



SolarWinds Corporation

FX, Macro and Competition Limit Excitement

With several negative items in the Solarwinds Q3 results, we are not sure shares will get a short-term boost. True, FX headwinds are not helping, but we are also seeing some negative macro impact in Europe, and the company's move into adjacent monitoring markets has competitive pressure and hence is requiring additional investments. With this backdrop and "cleaner" stories available in software, we are not sure SWI can be a relative outperformer. Hence, we maintain our Equal Weight rating and PT of \$18.

The Numbers: The company delivered license revenue of \$43.6mn, which was 2.2% below consensus. Subscription revenue grew 28% ccy and was slightly below consensus. Total revenue grew 14.6% ccy vs. management guidance of 14-16% and came in slightly below consensus. The company delivered adjusted EBITDA margin of 47.4% (vs. 46.3% consensus). FY19 revenue guidance range was revised slightly lower on the high end to \$938.1-943.6mn (from prior guidance of \$938-950mn) vs. consensus of \$944mn. FY19 adjusted EBITDA margin guidance was reiterated at 48%.

Positives: (1) Solid quarter for federal with larger deal volumes despite tough comps from last year. (2) Strong beat on margins (110bps higher than consensus) despite higher mix of subscription revenue and the miss on the top-line in Q3. (3) Better-than-expected cross-sell of Samanage, with the ITSM segment growth rate expectations of 35% in FY20.

Negatives: (1) 3Q revenue missed expectations and management is guiding the full-year lower. (2) SMB pressure in Europe hitting the top-line and EMEA showing the slowest growth the company has seen over the past 2 years. (3) The evolving opportunity and competitive landscape in cloud monitoring is leading management to increase S&M spend in 4Q (\$2mn higher).

Potential Catalysts: Analyst Day on December 11, and Q4 earnings.

SWI: Quarterly and Annual EPS (USD)

	2018		2019		2020		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2019	2020
Q1	0.14A	0.20A	0.20A	0.20A	0.21E	0.21E	0.21E	43%	5%
Q2	0.09A	0.20A	0.20A	0.20A	0.23E	0.23E	0.22E	122%	15%
Q3	0.17A	0.20E	0.21A	0.20E	0.25E	0.25E	0.24E	24%	19%
Q4	0.19A	0.23E	0.22E	0.22E	0.27E	0.27E	0.26E	16%	23%
Year	0.60A	0.82E	0.83E	0.82E	0.96E	0.96E	0.93E	38%	16%
P/E	34.0		24.6			21.3			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 30-Oct-2019; 20:32 GMT

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

Equity Research

Technology | U.S. Software
31 October 2019

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

Price (30-Oct-2019)	USD 20.42
Potential Upside/Downside	-11.9%
Tickers	SWI

Market Cap (USD mn)	6333
Shares Outstanding (mn)	310.14
Free Float (%)	16.77
52 Wk Avg Daily Volume (mn)	0.6
Dividend Yield (%)	N/A
Return on Equity TTM (%)	27.09
Current BVPS (USD)	8.59

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 21.22-12.25



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

U.S. Software

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

Income statement (\$mn)	2018A	2019E	2020E	2021E	CAGR
Revenue	837	941	1,065	1,196	12.6%
EBITDA (adj)	408	451	514	581	12.6%
Operating profit (adj)	391	434	496	563	12.9%
Pre-tax income	-122	36	128	221	N/A
Net income (adj)	184	257	302	351	24.0%
EPS (adj) (\$)	0.60	0.83	0.96	1.11	22.6%
Diluted shares (mn)	307.0	309.9	314.7	317.5	1.1%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	48.7	48.0	48.3	48.6	48.4
Operating margin (adj) (%)	46.7	46.1	46.6	47.0	46.6
Pre-tax margin (%)	-14.5	3.9	12.1	18.4	5.0
Net (adj) margin (%)	22.0	27.3	28.3	29.4	26.7
ROIC (%)	2.6	2.6	4.0	5.4	3.6
ROA (%)	-1.9	0.2	0.8	2.2	0.3
ROE (%)	-4.1	0.4	1.6	4.3	0.6

