SIENAcollege

BJORKLUND FUND

November 17, 2017

Veeva Systems Inc: VEEV

Nico Dumas

Sector: Healthcare
Industry: Healthcare Technology
Current Price: $60.29
Target Price: $71.23

Veeva Systems Inc. is a leading provider of industry-specific cloud solutions for the global life sciences industry. They offer software products designed to meet the unique needs of each company that they serve. Veeva's products assist customers through cloud solutions, commercial solutions, and research and development solutions. Cloud solutions allow companies to store all sorts of data pertaining to content management, master data management, and customer data. Commercial solutions provide companies with the tools they need to market and sell their products to healthcare professionals. Research and development solutions help improve the pace of management and pace of product development, while maintaining regulatory compliance. Veeva Systems operates globally: 55% of sales coming from within the United States, 29% from Europe, and 16% from Asia Pacific.

BUY

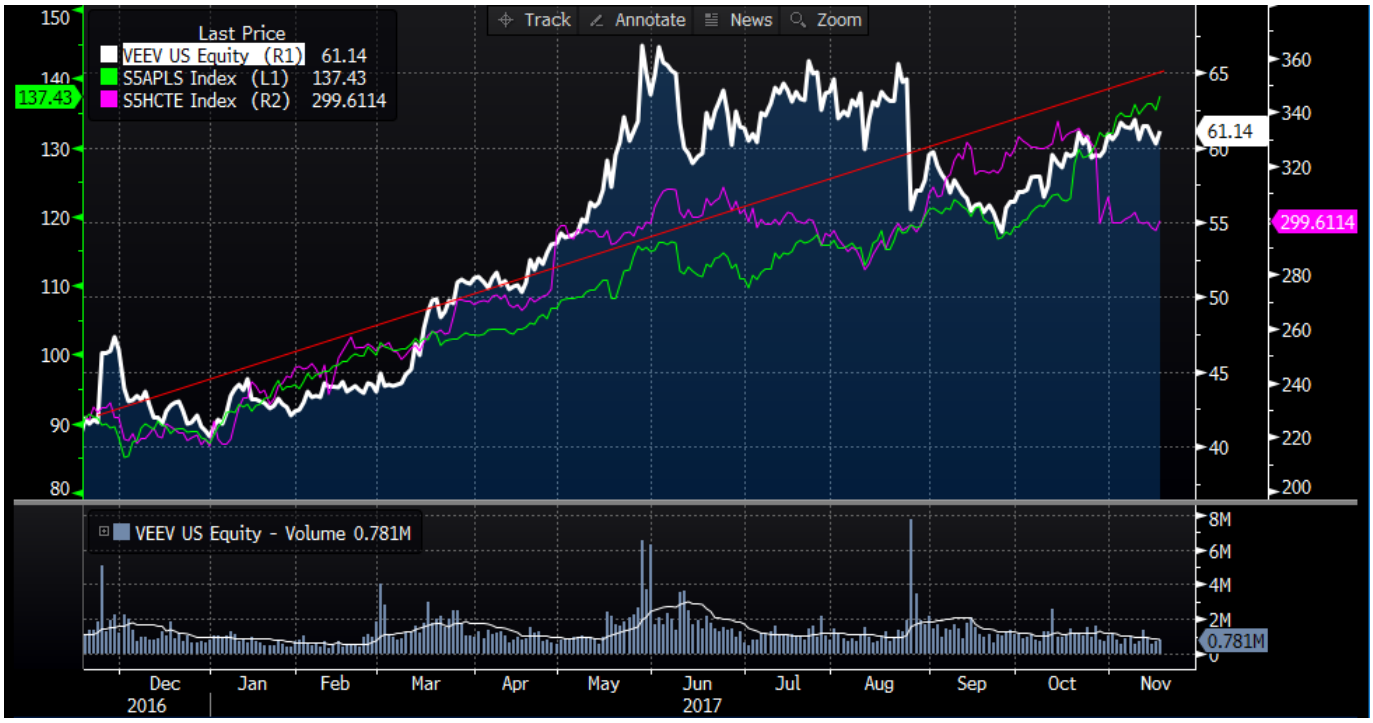
Current Price:	$60.29
Target Price:	$71.23
Market Cap:	8.5B
Volume	755,000
52 week range	$40.50 - $68.07
EBITDA Margin LTM	35.7%
Net Margin LTM	25.9%
ROIC LF	17.07%
WACC	12.1%
Short Interest Ratio	4.53 days to cover

