



SolarWinds Corporation

Q4 Not as Bad as Feared, but Guidance Highlights Continued Uncertainty

We see Q4 results as better than some investors had feared, driven by the relatively steady renewal rates for the recurring maintenance+subscription business. However, we believe the cloudy environment from the cyberattack and macro remains as evidenced by license weakness, lack of FY21 guidance and expectations of renewal rates to dip in FY21. Overall, while event-driven investors may like the commentary around the planned MSP business spin-off being on track, we believe the underlying fundamentals of the core IT business remain uncertain and expect shares to underperform. We reiterate our UW rating and \$14 PT.

The Numbers: License revenue declined by 23.7% ccy and came in 5.4% below consensus. Subscription revenue grew 17.5% ccy and came in 3.7% above consensus. Total revenue grew 5.0% ccy (at the midpoint of management guidance of 4-6%) and came in 2.2% above consensus. The company delivered EBITDA margin of 47.9% (vs. 47.6% consensus). Q1 top-line guidance was slightly below consensus expectations at the midpoint, with revenue growth guidance of -1% to 1%.

Positives: (1) Recurring revenue helped drive a top-line beat despite weaker-than-expected licenses. (2) Maintenance renewal/subscription retention rates held relatively steady despite headwinds from the cyberattack. (3) ARR growth accelerated sequentially, even after adjusting 2 points of contribution from the SentryOne acquisition.

Negatives: (1) Weaker-than-expected Q1 revenue guidance at the midpoint due to continued pressure on the license business. (2) Management expects maintenance renewal rates to dip from 90%+ in FY20 to low to mid-80s in FY21. (3) Pressure on margins in FY21 due to acquisition costs, MSP business investments and incremental expenses for security-related initiatives.

Potential Catalysts: Q1 earnings tentatively in May.

SWI: Quarterly and Annual EPS (USD)

	2020		2021		2022		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2021	2022
Q1	0.20A	0.23E	0.19E	0.22E	N/A	0.26E	0.25E	-5%	37%
Q2	0.25A	0.24E	0.21E	0.23E	N/A	0.27E	0.26E	-16%	29%
Q3	0.28A	0.26E	0.26E	0.26E	N/A	0.28E	0.28E	-7%	8%
Q4	0.26A	0.27E	0.26E	0.26E	N/A	0.29E	0.29E	0%	12%
Year	0.99A	1.01E	0.91E	0.96E	N/A	1.10E	1.09E	-8%	21%
P/E	15.9		17.2			14.4			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 25-Feb-2021; 13:50 GMT

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

Equity Research

Technology | U.S. Software
25 February 2021

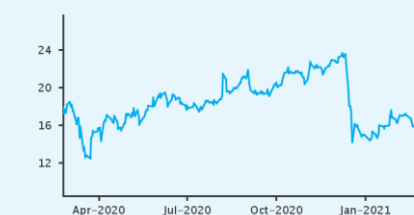
Stock Rating	UNDERWEIGHT Unchanged
Industry View	POSITIVE Unchanged
Price Target	USD 14.00 Unchanged

Price (24-Feb-2021)	USD 15.72
Potential Upside/Downside	-10.9%
Tickers	SWI

Market Cap (USD mn)	4937
Shares Outstanding (mn)	314.04
Free Float (%)	24.20
52 Wk Avg Daily Volume (mn)	1.1
Dividend Yield (%)	N/A
Return on Equity TTM (%)	1.44
Current BVPS (USD)	8.94

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 24.34-11.50



Source: IDC; 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: UNDERWEIGHT

Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR	Price (24-Feb-2021)	USD 15.72
Revenue	1,022	1,062	1,150	1,251	7.0%	Price Target	USD 14.00
EBITDA (adj)	490	470	537	605	7.3%	Why Underweight? Broad IT monitoring portfolio with market leadership in network monitoring, but lagging behind in cloud observability. We see execution risk to LT organic top-line growth targets and limited upside to margins.	
Operating profit (adj)	466	441	510	582	7.6%		
Pre-tax income	30	-28	84	231	96.9%		
Net income (adj)	312	291	351	413	9.9%		
EPS (adj) (\$)	0.99	0.91	1.10	1.28	9.1%		
Diluted shares (mn)	315.6	318.8	320.8	322.8	0.8%	Upside case USD 21.00 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 10% upside to CY22E uFCF and 14x CY22E uFCF.	
DPS (\$)	0.00	0.00	0.00	0.00	N/A		

