



Veeva Systems (NYSE: VEEV)

Healthcare, Spring 2023

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The Veeva logo consists of the word "veeva" in a lowercase, sans-serif font. The letter "v" is a dark grey color, while the remaining letters "eeeva" are a bright orange color.

I. Investment Overview

Buy VEEV at standard allocation (1.5%)

1

Wide Economic Moat

- They have structured their focus vertically to **one** industry while other SaaS companies serve broader, unspecified industries
- They are dominating the market share with **80%** of global pharma sales reps using their **CRM** system in **2022** increasing from **30%** in **2014**

2

Customer Retention

- Familiarity with their system and **high** retention rates
- **119%** or higher over the past **3 years** giving them a consistent and growing revenue stream
- Traditionally SaaS is a sticky industry due to switching costs, hassle and time

3

Strong Balance Sheet

- **Strong** balance sheet with **no debt** and **healthy cash amounts**
- Over **\$1 billion** in cash and a **current ratio of 4.52** indicating they are financially very healthy

4

Defensive Revenue and Expansion Opportunities

- Life sciences companies account for over **90%** of revenue and these companies are **resistant** to economic downturns since people need medicine and drugs no matter the environment
- Medical Devices space only makes up **4% of their revenue** and is a **\$440B+ industry**

Business Description

- Veeva Systems Inc. (Veeva) is a provider of Industry cloud-based software solutions for the global life sciences industry
- The Company's solutions include cloud software, data, and business consulting that are designed to meet the needs of its customers and their strategic business functions
- These functions include: research and development to commercialization while maintaining compliance with government regulations

Business Sectors

- **Revenues** are primarily derived from **subscription services and professional services**.
- R&D solutions subscription revenue is the faster growing of the two; 29% projected growth for R&D in 2023 with commercial solutions revenue growing by 7%
- **VEEVA Vault:** Offers various cloud-based, enterprise content, and data management applications, which includes Veeva Vault eTMF and Veeva Vault MedComms
- **VEEVA Commercial Cloud:** Offers various software, data, and analytics solutions

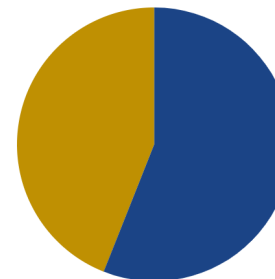
Key Statistics

GICS Sub-Industry	Healthcare Services
Market Cap	\$26.3 B
Revenue	\$1.85 B
Current Price	\$165.11
52-Week Range	151.02 - 234.89
Beta	0.9
Dividend Yield	-

Revenue Breakdown

Veeva's portfolio of products is grouped into 2 areas: Commercial Solutions (56% of revenues) and R&D solutions (44% of revenues)

● Commercial Solutions ● R&D Solutions





Peter Gassner – CEO, Founder (since Feb. 2007) - owns 82,000 shares of Veeva Systems Inc

- Nearly 30 years of experience at leading technology companies
- His shares in the company are worth approximately \$14 million dollars
- Key Visionary force behind three of the industry's most successful enterprise application platforms: Veeva Vault, the Salesforce Platform, and PeopleTool



Brent Bowman – CFO (since 2020) - owns over 915 shares of Veeva Systems Inc

- Bowman brings 25 years of experience in operational finance experience across the technology and healthcare industries
- Bowman has built high performing teams and successfully has led finance organizations at large scale companies

