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# EVR-ISI Software Webinar: A Fundamental & Technical Update

Please see within for the slides, and the replay link to the webinar here.

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# Evercore ISI Software – Fundamental & Tactical Update, January 24th

**AGENDA**

**Speakers/Topics:**

***Tech & Software trading commentary***
**Stebs Garcia**

***Large Cap & Small Cap Software***
**Kirk Materne**

***Thoughts on the UCaaS/CCaaS market***
**Peter Levine**

***Technical Analysis***
**Rich Ross**

# Fundamental View: Valuation Volatility Overshadows Steady Demand Trends

## *(Trying To) Find A 'Middle Path' In 2022 As Investors Digest Higher Rates & New Supply*

- **Long-term secular trends powering software demand remain intact but the interplay between rising rates and valuations could create some ongoing heartburn for high-multiple software names.**

  ✓ We believe the underlying demand trends powering software growth remain largely intact. The shift towards a digital economy is not abating and the idea of 'data as an asset' continues to grow as a priority for C-level executives. And last but certainly not least, IT security remains top of mind and should remain an area of investment in 2022. ***<u>All in, we believe that our longstanding thesis that software vendors are essentially the 'arms vendors' for the digitization of the economy remains unchanged</u>.***

- **Macro/valuation-driven volatility shifts focus to the middle of the software barbell.**

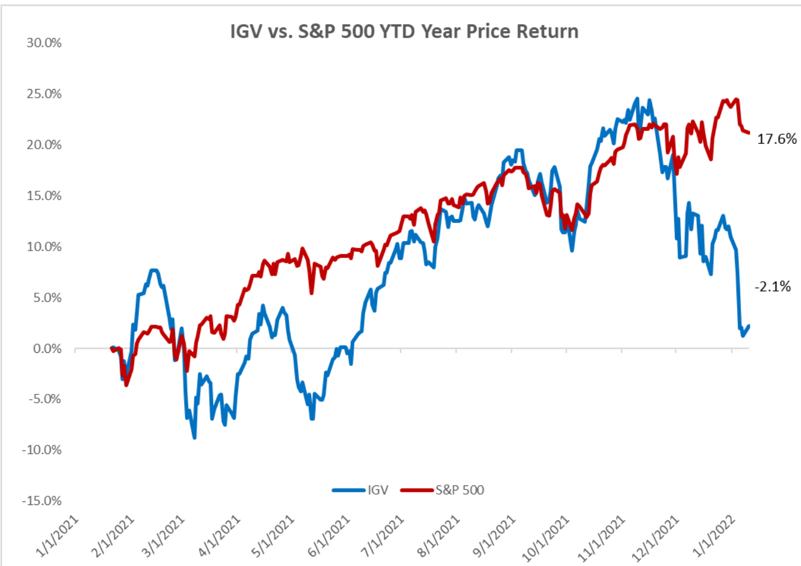
  ✓ We expect high-valuation stocks are likely to remain volatile (even a small misstep = trip to the penalty box) and as such, investors need to focus on software names that are:

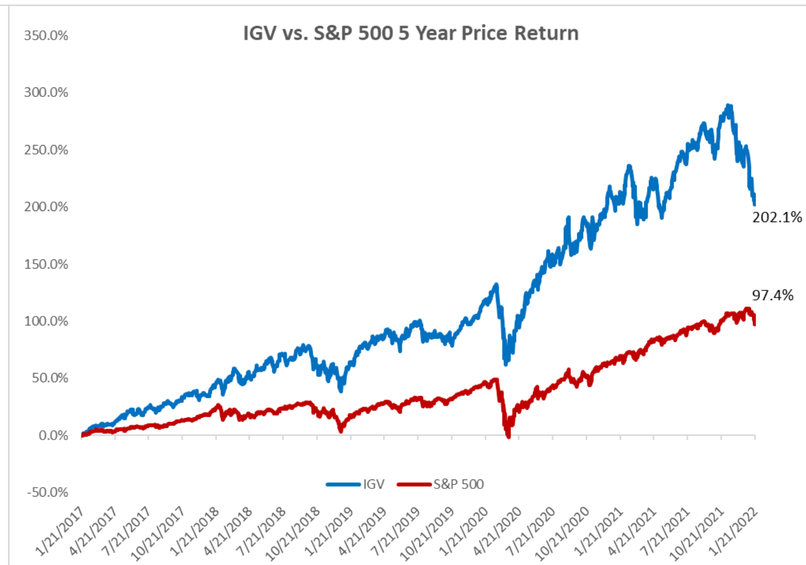
  1) Durable growers with steady cash flow and pricing power (i.e., **MSFT, INTU, NOW, CRM**);
  2) Expected to see some level of revenue acceleration in 2022 (i.e. **WDAY, RAMP**); and/or
  3) Washed out on a valuation basis and even a modestly positive shift in the investment narrative creates a risk/reward profile that is skewed materially to the positive (i.e., **SPLK, PLAN**).
  4) The one exception among our favorite ideas related to the above commentary is **SNOW**, which we believe is a unique, best in class growth story where the risk/reward still skews to the positive when taking a long-term view.

- **Where are we on valuations relative to pre-COVID levels and the last time the 10Y yield was in the 2-3% range?** While volatility is likely to persist near-term, after a slow start to 2022, average P/S valuations for more of the established SaaS names are back <u>below</u> pre-Covid levels and largely in line with levels the last time the 10Y yield was in the 2-3% range (i.e. 2012-2015).

# It’s All About Perspective: L/T Fundamentals vs. S/T Underperformance

Over time, we believe that the durable growth that underpins most software stocks will drive continued outperformance vs. the S&P 500 – but the recent underperformance has shifted the investor focus from a ‘bottoms up’ discussion to a ‘top down’ conversation and it will take time for the fundamentals to take the reins again

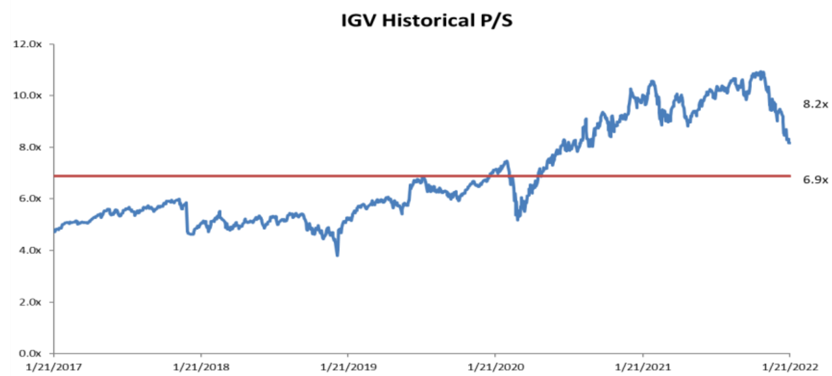



Source: Factset

## Dealing With The N/T Reality – What We Are Looking For In Terms Of Finding A Bottom

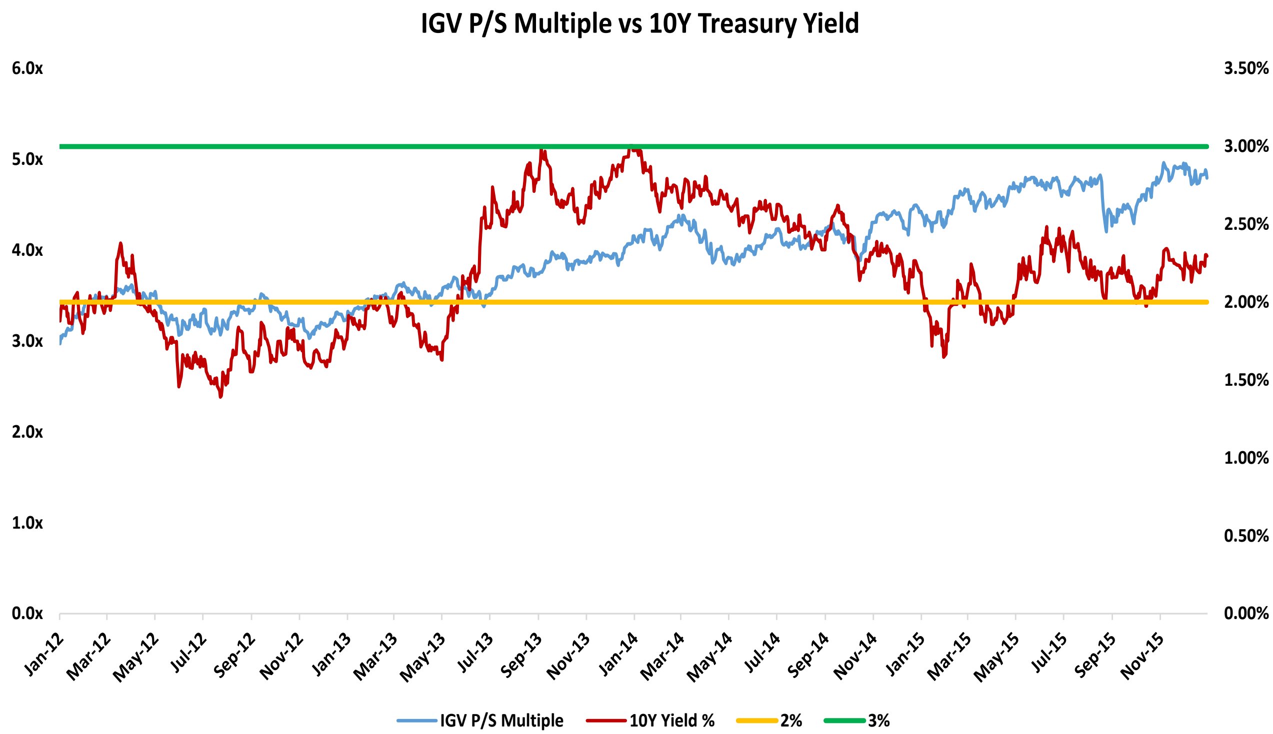
- **Can MSFT/NOW help shift the focus back to fundamentals?** F/X won't help from a guidance perspective but seeing solid results from these two bellwethers is going to be important.
- **Do we just have to wait for the technical set up to improve (i.e. another 75-90 days)?** Rich to discuss which names might still be in a strong, or at least stable, technical position.
- **IGV gets back to its average 5-year valuation?** Another 10-15% away from getting back to the average 5-year multiple of ~6.9x, but many stocks are already well below their pre-COVID levels and fundamentals/margins are generally better today vs. early 2020. See chart below.
- **M&A kicks in.** It usually takes 6-9 months for the M&A wave to start to pick up after a market pullback but a bigger M&A wave helps accomplish two things: 1) price discovery for 'broken' software stocks; and 2) thins out the number of public software names – opening up new opportunities for other names to get into portfolios
- **Valuations for +30% growers (with good unit economics) go below 10x out-year sales.** We believe there will be fewer outliers in terms of 15-20x multiple companies coming away from this downturn, but the compounding nature of software models allows high quality names to grow into their valuations over time. Believe XM upgrade was an example of a name in this bucket.




Source: Factset

# Not That Scary…Valuations The Last Time The 10Y Was At 2-3%

Given that rates are likely going to the 2%+ range, we took a look at SaaS valuations the last time the 10yr treasury yield was at these levels. While we are **not saying this is an absolute bottom for software**, as the broader IGV valuation is still well above 2012-2015 (though driven by re-rates to names like MSFT and ADBE), we are illustrating that for some of the upper-end of the growth curve, especially the high-quality names, **the gap between now and the last time rates were at 2-3% is much slimmer**.




