

MuleSoft (NYSE: MULE)
Price Target (24 months): \$38 / +58%

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Company overview

Company Overview

- Based in San Francisco, CA, MuleSoft is a fast-growing enterprise API integration software company, connecting applications, data and devices
- MULE is a leader in integration platform as a service (iPaaS) and Full Cycle API Management
- The company is projected to grow 55% in 2017
- MULE became publicly listed in March 2017

Key Statistics

Market Cap and Enterprise Value (US\$MM)

Market Capitalization	\$3,060
- Cash & ST	(182)
+ Debt	-
= Enterprise Value	\$2,878

Estimated Multiples (2018E)

2018E EV / Revenue	6.9x
2018E EV / Billings	5.7x
2018E EV / FCF	NM

Summary Financials (\$M)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Total Billings	77	146	241	361	508	652
% Growth y/y		89%	65%	50%	41%	28%
Total Revenue	58	110	188	292	423	542
% Growth y/y	65%	91%	70%	55%	45%	28%
Subscription revenue	48	88	153	235	351	460
% Growth y/y	62%	82%	73%	54%	49%	31%
Gross Profit	41	79	140	215	313	409
% Gross Margin	71%	71%	74%	74%	74%	76%
Operating Income	(45)	(52)	(32)	(51)	(49)	(31)
Pro forma EPS (fully-diluted)	(\$2.98)	(\$2.89)	(\$0.30)	(\$0.42)	(\$0.41)	(\$0.26)
Levered Free Cash Flow	(42)	(49)	(7)	(8)	(8)	43
Unlevered FCF/share	(\$2.68)	(\$2.62)	(\$0.07)	(\$0.07)	(\$0.05)	\$0.33

Business model overview

Business Model



Subscription Model Recurring, subscription-based, one-year upfront



Priced on a capacity basis – revenue grows with more use cases

- freemium open-sourced product
- subscription enterprise product with more features for production (think AWS)

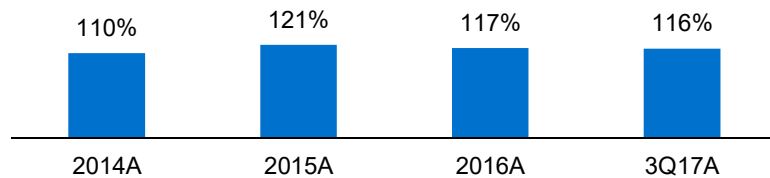


Flexible deployment: cloud, on-premises, or in hybrid environments



Professional services focused on customer success

Dollar-based net retention rate

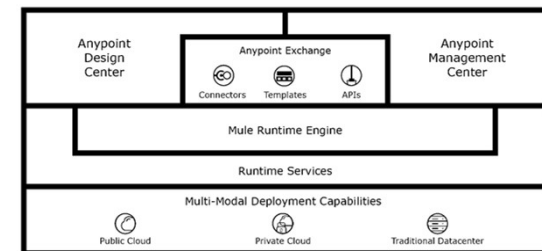


MuleSoft's Anypoint Platform

MuleSoft's Anypoint Platform consists of the following components:

- **Mule Enterprise Service Bus (Mule ESB)** is the runtime engine of Anypoint Platform, enterprise service bus (ESB) and integration platform
- **CloudHub** is the platform as a service (PaaS) component of Anypoint Platform that enables customers to connect applications, data, and devices within MULE's cloud environment
- **API Manager** provides full-lifecycle API management

