Box Inc. (NYSE: BOX)

Rating: Sell

Price Target: $14.50

Initiation of Coverage

February 17, 2015

ValAn Research Team

Company Ticker	BOX
Exchange	NYSE
Current Share Price	$20.18
52 Week Range	$16.41-$24.73
Recommendation	Sell
Target Price	$14.50

Valuation Metrics	Value
Market Cap	$2.41B
Current P/E	NM
EPS	NM
P/B (MRQ)	16.96x
P/Sales (TTM)	12.51x
Cash Dividend	NM
Dividend Yield	NM
5-Year Dividend growth	NM

We are initiating coverage on Box Inc. (NYSE: BOX) ("Box") with a Sell rating and $14.50 price target. While Box can experience significant near-term growth, Box operates in a highly competitive, price-sensitive environment. Therefore, we believe BOX shares are unattractive at current valuation levels. We value BOX shares using a DCF model, assuming a cost of equity of 16.0% and growth rates in the 50-25% for the next twenty years, with a terminal growth rate of 3.5%

Box Inc., incorporated in 2005 and headquartered in Los Altos, California, exclusively provides cloud-computing services to customers ranging from individuals to large enterprises. Cloud computing is a pay-per use or subscription fee based delivery of computing resources, involving deployment of remote servers and software networks that enable centralized data storage, which can be retrieved, modified and shared with only an access to internet connectivity.

Given below is a summary of our investment thesis.

Disconnect between valuation and profitability- We believe that current price levels do not just justify valuations. No doubt, the recent revenue growth has been phenomenal (Box's annual revenues grew by 100%+ in 2014). Further, as per our revenue model assumptions, we believe Box can grow revenues in excess of 50+% annually for the next few years. However, despite these robust assumptions, we believe Box will start turning a profit only by the fiscal year 2019, due to commiserate increases in sales and marketing expenses. We also note that recent sequential revenue growth has been diminishing, growing at 11% in the prior quarter, dropping from 20% levels in the prior year quarters.

Box must prove its advantage in a highly competitive market - While Box has been signing new customers at a rapid rate, subsequently driving revenue growth, the business is experiencing a slow but steady increase in its churn rate, highlighting the fact that customers are opting out or switching to other service providers. Indeed, fierce competition coupled with superior products and pricing pressure could increase the rate of customer churn. While Box's recent moves allowing enterprises to control their own encryption codes/security, etc. are positive, the Company must continue to improve its customer retention rates and potentially fend off competition by continuous innovation and exceptional service delivery.

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Investment Rationale

Diminishing second order of revenue growth could magnify losses- Box's revenue growth, while significantly positive, has been trending lower (that is, second order of growth) over the last eight quarters. Sequential revenue growth is now at 11% in the third quarter 2015 (fiscal year), compared to a high of 21% in second quarter 2014 (fiscal year). Further, we note that the growth rate has been diminishing despite increased spending on sales and marketing costs. This validates that the Company may not been able to penetrate and capture market share as expected, in spite of increased advertising and promotional activities. Per Box's latest S-1 filing, more than 60% of revenue growth has been generated from new subscribers adopting Box's offerings. The Company anticipates that new subscribers will be the key factor in driving revenues. However, the costs associated with new subscribers are very high due to the initial deployment of the software. We believe that this growth strategy will extend the period of operating losses, resulting in a decline in overall intrinsic value of BOX shares.

Decreasing retention ratio could push churn rate- We believe that a decreasing retention ratio and a higher churn rate will negatively affect profitability as margins from renewals are generally higher, compared to margins from new customers. The customer retention ratio offers insight into the long-term value of the subscription contracts. Similarly, the churn rate furnishes understanding into the company's capability to retain users and growth of revenues from existing customer base. We note that Box's retention ratio has been falling steadily over the years. As per the S-1 latest filing, at the end of the nine months ended October 31, 2014, the retention rate stood at 130%, eight percentage points less relative to the same period in 2013. Additionally, we believe that cloud services may suffer from low switching costs and high price sensitivity as comparable services offered by competitors match Box's prices with same or better features. This could result in customers not opting to renew their contracts and subsequently shifting to other service providers. There are a number of factors such as customer satisfaction, pricing, quality of support services, etc. influencing the switching decision.

Product offering enjoys only a marginal competitive edge over rivals- Box's offering is not very unique as compared to its rivals. As seen in Exhibit 4, the Company's competitors offer similar features at the matching prices. Further, some competitors such as IBM and Microsoft offer additional services and features at equal or even lower prices, which may lead to customers choosing to shift over to competitor products. This factor could substantially reduce Box's market share resulting in a revenue decline. We believe that the little edge the Company enjoys may erode overtime as the industry matures.

Intensely competitive market could lead to price wars- Box faces intense competition from not only other new entrants, but also large and established companies. As per International Data Corporation ("IDC"), the cloud computing market is growing at 23.5% CAGR with SaaS contributing 59.7% of revenues by 2017.

Such high growth prospects along with low barriers to entry will cause large number of players to enter the market. Further, industry leaders and established competitors have abundant resources to invest in new launches and subsequently capture cloud computing market share. Moreover, they have the ability to price their products lower to facilitate market penetration. This could lead to pricing pressure, eventually contracting the overall profitability of the industry. We believe that in the future, there may be only few players operating in the cloud computing space. Our belief is based on future consolidation activity and burnout of unsuccessful companies.

Free storage limit for users to reduce return on assets- The Company offers free storage capacity up to 10GB for individual users. This strategy has been adopted by the Company with the target of capturing market share and increasing the number of users. However, this "free storage" limit feature may continue to remain in the future, reducing the overall return on assets and lead to higher operating costs.

Marginal control over board and dilutive voting rights- The Class A listed shares account for only 1.2% of the common stock outstanding. The common stock outstanding prior to the IPO are now classified as Class B shares (which hold 10 votes per share) and account for 98.8% of the outstanding shares. Further, the CEO, Aaron Levie holds only 4% (not including stock options) of the Company's outstanding shares. We believe that such high dilutive effect and low promoter holding could be a critical factor for investors.

Company Overview

Business

Box is a cloud computing business offering "Enterprise Content Collaboration", a cloud based platform, enabling organizations of different sizes to manage data/content and collaborate with various parties, both internally and externally. The Company delivers its services as a Software as a Service ("SaaS") model, which provides end users with an application software through which databases can be accessed. The SaaS solutions offered are based on subscription fees, which vary depending on the number of users, functionality requirements, and additional customization to the platform such as security structures, identity integration options, tailored administrative consoles, etc. Additionally, Box's solutions are customized to the industry specific needs of the end users. The Company has successfully monetized these services, having more than 32 million registered users at the end of October 2014, including 44,000+ organizations paying for services. As per the company's latest S-1 filing, paying users consist of over 47% of Fortune 500 companies and 22% of Global 2000 companies. Some of the major clients include General Electric, Proctor & Gamble, GAP Inc., etc. We discuss in detail about the Company's customers in the Customer Analysis section. We shall now familiarize the reader in detail with the services and technology offered by Box.

Box Inc. delivers cloud computing and enterprise collaboration solutions to organizations of various sizes

Products/Services and Technology

As mentioned earlier, the Company's product, Enterprise Content Collaboration ("ECC"), operates in a cloud-computing domain, as a multi-tenant, mobile optimized SaaS offering. A multi-tenant offering is a software architecture, wherein single software operates on a server and serves several client organizations. ECC is an information system that provides clients with application software, which facilitates content/data storage, editing, conversion, sharing, encryption and other features. These features enable employees to work on projects across different geographical locations. The Company also offers a mobile optimized version of the product with limitations.

The following is a brief description on the core services and features offered on the platform.

Enterprise Content Collaboration offers diverse features and high degree of customization.

