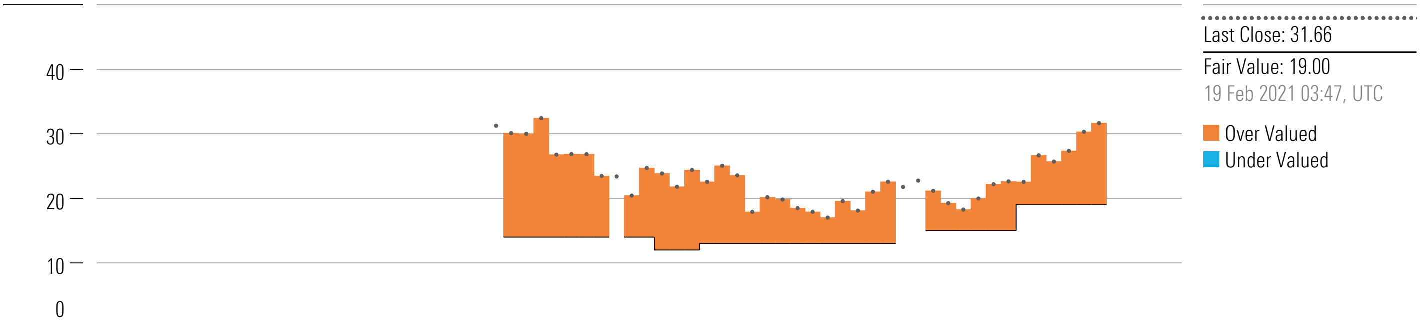
Morningstar Equity Analyst Report | Report as of 29 Jul 2021 15:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ

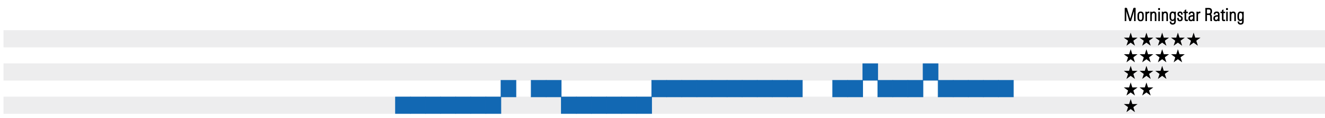
Dropbox Inc Class A DBX ★★ 28 Jul 2021 21:20, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
31.66 USD 28 Jul 2021	19.00 USD 19 Feb 2021 03:47, UTC	1.67	12.38 USD Bil 28 Jul 2021	None	Negative	Very High	Standard	7 Jul 2021 05:00, UTC

Price vs. Fair Value



	2016	2017	2018	2019	2020	YTD	
	—	—	1.46	1.38	1.48	1.67	Price/Fair Value
	—	—	—	-12.33	23.90	42.68	Total Return %



Total Return % as of 28 Jul 2021. Last Close as of 28 Jul 2021. Fair Value as of 19 Feb 2021 03:47, UTC.

Contents

Important Disclosure

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The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Dropbox's Long-Term Prospects Remain Dreary Despite Recent Strength; $19 Fair Value Estimate

Business Strategy & Outlook Brian Colello, CPA, Sector Director, 19 Feb 2021

Dropbox gained initial traction following its founding in 2007, as it was one of the first companies to take file storage to the cloud. Dropbox capitalized on that initial success and has used a freemium adoption model to grow to 600 million users and over $1.9 billion in revenue in 2020. Large incumbents, like Microsoft and Google, have been catching up with competing storage offerings in recent years and transformed cloud storage into what we see as a commodity offering, limiting the incentive to upgrade. We note that Dropbox's revenue is only derived from 15.5 million users as of December 2020 and are concerned that Dropbox will struggle to migrate users into paying customers in the long run.

We believe that cloud storage companies compete based on user experience, ease of use, features, performance, security, third-party integrations, and pricing. Dropbox has attempted to move beyond storage and create collaboration tools to help drive user upgrades. We believe users do not see significant product differentiation in collaboration tools, which is why paid user penetration remains so low. Framed another way, over 97% of Dropbox users view the service only as a free cloud storage offering.

We believe Dropbox's low conversion rate partially stems from its lack of focus on enterprise customers. We struggle to see how Dropbox will gain a foothold in the enterprise business without dedicating more

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Sector	Industry
Technology	Software - Infrastructure

Business Description

Dropbox provides cloud-based file storage, sharing, and project collaboration services for individuals and, to a lesser extent, enterprise customers. The company was founded in 2007 and offers a browser service, toolbars, and apps to upload, share, and sync files to the cloud that can be accessible across a number of devices and by a multitude of users. Dropbox allows users to store and access documents, videos, and photos.

resources to drive this customer segment's growth. In our view, enterprises have higher customer lifetime value and represent a larger market opportunity than individual users. Dropbox notes that even though only 30% of their paid users are signed up for business accounts, over 80% of all paid users utilize their Dropbox account for business purposes. Thus, we are skeptical that this group of paying users will likely increase enterprise adoption and believe that companies will instead choose to utilize the storage and collaboration tools offered as part of their existing Office Suite product.

