



SolarWinds Corporation

Limited FY20 Visibility due to SMB Exposure

We believe that FY guidance withdrawal highlights the limited visibility of the SWI business model vs. some of its peers. True, 85% of its business is now recurring (maintenance+subscription), but it is not properly predictable in a downturn given the relatively high exposure to SMBs (for both Core IT maintenance and MSP subscription products), and the macro volatility from higher international mix. While we acknowledge the Q1 beat against lowered expectations, we continue to remain cautious on the name given the uncertain IT spending environment ahead and the competitive landscape in observability. We reiterate our UW rating.

The Numbers: The company delivered license revenue of \$37mn, which came 0.4% below consensus. Subscription revenue grew 34.3% ccy helped by acquisitions and came in 4% above consensus. Total revenue grew 15.9% ccy (at the high-end of management guidance of 13.5-15.9%), and came in 3.2% above consensus. The company delivered adjusted EBITDA margin of 44.6% (vs. 46.4% consensus). Management withdrew FY20 guidance, but provided Q2 guidance, with revenue range of \$240-248mn vs. \$247mn consensus.

Positives: (1) Q1 revenue came in at the high-end of guidance and better than consensus expectations despite the anticipated impact from COVID-19. (2) Increasing recurring business mix of 85% in Q1 vs. 82% in Q4. (3) Company expects uFCF conversion to trend higher in the next few quarters and FY20 level to be consistent with FY19 despite some expected pressure on cash collections.

Negatives: (1) Weaker than expected Q2 guidance across the board. (2) FY guidance was withdrawn given the relatively limited business visibility due to license mix and SMB exposure. (3) Downtick in maintenance renewal rates in Q1 (92% vs. 94% for FY19), along with lower expectations for Q2 for both maintenance renewal rates (low 90s) and subscription retention rates (101-103% vs. 106% in Q1).

Potential Catalysts: Q2 earnings tentatively in July.

SWI: Quarterly and Annual EPS (USD)

	2019		2020		2021		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2020	2021
Q1	0.20A	0.19E	0.20A	0.19E	0.22E	0.23E	0.22E	0%	15%
Q2	0.20A	0.20E	0.20E	0.20E	0.24E	0.25E	0.23E	0%	25%
Q3	0.21A	0.22E	0.21E	0.22E	0.26E	0.26E	0.25E	0%	24%
Q4	0.24A	0.21E	0.22E	0.23E	0.27E	0.28E	0.27E	-8%	27%
Year	0.85A	0.82E	0.85E	0.85E	0.99E	1.02E	0.98E	0%	20%
P/E	20.0		20.0			16.7			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 30-Apr-2020; 12:50 GMT

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

Equity Research

Technology | U.S. Software

1 May 2020

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

Price (30-Apr-2020)	USD 16.98
Potential Upside/Downside	-17.6%
Tickers	SWI

Market Cap (USD mn)	5294
Shares Outstanding (mn)	311.80
Free Float (%)	19.10
52 Wk Avg Daily Volume (mn)	0.7
Dividend Yield (%)	N/A
Return on Equity TTM (%)	0.70
Current BVPS (USD)	8.59

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 21.66-11.50



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)	2019A	2020E	2021E	2022E	CAGR
Revenue	938	1,011	1,160	1,361	13.2%
EBITDA (adj)	454	462	542	644	12.4%
Operating profit (adj)	436	439	515	619	12.4%
Pre-tax income	28	67	177	305	122.9%
Net income (adj)	264	268	326	408	15.6%
EPS (adj) (\$)	0.85	0.85	1.02	1.26	14.1%
Diluted shares (mn)	309.8	316.0	320.3	322.3	1.3%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	48.3	45.7	46.7	47.3	47.0
Operating margin (adj) (%)	46.5	43.4	44.4	45.5	45.0
Pre-tax margin (%)	2.9	6.7	15.2	22.4	11.8
Net (adj) margin (%)	28.1	26.5	28.1	30.0	28.2
ROIC (%)	2.4	2.8	4.5	6.3	4.0
ROA (%)	0.4	0.1	1.5	3.2	1.3
ROE (%)	0.7	0.3	3.1	6.5	2.6