- **Content/ Data storage-** The key service offered in the ECC platform is data and content storage services, through which users can organize and access more than hundred file types. Moreover, data/ content can be shared with defined access levels and modification rights with other users through box platform or other integrated applications such as email, messaging protocol, etc.
- **Content Collaboration-** The application offers social and managerial communication features such as commenting, assigning tasks, setting due dates and receiving real-time updates, which aid in collaboration activity and provide users with related information alerts through email.
- **Search Capability-** The platform offers a built in search tool that facilitates quick content navigation. Additionally, users can run customized searches using parameters such as data/ content type, user credentials, date modified, contents of the file, etc.
- **Event Logging-** An exclusive feature of Box, which logs all user and collaborators activity, thus maintaining a complete audit trail of activity within data. This facilitates control and fulfils compliance requirements of businesses and applicable industry regulations.
- **Content Creation & Editing-** Box users can create content using an inbuilt add-on mobile optimized feature called Box Notes. This is a real time application that delivers collaborative word processing. This enables various team members to simultaneously work in real time on the one file without leaving the application.
- **Syncing-** This feature facilitates offline editing of documents, which can later be synced to the box accounts, reflecting all changes.
- **Content Conversion and viewing-** This feature enables users to access over hundred file types directly in the web browser. Further, there is a conversion technology, which converts documents into HTML format for easy viewing across different devices.
- **File Encryption-** Box's application offers a sophisticated encryption technology, ensuring that the content on the platform remains protected. This feature is essential for business and enterprise needs.

- **Security and Administrative Features-** Box offers large enterprises with security and IT administrative features such as file activity, sync history, user browser history, storage usage and user activity such as logins, edits, downloads and uploads. IT administrators can control access by setting passwords, setting file accessibility and download permissions. They can also enable or disable specific applications and its integration within the administrative console. Other features include content rules ranging from "upload only" to "full modification rights" and device pinning, which is used to assign users box accounts.
- Box also customizes the application to the needs of business providing industry specific solutions, thus targeting business problems within the particular industry.

Box further enhances the product offering to customers by integrating it with third party independent software vendors ("ISV") and their applications, enabling them to build, and update new applications using Box's services. Box enables the ISV's to integrate and extend the ECC products functionality to the ISV's applications. Some examples of such integration are Salesforce, NetSuite, MobileIron, Okta, etc. Box also offers integration of its mobile optimized product to third party ISV's application. This feature, known as Box OneCloud Mobile, integrates more than 1300 applications with Box, which extends functionality to scanning, presentations, online signatures, etc. Some examples of the third party ISV's are CloudOn, Notability, Plangrid, etc. Box also offers open platforms and application programming interfaces ("API") to customers and partners, allowing them to create and deploy distinct applications and interfaces, customized to the needs and workflow of the business and industry.

Exhibit 1: Product features

Source: Company website

The Company offers the products/ solutions to subscribers via various pricing plans to meet the varying needs of the customers. These are individual plans, starter plans, business plans and enterprise plans. Individual plans are offered free of charge up to a specified storage capacity to the user and will be charged a fee for additional storage space. The plan only offers file storage and sharing features of the product. Starter plans offer shared workspaces for teams/projects supporting one to ten users with a maximum of 100GB of storage. Business package offers unlimited storage capacity to a minimum of three users and includes additional features such as user management features, enhanced security controls. The enterprise package also provides unlimited storage capacity. However, it has a complete set of content/data management and collaboration features, reporting and auditing tool set, and can be integrated with third party enterprise software products. The Company also provides customization of the enterprise package to suit the needs of the business. Exhibit 2 displays the multiple features offered by each plan/ package.

Box offers four packages to meet the specifications of different end users.

Exhibit 2: Features offered via different pricing plans

Package/ Features	Personal	Starter	Business	Enterprise
Mobile, Sync and Share Capabilities				
Desktop Sync	✓	✓	✓	✓
Mobile Access	✓	✓	✓	✓
OneCloud Apps	✓	✓	✓	✓
SSL and At Rest Encryption	✓	✓	✓	✓
Two-Factor Authentication	✓	✓	✓	✓
Secure Sharing	✓	✓	✓	✓
Microsoft Office Integration	✓	✓	✓	✓
Edit Documents	✓	✓	✓	✓
Rich File Preview	✓	✓	✓	✓
Search	✓	✓	✓	✓
Access Permissions				
Auto-Expiration		✓	✓	✓
File Locking		✓	✓	✓
Access Stats		✓	✓	✓
Granular Permissions		✓	✓	✓
Version History		25	50	100
Content Security and Management				
User Management		✓	✓	✓
Add Users			✓	✓
(Bulk Add/Edit)			✓	✓
Granular File and User Statistics			✓	✓
Device Pinning				✓
Audit Logs				✓
Security Reporting				✓
Security Policies and Automations				✓
Custom Admin Roles				✓
Compliance Email Archive				✓
Custom Branding				✓
Content Manager				✓
Mobile Security Controls				
MDM Integration			✓	✓

Password Enforcement				✓
Multi-Factor Authentication enforcement				✓
Restrict Offline Access				✓
Integrations and API				
Active Directory & Single Sign On (SSO)			✓ Single	✓ Unlimited
Third-Party Box Embed SaaS Integrations				✓
Box Content API	25k/month	25k/month	50k/month	100k/month

Source: Company website

Customer Analysis

As of January 22, 2014, the Company had over 32 million registered users. These users comprised of more than 275,000 organizations from over 200 countries. The total number of paying organizations, i.e., organizations paying for the Company's offerings stood at 44,000+. As of January 31, 2014, no single customer individually accounted for more than 10% of the total accounts receivable and revenues. This highlights the fact that the Company has a diverse customer base and does not face any risk of revenue concentration.

Exhibit 3 displays some of the major clients of the Company by industry.

Box enjoys a large customer base operating in various industries, mitigating the risk of revenue concentration

Exhibit 3: Major clients by industry

Advertising	**Industrial**
ADS Alliance Data Systems Inc.	Mondi Group
Grey Group	Schneider Electric
Yellow Pages Group	Sunbelt Rentals
	Toyota
Business Services	
Booz & Company	**Legal Services**
Creative Artists Agency	Hinshaw Culbertson LLP
Royal HaskoningDHV	Patterson Belknap Webb & Tyler LLP
	Perkins Coie LLP
Construction	Sheppard, Mullin, Richter & Hampton LLP
Bechtel	
DPR Construction	**Media & Entertainment**
M. A. Mortenson Company	BBC Worldwide
	DirecTV
Consumer	Discovery Communications
Molson Coors Brewing Company	TES Connect
New Balance	Viacom
Pabst Brewing Company	
	Non-Profit
Education	Battelle Memorial Institute
Pennsylvania State University	The Leukemia & Lymphoma Society
San Jose Unified School District	Oxfam
University of Illinois	Teach for America
	WestEd

Energy	
Chevron U.S.A. Inc.	**Real Estate**
Marathon Petroleum	Cushman & Wakefield
JW Energy Company	Jones Lang LaSalle
	The Related Companies
Financial Services	
Ameriprise Financial, Inc.	**Retail**
Guaranteed Rate	AutoTrader Group
Nationwide Mutual Insurance	Gap, Inc.
	Safeway
Government	
Argonne National Laboratory	**Technology**
London Borough of Hounslow	Dell
State Government of Victoria, Australia	DeNA Co.
	eBay
Healthcare and Life Sciences	
Allergan	**Telecom**
Boston Scientific	Bandwidth.com
Eli Lilly and Company	RingCentral
Stanford Health Care	Telefónica Digital
M. D. Anderson Cancer Center	

Source: Company Filings

Various supplementary strategies such as Box Consulting deliver customer support, improving product implementation and usage effectiveness

The Company also employs consultants under their Box Consulting initiative. Such professional service teams work closely with customers, aiding them in understand the specific uses of the product and studying their deployment needs, consequently ensuring that the maximum value is derived from the product offerings. This factor has contributed to customer retention and upsells from existing customers. 60% of Box's revenues are generated from large businesses and enterprises, which were organizations with a minimum of 1000 customers. The Company's business model is such that the profitability depends on the stage of the customer integration. For example, new customers contribute a negative margin as sales and marketing expenses generally exceed the revenue generated from these customers in the first year. Further, customers who are opting for additional features or upsells contribute a positive but low margin. The highest margin business is generated from renewal of subscription from existing customers as the sales and marketing expenses are considerably lower. However, significant top line growth is largely attributable to new customers buying Box's product. As a result, margins have been lower due to the costs associated with these new customers. We believe that the business will generate positive margins as new customers opt for subscription renewals in the future.

