EQUITY RESEARCH

Capital Markets

RBC Capital Markets, LLC
Matthew Hedberg (Analyst)
(612) 313-1293,
matthew.hedberg@rbccm.com
Matthew Swanson (Analyst)
(612) 313-1237,
matthew.swanson@rbccm.com
Dan Bergstrom (Analyst)
(612) 313-1254,
dan.bergstrom@rbccm.com
Anushtha Mittal, CFA
(Senior Associate)
(347) 637-0003,
anushtha.mittal@rbccm.com
Simran Biswal (Senior
Associate)
(646) 618-6894,
simran.biswal@rbccm.com
Rishi Jaluria (Analyst)
(415) 633-8798,
rishi.jaluria@rbccm.com

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Q4/23 On-Quarter Software Earnings Preview; Overall We Expect Solid Results

Survey says...we expect solid results with some Q4 budget flush

Our view: Based on checks, we expect solid December results that likely benefit from some end of year budget flush and for the most part, in-line CY/24 guidance. That said, with the IGV software ETF +27% since the end of October, have investors already been paid for results and might we see some early year black ice? Similar to our 2024 preview, we remain bullish on the LT power of software and believe it will be a stock picker's year. While IT spending trends could be uneven, we believe they have generally stabilized, GenAI has the opportunity to drive a new wave of LT innovations and for the most part, we think estimates remain reasonable while expectations remain somewhat elevated.

All you need to know: We enter on-quarter Q4/23 software earnings with elevated investor expectations of a stabilizing economy and the ability for estimates to move higher throughout the year. While we think Q4/23 results were generally solid, some Q4 upside could already be reflected in valuations with the IGV index +27% since the end of October and our RBC All-SaaS Index at 7.0x FTM EV/S vs. a 52-week high of 7.3x on 7/19/23 and a 52-week low of 5.3x on 1/6/23. While we don't expect companies to raise CY/24 expectations significantly this earnings season, we think estimates can move higher as the year progresses as we think investments in GenAI could pay dividends in 2025+. Going into earnings, our favorite on-quarter ideas include **CFLT, DDOG, DT, INFA, NOW, PTC** & **VRNS**.

- **Cyber-security**: We are bullish on cyber-security spending trends as checks were generally strong through December and January. Strength was most noticeable within zero-trust, cloud workload protection, data security/governance and aspects of endpoint security. Verticals that stood out includes financial services, health care, tech and US Federal. Relative to expectations, on-quarter names we think did better than expectations based on checks include **CHKP, GEN, NET** & **VRNS**.
- **Enterprise software**: We favor ideas that have a product cycle or self-help element and a reasonable path for upward revisions. We like **NOW** based on strong year-end checks as well as what we think is strong momentum for Pro Plus as we believe NOW could see early GenAI contributions as 2024 progresses. Within observability, we favor **DDOG** and **DT** on stabilizing demand trends and strong checks as we think **SPLK** share-shift could start to become a catalyst towards the end of 2024, but more likely 2025. We like **INFA** as we think their SaaS mix-shift could accelerate faster-than-expected, in part due to PowerCenter Cloud launched last summer. We also think the **CFLT** setup is attractive following last quarter's reset as we think it will take time to see improvement, but continue to like the company's long-term opportunity and valuation.
- **Design-based software**: While ABI and PMI data continues to be mixed, we think overall trends remain in-line and 2024 estimates remain generally reasonable. Within on-quarter names, we favor **PTC** but think other names like **ALTR** and **BSY** likely had solid quarters. Conversations around **ANSS** continued with the announced SNPS (not covered) transaction and we are also getting questions on if **ALTR** could eventually be in play.
- **Vertical software**: Our favorite on-quarter idea in vertical software is **PWSC** as we think their long-term runway of growth and margin expansion remains attractive. We also think **XMTR** could start to look interesting as growth re-accelerates.

January's software job postings shows slight m/m improvement: Average monthly postings improved slightly in January at +0.6% m/m off a strong December, which was +6.0% m/m. This compares to softer postings earlier in calendar Q4/23 with November -0.5% and October -6.1% m/m. We view December and January data positively as management teams appear to be reinvesting in talent early in the year.

Priced as of prior trading day's market close, EST (unless otherwise noted). All values in USD unless otherwise noted
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For Required Conflicts Disclosures, see page 47

Summary of ratings and price targets

Company	Ticker	New Rating	Previous Rating	Curr.	Market Cap(MM)	Price	New Price Target	Previous Price Target	% Change	Implied All-in Return %
Dan Bergstrom										
Commvault	CVLT US	Sector Perform	Sector Perform	USD	3,667	79.02	86.00	86.00	--	9
Fortinet, Inc.	FTNT US	Sector Perform	Sector Perform	USD	47,752	60.90	60.00	60.00	--	(1)
Matthew Hedberg										
Altair Engineering Inc.	ALTR US	Sector Perform	Sector Perform	USD	7,766	85.72	90.00	90.00	--	5
ANSYS, Inc.	ANSS US	Sector Perform	Sector Perform	USD	29,757	337.00	360.00	360.00	--	7
Bentley Systems Inc	BSY US	Outperform	Outperform	USD	16,715	50.27	61.00	61.00	--	21
Check Point Software Technologies Ltd.	CHKP US	Sector Perform	Sector Perform	USD	19,716	157.73	159.00	159.00	--	1
Cloudflare, Inc.	NET US	Outperform	Outperform	USD	28,595	81.35	95.00	95.00	--	17
Confluent, Inc.	CFLT US	Outperform	Outperform	USD	7,767	21.99	30.00	30.00	--	36
Datadog, Inc.	DDOG US	Outperform	Outperform	USD	47,211	130.31	145.00	145.00	--	11
Dynatrace, Inc.	DT US	Outperform	Outperform	USD	18,377	57.90	66.00	66.00	--	14
Gen Digital Inc.	GEN US	Sector Perform	Sector Perform	USD	15,396	23.48	25.00	25.00	--	9
Informatica Inc.	INFA US	Outperform	Outperform	USD	11,098	30.29	33.00	33.00	--	9
Jamf Holding Corp.	JAMF US	Outperform	Outperform	USD	2,672	19.17	22.00	22.00	--	15
N-able, Inc.	NABL US	Outperform	Outperform	USD	2,405	13.29	16.00	16.00	--	20
NetScout Systems, Inc.	NTCT US	Sector Perform	Sector Perform	USD	1,673	21.73	25.00	25.00	--	15
Olo Inc.	OLO US	Outperform	Outperform	USD	939	4.98	7.00	9.00	(22)	41
PowerSchool Holdings, Inc.	PWSC US	Outperform	Outperform	USD	4,905	24.08	27.00	27.00	--	12
PTC Inc.	PTC US	Outperform	Outperform	USD	21,278	174.70	202.00	202.00	--	16
Qualys, Inc.	QLYS US	Sector Perform	Sector Perform	USD	7,580	196.37	212.00	212.00	--	8
Rapid7 Inc	RPD US	Outperform	Outperform	USD	3,549	54.52	70.00	70.00	--	28
ServiceNow, Inc.	NOW US	Outperform	Outperform	USD	158,886	749.11	840.00	840.00	--	12
SolarWinds Corporation	SWI US	Sector Perform	Sector Perform	USD	1,887	11.87	13.00	13.00	--	10
Teradata Corporation	TDC US	Sector Perform	Sector Perform	USD	5,376	48.00	59.00	59.00	--	23
Varonis Systems, Inc.	VRNS US	Outperform	Outperform	USD	5,664	44.60	52.00	52.00	--	17
Xometry, Inc.	XMTR US	Sector Perform	Sector Perform	USD	1,696	32.80	38.00	38.00	--	16

Source: Bloomberg and RBC Capital Markets estimates

Click here to access the individual company pages.

Table of contents

Announced software earnings dates..4
Key thoughts into earnings..5
Stock movements since the last print..6
Altair (ALTR); Set to report earnings in February..6
Bentley Systems (BSY); Set to report earnings in February..7
Check Point (CHKP); Set to report earnings on February 6th..7
Cloudflare (NET); Set to report earnings on February 8..8
Commvault (CVLT); Set to report earnings on January 30..8
Confluent (CFLT); Set to report earnings on February 7..9
Datadog (DDOG); Set to report earnings on February 13..10
Dynatrace (DT); Set to report earnings on February 8..11
Fortinet (FTNT); Set to report earnings on February 6..11
Gen Digital (GEN); Set to report earnings on February 1..12
Informatica (INFA); Set to report earnings on February 14..12
Jamf (JAMF); Set to report earnings in February..13
N-able (NABL); Set to report earnings in February..13
NetScout (NTCT); Set to report earnings on January 25..14
Olo (OLO); Set to report earnings in February..14
PowerSchool (PWSC); Set to report earnings in February..15
PTC (PTC); Set to report earnings on January 31st..15
Qualys (QLYS); Set to report earnings in February..16
Rapid7 (RPD); Set to report earnings on February 7..16
ServiceNow (NOW); Set to report earnings on January 24..17
SolarWinds (SWI); Set to report earnings in February..18
Teradata (TDC); Set to report earnings in February..18
Varonis (VRNS); Set to report earnings on February 5th..18
Xometry (XMTR); Set to report earnings in February..19
Company Profiles 20

Announced software earnings dates

Ticker	Quarter	Date	Time (ET)	Dial-in
IBM	Q4/23	Jan 24	5:00 PM	
NOW	Q4/23	Jan 24	5:00 PM	888.330.2455
NTCT	Q3/24	Jan 25	8:30 AM	203.518.9708
FFIV	Q1/24	Jan 29	4:30 PM	877.407.0312
CVLT	Q3/24	Jan 30	8:30 AM	800.715.9871
MSFT	Q2/24	Jan 30	5:30 PM	
PTC	Q1/24	Jan 31	5:00 PM	
COUR	Q4/23	Feb 01	5:00 PM	
GEN	Q3/24	Feb 01	5:00 PM	
TEAM	Q2/24	Feb 01	5:00 PM	
VRNS	Q4/23	Feb 05	4:30 PM	877.425.9470
PLTR	Q4/23	Feb 05	5:00 PM	
CHKP	Q4/23	Feb 06	8:30 AM	
FTNT	Q4/23	Feb 06	4:30 PM	
FRSH	Q4/23	Feb 06	5:00 PM	
MODN	Q1/24	Feb 06	5:00 PM	
CDAY	Q4/23	Feb 07	8:00 AM	
CFLT	Q4/23	Feb 07	4:30 PM	
RPD	Q4/23	Feb 07	4:30 PM	888.330.2384
PAYC	Q4/23	Feb 07	5:00 PM	833.470.1428
PYCR	Q2/24	Feb 07	5:00 PM	877.407.4018
DT	Q3/24	Feb 08	8:00 AM	866.405.1247
CYBR	Q4/23	Feb 08	8:30 AM	888.330.2455
BILL	Q2/23	Feb 08	4:30 PM	
NET	Q4/23	Feb 08	5:00 PM	877.400.4517
ZI	Q4/23	Feb 12	4:30 PM	
DDOG	Q4/23	Feb 13	8:00 AM	
AKAM	Q4/23	Feb 13	4:30 PM	833.634.5020
FSLY	Q4/23	Feb 14	4:30 PM	888.330.2022
FROG	Q4/23	Feb 14	5:00 PM	888.510.2285
INFA	Q4/23	Feb 14	5:00 PM	833.470.1428
TWLO	Q4/23	Feb 14	5:00 PM	
U	Q4/23	Feb 26	5:00 PM	

