



Capital
Markets

October 27, 2020

SolarWinds Corporation

SMB showing signs of improvement; Q3/20 review

Our view: SolarWinds delivered a good quarter that demonstrated the resiliency and profitability in the model. With a lot going on, we are most focused on 1) commentary around a firming/improving SMB environment, 2) the SentryOne acquisition closing this week, 3) subscription/Orion traction, 4) MSP spin approval likely in 1H/21 and 5) a pending CEO announcement. Maintain OP and increase PT to \$25.

Key points:

All you need to know: SolarWinds delivered a good quarter with headline revenue/EPS of \$261.3M/\$0.28 vs. consensus at \$256.6M/\$0.24. Additionally, adjusted EBITDA and uFCF both exceeded consensus at \$132.7M vs. \$120.4M and \$108.2M vs. \$90.3M, respectively, to demonstrate the inherent profitability of the model as EBITDA margins of 50.8% were the highest in eleven quarters. With a lot going on, the highlight for us could be commentary around the environment, which likely draws broader investor interest beyond the stock. More specifically, there were signs of improvement in linearity vs. Q2/20, improved sales to new SMB customers, greater customer activity in general, good customer retention and improvements across geographies most noticeably in EMEA followed by North America. SMB customer spending is improving, both in new customer spend and in cross-sell and if end markets stay consistent, SMB spending could be better in CY/21 than in CY/20 in management's view, though likely not back to pre-COVID level growth in CY/19. Beyond this, subscriptions continue to grow at 18% to \$100.8M while Orion doubled q/q and should see meaningful growth in Q4/20. More context was provided around the MSP segment, with an expected \$300M of revenue in CY/20, +15% y/y and board approval expected by the company in 1H/21, though much work remains left to do while the SentryOne acquisition is expected to close later this week. Midpoint revenue/Adjusted EBITDA guidance for Q4/20 was slightly higher vs. consensus, in part due to the acquisition. Finally, the CEO search is progressing with management expecting it to conclude in a "relatively short" period of time, or likely around Q4/20 results in late January in our view. Maintain OP rating and increase PT to \$25.

SentryOne acquisition: The acquisition of SentryOne, a provider of database performance monitoring and DataOps solutions on the Microsoft platform is expected to close later this week. SentryOne has little customer overlap and should complement and broaden existing database offerings. SentryOne should contribute ~\$2M to Q4/20 revenue and should have mid-\$20M in revenue in CY/20 with low double-digit growth. SentryOne revenue contribution was included in guidance and we have added to our estimates.

Q4/20 guidance: Q4/20 midpoint revenue/EPS guidance was \$263.5M/\$0.25 vs. consensus at \$262.2M/\$0.25 while midpoint adjusted EBITDA guidance was \$124.5M vs. consensus at \$124.1M.

RBC Capital Markets, LLC

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

Dan Bergstrom (Analyst)
(612) 313-1254
dan.bergstrom@rbccm.com

Matthew Swanson (AVP)
(612) 313-1237
matthew.swanson@rbccm.com

Anushtha Mittal (Associate)
(347) 637-0003
anushtha.mittal@rbccm.com

Outperform

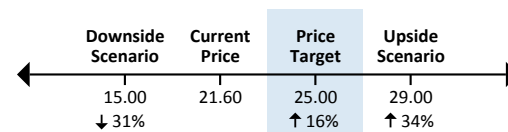
NYSE: SWI; USD 21.60

Price Target USD 25.00 ↑ 21.00

WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	320.1	Market Cap (MM):	6,914
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	343,269

RBC Estimates

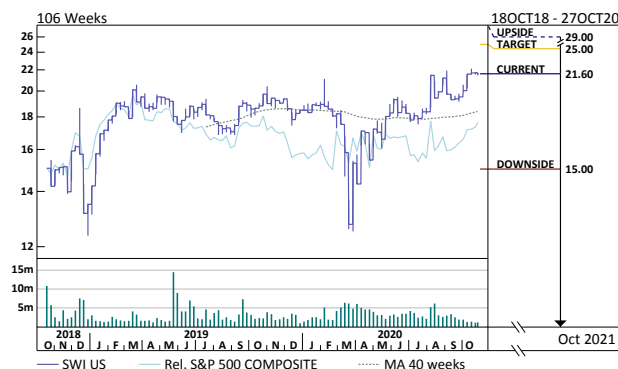
FY Dec	2019A	2020E	2021E	2022E
Revenue	938.5	1,019.8	1,145.0	1,262.0
Prev.		1,013.0	1,121.0	1,233.4
EPS, Ops Diluted	0.85	0.98	1.09	1.25
Prev.		0.94	1.05	1.20
P/E	25.4x	22.0x	19.8x	17.3x
EBITDA, Adj	453.6	487.2	539.9	609.4
Prev.		473.3	527.4	585.5
Revenue	Q1	Q2	Q3	Q4
2019	215.8A	230.6A	242.7A	249.4A
2020	248.5A	246.6A	261.3A	263.5E
Prev.			256.5E	261.5E
2021	269.5E	277.5E	290.0E	308.0E
Prev.	265.0E	271.5E	283.5E	301.0E
EPS, Ops Diluted				
2019	0.20A	0.20A	0.21A	0.24A
2020	0.20A	0.25A	0.28A	0.25E
Prev.			0.24E	
2021	0.25E	0.26E	0.28E	0.31E
Prev.	0.24E	0.25E	0.27E	0.30E

All values in USD unless otherwise noted.



