

Box, Inc. (BOX)

\$16.75 (As of 02/28/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/17/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: A

Momentum: F

Summary

Box's top-line growth in the fiscal fourth quarter was driven by growing customer base & strong cloud storage demand. The company's growing add-on products and increasing customer base remain positives. Further, strong focus on advancement of the global go-to-market strategy will continue to help it in attracting customers from the global market to its platform. Strong efforts toward enriching cloud management and AI platforms will drive Box's growth going forward. Notably, its strong free cash flow generation is encouraging. However, rising cloud competition from players like Google and Microsoft remains a concern. Also, weakness in the EMEA region continues to be a concern. The stock has outperformed the industry it belongs to in the past year.

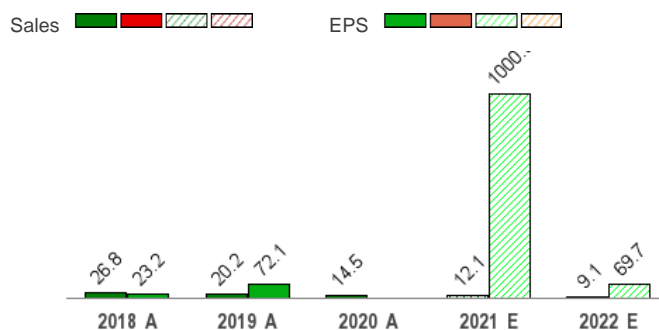
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.19 - \$12.46
20 Day Average Volume (sh)	1,813,488
Market Cap	\$2.5 B
YTD Price Change	-0.2%
Beta	1.40
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 42% (106 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	75.0%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	36.4%
P/E TTM	558.3
P/E F1	50.8
PEG F1	3.0
P/S TTM	3.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					851 E
2021	184 E	188 E	193 E	201 E	780 E
2020	163 A	173 A	177 A	184 A	696 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$0.56 E
2021	\$0.04 E	\$0.07 E	\$0.08 E	\$0.14 E	\$0.33 E
2020	-\$0.03 A	\$0.00 A	-\$0.01 A	\$0.07 A	\$0.03 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/28/2020. The reports text is as of 03/02/2020.

Overview

Headquartered in Redwood City, CA, Box, Inc. was incorporated in 2015. The company is a provider of a cloud content management platform. The platform enables internal and external collaboration on content, automation of content-driven business processes, development of custom applications, data protection, security and compliance features.

It serves advertising, construction, consumer packaged goods, education, energy, financial services and insurance, government, healthcare and life sciences, high tech, legal, manufacturing, media and entertainment as well as the retail industry.

Other than the U.S, the company operates in the U.K. France, Germany, Japan, Canada, Australia, Netherlands and Sweden.

Box currently derives revenues from subscription, sale of premier support package and professional services.

Subscription revenues include subscription fees that customers pay against usage of the company's cloud computing platform and routine support services. Revenues from professional services are derived from implementing best practice use cases, project management and implementation, consulting services.

In fiscal 2020, Box reported revenues of \$696.3 million, an increase of 14% from fiscal 2018.

The competitive environment for Box is gradually improving. The smaller players which have no differentiating features or bigger companies that see little reason to expand are exiting this EFSS industry.

However, the enterprise file storage and collaboration space is already crowded with many competitors. Box's closest competitor, Dropbox, which is more than twice Box's size is now going after the Enterprise market, Box's sweet spot, should be a concern. Also, larger vendors like Microsoft and Google, are catching up and giving their products away free as part of their productivity suites.



Reasons To Buy:

▲ Box is currently **enriching its cloud content management and AI platforms** by developing a rich technology partner ecosystem and its platform today integrates with some of the biggest enterprise technology providers such as Microsoft, Apple, IBM, Google and Salesforce. The company enables in-house enterprise developers and independent software developers create industry and market focused applications with ease. As a result, the company has a strong user base. Further, it is witnessing winning clientele and extension of contracts with its existing clients.

Box has a rich technology partner ecosystem and it rides on strong free cash flow, billings and retention rate.

▲ Box says **billings** are a better metric to gauge its sales activity since it recognizes subscription revenues ratably over the subscription item. The billings figure is derived by adding change in deferred revenues with the revenue figure. Year over year, the company has been doing well on this front with billings growing at a handsome rate. Further, free cash flow remains an important measure of Box's profitability and liquidity and provides vital information to investors regarding the amount of cash available for investment in business. The company sees significant improvements in free cash flow through efficient working capital management.