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	36	37	36	36	-0.1%
Goodwill	3,684	3,930	3,930	3,930	2.2%
Cash and equivalents	383	329	695	1,117	42.9%
Total assets	5,195	5,195	5,366	5,603	2.6%
Short and long-term debt	1,924	1,916	1,916	1,916	-0.1%
Other long-term liabilities	134	131	131	131	-0.7%
Total liabilities	2,579	2,588	2,677	2,752	2.2%
Net debt/(funds)	1,541	1,587	1,221	799	-19.7%
Shareholders' equity	2,616	2,608	2,689	2,851	2.9%
Change in working capital	2	48	36	42	178.8%
Cash flow from operations	253	332	388	445	20.7%
Capital expenditure	19	22	22	22	6.4%
Free cash flow	371	410	463	515	11.6%

Valuation and leverage metrics	Average				
P/E (adj) (x)	34.0	24.6	21.3	18.5	24.6
EV/sales (x)	9.7	8.7	7.7	6.8	8.2
EV/EBITDA (adj) (x)	20.0	18.1	15.8	14.0	17.0
Equity FCF yield (%)	3.7	4.9	5.7	6.5	5.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	3.8	3.5	2.4	1.4	2.8
Total debt/capital (%)	42.4	42.4	41.6	40.2	41.6

Selected operating metrics (\$mn)	CAGR				
License revenue	165	170	173	177	2.4%
Maintenance revenue	405	447	483	521	8.7%
Deferred revenue	296	337	380	414	11.8%

Price (30-Oct-2019)	USD 20.42
Price Target	USD 18.00

Why Equal Weight? Secular tailwinds from increasing IT complexity should allow SolarWinds to sustain solid double-digit growth in the coming years. The company's efficient S&M model should continue to drive best-in-class profitability and cash flow conversion. However, we remain on the sidelines given current fair valuation relative to uFCF growth trajectory.

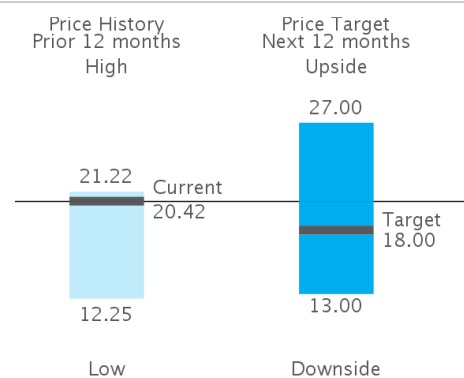
Upside case	USD 27.00
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SolarWinds top-line growth may come in better than expected based on improved competitive positioning. This, along with operating leverage may drive better uFCF growth. Our upside case assumes 20% upside to CY20E uFCF and multiple expansion to 18x CY20E uFCF.

Downside case	USD 13.00
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The company's growth may come under pressure due to a tougher than anticipated competitive landscape, which may pressure margins and free cash flows. Our downside case assumes a 20% discount to CY20E uFCF and multiple contraction to 15x CY20E uFCF.

Upside/Downside scenarios



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

3Q19 Results Review

For a summary of the company's complete results this quarter vs. Barclays estimates, please refer to Figure below.

FIGURE 1

Summary of Actual vs. Barclays Estimates (under ASC 605)

\$, mn	3Q 18	3Q 19	3Q 19	Actual	3Q 19	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons.	vs. Cons.
Billings	222.0	248.2	250.9	(1.1)%	243.5	1.9%
License Revenue	43.7	43.6	43.7	(0.3)%	44.6	(2.2)%
Maintenance Revenue	102.4	113.8	114.4	(0.5)%	113.4	0.4%
Subscription Revenue	67.9	85.3	85.9	(0.7)%	85.6	(0.4)%
Total Revenue	214.0	242.7	244.1	(0.6)%	243.6	(0.4)%
Adjusted EBITDA	106.5	115.0	112.8	2.0%	112.8	2.0%
% margin	49.8%	47.4%	46.2%	1.2%	46.3%	1.1%
Operating profit, Non-GAAP	102.2	111.0	108.4	2.4%	108.6	2.3%
% margin	47.8%	45.7%	44.4%	1.3%	44.6%	1.2%
Net income, Non-GAAP	54.5	66.7	62.5	6.7%	62.1	7.4%
Non-GAAP EPS	0.17	0.21	0.20	4.6%	0.20	5.0%

Source: Company Data, Barclays Research, StreetAccount

Summary of Guidance

The company provided 4Q19 and FY19 guidance. FY19 revenue guidance came in slightly lower than the previous guidance, but at the same midpoint on a cc growth perspective (+14% cc).

