

Analyst Report – Snowflake Inc. (SNOW)

September 2024

By: Emily Zhang, Senior Technology Analyst at Vertex Capital Partners

Company Overview:

Snowflake Inc. (NYSE: SNOW) is a cloud-native data platform that enables organizations to store, manage, and analyze vast amounts of data at scale. The company has distinguished itself in the highly competitive cloud data sector with its unique architecture, which allows customers to seamlessly scale across multiple cloud providers, including Amazon Web Services (AWS), Microsoft Azure, and Google Cloud. Since its IPO in 2020, Snowflake has emerged as a leading player in the data cloud market, with strong growth across its customer base, product offerings, and global reach.

Investment Summary & Rating:

Snowflake's growth story remains strong, driven by both continued expansion in its core data warehousing and analytics business, and by new innovations that are pushing the company into the rapidly growing machine learning and AI space. With an accelerating global customer base and strong fundamentals, Snowflake is well-positioned to capitalize on the ongoing shift toward cloud-based data management. Despite its high valuation, I remain **bullish** on Snowflake's long-term prospects and continue to recommend it as a **Buy**. The company's leadership in cloud data, along with its expanding product suite, suggests significant upside potential in the coming quarters.

Market Price & Valuation:

- **Current Price:** \$210.75 (as of September 1, 2024)
- **Market Capitalization:** \$65.8 billion
- **Price Target:** \$275.00 (upside of approximately 30.5%)
- **Forward P/E Ratio:** 70x (based on FY 2025 EPS estimates)

Although Snowflake's valuation remains high relative to the broader market, I believe its premium is justified by its strong market position, the consistent expansion of its customer base, and the significant market opportunity ahead. The data management and analytics industry is growing rapidly, and Snowflake's product suite positions it as one of the key beneficiaries of this secular growth trend.

Growth Metrics & Key Business Highlights:

1. Strong Revenue Growth:

Snowflake posted impressive revenue growth in Q2 FY 2024, reporting \$850 million in revenue, up 28% YoY. The company has consistently exceeded revenue growth expectations, and I believe it will continue to do so in the near term, as enterprises increasingly shift toward cloud-based data solutions to support their digital transformation efforts.

2. **Customer Acquisition and Retention:**

Snowflake's customer growth remains robust, with the company now serving over 9,000 global clients, a 32% increase YoY. More impressively, Snowflake's number of customers contributing more than \$1 million in annual revenue has grown by 35% YoY. This is a clear indication that Snowflake's platform is becoming increasingly entrenched in its customers' businesses, with many clients expanding their usage of Snowflake's offerings over time.

3. **Market Leadership in Cloud Data:**

Snowflake continues to gain market share in the cloud data sector, an industry that is expected to grow at a CAGR of 20% over the next five years. The company's ability to integrate seamlessly with AWS, Google Cloud, and Azure has made it the preferred platform for enterprises seeking flexibility in their cloud data infrastructure. This multicloud architecture positions Snowflake to serve a wide variety of use cases across industries, further driving adoption.

4. **Product Innovation and AI/ML Expansion:**

The introduction of *Snowflake AI* in Q2 2024 is a key development in Snowflake's strategy to diversify its product offerings beyond traditional data warehousing. By providing businesses with the ability to run machine learning models directly within Snowflake's platform, Snowflake is enabling customers to more easily leverage AI for data-driven decision-making. This innovation further differentiates Snowflake from its competitors and opens up new avenues for growth, especially in the burgeoning AI and machine learning markets.

5. **Global Expansion:**

Snowflake's expansion into international markets continues to gain momentum, with notable growth in Europe and Asia. The company has successfully localized its platform for these regions, establishing partnerships with local cloud providers and ensuring compliance with regional regulations. Snowflake's ability to capture new market share outside the U.S. provides a strong growth catalyst moving forward.

6. **Revenue Diversification and Upselling:**

Snowflake's increasing focus on product diversification, including the launch of *Snowflake Data Marketplace*, provides additional revenue streams. The marketplace allows customers to purchase data from third-party providers directly through Snowflake, creating a new source of revenue while enhancing customer stickiness. Upselling opportunities within existing accounts have proven successful, as customers expand their usage from basic data storage to more advanced analytics and machine learning capabilities.

Investment Risks:

1. **Intensified Competition:**

While competition from Amazon Redshift, Google BigQuery, and Microsoft Azure Synapse Analytics is intensifying, I believe Snowflake's unique multicloud approach continues to differentiate it from the competition. As more companies adopt multi-cloud strategies, Snowflake's flexible platform is better positioned than its competitors, who are often limited to specific cloud environments.

2. **Valuation Risk:**

Snowflake's high valuation—trading at a forward P/E of 70x—could lead to short-term volatility if the company's growth slows or market sentiment shifts. However, I believe the company's long-term growth trajectory justifies the premium, especially given the massive potential of the cloud data and AI markets.

3. **Execution Risk in Global Markets:**

While Snowflake's international expansion is promising, the company faces risks associated with entering new regions. Local regulatory hurdles, the need to localize its offerings, and competition from regional players could present challenges. However, Snowflake's successful execution in markets like Europe and Japan suggests that these risks are manageable.

Conclusion & Rating:

Snowflake is a dominant player in the cloud data market with significant upside potential. The company has a strong track record of innovation, expanding product offerings, and growing its customer base, positioning it to capture a larger share of the rapidly growing data and AI market. The launch of *Snowflake AI* and the continued expansion of its international footprint are key drivers of future growth. Despite its premium valuation, Snowflake's long-term growth prospects remain compelling, and I believe the stock is undervalued relative to its potential. I maintain a **Buy** rating with a price target of **\$275.00**, representing an upside of approximately 30.5% from the current market price.