Bulls Say Brian Colello, CPA, Sector Director, 18 Mar 2021

- Dropbox is just beginning to scratch the surface of rising ARPU trends and strong paid user growth, which both have a long runway for growth
- Dropbox's platform neutrality and application integrations may allow it to become compatible with even more software providers.
- Dropbox's large user base (even including free users) may attract applications developers and service providers, in turn making the platform indispensable for knowledge users

Bears Say Brian Colello, CPA, Sector Director, 18 Mar 2021

- Dropbox's subpar paid user conversion may indicate that cloud storage is commoditized and that features like Paper and Showcase may lack meaningful differentiation
- Microsoft and Google, leaders in office productivity software, also offer storage and collaboration platforms that may prove to be worthy rivals to Dropbox.
- Dropbox's scant enterprise customers, generally thought to be stickier patrons, may lead to higher churn and lower CLV.

Economic Moat Brian Colello, CPA, Sector Director, 18 Feb 2021

Due to its lack of competitive advantage, we believe Dropbox does not merit an economic moat. While Dropbox boasts over 500 million active users and stores over hundreds of billions of pieces of content, we do not believe that either of these create a network effect or produce significant switching costs for users.

Founded in 2007, Dropbox has recently attempted to move on from the commodity cloud storage business and become a major player as a content collaboration platform. Dropbox competes with the storage and collaboration tools provided by well-capitalized companies like Microsoft, Alphabet, and Apple. While we believe these three companies do have sustainable competitive advantages, their content storage and collaboration offerings have little to no impact on this rating, as we view cloud storage as table stakes for broader operating system providers. Another competitor, Box, is a pure-play content storage and collaboration company, focused on enterprise customers.

Starting in 2016, Dropbox began initiatives to move off Amazon Web Services and manage their own

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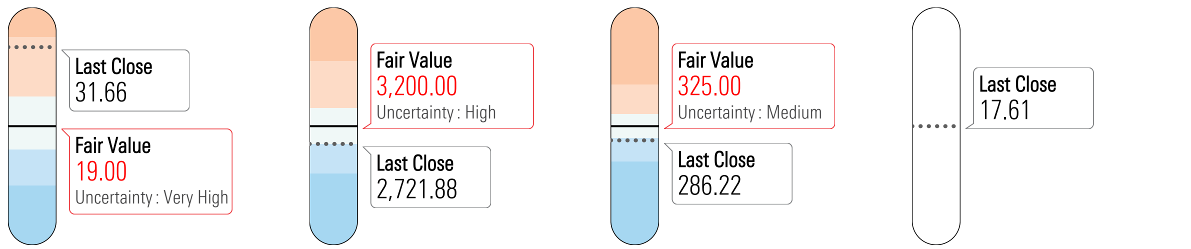
Competitors



	Dropbox Inc Class A DBX	Alphabet Inc Class A GOOGL	Microsoft Corp MSFT	Box Inc A BOX
Economic Moat	None	Wide	Wide	—
Moat Trend	Negative	Stable	Stable	—
Currency	USD	USD	USD	USD
Fair Value	19.00 19 Feb 2021 03:47, UTC	3,200.00 28 Jul 2021 03:31, UTC	325.00 28 Jul 2021 03:59, UTC	— —
1-Star Price	33.25	4,960.00	438.75	—
5-Star Price	9.50	1,920.00	227.50	—
Assessment	Over Valued 28 Jul 2021	Under Valued 28 Jul 2021	Under Valued 28 Jul 2021	— —
Morningstar Rating	★★28 Jul 2021 21:20, UTC	★★★★28 Jul 2021 21:20, UTC	★★★★28 Jul 2021 21:20, UTC	★★★27 Feb 2020 02:37, UTC
Analyst	Brian Colello, Sector Director	Ali Mogharabi, Senior Equity Analyst	Dan Romanoff, Equity Analyst	—
Capital Allocation	Standard	Standard	Exemplary	—
Price/Fair Value	1.67	0.85	0.88	—
Price/Sales	6.60	13.69	12.95	4.70
Price/Book	29.81	7.64	15.16	29.10
Price/Earning	128.26	108.92	35.56	—
Dividend Yield	—	—	0.77%	—
Market Cap	12.38 Bil	1,816.67 Bil	2,152.09 Bil	3.63 Bil
52-Week Range	17.66—31.81	1,402.15—2,765.94	196.25—290.15	15.08—27.41
Investment Style	Mid Growth	Large Growth	Large Growth	Small Growth

infrastructure. By taking control of their own data centers as well as closing inactive user accounts, Dropbox has been able to drive gross margins from 33% in 2015 to 75% in 2019. While the gross margin improvements have helped improve Dropbox's bottom line, we do not believe that the storage of content in and of itself creates switching costs for users. Despite having 550 billion pieces of content stored on its platform (as of December 2019), we believe that the complexity and pace of transferring files has decreased significantly over the last decade with a number of third-party vendors specializing in assisting with the process. In addition, we believe that the majority of the content is non-mission critical information. Further, we surmise that a significant portion of Dropbox's content might be stored in lower cost, "cold storage" and has contributed to Dropbox's marked improvement in gross margins.

