Capital Markets

# The DIY Tax: Why Vibe-Coding Enterprise Software is Actually More Expensive

## Introducing the RBC Build-vs-Buy Software TCO Interactive Dashboard




EQUITY RESEARCH | JULY 26, 2026

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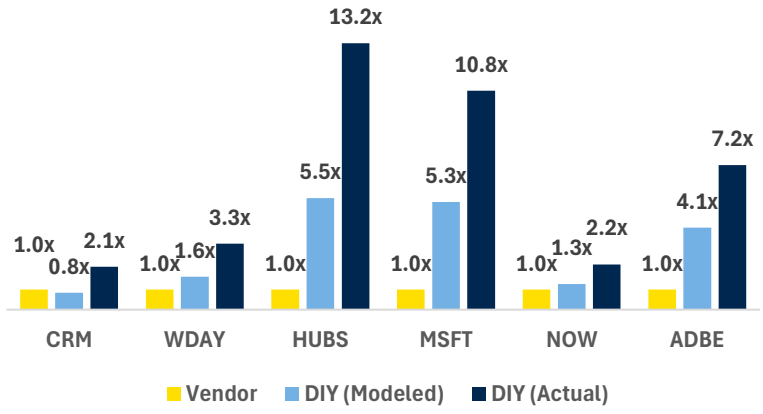
## Introducing the RBC Build-vs-Buy Software TCO Interactive Dashboard

**Our view**: Bear debates on AI and software center on three pillars: 1) AI-built displacement of incumbent software; 2) AI creating pricing pressure, due to lower barriers to entry; and 3) disruption from AI-native vendors. While we acknowledge the latter two, this note aims to understand the first point. We introduce our RBC Software TCO Calculator, available as an interactive dashboard (see here) and provide the framework if it truly is cheaper to build vs. buy, especially when capturing hidden costs (maintenance, security, inferior products).

- **To be clear, leveraging tools like Claude Code or OpenAI Codex to replicate the basic functionality** in existing software may be feasible from a technology perspective, but our pushback has always been "just because you can, doesn't mean you should." In most cases, embarking down this path results in software that ends up costing more, is lower quality (and less innovative), requires more human intervention, and is less secure. **Now, we put numbers behind this thesis and provide an open framework for investors.**
- **The key flaw behind the "AI replacing software" bear case**, both from investors, as well as enterprises who embark on the DIY journey, is comparing the cost of building a custom solution versus the annual subscription costs from the vendor. This may look like a clean win, but when we incorporate all costs, both on the forefront and hidden, the conversation looks very different.
- **Ultimately, for a TCO (Total Cost of Ownership) conversation, we need to look at five buckets: 1) Build** (total engineering cost to build); **2) Run** (inference and token costs); **3) Maintain** (updating the software to deal with model changes, prompt drift, and agent drift); **4) Risk** (especially the potential costs of data breaches or regulatory fines); and **5) Quality Gap** (in most circumstances, the in-house tool will be worse, results in a productivity and revenue delta).
- **We apply our framework to 14 companies in our coverage universe, including** CRM, WDAY, HUBS, MSFT, INTU, NOW, ADBE, SHOP, ASAN, DOCU, GTM, GWRE, NICE, and VEEV**,** all embedded in our interactive dashboard, along with detailed case studies (pages 9-36).
- **The names with the greatest defensibility with our dashboard are MSFT, HUBS, INTU, SHOP, and GWRE.**

Exhibit 1 shows a comparison of the five-year total cost of ownership for a vendor solution vs. DIY (modeled) vs. DIY (actual).

Exhibit 1 - Five-Year TCO, Vendor vs. DIY (Modeled) vs. DIY (Actual)




Source: RBC Capital Markets

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# Unpacking the DIY Debate

Before jumping directly into the model, we believe it is critical to unpack the debate in the markets, which is not a purely binary decision between: 1) vibe-coding will replace all software; or 2) software is completely immune to vibe-coding. Rather, we believe there are a few pieces at play here:

1. **Software is one of the largest portions of IT budgets today** and enterprises continue to scrutinize potential overspend on software (as we saw through the cloud rationalization era that began in 2022). In addition, many large cap software companies tend to see high ACVs in enterprise customers.
2. **Enterprises continue to look for cost savings**, especially as AI costs have meaningfully ramped up ahead of schedule (in our 2H26 survey, 54% of respondents are exceeding initial token budgets for 2026).
3. **Some enterprises have discussed using AI to replace software**, including both core systems of record, as well as long-tail software solutions. Notably, Klarna discussed using OpenAI to replace Salesforce and Workday back in 2023, although it is unclear how successful those efforts have been, while recently, Starbucks has discussed using AI to replace certain systems from IBM and Microsoft.
4. **As LLMs have meaningfully evolved (we believe there has been a step function improvement over the past 6-9 months)** and have democratized coding, giving rise to the "citizen developer" (see here), building a demo of a theoretically functional product has only gotten easier.
5. **Debates on seat-based models have intensified, partly driven by ongoing layoffs** (see here), that may be AI-washed, in our view, and many companies have pivoted to a hybrid subscription-consumption model.

With all of these pieces, our argument here focuses on the core debate as to whether DIY software is truly cheaper than buying from vendors. We absolutely acknowledge the rise of AI can still threaten the growth algorithm for software, especially companies that were overly reliant on price increases, seat expansion, and add-on sales to drive growth.

Our argument, as our model will show, is when embedding the fully-burdened costs of DIY systems, they are rarely meaningfully cheaper than buying directly from large software vendors. We do believe there may be risk for the long-tail point solutions that are less mission critical and more easily replicable, especially ones that may be glorified dashboards or analytic tools at their core.

# Our Software TCO Model

While we have been theorizing that DIY is actually more expensive for a while now, we have now built a formal framework, which investors can scrutinize and battle-test, that can be applied to any software name to truly understand how real the DIY threat is.

Exhibit 2 shows our model for a hypothetical software vendor, while Exhibit 3 highlights this in our interactive dashboard, which we have built leveraging our in-house AI platform Aiden. Below, we discuss what each field means.

In the following section, we will then take this model and apply it to 14 software companies: CRM, WDAY, HUBS, MSFT, INTU, NOW, ADBE, SHOP, ASAN, DOCU, GTM, GWRE, NICE, and VEEV.

Exhibit 2 shows our software TCO model inputs.

## Exhibit 2 - Software TCO Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $1,000 |
| Number of Seats | 500 |
| Annual Subscription ($,000s) | $500 |
| Annual Price Increase | 5% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 4.0 |
| # of Quarters to Ship | 2.0 |
| FTE Quarters to Ship | 8.0 |
| Total Cost per FTE, Annual | $300 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $1,500 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $70 |
| Inferencing/Token Costs ($,000s) | $50 |
| Annual Run Cost ($,000s) | $120 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 2 |
| Cost per Replatform ($,000s) | $150 |
| Cost to Monitor ($,000s) | $80 |
| Maintain (Annual, $,000s) | $380 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 6% |
| Cost per Breach ($,000s) | $4,440 |
| Compliance/Agent Error Liability ($,000s) | $90 |
| Risk (Annual, Expected, $,000s) | $356 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 4.0x |
| # of Employees Impacted through Workflow | 2,000 |
| Cost per Employee Impacted ($,000s) | $200 |
| Share of Output through Tool | 2.0% |
| Loaded Labor through Workflow ($,000s) | $8,000 |
| Productivity/Error Delta | 8% |
| Quality Gap, Annual ($,000s) | $640 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 1 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $1,376 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 3.5x |
| DIY True TCO, PV ($,000s) | 7,173 |
| Vendor TCO, PV ($,000s) | 2,075 |
| DIY As-Modeled TCO, PV ($,000s) | 1,955 |
| Headline Savings, PV ($,000s) | 120 |
| Hidden Carry | 5,218 |
| Ownership Tax (% of Savings) | 4334% |
| DIY Looks Cheaper From | Year 5 |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | Yes |

*The spreadsheets shows DIY cheaper (Year 5), but loaded for depreciation, risk, and the quality gap, true DIY runs 3.5x the vendor and is underwater from Year 1.*

| Where the DIY Money Goes (PV, Cumulative) | |
|---|---|
| Build (1) | $1,500 |
| Run (2) | $455 |
| Maintain (3) | $1,440 |
| Risk (4) | $1,351 |
| Quality Gap (5) | $2,426 |
| DIY Total (PV) | $7,173 |
| Vendor Total (PV) | $2,075 |

**Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool**

| Share of Output Through Tool | DIY (Total)/Vendor |
|---|---|
| 1.0% | 2.9x |
| 1.5% | 3.2x |
| 2.0% | 3.5x |
| 2.5% | 3.7x |
| 3.0% | 4.0x |

Source: RBC Capital Markets

Exhibit 3 shows our software TCO model dashboard.

## Exhibit 3 - Software TCO Model Dashboard




Source: RBC Capital Markets

### Timeframe

- **Holding horizon:** How many years is the enterprise aiming to own and run the tool? We use five years for this example (useful life of enterprise software and a typical contract-plus-renewal cycle).
- **Discount rate:** The cost of capital to incorporate both future spending and spending today over the course of the time horizon (see our DCF primer here). We use 10% for this example, which is a representative software WACC (buyers may have a higher hurdle rate).

**Vendor (Buy)**
***What does it cost to buy software from a SaaS vendor?***

- **Cost per Seat:** What is the effective cost per seat for this license, based on effective price, not list price? For a vendor with multiple types of seats, it may be necessary to either use an average price or analyze product-by-product. We use $1,000/user/year for this example, which is a round and generic mid-market per-seat price.
- **Number of seats:** How many seats are used within this enterprise? We use 500 total seats in this example, representing a round mid-market deployment.
- **Annual subscription:** What is the total spending for the vendor annually, based on seats and per user cost (P x Q)? Our inputs lead to $500,000/annually.
- **Annual price increase:** How much is this vendor typically raising pricing annually, given application software vendors have historically relied on pricing increases? We use 5% annual price increase for this example, which is a typical SaaS renewal escalator.

**Build (One-Time)**
***What does it cost to ship the product once?***

- **# of FTEs for Building:** How many full-time employees (FTEs) or equivalents will it take to build a shippable product? If an FTE is allocating only a portion of their time, we can allocate those resources proportionally (which assumes no scope drive). We use four FTEs in this scenario, which would represent a small, focused build team.
- **# of Quarters to Ship:** How long will it take to build and ship/deploy the product with the FTE resources? We use two quarters (six months) for this example.
- **FTE Quarters to Ship:** Another P x Q equation, but what is the total FTE quarters to build and ship a product? Our inputs lead to eight FTE quarters to ship.
- **Total Cost per FTE (Annual):** What is the fully-burdened annual cost of each employee working on this solution? We use $300,000 annually for this example, representing a typical US software engineer. This does not include opportunity costs, which are harder to quantify, but material – what else could those AI-enabled FTEs be doing that is more innovative and within the domain expertise of the company, versus replicating something that already exists and works?
- **Estimation Multiplier:** Reality-versus-demo. Estimates tend to focus on an MVP, but to ship a product will almost always meaningfully exceed estimates, due to integration, edge cases, and battle testing the product. We use a 2.5x multiplier for this example (the typical heuristic is 2x-3x the estimated cost and time to build).
- **Total Build Cost (One-Time):** Based on the above inputs, what is the actual one-time cost to build the product and deploy it? This does not include opportunity cost, which we believe is critical, but hard to quantify. Our inputs lead to a one-time build cost of $1.5M. When compared against three years of the incumbent software vendor, in isolation, this may seem attractive at first glance, which is why the following buckets are so critical?

**Run (Annual)**
***What does it cost to run the product annually, including infrastructure and token costs?***

- **Infrastructure Costs:** How much is the actual infrastructure (cloud infrastructure, private cloud, etc.) and infrastructure software (observability, data analytics, security, etc.) to support this tool? We use $70,000 annually for this example, a modest mid-market hosting and security bill.
- **Inferencing/Token Costs:** What is the actual cost of the LLMs and AI-native tools powering this solution? As token usage has meaningfully exceeded budgets and enterprises are adapting

accordingly (see here), this is an important consideration. We use $50,000 annually for this example, representing modest AI usage.

- **Annual Run Cost:** Simply put, how much does it cost in terms of cloud and AI infrastructure, including token costs, to operate this software. Our inputs lead to $120,000 annually for this example.

**Maintain (Annual)**
***What is the cost of keeping a model-dependent system alive, as enterprises deal with agent or prompt drift?***

- **Replatform events per year.** How many times will a company be forced to rebuild or change the software with changes in model functionality, model deprecation, prompt drift, agent drift, etc.? This is ultimately dictated by the model providers, not the enterprise. We use two replatform events every year for this example, based on current model deprecation cadence.
- **Cost per Replatform:** How much does it cost to replatform each time, inclusive of testing and repairing? We use $150,000 per replatform for this example.
- **Cost to Monitor:** How much does it cost to simply detect agent or prompt drift before customers do (waiting for end-usage breakage would be more expensive)? We use $80,000 annually for this example.
- **Total Cost of Maintain (Annual):** Based on the inputs above, what is the total cost to maintain the platform, including replatforming? Our inputs lead to a $380,000/year annual maintenance cost.

**Risk (Annual, Expected)**
***A probability-weighted risk assessment, not worst-case scenario. This could end up being the biggest cost over time.***

- **Breach probability:** What is the likelihood of any sort of breach? We note a DIY tool inherits none of the vendor's security organization for free and with cyber attacks getting more sophisticated (including with Mythos). We use a 6% annual breach probability for this example.
- **Cost per Breach:** What is the expected loss if there is a breach (inclusive of regulatory fees and customer loss)? We use $4.44M as the breach cost, based on the global average from the IBM Cost of a Data Breach Report 2025. We note this does not include the estimate $670K added breach cost for shadow AI and the $4.44M is a global average, with the US average being $10.22M.
- **Compliance and Agent Error Liability:** What is the annual expected cost of compliance gaps and covering any errors from autonomous agents? We use $90K as the annual cost.
- **Total Risk (Annual, Expected):** Based on the above inputs, what is the expected cost of security risks borne by the organization? Our inputs lead to a $356,000/year probability-weighted security risk.

**Quality Gap (Annual)**
***What is the cost of the in-house tool being inferior? This is the model's softest bucket, so it is built as a transparent chain.***

- **Seat Multiplier:** The impact of DIY solutions is not just felt on the actual end user licenses, but on anyone in the ecosystem, inclusive of downstream and cross-stream functions (e.g. CRM licenses impact not just senior salespeople, but junior salespeople, marketers, PMs, FP&A, data scientists, etc.). We use a 4x multiplier (meaning eight employees are impacted per license) for this example.

- **# of Employees Impacted through Workflow:** An output of the multiplier times the number of seats. Our inputs suggested 2,000 impacted employees from 500 seats.

- **Cost per Employee Impacted:** What is the fully-burdened cost of each employee impacted? We use $200,000 annually for this example, representing the fully-burdened cost of a US knowledge worker.
- **Share of Output through Tool:** Not 100% of the output is born by all those employees, so we multiply the above by the fraction of output that this tool directly impacts, typically low-single-digits. We use 2.0% for this example.
- **Loaded Labor through Workflow:** What is the output of the above inputs? In other words, what's the annual loaded cost of people the tool impacts? Our inputs lead to $8M annually, in this example.
- **Productivity/Error Delta:** How much worse is the DIY tool (based on factors like uptime, reliability, latency, capabilities, etc.) as a % of the drag on that loaded labor? We use 8% for this example.
- **Quality Gap Cost:** Based on the inputs above, what is the hidden cost of the quality gap? Our inputs lead to a $640,000/year cost of the quality gap.

**Workload**

- **Core-differentiating:** Can building a DIY solution be a real competitive advantage or is it a commodity? We treat this as binary: 1 if it is genuinely competitive IP, 0 if not (which would mean DIY still loses at parity).

## Key Learnings

- **The TCO argument rarely wins.** Even using assumptions we view as conservative for the DIY scenarios, it becomes hard to make a pure cost argument for enterprises building their own software solutions to replace large incumbents.
- **Hidden costs are significant.** While the modeled costs (build plus run) are still usually the largest component, the hidden costs (maintenance, risk, quality gap) are still very significant.
- **DIY math is even harder at SMB.** This is a surprising finding, as a common thought process is SMB software is simpler to replace and therefore, the DIY argument may make more sense there (e.g. HUBS, INTU). However, because these solutions are relatively low-priced to begin with (and not withstanding the technical talent may not even exist at those customers), the DIY "tax" is even higher at HUBS, INTU, and SHOP versus CRM or NOW.
- **Costs do not scale linearly.** Building on the above point, there are high upfront costs with building a product, especially one that serves as a system of record or system of engagement, which may explain why the math is harder with SMB software than enterprise.
- **DIY may be more compelling with long-tail software.** Most of the names we analyze are larger platforms, but we include case studies for a few names we view as long-tail, including ASAN and GTM. In both cases, we can make the TCO math work, although it is still tricky once we consider opportunity costs.

