Varonis Systems, Inc. (VRNS)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/26/20):</th>
<th>82.99</th>
</tr>
</thead>
<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>93 - 49</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>2,813</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>33.9</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>30.2</td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
<td>0.42</td>
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<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
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<tr>
<td>Yield (%):</td>
<td>0.0</td>
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</tbody>
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Rating: Outperform |
Suitability: Higher Risk |
Price Target ($) : 75 |
L-Term Rev. Gr Rate Est: Q1 |
L-Term EPS Gr Rate Est: Q2 |
Debt/Cap: 0.0% |
ROE: NM |

FY Dec | 2019A | 2020E | 2021E |
<table>
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<tr>
<th></th>
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<tbody>
<tr>
<td>Q1</td>
<td>(0.38)A</td>
<td>(0.56)A</td>
<td>(0.26)E</td>
</tr>
<tr>
<td>Q2</td>
<td>(0.30)A</td>
<td>(0.35)E</td>
<td>(0.21)E</td>
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<tr>
<td>Q3</td>
<td>(0.16)A</td>
<td>(0.17)E</td>
<td>(0.08)E</td>
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<tr>
<td>Q4</td>
<td>(0.09)A</td>
<td>0.05E</td>
<td>0.20E</td>
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<tr>
<td>Total</td>
<td>(0.92)A</td>
<td>(1.01)E</td>
<td>(0.33)E</td>
</tr>
</tbody>
</table>

Headquartered IPO/Founded Management
New York, NY 2014/2005

Yakov Faitelson CEO
Guy Melamed CFO

Company Description
Founded in 2005 and based in New York City, NY, Varonis is a leading software provider in the data management and protection market. Varonis has 7,100+ global customers in over 80 countries around the world (end FY19). The Varonis platform is built on a metadata framework that processes characteristics of data to assist customers in making governance and protection decisions. Core to these characteristics are users, permissions, activity, content and telemetry, that when combined provide customers high visibility and control. Since the initial products focusing on visibility and governance, new solutions have been added that focus on automating desired actions and alerting to possible security breaches or malicious behavior by employees.

Competition
We believe the competitive landscape is favorable for Varonis, specifically there are a lack of vendors with the same data-centric focus. We consider the primary competitor to be Microsoft whose Data Governance solutions employs a similar philosophy to Varonis’ offerings. However, Microsoft’s solutions are focused on its own data silos and environment, notably Office 365 applications. Varonis’ data security platform works across virtually all data environments and the company continues to roll out new functionality that automates many data security functions.

Investment Thesis
Who is Varonis? Founded in 2005 and based in New York City, NY, Varonis is a leading software provider in the data management and protection market. Varonis has 7,100+ global customers in over 80 countries around the world (end FY19). The Varonis platform is built on a metadata framework that processes characteristics of data to assist customers in making governance and protection decisions. Core to these characteristics are users, permissions, activity, content and telemetry, that when combined provide customers high visibility and control. Since the initial products focusing on visibility and governance, new solutions have been added that focus on automating desired actions and alerting to possible security breaches or malicious behavior by employees.

Increasing sales leverage through the channel. Over the past year, partner conversations have suggested a strong channel strategy from Varonis. Historically, the channel has served nearly 100% as fulfillment but Varonis implemented a three-tier partner program that specifies strict requirements, benefits and quotas. In addition to the tiering program, the company has increased the number of Varonis Connect events where potential customers learn about the platform and mingle with engineering, sales and partners, which we hear has been rather successful.

GDPR bringing spotlight on data governance. We believe Varonis should experience a greater positive impact than other companies from GDPR. If an organization were to experience a breach and the regulators found that sensitive information was widespread throughout the organization with a lack of controls, it would be difficult to demonstrate the company made a concerted and reasonable effort to protect consumer information, which is the mandate of the law. Varonis can help an organization identify the nature of information, its location, and user access, which is a reasonable first step to at least define the problem and risk.

Simplified sales message resonating with C-suite. Within our coverage universe, and especially security, we think Varonis has one of the better POC engagements. Once a Varonis sales rep or channel partner is allowed to present to the CISO/CIO, within 30 minutes Varonis’ software can run a full network sweep that identifies where an organization has files containing sensitive information (PII, HIPAA, PCI, etc.), who has access to this information, and what relevant activity has recently occurred involving this sensitive information. Many times, CISOs and CIOs are shocked at the amount of sensitive information sensitive “laying around” in file servers or databases and the amount of people that could easily access, or abuse, this information. After showing the organization there is

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 إذا كنت تستطيع مساعدتي في شيء آخر، فأنا هنا لمساعدتك.
significant risk around file management and access activity, Varonis can discuss its solutions that help minimize unnecessary access, clean up stale files, and monitor the file servers for malicious behavior.

**Valuation.** Our $75 price target implies a CY21E EV/Sales multiple of ~7.9x, a premium to a peer group trading at a median ~5.5x, and is supported by strong growth in ARR; it reflects our belief management will execute in creating a successful multi-product platform.

**Risks & Caveats**

**License model shift.** The company has been undertaking a model shift from its traditional perpetual and maintenance model to a shift to a subscription based model. While this shift has been largely successful, the company's subscription model still has the potential to lead to quarter to quarter volatility given revenue recognition rules.

**Lack of meaningful cash flow.** Due to reinvestment and deriving most cash flow from maintenance and support contracts, Varonis has yet to experience persistently positive earnings and cash flow. To justify the current evaluation, we believe the company will need to achieve meaningful positive cash flow in the future, which is has yet to accomplish.

**Execution.** As a high growth company, Varonis' ability to meet investor expectations for growth is dependent on being able to hire and ramp internal resources. The market for talented individuals is highly competitive, increasing compensation and potentially decreasing profitability.
Appendix - Important Disclosures and Analyst Certification

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Rating and Price Target History for: Varonis Systems, Inc. (VRNS) as of 05-26-2020

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

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Baird

May 27, 2020

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