.3%	0.8%	3.3%	4.1%	4.5%	3.5%	4.1%	2.0%	3.9%	3.3%	3.6%				
License revenue	-17.2%	-3.0%	13.8%	8.1%	-15.8%	2.2%	7.4%	11.1%	-15.6%	0.0%	9.2%	9.6%	-15.4%	0.0%	9.1%	9.5%				
Total revenue	-3.1%	3.3%	7.4%	4.6%	-0.7%	2.3%	2.0%	4.8%	0.0%	3.7%	4.4%	5.1%	-1.2%	3.3%	4.2%	4.6%				
Operating income	NM	3.5%	21.8%	0.4%	-6.1%	-0.1%	6.6%	7.8%	-6.6%	6.9%	6.1%	8.1%	-7.5%	5.0%	6.5%	7.9%				
Deferred revenue	9.9%	1.9%	3.3%	4.0%	4.8%	0.7%	2.0%	5.0%	6.0%	1.0%	2.0%	5.0%	6.0%	1.0%	2.0%	5.0%				
Billings	-6.0%	-5.9%	9.2%	5.4%	0.5%	-2.9%	3.8%	8.7%	1.6%	-2.8%	5.8%	9.0%	0.5%	-3.3%	5.5%	8.6%				
Subscription billings	-10.0%	-18.9%	14.7%	6.5%	8.2%	-7.7%	6.3%	17.7%	9.8%	-11.6%	8.9%	16.2%	7.0%	-9.8%	9.8%	15.9%				
Unlevered free cash flow	-14.8%	22.5%	-21.2%	37.5%	-16.3%	24.5%	-6.3%	9.4%	-6.1%	2.2%	4.2%	12.5%	-4.0%	0.5%	5.2%	11.6%				
Adjusted EBITDA	-9.3%	3.6%	20.1%	0.8%	-5.0%	-1.1%	7.4%	7.4%	-6.2%	6.7%	6.0%	8.0%	-7.3%	5.6%	6.9%	6.9%				

Source: Company Reports and RBC Capital Markets estimates

Matthew Hedberg | 612-313-1293 | matthew.hedberg@rbccm.com

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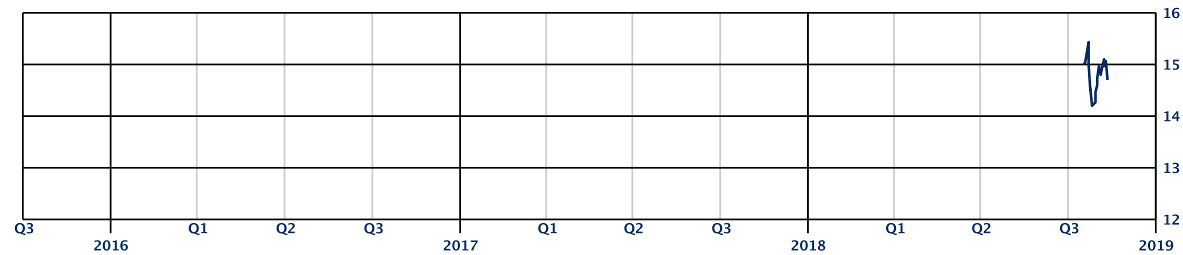

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SolarWinds Corporation

Valuation

To derive our $18 price target, we apply a 14.5x 2020E EV/EBITDA multiple, which is in-line to slightly higher vs slower-growing peers but a significant discount to faster-growing peers. Our target also assumes 7.1x 2020E EV/S, which is a premium to slower-growing peers and essentially in-line with faster-growing peers. We feel this is a good balance that gives the company credit for reasonable growth with a very strong margin profile. Our price target supports an Outperform rating.

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