

New Relic, Inc. is a cloud-based application management solutions provider, for could and data center applications. They offer solutions ranging from real user, application, and availability monitoring features. This enables developers and operations teams to manage web application performance in real time.

BUY

Current Price:	\$68.59
Target Price:	\$72.86
Market Cap:	4.032B
Beta (5yr):	0.98
52 wk Hi:	\$50.00
52 Wk Low:	\$109.00
Daily Volume:	881,300
Short Interest:	6.1%



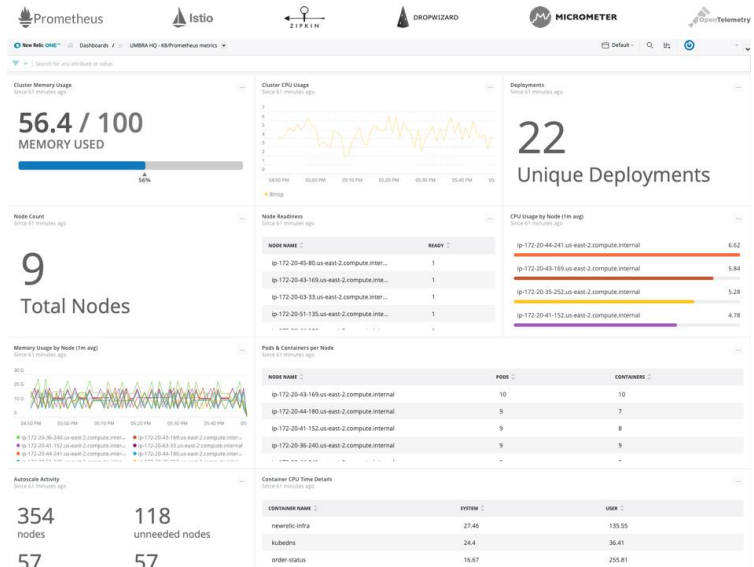
Thesis: New Relic is truly special within their operations, growing from a small operation into the San-Francisco based powerhouse that they are today. Flattening revenue growth coupled with decreased net income has created a position with the mass amounts of volume of trading to create a position that has placed NEWR in a lower valuation than they are currently at. My view of increased growth YOY as well as positive projected Net Income in the next coming years makes this a great buy.

Catalysts:

- Short Term(within the year): Benefit from organic growth in application coverage
- Mid Term(1-2 years): Addition of enterprise and mid-market customers
- Long Term(3+): Further Penetration into International Markets

Business Overview:

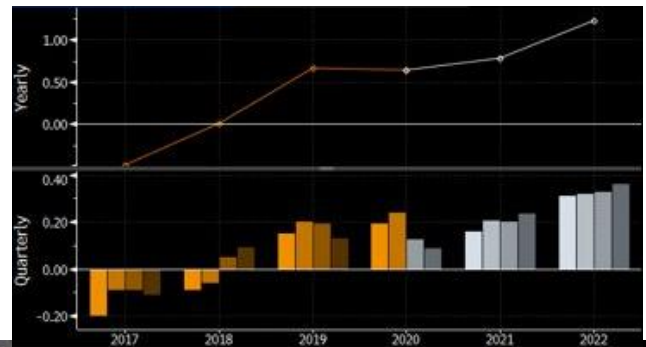
Specializing within the Software and DevOps teams, the New Relic platform allows for the collection, storing, and analyzation of the constant amounts of large arrays of data that flow through software systems of these teams. The true value of this system is the clarification and simplicity of the large and rapid amounts of data that teams simply do not have the time or materials necessary to decipher. This allows for teams to have the extra step over competition to “innovate faster, make better decisions and create best-in-class digital experiences”. From this data, clients then program the data to build unique applications to help drive business.



Sources: 2019 10K ;
New Relic Website

Financial Performance:

Growth is the name of the game to New Relic. Steady revenue growth, gross profit, and EBITDA have skyrocketed since inception in 2012. With the newly added debt in 2019, capital expenditures have grown, however, Net Income projections are positive moving into 2019, with a large flip from -58M to +38.7M projected in 2020.



