

NYSE: FLTX

Current Price: \$38

Intrinsic Value: \$46

Target Price: \$63

Implied Return: 19%

## Recommendation

# BUY

## Company Profile

Fleetmatics Group PLC is a provider of global positioning system (GPS) fleet management solutions for small and medium-sized businesses and enterprises delivered as software-as-a-service (SaaS). Its solutions enable businesses to meet the challenges associated with managing local fleets, and improve the productivity of their mobile workforces, by extracting actionable business intelligence from real-time and historical vehicle and driver behavioral data.

## Key Statistics

Sector: Technology

Industry: Application  
Software

Market cap: \$1.48B

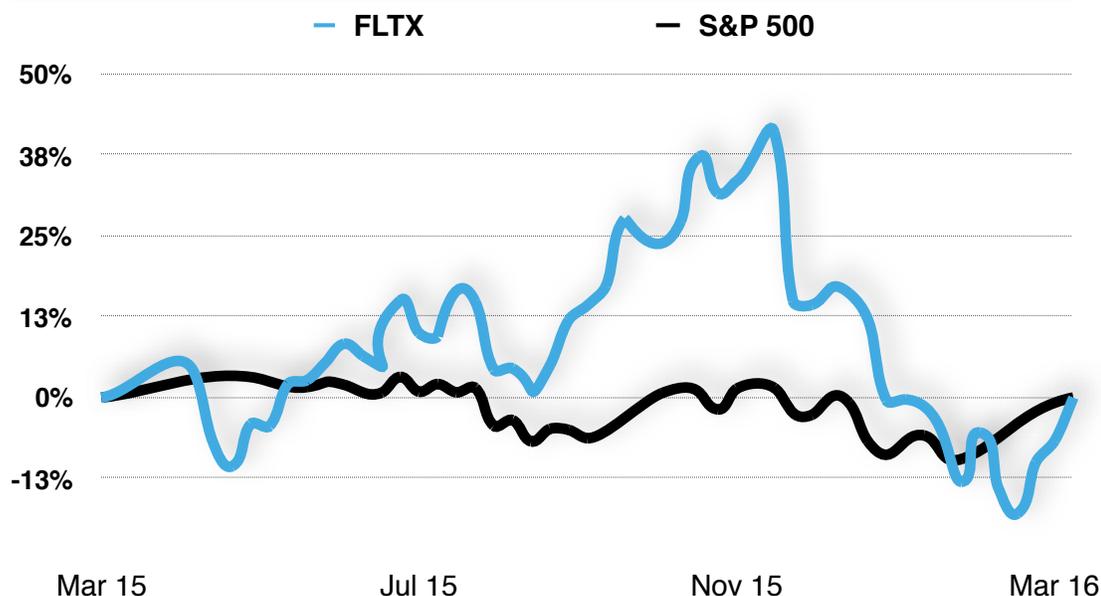
52 week high: \$62.86  
52 week low: \$34.41

Trailing P/E: 38.64  
Forward P/E: 17.70  
P/S: 5.25  
EV/EBITDA: 19.72

Beta: 0.71

ROA: 10.36%

## One Year Price Performance



## Catalysts

- Expansion in Europe
- Incremental progress with new adjacent products

## Investment Thesis

- Recent pullback offers an attractive investment opportunity due to overreaction
- Increased asset efficiency with continued customer acquisition outperformance
- Cost savings serving as a need for many small to mid-sized businesses
- Underestimated addressable and future growth in the market

Recommendation: BUY

## Investment Thesis Breakdown

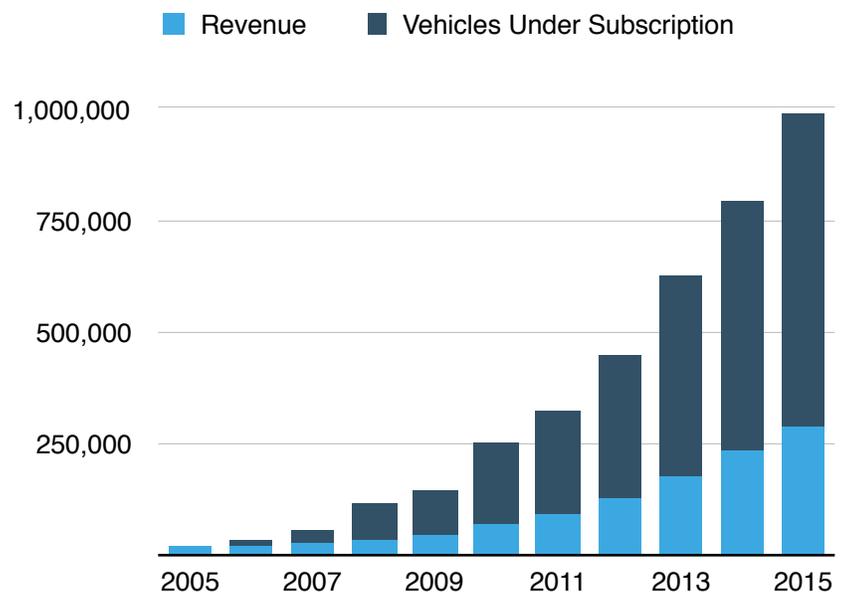
### Recent pullback offers an attractive investment opportunity due to overreaction

The pullback in shares (FLTX: -37.9%) in the first months of 2016 create a buying opportunity. Investors overreacted to Fleetmatics' management announcement that the company will likely be affected by headwinds such as an increase in churn rate and competitive pricing pressure. However, while such headwinds will affect Fleetmatics in the short term they will not be factors by the end of 2016 and throughout the rest of our holding period.

- The increase in churn rate mainly reflects a decrease in fleet size by Fleetmatics customer base which is exposed to the oil and energy industry. However, such base represents only 6% of the its revenue and if oil and energy prices increase there is an opportunity for fleet expansion.
- The competitive pricing pressure announced by the management is mainly related to the enterprise customer base, which is not Fleetmatics main focus. In the small to mid-sized business market there has been no change in the competitive pricing structure, which will allow Fleetmatics to maintain its current customers, remain the market leader and increase its revenue due to new subscriptions.

