PRESCIENCE POINT
CAPITAL MANAGEMENT

Medallia, Inc.

NYSE: MDLA

TARGET PRICE: $14.12

DATE OF REPORT
01/16/20

SHARE PRICE
$31.17

AVG DAILY VOLUME
1.0M

MARKET CAP
$5.5B

EV/SALES
13.1x

Medallia, Inc. (MDLA), another unprofitable "unicorn," has pitched investors a wildly unrealistic and overstated TAM. In addition, MDLA only provided two years of historical financials in its IPO documents despite a 20-year operating history in order to curate a narrative about accelerating growth with profitability that is egregiously misleading.

Prescience Point Research Opinions:

- **The purported TAM is unrealistic and overstated by at least 2x:** MDLA claims its TAM is $68.0B, which assumes every company globally with over $150M in annual revenue will purchase MDLA's customer experience platform at the same levels as current customers. These assumptions are not only overly optimistic but completely unrealistic. We estimate the actual market opportunity is less than $10.0 billion.
- **Accelerating growth narrative is dubious when put into proper historical context; FY 21 guidance implies organic growth will slow to lowest rate in at least a decade:** Revenue growth peaked in the 18M ended FY 15 at ~200.0% and has meaningfully decelerated ever since. The JOBS Act allowed MDLA to disclose only two years of financials in its IPO prospectus filings despite having a nearly two-decade operating history. Moreover, during its IPO Roadshow, MDLA buried an unusual revision to one of its Risk Factors that warned revenue growth may slow, a complete contradiction from what it told prospective investors.
- **Q3 20/FY 20 guidance sandbagged, and FY 21 guidance unnecessarily provided a quarter early to prop stock price before IPO lock-up expiry:** Consistent with a dramatically overstated TAM and carefully curated growth narrative, MDLA pumped as much positive news as possible in its last quarterly results before the lock-up expired. On 01/15/20, the lock-up of >108.0 million shares (>6x float) expired and while some have volume and/or blackout restrictions, we estimate at least 2x to 4x of the float are available for immediate sale.
- **Revenue is inflated by tuck-in acquisitions:** Over the last year, MDLA claimed revenue contribution from its acquisitions was "negligible." However, we estimate recent M&A could collectively add at least $7.5 million to FY 20 revenue (~9.0% of expected revenue growth). In addition, we estimate FY 21 organic revenue growth will be below 20.0% for the first time in over a decade.
- **Profitability was window dressed prior to IPO to create the illusion margin was turning positive:** While MDLA has historically been unprofitable, guidance calls for long-term non-GAAP EBIT margin to be +20.0%. In the quarters immediately preceding the IPO, MDLA reported significant sequential improvement in profitability and even two quarters of positive margin. However, the results were driven by one major accounting gimmick: higher cost capitalization. If capitalized costs were normalized, MDLA would have been unprofitable in every quarter it disclosed.
- **Sell-side (i.e. MDLA's IPO underwriters) has perpetuated the narrative and understated MDLA's current valuation for better optics:** Nine of the eleven major sell-side firms covering MDLA participated as an underwriter in its IPO. Nearly all of them have "buy" ratings with flattering price targets. These underwriters have zero incentive to produce objectively independent research, it's purely a regurgitation of management's overly optimistic targets. In addition, many sell-side analysts are understating MDLA's current valuation by using the wrong diluted share count by not accounting for certain stock options and RSUs.
- **Public investors are getting the short end of the stick and paying a premium for it as insiders cash out:** We believe MDLA's backers were initially pushing for a sale but after no takers surfaced, they opted for an IPO instead to cash out. Insiders have unloaded massive stakes: the founders sold ~20.0% in two tranches (Fall 2018 & Summer 2019) and the current CTO sold ~10% in Dec. 2019.
- **Shares are trading at 13.1x EV/Sales, reflecting an impossible reality:** We value Medallia's shares at $14.12, a downside of ~55.0%. In fact, less than a year ago MDLA's board, with help from management and an independent valuation firm, valued its common stock at only ~$6.50/share.

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Introduction: A Lunky Tech Company Masquerading as a High-Growth SaaS Business

Prescience Point is short Medallia, Inc. (NYSE: MDLA) as we believe the Company has fooled investors into believing it's an accelerating growth story with an enormous TAM and profitability on the horizon. In reality, the TAM is wildly overstated, revenue growth has massively decelerated since FY 15, and the Company is still unprofitable after nearly two decades. We believe shares are overvalued by ~55.0%.

Medallia tells investors it:

> *provides an enterprise Software-as-a-Service (SaaS) platform that utilizes deep learning-based artificial intelligence (AI) technology to analyze structured and unstructured data in live time from signal fields across human, digital and Internet of Things (IoT) interactions at great scale to derive personalized and predictive insights. (S-1, 06/21/19)*

That's a very fancy way of saying they sell a platform to manage customer, business, employee, and product experiences via surveys and other signal fields.[1] The Company was founded in 2000 by a husband and wife duo that shared management responsibilities until a new CEO was brought in during the summer of 2018. Shortly thereafter, Medallia announced it would go public and filed for its initial public offering (IPO) in July 2019.

Despite being a "unicorn," Medallia has flown relatively under the radar as a public company and avoided much of the fanfare and scrutiny experienced by some of its counterparts. Nevertheless, we believe Medallia is more overvalued but less understood than many of its famous technology peers.

Although Medallia has a near two-decade operating history, the Company took advantage of certain reduced SEC reporting requirements that allowed it to only disclose two years of historical financial statements in its IPO Prospectus filings. In addition, the Company buried certain disclosures about unflattering realities and deteriorating financial metrics. This sleight of hand allowed the Company to curate a narrative about accelerated growth with profitability that is egregiously misleading. Not surprisingly, the sell-side (many of which underwrote the IPO) has perpetuated Medallia's narrative with near consensus "buy" ratings and lofty price targets.

During our months long due diligence, we spoke with former employees and customers as well as conducted an in-depth forensic accounting analysis. In addition, we uncovered old interviews with Medallia executives and other publications that contained historical financial information (albeit limited) that was in stark contrast to what the Company (and the sell-side) has peddled to public investors. Specifically, we believe:

- The purported TAM is unrealistic and overstated while the actual market opportunity is only a fraction of what Medallia has pitched investors
- The accelerating growth narrative is dubious when put into proper historical context
- It's even more suspect considering Management's commentary about growth trends during the IPO Roadshow coincided with contradictory language added to its Risk Factors

[1] See Appendix for additional background on product offerings.

- The Company purposefully sandbagged Q3 20/FY 20 guidance so it could "beat and raise" and provided better-than-expected FY 21 guidance a quarter early to pump as much positive news into its last reported quarter before the IPO share lock-up expired
- Revenue is inflated by tuck-in acquisitions guised as technology-focused M&A
- FY 21 organic revenue growth will be below 20.0% for the first time in over a decade
- Profitability was window dressed prior to IPO to excite prospective investors about margin improvement
- Slower net customer additions and accelerated churn will meaningfully pressure growth prospects
- Mid-market pivot will be more challenging than Medallia lets on as the current enterprise platform is not scalable
- Long-term margin guidance is unrealistic as Medallia still isn't profitable after 20 years
- Insiders are looking to cash out as founders recently sold ~20% and CTO sold ~10% of their stake
- Lock-up expiration on 01/15/20 could prompt a wave of selling as more than 6x the float became available to trade

Medallia currently trades at 13.1x FY 20 EV/Sales, modestly above the peer group average. We believe Medallia should trade closer to the low-end of the peer group at 5.5x EV/EBITDA as it has below average revenue growth and gross margin and no profitability. In addition, the broader financial community has understated Medallia's current valuation by failing to account for certain dilutive stock options and RSUs. The actual diluted share count is ~40.0% higher than what many sell-side analysts have used in their models. Based on our more conservative EV/Sales multiple and the correct share count, we value Medallia's shares at $14.12. In fact, SEC documents show Medallia's board of directors (with inputs from management and an independent third-party valuation firm) valued its common stock at only ~$6.50/share as recently as Jan. 2019.

TAM is Wildly Unrealistic; Market is Only a Fraction of What MDLA Claims

According to Medallia, its total addressable market (TAM) in 2019 was approximately $68.0 billion, of which market penetration was less than 1.0%.

> *We estimate the total addressable market for our Experience Management platform, including our products for CS, BX, EX and PX, to be approximately $68 billion in 2019. (Form 424B4, 07/19/19)*

Medallia's TAM calculation assumes every global enterprise with over $150.0 million revenue/year will purchase Medallia's Experience Management platform at similar levels to its top 100 current customers within its two designated tiers (customers with annual revenue greater than $1.5 billion and customers with annual revenue between $150.0 million and $1.5 billion).

> *We estimated this opportunity using the total number of global enterprises with estimated annual revenue greater than $150 million, based on independent data from S&P Global Market Intelligence, segmented into two tiers (consisting of (1) enterprises with estimated annual revenue greater than $1.5 billion and (2) enterprises with estimated annual revenue between $150 million and $1.5 billion), and multiplying by the average ACV of subscriptions and managed services for our top 100 customers within each tier. Our estimate assumes that all enterprises within each tier would purchase our Experience Management platform at the same levels as the average of our top 100 customers in such tier. (Form 424B4, 07/19/19)*

These assumptions are not only overly optimistic but completely unrealistic. It's foolish to believe every single global company with over $150.0 million in annual revenue would use Medallia's platform let alone even purchase or need a customer experience platform.

Medallia's TAM Pitch

Source: Q3 20 Earnings Presentation

In order to more accurately assess Medallia's TAM, we've broken down the calculation into three additional buckets: (1) what's possible, (2) what's plausible, and (3) what's probable. At a minimum, Medallia's TAM is overstated by almost 40.0%. Realistically, we calculated Medallia's market opportunity at only $9.2 billion, a fraction of the size of what the Company has pitched investors.

Medallia's TAM is Overstated and Unrealistic

Source: Company filings, Prescience Point estimates

The assumptions for each bucket are as follows:

What Medallia says is possible: As discussed above, Medallia's TAM includes every global enterprise with greater than $150.0 million in annual revenue. In its Q3 20 Earnings Presentation, the Company quantified this as (1) the Global 2,000 plus another 16,000 large enterprises with greater than $1.5 billion revenue/year for a total of 18,000 large enterprise and (2) 90,000 mid-sized enterprises with $150.0 million to $1.5 billion of revenue/year. In order to reach an approximate TAM of $68.0 billion, we estimate the average annual contract value (ACV) would need to be $2.5 million for large enterprises and $250,000 for mid-sized enterprises.

What's plausible: The assumption that every enterprise with over $150.0 million in annual revenue would be a customer of an experience management platform is far-fetched and frankly difficult to even assess. So, in order to ascertain a more tangible market, we looked at the arguable leader in customer relationship management (CRM), Salesforce.com, Inc. (Salesforce).[2] Our reasoning is straightforward, companies that already allocate dollars to a CRM platform are the most likely to be willing to spend incrementally on a

[2] Salesforce.com, Inc. (NYSE: CRM)

customer experience platform. Conversely, it's doubtful customers without a CRM platform will make its first foray into the customer management universe via a customer experience platform.

In FY 19, Salesforce had 1,870 customers that paid more than $1.0 million annually for CRM software.[3] As of its most recent Earnings Presentation, Salesforce's market share for worldwide CRM software applications was 16.8%.[4] If we assume Salesforce's global market share is comparable to its market share in large enterprises, we estimate there are 11,131 enterprises that spend more than $1.0 million annually on CRM software; only 61.8% of what Medallia claims as its large enterprise customer opportunity (18,000 enterprises). We believe this is a more accurate estimate of Medallia's total large enterprise customer opportunity as these potential customers have already allocated sizeable dollars toward CRM software. We applied the same ratio (61.8%) to estimate Medallia's mid-sized enterprise customer opportunity. In this bucket, we left the estimated ACV unchanged.

What's probable: In this bucket, we left the customer opportunity assumptions for large and mid-sized enterprises unchanged from our "What's possible" scenario. However, we lowered the estimated ACV. As discussed, Medallia's TAM calculation assumed customers within both tiers would purchase an experience management platform at similar levels to its top 100 customers. This assumption is too optimistic. First, we believe Medallia's current customers, especially its top 100, are the customers most likely to spend top dollar on customer experience software because (1) they've already integrated CRM and customer experience software into their operations and/or (2) they get the most use out of it. However, this is not representative of all current and/or potential customers. While Medallia will say the customer experience market is significantly underpenetrated, it's not a brand-new market. Medallia and several of its main peers have been around for 20 years. Consequently, we believe the easiest customer additions are already in the customer base (corroborated by accelerating revenue growth rates through FY 15 and deceleration since) and incremental customers will be increasingly more difficult to obtain and less likely to spend as much on a customer experience software platform. Accordingly, we applied a 40.0% haircut to our original estimated ACV.

Actual market opportunity: We used the customer opportunity estimates from "What's plausible" and "What's probable" for large and mid-sized enterprises and optimistically assumed Medallia could take 30.0% market share. We left the estimated ACV unchanged from our "What's probable" scenario.

[3] Slide 25: https://s23.q4cdn.com/574569502/files/doc_presentations/Annual-Investor-Update-Oct-2018.pdf

[4] Slide 16: https://s23.q4cdn.com/574569502/files/doc_financials/2020/q2/CRM-Q2-FY20-Earnings-Presentation.pdf

TAM Assumptions & Calculations

($ in billions, except ACV)	What MDLA says is possible:	What's plausible:	What's probable:	Actual market opportunity:
Large enterprise customers	18,000	11,131	11,131	3,339
Estimated average annual contract value	$2,500,000	$2,500,000	$1,500,000	$1,500,000
Large enterprise customer TAM	$45.0	$27.8	$16.7	$5.0
Mid-sized enterprises	90,000	55,655	55,655	27,827
Estimated average annual contract value	$250,000	$250,000	$150,000	$150,000
Mid-sized enterprise customer TAM	$22.5	$13.9	$8.3	$4.2
TAM	$67.5	$41.7	$25.0	$9.2

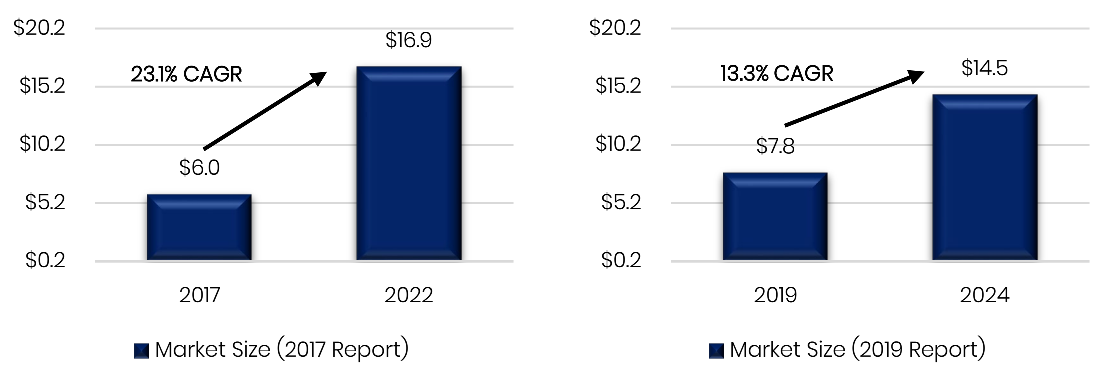
Source: Company filings, Prescience Point estimates

Major third-party research firm lowered expectations for customer experience management market size

In November 2017, market research firm Marketsandmarkets estimated the global experience management market was expected to grow from $5.98 billion in 2017 to $16.91 billion by 2022 with a compounded annual growth rate (CAGR) of 23.1%. In May 2019, Marketsandmarkets shrunk its estimated total market size to $14.50 billion by 2024, implying a substantially lower CAGR of 13.3%. Not only are these market size expectations significantly lower than Medallia's purported TAM but shrinking forecasts may not bode well for Medallia's accelerating growth narrative.

