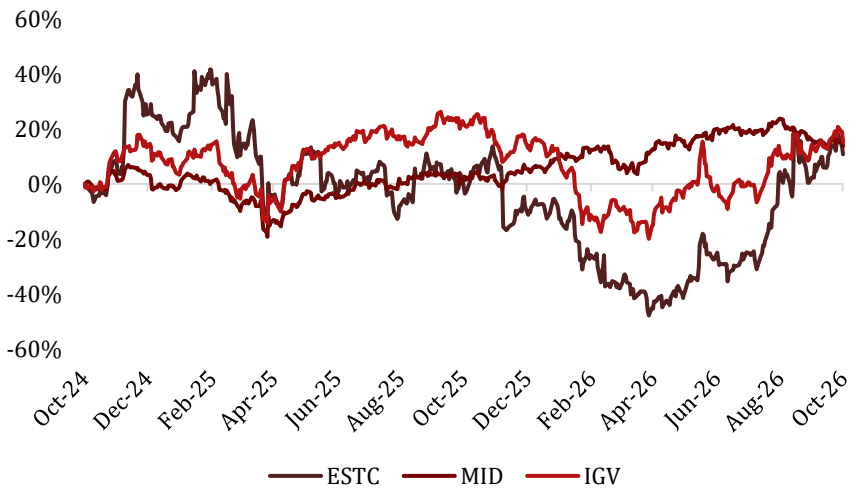
Elastic N.V.

NYSE: ESTC

Recommendation: **Buy**

Price (10/14/2026)	$92.06
Price Target	$113.38
Potential Upside	23.2%

Two-Year Stock Performance



Market Cap ($M)	9,781.3
Shares Out. (M)	104.99
52-wk Hi-Lo	$42 – 108
Sales Growth	16.2%
EBITDA Growth	52.2%
EBITDA Margin	-0.2%
P/FCF	27.6x
ROE	75.9%

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Investment Rationale

We recommend a **BUY** on Elastic N.V. (NYSE: ESTC) with a price target of $113.38, representing an implied upside of 23.2%. Elastic provides search, observability, and cybersecurity software that helps enterprises find, analyze, and protect their data. We believe the market underestimates how quickly growing customer commitments and broader AI adoption can translate into higher spending across Elastic's existing enterprise accounts. Additionally, we believe the Street overlooks the earnings potential of a more productive sales organization, as prior investments allow Elastic to grow revenue without a proportional increase in selling expenses.

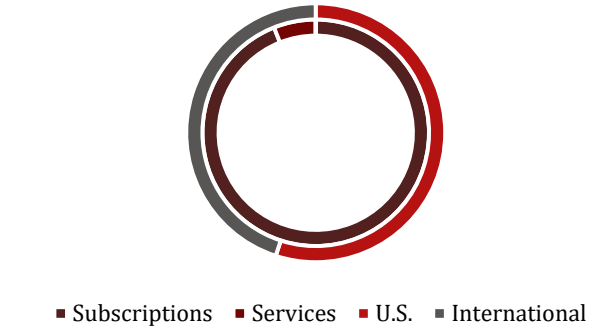
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Business Overview

Elastic N.V. (NYSE: ESTC) is a software company that helps businesses search and analyze large amounts of data in real time, enabling AI systems to retrieve relevant information and provide more accurate answers. Elastic acts as a memory and research assistant for AI, providing the infrastructure that makes AI models more useful for businesses. AI models do not inherently have access to a company's private, up-to-date information, which can lead to inaccurate or hallucinated responses. Elastic supplies that information while enforcing proper data access and removing private information before the data reaches AI models.

Fig 1: Recurring Revenue, Global Reach



Elastic offers a single platform, the Elastic Stack, built around three core solutions: Search, Observability, and Security. Search allows users to retrieve relevant information from billions of records in milliseconds. Observability monitors applications, websites, and servers to identify software issues and help engineers trace problems to the root cause. Security analyzes data to detect suspicious activity and potential cyber threats. By combining these capabilities on one platform, Elastic helps customers avoid the cost and complexity of managing multiple separate tools.

Elastic generates revenue through two segments: subscription revenue, which represents approximately 94% of total revenue and comes from recurring software fees, and services revenue, which accounts for the remaining 6% and includes consulting, implementation, and training. Geographically, ESTC generates approximately 55% of revenue in the U.S. and 45% internationally, providing a diversified geographic revenue base.

