



## SolarWinds Corporation

# Making Complex IT Easier to Manage; Initiate at EW

**Addressing the Large Opportunity to Manage Hybrid IT:** We are initiating coverage of SolarWinds with an Equal Weight rating and \$16 price target. SolarWinds provides holistic IT management solutions for companies of all sizes, which represents a large and growing TAM of ~\$45bn. We would expect solid revenue growth for the company in the coming years given the secular tailwinds of increasingly complex hybrid IT landscape and the company's broad product portfolio. However, we remain on the sidelines given the current fair valuation level relative to the cash flow growth prospects.

**Network Management Leader with Growing Cloud and MSP Portfolio:** SolarWinds has leveraged its roots and market leadership in network management, while building out an end-to-end IT management portfolio. We also like the company's positioning in the Managed Service Provider (MSP) market, which should allow it to effectively address the large opportunity with SMB end-customers. Along with the MSP products, we would expect the relatively nascent cloud portfolio (both subscription-based) to become a bigger portion of the mix and provide growth tailwinds going forward.

**Highly Efficient Go-to-Market Model Drives Best-in-Class Profitability:** The company has a low-touch, high-velocity sales and marketing model, along with an efficient, customer demand-driven approach to product development. This business model is clearly benefiting its profitability, with best-in-class EBITDA margins (48% in FY18E) and uFCF conversion (87% in FY18E). While we acknowledge SolarWinds' differentiated financial profile, we also note that this leaves modest room for improvement going forward (expectations of 25-40bps EBITDA margin expansion).

**Unique Financial Profile but Fairly Valued, Initiate at EW with \$16 PT:** Based on the large market opportunity and competitive positioning, we would expect the company to sustain double-digit revenue growth in the coming years. However, we believe the current valuation level (14x CY20E uFCF) fairly captures the future cash flow growth trajectory (low to mid-teens uFCF growth). Hence, we are launching coverage with an Equal Weight rating and a PT of \$16, which is based on 15x CY20E uFCF of \$453mn.

### SWI: Quarterly and Annual EPS (USD)

	2017		2018		2019		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2018	2019
Q1	0.09A	N/A	0.03A	N/A	N/A	0.16E	N/A	-67%	433%
Q2	0.20A	N/A	0.13A	N/A	N/A	0.18E	N/A	-35%	38%
Q3	0.22A	N/A	0.13E	N/A	N/A	0.19E	N/A	-41%	46%
Q4	0.09A	N/A	0.16E	N/A	N/A	0.22E	N/A	78%	38%
Year	0.61A	N/A	0.44E	N/A	N/A	0.75E	N/A	-28%	70%
P/E	24.3		33.3			19.5			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters received on 12-Nov-2018; 14:35 GMT

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 32.

### Equity Research

Technology | U.S. Software  
13 November 2018

Stock Rating **EQUAL WEIGHT**  
from N/A

Industry View **POSITIVE**  
Unchanged

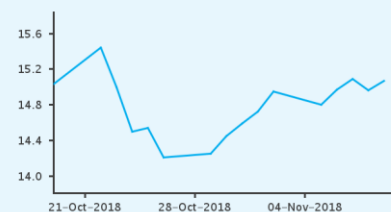
Price Target **USD 16.00**  
from N/A

Price (12-Nov-2018) USD 14.70  
Potential Upside/Downside +8.8%  
Tickers SWI

Market Cap (USD mn) 4556  
Shares Outstanding (mn) 309.94  
Free Float (%) 67.96  
52 Wk Avg Daily Volume (mn) 1.1  
52 Wk Avg Daily Value (USD mn) N/A  
Dividend Yield (%) N/A  
Return on Equity TTM (%) N/A  
Current BVPS (USD) 7.56

Source: Thomson Reuters

Price Performance Exchange-NYSE  
52 Week range USD 15.50-13.90



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

### U.S. Software

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## SolarWinds Corporation (SWI)

Stock Rating: EQUAL WEIGHT

Income statement (\$mn)	2017A	2018E	2019E	2020E	CAGR
Revenue	741	826	919	1,030	11.6%
EBITDA (adj)	362	399	447	504	11.7%
Operating profit (adj)	347	383	431	487	11.9%
Pre-tax income	-61	-108	80	168	N/A
Net income (adj)	194	142	242	286	13.8%
EPS (adj) (\$)	0.61	0.44	0.75	0.88	13.2%
Diluted shares (mn)	320.1	320.1	321.4	325.8	0.6%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	48.8	48.4	48.7	49.0	48.7
Operating margin (adj) (%)	46.9	46.4	46.9	47.3	46.9
Pre-tax margin (%)	-8.3	-13.1	8.7	16.3	0.9
Net (adj) margin (%)	26.1	17.1	26.4	27.8	24.4
ROIC (%)	1.3	2.7	3.4	4.8	3.0
ROA (%)	-1.6	-2.2	0.2	1.6	-0.5
ROE (%)	-3.5	-4.5	0.4	3.2	-1.1

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	34	36	36	35	0.9%
Goodwill	3,696	3,670	3,670	3,670	-0.2%
Cash and equivalents	278	435	726	1,080	57.2%
Total assets	5,327	5,224	5,319	5,493	1.0%
Short and long-term debt	2,263	1,924	1,924	1,924	-5.3%
Other long-term liabilities	148	141	141	141	-1.5%
Total liabilities	2,910	2,590	2,673	2,762	-1.7%
Net debt/(funds)	1,985	1,489	1,198	844	-24.8%
Shareholders' equity	2,417	2,635	2,645	2,731	4.2%
Change in working capital	186	31	39	39	-40.6%
Cash flow from operations	233	228	310	372	16.9%
Capital expenditure	12	18	18	18	14.2%
Free cash flow	312	349	403	453	13.3%

Valuation and leverage metrics	Average				
P/E (adj) (x)	24.3	33.3	19.5	16.8	23.5
EV/sales (x)	8.5	7.6	6.9	6.1	7.3
EV/EBITDA (adj) (x)	17.4	15.8	14.1	12.5	15.0
Equity FCF yield (%)	4.7	4.5	6.2	7.4	5.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	5.5	3.7	2.7	1.7	3.4
Total debt/capital (%)	48.3	42.2	42.1	41.3	43.5

Selected operating metrics	CAGR				
License revenue (\$mn)	157	158	161	165	1.7%
Maintenance revenue	369.1	403.6	440.5	478.9	9.1%
Services revenue	N/A	N/A	N/A	N/A	N/A
Deferred revenue	261.8	311.1	357.3	400.6	15.2%

Price (12-Nov-2018) USD 14.70  
Price Target USD 16.00

**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.

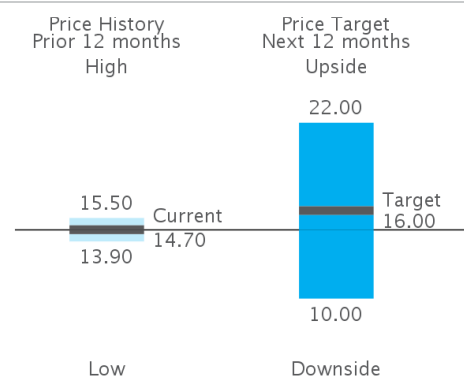
**Upside case** USD 22.00

SolarWinds top-line growth may come in better than expected based on improved competitive positioning. This, along with operating leverage may drive better uFCF growth. Our upside case assumes 20% upside to CY20E uFCF and multiple expansion to 16x CY20E uFCF.

**Downside case** USD 10.00

The company's growth may come under pressure due to a tougher than anticipated competitive landscape, which may pressure margins and free cash flows. Our downside case assumes a 20% discount to CY20E uFCF and multiple contraction to 13x CY20E uFCF.

## Upside/Downside scenarios



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

CONTENTS

EXECUTIVE SUMMARY ..... 4

Making Complex IT Easier to Manage ..... 4

INDUSTRY OVERVIEW ..... 5

Fundamentals of IT Infrastructure – The Building Blocks ..... 5

What is IT Infrastructure Management? ..... 6

Need for IT Infrastructure Management Solutions ..... 8

Large Market Opportunity in IT Infrastructure Management ..... 9

COMPANY OVERVIEW ..... 13

Journey from NPM to Holistic IT Infrastructure Management ..... 13

SolarWinds’ Hybrid IT Management Platform Overview ..... 14

Unique Go-to-Market Strategy ..... 17

FINANCIAL PROFILE ..... 19

Income Statement ..... 19

Balance Sheet ..... 22

Statement of Cash Flows ..... 23

Valuation Framework – Healthy Combination of Growth and Profitability, but Fairly Valued;  
Initiate at EW ..... 25

POTENTIAL RISKS ..... 27

Risks to Investment Thesis ..... 27

MANAGEMENT TEAM ..... 28

FINANCIALS ..... 29

## EXECUTIVE SUMMARY

## Making Complex IT Easier to Manage

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The IT landscape has seen rapid transformation over the last few years with the mainstreaming of new paradigms such as public cloud, hybrid architectures, containerization etc. This has resulted in increasingly complex IT infrastructures and, as such, we believe management and monitoring of IT infrastructure has become a pain point for organizations globally. SolarWinds is addressing this large market opportunity for IT infrastructure management (estimated to be \$45bn in 2018). Given the secular tailwinds, we believe that the company is positioned to sustain solid double-digit revenue growth in the coming years, while maintaining strong EBITDA and cash flow margins. While we like the market opportunity and the company's product positioning, we believe the current valuation levels are fair relative to the cash flow growth prospects. Hence, we are initiating coverage with an Equal Weight rating.

### Broad and Evolving Product Portfolio, with Unique Go-to-Market

SolarWinds has its roots as a leading provider of network management solutions (NPM), but has expanded into monitoring of systems, applications (APM) and databases through acquisitions and organic product development. The company also has a nascent cloud product portfolio and a solid competitive position in the Managed Service Provider (MSP) market. While we acknowledge the progress made by the company to broaden its portfolio, we believe it has some work to do to improve its competitive position in markets outside of network management/MSPs. However, the company's affordable products along with its low-touch, high-velocity sales and marketing model have allowed it to compete effectively across all areas of IT management.

### Best-in-Class Profitability and Free Cash Flow Conversion

SolarWinds has a unique financial profile, with solid double-digit revenue growth at scale, along with 48%+ EBITDA margins. The company has also maintained best-in-class Unlevered Free Cash Flow (uFCF) conversion (expected to trend up to 90% in the projected years). As such, we would expect the company to deliver healthy low to mid-teens uFCF growth in the coming years. While acknowledging the company's current differentiated combination of growth and profitability, we believe that there may be limited scope for improvements going forward.

### Fair Valuation Given Free Cash Flow Growth Trajectory, Initiate with Equal Weight Rating and \$16 Price Target

We compare SolarWinds to other infrastructure software vendors and companies with low-friction sales models. We believe the current valuation level of 14x CY20E uFCF is fair considering the company's uFCF growth trajectory. Hence, we are launching coverage with an EW rating. Our price target of \$16 is based on 15x CY20E uFCF, which is in-line with other mature infrastructure software vendors such as VMware and Citrix.

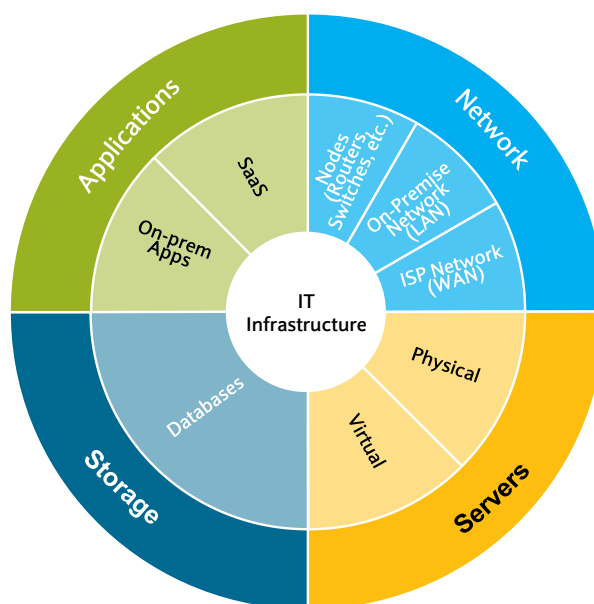
## INDUSTRY OVERVIEW

SolarWinds participates in the broad IT infrastructure management market. In this section, we provide a fundamental understanding of a company's IT infrastructure, the need for management and monitoring of this infrastructure, and the market opportunity.

### Fundamentals of IT Infrastructure – The Building Blocks

Just like a building's infrastructure consists of light fixtures, plumbing, furniture etc. that need to be managed and monitored, a company's IT infrastructure is comprised of some key building blocks that we show in Figure 1 below.

FIGURE 1  
Key Components of an IT Infrastructure



Source: Barclays Research

- **Network:** A company's network consists of both hardware such as routers and switches, and software such as firewalls. Additionally, it not only includes the networking infrastructure on-premise (Local Area Network or LAN, behind the company's firewall), but also the Internet Service Provider's (ISP) network (Wide Area Network or WAN). WAN allows the network to flow between the company's LAN and other infrastructure components through the internet (e.g. public cloud).
- **Servers:** Servers include physical workstations or devices that run enterprise applications or are used by the company's employees. These can either be physical servers or run in virtual environments.
- **Storage:** Enterprise storage consists of the company's databases or data warehouses that house the data generated or used across the enterprise.
- **Applications:** Finally, its IT footprint also consists of all applications that are in use by its employees internally or customers externally. These applications can either be public-cloud hosted (SaaS) or based in the company's own datacenters on-premise.

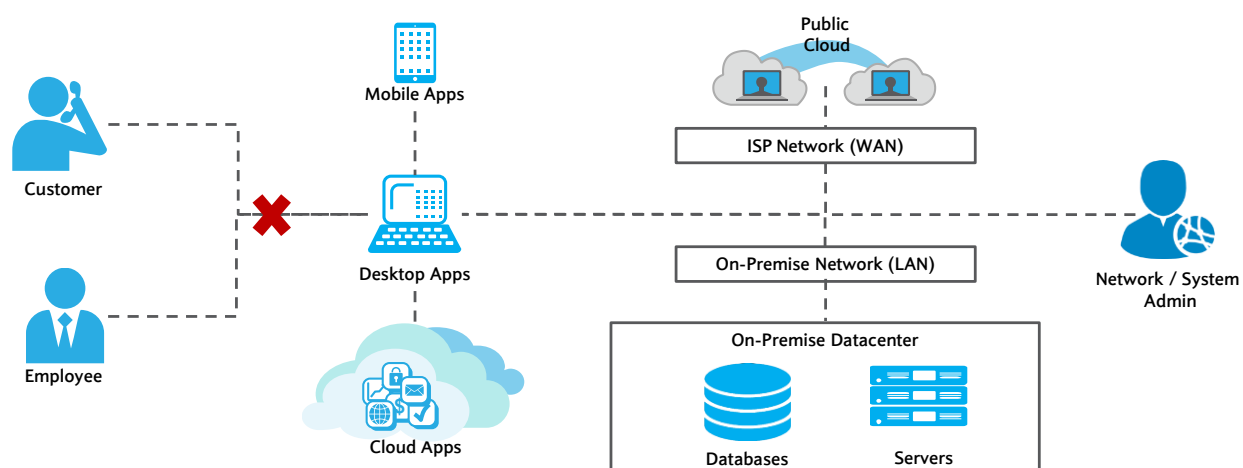
The above components together make up the IT infrastructure of a business, and require management and monitoring to ensure availability and operational efficiency.

