

Multi Company Note — October 24, 2023

U.S. Software

Framing Sentiment Ahead of Q3 Software Earnings Season

Our Call

After a few weeks on the road for investor meetings, we aim to help level-set the conversation into Q3 earnings season across software & frame some of the key debates & preferred setups as we see them. Details below and inside.

Measured Sentiment: the initial wave of AI-led enthusiasm appears to have waned. While conversations heading into Q2 earnings were focused on how much contribution/how fast + potential for 2H growth reaccel, tone this time around is more measured. We'd characterize most of our investor convos as NT cautious, with hopes Q3 stabilization could lead to an improving '24 trajectory & consistent questions around what could yield a more favorable outcome (looking for reasons to get more constructive).

Key Topics of Debate/Discussion: 1) Macro Holding Top Spot - no surprise, the macro remains most top of mind, as investors aim to understand where/when some of the pressures from elongated sales cycles + cost optimization could subside. Our recent work suggests the backdrop for enterprise spend is holding on relatively stable of late, but we think any more meaningful improvement is most likely a '24 conversation for most of software (+ note budget discussions remain fairly opaque for now).

2) AI Contribution a Close 2nd - while some of the initial froth has been lowered, which cos stand to benefit from AI monetization & when represents another central discussion point. Our view is that while MSFT and ADBE are likely earlier participants, the remainder is less clear. We see enabling infra technologies (ie SNOW, CFLT from our coverage) as potentially next in-line. While for the application layer, we think AI-led contribution is more likely a '25 than '24 conversation for most.

3) Large vs. SMID - '23 has proven the year of large cap w/ vendor consolidation & cost controls in focus, leading to significant perf dispersion (LC in coverage +35% YTD vs SMID +6%, NASDAQ +24%). We continue to favor large caps broadly & remain selective in SMID given tough backdrop + rising rates. **4) The 'left behinds'** - less expected, we've also fielded an uptick in questions around names like ZM, DOCU, TWLO & ZI as investors reassess the path-fwd after prolonged periods of u/p.

Our Preferred Names into Q3: 1) MSFT - expect FQ1 results to support Azure stabilization story with room for bigger AI-driven uptick in 2H24; **2) NOW** - fairly straight-fwd Q3 setup, with public sector strength + cautious sentiment presenting potential positive surprise into seasonally strong Q4; **3) TEAM** - conservatively framed targets + migration uplift present room for upside throughout FY24; **4) CFLT** - unusually low Cloud bar to clear (~\$8.5M net new vs. 2Q ~\$10M), presenting favorable 2H setup.

