



NICE LTD (NICE)

Technology/Consumer Discretionary Sector

October 24th, 2024 - Buy Recommendation

Senior Analyst: Graham Roberts Analysts: Thomas Shea, Mike Robertson, Tristam

Lafontaine, Jack Shea, Matt Fulkerson, Tyler Kirk, Nick Gebbia, Jack DeRose

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Section I. Company Overview

Analyst(s): Tyler Kirk Jack Shea



Company Summary



NICE Ltd.

- Headquarters: Ra'Anana, Israel
- Founded in 1986
- **CEO – Barak Eilam**
- Serves over **25,000 Organizations** globally, including more than **85%** of Fortune 100 companies
- Nice Ltd has a market cap of **\$11.29 Billion.**
- NICE provides solutions in **customer experience, financial crime, risk, and compliance**, helping organizations enhance operations through analytics and AI-driven solutions.
- NICE helps retail banks by using AI assistants that quickly answer customer questions, streamline service across phone and app, personalize interactions, and monitor for fraud, making banking easier and safer for customers.

Financial Summary

Current Price	\$179.71
Dividend Payout Ratio	0.0%
52-week high	\$270.73
52-week low	\$149.54
Fully Diluted Shares Outstanding (in millions)	63.5

Enterprise Value (in millions)

Market Cap	\$11,408.5
Add: Total Debt	783.0
Add: Minority Interest	43.0
Less: Cash & S.T Investment	(1,410.0)
Enterprise Value	\$10,824.5

Capital Structure	Value	%
Debt	783.0	6.4%
Equity	11,408.5	93.6%
Total Capitalization	\$12,191.5	100.0%

Financial Summary (in millions)					
	2020A	2021A	2022A	2023A	2024E
Revenue	\$1,648.5	\$1,921.1	\$2,181.3	\$2,377.5	\$2,715.0
YOY Growth		16.5%	13.5%	9.0%	14.2%
EBIT	\$242.4	\$263.9	\$335.2	\$435.3	\$487.0
YOY Growth		8.9%	27.0%	29.9%	11.9%
EBITDA	\$436.7	\$474.3	\$524.6	\$609.7	\$675.0
YOY Growth		8.6%	10.6%	16.2%	10.7%
Net Income	\$196.3	\$199.2	\$269.9	\$338.3	\$396.0
YOY Growth		1.5%	35.5%	25.3%	17.1%
Fully Reported EPS	\$2.98	\$2.98	\$4.00	\$5.11	\$6.01
YOY Growth		0.0%	34.2%	27.8%	17.6%

Products and Revenue Breakdown

Products:

Trusted AI for Business

Enlighten Copilot

AI companion for contact center employees

Enlighten Autopilot

AI-driven customer self-service

Enlighten Actions

AI for CX leaders

All Enlighten AI Solutions

Complete CX Offerings

Digital and Self Service

Friction-free customer experiences driven by conversational AI

Workforce Engagement Management

Robust applications to optimize the employee experience (WEM)

