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Software | North America

Valuation Views 10/23/23 - SMB Concerns Start To Surface

Software stocks fell -1%, outperforming the broader market as more balanced Fed speak and tighter financial conditions suggest little appetite for near-term rate hikes. Low multiple names (ETWO, SCWX, BIGC, WKME) outperformed, while SMB-exposed names (BILL, SPT, DOCN, HUBS) underperformed.

Assessing Software – Price Performance

Company	Performance						52 Week High	
	1 Week	1 Month	3 Month	YTD	1 Year	3 Year	Price	% Below
Software Mean	-1.3%	-5.0%	-10.1%	15.5%	12.9%	-18.1%		26.8%
Software Median	-1.4%	-5.6%	-10.6%	15.3%	9.9%	-22.2%		24.6%
NASDAQ	-3.2%	-3.6%	-7.7%	24.1%	22.3%	12.7%		
S&P 500	-2.4%	-4.0%	-6.9%	10.0%	15.2%	22.7%		

Top 10 Rank	Short interest %		1 Week Price Move		1 Month Price Move		YTD	
	Ticker	10/20/2023	Ticker	10/20/2023	Ticker	10/20/2023	Ticker	10/20/2023
1	AI	31.8%	ETWO	24.9%	SPLK	23.4%	PLTR	150.9%
2	SPT	13.8%	SCWX	11.7%	PLTR	9.3%	AI	117.2%
3	EGHT	12.6%	BIGC	5.7%	DOCS	9.1%	IOT	83.6%
4	PRO	10.2%	VRNS	5.4%	CRWD	9.1%	FSLY	79.0%
5	DOCN	10.1%	WKME	5.0%	VERX	7.5%	MDB	75.9%
6	FSLY	9.9%	FRSH	4.6%	WKME	7.3%	PANW	74.2%
7	TWOU	9.2%	ASAN	4.4%	SCWX	6.5%	SPLK	71.4%
8	QLYS	8.8%	SEMR	4.3%	ZI	6.5%	CRWD	69.8%
9	AYX	8.8%	TWOU	3.4%	ASAN	6.3%	APPF	69.0%
10	CFLT	8.6%	AMPL	2.7%	RPD	6.1%	CXM	62.3%

Bottom 10 Rank	Short interest %		1 Week Price Move		1 Month Price Move		YTD	
	Ticker	10/20/2023	Ticker	10/20/2023	Ticker	10/20/2023	Ticker	10/20/2023
1	SCWX	0.1%	VMW	-15.1%	ETWO	-38.4%	CHGG	-66.8%
2	DCBO	0.2%	OKTA	-9.0%	FSLY	-24.3%	TWOU	-66.0%
3	VERX	0.5%	BILL	-8.8%	SABR	-17.8%	EGHT	-48.1%
4	WKME	0.5%	VEEV	-7.3%	TWOU	-16.5%	ETWO	-47.9%
5	MSFT	0.5%	PLTR	-7.2%	PD	-16.2%	ZI	-43.6%
6	ORCL	0.6%	SPT	-7.2%	DOMO	-15.7%	DOMO	-39.9%
7	SWI	0.7%	PANW	-6.3%	FROG	-15.5%	SABR	-39.3%
8	INST	0.8%	DOCN	-6.2%	HCP	-15.4%	DOCS	-34.2%
9	CRM	0.8%	SNOW	-6.0%	HUBS	-15.0%	AYX	-31.0%
10	SSNC	0.8%	HUBS	-6.0%	BASE	-14.6%	MTTR	-28.6%

Source: Eikon

Assessing Software – Where Are the Multiples?

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SOFTWARE

North America

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Attractive

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Exhibit 1: Overall Software Coverage Group Trading at 42% Below the Trailing 5-Year Average...