Shrinking Expectations for Global Experience Management Market from Third-Party Research Firm

($ in billions)



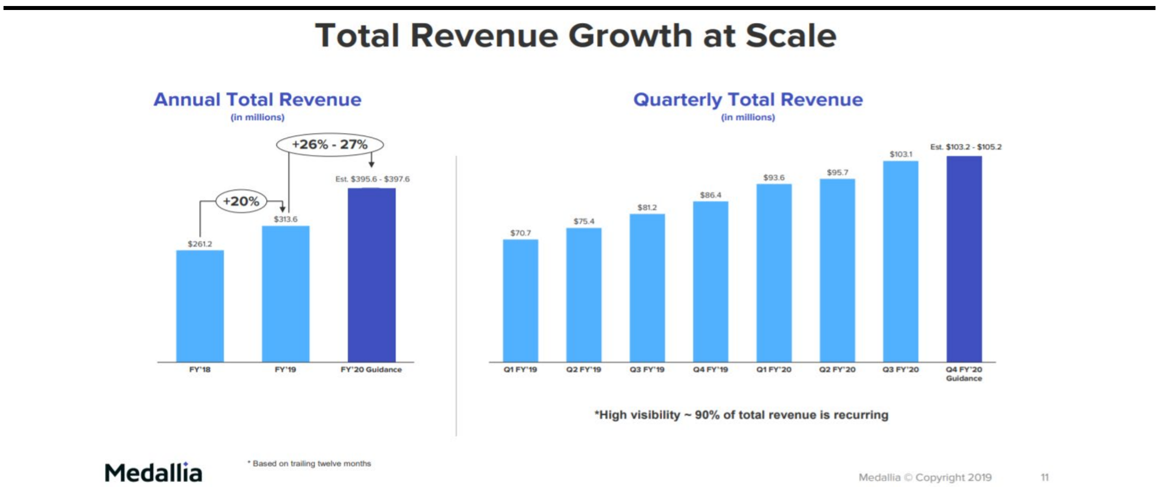
Source: Marketsandmarkets

Selective Disclosures Allowed MDLA to Frame Itself as an Accelerating Growth Story When Revenue Had Actually Been Massively Decelerating for Several Years

During its IPO Roadshow, Medallia pitched itself as an accelerating growth story. The Company highlighted it was "keenly focused" on driving SaaS accelerated growth and guided for FY 20 revenue growth to accelerate to 26.4% (at midpoint) from 20.1% in FY 19.

> *We are **keenly focused on driving SaaS-accelerated growth** on an annual basis. (CFO Ms. Roxanne M. Oulman, [Q3 20 Earnings Call](), 12/05/19) [emphasis added]*

Medallia's Revenue Pitch



Source: Q3 20 Earnings Presentation

While guided growth of 26.4% in FY 20 is certainly an acceleration from 20.1% in the prior year, a single year-over-year comparison of a Company that has a nearly 20-year history is a poor contextualization of revenue growth. Indeed, we believe **Medallia maximized the use of certain federal securities laws to curate a rosier narrative of the Company's financials to pitch to eager IPO investors**.

Under federal securities law, Medallia is classified as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (JOBS Act). As such, it may take advantage of reduced reporting requirements that are applicable to other publicly listed companies. The reduced requirements include:

- required to present only two years of audited financial statements and related management's discussion and analysis
- exemption from compliance with the auditor attestation requirement on the effectiveness of internal control over financial reporting
- reduced disclosure about executive compensation arrangements

- exemption from the requirements to obtain a non-binding advisory vote on executive compensation or shareholder approval of any golden parachute arrangements

A closer look reveals the growth story narrative is not all it's cracked up to be

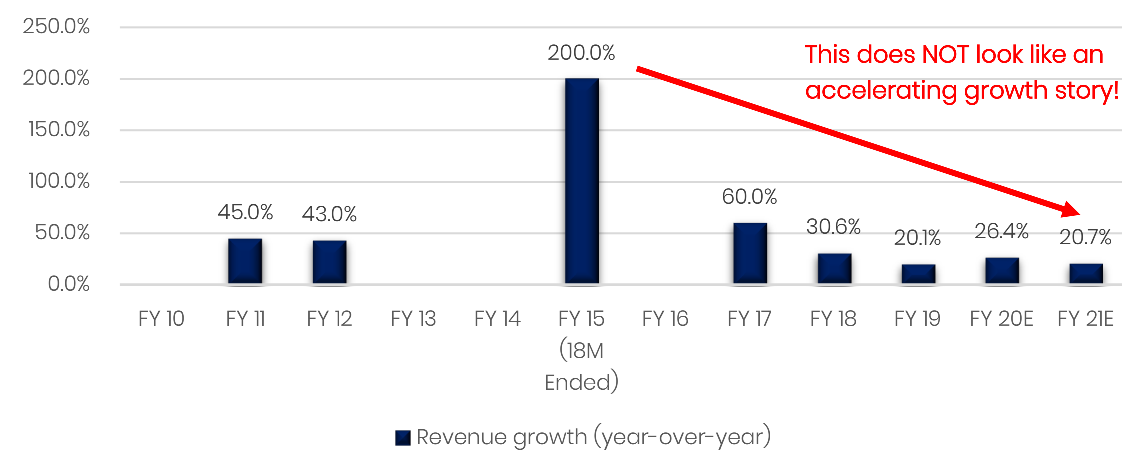
While completely within the legal bounds of federal securities laws, we believe Medallia's presentation of only two years of financial statements was a tactical decision to accommodate its accelerated growth story narrative. Recall, the Company was founded in 2000. So, it has nearly two decades of operational history.

During our research, we were able to piece together revenue growth rates for several years over the last decade from publicly available interviews and news articles about Medallia.[5] As shown in the chart below, revenue growth peaked around FY 15 (CY 14) and has decelerated considerably ever since. In fact, the better-than-expected FY 21 guidance calls for the second slowest growth rate in at least a decade. Excluding M&A, FY 21 revenue growth would be below 20.0%. On its Q2 20 Earnings Call, the Company indicated the 12-month trailing SaaS billings growth rate would "decline somewhat" in the back half of the year due to tough comparable periods but it's "natural growth rate" would be over 25.0%.

> *I do expect that this overall 12-month trailing SaaS billings growth rate will decline somewhat as we go into the back half of the year just because of these tougher comps. But with that said, as I've shared previously, we are very focused on this being an accelerated SaaS revenue growth rate…we think that the natural growth rate on a longer-term basis is 25% and above. (CFO Ms. Roxanne M. Oulman, Q2 20 Earnings Call, 09/05/19)*

[5] FY 11: https://www.sramanamitra.com/2011/02/03/can-you-do-it-all-amy-pressman-president-of-medallia-part-7/
FY 12: https://blogs.wsj.com/venturecapital/2012/09/26/medallia-aims-to-improve-service-at-big-companies-with-35m-from-sequoia/
FY 15 (18 months ended): https://www.cmswire.com/cms/customer-experience/medallia-resolves-to-prevent-recurring-customer-problems-027788.php
FY 17: https://www.sramanamitra.com/2018/03/23/billion-dollar-unicorns-will-medallia-help-consolidate/

What Medallia Won't Tell Investors: Growth Peaked in FY 15 and Massively Decelerated Ever Since



Source: Company filings, news articles

In the dozens of sell-side reports we read, none of them discussed Medallia's historical revenue growth rates beyond what was disclosed in the Company's prospectus and S-1 filings. We find this highly concerning for a few reasons: (1) investors were pitched an incomplete financial picture from Medallia despite a sufficiently long operating history, (2) the sell-side not only let this narrative go unchecked but further corroborated the story with near consensus "buy" ratings, and (3) the historical financials tell a dramatically different story than the one presented by the Company and the sell-side.

Unusual revision to Risk Factor suggests near-term revenue growth will slow; the exact opposite of what MDLA pitched investors

In SEC filings, Risk Factors include information about the most significant risks that apply to a company or its securities. In some respects, Risk Factors can be viewed as a company's legal disclaimer for liability protection. Indeed, it's typically a company's legal counsel that drafts and/or reviews the Risk Factors. However, we find many investors gloss over the Risk Factors because they typically include boilerplate legal language regarding general business risks. In our experience, Risk Factors contain a wealth of useful information regarding current and/or future performance perhaps none more important than when there are changes (additions, deletions, revisions, etc.) to certain Risk Factors. All said, Risk Factor changes are done purposefully, under the close watch of a company's legal team, and can be invaluable to identifying important changes to a company's business not yet fully appreciated by the market and/or accounted for in consensus estimates.

In its S-1 on 06/21/19, Medallia made a slight but very important revision to its Risk Factor "Our revenue growth rate has fluctuated in prior periods and may decline again in the future". It added language suggesting near-term SaaS growth rates may be lower than in prior periods.

> *Our revenue growth rate has fluctuated in prior periods. We have previously experienced periods of revenue growth rate decline and our revenue growth rate may decline again in future periods as the*

> *size of our customer base increases and as we achieve higher market penetration rates. In particular, we expect the growth rate of our subscription revenue to fluctuate from period to period, and in the* ***near term subscription revenue growth rates may be lower compared to comparable periods in the prior fiscal year****. (S-1, 06/21/19) [emphasis added]*

It's not uncommon for a company to include a generic Risk Factor related to potential future underperformance (e.g. slower growth rates). However, the language is generally vague regarding any such timing, which is why this addition is so important. Sometime between the initial filing of its draft S-1 on 04/05/19 and its S-1 on 06/21/19, Medallia and its attorneys felt it was necessary to add disclosure language regarding slower near-term SaaS growth rates. It's difficult to determine whether the disclosure was added in reference to the structural deceleration we discussed above or something more acute in FY 20 related to unexpectedly lower contract renewals, more challenging market dynamics, weaker pricing, or fiercer competition, etc.

Regardless of what prompted the additional disclosure, one thing is abundantly clear: Medallia was publicly pitching prospective investors an accelerating growth story while simultaneously adding legal language buried in its prospectus documents implying the business would do the opposite.

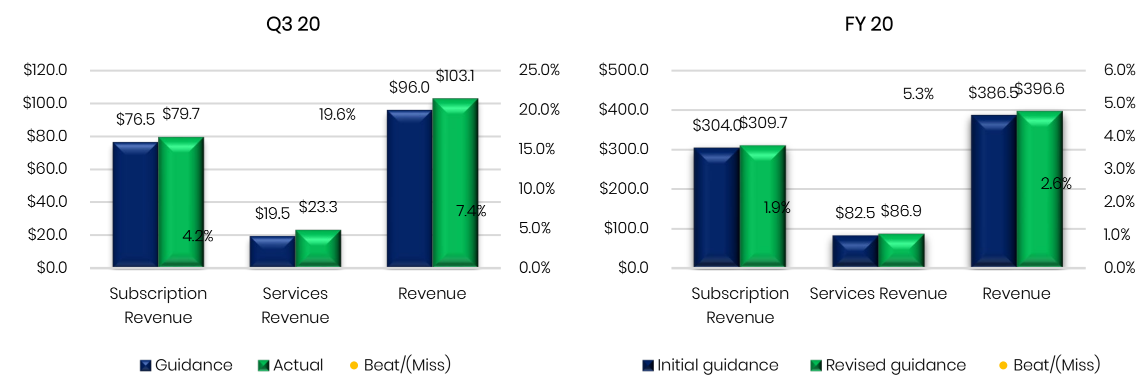
MDLA Sandbagged Q3 20/FY 20 Guidance and Gave FY 21 Guidance a Quarter Early to Prop Stock Price Before IPO Lock-Up Expiry

On 09/05/19, Medallia reported its first quarter (Q2 20) as a public company. On its Earnings Call, Medallia guided for Q3 20 Subscription revenue to increase 21.0% year-over-year to $76.5 million at midpoint and Company-wide revenue to increase 18.3% to $96.0 million at midpoint. The Company indicated its guidance was "prudent" despite its excitement about penetrating a large addressable market.

> *We are penetrating a large addressable market. And while we are very excited about our opportunity, we want to be prudent with our guidance. For Q3, we are projecting total revenue to be between $95 million and $97 million, representing a 17% to 20% growth over last year. For Q3, we are projecting SaaS revenue to be between $76 million and $77 million, representing a 20% to 22% growth over last year. (CFO Ms. Roxanne M. Oulman, Q2 20 Earnings Call, 09/05/19)*

On 12/05/19, Medallia reported Q3 20 revenue that handily beat guidance. Subscription revenue of $79.7 million beat by 4.2%, Services revenue of $23.3 million beat by 19.6%, and Company-wide revenue of $103.1 million beat by 7.4%. As a result, Medallia raised FY 20 revenue guidance.

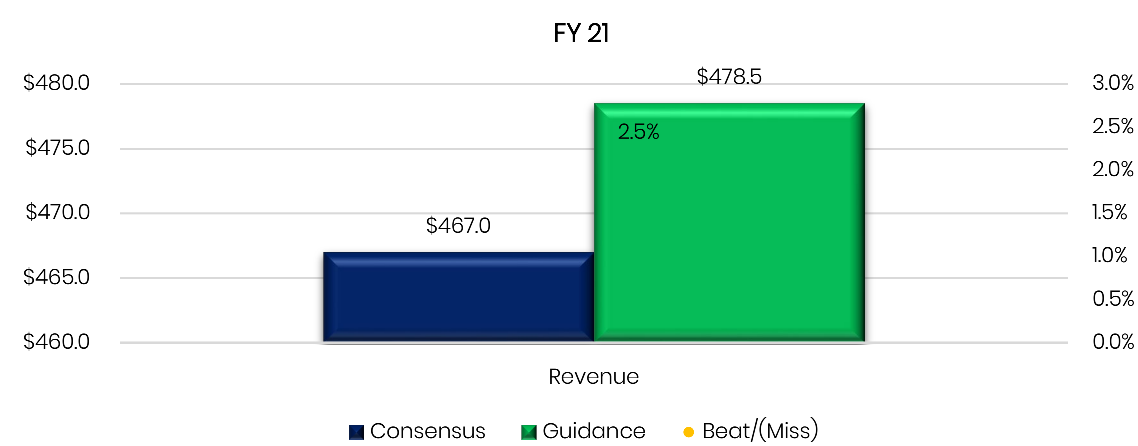
Sandbagged Q3 20/FY 20 Guidance Facilitated Easy "Beat and Raise"



Source: Company filings, consensus estimates

In addition, Medallia provided initial FY 21 revenue guidance of $478.5 million at midpoint, 2.5% above consensus.

Better-than-Expected FY 21 Guidance Provided a Quarter Early



Source: Company filings, Prescience Point estimates

While Medallia characterized it's Q3 20 guidance as "prudent", we believe it was purposefully soft to allow for an easier "beat and raise" as Q3 would be the last reported quarter before the IPO lock-up expiry on 01/15/20. Moreover, guiding for FY 21 was unnecessary given FY 20 isn't even completed.

We're not surprised FY 21 guidance was better-than-expected but keep in mind providing full-year guidance for the next year with Q3 results is rare. Most companies give full-year guidance with Q4 results for a few reasons. First, the prior fiscal year is completed so there is a firm base period. Second, Q4 has the longest period between when the quarter ends and when results are reported. For example, a typical calendar year-end company will likely report Q4 results in mid-to-late February. Meaning, it will have already completed a month (or sometimes close to two) of the year for which guidance is provided. In fact, providing FY 21 guidance a quarter early gives us more confidence Medallia wanted to pump as much positive news as possible into the market before the lock-up expiry.