Target/Upside/Downside Scenarios

Exhibit 1: SolarWinds Corporation



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

Price target/base case

We calculate our base-case price target of \$25 using a 15.5x multiple on our CY/22 EBITDA estimate of \$609M (\$21 based on 16.2x our CY/21 EBITDA estimate of \$527M previously) as we turn to our CY/22 estimates for valuation. Our price target and multiple balance an increasing subscription mix with an uncertain macro outlook. Our increased price target and multiple are warranted in our view due to a large and expanding TAM that leads to reasonable revenue growth and above-average margins.

Upside scenario

Our upside case of \$29 is based on EBITDA growth of 7% in CY/20E, 14% in CY/21E and 16% in CY/22E, or 300 bps above our base-case estimate in each year. To reach this level of growth, we believe there would need to be some combination of higher cross-selling, better new customer additions, and a stable to better macro environment. We believe upside to EBITDA and margins could point to 17x CY/22E EV/EBITDA, or a slight premium to our base-case scenario.

Downside scenario

Our downside case of \$15 is based on EBITDA growth of 2% in CY/20E, 9% in CY/21E and 11% in CY/22E, or 200 bps below our base-case estimate in each year. To reach this level of growth, we believe there would need to be a fall-off in tech spending, less success expanding into new customers, and lower renewal rates. Additionally, with a less-attractive growth and margin profile, we believe the stock could receive a lower multiple. We believe downside to EBITDA and margins could point to 11x CY/22E EV/EBITDA, which would be a discount to peers.

Investment summary

High-level overview of SolarWinds

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

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

Potential catalysts:

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

Risks:

1) Licenses still account for ~20% of revenue and could prove volatile; 2) potential variance in subscription and maintenance expansion and renewal rates; 3) competition and technology change; 4) macroeconomic challenges including but not limited to the impact of COVID-19 and 5) Silver Lake and Thoma Bravo own a majority of shares and have a controlling interest over stockholders.



Exhibit 2: Results vs. RBC estimates

Revenue, EPS, and Margins	Sep-20A		Delta	Y/Y	Q/Q
	actual	est.			
Total revenue	261.3	256.5	4.8	7.7%	6.0%
Gross margin	91.3%	91.5%	-18 bps	-37 bps	-5 bps
Sales and marketing	66.4	71.3	-4.9	2.4%	0.6%
as % of revenue	25.4%	27.8%	-238 bps	-130 bps	-135 bps
General and administration	18.2	24.1	-5.9	-9.0%	-6.8%
as % of revenue	7.0%	9.4%	-244 bps	-128 bps	-95 bps
Research and development	26.7	26.5	0.2	-0.2%	-0.9%
as % of revenue	10.2%	10.3%	-10 bps	-80 bps	-71 bps
Operating income	127.3	112.8	14.5	14.7%	12.8%
Operating margin	48.7%	44.0%	474 bps	300 bps	296 bps
Other income	-17.3	-17.5	0.1	-36.1%	-3.4%
Taxes	22.3	21.0	1.3	NA	31.4%
Tax rate	20.3%	22.0%	-171 bps	-23 bps	239 bps
EPS	\$0.28	\$0.24	\$0.04	29.2%	11.9%
Shares	316.7	316.3	0.4	1.8%	0.6%
Balance Sheet and Cash Flow					
DSO	40	38	2	2	2
Deferred revenue	358.2	353.3	4.8	10.5%	3.4%
Billings	273.0	263.4	9.6	10.0%	15.0%
CFO	100.9	74.4	26.5	34.2%	-4.5%
CFO per share	\$0.32	\$0.24	\$0.08	31.8%	-5.1%
CAPEX	-8.3	-3.8	-4.4	352.8%	48.5%
Free cash flow	92.6	70.6	22.1	26.3%	-7.5%
Free cash flow per share	\$0.29	\$0.22	\$0.07	24.0%	-8.0%

\$ in million except per share data

Source: Company reports and RBC Capital Markets estimates

Q4/20 Guidance

- Total revenue of \$261 million to \$266 million, or \$263.5 million at the midpoint. This compares to RBC at \$261.5 million and consensus at \$262.2 million.
- Adjusted EBITDA of \$123 million to \$126 million, or \$124.5 million at the midpoint. This compares to RBC at \$122.9 million and consensus at \$124.1 million.
- EPS of \$0.25. This compares to RBC at \$0.25 and consensus at \$0.25.