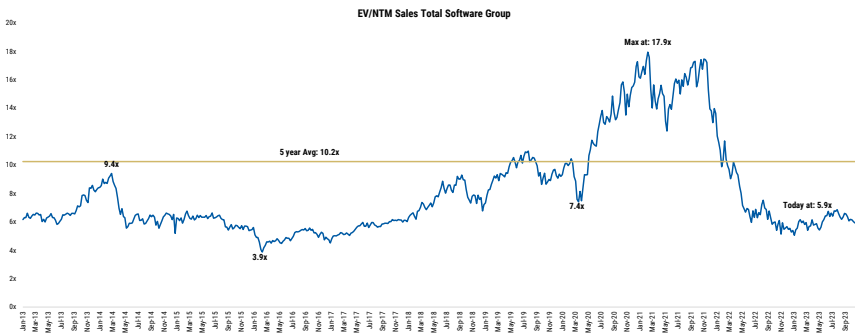
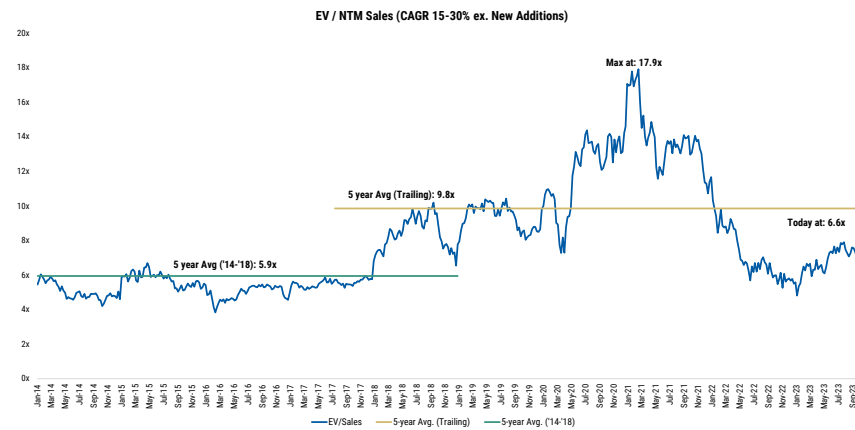
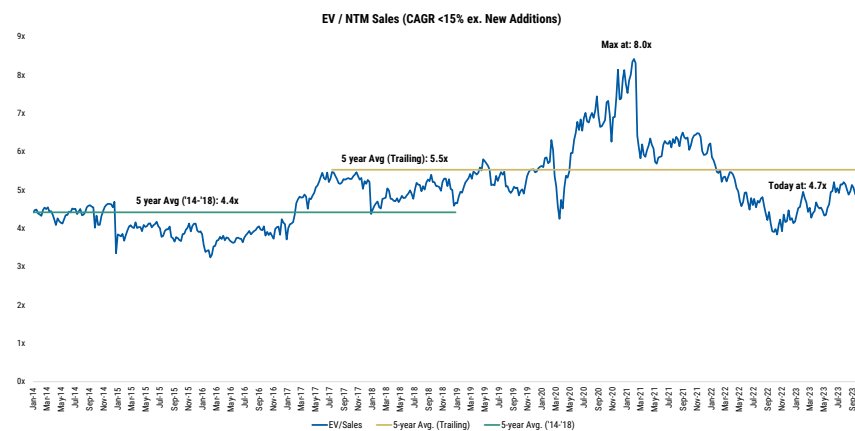


Exhibit 4: ...With the 15-30% Growth Group Trading at 33% Below the Trailing 5-year Average...



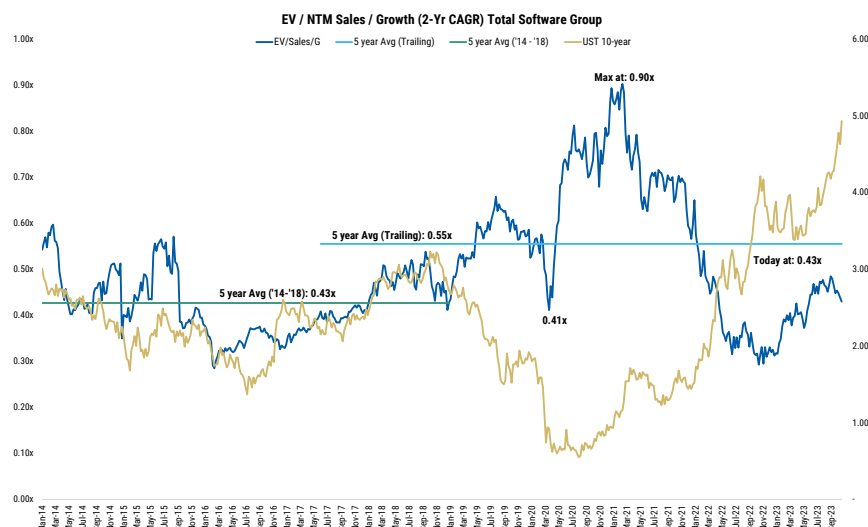
Source: Morgan Stanley Research, Refinitiv, Company data

