

UNION III SECURITIES

Modern Software Development

Union Securities Research Team
research@unionsecurities.ch

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Software Development

- ❑ **Software Developers** continue to outperform in 2019, supported by new technologies and the structural shift to cloud computing (SaaS, Software as a Service).
- ❑ Our top picks in the sector remain **Global Leaders** Microsoft, Adobe, SAP, Dassault Systems and **Next-Gen Leaders** Salesforce, Workday, ServiceNow, Ansys, Autodesk, Splunk and Tableau Software.
- ❑ The industry is so big that there is a sub-industry for companies providing tools for software developers. Last week, Morgan Stanley came up with a new study on **software development tools**, stating that the “**New Stack**” represents a \$50bn market, growing at 20%.
- ❑ **Agile** and **DevOps** are buzzwords used by IT consultants and software developers. They refer to modern development processes that accelerate the pace of software development.
 - **Agile** is methodology of software development management process, where demands and solutions evolve through the collaborative effort of self-organizing and cross-functional teams and their customers.
 - **DevOps** is a culture that promotes collaboration between Development and Operations Team.
- ❑ Together, they represent the **New Stack** technologies described by Morgan Stanley.

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- ❑ New Stack technologies include :
 - **NoSQL Databases:** Modern databases that allow for better performance and scalability;
 - **PaaS:** (Platform as a Service) a cloud computing model that combines hardware and software tools;
 - **Containers:** units of software that can run reliably when moved from one computing environment to another (the name is an analogy to shipping containers);
 - **API :** set of functions or procedures used by computer programs to access systems or software libraries;
 - **Automated Testing and Performance monitoring.**

- ❑ Best positioned pure plays according to Morgan Stanley are **Splunk** (Data Analysis), **Atlassian** (Project Management), **MongoDB** (NoSQL Database), **Elastic** (Data Analysis), **New Relic** (Software Analytics), **Pivotal** (PaaS), **Appian** (PaaS), and **PagerDuty** (Performance Monitoring).

- ❑ Please note that most of those companies have a high growth profile with elevated valuations (see comp sheet) and must be considered as speculative investments. They complete a portfolio of Software companies by adding exposure to a fast growing sub-segment of the industry.

- ❑ Large caps poised to benefit are IaaS (Infrastructure as a Service) and PaaS providers such as **Alphabet**, **Amazon**, **Microsoft**, **Cisco** and **Salesforce.com**.

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Description

Name	Mkt Cap (\$bn)	Revenue (\$bn)	Sector	Industry group	Industry	Sub-Industry	Country Name	Currency
Atlassian Corp PLC	31.2	0.9	Information Technology	Software & Services	Software	Application Software	AUSTRALIA	USD
Splunk Inc	17.9	1.8	Information Technology	Software & Services	Software	Application Software	UNITED STATES	USD
MongoDB Inc	7.7	0.3	Information Technology	Software & Services	IT Services	Internet Services & Infrastruc	UNITED STATES	USD
Elastic NV	6.1	0.2	Information Technology	Software & Services	Software	Application Software	UNITED STATES	USD
Pivotal Software Inc	5.8	0.7	Information Technology	Software & Services	Software	Application Software	UNITED STATES	USD
New Relic Inc	5.7	0.5	Information Technology	Software & Services	Software	Application Software	UNITED STATES	USD
Pagerduty Inc	4.0	0.1	Information Technology	Software & Services	Software	Application Software	UNITED STATES	USD
Appian Corp	2.2	0.2	Information Technology	Software & Services	Software	Systems Software	UNITED STATES	USD