MuleSoft
Anypoint
Platform



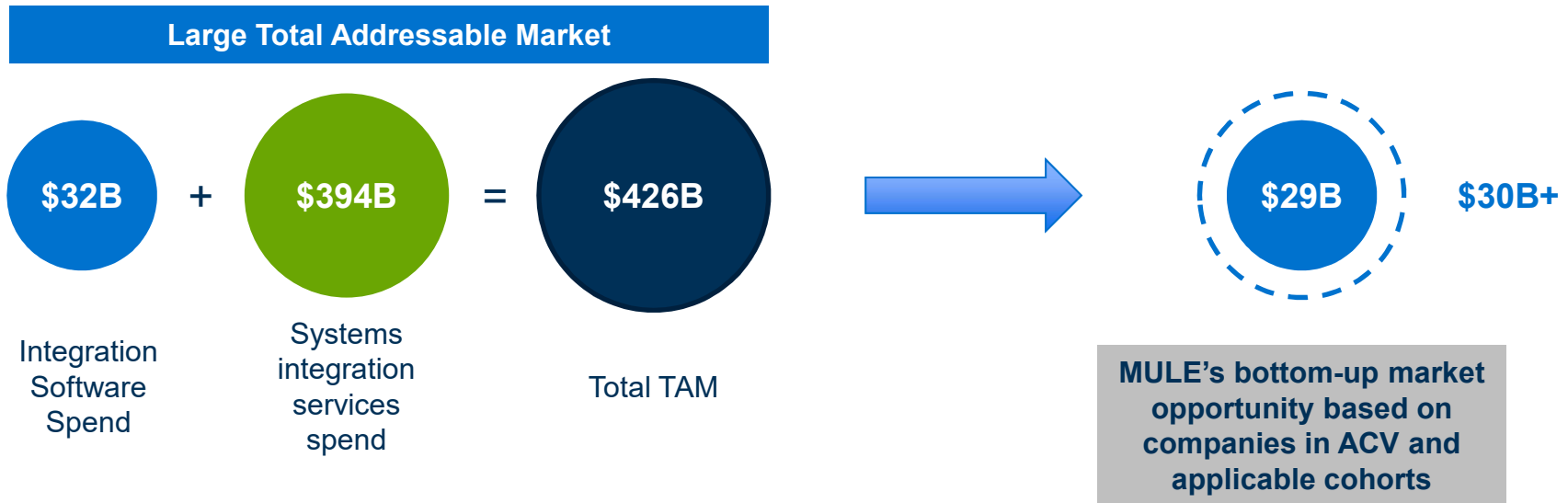
The key feature of the business model is a “land and expand” sales strategy. Once MuleSoft is integrated in a customer’s digital environment, the customer increases spend as more capacity is needed

Source: MuleSoft S-1, Company Presentations

Investment thesis

- 1 MULE has a **large \$400B TAM** and is a key beneficiary of the **secular tailwinds** of big data analytics, digital transformations (social + mobile) and shift to cloud architectures
- 2 MULE offers a **differentiated, sticky product** capitalizing on the open source advantage
- 3 MULE has an **effective and scalable sales organization** that will accelerate billings and revenue growth

1 IT Integration presents a very large market opportunity



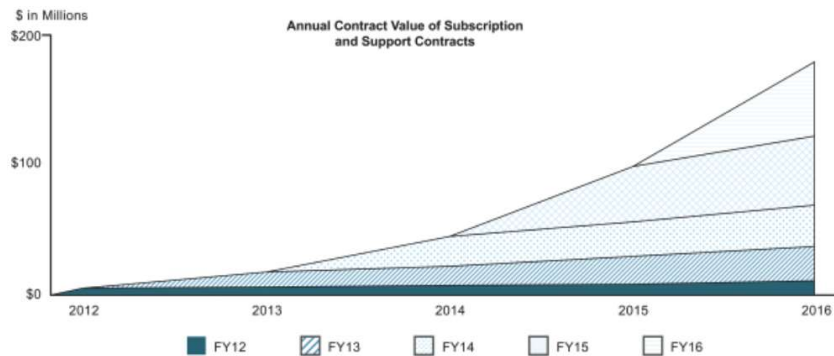
Source: Forrester Research

Source: Q1 2017 Earnings Transcript

- Historically, customers have paid 5x the cost of software just to implement it. With MuleSoft, this cost is anticipated to be much less
- While MuleSoft is not specifically targeting the \$394B systems integration services market, we believe MuleSoft's platform significantly reduces the need for services work, which should further increase IT budget for software spend

2 Mule's sticky product increasing customer spend over the LTV

MULE Cohort's continue to spend



- The fiscal year 2012 cohort increased their ACV from \$4.5M in FY2012 to \$11.2M in FY2016, representing a multiple of **2.5x** and a **compound annual growth rate in excess of 25%**
- ACV from customers that **represented more than \$1.0M in ACV in 2016** has **increased to an average of 6.0x** the ACV of such customers' initial purchases made in 2012 or later

2.5x

6.0x

Source: MuleSoft S-1

Primary sources support MuleSoft's technical advantage and differentiation

Open Source is an advantage

"MULE is open source. Integration is a long-term solution. Open source allows a lot of community help to solve long-term problems. MULE has a freemium channel and clear boundaries for commercial, but also a long-term moat and competitive advantage. How can you undercut something free and so widely adopted?"