Catalysts:

Short Term (within the year):
-Third Quarter earnings release on December 5th.
-Consistently beating revenue and earnings estimates.

Mid Term(1-2 years):
-A bullish Healthcare Sector
-limited threats/competition

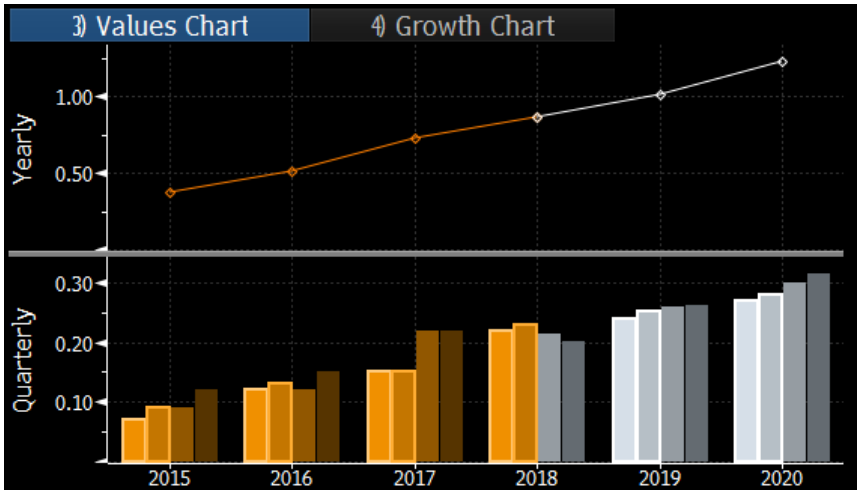
Long Term(3+):
-Great management/leadership
-No dividends paid out, retain all funds towards future growth and earnings



Thesis:

Veeva Systems Inc. is a growing mid cap company within the Healthcare sector. Their goal is to become the leading strategic technology partner to the life science industry. Veeva provides their customers with the latest cloud-based solutions options, which ensure efficient marketing, content management, and product innovation. The company has hit both earnings and revenue estimates each quarter since 2014 and will more than likely do so on their next earnings release December 5th. Developed in 2007, analysts are projecting further growth for years to come; Veeva is nowhere near maturity at this stage in their business cycle. The company also has a strong balance sheet and is debt free. Veeva has continued to increase gross margins for both of their segments since their IPO as well. This is a very fundamentally stable company in a promising sector. With their specialization strategy, they lower the number of threats and competitors to their business while expanding revenue.

Earnings Performance:



Veeva Systems has increased earnings consistently over the past three years at a CAGR of 52%. Starting at .09 in quarter 2 of 2015 and now .23 reported for quarter 2 of fiscal year 2018. Analysts forecast an adjusted EPS of .28 by the second quarter of fiscal 2020. This would result in an extreme slowdown in their current rate of EPS growth. Analysts are undervaluing this stock concerning possible earnings growth. If Veeva Systems continues adjusted EPS growth at its current CAGR of 52%, it could reach .53 by 2020. This is almost double analysts' current forecasts. Veeva is in the growth stage of their business cycle, founded in 2007. The company has been consistent in increasing revenue along with earnings. From 2013 to 2017, the company has produced a compounded annual growth rate of 43%, concerning revenue. In their 2017 report, they filed total revenues equaling 544 million. At this rate, the company could potentially see over a billion in revenue by fiscal year 2019; total revenue coming out to just over $1.1 billion. Analysts forecast revenue in fiscal 2019 to be $804.2 million. Analysts are forecasting a slowdown in growth rates concerning Veeva's financials, but there are no indications