Source: Factset

# Are We There Yet? Valuations vs. 10Y: 'Gen 1' vs. 'Gen 2' SaaS

When looking at the multiples of 'gen 2' SaaS names vs. the valuations of 'gen 1' names the last time 10Y rates were in the 2-3% range, **we believe that the downside risk seems fairly limited from here, especially when taking a 6-9 month view**. On a 'next 12 months' basis (essentially CY22), the group (including gen 2 cohort) currently trades at a ~12% premium to the gen 1 cohort during 2012-2015. However, on CY23 sales estimates, **the group actually trades at a ~11% discount to the 2012-2015 gen 1 cohort**.

| Ticker | Average Price to NTM Sales Multiple 2012-2015 | Price to NTM Sales Multiple Today | Premium to 2012-2015 Multiple | Premium to IGV | Price to CY23 Sales | Premium to 2012-2015 Multiple | Premium to IGV |
|---|---|---|---|---|---|---|---|
| NOW | 11.0x | 14.2x | 29.5% | 71.1% | 11.6x | 5.5% | 58.2% |
| CRM | 6.1x | 7.2x | 16.7% | -13.8% | 6.1x | -0.3% | -16.5% |
| WDAY | 17.6x | 10.6x | -39.7% | 27.4% | 8.9x | -49.3% | 21.7% |
| SPLK | 14.2x | 6.4x | -54.7% | -22.6% | 5.3x | -62.5% | -27.2% |
| PANW | 8.8x | 8.8x | -0.1% | 5.7% | 7.3x | -16.7% | 0.0% |
| TWLO | | 10.0x | | 19.9% | 7.9x | | 7.2% |
| DOCU | | 10.0x | | 20.3% | 8.2x | | 11.4% |
| OKTA | | 18.7x | | 124.5% | 14.1x | | 92.9% |
| RNG | | 8.0x | | -3.3% | 6.5x | | -11.1% |
| HUBS | | 13.3x | | 59.5% | 10.8x | | 46.7% |
| ZM | NA - not publicly traded as of start of 2012 | 10.1x | NA | 21.8% | 8.6x | NA | 17.7% |
| DDOG | | 30.2x | | 263.1% | 22.9x | | 213.0% |
| COUP | | 11.7x | | 41.1% | 9.6x | | 30.7% |
| PLAN | | 9.8x | | 17.9% | 7.9x | | 7.5% |
| PATH | | 16.8x | | 101.8% | 12.9x | | 76.0% |
| XM | | 13.3x | | 60.4% | 11.1x | | 51.2% |
| IOT | | 19.6x | | 135.8% | 15.1x | | 106.3% |
| **Average** | **11.5x** | **12.9x** | **11.5%** | **54.7%** | **10.3x** | **-10.9%** | **40.3%** |
| IGV | 3.9x | 8.3x | | | 7.3x | | |

Source: Factset, EVR-ISI Research

# Are We There Yet? Valuations Now vs. Pre-Covid

We also looked at valuations today vs. pre-Covid levels on a growth adjusted basis, and on that basis, valuations are ~22.6% below pre-Covid levels, on average. The bottom line is that while the current market narrative is valuations are still high in software (and this is true for many of the new IPO's), many of the 'old school' SaaS names are back at pre-Covid valuation levels, or below, and many of them are now operating at a much higher level of operating profit.

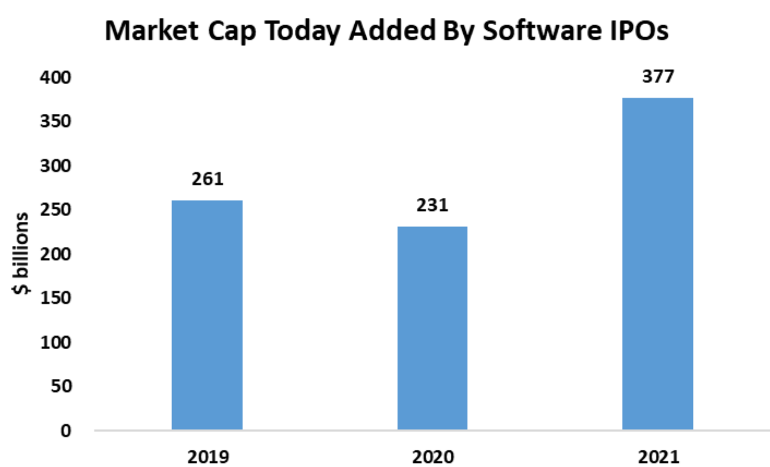
| Ticker | Pre-Pandemic As of: 2/18/20 EV/CY21 Sales | As of Today EV/CY23 Sales | Upside/Downside To Pre-Covid Levels |
|---|---|---|---|
| VRNT | 2.9x | 4.1x | -29.7% |
| HUBS | 7.7x | 10.0x | -23.3% |
| ORCL | 5.1x | 6.2x | -17.9% |
| NOW | 9.8x | 11.5x | -14.2% |
| MSFT | 8.2x | 9.4x | -13.0% |
| INTU | 9.1x | 10.0x | -9.3% |
| RAMP | 3.3x | 3.4x | -2.9% |
| TYL | 9.9x | 10.1x | -2.3% |
| WDAY | 8.7x | 8.9x | -1.7% |
| ADBE | 12.1x | 11.9x | 1.6% |
| SAP | 5.0x | 4.9x | 2.7% |
| CRM | 6.5x | 6.3x | 4.4% |
| FIVN | 10.5x | 9.8x | 7.0% |
| BLKB | 4.4x | 4.0x | 10.6% |
| VEEV | 15.0x | 13.4x | 12.2% |
| CTXS | 5.2x | 4.6x | 14.8% |
| AVLR | 10.8x | 8.3x | 29.7% |
| SPLK | 7.6x | 5.8x | 30.7% |
| ZEN | 7.4x | 5.7x | 31.3% |
| DOCU | 10.7x | 7.9x | 35.5% |
| EGHT | 3.5x | 2.5x | 39.1% |
| COUP | 17.3x | 10.4x | 67.1% |
| VMW | 5.8x | 3.5x | 67.8% |
| LPSN | 4.8x | 2.8x | 68.1% |
| PLAN | 13.6x | 7.3x | 86.6% |
| RNG | 14.6x | 7.0x | 110.3% |
| Average | 8.5x | 7.3x | 19.4% |

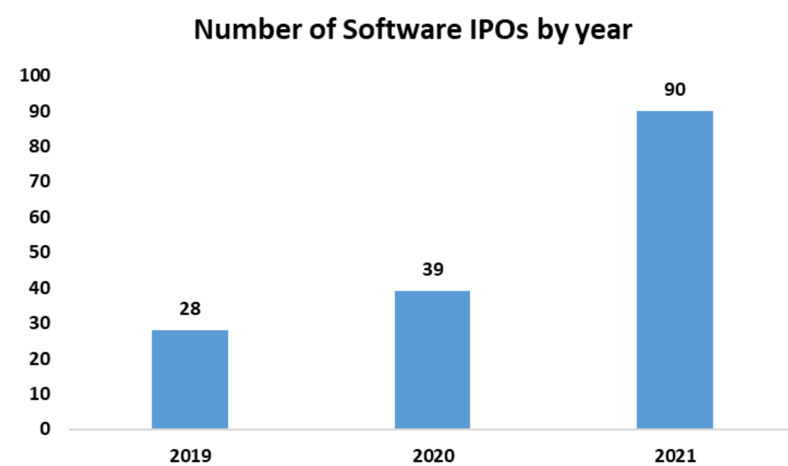
| Ticker | Pre-Pandemic As of: 2/18/20 EV/CY21 Sales/Growth | As of Today EV/CY23 Sales/Growth | Upside/Downside To Pre-Covid Levels | Difference b/w 2022 Est. Op Margins & 2020 Actual Op Margins |
|---|---|---|---|---|
| NOW | 0.4x | 0.5x | -19.7% | -51bps |
| RAMP | 0.1x | 0.2x | -18.0% | 650bps |
| HUBS | 0.3x | 0.4x | -13.8% | 270bps |
| BLKB | 0.8x | 0.9x | -11.8% | -110bps |
| SAP | 0.7x | 0.7x | -7.7% | -50bps |
| MSFT | 0.7x | 0.7x | -5.3% | 490bps |
| ADBE | 0.8x | 0.8x | -4.6% | 250bps |
| VRNT | 0.4x | 0.4x | -4.4% | -260bps |
| VEEV | 0.7x | 0.8x | -4.3% | 350bps |
| CRM | 0.3x | 0.3x | -3.0% | 230bps |
| WDAY | 0.4x | 0.4x | -1.5% | -150bps |
| EGHT | 0.2x | 0.1x | 15.5% | 500bps |
| TYL | 1.1x | 0.9x | 19.4% | -140bps |
| ZEN | 0.3x | 0.2x | 19.7% | 80bps |
| AVLR | 0.5x | 0.4x | 24.1% | -170bps |
| SPLK | 0.3x | 0.3x | 28.6% | -570bps |
| DOCU | 0.4x | 0.3x | 29.7% | 590bps |
| INTU | 0.9x | 0.7x | 34.6% | 80bps |
| VMW | 0.6x | 0.4x | 41.9% | -410bps |
| COUP | 0.6x | 0.4x | 43.0% | -140bps |
| ORCL | 2.1x | 1.4x | 45.5% | 40bps |
| FIVN | 0.6x | 0.4x | 51.4% | -230bps |
| CTXS | 1.0x | 0.7x | 51.7% | -340bps |
| PLAN | 0.5x | 0.3x | 67.1% | 450bps |
| LPSN | 0.2x | 0.1x | 89.3% | -1,310bps |
| RNG | 0.6x | 0.3x | 120.4% | 90bps |
| Average | 0.6x | 0.5x | 22.6% | 5bps |

Source: Factset, EVR-ISI Research

# A Sea Of Software Stocks Adds A New Dynamic Vs. 2016/2018

The growing # of public software stocks has led to investments being spread across a growing number of companies and in our view, this is leading to heightened volatility as investors are not differentiating between more established names and more emerging software companies.

