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Aug 21, 2020

Box, Inc. (BOX)

$18.08 (As of 08/20/20)

Price Target (6-12 Months): **$19.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/22/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: D | Growth: A | Momentum: F	

Summary

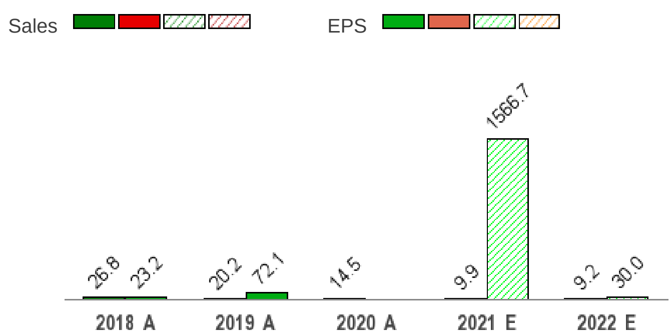
Box is riding on expanding customer base and solid cloud storage demand. Further, its strengthening add-on products offerings remain positives. Box's deepening focus on advancement of the global go-to-market strategy will continue to help it in attracting customers from the global market. Growing adoption of its cloud content management platform by its existing customers as well as new customers is a tailwind. Moreover, the company's strengthening efforts toward enriching cloud management and AI platforms will drive its growth going forward. Also, 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 headwind. Notably, the stock has underperformed the industry it belongs to in the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$22.09 - $8.64**
20 Day Average Volume (sh)	**1,440,753**
Market Cap	**$2.7 B**
YTD Price Change	**7.8%**
Beta	**1.22**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Internet - Software**
Zacks Industry Rank	**Top 45% (113 out of 252)**
Last EPS Surprise	**100.0%**
Last Sales Surprise	**0.3%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**08/26/2020**
Earnings ESP	**0.0%**
P/E TTM	**113.0**
P/E F1	**36.2**
PEG F1	**2.1**
P/S TTM	**3.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	201 E	206 E	214 E	222 E	835 E
2021	184 A	189 E	193 E	199 E	765 E
2020	163 A	173 A	177 A	184 A	696 A

EPS Estimates

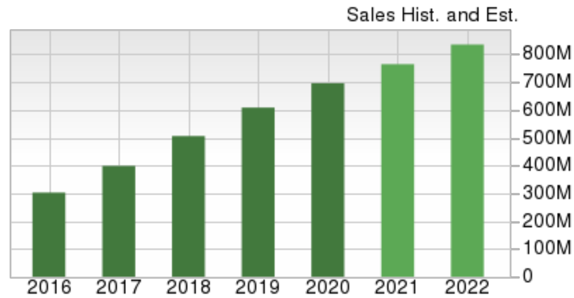
	Q1	Q2	Q3	Q4	Annual*
2022	$0.14 E	$0.16 E	$0.17 E	$0.18 E	$0.65 E
2021	$0.10 A	$0.13 E	$0.12 E	$0.15 E	$0.50 E
2020	-$0.03 A	$0.00 A	-$0.01 A	$0.07 A	$0.03 A

*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 08/20/2020. The reports text is as of 08/21/2020.

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 2019.

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

- 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 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 its inception and does not expect profits in the foreseeable future.

- 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's balance sheet remains leveraged. As of Jan 31, 2020, the company's net debt amounted to $174 million, compared with $175 million reported in the previous quarter. Also, debt to total capital is very high at 94.3% (more than the industry average of 28.3%) as of Jan 31, 2020.

Last Earnings Report

Box Q1 Earnings and Revenues Top Estimates, Rise Y/Y

Quarter Ending	04/2020
Report Date	May 27, 2020
Sales Surprise	0.34%
EPS Surprise	100.00%
Quarterly EPS	0.10
Annual EPS (TTM)	0.16

Box, Inc. reported fiscal first-quarter 2021 earnings per share of 10 cents, which surpassed the Zacks Consensus Estimate by 5 cents. The company had recorded a loss of $0.03 per share a year ago.

Total revenues came in at $183.56 million, surpassing the consensus mark by 0.3%. The top line increased 12.6% year over year and was within the guided range of $183-$184 million.

Following strong fiscal first-quarter results, the share price rose 5.02%.

The global shift to work from home due to the coronavirus crisis increased the demand for Box's online collaboration tools.

Also, 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 leading organizations such as BETC, City of Berkeley FLIR, NASA, National Bank of Canada, Toyota Finance Corporation, 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 $128.1 million, up 8% year over year. Deferred revenues were $368.3 million, up 11% from the year-ago quarter.

Operating Results

Box's operating expenses (general & administrative, sales & marketing, as well as research & development) of $153.8 million increased 2.8% year over year.

On a non-GAAP basis, the company recorded operating income of $17.2 million versus operating loss of $3 million a year ago. Operating margin was 9% versus 2% 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 $268 million and $99.1 million compared with $195.6 million and $209.4 million, respectively, at fiscal fourth quarter-end.

Net cash provided by operations was $61.9 million and free cash flow was $39.8 million in the fiscal first quarter.

Guidance

For the second quarter of fiscal 2021, Box expects revenues between $189 million and $190 million. On a non-GAAP basis, the company projects earnings per share within 12-14 cents. GAAP loss per share is expected within 13-11 cents.

For fiscal 2021, Box's revenue guidance is expected within $760-$768 million. On a non-GAAP basis, it projects earnings per share in the range of 47-52 cents. GAAP loss per share is expected in the range of 55-50 cents.