Journey Orchestration and Routing

Seamless customer journeys across voice & digital channels

Agent Assist

AI-driven tools for real-time agent guidance and coaching

CX Analytics

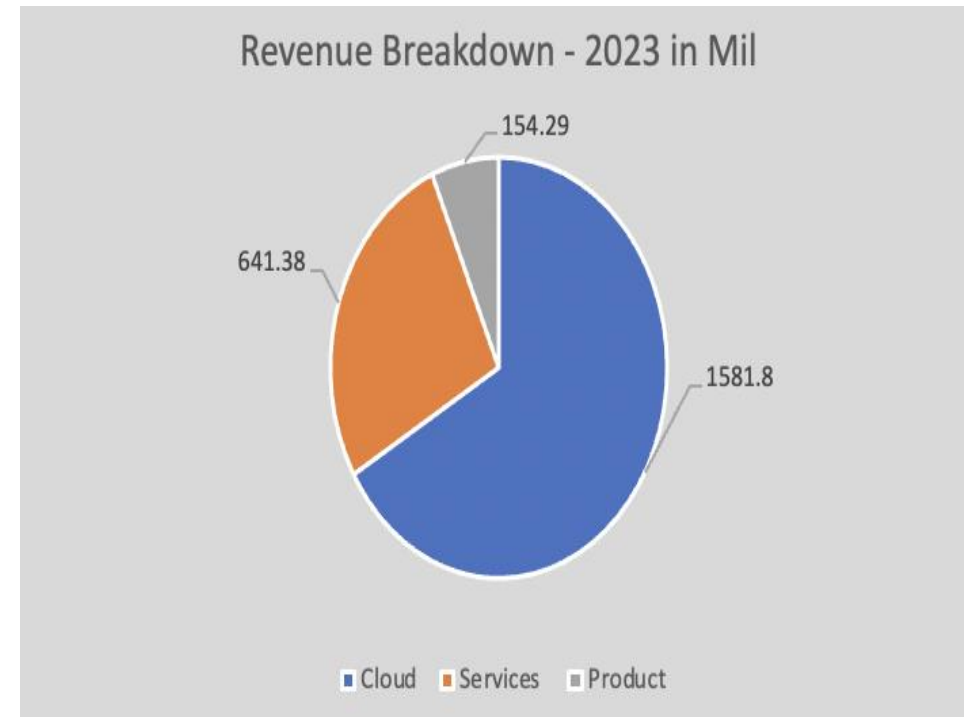
Actionable insights to continuously enhance the customer experience

Open Cloud Platform

Innovative cloud-native foundation to rapidly scale extraordinary CX

All CX Offerings

Revenue Breakdown



Cloud Revenue dominates due to it being a subscription

Cloud Vs. Products Vs. Services – Business Enhancement in **SEVEN** Industries!



Annotated Price Chart



Stock Chart



Major Events

1. Nov. 16, 2023, Earnings report strongly beat expectations. Starts large incline in stock price. EPS surprise=5.58%
2. Feb. 22, 2024, Another strong earnings report beating expectations again. EPS surprise=4.42%
3. Mar. 26, 2024, stock price hit high since Feb. 2023. Start of big sell off.
4. May 16, 2024, CEO Barak Eilam announces his decision to step down starting at beginning of 2025.
5. May 16, 2024, Another strong earnings report. EPS surprise=5.31%
6. Aug. 15, 2024, NICE named Scott Russell as new CEO for 2025.
7. Aug. 15, 2024, Another strong earnings report. EPS surprise=2.33%

- **Environmental**

- **Carbon Footprint/Energy Efficiency-** Cloud Computing takes lots of energy, huge data centers
- **Waste Management-** Low amounts of waste

- **Social**

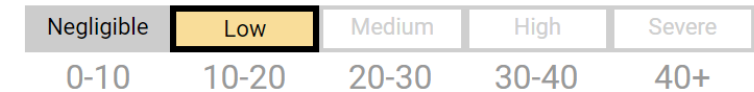
- **Diversity-** Emphasis on diversity and Inclusion
- **Employee Welfare-** Emphasis on work life balance

- **Governance**

- **Risk Management-** Very good at addressing cybersecurity risks
- **Patent Infringements-** Nice has a history of being accused of violating other company's patents
- **New Leadership-** New CEO in 2025

ESG Risk Rating COMPREHENSIVE ?