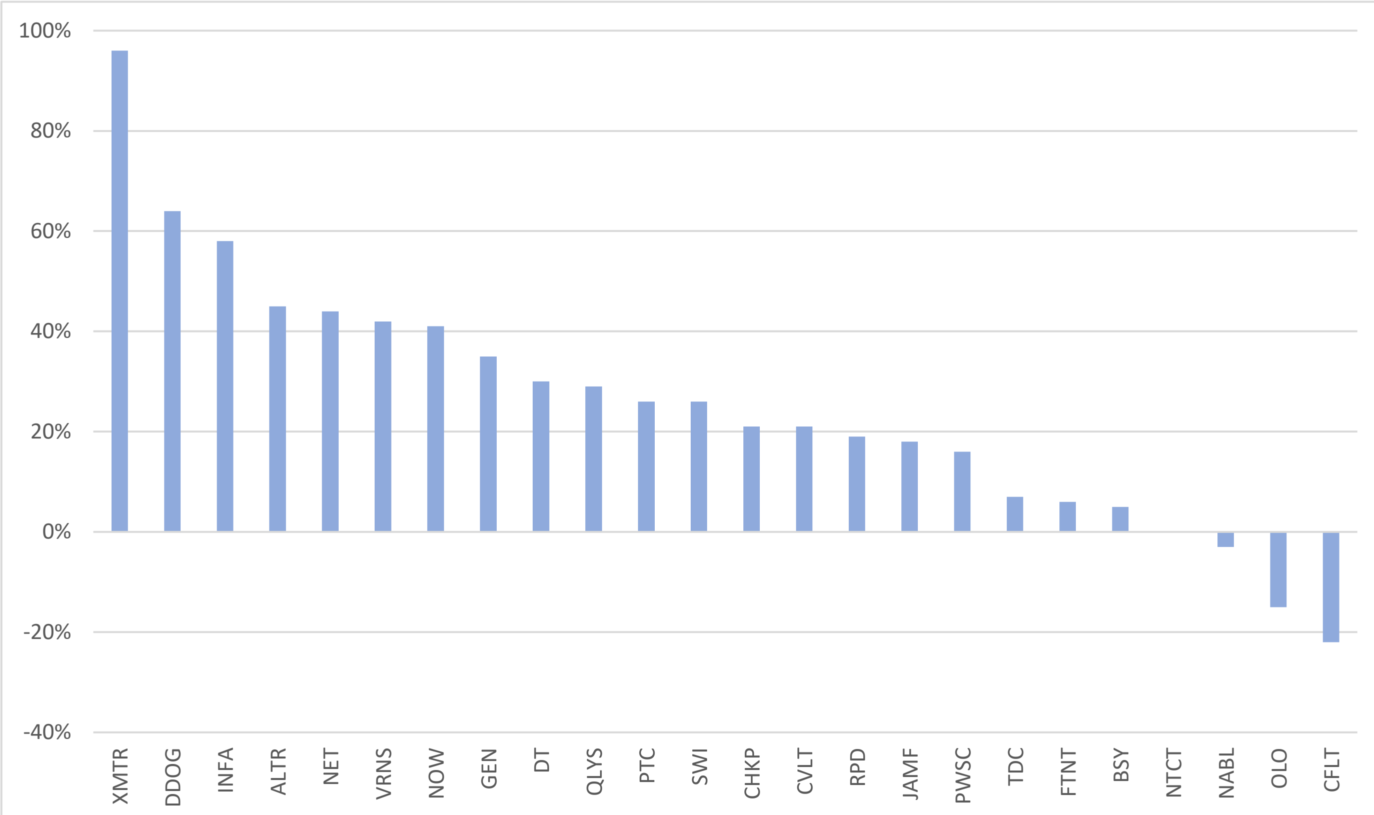
Source: Company reports

Key thoughts into earnings

Ticker	RBC expectations	Investor sentiment	Stock movement since last print	Risk/reward on the print	Job posting data	Stock price	PT	Upside / downside to our PT
ALTR	We expect solid results with slight upside to estimates on stabilizing demand trends and continued success with analytics as well as Altair Units.	Positive	45%	Neutral	+17% q/q -60% thus far in Jan	$ 85.72	$ 90.00	5%
BSY	Following a resilient quarter and what we view as a favorable demand environment, we'd look for slightly better results vs expectations.	Positive	5%	Neutral	+16% q/q +16% thus far in Jan	$ 50.27	$ 61.00	21%
CFLT	Based on checks, we expect a slight beat and raise following last quarter that introduced a number of new variables and a reduced outlook.	Neutral to slightly negative following last qtr's print	-22%	Favorable	-5% q/q +39% thus far in Jan	$ 21.99	$ 30.00	36%
CHKP	Based on stabilizing checks and relatively easy comps, we expect to see slight upside in top-line results along with continued margin improvement. We'd note checks were slightly better vs Q3.	Neutral	21%	Neutral	-9% q/q +10% thus far in Jan	$ 157.73	$ 159.00	1%
CVLT	We entered the quarter with a more constructive view following relative outperformance in Q2/24.	Neutral	21%	Neutral	-19% q/q +7% thus far in Jan	$ 79.02	$ 86.00	9%
DDOG	Following strong checks, we have increased optimism that cloud optimization headwinds will continue to diminish in Q4/23 and as 2024 progresses. We noted checks on DDOG seemed to improve vs Q3 as investors will ultimately settle on a bogie post both Azure and GCP on 1/30 and AWS on 2/1.	Positive	64%	Neutral to favorable	+28% q/q +10% thus far in Jan	$ 130.31	$ 145.00	11%
DT	We expect slight upside to ARR and strong profitability as we see slight upside to estimates likely. Checks seemed to improve vs Q2.	Positive	30%	Favorable	-12% q/q -4% thus far in Jan	$ 57.90	$ 66.00	14%
FTNT	We expect in-line results against a lowered bar following last quarter results were again mixed as we exit several years of more robust growth.	Negative	6%	Neutral	-19% q/q +7% thus far in Jan	$ 60.90	$ 60.00	-1%
GEN	We expect slightly better results and come into the quarter more constructive on the thesis following Q2/24 that was highlighted by a return to sequential customer growth and a slightly improved outlook excluding FX.	Positive	35%	Favorable	+20% q/q +14% thus far in Jan	$ 23.48	$ 25.00	6%
INFA	We expect slight upside to results as we will watch for stabilizing macros and continued momentum around the cloud metrics as the company makes progress on its SaaS transition.	Positive	58%	Favorable	+69% q/q +60% thus far in Jan	$ 30.29	$ 33.00	9%
JAMF	Despite uneven macros, we expect in-line results driven by strength in security solutions.	Neutral	18%	Neutral	-20% q/q -43% thus far in Jan	$ 19.17	$ 22.00	15%
NABL	We look for in-line results despite what we expect will be management talking about continued macro pressures.	Neutral	-3%	Neutral	NA	$ 13.29	$ 16.00	20%
NET	With solid checks and easier comps, we expect slight upside to Q4/23 results as our focus remains on macro commentary and company-specific trends.	Positive	44%	Neutral	-11% q/q -16% thus far in Jan	$ 81.35	$ 95.00	17%
NOW	We remain positive on ServiceNow based on strong year-end checks as well as what we've heard as strong momentum for the new Pro Plus SKU that launched essentially at the start of Q4 as we believe the company could see early GenAI contributions as 2024 progresses.	Positive	41%	Favorable	+18% q/q +25% thus far in Jan	$ 749.11	$ 840.00	12%
NTCT	We expect less drama vs. last quarter's negative preannounce and in-line results and guidance.	Neutral	0%	Neutral	-62% q/q -80% thus far in Jan	$ 21.73	$ 25.00	15%
OLO	We expect less drama vs last quarter that was negatively impacted by the loss of Wingstop, which is less than 3% of Olo's revenue. As such, we expect slight upside to results and guidance.	Negative	-15%	Slightly favorable	-12% q/q -19% thus far in Jan	$ 4.98	$ 7.00	41%
PTC	Based on checks, we expect PTC to report in-line to slightly better Q1/24 results and an in-line guide.	Positive	26%	Favorable	-20% q/q +24% thus far in Jan	$ 174.70	$ 202.00	16%
PWSC	We expect in-line results on continued success in both land and expand deals.	Neutral	16%	Neutral	-1% q/q +30% thus far in Jan	$ 24.08	$ 27.00	12%
QLYS	Based on checks, we expect in-line results and guidance. That said, we are increasingly concerned long-term about VM share consolidation with larger vendors such as CRWD as we think platform consolidation ultimately wins.	Positive	29%	Neutral	+6% q/q +13% thus far in Jan	$ 196.37	$ 212.00	8%
RPD	Similar to our views on QLYS, we look for in-line results from RPD on stabilizing demand trends.	Neutral	19%	Neutral to slightly favorable	+80% q/q -6% thus far in Jan	$ 54.52	$ 70.00	28%
SWI	We expect slight upside to results on stabilizing demand trends.	Neutral	26%	Neutral	+43% q/q -7% thus far in Jan	$ 11.87	$ 13.00	10%
TDC	Management spoke at a conference earlier this quarter and noted some Q4 deals could slip into Q1. Following an initial sell down, the stock has reacted well as we think expectations into the quarter are largely de-risked.	Neutral	7%	Neutral	+18% q/q +1% thus far in Jan	$ 48.00	$ 59.00	23%
VRNS	Based on checks, we expect positive results as we think potential upside to ARR and FCF could be driven by an accelerating SaaS transition while revenue/EPS will likely continue to see near-term headwinds from this mix-shift.	Positive	42%	Favorable	+9% q/q +6% thus far in Jan	$ 44.60	$ 52.00	17%
XMTR	We believe results could show signs of stabilization and ultimately acceleration this quarter driven by strong buyer and seller adoption trends.	Positive	96%	Neutral	-24% q/q +56% thus far in Jan	$ 32.80	$ 38.00	16%

Source: RBC Capital Markets estimates and company reports. Note: Upside/downside is implied.

Stock movements since the last print



Source: FactSet

Altair (ALTR); Set to report earnings in February

Our high-level view

- Overall, we expect solid results with slight upside to estimates on stabilizing demand trends and continued success with analytics as well as Altair Units.
- We continue to look for growth beyond core simulation as product updates aimed around usability and AI target a broadening user base.
- Building on recent cross-selling success, we believe the company continues to work on cross pollinating data science expertise with traditional simulation and design go to market teams, which is creating new growth opportunities. This along with the shifted focus to vertical specific segmentation have helped refine and simplify the approach.
- While the company continues to see success in core markets, differentiation for both the company and the product set are coming from the expanded opportunity in data analytics and AI.
- Following the proposed ANSS acquisition by SNPS, we believe ALTR could look increasingly interesting as an M&A candidate, something we wrote about in our 2024 software outlook.
- Job postings were +17% q/q in Q4/23 following +32% q/q in Q3/23. Thus far in Q1/24, postings are -60% q/q, which we see as slightly concerning.
- Investor sentiment has remained elevated, with the stock +45% since last quarter vs. the S&P 500 +12%.
- Given current valuation of 59x CY/24E EV/FCF, we believe shares are fairly valued.

Additional expectations

- Q4/23 total/software revenue vs. consensus at $172.5M/$157.1M, +8%/+8% y/y.
- Q4/23 software revenue mix vs. 89% q/q and y/y.

- Q4/23 adjusted EBITDA vs. consensus at $48.4M, 28% margin.
- Q1/24 software revenue guidance vs. consensus at $165.2M, +10% y/y.
- Q1/24 total revenue guidance vs. consensus at $181.6M, +9% y/y.
- Q1/24 Net income guidance vs. consensus at $35.8M.
- Q1/24 Adjusted EBITDA guidance vs. consensus at $50.1M, +27.6%.
- CY/24 software revenue guidance vs. consensus at $603.8M, +10% y/y.
- CY/24 total revenue guidance vs. consensus at $667.7M, +9% y/y.
- CY/24 Net income guidance vs. consensus at $105.6M.
- CY/24 Adjusted EBITDA guidance vs. consensus at $151.6M, +22.7%.

Bentley Systems (BSY); Set to report earnings in February

Our high-level view

- Following a **resilient quarter** and what we view as a favorable demand environment, we'd look for slightly better results vs expectations to close out the year.
- We'll be focused on ARR vs. consensus at $1,163M, +13% y/y which would imply net-new ARR of $38M vs. $19M in Q3/23 and $53M in Q4/22.
- We'll again be looking for balanced performance across products, verticals and geographies against what we believe is a resilient demand environment.
- Key recent growth accelerators are likely to remain in focus including opportunities around IIJA funding, E365, Virtuosity and digital twins, which we believe the company remains in front of and were further outlined at our **TIMT Conference** in November.
- Checks continue to be strong for E365 and Virtuosity in particular as we think IIJA funding remains a multi-year tailwind.
- Job postings were +16% q/q in Q4/23 following -9% q/q in Q3/23. Thus far in Q1/24, postings are +16% q/q.
- Investor sentiment has been relatively muted with the stock +5% since last quarter vs. the S&P 500 +11%.

Additional expectations

- Q4/23 ARR vs. RBC/consensus at $1,166M/$1,163M, +13% y/y and organic ARR growth vs. +12.5% last quarter and +13.5% in Q4/22.
- Q4/23 NRR vs. 110% last quarter and in Q4/22.
- Q4/23 revenue/EPS vs. RBC at $313.0M/$0.21, +9% revenue growth and consensus at $312.9M/ $0.18, +9% revenue growth.
- Q4/23 subscription revenue vs. RBC/consensus at $277.0M/$275.4M, +10%/+10% y/y.
- Q4/23 adjusted EBITDA vs. RBC/consensus at $105.2M/$100.0M.
- Q4/23 FCF vs. RBC/consensus at $29.2M/ $22.1M.
- CY/24 guidance for cc ARR growth vs. RBC/consensus at +11.0%/+11.2% and revenue/adjusted operating income margin with SBC vs. RBC at $1,354M/28.0% and consensus at $1,362M/28.3%.

Check Point (CHKP); Set to report earnings on February 6th

Our high-level view

- Based on stabilizing checks and relatively easy comps, we expect to see slight upside in top-line results along with continued margin improvement. We'd note checks were slightly better vs Q3.
- Last quarter, billings and CFO both fell below expectations (similar to Q2/23) as management cited continued weakness in product growth and delays in refresh projects with one large deal that got pushed and then later closed in Q4/23.
- Despite this miss last quarter, we'd note that there seems to be more optimism into year-end around stabilizing trends and what we thought was a stronger Q4/23 pipeline.
- We also watch for initial CY/24 guidance compared to consensus revenue and EPS expectations of $2,531M (+4.9%) and $9.06, respectively.
- Thinking about the building blocks of CY/24, key considerations include: 1) new product additions which include the acquisition of Perimeter 81 to expand into SASE; 2) ramp of customer engagement which is likely to impact the pipeline in CY/24; and 3) an improvement in the macro environment.
- That said, we think CHKP continues to lose share vs peers in key growth areas such as SASE.
- Fourth quarter job postings were -9% q/q after being -9% in Q3/23. So far into Q1/24, postings are +10%.

- Investor sentiment has been more positive with shares +21% since last quarter vs the S&P 500 +16%.

Additional expectations

- Q4/23 billings vs. consensus of $867M, -0.3% of a 580 bps easier comp
- Q4/23 products and licenses revenue vs. consensus of $159M, -8.3% y/y off a 700 bps easier comp
- Q4/23 security subscription vs. consensus of $265M, +15% off a 20 bps easier comp
- Q4/23 total revenue vs. consensus of $662M, +3.6% y/y off a 160 bps easier comp
- Q4/23 OM vs. consensus of 44.7% or -50 bps y/y
- Q4/23 CFO vs. consensus of $243M
- Q1/24 revenue/EPS guidance vs. consensus of $596M/$2.01 or +5.2% revenue growth
- CY/24 revenue/EPS guidance vs. consensus of $2,531M/$9.06 or 4.9% revenue growth along with consensus OM of 43.6%

Cloudflare (NET); Set to report earnings on February 8

Our high-level view

- With solid checks and easier comps, we expect slight upside to Q4/23 results as our focus remains on macro commentary and company-specific trends.
- Consensus Q4/23 revenue is $353M, which implies $17M q/q revenue addition vs. $28M in Q3/23 (Q3/23 beat by 154 bps) and $18M in Q2/23 as we see upside this quarter as likely. If we assume a similar 150 bps beat as last quarter, this would imply 30% growth exiting the year and 32.5% for CY/23.
- We'd watch for continued macro stabilization similar to last quarter which improved rep productivity, a better pipeline, steady close rates and linearity and large customer momentum.
- In addition to the macros, we'd watch for success with products including Workers, GenAI, R2 storage, SASE and GTM improvements under new sales leadership as we believe investors will increasingly look for GenAI monetization opportunities as new products scale.
- As management outlined during our TIMT conference in November, we believe modernization of the network remains a large and emerging opportunity with Cloudflare well positioned for this trend as we'd expect to hear more about it in CY/24.

- Regarding CY/24, if we assume similar sequential revenue adds for 1H/24 vs 1H/23 and modest improvements in 2H/24, it points to +26% CY/24 growth vs consensus of +28.1%.
- As such, we like our below-consensus 2024 outlook and prefer management provides a conservative initial CY/24 guide with the potential to move higher through the year.
- On profitability, CY/23 guidance points to an 8.6% OM as management expects to generate $100M+ in FCF for CY/23 as we expect modest improvements in CY/24.
- Q4/23 postings were -11% q/q after being -20% in Q3/23. So far in Q1/24, postings are -16%, which we see as slightly concerning.
- Investor sentiment has turned positive with the stock +44% since Q3/23 results vs. S&P +12%.

Additional expectations

- Q4/23 revenue/EPS vs. consensus at $353M/$0.12, +28% revenue growth (540 bps easier compare).
- Q4/23 NRR vs. 116% last quarter, that was slightly up from 115% in Q2/23.
- Enterprise momentum with 206 large customer additions last quarter, up from 196 adds in Q2/23.
- Q1/24 revenue/EPS guidance vs. consensus at $372M/$0.12, +28% revenue growth (510 bps easier compare).
- CY/24 revenue/EPS guidance vs. consensus at $1,649M/$0.55, +28% revenue growth and 9.3% OM.
- We expect FCF to trend upwards after being positive in CY/23.

Commvault (CVLT); Set to report earnings on January 30

Our high-level view

- Overall, we entered the quarter with a more constructive view following relative outperformance in Q2/24.
- We'll be watching for continued momentum in SaaS following last quarter's acceleration and increase in DBNR q/q.
- We like the potential for acceleration in the model into FY/25 with ~50% subscription revenue and subsiding perpetual

headwinds exiting the year.
- Job postings were -19% q/q in Q3/24 following -45% q/q in Q2/24. Thus far in Q4/24, postings are +7% q/q.
- Investor sentiment has improved, though trails peers, with the stock +21% since last quarter vs. the S&P 500 +16%.
- At current valuation of 4.0x CY/24E EV/S, we believe shares are fairly valued.

Additional expectations

- Q3/24 total revenue vs. guidance of $206-210M and consensus at $208.1M, +7% y/y.
- Q3/24 total ARR vs. consensus at $738.4M, +15% y/y.
- Q3/24 operating margin vs. guidance of ~21% and consensus at 21.1%.
- Q3/24 CFO vs. consensus at $31.6M.
- Q3/24 subscription ARR vs. $530M, +32% last quarter to 74% of total ARR.
- Q3/24 subscription revenue vs. guidance of $106-110M and consensus at $104.1M.
- Q3/24 new subscription customers vs. ~500 last quarter to total 8,300, +39% y/y.
- Q3/24 SaaS ARR vs. $131M, +77% last quarter and SaaS DBNR vs. 130% last quarter.
- FY/24 total ARR growth guidance vs. +14% previously and consensus at +13.5%.
- FY/24 subscription ARR growth guidance vs. +24% previously.
- FY/24 revenue/operating margin guidance vs. $812-822M/+50-100 bps previously and consensus at $817.4M/+90 bps.
- FY/24 FCF guidance vs. ~$170M previously and consensus at $170.9M.

Confluent (CFLT); Set to report earnings on February 7

Our high-level view

- Based on checks, we expect a slight beat and raise following last quarter that introduced a number of new variables and a reduced outlook.
- Overall we'll be focused on a return to consistency and a positive tone around the recent GTM changes.
- A key metric will be Confluent Cloud revenue vs. guidance of $97.5M, +43% y/y and consensus at $97.5M, +43% and following last quarter's impact from two large customers and ongoing macro concerns that impacted new deployments and resulted in lower-than-expected consumption. We note Confluent Cloud revenue has outperformed guidance by an average of $0.9M over the last four quarters.
- We'll also be watching total revenue vs. guidance of $204-205M, +21-22% y/y, consensus at $205.4M, +22% y/y. We note revenue has seen an average outperformance of 4% over the last four quarters.
- We'll also look for commentary around the recent GTM changes, which were essentially a pull-forward of an initiative realigning around consumption that had been underway for a year and expected to be completed over the next two years. Management believes the move should better align with customer purchasing preferences vs. commitments and with helping customers build successful projects around the technology. While there is some disruption factored into guidance around 1H/24, there are no significant personnel changes or reorganization underway.
- Overall, we thought the company did a good job at presenting a case as to why recent changes in the GTM are likely less disruptive than investor may think at our **TIMT Conference** in November.
- We don't see much risk around the outlook, with initial expectations around CY/24 provided last quarter which set a much more reasonable outlook, in our view and reflects a continuation of the current macro conditions and for potential risk around the GTM changes.
- Overall, we believe that the company remains well-positioned for the opportunity around data streaming with an emerging opportunity around data processing with the potential to accelerate growth in CY/25 due to: 1) the consumption G2M being complete, 2) Flink cross-sell, 3) FedRAMP certification, and 4) GenAI tailwinds.
- Job postings were flat q/q in Q4/23 following -5% q/q in Q3/23. Thus far in Q1/24, postings are +39% q/q, which we see as bullish.
- Investor sentiment has remained muted, with the stock -22% since last quarter vs. the S&P 500 +14%, though the stock is +35% since the day after results.
- At current valuation of 7.4x CY/24E EV/S, we believe shares remain attractive.