2020 Guidance

- Revenue of \$1,017 million to \$1,022 million and \$1,019.5 million at the midpoint. This compares to previous guidance of \$1,008 million to \$1,018 million, or \$1,013 million at the midpoint, RBC at \$1,013 million and consensus at \$1,014 million.
- Adjusted EBITDA of \$486 million to \$489 million or \$487.5 million at the midpoint. This compares to previous guidance of \$470 million to \$476 million, or \$473 million at the midpoint, RBC at \$473 million and consensus at \$472 million.
- EPS of \$0.98. This compares to previous guidance of \$0.94, RBC at \$0.94 and consensus at \$0.94.

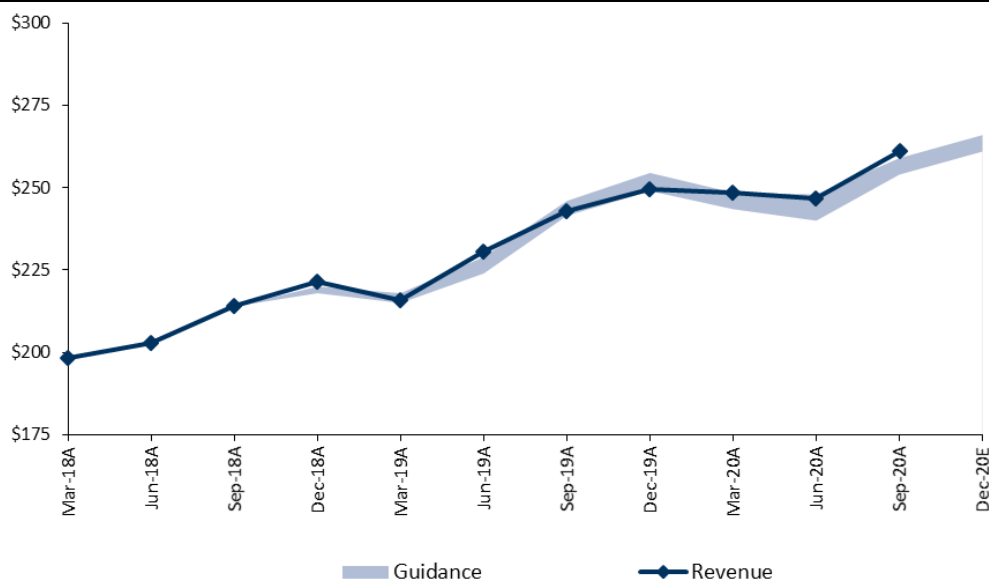


Exhibit 3: Revised vs. prior estimates

	Sep-20A						Dec-20E		2020E		2021E	
Revenue, EPS, and Margins	Sep-19A	Dec-19A	Mar-20A	Jun-20A	actual	est.	new	prior	new	prior	new	prior
Total revenue	242.7	249.4	248.5	246.6	261.3	256.5	263.5	261.5	1,019.8	1,013.0	1,145.0	1,121.0
Gross margin	91.7%	91.7%	91.1%	91.4%	91.3%	91.5%	91.5%	91.8%	91.3%	91.4%	91.6%	91.6%
Sales and marketing	64.8	66.8	69.0	66.0	66.4	71.3	73.3	72.7	274.6	279.0	312.0	315.0
as % of revenue	26.7%	26.8%	27.8%	26.8%	25.4%	27.8%	27.8%	27.8%	26.9%	27.5%	27.3%	28.1%
General and administration	20.0	18.6	23.3	19.5	18.2	24.1	21.1	20.9	82.1	87.9	97.9	100.9
as % of revenue	8.2%	7.5%	9.4%	7.9%	7.0%	9.4%	8.0%	8.0%	8.1%	8.7%	8.5%	9.0%
Research and development	26.7	24.9	28.5	26.9	26.7	26.5	26.4	26.2	108.5	108.1	120.9	116.8
as % of revenue	11.0%	10.0%	11.5%	10.9%	10.2%	10.3%	10.0%	10.0%	10.6%	10.7%	10.6%	10.4%
Operating income	111.0	118.3	105.6	112.9	127.3	112.8	120.4	120.2	466.2	451.5	518.4	494.6
Operating margin	45.7%	47.4%	42.5%	45.8%	48.7%	44.0%	45.7%	46.0%	45.7%	44.6%	45.3%	44.1%
Other income	-27.1	-25.2	-24.9	-18.0	-17.3	-17.5	-17.3	-17.0	-77.5	-77.2	-69.4	-62.8
Taxes	17.2	17.1	16.9	17.0	22.3	21.0	22.7	22.7	78.8	77.5	98.8	95.0
Tax rate	20.5%	18.3%	20.9%	17.9%	20.3%	22.0%	22.0%	22.0%	0.0%	0.0%	0.0%	0.0%
EPS	\$0.21	\$0.24	\$0.20	\$0.25	\$0.28	\$0.24	\$0.25	\$0.25	\$0.98	\$0.94	\$1.09	\$1.05
Shares	311.1	311.9	312.9	314.9	316.7	316.3	317.5	317.1	315.5	315.3	320.0	319.6
Balance Sheet and Cash Flow												
DSO	38	44	44	38	40	38	40	40				
Deferred revenue	324.1	343.4	355.6	346.4	358.2	353.3	370.7	365.7	370.7	365.7	403.2	397.8
Billings	248.3	268.7	260.6	237.4	273.0	263.4	276.0	273.9	1,047.1	1,035.4	1,177.5	1,153.1
CFO	75.2	83.1	78.4	105.7	100.9	74.4	90.8	82.2	375.8	340.7	412.8	407.5
CFO per share	\$0.24	\$0.27	\$0.25	\$0.34	\$0.32	\$0.24	\$0.29	\$0.26	\$1.19	\$1.08	\$1.29	\$1.27
CAPEX	-1.8	-6.6	-6.5	-5.6	-8.3	-3.8	-7.9	-3.9	-28.3	-19.9	-28.6	-16.8
Free cash flow	73.4	76.5	71.8	100.1	92.6	70.6	82.9	78.3	347.5	320.8	384.2	390.7
Free cash flow per share	\$0.24	\$0.25	\$0.23	\$0.32	\$0.29	\$0.22	\$0.26	\$0.25	\$1.10	\$1.02	\$1.20	\$1.22
\$ in million except per share data												

