



Valuation Date: 12/3/2019
Current Price: \$144.34
Ticker: VEEV

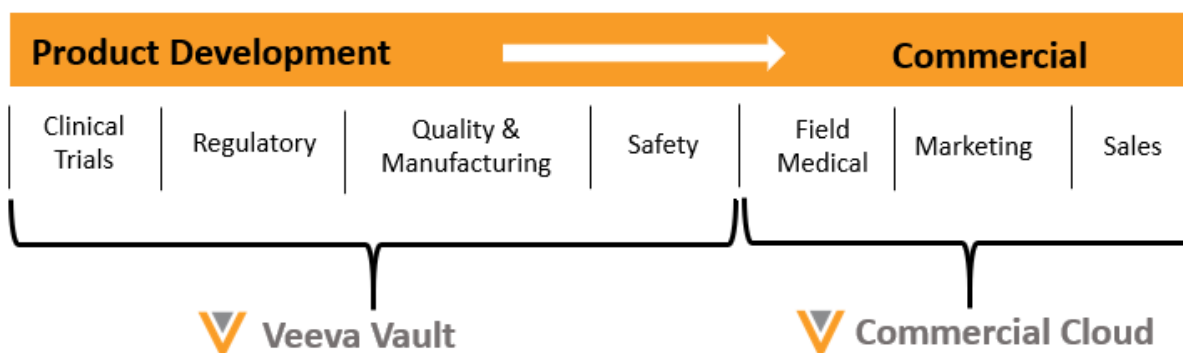
Recommendation: BUY
Target Price: \$167.07
Sector: Information Technology

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Senior Analysts: Jacob Maurer, Kiana Canon & Austin Preece

Introduction

Veeva Systems Inc. specializes in cloud computing for global life sciences and pharmaceutical companies. Founded in 2007, with a priority to increase business efficiency and application uses, Veeva's products include solutions for companies of any size. Their vision is to help companies bring pharmaceutical products to market faster and more efficient while maintaining compliance with government regulations.

Veeva's cloud applications for the life sciences industry are organized into two key product areas—Veeva Commercial Cloud and Veeva Vault. 23 different applications operate under the Veeva Vault name that address key areas of product development such as R&D functions, clinical trials, regulatory requirements, quality and safety. Commercial Cloud is a suite of 13 applications that are designed to help companies create better engagement with healthcare professionals through marketing and sales activities while ensuring compliance. These two products establish the technology necessary in order for life sciences companies to operate most efficiently.



Veeva's potential to penetrate many highly regulated markets gives this company a competitive advantage moving forward that can lead to large growth.

Hosting Infrastructure

In order to run their cloud applications smoothly, Veeva has formed a partnership with Salesforce and Amazon Web Service called an unmanaged hosting infrastructure. An unmanaged hosted service is one in which an outside provider (AWS or CRM) provides the operating system or server space and your company (Veeva) is responsible for installing, managing, and maintaining your own applications and services within that space. Salesforce and AWS have some of the best cloud and CRM server spaces that

a company could operate within, making this a strength for Veeva. In fact, the founder of Veeva worked for Salesforce before starting Veeva and continues to build on his relationship with Salesforce. Many life sciences and pharmaceutical companies are referred to Veeva from Salesforce because of the strong relationship they have with each other. In the future, Veeva will continue to use Salesforce/AWS and build upon their already strong partnership.

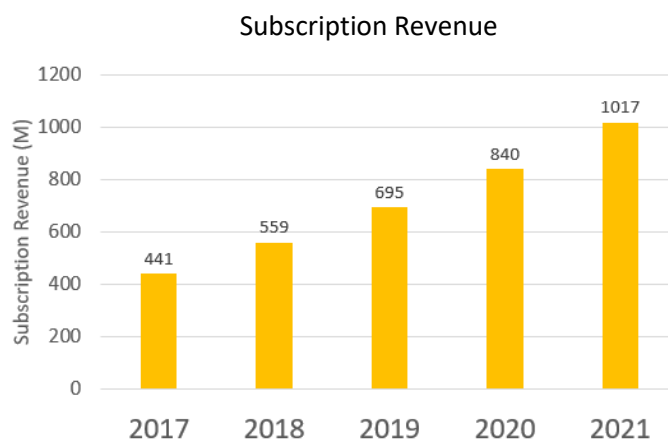
Investment Thesis

NICHE:

Veeva has had so much success since 2007 because of their business strategy. Their business niche allows them to differentiate themselves from any company in their industry by providing innovative products. The products all offer new ways to fix difficult challenges in the pharmaceutical industry including a universal system and consistent software updates to protect customers data. The CEO empowers creative solutions and pushes his employees to think differently. This new market that was created by vertical cloud integration is dominated by Veeva achieving around 25% market share. Veeva has plans to reach new markets and integrate their cloud technology in more highly regulated industries such as cosmetics, chemical, animal health and consumer goods.

