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In this edition of the Value Seeker Report, we analyze an investment opportunity in Cornerstone OnDemand ([NASDAQ: CSOD](#)) using fundamental and technical analysis.

Overview

- As the pandemic and associated lockdowns have temporarily transformed the economy, many companies have been forced to adapt to new challenges by managing employees remotely. Cornerstone OnDemand ([CSOD](#)) provides software-as-a-service (SaaS) to firms, which may help them through some of these challenges.
- Through its SaaS business model, CSOD provides comprehensive on-demand learning and talent management solutions to businesses all over the world. The company's software is comprised of five integrated platforms for learning management, enterprise social networking, performance management, succession planning, and extended enterprise.
- CSOD belongs to the Information Technology sector and has a market cap of \$2.9B.
- CSOD's stock is currently trading at \$44.29 per share. Using our forecasts, we arrive at an intrinsic value of **\$49.80** per share. This implies upside of 12.5% on the investment.

Pros

- CSOD is trading well below its pre-pandemic levels. Despite belonging to the Information Technology sector, the stock remains down over 20% year-to-date.
- Lockdowns and social distancing have proven crippling for a large portion of the economy, however, not so much for CSOD. The abrupt acceleration in the portion of the population working and learning remotely aligns with the value proposition of CSOD.
- Further, CSOD completed a \$1.4B acquisition of Saba Software in April 2020. Among other benefits from the transaction, Management expects to realize run-rate cost synergies of \$65M by the end of 2020.

Cons

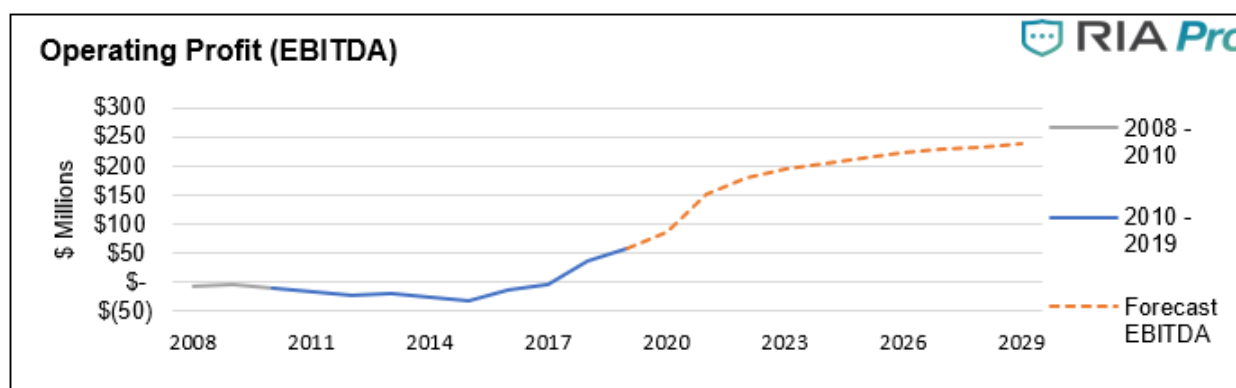
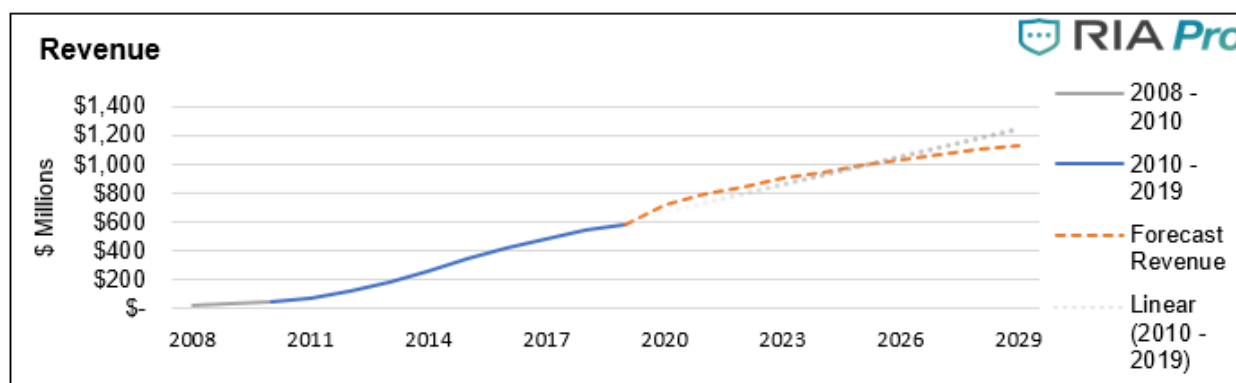
- One might expect CSOD to see a sharp increase in demand as a result of the pandemic-induced operating environment, unfortunately, it is not that clear cut. Investors should also consider the strain to corporate budgets brought about by the pandemic, and then in this context, consider the number of businesses willing to initiate an agreement with CSOD in the near future. The picture becomes much less clear when this is factored into the equation. Phil Saunders, CEO, had [this](#) to say?