13.8 Low Risk



Section II. Industry Overview

Analyst(s): Tristam LaFontaine and Nicholas Gebbia



Software Industry Overview

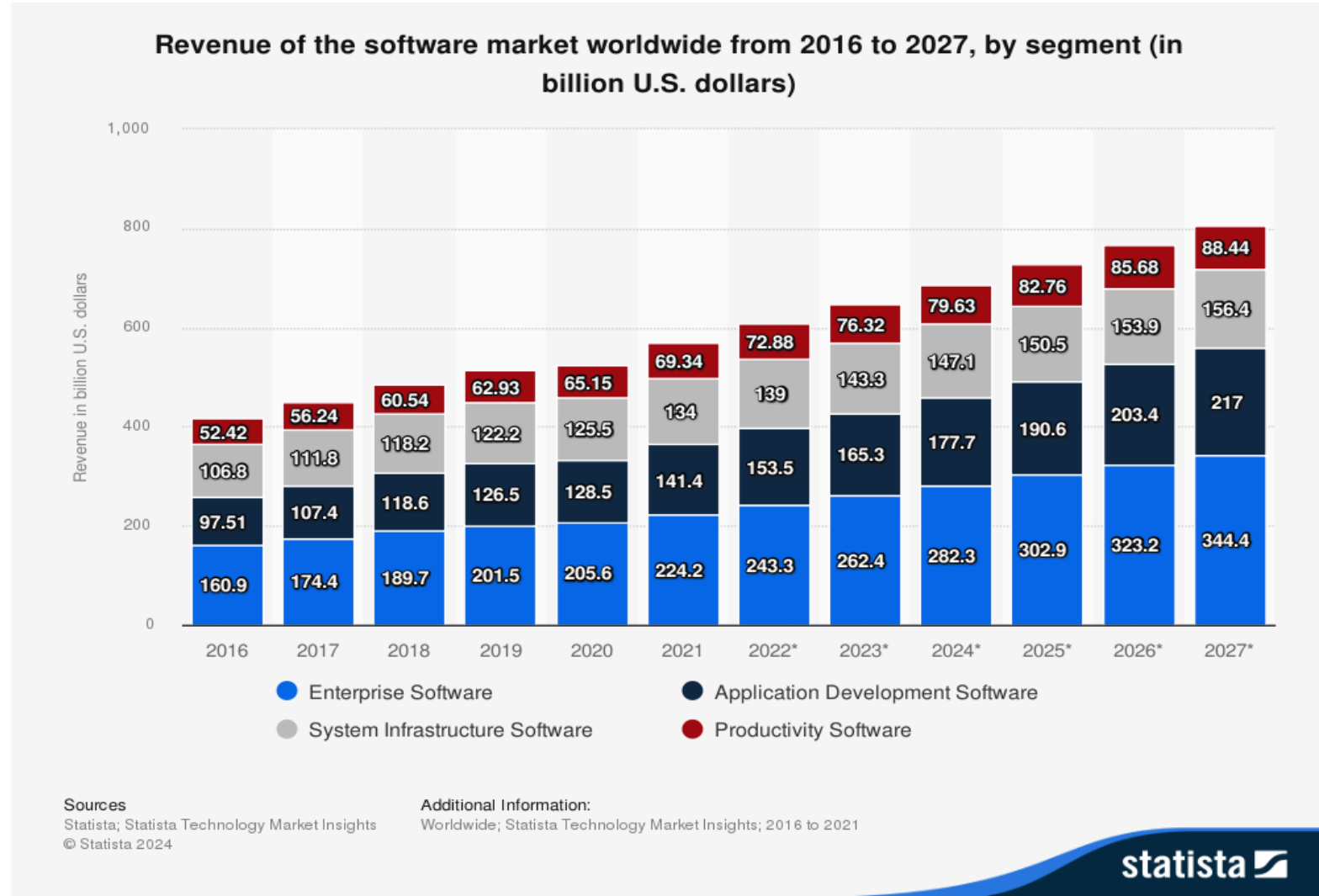


Global Market Revenue within Software Industry

- Enterprise Software: 160.9 bn – 344.4 bn
- System Infrastructure Software: 106.8bn - 156.4 bn
- Application Development Software: 97.5 bn – 217 bn
- Productivity Software: 52.4bn - 88.4 bn
- Total revenue: 2016 - 2027

Major growth within the industry: specifically, within System Infrastructure Software used in various sectors like finance and healthcare

NICE Ltd. specializing in anti-fraud and money laundering can benefit from this growth