Recent News

On **Jul 28, 2020,** Box added a new feature to its advanced security solution, Box Shield. The Shield can now automatically scan files and classify them based on their content. This will help businesses to detect and secure sensitive data with ease.

On **Jul 23, 2020,** Box announced a strategic partnership with Google Cloud. Per the deal, Box will leverage Google Cloud and its advanced capabilities to enhance the scale, performance, and the intelligence of its cloud content management platform on a global basis.

Valuation

Box shares are up 7.8% in the year-to-date period and 33.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 59.1% and 21.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 42.5% and the sector is up 35.6%

The S&P 500 index is up 4.8% in the year-to-date period and 15.6% in the past year.

The stock is currently trading at 3.55X forward 12-month sales, which compares to 8.78X for the Zacks sub-industry, 4X for the Zacks sector and 3.61X for the S&P 500 index.

Over the past five years, the stock has traded as high as 6.22X and as low as 1.75X, with a 5-year median of 4.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $19 price target reflects 3.4X 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	3.55	8.78	4	3.61
	5-Year High	6.22	8.78	4	3.61
	5-Year Low	1.75	3.07	2.32	2.53
	5-Year Median	4.02	5.28	3.14	3.02
EV/Sales TTM	Current	3.83	8.04	3.92	2.81
	5-Year High	8.81	11.57	4.43	3.45
	5-Year Low	2.05	3.05	2.58	2.15
	5-Year Median	4.98	6	3.57	2.8

As of 08/20/2020

Industry Analysis **Zacks Industry Rank:** Top 45% (113 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Dropbox, Inc. **(DBX)**	Outperform	2
Adobe Systems Incorporated **(ADBE)**	Neutral	3
Amazon.com, Inc. **(AMZN)**	Neutral	3
Citrix Systems, Inc. **(CTXS)**	Neutral	3
Alphabet Inc. **(GOOGL)**	Neutral	3
International Business Machines Corporation **(IBM)**	Neutral	4
Microsoft Corporation **(MSFT)**	Neutral	3
Open Text Corporation **(OTEX)**	Neutral	4

Industry Comparison Industry: Internet - Software

	BOX	X Industry	S&P 500	ADBE	GOOGL	MSFT
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	B	B
Market Cap	2.72 B	880.67 M	23.46 B	229.51 B	1,072.11 B	1,623.87 B
# of Analysts	6	5	14	12	12	13
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.00%	0.95%
Value Score	D	-	-	D	C	D
Cash/Price	0.10	0.10	0.07	0.02	0.12	0.09
EV/EBITDA	-51.16	-0.80	13.34	55.94	18.79	22.72
PEG Ratio	2.10	4.86	3.00	3.06	2.16	2.45
Price/Book (P/B)	66.70	7.28	3.12	21.09	5.17	13.73
Price/Cash Flow (P/CF)	NA	30.20	12.60	58.43	22.70	28.45
P/E (F1)	35.78	90.06	21.61	48.99	35.23	33.54
Price/Sales (P/S)	3.80	4.98	2.44	19.05	6.46	11.35
Earnings Yield	2.77%	0.20%	4.43%	2.04%	2.84%	2.98%
Debt/Equity	9.06	0.13	0.76	0.38	0.07	0.57
Cash Flow ($/share)	-0.37	-0.00	6.93	8.19	69.45	7.54
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	NA%	15.48%	10.44%	45.00%	22.11%	19.44%
Proj. EPS Growth (F1/F0)	1,577.77%	0.22%	-5.53%	24.10%	-9.00%	11.07%
Curr. Cash Flow Growth	-23.00%	6.87%	5.20%	27.62%	12.62%	17.66%
Hist. Cash Flow Growth (3-5 yrs)	8.89%	21.83%	8.52%	41.64%	19.91%	10.19%
Current Ratio	0.84	1.54	1.33	1.29	3.41	2.52
Debt/Capital	90.06%	25.21%	44.50%	27.44%	6.63%	36.24%
Net Margin	-18.56%	-17.73%	10.13%	30.72%	18.99%	30.96%
Return on Equity	-485.15%	-14.72%	14.67%	35.53%	15.62%	39.45%
Sales/Assets	0.80	0.59	0.51	0.58	0.61	0.50
Proj. Sales Growth (F1/F0)	9.81%	5.76%	-1.54%	13.81%	7.51%	8.57%
Momentum Score	F	-	-	D	C	B
Daily Price Chg	1.23%	0.15%	-0.59%	3.56%	2.05%	2.33%
1 Week Price Chg	-1.09%	0.00%	1.09%	-0.44%	0.42%	-1.68%
4 Week Price Chg	-1.09%	2.18%	1.91%	10.83%	3.92%	5.94%
12 Week Price Chg	-7.23%	10.84%	6.82%	25.97%	11.14%	18.29%
52 Week Price Chg	33.63%	7.68%	1.47%	66.32%	32.29%	55.74%
20 Day Average Volume	1,440,753	547,595	1,873,576	2,017,042	1,587,017	32,228,854
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.08%
(F1) EPS Est 4 week change	0.00%	0.00%	1.79%	0.00%	6.37%	2.60%
(F1) EPS Est 12 week change	29.64%	4.19%	3.35%	0.57%	7.88%	3.07%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.42%	0.00%	7.83%	3.90%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Growth Score	A
Momentum Score	F
VGM Score	B

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.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.