Instead, we believe that any potential competitive advantage for Dropbox would come from the features offered by the platform. The two best examples of this are Dropbox's Paper and Showcase offerings. Paper, acquired via Hackpad in 2014, is a lightweight, web-based word processing application and available to all Dropbox users. Paper allows users to collaborate on a project, simultaneously perform

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edits, assign and manage to do lists, and make comments for other users. Dropbox reports that users that adopt Paper are twice as likely to convert to paid users than non-Paper users. While user feedback has been positive regarding the user interface and workflow capabilities, there are numerous word processing alternatives available to most knowledge workers, most notably the ubiquitous Microsoft Word. While any given file might contain important data, we do not believe the features are mission critical. We believe that the switching costs between Paper and other word processing applications are negligible, and the choice comes down to user preference.

Showcase, launched in 2017, is a web-based application allowing users to create professional presentations. It is only available to paid users in the Individual Professional plan and Advanced and Enterprise Business team plan. Showcase has an easy to understand interface with drag and drop capabilities that allows users to easily create professional-looking presentations that include various media-rich file types.

Dropbox boasts compatibility with many software providers, including integrations with Office Suite behemoths Microsoft and Google. The platform allows integration with applications like Slack, Salesforce, and Adobe, which enables users to access or save changes to various files without opening another application. While the neutrality is likely a benefit for companies that run a mix of Office Suites or operating systems, we believe the benefits are only applicable to a subset of organizations in specific verticals, such as advertising or media, or specific teams within a larger organization. Most organizations choose only one office suite, making file compatibility issues limited in scope.

Dropbox continues to create new features, such as optical character recognition for text search in image files, but we believe such features are typically beholden to the "fast follower" dynamic. Dropbox's well-capitalized competitors will likely continue to quickly imitate any new Dropbox features. We note widespread knowledge worker adoption of productivity applications outside the Office Suites is rare with the notable exception being Adobe Acrobat Reader. The majority of productivity applications have either been quickly copied (Skype, Microsoft Teams, Google Hangouts) or are specific to certain industries (Bloomberg, AutoCAD).

Moving on to Dropbox's user base, we do not believe that Dropbox's 600 million users create a network effect. We believe this is especially evident due to the low conversion rate of their large user base into paid users. Dropbox offers plans for Individuals as well as Businesses. While 70% of paid users have Individual plans, Dropbox estimates that 80% of overall users utilize the cloud-based services for business purposes. Free users get 2 GB of free storage and individual users have two paid upgrade options, Plus and Professional, with increased storage capacity and features. Business customers can choose from one of three subscription plans, Standard, Advanced, or Enterprise, with increasing storage capacity, features, and support for higher tier plans. Both Individual and Business plans are offered

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monthly and yearly, with the yearly members enjoying marginal discounts in pricing.

We believe that Dropbox's limited success in converting their large user base to paid subscribers indicates the product offering does not create customer stickiness. Dropbox has engaged in viral freemium marketing to attract free users to the platform before targeted marketing within the application attempt to upgrade users to paid membership. The viral adoption tactic has allowed Dropbox to keep their sales and marketing spending much lower than peer software companies and has helped Dropbox generate 90% of its revenue through a self-service channel. However, we believe that this viral-based approach has come at the cost of lower paid user conversion. Dropbox's 14.6 million paid users, as of March 2020, implies roughly 2.6% paid customer penetration. This ranks below several other notable freemium business models.

While Dropbox's customer-centric, one-size-fits-all approach has led to a large user base, we believe it is likely limiting widespread adoption with enterprise customers. Enterprise customers, which tend to be a stickier customer base with higher lifetime customer value and lower churn, often require customized solutions. We believe Dropbox adoption will be especially limited in regulated industries, like healthcare, financials, and government.

Fair Value and Profit Drivers Brian Colello, CPA, Sector Director, 18 Feb 2021

Our fair value estimate for Dropbox is $19 per share, implying a 2021 price/earnings ratio of 19 times and a 3% free cash flow yield.

We model 8% average revenue growth over the next five years for Dropbox. Paid user growth will be the key area of growth for Dropbox. In 2020, Dropbox added 1.2 million customers, leaving total paying users at 15.5 million as of December 2020. Dropbox last provided an update of its user count in August 2020, noting over 600 million users, which implies a conversion rate of 2.58%. Using the same valuation approach, we believe the market is anticipating Dropbox will secure a significantly higher amount of paying users in the long-term, but we are skeptical due to rising threats from competitors Google and Microsoft.

Annual revenue per user, or ARPU, saw a slight contraction in the three years prior to Dropbox’s IPO, declining from $113.54 in 2015 to $111.91 in 2017. ARPU has rebounded nicely in recent years, increasing to $130.17 as of December 2020. We expect that going forward ARPU will only experience limited growth, due to higher free cloud storage capacity offerings from competitors. Additionally, we think Dropbox’s lack of differentiated collaboration tools product will not allow the company to command pricing power.

Dropbox has greatly improved gross margins in recent years from 54% in 2015 to 78% in 2020. The two key reasons for the margin expansion were Dropbox’s decision to move off Amazon Web Services and build their own data centers and the shutting down of inactive user accounts. We expect Dropbox will continue to optimize their data centers for file storage, which will continue to push gross margins higher, topping 81% in 2025. While we expect Dropbox to continue gross margin expansion, we also believe that the firm is approaching an upper limit with increases such as the ones seen in prior years rendered unlikely.

We forecast that Dropbox will expand its GAAP operating margins from 6% in 2020 to 17% in 2025. On an adjusted basis, we foresee Dropbox's adjusted operating margin rising from 21% in 2020 to 30% in 2025, in line with management's long-term target.