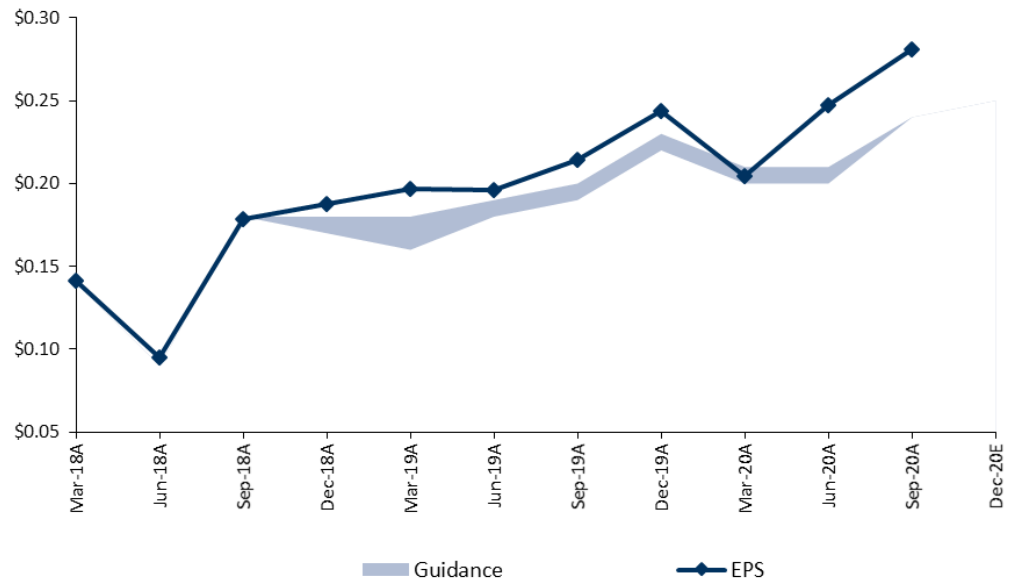
Source: Company reports and RBC Capital Markets estimates

Exhibit 4: Quarterly revenue vs. guidance (M)



Source: Company reports

Exhibit 5: Quarterly EPS vs. guidance



Source: Company reports



Valuation

To derive our \$25 price target, we apply a 15.5x 2022E EV/EBITDA multiple, which is in line to slightly higher vs. peers with a similar growth profile. Our target also assumes 7.5x 2022E EV/S, which is also in line with similarly growing peers. We believe this is a good balance that gives the company credit for reasonable growth with a very strong margin profile. Our price target supports an Outperform rating.

Risks to rating and price target

Risks to our price target and rating could include changes in the macro environment, moderating IT spending, including that from COVID-19, a slowdown in revenue growth, changes in renewal rates, or should acceptance of the company's products change relative to new entrants and established competitors.