### Increased asset efficiency with continued customer acquisition outperformance

Fleetmatics is positioned to deliver exceptional returns to its shareholders through high growth in subscription revenue with a relatively stable level of total assets. In 2014 the company grew its subscription revenue and assets by approximately 23% and 14% respectively. In 2016 and beyond we do not expect Fleetmatics to increase their assets in order to compensate for the increase in subscription revenue that is projected to continue. The software assets only will increase with potential acquisitions to further develop both Fleetmatics platform and increase contracts with new and existing customers. While the software assets remain relatively stagnant in the future and the subscription growth continues, the net effect will increase the asset utilization for Fleetmatics and as a result the return to shareholders.



Recommendation: BUY

Investment Thesis Continued

Cost savings serving as a need for many small to mid-sized businesses

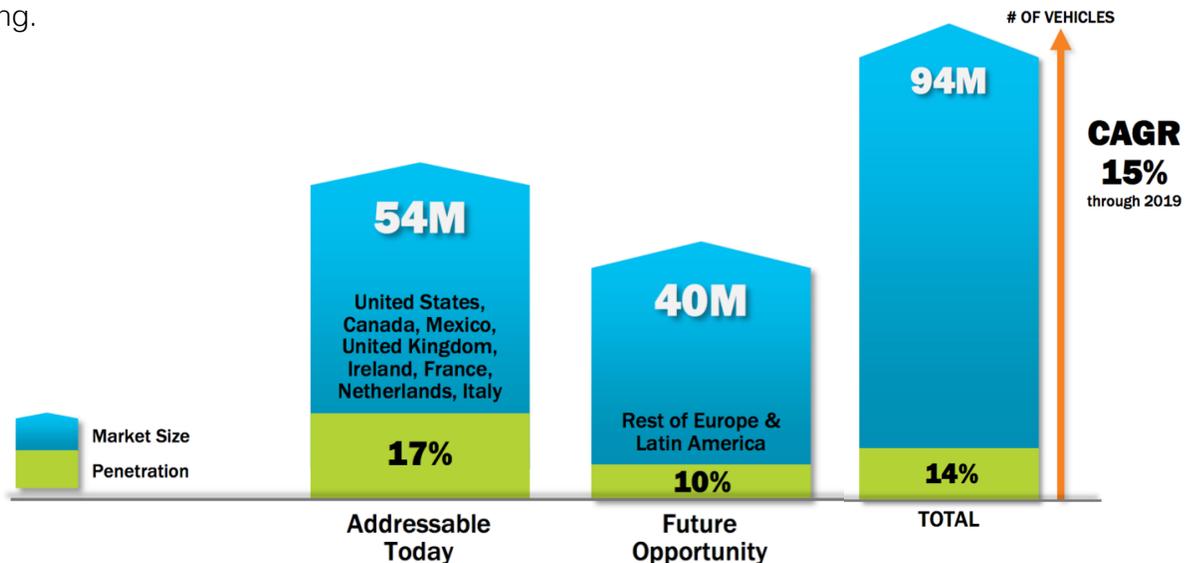
Fleetmatics has deep domain expertise in the small to mid-sized businesses (SMB). This has enabled it to understand the specific needs of SMB fleet operators as they evolve. This serves as an advantage for Fleetmatics as the market is under-penetrated with direct competitors such as Teletrac, FleetBoss, and Masternaut not being specialized in the market.

Many competitors rely on up-front hardware sales to finance their operations. Their business models are a significant investment hurdle for SMB customers. Furthermore, many of these competitive offerings are difficult to deploy and lack other features required by SMB customers.

Fleetmatics solutions are competitively priced and designed to meet the needs of SMB fleet operators. Its solutions are easily and quickly implemented with the assistance of its large network of third-party installers that allow businesses to begin using its solutions shortly after entering into a service contract. Additionally, its solutions feature an intuitive graphical user interface with analytical dashboards, reports and alerts designed specifically for SMB fleet operators, which allows them to use the product without significant training or dedicated staff.

Underestimated addressable and future growth in the market

While the mobile workforce solutions for serviced-based business is an under-penetrated global market, total addressable market and future growth are underestimated. The graph below explains the total addressable market today in the United States, Canada, Mexico, United Kingdom, Ireland, France, Netherlands, and Italy. It also shows the future opportunity in Europe and Latin America, markets where Fleetmatics is expanding.



## Moat & Competitor Analysis

Berg Insight and ABI Research announced Fleetmatics as the market leader in the fleet management technology for small and medium sized businesses.

Fleetmatics has differentiated itself from competitors by creating an easy-to-use platform and its driver data that allows for superior reporting and analytics. Below we have highlighted Fleetmatics differentiating factors that make it a better investment today compared to its competitors:

- Fleetmatics has developed a scalable sales and marketing model that is focused on the efficient generation of a large number of customer leads. Digital advertising along with email marketing and referral leads has provided Fleetmatics with a flow of low-cost qualified leads.
- Its easy-to-install, easy-to-use SaaS-based solutions are offered through a subscription over the Internet and use a multi-tenant architecture, which enables it to run a single instance of its software code, add subscribers with minimal incremental expense and deploy new applications and upgrades quickly and efficiently. Its SaaS model is particularly well suited for SMBs, which typically lack the personnel qualified to support on-premises deployments and generally wish to avoid large up-front software and hardware expenditures.
- Fleetmatics generates billions of data points that provide valuable information regarding its business intelligence offerings and can be used to generate additional revenue streams.
- Fleetmatics provides upgrade options so that customers can better their experience as they have additional needs.

In short, Fleetmatics is more attractive than its competitors because of its low upfront costs and relative ease of use. Below we have highlighted Fleetmatics against its peers.