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	39	57	47	41	2.1%
Goodwill	4,058	4,084	4,184	4,284	1.8%
Cash and equivalents	173	423	726	1,120	86.2%
Total assets	5,311	5,417	5,685	6,091	4.7%
Short and long-term debt	1,913	1,911	1,911	1,911	0.0%
Other long-term liabilities	123	124	124	124	0.3%
Total liabilities	2,661	2,743	2,875	3,031	4.4%
Net debt/(funds)	1,740	1,488	1,184	791	-23.1%
Shareholders' equity	2,650	2,674	2,810	3,060	4.9%
Change in working capital	13	34	35	48	55.3%
Cash flow from operations	300	352	428	519	20.1%
Capital expenditure	-23	-46	-24	-26	N/A
Free cash flow	372	389	480	570	15.3%

Valuation and leverage metrics	Average				
P/E (adj) (x)	20.0	20.0	16.7	13.4	17.5
EV/sales (x)	7.6	7.0	6.1	5.2	6.5
EV/EBITDA (adj) (x)	15.6	15.3	13.1	11.0	13.8
Equity FCF yield (%)	5.3	5.7	7.4	9.0	6.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	3.8	3.2	2.2	1.2	2.6
Total debt/capital (%)	41.9	41.7	40.5	38.4	40.6

Selected operating metrics (\$mn)	CAGR				
License revenue	165	158	161	164	-0.2%
Maintenance revenue	446	467	505	541	6.6%
Deferred revenue	343	410	512	611	21.2%

Price (30-Apr-2020)	USD 16.98
Price Target	USD 14.00

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.

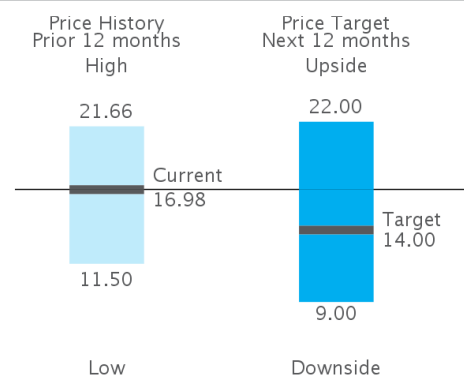
Upside case	USD 22.00
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SolarWinds top-line growth may come in better than expected based on improved competitive positioning. This, along with operating leverage may drive better uFCF growth. Our upside case assumes 20% upside to CY21E uFCF and 15x CY21E uFCF.

Downside case	USD 9.00
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The company's growth may come under pressure due to a tougher than anticipated competitive landscape, which may pressure margins and free cash flows. Our downside case assumes a 20% discount to CY21E uFCF and 12x CY21E uFCF.

Upside/Downside scenarios



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

1Q20 Results Review

SolarWinds delivered a beat in Q1 against lowered consensus expectations. The company discussed some softness in mid-March around the time when lockdowns in US began due to COVID-19, but a pickup in activity in the last week of March. As such, the company managed to deliver Q1 results at the high-end of guidance. However, the company withdrew FY guidance due to the moving parts around COVID-19. The company expects continued pressure on both the license business (which declined 3% in Q1 vs. flat to 2% growth target), along with lower maintenance renewals and subscription retention rates going forward. We believe the relatively high SMB exposure leads to less predictability of the company's recurring revenue stream in a downturn. As such, we remain cautious on the name and reiterate our UW rating.

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	1Q 19	1Q 20	1Q 20	Actual	1Q 20	Actual
	Actual	Actual	Barclays	vs. Barclays	Cons.	vs. Cons.
Billings	231.5	260.6	240.7	8.3%	252.5	3.2%
% growth		12.6%	4.0%		9.1%	
License Revenue	37.9	37.0	36.0	2.6%	37.1	(0.4)%
% growth		-2.6%	-5.0%		-2.2%	
Maintenance Revenue	106.3	116.3	108.2	7.6%	114.3	1.8%
% growth		9.5%	1.8%		7.5%	
Subscription Revenue	71.6	95.1	89.8	6.0%	91.5	4.0%
% growth		33.0%	25.4%		27.9%	
Total Revenue	215.8	248.5	234.0	6.2%	240.8	3.2%
% growth		15.1%	8.4%		11.6%	
Adjusted EBITDA	104.8	110.9	105.1	5.6%	111.8	(0.8)%
% margin	48.6%	44.6%	44.9%	(0.3)%	46.4%	(1.8)%
Net income, Non-GAAP	60.9	63.9	58.9	8.5%	62.1	3.0%
Non-GAAP EPS	0.20	0.20	0.19	6.5%	0.20	0.0%
uFCF	80.8	90.9	91.2	(0.4)%		
% EBITDA conversion	77.1%	81.9%	86.8%	(4.9)%		