Competitive Edge

Box's biggest selling point is the security features. The Company offers one of the best toolset for enterprise security management. Further, they are looking to increase the contribution from enterprise clients. To achieve this, the Company has to continue to provide the best in class security. As per security solutions provider Skyhigh Networks, Box's product satisfied the requirements of identity authentication, data protection encryption level and other factors. Another interesting advantage enjoyed by Box is their collaboration features. The Company has heavily invested in creating collaborative tools that are easy and simple to use. This facilitates quick adoption and implementation of Box's product by enterprises.

Box hold minimal competitive edge over competitors as product offering is homogeneous

However, Box's competitive edge is very marginal and we believe with each passing day existing and new competitors are slowing eating into Box's moat by innovating and delivering products which are at par or improved when compared to Box's offerings.

Acquisitions

Box, operating in the software development industry, is mainly focused in SaaS based product offerings. Historically, businesses operating in this sector are subject to consolidation. Top line growth is largely driven by innovation coupled with inorganic activity, an approach also employed by Box. We shall now look at Box's past acquisitions.

- On June 16, 2014, Box acquired Greply, Inc. (Streem), for a total purchase price of $45 million. Streem's technology enables users to mount cloud drives onto the local hard-disk. This technology eliminates the limitations of a local hard-disk through secure accessibility of documents, presentations, videos and other files.
- On October 9, 2013, Box acquired MedXT for $3.84 million. MedXT technology focuses on sharing, viewing and printing of medical image files in a mobile optimized online platform. This acquisition displays Box's strategy of providing industry specific SaaS solutions.
- On May 9, 2013, Box acquired Crocodoc, Inc., which offers an advanced HTML based document rendering technology. The total consideration paid stood at $13.2 million. The technology provides users with access to features such as document annotation, slideshow building, and document conversion to HTML supported formats.
- Box acquired Increo Solutions in October 2009. Increo Solutions is the developer of Blackboard and embedit.in, which facilitate easy and quick online collaboration between workgroups and integration and embedding of files into blogs and websites.

Box has successfully overcome all acquisition related integration challenges. We expect to see more consolidation activity in the sector and believe the Box can come out on top of this due to past experience and access to funding.

Partners

Box classifies their partnerships in three categories: (1) channel and alliance partners, (2) technology partners, and (3) developers. Channel and alliance partners engage in reselling Box's offerings to new customers and markets, supporting the Company's direct sales force in generating revenues. These partners include solution providers, value-added resellers, direct market resellers, service providers, distributors and system integrators. Some of the partners include AT&T, Deutsche

Telekom, Telstra, Telefonica, CDW, Insight Direct, SoftChoice and others. This strategy accelerates sales, and aids in generating long term profitable revenue.

Major technology partners include salesforce.com, DocuSign, MobileIron, Good Technology and NetSuite. These partners integrate Box's offerings into their products or services or endorse Box's services, thus increasing Box's penetration into new applications, platforms and markets.

Through partnerships with developers, the Company provides an API, which enables the developers to build applications utilizing Box as a content/ data storage layer. Agreements with developers and technology partners have not been substantial and yet to translate into cash flows.

However, we believe that in the future Box can leverage the partnership and alliance strategy to expand its presence, subsequently impacting revenues positively.

Brief on Operating and Financial Performance

__Rapid revenue growth over the last two years is mostly attributable to new subscribers.__

The company has experienced substantial growth in its revenues year over year. Revenues for the year 2011, 2013, and 2014 were $21.1 million, 58.8 million and $124.2 million, a growth of 179% in 2013 and 111% in 2014. Revenues for the nine months ended October 31, 2014 stood at 85.4 million, representing a growth of 80% compared to the same period in 2013. The company has seen tremendous growth in its sales primarily due to new subscribers. Cost of revenues for the nine months ended October 31, 2014, increased to $32.5 million, compared to $17.5 million during the same period of 2013. The company anticipates the cost of revenues to increase in proportion to revenues, as they plan to expand their customer base through heavy sales and advertising activity. As of October 31, 2014, the cash and cash equivalents stood at $165 million. Taking into consideration the IPO proceeds, the cash and cash equivalents stand at $295 million. The Company plans to utilize the cash by increasing research & development and advertising activities. Further, Box has two year revolving credit facility of $100 million, on which it borrowed $40 million as of October 31, 2014. The credit facility and cash will be adequate to meet the company's capex needs and working capital requirements for the next 12 months.

Industry Dynamics

Overview of Industry

Cloud Services can be classified as Infrastructure as a Service ("IaaS"), Platform as a Service ("PaaS"), Software as a Service ("SaaS"). IaaS is a cloud computing service where a third party hosts virtual computing resources over an internet connection and provides hardware, software, storage, servers and other infrastructure related to cloud. IaaS platforms are provided on-demand, making it highly scalable. PaaS category of computing offers web applications without providing the infrastructure associated with the web applications. SaaS only provide applications and software with are accessible to users over the internet. Box's operations are restricted to SaaS and they are not planning to enter the other market segments. As a result we will only be analyzing the SaaS market within the cloud industry.

According to IDC, the cloud industry has been growing at a rapid rate of 23.5% CAGR and is estimated to be $100 billion industry by 2017. IDC estimates cloud computing services to account for 17% of the total IT spending by 2017 and SaaS to continue to be the largest cloud service category at 59.7% of revenues by 2017. We expect the growth and expansion to continue as organizations and enterprises recognize the impact of employing cloud in terms of productivity, competitiveness and flexibility.

Over the last few years, cloud computing has changed the way organizations use information technology. Organizations main concern of not adopting cloud services was security. Consequently, cloud service providers have heavily invested in security aspects. In the future, we expect cloud deployment to not only to be greater, but also more user friendly and solution driven. Additionally, we believe, cloud computing will not be restricted to big data and enterprises, but also be used by individuals socially in a mobile optimized mode.

Demand for cloud services

The uses of cloud computing is gradually but steadily increasing as organizations are realizing the benefits of cloud computing and shifting away from traditional technology. The reason for this shift is the economic and technological benefits such as cost saving, pay-per-use/ on-demand model, reduced capital expenditure, security, multi-tenancy, collaboration, etc. The main qualitative factors, which are the reasons for cloud adoption, include improvement in operational efficiencies, rapid data and service transfer, increased performance of the application.

Enterprise cloud solutions market is rapidly growing at 23% CAGR with a projected market size of $100+ billion by 2017

As per a recent study by IDG Research, 69% of organizations have applications or infrastructures that have adopted cloud in 2014, up from 12% in 2012. The study also highlights the fact that investments by large scale enterprises (1000+ employees) have increased 19% resulting in an average expenditure of $3.3 million per year. However, the most interesting expectation is that in 2015, businesses will allocate 24% of the IT budgets to cloud solutions, with SaaS being the highest percentage. We believe that the continued trend of increasing demand will benefit Box's business, which primarily operates in the SaaS segment consisting of large enterprises (1000+ employees). However, due to increasing number of companies entering the market and low switching costs associated with the technology, customers can leverage their position and drive down prices or switch service providers. This will severely affect the industry attractiveness and retention ratio.

Key competitors and Intensity of Competition

Cloud computing, operating with the technology industry, is relatively young. However, the sector is growing rapidly and as the market expands, the level of competition, which is already intense, will further increase. There are more than 1000+ companies worldwide providing numerous cloud based services.

Companies operating in the IaaS segment face lower competition as fixed cost component needed to compete with the established players is very high. However, the SaaS and PaaS segment will experience high level of competition due to low initial investment. With the barriers of entry being low, several companies are expected to enter the market. Such a scenario will lead to price wars, thus driving down the overall profitability of the SaaS segment. Additionally, the life cycle for the companies operating in the segment is very short as there is no durable competitive advantage enjoyed by the existing players. We believe that only innovation can support survival, aid in gaining market share from existing players and capture further opportunities in the sector.

Cloud Computing is a highly competitive and price sensitive market with low barriers to entry, low switching costs and minimal product differentiation

We shall now provide the reader with an understanding of Box's major competitors and their product offerings, which should help clarify our opinions on Box's position in the cloud-computing arena. We have included major enterprise collaborative software providers as well as file sync and share software providers.