Margin and return data	Average				
EBITDA (adj) margin (%)	47.9	44.2	46.7	48.3	46.8
Operating margin (adj) (%)	45.6	41.5	44.4	46.5	44.5
Pre-tax margin (%)	3.0	-2.6	7.3	18.5	6.5
Net (adj) margin (%)	30.5	27.4	30.6	33.0	30.4
ROIC (%)	1.8	0.6	2.2	4.2	2.2
ROA (%)	2.9	-1.9	-0.3	1.8	0.6
ROE (%)	5.6	-3.7	-0.5	3.5	1.2

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	59	51	44	39	-13.1%
Goodwill	4,249	4,349	4,449	4,549	2.3%
Cash and equivalents	370	563	859	1,215	48.6%
Total assets	5,710	5,802	6,031	6,403	3.9%
Short and long-term debt	1,903	1,903	1,903	1,903	0.0%
Other long-term liabilities	115	115	115	115	0.0%
Total liabilities	2,700	2,774	2,887	3,008	3.7%
Net debt/(funds)	1,532	1,339	1,044	688	-23.4%
Shareholders' equity	3,011	3,028	3,143	3,395	4.1%
Change in working capital	41	19	64	68	17.9%
Cash flow from operations	389	324	425	484	7.6%
Capital expenditure	-38	-31	-30	-28	N/A
Free cash flow	431	402	500	557	8.9%

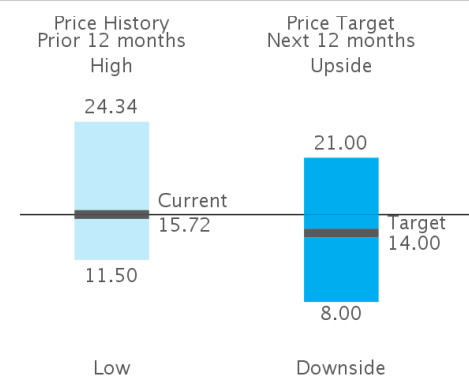
Valuation and leverage metrics	Average				
P/E (adj) (x)	15.9	17.2	14.4	12.3	14.9
EV/sales (x)	6.4	6.2	5.7	5.2	5.9
EV/EBITDA (adj) (x)	13.4	14.0	12.2	10.9	12.6
Equity FCF yield (%)	7.1	5.8	7.8	9.0	7.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	3.1	2.8	1.9	1.1	2.3
Total debt/capital (%)	38.7	38.6	37.7	35.9	37.7

Selected operating metrics (\$mn)	CAGR				
License revenue	144	118	106	101	-11.3%
Maintenance revenue	478	457	466	475	-0.2%
Deferred revenue	383	430	489	567	14.0%

Downside case USD 8.00

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 30% discount to CY22E uFCF and 10x CY22E uFCF.

Upside/Downside scenarios



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

4Q20 Results Review

SolarWinds delivered a Q4 beat against lowered consensus expectations, with the license miss offset by solid performance in recurring business. The company also discussed that the potential MSP business spin-off is still on track for Q2 this year. 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

\$, mn	4Q 19	4Q 20	4Q 20	Actual	4Q 20	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons.	vs. Cons.
Billings	268.7	289.9	290.2	(0.1)%	279.6	3.7%
% growth		7.9%	8.0%		4.0%	
License Revenue	44.6	34.5	37.9	(8.9)%	36.5	(5.4)%
% growth		-22.6%	-15.0%		-18.2%	
Maintenance Revenue	115.6	124.3	119.2	4.3%	121.5	2.3%
% growth		7.5%	3.1%		5.1%	
Subscription Revenue	89.2	106.5	101.7	4.6%	102.7	3.7%
% growth		19.4%	14.1%		15.2%	
Total Revenue	249.4	265.3	258.8	2.5%	259.5	2.2%
% growth		6.4%	3.8%		4.1%	
Adjusted EBITDA	122.9	127.1	122.8	3.5%	123.5	2.9%
% margin	49.3%	47.9%	47.4%	0.5%	47.6%	0.3%
Net income, Non-GAAP	76.0	82.1	77.8	5.6%	79.1	3.8%
Non-GAAP EPS	0.24	0.26	0.25	6.1%	0.25	5.3%
uFCF	95.6	119.2	90.3	32.0%		
% EBITDA conversion	77.8%	93.8%	73.6%	20.3%		

Source: Company Data, Barclays Research, StreetAccount, Bloomberg

Summary of Guidance

The company provided 1Q21 but didn't initiate FY21 guidance. Management expects the license business to remain under pressure from the macro environment and the cybersecurity incident and sees Q1/Q2 bearing most of the impact with a continued recovery as FY21 progresses. The company also discussed investments in security-related initiatives to be around \$20-25mn for FY21, which will pressure margins.