SUBSCRIPTION REVENUE:

Veeva generates subscription revenue through their Commercial Cloud and Veeva Vault applications. Subscription revenue has grown 24% in the last year and now makes up 80.5% of Veeva's total revenue. Subscription revenue is anticipated to continue growing in the years to come. This revenue is highly desirable since it signifies locked in revenue over a certain period of time. This will help the company in times of a recession since customers will still have to pay for their subscription to Veeva until the contract expires. Commercial Cloud and Vault customers subscribe to 3.0 and 2.2 products on average, respectively, but this is expected to increase as the company creates new products and add-ons to their existing solutions.



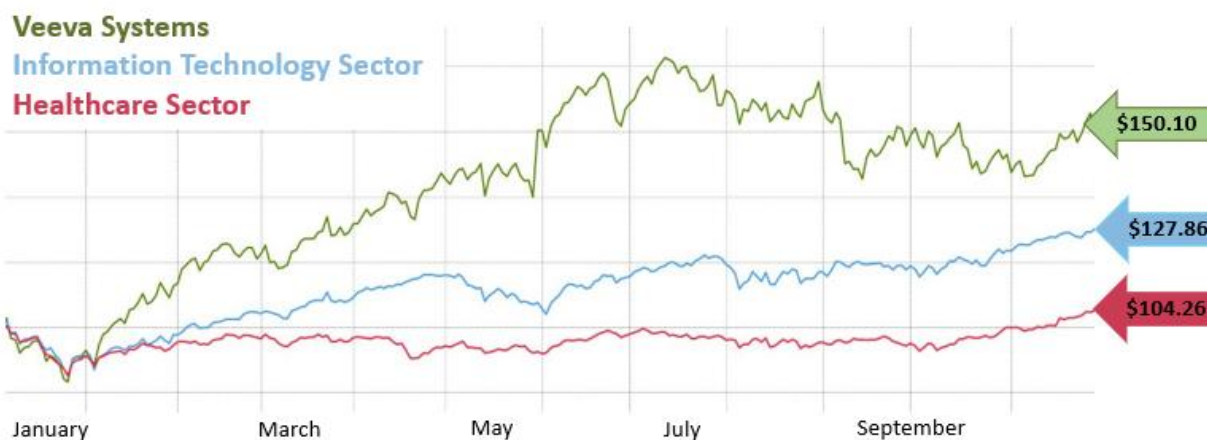
The majority of subscription agreements are contracted for 1-year terms, but more recently the company has entered into 5-7 year agreements for their Vault applications. For fiscal years ended January 31, 2019, 2018, and 2017, Veeva's subscription revenue retention rate was 122%, 121%, and 127%, respectively. This great retention rate shows that Veeva customers are satisfied with Veeva's cloud services and continue to subscribe year after year.

FUTURE GROWTH:

Because Veeva is still a relatively new company, they are expanding in all areas of their business. They have invested and intend to continue expanding the depth of their product portfolio by increasing their spending in research and development. In 2019 the company increased their R&D expenditures by 20% YOY. A new product being developed by their R&D team is Nitro. Nitro is a next-generation commercial data warehouse that is expected to become the biggest growth driver for Commercial Cloud suite once it is out of the early adopter phase. This is just one growth measure that the company has implemented to continuing improving their products.

They also are expanding their sales and marketing initiatives to promote Veeva products to new geographies and grow into new industries. The future has never been brighter for Veeva Systems. With cloud computing increasing every single year, Veeva systems has entered the market at a perfect time. Their pioneering vertical cloud integration has allowed them to achieve a 25% market share in their industry and in the future with their marketing budget increasing they are able to attract and show more companies in their industry the power of Veeva. Veeva can change the way pharmaceutical companies perform their everyday business by offering more efficient products that save time and money. Veeva's pharmaceutical industry market potential still remains large, however, Veeva is planning on moving into other markets such as consumer packaged goods, cosmetic, and chemical industries. Veeva technology thrives in heavily regulated industries because of how accessible and flexible their products are for their customers.

Stock Performance



Management

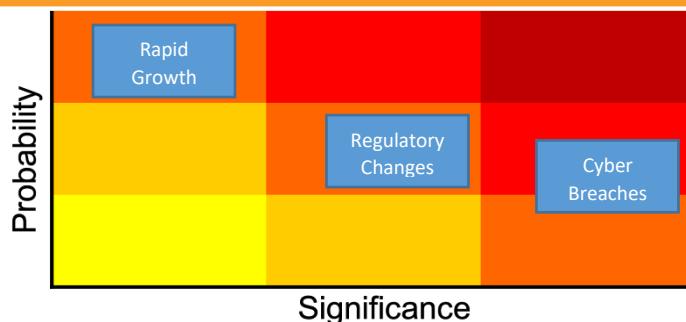
Veeva Systems is led by a strong management team with Peter Gassner as CEO/founder. Gassner had the idea that vertical cloud integration would be the future starting back in 2007. After gaining previous experience at Salesforce and industry knowledge, Gassner created Veeva. The company went public in 2013 and over the recent years has been consistently exceeding earnings with the stock up over 50%. Another key piece to this growth is the chairman Gordon Ritter. This strategic investor has founded

numerous companies including part of the startup investment for Salesforce. Ritter has pioneered many successful companies that have created new markets. Gordon and Gassner have a combined vision to make Veeva a successful company in the cloud and life sciences industry.