Source: Company Data, Barclays Research, StreetAccount

Summary of Guidance

The company provided 2Q20 but withdrew FY20 guidance. Q2 guidance came lower than consensus expectations across the board. For a detailed summary of the company's guidance versus our estimates, please refer to the figure below.

FIGURE 2

Guidance Summary

	Q2				
\$,mn	Low	High	Barclays	Consensus	Diff
Total Revenue	240.0	248.0	242.8	247.0	-1.2%
Adjusted EBITDA	108	112	113.2	117.0	-6.0%
% margin	45.0%	45.2%	46.6%	47.4%	
Non-GAAP EPS	0.20	0.21	0.20	0.21	-2.4%

Source: Company Data, Barclays Research, StreetAccount

Estimate Changes

We have adjusted our numbers to reflect management's guidance. Our numbers move higher vs. our prior model which reflected a broad-based cut across our coverage in mid-March (see "*U.S. Software: New Reality, Distancing Ourselves from Prior Estimates*", 3/16/20"), but are still lower than our model post Q4 earnings. Also, we expect Street estimates to move down post the weak Q2 guidance.

We summarize the changes to our model in the table below. We are reiterating our PT of \$14, which is based on 13x EV/CY21E uFCF (unchanged) and slightly revised CY21E uFCF estimate of \$480mn (was \$477mn).

FIGURE 3
Summary of Estimate Changes

\$, mn	2020E			2021E		
	New	Old	% Chg.	New	Old	% Chg.
Billings	1,077.9	1,058.0	1.9%	1,261.2	1,237.9	1.9%
License and Maintenance	625.7	608.3	2.9%	666.3	649.9	2.5%
Subscription	385.2	378.6	1.8%	493.6	488.3	1.1%
Total Revenue	1,010.9	986.8	2.4%	1,159.9	1,138.2	1.9%
Gross profit, adjusted	921.4	902.9	2.0%	1,059.0	1,039.2	1.9%
% margin	91.1%	91.5%		91.3%	91.3%	
S&M	276.8	275.1	0.6%	314.2	313.1	0.3%
% margin	27.4%	27.9%		27.1%	27.5%	
R&D	114.4	113.1	1.1%	128.9	126.5	1.9%
% margin	11.3%	11.5%		11.1%	11.1%	
G&A	91.1	81.9	11.3%	100.9	91.1	10.8%
% margin	9.0%	8.3%		8.7%	8.0%	
Adjusted EBITDA	461.9	456.0	1.3%	542.2	536.6	1.1%
% margin	45.7%	46.2%		46.7%	47.1%	
Operating profit, Non-GAAP	439.0	432.8	1.4%	514.9	508.6	1.3%
% margin	43.4%	43.9%		44.4%	44.7%	
Non-GAAP EPS	0.85	0.82	3.6%	1.02	0.99	3.1%
uFCF	389.4	387.2	0.6%	479.8	477.5	0.5%