"Open source strategy is a big mitigant. Integration of all applications. On day one, MULE can integrate with everyone."

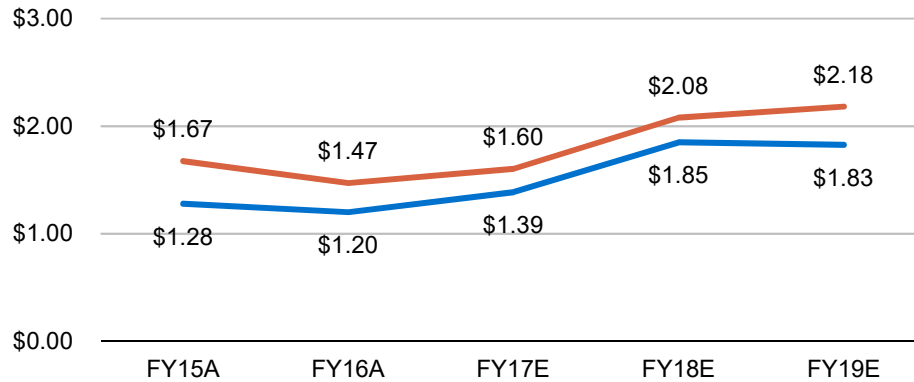
Mitigate Disintermediation (raison d'être)

"Talk to big tech companies, and they use MuleSoft – Cisco, Microsoft, etc. They can do it themselves, but they pay for MULE. Yes, they can build it, but it's not their primary business. It's a cost center and that makes a build difference. There's a build vs buy decision. Infrastructure changes in the agile environment and it would require \$13M of annual budget and engineers for maintenance of integration."

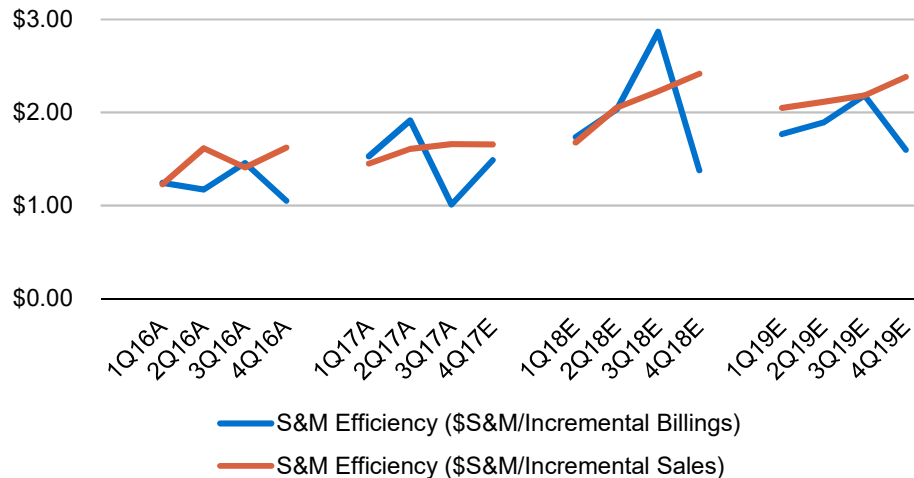
– Investor at New Enterprise Associates (NEA), Former Board Member of MuleSoft

3 Sales efficiency provides tailwinds to FCF cash flow

Sales & Marketing Efficiency (Annual)



Sales & Marketing Efficiency (Quarterly)



MULE's sales org is industry agnostic

MULE Sales organization is broken into three main segments:

- **1. Strategic** – Fortune 100 companies (10 companies currently)
- **2. Enterprise** – Companies with between \$500M - \$4B in revenue
- **3. Commercial** – Companies with under \$500M in revenue

The larger companies have longer sales cycles but larger ACV contracts (\$1M+)

Consensus has estimates of \$2.08 and \$2.24 for 2018E and 2019E respectively. We don't believe the company warrants such a steep deceleration in S&M efficiency