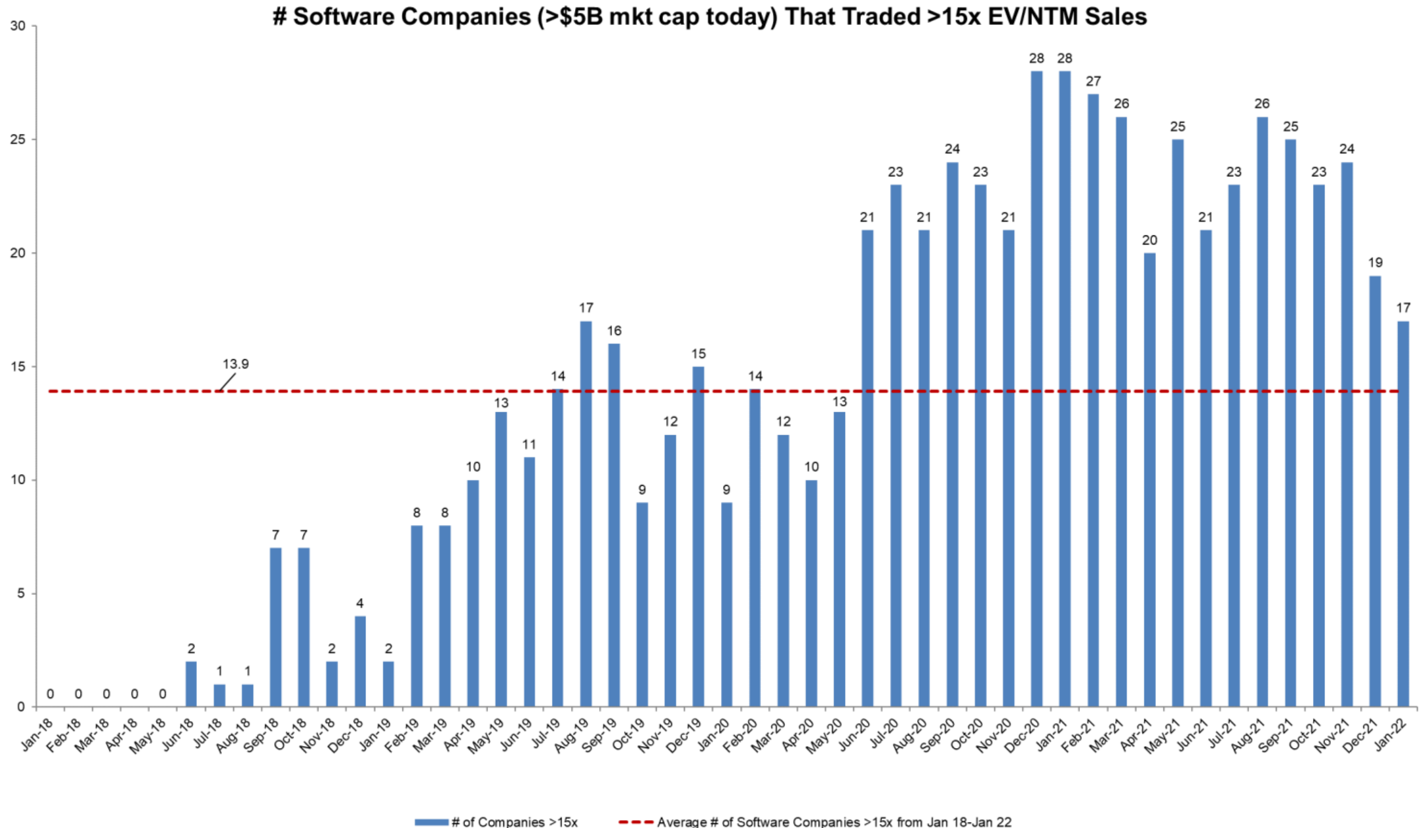



Source: Factset, EVR-ISI Research

# Not Everyone Is Snowflake: # Of High Valuation Names Normalizing

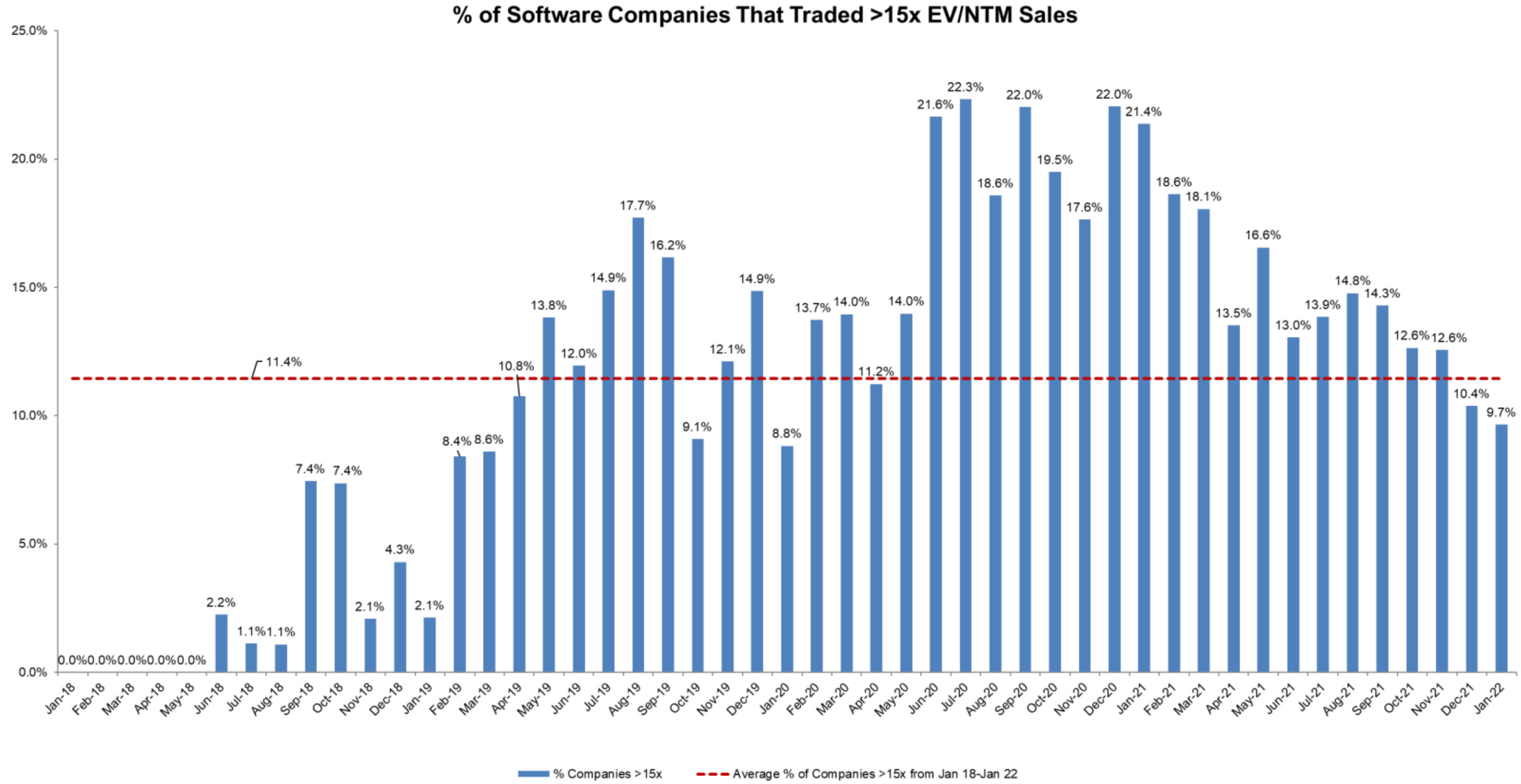
On a EV/NTM Sales basis, the number of Software companies trading over 15x multiple started growing fast beginning mid-2018, peaked around late 2020 and early 2021 and have come back down after the recent pullback.




Source: Factset, EVR-ISI Research

# Not Everyone Is Snowflake: # Of High Valuation Names Normalizing

Another perspective of the previous chart, we are taking a look at the # of companies trading >15x NTM Sales as a percentage of all trading software companies >$1bn market cap in each month. While it has a similar trend as before, the divergence between the mid-2019 and late-2020 numbers gets smaller.




Source: Factset, EVR-ISI Research

## Key Software Themes – Taking A 6-12 Month View

- Valuations could remain an overhang, but ultimately the scarcity of growth wins out as software continues to flourish in a more inflationary economy
- The underlying demand trends powering revenue growth remain strong
- Secular trends to watch: democratization of AI/automation, increased focus on data as an asset, and the rise of 'industry clouds'
- After an influx of new software IPO's and SPAC's, we believe that seeing M&A pick up in 2H 2022 (or 2023) is likely
- Microsoft will continue to power forward with a lot of 'irons in the fire'
- Enterprise takes center stage again
- Consumption-based models continue to gain momentum

## Key Software Questions/Risks – Taking A 6-12 Month View

- **Demand is stable but will a services shortage become an issue in 2022?**
- **As good as it gets from a spending perspective?**
- **Hitting the road again: after two years of compressed S&M spending – will more flattish margins be an issue?**
- **A stronger dollar – will investors look through some of the M&A noise?**
- **The 'tectonic' question remains the same: Is there any chance that either GCP or AWS could be spun off in the next 2-5 years?**
- **Can the market digest another wave of IPO's?**

Microsoft + ACTIVISION BLIZZARD

## Microsoft (MSFT) – Outperform | Target Price: $370

Last week, **Microsoft announced that it had agreed to acquire Activision Blizzard (ATVI)**, a leading developer, provider, and distributor of entertainment and gaming content across consoles, mobile, and PC, for **$68.7bn in cash, net of ATVI's cash balance – MSFT's largest acquisition ever**. We remain bullish on the acquisition for a couple reasons:

- **Cloud Gaming + Game Pass Flywheel Scale**: ATVI brings greater scale to MSFT's gaming efforts and bolsters MSFT's 1P content catalogue, creating positive ramifications for both its cloud gaming strategy and accelerate the flywheel for Game Pass.

- **Expansion Into Mobile**: ATVI gives Microsoft a materially larger position in the mobile market via King. Broadening its reach in mobile gaming could also help Microsoft's positioning in the mobile advertising market. Mobile gaming is one of the fastest growing entertainment categories and is on track to surpass $200bn in 2023, up from ~$176bn in 2021 (NewZoo).

- **Metaverse**: MSFT and ATVI see the natural evolution of the metaverse being a collection of communities that are anchored by franchises, starting with gaming. Microsoft has the cloud infrastructure to deliver unique experiences through Azure and HoloLens, voice/video via Teams, and soon will have additional 1P content through ATVI.

- **Financial Upside**: Ironically (or maybe not) the $95/share acquisition price is roughly in-line with Microsoft's projected NTM FCF of $64.8bn. Furthermore, with ATVI shares down 30% in the last year prior to the announcement, we believe this was an opportunistic opportunity and the valuation is not unreasonable at 25x CY22 EPS / 21x CY23 EPS (vs. EA currently trading at 18x CY22 EPS / 16x CY23 EPS). **We also see the deal being 3-4% accretive to CY23 EPS in our base case.**

While this deal will receive plenty of attention from antitrust lawmakers given its size, we believe the deal will be approved because (1) gaming is a competitive market that spans across a number of paradigms from mobile to PC's to consoles, (2) even when adding ATVI to the Xbox business, Microsoft is still only the third largest gaming business – behind Tencent and Sony, (3) we expect Microsoft will argue that it does not control distribution and this deal is about expanding access for gamers and developers, and (4) we expect ATVI content to remain available on non-MSFT platforms.

qualtrics XM

## Qualtrics (XM) - Outperform (from In Line) | Target Price: $40 (from $50)

Recent pullback in shares creates a more attractive risk/reward when taking a 6-12 month view. XM is a ~$1bn SaaS platform defining a new category of software – Experience Management. We believe XM is well positioned to benefit from a strong demand environment as companies remain focused on positive customer and employee experiences, which we think puts XM in a position to deliver strong results in CY22. Here are a few more points that lead us to have a more positive outlook:

- We believe our/Street estimates leave room for upside as the implied NRR and new customer assumptions seem conservative as we see XM as a high quality +30% compounder.

- Our field work shows growing interest in Qualtrics and experience management products. We recently conducted an enterprise IT survey which highlighted XM as the #1 'up and coming' software vendor as well as supporting industry commentary that XM is gaining momentum following the spin-out from SAP.

- Clarabridge offers a significant opportunity to expand data advantage. Clarabridge expanded the amount of data that XM can leverage, with XM estimating that ~85% of data in an enterprise is unstructured data that is available via Clarabridge.

- SAP still owns ~65% of XM today and we think it is highly unlikely that the ownership goes lower than 50%, so we think any 'overhand' risk is limited to the next 6-12 months.

- XM is now trading at ~10x EV/CY23 sales vs. a group of high-growth peers which are trading closer to ~15x. While we expect software multiples could remain under pressure near-term, we believe the recent pullback creates a more attractive risk/reward looking out 6-12 months with an attractive 'compounder' such as XM.

# Favorite Ideas Into 2022

**Top Idea: Salesforce (Outperform, $375 PT):** While the shares are down since the F3Q, we believe the selling is overdone and Salesforce remains one of the best growth stories in software – and our top idea into 2022. Demand remains very high as organizations turn to Salesforce's digital HQ as their new way to work in a more hybrid environment. Salesforce continues to lean in internationally as well as with industry solutions, and we believe the +20% durable growth story remains intact given the broader digital transformation tailwinds. Service Cloud remains a point of strength, with Marketing and Commerce Cloud coming up more in conversations as well. At just ~8x CY23 sales, we believe the stock is trading at a discount given its growth profile at scale, and our $375 PT assumes the stock can trade to closer to ~10x CY23 sales.

**Large Cap:** Microsoft, Workday, RingCentral

**'Rebound' Ideas:** Anaplan, Splunk, LiveRamp

**'Hyper-Growth':** Snowflake, Qualtrics XM

**Small Cap:** Datto

# UCaaS/CCaaS – Field Work Takeaways

**Heading into CY22 the demand side of the equation (UCaaS + CCaaS) remains healthy. We are starting to hear more about buyers wanting to bundle collaboration together with voice in a bigger way. Based on our round of checks this quarter, we are most bullish on FIVN and RNG into the F4Q print.**

RingCentral

- RNG's market dominance and partner distribution continue to tilt in their favor. We continue to hear RNG at this point is still the gold standard.
- A consistent theme we heard this quarter is that RNG's partner strategy is paying off. One partner quoted "not only do we see RNG competing in almost every deal, we bring RNG into every deal".

Five9

- Based on our conversations, momentum within the mid-market and ent segments remain robust. Additionally, our channel checks have led us to believe that FIVN won several large deals in 4Q.
- We are hearing that Contact Center apps could be the next standard productivity tool, as there still remains a huge opportunity to improve the overall customer experience.

Microsoft

- Commentary from the channel would lead us to believe this will be the year for large orgs to flip over to Teams Voice in a larger fashion. We heard MSFT is aggressively recruiting talent with telephony skills and lots more in customer success, the role they use to go back to the base to help restructure, which is the ultimate tell-tale sign of MSFT taking telephony a lot more serious.

zoom

- We heard from multiple checks that ZM Phone is now a formidable player and gaining momentum. We are picking up that channel partners are shifting to add Zoom to their vendor list as the conversation around voice is converging into collaboration.
- One example - ZM United (Phone+Video+Chat) won a large 1.2k international seat deal beating out RNG and EGHT. Brand recognition and familiarity with ZM video helped win the deal even though ZM's pricing was higher.

