



CLOUDERA INC.

(Ticker: CLDR)



Stock Price: \$11.63 (9/4/20)	Company Size: 3.50B	Author: Janice Quek
Company Rank: 43	Sector: Technology	Industry: Business Intelligence Software

Cloudera provides a platform of solutions to collect, process and analyze big data for important decision making insights.

IN THIS FIRST FOCUS WE'LL COVER:

► Summary of the Business

Cloudera's solutions enable companies that deploy across multiple clouds to manage, optimize, secure, store and analyze their data efficiently for improved decision making.

► Recent Developments

The company recently launched its new Cloudera Data Platform for the cloud, taking the firm in a new direction. While sales are improving, growth is slow, and Covid-19 has weakened the business environment further.

► Competitive Environment

Cloudera's value proposition has strengthened, but intense competition from alternative technology vendors and cloud giants will make growth challenging.

► Conclusions/Recommendations

We are uncertain how the new platform will play out amidst competition. Performance is still weak for Cloudera and thus we rate it a "Yellow Light".

Grab-and-Go™ THEISIS

An investment in Cloudera is a play on big data management and analytics solutions. The company provides a platform of solutions for companies to manage their data across multiple cloud environments. In order for Cloudera to succeed, the company will need to strengthen its case for its technologies vis-à-vis its peers, and add new capabilities to its product suite quickly to match competitors' offerings.

Data as of 9/4/20 unless specified

Enterprise Value:	3.50B	Market Cap:	3.94B	Revenue Fwd (TTM):	\$838M (\$817.2M)
YTD Return:	0%	Fwd (TTM) Price/Sales:	4.10x (4.08x)	RSI:	67.7
Gross Margin (TTM):	72.4%	Revenue Growth (TTM, YoY):	5.62%	ROIC (TTM):	-17.4%
52-Week High:	14.20	52-Week Low	4.76	200-day Moving Avg.	10.32
EBITDA	-189.5M	CFO	20.1M	FCF	14.5M

Insider Transactions (2020): Insiders sold 275,377 shares in the last three months

SUMMARY OF BUSINESS

Cloudera provides a platform for big data to be aggregated, processed and analyzed for actionable insights. The company is a pioneer of

Modern data management and analytic capabilities needed to process complex data

Digitizing business operations has created significant amounts of data, ranging from transactions to customer behavior, social and interaction data. At the heart of this data lies many valuable insights that companies can use to inform decision making. However, the volume of data produced today requires a modern analytic solution to integrate and process, with sufficient compute power, flexibility and agility. Users managing data also need to protect and store it. Cloudera estimates that its market opportunity was valued at \$26.6 billion at the end of 2019, poised to increase to \$52.8 billion by 2023.

CDP provides greater deployment flexibility and lower cost of ownership

the enterprise data cloud category, serving large companies operating in multi-cloud, hybrid, private or public cloud environments. It generates revenue from subscriptions and professional services.

Cloudera offers organizations the flexibility of how and where they want to process their data. Clients may be operating in public, private, hybrid and multi-cloud environments with complex data from a wide range of sources and locations. Cloudera's solutions can run multiple analytic workloads across these sources and locations. The Cloudera Data Platform (CDP) is cloud-native and open source, allowing easy integration, multiple partner ecosystems, supports open compute architectures and data stores like Amazon S3 and Microsoft Azure Data Lake Storage, and powered by the faster pace of innovation of the open source Hadoop community. Companies using Cloudera can control their own data, and avoid a lock-in with a single or small group of vendors for their applications. This added flexibility lower total cost of ownership. Cloudera while open source, is also secure and compliant, and users can apply a common security and governance framework

(shared data experience or SDX technologies) on all their workloads, ensuring that the use of their data follow current rules on data privacy and management. The platform also harnesses machine learning capabilities, allowing users to accelerate the data analysis to decision making process.



LB•LOGIC Cloudera's FY20 revenue includes revenue from Hortonworks after it merged in late 2018. Based on revenue numbers for Hortonworks prior to the merger, we estimate that about half of Cloudera's total FY20 revenue come from Hortonworks, implying that the company's organic growth in FY20 was actually negative.