For a detailed summary of the company's guidance versus our estimates, please refer to the figure below.

FIGURE 2

Company Guidance vs. Prior Barclays Expectations

\$,mn	Q4					FY19				
	Low	High	Barclays	Consensus	Diff	Low	High	Barclays	Consensus	Diff
Total Revenue	249.0	254.5	255.6	254.4	-1.0%	938.1	943.6	946.0	944.2	-0.3%
Adjusted EBITDA	120	122	124.2	122.4	-1.1%	450.7	452.7	452.7	451.2	0.1%
% margin	48.2%	47.9%	48.6%	48.1%		48.0%	48.0%	47.9%	47.8%	
Non-GAAP EPS	0.22	0.23	0.23	0.22	2.3%	0.82	0.83	0.82	0.81	1.9%

Source: Company data, Barclays Research, StreetAccount

Estimate Changes

We have adjusted our numbers to reflect management guidance. We summarize the changes to our model in the table below. We reiterate our PT of \$18, which is based on 16x (unchanged) and slightly revised CY20E uFCF estimate of \$463mn (was \$468mn).

FIGURE 3
Summary of Estimate Changes

\$, mn	2019E			2020E		
	New	Old	% Chg.	New	Old	% Chg.
License and Maintenance	615.0	615.9	(0.1)%	656.8	659.6	(0.4)%
Subscription	325.9	330.1	(1.3)%	407.9	416.1	(2.0)%
Total Revenue	940.9	946.0	(0.5)%	1,064.7	1,075.6	(1.0)%
Gross profit, adjusted	863.2	866.9	(0.4)%	975.6	985.6	(1.0)%
% margin	91.7%	91.6%		91.6%	91.6%	
S&M	252.7	254.2	(0.6)%	281.9	284.9	(1.0)%
% margin	26.9%	26.9%		26.5%	26.5%	
R&D	103.0	105.5	(2.4)%	121.2	122.5	(1.0)%
% margin	10.9%	11.2%		11.4%	11.4%	
G&A	73.5	72.5	1.3%	76.0	76.8	(1.0)%
% margin	7.8%	7.7%		7.1%	7.1%	
Adjusted EBITDA	451.5	452.7	(0.3)%	514.4	520.0	(1.1)%
% margin	48.0%	47.9%		48.3%	48.3%	
Operating profit, Non-GAAP	434.0	434.7	(0.1)%	496.5	501.5	(1.0)%
% margin	46.1%	45.9%		46.6%	46.6%	
uFCF	409.6	412.4	(0.7)%	462.7	467.5	(1.0)%