"I think what I see in the COVID environment is actually not necessarily an uptick of ARR [Annual Recurring Revenue], because of COVID. What I see is increased usage. I see the needs for what we do going up on our platforms, whether be our mobile platforms, our integrated virtual meetings, our integrated content and related amount of learning. So, the sheer amount of usage is going up, which bodes well for things like customer retention and the potential for more seats and different capabilities to be adopted."

- Finally, CSOD financed its acquisition of Saba by taking on a large amount of debt. The firm's debt to total capital ratio currently sits near 83%. Furthermore, over the trailing-twelve-month period, CSOD has earned a Times Interest Earned (TIE) ratio of -0.18.

Key Assumptions

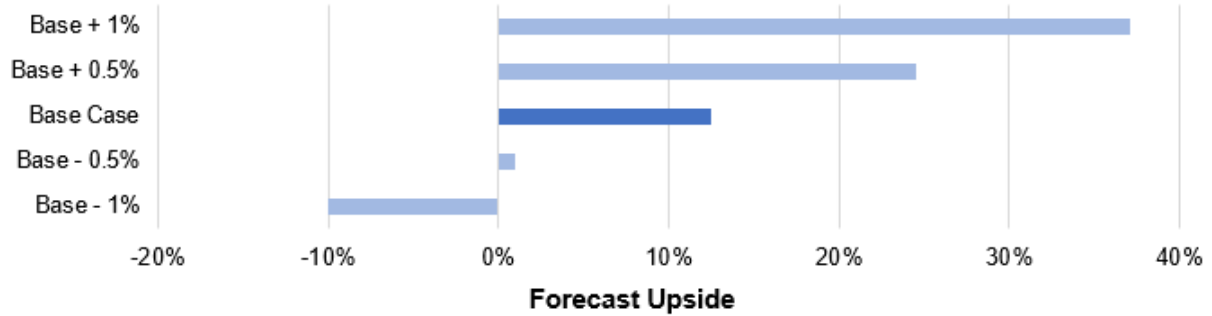
- Revenue growth for 2020 is based on three quarters of results and Management guidance from CSOD's fiscal third-quarter conference call. We forecast revenue for 2021 and beyond assuming healthy growth in the initial years, which will slow as CSOD encounters increased competition down the road. The chart below illustrates our forecasts in relation to historical revenue.
- We forecast CSOD margins for 2020 and 2021 based on guidance from Management as well as historical trends. The acquisition of Saba should be accretive to margins relatively quickly. Thus, we expect margins to dramatically increase through 2021 and 2022. Margins will then remain steady before beginning to deteriorate in the latter forecast years as competition intensifies. The chart below illustrates our forecasts in relation to historical figures.



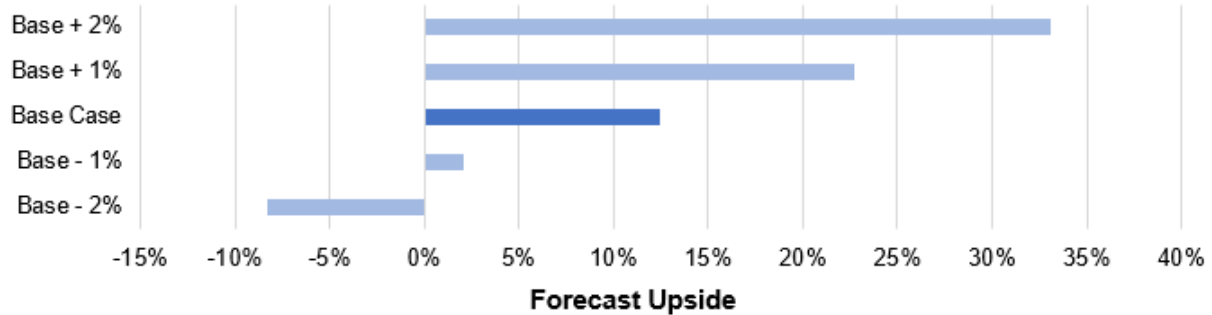
Sensitivity Analysis

- A brief note on why we present sensitivity analysis can be found [here](#).