that this will be the case. The company experienced its largest increase in revenue over the last fiscal year. From 2016 to 2017, Veeva grew their total revenue from 409.2 million to 544 million. This is almost a 33% increase in revenue. It does not make sense that analysts are expecting the company's CAGR to decrease to 21.6% over the next two fiscal years. I believe analysts are being very conservative with predictions, making price per share cheap in the current market. The company has consistently showed growth, increasing revenues and earnings every earnings release.

Segments:

Although the company only has one product segment, which is labeled "specific, cloud-based software solutions for the life science industry", I was able to find additional segment information on Veeva's latest annual report. The company divided revenues between two segments: subscription services and professional services. Subscription services having to do with annual fees of already subscribed users, expansion of existing subscription agreements, and newly established subscriptions. Veeva also generates revenue through offering professional services to existing and partners. In this segment, Veeva's professional services teams are organized by specific expertise so they can provide advice and support for the best industry practices. Subscription services accounted for 79.8% of total revenue in 2017 while professional services only accounted for 20.2%. The annual report only showed revenues and costs from the segment so I was only able to derive gross margins, which is still a good indicator of which segment is more profitable for Veeva.

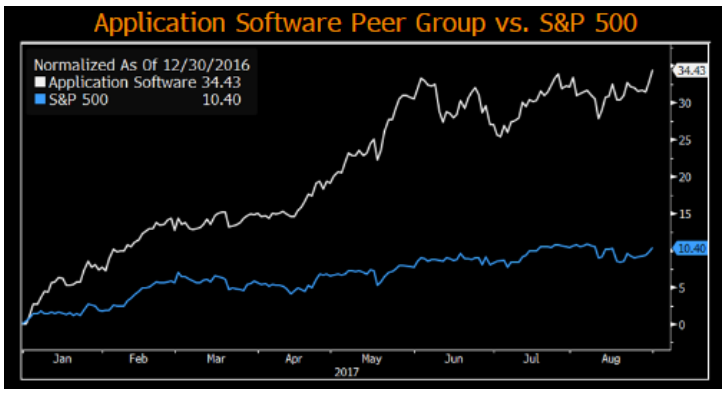
Segment Income Statement (in thousands)							*Forecasted*	
Revenues		2013	2014	2015	2016	2017	2018	2019
	Sub serv	$ 73,280	$ 146,621	$ 233,063	$ 316,314	$ 434,316	$595,012.92	$815,167.70
	Prof serv	$ 56,268	$ 63,530	$ 80,159	$ 92,907	$ 109,727	$129,477.86	$152,783.87
	total	$ 129,548	$ 210,151	$ 313,222	$ 409,221	$ 544,043	$ 724,491	$ 967,952
Cost of Rev								
	Sub serv	$ 18,852	$ 36,199	$ 55,005	$ 71,180	$ 94,386	$125,533.38	$166,959.40
	Prof serv	$ 38,164	$ 46,403	$ 60,653	$ 71,034	$ 79,295	$ 88,810.40	$ 99,467.65
	total	$ 57,016	$ 82,602	$ 115,658	$ 142,214	$ 173,681	$ 214,344	$ 266,427
Gross Profit		$ 72,532	$ 127,549	$ 197,564	$ 267,007	$ 370,362	$ 510,147	$ 701,525
Gross Margin: Sub Serv.		**74%**	**75%**	**76%**	**77%**	**78%**	**79%**	**80%**
Gross Margin: Prof Serv.		**32%**	**27%**	**24%**	**24%**	**28%**	**31%**	**35%**
Total Gross Margin		56%	61%	63%	65%	68%	70%	72%
Revenue CAGR 2016-2017: Subscription Services				**37%**	Cost CAGR 2016-2017: Sub		33%	
Revenue CAGR 2016-2017 : Professional Services				**18%**	Cost CAGR 2016-2017: Prof		12%	