Source: Barclays Research

FIGURE 4
SolarWinds P&L

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19A	2Q19A	3Q19A	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E	FY2021E
Total Billings		785.1	871.1	231.5	237.3	250.1	264.6	983.5	266.2	268.2	277.6	295.9	1,107.8	1,229.8
y/y growth			11.0%	9.8%	15.9%	12.6%	13.3%	12.9%	15.0%	13.0%	11.0%	11.8%	12.6%	11.0%
q/q growth				-0.9%	2.5%	5.4%	5.8%		0.6%	0.7%	3.5%	6.6%		
License & Maintenance Revenue	490.1	525.8	570.0	144.2	150.0	157.4	163.4	615.0	152.4	160.5	169.8	174.0	656.8	698.2
y/y growth	0.0%	7.3%	8.4%	7.1%	9.3%	7.7%	7.5%	7.9%	5.7%	7.1%	7.9%	6.5%	6.8%	6.3%
q/q growth	0.0%	0.0%	0.0%	-5.1%	4.0%	4.9%	3.8%	0.0%	-6.7%	5.3%	5.8%	2.5%	0.0%	0.0%
% total	77.7%	71.0%	68.1%	66.8%	65.0%	64.8%	64.9%	65.4%	61.9%	61.8%	61.9%	61.2%	61.7%	58.4%
Subscription Revenue	140.7	215.2	266.8	71.6	80.6	85.3	88.4	325.9	93.8	99.2	104.7	110.3	407.9	498.0
y/y growth	0.0%	52.9%	23.9%	12.4%	22.9%	25.7%	27.0%	22.2%	31.0%	23.1%	22.7%	24.7%	25.2%	22.1%
q/q growth	0.0%	0.0%	0.0%	2.8%	12.6%	5.9%	3.6%	0.0%	6.1%	5.8%	5.5%	5.3%	0.0%	0.0%
% total	22.3%	29.0%	31.9%	33.2%	35.0%	35.2%	35.1%	34.6%	38.1%	38.2%	38.1%	38.8%	38.3%	41.6%
Total Revenue	630.8	741.0	836.8	215.8	230.6	242.7	251.8	940.9	246.2	259.7	274.5	284.3	1,064.7	1,196.1
y/y growth		17.5%	12.9%	8.8%	13.7%	13.4%	13.6%	12.4%	14.1%	12.7%	13.1%	12.9%	13.2%	12.3%
q/q growth				-2.6%	6.8%	5.3%	3.8%		-2.2%	5.5%	5.7%	3.6%		
Cost of Revenue	48.8	60.3	70.1	17.7	18.9	20.2	20.9	77.7	21.0	22.0	23.3	22.7	89.1	101.7
% margin	92.3%	91.9%	91.6%	91.8%	91.8%	91.7%	91.7%	91.7%	91.5%	91.5%	91.5%	92.0%	91.6%	91.5%
y/y growth	0.0%	23.6%	16.3%	5.5%	7.4%	12.3%	17.7%	10.8%	18.5%	16.5%	15.8%	8.8%	14.7%	14.1%
q/q growth	0.0%	0.0%	0.0%	-74.7%	6.8%	6.5%	3.7%	0.0%	0.5%	4.9%	5.8%	-2.5%	0.0%	0.0%
Gross Profit, Non-GAAP	582.0	680.7	766.7	198.1	211.6	222.5	230.9	863.2	225.2	237.7	251.2	261.5	975.6	1,094.5
% Margin	92.3%	91.9%	91.6%	91.8%	91.8%	91.7%	91.7%	91.7%	91.5%	91.5%	91.5%	92.0%	91.6%	91.5%
y/y growth	0.0%	0.0%	0.0%	9.1%	14.3%	13.5%	13.3%	0.0%	13.7%	12.3%	12.9%	13.3%	0.0%	0.0%