Source: Barclays Research

FIGURE 4
SolarWinds P&L

Fiscal = Dec USD, m	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20	2Q20E	3Q20E	4Q20E	FY2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
Total Billings	231.5	237.3	248.3	268.7	985.7	260.6	256.3	268.1	292.9	1,077.9	304.9	299.9	313.7	342.7	1,261.2	1,459.5
y/y growth	9.8%	15.9%	11.8%	15.1%	13.2%	12.6%	8.0%	8.0%	9.0%	9.4%	17.0%	17.0%	17.0%	17.0%	17.0%	15.7%
q/q growth	-0.9%	2.5%	4.6%	8.2%		-3.0%	-1.7%	4.6%	9.2%		4.1%	-1.7%	4.6%	9.2%		
License & Maintenance Revenue	144.2	150.0	157.4	160.2	611.8	153.3	153.1	158.4	160.8	625.7	163.2	163.1	168.7	171.3	666.3	705.7
y/y growth	7.1%	9.3%	7.7%	5.4%	7.3%	6.3%	2.1%	0.7%	0.4%	2.3%	6.4%	6.5%	6.5%	6.6%	6.5%	5.9%
q/q growth	-5.1%	4.0%	4.9%	1.8%	0.0%	-4.3%	-0.1%	3.4%	1.5%	0.0%	1.5%	-0.1%	3.4%	1.6%	0.0%	0.0%
% total	66.8%	65.0%	64.8%	64.2%	65.2%	61.7%	62.2%	61.9%	61.7%	61.9%	60.0%	57.9%	56.8%	55.4%	57.4%	51.9%
Subscription Revenue	71.6	80.6	85.3	89.2	326.7	95.1	93.0	97.4	99.7	385.2	109.0	118.5	128.1	138.0	493.6	654.9
y/y growth	12.4%	22.9%	25.7%	28.1%	22.5%	33.0%	15.4%	14.1%	11.8%	17.9%	14.6%	27.4%	31.6%	38.4%	28.1%	32.7%
q/q growth	2.8%	12.6%	5.9%	4.5%	0.0%	6.7%	-2.3%	4.7%	2.4%	0.0%	9.3%	8.7%	8.1%	7.7%	0.0%	0.0%
% total	33.2%	35.0%	35.2%	35.8%	34.8%	38.3%	37.8%	38.1%	38.3%	38.1%	40.0%	42.1%	43.2%	44.6%	42.6%	48.1%
Total Revenue	215.8	230.6	242.7	249.4	938.5	248.5	246.1	255.8	260.5	1,010.9	272.2	281.5	296.8	309.3	1,159.9	1,360.5
y/y growth	8.8%	13.7%	13.4%	12.5%	12.1%	15.1%	6.8%	5.4%	4.5%	7.7%	9.6%	14.4%	16.1%	18.7%	14.7%	17.3%
q/q growth	-2.6%	6.8%	5.3%	2.8%		-0.4%	-0.9%	3.9%	1.9%		4.5%	3.4%	5.4%	4.2%		
Cost of Revenue	17.7	18.9	20.2	20.8	77.6	22.0	21.8	22.6	23.1	89.5	23.7	24.5	25.8	26.9	100.9	119.7
% margin	91.8%	91.8%	91.7%	91.6%	91.7%	91.1%	91.1%	91.1%	91.1%	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%	15.2%	12.4%	10.7%	15.3%	7.6%	12.4%	14.0%	16.7%	12.7%	18.6%
q/q growth	-74.7%	6.8%	6.5%	3.4%	0.0%	-71.7%	-0.9%	3.9%	1.9%	0.0%	2.7%	3.4%	5.4%	4.2%	0.0%	0.0%
Gross Profit, Non-GAAP	198.1	211.6	222.5	228.6	860.8	226.5	224.3	233.1	237.5	921.4	248.5	257.1	271.0	282.4	1,059.0	1,240.8
% Margin	91.8%	91.8%	91.7%	91.6%	91.7%	91.1%	91.1%	91.1%	91.1%	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%	6.0%	4.7%	3.9%	0.0%	9.7%	14.6%	16.3%	18.9%	0.0%	0.0%