As you can see from the spreadsheet I formed, gross profit margin for the subscription service segment is substantially larger than the professional service segment. Gross margin has been consistently increasing for this segment and in the latest year came out to 78%. This is 50 percentage points higher than their professional service segment; holding a gross margin of 28% in the recent annual report. I then wanted to see the segment that Veeva was targeting to expand on. Calculating the CAGR's for each segments' revenue between 2016 and 2017 showed that the subscription service segment grew at 37% compared to the professional service segment's growth of 18%. This creates value for the company, growing the segment of their business with the highest margins. This will increase total margins as they continue to focus on the segment with the least amount of costs to revenue. If Veeva maintains current CAGR's concerning costs and revenues, by fiscal year 2019, they will experience a 4% increase in total gross margin, with the subscription service segment reaching 80%.

Professional services will also boost its gross margin, with revenue increasing at 18% while costs only increase 12% per year. Veeva is a company with very good fundamentals; they have consistently increased margins and revenues for both of their segments since their IPO in 2013. If they continue on this path they can certainly reach their goal of becoming the leading strategic technology partner to the life science industry.

Sector/Industry Outlook:

Veeva Systems falls within the Healthcare Technology industry due to their specialization in applications concerning life science companies. The Healthcare sector as a whole is a great sector to have ownership in. In the one year trailing price chart above, I compared the S&P Health Care Index to the S&P Indexes for Consumer Staples, Real Estate, and Energy. As you can see the Healthcare sector has shown the greatest return between the four indexes. Healthcare companies are beginning to develop innovative technology or alternative approaches to drive down costs. This has begun to transform the Healthcare sector into becoming more value-based and consumer-driven. As technology continues to improve efficiency, costs associated with Healthcare services will drop. The demand for Healthcare is also on the rise with the aging United States population. Within the Healthcare sector, Veeva is classified as an Application Software company. Looking at the chart on the right, application software companies have outperformed the S&P 500 by over 24% from December 2016 to August of 2017. These strong returns are mainly due to the increased momentum in the adoption of cloud storage. Veeva specializes in cloud-based solutions. With this increasing market for cloud storage combined with the positive outlook for the Healthcare industry, this stock is a must buy. The company is outperforming competitors in an industry that has shown promising growth. The S&P Health Care Index has increased 17.86% year to date. Application software has increased 34.43% year to date. Veeva is in a very profitable area of the market to be in right now. Growth is certain for the company, investors have noticed this and are starting to bet on how much that growth will be. In August, when the second quarter earnings came out, Veeva beat both earnings and revenue but the stock fell 12%. Analysts attributed this drop in price per share to the expected earnings for both quarter three and annual revenue forecasts. They projected



revenues of $171-$172 million and operating income between $50-$51 million for quarter 3. They also estimated revenues for the year to fall between $672 and $674 million. This would be a 23.7% increase in total revenue from fiscal year 2017 to 2018. From fiscal year 2016 to 2017, they had a growth rate of 33%; and this is why I believe investors started to sell shares and collect gains. They wanted to see another 33% growth rate in revenue; but this is a very high rate to maintain. Veeva will still continue to increase revenue year over year, while further increasing margins with their subscription segment growth.