Company description

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



Ticker: SWI (\$M) unless noted	Dec-19A				Dec-20E				Dec-21E				Dec-22E				2019A	2020E	2021E	2022E
INCOME STATEMENT	Mar-19A	Jun-19A	Sep-19A	Dec-19A	Mar-20A	Jun-20A	Sep-20A	Dec-20E	Mar-21E	Jun-21E	Sep-21E	Dec-21E	Mar-22E	Jun-22E	Sep-22E	Dec-22E				
Subscription revenue	71.6	80.6	85.3	89.2	95.1	96.4	100.9	103.0	113.5	121.0	127.5	139.0	137.0	142.0	148.0	160.0	326.7	395.4	501.0	587.0
Maintenance revenue	106.3	110.8	113.8	115.6	116.3	116.5	121.1	121.0	122.0	124.5	127.5	130.0	131.0	133.0	136.0	139.0	446.5	475.0	504.0	539.0
Total recurring revenue	177.9	191.4	199.1	204.8	211.5	212.9	222.0	224.0	235.5	245.5	255.0	269.0	268.0	275.0	284.0	299.0	773.1	870.4	1,005.0	1,126.0
License revenue	37.9	39.2	43.6	44.6	37.0	33.7	39.3	39.5	34.0	32.0	35.0	39.0	33.0	31.0	34.0	38.0	165.3	149.4	140.0	136.0
Total revenue	215.8	230.6	242.7	249.4	248.5	246.6	261.3	263.5	269.5	277.5	290.0	308.0	301.0	306.0	318.0	337.0	938.5	1,019.8	1,145.0	1,262.0
Total cost of revenue	17.7	18.9	20.2	20.8	22.0	21.3	22.7	22.4	22.9	23.6	24.7	24.6	25.9	26.0	27.0	27.0	77.6	88.4	95.8	105.9
Gross profit	198.1	211.6	222.5	228.6	226.5	225.3	238.6	241.1	246.6	253.9	265.4	283.4	275.1	280.0	291.0	310.0	860.8	931.5	1,049.2	1,156.1
Sales and marketing	56.7	61.8	64.8	66.8	69.0	66.0	66.4	73.3	75.5	76.3	77.7	82.6	82.5	83.8	83.6	88.6	250.3	274.6	312.0	338.6
Research and development	23.3	25.3	26.7	24.9	28.5	26.9	26.7	26.4	29.6	29.4	30.5	31.5	32.8	31.5	32.5	33.1	100.2	108.5	120.9	129.9
General and administrative	17.4	18.2	20.0	18.6	23.3	19.5	18.2	21.1	23.8	24.5	24.6	24.9	24.1	24.5	25.4	27.0	74.2	82.1	97.9	101.0
Operating expenses	97.5	105.3	111.6	110.3	120.8	112.5	111.3	120.7	128.9	130.2	132.7	139.1	139.3	139.9	141.6	148.7	424.6	465.2	530.9	569.4
Operating income	100.6	106.3	111.0	118.3	105.6	112.9	127.3	120.4	117.7	123.8	132.6	144.3	135.8	140.1	149.4	161.3	436.2	466.2	518.4	586.7
Other income	(26.1)	(29.3)	(27.1)	(25.2)	(24.9)	(18.0)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(107.7)	(77.5)	(69.4)	(69.4)
Pretax income	74.5	77.1	83.9	93.1	80.8	94.9	110.0	103.1	100.3	106.4	115.3	127.0	118.4	122.8	132.1	144.0	328.5	388.7	449.0	517.3
Taxes	13.6	17.0	17.2	17.1	16.9	17.0	22.3	22.7	22.1	23.4	25.4	27.9	26.1	27.0	29.1	31.7	64.8	78.8	98.8	113.8
Net income	60.9	60.1	66.7	76.0	63.9	77.9	87.7	80.4	78.3	83.0	89.9	99.0	92.4	95.8	103.0	112.3	263.7	309.9	350.2	403.5
Earnings per share	\$0.20	\$0.20	\$0.21	\$0.24	\$0.20	\$0.25	\$0.28	\$0.25	\$0.25	\$0.26	\$0.28	\$0.31	\$0.29	\$0.30	\$0.32	\$0.35	\$0.85	\$0.98	\$1.09	\$1.25
Diluted shares outstanding	309.8	306.6	311.1	311.9	312.9	314.9	316.7	317.5	318.5	319.5	320.5	321.5	322.5	323.5	324.5	325.5	309.8	315.5	320.0	324.0
KEY METRICS																				
