

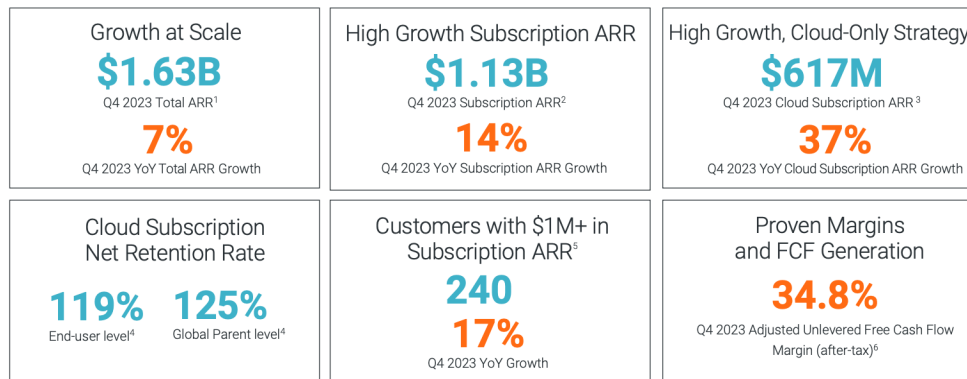
INFORMATICA Q4 2023 EARNINGS

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CONTEXT

Informatica, a prominent player in the enterprise cloud data management sector, this week [announced](#) its financial results for the fourth quarter, showcasing significant strides in its cloud-first strategy.

Informatica at a Glance – Q4'23



This Research Note delves into the key financial achievements and strategic milestones that Informatica has attained amidst a rapidly evolving digital landscape.

QUARTER PERFORMANCE

Informatica showed significant growth and performance during the quarter:

Q4'23 Financial Results Exceeded Guidance

| | Guidance Q4 2023 | Results Q4 2023 |
|--|---|------------------------------|
| GAAP Total Revenues | \$420 – 440M ~8% YoY Growth at Midpoint | \$445.2M 11.6% YoY Growth |
| Subscription ARR | \$1.098 – 1.118B ~11% YoY Growth at Midpoint | \$1.133B 13.9% YoY Growth |
| Cloud Subscription ARR | \$604 – 614M ~35% YoY Growth at Midpoint | \$616.8M 36.7% YoY Growth |
| Non-GAAP Operating Income ¹ | \$130 – 150M ~23% YoY Growth at Midpoint | \$161.9M 42.4% YoY Growth |

- **Total Revenue:**

- GAAP total revenues were reported at \$445 million, marking a 12% increase year-over-year.

- **Subscription Revenue:**

- Subscription revenue significantly increased, rising 26% year-over-year to \$300 million.

- **Gross Margin:**

- The gross margin stood at 83%, improving by 1 percentage point from the previous year.

- **Operating Income:**

- Non-GAAP operating income reached \$162 million, showing a substantial 42% growth year-over-year.

- **Net Income and Earnings Per Share:**

- Net income was reported at \$97 million.
- Net income per diluted share amounted to \$0.32, based on approximately 305 million outstanding diluted shares.

- **Cash Flow:**

- Adjusted unlevered free cash flow after tax was \$155 million, exceeding expectations due to higher operating income performance and efficient cash collections.

- **Cash Position and Net Debt:**
 - Cash and short-term investments totaled \$992 million, an increase from the previous year.
 - Net debt was \$850 million.
- **Annual Recurring Revenue (ARR):**
 - Total ARR was \$1.63 billion, a 7% increase year-over-year.
 - Cloud Subscription ARR grew by 37% year-over-year to \$617 million.
 - Combining cloud and self-managed subscriptions, Subscription ARR increased by 14% year-over-year to \$1.13 billion.
- **Maintenance and Professional Services Revenues:**
 - These revenues totaled \$143 million, in line with expectations.
- **Renewal Rates:**
 - The quarterly subscription renewal rate was approximately 89%.
 - Its maintenance renewal rate remained consistent at 95%.

Informatica's financial performance reflects the successful transition to its cloud-only strategy, demonstrating significant growth in its cloud subscription business and overall strong fiscal health.