Relative Valuation/Management:

	Name (BI Peers)	Ticker	Mkt Cap↑	ROIC LF	WACC	R&D/Net Sales LF	Rev - 1 Yr Gr LF	Cost of Goods Sold - 1 Yr Growth LF
	Median		12.59B	8.39%	9.76%	18.45%	12.09%	16.45%
100)	VEEVA SYSTEMS INC-CLA...	VEEV US	8.60B	17.07%	12.12%	19.62%	26.83%	19.45%
101)	NUANCE COMMUNICATION...	NUAN US	4.17B	-5.67%	8.13%	13.69%	1.75%	4.01%
102)	ATHENAHEALTH INC	ATHN US	5.16B	3.75%	9.47%	14.71%	10.09%	39.48%
103)	TABLEAU SOFTWARE INC-...	DATA US	5.60B	-22.26%	14.91%	39.31%	4.30%	24.55%
104)	ULTIMATE SOFTWARE GR...	ULTI US	5.91B	7.21%	9.50%	16.27%	19.86%	16.45%
105)	GUIDEWIRE SOFTWARE INC	GWRE US	6.14B	2.06%	10.99%	19.58%	28.28%	33.93%
106)	PTC INC	PTC US	7.53B	0.80%	10.69%	19.77%	6.29%	-0.06%
107)	OPEN TEXT CORP	OTEX CN	8.77B	4.60%	6.35%	12.12%	30.31%	35.99%

In the relative valuation that I created in Bloomberg, I tried to used competitors in the software applications industry that are close to Veeva's market cap. As you can tell from the chart, Veeva has outperformed the median in every column that I chose to display. They have a ROIC of 17.07% and a WACC of 12.12%. R&D to Net Sales is very important to Veeva Systmes; currently 19.62%. This shows that they dedicate a large portion of sales to product innovation. They focus on providing the latest cloud-based solutions in the life sciences industry and want to maintain this reputation. This is why Veeva is above the median when it comes to research and development. One-year revenue growth more than doubles the median of their competitors. Costs of goods sold growth has also exceeded completion, which is due to their rapid growth. Revenue growth is exceeding costs growth however, proving profitability. Veeva is generating revenue at a quicker rate than costs are increasing. This will continue to result in expanding margins for the company.

	6-year Historical Median		Last 12 Months	
	VEEV	Competitors	VEEV	Competitors
EBITA Margin	19.5%	16.9%	35.7%	20.8%
Net Margin	19.4%	15.6%	25.9%	17.2%

EBITDA Margin on a cash basis over the last 12 months came out to 35.7%. This is about 15% higher than the average of their competition. Historically the EBITDA Margin has been closer to 20%, which further proves that Veeva is spreading margins creating more profitability for the firm and ultimately its investors. Net Margin also far exceeds competition among the industry at 25.9%. Historically this number was 19.4%. Veeva is building both revenue and margins in their subscription segment at the same time, which is having a substantial effect on their total EBITDA and net margin.

Compensation Analysis		2017
Name	Title	Total Compensation
1) Frederic Lequient	Senior VP:Global Custo...	2,466,070 (USD)
2) Frank Defesche	Senior VP/Gen Mgr:Vaul...	1,117,780 (USD)
3) Alan Mateo	Exec VP:Global Sales	690,717 (USD)
4) Jonathan Faddis	VP/General Counsel	494,317 (USD)
5) E Zuppas	Chief Marketing Officer	494,317 (USD)
6) Timothy Cabral	Chief Financial Officer	297,917 (USD)
7) Peter Gassner	CEO/Co-Founder	297,917 (USD)

The management team receives very fair compensation at Veeva Systems, the highest salary belonging to senior vice president Frederic Lequient. Fred more than earns his compensation; having experience with enterprise solutions for cloud-based companies for over 20 years. Before his tenure at Veeva, he grew a company from $0 in revenue to almost $325 million. This company was sold to Oracle for approximately $2.1 billion. He is an experienced Senior VP with the ability to grow companies at an accelerated rate. The current CEO, Peter Gassner, was named to the PharmaVOICE 100, which recognizes the 100 most influential people in the life science industry. He has extensive experience in marketing and sales, which will be very beneficial to Veeva's expansion in current and untapped markets. Veeva Systems Inc. has a very experienced leadership team with the ability to turn this company into the leading strategic technology partner to the life science industry.