Additional expectations

- Q4/23 revenue vs. guidance of $204-205M, +21-22% y/y and consensus at $205.4M, +22% y/y.

- Q4/23 subscription revenue vs. consensus at $193.0M, +24% y/y.
- Q4/23 Confluent Cloud revenue vs. guidance of $97.5M, +43% y/y and consensus at $97.5M, +43%.
- Q4/23 operating margin vs. guidance of 0-1% and consensus at 0.5%.
- Q4/23 FCF vs. consensus at $0.4M.
- Q4/23 RPO vs. consensus at $935.7M, +26%.
- Q4/23 customers with >$100K ARR vs. 1,185 last quarter and >$1M ARR vs. 155 last quarter.
- Q4/23 DBNRR vs. just under 130% last quarter.
- Q1/24 revenue/OM/EPS guidance vs. consensus at $211.4M/(4.4%)/$0.02. This implies revenue growth of +21% y/y.
- CY/24 revenue/OM guidance vs. previous the preliminary outlook of +22% revenue growth and 0% operating margins vs. consensus at $940.5M/0.4% that implies revenue growth of +22% y/y.

Datadog (DDOG); Set to report earnings on February 13

Our high-level view

- Following strong checks, we have increased optimism that cloud optimization headwinds will continue to diminish in Q4/23 and as 2024 progresses. Additionally, we continue to believe DDOG will be one of the earlier beneficiaries of an improved macro environment. We noted checks on DDOG seemed to improve vs Q3 as investors will likely ultimately settle on a bogie post both Azure and GCP on 1/30 and AWS on 2/1.
- Following an improved Q3/23 relative to expectations with a 4.3% revenue beat and +25% growth, we expect to see outperformance continue in Q4/23 vs. consensus revenue of $569M or +21% growth off a ~1,750 bps easier comp vs. Q3/22.
- Over the past 4-quarters, the average revenue beat has been 3.2% while using the average customer adds and q/q revenue per customer growth over the same period would imply $584M or a 3.1% beat.
- When looking for areas of potential upside relative to those previous four-quarter averages, our checks point to continued momentum around a stabilizing environment for cloud spend optimization to improve on Q4 budget flush trends.
- While we expect to continue to see modest macro improvement, we'd also expect management to be prudently conservative around their initial CY/24 guide but would not expect the level of conservatism we saw last year when consensus was guided down 5.1%.
- Against a reasonable Q4 bar and strong checks, we expect a good amount of upside to Q4 consensus expectations but think management likely takes a conservative initial approach to CY/24 guidance but that sell side estimates move higher as CY/24 growth could ultimately be +30% vs initial sell side expectations of 23%.
- As macros continue to improve, we'd expect focus to shift back to the company-specific drivers we covered during our TIMT conference in November.
- Beyond cloud optimization, we will monitor the company's ability to expand within its customer base as we continue to hear of platform consolidation across both security and monitoring.
- In an improved environment, we also would expect to see margins continue to expand as we think that FCF support could become a larger part of the investment thesis over time.
- Q4/23 postings were +28% q/q after being +3% in Q3/23 and -10% in Q2/23. So far in Q1/24, postings are +10% q/q.
- Investor sentiment has improved dramatically with shares +64% since Q3/23 results vs. the S&P 500 +11%.

Additional expectations

- Q4/23 revenue vs. consensus of $569M or +21% revenue growth off a 1,750 bps easier comp.
- Q4/23 EPS vs. consensus of $0.43.
- Q4/23 customers with >$100K in ARR vs. 3,130 in Q3/23 or +140 net adds up from +80 net adds in Q2/23.
- Q4/23 customers with 2+/4+/6+ products vs. 82%/46%/21% q/q.
- Q4/23 gross retention rates vs. the high-90s last quarter.
- Q4/23 DBNRR vs. +120% q/q, which was down from 130% historically.
- Q1/23 revenue/EPS guidance vs. consensus of $586M/$0.40 which points to +21.6% revenue growth.
- CY/24 revenue/EPS guidance vs. consensus $2,774M/$1.76 which points to 22.7% revenue growth though we see an upward bias to this on the guide and as CY/24 progresses.
- CY/24 OM of 22.1% which implies a +50 bps improvement from CY/23 consensus of 21.6%.

Dynatrace (DT); Set to report earnings on February 8

Our high-level view

- Following a solid Q2/24 print, with what seemed to be an appropriately conservative guide and strong checks, we expect slight upside to ARR vs. consensus of $1,410M, +21% y/y, +21% cc and strong profitability. This implies cc NNARR of $66M vs. $50M in Q2/24 given a more back end loaded year, as we see slight upside to estimates likely. Checks seemed to improve vs Q2.
- We liked seeing encouraging data points out of Q2/24 including increasing confidence, strengthening pipeline and new logo momentum coupled with strong execution as we'd watch for a continuation of these trends.
- In addition, we believe the broadening and refinement of the company's GTM motion including further utilizing GSI's and hyperscalers should show further potential in an improving economic backdrop.
- We continue to watch company-specific drivers including success with Logs on Grail and Davis Copilot which is likely to GA in early CY/24. In addition, other potential catalysts include 1) DPS; 2) increasing sales capacity; 3) GenAI; 4) security adoption; 5) re-acceleration in new logo adds given conservative NRR assumptions; and 6) additional GSI momentum.
- Management expects 2H/24 ARR to be driven by low-single digit new logos growth and 112-113% NRR compared with new logos +5% YTD and NRR of 114% in Q2.
- We believe there is an opportunity for FY/24 guidance to move higher, potentially ending the year closer to +20% ARR growth, which would imply NNARR of $249M or essentially no deceleration from $252M in FY/23 and vs. $240M consensus.
- We remain constructive on the LT opportunity with a potential for better growth in FY/25 a possibility.
- Q3/24 postings were -12% q/q after being +17% in Q2/24. Thus far in Q4/24, postings are -4% q/q.
- Investor sentiment has improved with shares +30% since Q2/24 results vs. S&P 500 +14%.

Additional expectations

- Q3/24 reported ARR vs. consensus at $1,410M (+21% y/y, +21% cc).
- Q3/24 reported revenue vs. consensus at $358M, +20% vs prior midpoint guidance of $357.5M.
- Q3/24 EPS vs. consensus at $0.28.
- Q3/23 DBNRR vs. +114% q/q, which was down from >120% historically. Management expects NRR of 112-113% in the 2H/24 as NRR is more of a lagging vs leading indicator. As such, we think NRR is close to bottoming.
- Q3/23 total customers vs. 4,373 in Q2/24 or +160 new logos. Management expects low-single digit new logos growth in 2H/24.
- Q4/24 revenue/EPS guidance vs. consensus of $373M/$0.25 which points to +19% y/y revenue growth.
- FY/24 ARR guidance vs. consensus of $1,487M, +19% y/y and +20% cc ($240M reported NNARR vs $252M in FY/23).
- FY/24 revenue/EPS guidance vs. consensus at $1,415M/$1.11 which points to +22% y/y revenue growth.
- FY/24 FCF guidance vs. consensus at $320M, 23% margin.

Fortinet (FTNT); Set to report earnings on February 6

Our high-level view

- We expect in-line results against a lowered bar following last quarter results which were again mixed as we exit several years of more robust growth.
- Keys for us will be reestablishing consistency following two quarters of reduced guidance and estimates and a bottoming in billings. Consensus currently reflects positive billings growth in the second quarter, which seems reasonable to us, as we'll look to better gauge the billings trajectory as comps continue to ease through the year.
- We'll look for early feedback around new investments targeted toward the faster growing SASE and SecOps opportunities.
- We tried to be conservative with our CY/24 estimates and would expect the initial guide to be closer to consensus at +5% billings growth, +12% revenue growth and operating margins at ~26%.
- Job postings were -19% q/q in Q4/23 following -45% q/q in Q3/23. Thus far in Q1/24, postings are +7% q/q.
- Investor sentiment has trailed, with the stock +6% since last quarter vs. security peers +33% and the S&P 500 +12%.
- At current valuation of 25.7x CY/24E EV/FCF, we believe shares are fairly valued.

Additional expectations

- Q4/23 billings vs. guidance of $1,560-1,700M, -5% y/y and consensus at $1,622M, -6% y/y.
- Q4/23 revenue/EPS vs. guidance of $1,380-1,440M/$0.42-0.44 and consensus at $1,409M/$0.43.

- Q4/23 product revenue vs. consensus at $495M, -8% y/y and service revenue vs. consensus at $915M, +23% y/y.
- Q4/23 $1M+ deals vs. 145 last quarter and >$50K deals vs. 4,732 last quarter.
- Q4/23 FortiGate split vs. last quarter at entry level 28%, mid-range 45% and high-end 27%.
- Q4/23 operating margin vs. guidance of 27.5-28.5% and consensus at 28.0%.
- Q4/23 FCF vs. consensus at $207M.
- Q1/24 billings guidance vs. consensus at $1,474M, -2% y/y.
- Q1/24 revenue/OM/EPS guidance vs. consensus at $1,376M/24.6%/$0.37. This implies +9% y/y revenue growth.
- CY/24 billings guidance vs. consensus at $6,478M, +5% y/y.
- CY/24 revenue/OM/EPS guidance vs. consensus at $5,936M/26.0%/$1.67. This implies +12% y/y revenue growth.

Gen Digital (GEN); Set to report earnings on February 1

Our high-level view

- We expect slightly better results and come into the quarter more constructive on the thesis following Q2/24 that was highlighted by a return to sequential customer growth and a slightly improved outlook excluding FX.
- Key to results will likely be a continuation of q/q customer growth and our view is that the multitude of efforts around the top of funnel and retention are continuing to pay dividends and should put the company in a good position for sustained customer growth going forward.
- We'll also look for initial execution around the number of market opportunities, product expansions, strategies around customer addition/expansion/retention outlined at the recent investor update that could enable mid-single-digit organic revenue growth and 12-15% EPS growth over the next three years.
- Job postings were +20% q/q in Q3/24 following -14% q/q in Q2/24. Thus far in Q4/24, postings are +14% q/q.
- Investor sentiment has improved with the stock +35% since last quarter vs. the S&P 500 +11%.

Additional expectations

- Q3/24 revenue/EPS vs. midpoint guidance of $955M/$0.50 and consensus at $956M/$0.50.
- Q3/24 operating margin vs. consensus at 58.8% that reflects 260 bps of leverage vs. 600 bps last quarter.
- Q3/24 direct customer count vs. +380k last quarter to 38.5M.
- Q3/24 ARPU vs. +$0.02 to $7.28 last quarter.
- Q4/24 revenue/EPS guidance vs. consensus at $974M/ $0.53. This implies +3% y/y revenue growth.
- FY/24 guidance vs. the midpoint of previous guidance at $3,823M/$1.975 and consensus at $3,822M/$1.97. This implies +15% y/y revenue growth.

Informatica (INFA); Set to report earnings on February 14

Our high-level view

- Following a bullish investor day, we expect slight upside to results as we will watch for stabilizing macros and continued momentum around the cloud metrics as the company makes progress on its SaaS transition.
- To that point, Q4/23 subscription/cloud ARR was guided to +11%/+35% growth or cloud NNARR of $60M vs. $37M in Q3/23 with 61% of cloud NNARR in 2H/23 as it remains a 2H weighted year.
- We believe CY/24 guidance outlined at the Investor Day is maintained which calls for 1) +35% cloud ARR growth showing no deceleration vs. CY/23 guidance; 2) total ARR and revenue to grow faster than CY/23 guidance of +5.5%/+5.0% growth; 3) at least 350 bps operating margin expansion; and 4) adjusted uFCF (after-tax) at ~100% of non-GAAP operating income or 31.3% uFCF margin.
- We believe management's assumptions seem sound as drivers include 1) digital transformation and vendor consolidation tailwinds; 2) cloud migration which we think could be reaching an inflection point; 3) GenAI with CLAIRE co-pilot available now and CLAIRE GPT in private preview expected to GA in 1H/24.
- In addition, we expect better growth and potential for leverage over time driven by the IPU pricing model, partnerships and cloud only GTM focus including the recent restructuring plan which calls for ~10% workforce reduction and optimized real estate footprint (~$70M of non-GAAP savings in CY/24).
- As such, we'd watch for execution towards the CY/24 and medium term targets.
- Q4/23 job postings were +69% q/q after being -46% q/q in Q3/23. So far in Q1/24, postings are +60% q/q, which we see as bullish.

- Investor sentiment has been positive since the Q3/23 print with the stock +58% vs. S&P +14%.
- Overall, we are positive on the cloud transition that is likely aided by an eventual improving macro environment.

Additional expectations

- Q4/23 revenue/operating income vs. consensus of $432M/$142M, RBC $431M/$140M, and midpoint guidance of $430M/$140M which points to total revenue growth +8% y/y
- Q4/23 subscription/Cloud ARR vs. midpoint guidance of $1,108M/$609M or +11%/+35%, in-line with RBC and consensus. This reflects $60M in net-new cloud ARR, +17% y/y
- Q4/23 subscription NRR vs. 106% q/q and Cloud NRR vs. 118% q/q
- Q4/23 average subscription ARR/customer vs. $283K in Q3/23, +12% y/y
- Q1/24 revenue/operating income guidance vs. consensus of $389M/$106M, which reflects revenue growth of +6% y/y
- Q1/24 Subscription/Cloud ARR growth vs. consensus of +10%/+34%
- CY/24 revenue/operating income guidance vs. consensus of $1,679M/$517M, which points to +6% y/y revenue growth
- CY/24 Subscription/Cloud ARR growth vs. consensus of +13%/+35%

Jamf (JAMF); Set to report earnings in February

Our high-level view

- Despite uneven macros, we expect in-line results driven by strength in security solutions.
- We believe the opportunity in security remains early, with only 23% of the 74.4K customers having security and most only one security product.
- As a reminder, management estimates that there are 5+ potential security products per device vs. one management product needed per device.
- With pressure on up-sell due to the macro, we think the sales force is having success leaning into the base and working the cross-sell motion around security aided by a sales overlay team focused on leading with Trusted Access.
- Job postings were -20% q/q in Q4/23 following -39% q/q in Q3/23. Thus far in Q1/24, postings are -43% q/q, which we see as slightly concerning.
- Investor sentiment has remained slightly improved with the stock +18% since last quarter vs. the S&P 500 +10%.
- At current valuation of 4.4x CY/24E EV/S, we believe shares are attractive.

Additional expectations

- Q4/23 ARR vs. consensus at $588M, +15% y/y.
- Q4/23 revenue/operating income vs. midpoint guidance of $148.5/$20.0M and consensus at $148.5M/$20.1M.
- Q4/23 device count vs. a 200K increase last quarter to 31.8M.
- Q4/23 ARR/device vs. $17.81, +6% y/y last quarter.
- Q4/23 CFO vs. consensus at $32.6M.
- Q1/24 revenue/operating income guidance vs. consensus at $150.8M/$13.3M, +15% revenue growth and +430 bps of operating margin expansion.
- CY/24 revenue/operating income guidance vs. consensus at $641.0M/$65.9M, +15% revenue growth and +230 bps of operating margin expansion.

N-able (NABL); Set to report earnings in February

Our high-level view

- Overall we look for in-line results despite what we expect will be management talking about continued macro pressures.
- Similar to last quarter, we expect pressure on MSP retention and device growth due to tighter SME budgets leading to optimized IT spend.
- That said, we believe new product innovation and Cove traction to continue providing a boost to results.
- Last quarter management noted Cove Microsoft 365 Backup reached over 1.8M users, +48% y/y. Additionally, management announced its managed detection and response (MDR) offering, which should help drive cross-sell and new customer acquisition across MSPs.

- While not a focus historically, management recently noted they are leaning into selling directly to internal IT departments with a more specialized GTM, though MSPs remain their core focus. We believe this could help drive an expanded TAM and be a nice incremental catalyst in CY/24 and beyond.
- Investor sentiment has turned negative, with the stock -3% since last quarter vs. the S&P 500 +10%.
- Given current valuation of 5.8x CY/24E EV/S, we believe shares are attractive.