Key Stats	I/S	B/S	C/F	Ratios	Segments	Add	ESG	Custom
11) Adj Highlights	12) GAAP Highlights	13) Earnings	14) Enterprise Value	15) EV Ex Operating Leases	16) Multiples	17) Pe...		
In Millions of USD	2016 Y	2017 Y	2018 Y	2019 Y*	Current/LTM	2020 Y Est	2021 Y Est	
12 Months Ending	03/31/2016	03/31/2017	03/31/2018	03/31/2019	09/30/2019	03/31/2020	03/31/2021	
Market Capitalization	1,303.5	1,975.1	4,147.2	5,735.1	4,032.2			
- Cash & Equivalents	191.3	206.4	247.9	744.7	771.5			
+ Preferred & Other	0.0	0.0	0.0	2.7	2.8			
+ Total Debt	0.0	0.0	0.0	405.9	485.6			
Enterprise Value	1,112.2	1,768.6	3,899.3	5,399.0	3,749.2			
Revenue, Adj	181.3	263.5	355.1	479.2	542.9	591.0	696.6	
Growth %, YoY	64.2	45.3	34.8	35.0	31.3	23.3	17.9	
Gross Profit, Adj	144.1	213.6	292.3	401.8	452.3	498.4	585.2	
Margin %	79.5	81.1	82.3	83.8	83.3	84.3	84.0	
EBITDA, Adj	-51.0	-40.5	-20.9	22.0	19.5	92.4	105.4	
Margin %	-28.1	-15.4	-5.9	4.6	3.6	15.6	15.1	
Net Income, Adj	-66.0	-59.0	-43.5	-39.8	-58.1	38.7	49.0	
Margin %	-36.4	-22.4	-12.2	-8.3	-10.7	6.5	7.0	
EPS, Adj	-1.36	-1.14	-0.80	-0.70	-1.02	0.64	0.78	
Growth %, YoY	29.3	16.3	30.2	12.0	-110.7		22.5	
Cash from Operations	4.0	18.9	35.7	115.5	120.3			
Capital Expenditures	-18.5	-25.5	-26.2	-48.5	-65.8	-58.1	-56.5	
Free Cash Flow	-14.5	-6.5	9.4	67.1	54.5	31.0	55.4	

Q2 Earnings Report:

Revenue growth was up 27% YOY at a 145.8 Million for the quarter, 31.3 for current/LTM. Although this is a slowdown from the year's previous (35.0); outlook on revenue projections are high for the coming future, still riding the 20+ percentage growth estimates, with projections into 2022 going even higher. ARR was reported as an increase of 15%, attributed to "new logos as well as installed base expansions derived from increased usage, expanded application coverage and the cross-sell of additional products". This growth in ARR helps to see that there is a higher-level progression within the company; further proving growth within the powerhouse that is New Relic.

Source: The Motley Fool New Relic Call Transcript (Q2 2019)

Information Technology Outlook:

As with many of the recent sectors that have to do with technology, trade disputes leads the pack in catalysts to the Information Technology sector in the next coming months. Unfortunately, there is never a real prediction to when the next tweet will strike, shaking up any progress that was made. Significant revenue growth seen in the Chinese and American IT sector; hence, the great swings on prices intra-day over these past couple of months. However, consumer habits have created a great opportunity for IT companies to take advantage of an

open marketplace. According to Schwab, Consumers are more willing to spend on technology. It is my belief that the millennial and Gen z age bracket leads this where the valuation of

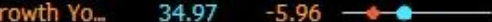






technology and having the best of the best is a way higher priority than previous generations. Once again, it is no surprise that people are making more money. Consumer confidence is at an all-time high, market gains are through the roof, and interest rates are very low. Some things Schwab noted to keep an eye out for is the increased amounts of cash that IT companies are holding, coupled with dividend payouts and stock repurchase plans- providing more shares available to the general public, as well as a boost in prices.