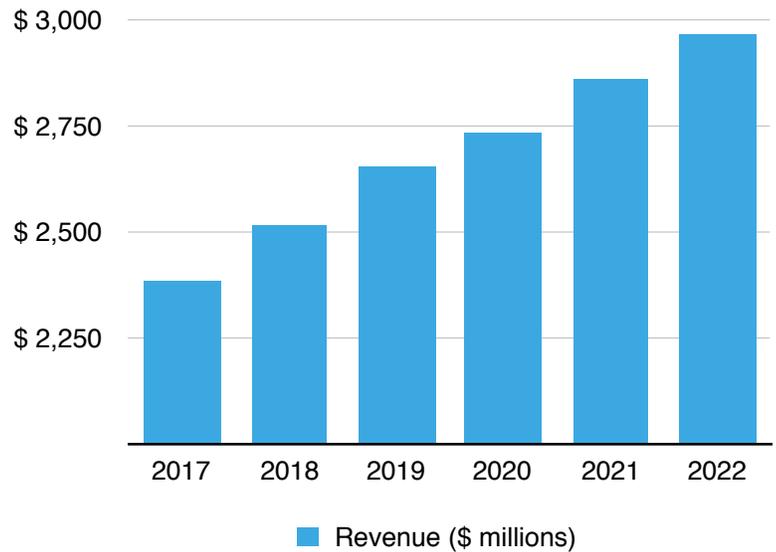
	Fleetmatics	Verizon Networkfleet	Fleetistics	Telogis	NexTraq	Rhino Fleet	CalAmp	Advanced Tracking Technologies	Teletrac	Brickhouse Security
Startup Fee	0	0	\$25/unit	\$30/unit	\$99/unit	Varies	0	\$29.95/unit	0	0
Cancellation Fee	Varies	0	Varies	0	Varies	0	\$175/unit	\$250/unit	0	0
Price Per Vehicle Per Month	\$40.00	\$34.95	\$25.00	\$40.00	\$34.95	\$16.95	\$19.99	\$24.95	\$33.00	\$29.99
Hardware Price Per Vehicle	0	\$295.00	\$99.50	-	\$179.00	\$39.95	\$179.99	\$0.00	\$229.00	\$84.99
Cost of Installation	0	\$65.00	\$0.00	-	\$0.00	-	-	-	\$ 100.00	-
Upgrade options	Yes	No			No				No	
Vehicle hotspots	Yes	No			No				No	

Recommendation: BUY

Industry Analysis

Fleetmatics operates in the fleet telematics systems industry designed around the utilization of GPS and electronic management systems. The solutions of the fleet telematics systems industry strive to track mileage, speed, and route decision making in order to provide operational efficiencies in the freight trucking industry. Specifically the end-clients thrive in local and long-distance freight trucking. In recent years the industry has developed a system for mobile applications, with the ability to track more data and relay important information to end-client trucking operators. Typically these companies are competing for the best manufacturing and designing of vehicle data collection, fleet communication devices, data processing software, and mobile phone applications.

Industry Revenue Forecast



The industry is effectively in a state of consolidation because of the expansion of current companies like Fleetmatics, Omnitracs, and Trimble Navigation. Acquisition or partnership prospects and ability to adapt to rapid change in technology illustrate the fleet telematics systems industry in its contemporary state. Historically the industry players have either acquired competitors to increase its subscriber base or neighboring technology firms acquire fleet management firms to utilize the software on their hardware platform.

As technology changes, fleet telematics changes to adapt to the needs and demands of the freight trucking operators and companies that utilize consistent transportation. The demand for trucking transportation is projected to be relatively stable in the investment horizon while the number of mobile internet connections increases. The net effect is that fleet telematics systems are advancing in mobile software applications. Fleetmatics and its competitors have recently focused resources and efforts on the integration of mobile application of fleet telematics.



## Macroeconomic Factors

### Fluctuations in the Price of Oil:

The price of oil is a major macroeconomic factor that influences the downstream market of freight trucking. Fleet telematics solutions are often highly sought after for large fleet management companies as the cost-savings per vehicle outweighs the cost of the system. The smaller sized companies with less than 15 freight vehicles in service will be affected by the price of oil. However, we expect that

smaller companies address the price of oil as a threat to sustainable profits and demand fleet management software in a market of volatile oil prices. The recent drop in oil prices through Q1 2016 presents a time when smaller fleet sizes (less than 15) may opt out of fleet management systems. As the price of oil stabilizes we expect these smaller companies to return to normalized levels of demand for fleet telematics solutions.

United States and OPEC production levels of oil continue to be strong despite the lower prices of oil in the markets in 2016. While there are significant headwinds in the energy markets, we expect that oil will begin to trend towards normalized levels over the course of the next several years. The world price of crude oil is anticipated to grow at an annualized rate of 9.2% to \$52.60 per barrel over the five years to 2021.

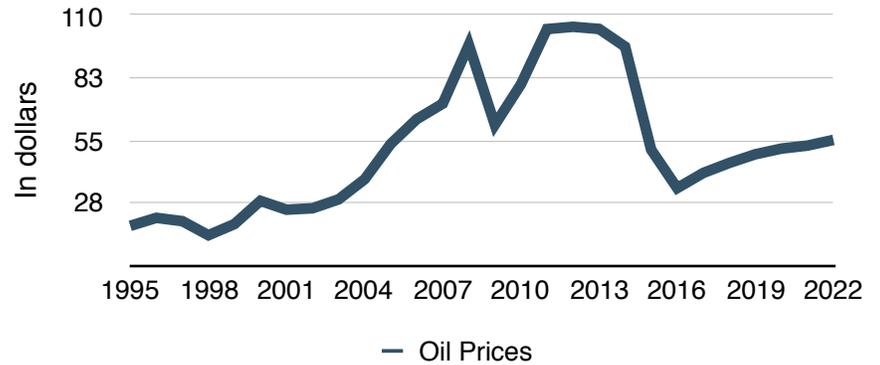
### Expansion to Europe:

The European expansion for fleet telematics serves as a major variable for our growth assumptions used to value Fleetmatics. The success in Europe depends on the expected demand for the European market and the level of economic activity that is expected in the future.

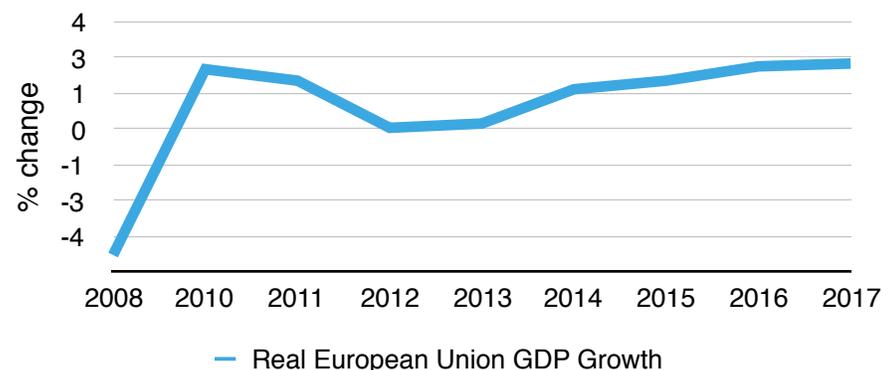
The European fleet management market is expected to grow at 27.93% CAGR through 2015-2019. The forecast for European Union GDP is expected to remain relatively stable at just under 2% CAGR. The net effect suggests the market for fleet telematics is in high demand in Europe and also justified by the projected economic activity.