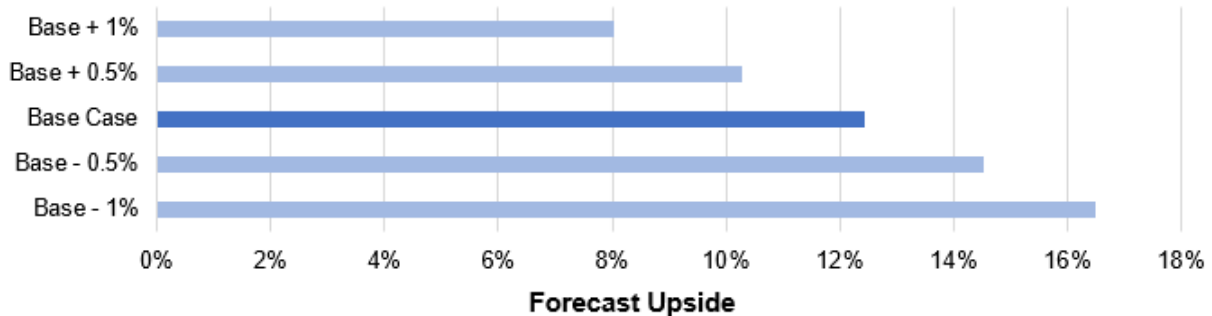
Revenue Growth Forecasts



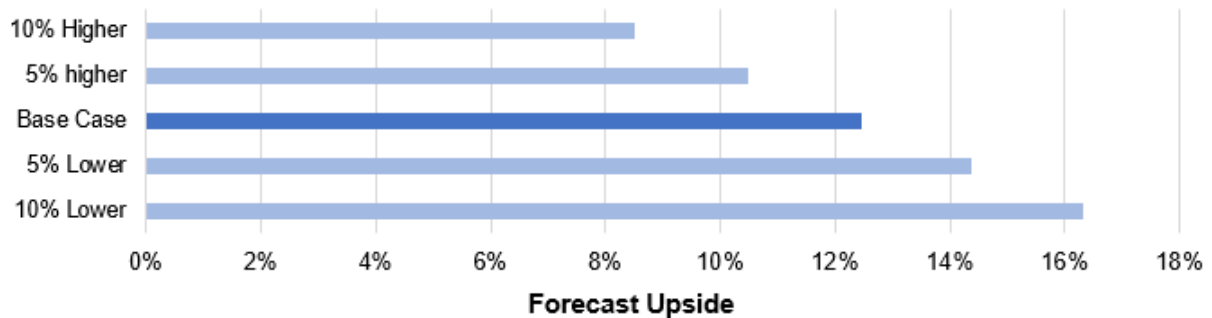
EBITDA Margin Forecasts

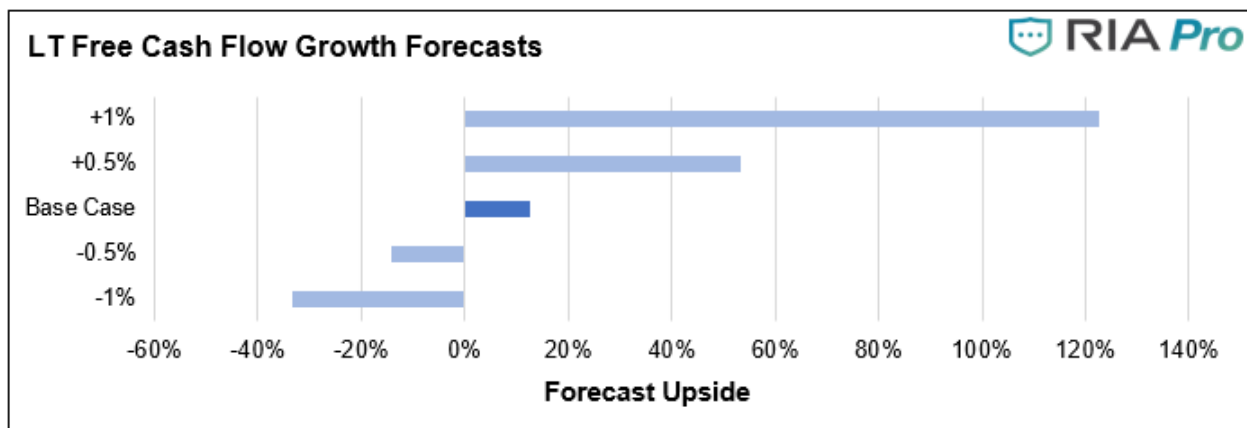
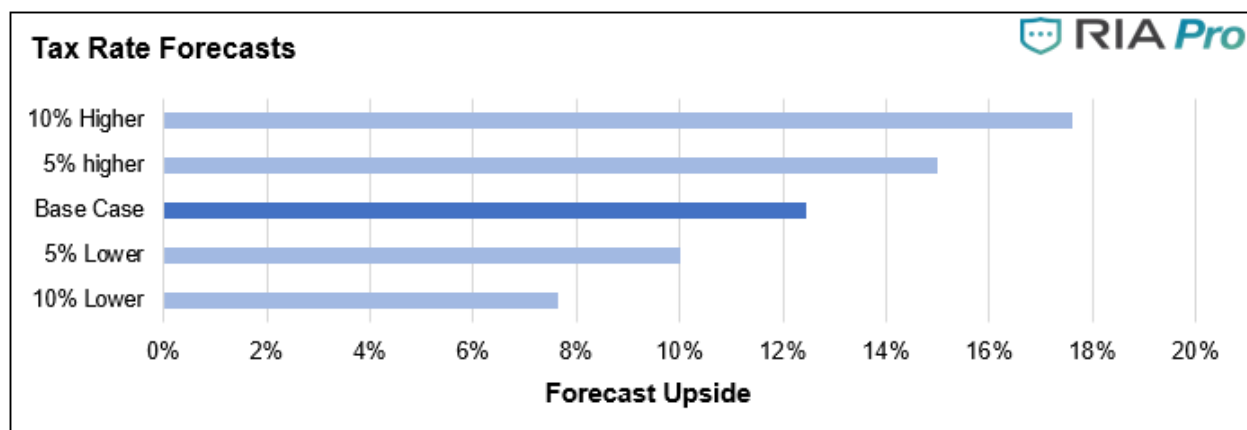