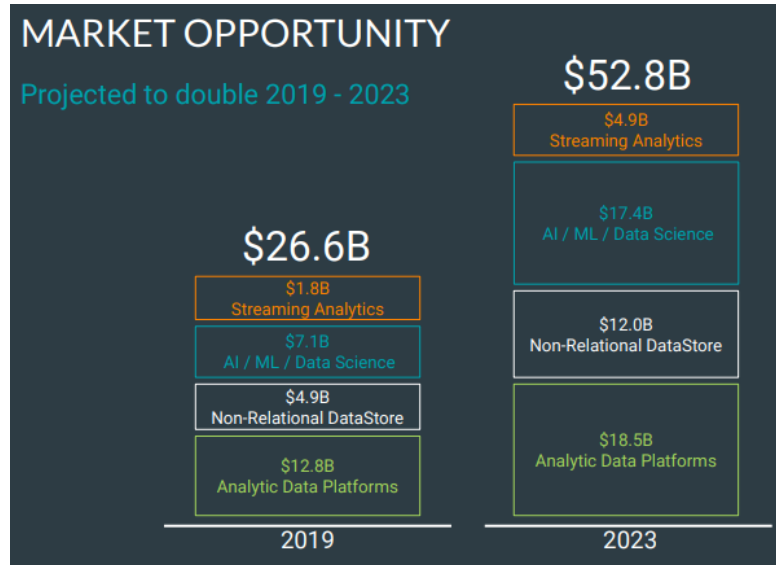
Financial and Operational Metrics

Cloudera has grown at a fast pace in the last four years, benefitting from enterprise digital transformation tailwinds and demand for big data analytics software. Between FY16 and FY20, total revenue increased at a CAGR of 47.9%. Its customer base has close to doubled from 1,000 in FY17, and large clients with annualized recurring revenues (ARR) of more than \$100,000 and \$1 million have grown steadily, reaching 1,003 and 164 respectively at the end of Q1 FY21. However,

the company's momentum appears to have stalled in the past 1-1.5 years. It faced a sharp growth slowdown in the first half of 2019, which resulted in its previous CEO leaving the company. The weaker results were attributed to postponed renewals in anticipation of Cloudera Data Platform (CDP)'s summer 2019 launch, a revamp of Cloudera's product suite towards a cloud-native, multi-function platform from an on-premise offering. Although Cloudera did recover modestly in H2FY20, total revenue was \$794.2 million, far from original guidance range at the beginning of the year of \$835 to \$855 million. During that same year, Cloudera also faced higher churn rates, which management said at the Q1 FY21 earnings call that it just managed to stabilize. From a profitability standpoint, the business has high gross margin (~79%). It is becoming non-GAAP profitable, and operating margin continues to improve. Cloudera generates positive cash flow.

Total Addressable Market (TAM)

Cloudera estimates that its market opportunity was valued at \$26.6 billion in 2019, and poised to increase to \$52.8 billion by 2023, which translates to a CAGR of 18.7% during this period.



Source: [Investor Presentation](#)



LB•LOGIC Cloudera will be able to continue growing its TAM as it adds complementary solutions to its platform to handle more data types, use cases and verticals.



LB•LOGIC Cloudera grew at below industry growth rates in FY20 (excluding Hortonworks). Its FY21 guidance suggests a similar occurrence. This does not give us confidence in the execution of the company.

Special/Unique Characteristics of the Company

Cloudera offers enterprise firms a flexible, agile and cost-effective cloud deployment solution to manage their data workloads, powered by the open-source Hadoop technology.

RECENT DEVELOPMENTS

Cloudera reported minimal impact to its business from Covid-19 in Q1 and Q2, citing the mission critical nature of its solutions as one of the main reasons why companies have not slowed purchase of its products. Many of its clients shifted to a remote work arrangement, which has made data analysis, security and the use of cloud applications even more important and relevant. Cloudera primarily serves large enterprises, thus they are financially more stable, and have higher inertia in long-term digital transformation projects. Additionally, with the introduction and transition to its fairly new CDP product, the company has been focusing on supporting

existing customers, and not expecting to win substantial new business during this period. It also does not have large exposure to highly affected verticals. Consequently, impact to its results, particularly on the subscription revenue segment, was small. However, professional services slowed, and with the continued volatility of the business environment, management is more prudent with spend, and reduced costs across multiple areas including personnel. Momentum in its newer products, in particular its CDP Public Cloud, was healthy. Cloudera tripled the number of customers, albeit off a very small base (~12 customers), and saw an increase in the pipeline for the product. Customers are also reportedly engaging more to better understand how to use and get more out of the platform.

