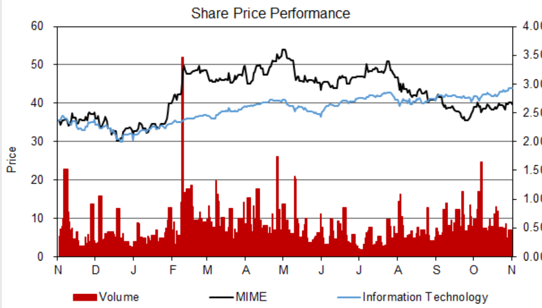
Mimecast Limited	Symbol: MIME
Analyst	Anthony Toupin
Buy below	$42.79
Sell above	$87.56
Probability of Price Increase	99%
Last Price	$39.83
Intrinsic Value	$58.37
Target Dividends	$0.00
Target Price	$64.18



Description

Mimecast Limited, an email and data security company, provides cloud security and risk management services for corporate information and email.

Sector	Information Technology
Industry	Software
Last Guidance	December 11, 2018
Next earnings date	November 7, 2019

People

Bauer, Peter, Co-Founder, Chairman & CEO

Brown, Rafeal, Chief Financial Officer

Anderson, Karen, Chief Human Resources Officer

Jennings, Edward, Executive Officer

Van Houten, Christina, Chief Strategy Officer

Borenstein, Nathaniel, Chief Scientist

Top Competitors

Zscaler, Inc.	PTC Inc.
Proofpoint, Inc.	salesforce.com, inc.
Palo Alto Networks, Inc.	--
Zix Corporation	--
Splunk Inc.	--

Investment Thesis

UNIQUE LONG-TERM GROWTH PROSPECTS AND MARGIN EXPANSION

I am initiating coverage of Mimecast Limited with a BUY at market ($39.86) and a $64.18 price target. Mimecast is a premier IT software company operating a high-growth Software-as-a-Service (SaaS) business model prone to penetrate a large market with strong demand and a large customer base prospect going forward. Mimecast is a London-based company operating in the email management sector and helps corporations to increase their IT security against email-borne threats. Given the increase in email usage globally and the growing risk of technologic attacks on corporations' databases, Mimecast is well positioned to captivate a strong demand in a fast growing industry.

For the long:

1. SaaS Pure-Cloud subscription model prone to serve a large growing market:
The Email security industry has been stable regarding the last years but the portion of it that uses cloud and companies that are succeeding in monetizing cloud-based services under SaaS solutions are rapidly growing. Needham research points out that currently only 25% of the total Email security market is served through the cloud and customers are likely to shift to more cloud-based solutions which premier providers such as Mimecast are prone to provide. Market share is a strong argument for a hyper-growth SaaS provider and given the 34% topline CAGR over the last 4 years Mimecast is well positioned continue a strong penetration of a growing market.

2. Microsoft Office 365 shift to cloud, the single largest migration of applications in the history of technology:
The migration Microsoft undertaken over the last years to a wider adoption of cloud-based services integrated to its suites has propulsed cloud-based email security providers such as Mimecast to hyper-growth stages. 87 million corporations are expected to move to cloud-based Microsoft solutions in the upcoming years and Mimecast is a premier security addition to consider.

3. High stable gross:
Mimecast has managed to constantly improve its gross margin over the last year between 72-74% and is expected to continue to increase to the high 70s in the upcoming years.

4. Potential Acquisition Target:
More than 50% of sellside coverage of Mimecast underlines the company as an ideal target for its position in the Email security cloud-based rapidly growing market.

5. Leveraged customer cross-points sales likely to deliver higher ARPU$ metrics:
The ongoing pipeline of SaaS solutions that Mimecast is maintaining proposes a constant opportunity to leverage its actual and new customer base for further multi-services subscriptions. Ultimately this will continue to increase the ARPU$ and will leverage Mimecast's topline while decreasing its operating expenses given the premia of leveraging additional dollars on single customers.

For the short:

1. Highly growing but competitive market:
Email security is a fragmented and highly competitive market, giving risks to alternatives with higher customer bases or newly-launched cloud players. Bigger players such as CRM are to take in consideration given their greater financial power and possibility to consolidate a growing market with existing customer lines.

2. Pricing pressure:
The cloud technology has seen a rapid decrease in operating expenses over the last decades, that said, any new breakthrough or rival R&D efforts to cut costs would put Mimecast at risk of being exposed to lower rival rates which will inevitably make Mimecast's existing customer to fly over cheaper Email security providers.

3. Deleveraging topline sales cross-points:
Multi cross-points sales is a strong argument for the long but any failed service launch going forward could lead a decrease in the cross-points sales currently in a good expansion for Mimecast. Any failure to maintain a constant service quality for a SaaS player will foster a deleveraging of its multi-services clients adopters and therefore decrease gross margins going forward.