Risk and Uncertainty Brian Colello, CPA, Sector Director, 18 Feb 2021

Our uncertainty rating is very high for Dropbox. The key uncertainty to our forecast is the conversion of Dropbox's user base into paying customers. While Dropbox boasts having 100 million users sign up in the 12 months preceding its IPO, the company only added roughly 2.2 million paid users during that time frame. We estimate that paid customer conversion has remained relatively stable since the beginning of 2017 at around 2%. With signed up users already at 600 million and a handful of other competitive offers, increasing paid user conversion is the key metric to follow, in our view, and is currently not trending in a positive direction.

A major risk area for Dropbox is a circumstance in which Dropbox's platform is down for an extended period of time. This scenario would prevent users, particularly enterprises, from functioning and collaborating as normal and possibly limit access to mission critical files. Such a scenario would likely lead users to lose faith in the platform and lead to increased customer churn.

From a competitive side, we believe Dropbox's reliance on Google and Microsoft integrations is another major risk for Dropbox. While Dropbox markets its compatibility with other software providers, they are reliant on two companies with competing cloud offerings. We believe that Dropbox's business could be severely affected if either office suite providers limited compatibility in the future in order to increase adoption of their own storage and collaboration platforms.

On the ESG (environmental, social, governance) front, we do not foresee any material ESG issues (MEIs) on the horizon. Perhaps the greatest risk in a company where domain expertise is the core value proposition is inadequate use and management of human capital. As such, skill shortages are a key concern. We see no evidence that Dropbox is not managing this reasonably well.

Capital Allocation Brian Colello, CPA, Sector Director, 18 Feb 2021

We view Dropbox's management team as providing standard leadership over a prolonged period of time. This assessment was conducted using our prior stewardship methodology. We will be transitioning our assessment mechanism for Dropbox, and the balance of our stock coverage, to our new Capital Allocation methodology by the end of September 2021.

Dropbox has three share classes that differ in voting rights but have the same economic interest. In terms of voting, Class A shares allow for 1 vote per share, Class B allow for 10 votes per share, and Class C have no voting privileges. The Class B shares concentrate the decision-making power in the hands of founder, Andrew Houston. Houston, who serves as CEO and Chairman of the Board. Venture capital firm Sequoia Capital also holds a significant equity stake and has a Partner of the firm sitting on the board.

We believe it is too early to pass judgment on management's capital allocation strategy, given the limited observable track record.

Dropbox has yet to make any major acquisitions but instead has focused on tuck-in deals to acquire talent and new technology. We do not think the company's acquisition strategy is likely to change in the near future. More likely, Dropbox will continue to make seed investments in startups, which it has started doing with its initial investment in Zoom in late 2018.

Analyst Notes Archive

Dropbox Drops in Line with Our Expectations; Maintain $19 FVE; Shares Overvalued Brian Colello, CPA, Sector Director, 7 May 2021

No-moat Dropbox kicked off fiscal 2021 with financial results that were largely in line with our expectations. Dropbox continued to execute well against its three-pronged strategy of evolving existing products, developing new ones, and expanding its operating margins. The firm seeks to leverage its existing offerings and recent acquisitions, such as DocSend and HelloSign, to drive user retention and customer conversion. While Dropbox's aim to create a family of online collaboration tools is ambitious, we remain unconvinced of the firm's ability to differentiate itself in the long run or create a sustainable competitive advantage. We are maintaining our $19 fair value estimate for no-moat Dropbox. With shares trading around $25, we recommend investors wait for a pullback before committing new capital to the name.

Revenue in the March quarter clocked in at $512 million, up 12% year over year and 2% sequentially. The revenue growth was driven by a 5% year-over-year increase in average revenue per user, or ARPU, and an 8% increase in paying customers. Sales and marketing dollars expended per additional paying customer also went down, indicating a mild improvement in the firm's customer acquisition costs. As the firm focuses on increasing its value proposition for existing and new users to execute its "land and expand" model, the firm must focus on user growth, which is still rising but at a decelerating rate. On the profitability front, management continued to improve the firm's operational efficiency. Adjusted operating margins clocked in at 29%, up from 16% a year ago.

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Dropbox forecasts second-quarter revenue to be between $522 million and $525 million, implying a 12% increase year over year at the midpoint. Additionally, management expects the second-quarter adjusted operating margins to be in the range of 27.5% to 28%.

Dropbox Finishes Off 2020 With a Strong Quarter; Raise FVE to $19; Shares Overvalued Brian Colello, CPA, Sector Director, 19 Feb 2021

No-moat Dropbox reported strong fourth-quarter results to close out 2020 as the firm's top- and bottom-line numbers exceeded our expectations. Dropbox continued to see increased usage for its online collaboration and cloud storage products as the economic tailwinds brought on by the global pandemic persisted. However, with user additions growing at a slower rate than they did before, we continue to have a bearish outlook on Dropbox's ability to differentiate itself in the long run or create a sustainable competitive advantage. We are raising our fair value estimate for no-moat Dropbox to $19 per share from $15 per share due to the time value of money as we roll our valuation model and more robust near-term growth prospects. With shares trading around $23, we recommend investors wait for a pullback before committing new capital to the name.