Small and medium-sized enterprises (SME) in the European Union have had legislation put in place to encourage SME growth through funding from private and governmental entities. Approximately 85% of European jobs are supported by SMEs across Europe and serve as the lifeline for most European countries.

### Oil Projections



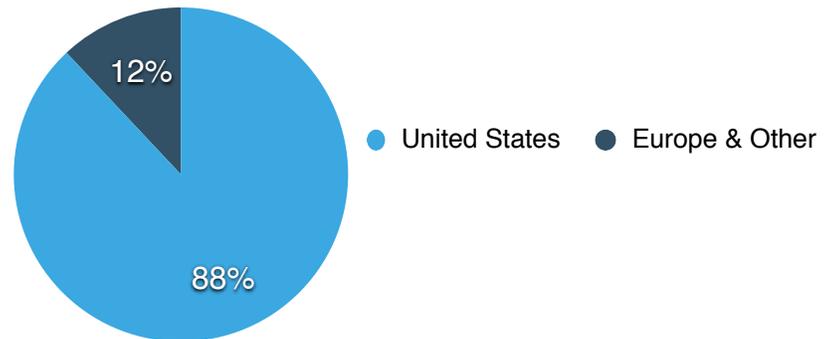
### United Nations (UN) Forecast



## Revenue Breakdown

88% of Fleetmatics revenue comes from the United States, where it is a market leader. The other 12% of revenue comes internationally. Fleetmatics plans to expand in Europe as it presents an opportunity for growth as there is a 40 million market. Going forward we expect a higher portion of revenue coming from Europe and other international markets. Below we have highlighted Fleetmatics recent acquisitions that expanded its presence in Europe:

Revenue breakdown



- In 2013, Fleetmatics acquired Sydney (Australia-based, Connect2Field Holdings Pty Limited), a privately-held provider of cloud-based software solutions for service businesses and their mobile workers. The Connect2Field product became the foundation of Fleetmatics WORK. The acquisition of Connect2Field supported Fleetmatics ability to execute on its vision of enabling field service businesses globally to leverage the prevalence of wireless data and mobile devices and giving them the tools they need to automate, manage, simplify and improve their operations.
- In 2014, Fleetmatics acquired Florence (Italy-based KKT S.r.l.), the privately-held developer of Routist, a SaaS-based, intelligent vehicle routing solution for businesses looking to optimize the utilization of their fleets and mobile resources. Via its sophisticated algorithms, Routist provides optimized route plans for vehicles making multiple stops daily, and provides opportunities for companies to achieve significant cost savings by helping to reduce miles driven, fuel consumption, and vehicle maintenance costs.
- In 2015, Fleetmatics acquired Grenoble (France-based Ornicar SAS, a SaaS-based provider of fleet management solutions. Ornicar added approximately 15,000 vehicles under subscription to Fleetmatics' existing installed base. The acquisition of Ornicar and the French market expertise of the Ornicar team accelerated its presence and brand in a country that is one of the largest market opportunities in Europe.
- In 2015, Fleetmatics acquired Ferrara (Italy-based Visirun S.p.A.), a SaaS-based provider of fleet management solutions. Visirun added approximately 30,000 vehicles under subscription to its existing installed base and added more than 3,000 customers.



Recommendation: BUY

## Business Model

Fleetmatics derives most of its revenues from subscription agreements to its solutions, which typically include the use of its SaaS-based fleet management solution and an in-vehicle device, or simply the SaaS based solution for its service-only customers. The company has a network of installation partners that install its in-vehicle devices and its fleet management offering. The customer contracts are usually 36 months, with enterprise customers having 48 month contracts, and this results in a high degree of predictability of the forward revenue streams, with approximately 90% of revenue visibility entering into each quarter. 20% of Fleetmatics' new subscriptions are sold into its already installed based, which means that customers typically renovate their contracts.

Most of Fleetmatics revenue growth is derived from new subscriptions generated through both its lead-generating Web-based advertising and targeted outbound sales efforts, as well as from the sale of additional vehicle subscriptions to existing customers as their fleet size increases, or request additional features.

Fleetmatics solutions are able to generate a ROI of seven times the initial investment of its clients. As an example given by the company's management, a customer with a fleet size of 16 vehicles will have to deploy an initial investment of \$640 to start using Fleetmatics solutions and a monthly investment of \$40 per vehicle, which will in turn generate savings of \$4,221 monthly. This highlights the economic benefit for customers who want to increase productivity and profit.

## Solutions

**Fleet Management:** Fleetmatics SaaS-based fleet management solution enables businesses to meet the challenges associated with managing their local fleets by extracting actionable business intelligence from vehicle and driver behavioral data. Its highly scalable multi-tenant architecture leverages Global Positioning Satellite data transmitted from in-vehicle devices over cellular networks. Customers remotely access business intelligence reports through our intuitive interface using a standard Web browser or mobile application.



**Field Service Management:** Fleetmatics SaaS-based field service management solutions enable owners to organize their business, improve time management, and simplify the back office processes. Customer information, invoices, inventory and service history are stored in the cloud, which enables its customers to automate their back office activities and reduce the amount of paperwork needed to run their business. This offering is typically sold to SMBs either as a standalone offering or as an expansion to its fleet management solution.



Recommendation: BUY

## Catalysts

### Expansion in Europe

As shown on page three of the report, there is a large addressable market in the United States and Europe that Fleetmatics has the opportunity to capitalize on. Of the 22 million field services in the United States, only 12% have software enabled field service management systems installed. Fleetmatics has a total addressable market of more than \$50 million in the geographical areas where they current operate, in which they hold about a 17% market share. Going forward, as Fleetmatics establishes its new European operations, it will be able to expand outside of France and Italy growing its customer base and addressable market.

### Incremental progress with new adjacent products

Fleetmatics new cloud-based WORK system will experience growing economies of scale as it cross-sells to its current customers. Fleetmatics new field service management system can be used alongside its current fleet management products allowing for seamless integration of scheduling, billing, and payment systems as well as increased monitoring abilities of field trams leading to increased productivity.

## Risks

### Unsuccessful integration of recent mergers

If Fleetmatics is unable to successfully integrate its products with its new foreign clients gained through M&A activity, it could lose its current foreign market share. Europe presents a gain in market share for Fleetmatics as 70% of total trade is transported via roadway.