Financial and Operating Results

Cloudera announced total revenue of \$214.3 million in Q2, an increase of 9% relative to Q2 of FY20, and up slightly from \$210 million in Q1FY21. Subscription revenue grew 17% YoY to \$191.5 million, and its annualized recurring revenue (ARR) was up 12% YoY. Cloudera's total ARR reached \$739 million in Q2, up from \$723 million in the previous quarter, driven by existing customers expanding account spend as they look to purchase the CDP Public Cloud and recently launched CDP Private Cloud. The company added about 8 new customers with an ARR over \$1 million, and 4 new customers with an ARR of \$100,000. From a profitability standpoint, margins continued to improve in Q2. Non-GAAP total gross margin rose to 81%, up from 79% in Q1 and 76.4% at the end of FY20. Operating margin was 13.9%, increasing from 8.1% in Q1. The company also delivered positive operating cash flow of \$32.4 million in the last quarter.



LB•LOGIC We appreciate that margins are improving for Cloudera through the quarters, but remain unimpressed with its topline growth rates, particularly for a cloud company in an expanding market. The company's Q2 sales growth of 9% was better than previously guided, but is growth against a low comp in Q2 FY20, which had led to the resignation of its former CEO.

Product Innovation and Company Expansion

Cloudera announced the availability of its CDP Private Cloud in Q2, providing clients a "powerful hybrid architecture that separates compute and storage". This continues its strategy to offer clients greater flexibility and agility to deploy their workloads, optimizing efficiency, security and costs in a hybrid cloud approach, supporting the full data lifecycle from the Edge to AI. Earlier in the year, the company also announced their expansion of partnerships with Google Cloud, Microsoft Azure and Amazon AWS, making CDP available on their product marketplace so public cloud users can run CDP on the various public cloud platforms, as well as integrated billing capabilities for easy and fast procurement. These partnerships lower the barriers of adoption of CDP for public cloud users.

Outlook and Estimates

Cloudera guided for total revenue in the range of \$207 to \$210 million for Q3 FY21, an increase of 5.1% at midpoint of the range. Non-GAAP operating income is projected in the range \$27 to \$31 million, reflecting an improved margin of 18.7%. For FY21, management expects revenue in the range of \$839 to \$853 million, an increase of 6.5% at midpoint of the range, driven by subscription growth but offset by weakness in professional services this fiscal year. Subscription revenue is projected to increase 13.8% from FY20 at midpoint of the guided range, a reflection of modest demand for its products. Non-GAAP operating margin based on guidance is expected to be about 12.7%, an overall improvement from 11% in FY20.

COMPANY MANAGEMENT

[Robert Bearden](#) is the current President and CEO of Cloudera. He assumed his current leadership role in January 2020, but has been with the company since 2019, when Cloudera acquired the company he co-founded, Hortonworks. Robert has extensive experience in the open source software industry, having served as President and COO of SpringSource, an open-source developer tools firm. He was also COO of JBoss, an open-source middleware company, which was acquired by Red Hat in 2006. Robert has a Bachelors's degree from Jacksonville State University.

Cloudera was founded in 2008 by Christophe Bisciglia, Amr Awadallah, Jeff Hammerbacher and Michael Olson, former engineering executives from Google, Yahoo!, Facebook and Oracle. Its first product was released in March 2009 – Cloudera Distribution, an open-source platform which included Apache Hadoop to help users perform end-to-end data workflows. In

subsequent years, the company added to its product line, while raising funds from investors to expand the company. Tom Reilly, Robert Bearden's predecessor, became CEO in June 2013. He joined the company with 30 years of experience in the enterprise software market. Under his leadership, Cloudera was ranked #5 in the Forbes Cloud 100 list in 2016, and completed a successful IPO in April 2017, listing on the NYSE. Unfortunately, poor performance in 2019 led to his resignation. A financing round led by Intel in 2014 valued the company at \$4.1 billion, but the valuation, including Hortonworks, dropped to \$1.4 billion in mid 2019. Cloudera has more than 3,000 employees today, and is headquartered at Palo Alto, California.