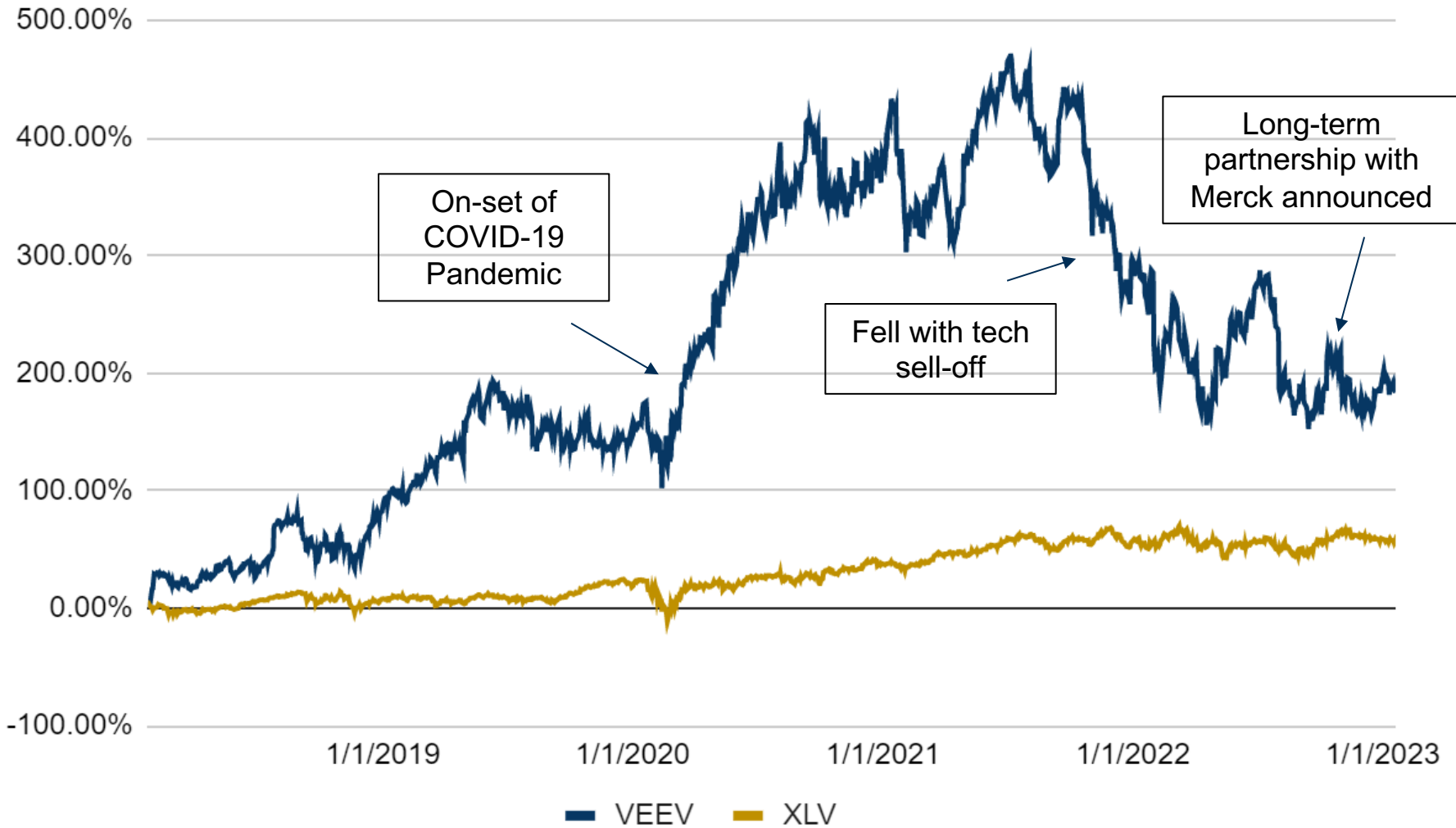


Tom Schwenger – President and COO (since 2019) - owns over 1,764 shares of Veeva Systems Inc

- Responsible for strategy, sales, and services
- With more than 25 years of life sciences industry expertise, Tom has built high performing teams driving strategy and technology innovations

Most of the executive team at Veeva Systems has worked in the life sciences industry for a large amount of time, causing their team to have a lot of experience in the sector putting them at an advantage.

5-Year Annotated Stock Performance



Buying VEEV would help diversify our Healthcare holdings with an entrance into the Healthcare Technology (Cloud-Computing) space