Sales and marketing	170.3	201.6	221.7	56.7	61.8	64.8	69.2	252.7	67.2	68.1	72.5	74.2	281.9	314.4
% Margin	27.0%	27.2%	26.5%	26.3%	26.8%	26.7%	27.5%	26.9%	27.3%	26.2%	26.4%	26.1%	26.5%	26.3%
y/y growth	0.0%	18.4%	10.0%	9.3%	11.1%	15.7%	19.3%	14.0%	18.4%	10.1%	11.8%	7.1%	11.6%	11.5%
Research and development	67.0	82.4	92.2	23.3	25.3	26.7	27.7	103.0	29.5	29.4	31.0	31.3	121.2	133.8
% Margin	10.6%	11.1%	11.0%	10.8%	11.0%	11.0%	11.0%	10.9%	12.0%	11.3%	11.3%	11.0%	11.4%	11.2%
y/y growth	0.0	0%	11.9%	-2.0%	9.5%	17.6%	22.3%	11.7%	26.8%	16.2%	16.1%	12.9%	17.7%	10.4%
General and Administrative	40.8	49.5	61.9	17.4	18.2	20.0	17.9	73.5	18.0	19.2	19.8	19.0	76.0	83.6
% Margin	6.5%	6.7%	7.4%	8.1%	7.9%	8.2%	7.1%	7.8%	7.3%	7.4%	7.2%	6.7%	7.1%	7.0%
y/y growth		21%	25.1%	13.3%	13.2%	32.6%	16.6%	18.8%	3.3%	5.5%	-1.2%	6.5%	3.4%	10.0%
Operating Profit (loss)	303.8	347.3	390.9	100.6	106.3	111.0	116.1	434.0	110.5	121.1	127.9	137.0	496.5	562.7
% Margin	48.2%	46.9%	46.7%	46.6%	46.1%	45.7%	46.1%	46.1%	44.9%	46.6%	46.6%	48.2%	46.6%	47.0%
Adjusted EBITDA	315.1	361.9	407.5	104.8	110.9	115.0	120.7	451.5	114.8	125.5	132.3	141.8	514.4	581.4
% Margin	50.0%	48.8%	48.7%	48.6%	48.1%	47.4%	47.9%	48.0%	46.6%	48.3%	48.2%	49.9%	48.3%	48.6%
y/y growth		14.8%	12.6%	10.2%	17.9%	8.0%	7.9%	10.8%	9.4%	13.2%	15.0%	17.5%	13.9%	13.0%
Interest income / expense	(170.4)	(169.8)	(142.0)	(27.4)	(28.2)	(27.4)	(27.4)	(110.4)	(27.4)	(27.4)	(27.4)	(27.4)	(109.7)	(109.7)
Other Income / (expense)	(57.2)	38.7	(75.3)	1.3	(1.1)	0.3	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Income tax expense	(149.8)	22.4	(2.3)	13.6	17.0	17.1	19.5	67.2	18.3	20.6	22.1	24.1	85.1	101.9
Effective Tax Rate	-196.6%	10.4%	-1.3%	18.3%	22.0%	20.4%	22.0%	20.7%	22.0%	22.0%	22.0%	22.0%	22.0%	22.5%
Net Income (loss) Non-GAAP	226.0	154.8	184.1	60.9	60.1	66.7	69.2	256.9	64.8	73.1	78.4	85.5	301.7	351.1
% Margin	35.8%	21%	22%	28%	26%	28%	27%	27%	26%	28%	29%	30%	28%	29%
FDSO (millions)														
Net Income (loss) per share	\$ -	\$ 0.49	\$ 0.60	\$ 0.20	\$ 0.20	\$ 0.21	\$ 0.22	\$ 0.83	\$ 0.21	\$ 0.23	\$ 0.25	\$ 0.27	\$ 0.96	\$ 1.11