Key Catalysts for price change

- Revenues and EPS over estimates for the upcoming quarterly results of 2Q20 (11/07/2019).
- Customer base increasing faster than historic average growth rates showing strenght in market penetration.
- Road to profitability given bottom-line positive EPS in upcoming quarters.

Valuation

My $64.18 price target is derived from a DCF valuation coupled with a P/BV and P/E multiple valuations. This valuation seems aggressive given lower sellside consensus TP but given topline growth simulations and a thorough look at the company's financials and management, I believe this TP reflects a realistic upside from current undervalued market price.

Market Statistics

Market Capitalization (mil)	$2,467.60
Last Price per share	$39.83
52 week high	$54.57
52-week low	$29.66
Volatility	0.00%
Daily volume (mil)	0.35
Short interest	1.57%
Days to cover short interest	1.65
Beta	1.54

Ownership		Change in Ownership (over the past 6 months)
Shares outstanding (mil)	61.95	
Weighted Diluted shares outstanding (mil)	60.53	
Options and Warrants (Shares equivalent)	3.50	
% shares held by institutions	64%	+14.49%
% shares held by investments Managers	45%	-1.68%
% shares held by hedge funds	29.34%	+6.15%
% shares held by VC/PE firms	0.247%	-0.21%
% shares held by insiders	6.23%	-51.81%
Poison Pill and Type	NONE	

Financials

Profitability	MIME (LTM)	MIME Historical	Peers' Median (LTM)
Return on Capital	15.1%	0.81%	34.76%
Adjusted EBITDA Margin	19.0%	4.76%	19.26%
Return on Equity	15.4%	19.3%	7.7%
Adjusted Net margin	11.6%	6.2%	8.9%
Invested Funds	**MIME (LTM)**	**MIME Historical**	**Peers' Median (LTM)**
Cash/Capital	42.4%	42.5%	52.1%
NWC/Capital	-21.8%	-22.5%	-20.8%
Operating Assets/Capital	55.9%	78.2%	39.3%
Goodwill/Capital	23.5%	1.1%	30.8%
Capital Structure	**MIME (LTM)**	**MIME Historical**	**Peers' Median (LTM)**
Total Debt/(Market Cap.+ Other Claims on Capital)	0.09	0.04	0.09
Minority Interest/(Market Cap.+ Other Claims on Capital)	0.0%	0.0%	0.0%
Preferred Equity/(Market Cap.+ Other Claims on Capital)	3.6%	0.0%	0.0%
CGFS Credit Rating	C		CCC
Credit Rating Model	b+ to bb-		b+ to bb-
Probability of Default Model	b+ to bb-		bbb-
Likely Current Cost of Debt	3.78%		4.74%
Likely Current Cost of Equity (Cost of Debt + MRP)	9.89%		10.86%
Likely Current WACC	9.33%		10.3%

Quarterly Earning Surprises (Actual/Median Estimates)

Revenue	Last 5 quarters
6/30/2018	$313.616 (2.1%)
9/30/2018	$328.676 (1.7%)
12/31/2018	$350.444 (3.2%)
3/31/2019	$368.772 (1.3%)
6/30/2019	$396.924 (2.1%)
History:	**Last 4 years**
Mean Surprise	1.77%
99th percentile "surprise" range	-1% to 5%
EBITDA	**Last 5 quarters**
6/30/2018	$22.268 (-41.4%)
9/30/2018	$27.968 (-31%)
12/31/2018	$38.84 (-28.6%)
3/31/2019	$33.58 (-45.1%)
6/30/2019	$12.016 (-76.8%)
History:	**Last 4 years**
Mean Surprise	-53.97%
99th percentile "surprise" range	-144% to 36%

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Cost of Capital Estimates

	CGFS Credit Rating	Credit Rating Model	Probability of Default ModelModel
Implied Cost of Borrowing (MIME)	6.3%	5.6%	5.6%
Implied Cost of Borrowing (Peers)	5.1%	5.9%	4.8%

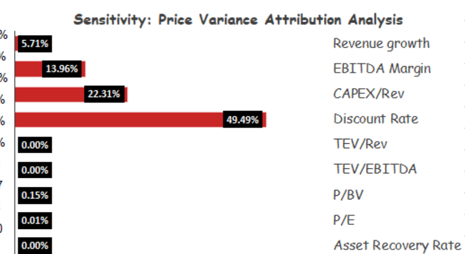
	Base Year	Explicit Period (15 years)	Continuing Period
Cost of New Debt Estimate	4.18%	4.46%	4.46%
Country Risk Premium Estimate	6.11%	6.11%	6.11%
Cost of Equity Estimate	10.29%	10.57%	10.57%
WACC Estimate	9.64%	9.92%	9.92%