Sales and marketing	56.7	61.8	64.8	66.8	250.3	69.0	67.7	69.8	70.3	276.8	74.9	76.6	80.1	82.6	314.2	361.9
% Margin	26.3%	26.8%	26.7%	26.8%	26.7%	27.8%	27.5%	27.3%	27.0%	27.4%	27.5%	27.2%	27.0%	26.7%	27.1%	26.6%
y/y growth	9.3%	11.1%	15.7%	15.1%	12.9%	21.6%	9.5%	7.7%	5.2%	10.6%	8.5%	13.1%	14.8%	17.4%	13.5%	15.2%
Research and development	23.3	25.3	26.7	24.9	100.2	28.5	28.1	28.9	28.9	114.4	31.3	31.0	32.6	34.0	128.9	148.3
% Margin	10.8%	11.0%	11.0%	10.0%	10.7%	11.5%	11.4%	11.3%	11.1%	11.3%	11.5%	11.0%	11.0%	11.0%	11.1%	10.9%
y/y growth	-2.0%	9.5%	17.6%	9.9%	8.6%	22.5%	11.1%	8.2%	16.3%	14.2%	9.6%	10.4%	13.0%	17.7%	12.7%	15.0%
General and Administrative	17.4	18.2	20.0	18.6	74.2	23.3	22.6	23.0	22.1	91.1	23.7	24.5	25.8	26.9	100.9	111.6
% Margin	8.1%	7.9%	8.2%	7.5%	7.9%	9.4%	9.2%	9.0%	8.5%	9.0%	8.7%	8.7%	8.7%	8.7%	8.7%	8.2%
y/y growth	13.3%	13.2%	32.6%	21.3%	20.0%	33.9%	24.3%	15.1%	19.1%	22.8%	1.6%	8.2%	12.2%	21.5%	10.8%	10.6%
Operating Profit (loss)	100.6	106.3	111.0	118.3	436.2	105.6	106.0	111.4	116.0	439.0	118.7	125.0	132.4	138.9	514.9	619.0
% Margin	46.6%	46.1%	45.7%	47.4%	46.5%	42.5%	43.0%	43.5%	44.5%	43.4%	43.6%	44.4%	44.6%	44.9%	44.4%	45.5%
Adjusted EBITDA	104.8	110.9	115.0	122.9	453.6	110.9	110.9	117.1	123.0	461.9	125.2	132.4	138.5	146.1	542.2	643.7
% Margin	48.6%	48.1%	47.4%	49.3%	48.3%	44.6%	45.1%	45.8%	47.2%	45.7%	46.0%	47.0%	46.7%	47.2%	46.7%	47.3%
y/y growth	10.2%	17.9%	8.0%	9.9%	11.3%	5.8%	0.1%	1.8%	0.1%	1.8%	12.9%	19.3%	18.3%	18.8%	17.4%	18.7%
Interest income / expense	(27.4)	(28.2)	(27.4)	(25.1)	(108.1)	(24.1)	(24.1)	(24.1)	(24.1)	(96.4)	(24.1)	(24.1)	(24.1)	(24.1)	(96.4)	(96.4)
Other Income / (expense)	1.3	(1.1)	0.3	(0.1)	0.4	(0.8)	0.0	0.0	0.0	(0.8)	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	18.0	19.2	20.2	74.3	20.8	22.2	23.8	25.3	92.1	115.0
Effective Tax Rate	18.3%	22.0%	20.4%	18.3%	19.7%	20.9%	22.0%	22.0%	22.0%	21.7%	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	63.8	68.1	71.7	267.6	73.8	78.7	84.5	89.5	326.5	407.7
% Margin	28%	26%	28%	30%	28%	26%	26%	27%	28%	26%	27%	28%	28%	29%	28%	30%
FDSO (millions)																
Net Income (loss) per share	\$ 0.20	\$ 0.20	\$ 0.21	\$ 0.24	\$ 0.85	\$ 0.20	\$ 0.20	\$ 0.21	\$ 0.22	\$ 0.85	\$ 0.23	\$ 0.25	\$ 0.26	\$ 0.28	\$ 1.02	\$ 1.26