Risks

RAPID GROWTH:

Veeva has grown over 50% in 2019 alone and part of that is due to momentum trends, but also due to the strong, growing financials of the company. The actions that upper management has put in place have differentiated them along with their company culture to produce a company that has shown how quickly it can grow. Moving forward there are growing risks that might affect the company because of how fast they grow including higher turnover, unable to scale to size, weakened leadership and loss of company culture. Even with these potential issues Veeva remains a high growth potential stock.



REGULATORY CHANGES:

Veeva must stay up-to-date with regulatory changes that involve the pharmaceutical industry. The company needs to quickly update their cloud applications to fit the new regulations which is a time-consuming and costly process. Regulation changes may delay the release of new versions of their products in order to adapt them to specific laws. Additionally, as Veeva increases the number of products offered and the number of countries in which they offer their products, the complexity of adjusting the solutions to comply with regulatory changes will increase.

CYBER BREACHES:

Veeva's cloud applications transport and store millions of data points for their customers in the life sciences industry. Although cyber security is a top priority for most cloud computing firms, it is especially important for Veeva since the company manages highly sensitive information regarding personal health and medical treatments. A breach in cyber security could result in the loss of information, inappropriate use of or access to private information, service interruption, outages, litigation and damage to Veeva's reputation. Cyber attacks against Salesforce and Amazon Web Services may also affect Veeva's product offerings since the company partners with those companies.

Valuation

In order to determine our target stock price of \$167.07, we chose to combine two methods of valuation: the Price to Earnings Multiples Model (P/E) and the Economic Value Added Model (EVA).

P/E: When determining the target price for the P/E multiples model we compared the average historic P/E ratio of Veeva to four of the company's peers. We used both Veeva's mean P/E and current P/E ratio in our calculation along with the P/E ratios of Veeva's competitors. This gave us a target price of \$159.67.

EVA: For the EVA model, we used a WACC of 7.31%. We felt this was a fair cost of capital value based on other estimates from FactSet and Bloomberg. We also adjusted the revenue growth rates for the next 5 years to follow how we think the company will grow during the 5-year time period. We took the company's product and new market growth strategy into consideration while adjusting the growth rate. The model resulted in a target price of \$172.00.





To further analysis the stock's potential target price we conducted a sensitivity analysis by changing the WACC percentage. See the sensitivity analysis below to explore the impacts of changing this rate. 67% of the WACC rates result in a price above Veeva's current price.

WACC	5.5%	6.5%	7.31%	8%	8.5%	9.5%
Stock Price	\$230	\$193	\$172	\$155	\$142	\$129
Upside/ Downside	54%	29%	15.4%	8%	-2%	-10%

We weighted the P/E Model at 40% and the EVA Model at 60% which resulted in a target price of \$167.07. We weighted the EVA model more heavily since we believe it gave us a better indication of Veeva's future economic value added and growth potential.

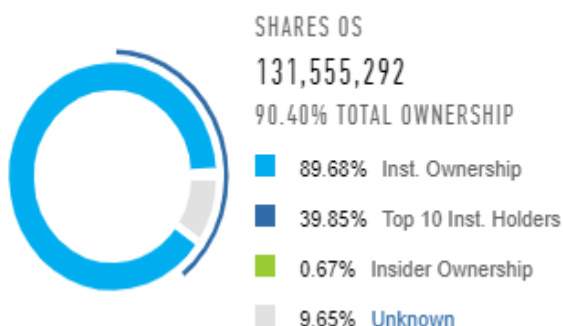
Peer Analysis

When evaluating Veeva's competitors there is not a true company that can do what they do. Competition is high in the cloud computing industry, but Veeva's target market are life sciences and pharmaceutical companies that are heavily regulated. Their vertical cloud integration allows Veeva to offer better products and services as compared to Oracle, Box.com, OpenText, and IQVIA.

	Market Cap (B)	P/E	52 week stock price change	Beta	Founded Date
	22.07	73.73	51.16%	1.2	2007
	2.70	N/A	0.61%	1.4	2005
	28.30	124.54	16.83%	0.9	1982
	184.30	18.70	17.20%	1.1	1977

Ownership of Shares

Ownership Statistics



Top 5 Holders	%OS
The Vanguard Group, Inc.	9.48
Fidelity Management & Research Co.	5.74
Morgan Stanley Investment Management, Inc.	5.17
BlackRock Fund Advisors	4.18
Artisan Partners LP	3.19

Recommendation

We recommend a **BUY** for Veeva Systems Inc. with a target price of \$167.07. This is an upside of 15% from its current price of \$144.34. Other reasons for this **BUY** recommendation include:

- Leader in vertical cloud integration
- 80.5% of total revenue is recurring which guarantees constant revenue inflows for at least 1 yr.
- Promising growth opportunities into new regulated industries
- Continued product expansion
- Company is led by a strong CEO with a clear vision and powerful background
- Growing credibility with current and future customers