Proofpoint, Inc. (PFPT)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/26/20):</th>
<th>111.55</th>
</tr>
</thead>
<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>134 - 84</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>7,251</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>65.0</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>56.5</td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
<td>0.67</td>
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<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
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<tr>
<td>Yield (%):</td>
<td>0.0</td>
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<tr>
<td>Rating:</td>
<td>Outperform</td>
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<tr>
<td>Suitability:</td>
<td>Average Risk</td>
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<tr>
<td>Price Target ($) :</td>
<td>135</td>
</tr>
<tr>
<td>L-Term Rev. Gr Rate Est:</td>
<td>20%</td>
</tr>
<tr>
<td>L-Term EPS Gr Rate Est:</td>
<td>30%</td>
</tr>
<tr>
<td>Debt/Cap:</td>
<td>76.5%</td>
</tr>
<tr>
<td>ROE:</td>
<td>20.0%</td>
</tr>
<tr>
<td>----</td>
<td>FY</td>
</tr>
<tr>
<td>FY P/E</td>
<td>63.0x</td>
</tr>
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</table>

Earnings (Net): Note: FQ1’17 reflects retrospective adjustments for ASC 606

<table>
<thead>
<tr>
<th>Headquarters</th>
<th>IPO/Founded</th>
<th>Management</th>
</tr>
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<tbody>
<tr>
<td>Sunnyvale, CA</td>
<td>2012/2002</td>
<td>Gary Steele CEO</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Paul Auvil, III CFO</td>
</tr>
</tbody>
</table>

Company Description

Proofpoint, Inc., founded in 2002 and headquartered in Sunnyvale, California, is a leading email security vendor. Proofpoint offers a SaaS solution to protect customers’ messaging infrastructure from spam, viruses, advanced persistent threats, and other targeted attacks. The company also offers products in adjacent market categories like archiving and governance and social media security.

Competition

**Competition.** Proofpoint competes against several larger, legacy players like Microsoft, Symantec, and Cisco in the email security market, as well as HPE, IBM, Veritas and others in advanced threat prevention and archiving and governance. Proofpoint may struggle to defend its market position against competitors with larger install bases, stronger distribution channels, and the ability to price aggressively.

Investment Thesis

**Large potential TAM.** In addition to its core market of email security, Proofpoint has launched products for advanced persistent threats (APT), social media, archiving, cloud access security, awareness training, and governance. These market categories in aggregate represent a ~$13 billion TAM in 2020, and we note that with only ~20% of Proofpoint’s revenue from outside of the United States, the company maintains significant room for geographic expansion.

**Thought leader taking share.** Proofpoint’s email security solution is among the best-rated technologies from industry experts, notching the farthest right position in Gartner’s Magic Quadrant for many years. We expect such a technology consensus to help maintain market share growth, especially given Proofpoint has currently captured less than 25% share. We also view partnerships with companies such as Palo Alto Networks as additive.

**Transitioning market.** Most users have pre-existing email security solutions, but the shift to the public cloud and SaaS email products like Microsoft Office 365 provides Proofpoint with an opportunity to replace the incumbent.

**Public cloud tailwinds.** The transition to cloud-based email, along with other SaaS applications, offers a greater incentive for businesses to select Proofpoint as a security partner. While Proofpoint has invested in adjacent market categories like social media security, mobile security, and more, it remains less clear if the company can replicate its success and technology advantage in email.

**Long-term model.** The company will have to balance growth and profitability in the years ahead but we believe has significant potential for strong free cash flow and continued operating margin expansion given its peer group. International revenue is ~20% of the total and represents a meaningful long-term opportunity but one that could take time to fully exploit.

**Valuation.** Our price target of $135 implies an EV/CY21E FCF of ~30x; this is at the high end of a general historical range of ~25x-30x out fiscal year FCF, which we see as justified given strong growth at scale and consistent execution.

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Risks & Caveats

**Competition.** Proofpoint competes against several larger, legacy players like Microsoft, Symantec, and Cisco in the email security market, as well as HPE, IBM, Veritas and others in advanced threat prevention and archiving and governance. Proofpoint may struggle to defend its market position against competitors with larger install bases, stronger distribution channels, and the ability to price aggressively.

**Cloud dynamics.** While a transition to the public cloud as a delivery model provides a tailwind to Proofpoint's SaaS business, the extent to which public cloud environments will be used by customers in the long-run remains uncertain. Some may indeed opt for on-premises solutions.

**Geographic exposure.** Proofpoint is heavily concentrated in the United States with roughly 80% of its revenues coming domestically. Expansion in international markets does provide growth potential, but customer concentration could make Proofpoint especially sensitive to a recessionary environment in the US or other concerns that affect domestic customers' purchasing decisions.

**Core and adjacent market segments.** Though Proofpoint has been widely successful in its core email security market, it is less clear how Proofpoint may perform in adjacent solutions like social media security, mobile, or information archiving and governance.
Appendix - Important Disclosures and Analyst Certification

Approved on 27 May 2020 07:49EDT/ Published on 27 May 2020 07:54EDT.

Rating and Price Target History for: Proofpoint, Inc. (PFPT) as of 05-26-2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of PFPT.

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Proofpoint, Inc.
May 27, 2020

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