Despite certain volume restrictions and a blackout period, share lock-up expiration freed multiples of the float available for immediate sale

In its IPO, Medallia (16.1 million) and selling shareholders (1.7 million) sold 17.8 million shares of common stock. The Company indicated 108.9 million additional shares would become available for sale when its lock-up agreements expire 180 days from July 19, 2019 (i.e. on 01/15/20).

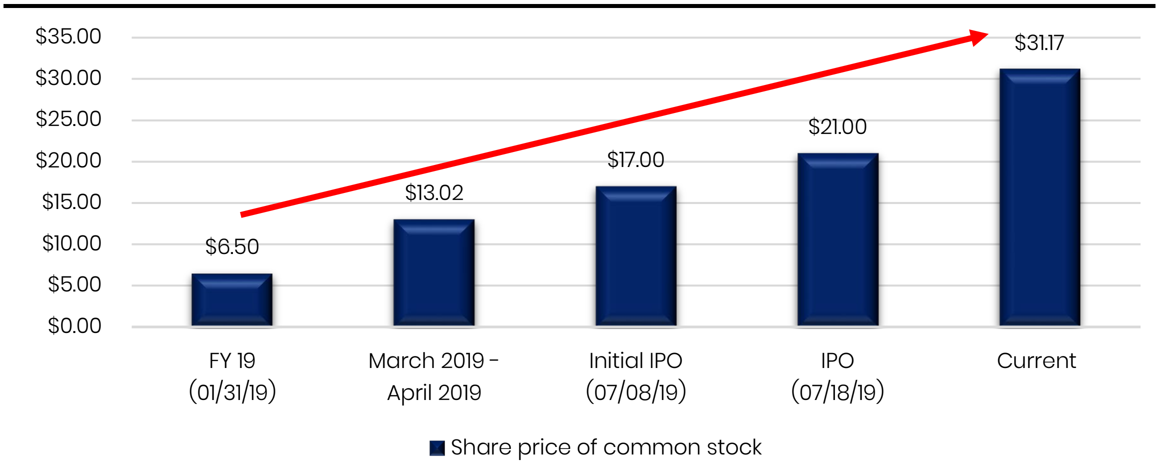
> *Beginning 181 days after the date of this prospectus, subject to the terms of the lock-up and market standoff agreements described above, **108,898,976 additional shares of capital stock will become eligible for sale** in the public market, of which 64,227,523 shares will be held by affiliates and subject to the volume and other restrictions of Rule 144. (Form 424B4, 07/19/19) [emphasis added]*

While 108.9 million shares is more than 6x the float, not all of these shares were available for immediate sale on 01/15/19. Approximately 64.0 million are subject to volume and other restrictions under SEC Rule 144 (i.e. ~45.0 million shares are not restricted under Rule 144) whereby executive officers, directors, and large shareholders (e.g. Sequoia Capital) are limited in the number of shares they can divest within any three-month period. The divestiture cannot exceed the greater of 1.0% of the number of shares of common stock outstanding or the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale. In addition, the lock-up expiry falls within Medallia's blackout period prior to reporting Q4 20 results which restricts current employees from trading in Medallia's securities under its insider trader policy (unless under a 10b5-1 plan for certain executives).

Notwithstanding volume restrictions and the blackout period, we estimate at least 2x to 4x the float became available for immediate sale on 01/15/20. First, Medallia is a bit of an anomaly in the tech IPO space given the Company had been around for nearly 20 years before going public. Meaning, there are likely hundreds (if not more) of former employees (i.e. not subject to the blackout) that were granted stock, for compensation and/or bonus, that previously could not be monetized because there was no public market. Second, even though affiliates are subject to volume and other restrictions, the maximum number of shares available for sale under Rule 144 is still meaningful. For reference, 1% of the common stock outstanding is ~1.3 million shares and based on the average daily volume of ~1.0 million shares, the average weekly volume is ~5.0 million shares. Therefore, affiliate sales would only be limited to ~5.0 million shares (slightly below 1/3 of the float). Moreover, certain insiders/affiliates have recently divested large portions of their equity (discussed herein) and could use 10b5-1 plans to sell during the blackout period.

Moreover, we anticipate another wave of selling by current employees when the blackout is lifted after Medallia reports Q4 20 results. Less than a year ago, Medallia's internal calculations valued its common stock at $6.50 per share. Given the ~5x increase in under a year, current employees may be eager to cash in and monetize their equity.

Current Share Price is ~5x What MDLA Privately Valued its Common Stock Less Than One Year Ago



Source: DRSLTR 05/15/19, S-1 07/08/19, Form 424B4 07/19/19

M&A Obfuscates Deteriorating Underlying Revenue Growth

In Q2 20, Medallia acquired three companies. On its Q2 20 Earnings Call, Medallia indicated the acquisitions were "technology-focused" and therefore had a "negligible" impact on SaaS revenue and SaaS deferred revenue.

> *Our acquisitions during the quarter were technology-focused, therefore, our SaaS revenue and SaaS deferred* ***revenue included negligible amount, if any****. (CFO Ms. Roxanne M. Oulman, Q2 20 Earnings Call, 09/05/19) [emphasis added]*

However, there was seemingly contradictory commentary later on the call that highlighted Strikedeck did a "number" of "interesting" sized deals during Q2 20.[6]

> *We did* ***a number of new deals*** *in the quarter* ***with the customer success module, Strikedeck****, that we financed at the conference. I'm really pleased with the progress there. And those* ***deal sizes are getting quite interesting*** *for us as well. So a good first quarter out of the gate with the new products. (CEO Mr. Leslie J. Stretch, Q2 20 Earnings Call, 09/05/19) [emphasis added]*

In addition, Medallia indicated it only acquires targets with "decent growth" and "customer traction".

> *We've added, I think, 3 tuck-ins already this year. You should expect, I think, 2 or 3 more before the end of the year. They have to be right. They have to be relevant. Our criteria is they have to be solid financially. They have to have decent growth, they have to have customer traction and hopefully customers that we know. (CEO Mr. Leslie J. Stretch, Q2 20 Earnings Call, 09/05/19)*

[6] Strikedeck was founded by a former colleague of MDLA CEO Mr. Stretch. See Appendix for additional information.

In Q3 20, Medallia made two larger acquisitions: Zingle Inc. for $47.3 million and Crowdicity Limited for $16.6 million. On its Q3 20 Earnings Call, Medallia indicated these two acquisitions provided ~0.7 million of revenue in Q3 20 and guided for them to provide ~$2.0 million in Q4 20.

> *We had about $700,000 in revenue with 2 acquisitions [Zingle & Crowdicity]. We're very focused on technology and talent tuck-ins. But if you do the math based on the acquisition dates, we estimate that the revenue in Q4 associated with these acquisitions will be about $2 million. (CFO Ms. Roxanne M. Oulman, Q3 20 Earnings Call, 12/05/19) [emphasis added]*

($ in millions)	Date	Purchase Price	Description
Strikedeck Inc.	05/16/19	$11.0	Provides customer success platform for B2B customers.
Cooladata Ltd.	06/17/19	$7.6	Cloud-based behavior analytics platform that derives/predicts customer sentiment.
Promoter.io Inc.	07/15/19	$2.3	Net Promoter Score (NPS) platform for small/medium sized businesses that measures loyalty and customer sentiment.
Zingle Inc.	09/23/19	$47.3	Multi-channel mobile messaging and customer engagement solution.
Crowdicity Limited	10/03/19	$16.6	Idea and innovation management platform.

Source: Q2 20 10Q

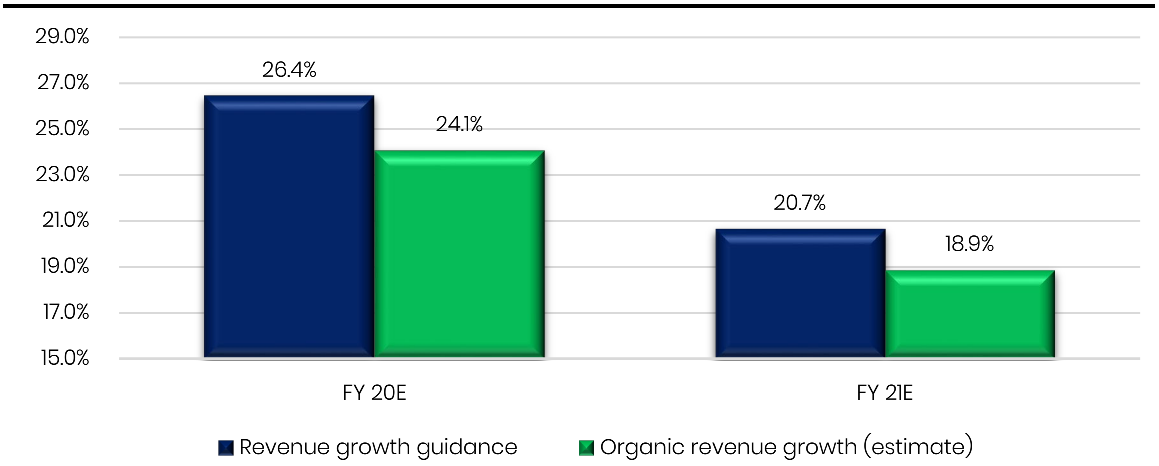
Based on the limited publicly available information for Strikedeck, Cooladata, and Promotier.io, we estimate the acquisitions could collectively add ~$5.0 million to Medallia's FY 20 revenue.[7] Zingle and Crowdicity are expected to add ~$2.7 million. We conservatively estimate Medallia's FY 20 revenue will include ~$7.5 million from acquisitions, 9.0% of the expected revenue growth. So, while Medallia maintains the impact from some of these acquisitions was "negligible" to consolidated results, we beg to differ. Excluding revenue from M&A, FY 20 estimated revenue growth would be 24.1%, 230 basis points slower than guidance suggests.

We believe FY 21 organic growth will slow even further. Conservatively assuming static year-over-year growth rates from the above acquisitions, we estimate inorganic revenue from M&A in FY 21 will be ~7.1 million.[8] Consequently, <u>we estimate FY 21 organic revenue growth will be below 20.0% for the first time in potentially a decade</u>.

[7] For FY 20, we estimate Strikedeck will provide between $3.5 million and $5.0 million, Cooladata will provide between $0.5 million and $1.0 million, and Promoter.io will provide ~0.3 million. https://www.owler.com/company/strikedeck

[8] For FY 21, we estimate Strikedeck will provide ~0.9 million, Cooladata will provide $0.2 million, Promoter.io will provide $0.1 million, Zingle will provide $1.5 million, and Crowdicity will provide $4.5 million.

M&A Obfuscates Underlying Growth Rate: FY 21 Organic Growth Slows to Below 20.0%



Source: Company filings, Prescience Point estimates

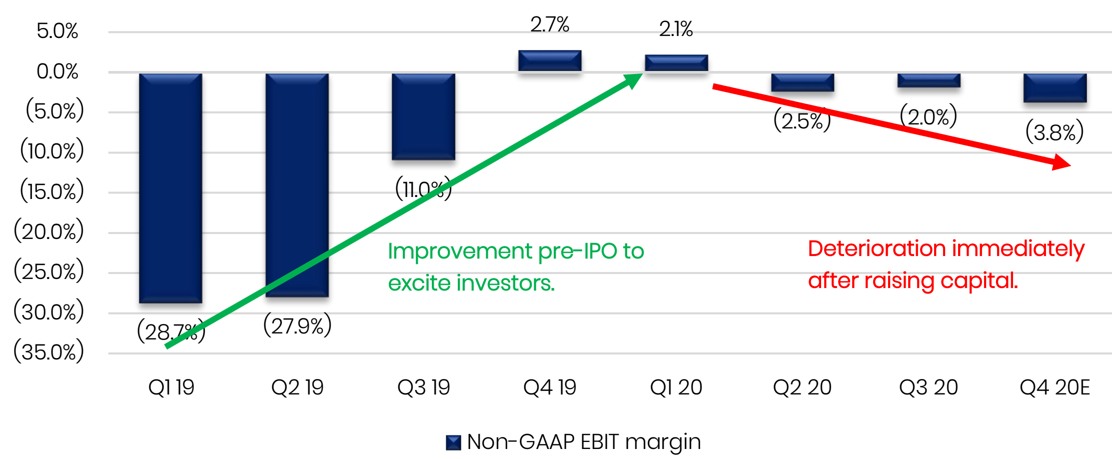
We want to be explicitly clear: it's not that Medallia can't continue to make acquisitions to augment technological capabilities (it has minimal debt), but <u>why would investors pay more than 13.0x sales for a Company with massively decelerating organic growth obfuscated by tuck-in acquisitions guised as technology-focused M&A.</u>

Profitability Window Dressed for IPO

In the carefully selected historical periods presented during its IPO Roadshow, Medallia's non-GAAP EBIT margin showed remarkable sequential improvement from Q1 19 through Q1 20. However, the trend reversed immediately after Medallia went public and based on current guidance will continue to deteriorate throughout FY 20. Moreover, we believe the Company used and is currently using certain transitory accounting gimmicks to inflate its already weak profitability metrics to fit with its long-term revenue growth acceleration and sustainable operating profit margin narrative.

While Medallia does not currently trade on its profitability, the margin improvement in the quarters immediately preceding its IPO was an integral part of the Company's Roadshow narrative. In addition, Medallia's long-term guidance calls for non-GAAP EBIT margin of greater than 20.0%. However, Medallia has failed to show consistent (if any) profitability after 20 years of business and rapidly slowing revenue growth coupled with increased competition (discussed herein) will only make margin growth more difficult.

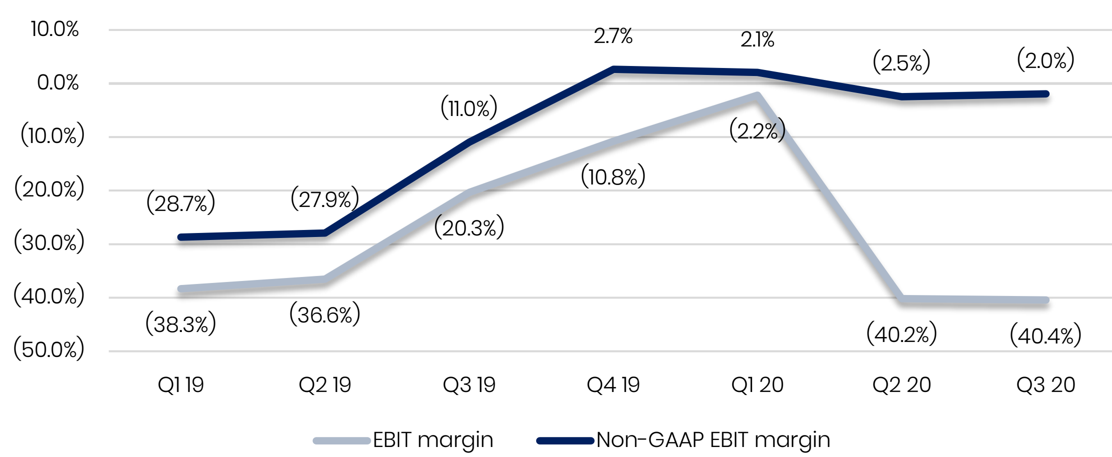
Pre-IPO Profitability Improvement takes Sharp Reversal



Source: Company filings

Not surprisingly, GAAP EBIT margin has been consistently lower than non-GAAP and has yet to inflect positive. While GAAP and non-GAAP trended in similar directions from Q1 19 through Q1 20, there was a sharp divergence in Q2 20 driven by share-based compensation.

Massive GAAP to Non-GAAP Divergence



Source: Company filings

Should stock compensation expense be excluded from non-GAAP results?