COMPETITIVE ENVIRONMENT

Cloudera competes in a competitive market characterized by rapid changes in technology and evolving market needs. Amongst its competitors are public cloud providers (Amazon AWS, Google Cloud, Microsoft Azure) that offer their own data management and analytics services, legacy providers (e.g. HP, IBM, Teradata), cloud-only data management vendors such as Snowflake, companies that build their own open-source self-support, and smaller niche players that offer limited services.

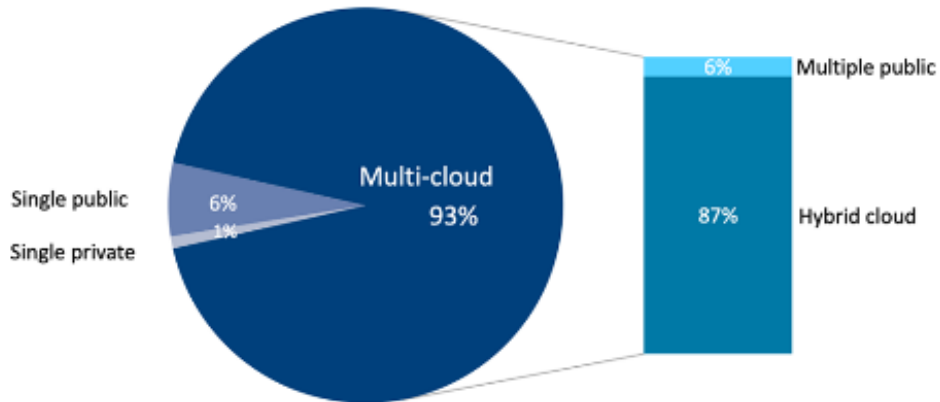
Cloudera's technology is built on Hadoop, an open-source data management framework. Hadoop was designed to effectively handle large clusters of complex and disparate data, and is widely regarded as indispensable for Big Data applications. However, the shift to the public cloud and vendors' internal data management capabilities gradually eroded the need for companies to acquire their own Hadoop-based data management platforms. Additionally, Hadoop is notoriously difficult to execute due to the technical knowledge required, which has made it a challenge to adopt, according to a [2015 Garter survey report](#) that found that the biggest barrier to adoption (57% of respondents) is the lack of Hadoop skills. It took some time for the slowing interest in on-premise Hadoop data management software to catch up with the industry's top two vendors – Cloudera and

Hortonworks, but it eventually reflected in their early 2019 results, which prompted a merger between the two companies to consolidate market demand and cut costs. Industry peer MapR, another big data management platform built on Hadoop, failed to secure additional funding in August 2019, and poor sales led to it resorting to its sale to Hewlett Packard. Similarly, Pivotal Software was purchased by VMware in December 2019.

The more challenging competitive environment made the combined Cloudera and Hortonworks entity rethink its value proposition. It revamped its platform to the Cloudera Data Platform, shifting from an on-premise offering to the cloud, where serving hybrid cloud and multi-cloud environments became its competitive advantage, against the public cloud providers, giving organizations flexibility of data deployment with greater control and lower cost of ownership. Through partnerships with the three largest public cloud providers, it also made its platform accessible to their users. There is a growing trend towards hybrid and multi-cloud at the enterprise level, and this is a good new direction for Cloudera. A recent report by cloud management firm Flexera showed that of the 554 enterprise-level companies it surveyed, 93% are using a multi-cloud deployment strategy, of which 87% are adopting a hybrid cloud.