Macro Overview



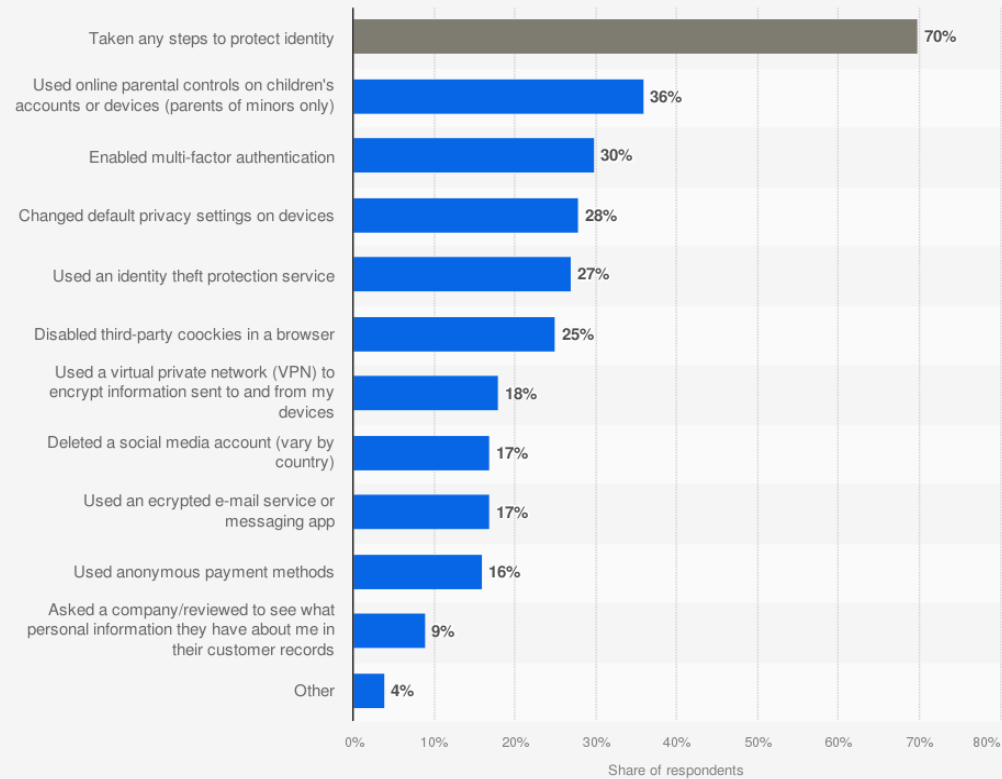
Customer Management:

- Consumer Experience : The demand for omnichannel communication and digital engagement drives companies to invest heavily in CX platforms.
- Cloud Computing: Integrates AI into its cloud service CX where businesses seek to optimize customer service.

Anti-Fraud Preventions:

- Financial crime and cybersecurity threats increase driven by digital banking and cashless transactions.
- Helps organizations detect and mitigate fraud, secure transactions, and monitor activity in real time.
- Customers are more willing to engage with a business that demonstrates strong data protection practices, improving loyalty and satisfaction.

Steps taken by global internet users to protect their personal information online as of January 2023



Sources
NortonLifeLock; Harris Poll; Gen Digital
© Statista 2024

Additional Information:
Worldwide; Harris Poll; Norton Rose Fulbright; Gen Digital; November 2022 to January 2023; 12,025 respondents; 18 years and older; Online survey



Section III. Risks & Catalysts

Analyst(s): Mike Robertson & Matt Fulkerson



Risks and Catalysts



Risks

- NICE LTD could face price competition, leading to margin contraction over the long term. NICE may find it has to lower its prices to remain viable in the market.
- Could also lose some customers from automated service initiatives. This would result from over saturation of AI customer service. This will lead to a significant gap in the demand for organic and human led customer services and interaction.

NICE LTD does not have that many serious risks. They may face cost-effective competitors that can lead to the decrease in price of NICE LTD products and services. They can also face customer fatigue from AI interaction in customer services, but this is not a near-term risk. It is a long-term consideration based on the market.

Catalysts

- NICE LTD has an innovative CX one platform that continues to further growth. This AI software is unique and sophisticated compared to other software's as it offers great variety and personalization.
- NICE LTD has acquired companies such as Brand Embassy and MindTouch to enhance portfolio and increase customer experience.
- New CEO (Scott Russell) previously worked at SAP where he focused on consumer relationships and furthering AI.

NICE LTD has great potential upside having new CEO with great experience. The AI software has won awards and is known for being a leader of the industry as it enhances customer experience.