▲ Retention rate is an efficient indicator of long-term value of Box's subscription agreements and its ability to improve upon revenues derived from customers. Box determines retention rate as of a period end by starting with the annual contract value (ACV) from customers with contract value of \$5,000 or more as of 12 months prior to such period end (Prior Period ACV) and a subscription term of at least 12 months. It then determines ACV from the same customers as of the current period end (Current Period ACV). The retention rate is obtained by dividing the aggregate Current Period ACV for the trailing 12- month period by the aggregate Prior Period ACV for the trailing 12-month period. Box has been maintaining retention rates of over 100% through user expansion (both enterprise as well as small and medium business customers).

Reasons To Sell:

- ▼ Box has been **incurring losses since it went public in 2005**. As of Jan 31, 2018, the company had an accumulated deficit of \$1.04 billion. Box's current focus is on scaling its business through making significant investments in cloud infrastructure, development, professional services, sales, marketing and so on. The company said that it will continue making such investments and as result does not expect profit in the foreseeable future. However, the company reported break-even earnings in the last reported fiscal second quarter.
- ▼ Box operates in an **intensely competitive market** and most of the players in the space are operationally superior. They are bigger brands with greater resources and longer history of operation. Some of the major competitors of the company include Google, Microsoft, OpenText and Dropbox. Additionally, the market is characterized by lower entry barriers and frequent technological improvements that increase the chances of price competition. Pricing pressure makes Box susceptible to reduced sales and lower margins.
- ▼ The **business is concentrated in the U.S.** Box, so far, has not received much success in its international business. Moreover, operating in international markets involves economic, regulatory, geographical and political risks. Under the current circumstances, Box faces considerable difficulties in creating demand and improving revenues in these markets. Moreover, its limited international operations make it vulnerable to foreign exchange risk. Appreciation or depreciation of the U.S. dollar versus foreign currencies could impact the company's financial results.

Box has been incurring losses since its inception and does not expect profits in the foreseeable future.

Last Earnings Report

Box Q4 Earnings and Revenues Top Estimates, Rise Y/Y

Box, Inc. reported fiscal fourth-quarter 2020 earnings per share of 7 cents, which surpassed the Zacks Consensus Estimate by 3 cents. Moreover, the figure improved 22.5% year over year.

Total revenues came in at \$183.59 million, surpassing the consensus mark by 1.1%. Moreover, the top line increased 12% year over year and was above the guided range of \$181-\$182 million.

Strong demand for its add-on products and high volume of large enterprise deals aided revenue growth during the quarter.

Box is currently working on enriching cloud content management and AI platforms. During the quarter, it made some notable partnerships and deeper integrations with U.S. Forest Service, Macquarie Bank, ATB Financial, Vice Media, Sekisui House in Japan and many more.

The company's rich technology partner ecosystem will continue to be a strong driving force behind growth.

Let's delve deeper into the numbers.

Billings and Deferred Revenues

Billings were \$281.9 million, up 19% year over year. Deferred revenues were \$423.8 million, up 13% from the year-ago quarter.

Operating Results

Box's operating expenses (general & administrative, sales & marketing, as well as research & development) of \$155.4 million increased 12.5% year over year.

On a non-GAAP basis, the company recorded operating income of \$12.3 million versus \$8.5 million a year ago. Operating margin was 7% versus 5% in the year-ago quarter.

Balance Sheet and Cash Flow

At the end of the quarter, cash and cash equivalents, and accounts receivables balance were \$195.6 million and \$209.4 million compared with \$200.9 million and \$108.4 million, respectively, at fiscal third-quarter end.

Net cash provided by operations was \$15 million and free cash flow was \$0.0 million in the fiscal fourth quarter.

Guidance

For the first quarter of fiscal 2021, Box expects revenues between \$183 million and \$184 million. On a non-GAAP basis, the company projects the bottom line within 4-6 cents. GAAP loss per share is expected within 23-25 cents.

For fiscal 2021, Box's revenue guidance is expected within \$771-\$777 million. On a non-GAAP basis, it projects earnings per share in the range of 38-44 cents. GAAP loss per share is expected in the range of 71-78 cents.

Quarter Ending **01/2020**

Report Date	Feb 26, 2020
Sales Surprise	1.13%
EPS Surprise	75.00%
Quarterly EPS	0.07
Annual EPS (TTM)	-0.96

Recent News

On **Oct 17, 2019**, Box was mentioned as “Leader” in IDC MarketScape: Worldwide SaaS and Content-Enabled Content Applications 2019 Vendor Assessment.

On **Oct 3, 2019**, Box in collaboration with Splunk revealed about its commitment to develop integration between its Box Shield and the latter’s data and analytics capabilities.

Further, the company teamed up with Adobe to integrate a full-featured Acrobat web experience into its own platform. This will help in connecting collaborative workflows for enterprises.

Valuation

Box shares are up 12.8% in the six-month period but up 14.1% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 0.8% but the Zacks Computer & Technology sector is up 9.6% in the six-month period, respectively. Over the past year, the Zacks sub-industry is up 3.9% and the sector is up 12.5%

The S&P 500 index is up 2.23% in the six-month period and 5% in the past year.

