

Veeva Systems Inc. (VEEV)

\$120.93 (As of 03/16/20)

Price Target (6-12 Months): **\$103.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/08/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: F

Summary

Veeva Systems ended the fiscal fourth quarter on a strong note. However, high expenses on the operational side dented margins in the quarter. Also, intense competition and a saturating life sciences market remain headwinds. On the bright side, the company's core Subscription business segment performed impressively. A stellar guidance for fiscal 2021 buoys optimism. Apart from these, the company has benefitted from its Crossix and Physicians World buyouts in the quarter. Also, the flagship Veeva Vault's customer count has increased manifold in recent times, accounting for a significant part of the quarterly revenues. The company is also confident about growth in new markets, with products like EDC, Safety, Nitro and Vault. Reflective of these, the stock has outperformed the industry in a year's time.

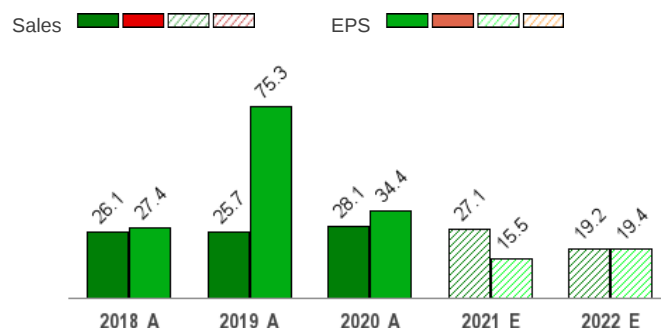
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$176.90 - \$118.11
20 Day Average Volume (sh)	2,165,614
Market Cap	\$18.0 B
YTD Price Change	-14.0%
Beta	1.18
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 43% (108 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.9%
Last Sales Surprise	4.5%
EPS F1 Est- 4 week change	-6.5%
Expected Report Date	06/03/2020
Earnings ESP	0.0%
P/E TTM	55.2
P/E F1	47.8
PEG F1	3.2
P/S TTM	16.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	390 E	407 E	427 E	446 E	1,672 E
2021	326 E	340 E	358 E	376 E	1,403 E
2020	245 A	267 A	281 A	312 A	1,104 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.72 E	\$0.75 E	\$0.79 E	\$0.81 E	\$3.02 E
2021	\$0.59 E	\$0.61 E	\$0.65 E	\$0.66 E	\$2.53 E
2020	\$0.50 A	\$0.55 A	\$0.60 A	\$0.54 A	\$2.19 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 03/16/2020. The reports text is as of 03/17/2020.

Overview

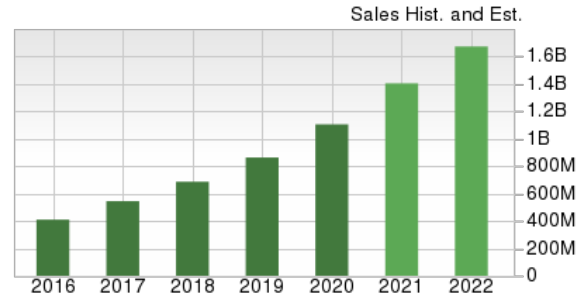
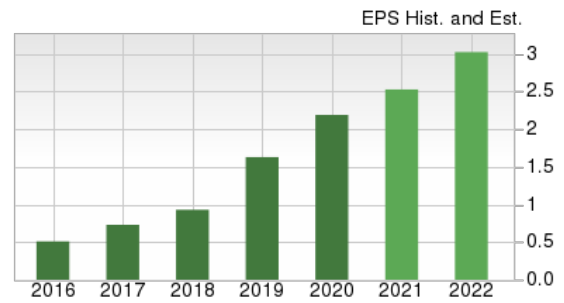
Headquartered in Pleasanton, CA, Veeva Systems Inc. (VEEV) offers cloud-based software applications and data solutions for the life sciences industry. The company's product portfolio includes Veeva CRM (customer relationship management), Veeva Vault (content and information management), Veeva Network (customer master and product data management) and Veeva data services (Veeva OpenData and Veeva KOL data).

Veeva CRM is the company's flagship product and runs on salesforce.com's SaaS platform. The contract between Veeva and salesforce.com extends till 2025.

FY20 at a Glance

Fiscal 2020 revenues totaled \$1.10 billion, up 28.1%.

Subscription Service revenues were \$896.3 million (81.2% of net sales), while Professional services and other revenues grossed \$207.8 million (18.8%).



Reasons To Sell:

▼ **Valuation Looks Dull:** Veeva Systems' P/S (TTM basis) ratio is currently trading at 17.39 over the past year, which compares with 2.93 and 6.82 for the S&P 500 index and the industry, respectively.