## Caveats and Considerations

- **The DIY model is assumption on assumption.** There are nearly 20 inputs for the TCO of DIY software and while we feel comfortable in our assumptions being conservative, this is dependent on several assumptions and some inputs drive greater sensitivity in the end result.
- **A better, more AI-native product may justify the higher costs.** This analysis is focused on DIY to replace existing software, but if a company can leverage AI to build a better product than the incumbent vendors, it may be worth the additional costs. We attempt to capture some of this in the core-differentiating workload input, but a higher-quality AI-native product could result in lower OpEx or higher revenue, which offsets the costs. Having said that, while a handful of technology companies may be able to make that claim, we don't believe most of the Global

2000 enterprises have that level of tech talent or domain expertise and would highlight that most AI-natives are using incumbent SaaS vendors, versus building their CRM, ERP, etc. in-house.

- **Doesn't capture opportunity costs.** This is perhaps the biggest caveat in the other direction and one that is difficult to capture. Ultimately, we don't believe it makes sense for an enterprise to use their best and brightest AI talent to replicate existing software, rather than focusing on the domain expertise of the company or innovating on net new solutions.
- **Token costs will likely come down meaningfully over time.** Right now, economics may look overly punishing given high token costs, but if the performance of non-frontier, especially open source, models continue to improve and narrow the gap with the latest models, then the math may look very different. Having said that, token costs are only part of the equation and it is the human element that actually ends up being the most expensive.
- **AI may mean tougher competition.** While we believe barriers to entry in software coming down is ultimately positive for the software TAM, due to greater innovation and more use cases, it also makes the incumbent vendors more prone to disruption, as we first wrote about nearly two years ago (see here). Not only can new vendors meaningfully undercut on pricing, the lack of technical debt and a fresh starting position for new entrants may allow for more innovative products that can meaningfully disrupt the incumbents.
- **AI can impact pricing on negotiations.** As our recent CIO survey highlighted (see here), the AI discussion has impacted pricing and contract structures in many cases (77% of respondents highlighted at least some negotiation at renewal). As a result, enterprises may renew deals at a lower ACV than they would have without AI. Having said that, we do believe the threat of DIY as a bargaining chip may become tougher over time, especially as we see more documented cases of DIY software falling short of expectations.
- **DIY is not all or nothing.** Even though the base model treats it as such, enterprises have the opportunity to leverage AI to replace specific licenses, versus all, which still puts a major dent in renewals, while not resulting in a complete rip-and-replace.

# Case Studies

## Salesforce (CRM) Sales Cloud – Enterprise, Front Office

In our view, Salesforce is a great case study to start off with, as it is often the poster child for companies targeting replacement of incumbent software vendors. We understand the temptation, as enterprise customers often have large, somewhat onerous Salesforce bills and price increases are common. Furthermore, in theory, it is relatively simple to vibe-code a CRM – after all, one author here was able to vibe code a personal CRM, still in use today, over a weekend, so why couldn't a dedicated enterprise sales team replicate Salesforce?

In addition, it is easy to make an argument that a company can save meaningful costs over a few years by creating a DIY replacement for Salesforce, factoring in only the costs of building and running the new solution. As seen in Exhibit 4, DIY costs as modeled would lead an enterprise to believe that a breakeven point can be achieved in year 4 with millions of dollars in cost savings after that. However, when we factor in the hidden costs, the actual DIY costs are well in excess of directly buying the tool from Salesforce and it is, in fact, never cheaper.

Exhibit 4 shows our CRM Build vs. Buy dashboard.

## Exhibit 4 - CRM: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 5 shows our CRM Build vs. Buy model inputs.

## Exhibit 5 - CRM: Build vs. Buy Case Study Model Inputs

**Inputs**

**Timeframe**

| | |
|---|---|
| Holding horizon (years) | 5 |
| Discount Rate | 10% |

**Vendor (Buy)**

| | |
|---|---|
| Cost Per Seat ($) | $1,800 |
| Number of Seats | 1,000 |
| Annual Subscription ($,000s) | $1,800 |
| Annual Price Increase | 6% |

**1) Build (One-Time)**

| | |
|---|---|
| # of FTEs for Building | 6.0 |
| # of Quarters to Ship | 4.0 |
| FTE Quarters to Ship | 24.0 |
| Total Cost per FTE, Annual | $325 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $4,875 |

**2) Run (Annual)**

| | |
|---|---|
| Infrastructure Costs ($,000s) | $200 |
| Inferencing/Token Costs ($,000s) | $200 |
| Annual Run Cost ($,000s) | $400 |

**3) Maintain (Annual)**

| | |
|---|---|
| Replatform events/year | 2.5 |
| Cost per Replatform ($,000s) | $250 |
| Cost to Monitor ($,000s) | $200 |
| Maintain (Annual, $,000s) | $825 |

**4) Risk (Annual, Expected)**

| | |
|---|---|
| Breach Probability | 8% |
| Cost per Breach ($,000s) | $4,440 |
| Compliance/Agent Error Liability ($,000s) | $200 |
| Risk (Annual, Expected, $,000s) | $555 |

**5) Quality Gap (Annual)**

| | |
|---|---|
| Seat Multiplier | 6.0x |
| # of Employees Impacted through Workflow | 6,000 |
| Cost per Employee Impacted ($,000s) | $200 |
| Share of Output through Tool | 2.0% |
| Loaded Labor through Workflow ($,000s) | $24,000 |
| Productivity/Error Delta | 5% |
| Quality Gap, Annual ($,000s) | $1,200 |

**Workload**

| | |
|---|---|
| Core-Differentiating (1=yes, 0=no) | 0 |

**Costs**

| | |
|---|---|
| Hidden Costs (M, R, Q) | $2,580 |
| Discount Factor Sum | 3.79 |

**Verdict**

| | |
|---|---|
| DIY True TCO+Vendor | 2.1x |
| DIY True TCO, PV ($,000s) | 16,172 |
| Vendor TCO, PV ($,000s) | 7,608 |
| DIY As-Modeled TCO, PV ($,000s) | 6,391 |
| Headline Savings, PV ($,000s) | 1,217 |
| Hidden Carry | 9,781 |
| Ownership Tax (% of Savings) | 804% |
| DIY Looks Cheaper From | Year 4 |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |

*Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.*

**Where the DIY Money Goes (PV, Cumulative)**

| | |
|---|---|
| Build (1) | $4,875 |
| Run (2) | $1,516 |
| Maintain (3) | $3,127 |
| Risk (4) | $2,105 |
| Quality Gap (5) | $4,549 |
| DIY Total (PV) | $16,172 |
| Vendor Total (PV) | $7,608 |

**Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool**

| Share of Output Through Tool | DIY (Total)/Vendor |
|---|---|
| 1.0% | 1.8x |
| 1.5% | 2.0x |
| 2.0% | 2.1x |
| 2.5% | 2.3x |
| 3.0% | 2.4x |

Source: RBC Capital Markets

Exhibit 5 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $1,800/user/year or $150/month, based on a discount to list price.
- **Number of Seats:** 1,000, which would be a genuine enterprise sales organization.
- **Annual Price Increase:** 6%/year, which is typical for Salesforce, based on our research.
- **# of FTEs for Building:** 6, which represents a focused team to rebuild the parts of Sales Cloud actually used by the organization.
- **# of Quarters to Ship:** 4, meaning a full year to ship and representing 24 FTE-quarters.
- **Total Cost per FTE:** $325,000/year, representing high-tier engineering compensation (AI engineers may be even more expensive).

- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated.
- **Infrastructure Cost:** $200,000/year, representing enterprise-grade hosting and security.
- **Inferencing/Token Costs:** $200,000/year, representing meaningful inference for AI features.
- **Replatform Events/Year:** 2.5. A Sales CRM touches many models and integrations, resulting in higher-than-typical.
- **Cost per Replatform:** $250,000/replatform, as a result of a large system.
- **Cost to Monitor:** $200,000/year, a real evaluation harness for a customer-facing revenue tool.
- **Breach Probability:** 8% annually. Customer data makes a CRM an attractive target.
- **Cost per Breach:** $4.44M, the IBM estimate. This number is likely conservative given customer data is very sensitive and there is likely PII data in the platform.
- **Compliance/Agent Error Liability:** $200,000/year, a conservative number given the size of the deployment.
- **Seat Multiplier:** 6x. A Sales CRM touches sales, marketing, operations, customer service, and finance.
- **Cost per Employee:** $200,000, a blended, fully-burdened cost for the employees in the ecosystem.
- **Share of Output through Tool:** 2%. The ecosystem is wide, but the Sales CRM likely represents a low percentage of total output given the wide array of tools.
- **Productivity/Error Delta:** 5%. Assuming a team can build a good in-house CRM, there is a meaningful disparity, but not a night-and-day one.
- **Core-Differentiating:** 0 (no). Building a CRM as a system of record likely not proprietary IP.

## Workday (WDAY) HCM – Enterprise, Back Office

We believe Workday is another useful case study, contrasting the back office nature of Workday versus Salesforce in the front office. While Workday is viewed as more defensible from AI than Salesforce, given the stickiness of ERP systems, investors also look at the high costs associated with Workday deployments and posture that the cost savings may make a DIY version of Workday, especially since the theoretical quality gap may not show up in revenue the same that it would in sales.

However, in spite of the high price of Workday and ongoing price increases, we find the math even more encouraging for Workday than Salesforce, as the modeled breakeven point is ten years, not four, and the ultimate TCO delta for DIY (Actual) versus Vendor is even higher (Exhibit 6).

Exhibit 6 shows our WDAY Build vs. Buy dashboard.

Exhibit 6 - WDAY: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 7 shows our WDAY Build vs. Buy model inputs.

## Exhibit 7 - WDAY: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $250 |
| Number of Seats | 10,000 |
| Annual Subscription ($,000s) | $2,500 |
| Annual Price Increase | 6% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 20.0 |
| # of Quarters to Ship | 4.0 |
| FTE Quarters to Ship | 80.0 |
| Total Cost per FTE, Annual | $300 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $15,000 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $400 |
| Inferencing/Token Costs ($,000s) | $200 |
| Annual Run Cost ($,000s) | $600 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 3 |
| Cost per Replatform ($,000s) | $400 |
| Cost to Monitor ($,000s) | $300 |
| Maintain (Annual, $,000s) | $1,500 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 7% |
| Cost per Breach ($,000s) | $4,440 |
| Compliance/Agent Error Liability ($,000s) | $500 |
| Risk (Annual, Expected, $,000s) | $811 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 1.5x |
| # of Employees Impacted through Workflow | 15,000 |
| Cost per Employee Impacted ($,000s) | $150 |
| Share of Output through Tool | 2.0% |
| Loaded Labor through Workflow ($,000s) | $45,000 |
| Productivity/Error Delta | 5% |
| Quality Gap, Annual ($,000s) | $2,250 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $4,561 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 3.3x |
| DIY True TCO, PV ($,000s) | 34,563 |
| Vendor TCO, PV ($,000s) | 10,567 |
| DIY As-Modeled TCO, PV ($,000s) | 17,274 |
| Headline Savings, PV ($,000s) | (6,708) |
| Hidden Carry | 17,289 |
| Ownership Tax (% of Savings) | N/A - Never cheaper |
| DIY Looks Cheaper From | Never (Modeled) |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |

*Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.*

| Where the DIY Money Goes (PV, Cumulative) | | |
|---|---|---|
| Build (1) | $15,000 | 43% |
| Run (2) | $2,274 | 7% |
| Maintain (3) | $5,686 | 16% |
| Risk (4) | $3,074 | 9% |
| Quality Gap (5) | $8,529 | 25% |
| DIY Total (PV) | $34,563 | 100% |
| Vendor Total (PV) | $10,567 | |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| **Share of Output Through Tool** | **DIY (Total)/Vendor** |
| 1.0% | 2.9x |
| 1.5% | 3.1x |
| 2.0% | 3.3x |
| 2.5% | 3.5x |
| 3.0% | 3.7x |

Source: RBC Capital Markets

Exhibit 7 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $250/employee/year, which is a blended core HCM fee, with core HR around $100-$150 per employee and including Talent and adjacent modules as well.
- **Number of Seats:** 10,000, representing the number of employees in a large organization.
- **Annual Price Increase:** 6%/year, which is typical for Workday, based on our research.
- **# of FTEs for Building:** 20, since replacing HCM and payroll is a major endeavor.
- **# of Quarters to Ship:** 4, meaning a full year to ship and representing 80 FTE-quarters.
- **Total Cost per FTE:** $300,000/year, representing high-tier engineering compensation (AI engineers may be even more expensive), but slightly lower than Salesforce given the higher number of FTEs.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated. We note that Workday implementations alone can run 1.5x-2.5x first-year subscription.
- **Infrastructure Cost:** $400,000/year, representing enterprise-grade hosting and security and with larger, integration-heavy hosting.
- **Inferencing/Token Costs:** $200,000/year, representing more moderate AI usage (relative to the size of the deployment) than a CRM or productivity suite.
- **Replatform Events/Year:** 3.0. An HCM has to handle model churn, plus continued regulatory changes.
- **Cost per Replatform:** $400,000/replatform, reflecting a large, integration-rich system.
- **Cost to Monitor:** $300,000/year, given the complexity of the system.
- **Breach Probability:** 7% annually, slightly lower than a CRM.
- **Cost per Breach:** $4.44M, the IBM estimate. This number is likely conservative given the sensitivity of the data in an HCM, that isn't just contact information, but sensitive data like payroll as well.

- **Compliance/Agent Error Liability:** $500,000/year, reflecting SOX, audit, and multi-jurisdiction payroll compliance.
- **Seat Multiplier:** 1.5x. HCM touches all employees for pay and benefits, but the licensed base is roughly the size of the workforce. The multiplier reflects the higher amount of offerings in named users versus employees.
- **Cost per Employee:** $150,000, reflecting an average worker, not just knowledge workers.
- **Share of Output through Tool:** 2%. HCM is a small share of most employees' daily output.
- **Productivity/Error Delta:** 5%. A worse HCM may not result in an immediate hit to productivity, but it does meaningfully drag HR and finance operations.
- **Core-Differentiating:** 0 (no). A proprietary HR system is not a competitive moat.

## HubSpot (HUBS) Sales Hub – SMB, front office

A common question we get is if SMB software is more vulnerable to the DIY threat than enterprise. After all, SMB systems tend to be more lightweight, require less scale, and likely have fewer regulatory and security requirements than large enterprise systems.

However, the math tells a different story, partly because HubSpot is a low TCO product to begin with, so even if the total costs are lower than Salesforce, the ratio of build vs. buy is actually meaningfully higher (Exhibit 8).

We also note that our analysis embeds lower salary costs in building a DIY product, but many SMBs may not actually have the in-house talent to build a CRM, requiring either costly hires or contracts with external IT services vendors.

Exhibit 8 shows our HUBS Build vs. Buy dashboard.

Exhibit 8 - HUBS: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 9 shows our HUBS Build vs. Buy model inputs.

## Exhibit 9 - HUBS: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $1,050 |
| Number of Seats | 75 |
| Annual Subscription ($,000s) | $79 |
| Annual Price Increase | 5% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 3.0 |
| # of Quarters to Ship | 4.0 |
| FTE Quarters to Ship | 12.0 |
| Total Cost per FTE, Annual | $200 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $1,500 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $40 |
| Inferencing/Token Costs ($,000s) | $40 |
| Annual Run Cost ($,000s) | $80 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 2 |
| Cost per Replatform ($,000s) | $120 |
| Cost to Monitor ($,000s) | $50 |
| Maintain (Annual, $,000s) | $290 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 8% |
| Cost per Breach ($,000s) | $3,000 |
| Compliance/Agent Error Liability ($,000s) | $50 |
| Risk (Annual, Expected, $,000s) | $290 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 4.0x |
| # of Employees Impacted through Workflow | 300 |
| Cost per Employee Impacted ($,000s) | $150 |
| Share of Output through Tool | 3.0% |
| Loaded Labor through Workflow ($,000s) | $1,350 |
| Productivity/Error Delta | 6% |
| Quality Gap, Annual ($,000s) | $81 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $661 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 13.2x |
| DIY True TCO, PV ($,000s) | 4,309 |
| Vendor TCO, PV ($,000s) | 327 |
| DIY As-Modeled TCO, PV ($,000s) | 1,803 |
| Headline Savings, PV ($,000s) | (1,476) |
| Hidden Carry | 2,506 |
| Ownership Tax (% of Savings) | N/A - Never cheaper |
| DIY Looks Cheaper From | Never (Modeled) |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |
| *Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.* | |

| Where the DIY Money Goes (PV, Cumulative) | |
|---|---|
| Build (1) | $1,500 |
| Run (2) | $303 |
| Maintain (3) | $1,099 |
| Risk (4) | $1,099 |
| Quality Gap (5) | $307 |
| DIY Total (PV) | $4,309 |
| Vendor Total (PV) | $327 |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| Share of Output Through Tool | DIY (Total)/Vendor |
| 2.0% | 12.9x |
| 2.5% | 13.0x |
| 3.0% | 13.2x |
| 3.5% | 13.3x |
| 4.0% | 13.5x |

Source: RBC Capital Markets

Exhibit 9 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $1,050/employee/year, a small discount to the list price of $1,200/employee/year ($100/month for the Professional tier).
- **Number of Seats:** 75, representing the sales force for an SMB.
- **Annual Price Increase:** 5%/year, smaller than enterprise price increases.
- **# of FTEs for Building:** 3, a small team, but even a less complex CRM has a floor to build.
- **# of Quarters to Ship:** 4, meaning a full year to ship and representing 12 FTE-quarters.
- **Total Cost per FTE:** $200,000/year, we conservatively assume lower compensation at SMBs, especially outside of SF/NYC, noting this may not be the talent required to build a proper, scalable CRM.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated. We note that Workday implementations alone can run 1.5x-2.5x first-year subscription.
- **Infrastructure Cost:** $40,000/year, representing a small hosting footprint.
- **Inferencing/Token Costs:** $40,000/year, representing lower AI usage (but a similar inferencing:infrastructure cost ratio as Salesforce Sales Cloud).
- **Replatform Events/Year:** 2.0. These are unavoidable, but slightly lower in an SMB system that likely has fewer integrations and breakage points versus an enterprise CRM.
- **Cost per Replatform:** $120,000/replatform, reflecting a smaller system.
- **Cost to Monitor:** $50,000/year, a more lightweight harness for a smaller system.
- **Breach Probability:** 8% annually, a CRM is an attractive target and SMBs tend to be under-defended to begin with and viewed as more vulnerable.