IBM's Connections

IBM Connections ("Connections") was first released in June 2007. The product is the top ranking application in the content collaboration and cloud computing industry. Connections has undergone a long development process and recently launched an updated version in June 2014. The product is a mobile optimized cloud collaboration software with an enterprise social application feature, offering file editing, sharing and syncing, content sharing with external parties, task management features, search capabilities, push technology, wiki macros, etc. The product also offers a profile manager, blogging service and a social bookmarking service that facilitates sharing of ideas, identification of different working groups. Additionally, the product is integrated with Microsoft Sharepoint and Microsoft Office Communications Server. IBM has also enabled ISV's to integrate their applications into the Connections platform. In January 2014, IBM acquired and integrated Aspera, a provider of high speed file transfer technology, into the Connection application. IBM has also successfully integrated the enterprise social networking with content management features. Further, IBM also offers infrastructure support such as providing hardware, servers, etc. Connection also provides public, private, hybrid as well as on- premise cloud infrastructure. However, the application is highly complex as offers a number of related features and deployment models, which can be challenging when compared to the limited solutions offered by competitors.

EMC Corporation's Syncplicity and supporting applications

EMC was founded in 1979 and is based out of Massachusetts. In 2012, EMC acquired Syncplicity, a provider of enterprise collaboration solutions. Syncplicity offers enterprise file/ data storage, syncing and sharing. Additional add-on applications offer multiple features such as enterprise collaboration management and security. The product is delivered as a hybrid model and the data can be stored on or off-premises. As per user reviews, Syncplicity is said to offer seamless synchronization and has been recommended to businesses where data synchronization is a major component of content collaboration activity. The product also offers similar services to competitors such as API's for ISV's and third parties, integration with other EMC applications, which will strengthen their product portfolio. Some of the drawback of the application is the lack of mobile optimized open API's which result in issues during application development and integration. Further, as per a Gartner report, Syncplicity's presence in North America is limited to a small customer base when compared to their competitors.

Microsoft's SharePoint and Yammer

Microsoft's solution for enterprise collaboration is known as SharePoint. Cloud support for SharePoint is provided through integration with Office 365. The product offers document management, file syncing and storage, social networking and other related features. Microsoft also offers a file sharing and syncing software for businesses known as OneDrive. One of the key advantages of SharePoint is its integration with other Microsoft products such as Yammer (enterprise social network), Microsoft Office, etc. However, Microsoft has been slow in improving some shortcomings in the product offering and user interface.

Citrix's Podio and ShareFile

Podio was acquired by Citrix in April 2012. The application offers data and content management, process management, enterprise communication, etc. Other additional features include CRM, event management, HR processes such as recruitment, etc. Podio also offers users with an online application store, which provides businesses with customization tools and templates for specific types of collaborative business processes. The software is mobile optimized and is one of the highest rated enterprise collaboration solution on the iOS Application store. Citrix also offers a stand-alone product known as ShareFile, which offers file syncing, and storage solution and has been integrated with Podio. However, users report lack of integration and enhanced collaborative features. Though Citrix is a well-known player in the Cloud and enterprise network offering, they have a long way to go before becoming a top competitor with a large market share.

Cisco's WebEx Social

Cisco offers businesses with content management solutions coupled with strong social networking support. WebEx has been well integrated with Cisco's other communication solutions. It is also mobile optimized and offers some of the best mobile capabilities. However, till now the application has been adopted mostly by existing Cisco customers. We believe that Cisco has to expand it sales and marketing strategy before it can capture market share.

Jive Software's Jive

Jive developed by Jive software provides collaboration and communication solutions for enterprises. The platform is offered in two configurations- Jive for internal collaboration and JiveX for external collaboration such as customers and partners. The application offers regular content management, enterprise social networking, email integration, etc focusing on structured business processes. Jive also offers developmental interfaces and API's to third party software developers and ISV's for integration and customization of other applications into Jive. Jive is one of the top players and is dedicated to enterprise collaboration and communication. The Company has carved out a niche with large customers who recognize the refined and sophisticated product offering. We believe that Jive is and will remain a major competitor of Box.

Oracle's Corporation- Beehive

Oracle released the first version of Beehive, an enterprise collaboration and communication platform in 2008. Beehive, comprising of four main components can be deployed either as licensed software or as a SaaS module. The four main components are the platform, enterprise messaging, team collaboration and synchronous collaboration. The platform offers data and content storage along with basic communication features. Enterprise messaging offers a first class communication setup, which includes emailing, calendaring, contact book, task management, etc. Team and synchronous collaboration offers team calendaring, team announcements, RSS feeds, web conferencing, and VoIP audio conferencing via Beehive's inbuilt conferencing client. Gartner's assessment of Beehive is very positive with them recommending the application for deployments considering security, process integration, compliance and multiplatform support. However, Oracle's all previous attempts at cracking the collaboration market were unsuccessful. Beehive is Oracle's fourth endeavor in the collaboration market. Further, Oracle is looking to target only large businesses and enterprises, losing out on small and mid-sized businesses. We believe that this is Oracle's main disadvantage and will fail to capture significant market share in the future.

SAP's JAM

In 2012, SAP introduced SAP Jam, a social software platform that enables the businesses to drive results by integrating into their business and Processes. It allows people to collaborate and share ideas with other people in the organization in a more efficient way, which helps them to make effective decisions. Across the company, SAP Jam can be used as an enterprise social networking tool, which helps them to improve the business processes. It helps to connect people from different departments, where they can share, collaborate, and make informed decisions.

SAP Jam helps the member or a team to participate in company discussions, monitoring, and chatting with each other. With Sap Jam the employees can post, interpret documents, which are shared by other employees in the organization. It can also record video from webcam or with any other device which is shared by the team, and can create tutorials or make presentations. For updating and sharing financial information SAP Jam integrates with the SAP Financials OnDemand mobile application, which helps the business to receive updates and share information. Sap Jam collaborates with different stakeholders to manage the processes and prepare reports and documents. Most of the businesses prefer using Sap Jam, as deploying Jam is easy. However, the level of customization is marginal, which can be a drawback for SAP.

Huddle

Huddle is an enterprise content collaboration firm founded in 2006 and is headquartered in London. It enables the organizations to store, access and share documents with everyone inside the organization. Huddle brings all the departments, employees and stakeholders in one environment where they can work effectively at the same time from different devices. It also integrates with Mac, Windows, and Outlook, which helps the employees to work in online network and it ensure that they can collectively store and edit documents in Huddle cloud. Most of the government departments in UK use Huddle cloud collaboration service, like Ministry of Justice, Department of Environment, and DEFRA etc. In 2012, Huddle announced that it is developing a cloud-based content collaboration platform for U.S. government agencies and organizations. Even though it has efficient file management system that has highly flexible interface, it doesn't provide chat features for its collaboration services, which is seen as a drawback for Huddle.

Competitors such as IBM, Microsoft and Jive offer extra features and solutions such as charting, surveys, web publishing, etc.

The competitors described above are the large and established players in the market. There are several other competitors who are smaller and less established having product offerings similar to Box's. We have not covered them, as Box is less susceptible to the threat from these smaller players. Exhibit 4 displays the various product features offered by the Box as well as its major competitors.

Exhibit 4: Product feature comparison

	Box Inc.	IBM Connections	Microsoft Sharepoint	EMC	Jive	SAP JAM	Citrix Podio	Oracle Beehive
Initial Release	2005	2007	2001	N/A	2006	N/A	2012	2008
Web Publishing	✗	✓	✓	✗	✓	N/A	N/A	N/A
Calendaring Software	✓	✓	✓	✓ Basic	✓	✓	✓	✓
Project Management	✓	✓ Basic	✓ Basic	✓ Basic	✓	✓	✓	✓
Workflow System	✓ Basic	✓	✓	✓ Basic	✓	✓	✓	✓
Document Management	✓	✓ Basic	✓	✓	✓	✓	✓	✓
List Management	✓	✗	✓	N/A	✓	✓	✓	✓