## What is IT Infrastructure Management?

To clarify IT infrastructure management, we use the prior analogy with a building's infrastructure. In order to ensure that the building can operate and residents are not impacted, a building's infrastructure needs to be managed and monitored by its staff. Similarly, IT infrastructure management involves monitoring and managing the performance, availability and efficiency of the company's IT infrastructure by network / system administrators.

We discuss IT infrastructure management using the example depicted below. A company's customers and employees use various applications that touch the company's network, server and storage infrastructure. In the figure below, we show a typical representation of the various IT infrastructure components involved in such a scenario.

FIGURE 2  
IT Infrastructure Management Example



Source: Barclays Research

Let us assume that the customer or employee is having issues accessing the company's applications (SaaS or on-prem). This could be related to either slow performance or no access at all. In such a scenario, a network or system administrator will have to troubleshoot and figure out which components of the IT infrastructure (application, network, storage or server) are causing the issue. Once identified, the administrator will have to provide a fix so that the end-user (customer or employee) can start to use the application again. This is a key use case for IT infrastructure management, and we highlight other typical use cases below.

### Key Use Cases for IT Infrastructure Management

- **Performance Monitoring / End-User Experience:** Monitoring the performance of a company's network and applications (internal or external) is a fundamental use case for IT infrastructure management. This use case is basically driven by the need to ensure a smooth end-user experience.
- **Root Cause Analysis / Diagnostics:** This use case involves troubleshooting the IT infrastructure in the case of issues already impacting end-users. The network or system administrator has to trace the issue to the set of IT infrastructure components and then diagnose them appropriately.
- **Operational Efficiency:** Another key use is ensuring that the company's IT infrastructure is not only cost efficient, but is also scalable and easy to use. Network or system

administrators have to provision and configure appropriate IT resources when needed, which also comes under the scope of IT infrastructure management.

- **Security and Compliance:** Network and system administrators also have to collaborate with IT security operations to ensure that the IT infrastructure is managed in a secure and compliant manner.

The above use cases are directly related to the benefits that proper IT infrastructure management can provide to an organization. Next, we discuss the key trends shaping the IT infrastructure management industry.

## Key Trends in IT Infrastructure Management

### 1) *Proactive vs. Reactive Approach to IT Infrastructure Management*

IT administrators are increasingly being required to move to a proactive vs. reactive approach to IT infrastructure management, addressing issues before they impact end-users. We believe a proactive approach requires the right set of tools and data (also AI) to enable IT admins to identify and fix issues before an end-user reports them. As such, we believe that IT management solutions will need to further evolve to address this trend towards proactive problem resolution.

### 2) *Fragmentation of IT Infrastructure Management Tools*

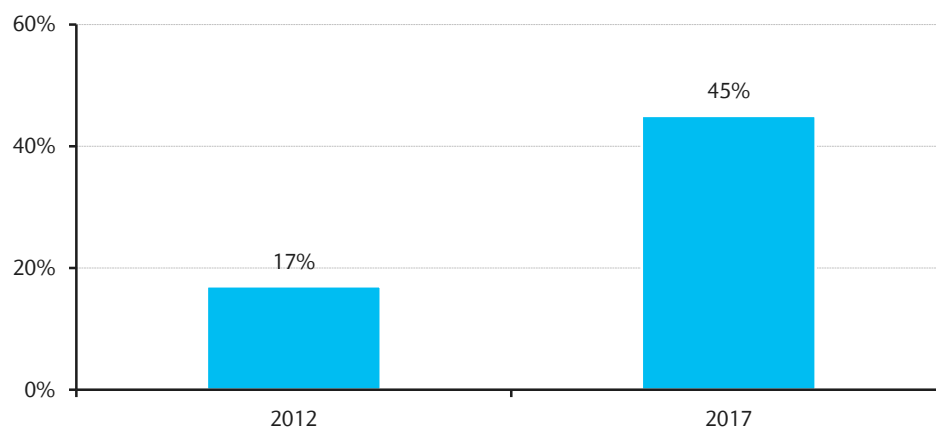
We highlight that the IT infrastructure management tools are very fragmented, with various point solutions addressing specific use cases and IT personas (network vs. server admin). This fragmentation has also been driven by the demand for multiple, niche tools from IT admins. We believe that, while using different tools for different use cases makes sense, there is a need for better interoperability and integration among these tools. This need seems to be driving a platform approach among IT infrastructure management tool vendors.

### 3) *Outsourcing of IT Infrastructure Management*

Finally, there is a clear trend among SMBs to outsource their IT operations management to Managed Service Providers (MSPs) as shown in the figure below. SMBs have less complex of an IT infrastructure, which means that, rather than employing IT admins in-house, they use MSPs to monitor and manage their IT environments remotely.

FIGURE 3

#### Percentage of Small Businesses using MSPs



Source: IDC

Having discussed the key use cases and trends, we help investors understand the key demand drivers for IT infrastructure management solutions in the next section.

## Need for IT Infrastructure Management Solutions

The IT landscape within businesses of all sizes has undergone a rapid transformation with the advent of modern technologies. At the same time, IT infrastructure has become ever more critical to driving digital transformation initiatives within organizations as we discuss next.

### IT Infrastructure Core to Driving Digital Initiatives

Previously, IT infrastructure management was more focused on reducing IT system downtimes and optimizing performance for end-users. However, digital transformation initiatives have become mainstream among organizations of all sizes, with senior business management expecting IT to not only provide cost efficiencies, but also drive better customer and employee experience and drive growth. We believe that a well managed and monitored IT infrastructure is core to delivering on key digital initiatives within organizations. If the core building blocks of an IT infrastructure are not functioning properly, it will be difficult to imagine driving IT and operational efficiency through an organization. These digital initiatives are creating demand for modern IT infrastructure management solutions among businesses across all verticals.

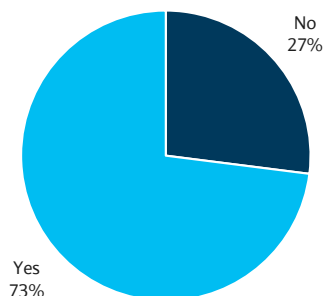
### Increasing IT Infrastructure Complexity Demands Modern Solutions

Modern IT trends have also resulted in increased IT complexity, which creates demand for modern IT management solutions. We discuss these trends next.

#### 1) *Hybrid Cloud*

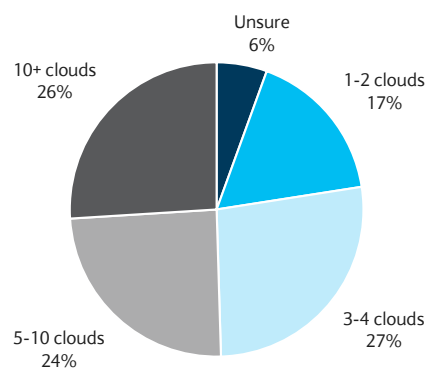
Enterprises are increasingly adopting a hybrid cloud strategy, with IT infrastructures spanning across public and private clouds, and on-premise datacenters. Also, usage of multiple public cloud providers is increasing as enterprises want to avoid vendor lock-in (please see figures below).

FIGURE 4  
Enterprises Adopting a Hybrid Cloud Strategy



Source: IDC, Barclays Research

FIGURE 5  
Rising Multi-cloud Deployments Among Enterprises by 2020

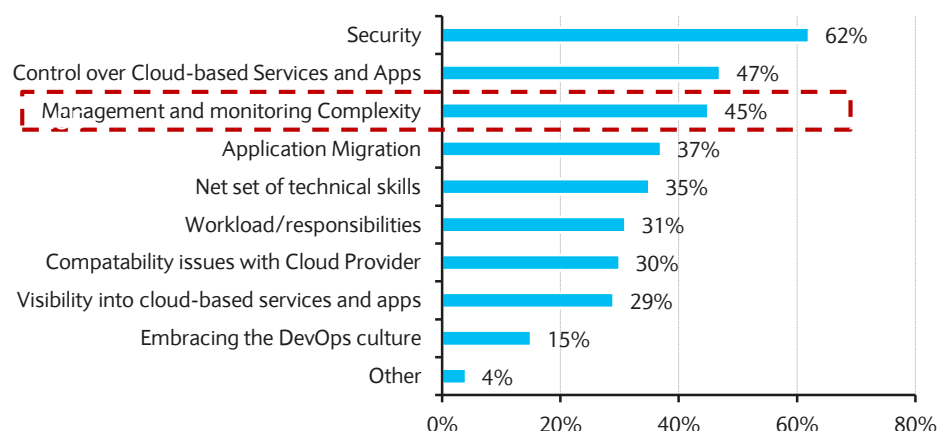


Source: IDC, Barclays Research

Given the mainstreaming of hybrid cloud, IT infrastructures are becoming increasingly heterogeneous, which creates challenges in terms of managing and monitoring these disparate environments. A recent survey conducted by SolarWinds shows that management and monitoring is the third biggest challenge presented by hybrid IT environments, after securing and control (see below).



FIGURE 6

**Biggest Challenges with Hybrid IT Environments**

Source: SolarWinds IT Trends Survey, 2016.

**2) DevOps and Agile IT**

DevOps and Agile IT practices also create complexities in terms of managing an IT infrastructure. DevOps integrates IT development and operations together, which requires IT administrators to adopt Agile IT practices as well. IT changes / software releases are now being done at a frequent pace, with software releases happening every day rather than in weeks or months. This creates a burden on the IT administrators to ensure that these changes don't result in new issues and are done in a seamless and interoperable manner. Agile IT also creates much more of a need for proactive approach to IT infrastructure management. Overall, this creates demand for IT infrastructure management solutions to manage the complexity from DevOps and Agile IT.

**3) Containers and Microservices**

The adoption of containers and microservices (dividing an application into smaller and connected set of services) has also created additional IT management complexity. Microservices creates a much larger and distributed application footprint, where the IT administrators now need to manage hundreds of IT services and inter-connections (or APIs), rather than a small number of applications. Container environments also place additional management and monitoring burden on IT infrastructure administrators.

The above key factors continue to drive the IT infrastructure management market, which is a large and growing market, as we discuss next.

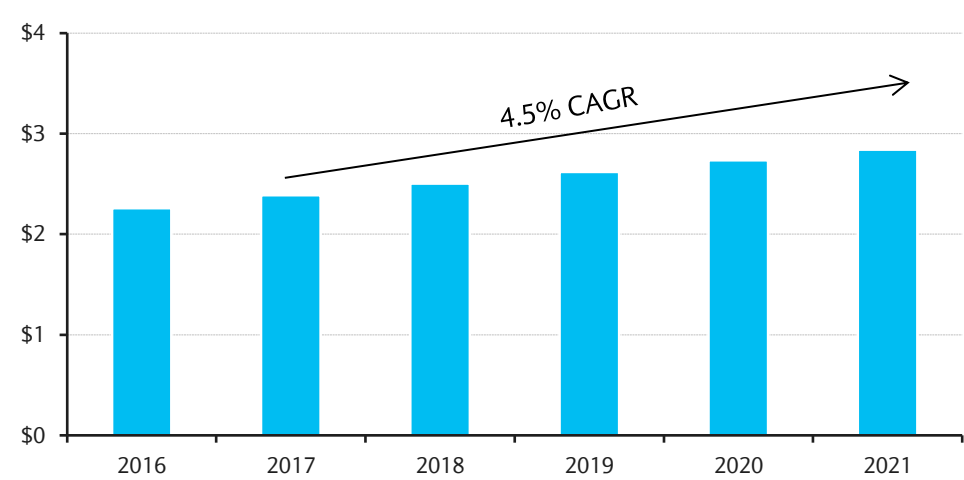
**Large Market Opportunity in IT Infrastructure Management**

IT Infrastructure management market is comprised of many subsectors. Before we look at the size and growth of the overall market, we discuss the market opportunity for two key subsectors, network and application management.

**Network Management Market**

Network management market includes solutions to monitor and troubleshoot network issues and also configure network components (routers, switches, firewalls, etc.) in the IT infrastructure. These solutions monitor the network traffic and path (from one server to the other, inside LAN or WAN) to enable resolution of outage and performance issues. Broadly, this market can be subcategorized into network performance management and network operations management, with most vendors playing across both categories. IDC estimates the market for network management solutions to be worth \$2.5bn in 2018 growing at a 4.5% CAGR from 2017-2021.

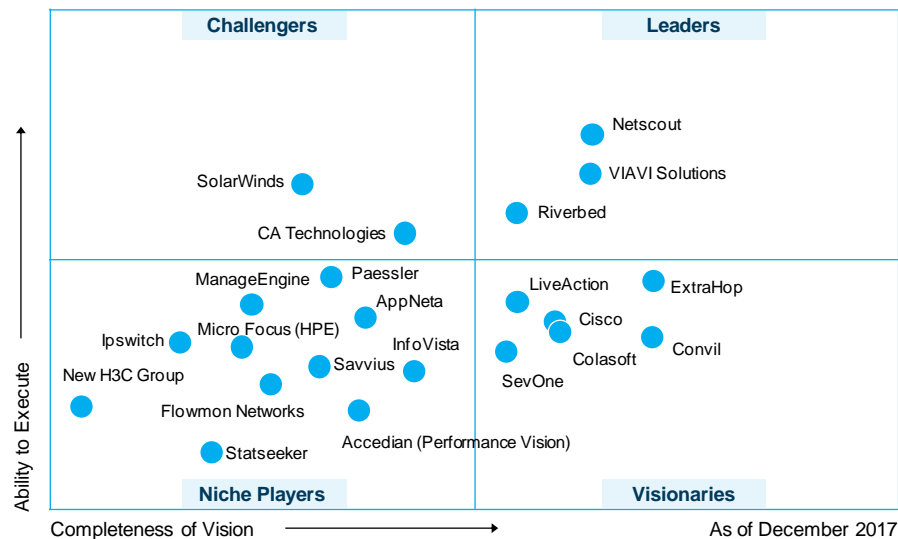
FIGURE 7  
Network Management Market Size (\$bn)



Source: IDC

Network management is a relatively mature market, with innovation in the market based on product integrations, analytics / AI and ease of use. Below, we show the competitive landscape for the network management market.