Enterprise Cloud Strategy

More than 1000 employees



N=554

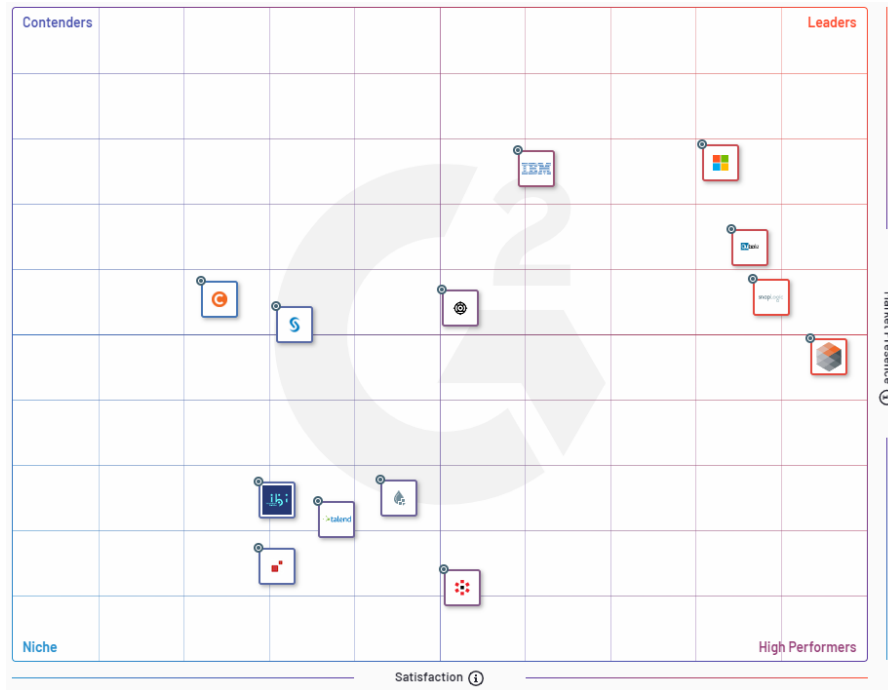
Source: Flexera 2020 State of the Cloud Report

Source: Flexera 2020 State of the Cloud [Report](#)

Despite Cloudera being one of the top Hadoop vendors, it has a mediocre standing among big data integration players, based on user ratings on technology review website, G2 Crowd. The company ranks low on the satisfaction scale in the “Contenders” quadrant, and slightly above average for market presence. Market research firm Gartner positioned Cloudera in the “Niche Players” quadrant in its 2019 Magic Quadrant for Data Management and Solutions for Analytics. To be fair, this was before CDP was released, but it reflects Cloudera’s overall average market positioning relative to its competitors a year ago. Market share by revenue indicates that at current annual revenues of \$800 million, Cloudera has a 3% market share in its total addressable market, indicating a large market opportunity.



LB•LOGIC We think that the need for Hadoop expertise could still be a limiting factor of adoption, or it may take time for businesses to become comfortable using it and finding the people with the right skills to manage the software as they deploy across clouds. Moreover, Hadoop may not be the ideal solution for all companies with big data projects. There are alternatives (e.g. NoSQL) that will make sense and vendors have built solutions on these alternatives. Additionally other big data firms are adding solutions to their product lines that could be bundled to overlap Cloudera’s. Overall, the landscape appears to be challenging for the firm.



Source: [G2 Grid for Big Data Integration Platforms](#)