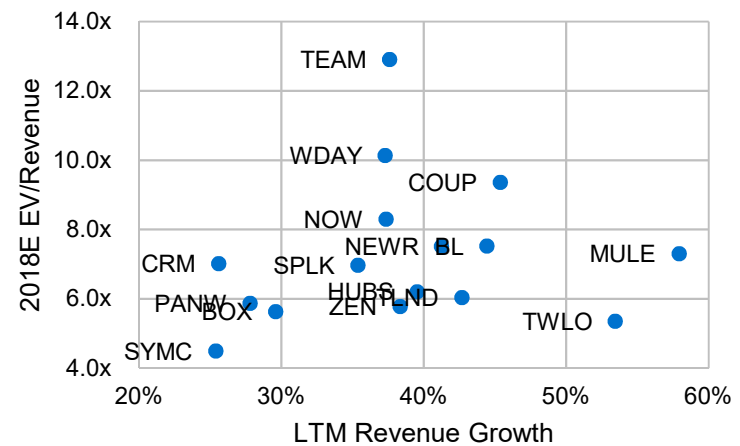
MULE's valuation depends on top-line metrics

Valuation Summary

- We looked at two primary valuation metrics: DCF and EV/Sales
- Layering in our assumption, we estimate a target price of \$38/share (60% return on today's share price)
- The street assumes a CAGR of 33% or below for 2017 to 2019 even though the company hasn't shared 2018 or 2019 guidance. We think this is low.

Price Per Share Target Price			
	Weight	12-month Price	24-month Price
DCF Value	50.0%	\$16.85	\$18.78
EV/Sales Value	50.0%	\$15.99	\$18.84
Price Target		\$32.84	\$37.62
<i>Upside / (Downside)</i>		<i>38%</i>	<i>59%</i>

Future growth rate will inform Market Multiple



MULE grew 50%+ in 2016. There are approximately 3 other SaaS companies that maintained 30%+ growth after reaching \$200M revenues. (Salesforce, Workday, and ServiceNow)

Target Price

EV/Sales Multiple

		EV/Sales Multiple				
		3.0x	5.0x	7.0x	9.0x	11.0x
17-19E Sales CAGR	27%	\$26	\$31	\$35	\$40	\$45
	32%	\$26	\$31	\$36	\$41	\$46
	37%	\$27	\$32	\$38	\$43	\$48
	42%	\$27	\$33	\$39	\$45	\$50
	47%	\$28	\$34	\$40	\$46	\$53

Sales Efficiency

		2019E Sales Efficiency				
		\$1.88	\$2.03	\$2.18	\$2.33	\$2.48
17-19E Sales CAGR	27%	\$36	\$43	\$35	\$33	\$32
	32%	\$37	\$41	\$36	\$34	\$33
	37%	\$38	\$42	\$38	\$36	\$34
	42%	\$40	\$42	\$39	\$37	\$35
	47%	\$42	\$44	\$40	\$38	\$36

Risks & Primary Research

Investment Negatives

- Billings deceleration
- Margin compression
- Customer concentration
- Logo churn
- Disintermediation
- Professional services erode gross margin and profitability

Primary Research

- Spoke to Head of Customer Marketing
- Talked to Sales Team representatives
- Spoke with two Venture Capital investors in MULE, prior to going public
- Spoke to Greg Schott, CEO of MuleSoft

Team: a perfect duo



Greg Schott
Chairman & CEO

- Prior to MuleSoft: SpringSource, Agile Software, DG Systems, & BCG
- Background in marketing and product. He is also a great recruiter and leader
- SpringSource and Agile Software had very successful exits
- “CEO is incredible. He is the same level as Marc Benioff. Marc was a mentor to Greg, and I believe he is of that caliber”⁽¹⁾



Simon Parmett
President, Field Operations

- Prior to MuleSoft: Oracle, Agile Software, SG Partners, CSC Index
- Expertise is in go-to-market talent. “He understands sales and customer service at a level that is uncommon”⁽¹⁾
- “Simon and Greg together are particularly special. They might be the best duo ever. They are the best one-two punch out there”⁽¹⁾

>75% compensation of the duo is stock-based,
ensuring alignment of interest between senior executive and shareholders

(1) Quote from Investor at NEA, Former Board Member of MuleSoft

(2) Company S-1. Total compensation for Greg and Simon in 2015 and 2016