II. Business Breakdown

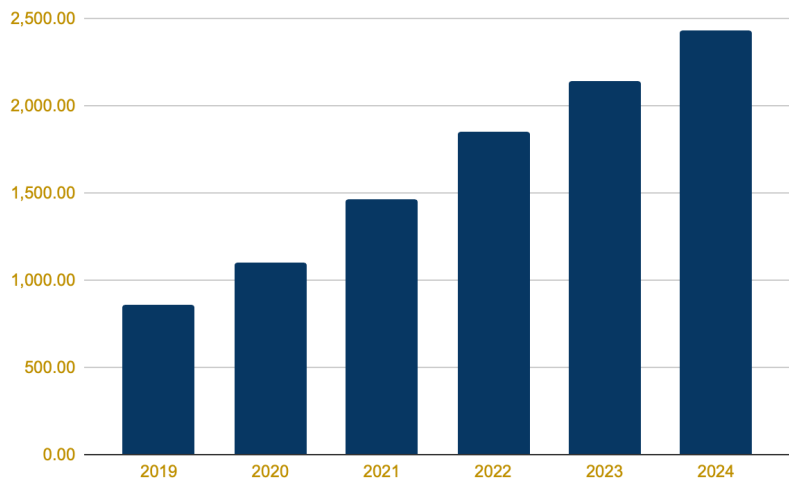
Commercial Solutions

- Commercial solutions help life sciences companies achieve more intelligent engagement with health care professionals/ organizations to plan more effective marketing campaigns
- Makes up 56% of the revenue made by Veeva Systems
- According to Veeva, no single vendor offers products that compete with all of its Vault application, but does acknowledge other companies compete with some of its Vault offerings

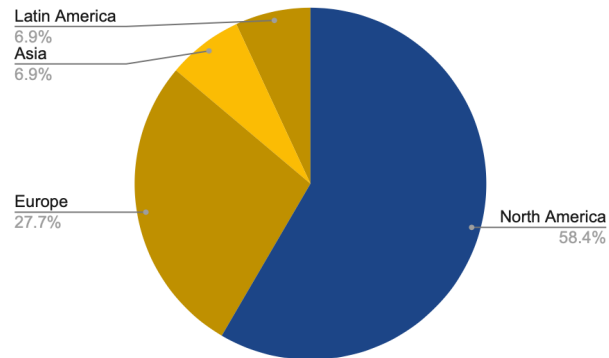
R&D Solutions

- Allows consumers to manage content across their organization, partner ecosystem, and the globe on a single cloud platform
- Makes up 44% of the revenue made by Veeva Systems
- R&D solutions subscription revenue is the fastest growing segment for Veeva Systems
- 29% projected growth for R&D in 2023 with commercial solutions revenue growing by 7%

Revenue and Expected Revenue (Million USD)



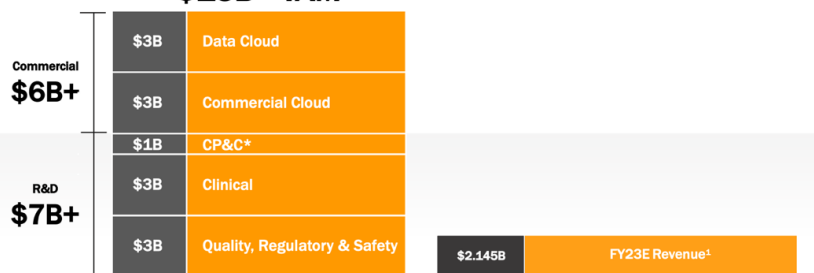
Geographic Breakdown



TAM and Expansion

- Veeva established a **10-year strategic partnership with Merck**; this builds on an existing 12-year partnership
 - Veeva will provide strategic pricing for Merck** and Merck will provide input on Veeva's product roadmap
- Veeva has a total addressable market (**TAM**) of **\$13B+** according to management, which is **over 6x what their current revenue is**
- They are **increasing headcount every quarter for the last 5 quarters by over 20%** (25% in 2022 Q3) which indicates management projects more growth and expansion in the near-term
- Their industry revenue breakdown: 93% from Life Sciences, 4% from Medtech, 3% from Consumer Products
 - Management and analysts are confident in their ability to **expand into the Medtech space (\$440B+ industry)**