While excluding share-based compensation from non-GAAP results has become common among technology companies, we argue it's still a real cost and should be accounted for as such. Dissenters may argue that stock-based compensation is non-cash and perhaps, in some cases, even an extraordinary expense but neither changes the ultimate purpose of the stock award: to compensate employees. Which begs the question: if stock options used to compensate employees aren't an expense, then what are they? And if expenses aren't used to calculate profitability, where should they go?

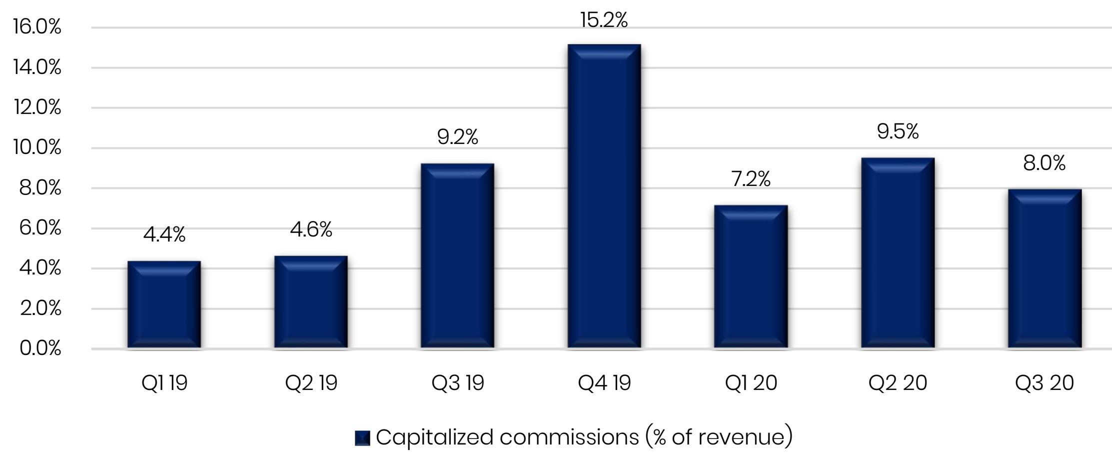
It's understandable that cash-strapped and/or unprofitable companies utilize stock options to compensate and incentivize employees but that also carries with it the risk of a negative feedback loop. It's business as usual for a company with a share price that trends upward – the Company can incentivize new talent and retain top talent with valuable stock options in lieu of cash. However, a company with its share price under pressure can quickly find itself in a challenging predicament – current employees with underwater options may be less motivated to stay while new employees may be less enthused to join. Moreover, current and new employees may demand more cash compensation in lieu of stock options which (1) may not be feasible for the company and/or (2) negatively impact profitability if the company acquiesces. If Medallia fails to keep its share price propped up, it could fall into the latter.

Profitability would have remained negative if not for sharp increase in capitalized commission costs

Although the data set is somewhat limited (i.e. Medallia only disclosed capitalized commission costs going back to Q1 19) capitalized commission costs as a percentage of revenue started to increase sharply on a sequential basis in Q3 19. Curiously, this coincided with Medallia's internal discussions to go public.[9] In Q2 20 and Q3 20, capitalized commission cost levels approximately doubled year-over-year. Although the Company did not provide any commentary about the increase, we believe it could be indicative of higher sales/commission costs associated with obtaining new contracts and/or capitalization of costs that were previously expensed as incurred.

[9] In its DRSLTR, Medallia indicated it commenced IPO readiness procedures in Q3 19.

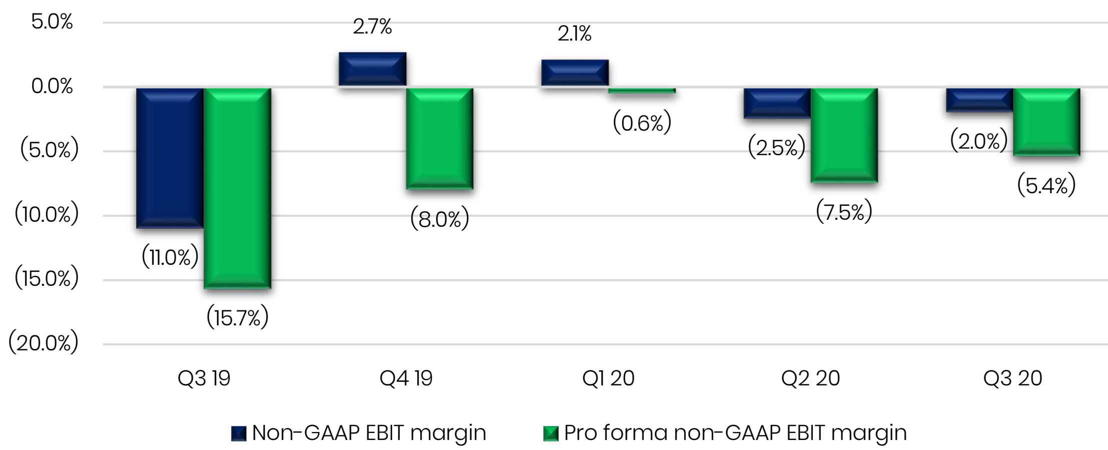
Capitalized Commission Costs Increased Sharply Prior to IPO Roadshow



Source: Company filings

In its S-1, the Company indicated capitalized commission costs are amortized on a straight-line basis over the period of the expected benefit, determined to be five years. Interestingly, the Company's average contract length is only approximately 2.5 years. It's unclear why Medallia is using five years instead of 2.5 years to amortize its commissions, nevertheless, the longer duration flatters profitability. If capitalized commission costs stayed at ~4.5% of revenue (i.e. consistent with levels prior to the spike in Q3 19), pro forma non-GAAP EBIT margin for Q3 19 through Q3 20 would have been meaningfully lower than what was reported.

Non-GAAP EBIT Margin Materially Benefited from Higher Capitalization Levels



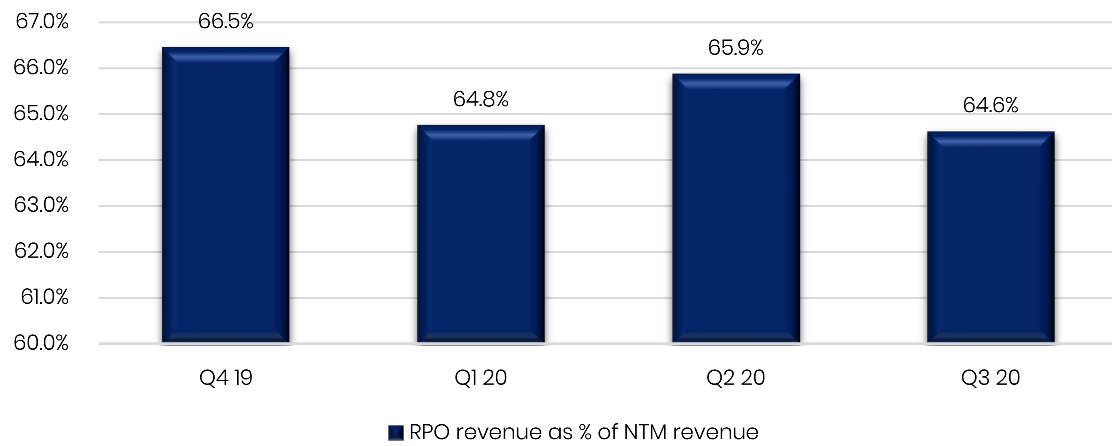
Source: Company filings, Prescience Point estimates

Falling RPO Metrics & Flat Revenue per Customer Places Increased Pressure on New Customer Growth & Retention

Remaining performance obligations (RPO) represent contracted revenue that has not yet been recognized and include deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. In addition to RPO, Medallia discloses how much of the RPO it expects to be recognized over the next twelve-months (NTM). As a result, using reported and consensus revenue expectations we can estimate how much of future revenue is already contracted (i.e. RPO) and how much needs to be generated from new customers and/or additional spend from current customers.

In Q3 20, RPO as a percentage of NTM revenue was 64.6%, the lowest level in at least the last four quarters. Meaning, in order to meet consensus estimates, future revenue will be more dependent on new customer additions and/or upselling current customers: an inherently riskier proposition.

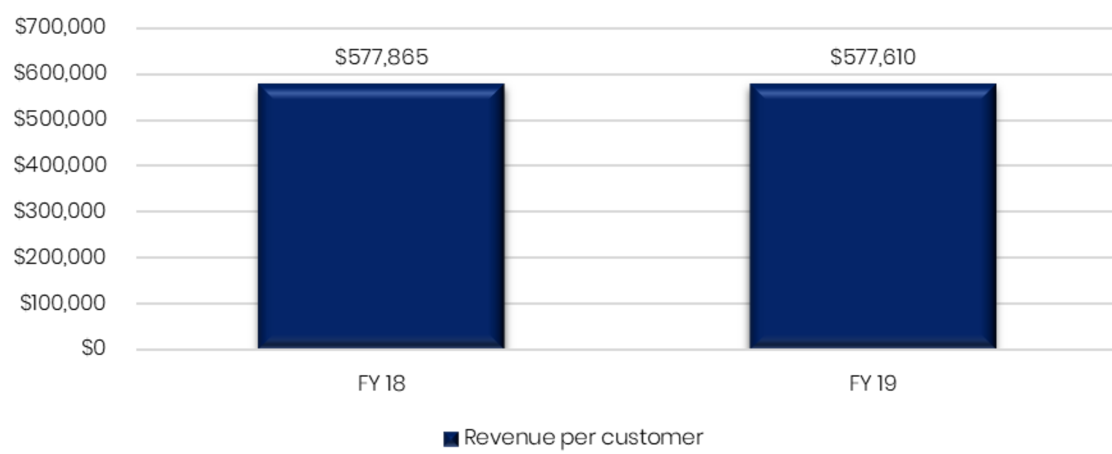
Higher Risk to Meet Revenue Expectations as RPO as % of NTM Revenue Falls



Source: Company filings, calculations

Revenue per customer was essentially flat year-over-year in FY 19. In its S-1 and Prospectus filings, Medallia didn't discuss revenue per customer metrics but we believe constrained revenue per customer growth indicates the Company may be having difficulty winning new large customers and/or successfully upselling legacy customers.

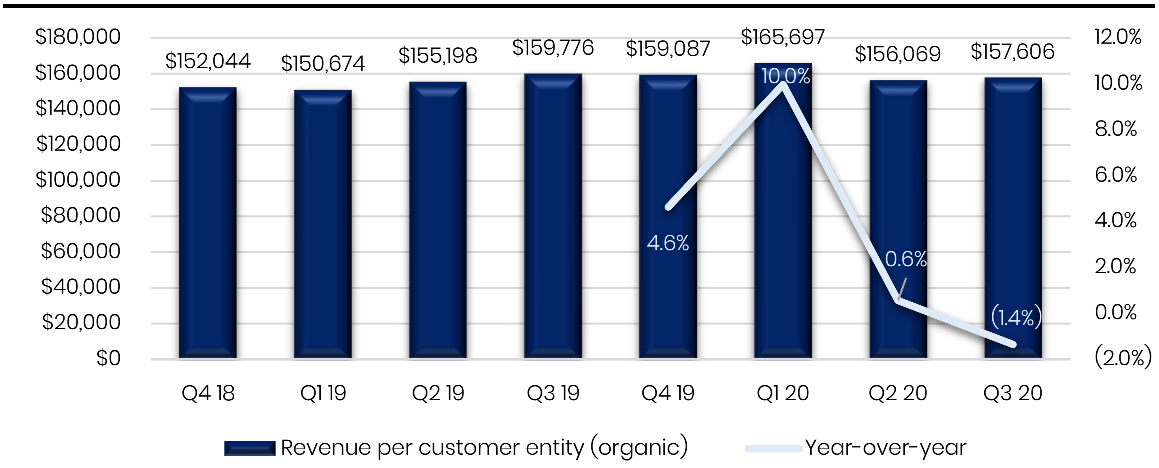
Revenue per Customer Down Slightly



Source: Company filings, calculations

In Q3 20, organic revenue per customer growth decelerated for the second consecutive quarter and turned negative after accelerating in Q1 20.[10] While two quarters do not make a trend, this is one of several examples where a metric exhibited improvement pre-IPO followed by a sharp reversal post-IPO (e.g. profitability).

Revenue per Customer Growth has Slowed Significantly



Source: Company filings, calculations

Revenue Retention Rate Metric Obfuscated Slowing New Customer Growth & Higher Churn

The Company uses a dollar-based net revenue retention rate metric to measure its ability to retain and expand business generated from its existing customers. The revenue retention rate is calculated by dividing (1) subscription revenue in the LTM period from those customers who were on the platform during the prior LTM period by (2) subscription revenue from the same customers in the prior LTM period.[11] If the revenue retention rate exceeds 100.0%, it means the subscription revenue retained in the period (including up-sells and cross-sells) more than offset subscription revenue lost from customers that did not renew all or a portion of their contracts during the period.

However, the Company indicated its revenue retention metric does not reflect the impact of an invoiced entity choosing to terminate or not renew its subscription if another invoiced entity with the same parent company chooses to purchase a subscription in the same period. Based on the size and frequency of occurrence, the revenue retention rate could be overstated.

> *Our dollar-based net revenue retention rate does not reflect the impact of an invoiced entity choosing to terminate or not renew its subscription if another invoiced entity with the same parent*

[10] Organic revenue per customer excludes $0.7 million of revenue and 44 customers from M&A in Q3 20. Including acquisitions, Q3 20 revenue per customer declined 7.6% year-over-year.

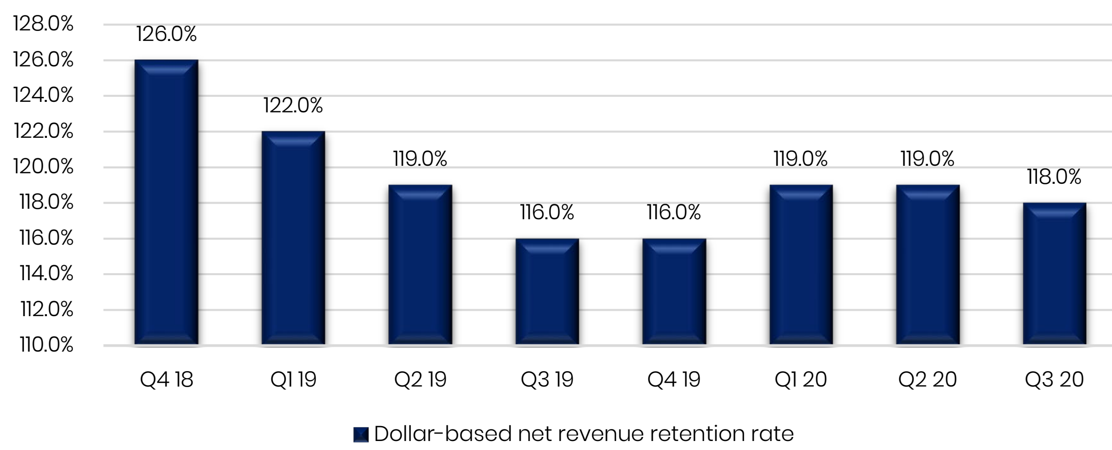
[11] For the purposes of calculating the dollar-based net revenue retention rate, the Company counts as a single customer all subsidiaries and divisions of a single parent.

*company chooses to purchase a subscription in the same period. While historically this scenario has happened rarely, our dollar-based net **revenue retention rate could be overstated** if this occurs more often or on a larger scale in the future. (Form 424B4, 07/19/19) [emphasis added]*

Notwithstanding potential overstatement, the reported net revenue retention rate was down slightly sequentially, but well below prior highs. In its S-1 filings, the Company attributed the high FY 18 revenue retention rate to a large increase in subscription revenue from one of its customers relative to FY 17.