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

FIGURE 2

Summary of Guidance vs. Prior Barclays and Consensus Estimates

\$,mn	Q1					FY21				
	Low	High	Barclays	Consensus	Diff	Low	High	Barclays	Consensus	Diff
Total Revenue	247.0	252.0	258.5	250.7	-0.5%	n/a	n/a	1,087.2	1,071.0	
Adjusted EBITDA	98	101	121.8	112.9	-11.9%	n/a	n/a	516.6	494.5	
% margin	39.7%	40.1%	47.1%	45.0%				47.5%	46.2%	
Non-GAAP EPS	0.19	0.20	0.23	0.22	-11.0%	n/a	n/a	1.01	0.96	

Source: Company Data, Barclays Research, StreetAccount, Bloomberg

Estimate Changes

We have adjusted our numbers to reflect management's guidance. We summarize the changes to our model in the table below. We are reiterating our PT of \$14, which is now based on 12x EV/CY22E uFCF (was 11x) and revised CY22E uFCF estimate of \$500mn (was

\$527mn). We are raising our multiple given the better-than-expected performance of the recurring business despite headwinds from macro and the cybersecurity incident.

FIGURE 3
Summary of Estimate Changes

\$, mn	2021E			2022E		
	New	Old	% Chg.	New	Old	% Chg.
Billings	1,109.0	1,149.2	(3.5)%	1,208.8	1,287.1	(6.1)%
License and Maintenance	575.0	620.3	(7.3)%	572.0	629.8	(9.2)%
Subscription	487.2	466.9	4.4%	577.7	555.7	4.0%
Total Revenue	1,062.2	1,087.2	(2.3)%	1,149.7	1,185.5	(3.0)%
Gross profit, adjusted	969.8	992.6	(2.3)%	1,048.5	1,081.1	(3.0)%
% margin	91.3%	91.3%		91.2%	91.2%	
S&M	310.1	294.5	5.3%	327.7	315.3	3.9%
% margin	29.2%	27.1%		28.5%	26.6%	
R&D	135.1	119.6	12.9%	126.5	128.0	(1.2)%
% margin	12.7%	11.0%		11.0%	10.8%	
G&A	83.3	87.0	(4.2)%	83.9	92.5	(9.2)%
% margin	7.8%	8.0%		7.3%	7.8%	
Adjusted EBITDA	470.0	516.6	(9.0)%	537.1	567.9	(5.4)%
% margin	44.2%	47.5%		46.7%	47.9%	
Operating profit, Non-GAAP	441.3	491.5	(10.2)%	510.4	545.3	(6.4)%
% margin	41.5%	45.2%		44.4%	46.0%	
Non-GAAP EPS	0.91	1.01	(9.3)%	1.10	1.13	(3.2)%
uFCF	401.7	463.1	(13.3)%	499.9	526.8	(5.1)%