Additional expectations

- Q4/23 revenue/EPS vs. consensus at $106.8M/$0.08, +12% revenue growth
- Q4/23 NRR vs. 108% (110% cc) last quarter, that was slightly up from 105% (109% cc) in Q2/23
- Q1/24 revenue/EPS guidance vs. consensus at $111.0M/$0.09, +11% revenue growth
- CY/24 revenue/EPS guidance vs. consensus at $465.4M/$0.38, +11% revenue growth and 28.0% OM

NetScout (NTCT); Set to report earnings on January 25

Our high-level view

- Overall we expect less drama vs. last quarter's negative preannounce and in-line results and guidance.
- Ultimately, we think much of the variability comes down to timing around year-end vs. significant structural changes. We think the outlook is appropriative over 2H FY/24 but would like to see additional revenue close in Q3/24 to take some pressure off Q4/24 estimates.
- Following signs of industry softness, the company reevaluated business targets for Q3-4/24 with large carriers last quarter. As a result, there still remains some variability as to whether project funding comes in Q3 (service provider year-end) or Q4, which would be the next budget year for service providers. While not unlike previous years, the expected ramp into year-end seems more pronounced to us.
- Job postings were -62% q/q in Q3/24 following -50% q/q in Q2/24. Thus far in Q4/24, postings are -80% q/q, which we see as slightly concerning.
- Investor sentiment has remained muted, with the stock flat since last quarter vs. the S&P 500 +14%.

Additional expectations

- Order conversions following the slowdown that occurred late last quarter and weighting between Q3/24 and Q4/24.
- Trends around service assurance and cybersecurity which were -13%/+10% in 1H/24.
- Trends around service provider and enterprise which were -11%/+3% in 1H/24.
- New product sales, which have proven more challenging recently with the emergence of some constraints around budgets.
- Q3/24 revenue/EPS vs. consensus at $198.4M/$0.37.
- Q3/24 product/service revenue vs. consensus at $82.0M/$116.4M, +45%/-3% y/y, respectively.
- Q3/24 FCF vs. consensus at $62.4M.
- FY/24 guidance vs. previous revenue/EPS midpoint guidance of $850M/$2.10 and consensus at $840.4M/$2.08. This implies -8% y/y revenue growth.

Olo (OLO); Set to report earnings in February

Our high-level view

- Overall we expect less drama vs last quarter that was negatively impacted by the loss of Wingstop, which is less than 3% of Olo's revenue. As such, we expect slight upside to results and guidance.
- Similar to last quarter, we expect continued demand from Olo Pay, which we now expect to contribute mid-$20M to CY/23 revenue vs. low-$20M previously.
- We think the company needs to show continued success outside of Olo Pay as we believe investors want to see signs of stabilizing customer retention, new logo add, cross-sell and gross margin stability.
- Q4/23 job postings were -12% q/q after being -21% in Q3/23. So far in Q1/24, postings are -19%, which we see as slightly concerning.
- Investor sentiment has remained muted, with the stock -15% since last quarter vs. the S&P 500 +11%.
- We lower our PT from $9 to $7 (from 4.8x to 3.4x CY/24E EV/S) on what we see as uneven current demand trends.

- Given current valuation of 2.0x CY/24E EV/S, we believe shares are attractive.

Additional expectations

- Q4/23 revenue/OI vs. consensus at $58.9M/$6.4M, +18% revenue growth.
- Q4/23 NRR vs. 119% last quarter, that was up from 115% in Q2/23.
- Q4/23 active locations vs. 78K last quarter reflecting 1K q/q adds.
- Q4/23 ARPU vs. $742 (+33% y/y, +4% q/q) last quarter.
- Q1/24 revenue/OI guidance vs. consensus at $60.7M/$5.6M, +16% revenue growth.
- CY/24 revenue/OI guidance vs. consensus at $258.7M/$24.9M, +15% revenue growth.

PowerSchool (PWSC); Set to report earnings in February

Our high-level view

- Overall we expect in-line results on continued success in both land and expand deals.
- Last quarter, results were highlighted by strong new logo bookings, continued cross-sell, large deal momentum and a growing data opportunity; something we expect to hear more about this quarter.
- We also look forward to an update on large deal rollouts as we have been impressed with the number of large deals.
- Additionally, we look for an update on international expansion opportunities as we think the company needs to continue to deliver domestically despite increased international spending.
- Investor sentiment has remained positive, with the stock 16% since last quarter vs. the S&P 500 +11%.
- Q4/23 job postings were -1% q/q. So far in Q1/24, postings are +30%, which we see as bullish.
- Given current valuation of 7.1x CY/24E EV/S, we believe shares are attractive.

Additional expectations

- Q4/23 revenue/adj EBITDA vs. consensus at $183.4M/$57.4M, +14% revenue growth.
- Q4/23 ARR vs. consensus at $683.8M, +15% and RBC estimate at $682.0M, +14% growth.
- Q4/23 NRR vs. 107.2% last quarter, that was slightly down from 109.5% in Q2/23.
- Q1/24 revenue/EBITDA guidance vs. consensus at $185.3M/$57.7M, +16% revenue growth.
- CY/24 revenue/EBITDA guidance vs. consensus at $788.5M/$263.9M, +13% revenue growth.

PTC (PTC); Set to report earnings on January 31st

Our high-level view

- Based on checks, we expect PTC to report in-line to slightly better Q1/24 results and an in-line guide.
- PTC remains one of our top picks as we think that the company has multiple levers to deliver both growth and profitability.
- Key highlights include an uplift from the SaaS transition, a potential cross-sell opportunity from ServiceMax, and progress towards long-term targets.
- Macros are likely to remain somewhat uneven given recent geopolitical challenges, though we believe that PTC has shown solid growth and profitability despite the macro noise.
- Consensus Q1/24 ARR and revenue point to $2,003M and $537M which reflects +25% and +15% growth respectively, along with consensus Q1/24 FCF at $181M.
- Thinking about long-term FCF targets, we can see steady and consistent growth in FCF in which midpoint FY/24 guidance points to $725M, midpoint FY/25 guidance points to $850M, and FY/26 guidance points to $1B.
- We feel good about the SaaS transition, which remains in the early innings and is likely to progress throughout the year with opportunities around Windchill+ along with broader enterprise adoption of Windchill as well as Creo+.
- In the TIMT conference we hosted in November, management further discussed their core strategy which includes: 1) market share gains in CAD and PLM; 2) cross-sell opportunity from ServiceMax as we watch for the progress around the integration this year; 3) the SaaS mix-shift; 4) progress around FCF and ARR targets; and 5) the ongoing CEO transition with the formal transfer in February 2024.
- Given the durability of the business, we highlighted PTC as one of our top picks in our 2024 outlook as we believe that the business model is both defensive in an uneven macro and a long-term compounder in an improving one.

- Valuation remains attractive at 30x CY/24E FCF compared to the design peers' mean of 46x as we think that the stock remains undervalued.
- Q1/24 job postings were -20% sequentially compared to -4% q/q in Q4/23 and -2% q/q in Q3/23. So far in Q2/24 postings are +24%, which we see as bullish.
- Investor sentiment is positive with the stock +26% since last quarter vs. the S&P +14%.

Additional expectations

- Q1/24 cc ARR vs. consensus at $2,003M or +25% y/y or NNARR of $24.4M.
- Q1/24 revenue vs. consensus of $537M, +15% y/y.
- Q1/24 FCF vs. consensus of $181M.
- Q2/24 cc ARR guidance vs. consensus of $2,068M or +14% growth.
- Q2/24 FCF guidance vs. consensus of $233M.
- FY/24 cc ARR guidance vs. consensus of $2,219M or +14% y/y.
- FY/24 FCF guidance vs. consensus of $725M.

Qualys (QLYS); Set to report earnings in February

Our high-level view

- Based on checks, we expect in-line results and guidance.
- That said, we are increasingly concerned long-term about VM share consolidation with larger vendors such as CRWD as we think platform consolidation ultimately wins.
- Despite our views on the VM market, we'd like to see QLYS billings accelerate on easier comps, new products and GTM investments. To that point, management remains focused on positioning Qualys as an integrated risk management platform able to consolidate multiple point solutions as they seek to drive new product attach.
- Job postings were +6% q/q in Q4/23 following -5% q/q in Q3/23. Thus far in Q1/24, postings are +13% q/q.
- Investor sentiment has improved, with the stock +29% since last quarter vs. the S&P 500 +12%.
- At current valuation of 30.6x CY/24E EV/FCF, we believe shares are fairly valued.

Additional expectations

- Q4/23 billings vs. consensus at $162.2M, +11% following billings growth outperforming revenue growth last quarter for the first time in six quarters.
- Q4/23 revenue/EPS vs. the midpoint of guidance at $144.6M/$1.23 and consensus at $144.9M/$1.25. This implies revenue growth of +11%.
- Q4/23 FCF vs. consensus at $4.5M.
- Q4/23 G2K, G500 and F50 customers vs. 620/265/35 last quarter, respectively.
- Q4/23 customers >$500K in ARR vs. 174 last quarter and 160 in Q4/22 and their LTM cumulative revenue vs. $220K last quarter and $192K in Q4/22.
- Q4/23 cloud agents vs. 105M, +5M last quarter.
- VMDR penetration vs. 54% of customers last quarter and 48% in Q4/22.
- Q4/23 expansion trends vs. 106% last quarter and 109% in Q4/22.
- Q1/24 revenue/EPS guidance vs. consensus at $146.2M/$1.26. This implies revenue growth of +12%.
- CY/24 revenue/EPS guidance vs. consensus at $616.7M/$5.37, which reflects revenue growth of 11% vs. consensus at 13% for CY/23E.

Rapid7 (RPD); Set to report earnings on February 7

Our high-level view

- Similar to our views on QLYS, we look for in-line results from RPD on stabilizing demand trends.
- As the company continues to work through issues and restructuring efforts from 2023, we continue to think RPD remains a top M&A candidate in our coverage, something we wrote about in our 2024 software outlook.
- As we continue to believe VM share could consolidate with larger vendors, we look for RPD to show success outside of core VM

with Risk and Threat Management and deal sizes continuing to get larger.

- Overall, we think there is an opportunity to further scale business while the profitability trajectory also remains compelling.
- Job postings were +80% q/q in Q4/23 following -10% q/q in Q3/23. Thus far in Q1/24, postings are -6% q/q.
- Investor sentiment has slightly improved with the stock +19% since last quarter vs. the S&P 500 +14%.
- At current valuation of 4.9x CY/24E EV/S, we believe shares are attractive.

Additional expectations

- Q4/23 ARR vs. guidance of $800-805M, +12.5% y/y and consensus at $802.8M, +12.4%.
- Q4/23 revenue/EPS vs. the midpoint guidance at $201M/$0.48 and consensus at $201.3M/$0.48.
- Q4/23 customers vs. 11,412, +125 last quarter.
- Q4/23 ARR/customer vs >$68K, +7% y/y last quarter.
- Land and expand mix of ARR growth vs. +600 bps/+700 bps, respectively last quarter.
- Q1/24 revenue/EPS guidance vs. consensus at $204.9M/$0.40. This implies revenue growth of +12%.
- CY/24 ARR guidance vs. consensus at $902.2M, which reflects +12% growth vs. current consensus at +12% growth for CY/23.
- CY/24 revenue/EPS guidance vs. consensus at $870.4M/$1.79, which reflects +12.5% growth vs. current consensus at +13% growth for CY/23.
- CY/24 FCF guidance vs. guidance of at least $160M previously and consensus at $157.5M.

ServiceNow (NOW); Set to report earnings on January 24

Our high-level view

- We remain positive on ServiceNow based on strong year-end checks as well as what we've heard as strong momentum for the new Pro Plus SKU that launched essentially at the start of Q4 as we believe the company could see early GenAI contributions as 2024 progresses.
- On Pro Plus, we believe discounting could come in lower than expectations, which we believe would be a positive demand indicator.
- We also believe ServiceNow is well positioned as both a defensive idea in an uncertain IT spending environment, and also as a large-cap compounder as IT spending ultimately begins to improve.
- Overall, we think ServiceNow is well positioned to help enterprises become more efficient through workflow automation, which in a post-COVID world should lead to durable growth and margin expansion, especially as the company moves into tangential areas of workflow automation.
- As one of the first software companies to report fourth quarter earnings, results should provide an early and important read around the environment into year-end and tone around CY/24 budgets and outlooks, though to be fair, we view the company as a best of breed platform consolidator and expect the big to get bigger in CY/24, a view that was apparent **in our November fireside chat with the CFO**.
- Regarding the quarter, we expect slight upside to subscription revenue growth vs. guidance/consensus at +24.75%/23.25% cc and +24.9%/+23.4% cc, respectively and cRPO growth vs. guidance/consensus at +21% cc/+20.9%. As a reminder, cRPO was +24% cc last quarter to show no deceleration q/q and beat by 250 bps vs. the 100 bps of deceleration and 150 bps beat in Q2/23.
- We remain optimistic around the opportunity to monetize GenAI through the new Pro Plus SKU that represents a ~60% uplift of the Pro SKU (+25% ASP uplift and ~40% adoption) that could help offset any potential seat headwinds, which we view as unlikely.
- Job postings were +18% q/q in Q4/23 following +29% q/q in Q3/23. Thus far in Q1/24, postings are +25% q/q.
- Investor sentiment has remained positive, with the stock +41% since last quarter vs. the S&P 500 +16%.

Additional expectations

- Q4/23 subscription revenue vs. guidance of +24.75%, 23.25% cc and consensus at +24.9%/+23.4% cc.
- Q4/23 cRPO vs. guidance of +21% cc and consensus of +20.9%.
- Q4/23 transactions >$1M in net new ACV vs. 83 last quarter.
- Q4/23 customers with >$1M in ACV and their average ACV vs. 1,789 at $4.4M last quarter.
- Q4/23 net new ACV from technology workflow, customer and employee workflows and creator/other workflows vs. 60%/25%/15%, respectively last quarter.
- Q1/24 reported subscription revenue growth guidance vs. consensus at +21.6%.

- Q1/24 reported cRPO guidance vs. consensus at +19.9%, which seems in-line with investor expectations given the 1H/24 US Fed headwinds.
- CY/24 reported subscription growth guidance vs. consensus at + 21.2% vs. current consensus at +25.4% growth for CY/23.
- CY/24 operating margin guidance vs. consensus at 28.2%, +100 bps vs. current consensus at 27.2% for CY/23.
- CY/24 FCF margin guidance vs. consensus at 31.1% and CY/23 guidance/consensus at 30%/29.9%.

SolarWinds (SWI); Set to report earnings in February

Our high-level view

- Overall we expect slight upside to results on stabilizing demand trends.
- We believe the company's subscription transition continues to track well as management noted last quarter that a larger percentage of new deals are being sold as subscriptions.
- Thinking about the progress of their subscription transition, the first phase was to convert maintenance customers to subscription as management recently highlighted that they continue to convert maintenance customers at a higher than 1:1 ratio and a larger percentage of new deals are now being sold as subscriptions. The second phase of this transition began with the launch of their observability SaaS solution with good traction into year-end.
- Over time, we'd like to see additional subscription disclosures to allow investors to understand the ongoing revenue mix-shift.
- Q4/23 job postings were +43% q/q after being +74% in Q3/23. So far in Q1/24, postings are -7%.
- Investor sentiment has turned positive, with the stock +26% since last quarter vs. the S&P 500 14%.

Additional expectations

- Q4/23 revenue/EPS vs. consensus at $190.3M/$0.21, +2% revenue growth
- Q1/24 revenue/EPS guidance vs. consensus at $192.0M/$0.22, +3% revenue growth
- CY/24 revenue/EPS guidance vs. consensus at $780.6M/$0.94, +4% revenue growth and 40% OM

Teradata (TDC); Set to report earnings in February

Our high-level view

- Management spoke at a conference earlier this quarter and noted some Q4 deals could slip into Q1. Following an initial sell down, the stock has reacted well as we think expectations into the quarter are largely de-risked.
- That said, we'd like to see continued traction with Vantage Cloud as the company continues to progress towards longer-term cloud ARR ($1B in cloud ARR by FY/25) and FCF targets.
- As macros stabilize, we'd also like to hear about new cloud customer wins as we continue to believe the cloud data management market is significant and not a winner-take-all market.
- Q4/23 job postings were +18% q/q after being -40% in Q3/23. So far in Q1/24, postings are +1%.
- Investor sentiment has remained muted, with the stock +7% since last quarter vs. the S&P 500 +11%.