DSO	46	38	38	44	44	38	40	40	40	38	38	40	40	38	38	40				
Cash	434.5	155.3	221.1	173.4	237.0	331.4	425.0	510.7	596.0	697.9	799.6	907.6	1,025.1	1,142.4	1,258.2	1,384.9	173.4	510.7	907.6	1,025.1
Cash per share	\$1.40	\$0.51	\$0.71	\$0.56	\$0.76	\$1.05	\$1.34	\$1.61	\$1.87	\$2.18	\$2.49	\$2.82	\$3.18	\$3.53	\$3.88	\$4.25	\$0.56	\$1.62	\$2.84	\$3.16
Debt	2,035.3	2,035.7	2,026.6	2,016.1	2,014.4	2,004.5	2,004.2	2,004.2	2,004.2	2,004.2	2,004.2	2,004.2	2,004.2	2,004.2	2,004.2	2,004.2	2,016.1	2,004.2	2,004.2	2,004.2
Net cash	(1,600.8)	(1,880.4)	(1,805.6)	(1,842.7)	(1,777.5)	(1,673.1)	(1,579.2)	(1,493.5)	(1,408.2)	(1,306.3)	(1,204.6)	(1,096.6)	(979.1)	(861.8)	(746.0)	(619.3)	(1,842.7)	(1,493.5)	(1,096.6)	(979.1)
Net cash per share	(\$5.17)	(\$6.13)	(\$5.80)	(\$5.91)	(\$5.68)	(\$5.31)	(\$4.99)	(\$4.70)	(\$4.42)	(\$4.09)	(\$3.76)	(\$3.41)	(\$3.04)	(\$2.66)	(\$2.30)	(\$1.90)	(\$5.95)	(\$4.73)	(\$3.43)	(\$3.02)
Deferred revenue	311.8	318.5	324.1	343.4	355.6	346.4	358.2	370.7	378.1	385.7	393.4	403.2	411.3	419.5	427.9	438.6	343.4	370.7	403.2	411.3
Billings	231.5	237.3	248.3	268.7	260.6	237.4	273.0	276.0	276.9	285.1	297.7	317.8	309.1	314.2	326.4	347.7	985.7	1,047.1	1,177.5	1,270.1
Subscription billings	86.3	84.6	89.5	108.0	106.1	87.3	110.1	115.5	120.9	128.6	135.2	148.8	145.1	150.2	156.4	170.7	368.5	419.0	533.5	595.1
Unlevered free cash flow	80.8	99.1	96.1	95.6	90.9	116.5	108.2	109.0	107.5	118.0	118.2	133.5	125.5	126.0	130.6	145.5	371.7	424.6	477.2	528.7
Adjusted EBITDA	104.8	110.9	115.0	122.9	110.9	119.1	132.7	124.5	123.7	128.9	136.9	150.3	141.6	145.3	154.2	168.3	453.6	487.2	539.9	609.4
Adjusted EBITDA Margin	48.6%	48.1%	47.4%	49.3%	44.6%	48.3%	50.8%	47.3%	45.9%	46.4%	47.2%	48.8%	47.0%	47.5%	48.5%	49.9%	48.3%	47.8%	47.1%	48.3%
PERCENT OF REVENUE																				
Subscription revenue	33.2%	35.0%	35.2%	35.8%	38.3%	39.1%	38.6%	39.1%	42.1%	43.6%	44.0%	45.1%	45.5%	46.4%	46.5%	47.5%	34.8%	38.8%	43.8%	46.5%
Maintenance revenue	49.3%	48.1%	46.9%	46.4%	46.8%	47.2%	46.4%	45.9%	45.3%	44.9%	44.0%	42.2%	43.5%	43.5%	42.8%	41.2%	47.6%	46.6%	44.0%	42.7%
Total recurring revenue	82.4%	83.0%	82.0%	82.1%	85.1%	86.3%	85.0%	85.0%	87.4%	88.5%	87.9%	87.3%	89.0%	89.9%	89.3%	88.7%	82.4%	85.3%	87.8%	89.2%
License revenue	17.6%	17.0%	18.0%	17.9%	14.9%	13.7%	15.0%	15.0%	12.6%	11.5%	12.1%	12.7%	11.0%	10.1%	10.7%	11.3%	17.6%	14.7%	12.2%	10.8%
Gross margin	91.8%	91.8%	91.7%	91.7%	91.1%	91.4%	91.3%	91.5%	91.6%	91.5%	91.5%	92.0%	91.4%	91.5%	91.5%	92.0%	91.7%	91.3%	91.6%	91.6%
Sales and marketing	26.3%	26.8%	26.7%	26.8%	27.8%	26.8%	25.4%	27.8%	28.0%	27.5%	26.8%	26.8%	27.4%	27.4%	26.3%	26.3%	26.7%	26.9%	27.3%	26.8%
Research and development	10.8%	11.0%	11.0%	10.0%	11.5%	10.9%	10.2%	10.0%	11.0%	10.6%	10.5%	10.2%	10.9%	10.3%	10.2%	9.8%	10.7%	10.6%	10.3%	10.3%