FIGURE 8  
Magic Quadrant for Network Performance Monitoring and Diagnostics



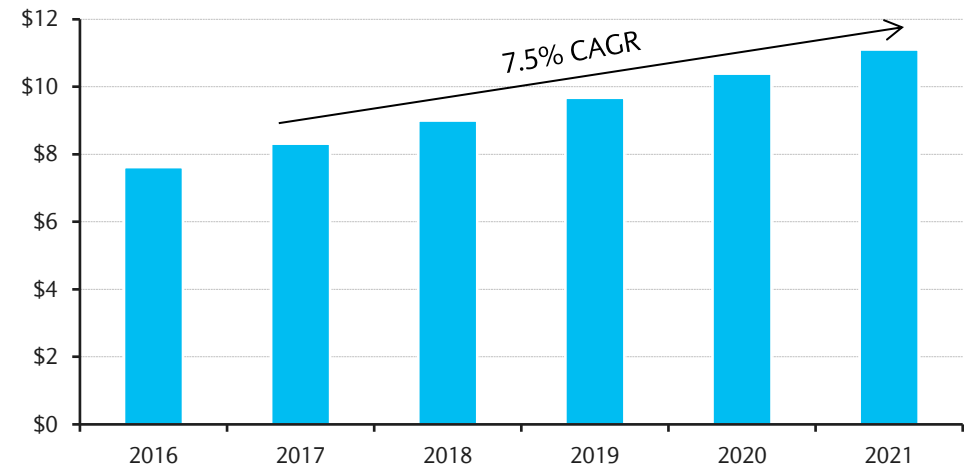
Source: Gartner

Some of the larger vendors in the Network management market include Netscout, SolarWinds, CA and Riverbed. IDC estimates SolarWinds to be the market leader in network management, with a 24% revenue share in 2H'17.

### Application Performance and IT Operations Management

Application performance monitoring (APM) solutions include on-prem and SaaS solutions to manage application performance and application capacity utilization. IDC also defines this market to include broader solutions for IT operations management and analytics. IDC estimates APM / IT Ops management market to be worth \$9bn in 2018, growing at a 7.5% CAGR from 2017-2021.

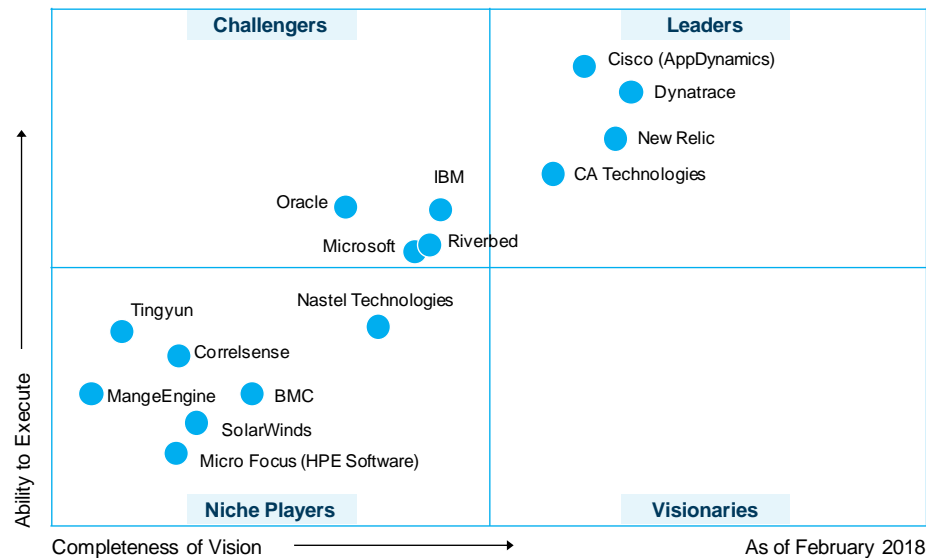
FIGURE 9  
APM / IT Ops Market Size (\$bn)



Source: IDC

We show the competitive landscape for the APM market in the figure below. There has been a trend towards integrating Network management with APM, resulting in consolidation between Network management and APM vendors. We highlight Riverbed (a major Network management vendor) acquiring OPNET in 2012 to build out its APM product portfolio. Cisco also acquired AppDynamics in 2017 to move into the APM SaaS market. We note that SolarWinds has used organic and inorganic strategy to extend out its NPM portfolio to APM, but the company has some work to do to improve its competitive position in the APM market as shown below.

FIGURE 10  
Magic Quadrant for Application Performance Monitoring Suites



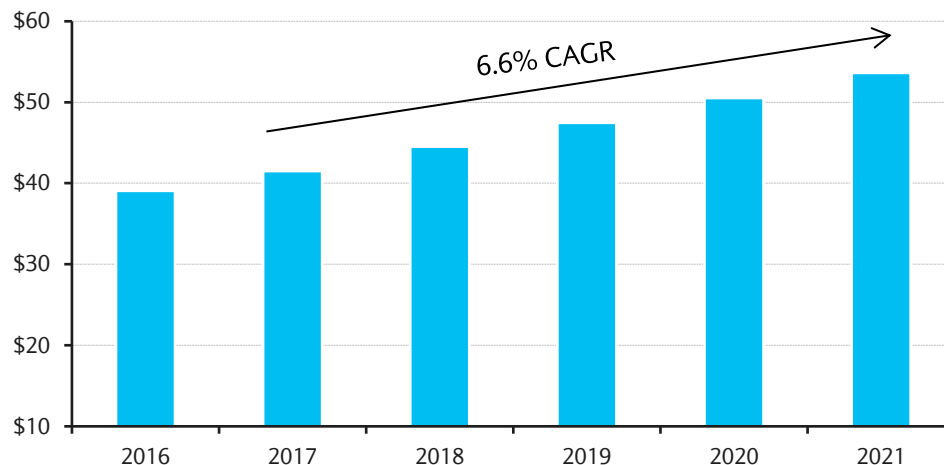
Source: Gartner

### Overall IT Infrastructure Management Market Addressed by SolarWinds

Below, we show the size and growth of the total IT infrastructure management market addressed by SolarWinds. This aggregates a broad set of infrastructure management markets including Network Management, APM/IT operations management, Database management, backup and storage management. We also include certain sectors of Security market (Security and Vulnerability Management, Messaging Security) addressed by SolarWinds. Overall, we can see that SolarWinds addresses a \$44.5bn market in 2018, growing at a 2017-2021 CAGR of 6.6% (see figure below).

FIGURE 11

#### IT Management Market Size (\$bn)



Source: IDC, Barclays Research

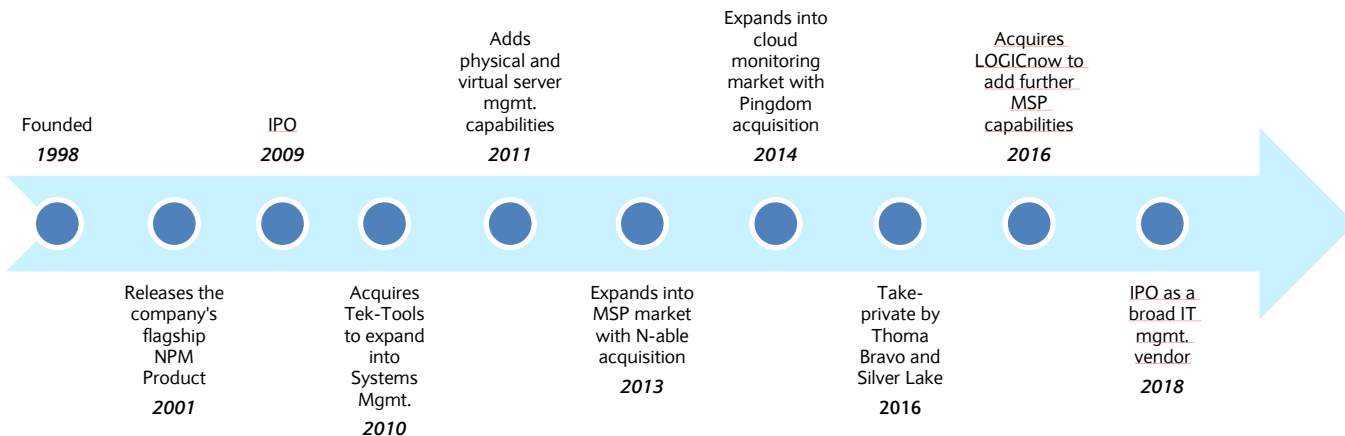
Having discussed the market fundamentals and opportunity for SolarWinds, we dive deeper into SolarWinds product portfolio and go-to-market-strategy in the next section.

## COMPANY OVERVIEW

### Journey from NPM to Holistic IT Infrastructure Management

Before discussing the SolarWinds product portfolio, we provide a brief overview of the company's journey since it was founded in 1998. The company started off as a provider of Network Management solutions, with its flagship Network Performance Monitoring (NPM) product, and has evolved into a broad IT stack management vendor through organic and inorganic strategy (see figure below).

FIGURE 12  
SolarWinds Evolution



Source: Company materials, Barclays Research

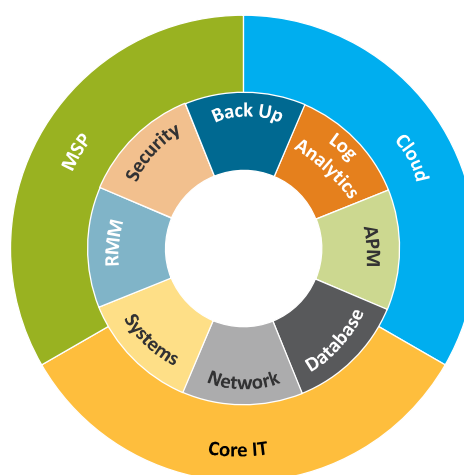
The company first went public in 2009 and was one of the few venture-backed software companies to go public around that time (ending the “dry spell” post the financial crisis). We also note that the company has been profitable since it was founded, and at the time of its 2009 IPO as well it delivered a combination of healthy growth with profitability. After going public in 2009, the company has been making strategic moves to expand into other areas of IT management outside of NPM. SolarWinds acquired Tek-Tools in 2010 for \$42mn to move into storage resource management and organically added physical and virtual server management capabilities in 2011. These moves allowed SolarWinds to broaden its product portfolio and offer customers end-to-end performance management of network, virtual and storage systems. The company subsequently acquired Pingdom (2014) and Librato (2015) to provide capabilities for web and application performance monitoring, thus delivering full stack IT monitoring. To extend its addressable customer base from network and system administrators to MSPs that serve SMBs, the company acquired N-able for \$120mn in 2013. The N-able acquisition allowed SolarWinds to extend its remote monitoring and management (RMM) offerings. After its take-private by Thoma Bravo and Silver Lake in 2016, the company doubled down on the MSP opportunity with the acquisition of LOGICnow.

The above strategic moves have enabled SolarWinds to transform into a full-stack IT management vendor for all personas (IT operations, DevOps and MSPs) regardless of organization size (from SMBs to enterprises) and where the infrastructure resides (on-premise or cloud). We note that, given its roots, the company maintains a market leading position in network management, but believe that it is a work in progress in terms of building on its competitive position in others areas of IT management (application, database etc.). We dive deeper into the company's product portfolio in the next section.

## SolarWinds' Hybrid IT Management Platform Overview

As discussed above, SolarWinds now provides a holistic IT management platform for hybrid architectures. The company's product portfolio is categorised into Core IT, MSP and cloud products (see figure below), which we discuss next. We also discuss typical pricing of major products to highlight that the company's products are relatively affordable for organizations of all sizes.

FIGURE 13  
SolarWinds' Product Portfolio



Source: Company materials, Barclays Research.

### Core IT Portfolio

SolarWinds core IT portfolio provides solutions for network, systems and database management for IT administrators (network, systems and database admins). We also note that these products are sold on a perpetual license/annual maintenance basis. Below we discuss some of the key products in the Core IT portfolio.

#### Network Management

- **Network Performance Monitor:** NPM is the company's flagship product and provides visibility into network utilization and capabilities to identify and resolve network performance issues. This product is licensed based on the number of network elements, with pricing ranging from \$2,995 (100 elements) to ~\$32k for NPM SLX (unlimited).
- **Network Configuration Manager:** Automatic configuration and change management of network policies, setup etc. Licensing is based on the number of network nodes ranging from \$2,895 (50 nodes) to ~\$34k (for unlimited nodes).
- **NetFlow Traffic Analyzer:** Add-on solution with NPM to monitor network traffic and bandwidth, with licensing based on the size of NPM installation.

#### Systems Management

- **Server & Application Monitor:** SAM is the company's core systems management product, which monitors, troubleshoots and resolves performance and capacity issues of Linux and Windows apps across on-premise and public cloud environments. The product is licensed based on the number of monitors (product instances), ranging from \$2,995 for 150 monitors to \$38k for unlimited monitors.

- **Virtualization Manager:** Enables visibility, troubleshooting and optimization of VMs including Microsoft Hyper-V and VMware. Licensed based on the number of VM sockets.
- **Storage Resource Monitor:** Provides management and performance monitoring of storage from various vendors including EMC, NetApp etc. Pricing is based on the storage capacity/number of disks.
- **Database Performance Analyzer:** Provides monitoring, query performance visibility and tuning for major databases including SQL Server, Oracle, MySQL, etc. Pricing is based on the number of database instances.

## MSP Portfolio

As discussed earlier, SolarWinds acquired N-able and LOGICnow to build a portfolio of solutions to enable MSPs to deliver outsourced IT management services to their SMB customers. We note that SolarWinds MSP products are priced on a subscription basis. Key MSP products include:

- **Remote Monitoring & Management (RMM):** The company's flagship solution for MSPs to remotely monitor desktops, servers, mobile devices, etc. across IT environments of their end-customers. Monthly pricing for RMM is \$3/node and includes remote access and support, along with patch management.
- **Backup & Recovery:** Provides cloud backup and disaster recovery for MSP customers.
- **Other MSP Solutions:** These include managed anti-virus, mobile device management, mail protection and archiving and security solutions (including vulnerability management based on a recent acquisition of TrustedMetrics).

## Cloud Portfolio

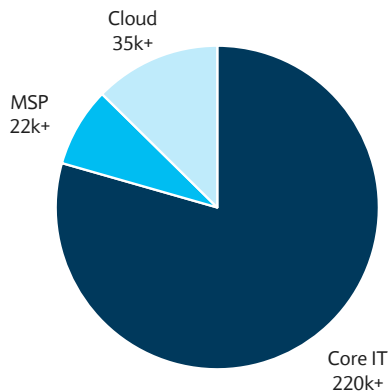
SolarWinds has a relatively nascent SaaS portfolio which is targeted at DevOps professionals. These products are also charged on a subscription basis, and major cloud products include:

- **AppOptics:** Provides cloud-based application performance and server infrastructure monitoring capabilities with pricing starting at \$7.50/host per month.
- **Papertrail and Loggly:** Provides cloud-based log management (aggregation, searching and alerts), monitoring and analytics. Papertrail is priced on log volume (starting at \$7/month), while Loggly is subscription-based pricing starting at \$79/month for the Standard edition.
- **Pingdom:** Acquired by SolarWinds in 2014, Pingdom is a cloud-based web performance management solutions. Pricing starts from \$15/month for Starter to \$499 for the Enterprise edition.