Revenue in the December quarter was $504 million, up 13% year over year and 3% sequentially. Remote work and learnings solutions were a primary growth driver this quarter. Dropbox reported 15 million users this quarter, up 8% year over year, while annual recurring revenue ended at $2.022 billion, up 11% year over year. While expanding the firm's client base is commendable, it is worth noting that the firm's user growth is increasing at a decreasing rate, a trend the firm must counter if it wishes to enact its "land and expand" model. The average revenue per user, or ARPU, clocked in at $130.17 for the December quarter, increasing 4% year over year. Dropbox's profitability metrics showed considerable improvement with adjusted operating margins at 25%, up from 16% a year ago.

Dropbox forecasts first-quarter revenue to be between $504 million and $506 million, implying an 11% increase year over year at the midpoint. Additionally, management expects first-quarter adjusted operating margin to be in the range of 27.5% to 28%.

Dropbox Reports Strong Third Quarter Results Despite a Slowdown in User Additions; Maintain $15 FVE Brian Colello, CPA, Sector Director, 6 Nov 2020

No-moat Dropbox reported strong third quarter results, as revenue and adjusted EPS exceeded both our expectations and CapIQ consensus estimates. Like other tech companies offering online collaboration tools and cloud storage, Dropbox has seen increased usage as employees across the globe continue to work from home. However, in a space dominated by its well-capitalized competitors such as Microsoft, and Google, we still struggle to see long-term differentiation or a sustainable competitive advantage at Dropbox. As a result, we are maintaining our fair value estimate of $15 per share. With shares trading at a 28% premium to our estimate, we continue to view the company's shares as overvalued.

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Total revenue for the third quarter totaled $487.4 million, up 14% from the prior year. Like the previous quarter, strong demand for remote work and learning solutions was the primary driver behind this growth. Dropbox reported 15.25 million users this quarter, up 9% year over year. While there has been an increase in the total number of Dropbox users, the growth rate of user additions continues to trail downwards. The average revenue per user, or ARPU, clocked in at $128.03 for the September quarter, a 4% increase from the prior year. However, ARPU growth has decelerated over the last couple of quarters, perhaps indicating weakness in the company's client-upselling abilities.

Dropbox's profitability improved substantially with adjusted operating margins at 23%, up from 13.1% in the September quarter last year. Similarly, adjusted EPS of $0.26 grew from $0.13 in the prior year and showed 37% upside to CapIQ consensus estimates. Dropbox forecasts fourth-quarter revenue to be between $497 million and $499 million, indicating a 12% increase year over year at the midpoint. Additionally, management expects adjusted operating margin to be in the range of 22% to 22.5%.

Dropbox Reports Uptick in Usage as Consumers Adapt to Remote Work Environment; Maintaining $15 FVE Brian Colello, CPA, Sector Director, 7 Aug 2020

No-moat Dropbox reported strong second quarter results, as revenue exceeded our expectations and adjusted earnings per share surpassed CapIQ consensus estimates. Like other tech companies offering cloud storage and online collaboration tools, Dropbox has seen an increase in usage as work from home continues to be commonplace. However, we still believe that in an increasingly commodified market of cloud storage and work collaboration tools, Dropbox cannot compete with its well-capitalized competitors such as Microsoft and Google. As a result, we are maintaining our fair value estimate of $15 per share. Shares fell 5% after hours, yet we continue to view them as overvalued and would recommend waiting for a larger pullback before committing capital to the name.

Total revenue for the second quarter totaled $467.4 million, up 16.4% year over year. The strong performance was partially driven by healthy demand for remote work and learning solutions as well as an increase in HelloSign users. In the quarter, Dropbox reported 15 million paid users, up 10.3% from last year. However, the rate of growth for paying users continues to trail downwards and remains an area of concern for us. Additionally, average revenue per user, or ARPU, was $126.88, which represents an increase of 5.3% year over year. Dropbox's profitability improved substantially with non-GAAP operating margins at 20.6% compared with 10.1% in the second quarter of last year. On the bottom line, adjusted earnings per share was $0.22, ahead of CapIQ consensus of $0.17.

Dropbox forecasts third-quarter revenue to be between $481 million and $484 million, which represents a 13% increase year over year at the midpoint. Additionally, non-GAAP operating margin is expected to be in the range of 17.5% to 18.0%.

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Dropbox Under Review Brian Colello, CPA, Sector Director, 29 Jun 2020

We are placing our fair value estimate for Dropbox under review as we transition coverage to a new analyst. We plan to publish an updated report and valuation by late July.

Top of the Funnel Growth Trend Is Where the Fun-nel Ends; Dropbox Overvalued John Barrett, Equity Analyst, 8 May 2020

Similar to other freemium models, Dropbox has seen a temporary uptick in usage as employees find new ways to work from home. But we still believe that cloud storage provider Dropbox is a laggard in the market currently. Productivity suite providers like Microsoft and Google remain the runaway winners in storage with integration that is nearly impossible to turn down. We believe that the bull thesis remains contingent on revenue growth re-accelerations and do not see it as likely in the near term. We are maintaining our fair value estimate of $13 for Dropbox and believe that shares are materially overvalued at current levels.