Source: Charles Schwab Resource Center

Competitors:

Due to the unique circumstance that New Relic is positioned in, competitive outlook can astray depending on where you are looking. According to their 2019 10k, there are technically four primary categories of competition:

Metric	NEWR	Low	Comp Range	High
Est P/E Current ...	108.02	22.44		184.47
EV/Est Sales Cur...	6.34	2.27		17.63
Sales Growth Yo...	34.97	-5.96		92.67
EBITDA Margin (...)	4.60	-48.61		48.09
R&D/Sales	21.88	8.90		41.75

 NEWR US  Median

- Performance monitoring providers such as AppDynamics, Inc. (an operating division of Cisco Systems, Inc.), Datadog, Inc., Dynatrace LLC, SignalFX, Inc., and Splunk Inc.;
- Diversified technology companies such as International Business Machines Corporation, Microsoft Corporation, and Oracle Corporation; • large enterprise software and service companies such as BMC Software, Inc. and CA, Inc. (a subsidiary of Broadcom, Inc.); and
- Companies offering analytics products competing with our New Relic Insights product, including Amazon Web Services, Inc., and Google LLC

Some things to keep in mind are going to be relative size positioning to companies such as Google, Apple, AWS, Oracle and so on, who have larger budgets coupled with increased brand awareness and marketing and advertising. It would not be fair to solely value them strictly based off numbers alone. By taking a look at relative sized competitors, a more fair estimate of how they “size-up” can be seen. The relative positioning of NEWR to their competitors offers a couple of things to take away. Although they do not specifically stand out in any one single category, they are consistently within the top numbers for each category given below.

Name (BICS Best Fit)	Mkt Cap (USD)	Last Px	Chg Pct 1D	Chg Pct 1M	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE
Median	3.36B	60.01	0.84%	8.37%	14.43%	-14.16%	61.35	5.11%
100) NEW RELIC INC	4.03B	68.59	0.84%	4.70%	34.97%	11.96%	--	-16.87%
101) SVMK INC	2.35B	17.47	-0.23%	9.32%	16.25%	-516.71%	--	-28.67%
102) MICROSTRATEGY INC-C...	1.56B	151.60	1.16%	-2.90%	-1.23%	-68.32%	61.69	4.45%
103) ALTERYX INC - CLASS A	7.03B	108.10	-3.02%	16.24%	92.67%	--	435.27	5.77%
104) BLACK KNIGHT INC	9.47B	63.31	0.84%	11.74%	5.93%	-22.45%	61.01	8.39%
105) LIVERAMP HOLDINGS I...	3.36B	49.60	1.20%	8.46%	29.77%	-147.00%	--	-12.16%
106) MANHATTAN ASSOCIATE...	5.23B	81.83	1.15%	8.37%	-5.96%	-9.78%	56.26	65.03%
107) PROS HOLDINGS INC	2.53B	60.01	-0.83%	15.27%	16.71%	-18.53%	--	-54.47%
108) SOLARWINDS CORP	5.79B	18.60	0.92%	-4.27%	14.43%	96.76%	6.81	28.92%
109) SPS COMMERCE INC	1.94B	55.62	-0.59%	3.36%	12.79%	217.09%	64.28	9.45%

19 10k

Management/Ownership:

Lead by its CEO and founder, New Relic was born out of an anagram from Lew Cirne’s own name. Since inception, Lew has helped to grow NEWR to the great company that it now is today. With previous experiences as an engineer at Apple and Hummingbird, it is fair to say that Lew knows a thing or two about software engineering, as backed by his degree in Computer Science from Dartmouth. His vision and outlook of this vastly broad and competitive industry has provided great return and growth for his company.

Being majorly held by Investment Advisors, change over the month is very stable, and small signs of sell off and purchase can be seen in the various positions highlighted in the chart below. One thing to notice is that institutional positions are on the rise, as well as investment advisor positions.