## Product Segment Split

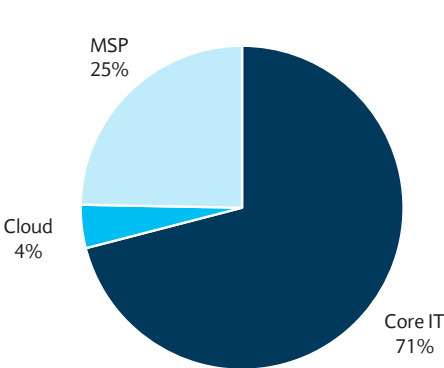
To understand the relative size of the above segments, we show the breakdown of the company's product segments based on number of customers and FY17 revenue below. As discussed earlier, MSP and Cloud are subscription based products, while Core IT portfolio is a license/maintenance based revenue model. We will discuss the growth rates and drivers for these product segments in the financial section later in the report.

FIGURE 14  
Customer Split by Segment



Source: Company data, Barclays Research. Customer count may include multiple purchasing units within the same organization as different customers.

FIGURE 15  
Revenue Split by Segment (FY17)

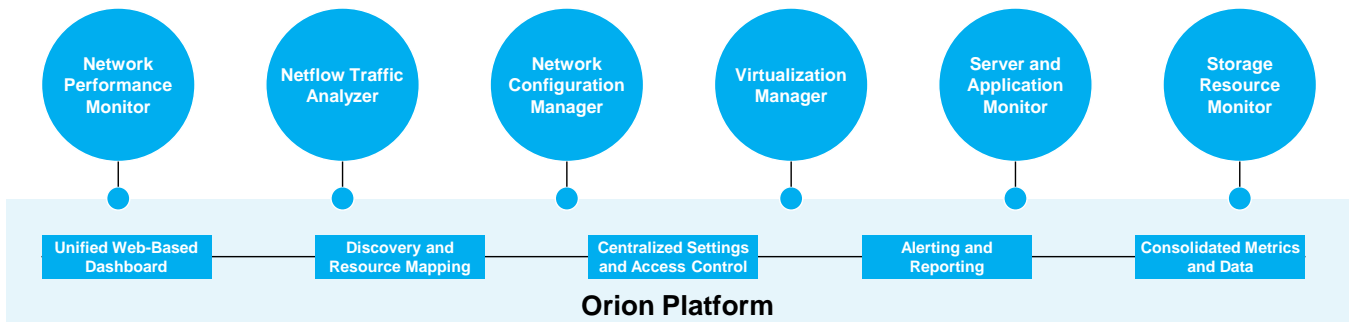


Source: Company Data, Barclays Research

Orion Platform

As we discussed in the industry overview section, fragmentation of IT management tools is a key issue for vendors and customers. While SolarWinds provides a broad set of IT management solutions for the full-stack, these solutions are built on the company’s underlying Orion platform (see figure below). The Orion platform provides a core, consistent set of services and dashboards (e.g. access control, alerting, reporting, metrics, etc.), which allows different SolarWinds solutions to be interoperable and share a common modular architecture. This is geared not only towards providing the benefits of integration and end-to-end visibility into metrics/data, but also to enable seamless land and expand motion within customers. As SolarWinds customers buy more products from the company, these additional products can be integrated to the customers’ existing SolarWinds footprint in a plug-and-play manner using the Orion platform, thus reducing potential friction around integration.

FIGURE 16  
SolarWinds Orion Platform



Source: Company materials, Barclays Research

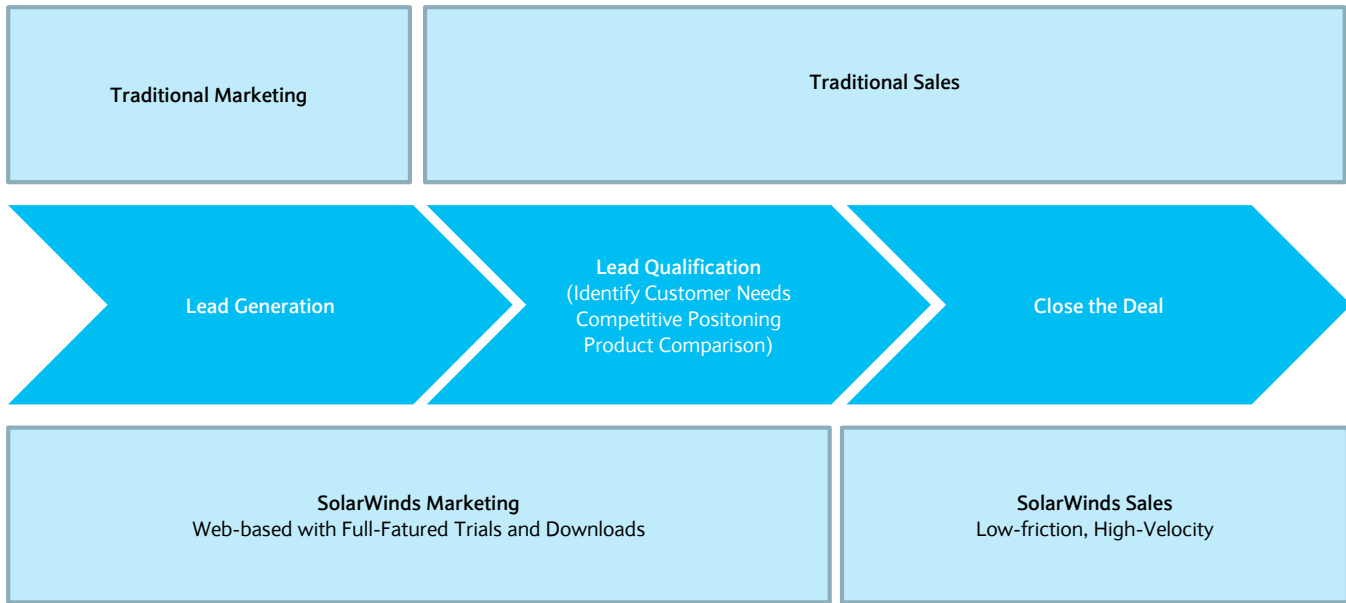
Having provided an overview of the product portfolio, we discuss the company’s sales and marketing strategy next.



## Unique Go-to-Market Strategy

SolarWinds leverages a low-touch, high-velocity sales and marketing strategy that makes its solutions easy to try and buy for technology professionals (IT admins) within organizations of all sizes. We depict the company’s go-to-market approach vs. a traditional enterprise sales model in the figure below.

FIGURE 17  
SolarWinds Marketing and Sales Approach



Source: Company materials, Barclays Research

### Digital Marketing Strategy

The company markets directly to technology professionals within organizations, rather than to technology buyers or CIOs. Also, the company’s R&D is driven by understanding the current needs (so disrupting existing markets rather than investing in new) of technology professionals and then delivering solutions to address those needs by leveraging its underlying Orion platform. We believe this drives efficiency in the company’s R&D and marketing organizations, as such solutions would be to easier to develop (using customer feedback) and market to professionals.

In the figure above, we show that SolarWinds’ marketing process extends beyond traditional enterprise marketing. The company primarily leverages mass online marketing (blogs, product and industry content) and word of mouth to reach IT professionals. It complements this strategy with self-serve, full-featured trials and downloads, which helps potential customers to evaluate the solutions vs. their needs. SolarWinds also maintains a large online community of IT pros called THWACK, with 150k+ registered members. If needed by the customer, its marketing department also helps with lead qualification before sales gets involved. This is different from the traditional enterprise software sales model where marketing is primarily responsible for lead generation and sales handles lead qualification and deal close. We believe this provides some efficiencies in both marketing and sales for SolarWinds, as sales is only working on well-qualified leads through the close process.

### Low-touch, High-Velocity Sales (“Selling From the Inside”)

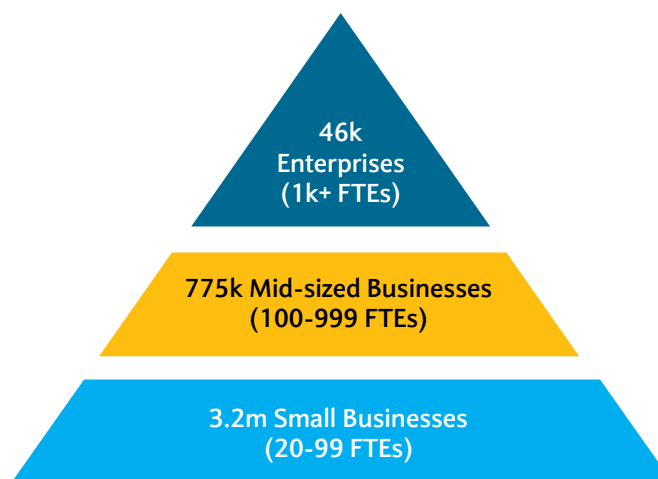
SolarWinds has a unique “sell from the inside” sales approach. The company uses a standards-driven sales process to manage leads from marketing and efficiently sell its products under standard pricing and contract terms. The company does not use outside or field sales reps (no “wining and dining” with CIOs) and also does not have a professional services organization. This creates less friction in the sales process and leads to high-velocity, low-touch sales cycles. While SolarWinds has employed this sales model for the last decade, we note that the company’s sales team is structured a bit differently than it used to be in 2009 when it first went public. While in 2009, the company’s sales reps had no division of responsibilities, now the sales team is divided into categories such as download/trial reps, install base reps, sales engineers and renewal reps (still selling from the inside though). This is based on driving some synergies for the company’s land and expand motion.

### Covering the Entire Market – SMBs to Enterprises

Finally, we highlight that SolarWinds sells to the entire spectrum of organizations, whether SMBs or large enterprises. The company’s solutions are powerful and scalable for the enterprise, while being easy to deploy/use and affordable for the smaller businesses. The company has discussed that it currently addresses the needs of 4m+ organizations globally, including 46k enterprises (see figure below).

FIGURE 18

#### SolarWinds Addressable Customer Base



Source: Company materials, Barclays Research

## FINANCIAL PROFILE

## Income Statement

In this section, we provide a breakout of the various components that make up the company's income statement, while also providing the details behind our analysis and any forward-looking thoughts.

FIGURE 19  
SolarWinds Income Statement

USD, m	FY2016A	FY2017A	1Q18A	2Q18A	3Q18E	4Q18E	FY2018E	1Q19E	2Q19E	3Q19E	4Q19E	FY2019E	FY2020E	FY2021E	FY2022E
<b>Total Billings</b>		<b>785.1</b>	<b>210.8</b>	<b>204.7</b>	<b>220.4</b>	<b>239.2</b>	<b>875.1</b>	<b>233.3</b>	<b>224.3</b>	<b>243.0</b>	<b>265.0</b>	<b>965.6</b>	<b>1,073.1</b>	<b>1,187.1</b>	<b>1,306.8</b>
y/y growth			8.8%	12.3%	10.7%	14.0%	11.5%	10.7%	9.6%	10.3%	10.8%	10.3%	11.1%	10.6%	10.1%
q/q growth			0.5%	-2.9%	7.7%	8.5%		-2.5%	-3.9%	8.3%	9.1%				
License & Maintenance Revenue	490.1	525.8	134.7	137.3	141.1	148.3	561.3	143.3	146.7	151.9	160.1	601.9	643.7	681.8	717.8
y/y growth	0.0%	7.3%	9.4%	8.8%	4.2%	5.1%	6.8%	6.4%	6.8%	7.7%	7.9%	7.2%	6.9%	5.9%	5.3%
q/q growth	0.0%	0.0%	-4.6%	2.0%	2.7%	5.1%	0.0%	-3.4%	2.4%	3.5%	5.4%	0.0%	0.0%	0.0%	0.0%
% total	77.7%	71.0%	67.9%	67.7%	68.0%	68.3%	68.0%	66.2%	65.5%	65.1%	65.1%	65.5%	62.5%	59.5%	56.5%
Subscription Revenue	140.7	215.2	63.7	65.6	66.4	68.9	264.5	73.0	77.2	81.4	86.0	317.6	386.1	464.5	552.5
y/y growth	0.0%	52.9%	29.5%	26.9%	19.1%	17.4%	22.9%	14.7%	17.7%	22.6%	24.8%	20.1%	21.6%	20.3%	18.9%
q/q growth	0.0%	0.0%	8.6%	3.0%	1.2%	3.8%	0.0%	6.0%	5.8%	5.4%	5.6%	0.0%	0.0%	0.0%	0.0%
% total	22.3%	29.0%	32.1%	32.3%	32.0%	31.7%	32.0%	33.8%	34.5%	34.9%	34.9%	34.5%	37.5%	40.5%	43.5%
<b>Total Revenue</b>	<b>630.8</b>	<b>741.0</b>	<b>198.4</b>	<b>202.8</b>	<b>207.4</b>	<b>217.2</b>	<b>825.8</b>	<b>216.3</b>	<b>223.9</b>	<b>233.2</b>	<b>246.0</b>	<b>919.4</b>	<b>1,029.8</b>	<b>1,146.3</b>	<b>1,270.3</b>
y/y growth		17.5%	15.1%	14.0%	8.6%	8.7%	11.4%	9.0%	10.4%	12.4%	13.3%	11.3%	12.0%	11.3%	10.8%
q/q growth			-0.7%	2.2%	2.3%	4.7%		-0.4%	3.5%	4.2%	5.5%				
Cost of Revenue	48.8	60.3	16.8	17.6	17.2	17.6	69.2	18.4	19.0	19.8	19.9	77.2	86.2	97.4	108.0
% margin	92.3%	91.9%	91.5%	91.3%	91.7%	91.9%	91.6%	91.5%	91.5%	91.5%	91.9%	91.6%	91.6%	91.5%	91.5%
y/y growth	0.0%	23.6%	16.9%	16.3%	14.1%	11.9%	14.8%	9.4%	8.1%	15.1%	13.3%	11.5%	11.7%	13.0%	10.8%
q/q growth	0.0%	0.0%	6.9%	4.7%	-2.2%	2.2%	0.0%	4.5%	3.5%	4.2%	0.5%	0.0%	0.0%	0.0%	0.0%
<b>Gross Profit, Non-GAAP</b>	<b>582.0</b>	<b>680.7</b>	<b>181.6</b>	<b>185.2</b>	<b>190.2</b>	<b>199.6</b>	<b>756.6</b>	<b>197.9</b>	<b>204.9</b>	<b>213.4</b>	<b>226.1</b>	<b>842.3</b>	<b>943.5</b>	<b>1,048.9</b>	<b>1,162.4</b>
% Margin	92.3%	91.9%	91.5%	91.3%	91.7%	91.9%	91.6%	91.5%	91.5%	91.5%	91.9%	91.6%	91.6%	91.5%	91.5%
y/y growth	0.0%	0.0%	15.0%	13.8%	8.1%	8.4%	0.0%	9.0%	10.6%	12.2%	13.3%	0.0%	0.0%	0.0%	0.0%
Sales and marketing	170.3	201.6	51.9	55.7	55.8	56.5	219.9	59.0	58.2	61.3	64.0	242.6	269.9	299.3	329.2
% Margin	27.0%	27.2%	26.2%	27.5%	26.9%	26.0%	26.6%	27.3%	26.0%	26.3%	26.0%	26.4%	26.2%	26.1%	25.9%
y/y growth	0.0%	18.4%	7.1%	9.9%	12.1%	7.3%	9.1%	13.7%	4.5%	9.9%	13.3%	10.3%	11.3%	10.9%	10.0%
Research and development	67.0	82.4	23.8	23.1	23.0	23.9	93.8	25.5	25.1	25.7	26.6	102.8	114.6	125.6	139.2
% Margin	10.6%	11.1%	12.0%	11.4%	11.1%	11.0%	11.4%	11.8%	11.2%	11.0%	10.8%	11.2%	11.1%	11.0%	11.0%
y/y growth	0.0	0%	19%	11%	19.0%	7.5%	13.9%	7.3%	8.6%	11.4%	11.2%	9.6%	11.5%	9.6%	10.9%
General and Administrative	40.8	49.5	15.4	16.1	14.3	14.1	59.9	16.2	17.5	16.3	16.0	66.0	71.9	77.2	83.2
% Margin	6.5%	6.7%	7.7%	7.9%	6.9%	6.5%	7.3%	7.5%	7.8%	7.0%	6.5%	7.2%	7.0%	6.7%	6.6%
y/y growth		21%	15%	29%	32.1%	10.2%	21.1%	5.6%	8.5%	14.1%	13.3%	10.2%	8.9%	7.3%	7.9%
<b>Operating Profit (loss)</b>	<b>303.8</b>	<b>347.3</b>	<b>90.5</b>	<b>90.4</b>	<b>97.1</b>	<b>105.1</b>	<b>383.1</b>	<b>97.1</b>	<b>104.1</b>	<b>110.1</b>	<b>119.6</b>	<b>430.9</b>	<b>487.1</b>	<b>546.8</b>	<b>610.7</b>
% Margin	48.2%	46.9%	45.6%	44.6%	46.8%	48.4%	46.4%	44.9%	46.5%	47.2%	48.6%	46.9%	47.3%	47.7%	48.1%
<b>Adjusted EBITDA</b>	<b>315.1</b>	<b>361.9</b>	<b>95.1</b>	<b>94.1</b>	<b>101.1</b>	<b>109.1</b>	<b>399.3</b>	<b>101.2</b>	<b>108.0</b>	<b>114.1</b>	<b>124.0</b>	<b>447.4</b>	<b>504.3</b>	<b>564.8</b>	<b>629.5</b>
% Margin	50.0%	48.8%	47.9%	46.4%	48.7%	50.2%	48.4%	46.8%	48.3%	48.9%	50.4%	48.7%	49.0%	49.3%	49.6%
y/y growth		14.8%	19.2%	13.7%	1.8%	9.0%	10.4%	6.4%	14.9%	12.9%	13.7%	12.0%	12.7%	12.0%	11.4%
Interest income / expense	(170.4)	(169.8)	(42.1)	(34.4)	(34.4)	(29.5)	(140.4)	(29.5)	(29.5)	(29.5)	(29.5)	(118.2)	(118.2)	(118.2)	(118.2)
Other Income / (expense)	(57.2)	38.7	(48.1)	(26.3)	(10.0)	(10.0)	(94.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax expense	(149.8)	22.4	(8.4)	(11.6)	11.9	14.8	6.7	15.2	16.8	18.1	20.3	70.4	83.0	96.4	110.8
Effective Tax Rate	-196.6%	10.4%	-3342.8%	-38.9%	22.5%	22.5%	4.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
<b>Net Income (loss) Non-GAAP</b>	<b>226.0</b>	<b>193.7</b>	<b>8.6</b>	<b>41.2</b>	<b>40.8</b>	<b>50.8</b>	<b>141.5</b>	<b>52.4</b>	<b>57.8</b>	<b>62.4</b>	<b>69.8</b>	<b>242.3</b>	<b>285.9</b>	<b>332.2</b>	<b>381.7</b>
% Margin	35.8%	26%	4%	20%	20%	23%	17%	24%	26%	27%	28%	26%	28%	29%	30%
FDSO (millions)															
<b>Net Income (loss) per share</b>	<b>\$ -</b>	<b>\$ 0.61</b>	<b>\$ 0.03</b>	<b>\$ 0.13</b>	<b>\$ 0.13</b>	<b>\$ 0.16</b>	<b>\$ 0.44</b>	<b>\$ 0.16</b>	<b>\$ 0.18</b>	<b>\$ 0.19</b>	<b>\$ 0.22</b>	<b>\$ 0.75</b>	<b>\$ 0.88</b>	<b>\$ 1.01</b>	<b>\$ 1.15</b>