Section IV. Valuation

Analyst: Thomas Shea, Graham Roberts

Comparable Company Analysis



Comparable Company Analysis

Company	Stock Price	Stock Performance	Stock Price	Market Value	Enterprise	EV / LTM			Margins / LTM			2023-2024	PEG	Total Debt /	Levered	Price /
	As of: 10/18/2024	YTD	52 Week Range	of Equity	Value	Sales	EBITDA	PE	Gross	EBITDA	EBIT	EPS Growth	Ratio	EBITDA	Betas	Book
Customer Engagement Software																
Salesforce (CRM)	\$292.94	14.4%	\$193.68 - \$318.72	\$ 280,051	\$ 278,810	7.6x	29.9x	51.0x	76.9%	28.9%	19.1%	175.0%	2.6x	1.1x	1.66	4.7x
Verint Systems Inc. (VRNT)	\$22.98	(13.0%)	\$18.41-\$38.11	\$ 1,420	\$ 2,110	2.3x	13.4x	35.0x	69.2%	17.1%	11.5%	(70.6%)	1.0x	3.2x	1.19	2.5x
Five9, Inc (FIVN)	\$30.58	(61.1%)	\$26.60 - \$90.40	\$ 2,285	\$ 2,390	2.4x	8.9x	N/A	1.8%	13.9%	8.7%	(61.1%)	0.8x	2.2x	2.12	4.5x
					Mean	4.1x	21.7x	43.0x	49.3%	20.0%	13.1%	0.1x	1.5x	2.2x	1.7x	3.9x
					Median	2.4x	21.7x	43.0x	69.2%	17.1%	11.5%	(0.6x)	1.0x	2.2x	1.7x	4.5x
NICE Systems Ltd. (NICE)	\$179.71	(9.2%)	\$149.54 - \$270.73	\$ 11,298	\$ 10,010	3.9x	14.3x	29.9x	65.6%	27.4%	20.1%	30.1%	1.2x	1.1x	0.92	3.2x

Source: SEC Filings 10K, 10Q and Yahoo Finance

Bloomberg Discounted Cash Flow

	NICE US		Trading										
	Nice Ltd		Adjusted (If available)			Summary Analysis	Input Calculation						Output Analysis
Revenue (Estimate Comparable)	1,446.153	1,577.466	1,657.112	1,925.697	2,181.294	2,377.508	2,727.786	3,037.643	3,331.667	3,590	3,814	4,077	
% YoY Growth		0%	5%	16%	13%	9%	15%	11%	10%	8%	6%	7%	
EBITDA	361.064	413.919	436.161	469.282	512.919	616.614	850.858	952.713	1,115.042	1,212.968	1,267.959	1,365.325	
% Margin	25%	26%	26%	24%	24%	26%	31%	31%	33%	34%	33%	33%	
Free Cash Flow	313.63	309.856	398.892	48.842	431.432	325.453	543.27	570.598	641.567	780.506	744.255	818.285	
% Margin	22%	20%	24%	3%	20%	14%	20%	19%	19%	22%	20%	20%	

Current Price (USD)		179.71				
Consensus Price Target		265.06				
DCF Estimated Value per Share (USD)		273.43				
DCF Estimated Upside		52%				
		Perpetuity Growth				
		3.0%	3.5%	4.0%	4.5%	5.0%
Discount Rate (WACC)	7.2%	282.50	313.63	354.48	410.47	491.90
	7.7%	253.86	277.91	308.47	348.57	403.52
	8.2%	230.74	249.81	273.43	303.42	342.79
	8.7%	211.70	227.14	245.86	269.04	298.49
	9.2%	195.74	208.45	223.61	242.00	264.76
		3.0%	3.5%	4.0%	4.5%	5.0%
Discount Rate (WACC)	7.2%	57%	75%	97%	128%	174%
	7.7%	41%	55%	72%	94%	125%
	8.2%	28%	39%	52%	69%	91%
	8.7%	18%	26%	37%	50%	66%
	9.2%	9%	16%	24%	35%	47%

Current Price (USD)		179.71				
Consensus Price Target		265.06				
DCF Estimated Value per Share (USD)		272.26				
DCF Estimated Upside		52%				
		Terminal EBITDA Multiple				
		11.7x	13.2x	14.7x	16.2x	17.7x
Discount Rate (WACC)	7.2%	238.06	260.75	283.43	306.11	328.79
	7.7%	233.45	255.61	277.77	299.93	322.09
	8.2%	228.96	250.61	272.26	293.92	315.57
	8.7%	224.58	245.74	266.90	288.06	309.22
	9.2%	220.33	241.01	261.69	282.37	303.05
		11.7x	13.2x	14.7x	16.2x	17.7x
Discount Rate (WACC)	7.2%	32%	45%	58%	70%	83%
	7.7%	30%	42%	55%	67%	79%
	8.2%	27%	39%	52%	64%	76%
	8.7%	25%	37%	49%	60%	72%
	9.2%	23%	34%	46%	57%	69%