### Low switching costs

Due to Fleetmatics mobile-based business model, switching costs for competitors are low and if the company is not able to maintain its cost advantage it could lose market share. One of the advantages of using Fleetmatics GPS tracking services is low startup cost for its customers because Fleetmatics provides and installs the GPS systems into customer's vehicles at no charge, unlike larger competitors such as Verizon Fleet.

### Small business risk

The majority of Fleetmatics' business comes from SMBs that have a higher failure rate in uncertain markets. Going forward, a market downturn in the United States or in Europe could materially affect our thesis by both lowering the customer base and a shrinking addressable market. However, Fleetmatics value adding services provide a large cost advantage that companies will continue to use its services even in uncertain markets.

Recommendation: BUY

## Valuation

### EV/EBITDA Model

EV/EBITDA Model															
	2016			2017			2018			2019			2020		
	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull
Revenue	327,475.15	341,713.20	355,951.25	386,135.92	403,221.58	420,307.24	455,640.38	475,801.46	495,962.54	523,381.61	547,171.68	570,961.75	601,888.85	629,247.43	656,606.01
Growth	15.00%	20.00%	25.00%	13.00%	18.00%	23.00%	13.00%	18.00%	23.00%	10.00%	15.00%	20.00%	10.00%	15.00%	20.00%
Operating income	29,536.78	47,906.65	67,700.32	36,098.57	57,856.93	81,323.86	42,596.31	68,271.18	95,962.15	49,452.59	79,059.02	111,044.46	57,472.37	91,547.13	128,357.74
Margin	9.02%	14.02%	19.02%	9.35%	14.35%	19.35%	9.35%	14.35%	19.35%	9.45%	14.45%	19.45%	9.55%	14.55%	19.55%
Dep	28,571.14	28,571.14	28,571.14	33,773.08	33,773.08	33,773.08	39,976.75	39,976.75	39,976.75	47,124.87	47,124.87	47,124.87	55,418.73	55,418.73	55,418.73
EBITDA	58,107.92	76,477.78	96,271.46	69,871.65	91,630.01	115,096.94	82,573.06	108,247.92	135,938.90	96,577.47	126,183.90	158,169.33	112,891.10	146,965.85	183,776.46
EV/EBITDA multiple	12.00	14.00	16.00	11.80	13.80	15.80	11.50	13.50	15.50	11.50	13.50	15.50	11.40	13.40	15.40
Enterprise value	697,295.00	1,070,688.98	1,540,343.31	824,485.48	1,264,494.16	1,818,531.62	949,590.16	1,461,346.96	2,107,052.89	1,110,640.89	1,703,482.62	2,451,624.68	1,286,958.53	1,969,342.41	2,830,157.52
Less debt	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00	23,033.00
Plus cash	234,014.89	234,014.89	234,014.89	292,259.57	292,259.57	292,259.57	361,816.30	361,816.30	361,816.30	443,486.62	443,486.62	443,486.62	538,338.57	538,338.57	538,338.57
Market cap	908,276.88	1,281,670.87	1,751,325.20	1,093,712.05	1,533,720.72	2,087,758.19	1,288,373.47	1,800,130.26	2,445,836.20	1,531,094.51	2,123,936.24	2,872,078.30	1,802,264.11	2,484,647.98	3,345,463.09
Shares outstanding	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13	39,328.13
Equity value/share	23.09	32.59	44.53	27.81	39.00	53.09	32.76	45.77	62.19	38.93	54.01	73.03	45.83	63.18	85.07

We utilized multiple valuation methods to arrive at a target price for 2020. Our first model is an EV/EBITDA multiple model. Fleetmatics currently trades at an EV/EBITDA multiple below its three year historical average of 20 (see appendices page 15). We have the multiple decreasing slightly over our investment horizon as the market has anticipated expected growth prospects in Europe. Additionally, the equity markets at large are cautious in the overarching valuations and we expect this to be a factor in the total enterprise value (TEV) of Fleetmatics in our investment horizon.. At 13.4 times EBITDA in 2020, Fleetmatics will have a market cap of roughly \$2.5 billion and an equity value per share of \$63.

### EV/EBITDA Multiple Price Target 2020 Analysis

		EBITDA						
		131,965.85	136,965.85	141,965.85	146,965.85	151,965.85	156,965.85	161,965.85
EV/EBITDA multiple	10.40	48.00	49.32	50.64	51.97	53.29	54.61	55.93
	11.40	51.36	52.80	54.25	55.70	57.15	58.60	60.05
	12.40	54.71	56.29	57.86	59.44	61.02	62.59	64.17
	13.40	58.07	59.77	61.47	63.18	64.88	66.58	68.29
	14.40	61.42	63.25	65.08	66.91	68.75	70.58	72.41
	15.40	64.78	66.74	68.69	70.65	72.61	74.57	76.52
	16.40	68.13	70.22	72.30	74.39	76.47	78.56	80.64

We conducted a sensitivity analysis on the multiple to account for different scenarios that Fleetmatics could face in 2020, such as pricing pressures from competitors or failed expansion in Europe.

Recommendation: BUY

## P/E Model

Using three different P/E multiple modes, we gauged the probable returns for Fleetmatics over our five year investment horizon.

Assuming a constant multiple and base case earnings growths, we expect a price target of \$73.12

Price/Earnings Constant Model					
	2016	2017	2018	2019	2020
EPS	1.20	1.45	1.71	1.98	2.29
P/E	31.91	31.91	31.91	31.91	31.91
Price	38.35	46.25	54.58	63.17	73.12

A bull case scenario involves further acquisitions in international markets to fuel growth, giving expectations for a higher multiple as Fleetmatics is focusing on increasing its international presence. If management executes on strategic acquisition successfully, we expect a 2020 price target of \$79.15

Price/Earnings Expansion Model					
	2016	2017	2018	2019	2020
EPS	1.20	1.45	1.71	1.98	2.29
P/E	31.91	32.55	33.20	33.86	34.54
Price	38.35	47.18	56.78	67.04	79.15

Our analysis suggest that Fleetmatics offers a favorable risk-reward investment, with a bear case assuming a price target of \$63.86

Price/Earnings Contraction Model					
	2016	2017	2018	2019	2020
EPS	1.20	1.45	1.71	1.98	2.29
P/E	31.91	28.72	28.43	28.15	27.87
Price	38.35	41.63	48.63	55.72	63.86