Compare Current Stats Against 12/01/19				Insider - Based on Last 6 Months			
Institutional - Based on Current Filings							
51) Institutional	12/01/19	Curr	Change	52) Insider	12/01/19	Curr	Change
11) % of Shares Held	85.8	86.07	+0.27%	21) % of Shares Held	12.02	12	-0.02%
12) % of Float Held	97.51	97.8	+0.29%	22) % Chg Insider Positions	-2.06	-1.78	+0.28%
13) # of Institutions	373	372	-0.27%	23) # of Insiders	12	12	0.00%
14) # of Buyers	142	145	+2.11%	24) # of Buyers Opn Mkt	0	0	
15) # of Sellers	93	89	-4.30%	25) # of Sellers Opn Mkt	4	4	0.00%
16) # of New Buyers	74	72	-2.70%	26) # of Shrs Bought Opn Mkt	0	0	
17) # of Selloffs	138	136	-1.45%	27) # of Shrs Sold Opn Mkt	157,282	146,282	-6.99%
18) % Chg in Inst Positions	+15.40	+16.03	+0.63%	28) Avg Opn Mkt Buy Price	0	0	0.00%
Top Geographic Ownership (%)				29) Avg Opn Mkt Sell Price	81.79	78.8	-2.9%
53) Geographic	12/01/19	Curr	Change	Top Ownership Type (%)			
31) UNITED STATES	77.23	77	-0.23%	54) Ownership Type	12/01/19	Curr	Change
32) Unknown	12.28	12.24	-0.04%	41) Investment Advisor	66.71	66.82	+0.11%
33) UNITED KINGDOM	3.83	3.82	-0.01%	42) Hedge Fund Manager	15.29	15.25	-0.04%
34) JAPAN	1.56	1.55	-0.01%	43) Individual	12.28	12.24	-0.04%
35) CANADA	1.31	1.31	0.00%	44) Pension Fund	1.78	1.77	-0.01%
36) LUXEMBOURG	0.46	0.77	+0.31%	45) Bank	1.09	1.09	0.00%
37) NORWAY	0.72	0.72	0.00%	46) Brokerage	1.09	1.09	0.00%
38) FRANCE	0.64	0.64	0.00%	47) Sovereign Wealth Fund	0.76	0.76	0.00%
39) SWEDEN	0.55	0.55	0.00%	48) Insurance Company	0.6	0.59	-0.01%
				49) Private Equity	0.2	0.2	0.00%

New Relic One Platform:

Released in May, the New Relic One Platform is a revolutionary extension of the New Relic platform. This new software now gives enterprises the ability to connect their teams to the real-time health of their customer experience, allowing for acceleration of their digital business. Added this most recent quarter us the ability for customers and partners to build entirely new applications on top of the New Relic platform- further enabling them to drive deeper and seamless insights.

According to Lew Cirne (CEO) “*Connecting technical customer experience and business data in visualizations tailored to the unique business needs and integrating our customers' workflows has nearly limitless use cases which we see as a competitive advantage for our company.*” In an industry so specific and demanding as Information Technology, the slightest inch of technological advancement above competition can be the golden goose egg, driving those results that everyone is looking for in the coming second half of the year.

Source: The Motley Fool New Relic Call Transcript (Q2 2019)

Conclusion:

In my eyes, New Relic is a great business that is at a great price. Growth outlooks, a strong operating platform in times of great data processing needs, as well fair projections into the future create what is in my view, to be the absolute best package. In conclusion, I am initiating coverage of NEWR with a BUY at market (\$68.59) with a target price of \$76.97.