Exhibit 5: ...And Slow Growers Trading 16% Below the Trailing 5-year Average...



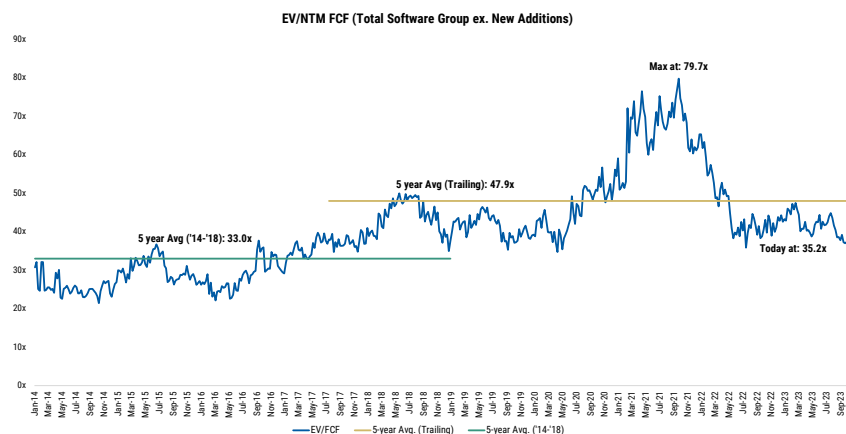
Source: Morgan Stanley Research, Refinitiv, Company data

Exhibit 6: ...On a Growth Adjusted Basis, Software Trading Below the Historical Averages



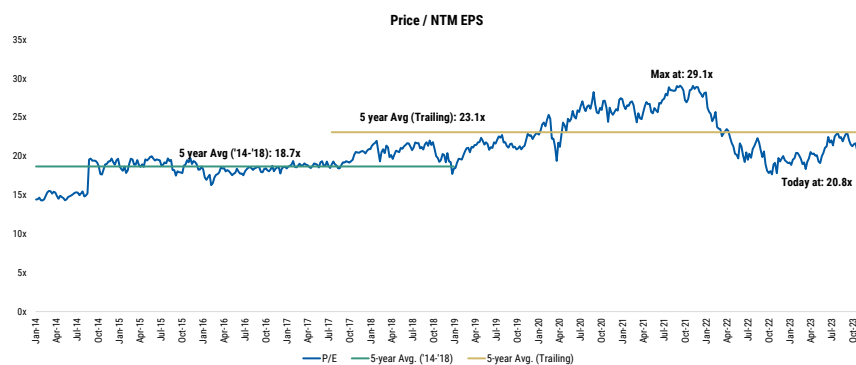
Source: Morgan Stanley Research, Refinitiv, Company data

Exhibit 7: Overall FCF Multiples ~56% Off the Peak, and 27% Below the Trailing 5-Year Average