## P/E 2020 Price Target Scensitivity Analysis

		EPS						
		1.54	1.79	2.04	2.29	2.54	2.79	3.04
P/E multiple	30.41	46.88	54.48	62.08	69.68	77.29	84.89	92.49
	30.91	47.65	55.38	63.10	70.83	78.56	86.29	94.01
	31.41	48.42	56.27	64.12	71.98	79.83	87.68	95.53
	31.91	49.19	57.17	65.14	<b>73.12</b>	81.10	89.08	97.05
	32.41	49.96	58.06	66.17	74.27	82.37	90.47	98.58
	32.91	50.73	58.96	67.19	75.41	83.64	91.87	100.10
	33.41	51.50	59.85	68.21	76.56	84.91	93.26	101.62

A sensitivity analysis was conducted on the multiple in order to account for a variety of scenarios the firm could face through 2020. Our estimated EPS coupled with an expected historical multiple provide a comfortable value proposition.

Recommendation: BUY

### Free Cash Flow to Equity Model

Free Cash Flow to Equity Model						
	2016	2017	2018	2019	2020	Terminal Value
EPS	\$ 1.20	\$ 1.45	\$ 1.71	\$ 1.98	\$ 2.29	\$ 63.18
Depreciation/shares	\$ 0.73	\$ 0.86	\$ 1.02	\$ 1.20	\$ 1.41	
Capex/shares	\$ 0.25	\$ 0.53	\$ 0.63	\$ 0.73	\$ 0.84	
NWC/shares	\$ 1.35	\$ 1.38	\$ 1.64	\$ 1.95	\$ 2.27	
FCFE	\$ 0.33	\$ 0.40	\$ 0.45	\$ 0.50	\$ 0.59	
PV of FCFE	\$ 0.30	\$ 0.37	\$ 0.38	\$ 0.38	\$ 45.18	
<b>Intrinsic value</b>	<b>\$ 46.61</b>					
<b>Implied return</b>	<b>19.52%</b>					
Market price	\$ 39.00					

Discount Rate	
Beta	1.1
MRP	6.50%
RFR	1.95%
CAPM	9.10%

We utilized a free cash flow to equity model to estimate Fleetmatics intrinsic value, deriving a terminal value of \$63.18 from our EV/EBITDA model. The model implies the stock is roughly 19% undervalued in our base case scenario. The model has implied assumptions based on our expectations of the firm, its competitors, and the industry landscape

- Top line growth will continue as Fleetmatics obtain additional subscriptions with its expansion in Europe and Latin America.
- Capital expenditures will increase as Fleetmatics continue to acquire well known companies with market expertise that will accelerate its presence and brand.
- Using a 60-month regression, we arrived at a beta of 1.1 that was used to calculate an appropriate discount rate

FCFE Model Sensitivity Analysis								
		Discount rate						
		10.60%	10.10%	9.60%	9.10%	8.60%	8.10%	7.60%
Terminal value	54.18	38.06	38.72	39.40	40.09	40.80	41.52	42.27
	57.18	40.06	40.76	41.47	42.21	42.95	43.72	44.50
	60.18	42.07	42.80	43.55	44.32	45.11	45.92	46.74
	63.18	44.07	44.84	45.63	46.61	47.27	48.11	48.98
	66.18	46.08	46.88	47.71	48.56	49.42	50.31	51.22
	69.18	48.08	48.93	49.79	50.68	51.58	52.51	53.46
	72.18	50.09	50.97	51.87	52.79	53.74	54.71	55.69

Recommendation: BUY

## Appendices

Income Statement								
	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Subscription revenue	\$ 177,350	\$ 231,581	\$ 284,761	\$ 341,713	\$ 403,222	\$ 475,801	\$ 547,172	\$ 629,247
Cost of subscription revenue	\$ 43,858	\$ 57,505	\$ 73,061	\$ 86,795	\$ 100,805	\$ 118,950	\$ 135,699	\$ 155,424
<b>Gross profit</b>	<b>\$ 133,492</b>	<b>\$ 174,076</b>	<b>\$ 211,700</b>	<b>\$ 254,918</b>	<b>\$ 302,416</b>	<b>\$ 356,851</b>	<b>\$ 411,473</b>	<b>\$ 473,823</b>
<b>Operating expenses:</b>								
Sales and marketing	\$ 56,589	\$ 78,885	\$ 96,908	\$ 116,524	\$ 137,499	\$ 162,248	\$ 186,586	\$ 214,573
Research and development	\$ 11,036	\$ 17,090	\$ 21,440	\$ 25,728	\$ 30,645	\$ 36,161	\$ 42,132	\$ 48,452
General and administrative	\$ 36,375	\$ 42,765	\$ 53,966	\$ 64,759	\$ 76,416	\$ 90,171	\$ 103,696	\$ 119,251
<b>Total operating expenses</b>	<b>\$ 104,000</b>	<b>\$ 138,740</b>	<b>\$ 172,314</b>	<b>\$ 207,011</b>	<b>\$ 244,559</b>	<b>\$ 288,580</b>	<b>\$ 332,414</b>	<b>\$ 382,276</b>
<b>Income from operations</b>	<b>\$ 29,492</b>	<b>\$ 35,336</b>	<b>\$ 39,386</b>	<b>\$ 47,907</b>	<b>\$ 57,857</b>	<b>\$ 68,271</b>	<b>\$ 79,059</b>	<b>\$ 91,547</b>
Interest income (expense), net	\$ 1,999	\$ 704	\$ 897	\$ 1,076	\$ 1,270	\$ 1,499	\$ 1,724	\$ 1,982
Foreign currency transaction gain (loss), net	\$ 1,139	\$ 832	\$ 3,538	\$ 4,246	\$ 5,010	\$ 5,912	\$ 6,798	\$ 7,818
Loss on extinguishment of debt			\$ 107					
Other income (expense), net		\$ 1	\$ 41	\$ 49	\$ 58	\$ 69	\$ 79	\$ 91
<b>Income before income taxes</b>	<b>\$ 26,354</b>	<b>\$ 35,463</b>	<b>\$ 41,879</b>	<b>\$ 51,027</b>	<b>\$ 61,539</b>	<b>\$ 72,615</b>	<b>\$ 84,055</b>	<b>\$ 97,292</b>
Provision for (benefit from) income taxes	\$ 4,103	\$ 7,988	\$ 3,087	\$ 3,761	\$ 4,536	\$ 5,353	\$ 6,196	\$ 7,172
<b>Net income</b>	<b>\$ 30,457</b>	<b>\$ 27,475</b>	<b>\$ 38,792</b>	<b>\$ 47,265</b>	<b>\$ 57,002</b>	<b>\$ 67,263</b>	<b>\$ 77,859</b>	<b>\$ 90,121</b>
<b>Net income per share:</b>								
Basic	\$ 0.85	\$ 0.73	\$ 1.01					
<b>Diluted</b>	<b>\$ 0.82</b>	<b>\$ 0.71</b>	<b>\$ 0.99</b>	<b>\$ 1.20</b>	<b>\$ 1.45</b>	<b>\$ 1.71</b>	<b>\$ 1.98</b>	<b>\$ 2.29</b>
<b>Weighted average shares outstanding:</b>								
Basic	35,722,300	37,473,442	38,358,072	38,358,072	38,358,072	38,358,072	38,358,072	38,358,072
Diluted	37,139,839	38,551,860	39,328,127	39,328	39,328	39,328	39,328	39,328