Additional expectations

- Q4/23 revenue/EPS vs. consensus at $458M/$0.51, +1% revenue growth
- Q4/23 total ARR/public cloud ARR vs. consensus at $1,578M/$550M, +6%/+54% growth
- Q4/23 FCF vs. consensus at $155M, 34% margin
- Q1/24 revenue/EPS guidance vs. consensus at $490M/$0.73, +3% revenue growth
- CY/24 revenue/EPS guidance vs. consensus at $1,906M/$2.38, +4% revenue growth
- CY/24 total ARR/public cloud ARR vs. consensus at $1,705M/$776M, +8%/+41% growth

Varonis (VRNS); Set to report earnings on February 5th

Our high-level view

- Based on checks, we expect positive results as we think potential upside to ARR and FCF could be driven by an accelerating SaaS transition while revenue/EPS will likely continue to see near-term headwinds from this mix-shift.
- To this point, we believe the SaaS transition has occurred faster than initially anticipated and expect management to revisit the

time frame during the Q4/23 earnings call, which we think could be a catalyst for near-term sentiment.
- Last quarter macros remain uncertain with continued deal scrutiny and longer sales cycles though trends seem to have stabilized in the second half of 2023 relative to the first half, as we expect these trends to continue into 2024.
- During the SaaS transition, there will likely continue to be some pressure on revenue, margins, and EPS but is a positive for the longer-term model. Specifically, management expects SaaS to be 60% of the total ARR in Q4/23 and 55% in CY/23.
- After our conversations with the management team at our TIMT conference, we were more optimistic about the drivers within the business and raised our price target (see note here). Key considerations around our call include 1) the expanding SaaS model and the resulting pricing uplift; 2) positive partner checks; 3) increased cross-sell into the Microsoft base and 4) GenAI tailwinds.
- As such, we highlighted in our 2024 outlook that Varonis remains our top small-cap pick as we expect the SaaS model transition to occur faster than the original 5-year target.
- We also watch for additional details around this mix for CY/24 guidance, in which a reasonable but solid expansion will likely be well-received by investors.
- Additionally, we look for additional commentary around Office 365 and Co-Pilot co-selling as we continue to hear positive feedback from partners on this effort.
- More broadly, macros remain uncertain but stable as management highlighted high levels of deal scrutiny and longer sales though more consistent in 2H/23 vs. 1H/23. These trends are likely to continue through 2024 with no improvement.
- Also, we think that Varonis could be a beneficiary of GenAI as management noted that there will be more self-inflicted risk to customer data from greater exposure along with more risk from external hackers. These risks can expand the utilization of the Varonis platform over time and create more opportunities for AI monetization.
- Job postings were +9% q/q in Q4/23 compared to -18% in Q3/23 and mostly flat in Q2/23. So far in Q1/24, postings are +6%.
- Investor sentiment is more positive with the stock +42% since earnings vs. S&P +16%.

Additional expectations

- Q4/23 ARR vs consensus at $537M or +15.5% growth compared to +15.6% last quarter and against a 20.1% compare.
- Q4/23 revenue vs consensus at $152M or +6.5% growth compared to -0.8% last quarter and against a 12.7% compare.
- Q1/24 ARR guidance vs. consensus at $549M or +14.9% growth.
- Q1/24 revenue guidance vs. consensus at $117M or 8.5% growth.
- CY/24 ARR guidance vs. consensus at $616M or +14.7% growth.
- CY/24 revenue guidance vs. consensus at $545M or +9.7% growth.
- CY/24 FCF guidance vs. consensus at $59M which reflects an 11% FCF margin.

Xometry (XMTR); Set to report earnings in February

Our high-level view

- Overall we believe results could show signs of stabilization and ultimately acceleration this quarter driven by strong buyer and seller adoption trends.
- Beyond Q4, we think there is an opportunity for acceleration in CY/24 against easier comps and a boost from recently launched Teamspace.
- Last quarter management noted some European deal slippage as we assume most of those closed in Q4.
- In addition to the potential for accelerating revenue trends, we'd also like to see improved profitability.
- Q4/23 job postings were -24% q/q after being -64% in Q3/23. So far in Q1/24, postings are +56%, which we see as bullish.
- Investor sentiment has turned positive, with the stock +96% since last quarter vs. the S&P 500 +10%.

Additional expectations

- Q4/23 revenue/EBITDA vs. consensus at $128.5M/($1.0M), +31% revenue growth
- Q4/23 gross profit vs. consensus at $50.4M, +40% growth
- Management expects accelerating marketplace growth in the 40% range y/y driven by strong Active Buyer and order growth
- Q1/24 revenue/EBITDA guidance vs. consensus at $135.6M/$0.5M, +29% revenue growth
- CY/24 revenue/EBITDA guidance vs. consensus at $591.5M/$11.8M, +28% revenue growth

Company Profiles

Altair Engineering Inc.

Matthew Hedberg (Analyst)

Sector Perform

NASDAQ: ALTR US; USD 85.72

Price Target USD 90.00

Key Statistics

Shares O/S (MM):	90.6	Market Cap (MM):	7,766
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	416,942

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	572.2	613.2	667.3	725.4
EPS, Adj Diluted	0.87	1.05	1.16	1.28
P/AEPS	NM	NM	73.9x	67.0x

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2022	159.8A	132.7A	119.4A	160.4A
2023	166.0A	141.2A	134.0A	172.0E
2024	185.4E	150.5E	139.5E	191.9E
EPS, Adj Diluted				
2022	0.38A	0.13A	0.05A	0.31A
2023	0.36A	0.15A	0.14A	0.40E
2024	0.44E	0.18E	0.12E	0.42E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our price target of $90 using a sum-of-the-parts look at EV/S. This assumes 13.5x 2024E software revenue and 3x 2024E services/CES/innovation, or 12.5x on a blended basis. This compares to design software peers at 11.2x, which we think is fair due to higher services revenue and lower profitability but above-market software growth vs. peers. Our price target supports our Sector Perform rating.

Investment summary

Strategically well positioned in the CAE market where simulation is driving design: The two most interesting sub-segments of CAE are: 1) modeling and visualization, which we think is strategically well positioned "upstream" and where Altair is dominant; and 2) solvers, where Altair is an emerging competitor and gaining share due to product investments as well as its unit-based pricing model.

Unique unit-based subscription model: Altair utilizes a subscription model that allows customers to license a "pool" of Altair Units. For a specified number of units, customers can utilize all of Altair products and hundreds of partner products for a period before the units are returned to the pool and can be drawn by a different user. This increases deployment flexibility and allows customers to scale quickly to meet demands.

Revenue growth and margin expansion: Altair typically sees recurring software revenue between 86% and 88% of total software revenue, with renewal rates in the ~90% range. In addition, the company is adding sales headcount at a more aggressive pace and expects to increase sales capacity by 10–15% annually, which, along with sales productivity gains, a mix-shift to software, and potential software price increases, should allow total revenue (led by software billings) to accelerate. From a margin perspective, we believe a mix-shift to software and G&A synergies could point to margin improvements.

Risks to rating and price target

Risks to our price target and rating could include changes in the macro environment including COVID-19 continuing on longer than expected, moderating IT spending, a slowdown in revenue growth, changes in OEM and channel relationships, or should acceptance of the company's products change relative to new entrants and established competitors.

ANSYS, Inc.

Matthew Hedberg (Analyst)

Sector Perform

NASDAQ: ANSS US; USD 337.00

Price Target USD 360.00

Key Statistics

Shares O/S (MM):	88.3	Market Cap (MM):	29,757
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	1,217,218

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	2,072.9	2,259.0	2,462.5	2,660.0
EPS, Ops Diluted	7.99	8.54	9.28	10.19
P/E	42.2x	39.5x	36.3x	33.1x

Revenue	Q1	Q2	Q3	Q4
2022	428.6A	475.9A	473.7A	694.7A
2023	509.4A	496.6A	458.8A	794.2E
2024	540.0E	545.5E	547.0E	830.0E
EPS, Ops Diluted				
2022	1.36A	1.77A	1.77A	3.09A
2023	1.85A	1.60A	1.41A	3.68E
2024	1.81E	1.89E	2.03E	3.54E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our price target of $360 is based on 39x our CY/24E EPS which reflects the per-share consideration of $390.19 but also: 1) the time value of money with the close 12-18 months out, 2) the potential for SNPS stock volatility and 3) risk of deal closure. Our target multiple is above the 5-year historical average, which we believe is warranted by consistent execution while preserving profitability, balanced with near-term earnings headwind from investments for long-term revenue growth. Our price target supports our Sector Perform rating.

Investment summary

ANSYS develops and markets engineering simulation software for engineers, designers, researchers, and students across a variety of industries, including aerospace, manufacturing, biomedical, and energy and defense.

The company is investing some of its high-margin structure into driving higher growth. The company is looking to increase user penetration, raise adoption of multi-physics simulation, enable more cloud support, and perhaps benefit from improving global industrial demand post COVID. We think downward pressure on operating margins will abate, but we'd like to have more conviction on growth sustainability.

Risks to rating and price target

Being acquired by Synopsys: The company is currently being acquired by Synopsys for implied consideration of $390.19/ share, or an enterprise value of approximately $35 billion.

Valuation versus growth: Ansys continues to trade at a premium to its current forecast earnings growth rate. While we think a valuation premium is warranted given the margin characteristics of the business, we also believe that the company has to demonstrate the ability to reaccelerate growth.

Product price: Ansys software is expensive. Single-user perpetual licenses for analysis bundles can easily cost $50,000+ and scale up materially higher for multi-physics use cases that encompass many solvers. Ansys's pricing power is a reflection of its market position and the high value that its tools can provide, but we are especially mindful of competition and the risks from new business models (i.e., the cloud).

Competition: Ansys's competition has shifted from being primarily independent specialist vendors to the big CAD/PLM vendors as they consolidated the market.

Cloud and business model change: A more significant shift to the cloud for simulation could create change for Ansys's business model and potentially open the door to increased competition. Ansys has taken steps toward the cloud, using AWS to host its offerings. It has embraced (and monetized) private cloud environments by selling high-performance compute packs for customers looking to leverage scale-out parallel processing in their own environments. We are now beginning to see specialist HPC cloud infrastructure vendors emerge for simulation (such as ReScale).

Macro: Including but limited to macro headwinds from the COVID-19 pandemic.

Bentley Systems Inc

Matthew Hedberg (Analyst)

Outperform

NASDAQ: BSY US; USD 50.27

Price Target USD 61.00

Key Statistics

Shares O/S (MM):	332.5	Market Cap (MM):	16,715
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	1,071,194

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	1,099.1	1,230.8	1,354.0	1,496.0
EPS, Adj Diluted	0.83	0.91	0.98	1.13
P/AEPS	60.6x	55.2x	51.3x	44.5x

Revenue	Q1	Q2	Q3	Q4
2022	275.5A	268.3A	268.3A	286.9A
2023	314.4A	296.7A	306.6A	313.0E
2024	338.0E	326.0E	335.0E	355.0E
EPS, Adj Diluted				
2022	0.24A	0.22A	0.19A	0.19A
2023	0.25A	0.24A	0.22A	0.21E
2024	0.25E	0.21E	0.25E	0.27E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our price target of $61 by applying a 45.4x multiple to our CY/24 EBITDA estimate. Our target multiple is a premium to Infrastructure peers, in our view warranted due to a large and expanding TAM that leads to an attractive growth profile as well as the opportunity for upside to growth expectations. Our price target supports our Outperform rating.

Investment summary

As the global economy recovers, we believe Bentley Systems is uniquely placed to capitalize on rising global infrastructure demand combined with a moderate post-COVID tailwind.

- We believe Bentley Systems is well positioned in the Infrastructure Software market with a long-term market opportunity of $29 billion, as we think the importance of software in developing infrastructure will continue to rise. We expect this to be a function of mega-trends such as the growing focus on sustainability and efficiency, growth in data, digital transformation, and increased infrastructure spending, especially in emerging markets such as China. While COVID had a modest impact on Bentley Systems' revenues on account of its customers' loyalty and longer-term contracts, we believe it could potentially be a tailwind in the long term. Additionally, forging alliances with other major participants in the infrastructure lifecycle supply chain, such as Siemens and Microsoft, provides opportunities for expansion.

Potential growth catalysts

- Aging global infrastructure creates opportunity for replacement of old and unsafe infrastructure.
- International expansion with a focus on China, one of the company's fastest-growing regions as measured by revenues.
- Increased use of software and data by governments and enterprises to drive down costs and/or create climate-resilient infrastructure.
- Expansion with partnerships with other infrastructure supply chain participants.
- COVID-19, which could accelerate megatrends and cause firms to rethink their project development processes.

Risks to rating and price target

- Majority of revenue is generated outside the US, giving rise to risks related to currency exchange, tariffs, and trade conflicts.
- Operates in a market with competition from larger vendors and new entrants.
- Demand for software solutions based on infrastructure projects can have long sales cycles and project timelines.
- Bentley's dual-class common stock structure concentrates voting power among Bentley and its affiliates.
- Duration and extent of COVID-19 could materially impact business, project timelines, supply chains, or labor and job-site availability.

Check Point Software Technologies Ltd.

Matthew Hedberg (Analyst)

Sector Perform

NASDAQ: CHKP US; USD 157.73

Price Target USD 159.00

Key Statistics

Shares O/S (MM):	125.0	Market Cap (MM):	19,716
Dividend:	0.00	Yield:	0.0%
Float (MM):	160.0	Avg. Daily Volume:	684,763
Debt to Cap:	0%	3-Yr. Est. EPS Growth:	10.00%

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	2,329.9	2,412.2	2,519.1	2,649.5
EPS, Ops Diluted	7.42	8.30	9.04	9.82
P/E	21.3x	19.0x	17.4x	16.1x

Revenue	Q1	Q2	Q3	Q4
2022	542.7A	571.1A	577.6A	638.5A
2023	566.2A	588.7A	596.3A	661.0E
2024	586.0E	612.6E	625.1E	695.4E
EPS, Ops Diluted				
2022	1.57A	1.64A	1.77A	2.45A
2023	1.80A	2.00A	2.07A	2.44E
2024	2.01E	2.12E	2.19E	2.73E

EPS, Ops Diluted: EPS excludes non cash items
All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our $159 price target is based on 15x EV/EPS on our CY/24 EPS estimate, in line with peers with a similar growth rate, reflecting the more mature business model and historical stock discount vs. security peers. The implied return to our price target supports our Sector Perform rating on the stock.

Investment summary

We rate shares of CHKP Sector Perform for the following reasons:

- The firewall market remains a competitive sector with share shift to CHKP less likely.
- Success in software subscription sales continues to evolve the model toward more recurring revenue and away from product license.
- We believe potential upside to results and guidance is likely limited over the near term.
- The potential for margin pressure on reinvestments into the business.

Potential catalysts

- Evidence of y/y growth in product license on a sustained basis would likely be viewed as a positive by the market.
- Evidence of a firewall refresh cycle could be a catalyst for shares.
- Positive results from the dedicated low-end sales group.
- A new focus on adding more sales executives.

Risks to rating and price target

- Macro uncertainties including the lack of a firewall refresh.
- Decline in product license revenue.
- Competitive share shift toward next-gen functionality.
- COVID-19 could impact company operations or customer demand.
- Potential supply chain constraints.

Cloudflare, Inc.

Matthew Hedberg (Analyst)

Outperform

NYSE: NET US; USD 81.35

Price Target USD 95.00

Key Statistics

Shares O/S (MM):	351.5	Market Cap (MM):	28,595
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	2,837,489

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	975.2	1,286.8	1,621.0	2,043.3
EPS, Adj Diluted	0.13	0.46	0.54	0.65

Revenue	Q1	Q2	Q3	Q4
2022	212.2A	234.5A	253.9A	274.7A
2023	290.2A	308.5A	335.6A	352.5E
2024	368.0E	386.0E	417.0E	450.0E
EPS, Adj Diluted				
2022	0.01A	0.00A	0.06A	0.06A
2023	0.08A	0.10A	0.16A	0.12E
2024	0.11E	0.13E	0.14E	0.16E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our $95 price target by applying a 20x EV/S multiple on our CY/24 revenue estimate. This multiple is a slight premium to similarly growing peers at 15x. We believe our price target and multiple are warranted due to an attractive growth opportunity, potential to scale margins and potential for upside to expectations balanced with an above-peer valuation. Our price target supports our Outperform rating.

Investment summary

Bullish on the opportunity: Cloudflare's mission is to "help to build a better Internet." To do so, the company offers a multi-tenant, cloud-based SaaS platform with an easy-to-use, scalable unified control plane for the delivery of security, performance and reliability solutions for business-critical applications and web properties. Solutions are delivered through an interconnected global network of commodity hardware/proprietary software points of presence. This network is optimized for Cloudflare's solutions, supports a significant cost-effective free-tier of service and enables third-party developers to build serverless applications that scale globally without needing to spend time and effort on infrastructure or operations. The secret sauce of the network is that every commodity server in every city runs the entire Cloudflare code stack. Because of this, they don't have to think about putting certain features in certain regions, but importantly push out all new code or features across their entire network, which provides a significant competitive advantage and also allows them to profitably scale as they grow. The network interconnects with thousands of enterprises, cloud services and ISP networks and the company estimates it operates within 100 milliseconds of the Internet-connected population for 99% of the developed world and 94% globally.

Potential growth catalysts:

- Extension of the serverless platform strategy such as the opportunity around Workers that leverages the platform to outside developers and could result in additional applications coming to market.
- Additional traction of Cloudflare Access, which supports "Zero Trust Security."
- 75% of enterprise customers have +4 products out of +20 products and the company is growing their $100K customers faster than overall customer growth. Additional product attach could provide upside to estimates.