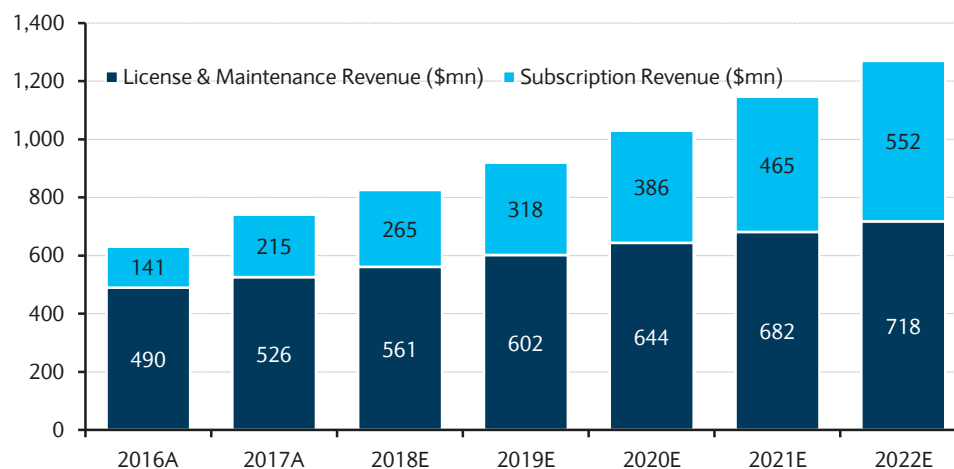
Source: Company Data, Barclays Research

Of SolarWinds' three broad product segments – Core IT products (on-premise) are license/maintenance based-revenue streams, while Cloud and MSP products are subscription-based. The company combines license and maintenance revenue on its reported income statement, while subscription revenue is reported separately.

## Revenue Build

Below is a breakout of the various components that make up the company's revenue segment and how we built our revenue forecasts.

FIGURE 20  
SolarWinds Revenue Profile



Source: Company Data, Barclays Research

### License Revenue

While SolarWinds will not be breaking out license vs. maintenance revenue on its reported income statement going forward, we have the historical license revenues from the company, along with some visibility into license revenue growth trajectory. The company's license revenue is a mature revenue stream and we are modelling low single-digits (0-3%) growth in our projections.

### Maintenance Revenue

We build maintenance revenues by adding up the two components below.

- **New Maintenance Revenue:** We calculate new maintenance revenue by multiplying the average of trailing four quarters' license revenue by the ratio of new maintenance to license revenue. For SolarWinds, this ratio is close to 41% as SolarWinds recognizes 29% of new license booking as recurring maintenance (so basically  $41\% = 29\% / 71\%$ ).
- **Renewal Maintenance Revenue:** We model maintenance renewal rates of 92-94% to get renewal revenue off last year's total maintenance revenue.

### Subscription Revenue

We build subscription revenue (cloud+MSP) using the below methodology.

- **New Subscription Customer Revenue:** We build a subscription customer waterfall using 57k subscription customer count as of 2Q18, and 2.5% quarterly churn. We then use our estimate of average new ACV per new customer to get new subscription customer revenue in a period. We note that management expects average ACV per new customer to keep trending up.
- **Existing Subscription Customer Revenue:** We use subscription net retention rate of ~105% to calculate renewal subscription revenue.

Based on the above methodology, we estimate mid to high-single digits license and maintenance revenue growth, along with low 20% subscription revenue growth in the projected period. This results in low double-digit overall revenue growth for the company through FY22.

### Cost of Revenue and Gross Margin

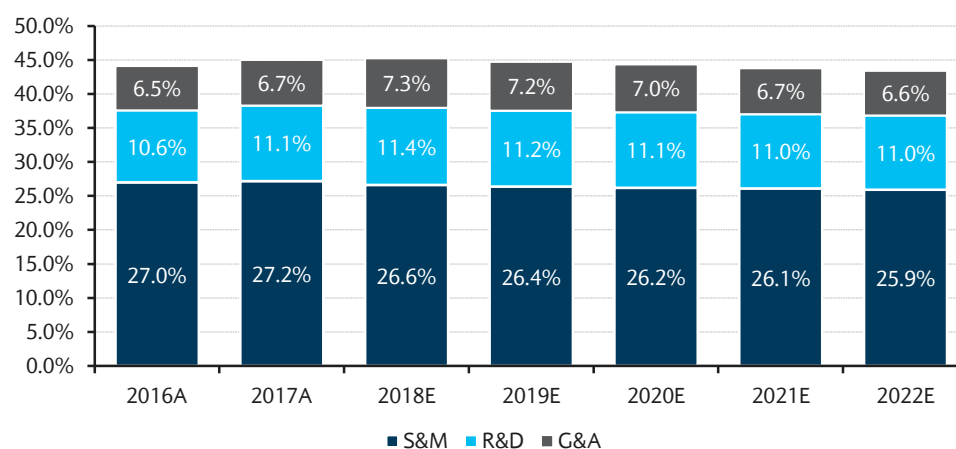
As discussed earlier, SolarWinds has a very efficient support model, which results in best-in-class gross margins of ~92% for the company. We model gross margins to be relatively stable going forward. We note that the company doesn't break out cost of revenue into cost of maintenance vs. subscription.

### Operating Expenses and Margin

Below, we discuss various components of the company's operating expenses.

FIGURE 21

#### Operating Expenses as % of Revenue



Source: Company Data, Barclays Research

#### Sales & Marketing

We estimate the company's S&M expenses to grow at a slower pace than its top-line, resulting in a steady decline in S&M as a percentage of revenues in the projected period (we are modelling 10-20bps of improvement annually). We estimate S&M as a percentage of revenue will decline from 27.2% in 2017 to 25.9% in 2022E.

#### Research & Development

We note that the company continues to invest in R&D, and also we would expect some efficiencies in the R&D organization going forward. As such, we model relatively stable R&D expense as a percentage of revenue in the projected period.

#### General & Administrative

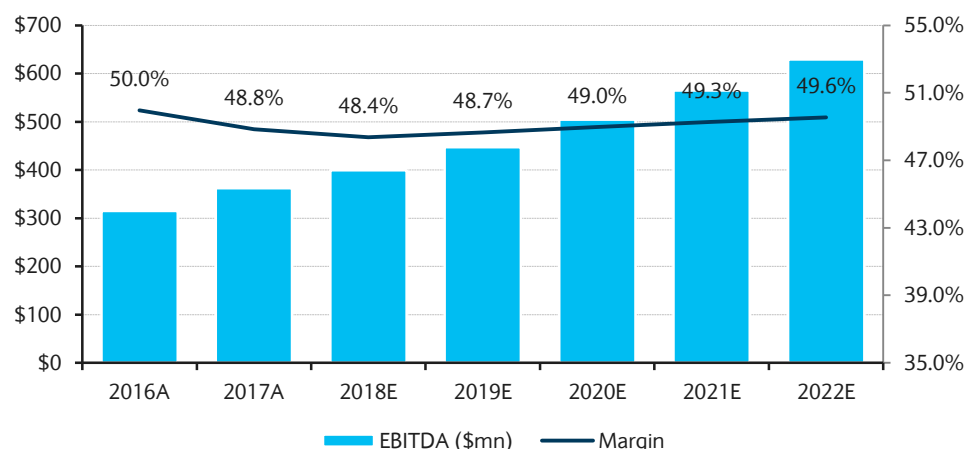
We expect high single-digit growth for G&A expenses in the projected period (vs. low double-digit revenue growth), which results in G&A expenses declining to 6.6% of total revenue by FY2022E vs. 7.3% for FY18E.

### Best-in-Class EBITDA Margins

Based on the company's strong gross margins and efficient operating expense model, SolarWinds has been delivering best-in-class EBITDA margins while sustaining solid top-line growth. We note that only Oracle in our coverage has similarly strong EBITDA margins (45%+). While SolarWinds has already quite robust EBITDA margins, which somewhat restricts potential for margin expansion, we believe the company should be expected to

deliver 25-40bps of EBITDA margin expansion based on better revenue growth vs. operating expense growth in the projected period.

FIGURE 22

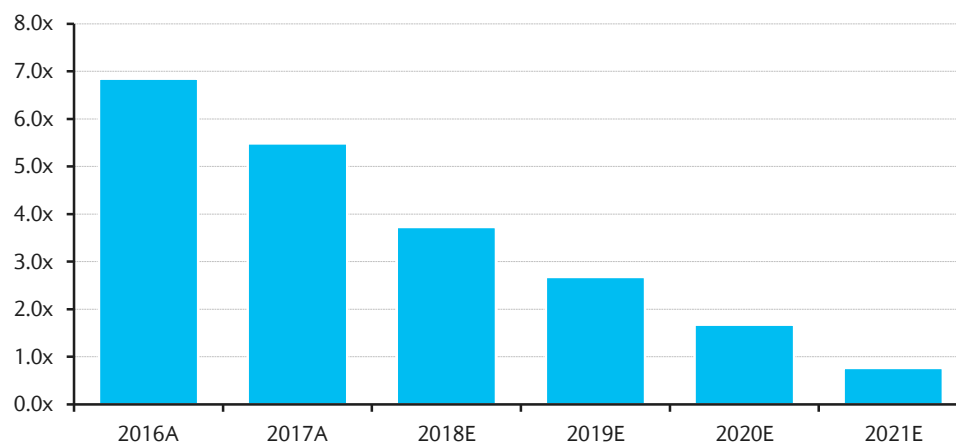
**SolarWinds EBITDA and EBITDA Margin**

Source: Company Data, Barclays Research

## Balance Sheet

SolarWinds had cash and equivalents of \$278mn and total debt of \$2.2bn as of 2Q18. Its debt included a 1<sup>st</sup> lien term loan of \$1.9bn and a 2<sup>nd</sup> lien term loan of \$315mn, resulting in net debt of \$1.96bn prior to the IPO (LTM net leverage ratio of 5x). The company is expected to use a portion of its IPO proceeds to pay off its 2<sup>nd</sup> lien term loan. We expect the company to be at ~4x net leverage ratio by the end of FY18 and ~3x by FY19 based on cash generation and EBITDA growth. This compares to its 7x net leverage ratio by the end of FY16. We show the expected evolution of the company's net leverage ratio in the figure below.

FIGURE 23

**SolarWinds Net Leverage Trajectory (Net Debt/LTM EBITDA)**

Source: Company Data, Barclays Research

Next, we show our projected balance sheet for the company.