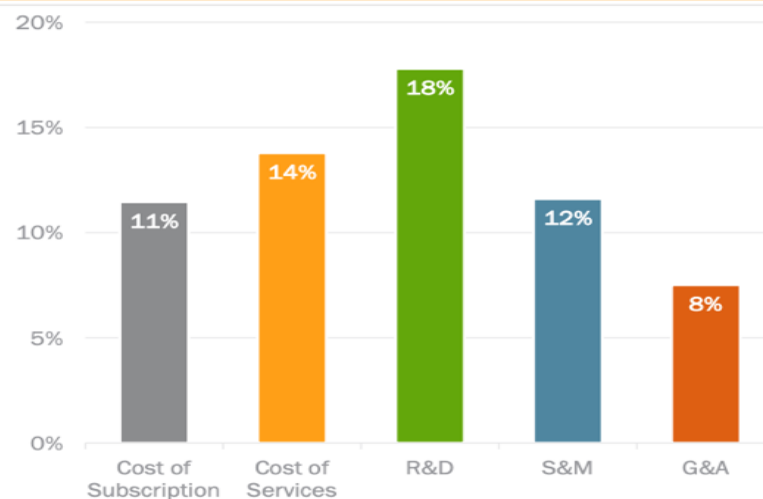
\$13B+ TAM



Capital Allocation

- Spent **18% of total revenue on R&D**
- Are seeing costs rise which has driven Operating Margin down from **41% in 2021** to estimated **38% in 2022**
- Planning to increase headcount as they have been Q-over-Q for the past 5 quarters which could raise SG&A spending as a percentage of revenue
 - Q4 is being reported March 1, headcount will be a large topic of discussion after increasing layoffs across software companies

Q2'23 Total Spend¹ as a % of Total Revenue



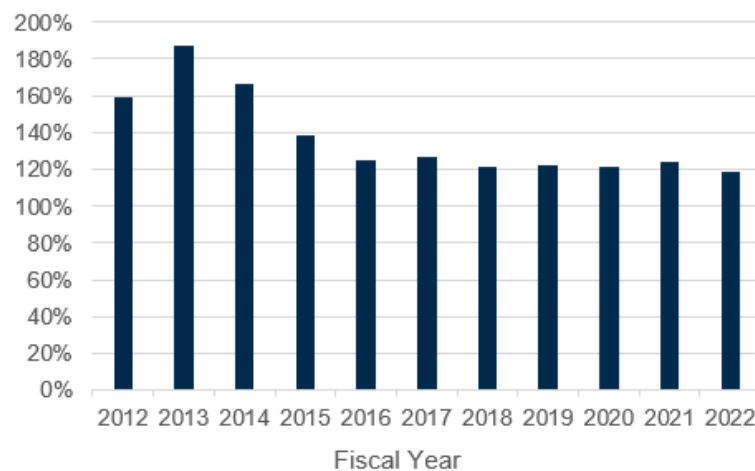
Application-Software Industry Trends

- Veeva is primarily a **secular business** with long-term trends of growth and established trust within its industry.
- The **application-software industry is expected to experience slowdown**, with lower consumer spending and product demand, after a period of expansion due to economic concerns including inflation and the Fed raising rates.
- Persistent issues around supply chain and workforce are escalated by growing economic concerns, creating some of this industry slowdown and requiring companies to reevaluate costs and slow hiring processes or potentially reduce workforces.
- Companies in the application-software industry are challenged with responding to economic uncertainty while attempting to maintain the levels of innovation that are expected in the tech world and keep them competitive within the market.
- Veeva is expected to remain **largely resistant to these impacts** due to its position in health information services.

Specialization in Healthcare

- A vast majority of Veeva's **client base is economically non-cyclical**, as life science companies, which constitute approximately 90% of Veeva's sales, are relatively resistant to recessionary periods.
- Regardless of economic conditions, people require health and pharmaceutical services, and Veeva offers a service essential to their function, allowing **revenue systems to remain consistent**.
- Veeva also **maintains and expands its client base** with an above-100% revenue retention rate year over year, meaning clients are likely to be retained, keeping Veeva's **revenue cyclicity low**.