Source: Company Data, Barclays Research

FIGURE 5
SolarWinds Balance Sheet

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19A	2Q19A	3Q19A	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E	FY2021E
Assets														
Cash, equivalents and ST investments	103.6	277.7	382.6	434.5	155.3	221.1	328.6	328.6	406.1	490.4	581.1	694.7	694.7	1,117.3
Cash, cash equivalents	101.6	277.7	382.6	434.5	155.3	221.1	328.6	328.6	406.1	490.4	581.1	694.7	694.7	1,117.3
Short term investments	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	80.4	85.1	100.5	109.8	96.3	102.2	83.0	83.0	94.7	99.9	102.6	93.7	93.7	87.2
Income tax receivable	36.2	1.7	0.9	1.1	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	19.3	24.3	16.3	20.8	27.8	24.1	24.1	24.1	24.1	24.1	24.1	24.1	24.1	24.1
Total Current Assets	239.6	388.9	500.3	566.3	280.1	348.1	436.4	436.4	525.6	615.2	708.5	813.2	813.2	1,229.4
Property and equipment, net	37.2	34.2	35.9	36.9	37.9	35.7	37.3	37.3	37.0	36.7	36.7	36.5	36.5	35.7
Long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	1.7	4.4	6.9	6.9	6.9	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Goodwill	3,533.4	3,695.6	3,684.0	3,661.8	3,990.0	3,929.6	3,929.6	3,929.6	3,929.6	3,929.6	3,929.6	3,929.6	3,929.6	3,929.6
Intangible assets, net	1,377.7	1,194.5	956.3	892.0	873.1	815.8	765.1	765.1	707.7	654.4	605.1	559.7	559.7	381.3
Other assets	13.1	9.4	11.4	16.7	19.3	20.2	20.2	20.2	20.2	20.2	20.2	20.2	20.2	20.2
Total Assets	5,202.7	5,327.1	5,194.6	5,180.5	5,207.4	5,156.1	5,195.4	5,195.4	5,226.8	5,262.7	5,306.8	5,365.9	5,365.9	5,602.9
Liabilities														
Accounts payable	9.0	9.7	9.7	10.1	11.5	10.3	13.8	13.8	11.1	11.7	16.5	17.1	17.1	19.1
Accrued liabilities	53.7	39.6	52.1	40.9	49.0	47.9	47.9	47.9	47.9	47.9	47.9	47.9	47.9	47.9
Accrued Interest Payable	-	11.6	0.3	0.9	0.8	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Income taxes payable	1.2	9.0	15.7	17.9	9.4	18.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5
Current portion of deferred revenue	204.7	241.5	273.1	285.2	289.2	293.4	306.6	306.6	324.9	332.5	335.3	345.9	345.9	376.5
Current debt obligation	17.0	17.0	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9
Total Current Liabilities	285.7	328.4	370.8	374.8	379.9	390.3	407.0	407.0	422.5	430.8	438.3	449.5	449.5	482.1
Deferred revenue, net of current portion	13.0	20.3	23.0	26.6	29.3	30.7	30.3	30.3	32.0	32.7	33.0	34.0	34.0	37.1
Non-current deferred taxes	264.7	167.5	147.1	137.5	128.8	114.9	123.9	123.9	134.5	145.2	155.9	166.5	166.5	206.5
Other long-term liabilities	36.6	148.1	133.5	133.9	137.0	130.6	130.6	130.6	130.6	130.6	130.6	130.6	130.6	130.6
LT debt, net of current portion	2,242.9	2,245.6	1,904.1	1,901.4	1,898.7	1,896.1	1,896.1	1,896.1	1,896.1	1,896.1	1,896.1	1,896.1	1,896.1	1,896.1
Total Liabilities	2,842.8	2,909.94	2,578.55	2,574.1	2,573.7	2,562.5	2,587.8	2,587.83	2,615.6	2,635.3	2,653.9	2,676.7	2,676.65	2,752.27
Equity														
Common Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Convertible Common Stock A	2,879.5	3,146.9	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock Class B	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Additional paid-in capital	-	-	3,011.1	3,019.7	3,027.8	3,037.8	3,037.8	3,037.8	3,037.8	3,037.8	3,037.8	3,037.8	3,037.8	3,037.8
Accumulated other comprehensive loss	(66.0)	75.3	17.0	(10.7)	10.5	(44.0)	(44.0)	(44.0)	(44.0)	(44.0)	(44.0)	(44.0)	(44.0)	(44.0)
Accumulated Earnings	(453.7)	(805.2)	(412.3)	(402.9)	(405.0)	(400.6)	(386.6)	(386.6)	(383.0)	(366.8)	(341.3)	(305.0)	(305.0)	(143.6)
Total Equity	2,359.9	2,417.1	2,616.1	2,606.4	2,633.6	2,593.6	2,607.6	2,607.6	2,611.2	2,627.4	2,652.9	2,689.2	2,689.2	2,850.6
Total Liabilities + Equity	5,202.7	5,327.1	5,194.6	5,180.5	5,207.4	5,156.1	5,195.4	5,195.4	5,226.8	5,262.7	5,306.8	5,365.9	5,365.9	5,602.9