Our dollar-based net revenue rate was relatively higher as of January 31, 2018 primarily due to a large increase in subscription revenue from one of our customers from fiscal year 2017 to fiscal year 2018. (S-1, 07/08/19)

Revenue Retention Rate Above 100.0% but Below Prior Year Highs



Source: Company filings

So, while Medallia likes to tout its revenue retention rate is above 100.0%, the metric does little to address new customer additions/subtractions (i.e. customer churn). In a subscription business, customer churn is one of the most important metrics.

Disclosure removed as customer additions slowed and estimated churn spiked

In its Prospectus on 07/19/19, the Company included the customer count used for its revenue retention rate calculation. Therefore, it was possible to calculate the number of new customers for the periods presented as follows: total number of customers – same customers from prior LTM period (per revenue retention rate disclosure) = net new customers.[12]

We calculate our dollar-based net revenue retention rate by dividing (i) subscription revenue in the trailing 12-month period from those customers who were on our platform during the prior 12-month

[12] See Appendix for detailed calculation.

> *period by (ii) subscription revenue from the same customers in the prior trailing 12-month period. For the purposes of calculating our dollar-based net revenue retention rate, we count as a single customer all subsidiaries and divisions of a single parent.* ***Using this methodology, our customer count would have been 229, 298, 242 and 318 at the beginning of the trailing 12-month period ending on January 31, 2018 and 2019 and April 30, 2018 and 2019, respectively. Eighty-eight percent of the parent customers have only one billing entity.*** *We believe that our ability to retain customers and expand their use of our platform over time is an indicator of the stability of our revenue base and the long-term value of our relationships with customers. (Form 424B4, 07/19/19) [emphasis added]*

Interestingly, in its initial S-1 filings, Medallia did not disclose the customer count used for its revenue retention rate calculation. It wasn't until the SEC requested Medallia to "clearly disclose" the number of customers used in the calculation that the disclosure was made public.

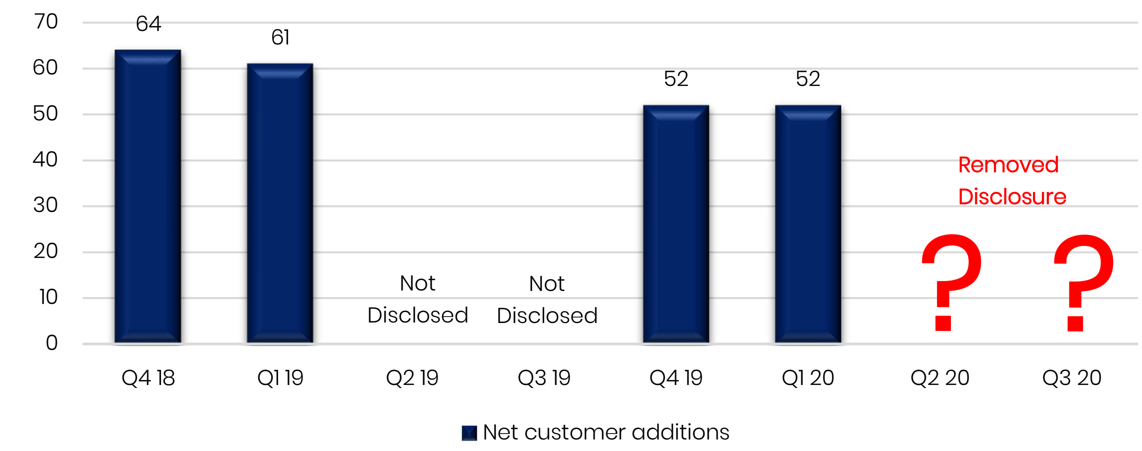
> *Where you discuss your dollar-based net revenue retention metric and your land and expand strategy, please clearly disclose the number of customers for purposes of such calculations for each period presented. (SEC CORR, 08/15/19)*

However, the customer count was removed from the revenue retention rate disclosure in the Q2 20 10Q thereby making it impossible to calculate net new customers.

> *We calculate our dollar-based net revenue retention rate by dividing (i) subscription revenue in the trailing 12-month period from those customers who were on our platform during the prior 12-month period by (ii) subscription revenue from the same customers in the prior trailing 12-month period. For the purposes of calculating our dollar-based net revenue retention rate, we count as customers all parent companies of each billing entity enterprise. We believe that our ability to retain customers and expand their use of our platform over time is an indicator of the stability of our revenue base and the long-term value of our relationships with customers. (Q2 20 10Q, 09/12/19)*

In the two preceding quarters, net new customer growth declined in the mid-teens. We believe it's possible Q2 20 net new customer growth could have deteriorated even further prompting the Company to remove the language from its disclosure.

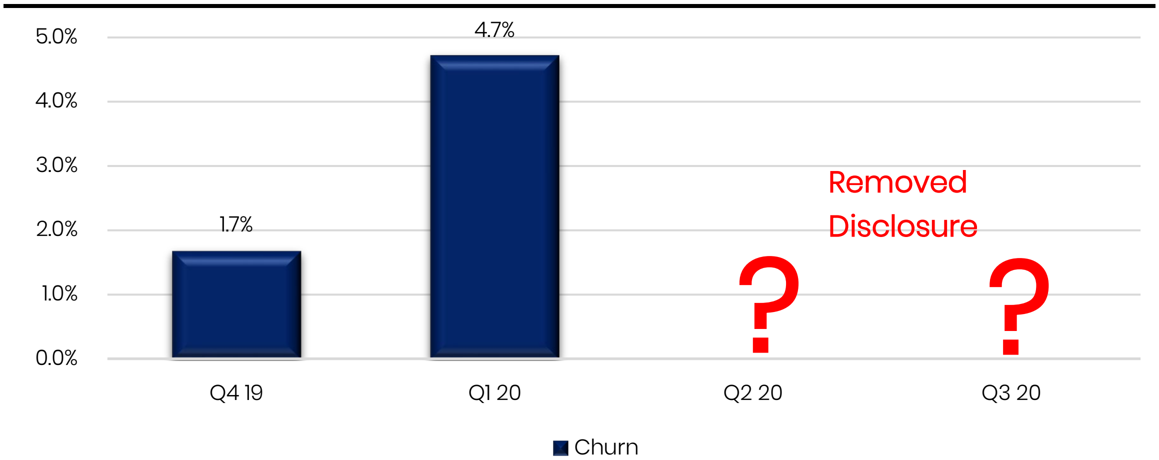
Did MDLA Remove Disclosure to Hide Deterioration in Net New Customer Additions?



Source: Company filings, calculations

Moreover, the disclosure removal also prevented an estimation of customer churn. In Q1 20, customer churn increased ~3.0x sequentially to 4.7%. While the optics of removing a disclosure critical to estimate customer churn immediately after churn sharply increased are not great, we do concede that limited historical data makes it difficult to contextualize this trend over a longer period. However, <u>higher churn will make accelerated revenue growth increasingly more problematic, especially as future revenue appears to be more dependent on new customer additions and revenue per customer has been relatively flat</u>.

Higher Churn Will be Problematic if MDLA Wants to Accelerate Revenue Growth



Source: Company filings, calculations

Slowing Enterprise Growth Forced Pivot to Mid-Market, Competition Attacking on All Fronts

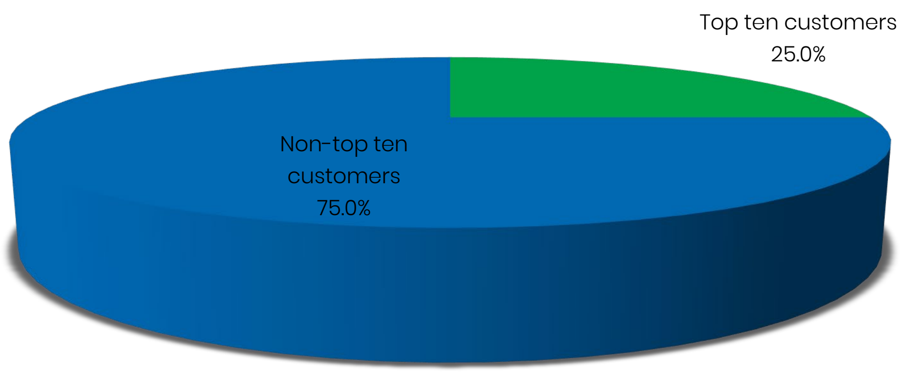
The enterprise market has always been Medallia's core competency. In fact, for the better part of its operating history, Medallia has had minimal competition in the enterprise market as competitors were more focused on the mid-market. However, we believe massively decelerating growth and high dependency on a few large customers forced Medallia to expand into the mid-market to show investors it's still in "growth mode." Investors appear to have accepted this new strategy at face value without discounting numerous obstacles. Ultimately, we think the strategy will disappoint and investors will be left underwhelmed.

Medallia's enterprise strategy will not work in the mid-market

Medallia's enterprise strategy consists of selling its platform to an enterprise customer and subsequently providing an enormous amount of low margin consulting and back-end support (i.e. Professional Services) to customize the product for the individual client.[13] As a result:

- Limited scalability led to high dependency on a few large customers,

Ten Customers Accounted for 1/4th of FY 19 Revenue

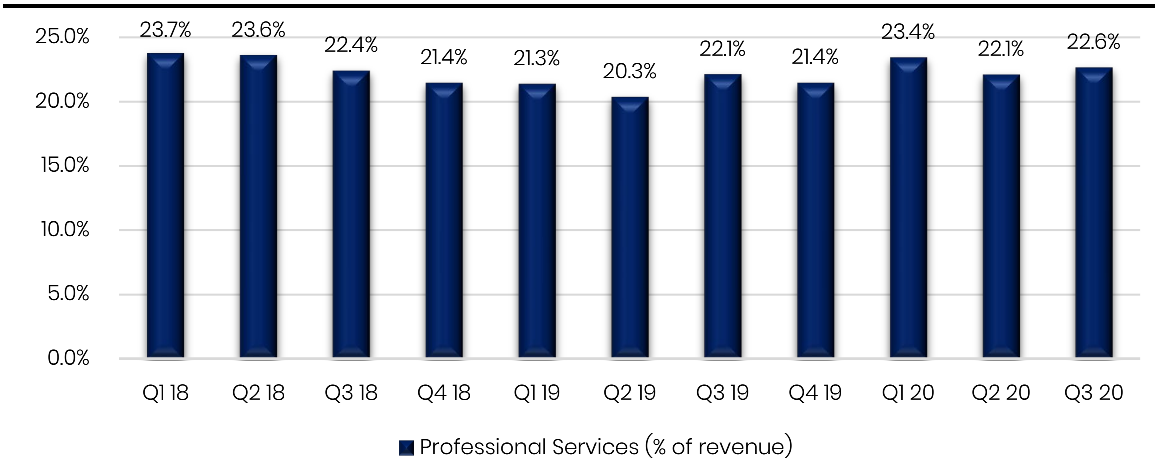


Source: Company filings

- Professional Services is a substantial piece of the business and accounts for more than 20.0% of revenue,

[13] In Q3 20, Professional Services gross margin was 16.4%. On its Q3 20 Earnings Call, the Company indicated Q4 20 Professional Services gross margin may decline to below 15.0%.

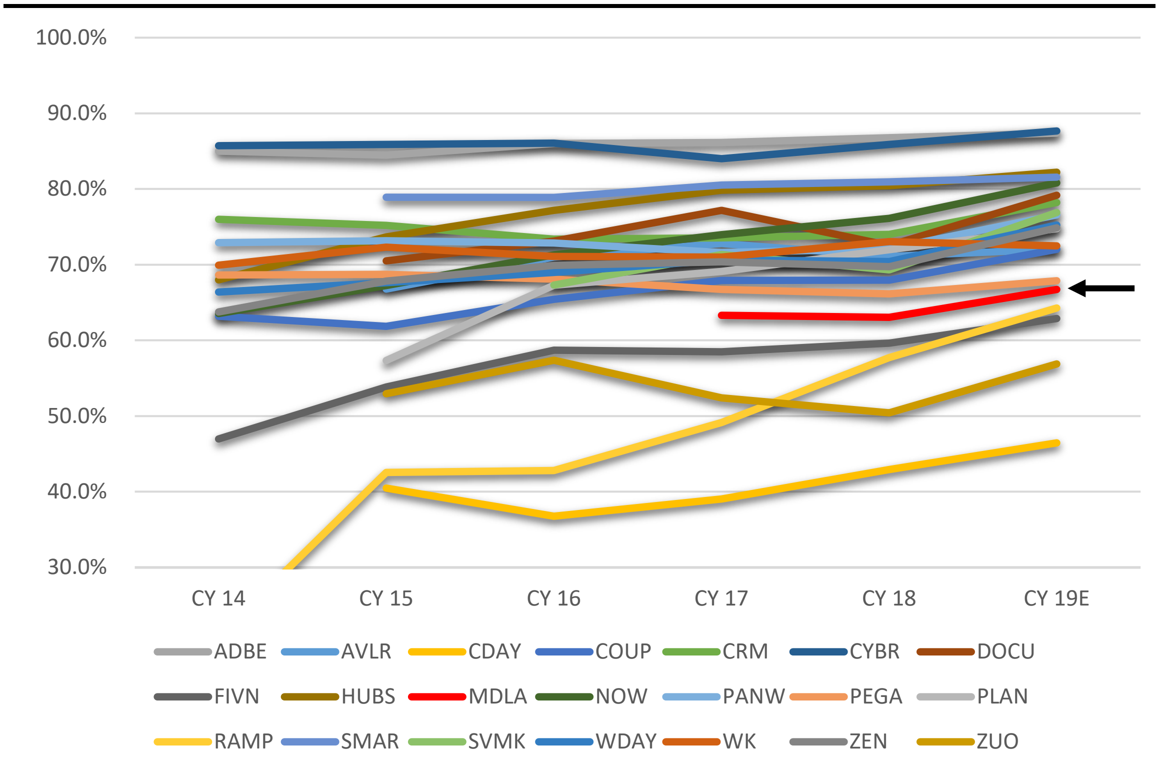
Professional Services (% of revenue)



Source: Company filings

- consolidated gross margin is well below SaaS peers.

Gross Margin Comparison: Medallia Well Below SaaS Peers



Source: Company filings, Thomson Reuters estimates

During its IPO Roadshow, Medallia marketed a new strategy geared toward mid-market enterprises. Most recently, the Company said it will become the "de facto" standard for customer experience in the senior enterprise market and this category leadership will benefit its broader mid-market initiatives which include a new mid-market product. It's our understanding the new product is more of a pre-packaged alternative that is supposed to require less and/or minimal customization.

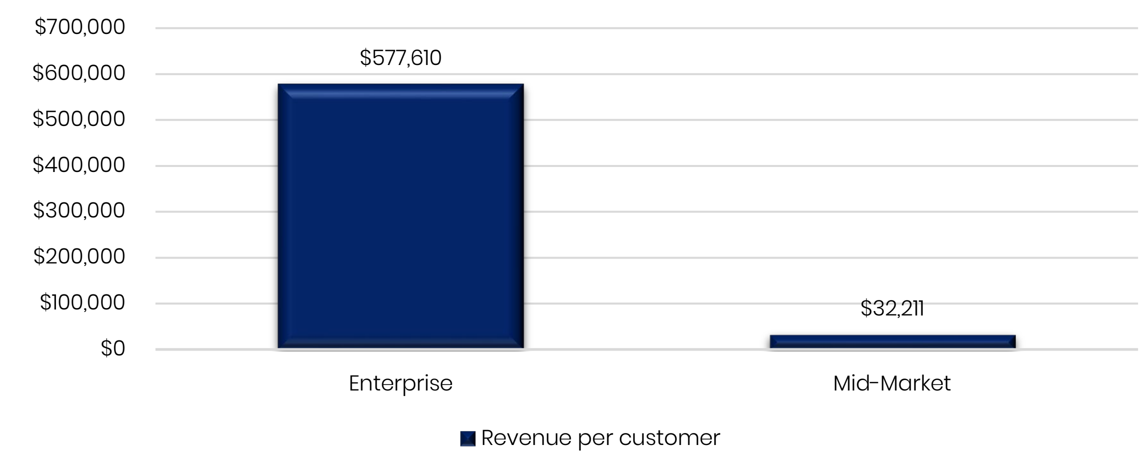
> *We recently expanded our sales force to continue pursuing large enterprises…I believe we'll become the de facto standard for customer experience in the senior enterprise market, and that this category leadership will benefit our broader mid-market initiatives. So secondly, we've created a mid-market product and sales capability under Rory Cameron's leadership to exploit the opportunities presented there.* (*CEO Mr. Leslie J. Stretch, Q2 20 Earnings Call, 09/05/19*)

So, while Medallia pitches investors on its enterprise market prowess and natural foray into the mid-market, we see it differently. On the surface the shift to a pre-packaged product for mid-market customers appears it could be beneficial for growth and profitability, but we believe the move was done out of necessity to make the accelerated growth story appear viable to investors. Based on our research, Medallia's biggest value-add to enterprise customers is the willingness to spend an exorbitant amount of time customizing and appending the platform to meet a client's specific needs. Effectively, the opposite of a pre-packaged and scalable solution.