XML Forms Management and workflow	N/A	✗	✓	N/A	N/A	N/A	N/A	N/A
Discussion	✓	✓	✓	✓	✓	✓	✓	✓
Blogs	✗	✓	✓	✗	✓	✗	✗	N/A
Surveys	✗	✗	✓	✗	✓	N/A	✗	N/A
Time Tracking	✓	✗	✓	✗	✓	N/A	✓	✓
Business Intelligence	✓ Consulting	✗	✓	✗	✓	✓	N/A	N/A
Charting	✗	✗	✓	✗	✓	✓	N/A	✓
Bookmarking, Tagging, Rating and Comments	✓	✓	✓	✓ Basic	✓	✓	✓	✓
Social Software	✓	✓	✓	✓ Basic	✓	✓	✓	✓
Enterprise Search	✓	✗	✓	✓	✓	✓	✓	✓
Office Suite	✓ Integration	✗	✓ Web Based	✓ Web Based	✓	N/A	✓ Integrated	N/A
File Sharing and Sync	✓	✓	✓	✓	✓	✓	✓	✓ Integration
Access Control	✓	✓	✓	✓	✓	✓	✓	✓ Integration
Enterprise Security	✓	✓	✓	✓	✓	✓	✓	✓
Mobile Optimized	✓	✓	✓ Basic	✓	✓	✓	✓	✓
Pricing	$72-204+/User/Year	N/A	$60-96/User/Year	$60-150/User/Year	N/A	N/A	$108-288/User/Year	N/A
Focus	B2B	B2B	B2B	B2B	B2B	B2B	B2B ONLY	B2B

Source: ValAn Research Database

Based on the above competitive comparison, we believe that Box operates in an industry, which experiences a low barrier to entry, and may further intensify the already high level of competition. We believe that this phenomenon should continue until the industry matures and may not be as attractive in terms of growth and profitability, to justify current high valuation levels.

Substitute Technology

We believe that there is no substitute for cloud technology yet - however, customers may continue to "resist changing to cloud technology" as they may feel that third-party cloud services render a perception of "unknown security issues" and "losing control" of their internal data and networks. A new term “XaaS” or Anything as a Service/ Everything as a Service is also emerging as the latest offering by many technology companies. This technology provides a number of services such as Desktop as a Service, Storage as a Service, Disaster Recovery as a Service, Marketing as a Service, and Healthcare as a Service. Though these services are relatively new, we expect a strong demand from customers who prefers opting for customized services that cater to their specific needs.

Significant Key Events

Exhibit 5 below provides a brief summary of the major events in the Company's history.

Exhibit 5: Timeline of significant events

Date	Event
January 27, 2015	AstraZeneca, a global biopharmaceutical business chooses Box's cloud content sharing and collaboration platform for 51,000 employees across 100 countries.
January 20, 2015	Eurostar, a high-speed railway service in UK signs contract with Box for 1,600 employees. Box to deliver a cloud content sharing and collaboration platform with centralized secure management of Eurostar's collaboration, both internal and external.
December 09, 2014	Box announces partnerships with Symantec, Splunk, Palo Alto Networks, Sumo Logic and OpenDNS; launches Box for Enterprise Mobility Management, a new mobile application with improved security as part of the comprehensive security initiative called Box Trust.
November 17, 2014	Box and Cisco announce a new partnership, focusing on product integration of Project Squared and Box, enhancing the content collaboration platform offered by Cisco.
October 14, 2014	Box's cloud content sharing and collaboration platform employed by Oxfam, a worldwide development organization. The application will be used by employees over 90 countries and centralize security and management for 17 of Oxfam's international affiliates.
June 05, 2014	Box announces expansion of its partner ecosystem in Europe, to a total of 130 European companies, forming partnerships with companies like Capgemini, KERNEL Networks, Bechtle-Comsoft, EVRY and CRMWaypoint.
July 07, 2014	Box receives a $150 million investment from TPG Growth and Coatue Management, L.L.C.
July 07, 2014	Box named as a Leader in Gartner's first-ever "Magic Quadrant for Enterprise File Synchronization and Sharing (EFSS)" report. A total of 19 vendors were evaluated on 15 different criteria.
June 16, 2014	Box acquires Greply, Inc. (Streem), for a total purchase price of $45 million.
May 28, 2014	Box launches Box.org, an initiative focused on supporting global NGO's and other development organizations in their operations and deliver lasting social change through the use of technology.
May 08, 2014	Box announces implementation of its cloud content collaboration platform by General Electric (NYSE: GE).
March 26, 2014	Box releases Box View and Metadata, two new technologies enabling enterprise customers and developers to build applications using Box's platform.
March 24, 2014	Box, Inc. files a registration statement with the Securities and Exchange Commission for an IPO of its common stock.
October 9, 2013	Box acquires MedXT for $3.84 million, a digital solutions provider.

May 9, 2013	Box acquires Crocodoc, Inc., which offers an advanced HTML based document rendering technology.
October 06, 2009	Box acquires Increo Solutions, the developer of Blackboard and embedit.in.
2005	Box Inc. incorporated.

Source: Company press releases

Risk Factors

The Company operates in a high risk- high return industry, which is subject to rapid technological obsolescence and intense competition. We have summarized the major risks in order to acquaint the investor with various uncertainties associated with the business.

- **Risk of negative profitability-** Box has been incurring significant operating losses every year since their inception in 2005. Per the latest 424B4 filing with the SEC, as of October 31, 2014, the Company had an accumulated deficit of $482.7 million. For the year ending January 31, 2013 and January 31, 2014, revenues stood at $59 million and $124 million respectively. However, for the same period net loss stood at $113 million and $169 million. This is due to the large sales and marketing expense and other investments incurred to acquire new customers. The Company intends to follow this strategy and will continue to invest in the sales and marketing division. While the approach may be necessary to attract new customers, the Company should continue to experience losses in the near future.
- **Intensity of Competition-** the Company operates in a highly competitive environment. Competitors range from established players to numerous startups. The Company may lose market share to competitors if they fail to retain customers. Additionally, the industry also experiences low barriers to entry, making it easy for new competitors to enter the market and challenges Box's position and products. Such a competitive setting may also lead to pricing pressure, thus lowering the overall profitability of the sector. We believe that if the Company will lose market share if they fail to compete effectively.
- **Innovation driven business model-** the Company operates in the software development industry where the demand for continuous innovation is high to maintain a competitive edge. Additionally, the Company's product faces the risk of obsolescence. Further, the Company has to protect its products from competitors by filing for patents and intellectual property ("IP") rights. However, the business is exposed to the risk of patent and IP infringement, product obsolescence and delayed innovation.
- **Risk of non-renewals from existing customers-** Box faces significant risk of customer attrition. The Company depends on renewals and upsells for sustained revenue growth and profitability. As the business operates in an industry with very low switching costs, it faces the risk of losing customers to competition.
- **Currency fluctuation risk-** Currently, the Company generates majority of its top line from within the United States and revenue from non-US customers accounted for

only 20% of total revenue during the nine months ended October 31, 2014. However, one of the key elements of the Company's growth strategy involves generating business from international operations and developing a global customer base. Such a strategic shift will expose the Company to currency fluctuation risks.

Valuation

We arrive at an Intrinsic Value of $14.50 per share, which implies that currently the share is trading at a premium of about 38%, based on our DCF model. We believe that the stock should trade around its current intrinsic value, attributable to declining revenue growth and increasing operating losses. The lower range of our price target of $13.00 per share primarily reflects the lack of pricing power and falling retention rate.

Basis for assumptions:

Exhibit 6: Basic for assumption for DCF

Assumptions	
Tax rate	35%
Risk free rate	1.68%
Market risk premium	13.0%
Beta	1.10
Cost of Equity	15.98%
Terminal growth rate	3.5%
No of shares outstanding	118,320

Source: ValAn Global Research - Box Earnings Model

The Company is operating in the cloud computing industry, which is relatively a new sector within the technology industry. The Company's growth strategy depends on increasing the number of subscribers and renewals, which are fundamentally challenging due to the industry characteristic and lack of competitive edge. Therefore, we believe a cost of equity of 16% is appropriate.

We have assumed a market risk premium at 13%, consistent with other third party vendors and have assumed the 10 years Treasury yield as the risk free rate. Finally, we have assumed a terminal growth rate of 3.5%, due to continued but diminishing growth in revenues followed by improving profitability on the assumption of increased renewals, subsequently resulting in free cash flow growth.