Ownership:

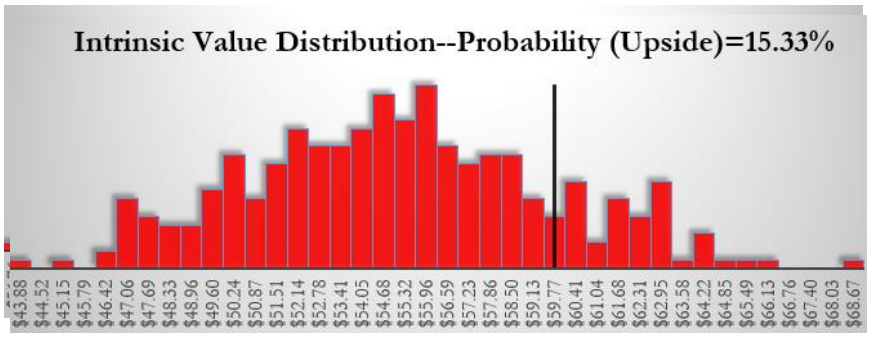
Ownership Type	11/12/17	Curr	Change
11) Investment Advisor	85.99	84.45	-1.54
12) Hedge Fund Manager	3.12	4.03	+0.91
13) Pension Fund	2.62	2.62	0.00
14) Other	2.42	2.45	+0.03
15) Bank	1.36	1.79	+0.43
16) Individual	1.38	1.40	+0.02
17) Unclassified	0.93	0.95	+0.02
18) Insurance Company	0.91	0.93	+0.02
19) Sovereign Wealth Fund	0.62	0.63	+0.01
20) Government	0.43	0.44	+0.01
21) Brokerage	0.12	0.17	+0.05

6M 1Y 2Y 5Y Max

Investment Advisors currently hold the largest share in Veeva Systmes Inc. at 84.45%. Since the hit in August, the stock's volume has stayed consistent trading around 808,000 shares a day. However, over the past week Hedge Fund Managers have shown some interest in the fund, which is a very good sign. They have increased from 3.12% ownership to 4.03%. This is primarily due to Hedge Fund expectations of high returns in the near future. VEEV is undervalued and Hedge Fund analysts want to get their quick return when the company starts heading back towards that 52 week high of $68.07. Other than the spike in Hedge Fund ownership, everything else has stayed constant over the past week. Banks increased almost half a percentage point, which is relatively insignificant.

Forecasted Case and Worst Case:

The first Monte Carlo simulation that I ran was my personal forecast for the company based on my research and foreseeable expectations. The one-year target price that resulted from this was $71.23, with a 99.33% upside probability. I concluded that the revenue growth rate would increase 7% over the next two years and then begin to decline by 2% p.a. I also forecasted a continued decrease in operating costs to revenue, seeing how it dropped nearly 6 percentage points in the previous three years. I assumed that operating cost to revenue would reach 62% by 2028. This is completely achievable, seeing how Veeva is focusing on their subscription segment along with new subscribers continuing their annual subscriptions. This decreases operating costs because the company does not need to do any substantial work for already subscribed users; they just collect their annual fee for using the product. For already subscribed users, Veeva has very little operating costs. The more existing users that they create the more operating cost to revenue will decrease. For my worst-case scenario, I projected an increase in the revenue growth rate of 2% over the next three years. Revenue growth beginning at 25% for this up-coming year seeing how this is what Veeva projected in their latest earnings report. I only decreased operating cost to revenue to 64% by 2028 for this model, seeing how Veeva might not be able to get this number down to my forecast of 62%. The Monte Carlo simulation of 300 trials generated a one-year target price of $54.05. Overall between my forecasted scenario and a worst case scenario, I project an upside of $10.94 per share (16.5% increase) and a possible downside of $6.24 per share (10.3% decrease).