Total revenue came in at $455 million, above revenue guidance of $452 million to $454 million and up 18% year over year. HelloSign, the company’s January 2019 acquisition, was a highlight in the quarter due in part to benefits from coronavirus. We largely view these as one-time and do not believe that the use cases for HelloSign have expanded materially. Average revenue per user, or ARPU, and new paying members were up slightly, consistent with our outlook. Dropbox’s profitability improved substantially with non-GAAP operating margins at 16.1% compared with 10.1% in the first quarter of last year.

Revenue for the second quarter is now expected to be between $463 million and $466 million, up roughly 16% year over year. Full-year guidance was revised down slightly to be between $1.880 billion and $1.900 billion compared with previous guidance of $1.890 billion to $1.905 billion. Management pointed toward foreign currency headwinds as cause for the revision, but we believe that the global pandemic has likely provided a headwind as well.

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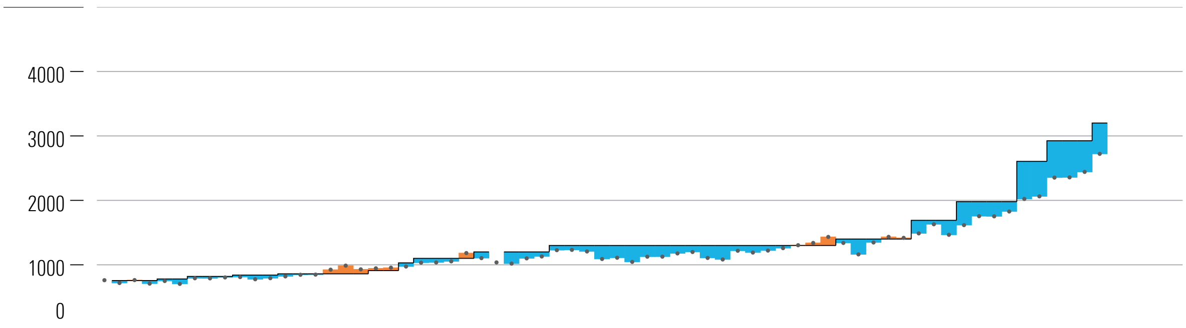
Competitors Price vs. Fair Value

Alphabet Inc Class A GOOGL

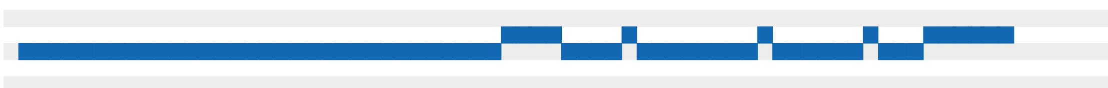


Fair Value: 3,200.00
28 Jul 2021 03:31, UTC

Last Close: 2,721.88
Over Valued
Under Valued

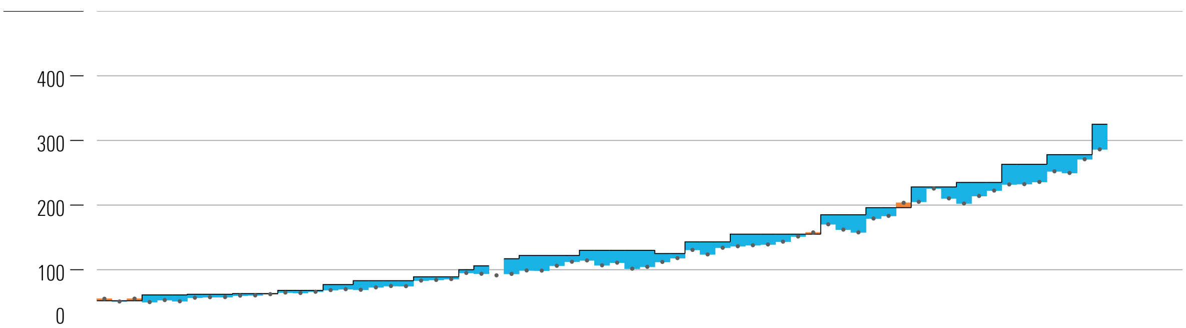
	2016	2017	2018	2019	2020	YTD
Price/Fair Value	0.94	0.96	0.80	1.03	0.89	0.85
Total Return %	1.86	32.93	-0.80	28.18	30.85	55.30

Morningstar Rating



Total Return % as of 28 Jul 2021. Last Close as of 28 Jul 2021. Fair Value as of 28 Jul 2021 03:31, UTC.

Microsoft Corp MSFT

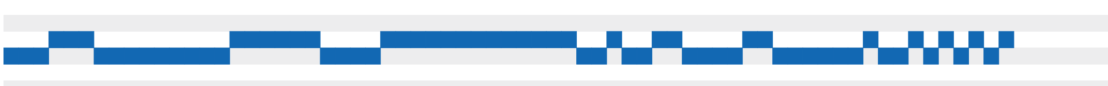


Fair Value: 325.00
28 Jul 2021 03:59, UTC

Last Close: 286.22
Over Valued
Under Valued

	2016	2017	2018	2019	2020	YTD
Price/Fair Value	0.99	0.96	0.78	1.02	0.95	0.88
Total Return %	14.65	40.22	20.75	57.12	42.37	29.19