Mid-market is very price sensitive and increasingly competitive with low barriers to entry

The quantity of mid-market companies is certainly larger than the enterprise market but the barriers to entry are low and the average annual contract value is drastically smaller. For reference, Medallia's average revenue per customer is ~$577,000 while the mid-market leader Qualtrics has an average revenue per customer of ~$32,000. Not surprisingly, mid-market companies just don't require (or even want to pay for) a large, multi-module, integrated customer experience platform. In many cases, a simple survey product will more than suffice. Based on our research, we believe the vast majority of the mid-market is more focused on low-cost offerings sufficient to meet its basic needs than a premium priced product with additional (and potentially unnecessary) capabilities. Simply, the mid-market is incredibly price sensitive.

Mid-Market Customers Spend a Fraction of what Enterprise Customers do on CX Offerings



Source: Company filings

In addition, there are cases in the enterprise market where a company may use two or more customer experience service providers. For example, a Medallia customer may also use SurveyMonkey to supplement its survey needs. SurveyMonkey corroborated this on its Q2 19 Earnings Call. However, given the price sensitivity, it's highly unlikely mid-market customers will pay for/need multiple customer experience service providers. Meaning, Medallia's growth in the mid-market growth will be more dependent on companies that do not already have a customer experience solution (i.e. greenfield) as it will be incredibly difficult to usurp lower-cost incumbent customer experience providers. In other words, it's more difficult for competitors to co-exist in the mid-market and coupled with lower barriers to entry (a simple survey offering is much easier to create than an integrated customer experience platform) the mid-market is significantly more competitive than the enterprise market.

Enterprise competition is heating up as Qualtrics and SurveyMonkey are actively looking to take share

For the better part of its history, Medallia operated with minimal competition in the enterprise market as its largest competitors were focused on the mid-market. However, recent commentary from Qualtrics and SurveyMonkey suggests both are aggressively expanding into the enterprise market which may derail Medallia's leadership position.

Qualtrics beating Medallia head-to-head at a faster rate: On its Q3 19 Earnings Call, SAP highlighted Qualtrics had some "impressive wins" in Q3 as it continued to "beat competition" in the enterprise and volume segments including an **"acceleration of win rates" against Medallia**. In addition, SAP indicated its scale was helping drive and close pipelines, especially in the enterprise market.

> *We're very pleased with Qualtrics' growth, and we are starting to see the scale of SAP helping drive and close pipelines, especially in the Enterprise segment. Qualtrics had some impressive wins in Q3: Dish Networks, Slack Technologies, SMI, U-Haul, Sharper Image, Stanley Black & Decker, Garmin International and many others selected Qualtrics in Q3 to move beyond systems of record to new systems of action and achieve breakthrough results.*
>
> *We continue to beat our competition in both the enterprise and volume parts of our business. Qualtrics' volume engine is helping SAP to expand its footprint into new accounts and is helping us open doors for other SAP cloud solutions.* ***We're also seeing an acceleration of our win rates against Medallia****. (SAP Q3 19 Earnings Call, 10/21/19) [emphasis added]*

We believe this is just the beginning of Qualtrics' expansion into the enterprise market as it leverages SAP's vast network of established enterprise customers. Moreover, we believe SAP/Qualtrics can proposition customers with a compelling and unique comprehensive enterprise offering that will continue to drive an accelerated win rate vs. Medallia.

SurveyMonkey aggressively targeting Medallia's enterprise customers: On its Q2 19 Earnings Call, SurveyMonkey indicated "probably all" of Medallia's enterprise customers also use SurveyMonkey and those customers are the one's SurveyMonkey is going to continue to "aggressively target" in the enterprise space. If a prospective customer was already using Medallia or Qualtrics, SurveyMonkey said it could have those systems "flipped out".

> ***Analyst:*** *You mentioned in the prepared remarks, Zander,* ***increasing number of Enterprise customers that's replacing their more expensive platforms with SurveyMonkey.*** *I know a lot of your opportunities is greenfield today but just would love some more color around that competitive dynamic? Is this something new that you're seeing and kind of part B of that question of your roughly 5,000 Enterprise customers? How many of those do you think also have a Qualtrics or Medallia kind of type platform also operating in the background?*
>
> ***SVMK CEO Mr. Alexander J. Lurie:*** *So I don't have a number there. But thematically, I would say that Enterprise customers of SurveyMonkey probably don't have Qualtrics or Medallia offering. Those are larger deployments often with a lot of professional services, often take months to install just a heavier solution. I would say that probably, all of Medallia's customers have paying SurveyMonkey customers inside. So you can imagine that* ***there are going to be a lot of Medallia and Qualtrics customers who also buy SurveyMonkey. And I think we are going to continue to aggressively target the top 10% of those 335,000 domains.*** *That's really where we're spending our time, the 30,000, that 40,000 domains where we have the most active customers, paying customers, engagement surveys sent. That's really the opportunity for us. And* ***if they happen to be existing Qualtrics and Medallia customers today, we can*** *either complement -- supplement them or* ***have those system flipped out.*** *So it's a competitive market. We're not often you're bidding an RFP because they do have a big proprietary greenfield opportunity selling into our base. But as the market grows and gets more competitive, we really like*

the competitive position we fit in with our brand and the needs of our products and hearts and minds of a lot of people inside those companies. (SVMK Q2 19 Earnings Call, 08/01/19) [emphasis added]

Conflict of Interest: Medallia Commissioned the Forrester Wave Study it Frequently References as Support for its Market Leading Position

Throughout its S-1 and current Investor Presentation documents, Medallia frequently references a 2018 Forrester Wave study to support the claim that it's a "market leader" with the "top ranked offering and strategy". Specifically:

- From the S-1:

  Forrester has recognized us as a leader in their customer feedback management evaluation and gave us top scores in the current offering and strategy categories. (MDLA S-1, 06/21/19)

- From the Q3 20 Investor Slides:

Medallia Referenced Forrester Wave Study to Show it's the Top Ranked Current Offering & Strategy

Source: Q3 20 Investor Slides

However, the SEC inquired Medallia about whether it specifically commissioned the Forrester Wave study for use in connection with its IPO. Medallia denied that the study was commissioned for use in the IPO. Instead, Medallia claimed it commissioned the Forrester Wave study for customer marketing and research purposes.

The Company respectfully acknowledges the Staff's comment and advises the Staff that the April 2018 Forrester Consulting study was not commissioned for use in connection with the Registration

> *Statement…[In this instance],* ***the data presented in the study was prepared by Forrester Consulting for the Company for customer marketing and research purposes****, not as a report for purposes of the Registration Statement. (SEC Correspondence, 05/15/19) [emphasis added]*

The conflicts of interest related to the Forrester Wave study are obvious. However, we find it hard to believe the study was commissioned solely for customer marketing and research purposes given the prominence Medallia has placed on the Forrester Wave study in its investor documents. For example, the Q3 20 Investor Presentation had two slides specifically dedicated to results from the study (10.0% of the slide deck).

Layoffs Don't Make Sense for a Company in "Accelerating Growth" Mode

In FY 19, Medallia increased its infrastructure team headcount in lower-cost jurisdictions by 132.0%. In addition, it expanded its salesforce by 25.0%.

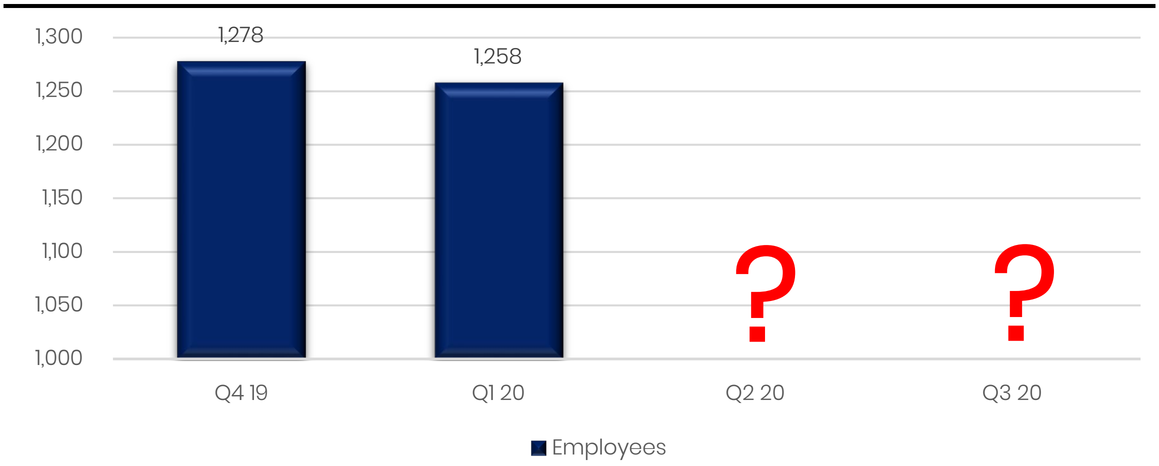
> *The increase was primarily due to higher personnel-related expenses of $10.4 million as a result of a 132% increase in headcount in our infrastructure teams in lower-cost jurisdictions, as measured by the change in the average quarterly headcount for those teams for the year ended January 31, 2018 compared to the year ended January 31, 2019, to support our growth…The increase was primarily due to higher personnel-related expenses of $21.9 million as* ***we expanded our sales force by 25%****, as measured by the change in the average quarterly sales force headcount for the year ended January 31, 2018 compared to the year ended January 31, 2019. (Form 424B4, 07/19/19) [emphasis added]*

However, in Q1 20, sales and marketing expense declined after Medallia reduced sales force headcount by 12.0%.

> *Sales and marketing expenses decreased by $1.8 million, or 5%, for the three months ended April 30, 2019, compared to the three months ended April 30, 2018. The decrease was primarily due to lower personnel-related expenses as a result of a* ***12% decrease in headcount****. (Form 424B4, 07/19/19) [emphasis added]*

In its S-1 and Prospectus filings, Medallia only disclosed total employees for two periods. In Q1 20, headcount declined 1.6% sequentially. Medallia didn't disclose total employees in its Q2 20 or Q3 20 results. However, on its Q2 20 Earnings Call, Medallia discussed a ramp in quota-bearing sales capacity but did little to contextualize that relative to its entire sales force or total headcount.

Sequential Headcount Drop Doesn't Fit with Accelerating Growth Narrative



Source: Company filings

Despite commentary about an increase in quota-bearing sales capacity, laying off 12.0% of sales related headcount in Q1 20 does not fit with Medallia's growth narrative. Simply, companies experiencing and/or planning for accelerated growth do not layoff sales reps.

New disclosure language indicates certain executives and other employees were terminated during FY 20

In its Q3 20 10Q, Medallia disclosed year-to-date general and administrative expense increased year-over-year due to higher stock-based compensation expense related to the accelerated vesting of certain unvested stock options and RSUs for terminated executives and other employees.

> *General and administrative expenses increased by $35.7 million, or 97%, for the nine months ended October 31, 2019, compared to the nine months ended October 31, 2018. The increase was primarily due to higher stock-based compensation expense related to our RSU's being recognized upon the IPO and the **termination of certain executives and other employees**, for which we accelerated the vesting of certain unvested stock options and RSUs. (Q3 20 10Q) [emphasis added]*

It's difficult to determine when these terminations occurred given the language referenced the year-to-date period (vs. quarter-to-date), however, this language was not in the Q2 20 10Q or in any of the prospectus filings implying these terminations may have been recent. Regardless of the timing, a new disclosure about terminated executives exacerbates our concerns about Medallia's "accelerating growth" narrative.

Medallia Playing Copycat and Losing: Investors Benchmarking Against Qualtrics Acquisition will be Disappointed

After reviewing Medallia's and Qualtrics' (previously: XM) S-1 filings side-by-side, we noticed some unusual and peculiar similarities.[14] It's common for SEC filings from different filers to have a similar layout, structure, and/or format. The SEC designed it that way to create uniformity and facilitate ease of use amongst stakeholders. However, in several places, it appears Medallia just took Qualtrics' S-1 and copy and pasted its own numbers into the document. In some cases, the language and charts are nearly identical to each other and we don't think it's a coincidence.

Qualtrics filed its S-1 in mid-October 2018 and was acquired by SAP for $8.0 billion (~21.0x price/LTM sales) a month later, a few days before it was set to IPO. It appears Medallia may have tried to borrow from Qualtrics' playbook. Adding to the similarities are a common venture capital backer. Sequoia Capital owned ~24.0% of Qualtrics prior to it being acquired and currently owns ~36.0% of Medallia. While the two companies are not identical and have varied product offerings, we believe from a comparative valuation standpoint there is a clear winner: Qualtrics.

Medallia vs. Qualtrics financial comparison at IPO: Qualtrics had better revenue growth, was more profitable, and consistently generated positive free cash flow

On comparative basis, Qualtrics had much stronger financial metrics than Medallia at the time of their respective IPOs. Qualtrics' revenue was growing nearly twice as fast, gross margin was 1,000 basis points higher, and non-GAAP EBIT margin and free cash flow were positive.

In fact, Qualtrics had been free cash flow positive every year since its inception. Medallia cannot make the same claim; FY 19 operating cash flow was negative and FY 20 year-to-date is also negative.

> *We have been free cash flow positive in every year since our inception, while driving rapid adoption of our solution among organizations of all sizes around the world. (XM S-1, 10/19/18)*

[14] Qualtrics International Inc.

Medallia is Weaker Than Qualtrics on Every Metric		
($ in millions)		
Qualtrics	**CY 17**	**YTD Q3 18**
Revenue growth	52.1%	39.8%
Gross margin	72.7%	73.6%
Non-GAAP EBIT margin	3.5%	2.3%
Operating cash flow	$39.6	$52.5
Medallia	**FY 18**	**FY 19**
Revenue growth	30.6%	20.1%
Gross margin	63.3%	63.0%
Non-GAAP EBIT margin	(19.9%)	(15.2%)
Operating cash flow	$16.4	($15.2)

Source: Company filings

Medallia copied and pasted Qualtrics' sales expansion strategy language

It's not unheard of to use similar language for legal and/or other boilerplate disclosures in SEC filings but to copy and paste a competitor's sales strategy verbatim is very odd. It's either lack of creativity by Medallia to explain its business model, laziness on the part of Medallia's investment bankers, and/or a concerted effort between Medallia, its venture capital backers, and its investment bankers to make Medallia's financials and business strategy look as similar to Qualtrics' as possible in the hopes of a similar outcome/valuation premium.