Conclusion:

Veeva Systems Inc. is a very fundamental company with potential for double-digit growth concerning their price per share. This is a definite buy from my evaluation due to their substantial revenue growth and widening margins within each segment. Veeva also has a very experienced leadership team with great track records. This company is in both a prosperous sector and industry, which is a very good equation that could lead to large returns. I also believe that analysts' expectations for earnings and revenue are very conservative, which is causing the stock price to be considerably cheap in the market. Their projections are far below the CAGR's that VEEV has been producing. The company is also debt free with a AAA rating. I recommend a strong buy at the stock's current price of $60.29.

SIENAcollege

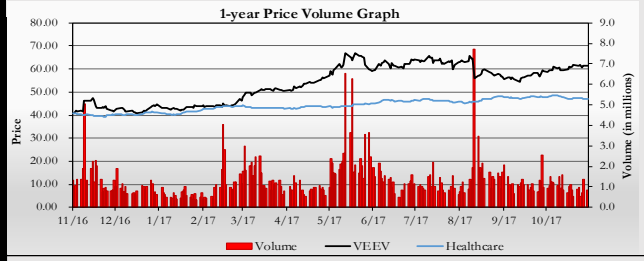
BJORKLUND FUND

SIENAcollege

BJORKLUND FUND

Veeva Systems Inc. (VEEV) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by Nico Dumas	Current Price:	$60.29	Intrinsic Value	$61.99	Target 1 year Return: 18.15%
11/17/2017	Divident Yield:	0.0%	Target Price	$71.23	Probability of Price Increase: 99.33%



Description

Veeva Systems Inc. provides cloud-based software for the life sciences industry in North America, Europe, the Asia Pacific, and internationally.

General Information	
Sector	Healthcare
Industry	Health Care Technology
Last Guidance	November 3, 2015
Next earnings date	December 5, 2017
Estimated Country Risk Premium	8.71%
Effective Tax rate	13%
Effective Operating Tax rate	13%

Market Data	
Market Capitalization	$8,477.77
Daily volume (mil)	0.75
Shares outstanding (mil)	140.62
Diluted shares outstanding (mil)	150.88
% shares held by institutions	116%
% shares held by investments Managers	64%
% shares held by hedge funds	3%
% shares held by insiders	19.89%
Short interest	3.64%
Days to cover short interest	3.87
52 week high	$68.07
52-week low	$40.38
Volatility	0.00%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
7/31/2016	3.83%	-17.90%
10/31/2016	5.37%	-6.15%
1/31/2017	3.13%	-19.04%
4/30/2017	4.21%	-10.67%
7/31/2017	1.61%	-20.13%
Mean	3.63%	-14.78%
Standard error	0.6%	2.7%

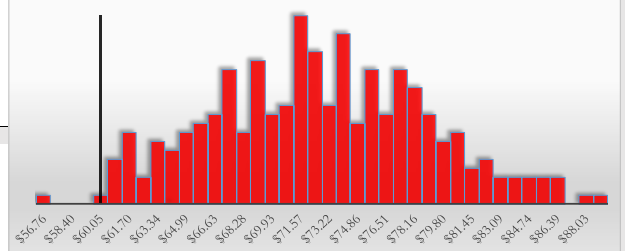
Peers

Medidata Solutions, Inc.
HubSpot, Inc.
Quality Systems, Inc.
Adobe Systems Incorporated
athenahealth, Inc.
HealthStream, Inc.
Allscripts Healthcare Solutions, Inc.