Common Size Income Statement								
	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Subscription revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of subscription revenue	24.73%	24.83%	25.66%	25.40%	25.00%	25.00%	24.80%	24.70%
<b>Gross profit</b>	<b>75.27%</b>	<b>75.17%</b>	<b>74.34%</b>	<b>74.60%</b>	<b>75.00%</b>	<b>75.00%</b>	<b>75.20%</b>	<b>75.30%</b>
<b>Operating expenses:</b>								
Sales and marketing	31.91%	34.06%	34.03%	34.10%	34.10%	34.10%	34.10%	34.10%
Research and development	6.22%	7.38%	7.53%	7.53%	7.60%	7.60%	7.70%	7.70%
General and administrative	20.51%	18.47%	18.95%	18.95%	18.95%	18.95%	18.95%	18.95%
<b>Total operating expenses</b>	<b>58.64%</b>	<b>59.91%</b>	<b>60.51%</b>	<b>60.58%</b>	<b>60.65%</b>	<b>60.65%</b>	<b>60.75%</b>	<b>60.75%</b>
<b>Income from operations</b>	<b>16.63%</b>	<b>15.26%</b>	<b>13.83%</b>	<b>14.02%</b>	<b>14.35%</b>	<b>14.35%</b>	<b>14.45%</b>	<b>14.55%</b>
Interest income (expense), net	-1.13%	-0.30%	-0.32%	-0.32%	-0.32%	-0.32%	-0.32%	-0.32%
Foreign currency transaction gain (loss), net	-0.64%	0.36%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%
Loss on extinguishment of debt	0.00%	0.00%	-0.04%	0.00%	0.00%	0.00%	0.00%	0.00%
Other income (expense), net	0.00%	0.00%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%
<b>Income before income taxes</b>	<b>14.86%</b>	<b>15.31%</b>	<b>14.71%</b>	<b>14.93%</b>	<b>15.26%</b>	<b>15.26%</b>	<b>15.36%</b>	<b>15.46%</b>
Provision for (benefit from) income taxes	-2.31%	3.45%	1.08%	1.10%	1.12%	1.12%	1.13%	1.14%
<b>Net income</b>	<b>17.17%</b>	<b>11.86%</b>	<b>13.62%</b>	<b>13.83%</b>	<b>14.14%</b>	<b>14.14%</b>	<b>14.23%</b>	<b>14.32%</b>