Risks to rating and price target

- Operates in a market with competition from larger legacy competitors and new entrants.
- Activities of paying or free customers could subject the company to scrutiny or potential liability.
- Changes to the sales force.
- General macro pressures.

Commvault

Dan Bergstrom (Analyst)

Sector Perform

NASDAQ: CVLT US; USD 79.02

Price Target USD 86.00

Key Statistics

Shares O/S (MM):	46.4	Market Cap (MM):	3,667
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	246,396

RBC Estimates

FY Mar	2022A	2023A	2024E	2025E
Revenue	769.6	784.6	817.6	869.0
EPS, Ops Diluted	2.52	2.57	2.91	3.17
P/E	31.4x	30.7x	27.2x	24.9x

Revenue	Q1	Q2	Q3	Q4
2022	183.4A	177.8A	202.4A	205.9A
2023	198.0A	188.1A	195.1A	203.5A
2024	198.2A	201.0A	208.0E	210.5E
EPS, Ops Diluted				
2022	0.62A	0.48A	0.67A	0.75A
2023	0.64A	0.57A	0.62A	0.73A
2024	0.72A	0.70A	0.73E	0.76E

EPS, Ops Diluted: Pro-forma EPS exclude non-recurring items and employee stock option expense.
All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our price target of $86 is based on a 4.5x EV/S multiple on our CY/24 revenue estimate, a slight discount to the CY/24E EV/S infrastructure group. Our target discount multiple weighs subscription and SaaS momentum with the stock's historical discount to the group. Our price target supports our Sector Perform rating.

Investment summary

Commvault is a leading provider of data management software applications such as backup and recovery, data migration, archiving and storage management, etc. Recent organizational changes, inconsistent results and outlooks, and the big deal environment keep us constrained on the stock.

Potential catalysts could include new products, increased traction in subscription offerings, and the ramp of new distribution partners.

Potential risks could include the acceptance of new products and subscription offerings, the large deal environment, sales capacity/hiring, and the trajectory of the ramp in new distribution partners.

Risks to rating and price target

The primary risks to our price target and rating are changes in the macro environment, the future growth rates of storage management, software spending, competitive marketing/pricing tactics, the company's ability to penetrate new growth markets, timing and customer acceptance of its new products, increased customer concentration, and competition from strategic partners.

Confluent, Inc.

Matthew Hedberg (Analyst)

Outperform

NASDAQ: CFLT US; USD 21.99

Price Target USD 30.00

Key Statistics

Shares O/S (MM):	353.2	Market Cap (MM):	7,767
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	3,823,538

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	585.9	768.3	937.0	1,176.0
EPS, Adj Diluted	(0.58)	(0.01)	0.17	0.27
P/AEPS	NM	NM	NM	NM

Revenue	Q1	Q2	Q3	Q4
2022	126.1A	139.4A	151.7A	168.7A
2023	174.3A	189.3A	200.2A	204.5E
2024	208.0E	226.0E	241.0E	262.0E
EPS, Adj Diluted				
2022	(0.19)A	(0.16)A	(0.13)A	(0.09)A
2023	(0.09)A	0.00A	0.02A	0.05E
2024	0.01E	0.03E	0.05E	0.08E

All market data in USD; all financial data in USD; dividends paid in CAD.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our base-case price target of $30 by applying a 10.5x multiple to our CY/24 revenue estimate. This is a slight premium to DevOps peers, in our view warranted due to a large and expanding TAM that leads to an attractive growth profile as well as the opportunity for upside to growth expectations, a slight discount to 30%+ growth peers and a larger discount to leading growth peers. Our price target supports our Outperform rating.

Investment summary

We believe Confluent is the market leader of the data streaming platform opportunity: The legacy database market is focused primarily on data at rest, simple static queries and batch processing. In today's modern cloud world that is enhanced by GenAI, we believe data in motion with real-time streaming, processing and querying is a must, and in our opinion, benefits Confluent's long-term growth profile. Additionally, we believe three dynamics are likely to drive long-term adoption for their data streaming platform including 1) the overall growth in data and cloud computing, 2) a digital customer first mentality, and 3) GenAI. Today we see this as a $60B TAM that could grow to $100B in 2025 based on the above drivers.

Mix-shift to Confluent Cloud should aid growth and retention: We believe Confluent Cloud will continue to increase in the mix, which should help keep overall growth higher for longer. At the core of Confluent Cloud is their Kora architecture that is 30x more elastic, 10x more resilient and has unlimited storage vs Kafka. This can translate into a 60% lower TOC vs. on premise data streaming offerings.

Cross-sell opportunity for data processing (Flink) could be as big or bigger than data streaming (Kafka): Open-source Kafka is used by ~75% of Fortune 500 companies while ~36% of Fortune 500 companies use Confluent. In addition to streaming and processing, other areas of cross-sell include connecting, governing and sharing data, which creates five different areas of land and expand opportunities. Additionally, over 150,000 organizations use open-source Kafka and less than 5,000 use Confluent, which to us points to an early and large cross-sell opportunity.

Upside potential to our revenue and profitability estimates seems likely following the Q3/23 reset: Based on the above drivers and potentially a better macro environment, we believe the opportunity for upside to both our revenue and profitability estimates seem likely. Key potential catalysts for CY/25 reacceleration include 1) the consumption G2M being complete, 2) Flink cross-sell, 3) FedRAMP certification, and 4) GenAI tailwinds.

Risks to rating and price target

- Competition in data streaming and processing with well-established cloud vendors that are better-resourced as well as open source competition.
- While more established in data streaming, data processing is an unproven cross-sell.
- Potential disruption from G2M changes for Confluent Cloud.
- Market for the services is relatively new and unproven.
- Limited history with a lack of significant profitability.

Datadog, Inc.

Matthew Hedberg (Analyst)

Outperform

NASDAQ: DDOG US; USD 130.31

Price Target USD 145.00

Key Statistics

Shares O/S (MM):	362.3	Market Cap (MM):	47,211
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	3,283,648

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	1,675.1	2,104.7	2,545.5	3,093.0
EPS, Ops Diluted	0.98	1.53	1.76	2.07
P/E	NM	NM	74.0x	63.0x

Revenue	Q1	Q2	Q3	Q4
2022	363.0A	406.1A	436.5A	469.4A
2023	481.7A	509.5A	547.5A	566.0E
2024	573.2E	608.8E	656.0E	707.5E
EPS, Ops Diluted				
2022	0.24A	0.24A	0.23A	0.26A
2023	0.28A	0.36A	0.45A	0.43E
2024	0.40E	0.42E	0.45E	0.49E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our base-case price target of $145 by applying a 20x multiple to our CY/24E revenue estimate. Our target multiple is a slight premium to fast-growing SaaS peers due to its long-term growth opportunity as well as above-peer margins. Our price target supports our Outperform rating.

Investment summary

On a mission to break down the traditional DevOps silos: Datadog was born in 2010 from a problem identified by its two co-founders, one of whom sat on the development side and the other on the operation side, and the realization that their teams could not understand complex systems the same way. The vision was to break down these silos and create an SaaS-based, real-time data integration platform. Today, the company has five complementary applications that leverage a common platform including Infrastructure Monitoring, APM, Logging, UX Monitoring, and NPM. We believe Datadog can continue to add incremental applications such as security, real-time business intelligence, and ITSM.

Potential growth catalysts

- The company has already seen strong adoption of Logging and APM within its Infrastructure Monitoring base of customers. Additional attach of these modules plus UX Monitoring and NPM could provide upside to estimates.
- The potential introduction of additional modules including security (SIEM), real-time business intelligence, and/or ITSM could provide upside to estimates.
- Additional customer penetration at the high end of the market.

Risks to rating and price target

- Operates in a market with competition from larger legacy competitors and new entrants.
- Business is dependent on ability to land new customers and retain and expand within the base.
- Will need to manage growth effectively to maintain customer satisfaction.
- COVID-19 could impact company operations or customer demand.

Dynatrace, Inc.

Matthew Hedberg (Analyst)

Outperform

NYSE: DT US; USD 57.90

Price Target USD 66.00

Key Statistics

Shares O/S (MM):	317.4	Market Cap (MM):	18,377
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	2,076,287

RBC Estimates

FY Mar	2022A	2023A	2024E	2025E
Revenue	929.4	1,158.5	1,414.1	1,671.1
EPS, Adj Diluted	0.68	0.97	1.11	1.24
P/AEPS	NM	59.7x	52.2x	46.7x

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2022	209.7A	226.4A	240.8A	252.6A
2023	267.3A	279.3A	297.5A	314.5A
2024	332.9A	351.7A	357.5E	372.0E
EPS, Adj Diluted				
2022	0.16A	0.18A	0.18A	0.17A
2023	0.18A	0.22A	0.25A	0.31A
2024	0.27A	0.31A	0.28E	0.25E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our base-case price target of $66 by applying a 70x multiple to our CY/24E FCF estimate. Our target multiple is a premium to peers, in our view warranted due to an improving long-term opportunity. In addition, our price target implies 12.5x CY/24E EV/S, which gives the company credit for consistency in growth. Our target and multiple, in our view, are warranted due to a large and expanding TAM that leads to an attractive growth profile as well as the opportunity for upside-to-growth expectations. Our price target supports our Outperform rating.

Investment summary

High-level thesis: Software is everywhere, and if the experience is less than perfect, the consequences can be significant. Legacy APM applications built in the early 2000s were designed for on-premises monitoring, which break down with today's architecture. In addition, these legacy solutions required significant manual configuration, lacking the ability to scale and a real-time view into performance. As opposed to legacy APM architecture, we believe Dynatrace is built for the modern hybrid-cloud, with several unique features built for the enterprise-class customer, OneAgent and Davis.

By leveraging a full-stack suite of solutions that leverages a single agent and AI capabilities, we believe Dynatrace has the opportunity to move into adjacent markets beyond APM, replacing traditional monitoring tools and potentially disrupting various well-established IT spending categories, such as infrastructure monitoring, alert and incident management, and network monitoring as hybrid-cloud computing replaces traditional on-premises data centers. The APM market is expected to be $6.2B in 2023, but we believe its market opportunity could be $18B, and much of that remains unpenetrated. Within APM, we believe several legacy vendors are subject to share-shift including Broadcom/CA, Oracle, IBM, Riverbed, and Microsoft.

Potential catalysts

1. Ability to maintain net expansion rates by selling additional products into its growing customer base and maintaining low churn rates.
2. New product introduction and/or additional traction from recently introduced products.
3. Accelerated customer additions leveraging its multi-pronged, go-to-market approach.
4. Additional share-shift from legacy competitors.

Risks to rating and price target

1. Operates in a market with competition from larger legacy competitors and newer entrants that could result in pricing pressure.
2. Failure to retain existing customers could be a detriment.
3. Dynatrace has experienced rapid growth; failure to manage growth/expectations could cause operational challenges.
4. The CEO executive transition.

Fortinet, Inc.

Dan Bergstrom (Analyst)

Sector Perform

NASDAQ: FTNT US; USD 60.90

Price Target USD 60.00

Key Statistics

Shares O/S (MM):	784.1	Market Cap (MM):	47,752
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	5,948,410

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	4,417.4	5,299.7	5,720.0	6,375.0
EPS, Ops Diluted	1.19	1.56	1.55	1.71
P/E	51.2x	39.0x	39.3x	35.6x

Revenue	Q1	Q2	Q3	Q4
2022	954.8A	1,030.1A	1,149.5A	1,283.0A
2023	1,262.3A	1,292.8A	1,334.6A	1,410.0E
2024	1,300.0E	1,390.0E	1,450.0E	1,580.0E
EPS, Ops Diluted				
2022	0.19A	0.24A	0.33A	0.44A
2023	0.34A	0.38A	0.41A	0.43E
2024	0.33E	0.36E	0.39E	0.47E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our $60 price target is based on a CY/24E EV/FCF multiple of 26x, in line with the comparable group. We believe an in-line multiple relative to the comparable group is warranted given recent trends, the ongoing mix shift, and revisions to numbers over the last several quarters. Our price target supports our Sector Perform rating.

Investment summary

We rate shares of FTNT Sector Perform for the following reasons:

- There is a shift toward larger deal sizes and revenue mix-shift, which introduces increased risk into the business;
- The firewall market and security in general remains a competitive sector;
- Pricing pressures may impact results;
- The macro continues to show mixed signals; and
- COVID-19 could impact company operations or customer demand.

Risks to rating and price target

Risks to our rating and price target could include changes in the macro environment including COVID-19, moderating IT spending, or should acceptance of the company's products change. Shares may trade with volatility. Margin pressures or failure to meet expectations may pressure shares and valuation.

Gen Digital Inc.

Matthew Hedberg (Analyst)

Sector Perform

NASDAQ: GEN US; USD 23.48

Price Target USD 25.00

Key Statistics

Shares O/S (MM):	655.7	Market Cap (MM):	15,396
Dividend:	0.60	Yield:	2.6%
		Avg. Daily Volume:	3,053,724

RBC Estimates

FY Mar	2022A	2023A	2024E	2025E
EPS, Ops Diluted	1.75	1.81	1.96	2.25
P/E	13.4x	13.0x	12.0x	10.4x
Revenue	2,807.0	3,339.0	3,819.0	3,940.0

EPS, Ops Diluted	Q1	Q2	Q3	Q4
2022	0.42A	0.43A	0.44A	0.46A
2023	0.45A	0.45A	0.45A	0.46A
2024	0.47A	0.47A	0.49E	0.52E
Revenue				
2022	691.0A	695.0A	704.0A	717.0A
2023	708.0A	748.0A	936.0A	947.0A
2024	946.0A	948.0A	955.0E	970.0E

EPS, Ops Diluted: Pro forma EPS excluding amortization and other non-cash charges.
All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our $25 price target is based on 11.5x our CY/24E EPS estimate, which is in line with more SMB and consumer-oriented software peers. Our price target and multiple weigh recent peer group multiple contraction with our confidence around the company's ability to execute its strategy. Our price target supports our Sector Perform rating.

Investment summary

We view shares of Gen Digital as fairly valued at current levels with the focus around the integration of Avast offset by potential macro headwinds and increased debt expense with rising rates. Over the next three years (FY/25-27), the company expects sustainable and balanced organic revenue growth to ramp to the mid-single digits and operating margins of up to 60%+ which should drive non-GAAP EPS growth of 12-15%. We'd note that excluding interest rates and macro headwinds EPS would have doubled to $3.00 by FY/25. Going forward, EPS should benefit from further de-leveraging and/or interest rate improvements. From here, challenges we see include the potential for increased churn and overall business pressure due to macro challenges as well as Avast integration risk and escalating debt expenses that could eat into 12-month EPS synergies.

Potential catalysts

- Potential revenue and cost synergies following the Avast transaction.
- The push to $3 or more in EPS.
- Increased investments in direct marketing programs.
- International expansion.
- Improved retention rates.
- Continued growth in ARPU.
- A path to ~60% margins over the next several years.
- Significant capital to return to shareholders.

Risks to rating and price target

- Avast integration risk.
- New business model and new management team that will need to execute.
- Historical declining membership counts.
- Transition of partner to members.
- Spend to acquire new members likely ongoing.
- Substantial debt.
- COVID-19 could impact company operations or customer demand.

Informatica Inc.

Matthew Hedberg (Analyst)

Outperform

NYSE: INFA US; USD 30.29

Price Target USD 33.00

Key Statistics

Shares O/S (MM):	366.4	Market Cap (MM):	11,098
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	899,496

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Sales	1,505.1	1,580.5	1,667.5	1,782.3
EPS, Adj Diluted	0.79	0.90	1.12	1.27

Sales	Q1	Q2	Q3	Q4
2022	362.3A	372.0A	372.0A	398.8A
2023	365.4A	376.0A	408.6A	430.5E
2024	385.5E	395.8E	428.2E	458.0E
EPS, Adj Diluted				
2022	0.20A	0.16A	0.18A	0.24A
2023	0.15A	0.17A	0.27A	0.30E
2024	0.23E	0.24E	0.31E	0.35E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our $33 price target is based on shares trading at 24.5x CY/24E EBITDA. This also equates to 8x our CY/24 EV/S estimate. This is a slight discount to similar growing peers, which we believe is warranted due to a lack of public company experience. Our price target supports an Outperform rating.

Investment summary

We believe Informatica is uniquely positioned to lead and consolidate share in the Intelligent Data Management Cloud market.

Informatica has undergone a significant transformation since going private in 2015 that includes: 1) a complete architecture rebuild transitioning from selling on-premises software to cloud-native software; 2) expanding its TAM from data integration to AI-driven data management; and 3) a business model shift by transitioning from selling license/maintenance to subscription and SaaS. We believe the company has a unique opportunity to consolidate share in a fragmented market in an increasingly multi-cloud world. Management believes the addressable market opportunity is ~$44 billion, which we think could expand with the growth of data and applications. Additionally, we see mix-shift to cloud as a bullish trend. Ultimately, we think there is an opportunity to introduce new cloud products on its IDMC platform as well as develop its partner ecosystem to extend its go-to-market reach.