Source: Morgan Stanley Research, Refinitiv, Company data

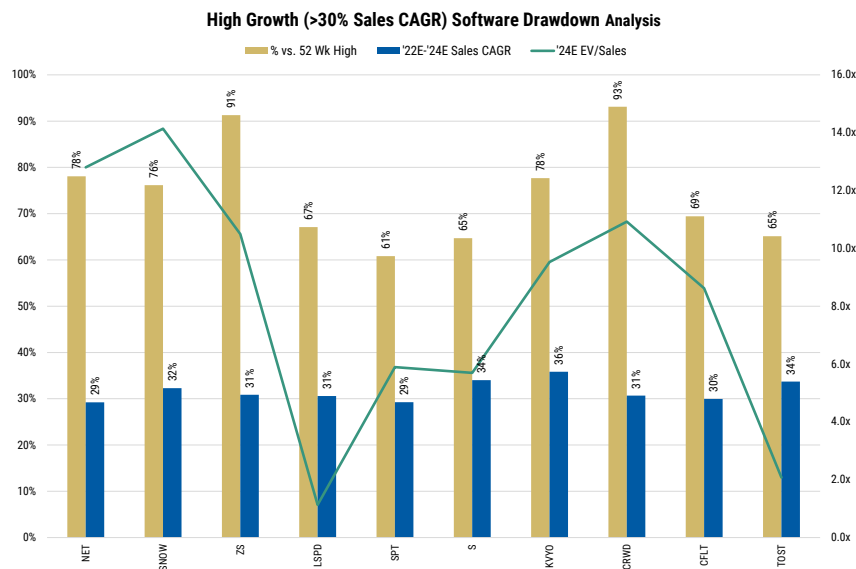
Exhibit 8: Overall P/E Multiples 29% Off the Peak, and 10% Below the Trailing 5-Year Average...



Source: Morgan Stanley Research, Refinitiv, Company data

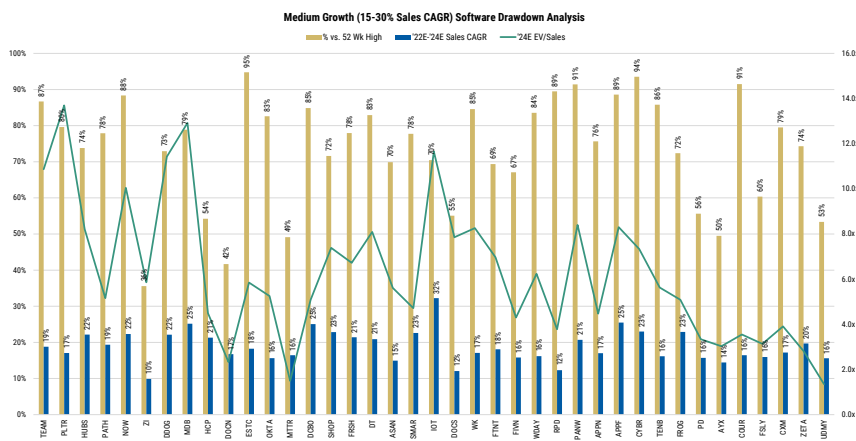
Assessing the Pullback – Growth and Performance Versus Multiples

Exhibit 9: Average High Growth Company -74% Below 52Wk High — Avg. 2-Year Sales CAGR of 32%, Avg. EV/CY24 Sales of 8.1x



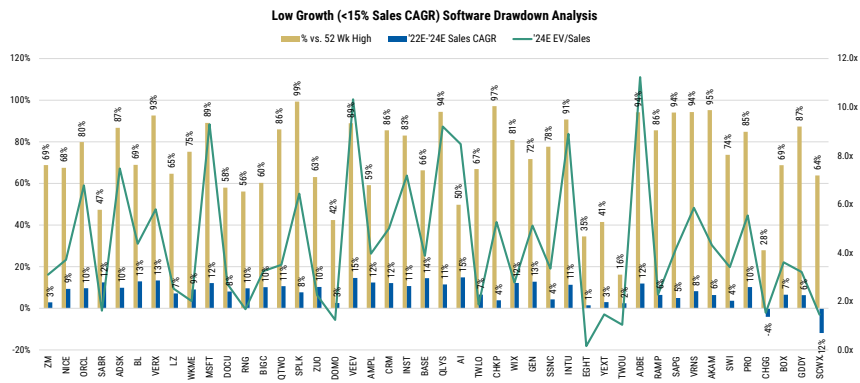
Source: Morgan Stanley Research, Refinitiv, Company data

