

Veeva Systems Inc. (VEEV)

\$162.02 (As of 02/18/20)

Price Target (6-12 Months): **\$170.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: B

Summary

Veeva Systems has outperformed the industry over the past year. The company's core Subscription business segment is a solid contributor to the topline. An impressive guidance and a raised view for fiscal 2020 buoy optimism in the stock. In addition, the company continues to benefit from the flagship Vault platform. In fact, Veeva Vault's customer count has increased manifold in recent times. The company's new CRM Sunrise UI and Nitro look promising as well. In Commercial Cloud, Veeva Systems has secured a number of deals. Expansion in gross and operating margins buoy optimism. On the flip side, high expenses on the operational side are worrisome. Also, intense competition and a saturating life sciences market remain potent threats. A series of acquisitions poses integration risks.

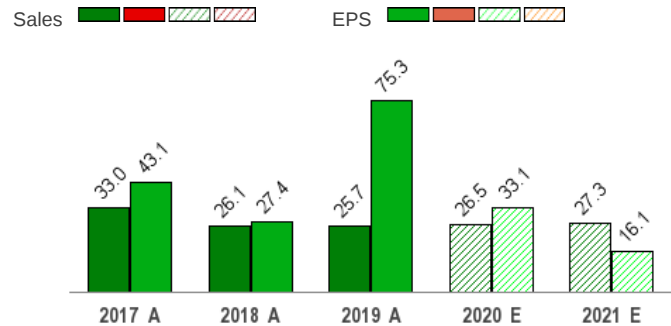
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$176.90 - \$110.23
20 Day Average Volume (sh)	1,020,989
Market Cap	\$24.1 B
YTD Price Change	15.2%
Beta	1.23
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 41% (104 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.1%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	03/03/2020
Earnings ESP	0.0%
P/E TTM	77.2
P/E F1	64.3
PEG F1	4.3
P/S TTM	23.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	314 E	341 E	359 E	373 E	1,388 E
2020	245 A	267 A	281 A	298 E	1,090 E
2019	196 A	210 A	225 A	232 A	862 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.55 E	\$0.62 E	\$0.66 E	\$0.69 E	\$2.52 E
2020	\$0.50 A	\$0.55 A	\$0.60 A	\$0.52 E	\$2.17 E
2019	\$0.33 A	\$0.39 A	\$0.45 A	\$0.45 A	\$1.63 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 02/18/2020. The reports text is as of 02/19/2020.

Overview

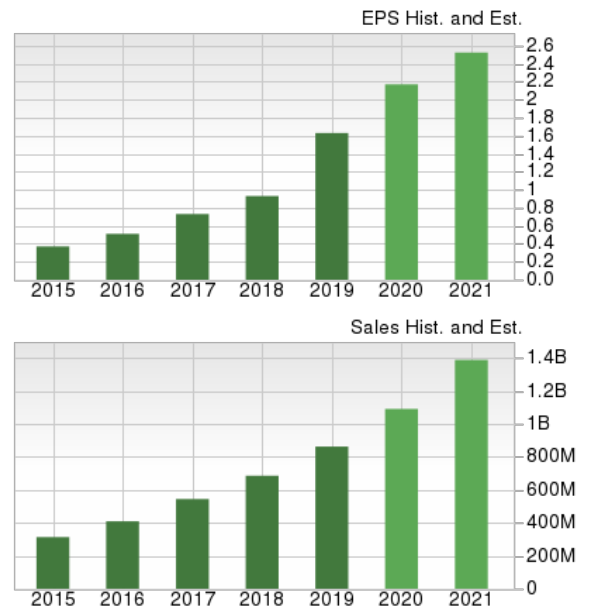
Headquartered in Pleasanton, CA, Veeva Systems Inc. (VEEV) offers cloud-based software applications and data solutions for the life sciences industry. The company's product portfolio includes Veeva CRM (customer relationship management), Veeva Vault (content and information management), Veeva Network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

FY19 at a Glance

On a full-year basis, revenues were \$862.2 million, up 24.9% from fiscal 2018.

Subscription services revenues totaled \$694.5 million (80.5% of net sales) while Professional services and other revenues grossed \$167.7 million (19.5%).