Recommendation: BUY

## Appendices Continued

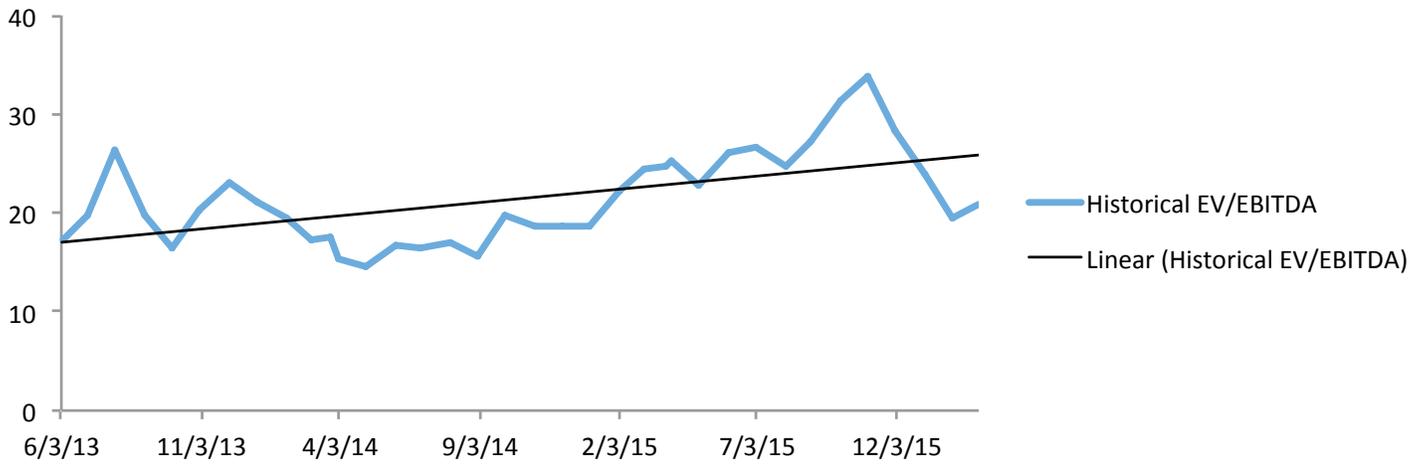
Balance Sheet							
	2014	2015	2016E	2017E	2018E	2019E	2020E
<b>Current assets:</b>							
Cash	\$ 175,400	\$ 177,083	\$ 234,015	\$ 292,260	\$ 361,816	\$ 443,487	\$ 538,339
Restricted cash		\$ 135	\$ 135	\$ 135	\$ 135	\$ 135	\$ 135
Accounts receivable	\$ 16,876	\$ 20,971	\$ 25,165	\$ 29,695	\$ 35,040	\$ 40,296	\$ 46,340
Deferred tax assets	\$ 7,458		\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Prepaid expenses and other current assets	\$ 13,379	\$ 14,430	\$ 17,316	\$ 20,433	\$ 24,111	\$ 27,727	\$ 31,887
<b>Total current assets</b>	<b>\$ 213,113</b>	<b>\$ 212,619</b>	<b>\$ 276,631</b>	<b>\$ 342,522</b>	<b>\$ 421,102</b>	<b>\$ 511,645</b>	<b>\$ 616,701</b>
Property and equipment, net	\$ 79,734	\$ 104,506	\$ 114,285	\$ 135,092	\$ 159,907	\$ 188,499	\$ 221,675
Goodwill	\$ 30,207	\$ 54,178	\$ 54,178	\$ 54,178	\$ 54,178	\$ 54,178	\$ 54,178
Intangible assets, net	\$ 6,460	\$ 14,889	\$ 14,889	\$ 14,889	\$ 14,889	\$ 14,889	\$ 14,889
Deferred tax assets, net	\$ 6,353	\$ 6,573	\$ 6,573	\$ 6,573	\$ 6,573	\$ 6,573	\$ 6,573
Other assets	\$ 10,829	\$ 9,630	\$ 9,630	\$ 9,630	\$ 9,630	\$ 9,630	\$ 9,630
<b>Total assets</b>	<b>\$ 346,696</b>	<b>\$ 402,395</b>	<b>\$ 476,186</b>	<b>\$ 562,885</b>	<b>\$ 666,279</b>	<b>\$ 785,415</b>	<b>\$ 923,645</b>
<b>Current liabilities:</b>							
Accounts payable	\$ 8,001	\$ 7,853	\$ 9,424	\$ 11,120	\$ 13,121	\$ 15,090	\$ 17,353
Accrued expenses and other current liabilities	\$ 24,307	\$ 24,447	\$ 29,336	\$ 34,617	\$ 40,848	\$ 46,975	\$ 54,021
Deferred revenue (current)	\$ 22,592	\$ 22,339	\$ 26,807	\$ 31,632	\$ 37,326	\$ 42,925	\$ 49,363
<b>Total current liabilities</b>	<b>\$ 54,900</b>	<b>\$ 54,639</b>	<b>\$ 65,567</b>	<b>\$ 77,369</b>	<b>\$ 91,295</b>	<b>\$ 104,989</b>	<b>\$ 120,738</b>
External funds needed			13,259	28,629	47,855	72,507	101,499
Deferred revenue (non-current)	\$ 10,241	\$ 7,951	\$ 9,541	\$ 11,259	\$ 13,285	\$ 15,278	\$ 17,570
Accrued income taxes	\$ 3,164	\$ 3,739	\$ 4,487	\$ 5,294	\$ 6,247	\$ 7,185	\$ 8,262
Long-term debt	\$ 23,750	\$ 23,033	\$ 23,033	\$ 23,033	\$ 23,033	\$ 23,033	\$ 23,033
Other liabilities	\$ 2,356	\$ 10,856	\$ 10,856	\$ 10,856	\$ 10,856	\$ 10,856	\$ 10,856
<b>Total liabilities</b>	<b>\$ 94,411</b>	<b>\$ 100,218</b>	<b>\$ 126,743</b>	<b>\$ 156,440</b>	<b>\$ 192,572</b>	<b>\$ 233,848</b>	<b>\$ 281,958</b>
<b>Shareholders' equity:</b>							
Common shares, value	\$ 725	\$ 739	\$ 739	\$ 739	\$ 739	\$ 739	\$ 739
Additional paid-in capital	\$ 302,881	\$ 320,670	\$ 320,670	\$ 320,670	\$ 320,670	\$ 320,670	\$ 320,670
Accumulated other comprehensive loss	\$ 970	\$ 7,673	\$ 7,673	\$ 7,673	\$ 7,673	\$ 7,673	\$ 7,673
Retained Earnings	\$ 50,351	\$ 11,559	\$ 35,706	\$ 92,709	\$ 159,972	\$ 237,831	\$ 327,951
<b>Total shareholders' equity</b>	<b>\$ 252,285</b>	<b>\$ 302,177</b>	<b>\$ 349,442</b>	<b>\$ 406,445</b>	<b>\$ 473,708</b>	<b>\$ 551,567</b>	<b>\$ 641,687</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 346,696</b>	<b>\$ 402,395</b>	<b>\$ 476,186</b>	<b>\$ 562,885</b>	<b>\$ 666,279</b>	<b>\$ 785,415</b>	<b>\$ 923,645</b>

DuPont Analysis						
	2015	2016	2017	2018	2019	2020
Net income	38,792.00	47,265.35	57,002.38	67,262.81	77,859.07	90,120.79
Sales	284,761.00	341,713.20	403,221.58	475,801.46	547,171.68	629,247.43
<b>Profit margin</b>	<b>13.62%</b>	<b>13.83%</b>	<b>14.14%</b>	<b>14.14%</b>	<b>14.23%</b>	<b>14.32%</b>
Sales	284,761.00	341,713.20	403,221.58	475,801.46	547,171.68	629,247.43
Average total assets	374,545.50	439,290.32	519,535.18	614,581.91	725,846.84	854,530.00
<b>Asset turnover</b>	<b>0.76</b>	<b>0.78</b>	<b>0.78</b>	<b>0.77</b>	<b>0.75</b>	<b>0.74</b>
Average total assets	374,545.50	439,290.32	519,535.18	614,581.91	725,846.84	854,530.00
Average equity	277,231.00	325,809.68	377,943.54	440,076.13	512,637.07	596,627.00
<b>Equity multiplier</b>	<b>1.35</b>	<b>1.35</b>	<b>1.37</b>	<b>1.40</b>	<b>1.42</b>	<b>1.43</b>
<b>ROE</b>	<b>13.99%</b>	<b>14.51%</b>	<b>15.08%</b>	<b>15.28%</b>	<b>15.19%</b>	<b>15.11%</b>
Net income	38,792.00	47,265.35	57,002.38	67,262.81	77,859.07	90,120.79
Total assets	402,395.00	476,185.64	562,884.71	666,279.12	785,414.56	923,645.44
<b>ROA</b>	<b>9.64%</b>	<b>9.93%</b>	<b>10.13%</b>	<b>10.10%</b>	<b>9.91%</b>	<b>9.76%</b>

Recommendation: BUY

Appendices Continued

### Historical EV/EBITDA



### Historical PE