Potential growth catalysts

- Complexity associated with increasing data volumes increases the need to manage, aggregate, and normalize the data
- Transition to a multi-cloud or hybrid IT world
- Opportunity to land new customers
- Expanding within existing customer base through up-sell/cross-sell
- The transition of maintenance to SaaS revenue
- Addition of new cloud products on the IDMC platform
- International expansion

Risks to rating and price target

- High debt levels, as we expect management to de-leverage over time
- Similar to other PE-backed IPOs, we think that in the near term shares could come under pressure as ownership sells down its position over time
- Adverse effects on global economy if the pandemic continues for an extended period
- A significant portion of ARR relies on the existing customer base, so a high rate of renewal is critical
- The markets are highly competitive and are subject to rapidly changing technology, which could lead to more alternatives in the market, resulting in lower revenues for the company
- There has been significant competition for talent and the company has faced many changes to its senior management team, which could lead to disruptions in ongoing operations

Jamf Holding Corp.

Matthew Hedberg (Analyst)

Outperform

NASDAQ: JAMF US; USD 19.17

Price Target USD 22.00

Key Statistics

Shares O/S (MM):	139.4	Market Cap (MM):	2,672
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	407,995

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
EPS, Adj Diluted	0.16	0.28	0.33	0.44
P/AEPS	NM	68.5x	58.1x	43.6x
Revenue	478.8	558.4	642.1	744.9

EPS, Adj Diluted	Q1	Q2	Q3	Q4
2022	0.03A	0.03A	0.04A	0.06A
2023	0.05A	0.05A	0.08A	0.11E
2024	0.05E	0.05E	0.09E	0.14E
Revenue				
2022	108.3A	115.6A	124.6A	130.3A
2023	132.2A	135.1A	142.6A	148.5E
2024	150.3E	154.7E	163.6E	173.6E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our $22 price target is based on shares trading at 5x our CY/24 EV/S estimate. This is essentially in-line with similar growing SaaS peers, which we believe is warranted due to above average growth and profitability offset somewhat by the PE overhang and dependence on Apple. Our price target supports an Outperform rating.

Investment summary

We see Jamf's primary mission as being to help organizations succeed with Apple. As the standard in Apple enterprise management, we think Jamf is in a strong position to leverage the growing preference for Apple in the enterprise. In addition to a TAM that is likely to expand more quickly than previously expected in a post-COVID world, the company's financial profile is unique given rapid growth and high profitability.

Apple innovation has transformed the technology landscape. What started off as a consumer revolution to Apple devices has steadily made its way to the enterprise. As such, there has been a substantial share shift in operating system usage since 2009, with iOS representing 32% of Internet traffic in the US and macOS 12%, for a total of 43%, which is significantly higher than Windows at 31%. To put that into perspective, in 2009 Windows-based devices drove 88% of Internet traffic vs. iOS at 1% and macOS at 10%.

Expanding the TAM. The company has provided a bottom-up estimate of $10.3 billion TAM in 2019, growing at a CAGR of 17.8% to $23.4 billion by 2024.

Potential growth catalysts:

- A growing acceptance of Mac and iOS in the enterprise (see IBM example in our initiation report on JAMF dated 17 Aug. 2020).
- Growing preference for BYOD.
- Consumerization of IT.
- Shifting demographics in the workforce to Millennials.
- COVID changes everything as enterprises and employees re-think the value/importance of WFH.
- The launch of additional Apple products or ability to monetize the Apple Watch.
- Vertical specific tailwinds in education from e-learning and healthcare from tele-health.
- Competitive share-shift.

Risks to rating and price target

- The impact on Jamf's operations and financial condition due to recessionary pressures.
- Changes in Jamf's continued relationship with Apple including the adverse impact of changes in features and functionality by Apple on Jamf's engineering focus or product development efforts.
- Jamf derives a substantial portion of its revenue from Jamf Pro but continues to diversify given growth in security products.

N-able, Inc.

Matthew Hedberg (Analyst)

Outperform

NYSE: NABL US; USD 13.29

Price Target USD 16.00

Key Statistics

Shares O/S (MM):	181.0	Market Cap (MM):	2,405
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	408,169

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
EPS, Adj Diluted	0.34	0.34	0.37	0.45
P/AEPS	39.1x	39.1x	35.9x	29.5x
Revenue	371.8	420.2	462.3	520.0

EPS, Adj Diluted	Q1	Q2	Q3	Q4
2022	0.09A	0.09A	0.07A	0.10A
2023	0.08A	0.09A	0.09A	0.08E
2024	0.09E	0.09E	0.09E	0.10E
Revenue				
2022	90.9A	91.6A	93.5A	95.8A
2023	99.8A	105.1A	107.6A	106.8E
2024	110.0E	115.0E	117.3E	120.0E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our base-case price target of $16 is based on 20.4x CY/24E EBITDA. Our target multiple is a discount to contracted Rule of 45-55 peers and in line with growth SME peers. We think the discount multiple to rule of 45-55 peers fairly weighs the opportunity around potential revenue acceleration and margin expansion for the newly stand-alone public company. Our price target supports our Outperform rating.

Investment summary

N-able serves +25,000 MSP partners that in turn service +500,000 SME customers. We believe N-able is well-positioned to take share in a large and growing market, which could reflect over 125K MSPs and per management, $23B estimated TAM as of 2020, which could grow at a CAGR of 13.5% to ~$44B by 2025. While there is competition from MSP pure-play vendors as well as several niche and domain specific vendors, we believe the market is large and can support several vendors as the need for technology within the SME market increases. Potential catalysts for N-able include:

- Digital transformation of SMEs in a post-COVID world, as it remains under pressure to adopt digital solutions to compete effectively.
- Increasing importance of MSP in a post-COVID world, due to increased technical challenges and shortage of skilled workers.
- Increased attack surface and demand for solutions to protect critical data in the event of data loss or a ransomware attack.
- Rolling out new solutions for MSP partners to “sell to” and “sell through”.
- Additional international focus, with 52% of revenue currently generated internationally (~10% from the UK).

Risks to rating and price target

- Higher sensitivity of SMEs to changes in the macro environment.
- Foreign currency exchange rate fluctuations due to a large international presence.
- Ability to expand MSP customer base and sell additional products within the base.
- Reduction in the number of SMEs serviced by MSP partners or a reduced amount of services provided by MSP partners to SMEs.
- Competition from new entrants and established competitors.

NetScout Systems, Inc.

Matthew Hedberg (Analyst)

Sector Perform

NASDAQ: NTCT US; USD 21.73

Price Target USD 25.00

Key Statistics

Shares O/S (MM):	77.0	Market Cap (MM):	1,673
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	866,165

RBC Estimates

FY Mar	2022A	2023A	2024E	2025E
Revenue	855.6	914.5	839.9	847.0
EPS, Adj Diluted	1.84	2.13	2.05	2.08
P/AEPS	11.8x	10.2x	10.6x	10.4x

Revenue	Q1	Q2	Q3	Q4
2022	190.3A	211.9A	262.2A	191.2A
2023	208.8A	228.1A	269.5A	208.1A
2024	211.1A	196.8A	195.0E	237.0E
EPS, Adj Diluted				
2022	0.20A	0.47A	0.89A	0.29A
2023	0.24A	0.57A	1.00A	0.38A
2024	0.31A	0.61A	0.36E	0.76E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our price target of $25 by applying an 11.5x multiple to our $2.19 CY/24 EPS estimate, which is in line with peers. Our price target and multiple weigh the potential for acceleration against a somewhat challenging environment that could continue to make the timing/magnitude of large customer orders more difficult to forecast. We believe our price target supports our Sector Perform rating.

Investment summary

We view the current service provider spending environment as somewhat lumpy, which could make the timing of large orders difficult to forecast. The company should be better positioned in FY/23 and beyond, now that the worst of the service provider headwinds are in the past. Beyond this, we think NetScout is well positioned to benefit longer term from network complexity including SDN, mobile and hybrid computing. The product portfolio following the Danaher acquisition expands the TAM by 60% while revenue and margin synergies should now be more apparent without substantial service provider headwinds. Potential positives could include: 1) a more diverse product set including security solutions; 2) selling more software-only solutions vs. hardware to aid in gross margin improvements; 3) the opportunity to capture next-gen data center spend that builds on SDN and NFV capabilities; and 4) a focus on margin improvements post Danaher.

Potential catalysts could include:

- Accelerating revenue growth driven by better-than-expected CapEx spending at carriers and deeper penetration into existing customer accounts.
- Faster mix-shift to security software.
- Selling more software (higher gross margins) and less hardware (lower gross margins).
- Ability to capture next-gen carrier spend.
- New security offerings

Risks to rating and price target

There are many moving parts in NetScout's story that could impact our rating and price target, such as multi-faceted markets with different rates of growth, changing requirements of end-customers, competition from larger vendors, rapidly changing technologies and changes in the macro environment including COVID-19 that could continue on longer than expected, to name a few.

Factors affecting category adoption and market growth may include limited traction with new products, limited international traction, larger well-financed competitors, customer concentration which may impede achievement of our price target and rating. Additionally, decelerating revenue growth driven by lower-than-expected capex spending at Service Providers, tougher competition affecting penetration into existing customer accounts, competitive share dynamics in APM, Security and Business Intelligence markets, and additional requirements to integrate operations may also potentially impede achievement of our price target and rating.

Olo Inc.

Matthew Hedberg (Analyst)

Outperform

NYSE: OLO US; USD 4.98

Price Target USD 7.00 ↓ 9.00

Key Statistics

Shares O/S (MM):	188.6	Market Cap (MM):	939
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	1,140,140

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	185.4	224.0	259.5	304.0
EPS, Adj Diluted	0.06	0.15	0.17	0.20
P/AEPS	NM	33.2x	29.3x	24.9x

Revenue	Q1	Q2	Q3	Q4
2022	42.8A	45.6A	47.3A	49.8A
2023	52.2A	55.3A	57.8A	58.8E
2024	60.5E	63.0E	66.0E	70.0E
EPS, Adj Diluted				
2022	0.01A	0.01A	0.02A	0.03A
2023	0.03A	0.04A	0.04A	0.04E
2024	0.04E	0.04E	0.04E	0.04E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our base-case price target of $7 by applying a 3.4x multiple to our CY/24 revenue estimate. Our price target and multiple reflect recent peer multiple compression and expectations for near term uneven demand trends. At current levels, shares trade at a discount to +20% growing SaaS peers. Our price target supports our Outperform rating.

Investment summary

We believe Olo is well positioned to capitalize on a post-COVID push for off-premises dining and multi-channel ordering in a TAM that could be +$40B.

We believe Olo's SaaS restaurant e-commerce platform is well positioned to benefit from a changing restaurant landscape as more customers utilize online ordering and off-premises dining options such as delivery, take-out, and drive-up, which accelerated during COVID. We believe Olo has a unique opportunity to help restaurants: 1) drive efficiencies and simplify restaurant operations through integrations with marketplaces, POS, and legacy systems; 2) utilize data to perform analytics on customers' buying patterns and customize offerings; and 3) reduce reliance on third-party marketplaces (e.g., UberEats, Doordash) for delivery and online ordering, and improve margins by eliminating/reducing large commissions paid to these marketplaces. While there remains a large, underpenetrated restaurant opportunity domestically, we believe that longer term, expansion into other verticals such as grocery chains and convenience stores as well as international markets could further expand its TAM.

Potential growth catalysts

- Popularity of off-premises dining options accelerated by COVID.
- Increase in the complexity of restaurant operations given the backdrop of multi-channel ordering including online, phone, mobile apps, in-person, or through kiosks.
- Heavy reliance on marketplaces for delivery/ordering, which could drive the restaurants to consider other options.
- Increasing utilization of technology in the restaurant industry to drive efficiencies and stay competitive.
- International expansion, expansion into SMB restaurants, and expansion through new products around payment (Olo Pay), on-premises dining, and data analytics.

Risks to rating and price target

- The risk a customer chooses to DIY vs leveraging Olo.
- Impact from COVID-19, given the impact on the restaurants.
- Reliance on partnerships with aggregators and DSPs, which could become competitive.
- Lower transaction fees, as in-person dining returns.
- Business is dependent on the ability to land new customers and retain and expand within the base.

PowerSchool Holdings, Inc.

Matthew Hedberg (Analyst)

Outperform

NYSE: PWSC US; USD 24.08

Price Target USD 27.00

Key Statistics

Shares O/S (MM):	203.7	Market Cap (MM):	4,905
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	670,980

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	630.7	699.0	782.3	852.6
EPS, Adj Diluted	0.85	0.84	0.96	1.10
P/AEPS	28.3x	28.7x	25.1x	21.9x

Revenue	Q1	Q2	Q3	Q4
2022	149.6A	157.6A	162.4A	161.1A
2023	159.5A	173.9A	182.2A	183.5E
2024	185.0E	196.9E	202.5E	197.9E
EPS, Adj Diluted				
2022	0.16A	0.22A	0.21A	0.27A
2023	0.18A	0.23A	0.24A	0.19E
2024	0.21E	0.24E	0.26E	0.25E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our base-case price target of $27 by applying a 7.9x multiple to our CY/24 revenue estimate. Our target multiple is a discount to vertical SaaS peers and a premium to 10-20% growth SaaS peers, in our view warranted due to the potential for upside to estimates, better profitability and a large and expanding TAM. Our price target supports our Outperform rating.

Investment summary

We believe PowerSchool is well positioned as a leading provider of K-12 education technology solutions, due to the mission-critical nature of its solutions, large and greenfield market, upsell/cross-sell opportunity in its large existing customer base and increasing digitization in the education industry.

Management estimates a global TAM of $25B based on the current solution set. Within that TAM, we believe there is a significant greenfield portion of the market where the company can sell into customers with no existing incumbent, losing potential deals more often to “no decision” than a competitor. We believe PowerSchool is unique in the breadth and depth of its platform and its many integrations and has built a certain level of trust and credibility in a market which is slow to adopt unproven and untrusted products. However, once the customers adopt a solution, the relationship is typically sticky due to the mission-critical nature of the systems, making it harder to replace. COVID pandemic has accelerated the digitization of the education industry and the shift towards data-driven education, which we think should continue to benefit PowerSchool.

Potential growth catalysts:

- Under ESSA, school districts are required to differentiate instruction on an individual student basis. PowerSchool's platform frees up more time for teachers to give students the individual attention they need.
- Underpenetrated global K-12 market; COVID has accelerated the pace of digitization in the education vertical.
- The acquisition of Hoonuit unlocks the power of data, allowing educators and administrators to evaluate all aspects of student achievement, which we view as a distinct competitive advantage.
- Cross-sell opportunity within existing base of ~$2.5B, per management estimate.
- Symbiotic partnerships with best-in-class providers across the K-12 ecosystem.
- M&A, which has historically contributed ~50% of the growth.

Risks to rating and price target

- Failure to manage renewals, given the North American penetration rate requires ongoing up- and cross-sell to support growth.
- Change in budget priorities of state and local governments could impact the spending power of PowerSchool's customer base.
- Failure to properly integrate acquired assets.

PTC Inc.

Matthew Hedberg (Analyst)

Outperform

NASDAQ: PTC US; USD 174.70

Price Target USD 202.00

Key Statistics

Shares O/S (MM):	121.8	Market Cap (MM):	21,278
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	803,888

RBC Estimates

FY Sep	2022A	2023A	2024E	2025E
EPS, Ops Diluted	4.58	4.34	4.85	6.26
P/E	38.1x	40.3x	36.0x	27.9x
Revenue	1,933.3	2,097.1	2,334.3	2,613.8

EPS, Ops Diluted	**Q1**	**Q2**	**Q3**	**Q4**
2022	0.95A	1.39A	0.97A	1.27A
2023	0.99A	1.16A	0.99A	1.20A
2024	0.90E	1.28E	1.23E	1.44E
Revenue				
2022	457.7A	505.2A	462.4A	507.9A
2023	465.9A	542.2A	542.3A	546.6A
2024	535.1E	584.0E	600.5E	614.7E

Revenue: Historicals and estimates have been updated for 606 accounting changes
All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our $202 price target assumes that PTC shares trade at 32x our CY/24E FCF/share vs. the historical P/FCF range of 8–40x over the last five years. In our view, this is a fair multiple due to the success of the model transition, above industry growth rates, the upside from partnerships and success in SaaS, balanced with macro concerns, and the effect on billings and FCF. Our price target supports an Outperform rating.

Investment summary

Our Outperform rating for PTC is a 12-month view that is supported by several growth drivers as the model accelerates out of the subscription transition, balanced with execution challenges and reduced long-term guidance.

