

KIP Capital Management, Ltd.

Project Omega

Veeva Systems Inc. (VEEV)

April 21st 2020

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KIP Process

SEC filings

10K | Proxy statements |
10Q | 8K

EVA Express

Financial data service

IBISWorld

Industry reports

Audited Financials

10-year trends

Sell-side reports



Competitors overview

SEC filings, websites,
financials

Company Website

Investor presentations |
ECTs | CEO letters

Rapid Take

- Industry Leader. Niche player
- Multiple Moats. Switch-Costs, Brand
- Sales Growth compounding at 29% over the last 5-years. Expected to grow organically and through bolt-on acquisitions at a CAGR 24% for next 5 years.
- Pricing Power. Wide ROIC-WACC Spread, Capital light
- Economic Value creator. Rational capital allocation. No red flags.
- Price appreciation of CAGR 46% over the past 5-yrs, almost 7x

Business Overview

- Best-of-Breed supplier in Healthcare IT.
- Vertical cloud-based software provider supporting mission-critical operations for the Life Sciences Industry.
- Software solutions to:
 - Provide protocols and guidelines that facilitate faster drug commercialization through incremental modules co-developed with clients.
 - Improve efficiency and track milestones while adhering numerous global regulations.
 - Support accurate documentation and allow customers to stay abreast of the changing global regulatory landscape.
 - Helps streamline operations, increase efficiency and cut costs.
- 800 customers across roughly 130 countries.
- Expansion into chemicals, consumer goods, and cosmetics with similar regulations, protocols, and procedures.

Explore Our Industries



Cosmetics



Consumer Goods



Chemical



Life Science



General Business

Industry Insights

- TAM for Life Sciences IT Industry: \$9 billion.
- Industry characteristics:
 - Growing complexity and cost of bringing new drugs and devices. Regulatory pressure to reduce prices. R&D spend likely to increase in the coming years to fund new clinical trials.
 - Pharmaceutical companies have strict workflows for conducting clinical trials, research, manufacturing, and marketing commercial pharmaceuticals, but have had limited IT options to improve efficiency and compliance within the evolving regulatory landscape.
 - Drug approval process has become increasingly geographically spread out and data sets have become larger. Need for central and integrated approach to data management has grown.
 - Other Major Industry Players: IQVIA, Syneos Health.

Economic Moats

Switching Costs

- Imagine a pharma company trying to change platforms...
 - Data migration from old to new. Carries risks. May be time consuming. Interrupt workflow.
 - Customization of the new solution to the business.
 - Training of staff.
- This is both expensive and risky. Meaning once a pharma business has installed Veeva into their business, they need extremely compelling reasons to change it.
- Here's the best part: 19 of the 20 top LS businesses have installed Veeva. Notable customers include Pfizer, Novartis, Merck, Bayer, Gilead.
- VEEV software solutions are deeply (and increasingly) embedded into customer systems.
- High retention, continued development of new applications, increasing penetration within existing customers.
- High financial cost and learning curve to switch vendors. Risking unplanned downtime, a system breach, or data loss. Can prove catastrophic.
- Increased number of touch points within an organization reinforces switch costs.

Intangible Assets - Brand

- Veeva brand embodies High-Level Domain Expertise, providing world-class software solutions and customer service.

Product Offerings

- Two Product Offerings
 - **Veeva Commercial Cloud**
 - Veeva's legacy business. Vertically integrated, multichannel CRM applications.
 - 80% of market share of the CRM sub-segment.
 - Offered through the Salesforce.com partnership contracted through 2025.
 - Supports real-time collaboration and regulatory oversight, and enables incremental add-on solutions.
 - **Veeva Vault**
 - Horizontally integrated, cloud-based document and content hosting + data management applications. Launched in 2011.
 - Addresses the needs of the Life Sciences industry outside of CRM.
 - Each module offers features and functionality targeting four key areas within Life Sciences: Clinical (R&D); Regulatory (compliance); Quality of manufacturing; and Safety.
- Almost 50-50 revenue breakdown between the 2 offerings. Vault is slightly higher, faster growing and has a larger TAM.

Summary, Key Performance Stats

- Market Cap: \$28 bn, Enterprise Value: \$25 bn
- Total Debt to Equity: Zero
- ROE, TTM: 18%
- ROIC, TTM: 40%-47%
- EV/EBIT, TTM: 97
- FCF YIELD, TTM: 1.5%

Over the last **5 years**:

- Sales have grown 3.5x, or 29% CAGR. 2019 Revenue: \$1.1bn. Projected to grow to \$3bn by 2025.
- NOPAT has grown 6.5x, or 46% CAGR.
- Gross Margin expanded from 63% - 73%.
- EBIT Margin expanded from 22% - 26%.
- R&D costs risen. R&D Margin grew from 13% - 19%. Mainly people costs related to design, development and testing of software solutions and applications.

Economic-Value Creation (5-Yr)

- Produced a cumulative \$764m in NOPAT, with no bank debt, and reinvestments amounted to ~\$500m. After adjustments, FCFE generated was an estimated \$564m.
- BV/sh share grew 3.5x, from \$3 to \$11. The business and its management have produced exceptional value for owners.
- Issued a net of \$76m of company shares. VEEV does not have a dividend policy.

Management

- Peter Gassner. Co-founder. CEO.

👍 Exec Compensation is standard and unglamorous. All exec officers are paid the same base salary which is modest by industry standards.

- Options are rare and largely focused around the CEO.
- Insider ownership is <1%.

👎 Compensation is entirely stock-priced based - and no ties with fundamental performance! They argue this aligns execs with owners, but it could pressure management to please Wall Street.



Price Implied Expectations (PIE)

Assumptions held and link to narratives

<i>in \$ mil</i>	Base year 2019	Years 1-5	Years 6-10 & beyond	Link to narrative
Total market estimate	According to IBIS, the CRM+CommercialFunctions of Life Sciences firms is \$9bn. If we assume a modest growth of 3% YOY for the next 10 years, the estimated total market is \$12bn .			
Operating margin	26%	27% — — — —> 31%	32%	VEEV enjoys scaling benefits. As customer base grows, variable costs such as employee pay and server costs rise very slowly. This means margins are likely to expand as the three SAAS segments of VEEV serve more customers.
Reinvestment	From 2013-2018, Sales grew from \$210m to ~\$860m, while reinvestments were ~\$380m. In other words, for every \$1 reinvested, VEEV generated close to \$1.75 of Sales.			We expect the rate of reinvestments (incl. acquisitions) remains stable going forward. Note that VEEV's PIE is not sensitive to reinvestments.
Cost of Capital	7%	7%	7%	Derived using CAPM
Tax Rate	10%	10%	10%	Close to current levels

With the above assumptions in place, we allow the DCF model to reflect the Sales growth that imputes the last traded price of \$184.4.

Imputed Sales growth rate	28%	24% — — — —> 21%	19% Terminal growth: 2%	CEO has implied that target sales for 2024 are \$3bn. We held that constant, for which growth rate contracted from 28% to 21%. This is plausible given the TAM limitations of this niche. Further, in order to reflect last traded price ~\$184, the imputed growth rate from Years 6-10 is about 19%. Importantly, sales in 2029 is implied to be \$7.3bn.
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Conclusion: **Given a TAM estimate of \$12bn, the current market cap of VEEV implies that sales will grow to ~\$7bn by 2029.**

Further Areas for Investigation

- Likely industry future. Outcome probabilities.
- Five/Four forces analysis
- Capital allocation trends
- Total addressable market estimations. Potential market share for VEEV.
- Anticipate change in competitive landscape
- Risks