Elastic partners with the three major cloud providers (AWS, Google Cloud, and Microsoft Azure) to deliver ESTC's platform in 50+ cloud regions. Customers can run the software in the cloud or on company-owned servers, allowing businesses to search and analyze large amounts of data, including the unstructured information used by AI applications. ESTC's cloud offering uses usage-based pricing, allowing revenue to grow as customers increase consumption.

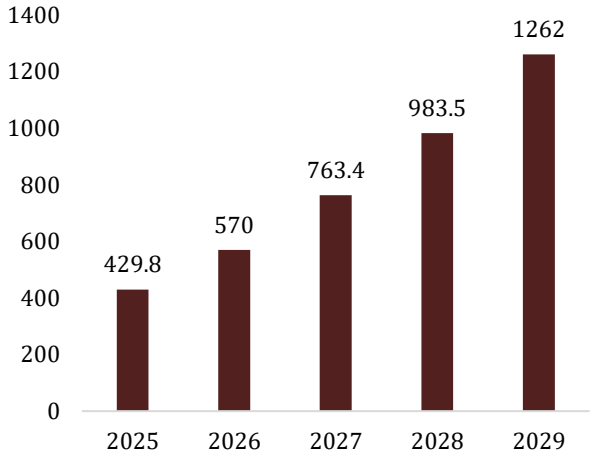
As businesses continue adopting AI and working with larger amounts of data, the company is positioned to benefit from growing demand for search and data retrieval capabilities across industries ranging from financial services to retail and technology. With more than 50% of the Fortune 500 already using ESTC's platform, the company can expand within the existing customer base while continuing to win new customers, as shown by a record 80 net new customers spending $100K+ in annual contract value in fiscal Q1 2027 alone.

Sources: Bloomberg, Company's Website, 10-K

Industry Overview

Enterprise infrastructure software helps businesses store, search, and manage data while keeping the company's systems reliable and secure. Demand is rising as companies increasingly adopt AI, move more workloads to the cloud, and manage growing volumes of both structured and unstructured data. The industry spans several adjacent markets, including search and AI data infrastructure, observability, and security analytics.

Fig 2: Global AI Spending Forecasts ($Bn)



The biggest tailwind is accelerating AI investment. The International Data Corporation (IDC) projects total AI spending, including software and services, to reach $1.3T by 2029, a 31.9% CAGR from 2025. Additionally, the IDC estimates AI to account for roughly 40% of that software spending. As AI deployment expands, demand for enterprise search, data retrieval, and real-time analytics will rise.

Security analytics is another major growth area as cyberattacks grow more frequent and complex. Microsoft's 2026 Digital Defense Report found that exposed cloud workloads were attacked within an average of 5.3 hours, and that 63% of intrusions involved data theft. The cost of successful attacks is also significant with IBM estimating a cost of roughly $4.99M for businesses, up 12% YoY, with AI-enabled attacks accounting for 25% of breaches. This is supporting broader security investment, with the IDC forecasting global security spending of $308B in 2026, up 11.8% YoY, and $430B by 2029. Notably, software accounts for more than 50% of that spending and is the fastest-growing category.

Competition remains intense, with large technology providers and specialized software companies competing across search, observability, and security. While AI adoption creates significant opportunity, businesses must demonstrate measurable ROI. The ability to integrate AI into existing workflows and deliver clear business value will be critical to sustaining software spending as companies become more selective about technology budgets.

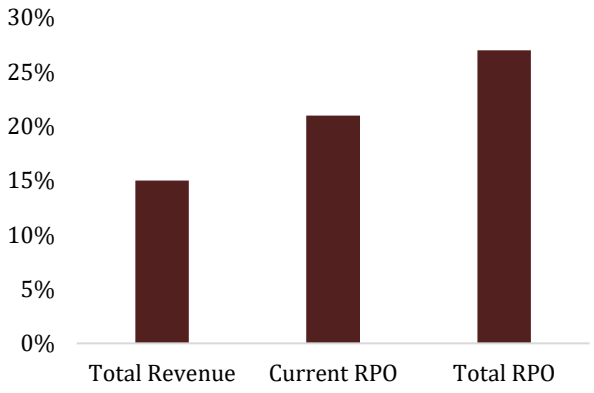
Sources: Bloomberg, IDC, IBM, EY, Microsoft

Today's Customer Commitments Fuel Tomorrow's Growth

Enterprise expansion, AI adoption, and cybersecurity can bring forward revenue acceleration

Elastic generates most of its revenue from subscriptions to its search, observability, and cybersecurity software, which customers can use through Elastic Cloud or operate themselves. Sales-led subscriptions, comprising Annual Elastic Cloud and primarily self-managed subscriptions, represented approximately 83% of total revenue in Q1 FY27. Growth in this business depends on winning new customers and increasing spending within existing accounts as they expand usage, add workloads, or upgrade their subscriptions.