Revenue Retention Rate



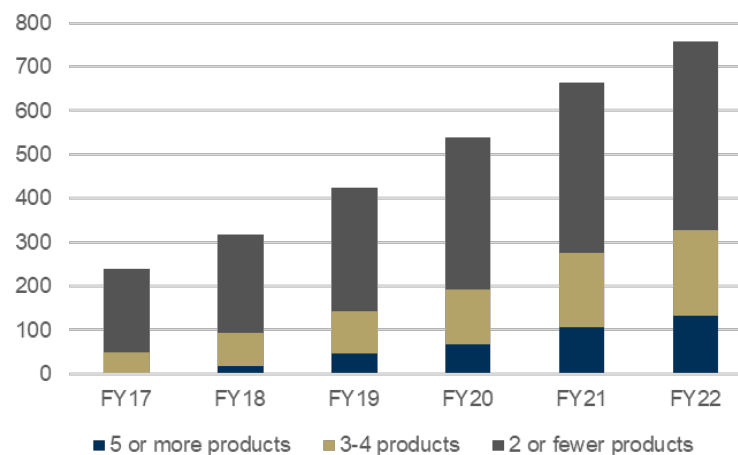
Wide Moat

- Veeva offers an **irreplicable specialized product** for the life sciences industry that adapts quickly to regulatory and industry changes, unlike generic cloud offerings or other customer relationship management software
- Veeva Systems faces **little competition** from other CRM providers and has established itself as **the global standard** with unparalleled knowledge and experience within its industry.
- Veeva’s suite of applications, Vault, allows for efficiency and user-ease through a unified platform, that was **previously unavailable in the market**. Users tend to purchase more applications over time.
- **Switching costs are high**, as Veeva is heavily integrated in company operations; this would cost time and expenses, risk loss of data, and delay sales and development – costs that can become more consequential in the healthcare industry.
- **Supplier power is high**, as Veeva dominates the industry with unified applications and continuous market-leading innovation, while **buyer power and competition remain low**.

Opportunities for Expansion

- With an **established niche** in the healthcare industry and high level of brand power, Veeva has both **access and trust** within the healthcare industry, positioning the company to expand both within life sciences and into other subsectors.
- Specialization allows Veeva to cater to industry needs other SaaS companies fail to accommodate, as their platforms are too broad or not unified enough and **expand to other highly regulated industries**.
- Since introducing Vault in 2011, Veeva has continued to expand its offerings and foresees **significant continued development and product expansion** that could amount to **upwards of 30% revenue growth by 2025**.

Products Per Customer



III. Valuation

Company	Market Cap	EV/EBITDA	Net Debt/EBITDA	P/E	5 Year CAGR	ROE	Free Cash Flow Margin
Veeva Systems	\$26.72B	45.23x	-5.78x	68.55	25.6%	12.81%	36.5%
Adobe Inc	\$171.68B	22.4x	-0.21x	33.49	17.7%	33.29%	42.0%
Salesforce Inc	\$171.08B	32.25x	0.53x	856.59	23.7%	0.33%	18.4%
Sap SE	\$144.86B	17.17x	0.69x	49.3	4.4%	68.90%	15.4%
Intuit Inc	\$117.45B	36.28x	1.44x	64	23.3%	14.80%	28.6%
Median	\$157.97B	27.36x	0.16x	56.65	20.5%	24.05%	23.5%

Positives

- **Debt/EBITDA-** Low Debt/EBITDA ratio highlights the company's ability to cover debts while still having excess funds
- **FCF Margin**– On the higher end, indicating Veeva's ability to facilitate growth and pay down debt (should they incur any)

Negatives

- **EV/EBITDA-** Veeva Systems' EV/EBITDA is higher than its competitors, suggesting that the company may be overvalued

Sensitivity Analysis (19.03% Implied Upside over current price of \$171.03)

		Exit Multiple				
		26.0x	26.5x	27.0x	27.5x	28.0x
WACC	7.42%	\$205.62	\$208.78	\$211.94	\$215.10	\$218.26
	7.92%	\$201.52	\$204.61	\$207.70	\$210.79	\$213.87
	8.42%	\$197.54	\$200.56	\$203.57	\$206.59	\$209.61
	8.92%	\$193.66	\$196.61	\$199.56	\$202.51	\$205.45
	9.42%	\$189.89	\$192.77	\$195.65	\$198.53	\$201.41

Model Assumptions

- Revenue and EBITDA estimates were based on past performance and company outlook
- EBITDA multiple of 27.0x** which is similar to the median of comps (27.4x) and quite a bit lower than what VEEV is trading at right now
- Decreased revenue growth projections due to likelihood of dropping slightly from extremely high growth in 2020 and 2021

WACC Assumptions

Assumptions

Tax Rate	20%
Exit Multiple (EBITDA)	27.0x

WACC Calculation

Risk Free Rate	3.70%
Beta	0.86
Market Risk Premium	5.50%
Cost of Equity	8.4%
Pre-Tax Cost of Debt	4.20%
Market Cap	\$ 26,630
BV of Debt	\$ 54
Equity-to-Value	99.8%
Debt-to-Value	0.2%
WACC	8.42%