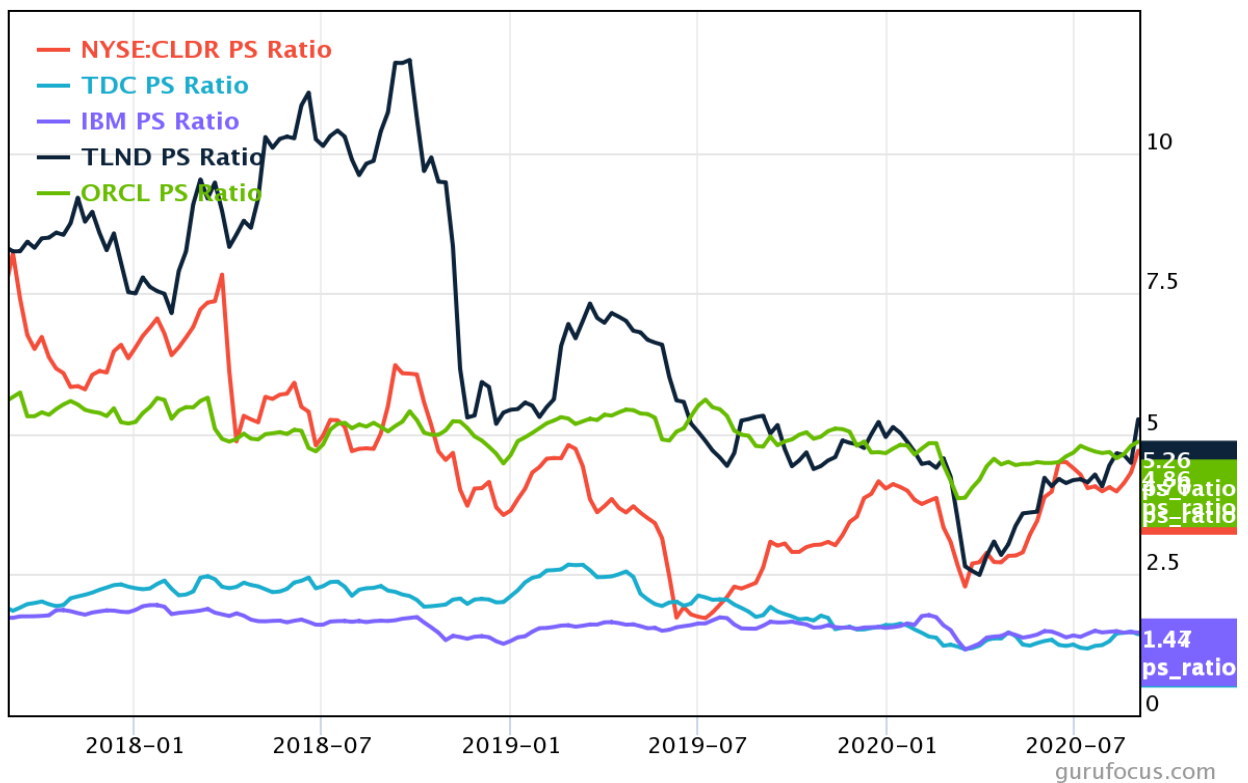
Gartner Magic Quadrant for Data Management Solutions for Analytics



LB•LOGIC We think that Cloudera with the introduction of CDP has improved its value proposition meaningfully. We will be interested to see how Gartner and other reviewers evaluate Cloudera's new products.

**TREND ANALYSIS:
VALUATION**

Cloudera's stock price and valuation has been on a downward trend for most of the last three years, only improving in April 2020 when the broader market rallied towards high growth technology companies. Although its current valuation is inexpensive by comparison to most other cloud companies, we think the multiple is reasonable for its current sales performance, uncertainty in traction for its new product and the weaker macro environment.