Morningstar Rating

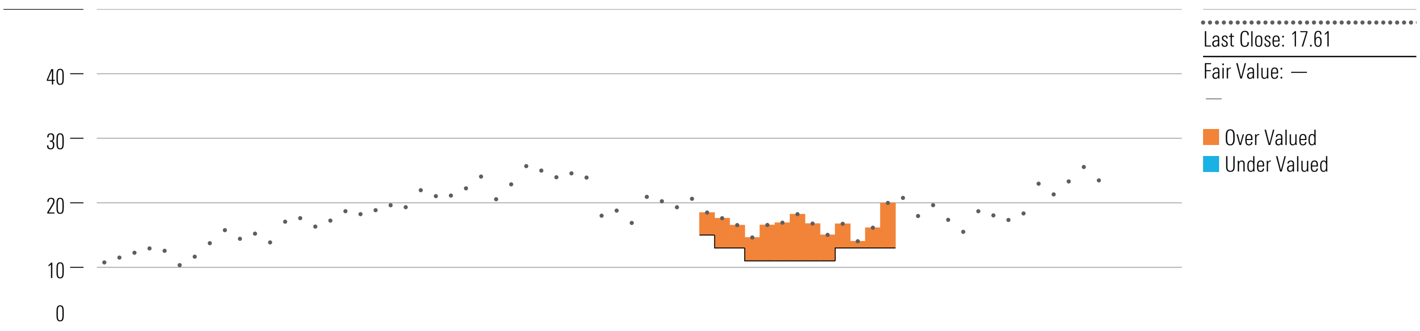


Total Return % as of 28 Jul 2021. Last Close as of 28 Jul 2021. Fair Value as of 28 Jul 2021 03:59, UTC.

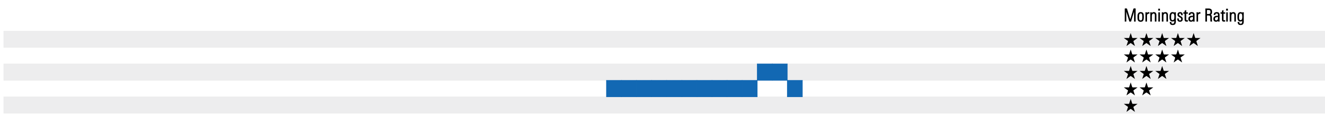
Morningstar Equity Analyst Report | Report as of 29 Jul 2021 15:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ

Dropbox Inc Class A DBX ★★ 28 Jul 2021 21:20, UTC

Box Inc A BOX



	2016	2017	2018	2019	2020	YTD
Price/Fair Value	—	—	—	1.53	—	—
Total Return %	-0.72	52.38	-20.08	-0.59	7.57	30.03



Total Return % as of 28 Jul 2021. Last Close as of 29 Jul 2020. Fair Value as of —.

Dropbox Inc Class A DBX ★★ 28 Jul 2021 21:20, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
31.66 USD 28 Jul 2021	19.00 USD 19 Feb 2021 03:47, UTC	1.67	12.38 USD Bil 28 Jul 2021	None	Negative	Very High	Standard	7 Jul 2021 05:00, UTC

Morningstar Historical Summary

Financials as of 31 Mar 2021

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
Revenue (USD K)	—	—	—	—	603,800	844,800	1,106,800	1,391,700	1,661,300	1,913,900	511,600	1,970,500
Revenue Growth %	—	—	—	—	—	39.9	31.0	25.7	19.4	15.2	12.4	13.9
EBITDA (USD K)	—	—	—	—	-156,600	-1,900	68,100	-327,200	93,000	280,500	94,500	308,700
EBITDA Margin %	—	—	—	—	-25.9	-0.2	6.2	-23.5	5.6	14.7	18.5	15.7
Operating Income (USD K)	—	—	—	—	-306,200	-193,500	-113,700	-494,000	-80,500	121,200	59,800	154,200
Operating Margin %	—	—	—	—	-50.7	-22.9	-10.3	-35.5	-4.9	6.3	11.7	7.8
Net Income (USD K)	—	—	—	—	-325,900	-210,200	-111,700	-484,900	-52,700	-256,300	47,600	-248,000
Net Margin %	—	—	—	—	-54.0	-24.9	-10.1	-34.8	-3.2	-13.4	9.3	-12.6
Diluted Shares Outstanding (K)	—	—	—	—	358,600	358,600	393,023	358,600	411,600	414,300	405,400	410,825
Diluted Earnings Per Share (USD)	—	—	—	—	-0.91	-0.59	-0.28	-1.35	-0.13	-0.62	0.12	-0.59
Dividends Per Share (USD)	—	—	—	—	—	—	—	—	—	—	—	—

Valuation as of 30 Jun 2021

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Price/Sales	—	—	—	—	—	—	—	6.3	4.6	5.0	6.3	6.3
Price/Earnings	—	—	—	—	—	—	—	-16.2	-256.4	116.3	-51.3	-51.3
Price/Cash Flow	—	—	—	—	—	—	—	22.3	15.8	15.8	19.6	19.6
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	—	—
Price/Book	—	—	—	—	—	—	—	13.0	9.8	10.6	-142.9	-142.9
EV/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0

Operating Performance / Profitability as of 31 Mar 2021

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
ROA %	—	—	—	—	—	-20.9	-11.0	-35.7	-2.4	-10.1	1.7	-8.2
ROE %	—	—	—	—	—	—	—	-589	-7.1	-44.9	38.0	-69.1
ROIC %	—	—	—	—	—	—	—	-193	-4.0	-15.7	2.5	-11.6
Asset Turnover	—	—	—	—	—	0.8	1.1	1.0	0.8	0.8	0.2	0.7