Reasons To Buy:

▲ **Share Price Movement:** Veeva Systems has outperformed its industry in the past year. The stock has rallied 37.3%, compared with the industry's 14.1% gain. The current level also compares favorably with the S&P 500's rally of 20.5%. Growing demand for cloud-based vault applications, an industry-focus approach, need-oriented products and international expansion are key positives. A raised revenue guidance for fiscal 2020 is promising as well.

▲ **Impressive View:** Veeva Systems raised its fiscal 2020 guidance.

The company now expects revenues within \$1,088-\$1,091 million, higher than the earlier projected range of \$1,062-\$1,065 million.

Also, for fiscal 2021, the company expects revenues between \$1,380 million and \$1,390 million. Subscription revenues are projected between \$1,140 million to \$1,145 million.

▲ **Margin Expansion:** In the fiscal third quarter, adjusted gross profit increased 27.8% year over year to \$213.7 million. Adjusted gross margin was 76.1%, which expanded 170 basis points (bps).

Adjusted operating income totaled \$111.6 million, up 31.7% year over year. In the quarter, adjusted operating margin improved 200 bps to 39.7%.

▲ **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, uncertain regulatory environment has increased demand from software vendors who are well-acquainted with the industry trends. In a bid to meet the growing demand, Veeva Systems introduced Veeva Nitro —a next-generation commercial data warehouse for the life sciences industry.

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.

▲ **Veeva Nitro - A Major Milestone:** Management recently 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. Per management, in fiscal 2020, Veeva Systems aims to release major capabilities within Vault CDMS which are expected to be real game changers for the life sciences industry.

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.

Further, Veeva Systems announced in recent times that it will partner with leading interactive response technology vendors to provide advanced randomization and trial supply management capabilities with Veeva Vault EDC.

In recent times, Veeva Systems acquired Physicians World, a leading provider of speaker bureau services for the U.S. market, which complements the company's events management software offerings. Additionally, the Crossix acquisition is expected to bring depth in

Growing demand for cloud-based and vault applications, new product launches, Veeva Systems' industry focus approach and international expansion are key positives.

patient data and data science to the company.

- ▲ **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 third quarter, a top 50 pharma selected Veeva OpenData and two other top-50 pharmas are in the process of rolling out OpenData to 30 countries.

- ▲ **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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Reasons To Sell:

- ▼ **Valuation Looks Dull:** Veeva Systems' P/S (TTM basis) ratio is currently trading at 25.10 over the past year, which compares with 3.84 and 8.08 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 Expenses:** High expenses on the operational side raise a concern. In the fiscal third quarter, adjusted operating expenses totaled \$102.1 million, up 23.7% year over year.
- ▼ **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.

Last Earnings Report

Veeva Systems Earnings Beat in Q3, Guidance Impressive

Veeva Systems reported third-quarter fiscal 2020 earnings per share of 60 cents, well ahead of the Zacks Consensus Estimate of 54 cents. The metric shot up 33.3% on a year-over-year basis.

This company's revenues totaled \$280.9 million, outpacing the Zacks Consensus Estimate of \$275.4 million. On a year-over-year basis, the top line improved 25%.

Segmental Details

Subscription Service

Third-quarter subscription service revenues summed \$226.8 million, up 27.2% year over year. Per management, the solid momentum in bookings was maintained in the quarter.

Professional Service and Others

Professional Service revenues rose almost 16.4% to \$54.2 million from the figure registered in the year-ago quarter.

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 27.8% year over year to \$213.7 million. Adjusted gross margin was 76.1%, which expanded 170 bps.

Adjusted operating income totaled \$111.6 million, up 31.7% year over year. In the quarter under review, adjusted operating margin improved 200 bps to 39.7%.

Meanwhile, operating expenses totaled \$102.1 million, up 23.7% year over year.

Guidance

For the fiscal fourth quarter, Veeva expects revenues between \$296 million and \$299 million. Adjusted EPS is anticipated within 51-52 cents.

For fiscal 2020, Veeva has raised its revenue guidance.

Notably, the company projects revenues within \$1,088 million and \$1,091 million, higher than the earlier projected range of \$1,062 million to \$1,065 million. Adjusted EPS is anticipated within \$2.16 and \$2.17.

Quarter Ending **10/2019**

Report Date	Nov 26, 2019
Sales Surprise	2.02%
EPS Surprise	11.11%
Quarterly EPS	0.60
Annual EPS (TTM)	2.10

Recent News

On **Dec 4**, Veeva announced the launch of Veeva OpenData Explorer and Veeva OpenData API.