Source: Barclays Research

FIGURE 4
SolarWinds P&L

Fiscal = Dec USD, m	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20	2Q20	3Q20	4Q20	FY2020	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
Total Billings	231.5	237.3	248.3	268.7	985.7	260.6	237.4	273.0	290.1	1,061.1	252.8	256.4	289.4	310.4	1,109.0	1,208.8
y/y growth	9.8%	15.9%	11.8%	15.1%	13.2%	12.6%	0.1%	10.0%	7.9%	7.7%	-3.0%	8.0%	6.0%	7.0%	4.5%	9.0%
q/q growth	-0.9%	2.5%	4.6%	8.2%		-3.0%	-8.9%	15.0%	6.2%		-12.8%	1.4%	12.8%	7.3%		
License & Maintenance Revenue	144.2	150.0	157.4	160.2	611.8	153.3	150.2	160.4	158.8	622.7	138.6	139.2	149.0	148.3	575.0	572.0
y/y growth	7.1%	9.3%	7.7%	5.4%	7.3%	6.3%	0.1%	1.9%	-0.9%	1.8%	-9.6%	-7.3%	-7.1%	-6.6%	-7.7%	-0.5%
q/q growth	-5.1%	4.0%	4.9%	1.8%	0.0%	-4.3%	-2.0%	6.8%	-1.0%	0.0%	-12.8%	0.4%	7.0%	-0.4%	0.0%	0.0%
% total	66.8%	65.0%	64.8%	64.2%	65.2%	61.7%	60.9%	61.4%	59.8%	60.9%	55.2%	54.1%	54.4%	53.0%	54.1%	49.8%
Subscription Revenue	71.6	80.6	85.3	89.2	326.7	95.1	96.4	100.9	106.6	399.0	112.3	118.3	124.9	131.7	487.2	577.7
y/y growth	12.4%	22.9%	25.7%	28.1%	22.5%	33.0%	19.6%	18.2%	19.6%	22.2%	18.0%	22.7%	23.9%	23.5%	22.1%	18.6%
q/q growth	2.8%	12.6%	5.9%	4.5%	0.0%	6.7%	1.3%	4.6%	5.7%	0.0%	5.3%	5.3%	5.6%	5.4%	0.0%	0.0%
% total	33.2%	35.0%	35.2%	35.8%	34.8%	38.3%	39.1%	38.6%	40.2%	39.1%	44.8%	45.9%	45.6%	47.0%	45.9%	50.2%
Total Revenue	215.8	230.6	242.7	249.4	938.5	248.5	246.6	261.3	265.5	1,021.8	250.9	257.5	273.9	280.0	1,062.2	1,149.7
y/y growth	8.8%	13.7%	13.4%	12.5%	12.1%	15.1%	6.9%	7.7%	6.4%	8.9%	1.0%	4.4%	4.8%	5.5%	4.0%	8.2%
q/q growth	-2.6%	6.8%	5.3%	2.8%		-0.4%	-0.8%	6.0%	1.6%		-5.5%	2.6%	6.4%	2.2%		
Cost of Revenue	17.7	18.9	20.2	20.8	77.6	22.0	21.3	22.7	24.6	90.5	21.8	22.4	23.8	24.4	92.4	101.2
% margin	91.8%	91.8%	91.7%	91.6%	91.7%	91.1%	91.4%	91.3%	90.8%	91.1%	91.3%	91.3%	91.3%	91.3%	91.3%	91.2%
y/y growth	5.5%	7.4%	12.3%	17.4%	10.7%	24.1%	12.4%	12.5%	17.8%	16.6%	-0.8%	5.3%	5.1%	-0.8%	2.1%	9.5%
q/q growth	-74.7%	6.8%	6.5%	3.4%	0.0%	-71.7%	-3.3%	6.6%	8.3%	0.0%	-11.1%	2.6%	6.4%	2.2%	0.0%	0.0%
Gross Profit, Non-GAAP	198.1	211.6	222.5	228.6	860.8	226.5	225.3	238.6	240.9	931.3	229.0	235.1	250.1	255.7	969.8	1,048.5
% Margin	91.8%	91.8%	91.7%	91.6%	91.7%	91.1%	91.4%	91.3%	90.8%	91.1%	91.3%	91.3%	91.3%	91.3%	91.3%	91.2%
y/y growth	9.1%	14.3%	13.5%	12.1%	0.0%	14.3%	6.5%	7.2%	5.4%	0.0%	1.1%	4.3%	4.8%	6.1%	0.0%	0.0%
