

22 November 2019

Splunk is ready for the long run

Splunk Inc. (SPLK), a significant position in our Artificial Intelligence, Innovation, and Security and Space certificates, reported results for the company's fiscal third quarter on the 21st of November. The company posted 3Q revenue of \$626mn, topping analysts' consensus of \$604.12mn, and adjusted EPS of \$0.58, beating expectations of \$0.54 per share. Latest quarters' topline has been consistently growing at rates within the 30%-40% range. In addition, Splunk **upgraded its guidance** to revenue to approximately \$2.35bn for FY2020, up from \$2.30bn.

Splunk's Annual Recurring Revenue (+53% from 3Q19) is benefiting from the recent shift to a subscription revenue model reaching \$1.439bn during the 3Q20. The change on how its customers are invoiced is temporarily negatively affecting its free cash flow (-162mn reported vs -131.5mn expected in the quarter) as clients are billed through term licenses for SaaS subscriptions instead of paying upfront for perpetual licenses.

The move to a subscription model is becoming more and more common in the industry. It permits customers to lower initial upfront costs while increasing retention rates, despite reducing cash flows in the short term. When this change goes through, we expect free cash flow to be positively affected and follow the healthy growth both the top and the bottom lines are showing.

The company has grown tremendously as a leader in machine log analytics. It is one of the few pure-players working on making machine data accessible, usable and valuable to everyone. Its rapid growth is based on capturing big data, indexing, management, and visualization capabilities. In October 2019, the company closed the acquisition of SignalFx, strengthening its position in the market for real-time monitoring and metrics for cloud infrastructure, microservices and applications. Observability and Application Performance Monitoring (APM) for organizations are thus added to its product offering.

Data management and application monitoring are penetrating more and more into corporations' needs. Given the latest developments of the company, we see Splunk as the leading pure player capable of capturing the robust growth characterizing this market.

DISCLAIMER

About AtonRâ Partners: AtonRâ Partners is an asset management company, founded in 2004 with head office in Geneva, incorporated under Swiss law, duly approved by the Swiss Financial Market Supervisory Authority (FINMA) under the Swiss Collective Investment Schemes Act. AtonRâ Partners is a conviction-driven asset manager combining industrial and scientific research with financial analysis. AtonRâ Partners focuses on long-term trends powerful enough to be turned into thematic equity portfolios.

This report has been produced by the organizational unit responsible for investment research (Research unit) of AtonRâ Partners and sent to you by the company sales representatives. As an internationally active company, AtonRâ Partners SA may be subject to a number of provisions in drawing up and distributing its investment research documents. These regulations include the Directives on the Independence of Financial Research issued by the Swiss Bankers Association. Although AtonRâ Partners SA believes that the information provided in this document is based on reliable sources, it cannot assume responsibility for the quality, correctness, timeliness or completeness of the information contained in this report. The information contained in these publications is exclusively intended for a client base consisting of professionals or qualified investors. It is sent to you by way of information and cannot be divulged to a third party without the prior consent of AtonRâ Partners. While all reasonable effort has been made to ensure that the information contained is not untrue or misleading at the time of publication, no representation is made as to its accuracy or completeness and it should not be relied upon as such. Past performance is not indicative or a guarantee of future results. Investment losses may occur, and investors could lose some or all of their investment. Any indices cited herein are provided only as examples of general market performance and no index is directly comparable to the past or future performance of the Certificate. It should not be assumed that the Certificate will invest in any specific securities that comprise any index, nor should it be understood to mean that there is a correlation between the Certificate's returns and any index returns. Any material provided to you is intended only for discussion purposes and is not intended as an offer or solicitation with respect to the purchase or sale of any security and should not be relied upon by you in evaluating the merits of investing in any securities. The products describe in this document may not be directly or indirectly offered or sold in the United States of America or by U.S. Persons.