Valuation

Value Creation

Name	Est. PE - 12M Fwd	Est. PE - 24M Fwd	Est. PE GAAP	Est. EV/EBITDA	Est. Price/Sales	Est. EV/Sales	Est. RoE	Trailing ROE	Trailing ROIC	Sales Growth (3y avg.)	EPS Growth (3y avg.)	LT Exp. EPS CAGR	Asset Turnover
Atlassian Corp PLC	131.4	100.4	21752.7	na	20.6	20.0	28.5%	-54.0%	-3.1%	39.9%	na	26%	53%
Splunk Inc	60.9	47.8	N/A	40.0	7.4	7.1	18.3%	-24.6%	-12.0%	39.2%	-4%	34%	59%
MongoDB Inc	N/A	N/A	N/A	na	18.8	18.2	-18.6%	-44.5%	-30.8%	60.0%	13%	na	44%
Elastic NV	N/A	N/A	N/A	na	16.5	15.7	-71.7%	na	-79.4%	na	na	5%	98%
Pivotal Software Inc	N/A	124.6	N/A	2548.1	6.7	5.9	-1.3%	-14.4%	-14.8%	33.2%	42%	-158%	44%
New Relic Inc	144.8	81.9	N/A	59.0	9.0	8.5	11.1%	-14.6%	-7.0%	38.3%	19%	25%	62%
Pagerduty Inc	N/A	N/A	N/A	-180.2	23.3	23.6	-32.4%	na	na	na	na	na	na
Appian Corp	N/A	N/A	N/A	-106.4	8.2	7.9	-68.2%	-111.6%	-104.2%	26.9%	-53%	na	124%

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Cash Flow Generation

Name	Est. Dividend Yield	Dividend Payout Ratio	FCF Margin (3y avg.)	FCF Yield	Est. Gross Margin	Est. EBIT Margin	Est. Net Margin	CFO to Sales
Atlassian Corp PLC	0.0%	na	28%	1.3%	85%	21%	16%	36%
Splunk Inc	0.0%	na	17%	1.2%	84%	15%	13%	16%
MongoDB Inc	0.0%	na	-29%	-0.7%	71%	-14%	-12%	-16%
Elastic NV	0.0%	na	na	-0.9%	72%	-25%	-28%	-13%
Pivotal Software Inc	0.0%	na	-24%	-0.3%	70%	-2%	-2%	-1%
New Relic Inc	0.0%	na	5%	1.2%	84%	5%	7%	24%
Pagerduty Inc	0.0%	na	na	na	85%	-15%	-13%	-5%
Appian Corp	0.0%	na	-10%	-2.0%	66%	na	-11%	-14%

Analyst Recommendations

Risk Profile

Name	Coverage	Consensus Rating (0 to 5)	Consensus Target Price	Target %	ATM Implied Vol 3 M	90% Implied Vol 3 M
Atlassian Corp PLC	20	4.1	120.27	-7.1%	49.4%	50.9%
Splunk Inc	40	4.5	151.75	27.2%	39.3%	41.3%
MongoDB Inc	15	4.0	137.45	-1.7%	58.2%	60.2%
Elastic NV	13	3.9	98.50	18.7%	45.6%	47.0%
Pivotal Software Inc	12	4.2	24.73	15.8%	57.1%	58.4%
New Relic Inc	17	4.5	122.64	24.9%	36.9%	38.8%
Pagerduty Inc	8	4.0	45.82	-13.9%	73.1%	75.4%
Appian Corp	9	3.0	32.67	-5.9%	46.1%	46.5%

Contacts

Union Securities Switzerland Research

research@unionsecurities.ch

Tel: +41 22 59 18 64

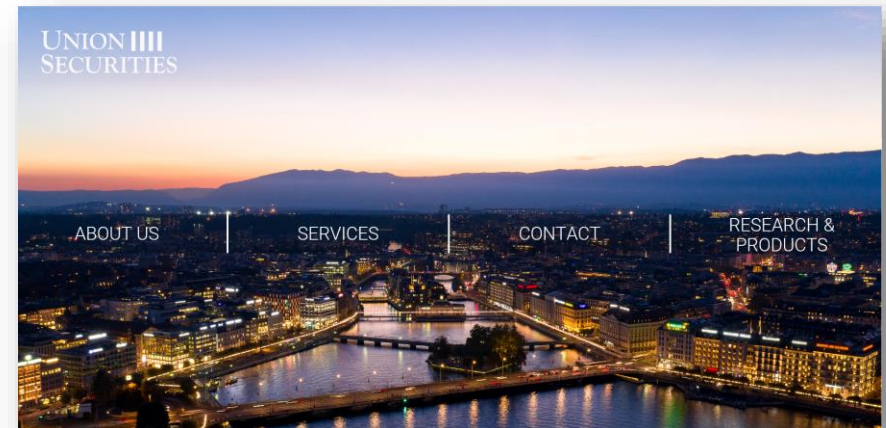
Union Securities Switzerland SA

11 Cours de Rive

1204 Geneva Switzerland

www.unionsecurities.ch

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