Sales and marketing	56.7	61.8	64.8	66.8	250.3	69.0	66.0	66.4	72.5	273.9	77.8	77.2	76.7	78.4	310.1	327.7
% Margin	26.3%	26.8%	26.7%	26.8%	26.7%	27.8%	26.8%	25.4%	27.3%	26.8%	31.0%	30.0%	28.0%	28.0%	29.2%	28.5%
y/y growth	9.3%	11.1%	15.7%	15.1%	12.9%	21.6%	6.7%	2.4%	8.5%	9.4%	12.7%	17.0%	15.5%	8.2%	13.2%	5.7%
Research and development	23.3	25.3	26.7	24.9	100.2	28.5	26.9	26.7	28.1	110.3	35.1	33.5	32.9	33.6	135.1	126.5
% Margin	10.8%	11.0%	11.0%	10.0%	10.7%	11.5%	10.9%	10.2%	10.6%	10.8%	14.0%	13.0%	12.0%	12.0%	12.7%	11.0%
y/y growth	-2.0%	9.5%	17.6%	9.9%	8.6%	22.5%	6.6%	-0.2%	13.0%	10.1%	23.0%	24.3%	23.2%	19.6%	22.5%	-6.4%
General and Administrative	17.4	18.2	20.0	18.6	74.2	23.3	19.5	18.2	19.7	80.7	22.6	20.6	19.2	21.0	83.3	83.9
% Margin	8.1%	7.9%	8.2%	7.5%	7.9%	9.4%	7.9%	7.0%	7.4%	7.9%	9.0%	8.0%	7.0%	7.5%	7.8%	7.3%
y/y growth	13.3%	13.2%	32.6%	21.3%	20.0%	33.9%	7.2%	-9.0%	5.9%	8.8%	-3.1%	5.5%	5.4%	6.7%	3.3%	0.7%
Operating Profit (loss)	100.6	106.3	111.0	118.3	436.2	105.6	112.9	127.3	120.6	466.4	93.6	103.8	121.3	122.7	441.3	510.4
% Margin	46.6%	46.1%	45.7%	47.4%	46.5%	42.5%	45.8%	48.7%	45.4%	45.6%	37.3%	40.3%	44.3%	43.8%	41.5%	44.4%
Adjusted EBITDA	104.8	110.9	115.0	122.9	453.6	110.9	119.1	132.7	127.1	489.7	100.3	111.4	127.9	130.4	470.0	537.1
% Margin	48.6%	48.1%	47.4%	49.3%	48.3%	44.6%	48.3%	50.8%	47.9%	47.9%	40.0%	43.3%	46.7%	46.6%	44.2%	46.7%
y/y growth	10.2%	17.9%	8.0%	9.9%	11.3%	5.8%	7.4%	15.3%	3.4%	8.0%	-9.6%	-6.4%	-3.6%	2.6%	-4.0%	14.3%
Interest income / expense	(27.4)	(28.2)	(27.4)	(25.1)	(108.1)	(24.1)	(18.3)	(16.8)	(16.7)	(75.9)	(17.0)	(17.0)	(17.0)	(17.0)	(68.0)	(60.0)
Other Income / (expense)	1.3	(1.1)	0.3	(0.1)	0.4	(0.8)	0.4	(0.5)	(0.3)	(1.2)	0.0	0.0	0.0	0.0	0.0	0.0
Income tax expense	13.6	17.0	17.1	17.1	64.7	16.9	17.0	22.3	21.5	77.7	16.8	19.1	23.0	23.2	82.1	99.1
Effective Tax Rate	18.3%	22.0%	20.4%	18.3%	19.7%	20.9%	17.9%	20.3%	20.8%	20.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Net Income (loss) Non-GAAP	60.9	60.1	66.7	76.0	263.8	63.9	77.9	87.7	82.1	311.6	59.7	67.7	81.4	82.4	291.2	351.3
% Margin	28%	26%	28%	30%	28%	26%	32%	34%	31%	30%	24%	26%	30%	29%	27%	31%
FDSO (millions)																
Net Income (loss) per share	\$ 0.20	\$ 0.20	\$ 0.21	\$ 0.24	\$ 0.85	\$ 0.20	\$ 0.25	\$ 0.28	\$ 0.26	\$ 0.99	\$ 0.19	\$ 0.21	\$ 0.26	\$ 0.26	\$ 0.91	\$ 1.10