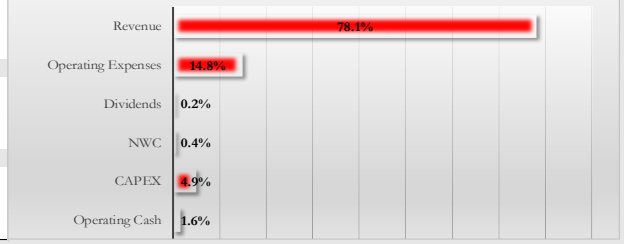
Management	Position	Total compensations growth	Total return to shareholders
Gassner, Peter	Co-Founder, CEO & Director	7.27% per annum over 4y	N/M
Cabral, Timothy	Chief Financial Officer	4.92% per annum over 4y	N/M
Faddis, Jonathan	Senior VP, General Counsel &	34.58% per annum over 2y	48.89% per annum over 2y
Zuppas, Eleni	Chief Marketing Officer	-56% per annum over 1y	164.56% per annum over 1y
Mateo, Alan	Executive Vice President of	-90.71% per annum over 1y	164.56% per annum over 1y
Defesche, Frank	Senior VP & GM of Vault Qual	54.05% per annum over 1y	164.56% per annum over 1y

Profitability	VEEV (LTM)	VEEV (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	61.1%	-8.40%	20.26%
Operating Margin	31%	16.97%	15.53%
Revenue/Capital (GAAP)	1.97	-0.49	1.30
ROE (GAAP)	24.6%	26.8%	19.6%
Net margin	25.9%	20.0%	15.2%
Revenue/Book Value (GAAP)	0.95	1.34	1.29
Invested Funds	**VEEV (LTM)**	**VEEV (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	60.0%	183.4%	22.5%
NWC/Capital	-8.5%	-7.4%	-2.5%
Operating Assets/Capital	38.0%	-79.1%	53.2%
Goodwill/Capital	10.5%	3.0%	26.8%
Capital Structure	**VEEV (LTM)**	**VEEV (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.02	0.04	0.29
Cost of Existing Debt	2.6%	2.6%	4.3%
CGFS Rating (F-score, Z-score, and default Probability)	AA	BB	A
WACC	11.3%	5.7%	7.1%

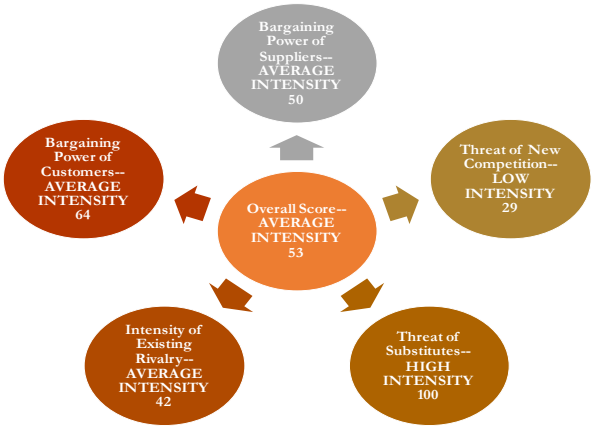
Intrinsic Value Distribution--Probability



Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	31%	37.8%	0.92
7/31/2018	25%	38.7%	0.77
7/31/2019	30%	39.8%	0.71
7/31/2020	32%	39.5%	0.70
7/31/2021	30%	40.4%	0.68
7/31/2022	28%	42.2%	0.66
7/31/2023	26%	42.3%	0.62
7/31/2024	22%	42.2%	0.58
7/31/2025	20%	42.1%	0.54
7/31/2026	18%	42.1%	0.51
7/31/2027	16%	42.1%	0.48
Continuing Period	2%	40.4%	0.40

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	34.9%	11.3%	$60.19
7/31/2018	29.7%	12.5%	$68.76
7/31/2019	28.1%	12.7%	$77.42
7/31/2020	27.5%	12.5%	$86.88
7/31/2021	27.5%	12.8%	$97.57
7/31/2022	27.7%	13.1%	$109.58
7/31/2023	26.3%	13.1%	$122.75
7/31/2024	24.5%	13.2%	$137.03
7/31/2025	23.0%	13.2%	$152.35
7/31/2026	21.5%	13.3%	$168.66
7/31/2027	20.2%	13.0%	$185.53
Continuing Period	16.2%	13.0%	