Financial Leverage

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Debt/Capital %	—	—	—	—	—	—	—	11.7	51.3	73.6	—	—
Equity/Assets %	—	—	—	—	—	—	—	40.0	29.9	14.0	—	—
Total Debt/EBITDA	—	—	—	—	—	—	—	-0.5	10.8	4.0	—	—
EBITDA/Interest Expense	Infinite	Infinite	Infinite	Infinite	—	—	—	—	—	—	—	—

Morningstar Analyst Historical/Forecast Summary as of 06 May 2021

Financials

Fiscal Year, ends 31 Dec	2019	2020	2021 (Estimates)	2022 (Estimates)	2023 (Estimates)
Revenue (USD Mil)	1,661	1,914	2,123	2,316	2,478
Revenue Growth %	19.4	15.2	10.9	9.1	7.0
EBITDA (USD Mil)	396	593	758	787	857
EBITDA Margin %	23.8	31.0	35.7	34.0	34.6
Operating Income (USD Mil)	-81	121	249	364	407
Operating Margin %	-4.9	6.3	11.7	15.7	16.4
Net Income (USD Mil)	205	386	525	566	619
Net Margin %	12.3	20.2	24.7	24.4	25.0
Diluted Shares Outstanding (Mil)	412	414	405	405	405
Diluted Earnings Per Share(USD)	0.50	0.93	1.30	1.40	1.53
Dividends Per Share(USD)	0.00	0.00	0.00	0.00	0.00

Forward Valuation

	2019	2020	2021 (Estimates)	2022 (Estimates)	2023 (Estimates)
Price/Sales	4.5	4.7	5.8	5.3	5.0
Price/Earnings	35.8	23.9	24.4	22.6	20.7
Price/Cash Flow	19.0	18.4	18.1	18.3	17.4
Dividend Yield %	—	—	—	—	—
Price/Book	—	—	—	—	—
EV/EBITDA	18.5	15.0	17.1	16.4	15.1

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

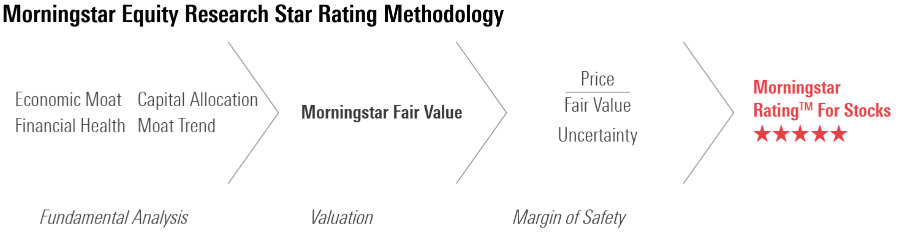
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to

Morningstar Equity Research Star Rating Methodology



Morningstar Equity Analyst Report | Report as of 29 Jul 2021 15:18, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ

Research Methodology for Valuing Companies

bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

Qualitative Analysis Uncertainty Ratings	Margin of Safety ★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

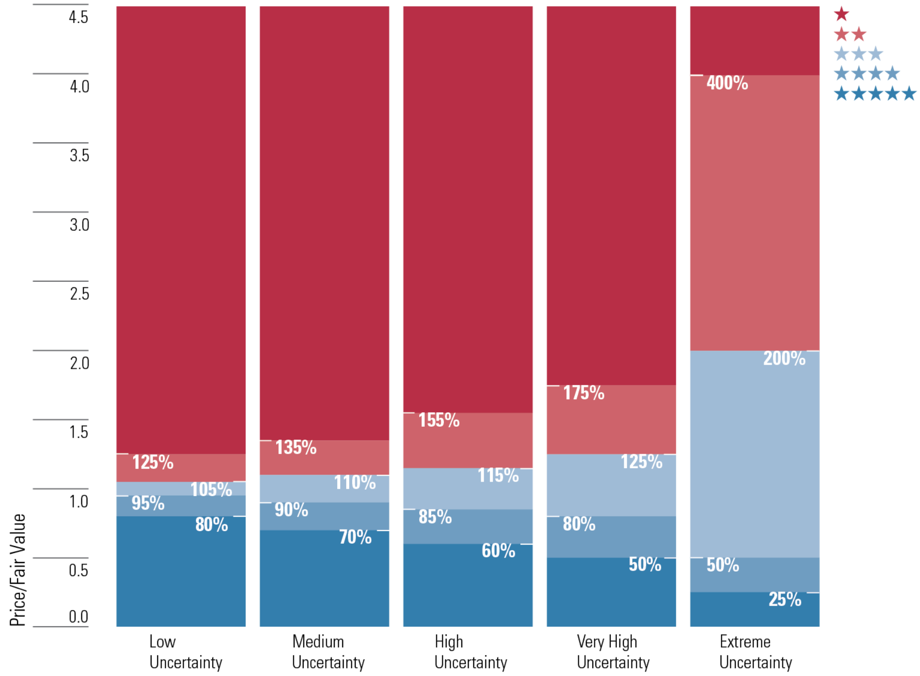
We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

Morningstar Equity Research Star Rating Methodology



★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exem-

Research Methodology for Valuing Companies

plary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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