Source: Company Data, Barclays Research

FIGURE 5
SolarWinds Balance Sheet

Fiscal = Dec USD, m	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20	2Q20	3Q20	4Q20	FY2020	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
Assets																
Cash, equivalents and ST investments	434.5	155.3	221.1	173.4	173.4	237.0	331.4	425.0	370.5	370.5	423.3	495.3	472.5	563.1	563.1	858.5
Cash, cash equivalents	434.5	155.3	221.1	173.4	173.4	237.0	331.4	425.0	370.5	370.5	423.3	495.3	472.5	563.1	563.1	858.5
Short term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	109.8	96.3	102.2	121.9	121.9	121.7	104.3	115.6	114.3	114.3	110.3	99.0	111.4	129.2	129.2	138.0
Income tax receivable	1.1	0.7	0.7	1.1	1.1	1.6	1.2	3.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	20.8	27.8	24.1	23.5	23.5	25.4	22.2	19.1	25.7	25.7	25.7	25.7	25.7	25.7	25.7	25.7
Total Current Assets	566.3	280.1	348.1	319.9	319.9	385.7	459.1	563.1	512.7	512.7	561.5	622.2	611.8	720.3	720.3	1,024.5
Property and equipment, net	36.9	37.9	35.7	38.9	38.9	41.6	43.5	48.2	58.6	58.6	56.9	54.4	53.3	51.2	51.2	44.1
Long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	6.9	6.9	6.7	4.5	4.5	4.3	4.4	4.5	149.5	149.5	149.5	149.5	149.5	149.5	149.5	149.5
Goodwill	3,661.8	3,990.0	3,929.6	4,058.2	4,058.2	4,033.8	4,058.3	4,108.7	4,249.4	4,249.4	4,249.4	4,249.4	4,349.4	4,349.4	4,349.4	4,449.4
Intangible assets, net	892.0	873.1	815.8	771.5	771.5	704.1	644.4	587.5	593.0	593.0	531.8	476.9	427.9	384.2	384.2	216.0
Other assets	16.7	19.3	20.2	27.8	27.8	29.4	31.5	33.1	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.3
Total Assets	5,180.5	5,207.4	5,156.1	5,310.7	5,310.7	5,289.0	5,349.2	5,450.0	5,710.5	5,710.5	5,696.3	5,699.6	5,739.2	5,801.9	5,801.9	6,030.7
Liabilities																
Accounts payable	10.1	11.5	10.3	13.8	13.8	10.8	11.1	12.9	17.9	17.9	10.0	7.7	5.5	5.6	5.6	19.4
Accrued liabilities	40.9	49.0	47.9	47.0	47.0	39.7	47.1	56.8	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0
Accrued Interest Payable	0.9	0.8	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Income taxes payable	17.9	9.4	18.5	15.7	15.7	18.4	25.2	16.0	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4
Current portion of deferred revenue	285.2	289.2	293.4	312.2	312.2	323.2	314.1	323.3	346.1	346.1	350.2	349.3	363.4	391.0	391.0	444.9
Current debt obligation	19.9	19.9	19.9	19.9	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	374.8	379.9	390.3	423.0	423.0	425.3	432.8	445.4	491.2	491.2	487.5	484.2	496.1	523.8	523.8	591.5
Deferred revenue, net of current portion	26.6	29.3	30.7	31.2	31.2	32.4	32.3	34.8	36.7	36.7	34.5	34.4	35.8	38.5	38.5	43.8
Non-current deferred taxes	137.5	128.8	114.9	97.9	97.9	89.2	82.3	73.2	59.1	59.1	69.1	79.1	89.1	99.1	99.1	139.1
Other long-term liabilities	133.9	137.0	130.6	122.7	122.7	123.7	116.5	118.9	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0
LT debt, net of current portion	1,901.4	1,898.7	1,896.1	1,893.4	1,893.4	1,890.7	1,888.0	1,885.4	1,882.7	1,882.7	1,882.7	1,882.7	1,882.7	1,882.7	1,882.7	1,882.7
Total Liabilities	2,574.1	2,573.7	2,562.5	2,661.2	2,661.22	2,656.7	2,663.5	2,667.6	2,699.8	2,699.80	2,703.8	2,710.5	2,733.8	2,774.2	2,774.22	2,887.21
Common Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Convertible Common Stock A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock Class B	0.3	0.3	0.3	0.3	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	3,019.7	3,027.8	3,037.8	3,041.9	3,041.9	3,054.7	3,067.5	3,092.6	3,112.1	3,112.1	3,112.1	3,112.1	3,112.1	3,112.1	3,112.1	3,112.1
Accumulated other comprehensive loss	(10.7)	10.5	(44.0)	(5.2)	(5.2)	(35.7)	(7.9)	51.1	127.2	127.2	127.2	127.2	127.2	127.2	127.2	127.2
Accumulated Earnings	(402.9)	(405.0)	(400.6)	(387.4)	(387.4)	(387.0)	(374.2)	(361.7)	(228.9)	(228.9)	(247.2)	(250.5)	(234.2)	(212.0)	(212.0)	(96.2)
Total Equity	2,606.4	2,633.6	2,593.6	2,649.5	2,649.5	2,632.4	2,685.7	2,782.4	3,010.7	3,010.7	2,992.5	2,989.1	3,005.4	3,027.6	3,027.6	3,143.4
Total Liabilities + Equity	5,180.5	5,207.4	5,156.1	5,310.7	5,310.7	5,289.0	5,349.2	5,450.0	5,710.5	5,710.5	5,696.3	5,699.6	5,739.2	5,801.9	5,801.9	6,030.7