Source: Company Data, Barclays Research

FIGURE 6

SolarWinds Cash Flows

Fiscal = Dec USD, m	FY2016A	FY2017A	FY2018A	1Q19A	2Q19A	3Q19A	4Q19E	FY2019E	1Q20E	2Q20E	3Q20E	4Q20E	FY2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E
Net Income	(334.4)	(83.9)	(102.1)	3.1	(2.1)	4.4	4.8	10.3	(5.6)	6.9	15.6	26.4	43.3	12.7	25.5	35.8	44.6	118.7
Adjustments from Operating Activities																		
Depreciation and amortization	219.2	250.9	258.4	64.5	65.6	66.6	56.4	253.1	62.8	58.9	54.8	51.3	227.9	56.5	52.7	47.7	44.7	201.5
Provision for Doubtful Accounts	1.8	2.5	2.5	0.5	0.4	0.5	-	1.5	-	-	-	-	-	-	-	-	-	-
Stock-based compensation expense	87.8	0.1	5.8	7.7	7.4	8.8	9.2	33.1	9.2	9.4	9.9	9.9	38.4	10.3	10.5	10.9	11.1	42.7
Accrued earnout gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	18.8	18.9	11.7	2.3	2.3	2.3	-	6.9	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	22.8	18.6	80.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred taxes	(126.6)	(101.5)	(22.1)	(11.3)	(9.1)	(9.3)	9.0	(20.7)	10.6	10.7	10.7	10.6	42.6	10.0	10.0	10.0	10.0	40.0
(Gain) loss on foreign currency exchange rates	32.4	(54.9)	13.4	(1.3)	1.2	(0.8)	-	(0.9)	-	-	-	-	-	-	-	-	-	-
Other non-cash expenses	0.9	(3.8)	3.4	(0.7)	0.3	0.5	-	0.1	-	-	-	-	-	-	-	-	-	-
Adjustments to working capital items																		
Accounts receivable	(13.4)	(2.4)	(18.0)	(10.6)	17.9	(8.1)	19.2	18.4	(11.7)	(5.2)	(2.7)	8.8	(10.7)	(4.3)	1.6	2.0	7.2	6.5
Income taxes receivable	(35.0)	35.0	0.7	(0.3)	0.4	(0.0)	-	0.1	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	(4.2)	6.2	(5.5)	(4.3)	(1.8)	(0.1)	-	(6.2)	-	-	-	-	-	-	-	-	-	-
Accounts payable	(5.7)	0.3	(0.0)	0.5	1.0	(1.1)	3.5	3.9	(2.8)	0.6	4.8	0.6	3.2	(4.5)	2.1	0.7	3.7	2.0
Accrued liabilities and other	28.1	(7.5)	9.8	(10.8)	5.8	(0.3)	-	(5.3)	-	-	-	-	-	-	-	-	-	-
Accrued Interest Payable	-	0.6	(11.3)	0.6	(0.0)	(0.6)	-	(0.0)	-	-	-	-	-	-	-	-	-	-
Income taxes payable	4.4	119.6	(10.7)	2.5	(6.9)	2.0	-	(2.4)	-	-	-	-	-	-	-	-	-	-
Deferred revenue	194.1	34.0	35.5	20.1	(3.3)	9.6	12.8	39.1	20.0	8.4	3.1	11.6	43.0	16.6	3.6	1.1	12.3	33.6
Other long-term liabilities	(0.6)	0.0	1.5	0.8	(0.6)	0.7	-	0.9	-	-	-	-	-	-	-	-	-	-
Cash from operations	90.2	232.7	253.1	63.4	78.3	75.2	114.9	331.8	82.6	89.6	96.1	119.3	387.6	97.2	106.0	108.2	133.7	445.0
y/y growth	-	158.1%	8.8%	79.2%	10.6%	27.5%	30.5%	31.1%	30.3%	14.5%	27.9%	3.8%	16.8%	17.7%	18.2%	12.5%	12.1%	14.8%
Purchases of investments	(2.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturities of investments	22.8	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of PPE	(7.8)	(7.6)	(15.9)	(4.6)	(4.2)	(1.8)	(6.3)	(16.9)	(3.9)	(4.2)	(4.4)	(4.5)	(17.0)	(4.2)	(4.4)	(4.6)	(4.8)	(17.9)
Purchase of intangible assets and other LT	(3.5)	(4.8)	(2.7)	(1.2)	(1.2)	(1.1)	(1.1)	(4.7)	(1.1)	(1.1)	(1.1)	(1.1)	(4.5)	(1.1)	(1.1)	(1.1)	(1.1)	(4.5)
Acquisition of businesses, net cash	(507.5)	(24.0)	(60.6)	-	(349.5)	-	-	(349.5)	-	-	-	-	-	-	-	-	-	-
Acquisitio of SolarWinds, net cash	(4,335.1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	-	-	11.2	0.2	1.4	2.5	-	4.2	-	-	-	-	-	-	-	-	-	-
Cash from investing activities	(4,833.0)	(34.4)	(68.0)	(5.6)	(353.5)	(0.4)	(7.4)	(367.0)	(5.1)	(5.3)	(5.5)	(5.7)	(21.5)	(5.3)	(5.5)	(5.7)	(5.9)	(22.4)
Cash from financing activities	4,897.3	(35.4)	(74.7)	(4.9)	(4.9)	(4.0)	-	(13.8)	-	-	-	-	-	-	-	-	-	-
FX impact	0.0	13.1	(5.5)	(1.0)	0.9	(5.0)	-	(5.1)	-	-	-	-	-	-	-	-	-	-
Net change in cash	154.4	176.1	104.9	51.8	(279.2)	65.8	107.5	(54.0)	77.5	84.4	90.6	113.6	366.1	91.9	100.5	102.5	127.8	422.6
Cash at Beginning of period	196.9	101.6	277.7	382.6	434.5	155.3	221.1	382.6	328.6	406.1	490.4	581.1	328.6	694.7	786.6	887.1	989.5	694.7
Cash at End of period	101.6	277.7	382.6	434.5	155.3	221.1	328.6	328.6	406.1	490.4	581.1	694.7	694.7	786.6	887.1	989.5	1,117.3	1,117.3
Free Cash Flow	78.9	220.3	234.5	57.6	72.8	72.2	107.5	310.2	77.5	84.4	90.6	113.6	366.1	91.9	100.5	102.5	127.8	422.6
uFCF		311.8	370.8	80.8	99.1	97.3	132.3	409.6	101.5	108.4	114.9	137.9	462.7	115.0	123.6	125.7	151.0	515.2
% conversion		86.2%	91.0%	77.1%	89.4%	84.6%	109.6%	90.7%	88.5%	86.4%	86.8%	97.2%	89.9%	87.7%	86.7%	83.7%	95.8%	88.6%
y/y growth			18.9%	5.4%	3.9%	12.5%	19.1%	10.5%	25.6%	9.4%	18.0%	4.2%	12.9%	13.3%	14.0%	9.4%	9.5%	11.4%