Source: Company Data, Barclays Research

FIGURE 5
SolarWinds Balance Sheet

Fiscal = Dec USD, m	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20	2Q20E	3Q20E	4Q20E	FY2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
Assets																
Cash, equivalents and ST investments	434.5	155.3	221.1	173.4	173.4	237.0	312.8	339.2	422.7	422.7	504.3	603.9	609.0	726.3	726.3	1,119.9
Cash, cash equivalents	434.5	155.3	221.1	173.4	173.4	237.0	312.8	339.2	422.7	422.7	504.3	603.9	609.0	726.3	726.3	1,119.9
Short term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	109.8	96.3	102.2	121.9	121.9	121.7	119.0	126.5	148.9	148.9	179.5	185.6	189.2	205.6	205.6	273.6
Income tax receivable	1.1	0.7	0.7	1.1	1.1	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid and other current assets	20.8	27.8	24.1	23.5	23.5	25.4	25.4	25.4	25.4	25.4	25.4	25.4	25.4	25.4	25.4	25.4
Total Current Assets	566.3	280.1	348.1	319.9	319.9	385.7	458.9	492.7	598.6	598.6	710.9	816.6	825.2	959.0	959.0	1,420.6
Property and equipment, net	36.9	37.9	35.7	38.9	38.9	41.6	47.6	53.4	56.9	56.9	54.4	51.3	49.6	47.1	47.1	41.4
Long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	6.9	6.9	6.7	4.5	4.5	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Goodwill	3,661.8	3,990.0	3,929.6	4,058.2	4,058.2	4,033.8	4,033.8	4,083.8	4,083.8	4,083.8	4,083.8	4,083.8	4,183.8	4,183.8	4,183.8	4,283.8
Intangible assets, net	892.0	873.1	815.8	771.5	771.5	704.1	649.7	599.7	553.7	553.7	500.8	453.1	410.1	371.4	371.4	221.1
Other assets	16.7	19.3	20.2	27.8	27.8	29.4	29.4	29.4	29.4	29.4	29.4	29.4	29.4	29.4	29.4	29.4
Total Assets	5,180.5	5,207.4	5,156.1	5,310.7	5,310.7	5,289.0	5,314.0	5,353.5	5,416.8	5,416.8	5,473.7	5,528.7	5,592.6	5,685.1	5,685.1	6,090.7
Liabilities																
Accounts payable	10.1	11.5	10.3	13.8	13.8	10.8	11.1	15.3	15.6	15.6	10.9	8.4	5.9	6.2	6.2	23.5
Accrued liabilities	40.9	49.0	47.9	47.0	47.0	39.7	39.7	39.7	39.7	39.7	39.7	39.7	39.7	39.7	39.7	39.7
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	18.4	18.4	18.4	18.4	18.4	18.4	18.4	18.4	18.4	18.4
Current portion of deferred revenue	285.2	289.2	293.4	312.2	312.2	323.2	332.9	344.2	373.7	373.7	403.5	420.1	435.5	465.9	465.9	556.0
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	435.4	450.9	480.7	480.7	505.7	520.0	532.8	563.5	563.5	670.8
Deferred revenue, net of current portion	26.6	29.3	30.7	31.2	31.2	32.4	32.8	33.9	36.8	36.8	39.7	41.4	42.9	45.9	45.9	54.7
Non-current deferred taxes	137.5	128.8	114.9	97.9	97.9	89.2	98.0	106.8	115.6	115.6	125.6	135.6	145.6	155.6	155.6	195.6
Other long-term liabilities	133.9	137.0	130.6	122.7	122.7	123.7	123.7	123.7	123.7	123.7	123.7	123.7	123.7	123.7	123.7	123.7
LT debt, net of current portion	1,901.4	1,898.7	1,896.1	1,893.4	1,893.4	1,890.7	1,890.7	1,890.7	1,890.7	1,890.7	1,890.7	1,890.7	1,890.7	1,890.7	1,890.7	1,890.7
Total Liabilities	2,574.1	2,573.7	2,562.5	2,661.2	2,661.22	2,656.7	2,675.9	2,701.4	2,742.8	2,742.82	2,780.8	2,806.7	2,831.0	2,874.7	2,874.67	3,030.91
Equity																
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	3,054.7	3,054.7	3,054.7	3,054.7	3,054.7	3,054.7	3,054.7	3,054.7	3,054.7	3,054.7
Accumulated other comprehensive loss	(10.7)	10.5	(44.0)	(5.2)	(5.2)	(35.7)	(35.7)	(35.7)	(35.7)	(35.7)	(35.7)	(35.7)	(35.7)	(35.7)	(35.7)	(35.7)
Accumulated Earnings	(402.9)	(405.0)	(400.6)	(387.4)	(387.4)	(387.0)	(381.3)	(367.2)	(345.4)	(345.4)	(326.4)	(297.3)	(257.8)	(209.0)	(209.0)	40.5
Total Equity	2,606.4	2,633.6	2,593.6	2,649.5	2,649.5	2,632.4	2,638.0	2,652.2	2,674.0	2,674.0	2,692.9	2,722.0	2,761.6	2,810.4	2,810.4	3,059.8
Total Liabilities + Equity	5,180.5	5,207.4	5,156.1	5,310.7	5,310.7	5,289.0	5,314.0	5,353.5	5,416.8	5,416.8	5,473.7	5,528.7	5,592.6	5,685.1	5,685.1	6,090.7