FIGURE 24

## SolarWinds Balance Sheet

USD, m	FY2016A	FY2017A	1Q18A	2Q18A	3Q18E	4Q18E	FY2018E	FY2019E	FY2020E	FY2021E	FY2022E
<b>Assets</b>											
Cash, equivalents and ST investments	103.6	277.7	223.5	278.1	325.8	434.6	434.6	725.9	1,079.7	1,491.4	1,961.0
Cash, cash equivalents	101.6	277.7	223.5	278.1	325.8	434.6	434.6	725.9	1,079.7	1,491.4	1,961.0
Short term investments	2.0	-	-	-	-	-	-	-	-	-	-
Accounts receivable	80.4	85.1	87.4	83.9	83.5	83.1	83.1	91.5	98.7	91.6	73.5
Income tax receivable	36.2	1.7	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	19.3	24.3	15.9	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
<b>Total Current Assets</b>	<b>239.6</b>	<b>388.9</b>	<b>328.9</b>	<b>378.4</b>	<b>425.7</b>	<b>534.1</b>	<b>534.1</b>	<b>833.9</b>	<b>1,194.8</b>	<b>1,599.5</b>	<b>2,050.9</b>
Property and equipment, net	37.2	34.2	35.5	37.7	36.8	36.1	36.1	35.9	35.1	34.3	33.4
Long-term investments	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	1.7	4.4	4.5	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Goodwill	3,533.4	3,695.6	3,735.7	3,670.4	3,670.4	3,670.4	3,670.4	3,670.4	3,670.4	3,670.4	3,670.4
Intangible assets, net	1,377.7	1,194.5	1,150.3	1,071.9	1,019.0	968.7	968.7	763.2	577.8	413.7	272.7
Other assets	13.1	9.4	11.3	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
<b>Total Assets</b>	<b>5,202.7</b>	<b>5,327.1</b>	<b>5,266.3</b>	<b>5,173.6</b>	<b>5,167.2</b>	<b>5,224.5</b>	<b>5,224.5</b>	<b>5,318.6</b>	<b>5,493.3</b>	<b>5,733.1</b>	<b>6,042.6</b>
<b>Liabilities</b>											
Accounts payable	9.0	9.7	6.1	10.7	11.3	11.9	11.9	13.5	16.3	18.2	21.7
Accrued liabilities	53.7	39.6	38.2	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0
Accrued Interest Payable	-	11.6	1.1	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Income taxes payable	1.2	9.0	7.9	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Current portion of deferred revenue	204.7	241.5	250.2	251.4	263.1	283.2	283.2	325.1	364.7	401.8	435.1
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
<b>Total Current Liabilities</b>	<b>285.7</b>	<b>328.4</b>	<b>323.4</b>	<b>330.3</b>	<b>342.6</b>	<b>363.3</b>	<b>363.3</b>	<b>406.7</b>	<b>449.2</b>	<b>488.2</b>	<b>524.9</b>
Deferred revenue, net of current portion	13.0	20.3	24.1	24.7	26.0	27.9	27.9	32.2	35.9	39.6	42.8
Non-current deferred taxes	264.7	167.5	169.1	153.4	153.4	153.4	153.4	189.4	232.0	272.0	312.0
Other long-term liabilities	36.6	148.1	137.7	141.4	141.4	141.4	141.4	141.4	141.4	141.4	141.4
LT debt, net of current portion	2,242.9	2,245.6	2,221.1	2,218.7	2,218.7	1,903.7	1,903.7	1,903.7	1,903.7	1,903.7	1,903.7
<b>Total Liabilities</b>	<b>2,842.8</b>	<b>2,909.94</b>	<b>2,875.3</b>	<b>2,868.5</b>	<b>2,882.0</b>	<b>2,589.6</b>	<b>2,589.60</b>	<b>2,673.37</b>	<b>2,762.17</b>	<b>2,844.80</b>	<b>2,924.84</b>
<b>Equity</b>											
Common Stock											
Convertible Common Stock A	2,879.5	3,146.9	3,216.7	3,288.9	3,288.9	-	-	-	-	-	-
Common Stock Class B	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Additional paid-in capital	-	-	-	-	-	3,646.2	3,646.2	3,646.2	3,646.2	3,646.2	3,646.2
Accumulated other comprehensive loss	(66.0)	75.3	108.6	49.7	49.7	49.7	49.7	49.7	49.7	49.7	49.7
Accumulated Earnings	(453.7)	(805.2)	(934.5)	(1,033.6)	(1,053.6)	(1,061.1)	(1,061.1)	(1,050.8)	(964.9)	(807.7)	(578.2)
<b>Total Equity</b>	<b>2,359.9</b>	<b>2,417.1</b>	<b>2,390.9</b>	<b>2,305.2</b>	<b>2,285.1</b>	<b>2,634.9</b>	<b>2,634.9</b>	<b>2,645.2</b>	<b>2,731.1</b>	<b>2,888.3</b>	<b>3,117.7</b>
<b>Total Liabilities + Equity</b>	<b>5,202.7</b>	<b>5,327.1</b>	<b>5,266.3</b>	<b>5,173.6</b>	<b>5,167.2</b>	<b>5,224.5</b>	<b>5,224.5</b>	<b>5,318.6</b>	<b>5,493.3</b>	<b>5,733.1</b>	<b>6,042.6</b>

Source: Company Data, Barclays Research

## Statement of Cash Flows

Below we show our projected cash flow statement and discuss the company's unlevered free cash flow trajectory.

FIGURE 25

## SolarWinds Cash Flows

USD, m	FY2016A	FY2017A	1Q18A	2Q18A	3Q18E	4Q18E	FY2018E	FY2019E	FY2020E	FY2021E	FY2022E
Net Income	(334.4)	(83.9)	(59.9)	(27.0)	(20.1)	(7.6)	(114.7)	9.8	85.2	156.5	228.6
Adjustments from Operating Activities											
Depreciation and amortization	219.2	250.9	65.2	64.4	57.4	54.8	241.8	223.9	204.7	184.0	161.7
Provision for Doubtful Accounts	1.8	2.5	0.4	0.7	-	-	1.2	-	-	-	-
Stock-based compensation expense	87.8	0.1	0.0	0.1	0.1	0.1	0.4	0.6	0.6	0.7	0.8
Accrued earnout gain	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	18.8	18.9	4.2	2.5	-	-	6.7	-	-	-	-
Loss on extinguishment of debt	22.8	18.6	60.6	-	-	-	60.6	-	-	-	-
Deferred taxes	(126.6)	(101.5)	1.5	(14.5)	-	-	(13.1)	36.0	42.6	40.0	40.0
(Gain) loss on foreign currency exchange rates	32.4	(54.9)	(13.5)	26.1	-	-	12.5	-	-	-	-
Other non-cash expenses	0.9	(3.8)	0.6	0.8	-	-	1.3	-	-	-	-
Adjustments to working capital items											
Accounts receivable	(13.4)	(2.4)	(0.6)	0.8	0.4	0.4	0.9	(8.4)	(7.2)	7.0	18.2
Income taxes receivable	(35.0)	35.0	(0.3)	(0.1)	-	-	(0.4)	-	-	-	-
Prepaid and other current assets	(4.2)	6.2	(3.5)	1.4	-	-	(2.1)	-	-	-	-
Accounts payable	(5.7)	0.3	(3.8)	4.7	0.6	0.5	2.1	1.6	2.9	1.9	3.5
Accrued liabilities and other	28.1	(7.5)	(2.0)	5.9	-	-	4.0	-	-	-	-
Accrued Interest Payable	-	0.6	(10.6)	(0.3)	-	-	(10.9)	-	-	-	-
Income taxes payable	4.4	119.6	(12.1)	(3.6)	-	-	(15.8)	-	-	-	-
Deferred revenue	194.1	34.0	9.5	6.5	12.9	22.0	51.0	46.2	43.3	40.8	36.5
Other long-term liabilities	(0.6)	0.0	(0.2)	2.4	-	-	2.1	-	-	-	-
<b>Cash from operations</b>	<b>90.2</b>	<b>232.7</b>	<b>35.4</b>	<b>70.8</b>	<b>51.4</b>	<b>70.2</b>	<b>227.7</b>	<b>309.6</b>	<b>372.1</b>	<b>430.9</b>	<b>489.3</b>
y/y growth	-	158.1%	-6.1%	21.9%	27.7%	-27.5%	-2.1%	36.0%	20.2%	15.8%	13.6%
Purchases of investments	(2.0)	-	-	-	-	-	-	-	-	-	-
Maturities of investments	22.8	2.0	-	-	-	-	-	-	-	-	-
Purchase of PPE	(7.8)	(7.6)	(2.9)	(6.3)	(3.1)	(3.3)	(15.6)	(16.3)	(16.5)	(17.2)	(17.8)
Purchase of intangible assets and other LT	(3.5)	(4.8)	(0.8)	(0.5)	(0.5)	(0.5)	(2.3)	(2.0)	(2.0)	(2.0)	(2.0)
Acquisition of businesses, net cash	(507.5)	(24.0)	(13.0)	-	-	-	(13.0)	-	-	-	-
Acquisitio of SolarWinds, net cash	(4,335.1)	-	-	-	-	-	-	-	-	-	-
Other investing activities	-	-	10.7	-	-	-	10.7	-	-	-	-
<b>Cash from investing activities</b>	<b>(4,833.0)</b>	<b>(34.4)</b>	<b>(6.0)</b>	<b>(6.8)</b>	<b>(3.6)</b>	<b>(3.7)</b>	<b>(20.2)</b>	<b>(18.2)</b>	<b>(18.4)</b>	<b>(19.1)</b>	<b>(19.7)</b>
<b>Cash from financing activities</b>	<b>4,897.3</b>	<b>(35.4)</b>	<b>(85.3)</b>	<b>(4.4)</b>	<b>-</b>	<b>42.3</b>	<b>(47.4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
FX impact	0.0	13.1	1.7	(5.0)	-	-	(3.3)	-	-	-	-
<b>Net change in cash</b>	<b>154.4</b>	<b>176.1</b>	<b>(54.2)</b>	<b>54.6</b>	<b>47.8</b>	<b>108.7</b>	<b>156.8</b>	<b>291.4</b>	<b>353.7</b>	<b>411.8</b>	<b>469.6</b>
Cash at Beginning of period	196.9	101.6	277.7	223.5	278.1	325.8	277.7	434.6	725.9	1,079.7	1,491.4
Cash at End of period	101.6	277.7	223.5	278.1	325.8	434.6	434.6	725.9	1,079.7	1,491.4	1,961.0
<b>Free Cash Flow</b>	<b>78.9</b>	<b>220.3</b>	<b>31.6</b>	<b>64.0</b>	<b>47.8</b>	<b>66.5</b>	<b>209.8</b>	<b>291.4</b>	<b>353.7</b>	<b>411.8</b>	<b>469.6</b>
<b>uFCF</b>		<b>311.8</b>	<b>76.7</b>	<b>95.4</b>	<b>80.7</b>	<b>95.8</b>	<b>348.6</b>	<b>402.9</b>	<b>453.2</b>	<b>507.6</b>	<b>565.9</b>
% conversion		86.2%	80.7%	101.5%	79.9%	87.8%	87.3%	90.0%	89.9%	89.9%	89.9%
y/y growth			11.1%	12.9%	21.1%	4.5%	11.8%	15.6%	12.5%	12.0%	11.5%

Source: Company Data, Barclays Research

SolarWinds generated ~\$312mn of uFCF in FY17, which represented 86% of adj. EBITDA and 42% of total revenue. Management has discussed that uFCF conversion (uFCF as a percentage of EBITDA) should tick up to ~90% based on the below factors.

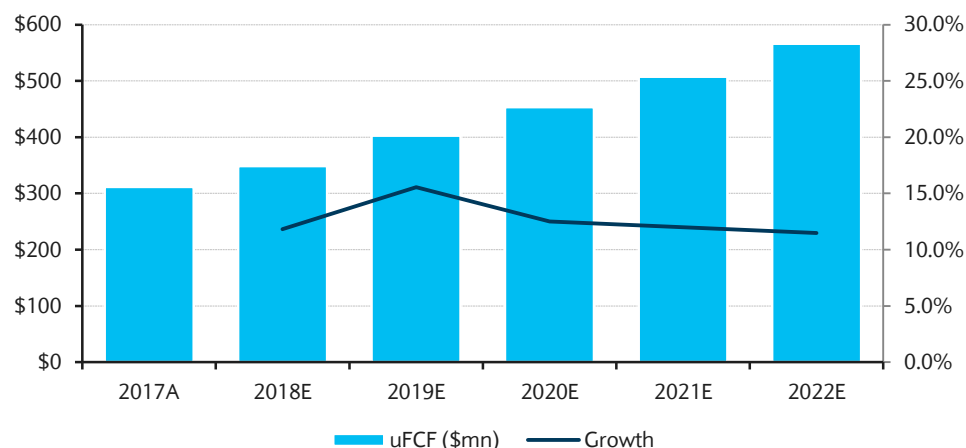
- Slower capex growth relative to EBITDA growth
- Effective net working capital management
- Expected increase in average billing term for subscription billings

Based on the uptick in uFCF conversion, we are modelling 15.6% uFCF growth for FY19 (vs. 12% EBITDA growth in that year). We show the company's uFCF growth trajectory in the figure below.



FIGURE 26

## SolarWinds Unleveraged Free Cash Flow and Growth



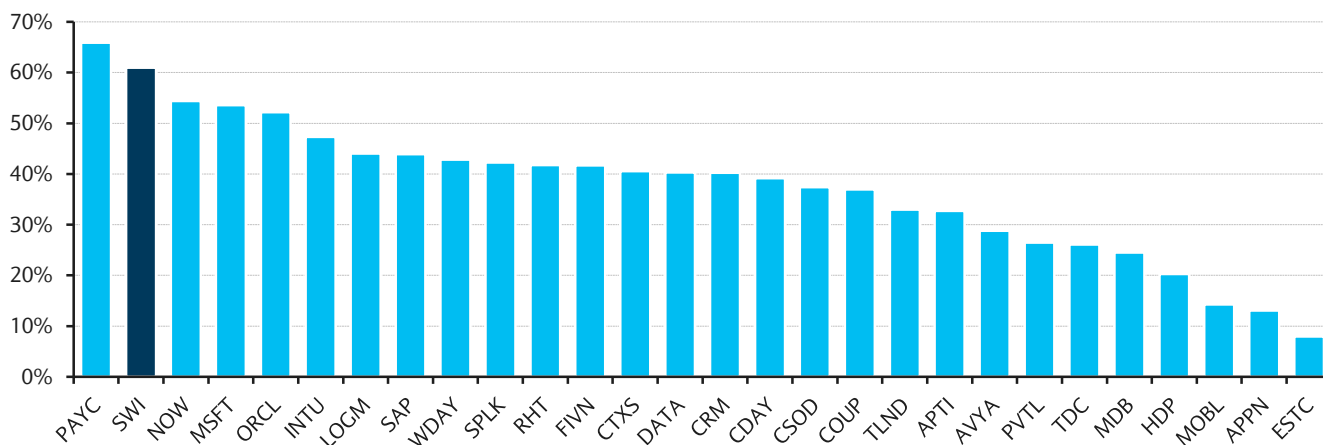
Source: Company Data, Barclays Research

## Valuation Framework – Healthy Combination of Growth and Profitability, but Fairly Valued; Initiate at EW

SolarWinds has a differentiated financial profile with solid double-digit revenue growth at scale, along with strong EBITDA and cash flow margins. In the chart below, we can see that SolarWinds ranks second (after Paycom) in our coverage in terms of the combination of top-line growth and profitability.