Fig 3: Contracted Demand Outpaces Revenue Growth



Elastic's sales-led subscription revenue grew 17% in Q1 FY27, but the Street is cautious about whether this momentum will translate into sustained acceleration. Consensus expects sales-led growth of approximately 16.8% in FY28, suggesting that recent improvements in sales execution will support steady growth rather than a meaningful, and durable, increase in customer spending. We believe this overlooks several signs of strengthening underlying demand. Remaining performance obligations grew 27% year-over-year, while current RPO increased approximately 20%, both outpacing reported revenue growth of 15%. Elastic also added a record 80 net new customers spending over $100,000 annually, suggesting that enterprise demand is building ahead of revenue recognition. We expect these commitments, alongside greater consumption from existing customers, to drive sales-led growth to 21.1% in FY28, bringing management's FY29 target forward by a year.

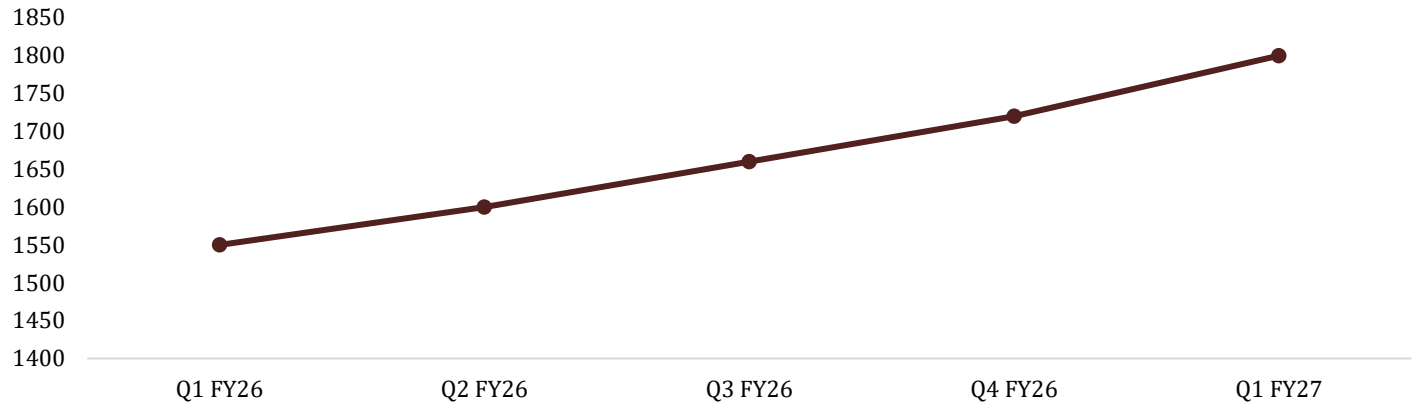
We believe enterprise AI adoption will be an important driver of this acceleration. AI adoption among Elastic's large customers increased from approximately 21% to 37% over the past year, and customers using AI capabilities have demonstrated stronger expansion than those without them. With more than 1,800 customers spending over $100,000 annually, Elastic has a substantial installed base that can increase spending as additional workloads move onto its platform. Although net expansion declined slightly to 111% in Q1, we expect it to recover as customers begin consuming recently contracted capacity. This should allow Elastic to generate more revenue from relationships it has already established, rather than relying entirely on new customer wins. Cybersecurity presents another opportunity as enterprises replace legacy security platforms and consolidate workloads. Elastic has already demonstrated its ability to displace providers such as Splunk and IBM QRadar, although the company does not separately disclose cybersecurity revenue, making its contribution hard to exactly quantify in our forecast.

Our revenue build assumes Annual Elastic Cloud growth of 28%-30% through FY29, supported by the aforementioned rationale of increased enterprise consumption and continued expansion across other subscriptions. This produces sales-led growth of 21.1% in FY28 and 20.6% in FY29, compared with consensus expectations of 16.8% and 16.4%, respectively. Our total revenue forecast exceeds consensus by $149.0M, or 6.5%, in FY28, widening to $262.8M, or 10.0%, in FY29. All in all, we think the Street is underestimating how quickly Elastic's existing customer commitments and growing AI adoption (paired

Sources: Bloomberg, 10-K, Investor Relations, Barclays, J.P. Morgan, UBS, and Wells Fargo

with the cybersecurity driver) can translate into revenue. And as these trends become more apparent in reported results, we expect upward revenue revisions and greater confidence in Elastic's ability to sustain growth, hopefully supporting a higher valuation multiple.