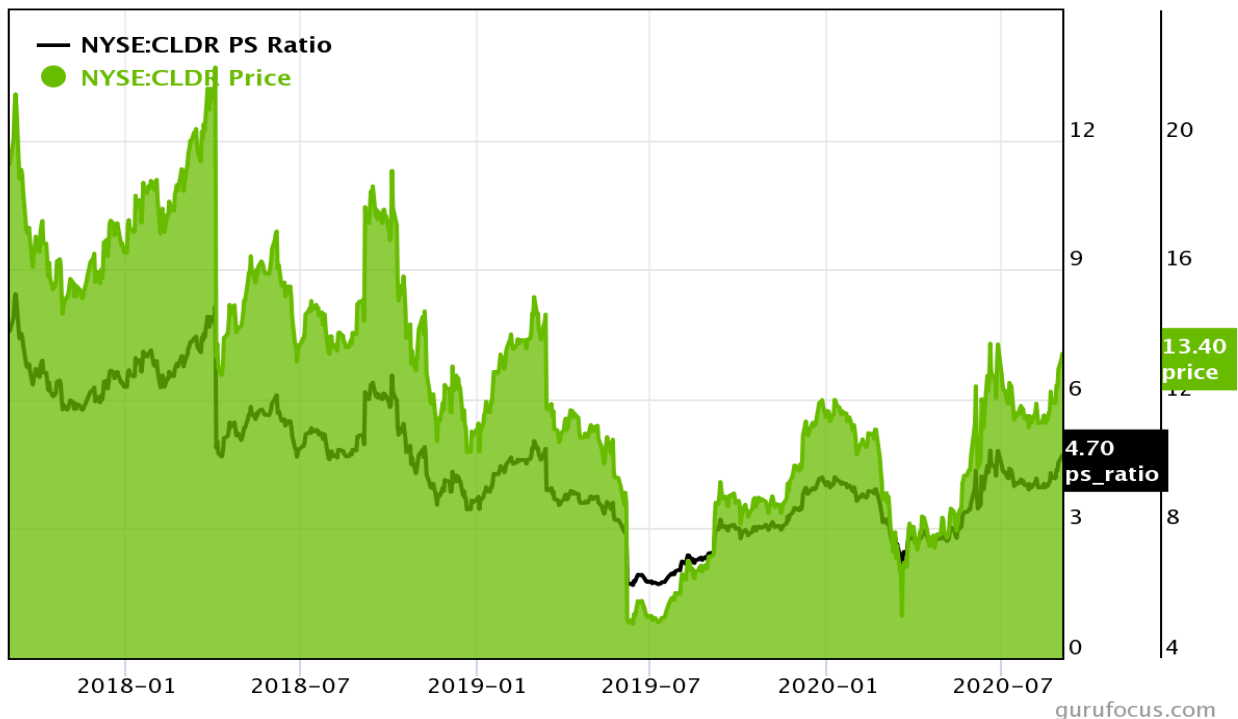
	Fwd. Revenue Growth (%)	Revenue Forecast (Millions USD)	Fwd Gross Margin (%)	Forward P/E	Forward P/S
Cloudera Inc. (CLDR)	5.62%	838.8	80.1	47.64	4.10
Teradata Corporation (TDC)	-4.58%	1812	57.6	20.50	1.43
IBM Corp (IBM)	-4.20%	73911	49.2	11.20	1.49
Talend SA (TLND)	12.40%	278.7	78.9	-	5.08
Oracle Corp (ORCL)	0.41%	39232	80.3	14.27	4.52

 **CONCLUSION / RECOMMENDATION**

Cloudera has demonstrated its attempt to reimagine itself in the marketplace as companies move to the cloud and competition intensifies from the growing clout of public cloud providers and other big data vendors expanding their data management solutions. Its new CDP product has improved its value

proposition, but it is relatively new and unclear how fast it can scale Cloudera and accelerate its growth. Current metrics while encouraging, indicate that growth continues to be slow, in part due to a weekend macro environment. We think that Cloudera is worth revisiting in a year to review how much traction CDP is getting, but for its performance and uncertain outlook, we are giving CLDR a **"YELLOW LIGHT"** rating.

Stock Chart for Cloudera Inc. (CLDR)



Performance Data

	FY15	FY16	FY17	FY18	FY19	FY20
RETURN ON INVESTED CAPITAL (%)	N.A.	N.A.	-76.8%	-155.3%	-20.4%	-21.1%
GROSS MARGIN (%)	N.A.	53.6%	66.0%	56.6%	70.4%	62.1%
EARNINGS (MILLIONS USD)	N.A.	-203.1	-187.3	-385.8	-192.6	-336.6
YoY Earnings Growth (%)	-	-	7.8%	-106.0%	50.1%	-74.7%
REVENUE (MILLIONS USD)	N.A.	166.0	261.0	367.4	479.9	794.2
YoY Revenue Growth (%)	-	-	57.2%	40.8%	30.6%	65.5%

Valuation Data

	2014	2015	2016	2017	2018	2019
SHARE PRICE (USD)	N.A.	N.A.	N.A.	16.42	10.83	11.73
SHARES OUTSTANDING (MILLIONS)	N.A.	N.A.	N.A.	145.3	268.8	295.2
MARKET CAP (MILLIONS USD)	N.A.	N.A.	N.A.	2,721	3,629	3,037
PRICE/SALES RATIO	N.A.	N.A.	N.A.	5.8	4.5	3.6

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