QUARTER HIGHLIGHTS

Informatica achieved several non-fiscal highlights and advancements during the quarter that signify its strategic growth and market presence. These accomplishments include:

- **Innovation and Product Development:**
 - Continued innovation in Master Data Management (MDM) and 360 Apps, enhancing data matching capabilities and expanding the trust framework.
 - Launched new products and features, such as the location master extension, Cloud Data Governance, and Catalog enhancements.
 - Focused on generative AI advancements with CLAIRE Metadata Foundation and CLAIRE copilot, boosting metadata collection and data management efficiency.
- **Strategic Partnerships and Ecosystem Expansion:**

- Strengthened partnerships with major cloud providers like Microsoft Azure, AWS, and GCP.
 - Formed a new strategic partnership with MongoDB, focusing on cloud-native applications across various sectors.
 - Launched a Canada point of delivery on Microsoft Azure and announced new native apps for Microsoft Fabric.
 - Participated as a launch partner for Amazon S3 Access Grants and showcased gen AI solutions at Microsoft Azure OpenAI and Amazon Bedrock.
- **Customer Growth and Success:**
 - Attracted significant new customers, such as Royal Caribbean Group, for modern MDM solutions.
 - Expanded existing customer relationships, like with Pella Corporation and Amgen, utilizing MDM SaaS and cloud data quality services.
 - Notable growth in the number of customers spending over \$1 million and \$5 million in subscription ARR.
 - Success story with the University of Sydney, showcasing platform expansion across the enterprise for data sharing and AI readiness.
 - **Market Recognition and Analyst Ratings:**
 - Recognized as a leader in the 2023 Gartner Magic Quadrant for Data Integration Tools.
 - Received strong ratings in the 2023 Gartner Vendor Rating report and Forrester Wave reports for Cloud Data Pipelines and Product Information Management.
 - **Community and Industry Engagement:**
 - Engaged in the Global System Integrator (GSI) community, with GSIs expanding their data and AI practices on Informatica's platform.
 - Announced collaboration with Deloitte and Workiva for an ESG compliance offering, combining Informatica's technology with their expertise.

These achievements underscore Informatica's commitment to continuous innovation, customer-centric approach, and strengthening its position as a leader in the data management and AI space.

OUTLOOK

Informatica's outlook for the coming quarter, as detailed in their earnings conference call, includes several key financial projections and expectations:

- **Revenue Expectations:**
 - GAAP total revenues are projected to be \$375 million to \$395 million, representing an approximate growth of 5.4% year-over-year.
- **Annual Recurring Revenue (ARR) Projections:**
 - Subscription ARR is anticipated to range between \$1.135 billion and \$1.155 billion, indicating an expected growth of around 12.2% compared to the previous year.
 - Cloud subscription ARR is forecasted to be between \$645 million and \$655 million, translating to an estimated year-over-year growth of about 34.5%.
- **Operating Income:**
 - Non-GAAP operating income for the quarter is expected to be \$97 million to \$117 million, representing a projected growth of approximately 26.2% year-over-year.
- **Adjusted Unlevered Free Cash Flow:**
 - For the first quarter, adjusted unlevered free cash flow after tax is projected to be between \$102 million and \$122 million.

These projections reflect Informatica's continued emphasis on its cloud-only, consumption-driven strategy and its expectations for solid growth and financial performance in the upcoming quarter.

ANALYSIS

Informatica is navigating a transformative period with notable success. Their robust 37% year-over-year growth in cloud subscription ARR, reaching \$617 million, is particularly striking. This growth clearly indicates Informatica's effective shift towards a cloud-first strategy, meeting the modern demands of data management in a cloud-centric world.

The fact that cloud subscription now constitutes a significant 38% of their total ARR highlights their successful pivot away from traditional models towards more contemporary, flexible cloud solutions.

The increase in non-GAAP operating income by 32% to \$462 million and a substantial rise in adjusted unlevered free cash flow are commendable. These figures reflect sound financial health and suggest efficient operational management and strategic cost optimization. Informatica's ability to exceed top and bottom-line guidance metrics in a challenging economic environment speaks volumes about its market resilience and the intrinsic value of its AI-powered IDMC platform.

Looking forward, Informatica's raised full-year non-GAAP operating income margin expectations and reaffirmed other metrics indicate a confident outlook. Their focus on fueling growth through ongoing digital transformation, cloud migration, and generative AI initiatives is well-aligned with broader industry trends. This strategy positions them to capitalize on emerging opportunities, especially as AI becomes increasingly integral in data management.

However, it's important to consider the competitive landscape and evolving customer demands in the data management sector. Informatica's ability to maintain momentum will depend on continuous innovation, deepening ecosystem partnerships, and effectively leveraging AI capabilities to offer differentiated solutions. As they celebrate 30 years of operations, their journey ahead in the data management and AI arena appears promising, albeit in an increasingly competitive and rapidly evolving market.



RESEARCH NOTE

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