# Favorite Ideas in 2022

**Salesforce (Outperform, $375 PT) – Top Idea:** While the shares are down since the F3Q, we believe the selling is overdone and Salesforce remains one of the best growth stories in software – and our top idea into 2022. Demand remains very high as organizations turn to Salesforce's digital HQ as their new way to work in a more hybrid environment. Salesforce continues to lean in internationally as well as with industry solutions, and we believe the +20% durable growth story remains intact given the broader digital transformation tailwinds. Service Cloud remains a point of strength, with Marketing and Commerce Cloud coming up more in conversations as well. At just ~8x CY23 sales, we believe the stock is trading at a discount given its growth profile at scale, and our $375 PT assumes the stock can trade to closer to ~10x CY23 sales.

**Microsoft (Outperform, $370 PT) – Large Cap:**. We view Microsoft as a 'stock for all seasons' heading into a potentially choppier macroeconomic environment in 2022. As our recent checks and industry surveys indicate, enterprise IT spend remains at an all-time high and Microsoft is a prime beneficiary given its robust product offerings across cloud computing, productivity, and business applications. We see significant opportunity for Microsoft to continue to deliver strong beat-and-raise quarters and upside to our FY23 and FY24 numbers. We believe Microsoft is in the early innings of several 'next gen' categories, including Security, Cloud Data Warehousing, Industry C louds, Voice + Teams, and Gaming, which we believe can deliver $51bn of CY25 revenue, or 20% of MSFT's CY25 total. At 30.5x CY23 EPS and 31x EV / CY23 FCF, we see Microsoft as a staple in any software portfolio heading into 2022 given the breadth of its cloud portfolio, fortress-like balance sheet, and growing annuity revenue base.

**Workday (Outperform, $350 PT) – Large Cap:** We remain upbeat about the risk/reward heading into CY22 as the business continues to rebound post COVID, and we believe that the $10bn outlook powered by +20% subscription revenue growth helps validate the durability of Workday's growth based on its much broader product portfolio. WDAY has focused on its 'back to the base' motion with the install base still representing another $10bn opportunity alone (per analyst day commentary). We believe the 18% margin target for FY23 will be a point of contention, though given management's increased focus on hiring capacity to capture demand, we believe it is a solid starting point. We believe the risk/reward skews to the upside at its current valuation of ~10x CY23 sales, and our $350 PT assumes the stock trades closer to ~13x CY23 sales.

**RingCentral (Outperform, $275 PT) (covered by P. Levine) – Large Cap:** The three key bear debates 1) a heightened competitive environment, 2) APRU compression, and 3) the lack of leverage in the model has swung the investment narrative more negatively this year. We believe once the stock's narrative gravitates back towards the fundamentals, we believe that the current valuation gap between RNG and its peers narrows. We continue to believe investors undervalue RNG's partner strategy. As such, we believe our N/T & L/T estimates likely leave some room for upside. While we acknowledge the YTD performance has been painful, investor angst around competitive concerns and the ability to deliver profitable growth should subside over time. As a result, for those taking a longer-term view, we continue to believe that RNG is a 'must own' name for software investors who want to play the work from anywhere trend as the opportunity for the valuation to 'rerate' remains attractive heading into CY22.

# Favorite Ideas in 2022

**Snowflake (Outperform, $400 PT) – Hypergrowth:** Snowflake has delivered strong beat-and-raise quarters ever since becoming a public company, and similar to other infrastructure names, SNOW has greatly benefitted from the recent acceleration in public cloud consumption. If the macro backdrop remains volatile, SNOW is not going to be immune to more market gyrations, but for investors taking a longer-term view, we believe that SNOW represents one of the most unique white-space opportunities in the software space today and the longer-term risk/reward remains attractive. Our price target of $400, or 35x EV/CY23 revenue, prices SNOW relatively in line on a growth-adjusted basis vs. other +30% growth stories in software

**Anaplan (Outperform, $75 PT) – Rebound:** While the downside move following F3Q results was painful, we believe that the outlook for CY22 is better than the stock reflects. We would specifically highlight: 1) NRR rates remain very strong, remaining steady at 119%. This led to ~2/3 of net new ACV coming from existing customers, and so the upsell/cross-sell motion is plugging along; 2) The other piece of the growth would then come down to net new customer adds, which similarly came in strong in the most recent quarter (+50% y/y, the highest quarterly growth in net new lands in 11 quarters); 3) With the +30% CRPO growth in the 1H, we believe that delivering ~30% CRPO growth for the full year is doable; 4) With a new CFO in place, we view the initial FY23 revenue guidance of 25% as being likely conservative and could offer a steady beat/raise cadence next year. The stock is now trading at ~7x CY23 sales (well below other 25%+ growth SaaS names), margins are inflecting higher, and we believe the incremental partnerships with GCP and AWS are interesting call options. As such, we view the risk/reward skewing to the upside heading into next year. Our $75 PT represents the stock trading back up to ~11x CY23 sales, and represents +60% upside from current levels.

**Splunk (Outperform, $186 PT) – Rebound:** It's been a long year, with shares down 28% YTD, but SPLK remains one of our top idiosyncratic ideas heading into CY22, for a couple reasons: (1) As the business model normalizes and cloud services becomes a larger percentage of the business, we expect revenue to reaccelerate; (2) Cloud metrics are robust, as Cloud ARR crossed $1bn in 3Q22 (+75% y/y), DBNRR improved to 130%, cloud bookings as a percentage of total software bookings landed at 68%, and customers with cloud ARR of $1mn+ grew to 270 (+96% y/y); (3) The company has made a series of strategic long-term moves that externally validate the company's story, including adding Silver Lake as an investor, hiring two key AWS executives, and expanding the partnership with Accenture. Our $186 PT assumes that SPLK can trade back to 8x EV/CY23 ARR, which we believe is very doable and potentially conservative if SPLK delivers against its initial ARR guide and a new CEO can rekindle institutional interest in the story.

# Favorite Ideas in 2022

**LiveRamp (Outperform, $75 PT) – Rebound:** Recent choppiness has kept investors away, but with the stock down ~33% YTD, we believe LiveRamp remains a solid 'rebound' idea into CY22. Specifically, we would highlight: 1) Management is making a concerted effort to 'rebrand' themselves as a data company as opposed to an ad-tech company (currently searching for a CMO), something that we believe will be viewed favorably by software investors; 2) There are some very strong growth drivers that are seeing strength in adoption, most notably ATS, Safe Haven, and CTV. In fact, ATS has now been adopted by over 500 publishers while Safe Haven bookings are growing +150% and CTV bookings are growing +80%; 3) Heading into FY23/CY22, the wholesale overhang is going to go away which is going to have a material impact on growth; 4) NRR rates also remain very strong, with subscription NRR rates ticking up from 103% to 108%, and on an adjusted basis, this would have been closer to 118%. LiveRamp remains one of the most interesting acceleration stories into CY22 and at just ~4x CY23 sales, we see the downside risk from current levels being fairly muted. Our $75 PT implies the stock trading closer to 6x CY23 sales and implies +50% upside from current levels.

**Datto (Outperform, $36 PT) – Small Cap:** In a market where high-valuation stocks are coming under pressure, we believe that MSP represents an attractive 'steady Eddie' grower as we look ahead to 2022. At its first analyst meeting a few weeks ago, MSP outlined why the secular trends powering increasing demand for MSP services (i.e. digital transformation, tight labor market, security risks) put the company on a path to deliver sustainable +20% revenue growth and reach $1bn in revenue by 2024. In terms of drivers, this includes the Continuity business at a $335mn run-rate growing in the mid-teens, the PSA business at a ~$100mn run-rate growing in the midteens, and user and endpoint security at a ~$120mn run-rate growing at 40%. Datto is playing in a large and growing TAM, and the sell-through MSP model drives strong leverage which we believe will allow Datto to become a 'rule of 50' company. Lastly, there is a good deal of visibility in the business, as 75% of the growth comes from within the install base. At 4.5x EV/CY23 sales, we believe Datto's market opportunity remains underappreciated and the company remains one of the best ways to play the increasing demand for security services in the SMB market.

# Key Takeaways from Bus Tour – Steady Demand Trends

| Company | Most excited about heading into CY22? | Thoughts on macro factors? |
|---|---|---|
| **PATH** | Evolution of the end-to-end automation platform and outcomes for customers, partners, and the ecosystem | Tight labor market will encourage workers to evolve their roles, and employers must continue to invest in their employees |
| **PLAN** | Continued innovation under the newly announced Autonomous Enterprise concept and integration with the key cloud providers (both AWS and GCP live in the US) | Macro 'uncertainty' actually becomes a tailwind as 'uncertainty' requires more planning, and so having an automated planning tool that connects the entire organization becomes a business imperative |
| **SNOW** | Emerging categories such as Snowpark and Data Marketplace will bring more people to the platform start to contribute more meaningful revenue | Engineering talent, especially senior engineers with backgrounds in databases, is increasingly more difficult to find in the United States (Bellevue, WA and Bay Area) |
| **COUP** | The focus is cleaning up the investment narrative. In terms of the business very exited about 1) green field mid-market; 2) platform ROI; 3) Pay traction in the enterprise; and 4) going after the federal market | COVID has had no material impact to the business. Nothing in the macro enviroment has changed our outlook since giving guidance on the 3Q EPS call. Macro factors have had more of impact on the stock, not our customers. |
| **DOCU** | Very excited about the international opportunity, with investments being focused on top-line growth and international being at the top of the list. Notary is a nascent product that is showing a strong ROI. | While certainly watching the macro conditions, management's biggest focus is on driving execution internally, and particularly execution at scale |
| **CRM** | CRM platform helps solve 3 key imperatives for every C-Suite today - 1) delivering excellent digital customer experience, 2) driving automation and intelligence, and 3) enabling the 'future of work' | Tightening of the labor market and unprecedented turnover in customer support centers at a time when customers have more questions than ever given inflation/pricing concerns and suply chain issues. Service Cloud helps our customers solve this issue. |
| **ADBE** | General optimism heading into CY22 as we hopefully look to moving past the pandemic and seeing the continued opportunity for ADBE to contribute to the worldwide digital movement that is going on | Participation in the workforce improving which will impact GDP/broader consumer spending/enterprise spending in a positive way |

# Key Takeaways from Bus Tour (cont.) – Steady Demand Trends

| Company | Most excited about heading into CY22? | Thoughts on macro factors? |
|---|---|---|
| **ZM** | Transition from a meetings app to a collaboration platform. Excited about the momentum with Zoom phone, video integration center (GA 1HCY22), Zoom Rooms, Rvents and Smart gallery. | The broader macro environment and the recent COVID spike has had little to no material impact to the business. COVID took off in the last two weeks of December, which happens to be a seasonally slow period in terms of usage considering most employees are not working/vacation. The delay in the re-opening has companies thinking about a more permanent hybrid approach. |
| **VMW** | Increasing number of material revenue contributors across the company and many upcoming product releases | Pandemic and the ramifications of inflation are important to monitor, but the IT spend environment remains stronger than ever |
| **VEEV** | On the commercial side, excitement remains around data, with two new types of data being added to data cloud soon. Also, Link has been gaining great momentum. | COVID hasn't directly made Veeva a direct beneficiary, but the acceleration of digital transformation in the life science industry has helped. Inflation has had an impact with increased rate cards. |
| **SPLK** | Importance of Splunk to its customers (will encourage renewals) and the progress that Splunk is making on its business model transformation | November saw the highest number of job resignations in history and companies now have to justify their value propositions |
| **INTU (CK)** | Continued digitization of finance; after a 10-15yr build-up, the ecosystem is starting to reap the benefits | Closely monitoring unemployment, as this impacts default rates for CK's partners (1-2pts higher than the unemployment rate) |
| **RAMP** | Innovation starting to play out, especially in ATS, Safe Haven, and CTV. Innovation has allowed us to evolve from an onboarding application to being critical data infrastructure for our clients | Tight labor market- it's an opportunity for us given that we're consistently ranked as a 'top place to work' and have been able to continue to attract world-class talent. Increasing regulation has also lead to ATS becoming the de facto standard solution in the market. |