Forecast Assumptions

Fiscal Year	Revenue Growth	EBITDA Margin	CAPEX/Revenue	DPR/CAPEX	Other	
Base Year (Actual)	30.49%	**16.5%**	8.5%	1.04	SBC/Revenue	8.53%
year 1	23.83%	**17.3%**	14.2%	0.51		Constant/same as LTM
year 2	21.13%	**18.4%**	7.5%	0.84	Lease term	10
year 3	17.58%	**20.2%**	7.4%	0.83	Rent Expense/Revenue	1.73%
year 4	19.17%	**22.3%**	7.5%	0.93		Tappers off to historical average
year 5	17.82%	**22.3%**	7.6%	0.91	R&D life	10
year 6	16.47%	**22.3%**	7.7%	0.90	R&D Expense/Revenue	14.62%
year 7	15.13%	**22.2%**	7.8%	0.90		Constant/same as LTM
year 8	13.78%	**22.2%**	7.8%	0.89	LIFO Reserve	Tappers off to zero
year 9	12.43%	**22.2%**	7.9%	0.89	Non-operating pension costs	Tappers off to zero
year 10	11.08%	**22.2%**	8.0%	0.88	Net financing pensions costs	Tappers off to zero
year 11	9.74%	**22.1%**	8.0%	0.88	Overfunded pension plans	Tappers off to zero
year 12	8.39%	**22.1%**	8.1%	0.87	Capitalized interests	Constant/same as LTM
year 13	7.04%	**22.1%**	8.2%	0.87	Dividends/Revenue	0.00%
year 14	5.69%	**22.1%**	8.3%	0.86	Tax Rate	24.08%
year 15	4.35%	**22.0%**	8.3%	0.86		
Continuing Period	3.00%	**22.0%**	8%	0.85		

Simulation Assumptions

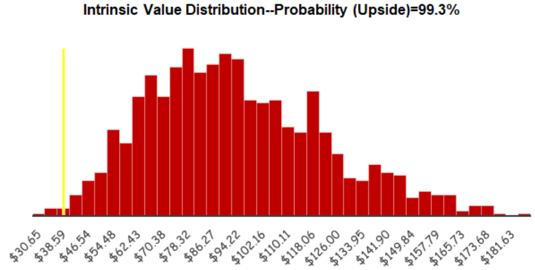
Random Variables	Distribution Assumption	MAX	Likelly	MIN
Deviations in annual Revenue Growth--Expl. Per.	Triangular	15.61%	0%	-13.34%
Deviations in annual Revenue Growth --Cont. Per.	Normal	1.52%	0%	36.00%
Deviations from EBITDA Margin base annual estimates	Triangular	0.54%	0%	-11.56%
Deviations from CAPEX/Revenue base annual estimates	Triangular	2.07%	0%	-5.48%
Deviations from Kd base annual estimates	Triangular	1.85%	0%	-1.62%
Deviations from CRP base annual estimates	Triangular	1.82%	0%	-1.92%
Deviations from TEV/Revenue base estimate	Triangular	7.63	0%	-3.38
Deviations from TEV/Revenue base estimate	Triangular	145.51	0%	-16.37
Change in P/BV (TTM)	Triangular	7.43	0%	-4.36
Change in P/E (FW)	Triangular	241.31	0%	-44.20
Recovery Rate	Triangular	10.00%	0%	-10%



Valuation

DCF Valuation

	Base	Explicit Period (Average)	Continuing Period
Revenues	$361.20	$1,327.34	$2,464.75
EBITDA Margin	19%	21%	22%
UFCF	$21.91	$182.01	$330.81
WACC	9.64%	9.92%	9.92%
ROIC	15.09%	22.17%	17.61%



Relative Valuation

	Median Justified Multiple	Basis	Implied Equity Value
EV/Rev (FW)	6.5x	$481.62	$3,058.22
EV/EBITDA (FW)	29.0x	$85.31	$2,389.48
P/BV (TTM)	11.1x	$383.70	$4,271.88
P/E (FW)	57.5x	$74.56	$4,288.42

Asset Based Valuation

Recovery Rate	60%
Capital	$3,177.44
Intangibles	$137.88
Claims	$287.26
Implied Equity Value	$1,536.48

Valuation Summary	Intrinsic Value	Target Price	Model Weight
DCF Valuation	$ 37.88	$ 41.13	20%
EV/Rev (FW)	$ 47.77	$ 52.37	0%
EV/EBITDA (FW)	$ 37.32	$ 40.92	0%
P/BV (TTM)	$ 66.72	$ 73.16	40%
P/E (FW)	$ 66.98	$ 73.44	40%
Asset Based Valuation	$ 24.00	$ 26.31	0%
Price per Share	$ 61.06	$ 66.87	100%