Exhibit 7: Discounted cash flow valuation

Present Value of FCFE per share	$1.64										
Terminal Value of FCFE per share	$10.44										
Add: Cash and cash equivalents per shar	$2.49										
Internsic value per share	**$14.57**										
Current market price	$20.18										
Premium (Discount) to Intrinsic Value	38.5%										
Free Cash Flow Calculations	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Net Income	$ (203,983)	$ (171,315)	$ (91,118)	$ (52,820)	$ 66,700	$ 76,561	$ 315,398	$ 363,421	$ 404,435	$ 493,807	$ 609,045
Add: Depreciation and amortization	23,272	19,941	19,941	19,941	19,941	39,941	57,941	93,941	144,941	157,941	157,941
Add: Other non cash charges	-	-	-	-	-	-	-	-	-	-	-
Less: Net working capital	(6,053)	(6,053)	(6,053)	(6,053)	(6,053)	(6,053)	(6,053)	(6,053)	(6,053)	(6,053)	(6,053)
Less: Capital expenditure	(28,332)	-	-	-	(50,000)	(100,000)	(120,000)	(200,000)	(220,000)	-	-
Add: Interest*(1-tax rate)	599	317	53	-	-	-	-	-	-	-	-
Free cash flow to the firm	**$ (214,497)**	**$ (157,111)**	**$ (77,178)**	**$ (38,933)**	**$ 30,588**	**$ 10,449**	**$ 247,286**	**$ 251,309**	**$ 323,322**	**$ 645,695**	**$ 760,932**
Add: Net Borrowings	4,000	(13,333)	(13,333)	(13,333)	-	-	-	-	-	-	-
Less: Interest*(1-tax rate)	(599)	(317)	(53)	-	-	-	-	-	-	-	-
Free cash flow to Equity	**$ (211,096)**	**$ (170,761)**	**$ (90,564)**	**$ (52,266)**	**$ 30,588**	**$ 10,449**	**$ 247,286**	**$ 251,309**	**$ 323,322**	**$ 645,695**	**$ 760,932**
Free cash flow to Equity/Share	**$ (1.78)**	**$ (1.44)**	**$ (0.77)**	**$ (0.44)**	**$ 0.26**	**$ 0.09**	**$ 2.09**	**$ 2.12**	**$ 2.73**	**$ 5.46**	**$ 6.43**

Source: Box Inc. Financial Model, based on ValAn Global estimates

We do not find valuations compelling at current price levels.

We have applied the discounted cash flow method for the valuation of Box. The primarily reason for selecting the DCF method is the initial extensive outlay for the deployment of software, followed by probable periods of substantial earnings growth due to renewals and upsells.

Overview of Earning Model and Forecasts

Our earning model for Box is primarily based on revenue generation from the number of subscribers subscribing to various plans multiplied by the price per user per quarter. Each plan has three revenue drivers, namely, (1) new subscriptions, (2) subscription renewals and (3) upsells to existing customers. Per the latest S1 filing, the Company's large chunk of top line growth is attributable to sales to new customers and paying organizations. The cost associated with the new customers is incurred upfront and is high due to the initial deployment of technology and services. To factor in this effect, we have calculated related costs as a percentage of revenues. We have also assumed a growth rate for new subscribers to reflect the growing adoption and implementation of cloud services. Subscription renewals are being driven by the churn rate. We have assumed different churn rates based on the product package, which subsequently drives the percentage of customers renewing their subscriptions. Upsells to customers is primarily demanded by business and enterprises. These upsells include additional customer support, extra security features, consulting services, etc. Upsells have been modeled by assuming a fixed percentage of customers opting for upsells multiplied by the price of the subscription plan.

We now discuss the pricing of the plans and subsequently revenue calculations. According to the S1 filing, there were 32+ million subscribers, out of which only 10% were paying customers. We have applied these numbers to the model and have arrived at the number of paying subscribers of about 3.2 million. Further, we have categorized the paying subscribers into different plans based on the S1 filing disclosure. The S1 filing categorizes 60% of the paying customers as business and enterprise subscribers, with the remaining 40% as starter subscribers. We have assumed that out of 10% paying users, 50% are enterprise users and the remaining are business and starter users. Finally, we arrive at the top line by multiplying the number of users by the price per user for different plans. This calculation has been altered to factor in all three revenue drivers, i.e., new subscriptions, renewals and upsells. The Company has disclosed the price per user per month for the starter and business plans. However, they have not disclosed the pricing for enterprise users. Consequently, we have assumed an enterprise pricing per user per month. This price assumed is at a discount to business pricing plan as the Company offers volume based pricing policy (discounts based on volume of subscribers).

We shall now familiarize the reader with the various assumptions and workings in the Assumption tab of the model. As per the Company S1 filings, different components of stock-based compensation expense are included in various expenditure heads of the income statement such as cost of revenues, research & development costs, sales & marketing costs, and general & administration expenses. The Company has disclosed the unrecognized and recognized stock-based compensation for the nine months ended October 31, 2014. This disclosure is component wise, and we have project the recognized stock-based compensation expenses using the proportionate concept. Finally, we have eliminated the stock-based compensation expense projections from various expenditure heads in the income statement and have subsequently projected the expenditure heads as a percentage of revenues.

Subsequent to the IPO, the Company converted all redeemable convertible preferred stock warrants and redeemable convertible preferred stock into additional into additional paid-in capital and has withdrawn all rights to its exercise. This has been modeled in the assumptions tab. We have also modeled the payment of the credit line facility based on the disclosure provided by the Company. The Company expects to repay the credit facility by January 31, 2017. Further, the common share and outstanding and equity structure has been modeled based on the Company's S1 disclosure. Depreciation is calculated as a percentage of property and equipment.

Management Profile

Aaron Levie, CEO and Co-founder

Mr. Levie co-founded the Company and has been its CEO and Board Member since April 2005. He has also held the Chairmanship since December 2013. He attended the University of Southern California from 2003 to 2005. In 2012, Mr. Levie was named the *Generation Flux Leaders* by Fast Company.

Dylan Smith, CFO and Co-founder

Mr. Smith co-founded the Company and has been serving as the CFO and Board Member since April 2005. He holds a B.A. in Economics from Duke University.

While the Company lacks history, competent key management personnel have considerable experience.

Dan Levin, COO

Mr. Levin has been serving as the COO of the Company since July 2010. He is also serving as a Board Member. Prior to Box, Mr. Levin served as a consultant/advisor to numerous technology start-ups. He was also the interim CEO of Picateers Inc., an online photo sales company. He has also held various executive and management positions at Intuit Inc., a business and financial management company. Mr. Levin holds a B.A. from Princeton University.

Graham R. Younger, Executive Vice President

Mr. Younger has served as the Executive Vice President of Worldwide Field Operation since February 2014. Prior to Box, from August 2011 to February 2014, Mr. Younger served as the Senior Vice President and General Manager at SuccessFactor, Inc., a subsidiary of SAP America. From August 2008 to August 2011, Mr. Younger served as a Global Vice President of Sales at Oracle Corporation. Mr. Younger is a graduate in Computer Science from Birmingham City University, England.

Sources

- Box Inc. S1 filings
- Box Inc. 424B4 filing
- Box Inc. website
- http://www.gartner.com/
- Gartner Report- “Gartner Magic Quadrant for Enterprise File Synchronization and Sharing”
- Box Report- “Top 5 Ways Businesses Benefit from Box”
- IDC Report- “Worldwide Enterprise Social Networks 2014–2018 Forecast and 2013 Vendor Shares”
- http://www.idc.com/
- Competitor website and filings

Financial Model

Exhibits 8-10 below highlight the financial model of Box for the reader. The detailed working of the model is also available in an Excel file for investors.