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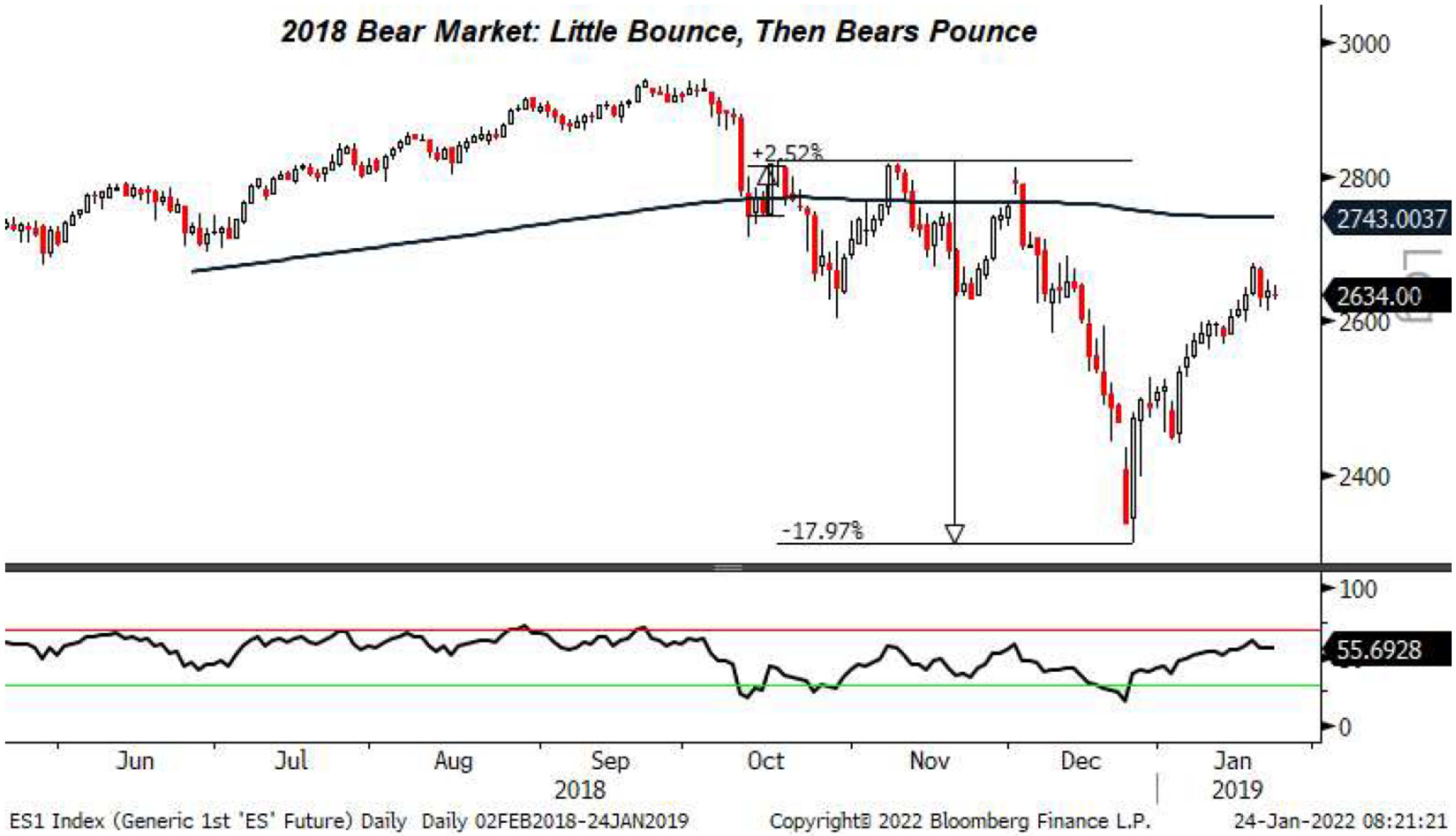

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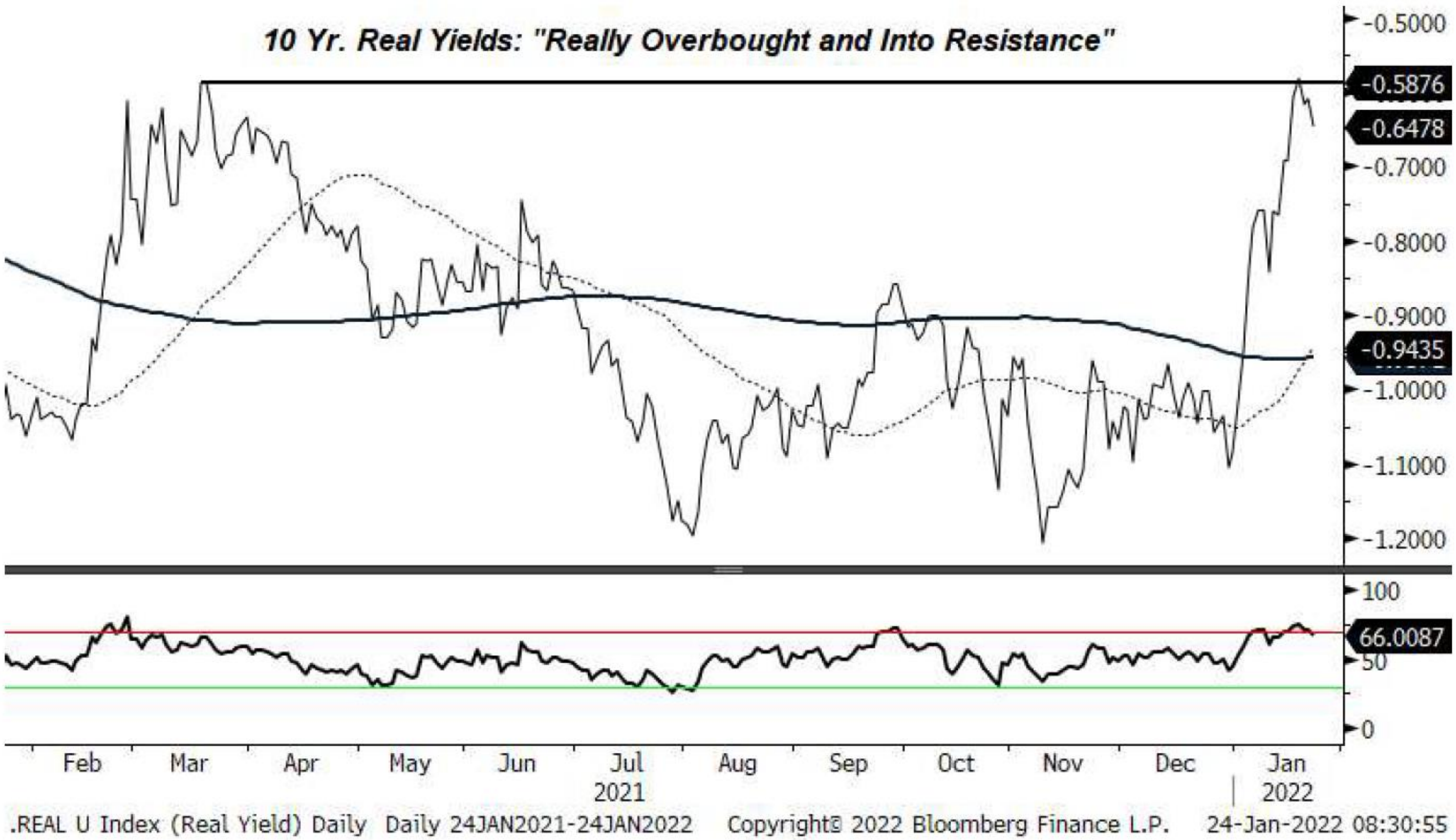

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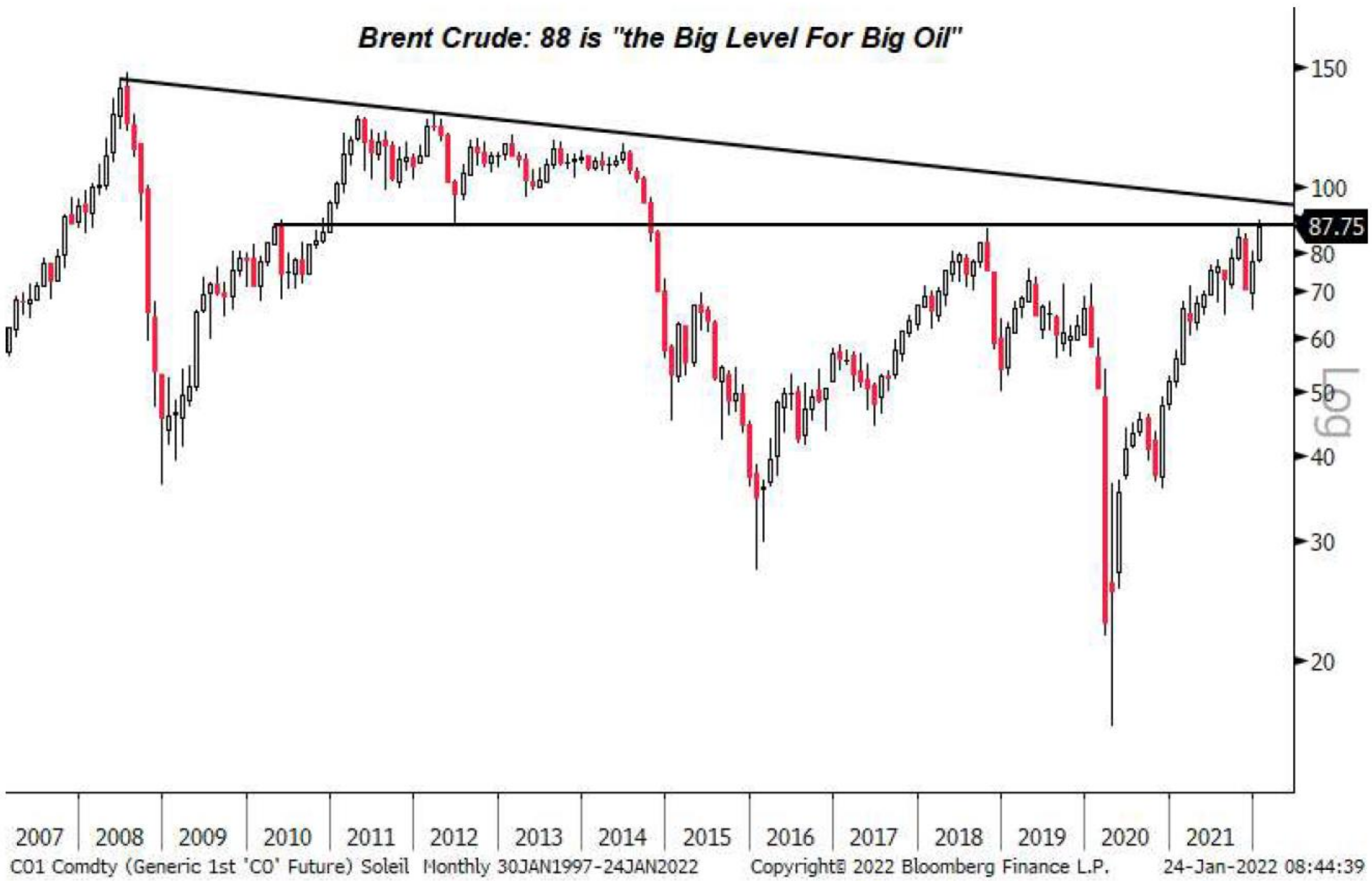