- **Cost per Breach:** $3.0B, below the IBM estimate, which skews more enterprise. The total costs in absolute dollars for an SMB is likely lower than enterprise (although potentially a higher percentage of total revenue).
- **Compliance/Agent Error Liability:** $50,000/year, reflecting a lower compliance surface.
- **Seat Multiplier:** 4.0x. The CRM touches many parts of an organization, but we believe the reach may be lower at an SMB due to less sophistication and integration points.
- **Cost per Employee:** $150,000, reflecting a lower cost knowledge worker versus an enterprise.
- **Share of Output through Tool:** 3%. Slightly higher in enterprise, since there are likely fewer tools in smaller organizations, meaning each tool occupies a slightly higher share of output.
- **Productivity/Error Delta:** 6%. A homemade SMB CRM is likely modestly worse.
- **Core-Differentiating:** 0 (no). Building a CRM as a system of record likely not proprietary IP.

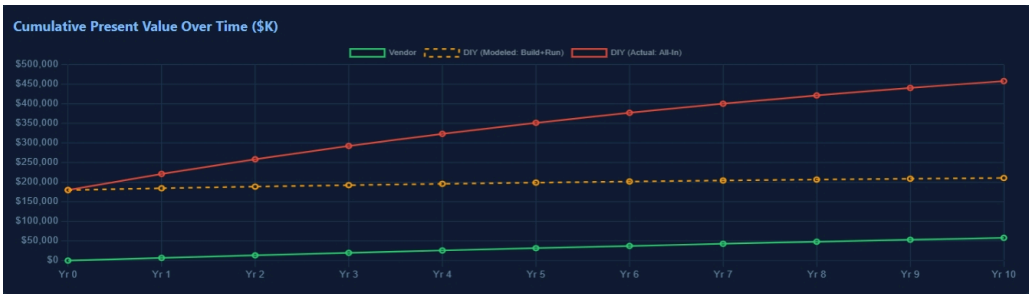
## Microsoft (MSFT) M365/Office 365 – Enterprise, Productivity

While the previous analyses have focused on an individual product (e.g. Sales CRM, HCM) plus add-ons, we wanted to focus on what is arguably the most widely-deployed enterprise software tool in the world – Microsoft Office.

As Exhibit 10 shows, making the theoretical math work for replacing M365 is difficult, let alone the true TCO for a DIY solution, owing to a more integrated platform (Word, Excel, PowerPoint, Teams, etc.) versus a single solution.

Exhibit 10 shows our MSFT Build vs. Buy dashboard.

Exhibit 10 - MSFT: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 11 shows our MSFT Build vs. Buy model inputs.

## Exhibit 11 - MSFT: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $300 |
| Number of Seats | 25,000 |
| Annual Subscription ($,000s) | $7,500 |
| Annual Price Increase | 6% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 100.0 |
| # of Quarters to Ship | 8.0 |
| FTE Quarters to Ship | 800.0 |
| Total Cost per FTE, Annual | $300 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $150,000 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $2,500 |
| Inferencing/Token Costs ($,000s) | $2,500 |
| Annual Run Cost ($,000s) | $5,000 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 4 |
| Cost per Replatform ($,000s) | $2,000 |
| Cost to Monitor ($,000s) | $1,000 |
| Maintain (Annual, $,000s) | $9,000 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 10% |
| Cost per Breach ($,000s) | $4,440 |
| Compliance/Agent Error Liability ($,000s) | $2,000 |
| Risk (Annual, Expected, $,000s) | $2,444 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 1.2x |
| # of Employees Impacted through Workflow | 30,000 |
| Cost per Employee Impacted ($,000s) | $180 |
| Share of Output through Tool | 8.0% |
| Loaded Labor through Workflow ($,000s) | $4,32,000 |
| Productivity/Error Delta | 8% |
| Quality Gap, Annual ($,000s) | $34,560 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $46,004 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 10.8x |
| DIY True TCO, PV ($,000s) | 343,345 |
| Vendor TCO, PV ($,000s) | 31,700 |
| DIY As-Modeled TCO, PV ($,000s) | 168,954 |
| Headline Savings, PV ($,000s) | (137,254) |
| Hidden Carry | 174,391 |
| Ownership Tax (% of Savings) | N/A - Never cheaper |
| DIY Looks Cheaper From | Never (Modeled) |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |
| *Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.* | |

| Where the DIY Money Goes (PV, Cumulative) | |
|---|---|
| Build (1) | $150,000 |
| Run (2) | $18,954 |
| Maintain (3) | $34,117 |
| Risk (4) | $9,265 |
| Quality Gap (5) | $131,010 |
| DIY Total (PV) | $343,345 |
| Vendor Total (PV) | $31,700 |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| **Share of Output Through Tool** | **DIY (Total)/Vendor** |
| 7.0% | 10.3x |
| 7.5% | 10.6x |
| 8.0% | 10.8x |
| 8.5% | 11.1x |
| 9.0% | 11.3x |

Source: RBC Capital Markets

Exhibit 11 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $300/user/year, representing $25/user/month a meaningful discount to the M365 E3 list price of $36/user/month (Office E3 standalone, with Teams, is ~$23/user/month list price).
- **Number of Seats:** 25,000, representing a large enterprise.
- **Annual Price Increase:** 6%/year, typical for Microsoft.
- **# of FTEs for Building:** 100, a massive endeavor to rebuild Outlook, Word, PowerPoint, Excel, Teams, etc.
- **# of Quarters to Ship:** 8, representing a two year project or 800 FTE-quarters.
- **Total Cost per FTE:** $300,000, representing engineering compensation in a large enterprise.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated. This is likely very conservative.
- **Infrastructure Cost:** $2.5M/year, which would be hosting email, file storage, and identity for 25,000 users.
- **Inferencing/Token Costs:** $2.5M/year, across all AI features and capabilities (we note we're focused on embedded AI, not competing with M365 Copilot, which would be a larger endeavor, but also would increase the size of the Vendor equation).
- **Replatform Events/Year:** 4.0. Given the enormous surface with many applications and components, a higher cadence is likely.
- **Cost per Replatform:** $2M/replatform, with a huge, multi-component system.
- **Cost to Monitor:** $1M/year, requiring large evaluations across the entire stack.
- **Breach Probability:** 10% annually, since email and identity are one of the largest attack surfaces in the enterprise.

- **Cost per Breach:** $4.44M, the IBM estimate, which is likely a major underestimation here, given the sensitivity around email, identity, and potential corporate documents.
- **Compliance/Agent Error Liability:** $2M/year for compliance across the entire document estate, including email.
- **Seat Multiplier:** 1.2x. The size of the deployment already reflects almost all knowledge workers having a seat, so the multiplier is modest for downstream impacts (e.g. frontline workers).
- **Cost per Employee:** $180,000, reflecting a slightly lower fully-burdened cost, given the large user base.
- **Share of Output through Tool:** 8%. The amount of time spent in the entire productivity suite, including email, is a very large number.
- **Productivity/Error Delta:** 8%. The drag on productivity from a DIY document stack is likely higher than elsewhere.
- **Core-Differentiating:** 0 (no). Having DIY email systems and document systems is likely not a proprietary differentiator.

## Intuit (INTU) QuickBooks Online – SMB, Back Office

Intuit rounds out the 2x2 matrix of CRM, WDAY, and HUBS on the axes of front office vs. back office and enterprise vs. SMB.

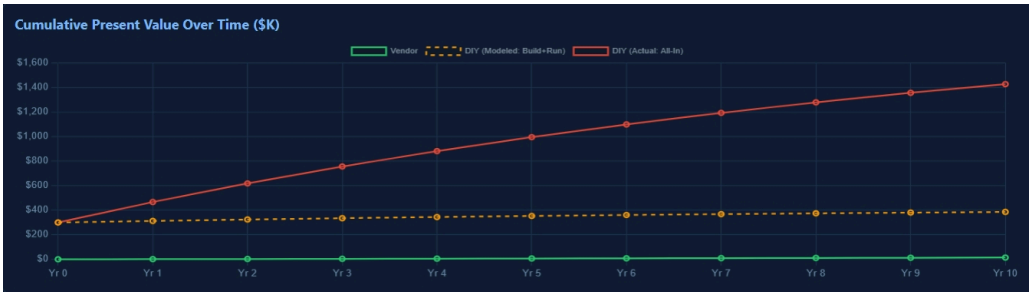
Intuit also extends the scaling law to the logical limit and results in the most extreme DIY:Vendor ratio in our data set, more due to the relatively low cost and high build costs of QBO, versus anything else.

We note that a small business will pay roughly $1,380 a year for QBO Plus, but with high average price increases, typically in the low teens, and future increases on the way. Understandably, a small business owner would likely find the idea of building their own books compelling with this pricing escalation.

Having said that, the model tells a very different story. Just the minimal build cost, given the general ledger is the system of record with real risk, is ~$250K, nearly 40x a five year deal of QBO. In reality, the real risk for QuickBooks is not necessarily DIY, but: a) will there be AI-native competition to undercut them and b) will some AI-native bypass QuickBooks altogether, which is a funnel question, not a TCO question.

Exhibit 12 shows our INTU Build vs. Buy dashboard.

Exhibit 12 - INTU: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 13 shows our INTU Build vs. Buy model inputs.

## Exhibit 13 - INTU: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $1,380 |
| Number of Seats | 1 |
| Annual Subscription ($,000s) | $1.4 |
| Annual Price Increase | 13% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 1.0 |
| # of Quarters to Ship | 2.0 |
| FTE Quarters to Ship | 2.0 |
| Total Cost per FTE, Annual | $200 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $250 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $8 |
| Inferencing/Token Costs ($,000s) | $6 |
| Annual Run Cost ($,000s) | $14 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 1.5 |
| Cost per Replatform ($,000s) | $25 |
| Cost to Monitor ($,000s) | $8 |
| Maintain (Annual, $,000s) | $46 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 4% |
| Cost per Breach ($,000s) | $2,500 |
| Compliance/Agent Error Liability ($,000s) | $10 |
| Risk (Annual, Expected, $,000s) | $110 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 3.0x |
| # of Employees Impacted through Workflow | 3 |
| Cost per Employee Impacted ($,000s) | $100 |
| Share of Output through Tool | 5.0% |
| Loaded Labor through Workflow ($,000s) | $15 |
| Productivity/Error Delta | 10% |
| Quality Gap, Annual ($,000s) | $2 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $157 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 135.6x |
| DIY True TCO, PV ($,000s) | 898 |
| Vendor TCO, PV ($,000s) | 7 |
| DIY As-Modeled TCO, PV ($,000s) | 303 |
| Headline Savings, PV ($,000s) | (296) |
| Hidden Carry | 595 |
| Ownership Tax (% of Savings) | N/A - Never cheaper |
| DIY Looks Cheaper From | Never (Modeled) |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |

*Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.*

| Where the DIY Money Goes (PV, Cumulative) | | |
|---|---|---|
| Build (1) | $250 | 28% |
| Run (2) | $53 | 6% |
| Maintain (3) | $172 | 19% |
| Risk (4) | $417 | 46% |
| Quality Gap (5) | $6 | 1% |
| DIY Total (PV) | $898 | 100% |
| Vendor Total (PV) | $7 | |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| **Share of Output Through Tool** | **DIY (Total)/Vendor** |
| 4.0% | 135.4x |
| 4.5% | 135.5x |
| 5.0% | 135.6x |
| 5.5% | 135.7x |
| 6.0% | 135.8x |

Source: RBC Capital Markets

Exhibit 13 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $1,380/year for QBO Plus at $115/month list price.
- **Number of Seats:** 1, a single small business.
- **Annual Price Increase:** 13%/year, a steep escalator, which has been documented for Intuit.
- **# of FTEs for Building:** 1, which is a minimal double-entry ledger with all the connections, invoicing, and reporting.
- **# of Quarters to Ship:** 2 quarters, a relatively fast ship and representing 2 FTE-quarters. The real time could be longer, given the complexity of the system.
- **Total Cost per FTE:** $200,000, representing engineering compensation in an SMB.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated. This is likely very conservative.
- **Infrastructure Cost:** $8,000/year, representing small hosting.
- **Inferencing/Token Costs:** $6,000/year, generally lighter inferencing required.
- **Replatform Events/Year:** 1.5. This includes the regulatory changes as well.
- **Cost per Replatform:** $25,000/replatform, given a smaller system.
- **Cost to Monitor:** $8,000/year, minimal, but not zero.
- **Breach/Error Probability:** 4% annually. Breaches may be less likely for very small businesses, but corrupted books could be a failure mode as well.
- **Cost per Breach:** $2.5M, covering remediation, misfiled taxes, audits, etc.
- **Compliance/Agent Error Liability:** $10,000/year, a relatively low amount.
- **Seat Multiplier:** 3x. The internal bookkeeper, the external accountant, and the owner.
- **Cost per Employee:** $100,000/year, blended small business compensation.
- **Share of Output through Tool:** 5%. Blended above the three job functions.

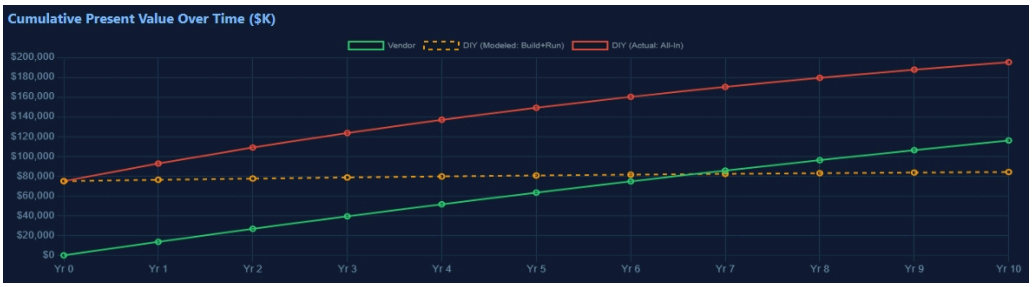
- **Productivity/Error Delta:** 10%. A DIY ledger is likely meaningfully worse when accuracy is the entire point.
- **Core-Differentiating:** 0 (no).

## ServiceNow (NOW) – AI workflow

ServiceNow is viewed as a defensible platform for AI workflow, but questions have emerged about DIY, the stickiness of non-core modules, bundling, price increases and hybrid pricing that combines a paid seat with consumption usage. While we think the core CMDB as the data model and RaptorDB database engine are sticky and not prone to DIY, we have heard partners and customers suggest edge-based functionality could at least be a topic of conversation for DIY vibe coding. Overall, we think ServiceNow's value proposition as a system of action is defensible.

Exhibit 14 shows our NOW Build vs. Buy dashboard.