Balance Sheet

Exhibit 8: Balance Sheet Projections

Balance Sheet	2013E	2014E	3Q15	4Q15	2015E	1Q16	2Q16	3Q16	4Q16	2016E	2017E	2018E	2019E	2020E	2020E	2020E	2020E	2020E	2020E
ASSETS																			
Current assets:																			
Cash and cash equivalents	127,625	108,851	165,270	294,025	294,025	261,295	225,048	184,613	140,226	140,226	60,923	15,710	52,484	69,119	322,591	580,086	909,594	1,561,475	2,328,593
Accounts receivable	17,218	42,669	39,873	39,873	39,873	39,873	39,873	39,873	39,873	39,873	39,873	39,873	39,873	39,873	39,873	39,873	39,873	39,873	39,873
Prepaid expenses and other current assets	8,177	7,776	11,089	11,089	11,089	11,089	11,089	11,089	11,089	11,089	11,089	11,089	11,089	11,089	11,089	11,089	11,089	11,089	11,089
Deferred commissions	8,959	7,152	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092
Total current assets	**161,979**	**166,448**	**223,324**	**352,079**	**352,079**	**319,349**	**283,102**	**242,667**	**198,280**	**198,280**	**118,977**	**73,764**	**110,538**	**127,173**	**380,645**	**638,140**	**967,648**	**1,619,529**	**2,386,647**
Servers	22,254	49,168	74,754	74,754	74,754	74,754	74,754	74,754	74,754	74,754	74,754	74,754	117,383	202,641	304,950	475,465	663,033	663,033	663,033
Computer hardware and software	3,086	5,792	7,884	7,884	7,884	7,884	7,884	7,884	7,884	7,884	7,884	7,884	12,380	21,372	32,162	50,145	69,927	69,927	69,927
Furniture and fixtures	3,427	4,388	5,042	5,042	5,042	5,042	5,042	5,042	5,042	5,042	5,042	5,042	7,917	13,668	20,568	32,069	44,720	44,720	44,720
Leasehold improvements	7,483	9,486	12,024	12,024	12,024	12,024	12,024	12,024	12,024	12,024	12,024	12,024	12,024	12,024	12,024	12,024	12,024	12,024	12,024
Construction in progress	7,031	1,763	5,923	5,923	5,923	5,923	5,923	5,923	5,923	5,923	5,923	5,923	5,923	5,923	5,923	5,923	5,923	5,923	5,923
Less: accumulated depreciation	(13,332)	(29,212)	(46,659)	(51,644)	(51,644)	(56,629)	(61,615)	(66,600)	(71,585)	(71,585)	(91,526)	(111,467)	(131,407)	(171,348)	(229,289)	(323,230)	(468,171)	(626,111)	(784,052)
Total property and equipment	**29,949**	**41,385**	**58,968**	**53,983**	**53,983**	**48,998**	**44,012**	**39,027**	**34,042**	**34,042**	**14,101**	**(5,840)**	**24,220**	**84,279**	**146,338**	**252,397**	**327,456**	**169,516**	**11,575**
Intangible assets, net	830	6,567	6,562	6,562	6,562	6,562	6,562	6,562	6,562	6,562	6,562	6,562	6,562	6,562	6,562	6,562	6,562	6,562	6,562
Goodwill	-	8,081	10,934	10,934	10,934	10,934	10,934	10,934	10,934	10,934	10,934	10,934	10,934	10,934	10,934	10,934	10,934	10,934	10,934
Other long-term assets	3,034	12,948	14,153	14,153	14,153	14,153	14,153	14,153	14,153	14,153	14,153	14,153	14,153	14,153	14,153	14,153	14,153	14,153	14,153
Total assets	**195,792**	**235,429**	**313,941**	**437,711**	**437,711**	**399,995**	**358,763**	**313,344**	**263,971**	**263,971**	**164,727**	**99,574**	**166,407**	**243,100**	**558,632**	**922,186**	**1,326,753**	**1,820,693**	**2,429,871**
LIABILITIES:																			
Current liabilities:																			
Accounts payable	11,906	12,405	15,824	15,824	15,824	15,824	15,824	15,824	15,824	15,824	15,824	15,824	15,824	15,824	15,824	15,824	15,824	15,824	15,824
Accrued compensation and benefits	3,899	16,098	13,399	13,399	13,399	13,399	13,399	13,399	13,399	13,399	13,399	13,399	13,399	13,399	13,399	13,399	13,399	13,399	13,399
Accrued expenses and other current	1,628	14,161	15,686	15,686	15,686	15,686	15,686	15,686	15,686	15,686	15,686	15,686	15,686	15,686	15,686	15,686	15,686	15,686	15,686
Deferred revenue	38,275	78,282	89,706	89,706	89,706	89,706	89,706	89,706	89,706	89,706	89,706	89,706	89,706	89,706	89,706	89,706	89,706	89,706	89,706
Deferred rent	504	1,213	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342
Debt	968	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	**57,180**	**122,159**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**	**137,957**
Debt, non-current	30,060	34,000	40,000	40,000	40,000	36,667	33,333	30,000	26,667	26,667	13,333	-	-	-	-	-	-	-	-
Deferred revenue, non-current	1,824	11,790	10,974	10,974	10,974	10,974	10,974	10,974	10,974	10,974	10,974	10,974	10,974	10,974	10,974	10,974	10,974	10,974	10,974
Redeemable convertible preferred stock	2,869	1,346	1,206	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred rent, non-current	5,125	4,086	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988
Other long-term liabilities	491	1,343	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081
Total liabilities	**97,549**	**174,724**	**195,206**	**194,000**	**194,000**	**190,667**	**187,333**	**184,000**	**180,667**	**180,667**	**167,333**	**154,000**	**154,000**	**154,000**	**154,000**	**154,000**	**154,000**	**154,000**	**154,000**
Commitments and contingencies																			
Redeemable convertible preferred stock:	281,899	393,217	550,408	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stockholders' (deficit) equity:																			
Class A and Class B Common stock	1	1	1	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11
Additional paid-in capital	10,129	29,815	52,169	803,852	803,852	803,852	803,852	803,852	803,852	803,852	803,852	803,852	803,852	803,852	803,852	803,852	803,852	803,852	803,852
Treasury stock	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)	(1,177)
Accumulated other comprehensive income	-	15	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Accumulated deficit	(192,609)	(361,166)	(482,660)	(558,969)	(558,969)	(593,352)	(631,250)	(673,337)	(719,376)	(719,376)	(805,287)	(857,106)	(790,274)	(713,580)	(398,048)	(34,494)	370,073	864,013	1,473,191
Total stockholders' (deficit) equity	**(183,656)**	**(332,512)**	**(431,673)**	**243,711**	**243,711**	**209,329**	**171,430**	**129,344**	**83,304**	**83,304**	**(2,606)**	**(54,426)**	**12,407**	**89,100**	**404,632**	**768,186**	**1,172,753**	**1,666,693**	**2,275,871**
Total liabilities, redeemable convertible preferred stock and stockholders equity	**195,792**	**235,429**	**313,941**	**437,711**	437,711	**399,995**	**358,763**	**313,344**	**263,971**	263,971	164,727	99,574	166,407	243,100	558,632	922,186	1,326,753	1,820,693	2,429,871

Source: Box Earning Model

Income Statement

Exhibit 9: Income Statement Projections

Income Statement	1Q15	2Q15	3Q15	4Q15	2015E	1Q16	2Q16	3Q16	4Q16	2016E
Revenue	45,330	51,423	57,048	66,454	220,255	74,010	83,136	93,992	104,244	355,382
Sequential Growth	17%	13%	11%	16%	77%	11%	12%	13%	11%	61%
Cost of revenue	9,228	10,833	12,518	11,697	44,276	12,321	13,127	14,160	15,134	54,741
Sequential Growth										
Gross profit	36,102	40,590	44,530	54,757	175,979	61,689	70,009	79,833	89,110	300,640
Gross Margin	80%	79%	78%	82%	80%	83%	84%	85%	85%	85%
Operating expenses:										
Research and development	14,898	16,345	17,172	19,085	67,500	20,218	21,974	24,617	27,108	93,917
as a % of revenue	33%	32%	30%	29%		27%	26%	26%	26%	
Sales and marketing	47,440	49,657	55,257	56,049	208,403	61,375	68,198	76,876	85,064	291,512
as a % of revenue	105%	97%	97%	84%		83%	82%	82%	82%	
General and administrative	11,546	12,875	16,855	60,187	101,463	17,878	19,660	22,098	24,396	84,033
as a % of revenue	25%	25%	30%	91%		24%	24%	24%	23%	
Total operating expenses	**73,884**	**78,877**	**89,284**	**135,321**	**377,366**	**99,471**	**109,832**	**123,591**	**136,568**	**469,463**
Profit/ (Loss) from operations	**(37,782)**	**(38,287)**	**(44,754)**	**(80,565)**	**(201,388)**	**(37,783)**	**(39,823)**	**(43,758)**	**(47,458)**	**(168,822)**
Remeasurement of redeemable convertible preferred stock warrant liability	(267)	461	(54)	(1,206)	(1,066)	-	-	-	-	-
Interest income (expense), net	(405)	(382)	(663)	(663)	(2,113)	(609)	(582)	(555)	(528)	(2,273)
Other income (expense), net	7	(71)	105	-	41	-	-	-	-	-
Net Profit/ (Loss) before provision for income taxes	**(38,447)**	**(38,279)**	**(45,366)**	**(82,434)**	**(204,526)**	**(38,392)**	**(40,405)**	**(44,313)**	**(47,986)**	**(171,095)**
Provision (benefit) for income taxes	64	(717)	55	55	(543)	55	55	55	55	220
Net Profit/ (Loss)	**(38,511)**	**(37,562)**	**(45,421)**	**(82,489)**	**(203,983)**	**(38,447)**	**(40,460)**	**(44,368)**	**(48,041)**	**(171,315)**
Net Profit/ (Loss) per share	**-$2.67**	**-$2.60**	**-$3.14**	**-$0.70**	**-$1.72**	**-$0.32**	**-$0.34**	**-$0.37**	**-$0.41**	**-$1.45**
Weighted average shares	14,444	14,444	14,444	118,320	118,320	118,320	118,320	118,320	118,320	118,320