General and administrative	8.1%	7.9%	8.2%	7.5%	9.4%	7.9%	7.0%	8.0%	8.8%	8.8%	8.5%	8.1%	8.0%	8.0%	8.0%	8.0%	7.9%	8.1%	8.5%	8.0%
Operating margin	46.6%	46.1%	45.7%	47.4%	42.5%	45.8%	48.7%	45.7%	43.7%	44.6%	45.7%	46.9%	45.1%	45.8%	47.0%	47.9%	46.5%	45.7%	45.3%	46.5%
Net margin	28.2%	26.1%	27.5%	30.5%	25.7%	31.6%	33.6%	30.5%	29.0%	29.9%	31.0%	32.2%	30.7%	31.3%	32.4%	33.3%	28.1%	30.4%	30.6%	32.0%
Adjusted EBITDA	48.6%	48.1%	47.4%	49.3%	44.6%	48.3%	50.8%	47.3%	45.9%	46.4%	47.2%	48.8%	47.0%	47.5%	48.5%	49.9%	48.3%	47.8%	47.1%	48.3%
GROWTH Y/Y																				
Subscription revenue	12.4%	22.9%	25.7%	28.1%	33.0%	19.6%	18.2%	15.5%	19.3%	25.5%	26.4%	35.0%	20.7%	17.4%	16.1%	15.1%	22.5%	21.0%	26.7%	17.2%
Maintenance revenue	8.7%	11.3%	11.1%	9.3%	9.5%	5.1%	6.5%	4.7%	4.9%	6.9%	5.3%	7.4%	7.4%	6.8%	6.7%	6.9%	10.1%	6.4%	6.1%	6.9%
Total recurring revenue	10.1%	15.9%	16.9%	16.8%	18.9%	11.2%	11.5%	9.4%	11.3%	15.3%	14.9%	20.1%	13.8%	12.0%	11.4%	11.2%	15.0%	12.6%	15.5%	12.0%
License revenue	2.9%	3.9%	-0.3%	-3.5%	-2.6%	-14.0%	-9.9%	-11.4%	-8.0%	-5.0%	-10.9%	-1.3%	-2.9%	-3.1%	-2.9%	-2.6%	0.5%	-9.6%	-6.3%	-2.9%
Total revenue	8.8%	13.7%	13.4%	12.5%	15.1%	6.9%	7.7%	5.7%	8.5%	12.5%	11.0%	16.9%	11.7%	10.3%	9.7%	9.4%	12.1%	8.7%	12.3%	10.2%
Operating income	11.2%	17.7%	8.6%	9.7%	5.0%	6.1%	14.7%	1.8%	11.4%	9.7%	4.2%	19.8%	15.4%	13.2%	12.7%	11.8%	11.6%	6.9%	11.2%	13.2%
EPS	39.3%	106.8%	19.9%	29.9%	3.9%	26.2%	29.2%	3.9%	20.3%	5.0%	1.3%	21.6%	16.6%	14.0%	13.2%	12.0%	NA	15.4%	11.4%	13.8%
Deferred revenue	13.7%	15.4%	14.0%	16.0%	14.0%	8.8%	10.5%	7.9%	6.3%	11.3%	9.8%	8.8%	8.8%	8.8%	8.8%	8.8%	16.0%	7.9%	8.8%	2.0%
Billings	9.8%	15.9%	11.8%	15.1%	12.6%	0.1%	10.0%	2.7%	6.3%	20.1%	9.0%	15.1%	11.6%	10.2%	9.6%	9.4%	13.2%	6.2%	12.5%	7.9%
Subscription billings	19.3%	26.7%	17.9%	34.0%	22.9%	3.2%	23.0%	6.9%	14.0%	47.2%	22.8%	28.8%	20.0%	16.9%	15.7%	14.7%	24.6%	13.7%	27.3%	11.5%
Unlevered free cash flow	5.4%	2.8%	9.8%	-13.9%	12.4%	17.6%	12.6%	14.0%	18.3%	1.2%	9.2%	22.5%	17.6%	6.8%	10.5%	9.0%	0.0%	14.2%	12.4%	10.8%
Adjusted EBITDA	10.2%	17.9%	8.0%	9.9%	5.8%	7.4%	15.3%	1.3%	11.5%	8.2%	3.2%	20.7%	14.5%	12.7%	12.6%	12.0%	11.3%	7.4%	10.8%	12.9%
GROWTH Q/Q																				
Subscription revenue	2.8%	12.6%	5.9%	4.5%	6.7%	1.3%	4.6%	2.1%	10.2%	6.6%	5.4%	9.0%	-1.4%	3.6%	4.2%	8.1%				
Maintenance revenue	0.5%	4.2%	2.7%	1.6%	0.6%	0.1%	4.0%	-0.1%	0.8%	2.0%	2.4%	2.0%	0.8%	1.5%	2.3%	2.2%				
Total recurring revenue	1.4%	7.6%	4.0%	2.9%	3.3%	0.7%	4.3%	0.9%	5.1%	4.2%	3.9%	5.5%	-0.4%	2.6%	3.3%	5.3%				
License revenue	-18.0%	3.3%	11.3%	2.3%	-17.1%	-8.9%	16.6%	0.5%	-13.9%	-5.9%	9.4%	11.4%	-15.4%	-6.1%	9.7%	11.8%				
Total revenue	-2.6%	6.8%	5.3%	2.8%	-0.4%	-0.8%	6.0%	0.9%	2.3%	3.0%	4.5%	6.2%	-2.3%	1.7%	3.9%	6.0%				
Operating income	-6.7%	5.7%	4.4%	6.6%	-10.7%	6.8%	12.8%	-5.4%	-2.3%											