### Exhibit 14 - NOW: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 15 shows our NOW Build vs. Buy model inputs.

### Exhibit 15 - NOW: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $1,500 |
| Number of Seats | 10,000 |
| Annual Subscription ($,000s) | $15,000 |
| Annual Price Increase | 6% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 50.0 |
| # of Quarters to Ship | 8.0 |
| FTE Quarters to Ship | 400.0 |
| Total Cost per FTE, Annual | $300 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $75,000 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $800 |
| Inferencing/Token Costs ($,000s) | $700 |
| Annual Run Cost ($,000s) | $1,500 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 3.5 |
| Cost per Replatform ($,000s) | $1,500 |
| Cost to Monitor ($,000s) | $750 |
| Maintain (Annual, $,000s) | $6,000 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 7% |
| Cost per Breach ($,000s) | $4,440 |
| Compliance/Agent Error Liability ($,000s) | $500 |
| Risk (Annual, Expected, $,000s) | $811 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 5.0x |
| # of Employees Impacted through Workflow | 50,000 |
| Cost per Employee Impacted ($,000s) | $150 |
| Share of Output through Tool | 2.5% |
| Loaded Labor through Workflow ($,000s) | $187,500 |
| Productivity/Error Delta | 5% |
| Quality Gap, Annual ($,000s) | $9,375 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $16,186 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 2.2x |
| DIY True TCO, PV ($,000s) | 142,043 |
| Vendor TCO, PV ($,000s) | 63,400 |
| DIY As-Modeled TCO, PV ($,000s) | 80,686 |
| Headline Savings, PV ($,000s) | (17,286) |
| Hidden Carry | 61,357 |
| Ownership Tax (% of Savings) | N/A - Never cheaper |
| DIY Looks Cheaper From | Never (Modeled) |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |
| *Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.* | |
| **Where the DIY Money Goes (PV, Cumulative)** | |
| Build (1) | $75,000 |
| Run (2) | $5,686 |
| Maintain (3) | $22,745 |
| Risk (4) | $3,074 |
| Quality Gap (5) | $35,539 |
| DIY Total (PV) | $142,043 |
| Vendor Total (PV) | $63,400 |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| **Share of Output Through Tool** | **DIY (Total)/Vendor** |
| 1.5% | 2.0x |
| 2.0% | 2.1x |
| 2.5% | 2.2x |
| 3.0% | 2.4x |
| 3.5% | 2.5x |

Source: RBC Capital Markets

Exhibit 15 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $1,500/seat/year, which is an estimate of a ITSM seat as a base case as additional modules and Now Assists can drive the cost higher.
- **Number of Seats:** 10,000, representing the number of employees in a large organization.
- **Annual Price Increase:** 6%/year but this can vary.
- **# of FTEs for Building:** 50, but this can vary.
- **# of Quarters to Ship:** 8, meaning a full year to ship and representing 400 FTE-quarters, but this can vary.
- **Total Cost per FTE:** $300,000/year, representing high-tier engineering compensation (AI engineers may be even more expensive), but this can vary.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated, but this can vary.
- **Infrastructure Cost:** $800,000/year, representing enterprise-grade hosting and security and with larger, integration-heavy hosting, but this can vary.
- **Inferencing/Token Costs:** $700,000/year, representing more moderate AI usage (relative to the size of the deployment), but this can vary.
- **Replatform Events/Year:** 3.5, but this can vary.
- **Cost per Replatform:** $1.5M/replatform, reflecting a large, integration-rich system.
- **Cost to Monitor:** $750,000/year, given the complexity of the system, but this can vary.
- **Breach Probability:** 7% annually, but this can vary.
- **Cost per Breach:** $4.44M, the IBM estimate, but this can vary.
- **Compliance/Agent Error Liability:** $500,000/year, reflecting SOX, audit, and multi-jurisdiction payroll compliance, but this can vary.
- **Seat Multiplier:** 5x, but this can vary.
- **Cost per Employee:** $150,000, reflecting an average worker, not just knowledge workers, but this can vary.
- **Share of Output through Tool:** 2.5%, but this can vary.
- **Productivity/Error Delta:** 5%, but this can vary.
- **Core-Differentiating:** 0 (no).

## Adobe (ADBE) – Creative Cloud

We view Adobe as a defensible platform to vibe coding but more questions have arose about the individual products within that platform. We've talked a lot recently about the value enterprise software delivers beyond the output. While point solution start ups or vibe coded solutions may be adequate from individual tasks performed within the Creative Cloud, the centralized orchestration from image creation through attribution including leveraging the gravity of the CDP makes the platform more deeply integrated than any standalone solution giving them more defensibility. One major caveat we would highlight is most bear cases on Adobe are focused on incremental competition, AI disintermediation, and seat compression, not on AI DIY replacements.

Exhibit 16 shows our ADBE Build vs. Buy dashboard.

## Exhibit 16 - ADBE: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 17 shows our ADBE Build vs. Buy model inputs.

## Exhibit 17 - ADBE: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $1,200 |
| Number of Seats | 400 |
| Annual Subscription ($,000s) | $480 |
| Annual Price Increase | 4% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 10.0 |
| # of Quarters to Ship | 4.0 |
| FTE Quarters to Ship | 40.0 |
| Total Cost per FTE, Annual | $250 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $6,250 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $300 |
| Inferencing/Token Costs ($,000s) | $150 |
| Annual Run Cost ($,000s) | $450 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 2 |
| Cost per Replatform ($,000s) | $300 |
| Cost to Monitor ($,000s) | $200 |
| Maintain (Annual, $,000s) | $800 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 3% |
| Cost per Breach ($,000s) | $4,440 |
| Compliance/Agent Error Liability ($,000s) | $300 |
| Risk (Annual, Expected, $,000s) | $433 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 4.0x |
| # of Employees Impacted through Workflow | 1,600 |
| Cost per Employee Impacted ($,000s) | $125 |
| Share of Output through Tool | 3.0% |
| Loaded Labor through Workflow ($,000s) | $6,000 |
| Productivity/Error Delta | 6% |
| Quality Gap, Annual ($,000s) | $360 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $1,593 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 7.2x |
| DIY True TCO, PV ($,000s) | 13,995 |
| Vendor TCO, PV ($,000s) | 1,956 |
| DIY As-Modeled TCO, PV ($,000s) | 7,956 |
| Headline Savings, PV ($,000s) | (5,999) |
| Hidden Carry | 6,039 |
| Ownership Tax (% of Savings) | N/A - Never cheaper |
| DIY Looks Cheaper From | Never (Modeled) |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |
| *Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.* | |

| Where the DIY Money Goes (PV, Cumulative) | |
|---|---|
| Build (1) | $6,250 |
| Run (2) | $1,706 |
| Maintain (3) | $3,033 |
| Risk (4) | $1,642 |
| Quality Gap (5) | $1,365 |
| DIY Total (PV) | $13,995 |
| Vendor Total (PV) | $1,956 |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| **Share of Output Through Tool** | **DIY (Total)/Vendor** |
| 2.0% | 6.9x |
| 2.5% | 7.0x |
| 3.0% | 7.2x |
| 3.5% | 7.3x |
| 4.0% | 7.4x |

Source: RBC Capital Markets

Exhibit 17 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $1,200/seat/year, which is the base price for Creative Cloud Pro including +20 creative cloud apps as well as 4,000 monthly generative credits. This is not including volume discounts for enterprises.
- **Number of Seats:** 3-5% of an enterprise in marketing averaging 400 for a 10,000 employee organization.
- **Annual Price Increase:** 4%/year but this can vary.
- **# of FTEs for Building:** 10, but this can vary.
- **# of Quarters to Ship:** 4, meaning a full year to ship and representing 40 FTE-quarters, but this can vary.
- **Total Cost per FTE:** $250,000/year, representing high-tier engineering compensation (AI engineers may be even more expensive), but this can vary.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated, but this can vary.

- **Infrastructure Cost:** $300,000/year, representing enterprise-grade hosting and security and with larger, integration-heavy hosting, but this can vary.
- **Inferencing/Token Costs:** $150,000/year, representing more moderate AI usage (relative to the size of the deployment), but this can vary.
- **Replatform Events/Year:** 2.0, but this can vary.
- **Cost per Replatform:** $300,000/replatform, reflecting a large, integration-rich system.
- **Cost to Monitor:** $200,000/year, given the complexity of the system, but this can vary.
- **Breach Probability:** 3% annually, due to the lack of PII but this can vary.
- **Cost per Breach:** $4.44M, the IBM estimate, but this can vary.
- **Compliance/Agent Error Liability:** $300,000/year, but this can vary.
- **Seat Multiplier:** 5x, but this can vary.
- **Cost per Employee:** $125,000, reflecting an average worker, not just knowledge workers, but this can vary.
- **Share of Output through Tool:** 3%, but this can vary.
- **Productivity/Error Delta:** 6%, but this can vary.
- **Core-Differentiating:** 0 (no).

## Shopify (SHOP) – E-commerce platform

Freely available and opensource e-commerce tools and website builders have been available for years. The best example is WooCommerce, which is the open source e-commerce platform for WordPress. The availability of these free tools has not reduced demand for Shopify, both from SMBs and larger enterprises. The reason is that Shopify's pace of innovation, breadth of features, reliability, scalability, and extensibility are superior to free tools, while Shopify has a low TCO, with Shopify's basic plan starting at just $39/month.

Building DIY software to replace Shopify would be a complex endeavor in our view, considering the rapidly evolving online commerce landscape, the requirement to integrate with third party software tools and enterprise systems and the need for payments processing. Additionally, customer-facing software requires a sleek and stable user interface.

As a result of this complexity, the ratio of build vs. buy is skewed highly in favour of buy.

Exhibit 18 shows our SHOP Build vs. Buy dashboard.

Exhibit 18 - SHOP: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 19 shows our SHOP Build vs. Buy model inputs.

## Exhibit 19 - SHOP: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $300 |
| Number of Seats | 15 |
| Annual Subscription ($,000s) | $5 |
| Annual Price Increase | 5% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 2.0 |
| # of Quarters to Ship | 3.0 |
| FTE Quarters to Ship | 6.0 |
| Total Cost per FTE, Annual | $200 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $750 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $5 |
| Inferencing/Token Costs ($,000s) | $5 |
| Annual Run Cost ($,000s) | $10 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 2 |
| Cost per Replatform ($,000s) | $15 |
| Cost to Monitor ($,000s) | $7 |
| Maintain (Annual, $,000s) | $37 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 10% |
| Cost per Breach ($,000s) | $500 |
| Compliance/Agent Error Liability ($,000s) | $10 |
| Risk (Annual, Expected, $,000s) | $60 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 2.0x |
| # of Employees Impacted through Workflow | 30 |
| Cost per Employee Impacted ($,000s) | $150 |
| Share of Output through Tool | 8.0% |
| Loaded Labor through Workflow ($,000s) | $360 |
| Productivity/Error Delta | 10% |
| Quality Gap, Annual ($,000s) | $36 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 1 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $133 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 69.2x |
| DIY True TCO, PV ($,000s) | 1,292 |
| Vendor TCO, PV ($,000s) | 19 |
| DIY As-Modeled TCO, PV ($,000s) | 788 |
| Headline Savings, PV ($,000s) | (769) |
| Hidden Carry | 504 |
| Ownership Tax (% of Savings) | N/A - Never cheaper |
| DIY Looks Cheaper From | Never (Modeled) |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | Yes |

*The spreadsheets shows DIY cheaper (Never (Modeled)), but loaded for depreciation, risk, and the quality gap, true DIY runs 69.2x the vendor and is underwater from Year 1.*

| Where the DIY Money Goes (PV, Cumulative) | | |
|---|---|---|
| Build (1) | $750 | 58% |
| Run (2) | $38 | 3% |
| Maintain (3) | $140 | 11% |
| Risk (4) | $227 | 18% |
| Quality Gap (5) | $136 | 11% |
| DIY Total (PV) | $1,292 | 100% |
| Vendor Total (PV) | $19 | |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| **Share of Output Through Tool** | **DIY (Total)/Vendor** |
| 7.0% | 68.3x |
| 7.5% | 68.7x |
| 8.0% | 69.2x |
| 8.5% | 69.6x |
| 9.0% | 70.1x |

Source: RBC Capital Markets

Exhibit 19 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** Approximately $300/employee/year, based on the number of staff accounts included in Shopify's Basic, Grow, and Advanced plans.
- **Number of Seats:** 15, which is the maximum available under Shopify's Advanced plan.
- **Annual Price Increase:** 5%/year, smaller than enterprise price increases. While Shopify raised prices by ~30% in 2023, the price increase only equates to an average of 3% per annum over the last 10 years.
- **# of FTEs for Building:** 2, a small team, but even a less complex e-commerce platform has a floor to build.
- **# of Quarters to Ship:** 2, meaning 6 months to ship and representing 4 FTE-quarters.
- **Total Cost per FTE:** $200,000/year, we conservatively assume lower compensation at SMBs, especially outside of SF/NYC, noting this may not be the talent required to build a proper, scalable e-commerce platform.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated.
- **Infrastructure Cost:** $5,000/year, representing a very small hosting footprint.
- **Inferencing/Token Costs:** $5,000/year, representing minimal AI features incorporated in the final product.
- **Replatform Events/Year:** 2.0. These are unavoidable, but likely to occur due to the fast pace of change and large number of integrations involved in an e-commerce platform.
- **Cost per Replatform:** $15,000/replatform, reflecting a smaller system.
- **Cost to Monitor:** $7,000/year, a more lightweight harness for a smaller system.
- **Breach Probability:** 10% annually, as an e-commerce platform is an attractive target.
- **Cost per Breach:** $500k, given the relatively small size of most SMB e-commerce selling, but the cost may be significantly higher for larger merchants.
- **Compliance/Agent Error Liability:** $10,000/year, reflecting the compliance sensitivity of e-

commerce platforms.

- **Seat Multiplier:** 2.0x. The breadth of an e-commerce platform depends on the size and type of organization. More employees are likely to rely on an e-commerce platform at smaller DTC merchants, while e-commerce is just a segment of a large enterprise.
- **Cost per Employee:** $150,000, reflecting a lower cost knowledge worker versus an enterprise.
- **Share of Output through Tool:** 8%. Higher for smaller DTC merchants, since the e-commerce platform runs their entire sales operations. Lower for larger merchants.
- **Productivity/Error Delta:** 10%. A homemade e-commerce platform is likely modestly worse.
- **Core-Differentiating:** 1 (yes). Successfully building and maintaining an e-commerce platform may be differentiating for some merchants.

## Asana (ASAN) – SMB, work management

To be intellectually honest, we wanted to present a counter-example where the actual math *could* make sense (again, with conservative assumptions).

We note that even the fully-burdened TCO does show an enterprise saving money after year 5 and the modeled shows cost savings after year 2, which makes the math look attractive.

However, the one big caveat we would make is whether this truly makes sense for a company to develop a replacement for Asana. The investment still takes time and AI engineers whose time may be better spent elsewhere. And Asana is rarely a top ten line item on a CIO budget.

As a result, we believe even with Asana, the DIY case is still tough to justify. We believe commoditization is the bigger threat to Asana, rather than outright rebuilding it with AI.

Exhibit 20 shows our ASAN Build vs. Buy dashboard.

Exhibit 20 - ASAN: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 21 shows our ASAN Build vs. Buy model inputs.

## Exhibit 21 - ASAN: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 7 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $216 |
| Number of Seats | 10,000 |
| Annual Subscription ($,000s) | $2,160 |
| Annual Price Increase | 5% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 4.0 |
| # of Quarters to Ship | 3.0 |
| FTE Quarters to Ship | 12.0 |
| Total Cost per FTE, Annual | $300 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $2,250 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $50 |
| Inferencing/Token Costs ($,000s) | $30 |
| Annual Run Cost ($,000s) | $80 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 1.5 |
| Cost per Replatform ($,000s) | $120 |
| Cost to Monitor ($,000s) | $70 |
| Maintain (Annual, $,000s) | $250 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 2% |
| Cost per Breach ($,000s) | $4,440 |
| Compliance/Agent Error Liability ($,000s) | $31 |
| Risk (Annual, Expected, $,000s) | $120 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 1.5x |
| # of Employees Impacted through Workflow | 15,000 |
| Cost per Employee Impacted ($,000s) | $150 |
| Share of Output through Tool | 1.5% |
| Loaded Labor through Workflow ($,000s) | $33,750 |
| Productivity/Error Delta | 4% |
| Quality Gap, Annual ($,000s) | $1,350 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | | |
|---|---|---|
| Hidden Costs (M, R, Q) | $1,720 | |
| Discount Factor Sum | 4.87 | |
| **Verdict** | | |
| DIY True TCO+Vendor | 0.9x | |
| DIY True TCO, PV ($,000s) | 11,012 | |
| Vendor TCO, PV ($,000s) | 12,007 | |
| DIY As-Modeled TCO, PV ($,000s) | 2,639 | |
| Headline Savings, PV ($,000s) | 9,367 | |
| Hidden Carry | 8,373 | |
| Ownership Tax (% of Savings) | 89% | |
| DIY Looks Cheaper From | Year 2 | |
| DIY Underwater (Actual) From | Year 1 | |
| Differentiating Workload? | No - Loses at Parity | |
| *DIY is cheaper (0.92x vendor) even all-in, but this is NOT differentiating IP. Cost savings alone may not justify the operational burden ($1,720k/yr in hidden costs). Net annual savings of only $204k/yr leave thin margin for error.* | | |
| **Where the DIY Money Goes (PV, Cumulative)** | | |
| Build (1) | $2,250 | 20% |
| Run (2) | $389 | 4% |
| Maintain (3) | $1,217 | 11% |
| Risk (4) | $583 | 5% |
| Quality Gap (5) | $6,572 | 60% |
| DIY Total (PV) | $11,012 | 100% |
| Vendor Total (PV) | $12,007 | |

**Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool**

| Share of Output Through Tool | DIY (Total)/Vendor |
|---|---|
| 0.5% | 0.6x |
| 1.0% | 0.7x |
| 1.5% | 0.9x |
| 2.0% | 1.1x |
| 2.5% | 1.3x |

Source: RBC Capital Markets

Exhibit 21 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $216/user/year, an average of the list prices for Starter ($11) and Advanced ($25), which should capture discounting on the Advanced SKU (~30%), offset by higher mix-shift of Advanced SKU (as a percentage of revenue).
- **Number of Seats:** 10,000, representing a large deployment of Asana (and looking at Core Customers, representing ~75% of the business today).
- **Annual Price Increase:** 5%/year, a typical SMB/enterprise price increase.
- **# of FTEs for Building:** 4, representing a modest build-out without too many integrations.
- **# of Quarters to Ship:** 3 quarters, a relatively fast turnaround, and representing 12 FTE-quarters.
- **Total Cost per FTE:** $300,000, representing engineering compensation in a larger enterprise.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated. This is likely very conservative.
- **Infrastructure Cost:** $50,000/year, representing Asana as a relatively compute-light product.
- **Inferencing/Token Costs:** $30,000/year, generally lighter inferencing required.
- **Replatform Events/Year:** 1.5. A simpler surface with fewer integrations, means fewer replatforming events per year.
- **Cost per Replatform:** $120,000/replatform, with a not insignificant, but not onerous replatform.
- **Cost to Monitor:** $70,000/year, representing relatively light monitoring costs.
- **Breach Probability:** 2% annually, given the lack of PII or compliance data, work management is not a major target, relative to a CRM or ERP.
- **Cost per Breach:** $4.44M, the IBM estimate.
- **Compliance/Agent Error Liability:** $31,000/year, a relatively low amount.
- **Seat Multiplier:** 1.5x. Given an enterprise deployment of work management should cover most knowledge workers, the multiplier is lower.