Medallia’s Expansion Strategy Language is Nearly Identical to the Language Used by Qualtrics

Expand Sales to Existing Customers

Our business model relies on rapidly and efficiently landing new customers and expanding our relationships with them over time. We have a history of driving expanded use through up-selling our platform across the enterprise and cross-selling through the subsequent deployment of additiona products. The chart below illustrates the recurring billings of each cohort over the periods presented, with recurring billings referring to total subscription billings plus managed services billings, and each cohort representing customers that made their first purchase from us in a given fiscal yea Our multi-year subscription and managed service arrangements are generally billed annually and are represented in the chart below as they are billed fo each year presented. For example, the 2018 cohort includes all customers that purchased their first subscription from us between February 1, 2017 and January 31, 2018. Our recurring billings from customers for the 2014 cohort, 2015 cohort, 2016 cohort, 2017 cohort and 2018 cohort in fiscal year 201 represent an increase over each cohort’s initial aggregate recurring billings by 2.9x, 1.5x, 2.5x, 1.6x and 1.3x, respectively.[21] By increasing recurring billings for customers over time, we can significantly increase the return on our upfront sales and marketing investments. As a result, our results of operations will depend in part on the degree to which our “land and expand” model is successful.

[21] For purposes of this statistic, we count as a single customer all subsidiaries and divisions of a single parent.

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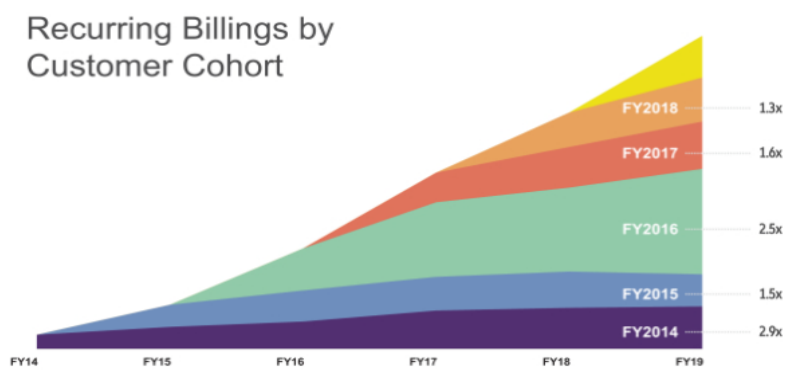


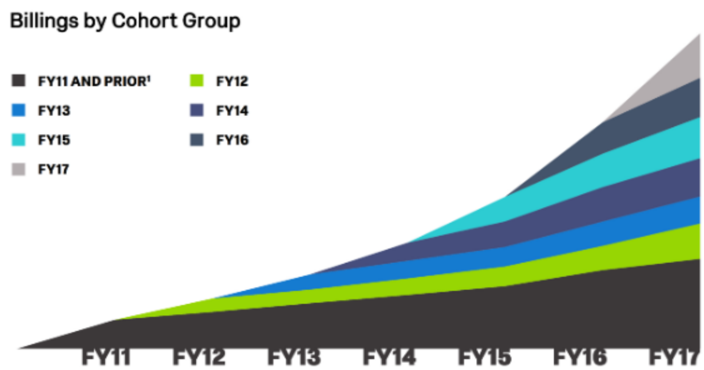
Source: S-1, 06/21/19

vs.

Qualtrics Expansion Strategy

Expand Sales to Existing Customers

Our business model relies on rapidly and efficiently landing new customers and expanding our relationship with them over time. As the chart below illustrates, we have a history of attracting new customers, driving expanded use through upselling our XM™ Platform across the enterprise, and cross-selling through the subsequent deployment of additional solutions throughout the enterprise. Specifically, the chart below illustrates the total subscription billings of each cohort over the periods presented with each cohort representing customers who made their first purchase from us in a given fiscal year. For example, the 2014 cohort includes all customers that purchased their first subscription from us between January 1, 2014 and December 31, 2014. Our subscription billings from customers for the 2012 cohort, 2013 cohort, 2014 cohort, 2015 cohort, and 2016 cohort in 2017 represent an increase over each cohort's initial aggregate subscription billings by 2.6x, 1.8x, 2.1x, 1.7x, and 1.2x, respectively.



1. FY2011 cohort represents billings from FY2011 and prior years

Source: S-1, 10/19/18

Conflicting claims: Medallia and Qualtrics both say they created the experience management category

In its S-1, Medallia claims it created the experience management category of enterprise software.

> *We created a new category of enterprise software, experience management, and we are the market leader. (MDLA S-1, 06/21/19)*

However, eight months prior, in its S-1, Qualtrics indicated it had created the experience management category.

> *We have created a new category of software, Experience Management, or XM™, which enables organizations to address the challenges and opportunities presented by the experience economy. (XM S-1, 10/19/18)*

In our opinion, it doesn't necessarily matter which company created the category, but we find it very intriguing that both stake their claim as the first mover.

Conflict of interest or hedged bet? Sequoia was simultaneously a major shareholder of Medallia AND Qualtrics

When Qualtrics filed its S-1, Sequoia capital owned approximately one-fourth of the Company.

Sequoia Owned ~1/4th of Qualtrics

Name of Beneficial Owner	Beneficial Ownership Before the Offering: Class A-1 Common Stock Shares	%	Class A-2 Common Stock Shares	%	Class B Common Stock Shares	%	Total Voting Power Before the Offering %	Beneficial Ownership After the Offering: Class A-1 Common Stock Shares	%	Class A-2 Common Stock Shares	%	Class B Common Stock Shares		Total Voting Power After the Offering %
Directors and Named Executive Officers:														
Ryan Smith[1]	—	*	88,823,418	87.6%	—	*	48.2%	—	*	88,823,418	87.6%	—	*	47.7%
Jared Smith[1]	—	*	88,823,418	87.6%	—	*	48.2%	—	*	88,823,418	87.6%	—	*	47.7%
David Faugno[2]	—	*	—	*	335,000	2.6%	*	—	*	—	*	335,000	1.0%	*
Zig Serafin[3]	—	*	—	*	1,131,000	8.4%	*	—	*	—	*	1,131,000	3.3%	*
Scott Smith[1]	—	*	88,823,418	87.6%	—	*	48.2%	—	*	88,823,418	87.6%	—	*	47.7%
Murray Demo[4]	—	*	—	*	57,500	*	*	—	*	—	*	57,500	*	*
Jeffrey Lieberman[5]	29,208,172	35.8%	143,974	*	745,805	6.0%	16.0%	29,208,172	35.8%	143,974	*	745,805	2.3%	15.8%
R. Bryan Schreier[6]	—	*	—	*	—	*	*	—	*	—	*	—	*	*
Kimball Malone Scott[7]	—	*	—	*	190,000	1.5%	*	—	*	—	*	190,000	*	*
Ryan Sweeney[8]	31,475,690	38.6%	95,978	*	497,207	4.0%	17.2%	31,475,690	38.6%	95,978	*	497,207	1.5%	17.0%
R. Duff Thompson[9]	1,300,000	1.6%	—	*	—	*	*	1,300,000	1.6%	—	*	—	*	*
All directors and executive officers as a group (12 persons)[10]	61,983,862	75.9%	89,063,370	87.8%	3,871,512	26.6%	82.2%	61,983,862	75.9%	89,063,370	87.8%	3,871,512	11.0%	81.3%
5% Stockholders:														
Grandview Holdings LLC[11]	—	*	88,823,418	87.6%	—	*	48.2%	—	*	88,823,418	87.6%	—	*	47.7%
Entities affiliated with Accel[8]	31,475,690	38.6%	95,978	*	497,207	4.0%	17.2%	31,475,690	38.6%	95,978	*	497,207	1.5%	17.0%
Entities affiliated with Insight Venture Partners[5]	29,208,172	35.8%	143,974	*	745,805	6.0%	16.0%	29,208,172	35.8%	143,974	*	745,805	2.3%	15.8%
Entities affiliated with Sequoia Capital[12]	19,652,372	24.1%	—	*	—	*	10.7%	19,652,372	24.1%	—	*	—	*	10.5%

Source: S-1, 10/19/18

Currently, Sequoia owns approximately one-third of Medallia. Prior to the IPO, Sequoia's ownership was even higher at 40.7%.

Sequoia Owns More Than 1/3rd of Medallia

ıme of Beneficial Owner	Shares Beneficially Owned Prior to the Offering: Shares	Percentage	Shares Being Offered	Shares Beneficially Owned After the Offering: Shares	Percentage
ımed Executive Officers and Directors:					
ɛslie J. Stretch[1]	1,470,538	1.3	—	1,470,538	1.2
ɔxanne M. Oulman	—	*	—	—	*
ikael J. Ottosson[2]	1,011,457	*	—	1,011,457	*
ɔrge Hald[3]	17,555,556	15.6	1,175,000†	16,380,556	12.9
ɔbert Bernshteyn	—	*	—	—	*
itchell K. Dauerman	—	*	—	—	*
ɛslie J. Kilgore[4]	254,828	*	—	254,828	*
ɔuglas M. Leone[5]	8,979,804	8.2	—	8,979,804	7.3
anley J. Meresman[6]	300,000	*	—	300,000	*
my E. Pressman[3]	17,555,556	15.6	1,175,000†	16,380,556	12.9
even C. Walske[7]	845,833	*	—	845,833	*
ll executive officers and directors as a group (12 persons)[8]	30,418,017	26.4	1,175,000†	29,243,017	22.6
% Stockholders:					
ntities affiliated with Sequoia Capital[9]	44,408,481	40.7	—	44,408,481	36.0
ṙrich Stern	7,000,000	6.4	—	7,000,000	5.7

Source: S-1, 06/21/19

After the Qualtrics acquisition, we believe Sequoia may have pushed Medallia to try and sell itself at a similar valuation multiple. However, we believe Medallia didn't have any offers at that price point after prospective buyers conducted their initial due diligence. As discussed heretofore, Qualtrics' financial metrics were objectively better than Medallia's across the board. So, Medallia opted for the next best option: an IPO with a carefully constructed narrative corroborated by extremely limited and curated financial statements to be further pumped by willing sell-side analysts (i.e. Medallia's IPO underwriters).

Founders Unloaded Massive Equity Chunk in Fall 2018 followed by 10.0% of Stake into IPO; CTO Exercised Early & Sold Over 10.0% Stake in Dec. 2019

Correspondence between Medallia and the SEC revealed husband and wife co-founders, Mr. Borge Hald and Ms. Amy E. Pressman sold ~1,600,000 shares in October 2018 between $6.26 and $6.73 per share.

> *Valuations during fiscal year 2019 resulted in a consistent value of $6.26 to $6.73 per share of common stock. In October 2018, the Company's founders, Borge Hald and Amy Pressman, sold approximately 1.6 million shares of common stock to both existing and new investors at a price that was consistent with the Company's common stock valuation as of October 2018. (SEC Correspondence, 05/15/19)*

In addition, as part of the IPO, Mr. Hald and Ms. Pressman offered 1,175,000 shares to be sold plus an option for the underwriters to purchase an additional 590,000 shares. After the IPO closed, the co-founders sold all 1,765,000 shares; 10.0% of their beneficial ownership.

Collectively, the October 2018 sale and the shares offered into the IPO accounted for ~20.0% of the co-founders' equity stake. It's never a strong vote of confidence in future performance when founders (or other insiders) unload a sizeable portion of their ownership in the IPO; it's more of a cash grab.

Husband and Wife Founders Unload 5.0% of Stake into IPO

me of Beneficial Owner	Shares Beneficially Owned Prior to the Offering: Shares	Shares Beneficially Owned Prior to the Offering: Percentage	Shares Being Offered	Shares Beneficially Owned After the Offering: Shares	Shares Beneficially Owned After the Offering: Percentage
med Executive Officers and Directors:					
slie J. Stretch[1]	1,470,538	1.3	—	1,470,538	1.2
xanne M. Oulman	—	*	—	—	*
ikael J. Ottosson[2]	1,011,457	*	—	1,011,457	*
rge Hald[3]	17,555,556	15.6	1,175,000†	16,380,556	12.9
bert Bernshteyn	—	*	—	—	*
itchell K. Dauerman	—	*	—	—	*
slie J. Kilgore[4]	254,828	*	—	254,828	*
uglas M. Leone[5]	8,979,804	8.2	—	8,979,804	7.3
anley J. Meresman[6]	300,000	*	—	300,000	*
ny E. Pressman[3]	17,555,556	15.6	1,175,000†	16,380,556	12.9
even C. Walske[7]	845,833	*	—	845,833	*
l executive officers and directors as a group (12 persons)[8]	30,418,017	26.4	1,175,000†	29,243,017	22.6
% Stockholders:					
tities affiliated with Sequoia Capital[9]	44,408,481	40.7	—	44,408,481	36.0
rich Stern	7,000,000	6.4	—	7,000,000	5.7

Source: S-1, 06/21/19

In mid-December 2019, Medallia's EVP & Chief Technology Officer Mr. Mikael J. Ottosson exercised and sold 100,000 shares (~10.0% of his beneficial ownership).[15] This sale is highly concerning for a few reasons: the exercised options were (1) deep in the money (exercise price of $4.42), (2) didn't expire for another five years (expiration date was 09/10/2025), and (3) sold a month before the IPO lock-up expired.

CTO Early Exercised and Sold >10.0% Stake in Dec. 2019

SEC Form 4

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934
or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Estimated average burden hours per response:	0.5

☐ Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

1. Name and Address of Reporting Person*
Ottosson Mikael J
(Last) (First) (Middle)
C/O MEDALLIA, INC.
575 MARKET STREET, SUITE 1850
(Street)
SAN FRANCISCO CA 94105
(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
Medallia, Inc. [MDLA]

3. Date of Earliest Transaction (Month/Day/Year)
12/10/2019

4. If Amendment, Date of Original Filed (Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer (Check all applicable)
Director — 10% Owner
X Officer (give title below) — Other (specify below)
Chief Technology Officer & EVP

6. Individual or Joint/Group Filing (Check Applicable Line)
X Form filed by One Reporting Person
Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8) Code	V	4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5) Amount	(A) or (D)	Price	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock	12/10/2019		M		50,000	A	$4.42	100,000	D	
Common Stock	12/10/2019		S[1]		49,165	D	$27.8364[2]	50,835	D	
Common Stock	12/10/2019		S[1]		835	D	$28.2985[3]	50,000	D	
Common Stock	12/11/2019		M		50,000	A	$4.42	100,000	D	
Common Stock	12/11/2019		S[1]		50,000	D	$28.1239[4]	50,000	D	

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8) Code	V	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) (A)	(D)	6. Date Exercisable and Expiration Date (Month/Day/Year) Date Exercisable	Expiration Date	7. Title and Amount of Securities Underlying Derivative Security (Instr. 3 and 4) Title	Amount or Number of Shares	8. Price of Derivative Security (Instr. 5)	9. Number of derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4)	10. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
Employee Stock Option (right to buy)	$4.42	12/10/2019		M			50,000	[5]	09/10/2025	Common Stock	50,000	$0.00	650,000	D	
Employee Stock Option (right to buy)	$4.42	12/11/2019		M			50,000	[5]	09/10/2025	Common Stock	50,000	$0.00	600,000	D	

Source: Form 4, 12/12/19

Near Consensus "Buy" Ratings & Lofty Price Targets from Sell-Side Laden with Conflicts of Interest is Always a Red Flag

Nine of the eleven major sell-side firms covering Medallia participated as an underwriter in its IPO.[16] Therefore, it's not surprising Medallia has a near consensus "buy" rating with very flattering price targets. The conflicts of interest and lack of independence at sell-side banks should not be taken lightly, especially after a recent IPO. Underwriters have zero incentive to produce objectively independent research or at least anything less than a bullish outlook. In the case of Medallia, the sell-side has just regurgitated management's overly optimistic targets and done little historical due diligence to contextualize any of the Company's past financial performance.