Source: Company Data, Barclays Research

FIGURE 6
SolarWinds Cash Flows

Fiscal = Dec USD, m	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20	2Q20	3Q20	4Q20	FY2020	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
Net Income	3.1	(2.1)	4.4	13.2	18.6	0.4	12.8	12.5	132.7	158.5	(50.4)	(34.9)	(14.9)	(10.0)	(110.2)	(15.1)
Adjustments from Operating Activities																
Depreciation and amortization	64.5	65.6	66.6	66.6	263.2	67.8	68.2	69.5	72.3	277.9	70.5	65.2	58.1	54.0	247.7	205.1
Provision for Doubtful Accounts	0.5	0.4	0.5	0.0	1.5	3.0	(0.1)	(0.3)	0.0	2.7	-	-	-	-	-	-
Stock-based compensation expense	7.7	7.4	8.8	10.5	34.4	11.3	13.0	21.7	28.3	74.2	32.2	31.5	31.3	32.2	127.2	130.9
Accrued earnout gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	2.3	2.3	2.3	2.3	9.2	2.3	2.3	2.3	2.3	9.2	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred taxes	(11.3)	(9.1)	(9.3)	(9.9)	(39.6)	(8.7)	(7.3)	(10.0)	(152.3)	(178.3)	10.0	10.0	10.0	10.0	40.0	40.0
(Gain) loss on foreign currency exchange rates	(1.3)	1.2	(0.8)	(0.0)	(0.9)	1.0	0.7	0.4	0.6	2.6	-	-	-	-	-	-
Other non-cash expenses	(0.7)	0.3	0.5	0.5	0.5	(0.2)	(0.7)	0.1	1.7	0.9	-	-	-	-	-	-
Adjustments to working capital items																
Accounts receivable	(10.6)	17.9	(8.1)	(18.2)	(19.0)	(4.1)	17.9	(8.8)	3.9	9.0	4.0	11.2	(12.3)	(17.9)	(15.0)	(8.7)
Income taxes receivable	(0.3)	0.4	(0.0)	(0.4)	(0.2)	(0.6)	0.5	(2.1)	1.3	(1.0)	-	-	-	-	-	-
Prepaid and other current assets	(4.3)	(1.8)	(0.1)	(4.9)	(11.1)	(4.1)	2.9	3.3	(7.5)	(5.4)	-	-	-	-	-	-
Accounts payable	0.5	1.0	(1.1)	3.4	3.7	(3.0)	0.3	1.7	4.1	3.1	(7.9)	(2.3)	(2.2)	0.1	(12.3)	13.8
Accrued liabilities and other	(10.8)	5.8	(0.3)	5.7	0.3	(5.8)	7.0	10.7	12.1	24.1	-	-	-	-	-	-
Accrued Interest Payable	0.6	(0.0)	(0.6)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	-	(0.1)	-	-	-	-	-	-
Income taxes payable	2.5	(6.9)	2.0	(0.7)	(3.0)	4.6	(0.5)	(7.3)	(3.5)	(6.8)	-	-	-	-	-	-
Deferred revenue	20.1	(3.3)	9.6	14.9	41.2	14.7	(11.4)	6.9	8.0	18.2	1.9	(1.0)	15.5	30.3	46.8	59.2
Other long-term liabilities	0.8	(0.6)	0.7	-	0.9	(0.1)	0.2	0.3	(0.1)	0.3	-	-	-	-	-	-
Cash from operations	63.4	78.3	75.2	83.1	299.9	78.4	105.7	100.9	104.1	389.1	60.3	79.7	85.3	98.8	324.1	425.2
y/y growth	79.2%	10.6%	27.5%	-5.7%	18.5%	23.7%	35.0%	34.2%	25.3%	29.7%	-23.0%	-24.6%	-15.5%	-5.1%	-16.7%	31.2%
Purchases of investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturities of investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of PPE	(4.6)	(4.2)	(1.8)	(6.6)	(17.2)	(6.5)	(5.6)	(8.3)	(8.4)	(28.8)	(5.0)	(5.1)	(5.5)	(5.6)	(21.2)	(19.5)
Purchase of intangible assets and other LT	(1.2)	(1.2)	(1.1)	(2.3)	(5.9)	(1.7)	(2.5)	(2.7)	(2.6)	(9.4)	(2.6)	(2.6)	(2.6)	(2.6)	(10.2)	(10.2)
Acquisition of businesses, net cash	-	(349.5)	-	(112.9)	(462.4)	-	-	-	(141.9)	(141.9)	-	-	(100.0)	-	(100.0)	(100.0)
Acquisitio of SolarWinds, net cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	0.2	1.4	2.5	(1.1)	3.0	-	-	-	-	-	-	-	-	-	-	-
Cash from investing activities	(5.6)	(353.5)	(0.4)	(122.9)	(482.5)	(8.2)	(8.1)	(11.0)	(152.8)	(180.1)	(7.6)	(7.7)	(108.0)	(8.2)	(131.5)	(129.8)
Cash from financing activities	(4.9)	(4.9)	(4.0)	(11.8)	(25.6)	(4.1)	(5.5)	(1.8)	(14.1)	(25.6)	-	-	-	-	-	-
FX impact	(1.0)	0.9	(5.0)	4.0	(1.1)	(2.4)	2.3	5.4	8.4	13.7	-	-	-	-	-	-
Net change in cash	51.8	(279.2)	65.8	(47.7)	(209.2)	63.6	94.5	93.6	(54.5)	197.1	52.8	72.0	(22.7)	90.6	192.6	295.4
Cash at Beginning of period	382.6	434.5	155.3	221.1	382.6	173.4	237.0	331.4	425.0	173.4	370.5	423.3	495.3	472.5	370.5	563.1
Cash at End of period	434.5	155.3	221.1	173.4	173.4	237.0	331.4	425.0	370.5	370.5	423.3	495.3	472.5	563.1	563.1	858.5
Free Cash Flow	57.6	72.8	72.2	74.2	276.9	70.1	97.6	90.0	93.1	350.9	52.8	72.0	77.3	90.6	292.6	395.4
uFCF	80.8	99.1	96.1	95.6	371.7	90.9	112.9	108.2	119.2	431.2	80.2	99.1	104.3	118.1	401.7	499.9
% conversion	77.1%	89.4%	83.6%	77.8%	81.9%	81.9%	94.8%	81.6%	93.8%	88.1%	80.0%	88.9%	81.6%	90.6%	85.5%	93.1%
y/y growth	5.4%	3.9%	11.1%	-13.9%	0.3%	12.4%	13.9%	12.6%	24.7%	16.0%	-11.7%	-12.2%	-3.6%	-1.0%	-6.8%	24.4%