- **Cost per Employee:** $150,000, reflecting a slightly lower fully-burdened cost, given the large user base.
- **Share of Output through Tool:** 1.5%, a low number given the average engagement with work management tools.
- **Productivity/Error Delta:** 4%. A DIY work management tool will still have a quality gap, although not as greater as other categories of software.
- **Core-Differentiating:** 0 (no). Having DIY work management tool is not a competitive advantage.

## DocuSign (DOCU) eSignature – Enterprise (the "Feature not Product" Test)

DocuSign is a name often accused of being a feature, not a product, and one that is easily replicable, especially with reports that users have leveraged Lovable to replicate DocuSign, which has resulted in lawsuits. We note we are focused on the core e-signature and not IAM.

The simple math actually works out on first glance, as DIY looks cheaper from year 4 (Exhibit 22), but when we incorporate the hidden costs, the calculus looks very different, primarily due to legal enforceability and counterparty trust. In reality, the risk to DocuSign e-signature is more likely pricing pressure from growing competition, not DIY.

Exhibit 22 shows our DOCU Build vs. Buy dashboard.

Exhibit 22 - DOCU: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 23 shows our DOCU Build vs. Buy model inputs.

## Exhibit 23 - DOCU: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $300 |
| Number of Seats | 1,000 |
| Annual Subscription ($,000s) | $300 |
| Annual Price Increase | 5% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 2.0 |
| # of Quarters to Ship | 2.0 |
| FTE Quarters to Ship | 4.0 |
| Total Cost per FTE, Annual | $300 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $750 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $30 |
| Inferencing/Token Costs ($,000s) | $10 |
| Annual Run Cost ($,000s) | $40 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 1 |
| Cost per Replatform ($,000s) | $60 |
| Cost to Monitor ($,000s) | $30 |
| Maintain (Annual, $,000s) | $90 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 3% |
| Cost per Breach ($,000s) | $2,000 |
| Compliance/Agent Error Liability ($,000s) | $50 |
| Risk (Annual, Expected, $,000s) | $110 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 2.0x |
| # of Employees Impacted through Workflow | 2,000 |
| Cost per Employee Impacted ($,000s) | $180 |
| Share of Output through Tool | 2.0% |
| Loaded Labor through Workflow ($,000s) | $7,200 |
| Productivity/Error Delta | 4% |
| Quality Gap, Annual ($,000s) | $288 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $488 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 2.2x |
| DIY True TCO, PV ($,000s) | 2,752 |
| Vendor TCO, PV ($,000s) | 1,245 |
| DIY As-Modeled TCO, PV ($,000s) | 902 |
| Headline Savings, PV ($,000s) | 344 |
| Hidden Carry | 1,850 |
| Ownership Tax (% of Savings) | 538% |
| DIY Looks Cheaper From | Year 4 |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |
| *Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.* | |

| Where the DIY Money Goes (PV, Cumulative) | | |
|---|---|---|
| Build (1) | $750 | 27% |
| Run (2) | $152 | 6% |
| Maintain (3) | $341 | 12% |
| Risk (4) | $417 | 15% |
| Quality Gap (5) | $1,092 | 40% |
| DIY Total (PV) | $2,752 | 100% |
| Vendor Total (PV) | $1,245 | |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| **Share of Output Through Tool** | **DIY (Total)/Vendor** |
| 1.0% | 1.8x |
| 1.5% | 2.0x |
| 2.0% | 2.2x |
| 2.5% | 2.4x |
| 3.0% | 2.6x |

Source: RBC Capital Markets

Exhibit 23 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $300/user/year, which is a discount relative to the public price of $30/user/month (or $360/user/year) for the standard plan. We note this does not include envelope overages.
- **Number of Seats:** 1,000, a full DocuSign enterprise deployment across sales, legal, procurement, and HR.
- **Annual Price Increase:** 5%/year, which we believe is typical for DocuSign.
- **# of FTEs for Building:** 2. The open-source signing core is free; the work is really the integrations, templates, SSO, etc.
- **# of Quarters to Ship:** 2, equating for 4 FTE-quarters, the cheapest credible enterprise build in our set.
- **Total Cost per FTE:** $300,000, representing engineering compensation in a larger enterprise.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated.
- **Infrastructure Cost:** $30,000/year, representing light token costs.
- **Inferencing/Token Costs:** $10,000/year, since e-signature is not inference-heavy on its own (although the contract analysis piece could be).
- **Replatform Events/Year:** 1.0, which is the lowest in our case studies, since the model changes won't have as material of an impact.
- **Cost per Replatform:** $60,000/replatform, one of the lowest costs in our case studies.
- **Cost to Monitor:** $30,000/year, a low amount.
- **Breach (or Enforceability) Probability:** 3% annually. Beyond a data breach, a key risk for any e-signature is a contract not being able to be enforced.

- **Cost per Event:** $2.0M, which covers legal fees and jeopardized contract value when there is a settlement or court case. We note there are regulations governing e-signatures, including the ESIGN (Electronic Signatures in Global and National Commerce) Act and UETA (Uniform Electronic Transactions Act).
- **Compliance/Agent Error Liability:** $50,000/year.
- **Seat Multiplier:** 2x, capturing counterparties and internal review.
- **Cost per Employee:** $180,000, blended.
- **Share of Output through Tool:** 2%. E-signature can be important for agreements, but is not directly responsible for a huge shift of employee output.
- **Productivity/Error Delta:** 4%, representing counterparty friction – in other words, do external parties trust the e-signature tool, relative to the brand name and trust history associated with DocuSign?
- **Core-Differentiating:** 0 (no). E-signature is a function, not a unique differentiator.

## ZoomInfo (GTM) Sales OS – Enterprise, Sales Enablement

We've always viewed ZoomInfo as facing potential existential threats from AI and our calculator would show exactly that. This analysis is particularly interesting, because a single input governs the DIY math: quality gap. If there is zero difference in data, then the DIY math wins outright. If there is any level of quality gap, then ZoomInfo narrowly wins.

We would also note three caveats here. First, this could meaningfully ramp up pricing pressure on ZoomInfo, noting the major amount of lower-cost providers on the market today (e.g. Apollo). Second, beyond DIY, some enterprises could consider using off-the-shelf LLMs as the replacement for specific licenses, at which point the major difference becomes purely the data quality, versus build or run or maintenance costs. Third, there is an argument to made that ZoomInfo absorbs the legal liability around individual data and privacy and perhaps our $2M estimate is too low.

Exhibit 24 shows our GTM Build vs. Buy dashboard.

Exhibit 24 - GTM: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 25 shows our GTM Build vs. Buy model inputs.

## Exhibit 25 - GTM: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $1,400 |
| Number of Seats | 1,000 |
| Annual Subscription ($,000s) | $1,400 |
| Annual Price Increase | 3% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 2.0 |
| # of Quarters to Ship | 2.0 |
| FTE Quarters to Ship | 4.0 |
| Total Cost per FTE, Annual | $300 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $750 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $50 |
| Inferencing/Token Costs ($,000s) | $150 |
| Annual Run Cost ($,000s) | $200 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 3 |
| Cost per Replatform ($,000s) | $50 |
| Cost to Monitor ($,000s) | $40 |
| Maintain (Annual, $,000s) | $190 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 5% |
| Cost per Breach ($,000s) | $2,000 |
| Compliance/Agent Error Liability ($,000s) | $60 |
| Risk (Annual, Expected, $,000s) | $160 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 1.2x |
| # of Employees Impacted through Workflow | 1,200 |
| Cost per Employee Impacted ($,000s) | $120 |
| Share of Output through Tool | 8.0% |
| Loaded Labor through Workflow ($,000s) | $11,520 |
| Productivity/Error Delta | 3% |
| Quality Gap, Annual ($,000s) | $346 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $696 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 0.7x |
| DIY True TCO, PV ($,000s) | 4,145 |
| Vendor TCO, PV ($,000s) | 5,604 |
| DIY As-Modeled TCO, PV ($,000s) | 1,508 |
| Headline Savings, PV ($,000s) | 4,095 |
| Hidden Carry | 2,637 |
| Ownership Tax (% of Savings) | 64% |
| DIY Looks Cheaper From | Year 1 |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |

*Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.*

| Where the DIY Money Goes (PV, Cumulative) | | |
|---|---|---|
| Build (1) | $750 | 18% |
| Run (2) | $758 | 18% |
| Maintain (3) | $720 | 17% |
| Risk (4) | $607 | 15% |
| Quality Gap (5) | $1,310 | 32% |
| DIY Total (PV) | $4,145 | 100% |
| Vendor Total (PV) | $5,604 | |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| **Share of Output Through Tool** | **DIY (Total)/Vendor** |
| 7.0% | 0.7x |
| 7.5% | 0.7x |
| 8.0% | 0.7x |
| 8.5% | 0.8x |
| 9.0% | 0.8x |

Source: RBC Capital Markets

Exhibit 25 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $1,400/user/year. ZoomInfo's pricing is rather opaque and difficult to get a concrete number with a high degree of confidence. Given this is a potential counter-example, we use a large enterprise deployment of ZoomInfo, with just Sales OS, and no credit overages.
- **Number of Seats:** 1,000 seats, a large enterprise GTM organization.
- **Annual Price Increase:** 3%/year. Historically, price increases had been higher, based on our checks, but given growing competition, we use a more conservative assumption.
- **# of FTEs for Building:** 2. A research stack with open APIs and leveraging third-party LLMs is a relatively known architecture pattern.
- **# of Quarters to Ship:** 2, representing 4 FTE-quarters, which would be among the cheapest in the set.
- **Total Cost per FTE:** $300,000, representing engineering compensation in a larger enterprise.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated.
- **Infrastructure Cost:** $50,000 year. Contact information is not a compute-intensive workload.
- **Inferencing/Token Costs:** $150,000/year, which is more token-heavy, given this would likely use live research rather than pre-populating a general database (which is what ZoomInfo has done).
- **Replatform Events/Year:** 3.0, given model changes, markup changes in sources, anti-bot/agent measures, and APIs changing.
- **Cost per Replatform:** $50,000/replatform, with the fixes being relatively quick.
- **Cost to Monitor:** $40,000/year, a high amount relative to the build cost given the points of failure in scraping web data.
- **Breach/Compliance Probability:** 5%. Scraped data is PII and subject to GDPR and CCPA regulations.
- **Cost per Event:** $2.0M, which is less than a traditional data breach, instead focused on deletion

obligations from regulations.

- **Compliance/Agent Error Liability:** $60,000/year, a relatively low amount.
- **Seat Multiplier:** 1.2x, with the surrounding sales and marketing ecosystem.
- **Cost per Employee:** $120,000, blended GTM compensation.
- **Share of Output through Tool:** 8%. A major portion of SDR output is tied to prospecting data quality, while the impact may be lower on surrounding functions.
- **Productivity/Error Delta:** 3%. This is likely the most sensitive input in this model. If we believe data is relatively commoditized, the math is easier to make work. But if ZoomInfo's data is materially better, then the math works more in favor of ZoomInfo.
- **Core-Differentiating:** 0 (no). Unless an enterprise can build a better data engine than ZoomInfo, having a contact database is not a differentiator.

## Guidewire (GWRE) InsuranceSuite Cloud – Enterprise, Vertical (P&C Insurance)

Guidewire represents a case study within vertical software, which is timely given recent announcements between Anthropic-Allianz and OpenAI-State Farm. This is also the one case study that has a completed natural experiment – P&C insurers have run homegrown core systems for decades, since custom-built software was the only option before modern P&C systems emerged. After this experiment with homegrown systems, The industry has been spending more than a decade and billions of dollars migrating away from those systems to Guidewire and others, which shows the impact of the DIY tax.

We also note that given the highly-regulated nature of the P&C insurance industry, it is mission critical to continue to comply with changes in regulations and the intricacies of each state being different.

As a caveat, Guidewire's pricing is tied to DWP (direct written premiums), not seats, which works a little different than our model, so the numbers will look a bit odd, but also tie out to what we view as typical spending on Guidewire.

Exhibit 26 shows our GWRE Build vs. Buy dashboard.

Exhibit 26 - GWRE: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 27 shows our GWRE Build vs. Buy model inputs.

## Exhibit 27 - GWRE: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $2,000,000 |
| Number of Seats | 3 |
| Annual Subscription ($,000s) | $6,000 |
| Annual Price Increase | 6% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 80.0 |
| # of Quarters to Ship | 12.0 |
| FTE Quarters to Ship | 960.0 |
| Total Cost per FTE, Annual | $300 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $180,000 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $2,500 |
| Inferencing/Token Costs ($,000s) | $500 |
| Annual Run Cost ($,000s) | $3,000 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 3 |
| Cost per Replatform ($,000s) | $1,500 |
| Cost to Monitor ($,000s) | $500 |
| Maintain (Annual, $,000s) | $5,000 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 6% |
| Cost per Breach ($,000s) | $4,440 |
| Compliance/Agent Error Liability ($,000s) | $1,500 |
| Risk (Annual, Expected, $,000s) | $1,766 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 1000.0x |
| # of Employees Impacted through Workflow | 3,000 |
| Cost per Employee Impacted ($,000s) | $120 |
| Share of Output through Tool | 5.0% |
| Loaded Labor through Workflow ($,000s) | $18,000 |
| Productivity/Error Delta | 5% |
| Quality Gap, Annual ($,000s) | $900 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $7,666 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 8.7x |
| DIY True TCO, PV ($,000s) | 220,434 |
| Vendor TCO, PV ($,000s) | 25,360 |
| DIY As-Modeled TCO, PV ($,000s) | 191,372 |
| Headline Savings, PV ($,000s) | (166,012) |
| Hidden Carry | 29,062 |
| Ownership Tax (% of Savings) | N/A - Never cheaper |
| DIY Looks Cheaper From | Never (Modeled) |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |

*Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.*

| Where the DIY Money Goes (PV, Cumulative) | | |
|---|---|---|
| Build (1) | $180,000 | 82% |
| Run (2) | $11,372 | 5% |
| Maintain (3) | $18,954 | 9% |
| Risk (4) | $6,696 | 3% |
| Quality Gap (5) | $3,412 | 2% |
| DIY Total (PV) | $220,434 | 100% |
| Vendor Total (PV) | $25,360 | |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| **Share of Output Through Tool** | **DIY (Total)/Vendor** |
| 4.0% | 8.7x |
| 4.5% | 8.7x |
| 5.0% | 8.7x |
| 5.5% | 8.7x |
| 6.0% | 8.7x |

Source: RBC Capital Markets

Exhibit 27 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Module (seat substitute):** $2.0M/year per module (PolicyCenter, BillingCenter, ClaimCenter) across three modules. The pricing is actually a percentage of DWP (direct written premiums). We note these numbers are grounded a real case study, which is the ~$103M Cloud Migration deal that Guidewire signed with Citizens Property Insurance (which includes the actual SaaS plus implementation and post-implementation services), post Citizens' public board presentation.
- **Number of Modules (seat substitute):** 3, representing the full core suite.
- **Annual Price Increase:** 6%/year, which we believe is typical for Guidewire.
- **# of FTEs for Building:** 80. Replacing a P&C core means rebuilding policy administration, rating, billing, and claims across applicable lines of business and every state.
- **# of Quarters to Ship:** 12 quarters, representing a three year program and 960 FTE-quarters, given the size and complexity of this undertaking.
- **Total Cost per FTE:** $300,000, representing engineering compensation in a larger enterprise.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated. This is likely very conservative, especially given that P&C homegrown systems were built by massive IT staffs over decades.
- **Infrastructure Cost:** $2.5M/year, representing carrier-grade hosting.
- **Inferencing/Token Costs:** $500,000/year, representing moderate inferencing workloads.
- **Replatform Events/Year:** 3.0, which counts model churn and regulatory changes.
- **Cost per Replatform:** $1.5M/replatform, which is likely a very conservative estimate given the surface core systems touch.
- **Cost to Monitor:** $500,000/year, a relatively low cost and likely conservative.