FIGURE 27

## Revenue Growth + EBITDA Margin (CY20E)



Source: Barclays Research

While we would expect healthy execution from SolarWinds going forward, we see limited upside to its financial profile and our projected estimates, especially its best-in-class margins. To come up with a fair valuation for the company, we believe the below two set of comparables make sense.

- **Low Friction Sales Model:** Given SolarWinds' low-touch, high-velocity go-to-market model, we compare the company to other software vendors with low friction sales models (GDDY, ADBE, LOGM, INTU, DBX).

- **Infrastructure Software:** We also compare SolarWinds to other established enterprise infrastructure software vendors (PANW, QLYS, FTNT, VMW, CVLT, CTXS, CHKP).

Below, we show trading and valuation metrics for these comparables and SolarWinds.

FIGURE 28  
SolarWinds Comparables

	Trading and Valuation Metrics								
	Price (\$)	Market Cap. (\$mn)	Enterprise Value (\$mn)	Revenue Growth		FCF Growth		EV/FCF	
				CY19	CY20	CY19	CY20	CY19	CY20
<b>Low Friction Sales Model</b>									
GoDaddy	64.46	11,932	13,773	12.2%	11.2%	18.7%	17.0%	19.5x	16.7x
Adobe	244.84	122,034	118,990	19.6%	16.3%	20.7%	17.4%	25.8x	22.0x
LogMeIn	84.94	4,546	4,563	4.3%	6.1%	4.8%	10.0%	11.9x	10.8x
Intuit	222.17	59,612	58,443	10.7%	10.1%	13.6%	5.8%	27.1x	25.6x
Dropbox	25.55	11,501	10,679	15.9%	14.1%	28.5%	20.9%	26.8x	22.2x
<b>Low Friction Sales Model Average</b>	<b>128.39</b>	<b>41,925</b>	<b>41,289</b>	<b>12.5%</b>	<b>11.5%</b>	<b>17.2%</b>	<b>14.2%</b>	<b>22.2x</b>	<b>19.4x</b>
<b>Infrastructure Software</b>									
Palo Alto Networks	183.09	18,703	17,020	21.1%	18.4%	20.0%	17.0%	14.6x	12.5x
Qualys	74.53	3,185	2,801	18.5%	19.0%	19.6%	25.0%	23.8x	19.1x
Fortinet	74.73	13,445	11,946	14.8%	13.4%	11.7%	25.0%	19.0x	15.2x
VMware	150.82	64,423	55,393	8.5%	7.2%	11.0%	4.0%	15.4x	14.8x
Commvault	59.44	2,870	2,408	7.0%	9.0%	19.2%	22.2%	22.4x	18.3x
Citrix	107.01	15,257	15,110	4.2%	5.4%	2.8%	4.5%	15.2x	14.5x
Checkpoint Software	112.64	18,189	14,148	4.4%	4.5%	0.3%	4.4%	13.0x	12.5x
<b>Infrastructure Software Average</b>	<b>108.89</b>	<b>19,439</b>	<b>16,975</b>	<b>11.2%</b>	<b>11.0%</b>	<b>12.1%</b>	<b>14.6%</b>	<b>17.6x</b>	<b>15.3x</b>
<b>Comps Average (ex. SolarWinds)</b>	<b>108.02</b>	<b>26,592</b>	<b>25,021</b>	<b>10.8%</b>	<b>10.4%</b>	<b>13.1%</b>	<b>13.3%</b>	<b>18.0x</b>	<b>15.7x</b>
<b>SolarWinds @ Current Px</b>	<b>15.07</b>	<b>4,824</b>	<b>6,433</b>	<b>11.3%</b>	<b>12.0%</b>	<b>15.6%</b>	<b>12.5%</b>	<b>16.0x</b>	<b>14.2x</b>
<b>SolarWinds @ \$16 PT</b>	<b>16.00</b>	<b>5,122</b>	<b>6,731</b>	<b>11.3%</b>	<b>12.0%</b>	<b>15.6%</b>	<b>12.5%</b>	<b>16.7x</b>	<b>14.9x</b>

Source: Company Data, Barclays Research. All estimates other than for SolarWinds are consensus estimates from Thomson Eikon. Data as of 11/9/18.

We value SolarWinds on an unlevered free cash flow (uFCF) basis given its mature financial profile. The company currently trades on 14x CY20E uFCF, which we believe is relatively fair considering SolarWinds' financial profile and FCF growth trajectory going forward (low-teens FCF CAGR expected in the next few years). Hence, we are initiating SolarWinds with an Equal Weight rating and a price target of \$16, which is based on 15x CY20E uFCF (in line with other mature infrastructure software vendors such as VMW and CTXS) and CY20E uFCF of \$453mn.

## POTENTIAL RISKS

### Risks to Investment Thesis

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There are several key risks that we believe investors should be aware of as SolarWinds looks to sustain double-digits top-line growth, while delivering some level of EBITDA margin expansion. We believe that the following factors could potentially hinder the company's prospects.

#### **Fragmented and Highly Competitive Market Landscape**

SolarWinds operates in a highly competitive environment. Some of the company's larger size competitors (IBM, Micro Focus, BMC, etc.) may be able to leverage their scale and respond more effectively to new or changing opportunities, technologies or standards. Also the smaller point solution vendors may be more nimble in addressing customer requirements.

#### **Digital Marketing and Low-Touch Sales Model**

The company's low-touch, digital sales and marketing model may fail to drive sufficient volume of leads or conversions, which may put pressure on the growth trajectory for the company. The company may be required to modify or discontinue its existing marketing practices (in the event of a change to current privacy regulations), which could increase its marketing costs.

#### **High Debt Burden**

SolarWinds has meaningful indebtedness which may adversely impact the company's operations and ability to make strategic business decisions while meeting its debt obligations. As of June 30, 2018, the company had total debt of \$2.3bn and gross leverage ratio (total Debt/ adjusted EBITDA) of 5.8x.

#### **Financial Sponsors Hold Controlling Interests**

Silver Lake and Thoma Bravo will continue to own a significant stake in the company following the offering, and could exert significant influence over the company's operations and business strategy. This may delay or prevent proxy contests, mergers, tender offers, open market purchase programs, etc.

## MANAGEMENT TEAM

### **Kevin Thompson, CEO**

Thompson has been the President and CEO of SolarWinds since March 2010. He served as 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, Thompson was CFO of Surgient.

### **J. Barton Kalsu, CFO**

Kalsu joined SolarWinds in August 2007 as Chief Accountant and Vice President, Finance, and has been responsible for managing the company's financial operations since joining. Prior to joining the company, Kalsu worked for JPMorgan Chase Bank as Vice President, Commercial Banking.

### **Joe Kim, CTO**

Joe is responsible for the overall technology strategy, direction, and execution for SolarWinds. Previously, Kim was the General Manager of HP Enterprise's Transform business unit and the CTO for HP Software's Application Delivery Management (ADM) and ITOM businesses.

## FINANCIALS

FIGURE 29

## SolarWinds Income Statement

USD, m	FY2016A	FY2017A	1Q18A	2Q18A	3Q18E	4Q18E	FY2018E	1Q19E	2Q19E	3Q19E	4Q19E	FY2019E	FY2020E	FY2021E	FY2022E
<b>Total Billings</b>		<b>785.1</b>	<b>210.8</b>	<b>204.7</b>	<b>220.4</b>	<b>239.2</b>	<b>875.1</b>	<b>233.3</b>	<b>224.3</b>	<b>243.0</b>	<b>265.0</b>	<b>965.6</b>	<b>1,073.1</b>	<b>1,187.1</b>	<b>1,306.8</b>
y/y growth			8.8%	12.3%	10.7%	14.0%	11.5%	10.7%	9.6%	10.3%	10.8%	10.3%	11.1%	10.6%	10.1%
q/q growth			0.5%	-2.9%	7.7%	8.5%		-2.5%	-3.9%	8.3%	9.1%				
License & Maintenance Revenue	490.1	525.8	134.7	137.3	141.1	148.3	561.3	143.3	146.7	151.9	160.1	601.9	643.7	681.8	717.8
y/y growth	0.0%	7.3%	9.4%	8.8%	4.2%	5.1%	6.8%	6.4%	6.8%	7.7%	7.9%	7.2%	6.9%	5.9%	5.3%
q/q growth	0.0%	0.0%	-4.6%	2.0%	2.7%	5.1%	0.0%	-3.4%	2.4%	3.5%	5.4%	0.0%	0.0%	0.0%	0.0%
% total	77.7%	71.0%	67.9%	67.7%	68.0%	68.3%	68.0%	66.2%	65.5%	65.1%	65.1%	65.5%	62.5%	59.5%	56.5%
Subscription Revenue	140.7	215.2	63.7	65.6	66.4	68.9	264.5	73.0	77.2	81.4	86.0	317.6	386.1	464.5	552.5
y/y growth	0.0%	52.9%	29.5%	26.9%	19.1%	17.4%	22.9%	14.7%	17.7%	22.6%	24.8%	20.1%	21.6%	20.3%	18.9%
q/q growth	0.0%	0.0%	8.6%	3.0%	1.2%	3.8%	0.0%	6.0%	5.8%	5.4%	5.6%	0.0%	0.0%	0.0%	0.0%
% total	22.3%	29.0%	32.1%	32.3%	32.0%	31.7%	32.0%	33.8%	34.5%	34.9%	34.9%	34.5%	37.5%	40.5%	43.5%
<b>Total Revenue</b>	<b>630.8</b>	<b>741.0</b>	<b>198.4</b>	<b>202.8</b>	<b>207.4</b>	<b>217.2</b>	<b>825.8</b>	<b>216.3</b>	<b>223.9</b>	<b>233.2</b>	<b>246.0</b>	<b>919.4</b>	<b>1,029.8</b>	<b>1,146.3</b>	<b>1,270.3</b>
y/y growth		17.5%	15.1%	14.0%	8.6%	8.7%	11.4%	9.0%	10.4%	12.4%	13.3%	11.3%	12.0%	11.3%	10.8%
q/q growth			-0.7%	2.2%	2.3%	4.7%		-0.4%	3.5%	4.2%	5.5%				
Cost of Revenue	48.8	60.3	16.8	17.6	17.2	17.6	69.2	18.4	19.0	19.8	19.9	77.2	86.2	97.4	108.0
% margin	92.3%	91.9%	91.5%	91.3%	91.7%	91.9%	91.6%	91.5%	91.5%	91.5%	91.9%	91.6%	91.6%	91.5%	91.5%
y/y growth	0.0%	23.6%	16.9%	16.3%	14.1%	11.9%	14.8%	9.4%	8.1%	15.1%	13.3%	11.5%	11.7%	13.0%	10.8%
q/q growth	0.0%	0.0%	6.9%	4.7%	-2.2%	2.2%	0.0%	4.5%	3.5%	4.2%	0.5%	0.0%	0.0%	0.0%	0.0%
<b>Gross Profit, Non-GAAP</b>	<b>582.0</b>	<b>680.7</b>	<b>181.6</b>	<b>185.2</b>	<b>190.2</b>	<b>199.6</b>	<b>756.6</b>	<b>197.9</b>	<b>204.9</b>	<b>213.4</b>	<b>226.1</b>	<b>842.3</b>	<b>943.5</b>	<b>1,048.9</b>	<b>1,162.4</b>
% Margin	92.3%	91.9%	91.5%	91.3%	91.7%	91.9%	91.6%	91.5%	91.5%	91.5%	91.9%	91.6%	91.6%	91.5%	91.5%
y/y growth	0.0%	0.0%	15.0%	13.8%	8.1%	8.4%	0.0%	9.0%	10.6%	12.2%	13.3%	0.0%	0.0%	0.0%	0.0%
Sales and marketing	170.3	201.6	51.9	55.7	55.8	56.5	219.9	59.0	58.2	61.3	64.0	242.6	269.9	299.3	329.2
% Margin	27.0%	27.2%	26.2%	27.5%	26.9%	26.0%	26.6%	27.3%	26.0%	26.3%	26.0%	26.4%	26.2%	26.1%	25.9%
y/y growth	0.0%	18.4%	7.1%	9.9%	12.1%	7.3%	9.1%	13.7%	4.5%	9.9%	13.3%	10.3%	11.3%	10.9%	10.0%
Research and development	67.0	82.4	23.8	23.1	23.0	23.9	93.8	25.5	25.1	25.7	26.6	102.8	114.6	125.6	139.2
% Margin	10.6%	11.1%	12.0%	11.4%	11.1%	11.0%	11.4%	11.8%	11.2%	11.0%	10.8%	11.2%	11.1%	11.0%	11.0%
y/y growth	0.0	0%	19%	11%	19.0%	7.5%	13.9%	7.3%	8.6%	11.4%	11.2%	9.6%	11.5%	9.6%	10.9%
General and Administrative	40.8	49.5	15.4	16.1	14.3	14.1	59.9	16.2	17.5	16.3	16.0	66.0	71.9	77.2	83.2
% Margin	6.5%	6.7%	7.7%	7.9%	6.9%	6.5%	7.3%	7.5%	7.8%	7.0%	6.5%	7.2%	7.0%	6.7%	6.6%
y/y growth		21%	15%	29%	32.1%	10.2%	21.1%	5.6%	8.5%	14.1%	13.3%	10.2%	8.9%	7.3%	7.9%
<b>Operating Profit (loss)</b>	<b>303.8</b>	<b>347.3</b>	<b>90.5</b>	<b>90.4</b>	<b>97.1</b>	<b>105.1</b>	<b>383.1</b>	<b>97.1</b>	<b>104.1</b>	<b>110.1</b>	<b>119.6</b>	<b>430.9</b>	<b>487.1</b>	<b>546.8</b>	<b>610.7</b>
% Margin	48.2%	46.9%	45.6%	44.6%	46.8%	48.4%	46.4%	44.9%	46.5%	47.2%	48.6%	46.9%	47.3%	47.7%	48.1%
<b>Adjusted EBITDA</b>	<b>315.1</b>	<b>361.9</b>	<b>95.1</b>	<b>94.1</b>	<b>101.1</b>	<b>109.1</b>	<b>399.3</b>	<b>101.2</b>	<b>108.0</b>	<b>114.1</b>	<b>124.0</b>	<b>447.4</b>	<b>504.3</b>	<b>564.8</b>	<b>629.5</b>
% Margin	50.0%	48.8%	47.9%	46.4%	48.7%	50.2%	48.4%	46.8%	48.3%	48.9%	50.4%	48.7%	49.0%	49.3%	49.6%
y/y growth		14.8%	19.2%	13.7%	1.8%	9.0%	10.4%	6.4%	14.9%	12.9%	13.7%	12.0%	12.7%	12.0%	11.4%
Interest income / expense	(170.4)	(169.8)	(42.1)	(34.4)	(34.4)	(29.5)	(140.4)	(29.5)	(29.5)	(29.5)	(29.5)	(118.2)	(118.2)	(118.2)	(118.2)
Other Income / (expense)	(57.2)	38.7	(48.1)	(26.3)	(10.0)	(10.0)	(94.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax expense	(149.8)	22.4	(8.4)	(11.6)	11.9	14.8	6.7	15.2	16.8	18.1	20.3	70.4	83.0	96.4	110.8
Effective Tax Rate	-196.6%	10.4%	-3342.8%	-38.9%	22.5%	22.5%	4.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
<b>Net Income (loss) Non-GAAP</b>	<b>226.0</b>	<b>193.7</b>	<b>8.6</b>	<b>41.2</b>	<b>40.8</b>	<b>50.8</b>	<b>141.5</b>	<b>52.4</b>	<b>57.8</b>	<b>62.4</b>	<b>69.8</b>	<b>242.3</b>	<b>285.9</b>	<b>332.2</b>	<b>381.7</b>
% Margin	35.8%	26%	4%	20%	20%	23%	17%	24%	26%	27%	28%	26%	28%	29%	30%
FDSO (millions)															
<b>Net Income (loss) per share</b>	<b>\$ -</b>	<b>\$ 0.61</b>	<b>\$ 0.03</b>	<b>\$ 0.13</b>	<b>\$ 0.13</b>	<b>\$ 0.16</b>	<b>\$ 0.44</b>	<b>\$ 0.16</b>	<b>\$ 0.18</b>	<b>\$ 0.19</b>	<b>\$ 0.22</b>	<b>\$ 0.75</b>	<b>\$ 0.88</b>	<b>\$ 1.01</b>	<b>\$ 1.15</b>