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Financials

\$ Company Name (Ticker)	Rating		Price	2023E	2024E	FY EPS			FY P/E		Price Target	
	Curr.	Prior	10/23/23			2024E	2025E	2025E	2024	2025	To	From
						Prior	Curr.	Prior				
U.S. Software												
8x8, Inc. (EGHT)	UW	NC	\$2.31	0.33A	0.43	NC	0.57	NC	5.4x	4.1x	\$3.00	NC
Adobe Inc. (ADBE)	OW	NC	\$540.41	15.93	18.08	NC	20.71	NC	29.9x	26.1x	\$650.00	NC
Atlassian Corp. Plc (TEAM)	OW	NC	\$185.96	1.92A	2.13	NC	2.75	NC	87.1x	67.7x	\$230.00	NC
Blend Labs, Inc. (BLND)*	EW	NC	\$1.21	162.5	194.8	NC	244.8	NC	1.6x	1.3x	\$1.50	NC
Braze, Inc. (BRZE)*	OW	NC	\$42.62	355.4A	454.5	NC	571.0	NC	9.5x	7.6x	\$55.00	NC
Ceridian HCM Holding, Inc. (CDAY)	EW	NC	\$68.99	1.24	1.65	NC	2.10	NC	41.8x	32.9x	\$70.00	NC
Clear Secure, Inc. (YOU)*	EW	NC	\$17.30	593.7	685.5	NC	784.9	NC	2.9x	2.5x	\$26.00	NC
Clearwater Analytics Holdings, Inc. (CWAN)*	OW	NC	\$19.11	100.0	124.2	NC	151.5	NC	35.4x	29.0x	\$22.00	NC
Confluent, Inc. (CFLT)	OW	NC	\$28.14	(0.02)	0.27	NC	0.55	NC	NM	51.6x	\$41.00	NC
DocuSign, Inc. (DOCU)	EW	NC	\$40.08	2.04A	2.74	NC	2.95	NC	14.6x	13.6x	\$55.00	NC
Everbridge, Inc. (EVBG)	EW	NC	\$19.69	1.50	1.58	NC		NC	12.5x		\$24.00	NC
Five9, Inc. (FIVN)	OW	NC	\$58.72	1.81	2.21	NC	2.70	NC	26.6x	21.7x	\$95.00	NC
Guidewire Software, Inc. (GWRE)	EW	NC	\$87.29	0.40A	0.79	NC	1.57	NC	NM	55.6x	\$90.00	NC
HubSpot, Inc. (HUBS)	OW	NC	\$431.02	5.27	6.63	6.77		NC	65.0x		\$550.00	\$600.00
Intuit, Inc. (INTU)	OW	NC	\$504.03	14.42A	16.39	NC	18.67	NC	30.8x	27.0x	\$575.00	NC
Kaltura, Inc. (KLTR)	EW	NC	\$1.62	(0.10)	(0.05)	NC		NC	NM		\$2.00	NC
Microsoft Corporation (MSFT)	OW	NC	\$329.32	9.68A	10.82	NC	12.24	NC	30.4x	26.9x	\$400.00	NC
RingCentral, Inc. (RNG)	OW	NC	\$25.60	3.19	3.69	NC		NC	6.9x		\$45.00	NC
salesforce.com, inc. (CRM)	OW	NC	\$202.00	5.24A	8.05	NC	9.72	NC	25.1x	20.8x	\$275.00	NC
Samsara Inc. (IOT)*	OW	NC	\$23.15	652.5A	898.0	NC	1,141.2	NC	12.7x	10.0x	\$32.00	NC
ServiceNow Inc. (NOW)	OW	NC	\$541.38	10.02	12.28	NC	14.93	NC	44.1x	36.3x	\$650.00	NC
Smartsheet, Inc. (SMAR)	OW	NC	\$40.41	(0.23)A	0.56	NC	1.06	NC	72.7x	38.3x	\$55.00	NC
Snowflake Inc. (SNOW)	OW	NC	\$148.59	0.34A	0.63	NC	1.02	NC	NM	NM	\$200.00	NC
Sprinklr, Inc. (CXM)	EW	NC	\$13.17	0.01A	0.30	NC	0.44	NC	43.8x	30.1x	\$16.00	NC
Twilio, Inc. (TWLO)	EW	NC	\$52.49	1.77	2.11	NC		NC	24.9x		\$65.00	NC
Tyler Technologies, Inc. (TYL)	OW	NC	\$366.78	7.66	8.78	NC	9.96	NC	41.8x	36.8x	\$425.00	NC
UiPath, Inc. (PATH)	EW	NC	\$15.56	0.15A	0.44	NC	0.53	NC	35.3x	29.6x	\$18.00	NC
WalkMe Ltd. (WKME)	OW	NC	\$8.86	(0.06)	0.16	NC		NC	55.2x		\$11.00	NC
Workday, Inc. (WDAY)	OW	NC	\$209.58	3.63A	5.40	NC	7.18	NC	38.8x	29.2x	\$280.00	NC
Zoom Video Communications, Inc. (ZM)	EW	NC	\$61.13	4.37A	4.66	NC	4.49	NC	13.1x	13.6x	\$75.00	NC
ZoomInfo Technologies, Inc. (ZI)	OW	NC	\$15.92	1.00	1.13	NC		NC	14.1x		\$28.00	NC

* For BLND estimates represent Rev. (MM)

* For BRZE estimates represent Rev. (MM)

* For YOU estimates represent Rev. (MM)

* For CWAN estimates represent EBITDA (MM)

* For IOT estimates represent Rev. (MM)

Source: Company data and Wells Fargo Securities, LLC estimates, and Refinitiv.

OW = Overweight, EW = Equal Weight, UW = Underweight, NR = Not Rated, SR = Suspended

NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

Exhibit 1 - Large Caps Outperforming YTD

	Ticker	2020 Returns	2021 Returns	2022 Returns	2023 YTD Returns
Large-Cap >\$50B	MSFT	41%	51%	-29%	37%
	ADBE	52%	13%	-41%	61%
	CRM	37%	14%	-48%	52%
	INTU	45%	69%	-39%	29%
	NOW	95%	18%	-40%	39%
	WDAY	46%	14%	-39%	25%
	SNOW	--	20%	-58%	4%
Mid-Cap (\$5-50B)	TEAM	94%	63%	-66%	45%
	ZM	396%	-45%	-63%	-10%
	HUBS	150%	66%	-56%	49%
	TYL	45%	23%	-40%	14%
	ZI	--	33%	-53%	-47%
	DOCU	200%	-31%	-64%	-28%
	CDAY	57%	-2%	-39%	8%
	TWLO	244%	-22%	-81%	7%
	IOT	--	--	-56%	86%
	PATH	--	--	-71%	22%
	CFLT	--	--	-71%	27%
	SMAR	54%	12%	-49%	3%
	GWRE	17%	-12%	-45%	40%
Small-Cap (<\$5B)	FIVN	166%	-21%	-51%	-13%
	CWAN	--	--	-18%	2%
	YOU	--	--	-13%	-37%
	RNG	125%	-51%	-81%	-28%
	BRZE	--	--	-65%	56%
	CXM	--	--	-49%	61%
	EVBG	91%	-55%	-56%	-33%
	WKME	--	--	-43%	-21%
	EGHT	88%	-51%	-74%	-47%
	BLND	--	--	-80%	-16%
	KLTR	--	--	-49%	-6%
	>\$50B Average	53%	29%	-42%	35%
	\$5-50B Average	140%	8%	-58%	17%
	<\$5B Average	117%	-45%	-53%	-7%
	Average	108%	5%	-52%	12%
	Median	88%	13%	-51%	8%
	COMP	44%	21%	-33%	24%

Source: Factset, Wells Fargo Securities, LLC

Exhibit 2 - 3Q Preview (calendar co's)