Source: Company Data, Barclays Research

FIGURE 6
SolarWinds Cash Flows

Fiscal = Dec USD, m	1Q19A	2Q19A	3Q19A	4Q19	FY2019	1Q20	2Q20E	3Q20E	4Q20E	FY2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY2021E	FY2022E
Net Income	3.1	(2.1)	4.4	13.2	18.6	0.4	(5.6)	2.5	10.2	7.5	6.6	16.5	26.3	35.1	84.6	189.8
Adjustments from Operating Activities																
Depreciation and amortization	64.5	65.6	66.6	66.6	263.2	67.8	61.0	57.4	54.7	240.9	61.1	56.7	50.8	47.6	216.3	181.8
Provision for Doubtful Accounts	0.5	0.4	0.5	0.0	1.5	3.0	-	-	-	3.0	-	-	-	-	-	-
Stock-based compensation expense	7.7	7.4	8.8	10.5	34.4	11.3	11.3	11.6	11.6	45.8	12.3	12.6	13.2	13.7	51.8	59.6
Accrued earnout gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt issuance cost	2.3	2.3	2.3	2.3	9.2	2.3	-	-	-	2.3	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred taxes	(11.3)	(9.1)	(9.3)	(9.9)	(39.6)	(8.7)	8.8	8.8	8.8	17.7	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	-	-	-	1.0	-	-	-	-	-	-
Other non-cash expenses	(0.7)	0.3	0.5	0.5	0.5	(0.2)	-	-	-	(0.2)	-	-	-	-	-	-
Adjustments to working capital items																
Accounts receivable	(10.6)	17.9	(8.1)	(18.2)	(19.0)	(4.1)	2.7	(7.5)	(22.4)	(31.2)	(30.6)	(6.2)	(3.5)	(16.5)	(56.8)	(68.0)
Income taxes receivable	(0.3)	0.4	(0.0)	(0.4)	(0.2)	(0.6)	-	-	-	(0.6)	-	-	-	-	-	-
Prepaid and other current assets	(4.3)	(1.8)	(0.1)	(4.9)	(11.1)	(4.1)	-	-	-	(4.1)	-	-	-	-	-	-
Accounts payable	0.5	1.0	(1.1)	3.4	3.7	(3.0)	0.3	4.3	0.3	1.8	(4.7)	(2.4)	(2.5)	0.2	(9.4)	17.3
Accrued liabilities and other	(10.8)	5.8	(0.3)	5.7	0.3	(5.8)	-	-	-	(5.8)	-	-	-	-	-	-
Accrued Interest Payable	0.6	(0.0)	(0.6)	(0.0)	(0.0)	(0.0)	-	-	-	(0.0)	-	-	-	-	-	-
Income taxes payable	2.5	(6.9)	2.0	(0.7)	(3.0)	4.6	-	-	-	4.6	-	-	-	-	-	-
Deferred revenue	20.1	(3.3)	9.6	14.9	41.2	14.7	10.1	12.4	32.4	69.6	32.7	18.3	16.9	33.4	101.3	99.0
Other long-term liabilities	0.8	(0.6)	0.7	-	0.9	(0.1)	-	-	-	(0.1)	-	-	-	-	-	-
Cash from operations	63.4	78.3	75.2	83.1	299.9	78.4	88.7	89.6	95.6	352.2	87.5	105.5	111.2	123.6	427.8	519.5
y/y growth	79.2%	10.6%	27.5%	-5.7%	18.5%	23.7%	13.3%	19.1%	15.0%	17.4%	11.6%	19.0%	24.1%	29.4%	21.5%	21.4%
Purchases of investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturities of investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of PPE	(4.6)	(4.2)	(1.8)	(6.6)	(17.2)	(6.5)	(11.1)	(11.5)	(10.4)	(39.5)	(4.1)	(4.2)	(4.5)	(4.6)	(17.4)	(19.0)
Purchase of intangible assets and other LT	(1.2)	(1.2)	(1.1)	(2.3)	(5.9)	(1.7)	(1.7)	(1.7)	(1.7)	(6.8)	(1.7)	(1.7)	(1.7)	(1.7)	(6.8)	(6.8)
Acquisition of businesses, net cash	-	(349.5)	-	(112.9)	(462.4)	-	-	(50.0)	-	(50.0)	-	-	(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)	(12.8)	(63.2)	(12.1)	(96.3)	(5.8)	(5.9)	(106.1)	(6.3)	(124.2)	(125.8)
Cash from financing activities	(4.9)	(4.9)	(4.0)	(11.8)	(25.6)	(4.1)	-	-	-	(4.1)	-	-	-	-	-	-
FX impact	(1.0)	0.9	(5.0)	4.0	(1.1)	(2.4)	-	-	-	(2.4)	-	-	-	-	-	-
Net change in cash	51.8	(279.2)	65.8	(47.7)	(209.2)	63.6	75.9	26.4	83.4	249.3	81.7	99.6	5.0	117.3	303.6	393.6
Cash at Beginning of period	382.6	434.5	155.3	221.1	382.6	173.4	237.0	312.8	339.2	173.4	422.7	504.3	603.9	609.0	422.7	726.3
Cash at End of period	434.5	155.3	221.1	173.4	173.4	237.0	312.8	339.2	422.7	422.7	504.3	603.9	609.0	726.3	726.3	1,119.9
Free Cash Flow	57.6	72.8	72.2	74.2	276.9	70.1	75.9	76.4	83.4	305.8	81.7	99.6	105.0	117.3	403.6	493.6
uFCF	80.8	99.1	96.1	95.6	371.7	90.9	96.8	97.3	104.4	389.4	100.7	118.6	124.1	136.4	479.8	570.0
% conversion	77.1%	89.4%	83.6%	77.8%	81.9%	81.9%	87.3%	83.1%	84.9%	84.3%	80.4%	89.6%	89.6%	93.4%	88.5%	88.5%
y/y growth	5.4%	3.9%	11.1%	-13.9%	0.3%	12.4%	-2.3%	1.3%	9.2%	4.8%	10.9%	22.5%	27.5%	30.6%	23.2%	18.8%