Valuation

Veeva Systems' shares are up 15.2% and 37.3% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 16.5% while the Zacks Computer and Technology Market is up 9.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 14.1% and sector is up 29.3%.

The S&P 500 index is up 4.9% in the year-to-date period and 20.5% in the past year.

The stock is currently trading at 17.18X Forward 12-months sales, which compares to 6.76X for the Zacks sub-industry, 2.87X for the Zacks sector and 3.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.82X and as low as 5.41X, with a 5-year median of 10.73X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$170 price target reflects 18.03X 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	17.18	6.76	2.87	3.58
	5-Year High	22.82	15.61	3.83	3.58
	5-Year Low	5.41	3.06	2.45	2.54
	5-Year Median	10.73	5.35	2.96	3
P/B TTM	Current	15.45	7.78	5.76	4.68
	5-Year High	19.34	8.23	5.76	4.68
	5-Year Low	5.45	2.29	3.13	2.85
	5-Year Median	10.53	5.19	4.24	3.62

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Top 41% (104 out of 255)



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 Neutral	X Industry	S&P 500	AMZN Neutral	MSFT Outperform	ORCL Neutral
VGM Score	D	-	-	B	D	C
Market Cap	24.07 B	690.22 M	24.50 B	1,073.12 B	1,424.08 B	177.86 B
# of Analysts	10	5	13	13	14	13
Dividend Yield	0.00%	0.00%	1.78%	0.00%	1.09%	1.73%
Value Score	F	-	-	D	D	B
Cash/Price	0.06	0.11	0.04	0.05	0.10	0.15
EV/EBITDA	84.12	-2.03	14.25	27.87	23.43	11.64
PEG Ratio	4.39	2.71	2.08	2.89	2.51	1.46
Price/Book (P/B)	15.42	5.62	3.28	17.29	12.93	10.99
Price/Cash Flow (P/CF)	105.84	36.44	13.68	32.15	29.47	12.58
P/E (F1)	64.98	53.96	19.12	78.02	33.20	14.26
Price/Sales (P/S)	23.49	4.44	2.67	3.83	10.61	4.49
Earnings Yield	1.56%	0.69%	5.23%	1.28%	3.01%	7.02%
Debt/Equity	0.01	0.11	0.70	0.38	0.64	3.13
Cash Flow (\$/share)	1.53	-0.01	6.93	67.05	6.35	4.41
Growth Score	B	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	41.97%	16.66%	10.84%	110.19%	17.68%	6.17%
Proj. EPS Growth (F1/F0)	16.27%	13.19%	7.11%	20.08%	18.72%	10.47%
Curr. Cash Flow Growth	28.41%	2.02%	7.81%	31.33%	19.70%	-0.35%
Hist. Cash Flow Growth (3-5 yrs)	52.94%	14.75%	8.25%	49.26%	11.99%	-1.03%
Current Ratio	5.40	1.58	1.24	1.10	2.80	2.37
Debt/Capital	1.26%	15.66%	42.37%	27.39%	39.05%	75.79%
Net Margin	29.86%	-14.43%	11.76%	4.13%	33.02%	27.62%
Return on Equity	17.56%	-13.19%	16.86%	21.07%	40.41%	56.86%
Sales/Assets	0.57	0.64	0.55	1.41	0.48	0.37
Proj. Sales Growth (F1/F0)	27.29%	18.39%	4.05%	19.18%	13.11%	1.07%
Momentum Score	B	-	-	A	D	C
Daily Price Chg	1.98%	0.00%	-0.38%	0.97%	1.01%	-0.04%
1 Week Price Chg	4.77%	1.97%	1.65%	2.67%	0.79%	1.37%
4 Week Price Chg	10.90%	0.00%	0.39%	13.94%	12.45%	0.42%
12 Week Price Chg	1.75%	6.42%	4.84%	19.96%	23.15%	-1.88%
52 Week Price Chg	34.57%	-0.09%	14.99%	32.45%	73.09%	6.59%
20 Day Average Volume	1,020,989	256,152	1,996,897	4,317,731	31,897,204	7,500,164
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.23%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.73%	0.00%	-0.01%	5.51%	5.25%	0.00%
(F1) EPS Est 12 week change	2.66%	-0.49%	-0.21%	4.06%	5.36%	0.49%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.26%	2.80%	7.07%	0.00%

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	B
Momentum Score	B
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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