Income Statement	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	561,801	894,788	1,334,118	1,785,051	2,256,309	2,761,798	3,315,363	3,931,245	4,624,529
Sequential Growth	58%	59%	49%	34%	26%	22%	20%	19%	18%
Cost of revenue	74,361	106,257	148,570	212,044	275,478	360,212	464,582	536,959	603,798
Sequential Growth									
Gross profit	487,440	788,531	1,185,548	1,573,007	1,980,830	2,401,586	2,850,781	3,394,287	4,020,730
Gross Margin	87%	88%	89%	88%	88%	87%	86%	86%	87%
Operating expenses:									
Research and development	144,040	226,732	337,554	451,631	570,850	698,728	838,769	994,575	1,169,962
as a % of revenue									
Sales and marketing	302,157	478,537	579,576	775,457	754,536	923,566	1,108,673	1,314,618	1,546,444
as a % of revenue									
General and administrative	130,302	134,429	200,146	267,786	338,474	414,298	497,332	589,715	693,707
as a % of revenue									
Total operating expenses	**576,499**	**839,698**	**1,117,276**	**1,494,874**	**1,663,860**	**2,036,593**	**2,444,774**	**2,898,908**	**3,410,114**
Profit/ (Loss) from operations	**(89,059)**	**(51,167)**	**68,272**	**78,133**	**316,970**	**364,993**	**406,007**	**495,379**	**610,617**
Remeasurement of redeemable convertible preferred stock warrant liability	-	-	-	-	-	-	-	-	-
Interest income (expense), net	(1,840)	(1,433)	(1,352)	(1,352)	(1,352)	(1,352)	(1,352)	(1,352)	(1,352)
Other income (expense), net	-	-	-	-	-	-	-	-	-
Net Profit/ (Loss) before provision for income taxes	**(90,898)**	**(52,600)**	**66,920**	**76,781**	**315,618**	**363,641**	**404,655**	**494,027**	**609,265**
Provision (benefit) for income taxes	220	220	220	220	220	220	220	220	220
Net Profit/ (Loss)	**(91,118)**	**(52,820)**	**66,700**	**76,561**	**315,398**	**363,421**	**404,435**	**493,807**	**609,045**
Net Profit/ (Loss) per share	**-$0.77**	**-$0.45**	**$0.56**	**$0.65**	**$2.67**	**$3.07**	**$3.42**	**$4.17**	**$5.15**
Weighted average shares	118,320	118,320	118,320	118,320	118,320	118,320	118,320	118,320	118,320

Source: Box Earning Model

Cash Flow Statement

Exhibit 10: Cash Flow Statement Projections

Cash Flow Statement	2013E	2014E	3Q15	4Q15	2015E	1Q16	2Q16	3Q16	4Q16	2016E	2017E	2018E	2019E	2020E	2020E	2020E	2020E	2020E	2020E
Net loss	**(112,563)**	**(168,557)**	**(45,421)**	**(82,489)**	**(203,983)**	**(38,447)**	**(40,460)**	**(44,368)**	**(48,041)**	**(171,315)**	**(91,118)**	**(52,820)**	**66,700**	**76,561**	**315,398**	**363,421**	**404,435**	**493,807**	**609,045**
Adjustments to reconcile net loss to net cash used in operating activities:																			
Depreciation and amortization	8,616	17,867	6,651	4,985	23,272	4,985	4,985	4,985	4,985	19,941	19,941	19,941	19,941	39,941	57,941	93,941	144,941	157,941	157,941
Stock-based compensation expense	7,536	11,749	7,448	6,179	27,255	4,064	2,561	2,281	2,002	10,908	5,208	1,001	133	133	133	133	133	133	133
Amortization of deferred commissions	7,028	13,500	2,946	-	5,891	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Remeasurement of redeemable convertible preferred stock warrant liability	1,727	8,477	(47)	(1,206)	(2,505)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Release of deferred tax valuation allowance		(2,590)	(275)	-	(550)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	628	212	142	-	284	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities, net of effects of acquisitions:					-					-	-	-	-	-	-	-	-	-	-
Accounts receivable	(11,499)	(25,157)	932	-	1,864	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred commissions	(14,027)	(13,999)	(3,229)	-	(6,457)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses and other assets	(2,028)	(3,792)	(836)	-	(1,672)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	2,046	(3,177)	752	-	1,503	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued expenses and other liabilities	2,100	24,055	(1,302)	-	(2,605)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred rent	1,755	(330)	677	-	1,354	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	26,930	49,973	3,536	-	7,072	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash used in operating activities	**(81,751)**	**(91,769)**	**(28,027)**	**(72,530)**	**(149,277)**	**(29,397)**	**(32,913)**	**(37,101)**	**(41,054)**	**(140,466)**	**(65,970)**	**(31,879)**	**86,774**	**116,635**	**373,472**	**457,495**	**549,508**	**651,881**	**767,118**
Purchases of marketable securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from maturity of marketable securities	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchases of property and equipment	(19,499)	(24,424)	(9,921)	-	(19,843)	-	-	-	-	-	-	-	(50,000)	(100,000)	(120,000)	(200,000)	(220,000)	-	-
Investments in non-marketable equity securities	(125)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition and purchases of intangible assets, net of cash acquired	(62)	(7,761)	(67)	-	(135)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by (used in) investing activities	**314**	**(32,185)**	**(9,989)**	**-**	**(19,977)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(50,000)**	**(100,000)**	**(120,000)**	**(200,000)**	**(220,000)**	**-**	**-**
Proceeds from borrowings, net of borrowing costs	20,353	32,744	4,000	-	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Initial public offering	-	-	-	201,260	402,520	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal payments on borrowings	(577)	(30,971)	(2,000)	-	(4,000)	(3,333)	(3,333)	(3,333)	(3,333)	(13,333)	(13,333)	(13,333)	-	-	-	-	-	-	-
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	150,780	99,944	49,871	-	99,743	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of redeemable convertible preferred stock warrants	-	1,033	-	25	51	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	2,241	3,003	950	-	1,901	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments of deferred offering costs	-	(588)	(916)	-	(1,832)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by (used in) financing activities	**172,797**	**105,165**	**51,906**	**201,285**	**506,382**	**(3,333)**	**(3,333)**	**(3,333)**	**(3,333)**	**(13,333)**	**(13,333)**	**(13,333)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effect of exchange rate changes on cash and cash equivalents			(7)																
Net increase (decrease) in cash and cash equivalents	91,360	(18,789)	13,883	128,755	337,128	(32,731)	(36,247)	(40,435)	(44,388)	(153,799)	(79,303)	(45,212)	36,774	16,635	253,472	257,495	329,508	651,881	767,118
Cash and cash equivalents, beginning of period	36,265	127,625	36,284	165,270	294,025	294,025	261,295	225,048	184,613	140,226	60,923	15,710	52,484	69,119	322,591	580,086	909,594	1,561,475	2,328,593
Cash and cash equivalents, end of period	**127,625**	**108,836**	**50,167**	**294,025**	**631,153**	**261,295**	**225,048**	**184,613**	**140,226**	**(13,574)**	**(18,380)**	**(29,502)**	**89,258**	**85,753**	**576,063**	**837,580**	**1,239,103**	**2,213,355**	**3,095,711**

Source: Box Earning Model