▼ **Macroeconomic Sluggishness:** The life sciences are coping with a sluggish economy, less revenue and reduced productivity. The company's industry-specific focus is also its weakness, as any sector specific movement can adversely affect its performance. Moreover, growth opportunity in the life sciences industry is slowing down as the market saturates, which can hurt Veeva Systems' CRM sales growth rate going forward. Furthermore, compliance is a very important factor in the highly-regulated life sciences industry. In current times, regulations have grown increasingly difficult for global companies. These standards are constantly evolving, making compliance even more challenging. We believe, unfavorable regulatory tidings in the life sciences industry might mar Veeva System's growth trajectory in the long haul.

▼ **Escalating Costs and Dented Margins:** High expenses on the operational side raise concern. In the fiscal fourth quarter, operating expenses totaled \$122.1 million, up a significant 40% from the previous year.

Resultantly, adjusted gross margin was 72.4%, down 150 basis points (bps) in the quarter. Also, adjusted operating margin fell a substantial 310 bps to 39.7%.

▼ **Integration Risks:** A series of acquisitions might pose integration risks for Veeva Systems. For instance, the company expects a headwind of 250 bps from the acquisitions of Crossix and Physicians World in fiscal 2021.

▼ **Cutthroat Competition:** Veeva Systems faces significant competition across most of its product lines. The competitors include the likes of Oracle Corporation, Cegedim SA and IMS Health Holding in the CRM solutions market. In the content management market, its Vault product competes with products from EMC, Microsoft and OpenText. We believe that intensifying competition will impact the company's market share going forward.

Significant customer concentration, foreign exchange headwinds, high operational expenses and intensifying competition are the primary headwinds.

Risks

- **Share Price Movement:** Veeva Systems has outperformed its industry in the past year. The stock has lost 1.2%, wider than the industry's 13.9% fall. Meanwhile the S&P 500 index fell 5.3%. Growing demand for cloud-based vault applications, an industry-focus approach, need-oriented products and international expansion are key positives. A raised view for 2021 is also heartening.
- **View Impressive:** Veeva Systems issued a solid guidance for fiscal 2021.

Notably, revenues are expected within \$1.40-\$1.41 billion, higher than the earlier projected range of \$1,380 million and \$1,390 million. Adjusted earnings per share (EPS) are expected at \$2.50.

Notably, contribution from Crossix and Physicians World is projected between \$105 million and \$110 million, while Subscription revenues are expected at around \$1,145 million.

For the first quarter of fiscal 2021, Veeva Systems expects revenues between \$327 million and \$328 million. Adjusted EPS is projected between 59 cents and 60 cents.

- **Focus on Cloud-Based Software:** The life sciences industry has been quite slow in adopting cloud-based software as compared to other industries. However, we believe that the industry is gradually realizing the benefits of cloud-based applications particularly due to the rising regulations and budgetary constraints. The cost-effectiveness of cloud-based applications over in-premise applications is attracting life science companies. However, these companies are also looking for vendors that effectively address their commercial as well as research & development (R&D) operational needs.

Moreover, Veeva Systems has also released its advanced Veeva Commercial Cloud offering, Veeva CRM Engage Webinar, at the Veeva Commercial Summit Europe. Veeva Systems also released Veeva Vault PromoMats Brand Portal — a new digital asset management capability that helps brand managers create portals, organize and showcase content within Veeva Vault PromoMats. Notably, in the fiscal fourth quarter, Vault accounted for 49% of net revenues, closing fiscal 2020 with 715 Vault customers.

- **Veeva Nitro - A Major Milestone:** In recent times, management announced a major new product Veeva Nitro. Built on Amazon Redshift, the platform offers an industry-specific database that merges key data sources of companies in the HCIT industry and ensures faster performance, even on the largest datasets. Per management, Nitro was well received at the summit because of its potential to eliminate another major custom system that has been a real burden for customers. The company expects its first true analytics application to prove profitable in the long run. Furthermore, Nitro is currently available in Japan for early adopters.

- **Industry Collaborations:** Veeva Systems has been taking consistent efforts to support industry collaborations in life sciences. This is done to launch new products and market them easily. The company has been investing in resources to participate on a variety of development committees and industry associations groups. For example, Align Biopharma is a life sciences industry standards group founded by Veeva Systems and technology leaders from the world's largest global pharmaceutical companies. Its mission is to create open technology standards that make it easier for healthcare professionals to work with life sciences companies.

Align Biopharma leadership sets the group's priorities, dedicates expert resources to standards initiatives, and contributes to the review and authoring of standards. Veeva Systems has dedicated resources to the ongoing operations of Align Biopharma and to establish the highest quality technology standards. The group has posted its first standard for identity management.