- **Breach Probability:** 6% annually, given the high amounts of PII and regulated data.
- **Cost per Breach:** $4.44M, the IBM estimate, although we can make an argument for a much higher cost per breach given the PII and financial data.
- **Compliance/Agent Error Liability:** $1.5M/year, given the 50-state oversight and reporting requirements.
- **Seat Multiplier:** 1,000x per module, meaning three modules would result in ~3,000 employees (underwriters, adjusters, billing staff) whose throughput is connected to the core.
- **Cost per Employee:** $120,000, blended across the aforementioned functions.
- **Share of Output through Tool:** 5%. P&C core systems are mission critical and serve to run the business.
- **Productivity/Error Delta:** 5%. We believe this is a generous assumption given the technical talent within P&C.
- **Core-Differentiating:** 0 (no). Every P&C insurer needs a core system, so it is not a competitive advantage.

## NiCE (NICE) CXone – Enterprise, Contact Center

CCaaS has been at the crosshairs of AI bear cases since the beginning and while the core of the bear case is on seat counts declining every single year, DIY comes up as a possibility, especially given the size of a large CCaaS installation, especially when incorporating usage. Our DIY scenario leverages CPaaS infrastructure as the starting path versus purely building from scratch.

The model shows that DIY is roughly 2.5x vendor costs and making the math work is very tricky. We do acknowledge the major bear case is that AI shrinks the potential seat base over time (which is a separate discussion).

Exhibit 28 shows our NICE Build vs. Buy dashboard.

Exhibit 28 - NICE: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 29 shows our NICE Build vs. Buy model inputs.

## Exhibit 29 - NICE: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $1,500 |
| Number of Seats | 2,000 |
| Annual Subscription ($,000s) | $3,000 |
| Annual Price Increase | 5% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 10.0 |
| # of Quarters to Ship | 6.0 |
| FTE Quarters to Ship | 60.0 |
| Total Cost per FTE, Annual | $300 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $11,250 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $800 |
| Inferencing/Token Costs ($,000s) | $700 |
| Annual Run Cost ($,000s) | $1,500 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 3 |
| Cost per Replatform ($,000s) | $500 |
| Cost to Monitor ($,000s) | $300 |
| Maintain (Annual, $,000s) | $1,800 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 8% |
| Cost per Breach ($,000s) | $4,440 |
| Compliance/Agent Error Liability ($,000s) | $400 |
| Risk (Annual, Expected, $,000s) | $755 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 1.1x |
| # of Employees Impacted through Workflow | 2,200 |
| Cost per Employee Impacted ($,000s) | $65 |
| Share of Output through Tool | 15.0% |
| Loaded Labor through Workflow ($,000s) | $21,450 |
| Productivity/Error Delta | 6% |
| Quality Gap, Annual ($,000s) | $1,287 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $3,842 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 2.5x |
| DIY True TCO, PV ($,000s) | 31,501 |
| Vendor TCO, PV ($,000s) | 12,452 |
| DIY As-Modeled TCO, PV ($,000s) | 16,936 |
| Headline Savings, PV ($,000s) | (4,484) |
| Hidden Carry | 14,565 |
| Ownership Tax (% of Savings) | N/A - Never cheaper |
| DIY Looks Cheaper From | Never (Modeled) |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |

*Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.*

**Where the DIY Money Goes (PV, Cumulative)**

| | | |
|---|---|---|
| Build (1) | $11,250 | 36% |
| Run (2) | $5,686 | 18% |
| Maintain (3) | $6,823 | 22% |
| Risk (4) | $2,863 | 9% |
| Quality Gap (5) | $4,879 | 15% |
| DIY Total (PV) | $31,501 | 100% |
| Vendor Total (PV) | $12,452 | |

**Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool**

| Share of Output Through Tool | DIY (Total)/Vendor |
|---|---|
| 14.0% | 2.5x |
| 14.5% | 2.5x |
| 15.0% | 2.5x |
| 15.5% | 2.5x |
| 16.0% | 2.6x |

Source: RBC Capital Markets

Exhibit 29 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $1,500/agent/year, a discount to published pricing we could find from third-party websites. We note this does not include overages, which was a major factor during COVID.
- **Number of Seats:** 2,000 seats, a large contact center, and likely the scale that would lead to a real DIY conversation.
- **Annual Price Increase:** 5%/year, which we believe is typical for CCaaS.
- **# of FTEs for Building:** 10, assuming this still leverages CPaaS as the rails. The team has to still build routing, IVR, WFM, recording compliance, and real-time agent assist, among other features, to have a functioning large contact center.
- **# of Quarters to Ship:** 6, equating for 60 FTE-quarters, still a high amount.
- **Total Cost per FTE:** $300,000, representing engineering compensation in a larger enterprise.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated.
- **Infrastructure Cost:** $800,000/year, predominantly the connectivity fees.
- **Inferencing/Token Costs:** $700,000/year, covering agent assist and summarization across every interaction.
- **Replatform Events/Year:** 3.0, including model changes, regulation, and WFM calibration.
- **Cost per Replatform:** $500,000/replatform, reflecting the broad-reaching nature of the CCaaS.
- **Cost to Monitor:** $300,000/year, given this is a customer-facing tool.
- **Breach Probability:** 8% annually. Contact centers not only have PII, but often are centers for payments and record calls.
- **Cost per Event:** $4.44M, the IBM global average.
- **Compliance/Agent Error Liability:** $400,000/year, inclusive of PCI attestation and TCPA exposure. This does not include outage risk, which is a separate cost and results in heightened churn and lower revenue-generating activity.

- **Seat Multiplier:** 1.1x, capturing human agents and supervisors.
- **Cost per Employee:** $65,000, a typical salary for a contact center agent versus a knowledge worker.
- **Share of Output through Tool:** 15%, a major percentage, given an agent spends their entire day in the CCaaS platform.
- **Productivity/Error Delta:** 6%. Differences across platforms in handle time and routing quality can be meaningful.
- **Core-Differentiating:** 0 (no).

## Veeva (VEEV) Vault Quality – Enterprise, Vertical (Life Sciences)

While Veeva's business spans many areas across both commercial (including CRM) and clinical, we use Quality (QualityDocs plus QMS) as an illustrative example because it is one of the most widely-deployed applications within Veeva's clinical suite and one where there are strict regulations, including EU Annex 11.

The model shows DIY (Total) as roughly 2.8x the vendor costs and we believe this would be even larger if we applied this analysis to a larger pharma company using multiple Veeva solutions, including RIM or Clinical, given the interconnectivity. Furthermore, a big function of the DIY tax is the regulations, meaning even better AI tooling may not reduce DIY costs meaningfully.

Exhibit 30 shows our VEEV Build vs. Buy dashboard.

Exhibit 30 - VEEV: Build vs. Buy Case Study Dashboard




Source: RBC Capital Markets

Exhibit 31 shows our VEEV Build vs. Buy model inputs.

## Exhibit 31 - VEEV: Build vs. Buy Case Study Model Inputs

| Inputs | |
|---|---|
| **Timeframe** | |
| Holding horizon (years) | 5 |
| Discount Rate | 10% |
| **Vendor (Buy)** | |
| Cost Per Seat ($) | $1,250 |
| Number of Seats | 2,000 |
| Annual Subscription ($,000s) | $2,500 |
| Annual Price Increase | 6% |
| **1) Build (One-Time)** | |
| # of FTEs for Building | 12.0 |
| # of Quarters to Ship | 5.0 |
| FTE Quarters to Ship | 60.0 |
| Total Cost per FTE, Annual | $300 |
| Estimation Multiplier | 2.5x |
| Build (One-Time, $,000s) | $11,250 |
| **2) Run (Annual)** | |
| Infrastructure Costs ($,000s) | $300 |
| Inferencing/Token Costs ($,000s) | $200 |
| Annual Run Cost ($,000s) | $500 |
| **3) Maintain (Annual)** | |
| Replatform events/year | 2.5 |
| Cost per Replatform ($,000s) | $600 |
| Cost to Monitor ($,000s) | $400 |
| Maintain (Annual, $,000s) | $1,900 |
| **4) Risk (Annual, Expected)** | |
| Breach Probability | 6% |
| Cost per Breach ($,000s) | $8,000 |
| Compliance/Agent Error Liability ($,000s) | $800 |
| Risk (Annual, Expected, $,000s) | $1,280 |
| **5) Quality Gap (Annual)** | |
| Seat Multiplier | 1.5x |
| # of Employees Impacted through Workflow | 3,000 |
| Cost per Employee Impacted ($,000s) | $140 |
| Share of Output through Tool | 5.0% |
| Loaded Labor through Workflow ($,000s) | $21,000 |
| Productivity/Error Delta | 5% |
| Quality Gap, Annual ($,000s) | $1,050 |
| **Workload** | |
| Core-Differentiating (1=yes, 0=no) | 0 |

| Costs | |
|---|---|
| Hidden Costs (M, R, Q) | $4,230 |
| Discount Factor Sum | 3.79 |
| **Verdict** | |
| DIY True TCO+Vendor | 2.8x |
| DIY True TCO, PV ($,000s) | 29,180 |
| Vendor TCO, PV ($,000s) | 10,567 |
| DIY As-Modeled TCO, PV ($,000s) | 13,145 |
| Headline Savings, PV ($,000s) | (2,579) |
| Hidden Carry | 16,035 |
| Ownership Tax (% of Savings) | N/A - Never cheaper |
| DIY Looks Cheaper From | Never (Modeled) |
| DIY Underwater (Actual) From | Year 1 |
| Differentiating Workload? | No - Loses at Parity |
| *Not differentiating IP. This loses even at cost parity. The buckets below only deepen it.* | |

| Where the DIY Money Goes (PV, Cumulative) | | |
|---|---|---|
| Build (1) | $11,250 | |
| Run (2) | $1,895 | 6% |
| Maintain (3) | $7,202 | 25% |
| Risk (4) | $4,852 | 17% |
| Quality Gap (5) | $3,980 | 14% |
| DIY Total (PV) | $29,180 | 100% |
| Vendor Total (PV) | $10,567 | |

| Sensitivity Analysis: DIY/Vendor, based on Share-through-Tool | |
|---|---|
| **Share of Output Through Tool** | **DIY (Total)/Vendor** |
| 4.0% | 2.7x |
| 4.5% | 2.7x |
| 5.0% | 2.8x |
| 5.5% | 2.8x |
| 6.0% | 2.8x |

Source: RBC Capital Markets

Exhibit 31 shows our inputs behind this analysis, along with explanation on each input below:

- **Cost Per Seat:** $1,250/user/year blended. Veeva's pricing tends to be company-specific and is more of a hybrid model, but we apply a base fee plus named user license to arrive at a blended $1,250 number.
- **Number of Seats:** 2,000 seats, again acknowledging the hybrid nature of the model, but equating to a $2.5M annual spend, consistent with large pharma.
- **Annual Price Increase:** 6%/year. We used a deliberately high number, consistent with enterprise software, even though Veeva's stated price increases are capped at 4% (or the rate of inflation, whichever is lower), to be conservative.
- **# of FTEs for Building:** 12. A full quality suite with all the proper protocols and traceability requires meaningful employee time and engagement.
- **# of Quarters to Ship:** 5, representing 60 FTE-quarters, which equates to a heavy investment.
- **Total Cost per FTE:** $300,000, representing engineering compensation in a larger enterprise with regulatory capabilities.
- **Estimation Multiplier:** 2.5x, meaning the project will end up being 2.5x more expensive/time-consuming to build than estimated.
- **Infrastructure Cost:** $300,000. The environments have to be more secure, which requires heavier investment.
- **Inferencing/Token Costs:** $200,000/year, given the volume of unstructured data.
- **Replatform Events/Year:** 2.5, which includes model changes, changes in regulation, and continuous review of the quality systems.
- **Cost per Replatform:** $600,000/replatform, with a mission critical system requiring a lot more than testing and prompting, but ensuring all the regulations and documentation are updated.

- **Cost to Monitor:** $400,000/year, covering regular system reviews.
- **Regulatory Issue Probability:** 6%. For Veeva Quality, we frame risk by looking at the risk of data integrity issues leading to an investigation.
- **Cost per Event:** $8.0M, a conservative number which would include all the remediation steps, as well as delayed submissions.
- **Compliance/Agent Error Liability:** $800,000/year, which includes the CSV (computer systems validation) to ensure all systems are performing as intended.
- **Seat Multiplier:** 1.5x, inclusive of document and training records beyond the licensed quality core.
- **Cost per Employee:** $140,000, blended compensation in top pharma across these functions.
- **Share of Output through Tool:** 5%, since quality and related professionals spend meaningful time in the platform.
- **Productivity/Error Delta:** 5%, which covers longer cycles and greater downtime.
- **Core-Differentiating:** 0 (no).

## Company Profiles

# Asana Inc.

**Rishi Jaluria** (Analyst)

## Sector Perform

NYSE: ASAN US; USD 6.86

**Price Target USD 8.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 240.4 | Market Cap (MM): | 1,649 |
| Dividend: | 0.00 | Yield: | 0.0% |
| | | Avg. Daily Volume: | 5,405,003 |

### RBC Estimates

| FY Jan | 2026A | 2027E | 2028E | |
|---|---|---|---|---|
| **Revenue** | 790.8 | 859.5 | 917.4 | |
| **EPS, Adj Diluted** | 0.27 | 0.37 | 0.51 | |
| **P/AEPS** | 25.4x | 18.5x | 13.5x | |
| **Revenue** | **Q1** | **Q2** | **Q3** | **Q4** |
| 2026 | 187.3A | 196.9A | 201.0A | 205.6A |
| 2027 | 205.1A | 214.0E | 217.3E | 223.0E |
| 2028 | 219.4E | 228.6E | 231.8E | 237.6E |
| **EPS, Adj Diluted** | | | | |
| 2026 | 0.05A | 0.06A | 0.07A | 0.08A |
| 2027 | 0.10A | 0.09E | 0.09E | 0.09E |
| 2028 | 0.14E | 0.12E | 0.12E | 0.13E |

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our base-case price target of $8 by applying a 1.6x EV/revenue multiple to our CY27 revenue estimate. Our target multiple is in line with Rule of <25 peer group, reflecting Asana's decelerating growth, low margins, and competition/ TAM constraints, offset by stabilizing NRR. Our price target supports our Sector Perform rating.

### Investment summary

**We rate Asana shares Sector Perform for four reasons:**

1. **Asana scores low on our five-factor recession framework**, and we believe Asana will be disproportionately impacted owing to its lack of profitability, high startup exposure, and more discretionary nature of its software (in our view).
2. **We cannot underwrite a substantial market opportunity for Asana.** While Asana customers with whom we've spoken like the product, we do not believe the space is broadly applicable outside tech companies—we often describe Asana as a "Silicon Valley solution to a Silicon Valley problem."
3. **Project management is a very competitive space**, with Asana, Smartsheet, and Monday.com in the public sphere, as well as Airtable and ClickUp in the private sphere. Additionally, Asana faces competition from larger vendors that have acquired into the space, including Adobe (Workfront), Citrix (Wrike), and, most notably, Atlassian (Trello). The combination of intense competition and a smaller TAM is not one we favor.
4. **Opportunity to drive AI SKU adoption and continued margin expansion over time.** While early days, we see the opportunity for Asana to drive adoption of AI SKUs over time (AI Studio, AI Teammates, etc.), while also driving margins higher via continued efficiency investments (headcount rationalization, hiring in low-cost geos, greater sales efficiency, etc.).

### Risks to rating and price target

1. **Business focus.** Asana is a horizontal platform that can scale from a two-person start-up to a F500 company, in contrast to most project management tools, which tend to be more technical or siloed.
2. **Market awareness.** Asana has positive market awareness, which could be a meaningful long-term differentiator for the company.
3. **Secular tailwinds.** Work could become more distributed and unstructured in nature, serving as a tailwind for adoption of Asana.
4. **Rapid growth.** While Asana's growth has been decelerating and could further deteriorate during a downturn, it has remained 50%+ YoY, coupled with encouraging long-term profitability potential given strong gross margins, high sales efficiency, and solid net retention rates.