Important Figures

Column1	Column2	Column3	Column4
Description	Q2 2024	Q2 2023	%
Gross Profit %	66.16%	67.35%	-1.80%
Profit Margin %	17.42%	15.03%	13.72%
EBITDA	\$ 180,344	\$ 147,462	18.23%
Pre-Tax Profit	\$ 144,469	\$ 114,779	20.55%
Working Capital	\$ 1,362,237.00	\$ 1,427,191.00	-4.77%
Current Ratio	2.45	2.31	5.71%
Debt to Equity	16%	25%	-50.00%
Return on Equity	3.35%	2.74%	18.21%
Return on Assets	2.29%	1.77%	22.71%

- Notable Q2 YoY Growth figures: EBITDA, Pre-tax P/L, Debt – Equity , PM%
- ROA Growth of 22% is likely due to them expanding their cloud offerings which increased revenue and use of assets
- ROE Growth of 18% attributed to decrease in Debt to Equity

- Their growing demand is highlighted in 2023 earnings report, with a 300% YoY growth in the number Enlighten AI deals in 2023
- Enterprise cloud services Deals increased with Annual Contract Value over 1 Millions – this was a 40% increase YoY
- Nice Ltd. Expects to see a 13.5% increase in revenue in 2024, compared to 9% from last year
- The company remains on track to complete its \$300 million share buyback program by Q3 2024 end
- During Q2 Earnings report, management outlined that its total addressable market (TAM') is likely to expand from \$11B in 2023 to \$29.5B in 2028.

Section V. Investment Thesis

Analyst(s): Graham Roberts



Investment Thesis



Company Overview

- Nice Ltd. is a global software solutions company, founded in 1986 and headquartered in Israel.
- It provides advanced analytics and AI-driven software for organizations, with a focus on improving customer experience, enhancing compliance, and preventing financial crimes.
- Operates in over 150 countries, demonstrating its extensive global presence and ability to scale across diverse markets.

Risks & Catalysts

- A potential risk is price competition, which could force NICE to lower prices, impacting profit margins over the long term.
- Its innovative CX-one platform is a top choice for businesses, offering personalized and reliable services.
- The company's AI and data analytics capabilities give it a strong advantage in industries requiring advanced digital solutions.
- Increasing regulations will push large organizations to adopt better technology, making NICE's solutions essential for compliance.

Business Model / Growth Strategy

- Serves financial services, telecom, retail, and healthcare, diversifying revenue streams.
- Cloud-based subscription model ensures stable, long-term income.
- Acquisitions like Brand Embassy and MindTouch enhance product offerings and customer engagement.
- Continued growth of its cloud-based offerings, will continue to invest / leverage analytical machine learning

Valuation

- Implied share price of \$272 --> Target: \$250
- 300% YoY growth in Enlighten AI deals
- Sharp decline in Debt to Equity, share buyback
- Growing margins, revenues, EPS, and market share

Investment Thesis - Buy

- Market leader in CCaaS and Compliance Software
- We want NICE Ltd. for its leadership in AI-driven customer experience solutions, strong growth in cloud services, and financial stability. Its innovative technology positions it well for compliance with rising regulations, making it an attractive long-term investment.



Recommendation



Buy Recommendation

Endowment Shares	10.0
Unrestricted Shares	15.0
Total Shares	25.0
Market Price	\$179.71
Price Target	\$250.00
Potential Upside %	39.1%
Cost Basis	(4,492.8)
Potential Market Value	6,250.0
Potential Return	\$1,757.3
% of Portfolio	0.7%

*“We want to initiate a **0.7%** position in **Nice Ltd.** at a price target of \$250, representing a **39.1%** potential upside from the current market price.*

Also implementing a trailing stop loss of 15%.”