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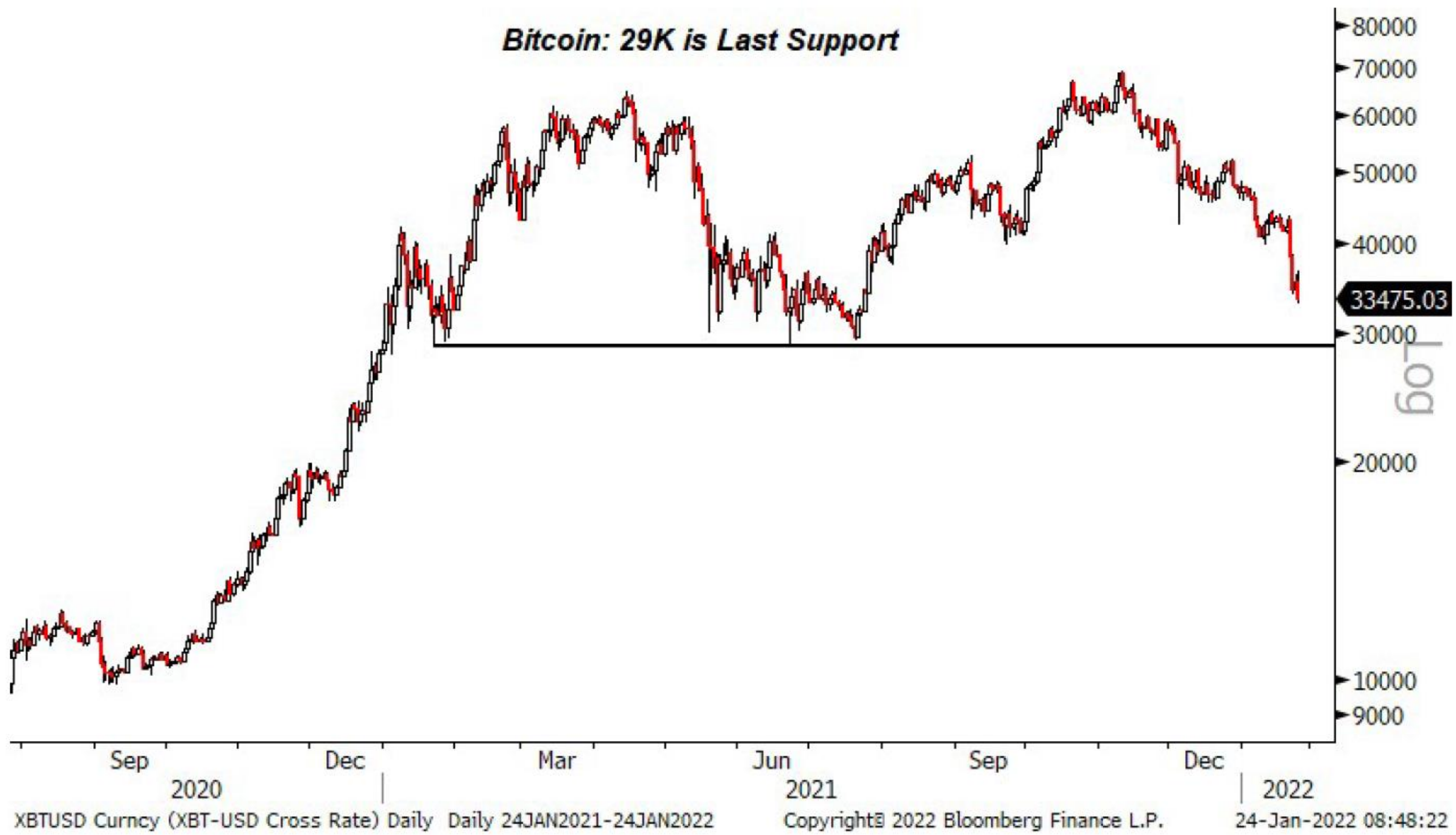

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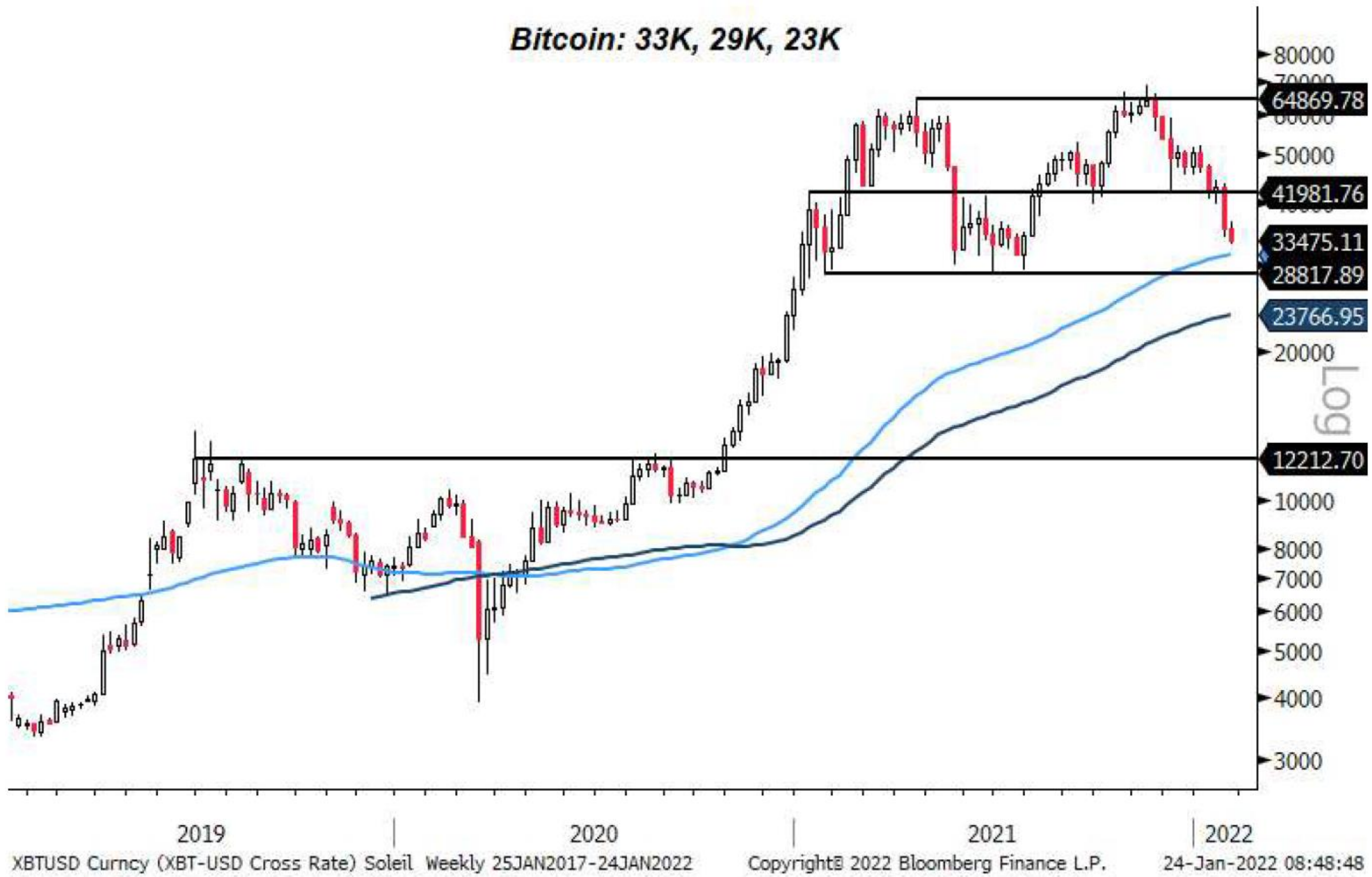

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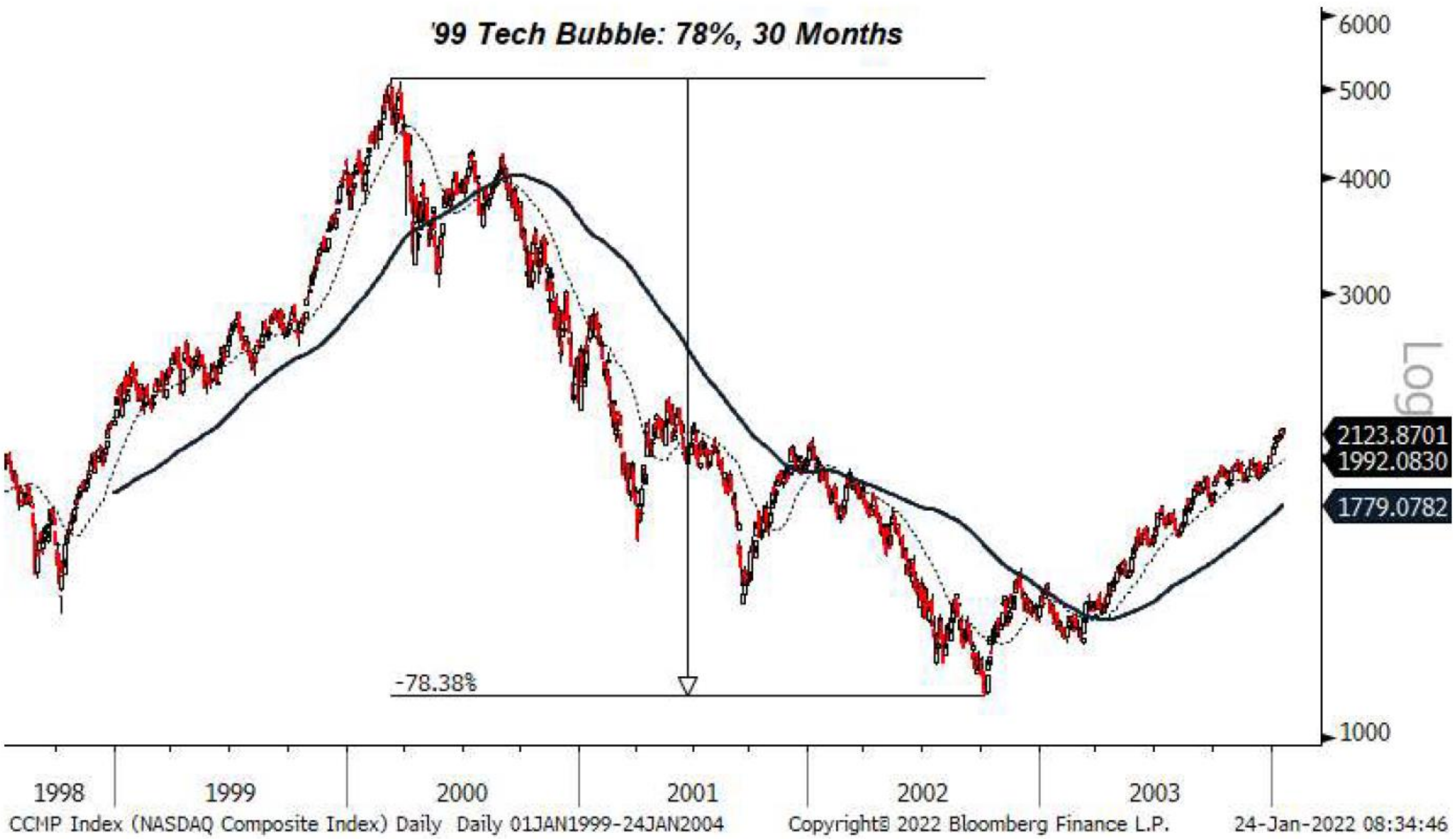

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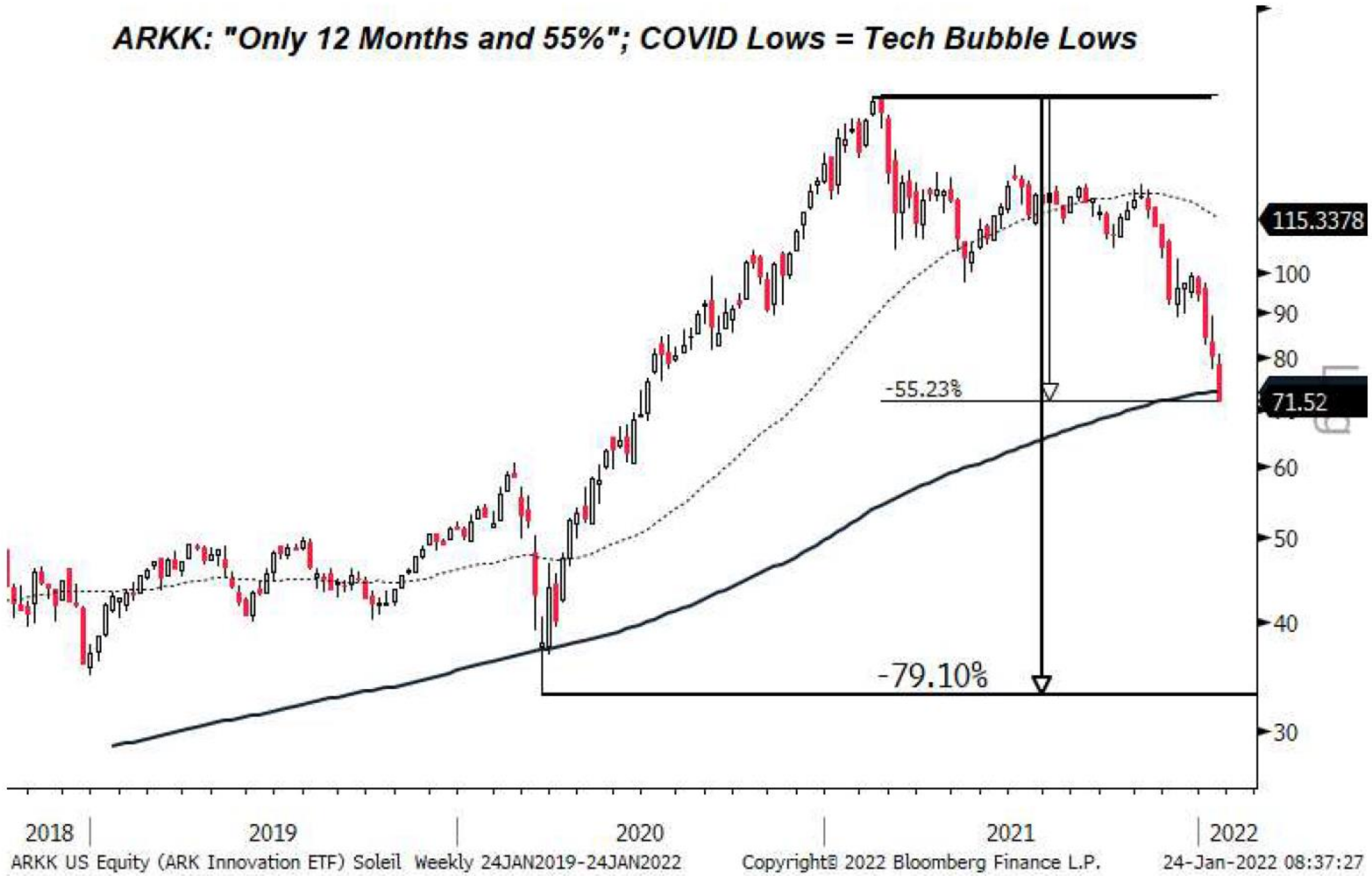