- **Product Portfolio Strong:** Veeva Systems' unique solutions include Veeva Vault, Veeva CRM, Veeva Network and Veeva OpenData. Veeva Vault is the first cloud-based content management system built specifically for the life sciences. Veeva CRM is a customer relationship management platform that offers cloud-based solutions to reach customers on any channel. Notably, the company has announced mobile innovations in the Veeva CRM platform, which provides information to field teams from any device.

Another new cloud application of the company is Veeva Vault Training, designed to simplify role-based training across life sciences organizations and help quality teams remain audit-ready and compliant. Recently, Veeva Systems released its new AI application, Veeva Andi, that delivers insights and next best action suggestions right in Veeva CRM. The company also announced it is embedding AI in Veeva CRM with Approved Notes and in Veeva Vault PromoMats with Auto Claims Linking. Additionally, the company added 50 new Vault customers. Notably, management saw strength across each Vault application area. Furthermore, Veeva Systems signed a multi-product deal with a top 20 pharma in Europe for Vault in the clinical and regulatory areas.

- **Strategic Partnerships to Drive Growth:** Veeva Systems and Accenture PLC recently announced a strategic partnership to provide Veeva Vault RIM solutions to life sciences and pharma companies. The collaboration reflects growing demand for the company's solutions among major life sciences and pharmaceutical companies. Strategic deals with companies like Accenture will strengthen Veeva Systems' customer base which in turn will drive subscription revenues. In recent times, a top 50 pharma selected Veeva Systems as their CRM standard for Europe.

In recent times, Veeva Systems acquired Crossix and Physicians World, which have proven to be accretive. Notably, the acquisitions jointly contributed more than \$19 million to total revenues in the fiscal fourth quarter. Management expects higher contribution from these buyouts in fiscal 2021.

- **Industry Specific Focus:** Veeva Systems' industry specific focus gives it a significant leverage, in our view. The company's knowledge base about the different components of the life sciences industry is helping it to build targeted products. Product like Veeva OpenData provides customer data for all healthcare professionals (HCP), healthcare organizations (HCO) and affiliations across life sciences' major markets. Veeva OpenData aims at obliterating complexities involved with customer data management with the help of data access agreements and partnerships with other third-party providers. Similarly, the company's CRM and vault applications look after the respective marketing and content management operations of life sciences companies. In the fiscal fourth quarter, a top 20 pharma selected Veeva OpenData in the United States.

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- **Explores New Markets:** Veeva Systems has planned to enter the drug safety and pharmacovigilance market. Vault Safety will make Vault Development Cloud a comprehensive suite of unified cloud applications with Vault Clinical, Vault Quality, and Vault RIM. In recent past, in addition to the 50 RIM win, the company had a top 5 pharma go-live with the first phase of their Vault RIM project. Per management, this latest development is a big milestone for Veeva Systems' regulatory products.
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Last Earnings Report

Veeva Systems Q4 Earnings Beat Estimates, Margins Pressed

Veeva Systems reported fourth-quarter fiscal 2020 EPS of 54 cents, beating the Zacks Consensus Estimate of 52 cents. The metric shot up 20% on a year-over-year basis.

The company's revenues totaled \$311.5 million, outpacing the Zacks Consensus Estimate of \$298.1 million. On a year-over-year basis, the top line improved 34.1%.

Segmental Details

Subscription Service

Fourth-quarter subscription service revenues summed \$254.1 million, up 33.3% year over year.

Professional Service and Others

Professional Service revenues rose almost 37.8% to \$57.4 million from the year-ago figure.

Per management, outperformance by Veeva Commercial Cloud and Veeva Vault drove revenues across all segments.

Margin Details

In the reported quarter, adjusted gross profit increased 31.4% year over year to \$225.5 million. Adjusted gross margin was 72.4%, which contracted 150 basis points (bps).

Adjusted operating income totaled \$103.4 million, up 33.2% year over year. In the quarter under review, adjusted operating margin fell 310 bps to 39.7%.

Meanwhile, operating expenses totaled \$122.1 million, up 40% year over year.

Guidance

For the first quarter of fiscal 2021, Veeva Systems expects revenues between \$327 million and \$328 million.

Adjusted EPS is projected between 59 and 60 cents.

For fiscal 2021, revenues are expected within \$1.40-\$1.41 billion.

Adjusted EPS is expected at \$2.50.

Quarter Ending 01/2020

Report Date	Mar 03, 2020
Sales Surprise	4.49%
EPS Surprise	3.85%
Quarterly EPS	0.54
Annual EPS (TTM)	2.19

Valuation

Veeva Systems' shares are down 14% and 1.2% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 8.7% while the Zacks Computer and Technology Market is down 11.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 13.9% while sector is up 0.5%.

The S&P 500 index is down 15.9% in the year-to-date period and 5.3% in the past year.