Source: Company Data, Barclays Research

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Primary Stocks (Ticker, Date, Price)

SolarWinds Corporation (SWI, 30-Apr-2020, USD 16.98), Underweight/Positive, A/CE/D/J/L

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USD 16.98 (30-Apr-2020)

Stock Rating

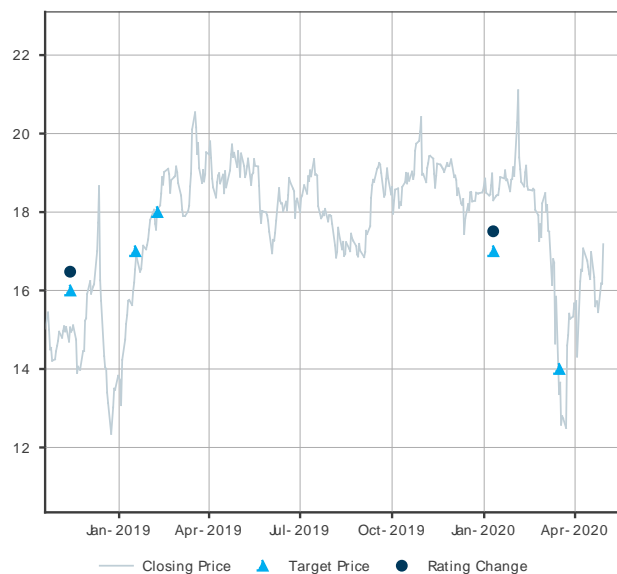
UNDERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - USD (as of 30-Apr-2020)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
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](#)

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Valuation Methodology: Our PT of \$14 is based on EV/CY21E uFCF of 13x and CY21E uFCF of \$480mn.

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