Mimecast Limited (MIME)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<tbody>
<tr>
<td>52WK H-L ($) : 54 - 25</td>
<td>Price Target ($) :</td>
<td>Q1</td>
<td>0.08A</td>
<td>0.19E</td>
<td>0.22E</td>
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<tr>
<td>Market Cap (mil): 2,508</td>
<td>L-Term Rev. Gr Rate Est: Q2</td>
<td>0.13A</td>
<td>0.16E</td>
<td>0.20E</td>
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<tr>
<td>Shares Out (mil): 64.4</td>
<td>L-Term EPS Gr Rate Est: Q3</td>
<td>0.14A</td>
<td>0.17E</td>
<td>0.21E</td>
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<tr>
<td>Float (mil): 56.0</td>
<td>Debt/Cap: Q4</td>
<td>0.15A</td>
<td>0.16E</td>
<td>0.20E</td>
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<td>Avg. Daily Vol (mil): 1.01</td>
<td>100.0%</td>
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<tr>
<td>Dividend ($) : 0.00</td>
<td>ROE:</td>
<td>13.7%</td>
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<tr>
<td>Yield (%): 0.0</td>
<td>Total FY P/E</td>
<td>77.9x</td>
<td>57.3x</td>
<td>46.4x</td>
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Company Description
Founded in 2003 by Peter Bauer and Neil Murray in the UK, but currently based in Boston, MA, Mimecast is a leading email security and enterprise archiving solution provider. However, the company began as a cloud archiving provider but quickly added a security product which is now adopted by virtually all of Mimecast’s 38,100+ customers in over 100 countries. From the beginning, Mr. Bauer and Mr. Murray decided to build Mimecast on a multi-tenant cloud architecture, which results in faster deployment of customers and more efficient use of compute. Mimecast benefits from multiple tailwinds, with the transition to cloud mailboxes, email being the primary vector of initial breaches, and increasing regulatory burden to archive emails and messages being especially pertinent.

Investment Thesis
Who is Mimecast? Founded in 2003 by Peter Bauer and Neil Murray in the UK, but currently based in Boston, MA, Mimecast is a leading email security and enterprise archiving solution provider. However, the company began as a cloud archiving provider but quickly added a security product which is now adopted by virtually all of Mimecast’s 38,100+ customers in over 100 countries. From the beginning, Mr. Bauer and Mr. Murray decided to build Mimecast on a multi-tenant cloud architecture, which results in faster deployment of customers and more efficient use of compute. Mimecast benefits from multiple tailwinds, with the transition to cloud mailboxes, email being the primary vector of initial breaches, and increasing regulatory burden to archive emails and messages being especially pertinent.

Targeting the underserved mid-market. While Proofpoint has been taking market share with its secure email gateway for years, they have been focused on the enterprise market. Mimecast's decision to attack the mid-market to displace legacy appliances has proven fruitful, with solid growth over the last several years. We think there remains a healthy growth runway and a greater percentage of the mid-market will need a cloud email gateway relative to large enterprises that are further along the adoption curve.

Expanding the product portfolio. Mimecast has expanded its potential revenue per customer in recent years. Beginning as a cloud archiving solution, the company has successfully added on solutions for email security, advanced threats, and continuity. Management continues to build out a comprehensive security platform through organic R&D efforts and tuck-in acquisitions, which we assign a solid probability of being successful. Mimecast's Email Security 3.0 strategy revolves around securing email at the perimeter (Zone 1), within the organization (Zone 2), and beyond the perimeter (Zone 3).

Office 365 tailwind. The legacy email security market was based on appliances sitting in front of the email server, but this architecture is not logical as mailboxes move to the cloud. Therefore, while some customers with on-premise email servers deploy a cloud security solution, customers with cloud mailboxes must deploy a cloud email security product. This is a catalyst for Mimecast's business when they can sell the entire portfolio of solutions including archiving, continuity, advanced threat, and basic email secure gateway.

Valuation. We derive our $48 price target using a CY21E EV/Sales multiple of ~5.5x. This multiple compares to a median peer multiple of ~6.5x EV/Sales for security peers. We believe MIME's sales multiple can expand with continued solid growth and improvements in profitability/cash flow.

Risks & Caveats
Increased competition. Competitors are likely to encroach on Mimecast's historical mid-market territory as the email security landscape becomes increasingly saturated. This likely includes Proofpoint and FireEye (moving down market from enterprise) and Microsoft (moving up market from SMB).

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Baird Equity Research
Security and Infrastructure Software
Vulnerable to FX fluctuations. Mimecast maintains the highest percentage of net exposure to currency fluctuations in our coverage universe. In particular, the two largest exposures, the British Pound and South African Rand, have been rather volatile and taken multiple percentage points off revenue and billings growth in recent quarters.

Creating additional TAM. Some investors believe the email security market is a smaller TAM than other sub-segments such as firewalls. This could be reinforced via aggressive actions by both Mimecast and Proofpoint to enter new adjacent markets in recent quarters. While we believe email security should provide a meaningful runway for growth, any slowdown could be taken as a limited TAM which could materially impact the valuation.
Appendix - Important Disclosures and Analyst Certification

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

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