The stock is currently trading at 3.22X forward 12-month sales, which compares to 6.12X for the Zacks sub-industry, 3.34X for the Zacks sector and 3.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 8.65X and as low as 2.61X, with a 5-year median of 4.25X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 5.2X forward 12-month sales.

The table below shows summary valuation data for BOX

Valuation Multiples - BOX					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.22	6.12	3.34	3.12
	5-Year High	8.65	15.61	3.58	3.43
	5-Year Low	2.61	3.06	2.3	2.54
	5-Year Median	4.25	5.31	3.05	3.01
EV/Sales TTM	Current	3.68	6.88	3.84	2.87
	5-Year High	10.01	11.55	4.2	3.33
	5-Year Low	3.03	3.04	2.56	2.16
	5-Year Median	5.1	6.02	3.48	2.82

As of 02/28/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 254)



Top Peers

Dropbox, Inc. (DBX)	Outperform
Microsoft Corporation (MSFT)	Outperform
Adobe Systems Incorporated (ADBE)	Neutral
Amazon.com, Inc. (AMZN)	Neutral
Citrix Systems, Inc. (CTXS)	Neutral
Alphabet Inc. (GOOGL)	Neutral
International Business Machines Corporation (IBM)	Neutral
Open Text Corporation (OTEX)	Neutral

Industry Comparison Industry: Internet - Software				Industry Peers		
	BOX Neutral	X Industry	S&P 500	ADBE Neutral	GOOGL Neutral	MSFT Outperform
VGM Score	D	-	-	C	C	D
Market Cap	2.51 B	624.68 M	21.48 B	166.39 B	920.45 B	1,232.26 B
# of Analysts	7	5	13	12	14	14
Dividend Yield	0.00%	0.00%	2.07%	0.00%	0.00%	1.26%
Value Score	F	-	-	D	D	F
Cash/Price	0.08	0.11	0.04	0.02	0.12	0.10
EV/EBITDA	-38.14	-1.76	12.57	39.82	15.86	20.13
PEG Ratio	2.88	2.39	1.84	2.17	1.49	2.18
Price/Book (P/B)	120.52	5.37	2.88	15.87	4.57	11.19
Price/Cash Flow (P/CF)	NA	33.17	11.58	42.14	19.28	25.50
P/E (F1)	49.03	48.68	16.87	35.19	24.55	28.81
Price/Sales (P/S)	3.60	3.95	2.34	14.89	5.69	9.18
Earnings Yield	1.97%	0.74%	5.91%	2.84%	4.07%	3.47%
Debt/Equity	16.17	0.12	0.70	0.09	0.07	0.64
Cash Flow (\$/share)	-0.51	-0.01	6.94	8.19	69.45	6.35
Growth Score	A	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	NA%	16.66%	10.85%	52.77%	24.24%	17.68%
Proj. EPS Growth (F1/F0)	1,000.00%	12.10%	6.79%	24.60%	10.95%	18.41%
Curr. Cash Flow Growth	-21.40%	2.63%	5.92%	27.62%	12.62%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	7.31%	15.53%	8.38%	41.64%	19.91%	11.99%
Current Ratio	0.76	1.56	1.23	0.79	3.37	2.80
Debt/Capital	94.18%	18.57%	42.53%	8.59%	6.83%	39.05%
Net Margin	-20.73%	-16.29%	11.57%	26.42%	21.22%	33.02%
Return on Equity	-577.11%	-14.59%	16.80%	31.47%	18.66%	40.41%
Sales/Assets	0.84	0.63	0.54	0.56	0.62	0.48
Proj. Sales Growth (F1/F0)	10.57%	18.43%	4.07%	17.68%	17.81%	12.86%
Momentum Score	F	-	-	D	F	F
Daily Price Chg	9.62%	0.00%	-1.44%	2.25%	1.85%	2.42%
1 Week Price Chg	1.76%	-1.00%	-0.94%	-1.77%	-2.32%	-3.65%
4 Week Price Chg	10.05%	-7.08%	-10.98%	-3.26%	-7.91%	-6.23%
12 Week Price Chg	-3.68%	0.00%	-7.84%	13.89%	0.93%	8.06%
52 Week Price Chg	-17.24%	-13.02%	1.20%	31.47%	18.88%	44.61%
20 Day Average Volume	1,813,488	262,006	2,169,477	2,707,321	1,987,154	41,345,112
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.23%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.09%	0.06%	-0.49%	5.25%
(F1) EPS Est 12 week change	-0.62%	-3.45%	-0.24%	-0.46%	-0.25%	5.36%
(Q1) EPS Est Mthly Chg	-0.23%	-0.81%	-0.72%	0.00%	-1.04%	7.07%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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