# DocuSign

**Rishi Jaluria** (Analyst)

## Sector Perform

NASDAQ: DOCU US; USD 50.44

**Price Target USD 55.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 196.5 | Market Cap (MM): | 9,910 |
| Dividend: | 0.00 | Yield: | 0.0% |
| | | Avg. Daily Volume: | 3,936,357 |

### RBC Estimates

| FY Jan | 2026A | 2027E | 2028E | |
|---|---|---|---|---|
| **Revenue** | 3,219.5 | 3,496.0 | 3,756.4 | |
| **EPS, Ops Diluted** | 3.84 | 4.64 | 5.43 | |
| **P/E** | 13.1x | 10.9x | 9.3x | |
| **Revenue** | **Q1** | **Q2** | **Q3** | **Q4** |
| 2026 | 763.7A | 800.6A | 818.4A | 836.9A |
| 2027 | 830.2A | 867.2E | 889.6E | 909.0E |
| 2028 | 885.6E | 935.3E | 962.8E | 972.7E |
| **EPS, Ops Diluted** | | | | |
| 2026 | 0.90A | 0.92A | 1.01A | 1.01A |
| 2027 | 1.09A | 1.13E | 1.20E | 1.23E |
| 2028 | 1.29E | 1.30E | 1.42E | 1.43E |

Revenue: in millions
All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our base-case price target of $55 by applying an ~8x multiple to our CY27E FCF estimate. Our target multiple is roughly in line with the Low Growth peer group, reflecting our near-term concerns about the turnaround and timeline for platform expansion, partially offset by our positive long-term views on the company's market leadership and potential TAM. Our price target supports our Sector Perform rating.

### Investment summary

#### Positives

- **Market leadership position.** DocuSign is the undisputed leader in e-signature, in our view, and has meaningfully increased the separation from the No. 2 player in the space (Adobe). We expect this gap to grow with the broadening of DocuSign's platform.
- **Broader platform expansion.** We are positive on DocuSign's investments to expand beyond e-signature and become a broader software platform driving the entire agreement/negotiation process. While it is still early, we remain encouraged by DocuSign CLM (contract lifecycle management). Given the likely hybrid nature of work post-COVID and reduced business travel (see our discussion on this topic here), solutions enabling remote agreements and negotiations will likely become more important.
- **Attractive long-term financial model.** DocuSign has a solid growth and profitability combination. In fact, in FY25, DocuSign scored a 39 on a "Rule of 40" basis, and we expect that it can return to 40+ long term.

#### Negatives

- **We foresee a long path to turnaround.** Turnarounds are never quick and easy, in our view, and DOCU is no exception. The company needs to improve sales execution and transition the go-to-market motion from handling high volumes of inbound demand to proactive demand generation. Before becoming constructive, we look for signs of meaningful improvement in use expansion, adoption of the broader agreement cloud (CLM, notary, etc.), and accelerated international traction.
- **Too many ongoing execution issues.** Given significant changes needed in the go-to-market, DocuSign experienced high sales person turnover, overhauled leadership, and implemented restructuring with a 9% workforce reduction. We await signs of stabilization in the employee base and seek to hear more from the new leadership team.
- **Historical credibility gap with investors.** DocuSign guided billings down a few times in FY23, missed its own billings guidance, and downplayed the COVID boost from overages/early renewals as well as exposure to mortgages/loans. Beyond this, DocuSign missed its quarterly guidance and guided down its annual billings guide once in FY26. We believe it needs to consistently execute vs. communicated targets for several quarters to rebuild investor credibility.

### Risks to rating and price target

Risk to upside: 1) may be an M&A target; 2) accelerated turnaround in growth; 3) accelerated adoption of expanded esignature use cases and broader agreement cloud; and 4) accelerated adoption of esignature internationally.

Risk to downside: 1) competition (ADBE, BOX, DBX); 2)

platform/TAM expansion may not materialize; and 3) pricing pressure in esignature.

# Guidewire Software Inc

**Rishi Jaluria** (Analyst)

## Outperform

NYSE: GWRE US; USD 138.23

**Price Target USD 215.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 85.1 | Market Cap (MM): | 11,759 |
| Dividend: | 0.00 | Yield: | 0.0% |
| | | Avg. Daily Volume: | 1,785,848 |

### RBC Estimates

| FY Jul | 2026E | 2027E | 2028E | |
|---|---|---|---|---|
| **Revenue** | 1,465.3 | 1,779.2 | 2,143.4 | |
| **EPS, Ops Diluted** | 3.43 | 4.29 | 5.54 | |
| **P/E** | 40.3x | 32.2x | 25.0x | |
| **Free Cash Flow** | 334.3 | 451.5 | 550.8 | |
| **FCF Yield** | 2.8% | 3.8% | 4.7% | |

| **Revenue** | **Q1** | **Q2** | **Q3** | **Q4** |
|---|---|---|---|---|
| 2026 | 332.6A | 359.1A | 372.5A | 401.0E |
| 2027 | 407.1E | 443.7E | 459.6E | 468.8E |
| 2028 | 495.7E | 534.9E | 562.4E | 550.3E |
| **EPS, Ops Diluted** | | | | |
| 2026 | 0.71A | 0.92A | 0.82A | 0.98E |
| 2027 | 0.90E | 1.16E | 1.05E | 1.17E |
| 2028 | 1.19E | 1.47E | 1.41E | 1.48E |

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our base-case price target of $215 by applying a ~9.1x EV/revenue multiple to our CY27 sales estimate. Our target multiple is a modest premium to Vertical SaaS peers, reflecting Guidewire's market leadership, attractive and defensive vertical opportunity, and favorable financial model exiting the cloud transition. Our price target supports our Outperform rating.

### Investment summary

Guidewire is a leading provider of mission-critical software solutions for P&C (property and casualty) insurance carrier brands.

**We like shares of Guidewire for four primary reasons:**

- **Guidewire is the clear market leader**, with a large base. Our industry checks suggest that Guidewire is viewed as the market leader, further supported by third-party reports (Forrester, etc.). In addition, Guidewire's management has highlighted 60%+ competitive win rates (on a DWP basis). Ultimately, we contend that the P&C insurance software space has room for multiple competitors, while Guidewire is well positioned to retain its leadership.
- **Attractive financial model exiting the cloud transition.** While Guidewire's cloud transition has been painful, in our view, we believe Guidewire will be a stronger company financially exiting the transition. We see room for industry-leading 30%+ FCF margins and a return to high-teens revenue growth (with the possibility of 20%+ growth, with strong execution).
- **Large market opportunity.** We estimate that the market opportunity for Guidewire today is $20B+, but importantly, P&C insurance is a defensive industry and one that is behind on the digital transformation journey, in our view, necessitating solutions like Guidewire. In addition, we see an opportunity for Guidewire to expand its TAM over time by moving out of core P&C insurance and into adjacent areas, including life insurance (noting that many large insurers have practices in both).
- **Blue chip customer base.** Supporting the company's market leadership position, Guidewire's blue chip customer base includes impressive logos such as Liberty Mutual, Metlife, Allianz, Zurich, and Nationwide.

### Risks to rating and price target

Investment risks include: 1) Guidewire's cloud transition may not be successful; 2) Guidewire operates in a competitive landscape; 3) international risk, with non-US revenue accounting for ~40% of total revenue; 4) customer concentration; and 5) high mix of low-margin professional services.

# HubSpot, Inc.

**Rishi Jaluria** (Analyst)

## Outperform

NYSE: HUBS US; USD 204.89

**Price Target USD 350.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 52.6 | Market Cap (MM): | 10,773 |
| Dividend: | 0.00 | Yield: | 0.0% |
| | | Avg. Daily Volume: | 1,610,042 |

### RBC Estimates

| FY Dec | 2026E | 2027E | 2028E | |
|---|---|---|---|---|
| **Revenue** | 3,704.3 | 4,269.0 | | |
| **EPS, Adj Diluted** | 13.08 | 14.46 | | |
| **P/AEPS** | 15.7x | 14.2x | NM | |
| **Revenue** | **Q1** | **Q2** | **Q3** | **Q4** |
| 2026 | 881.0A | 898.0E | 940.8E | 984.4E |
| 2027 | 999.9E | 1,050.7E | 1,095.5E | 1,122.9E |
| **EPS, Adj Diluted** | | | | |
| 2026 | 2.72A | 3.01E | 3.37E | 3.97E |
| 2027 | 2.88E | 3.50E | 3.81E | 4.27E |

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our base-case price target of $350 by applying a ~4.0x EV/revenue multiple to our 2027 revenue, which we believe is warranted given HubSpot's durable growth profile, margin expansion, and increasing monetization optionality through seats and credits. Our price target supports our Outperform rating.

### Investment summary

HubSpot is an innovative software player that is transforming from a marketing automation vendor to a fully fledged customer relationship management platform with a primary focus in SMB.

### Potential catalysts

**Faster-than-expected adoption of newer hubs:** We see potential for upside in the model from further acceleration in the adoption and revenue growth of the newer hubs (Service, Payments, CMS, and Operations). Sales Hub represents a larger market opportunity than Marketing; therefore, adoption could also accelerate and drive upside.

**We could see improving retention rates:** We think success with the CRM Suite, multi-hub adoption, and drift upmarket are likely to continue to lift unit retention rates. Negative dollar churn is very meaningful for unit economics of the business over time.

**FCF generation:** We think HubSpot has reached sustainable FCF generation as product/operational levers kick in. As HubSpot continues to mature its operating model, this should not only provide near-term valuation support but also drive a shift in the valuation focus long-term.

### Risks to rating and price target

**SMB attrition:** The company has a high annual unit retention rate. While a meaningful improvement relative to two years ago, it remains higher than most enterprise SaaS providers.

**Competition:** A very competitive market with risk from new innovation and disruption in the SMB space. However, today, we think HubSpot's competitive position is strong and improving.

**Long-term profitability:** Margins have improved and are solid for HUBS growth, but the company's long-term margin structure remains uncertain. We believe the company has a strong enough cash position to achieve positive FCF generation without raising funds.

# Intuit Inc.

**Rishi Jaluria** (Analyst)

## Outperform

NASDAQ: INTU US; USD 296.33

**Price Target USD 500.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 274.0 | Market Cap (MM): | 81,194 |
| Dividend: | 0.00 | Yield: | 0.0% |
| | | Avg. Daily Volume: | 5,118,389 |

### RBC Estimates

| FY Jul | 2026E | 2027E | 2028E | |
|---|---|---|---|---|
| **Revenue** | 21,350.0 | 23,557.0 | 26,444.0 | |
| **EPS, Adj Diluted** | 23.80 | 27.34 | 31.83 | |
| **P/AEPS** | 12.5x | 10.8x | 9.3x | |
| **Free Cash Flow** | 9,251.0 | 8,597.0 | 9,459.0 | |
| **FCF Yield** | 11.4% | 10.6% | 11.6% | |

| Revenue | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| 2026 | 3,885.0A | 4,651.0A | 8,558.0A | 4,256.0E |
| 2027 | 4,487.0E | 5,086.0E | 8,781.0E | 5,203.0E |
| 2028 | 5,401.0E | 5,960.0E | 9,406.0E | 5,677.0E |
| **EPS, Adj Diluted** | | | | |
| 2026 | 3.34A | 4.15A | 12.80A | 3.57E |
| 2027 | 4.13E | 4.93E | 13.61E | 4.65E |
| 2028 | 5.46E | 6.01E | 15.08E | 5.28E |

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our price target of $500 by applying a 16x EV/FCF multiple to our CY27 FCF estimate. Our target multiple is slightly above large cap software due to the company's market leadership position, GenAI opportunity, and TAM and margin expansion potential. Our price target supports our Outperform rating.

### Investment summary

**We like Intuit shares for four primary reasons:**

1. **We like Intuit's successful transition to a subscription model.** Today, 80%+ of revenue comes from recurring subscriptions. This has resulted in greater platform expansion, with platform revenue now representing 77% of total revenue, up from 58% five years ago (87% ex-Credit Karma).
2. **We like Intuit's market leadership position in tax and accounting software**, with 2T+ invoices managed, 18M total U.S. workers paid annually via QB payroll, and $105B in consumer tax refunds annually. We believe as tax codes and regulations become increasingly complex, this can be a tailwind for Intuit.
3. **We see a major opportunity for Intuit in GenAI**, especially because tax preparation and SMB accounting are very services-heavy industries and Intuit has an opportunity to help customers automate a significant portion of the low-hanging fruit and generate real cost savings. We expect this to translate to real revenue for Intuit, although we caution that it could take longer for theory to become the reality that investors expect today.
4. **Finally, Intuit continues to expand margins**, and we estimate potential to see sustainable 40%+ non-GAAP operating margins and 30%+ GAAP operating margins over the next several years.

### Risks to rating and price target

**Investment risks include:** 1) macro sensitivity, with Intuit's business dependent on small business and consumer growth; 2) execution risk with recent acquisitions, most notably Credit Karma and MailChimp; 3) legislation risk, particularly if US tax codes become more simplified; 4) Intuit's GenAI strategy may not pan out as expected; and 5) competition, including from large software vendors (e.g. Oracle NetSuite, Sage Software) and smaller upstarts (e.g., Freshworks, Gusto).

# Microsoft Corporation

**Rishi Jaluria** (Analyst)

## Outperform

NASDAQ: MSFT US; USD 381.70

**Price Target USD 640.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 7,445.0 | Market Cap (MM): | 2,841,757 |
| Dividend: | 2.72 | Yield: | 0.7% |
| Float (MM): | 7,900.0 | Tr. 12 ROE: | 30.00% |
| Debt to Cap: | 0% | Avg. Daily Volume: | 42,278,284 |
| | | 3-Yr. Est. EPS Growth: | 12.30% |

### RBC Estimates

| FY Jun | 2026E | 2027E | 2028E |
|---|---|---|---|
| Revenue | 329.2 | 385.8 | 449.6 |
| EPS, Ops Diluted | 16.70 | 19.65 | 23.37 |
| P/E | 22.9x | 19.4x | 16.3x |

| Revenue | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| 2026 | 77.7A | 81.3A | 82.9A | 87.3E |
| 2027 | 91.0E | 95.9E | 96.4E | 102.5E |
| 2028 | 104.4E | 110.0E | 110.3E | 119.3E |
| **EPS, Ops Diluted** | | | | |
| 2026 | 4.13A | 4.14A | 4.27A | 4.16E |
| 2027 | 4.65E | 4.88E | 4.92E | 5.19E |
| 2028 | 5.16E | 5.41E | 5.47E | 5.88E |

Non GAAP Revenue in billions
All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our base-case price target of $640 by applying a ~30x P/E multiple to our CY27 EPS estimate. Our target multiple is slightly above the Mega Cap peer group, warranted in our view by the company's leadership position in key software categories, durable double-digit growth at scale, and room for margin expansion, albeit some hardware/on-premises mix. Our price target supports our Outperform rating.

### Investment summary

**We like shares of Microsoft for four primary reasons:**

1. **Market Leader in Several Important Software Categories.** Microsoft is a top vendor across numerous enterprise software markets, including public cloud (Azure), collab (Teams/Office), developer tools (GitHub/Visual Studio), security (Azure AD, Defender), and hyperautomation (Power Platform). In addition, Microsoft holds a top spot in other technology vectors, like video games (Xbox), social networking (LinkedIn), and AR (HoloLens).
2. **Durable Double-digit Growth at Scale.** From FY18-FY21, Microsoft sustained a 15% CAGR, adding ~$60B of revenue to $168B total. Even more impressive, most of this came organically with $23B from Azure, $12B from Office, and $5B from Gaming (LinkedIn added $5B). In our base case, we expect Microsoft to maintain a low-teens CAGR from FY22-FY27.
3. **Several Market Expansion Opportunities.** We see several large expansion opportunities, underpinning our view that Microsoft can sustain DD growth. Microsoft has historically successfully entered new markets, e.g., hyperautomation, security, and collaboration. We believe the large Office install base, Azure's platform/capabilities, and effective bundling are the enablers. We look to customer experience/engagement as an area to watch given recent investments.
4. **Still Room for Margin Expansion.** Microsoft has dispelled the bear thesis that cloud mix-shift would pressure margins. We see gross margins pushing higher, though at a more measured rate. In addition, we expect the company to keep balancing efficiency gains against investments in future growth, ultimately leading to modest operating margin expansion.

### Risks to rating and price target

- **Azure growth could slow:** While we maintain the view that public cloud remains early days, a material slowdown in Azure growth could impact the stock and future growth.
- **Competitive backdrop remains intense:** If Microsoft is unable to maintain its leadership across several sub-categories of software and/or continue entering new markets, this could limit its ability to sustain DD growth.
- **Uneven consumer strategy:** While positioning has improved in certain consumer markets (namely gaming), execution has been uneven historically (unable to establish a presence in smartphone and living room ecosystems) which could serve as a competitive risk.
- **Transformational acquisition:** A significant acquisition that depletes the company's net cash position and adds operational pressures on the business could be a risk.