Potential drivers include

- Margin improvements to drive earnings and cash flow power.
- A transition to recurring revenue that should provide a more stable growth model.
- A SaaS business that is growing rapidly, differentiated from peers, and shows nice optionality alongside the company's core offerings.
- New product introductions which could increase share-shift from peers in core CAD and PLM.
- Above-peer growth rates in core businesses.
- Partnerships such as Microsoft and Ansys.

Risks to rating and price target

- Exposure to the manufacturing vertical as well as emerging markets.
- Lack of margin improvement.
- IoT growth rates below the company's expectations.
- Sales execution and an inability to hire qualified headcount.
- Macro risks including but not limited to COVID-19.

Qualys, Inc.

Matthew Hedberg (Analyst)

Sector Perform

NASDAQ: QLYS US; USD 196.37

Price Target USD 212.00

Key Statistics

Shares O/S (MM):	38.6	Market Cap (MM):	7,580
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	366,499

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	489.7	554.5	612.0	682.2
EPS, Ops Diluted	3.73	5.10	5.13	5.74

Revenue	Q1	Q2	Q3	Q4
2022	113.4A	119.9A	125.6A	130.8A
2023	130.7A	137.2A	142.0A	144.6E
2024	145.0E	152.0E	156.0E	159.0E
EPS, Ops Diluted				
2022	0.89A	0.89A	0.94A	1.01A
2023	1.09A	1.27A	1.51A	1.23E
2024	1.23E	1.27E	1.31E	1.33E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our $212 price target assumes that Qualys shares trade at 35.5x our CY/24 EV/FCF estimate. Our target EV/FCF multiple is essentially in line with the peer group, which in our view balances historical execution and consistency in quarterly performance. We believe our valuation supports our Sector Perform rating.

Investment summary

We believe Qualys is well positioned to extend its strength in vulnerability management to other security solutions in its suite and further penetrate its installed customer base. Ultimately, this should drive revenue growth and margin expansion, while the balance sheet provides a high level of visibility into future revenue estimates.

Potential catalysts could include the introduction of additional products to the QualysGuard Cloud Suite, penetration of additional geographies, margin expansion through economies of scale, and complementary product/technology acquisitions.

Risks to rating and price target

Risks to our rating and price target could include changes in the macro environment including COVID-19 that could persist longer than expected, moderating IT spending, or should acceptance of the company's products change. Shares may trade with volatility. Margin pressures or failure to meet expectations may pressure shares and valuation.

Rapid7 Inc

Matthew Hedberg (Analyst)

Outperform

NASDAQ: RPD US; USD 54.52

Price Target USD 70.00

Key Statistics

Shares O/S (MM):	65.1	Market Cap (MM):	3,549
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	758,832

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	685.1	773.4	866.7	976.9
EPS, Adj Diluted	0.35	1.27	1.71	2.01
P/AEPS	NM	42.9x	31.9x	27.1x

Revenue	Q1	Q2	Q3	Q4
2022	157.4A	167.5A	175.8A	184.5A
2023	183.2A	190.4A	198.8A	201.0E
2024	203.6E	212.1E	221.5E	229.5E
EPS, Adj Diluted				
2022	(0.16)A	(0.01)A	0.14A	0.35A
2023	0.16A	0.18A	0.50A	0.47E
2024	0.38E	0.42E	0.45E	0.46E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our price target of $70 is based on 32.5x CY/24E FCF, or 6x CY/24E EV/S. We believe the multiple is reasonable vs. peers (in line) due to SMB exposure in the current macro and the slightly below to in-line growth rate. We believe the current valuation and market opportunity support an Outperform rating.

Investment summary

Rapid7 is a cyber-security vendor with a unique data- and analytics-driven approach to DevSecOps. Its value proposition is to utilize massive amounts of data collected from the network and endpoints to drive automation and productivity to help customers proactively prevent security breaches. ARR growth is the key metric, and management expects it to be around 15% in 2023.

We are confident about the opportunity in the core-VM market, which is currently over half of the business, with above market growth rates, consistent competitive win rates and minimal pricing pressure while longer-term success in IDR, AppSec and Connect should drive a unique position in the DevSecOps market.

The company has multiple product drivers over multiple years that should help sustain durable growth and measured operating margin expansion. Currently, base growth is via VM with IDR providing higher levels of growth that longer term should be buoyed by AppSec and Connect. The company's goal is to get to at least $160M in CY/24E FCF.

Potential catalysts: (1) Acceleration of new customer additions; (2) increasing dollar renewal rates; (3) increased focus on leveraging data analytics with a growing security-risk landscape (i.e., differentiating Rapid7 from other VM vendors); (4) additional channel investments and international expansion; and (5) potential from IDR, AppSec and Connect.

Where we could be wrong: (1) Increased competition in a highly fragmented market; (2) security stocks could go out of favor; (3) the company is running near break-even; (4) a decline in renewal rates could adversely affect growth; and (5) COVID-19 could impact company operations or customer demand.

Risks to rating and price target

Risks to our price target and rating could include changes in the macro environment including moderating IT spending, limited operating history, or should acceptance of the company's products change.

ServiceNow, Inc.

Matthew Hedberg (Analyst)

Outperform

NYSE: NOW US; USD 749.11

Price Target USD 840.00

Key Statistics

Shares O/S (MM):	212.1	Market Cap (MM):	158,886
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	1,005,992

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	7,245.0	8,932.0	10,721.0	12,830.1
EPS, Ops Diluted	7.60	10.32	12.18	14.47
P/E	NM	72.6x	61.5x	51.8x

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2022	1,722.0A	1,752.0A	1,831.0A	1,940.0A
2023	2,096.0A	2,150.0A	2,288.0A	2,398.0E
2024	2,516.0E	2,574.4E	2,714.0E	2,916.6E
EPS, Ops Diluted				
2022	1.73A	1.62A	1.96A	2.28A
2023	2.37A	2.37A	2.92A	2.66E
2024	2.68E	2.60E	3.34E	3.54E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our base case target of $840 assumes that shares trade at 16x our CY/24 EV/revenue estimate, a slight premium to our high efficiency comp group average given the leading growth and margin profile. On FCF, this implies a 53.5x EV/CY24E FCF multiple. Our price target supports our Outperform rating.

Investment summary

Founded in 2004 by Fred Luddy, ServiceNow is an enterprise IT cloud company that delivers SaaS-based applications to automate and standardize IT business processes. We are bullish on the company's ability to take share in the IT Service Management (ITSM) market as ServiceNow becomes the "ERP for IT". Its technology centers on a suite of applications built on a proprietary platform that automates workflow, processes, and integration-related business activities. Customers deploy its services to create a single system of record for IT, which reduces costs and streamlines operations. Moving beyond IT, ServiceNow could become the platform for the enterprise as customers and partners write custom SaaS applications for HR, finance, facilities, legal, procurement, etc. on its platform.

Key points

- Above-market growth opportunity by taking share from legacy IT vendors.
- Growth strategy = land + expand + retain.
- Classic platform play as ServiceNow expands beyond IT.
- Seasoned management team.
- Opportunity for long-term durable growth and margin expansion.

Potential investment catalysts

- Improved sales productivity.
- New products/services such as observability and RPA features.
- Expanding GSI opportunity.
- Additional cross-sell within its expanding customer base.
- Upside to margin expectations.

Risks to rating and price target

- The economic environment could become more volatile.
- Scaling the business to $10B+ in revenue vs. the move from $100M to $1B.
- Not being able to hire as quickly as needed or the loss of key employees.

SolarWinds Corporation

Matthew Hedberg (Analyst)

Sector Perform

NYSE: SWI US; USD 11.87

Price Target USD 13.00

Key Statistics

Shares O/S (MM):	159.0	Market Cap (MM):	1,887
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	448,246

RBC Estimates

FY Dec	**2022A**	**2023E**	**2024E**	**2025E**
Revenue	719.4	750.6	773.0	815.0
EPS, Ops Diluted	0.83	0.84	0.93	1.03
P/E	14.3x	14.1x	12.8x	11.5x
EBITDA, Adj	280.4	322.9	340.2	366.6

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2022	176.9A	176.0A	179.4A	187.1A
2023	186.0A	185.0A	189.6A	190.0E
2024	189.0E	190.5E	194.0E	199.5E
EPS, Ops Diluted				
2022	0.24A	0.21A	0.20A	0.19A
2023	0.20A	0.21A	0.23A	0.21E
2024	0.21E	0.22E	0.24E	0.26E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our base-case price target of $13 using a 9.3x multiple on our CY/24 EBITDA estimate of $340M, in line with the estimated historical stand-alone average multiple. Our price target and multiple reflect peer multiple compression and balance an increasing subscription mix with an uncertain macro outlook and unknown impacts from the Sunburst hack. Our price target supports a Sector Perform rating.

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 an increasingly higher mix of subscription revenue as well as stabilizing demand trends post the 2020 hack following the spin of the MSP business, N-able. 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) potential M&A to further extend the portfolio of products.

Risks to rating and price target

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; 5) Silver Lake and Thoma Bravo own a majority of shares and have a controlling interest over stockholders; and 6) the 2020 cyberattack.

Teradata Corporation

Matthew Hedberg (Analyst)

Sector Perform

NYSE: TDC US; USD 48.00

Price Target USD 59.00

Key Statistics

Shares O/S (MM):	112.0	Market Cap (MM):	5,376
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	1,021,882

RBC Estimates

FY Dec	**2022A**	**2023E**	**2024E**	**2025E**
Revenue	1,795.0	1,838.0	1,911.0	2,016.0
EPS, Ops Diluted	1.65	2.03	2.35	2.95
P/E	29.1x	23.6x	20.4x	16.3x

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2022	496.0A	430.0A	417.0A	452.0A
2023	476.0A	462.0A	438.0A	462.0E
2024	496.0E	470.0E	452.0E	493.0E
EPS, Ops Diluted				
2022	0.65A	0.33A	0.31A	0.35A
2023	0.61A	0.48A	0.42A	0.52E
2024	0.71E	0.53E	0.52E	0.58E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our $59 price target assumes shares trade at 25.1x our CY/24 EPS estimate. Our target multiple reflects improved execution and is a premium to infrastructure peers due to the transition to cloud ARR being a leading indicator for revenue. We believe our Sector Perform rating and price target are justified by the evolving business model transition and new salesforce initiatives.

Investment summary

We believe the model can benefit from a migration to the cloud as long as the company can continue to attract net new customers.

While the competitive landscape remains intense, we are incrementally more optimistic on the company's market position for cloud-first analytics.

We believe our Sector Perform rating and price target are justified by the evolving business model transition and new salesforce initiatives.

Risks to rating and price target

Risks to our price target and rating could include changes in the macro environment, COVID, moderating IT spending, or should acceptance of the company's products change. Shares may trade with volatility. Margin pressures or failure to meet expectations may pressure shares and valuation.

Varonis Systems, Inc.

Matthew Hedberg (Analyst)

Outperform

NASDAQ: VRNS US; USD 44.60

Price Target USD 52.00

Key Statistics

Shares O/S (MM):	127.0	Market Cap (MM):	5,664
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	1,081,660

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	473.6	497.1	530.5	579.4
EPS, Ops Diluted	0.18	0.32	0.44	0.52
P/E	NM	NM	NM	NM

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2022	96.3A	111.4A	123.3A	142.6A
2023	107.3A	115.4A	122.3A	152.0E
2024	112.5E	123.9E	132.2E	161.8E
EPS, Ops Diluted				
2022	(0.09)A	0.00A	0.05A	0.21A
2023	0.00A	0.01A	0.08A	0.23E
2024	0.03E	0.08E	0.11E	0.23E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Our $52 price target assumes that shares trade at 10.0x CY/24E EV/ARR, or roughly in line with peers. Our price target and multiple are warranted in our view by the increased pace of the transition, which is why we used an ARR valuation, due to the near-term headwind to revenue though we expect long-term value of additional subscription revenue, offset by the potential for near-term model volatility. We believe our rating and price target are justified by the large and expanding end market, growing customer base, execution improvement, and success of the land-and-expand model. Our price target and implied return support our Outperform rating.

Investment summary

Founded in 2004, Varonis provides a software platform that assists customers in automating unstructured data protection and management, particularly for human-generated data. The core technology behind the products is its proprietary Metadata Framework, which collects and aggregates metadata (or data about data) from human-generated content including emails, documents, spreadsheets, etc. The company's family of five products leverages Metadata Framework for applications focused on security, compliance, access, storage, collaboration, etc.

We believe the company is in the early stages of penetrating a $47 billion market that includes fragmented competition. Through a land, expand, and retain strategy, we believe Varonis has the opportunity to generate strong financial growth for several years while continuing to innovate new technologies that leverage its Metadata Framework. In addition, we believe the company is an attractive acquisition target for larger vendors seeking exposure to innovative big data solutions.

Key points

- Large market opportunity
- Post COVID beneficiary due to the increased risk of data governance in a work from anywhere environment
- Growth strategy = land + expand + retain
- Expanded salesforce
- Rapid innovation
- High barriers to entry
- International growth opportunity
- Long-term margin expansion
- A new SaaS opportunity

Risks to rating and price target

- The economic environment remains volatile specifically for COVID-19 impact
- The potential for increased competition
- The SaaS mix-shift.
- Revenue growth as the SaaS transition accelerates

Xometry, Inc.

Matthew Hedberg (Analyst)

Sector Perform

NASDAQ: XMTR US; USD 32.80

Price Target USD 38.00

Key Statistics

Shares O/S (MM):	51.7	Market Cap (MM):	1,696
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	615,653

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	381.1	463.3	581.5	729.1
EPS, Adj Diluted	(0.85)	(0.46)	0.01	0.42
P/AEPS	NM	NM	NM	78.1x

Revenue	Q1	Q2	Q3	Q4
2022	83.7A	95.6A	103.6A	98.2A
2023	105.3A	111.0A	118.9A	128.0E
2024	137.0E	141.5E	148.0E	155.0E
EPS, Adj Diluted				
2022	(0.27)A	(0.18)A	(0.11)A	(0.29)A
2023	(0.20)A	(0.14)A	(0.05)A	(0.07)E
2024	(0.04)E	(0.02)E	0.01E	0.06E

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We calculate our base-case price target of $38 by applying an 8.5x multiple to our CY/24 gross profit estimate as well as a 3.5x multiple to our CY/24 sales estimate. Our target multiple is in line with peers on EV/GP and EV/S. Our price target supports our Sector Perform rating.

Investment summary

Given its unique value proposition and the large size of the manufacturing industry, we believe Xometry has an opportunity to create a more efficient manufacturing ecosystem, letting buyers reliably source components/parts on demand while enabling sellers to meet excess capacity and grow their businesses. Mgmt estimates its TAM at more than $260B based on six key manufacturing processes, which we think should expand as more processes are added to the platform. Additionally, we believe there remains a large opportunity to expand and connect buyers and sellers internationally given that ~95% of revenue currently is generated in the US.

Our previous bull thesis was predicated on continued market share gains in the fragmented global manufacturing market by leveraging their proprietary AI algorithms as well as Thomas synergies. While in some regards we believe that thesis remains, due to macro pressures and volatility in the model, we are rethinking our growth, margin and valuation framework. While one could argue for a premium to peers given Xometry's growth, we'd like to see evidence of stabilization in trends, Thomas synergies, and ultimately re-acceleration as we think the stock is likely range-bound in the near term.

Potential growth catalysts

- Manufacturing is a highly fragmented and geographically dispersed market, making it challenging to find market equilibrium and, as a result, creating inefficiencies. Xometry can help fill these supply/demand gaps by matching interested buyers with sellers.
- COVID-19, which we believe has accelerated the need for more resilient supply-chain processes.
- Increasing digitization of the manufacturing industry to drive efficiencies and stay competitive.
- International expansion, as more than 95% of revenue is currently generated from buyers in the US, even though there were sales to customers in 51 countries.
- Additional seller products and services, such as financial services, which we believe is a key growth opportunity, as well as building deeper relationships with sellers.

Risks to rating and price target

- The growth of the business depends on its ability to attract and retain a large community of buyers and sellers.
- The inability of sellers to match with buyers at the proposed price which could compel the company to increase the prices offered to sellers and put pressure on margins.
- Risk of competition from larger, more established firms entering the market, which are able to provide better prices to the buyers.
- Results can fluctuate based on buyers’ spending patterns.

- Quality assurance to the buyers as the company transacts and depends on a large number of third-party sellers.
- The acquisition of Thomas reflects some degree of risk around integration.

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Distribution of ratings
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As of 31-Dec-2023

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Outperform]	**829**	**57.17**	**253**	**30.52**
HOLD [Sector Perform]	**575**	**39.66**	**154**	**26.78**
SELL [Underperform]	**46**	**3.17**	**6**	**13.04**

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