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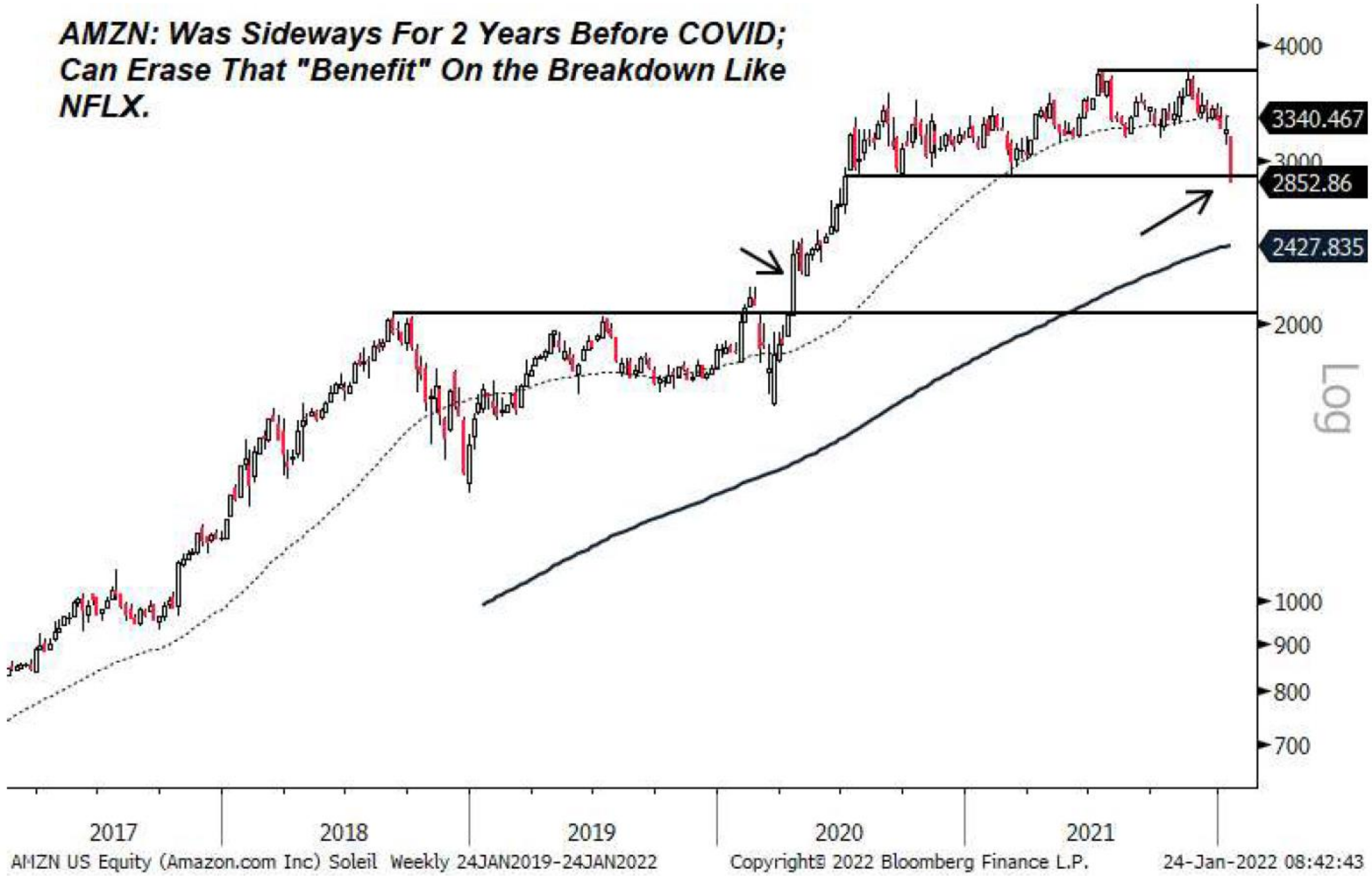

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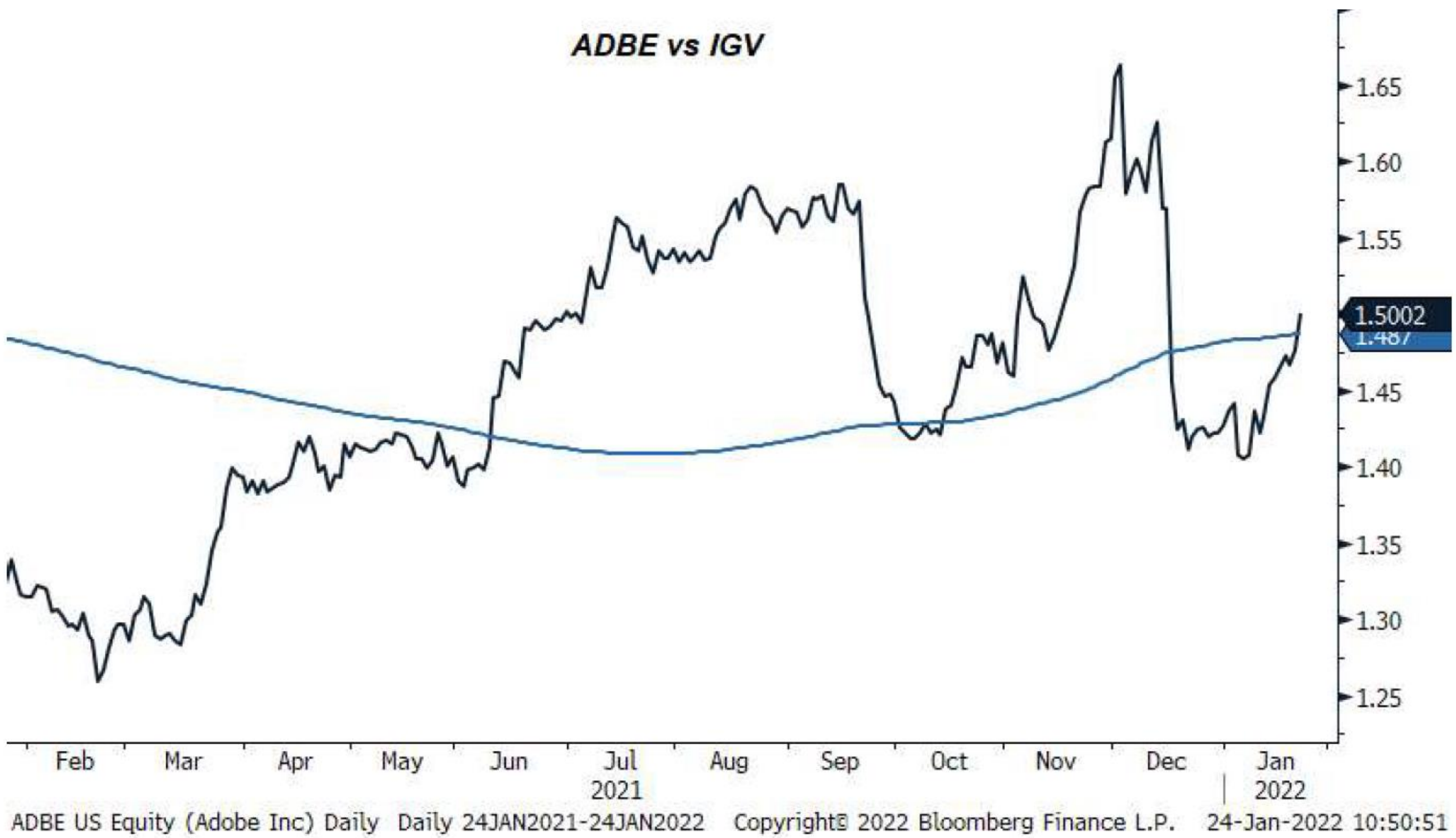

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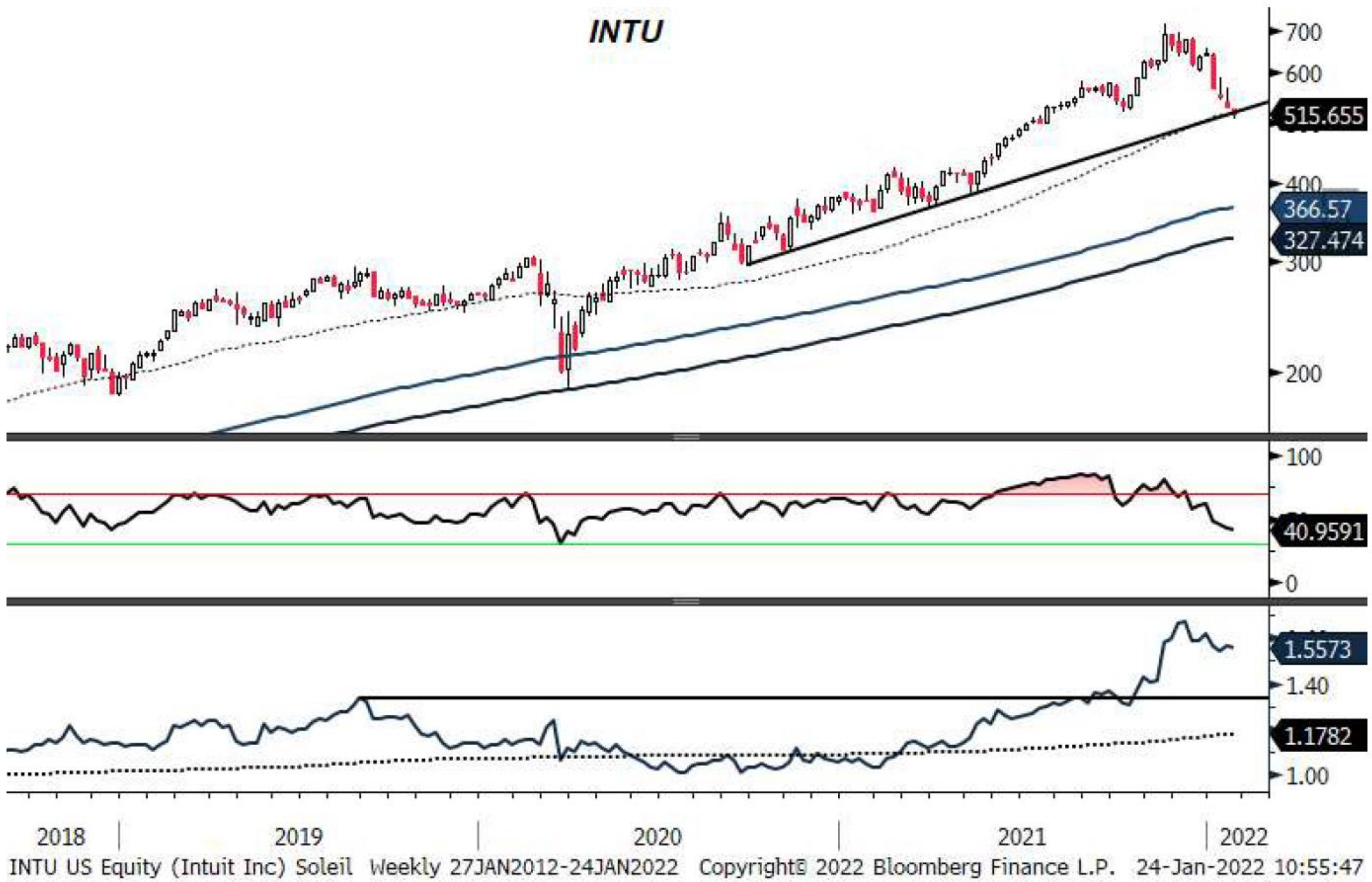