[15] In S-1 filings, Mr. Ottosson's beneficial ownership is listed as 1,011,457. However, the Form 4 filed on 12/12/19 indicated Mr. Ottosson's beneficial ownership after the sale of the 100,000 shares was 600,000. Accordingly, we estimate the sale accounted for at least ~10.0% of his beneficial ownership.

[16] See Form 424B4, p. 184.

Sell-Side Ratings & Price Targets			
	IPO Underwriter	Rating	Price Target
Citigroup	Yes	Neutral	$40.00
Wells Fargo	Yes	Overweight	$45.00
Credit Suisse	Yes	Neutral	$37.00
Oppenheimer	Yes	Outperform	$55.00
SunTrust Robison Humphrey	Yes	Buy	$47.00
William Blair & Company	Yes	Outperform	--
Needham & Company	Yes	Buy	$45.00
Craig-Hallum	Yes	Buy	$40.00
Roth Capital Partners	Yes	Buy	$52.00
Stifel	No	Buy	$43.00
Stephens Inc.	No	Overweight	$40.00

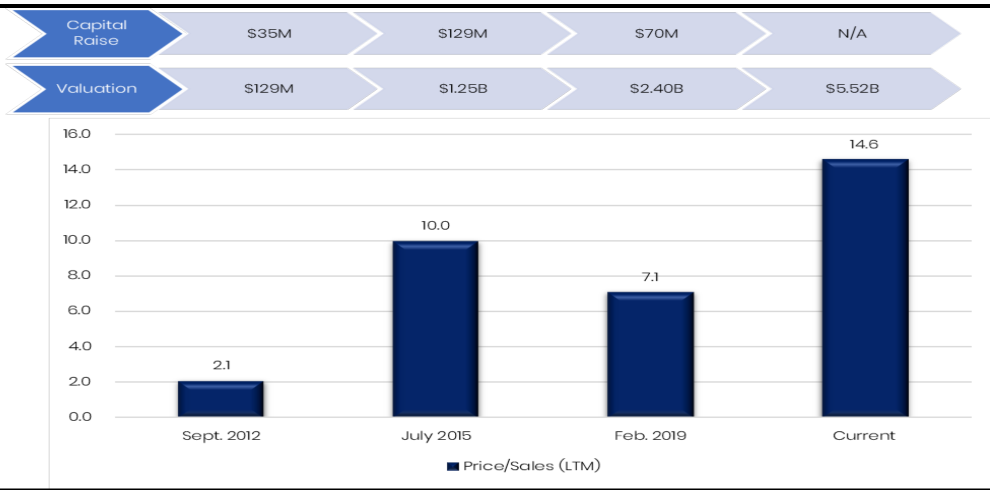
Source: Bloomberg

Shares Trade at a Premium to Prior Valuation Rounds when Growth was Many Multiples Faster

Since 2012, Medallia has done four equity raises, each at a lower valuation than the current multiple despite significantly slower revenue growth today. Recall, revenue growth from 2010 to 2017 ranged from 40.0% to 200.0% vs. current growth in the mid-to-low 20.0%.[17]

[17] Due to limited historical data, we used last-twelve-month (LTM) instead of next-twelve-month (NTM) revenue. A comparison using NTM revenue would likely show an even larger disparity given revenue growth from FY 12 to FY 15 accelerated vs. guidance of decelerating growth for FY 21.

Public Investors are Getting the Short End of the Stick: Paying Peak Premium for the Slowest Growth



Source: Company filings, news articles

Valuation: Medallia's Shares have ~55.0% Downside

Medallia's shares currently trade at 13.1x CY 19E EV/Sales vs. the peer group average of 12.2x. Premium (and even average) priced peers can be broken down into two major categories: (1) those with above average revenue growth but negligible/no profitability (e.g. AVLR, COUP, PLAN, SMAR) and (2) those with below average/average revenue growth but meaningful profitability (e.g. ADBE, CYBR, FVIN, WDAY). Medallia doesn't fit in either category; below average revenue growth and gross margin and no profitability. As such, we believe Medallia should at best trade closer to the low end of the peer group at ~5.5x CY 19E EV/Sales and ~4.5x CY 20 EV/Sales.

Company Name	Ticker	Share Price	Market Cap.	E/V	Sales Growth CY 19E	Sales Growth CY 20E	Gross Margin CY 19E	Gross Margin CY 20E	EBIT Margin CY 19E	EBIT Margin CY 20E	EV/Sales CY 19E	EV/Sales CY 20E
($ in millions, except share price)												
ADOBE INC.	ADBE	$342.94	$166,228.4	$162,051.5	17.9%	15.8%	87.7%	87.9%	41.4%	42.3%	12.3x	10.6x
AVALARA, INC.	AVLR	$86.51	$6,553.9	$6,107.3	37.8%	25.2%	72.1%	72.8%	(3.6%)	(2.8%)	16.3x	13.0x
Ceridian HCM Holding Inc.	CDAY	$73.35	$10,424.2	$10,819.4	10.2%	12.7%	46.5%	48.4%	15.4%	17.7%	13.2x	11.7x
Coupa Software Inc	COUP	$169.87	$10,916.0	$10,810.7	46.1%	27.7%	72.0%	73.1%	5.5%	7.9%	28.4x	22.3x
SALESFORCE COM INC	CRM	$181.06	$161,540.4	$155,011.4	28.0%	23.0%	78.2%	78.2%	16.6%	17.9%	9.1x	7.4x
CyberArk Software Ltd.	CYBR	$137.47	$5,108.6	$4,553.4	25.5%	18.5%	87.7%	87.5%	28.0%	26.6%	10.6x	8.9x
DOCUSIGN, INC.	DOCU	$73.03	$13,049.6	$12,854.4	37.3%	25.3%	79.2%	80.1%	2.8%	6.2%	13.3x	10.6x
Five9, Inc.	FIVN	$72.72	$4,392.8	$4,284.1	25.2%	15.5%	62.9%	63.9%	13.8%	14.2%	13.3x	11.5x
HUBSPOT INC	HUBS	$182.60	$7,688.2	$7,074.6	30.5%	23.9%	82.2%	82.6%	8.2%	8.5%	10.6x	8.5x
ServiceNow, Inc.	NOW	$304.87	$57,306.1	$56,521.6	32.2%	27.9%	80.8%	81.8%	21.3%	22.7%	16.4x	12.8x
Palo Alto Networks Inc	PANW	$240.70	$23,509.8	$22,094.1	19.6%	19.5%	76.6%	76.9%	17.6%	19.7%	6.4x	5.3x
PEGASYSTEMS INC	PEGA	$83.96	$6,513.2	$6,400.6	3.8%	12.6%	67.9%	69.5%	(2.7%)	2.6%	6.9x	6.1x
Anaplan, Inc.	PLAN	$57.15	$7,694.7	$7,396.8	44.2%	32.6%	74.8%	76.3%	(17.2%)	(13.0%)	21.3x	16.1x
LiveRamp Holdings, Inc.	RAMP	$43.44	$2,929.9	$2,152.4	32.2%	28.8%	64.3%	68.1%	(17.3%)	(1.9%)	5.7x	4.4x
SMARTSHEET INC	SMAR	$43.97	$5,314.7	$4,756.5	51.8%	39.2%	81.6%	80.7%	(25.6%)	(18.9%)	17.6x	12.7x
SVMK Inc.	SVMK	$19.89	$2,688.4	$2,788.2	20.6%	21.5%	76.9%	78.0%	0.8%	3.1%	9.1x	7.5x
Workday, Inc.	WDAY	$179.18	$41,395.4	$39,290.8	28.0%	20.6%	75.2%	75.9%	13.0%	14.1%	10.9x	9.0x
WORKIVA INC	WK	$45.20	$2,144.7	$1,939.6	20.0%	16.4%	72.5%	73.3%	(4.7%)	(4.1%)	6.6x	5.7x
Zendesk, Inc.	ZEN	$83.99	$9,237.2	$8,417.9	36.0%	29.9%	74.9%	75.8%	5.9%	8.9%	10.2x	7.9x
ZUORA INC	ZUO	$15.50	$1,736.5	$1,566.1	18.1%	17.5%	56.9%	59.6%	(14.8%)	(9.5%)	5.6x	4.8x
Max					51.8%	39.2%	87.7%	87.9%	41.4%	42.3%	28.4x	22.3x
Average					28.2%	22.7%	73.5%	74.5%	5.2%	8.1%	12.2x	9.8x
Min					3.8%	12.6%	46.5%	48.4%	(25.6%)	(18.9%)	5.6x	4.4x
Medallia, Inc.	MDLA	$31.17	$5,519.9	$5,200.6	26.0%	21.2%	66.7%	67.6%	(1.7%)	(0.2%)	13.1x	10.9x

Source: Thomson Reuters

Many sell-side analysts and the financial media are using the wrong share count

As of 11/29/19, Medallia had 128.3 million of common stock outstanding. However, a footnote in the Q3 20 10Q clearly stated there were approximately 56.8 million shares that were excluded from the calculation of common shares outstanding related to stock options, restricted stock warrants (RSUs), the employee stock purchase plan (ESPP), convertible preferred stock warrants, and unvested early exercises subject to repurchase. Currently, many sell-side analysts and nearly all of the financial media websites have failed to account for these dilutive securities. For example, here are some excerpts from a few of the most recent sell-side reports post Medallia's Q3 20 results:[18]

- Citi used a market capitalization of $3,810.0 million, which implied a 127.6 million share count.

[18] The reports from Citi and Credit Suisse were published before Medallia filed its Q2 20 10Q which included the most recent common stock outstanding figure (127.6 million vs. the 125.0 million from the S-1). However, Medallia's S-1 also clearly stated there were approximately 61.5 million shares that were excluded from the calculation of common shares outstanding (similar to the disclosure in the Q2 20 10Q).

- Credit Suisse used the same as Citi. Market capitalization of $3,809.9 million and 127.6 million share count.
- Needham used 127.6 million shares outstanding.
- Stifel used the correct share of 177.0 million implying a market capitalization of $5.3 billion.

Citi Used a 127.6 Million Share Count	Credit Suisse Also Used a 127.6 Million Share Count	Needham Used a 127.6 Million Share Count	Stifel Used 177.0 Million Share Count

Citi Research
Equities

Application Software
North America | United States

Estimate Change

Neutral/High Risk	**2H**
Price (05 Dec 19 16:00)	US$29.86
Target price	US$40.00
Expected share price return	34.0%
Expected dividend yield	0.0%
Expected total return	**34.0%**
Market Cap	US$3,810M

Source: Citi Research 12/06/19

CREDIT SUISSE

MDLA

Target price (12M, US$)
37.00
Neutral[V]

Previous target price (12M, US$)	42.00
Price (5 Dec 19, US$)	29.86
52-week price range	43.00 - 24.24
Market cap (US$ m)	3,809.92
Enterprise value (US$ m)	3,810

[V] = Stock Considered Volatile (see Disclosure Appendix)

Source: Credit Suisse Research 12/05/19

Market Data

Price (12/05/2019)	$29.86
52-Week Range	$44.72 - $23.76
Shares Outstanding	127.59
Market Cap (MM)	$3,809.9
Avg. Daily Volume	576,562.6
Total Debt/Cap.	0.00%

Source: Needham Research 12/06/19

STIFEL

BUY
QUARTERLY UPDATE

Financial Summary

Changes	**Previous**	**Current**
Rating	—	Buy
Target Price	—	$43.00
FY21E EPS	$0.01	$(0.04)
FY22E EPS	—	$0.07

Price (12/05/19):	$29.86
52-Week Range:	$45 - $24
Market Cap.(mm):	5,285.2
Shr.O/S-Diluted (mm):	177.0
Enterprise Val. (mm):	$4,966.0
Avg Daily Vol (3 Mo):	952,923
Dividend / Yield:	$0.00 / 0.0%

Source: Stifel Research 12/05/19

Under the treasury stock method (TSM), we estimate **actual diluted shares outstanding is 177.1 million, 38.0% higher than the share count used by many sell-side analysts and financial media websites.**[19]

[19] TSM method assumed $5.39 average exercise price for stock options per Q3 20 10Q and average share price of $31.10.

Share Count is 40% Higher After Accounting for Dilutive Options, RSUs, etc.	
(in millions)	
Common stock outstanding (as of 11/29/19)	128.3
Shares excluded from above:	
Stock options	46.5
RSUs outstanding	9.7
ESPP	--
Warrants for convertible preferred	0.7
Unvested early exercises subject to repurchase	--
Common stock outstanding + dilutive securities	185.1
Less: Shares repurchased under Treasury Stock Method	8.1
Common stock outstanding (diluted)	177.1

Source: Company filings

Current valuation meaningfully understated by those using the wrong share count

One advantage of using a lower share count is that Medallia can appear much less expensive. Based on 128.3 million shares outstanding, Medallia's FY 20 EV/Sales is 9.3x, ~30.0% lower than if the correct diluted share count was used.

Current EV/Sales Multiple Understated by ~30.0%	
($ in millions, except share price)	FY 20E
Share price	$31.17
Common stock outstanding (diluted)	177.1
Market value	$5,519.9
Add: net debt/(cash)	($319.3)
Enterprise value	$5,200.6
Revenue	$396.6
EV/Sales	13.1x
EV/Sales (using 128.3 million share count)	9.3x
Difference	***(29.2%)***

Based on our more conservative EV/Sales multiple and correct share count, we value Medallia's shares at $14.12.

Price Target Calculation: ~58.0% Downside	
($ in millions, except share price)	FY 20E
Revenue	$396.6
Year-over-year	26.4%
EV/Sales	5.5
Enterprise value	$2,181.3
Less: net debt/(cash)	($319.3)
Market capitalization	$2,500.6
Shares outstanding (diluted)	177.1
Price target	$14.12
Current price	$31.17
Downside	*(54.7%)*

Appendix

Product background: Experience management SaaS platform

Medallia provides a software-as-a-service (SaaS) platform to manage customer, business, employee, and product experiences. It was founded in 2000 and is headquartered in San Francisco, CA.

The Company's platform spans and integrates all four areas of experience management:

- **Customer Experience (CX) product suite:** enables enterprises to engage their customers at numerous touchpoints across multiple channels throughout the customer lifecycle, capture and analyze extensive data to deeply understand customer experiences and optimize them in live time.
- **Business Experience (BX) product suite:** enables enterprises to increase business value and loyalty from their business-to-business, or B2B, customers and partners by helping them understand and optimize interactions throughout the enterprise along the B2B customer journey.
- **Employee Experience (EX) product suite:** enables enterprises to gain insights into their employees' experiences so they can improve employee engagement, optimize stages of the employee lifecycle and personalize employee experiences to create high-performing teams and thriving businesses.
- **Product Experience (PX) product suite:** enables enterprises to gain insights into every stage of the product lifecycle, including concept design, product launch, usage and end of life. We enable enterprises to build and enhance great products that drive user engagement and loyalty.

Net customer additions calculation:

Net Customer Additions								
	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20
Customers	293	303	--	--	350	370	--	--
Same customers from prior LTM	229	242	--	--	298	318	--	--
Net customer additions	64	61	--	--	52	52	--	--
Year-over-year	--	--	--	--	*(18.8%)*	*(14.8%)*	--	--

Source: Company filings

Strikedeck Acquired from CEO's Former Colleague

As previously discussed, Medallia acquired Strikedeck in Q2 20 for $11.0 million. Strikedeck was founded in 2015 by Mr. Shreesha Ramdas and Mr. Shabd Vaid. Mr. Ramdas was previously the VP Corporate Development & Partnerships at CallidusCloud after CallidusCloud acquired his company, LeadFormix, in 2012. Recall, Mr. Stretch (Medallia CEO) among other current Medallia executives were previously executives at CallidusCloud.

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