CENTER FOR GLOBAL FINANCIAL STUDIES			NEWR	Sunday, December 8, 2019			Page 2
New Relic, Inc.	Symbol: NEWR		Cost of Capital Estimates				
Analyst	Paul Liguori			CGFS Credit Rating	Credit Rating Model	Probability of Default ModelModel	
Buy below	\$66.93		Implied Cost of Borrowing (NEWR)	4.8%	6.4%	3.4%	
Sell above	\$77.37		Implied Cost of Borrowing (Peers)	5.1%	6.0%	4.3%	
Probability of Price Increase	88%			Base Year	Explicit Period (15 years)	Continuing Period	
Last Price	\$68.59		Cost of New Debt Estimate	5.25%		4.80%	
Intrinsic Value	\$67.28		Country Risk Premium Estimate	6.40%		6.40%	
Target Dividends	\$0.00		Cost of Equity Estimate	11.65%		11.20%	
Target Price	\$76.97		WACC Estimate	10.95%		10.50%	
Forecast Assumptions							
Fiscal Year	Revenue Growth	EBITDA Margin	CAPEX/Revenue	DPR/CAPEX	Other		
Base Year (Actual)	34.67%	17.7%	9.0%	0.52	SBC/Revenue		
year 1	23.30%	16.7%	9.8%	0.82	Constant/same as LTM		
year 2	17.90%	15.7%	7.4%	1.14	Lease term		
year 3	19.90%	17.0%	6.0%	1.27	Rent Expense/Revenue		
year 4	27.60%	16.5%	5.0%	1.25	Tappers off to historical average		
year 5	21.00%	16.0%	4.9%	1.23	R&D life		
year 6	24.00%	15.5%	4.6%	1.21	R&D Expense/Revenue		
year 7	30.00%	14.9%	4.5%	1.18	Constant/same as LTM		
year 8	27.00%	14.4%	4.0%	1.16	LIFO Reserve		
year 9	25.00%	13.9%	3.6%	1.14	Non-operating pension costs		
year 10	24.00%	13.4%	3.3%	1.12	Net financing pensions costs		
year 11	20.50%	12.9%	3.2%	1.10	Overfunded pension plans		
year 12	17.00%	12.4%	3.1%	1.08	Capitalized interests		
year 13	13.50%	11.8%	3.0%	1.06	Dividends/Revenue		
year 14	10.00%	11.3%	2.9%	1.04	Tax Rate		
year 15	6.50%	10.3%	2.9%	1.02			
Continuing Period	3.00%	10.3%	3%	1.00			
Simulation Assumptions							
Random Variables	Distribution Assumption	MAX	Likely	MIN	Sensitivity: Price Variance Attribution Analysis		
Deviations in annual Revenue Growth--Expl. Per.	Triangular	50.00%	0%	-10.00%	2.23%	Revenue growth	
Deviations in annual Revenue Growth --Cont. Per.	Normal	1.41%	0%	-1.41%	5.04%	EBITDA Margin	
Deviations from EBITDA Margin base annual estimates	Triangular	11.17%	0%	-14.63%			
Deviations from CAPEX/Revenue base annual estimates	Triangular	5.22%	0%	-0.07%	24.33%	CAPEX/Rev	
Deviations from Kd base annual estimates	Triangular	1.55%	0%	-0.80%	54.14%	Discount Rate	
Deviations from CRP base annual estimates	Triangular	2.67%	0%	-1.07%	0.00%	TEV/Rev	
Deviations from TEV/Revenue base estimate	Triangular	8.34	0%	-5.11	0.00%	TEV/EBITDA	
Deviations from TEV/Revenue base estimate	Triangular	81.57	0%	-7.58	0.00%		
Change in P/BV (TTM)	Triangular	28.85	0%	-3.42	0.00%	P/BV	
Change in P/E (FW)	Triangular	122.35	0%	-23.03	0.00%	P/E	
Recovery Rate	Triangular	20.00%	0%	10%	0.00%	Asset Recovery Rate	
Valuation							
DCF Valuation							
	Base	Explicit Period (Average)	Continuing Period	Intrinsic Value Distribution--Probability (Upside)=87.67%			
Revenues	\$542.93	\$3,596.56	\$8,952.14				
EBITDA Margin	17%	14%	10%				
UFCF	\$105.42	\$255.07	\$693.05				
WACC	10.95%	10.50%	10.50%				
ROIC	20.55%	23.53%	10.50%				
Relative Valuation							
	Median Justified Multiple	Basis	Implied Equity Value				
EV/Rev (FW)	7.3x	\$693.92	\$5,148.02				
EV/EBITDA (FW)	22.9x	\$114.46	\$2,713.31				
P/BV (TTM)	5.6x	\$714.17	\$4,017.70				
P/E (FW)	43.8x	\$36.39	\$1,594.30				
Asset Based Valuation							
Recovery Rate	70%			Valuation Summary	Intrinsic Value	Target Price	
Capital	\$3,861.50			DCF Valuation	\$ 73.77	\$ 79.13	
Intangibles	\$54.49			EV/Rev (FW)	\$ 89.16	\$ 98.92	
Claims	\$598.56			EV/EBITDA (FW)	\$ 46.99	\$ 52.13	
Implied Equity Value	\$2,066.34			P/BV (TTM)	\$ 69.58	\$ 77.20	
				P/E (FW)	\$ 27.61	\$ 30.63	
				Asset Based Valuation	\$ 35.79	\$ 39.70	
				Price per Share	\$ 73.77	\$ 79.13	
						Model Weight	
						100%	
						0%	
						0%	
						0%	
						0%	
						0%	
						100%	