Source: Company Data, Barclays Research

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Primary Stocks (Ticker, Date, Price)

SolarWinds Corporation (SWI, 30-Oct-2019, USD 20.42), Equal Weight/Positive, A/CE/D/J/L

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SolarWinds Corporation (SWI / SWI)

USD 20.42 (30-Oct-2019)

Stock Rating

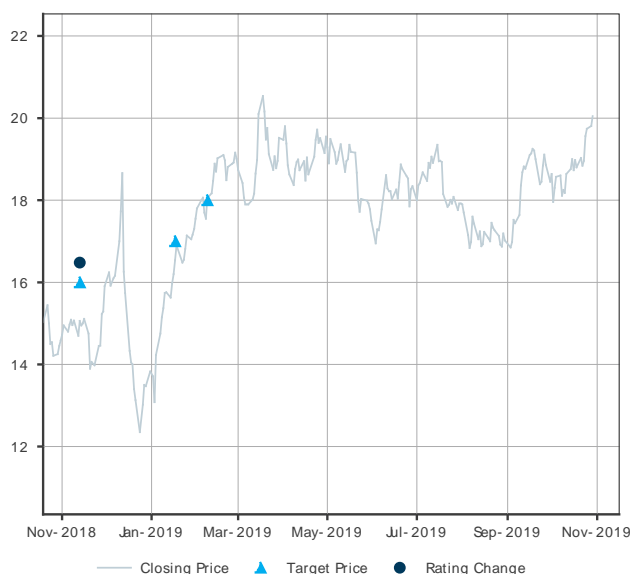
Industry View

EQUAL WEIGHT

POSITIVE

Rating and Price Target Chart - USD (as of 30-Oct-2019)

Currency=USD



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

Source: Bloomberg, Barclays Research

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

Source: IDC, Barclays Research

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

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Valuation Methodology: Our PT of \$18 is based on EV/CY20E uFCF of 16x and CY20E uFCF of \$463mn.

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