Source: Company Data, Barclays Research

FIGURE 30

## SolarWinds Balance Sheet

USD, m	FY2016A	FY2017A	1Q18A	2Q18A	3Q18E	4Q18E	FY2018E	FY2019E	FY2020E	FY2021E	FY2022E
<b>Assets</b>											
Cash, equivalents and ST investments	103.6	277.7	223.5	278.1	325.8	434.6	434.6	725.9	1,079.7	1,491.4	1,961.0
Cash, cash equivalents	101.6	277.7	223.5	278.1	325.8	434.6	434.6	725.9	1,079.7	1,491.4	1,961.0
Short term investments	2.0	-	-	-	-	-	-	-	-	-	-
Accounts receivable	80.4	85.1	87.4	83.9	83.5	83.1	83.1	91.5	98.7	91.6	73.5
Income tax receivable	36.2	1.7	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	19.3	24.3	15.9	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
<b>Total Current Assets</b>	<b>239.6</b>	<b>388.9</b>	<b>328.9</b>	<b>378.4</b>	<b>425.7</b>	<b>534.1</b>	<b>534.1</b>	<b>833.9</b>	<b>1,194.8</b>	<b>1,599.5</b>	<b>2,050.9</b>
Property and equipment, net	37.2	34.2	35.5	37.7	36.8	36.1	36.1	35.9	35.1	34.3	33.4
Long-term investments	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	1.7	4.4	4.5	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Goodwill	3,533.4	3,695.6	3,735.7	3,670.4	3,670.4	3,670.4	3,670.4	3,670.4	3,670.4	3,670.4	3,670.4
Intangible assets, net	1,377.7	1,194.5	1,150.3	1,071.9	1,019.0	968.7	968.7	763.2	577.8	413.7	272.7
Other assets	13.1	9.4	11.3	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
<b>Total Assets</b>	<b>5,202.7</b>	<b>5,327.1</b>	<b>5,266.3</b>	<b>5,173.6</b>	<b>5,167.2</b>	<b>5,224.5</b>	<b>5,224.5</b>	<b>5,318.6</b>	<b>5,493.3</b>	<b>5,733.1</b>	<b>6,042.6</b>
<b>Liabilities</b>											
Accounts payable	9.0	9.7	6.1	10.7	11.3	11.9	11.9	13.5	16.3	18.2	21.7
Accrued liabilities	53.7	39.6	38.2	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0
Accrued Interest Payable	-	11.6	1.1	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Income taxes payable	1.2	9.0	7.9	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Current portion of deferred revenue	204.7	241.5	250.2	251.4	263.1	283.2	283.2	325.1	364.7	401.8	435.1
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
<b>Total Current Liabilities</b>	<b>285.7</b>	<b>328.4</b>	<b>323.4</b>	<b>330.3</b>	<b>342.6</b>	<b>363.3</b>	<b>363.3</b>	<b>406.7</b>	<b>449.2</b>	<b>488.2</b>	<b>524.9</b>
Deferred revenue, net of current portion	13.0	20.3	24.1	24.7	26.0	27.9	27.9	32.2	35.9	39.6	42.8
Non-current deferred taxes	264.7	167.5	169.1	153.4	153.4	153.4	153.4	189.4	232.0	272.0	312.0
Other long-term liabilities	36.6	148.1	137.7	141.4	141.4	141.4	141.4	141.4	141.4	141.4	141.4
LT debt, net of current portion	2,242.9	2,245.6	2,221.1	2,218.7	2,218.7	1,903.7	1,903.7	1,903.7	1,903.7	1,903.7	1,903.7
<b>Total Liabilities</b>	<b>2,842.8</b>	<b>2,909.94</b>	<b>2,875.3</b>	<b>2,868.5</b>	<b>2,882.0</b>	<b>2,589.6</b>	<b>2,589.60</b>	<b>2,673.37</b>	<b>2,762.17</b>	<b>2,844.80</b>	<b>2,924.84</b>
<b>Equity</b>											
Common Stock											
Convertible Common Stock A	2,879.5	3,146.9	3,216.7	3,288.9	3,288.9	-	-	-	-	-	-
Common Stock Class B	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Additional paid-in capital	-	-	-	-	-	3,646.2	3,646.2	3,646.2	3,646.2	3,646.2	3,646.2
Accumulated other comprehensive loss	(66.0)	75.3	108.6	49.7	49.7	49.7	49.7	49.7	49.7	49.7	49.7
Accumulated Earnings	(453.7)	(805.2)	(934.5)	(1,033.6)	(1,053.6)	(1,061.1)	(1,061.1)	(1,050.8)	(964.9)	(807.7)	(578.2)
<b>Total Equity</b>	<b>2,359.9</b>	<b>2,417.1</b>	<b>2,390.9</b>	<b>2,305.2</b>	<b>2,285.1</b>	<b>2,634.9</b>	<b>2,634.9</b>	<b>2,645.2</b>	<b>2,731.1</b>	<b>2,888.3</b>	<b>3,117.7</b>
<b>Total Liabilities + Equity</b>	<b>5,202.7</b>	<b>5,327.1</b>	<b>5,266.3</b>	<b>5,173.6</b>	<b>5,167.2</b>	<b>5,224.5</b>	<b>5,224.5</b>	<b>5,318.6</b>	<b>5,493.3</b>	<b>5,733.1</b>	<b>6,042.6</b>

Source: Company Data, Barclays Research

FIGURE 31

## SolarWinds Statement of Cash Flows

USD, m	FY2016A	FY2017A	1Q18A	2Q18A	3Q18E	4Q18E	FY2018E	FY2019E	FY2020E	FY2021E	FY2022E
Net Income	(334.4)	(83.9)	(59.9)	(27.0)	(20.1)	(7.6)	(114.7)	9.8	85.2	156.5	228.6
Adjustments from Operating Activities											
Depreciation and amortization	219.2	250.9	65.2	64.4	57.4	54.8	241.8	223.9	204.7	184.0	161.7
Provision for Doubtful Accounts	1.8	2.5	0.4	0.7	-	-	1.2	-	-	-	-
Stock-based compensation expense	87.8	0.1	0.0	0.1	0.1	0.1	0.4	0.6	0.6	0.7	0.8
Accrued earnout gain	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	18.8	18.9	4.2	2.5	-	-	6.7	-	-	-	-
Loss on extinguishment of debt	22.8	18.6	60.6	-	-	-	60.6	-	-	-	-
Deferred taxes	(126.6)	(101.5)	1.5	(14.5)	-	-	(13.1)	36.0	42.6	40.0	40.0
(Gain) loss on foreign currency exchange rates	32.4	(54.9)	(13.5)	26.1	-	-	12.5	-	-	-	-
Other non-cash expenses	0.9	(3.8)	0.6	0.8	-	-	1.3	-	-	-	-
Adjustments to working capital items											
Accounts receivable	(13.4)	(2.4)	(0.6)	0.8	0.4	0.4	0.9	(8.4)	(7.2)	7.0	18.2
Income taxes receivable	(35.0)	35.0	(0.3)	(0.1)	-	-	(0.4)	-	-	-	-
Prepaid and other current assets	(4.2)	6.2	(3.5)	1.4	-	-	(2.1)	-	-	-	-
Accounts payable	(5.7)	0.3	(3.8)	4.7	0.6	0.5	2.1	1.6	2.9	1.9	3.5
Accrued liabilities and other	28.1	(7.5)	(2.0)	5.9	-	-	4.0	-	-	-	-
Accrued Interest Payable	-	0.6	(10.6)	(0.3)	-	-	(10.9)	-	-	-	-
Income taxes payable	4.4	119.6	(12.1)	(3.6)	-	-	(15.8)	-	-	-	-
Deferred revenue	194.1	34.0	9.5	6.5	12.9	22.0	51.0	46.2	43.3	40.8	36.5
Other long-term liabilities	(0.6)	0.0	(0.2)	2.4	-	-	2.1	-	-	-	-
<b>Cash from operations</b>	<b>90.2</b>	<b>232.7</b>	<b>35.4</b>	<b>70.8</b>	<b>51.4</b>	<b>70.2</b>	<b>227.7</b>	<b>309.6</b>	<b>372.1</b>	<b>430.9</b>	<b>489.3</b>
y/y growth	-	158.1%	-6.1%	21.9%	27.7%	-27.5%	-2.1%	36.0%	20.2%	15.8%	13.6%
Purchases of investments	(2.0)	-	-	-	-	-	-	-	-	-	-
Maturities of investments	22.8	2.0	-	-	-	-	-	-	-	-	-
Purchase of PPE	(7.8)	(7.6)	(2.9)	(6.3)	(3.1)	(3.3)	(15.6)	(16.3)	(16.5)	(17.2)	(17.8)
Purchase of intangible assests and other LT	(3.5)	(4.8)	(0.8)	(0.5)	(0.5)	(0.5)	(2.3)	(2.0)	(2.0)	(2.0)	(2.0)
Acquisition of businesses, net cash	(507.5)	(24.0)	(13.0)	-	-	-	(13.0)	-	-	-	-
Acquisitio of SolarWinds, net cash	(4,335.1)	-	-	-	-	-	-	-	-	-	-
Other investing activities	-	-	10.7	-	-	-	10.7	-	-	-	-
<b>Cash from investing activities</b>	<b>(4,833.0)</b>	<b>(34.4)</b>	<b>(6.0)</b>	<b>(6.8)</b>	<b>(3.6)</b>	<b>(3.7)</b>	<b>(20.2)</b>	<b>(18.2)</b>	<b>(18.4)</b>	<b>(19.1)</b>	<b>(19.7)</b>
<b>Cash from financing activities</b>	<b>4,897.3</b>	<b>(35.4)</b>	<b>(85.3)</b>	<b>(4.4)</b>	<b>-</b>	<b>42.3</b>	<b>(47.4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
FX impact	0.0	13.1	1.7	(5.0)	-	-	(3.3)	-	-	-	-
<b>Net change in cash</b>	<b>154.4</b>	<b>176.1</b>	<b>(54.2)</b>	<b>54.6</b>	<b>47.8</b>	<b>108.7</b>	<b>156.8</b>	<b>291.4</b>	<b>353.7</b>	<b>411.8</b>	<b>469.6</b>
Cash at Beginning of period	196.9	101.6	277.7	223.5	278.1	325.8	277.7	434.6	725.9	1,079.7	1,491.4
Cash at End of period	101.6	277.7	223.5	278.1	325.8	434.6	434.6	725.9	1,079.7	1,491.4	1,961.0
<b>Free Cash Flow</b>	<b>78.9</b>	<b>220.3</b>	<b>31.6</b>	<b>64.0</b>	<b>47.8</b>	<b>66.5</b>	<b>209.8</b>	<b>291.4</b>	<b>353.7</b>	<b>411.8</b>	<b>469.6</b>
<b>uFCF</b>		<b>311.8</b>	<b>76.7</b>	<b>95.4</b>	<b>80.7</b>	<b>95.8</b>	<b>348.6</b>	<b>402.9</b>	<b>453.2</b>	<b>507.6</b>	<b>565.9</b>
% conversion		86.2%	80.7%	101.5%	79.9%	87.8%	87.3%	90.0%	89.9%	89.9%	89.9%
y/y growth			11.1%	12.9%	21.1%	4.5%	11.8%	15.6%	12.5%	12.0%	11.5%

Source: Company Data, Barclays Research

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**SolarWinds Corporation** (SWI, 12-Nov-2018, USD 14.70), Equal Weight/Positive, A/CE/D/E/J/L

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SAP SE (SAP)	SecureWorks (SCWX)	ServiceNow, Inc. (NOW)
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SolarWinds Corporation (SWI / SWI)

USD 14.70 (12-Nov-2018)

Stock Rating

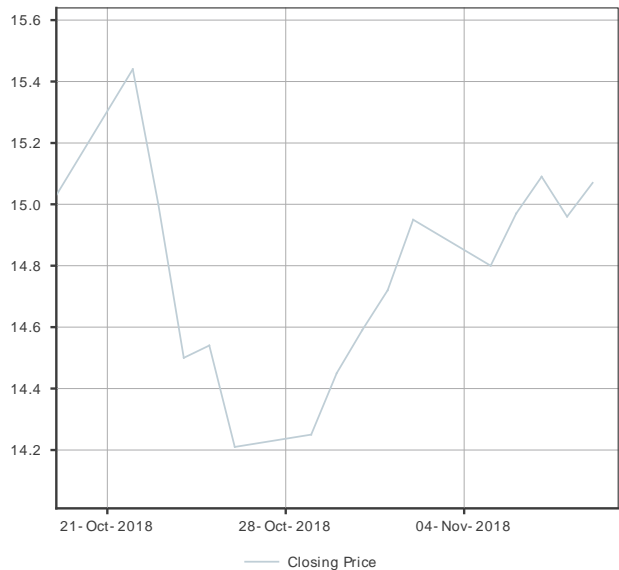
EQUAL WEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - USD (as of 12-Nov-2018)

Currency=USD



Publication Date Closing Price Rating Adjusted Price Target

Source: Thomson Reuters, Barclays Research

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