Ticker	Expects Into Print	Call Volume	Metric	Consensus (Y/Y CC)	Buy-Side Expect (Y/Y CC)	Recent Datapoints / Trends	Add'l Commentary
MSFT	Falling (Azure & AI)	High	FQ1 Azure Growth	25.6% y/y	~26.0% y/y	Sentiment skewing more mixed given weaker than expected cloud checks into the qtr	ATVI acquisition closed on 10/13
			FQ2 Azure Growth (guide)	24.7% y/y	~25.0% y/y		
			FQ1 O365 Comm'l	15.6% y/y	~16% y/y		
			FQ2 O365 Comm'l	14.5% y/y	~15% y/y		
			FQ1 EPS	\$2.65, +13% y/y	N/A		
			FQ2 EPS	\$2.65, +14% y/y	N/A		
NOW	Unch	Medium	3Q Rev	\$2.19B, +23% y/y	\$2.22B, +25% y/y	Positive partner feedback, notably around recent release of Vancouver. Expect contributions to layer on over NTM	Positioning becoming increasingly dependent on potential for upside to FY24 guide
			4Q Rev (Guide)	\$2.30B, +24% y/y	\$2.34B, +26% y/y		
			3Q cRPO	\$7.37B, +21.5% y/y	+22.5% y/y		
			4Q cRPO (Guide)	\$8.50B, +21.0% y/y	+21.5% y/y		
TEAM	Rising (3Q Cloud migration)	High	FQ1 Cloud Revs	\$599M, +26% y/y	\$610M, +28% y/y	Checks positive on FQ1, specifically with large cloud migration activity	Expect elevated DC migration activity in FQ2/FQ3
			FQ1 Total Revs	\$963M, +19% y/y	Typical ~2% beat		
			FQ2 Cloud Revs	\$649M, +27% y/y	\$655M, +28% y/y		
			FQ2 Total Revs	\$1,020M, +17% y/y	Typical ~2% beat		
HUBS	Falling	High	3Q Total Revs (CC)	\$534M, +18% y/y (CC)	~\$555M (+23% CC)	Mixed partner feedback on Q3 results (macro, AI "FOMO", budget scrutiny) and current demand trends (consensus is cautious optimism).	Ecosystem enthused about partner changes at start of year to drive up-market GTM alignment/success
			4Q Total Revs (CC Guide)	\$557M, +15% y/y (CC)	~\$565M (+16% CC)		
			3Q EBIT	~13%	~15%		
			4Q EBIT (Guide)	~15.4%	~16.0%		
TYL	Unch	Low	23 Total Revs	\$1.96Bn, +6% y/y	N/A	Competition intensifying in ERP mkt in state/local govt	SaaS bookings trends/competitive landscape commentary
			23 EPS	\$7.69, +3% y/y	N/A		
CFLT	Unch	Medium	3Q Cloud Revs	\$92.0M, +\$8.4M q/q	\$93.5M, +9.9M q/q	Confluent Cloud for Apache Flink to GA soon; likely early FY24	--
			3Q Total Revs	\$195.3M, +29% y/y	\$200.0M, +32% y/y		
			3Q OM	-10%	-10%		
			4Q Cloud Guide	\$102.4M, +10.4M q/q	\$103.0M, +10M q/q		
ZI	Falling	Medium (Rising)	3Q Total Revs	\$310M (8% y/y)	N/A	Some feedback on increasing competition and customers temporarily turning off.	Looking for anecdotes on how initial FY24 guide will come out
			4Q Total Revs (Guide)	\$311M (3% y/y)	N/A		
			3Q uFCFm	~32.5%	N/A		
			4Q uFCFm (Guide)	~36.0%	N/A		
TWLO	Falling	Medium (Rising)	3Q Total Revs	\$990M, +1% y/y	N/A	N/A	N/A
			3Q GM	51.9%, +110bps y/y	N/A		
			3Q EPS	\$0.36	N/A		
			3Q Customers	307.8K, +10% y/y	N/A		
FIVN	Rising	Medium	3Q Total Revs	\$224.5M, +13% y/y	N/A	N/A	Prelim FY24 outlook expected on Q3 call, likely in line with historical (~16% growth)
			3Q EPS	\$0.43	N/A		
			4Q Total Revs (Guide)	\$244.2M, +17% y/y	N/A		
			4Q EPS (Guide)	\$0.46	N/A		
CDAY	Unch	Low	3Q Revenue	\$369Mn, +17% y/y	N/A	Large upmarket win validated via INSIGHTS (vs slowing bookings trends)	Is macro impacting new deal wins upmarket?
			3Q DF Rec Rev ex float	\$240Mn, +26% y/y	N/A		
			3Q Float Revenue	\$36Mn	N/A		
			3Q EBITDA	\$90Mn (24%)	N/A		
CWAN	Unch	Low	3Q Revenue	\$92M, +20% y/y	N/A	N/A	N/A
			4Q Revenue (Guide)	\$99M, +19% y/y	N/A		
			3Q EBITDA	\$25Mn (27%)	N/A		
			4Q EBITDA (Guide)	\$27Mn (28%)	N/A		
RNG	Falling	Low	3Q Total Revs	\$528.0M, +9% y/y	N/A	N/A	N/A
			3Q EPS	\$0.75	N/A		
			4Q Total Revs (Guide)	\$545.2M, +9% y/y	N/A		
			4Q EPS (Guide)	\$0.81	N/A		
YOU	Falling	Medium	3Q Bookings	\$179M, +23% y/y	N/A	Slowing CP member growth/TSA bottleneck	Investor bar set low on organic growth/Amex contribution outlook
			4Q Bookings (Guide)	\$185M, +23% y/y	N/A		
			3Q Revenue	\$154M, +33% y/y	N/A		
			4Q Revenue (Guide)	\$160M, +25% y/y	N/A		
EVBG	Unch	Low	3Q Total Revs	114M, +2% y/y	N/A	N/A	Waiting to hear if recent global events are a catalyst
			4Q Total Revs (Guide)	118M, +1% y/y	N/A		
			3Q Adj EBITDA	\$23M (20.4%)	N/A		
			4Q Adj EBITDA (Guide)	\$28M (23.4%)	N/A		
WKME	Unch	Low	3Q Total Revs	67M, +7% y/y	N/A	N/A	Looking for color on adoption of Discover and any color on initial FY24 outlook
			4Q Total Revs (Guide)	69M, +7% y/y	N/A		
			3Q OM	(\$2M) -2.5%	N/A		
			4Q OM (Guide)	(\$1M) -0.5%	N/A		
EGHT	Unch	Low	FQ2 Total Revs	\$183.6M, -2% y/y	N/A	N/A	N/A
			FQ2 Service Revs	\$175.5M, -2% y/y	N/A		
			FQ2 OI	\$21.1M, 11.5% OM	N/A		
			FQ2 EPS	\$0.09	N/A		
KLTR	Unch	Low	3Q Revs	\$43.1M, +5% y/y	N/A	N/A	N/A
			3Q Subs Revs	\$40.3M, +6% y/y	N/A		
			3Q EBITDA	-\$0.7M	N/A		
			3Q EPS	-\$0.02	N/A		
BLND	Unch	Low	3Q Revenue	\$40M, -27% y/y	N/A	N/A	N/A
			4Q Revenue (Guide)	\$40M, -7% y/y	N/A		
			3Q Op income	(\$17Mn)	N/A		
			4Q Op income (Guide)	(\$16Mn)	N/A		

Source: Factset, Wells Fargo Securities, LLC estimates, Visible Alpha

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