Source: Company Data, Barclays Research

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SolarWinds Corporation (SWI, 24-Feb-2021, USD 15.72), Underweight/Positive, CE/J/K/N

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Slack Technologies (WORK)	Snowflake Computing (SNOW)	SolarWinds Corporation (SWI)
Splunk Inc. (SPLK)	Sprout Social, Inc. (SPT)	Talend S.A. (TLND)
Tenable Holdings Inc (TENB)	Teradata Corp. (TDC)	Tufin Software Technologies (TUFN)
Varonis Systems, Inc. (VRNS)	Veeva Systems Inc. (VEEV)	VMware Inc. (VMW)
Workday Inc. (WDAY)	ZoomInfo Technologies Inc. (ZI)	Zscaler, Inc. (ZS)

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USD 15.72 (24-Feb-2021)

Stock Rating

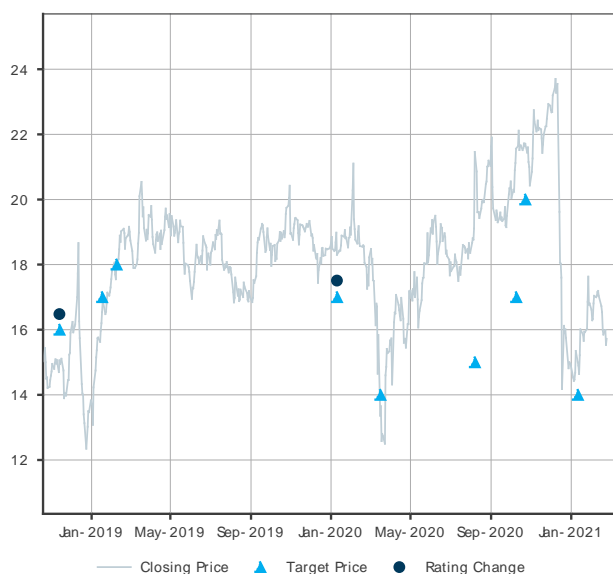
UNDERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - USD (as of 24-Feb-2021)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
11-Jan-2021	15.00		14.00
23-Oct-2020	21.71		20.00
09-Oct-2020	21.56		17.00
07-Aug-2020	21.46		15.00
16-Mar-2020	13.36		14.00
10-Jan-2020	18.30	Underweight	17.00
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](#)**CE:** Barclays Bank PLC and/or an affiliate is a market-maker in equity securities issued by SolarWinds Corporation.**J:** Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities by SolarWinds Corporation and/or in any related derivatives.**K:** Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation (including compensation for brokerage services, if applicable) from SolarWinds Corporation within the past 12 months.**N:** SolarWinds Corporation is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.**Valuation Methodology:** Our PT of \$14 is based on EV/CY22E uFCF of 12x and CY22E uFCF of \$500mn.**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** Faster than expected growth in network monitoring and better than expected ROI from investments in cloud observability may lead to an upside.

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