# NICE Ltd.

**Rishi Jaluria** (Analyst)

## Outperform

NASDAQ: NICE US; USD 90.26

**Price Target USD 130.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 60.6 | Market Cap (MM): | 5,470 |
| Dividend: | 0.00 | Yield: | 0.0% |
| Float (MM): | 61.2 | Tr. 12 ROE: | 13.00% |
| Debt to Cap: | 0% | Enterprise Val. (MM): | 1,831 |
| | | Avg. Daily Volume: | 586,044 |
| | | 3-Yr. Est. EPS Growth: | 12.00% |

### RBC Estimates

| FY Dec | 2026E | 2027E | 2028E | |
|---|---|---|---|---|
| **Revenue** | 3,181.7 | 3,416.1 | | |
| **EPS, Ops Diluted** | 11.08 | 12.43 | | |
| **P/E** | 8.1x | 7.3x | NM | |
| **Free Cash Flow** | 589.8 | 646.3 | | |
| **FCF Yield** | 10.8% | 11.8% | NM | |
| **Revenue** | **Q1** | **Q2** | **Q3** | **Q4** |
| 2026 | 768.6A | 766.8E | 797.8E | 848.5E |
| 2027 | 823.6E | 835.9E | 853.6E | 903.1E |
| **EPS, Ops Diluted** | | | | |
| 2026 | 2.64A | 2.65E | 2.79E | 3.01E |
| 2027 | 2.77E | 2.99E | 3.24E | 3.44E |

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our price target of $130 by applying a ~12x EV/FCF multiple to our 2027 FCF estimate. Our target multiple is in line with the peer group, which we believe is warranted considering NiCE's market leadership in an attractive software category and potential for an attractive growth/margin profile. Our price target supports our Outperform rating.

### Investment summary

**We like shares of NICE for four primary reasons:**

1. **The CCaaS market is attractive...**We are in the early innings of CCaaS (contact center as a service) adoption, with <20% of contact center agents globally using a true cloud solution, providing a long runway of growth. At the same time, we believe the pandemic and the subsequent rise of remote work has accelerated the adoption of CCaaS solutions and displacements of legacy solutions from Cisco and Avaya, as we don't see a return to crowded contact centers anytime soon and cloud-based solutions are increasingly necessary to enable remote work.
2. **...and CXone has differentiated itself.** While we believe multiple CCaaS players can succeed in a "rising tide lifts all boats" situation, we believe CXone is meaningfully differentiated from other CCaaS vendors in both its ability to scale into the enterprise, as well as in NICE offering a full suite of solutions that encompasses omni-channel routing, WEM (workforce engagement management), and analytics.
3. **Accelerating growth and margin expansion.** Cloud has hit the all-important "crossover point", where it now comprises more than half of revenue and is growing nicely. Given management expects cloud to sustain at good growth, we expect total revenue growth to accelerate to sustained double-digit organic growth. We also see room for continued margin expansion, led primarily by improving cloud gross margins, towards 30%+ FCF margins.
4. **Blue chip customer base.** NICE has an impressive customer base across both segments, with 750+ clients on the FCC side, including JPMorgan Chase, HSBC, Vista, and Google (and monitoring 67% of global financial transactions daily), while the 25K+ customers on the CE side include logos like American Airlines, AIG, Morgan Stanley, 3M, VMWare, and Charles Schwab. We believe this enterprise customer base is rather sticky and gives NICE a defensive business model.

### Risks to rating and price target

**Investment risks include:** 1) competitive risk, with several competitors in both FCC and CE; 2) M&A risk, as NiCE has been acquisitive throughout its history and future deals may not work out as expected or could distract from the core; 3) NiCE is an ADR and does not file quarterly 10-Qs; and 4) international risk, as the company is headquartered in Israel (although 80% + of revenue comes from the Americas).

# Salesforce, Inc.

**Rishi Jaluria** (Analyst)

## Sector Perform

NYSE: CRM US; USD 163.66

**Price Target USD 210.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 871.0 | Market Cap (MM): | 142,548 |
| Dividend: | 1.60 | Yield: | 1.0% |
| Float (MM): | 98.6 | Tr. 12 ROE: | 10.00% |
| Debt to Cap: | 0% | Avg. Daily Volume: | 15,229,164 |

### RBC Estimates

| FY Jan | 2026A | 2027E | 2028E | |
|---|---|---|---|---|
| **Revenue** | 41,525.0 | 46,050.6 | 50,125.6 | |
| **EPS, Ops Diluted** | 12.52 | 14.09 | 14.89 | |
| **P/E** | 13.1x | 11.6x | 11.0x | |
| **Revenue** | **Q1** | **Q2** | **Q3** | **Q4** |
| 2026 | 9,829.0A | 10,236.0A | 10,259.0A | 11,201.0A |
| 2027 | 11,133.0A | 11,310.5E | 11,220.5E | 12,386.7E |
| 2028 | 12,077.7E | 12,450.4E | 12,246.4E | 13,351.1E |
| **EPS, Ops Diluted** | | | | |
| 2026 | 2.58A | 2.91A | 3.25A | 3.81A |
| 2027 | 3.88A | 3.26E | 3.29E | 3.67E |
| 2028 | 3.48E | 3.80E | 3.67E | 3.95E |

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our base-case price target of $210 by applying a 13x EV/FCF multiple to our CY27 FCF estimate. Our target multiple is roughly in line with large-cap peers, supported by the company's market leadership in several key software categories and improving margin profile. Our price target supports our Sector Perform rating.

### Investment summary

**We are Sector Perform on the stock for four overarching reasons:**

- **First, we like Salesforce's leadership position in the CRM market.** Over time, Salesforce has established itself as the leader in CRM, including sales, service, marketing, and commerce. We believe this leadership position, especially in the Global 2000, allows Salesforce the opportunity to further expand in its customer base, broaden its platform, and drive greater consumption.
- **Second, we still see room for meaningful margin expansion.** Over time, we believe Salesforce can approach or even exceed 40% non-GAAP operating margins (depending on growth rates). Importantly, Salesforce has shown meaningful cost discipline over the past few years, driving real margin expansion and operational efficiency.
- **Third, however, we have concerns around Salesforce's reliance on M&A, instead of organic innovation, and lack of integration.** While Salesforce's historical acquisitions have generally worked out (e.g., ExactTarget, Demandware), recent acquisitions have a more mixed track record, namely Slack and Tableau. With the recent acquisition of Informatica, we now have concerns that Salesforce has returned to its reliance on large M&A and desire to "own" too much, which may prove to be a distraction from the core.
- **Fourth, while Salesforce Agentforce has seen momentum**, driven by marketing and incumbency, we have concerns around Salesforce's longer-term AI strategy and if the innovation truly matches the marketing.

### Risks to rating and price target

Risks to our rating and price target include: 1) increasing competition, from both mature software vendors (Adobe, Microsoft, ServiceNow) and fast-growing vendors (HubSpot, Shopify); 2) transformational changes create more significant than expected near-term headwinds to top-line growth; 3) Salesforce struggles to re-ignite organic innovation and/or large scale M&A resumes; and 4) margin expansion path does not materialize fully or in a timely fashion.

# Veeva Systems Inc

**Rishi Jaluria** (Analyst)

## Outperform

NYSE: VEEV US; USD 186.24

**Price Target USD 275.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 166.0 | Market Cap (MM): | 30,914 |
| Dividend: | 0.00 | Yield: | 0.0% |
| | | Avg. Daily Volume: | 2,194,365 |

### RBC Estimates

| FY Jan | 2026A | 2027E | 2028E | |
|---|---|---|---|---|
| **Revenue** | 3,195.3 | 3,640.4 | 4,070.6 | |
| **Free Cash Flow** | 1,386.1 | 1,552.6 | 1,731.9 | |
| **FCF Yield** | 4.5% | 5.0% | 5.6% | |
| **Revenue** | **Q1** | **Q2** | **Q3** | **Q4** |
| 2026 | 759.0A | 789.1A | 811.2A | 836.0A |
| 2027 | 882.9A | 903.5E | 912.6E | 941.4E |
| 2028 | 993.3E | 1,022.0E | 1,016.9E | 1,038.4E |
| **Free Cash Flow** | | | | |
| 2026 | 871.2A | 232.1A | 182.9A | 99.8A |
| 2027 | 1,125.4A | 167.8E | 169.4E | 90.1E |
| 2028 | 983.5E | 296.7E | 266.3E | 185.3E |

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our base-case price target of $275 by applying a 22x EV/FCF (vs. 24x prior) to our CY27 FCF estimate. Our price target supports our Outperform rating. Our target multiple is roughly in line with large-cap peers, supported by the company's market leadership and product strength.

### Investment summary

We like shares of Veeva for four primary reasons:

1. **Veeva's domain expertise and deep customer relationships** have created a market leadership position and a sustainable economic moat, limiting the threat of competition. As a result, Veeva has one of the highest average revenues per customer in software.
2. **We see multiple growth drivers for Veeva to return to 20%+ subscription growth**, including CDMS, Data Cloud, and a planned expansion into horizontal applications. We believe that Veeva has a large TAM that will continue to grow with new products and that Vault, Veeva's content management platform, is a continued engine for innovation.
3. **Veeva's financial model is best-in-class**, with a leading blend of growth and profitability. Veeva continues to show high double-digit organic subscription growth, while also seeing FCF margins approach 40% (which places Veeva in rare territory among SaaS companies), making Veeva a consistent "Rule of 40" company. This is the result of Veeva's product-led growth, fiscal discipline, and its unique GTM motion of the "Veeva Way", which involves slowly driving adoption through reference selling.
4. **The life sciences market is attractive**, as it is a defensive industry that is also rather profitable (pharmaceutical companies have software-like gross margins of 70%+) and technology-forward (with the pandemic accelerating digital transformation initiatives). One key feature of life sciences is that the industry is more collaborative than others, which makes reference selling a key part of the GTM model. In addition, Veeva's blue chip customer base spans almost all of the top pharmaceutical companies, including household names such as Pfizer, Moderna, Johnson & Johnson, AstraZeneca, and Regeneron.

### Risks to rating and price target

**Investment risks include:** 1) Customer concentration; 2) international risk; 3) CRM remains a significant part of the business; and 4) competition, including from vertical and horizontal software vendors.

# Workday, Inc.

**Rishi Jaluria** (Analyst)

## Outperform

NASDAQ: WDAY US; USD 135.34

**Price Target USD 180.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 254.3 | Market Cap (MM): | 34,419 |
| Dividend: | 0.00 | Yield: | 0.0% |
| | | Avg. Daily Volume: | 4,804,910 |

### RBC Estimates

| FY Jan | 2026A | 2027E | 2028E | |
|---|---|---|---|---|
| **Revenue** | 9,552.0 | 10,647.5 | 11,735.4 | |
| **EPS, Ops Diluted** | 9.23 | 10.89 | 12.50 | |
| **P/E** | 14.7x | 12.4x | 10.8x | |
| **Revenue** | **Q1** | **Q2** | **Q3** | **Q4** |
| 2026 | 2,240.0A | 2,348.0A | 2,432.0A | 2,532.0A |
| 2027 | 2,542.0A | 2,635.2E | 2,677.5E | 2,792.8E |
| 2028 | 2,773.6E | 2,899.8E | 2,947.0E | 3,114.9E |
| **EPS, Ops Diluted** | | | | |
| 2026 | 2.23A | 2.21A | 2.32A | 2.47A |
| 2027 | 2.66A | 2.68E | 2.41E | 3.17E |
| 2028 | 3.07E | 3.05E | 2.74E | 3.64E |

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our base-case price target of $180 by applying a ~4x EV/revenue multiple to our CY27 estimate. Our target multiple is roughly in line with large cap software peers, which we see as fair value. Our three-stage DCF analysis (which assumes Workday continues to gain share from Oracle and SAP, and FCF margins expand to 33%+) also reinforces our price target. Our price target supports our Outperform rating.

### Investment summary

- **Our Outperform rating is centered on:**
  - **Evolution into a multi-product platform.** Workday began selling a cloud-based human capital management (HCM) solution in 2006, before adding basic financial management in 2007 and basic spend management in 2008. More recently, Workday has focused on becoming a complete and composable ERP platform for services-based industries by building a system of engagement for the office of the CFO, extending into planning with Adaptive, and strengthening its spend management solution with Scout to become truly competitive.
  - **An underrated M&A engine.** After a decade of building the platform organically (aside from small technology tuck-ins), Workday acquired Adaptive in 2018. Not only has Workday demonstrated success leveraging Adaptive as a front door to up-sell core FINS (and HCM), it has also nearly doubled Adaptive's installed base and invested in continued innovation.
  - **Legacy displacement opportunity.** Within large enterprises, we believe at least 30% of customers remain on legacy, fragmented systems.
  - **We believe Workday can sustain mid-teens growth in core customer count,** driven by momentum in medium enterprise and potential to accelerate internationally.
  - **Not only do we see Workday's long-term target operating model as achievable,** but we think at least 30% operating and FCF margins are achievable.
  - **Potential benefits from GenAI.** Not only do we believe Workday can gain OpEx efficiencies from GenAI (as can most software companies), we also believe Workday can leverage GenAI to make its software easier to implement and easier for end users to navigate.

### Risks to rating and price target

- **Competition:** Workday competes against Oracle and SAP in large enterprise space, both of which have larger overall back office application business.
- **Long sales and implementation cycles.** Workday has long sales and implementation cycles, often spanning 6–12 months and sometimes 18+ months.
- **Seat-based pricing model.** Workday deploys a seat-based pricing model, which can be impacted by layoffs.
- **Dual class share structure.** Workday has a dual-class structure with Class B shares holding ten votes to every one outstanding Class A share.
- **International risk:** Workday's customer base is exposed to foreign currency fluctuations and political or economic volatility internationally.
- **Lack of GAAP profitability.** Workday has not been consistently GAAP profitable (owing to relatively high SBC).

# ZoomInfo Technologies Inc

**Rishi Jaluria** (Analyst)

## Underperform

NASDAQ: GTM US; USD 2.92

**Price Target USD 3.00**

### Key Statistics

| | | | |
|---|---|---|---|
| Shares O/S (MM): | 318.0 | Market Cap (MM): | 929 |
| Dividend: | 0.00 | Yield: | 0.0% |
| | | Avg. Daily Volume: | 11,037,197 |

### RBC Estimates

| FY Dec | 2026E | 2027E | 2028E | |
|---|---|---|---|---|
| **Revenue** | 1,195.2 | 1,134.7 | | |
| **EPS, Adj Diluted** | 1.11 | 1.12 | | |
| **Revenue** | **Q1** | **Q2** | **Q3** | **Q4** |
| 2026 | 310.2A | 301.5E | 296.0E | 287.4E |
| 2027 | 279.8E | 281.5E | 286.0E | 287.4E |
| **EPS, Adj Diluted** | | | | |
| 2026 | 0.28A | 0.27E | 0.29E | 0.28E |
| 2027 | 0.25E | 0.25E | 0.30E | 0.32E |

All values in USD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

### Valuation

We calculate our base-case price target of $3 by applying an 5.6x EV/FCF multiple (vs. 6.5x prior) to our CY27 estimate. Our target multiple is a discount to the Rule of 40+ group, reflecting ZoomInfo's above-average stock-based compensation, growth headwinds, and elevated concerns of competition. Our price target supports our Underperform rating.

### Investment summary

**We have an Underperform rating on ZoomInfo for five primary reasons:**

1. **ZoomInfo is operating in a highly competitive market.** While we still believe ZoomInfo has the best depth and breadth of data, our due diligence indicates that competitors are narrowing the gap and able to offer competing functionality at significantly lower cost.
2. **GenAI may actually hurt ZoomInfo's value proposition long term.** We are increasingly concerned that LLMs could be leveraged to find contact information on the Internet. While products like ChatGPT have guardrails to prevent serving up an email address (although prompt engineering may get around those), we think it's only a matter of time before someone builds a contact information search app on top of an open-source LLM.
3. **Potential margin pressures.** ZoomInfo is certainly a very profitable business today; however, we could see margins decline not just from pricing pressure, but also from ZoomInfo having to invest more to become a software company.
4. **Macro pressures persist.** We continue to believe that a stable macro environment (which we pick up in our checks) won't be favorable for ZoomInfo, as companies will look to further rationalize their software spending, which could result in seat count reductions (even without further layoffs) and downgrades (including unplugging some of the adjacent products and functionality).
5. **Privacy and data concerns remain long-term concerns.** While we believe ZoomInfo has done an admirable job of navigating concerns around its product and how it obtains data, we are cognizant that there are still long-term risks, including legislative ones.

### Risks to rating and price target

1) GenAI alongside ZoomInfo's existing data could make users more productive and consume more; 2) macro headwinds easing quicker than expected; 3) technology and software company seat reductions reverse and companies expand with ZoomInfo; 4) the company sustains high levels of profitability; and 5) the company could be acquired.

# Companies mentioned

Adobe Inc. (NASDAQ: ADBE US; $225.11; Outperform)
ServiceNow, Inc. (NYSE: NOW US; $98.78; Outperform)
Shopify Inc. (NYSE: SHOP US; $113.75; Outperform)

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**As of 30-Jun-2026**

| | | | Investment Banking Serv./Past 12 Mos. | |
|---|---|---|---|---|
| **Rating** | **Count** | **Percent** | **Count** | **Percent** |
| **BUY [Outperform]** | **927** | **57.94** | **290** | **31.28** |
| **HOLD [Sector Perform]** | **626** | **39.12** | **161** | **25.72** |
| **SELL [Underperform]** | **47** | **2.94** | **3** | **6.38** |

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