IV. Conclusion

	Risk	Mitigation
<p>1</p> <p>Upcoming Split with Salesforce</p>	<ul style="list-style-type: none"> Veeva Systems recently announced it will not renew its long-term relationship with Salesforce Will shift back-end cloud management onto their cloud platform (Veeva Vault) by 2025 	<ul style="list-style-type: none"> Will allow Veeva Systems to offer a superior personalized customer experience through hosting all services on a common Veeva Vault Platform Will create cost optimization as the 2022 cost of hosting application on Salesforce was 12% of Veeva's annual revenue
<p>2</p> <p>Consolidation of Industry</p>	<ul style="list-style-type: none"> Top 10 software providers currently own 75% of software market Consolidated industry would make it more difficult for smaller competitors to gain a competitive advantage through increased barriers to entry 	<ul style="list-style-type: none"> Veeva System's software is centered on providing solutions for the global life sciences industry This creates a niche target market for Veeva System's software that would allow them to successfully enter this competitive industry
<p>3</p> <p>Difficulty Hiring and Retaining Employees</p>	<ul style="list-style-type: none"> Veeva has faced increased hiring competition from competitors and recently increased employee salaries by 5% Increased hiring and retention costs will increase expenses 	<ul style="list-style-type: none"> Recent massive wave of tech layoffs has led job-seeking software developers with less bargaining power, reducing Veeva System's costs long-term
<p>4</p> <p>Disappointing Quarterly Earnings Report</p>	<ul style="list-style-type: none"> Veeva reported projections calling for \$551-553 million in Q4 earnings Implies no growth and a significant decline in adjusted operating margin 	<ul style="list-style-type: none"> Veeva Systems still narrowly beat analyst estimates for Q3 revenue and EPS Wide economic moat places Veeva at a position that should outpace decline due to deteriorating market conditions

Economic MOAT

- Veeva offers an **irreplicable specialized product** for the life sciences industry that adapts quickly to regulatory and industry changes
- They have structured their focus vertically to one industry
- Very **wide** economic MOAT

High Switching Costs

- **High** switching costs as Veeva is heavily integrated in company operations
- Cost time and expenses, risk loss of data, and delay sales and development – costs that can become more consequential in the healthcare industry.
- Have created a **sticky** client base

Balance Sheet

- Strong balance sheet with no debt
- Over **90%** of revenue and these companies are **resistant** to economic downturns
- Company sells medicine and drugs that are **needed** by people **no matter** the economic environment

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V. Appendix

	Historical			Expected	Projected				
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	\$ 1,104	\$ 1,465	\$ 1,851	\$ 2,144	\$ 2,444	\$ 2,762	\$ 3,093	\$ 3,434	\$ 3,777
% YoY Growth	N/A	32.70%	26.35%	15.83%	14.00%	13.00%	12.00%	11.00%	10.00%
Cost of Goods Sold	\$ 303	\$ 409	\$ 504	\$ 581	\$ 665	\$ 754	\$ 848	\$ 944	\$ 1,042
Gross Profit	\$ 801	\$ 1,056	\$ 1,347	\$ 1,563	\$ 1,779	\$ 2,008	\$ 2,246	\$ 2,489	\$ 2,735
% Margin	72.55%	72.08%	72.77%	72.90%	72.80%	72.70%	72.60%	72.50%	72.40%
EBITDA	314	420	547	842	957	1,079	1,206	1,335	1,464
% Margin	28.44%	28.67%	29.55%	39.27%	39.17%	39.07%	38.97%	38.87%	38.77%
Less: Depreciation	20	30	27	29	31	32	33	33	32
EBIT	294	390	520	813	927	1,047	1,173	1,302	1,432
Less: Taxes	59	78	104	163	185	209	235	260	286
EBIT*(1-T)	235	312	416	650	741	838	938	1,042	1,146
Add: Depreciation	20	30	27	29	31	32	33	33	32
Less: Inc. in NWC		160	56	(331)	29	31	32	33	33
Less: CapEx	-	-	-	-	2	6	9	14	19
FCF to Firm	255	182	387	1,010	741	834	930	1,028	1,126
PV Factor					0.92	0.85	0.78	0.72	0.67
PV of FCF					683	709	729	744	751
PV of Terminal Value									26392.8
Firm Value									30,009.9
Less: Debt									\$ 54
Plus: Cash									\$ 3,023
Equity Value									32,978.9
Shares Outstanding									162
Share Price									\$ 203.57