Exhibit 10: Average Med. Growth Company -74% Below 52Wk High — Avg. 2-Year Sales CAGR of 19%, Avg. EV/CY24 Sales of 6.3x



Source: Morgan Stanley Research, Refinitiv, Company data

Exhibit 11: Average Low Growth Company -72% Below 52Wk High — Avg. 2-Year Sales CAGR of 8%, Avg. EV/CY24 Sales of 4.4x



Source: Morgan Stanley Research, Refinitiv, Company data

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(as of September 30, 2023)

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Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	608	17%	68	10%	11%	225	15%
Total	3,634		652			1543	

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INDUSTRY COVERAGE: Software

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/20/2023)
Chris Quintero		
Blackline Inc (BL.O)	E (09/18/2023)	\$53.70
Vertex Inc. (VERX.O)	O (09/18/2023)	\$22.90
Elizabeth Porter, CFA		
Amplitude Inc. (AMPL.O)	E (10/25/2021)	\$10.32
Freshworks Inc (FRSH.O)	E (10/18/2021)	\$18.55

GoDaddy Inc (GDDY.N)	E (07/19/2021)	\$74.49
HubSpot, Inc. (HUBS.N)	O (03/21/2023)	\$429.07
Klaviyo, Inc (KVYO.N)	E (10/16/2023)	\$29.01
LegalZoom.com Inc (LZ.O)	U (07/28/2022)	\$10.14
Liveramp Holdings Inc (RAMP.N)	O (07/15/2019)	\$28.20
Matterport Inc (MTTR.O)	E (04/19/2022)	\$2.00
Semrush Holdings Inc -A (SEMR.N)	E (06/06/2022)	\$8.31
Sprinklr Inc (CXM.N)	E (07/19/2021)	\$13.26
Sprout Social Inc (SPT.O)	E (11/17/2020)	\$45.05
Wix.Com Ltd (WIX.O)	E (05/19/2022)	\$83.16
Zeta Global Holdings Corp (ZETA.N)	E (07/06/2021)	\$8.38
ZoomInfo Technologies Inc (ZI.O)	O (11/18/2020)	\$16.99
Hamza Fodderwala		
Check Point Software Technologies Ltd. (CHKP.O)	E (10/16/2023)	\$134.65
CrowdStrike Holdings Inc (CRWD.O)	E (08/27/2023)	\$178.76
CyberArk Software Ltd (CYBR.O)	O (10/01/2020)	\$163.61
Fortinet Inc. (FTNT.O)	O (10/07/2022)	\$56.36
Gen Digital Inc. (GEN.O)	E (03/29/2022)	\$17.16
Okta, Inc. (OKTA.O)	E (09/01/2022)	\$75.57
Palo Alto Networks Inc (PANW.O)	O (10/10/2017)	\$243.10
Qualys Inc (QLYS.O)	U (02/09/2021)	\$155.79
Rapid7 Inc (RPD.O)	E (08/11/2015)	\$49.76
Secureworks Corp (SCWX.O)	E (09/09/2020)	\$6.42
SentinelOne, Inc. (S.N)	O (06/12/2023)	\$15.98
Tenable Holdings Inc (TENB.O)	E (01/12/2023)	\$42.70
Varonis Systems, Inc. (VRNS.O)	O (10/16/2023)	\$32.22
Zscaler Inc (ZS.O)	E (01/12/2023)	\$162.19
Josh Baer, CFA		
2u Inc (TWO.U.O)	E (11/24/2020)	\$2.13
Asana Inc (ASAN.N)	E (10/26/2020)	\$18.36
BigCommerce Holdings, Inc. (BIGC.O)	E (05/11/2021)	\$9.45
Box Inc (BOX.N)	O (10/03/2022)	\$24.05
Chegg Inc (CHGG.N)	E (11/02/2021)	\$8.39
Coursera, Inc. (COUR.N)	O (04/26/2021)	\$17.84
DigitalOcean Holdings Inc (DOCN.N)	E (08/11/2023)	\$21.52
Docebo Inc. (DCBO.O)	O (08/17/2023)	\$39.48
DocuSign Inc (DOCU.O)	U (10/03/2022)	\$40.27
Instructure Holdings Inc (INST.N)	O (12/09/2021)	\$25.55
Lightspeed POS Inc. (LSPD.N)	E (02/18/2021)	\$13.46
Sabre Corp (SABR.O)	E (03/16/2021)	\$3.75
Smartsheet Inc (SMAR.N)	O (05/22/2018)	\$41.02
Toast, Inc. (TOST.N)	O (12/16/2021)	\$17.58
Udemy Inc (UDMY.O)	E (11/23/2021)	\$9.21
WalkMe Ltd (WKME.O)	E (06/07/2022)	\$8.95
Keith Weiss, CFA		
Adobe Inc. (ADBE.O)	O (07/31/2023)	\$540.96
Akamai Technologies, Inc. (AKAM.O)	E (04/29/2020)	\$104.02
Atlassian Corporation PLC (TEAM.O)	O (01/13/2020)	\$187.07
Autodesk (ADSK.O)	E (08/19/2021)	\$202.69
Bill.com Holdings (BILL.N)	E (06/12/2023)	\$101.00
Cloudflare Inc (NET.N)	E (06/18/2020)	\$59.38
Intuit (INTU.O)	O (10/05/2020)	\$506.81
Microsoft (MSFT.O)	O (01/13/2016)	\$326.67
Oracle Corporation (ORCL.N)	E (01/15/2019)	\$101.85
Palantir Technologies Inc. (PLTR.N)	U (08/31/2023)	\$16.11