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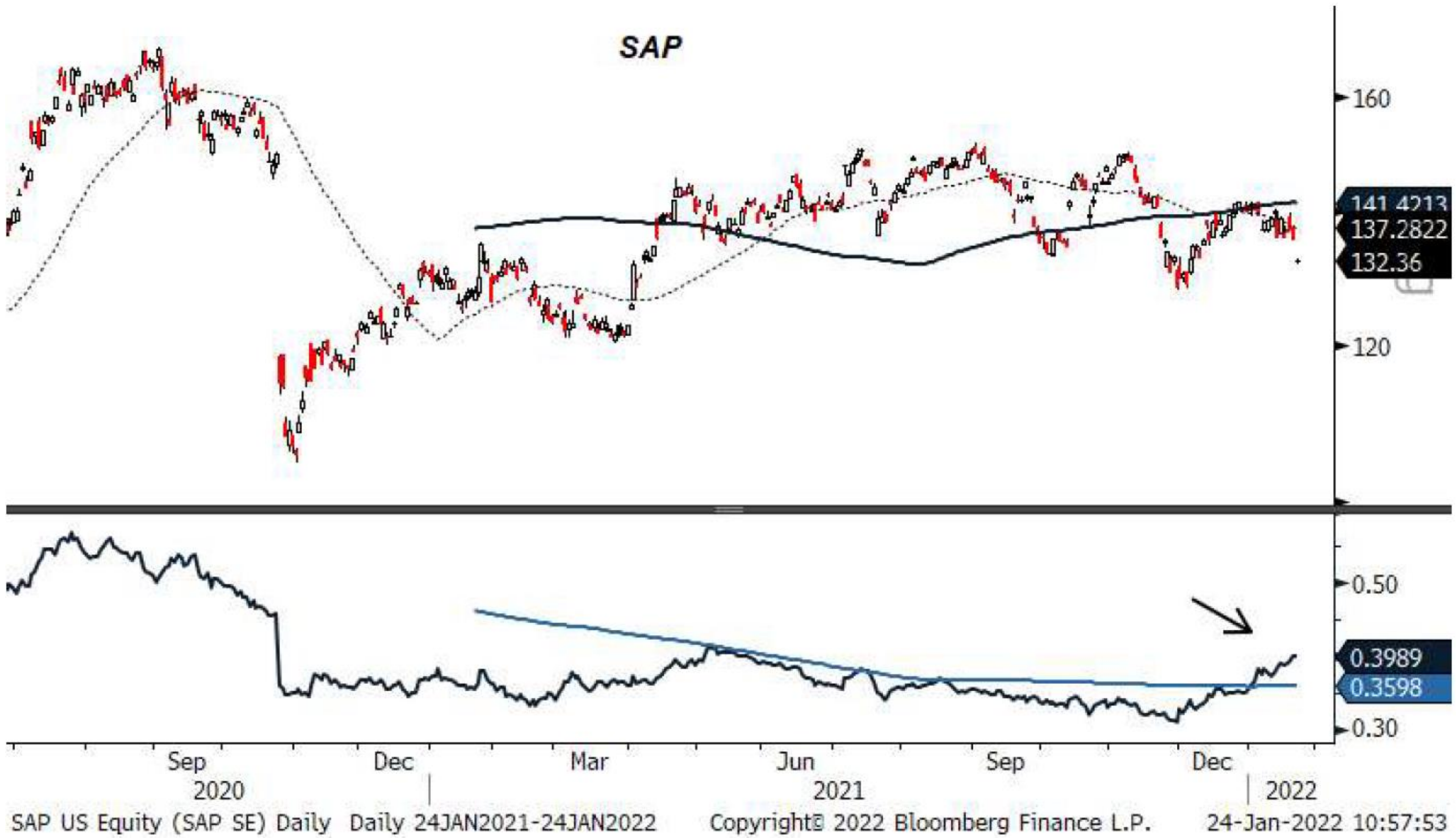

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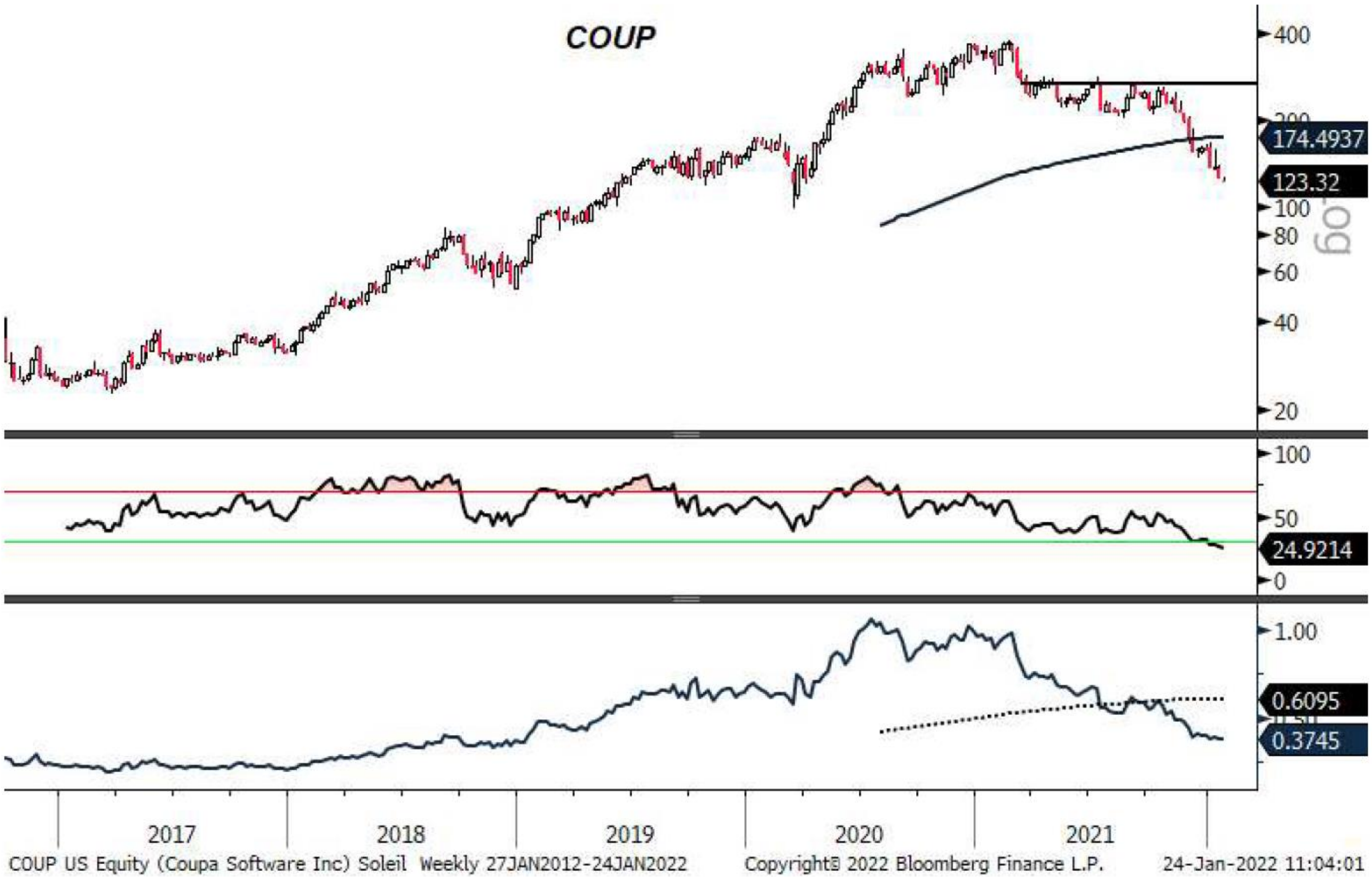

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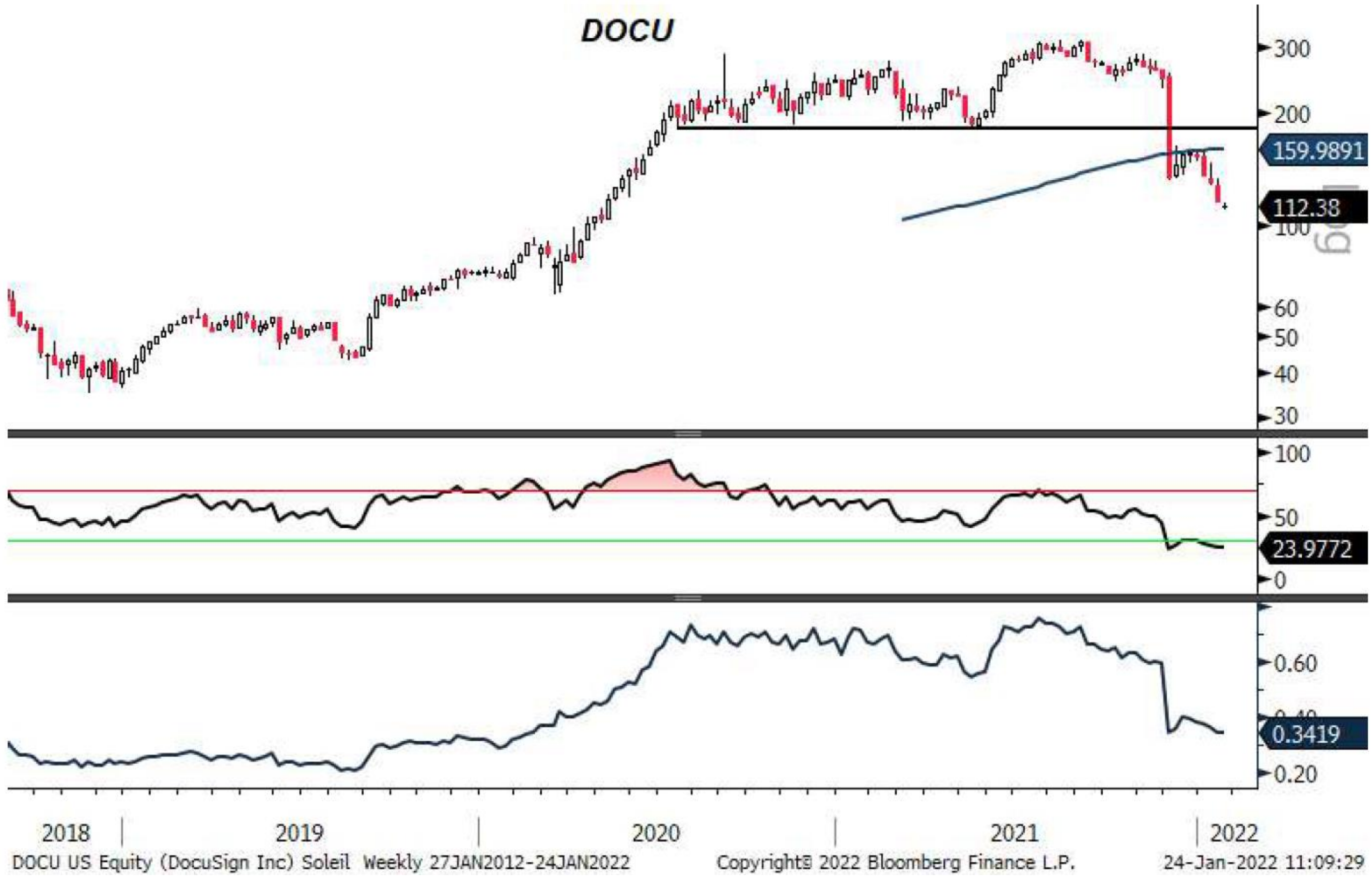

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| **Coverage Universe** | | | **Investment Banking Services I Past 12 Months** | | |
|---|---|---|---|---|---|
| **Ratings** | **Count** | **Pct.** | **Ratings** | **Count** | **Pct.** |
| Buy | 539 | 62 | Buy | 109 | 20 |
| Hold | 289 | 33 | Hold | 28 | 10 |
| Sell | 16 | 2 | Sell | 0 | 0 |
| Coverage Suspended | 11 | 1 | Coverage Suspended | 2 | 18 |
| Rating Suspended | 13 | 1 | Rating Suspended | 6 | 46 |

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**Price Charts**

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