Required disclosures

Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

RBC Capital Markets, LLC makes a market in the securities of SolarWinds Corporation.

Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.

Not Rated (NR): The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

As of March 31, 2020, RBC Capital Markets discontinued its Top Pick rating. Top Pick rated securities represented an analysts best idea in the sector; expected to provide significant absolute returns over 12 months with a favorable risk-reward ratio. Top Pick rated securities have been reassigned to our Outperform rated securities category, which are securities expected to materially outperform sector average over 12 months.

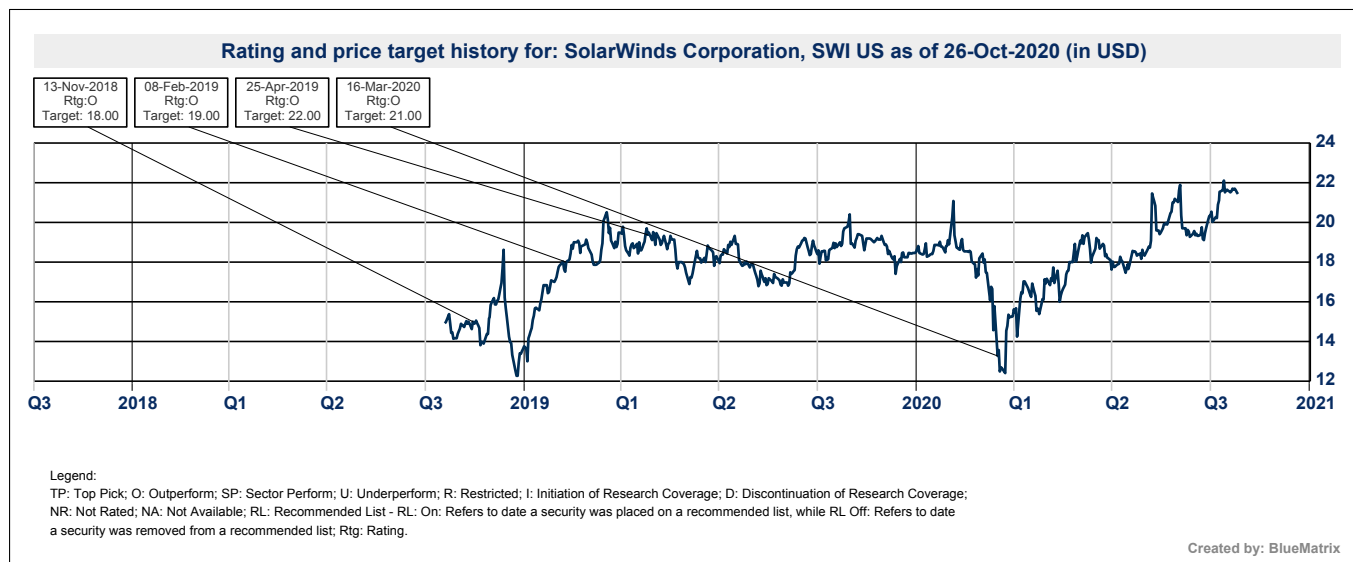
Risk Rating

The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 30-Sep-2020				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Outperform]	788	52.96	248	31.47
HOLD [Sector Perform]	619	41.60	135	21.81
SELL [Underperform]	81	5.44	11	13.58



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbccm.com/global/file-414164.pdf> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

SolarWinds Corporation

Valuation

To derive our \$25 price target, we apply a 15.5x 2022E EV/EBITDA multiple, which is in line to slightly higher vs. peers with a similar growth profile. Our target also assumes 7.5x 2022E EV/S, which is also in line with similarly growing peers. We believe this is a good balance that gives the company credit for reasonable growth with a very strong margin profile. Our price target supports an Outperform rating.

Risks to rating and price target

Risks to our price target and rating could include changes in the macro environment, moderating IT spending, including that from COVID-19, a slowdown in revenue growth, changes in renewal rates, or should acceptance of the company's products change relative to new entrants and established competitors.

Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

Dissemination of research and short-term trade ideas



RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

For a list of all recommendations on the company that were disseminated during the prior 12-month period, please click on the following link: <https://rbcnew.bluematrix.com/sellside/MAR.action>

The 12 month history of SPARCs can be viewed at <https://www.rbcinsightresearch.com>.

Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Third-party-disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

RBC Capital Markets disclaims all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any statements made to the media or via social media that are in turn quoted in this report, or otherwise reproduced graphically for informational purposes.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case,



the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of RBC Capital Markets in each instance.

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To German Residents:

This material is distributed in Germany by RBC Europe Limited, Frankfurt Branch which is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada, Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

To Hong Kong Residents:

This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch, which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission (SFC) in Hong Kong, RBC Investment Services (Asia) Limited and RBC Global Asset Management (Asia) Limited, both entities are regulated by the SFC. This material is not for general distribution in Hong Kong to persons who are not professional investors (as defined in the Securities and Futures Ordinance of Hong Kong (Cap. 571) and any rules made thereunder.

To Singapore Residents:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

To Japanese Residents:

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd. which is a Financial Instruments Firm registered with the Kanto Local Financial Bureau (Registered number 203) and a member of the Japan Securities Dealers Association (JSDA) and the Financial Futures Association of Japan (FFAJ).

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2020 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2020 - Member Canadian Investor Protection Fund

Copyright © RBC Europe Limited 2020

Copyright © Royal Bank of Canada 2020

All rights reserved