The stock is currently trading at 12.5X Forward 12-months sales, which compares to 5.2X for the Zacks sub-industry, 3.1X for the Zacks sector and 2.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.8X and as low as 5.4X, with a 5-year median of 10.9X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$103 price target reflects 10.6X forward 12-months sales.

The table below shows summary valuation data for VEEV.

Valuation Multiples - VEEV					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	12.48	5.24	3.06	2.9
	5-Year High	22.82	15.61	3.58	3.43
	5-Year Low	5.41	3.06	2.3	2.54
	5-Year Median	10.91	5.26	3.06	3
P/B TTM	Current	11.53	5.25	4.45	3.64
	5-Year High	19.34	8.23	5.53	4.55
	5-Year Low	5.45	2.29	3.13	2.85
	5-Year Median	10.67	5.19	4.27	3.63

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 253)



Top Peers

Microsoft Corporation (MSFT)	Outperform
Amazon.com, Inc. (AMZN)	Neutral
salesforce.com, inc. (CRM)	Neutral
International Business Machines Corporation (IBM)	Neutral
IQVIA Holdings Inc. (IQV)	Neutral
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral
Oracle Corporation (ORCL)	Neutral
Premier, Inc. (PINC)	Neutral

Industry Comparison Industry: Internet - Software				Industry Peers		
	VEEV Underperform	X Industry	S&P 500	AMZN Neutral	MSFT Outperform	ORCL Neutral
VGM Score	F	-	-	B	D	C
Market Cap	17.97 B	371.23 M	16.36 B	840.88 B	1,030.01 B	134.72 B
# of Analysts	11	5	13	13	14	13
Dividend Yield	0.00%	0.00%	2.63%	0.00%	1.51%	2.25%
Value Score	F	-	-	D	D	B
Cash/Price	0.07	0.15	0.06	0.06	0.11	0.18
EV/EBITDA	61.39	-0.47	10.54	21.66	16.64	9.15
PEG Ratio	3.34	1.85	1.46	2.26	1.82	1.13
Price/Book (P/B)	11.51	3.74	2.26	13.55	9.35	8.47
Price/Cash Flow (P/CF)	79.00	17.42	8.80	25.19	21.31	9.69
P/E (F1)	49.45	29.06	13.18	61.17	24.11	11.01
Price/Sales (P/S)	16.27	2.60	1.78	3.00	7.67	3.39
Earnings Yield	2.09%	1.02%	7.56%	1.63%	4.15%	9.08%
Debt/Equity	0.01	0.12	0.70	0.38	0.64	3.13
Cash Flow (\$/share)	1.53	-0.01	7.01	67.05	6.35	4.41
Growth Score	C	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	42.83%	16.66%	10.85%	110.19%	17.68%	7.82%
Proj. EPS Growth (F1/F0)	15.44%	6.90%	5.72%	20.00%	18.24%	10.23%
Curr. Cash Flow Growth	28.41%	7.34%	6.15%	31.33%	19.70%	-0.35%
Hist. Cash Flow Growth (3-5 yrs)	52.94%	17.19%	8.55%	49.26%	11.99%	-1.03%
Current Ratio	5.40	1.55	1.24	1.10	2.80	2.37
Debt/Capital	1.26%	17.41%	42.57%	27.39%	39.05%	75.79%
Net Margin	27.27%	-16.16%	11.64%	4.13%	33.02%	27.06%
Return on Equity	16.96%	-13.79%	16.74%	21.07%	40.41%	61.05%
Sales/Assets	0.60	0.62	0.54	1.41	0.48	0.38
Proj. Sales Growth (F1/F0)	27.08%	16.58%	3.50%	19.14%	12.77%	0.98%
Momentum Score	F	-	-	C	F	D
Daily Price Chg	-12.62%	-9.29%	-12.67%	-5.37%	-14.74%	-10.87%
1 Week Price Chg	-5.37%	-15.25%	-11.01%	-6.11%	-1.70%	1.18%
4 Week Price Chg	-23.88%	-35.00%	-32.63%	-20.88%	-26.94%	-22.99%
12 Week Price Chg	-15.49%	-27.50%	-30.17%	-5.79%	-13.97%	-20.46%
52 Week Price Chg	-1.24%	-33.75%	-23.26%	-3.04%	15.18%	-20.09%
20 Day Average Volume	2,165,614	390,948	3,457,426	6,384,229	65,278,424	18,045,324
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.04%	0.20%
(F1) EPS Est 4 week change	-6.50%	0.00%	-0.48%	-0.06%	-0.41%	0.00%
(F1) EPS Est 12 week change	-7.81%	-6.81%	-0.93%	4.19%	4.95%	0.00%
(Q1) EPS Est Mthly Chg	4.18%	0.00%	-0.60%	-0.08%	-1.33%	-1.01%

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	C
Momentum Score	F
VGM Score	F

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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