Salesforce.com (CRM.N)	E (07/31/2023)	\$203.73
Samsara Inc (IOT.N)	E (03/23/2023)	\$22.82
ServiceNow Inc (NOW.N)	O (11/12/2020)	\$542.51
Shopify Inc (SHOP.N)	E (06/24/2022)	\$51.14
Snowflake Inc. (SNOW.N)	O (02/07/2022)	\$147.67
Splunk Inc (SPLK.O)	++	\$147.53
UiPath Inc (PATH.N)	E (09/07/2022)	\$15.53
VMware Inc (VMW.N)	++	\$150.91
Workday Inc (WDAY.O)	O (04/14/2020)	\$211.16
Meta A Marshall		
8x8 Inc (EGHT.O)	E (01/13/2020)	\$2.24
Five9 Inc (FIVN.O)	E (10/10/2022)	\$60.09
NICE Ltd. (NICE.O)	O (10/16/2023)	\$156.30
RingCentral Inc (RNG.N)	E (08/08/2023)	\$27.64
Twilio Inc (TWLO.N)	O (09/19/2019)	\$53.33
Zoom Video Communications Inc (ZM.O)	E (10/11/2022)	\$61.71
Roy D Campbell		
Karooooo Ltd (KARO.O)	O (04/27/2021)	\$23.77
Sanjit K Singh		
Alteryx Inc (AYX.N)	O (09/18/2023)	\$34.94
Appian Corp (APPN.O)	E (12/03/2021)	\$41.05
C3.ai (AI.N)	U (01/04/2021)	\$24.31
Confluent, Inc. (CFLT.O)	O (04/12/2023)	\$28.62
Couchbase, Inc. (BASE.O)	E (08/16/2021)	\$14.92
Datadog, Inc. (DDOG.O)	O (05/21/2021)	\$86.08
Domo Inc (DOMO.O)	E (01/20/2023)	\$8.56
Fastly Inc. (FSLY.N)	E (04/20/2023)	\$14.66
HashiCorp (HCP.O)	E (01/03/2022)	\$20.23
JFrog Ltd. (FROG.O)	E (10/12/2020)	\$22.39
MongoDB Inc (MDB.O)	O (04/12/2023)	\$346.28
New Relic Inc (NEW.R.N)	++	\$85.70
PagerDuty, Inc. (PD.N)	O (01/20/2023)	\$19.65
Solarwinds Corp (SWI.N)	E (11/13/2018)	\$9.01

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