Capital Expenditure Growth Forecasts



Cash Acquisition Forecasts





Technical Snapshot

- CSOD is currently trading in a bullish pattern. The stock's 50-dma crossed above its 200-dma in mid-November and the price has turned up sharply since. However, as a result of the advance, CSOD is sitting in overbought territory.
- Given the overbought condition and bullish trading pattern, investors may be well served to wait for a pullback before initiating a long position.

Value Seeker Report Conclusion On CSOD

- We generally like the position the company is in. Although, there are some factors at play which lead to heightened risk, in our view. Namely? uncertainty surrounding revenue growth, a sizable debt burden, and accompanying liquidity concerns. As such, we believe there may be value in CSOD, but investors should seriously consider their risk tolerance before initiating a position.
- Based on our forecasts, CSOD has 12.5% of upside remaining before reaching its intrinsic value.

Fundamental Ratios	
Price / Sales TTM	4.2
Price / Earnings TTM	28.44
Current Ratio (Quarterly)	0.77
Quick Ratio	0.64
Times Interest Earned (TIE) Ratio TTM	-0.18

Latest Report Date	Ticker	Last Close Price	Intrinsic Value	Forecast Upside Remaining	Original Conviction Rating	Current Conviction Rating	Currently Held in RIA Pro Portfolio?	Notes
8/6/2020	T	\$ 29.09	\$ 38.09	30.9%	3-Star	2-Star	No	
8/13/2020	XOM	\$ 39.94	\$ 55.42	38.8%	3-Star	2-Star	No	
8/28/2020	VIAC	\$ 36.37	\$ 36.70	0.9%	4-Star	2-Star	No	
9/3/2020	DOX	\$ 66.00	\$ 76.76	16.3%	3-Star	3-Star	No	
9/11/2020	CVS	\$ 69.63	\$ 85.35	22.6%	3-Star	3-Star	Yes	
9/18/2020	PETS	\$ 29.14	\$ 41.14	41.2%	3-Star	3-Star	No	
9/24/2020	SPB	\$ 65.02	\$ 61.18	-5.9%	4-Star	4-Star	No	Price Target Achieved
10/2/2020	DKS	\$ 57.24	\$ 68.76	20.1%	4-Star	4-Star	No	
10/9/2020	WCC	\$ 66.35	\$ 61.42	-7.4%	4-Star	4-Star	No	Price Target Achieved
10/30/2020	KMI	\$ 14.34	\$ 13.98	-2.5%	3-Star	3-Star	No	Price Target Achieved
11/6/2020	FANG	\$ 40.52	\$ 36.32	-10.4%	3-Star	3-Star	No	Price Target Achieved
11/20/2020	RTX	\$ 71.94	\$ 68.34	-5.0%	4-Star	4-Star	Yes	
12/4/2020	CSOD	\$ 44.65	\$ 49.80	11.5%	2-Star	2-Star	No	

*Our conviction rating aims to express the intensity of our feelings toward the stance taken in each report. Reports are assigned a rating from 1 to 5 stars.

For the Value Seeker Report, we utilize RIA Advisors' Discounted Cash Flow (DCF) valuation model to evaluate the investment merits of selected stocks. Our model is based on our forecasts of free cash flow over the next ten years.