Fig 4: $100K+ ACV Customer Growth



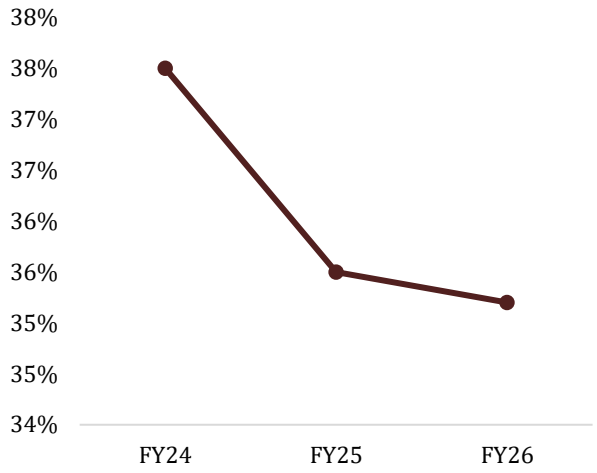
Sources: Bloomberg, 10-K, Investor Relations, Barclays, J.P. Morgan, UBS, and Wells Fargo

Past Sales Investments Pay Off

Improving sales productivity can sustain operating margin expansion

Elastic's ability to improve profitability depends on generating more revenue from its existing sales capacity. Sales and marketing is its largest operating expense, accounting for approximately 35% of revenue in FY26. As enterprise customers expand their use of Elastic's platform, the company has an opportunity to generate additional subscription revenue without increasing selling expenses at the same pace. We believe this can drive greater operating leverage as the benefit of previous investments in sales capacity becomes more apparent.

Fig 5: Sales & Marketing Burden is Declining



Elastic raised its FY27 non-GAAP operating margin guidance to 19.4% following stronger-than-expected Q1 results, but the Street is wary on how much further margins can expand while the company continues investing in growth. Consensus expects operating margins of approximately 21.0% in FY28, reflecting an expectation that continued sales investment will absorb much of the benefit from higher revenue. We believe the Street is underestimating the productivity gains Elastic can achieve from its existing sales organization, allowing margins to reach 24.7% in FY28. Management has attributed part of its improving performance to earlier sales hires becoming more productive and changes in how enterprise accounts are managed. These investments have inherently already been made, and we expect their contribution to revenue to become more meaningful as existing customers expand their deployments. As a result, we believe Elastic can maintain strong subscription growth without a comparable/proportional increase in sales and marketing spending.

Expansion within established customer relationships is central to this improvement. Once Elastic has secured an enterprise customer and deployed its platform, additional spending can come from greater consumption, new AI workloads, or subscription upgrades without requiring nearly the same acquisition effort as an entirely new account. This is particularly important given that customers spending over $100,000 annually account for approximately 90% of sales-led subscription revenue, leaving much of Elastic's growth tied to relationships it already serves. While these customers still require sales and technical support, we believe the incremental cost of expanding an existing account is lower than acquiring a new one, and that prior sales and marketing productivity will continue to increase on its own. Our cost build therefore assumes sales and marketing expenses to grow 8% in FY28, compared with revenue growth of 18.2%, reducing S&M from 33.0% to 30.1% of revenue. We do continue to grow R&D and G&A spending by 17% each, preserving investment in product development and business support. Although a growing Cloud mix could pressure gross margins through higher hosting costs, our forecast assumes only modest gross margin improvement to 78.0%, leaving sales productivity as the primary driver of margin expansion.

Our cost build thus projects non-GAAP operating margins of 24.7% in FY28 and 26.9% in FY29, compared with consensus expectations of approximately 21.0% and 22.4%, respectively. The

Sources: Bloomberg, 10-K, Investor Relations, Barclays, J.P. Morgan, UBS, and Wells Fargo

improvement from our modeled 21.3% FY27 margin is driven primarily by approximately 285 basis points of sales and marketing leverage, with smaller contributions from gross margin and other operating expenses. Combined with our revenue forecast, this produces operating income of $604.1M in FY28 and $777.1M in FY29, exceeding consensus by $122.7M and $189.0M, respectively. If Elastic can keep growing revenue faster than sales and marketing spending, we believe the Street will eventually raise its earnings estimates as the company will prove it can support growth at a lower cost than expected.

Sources: Bloomberg, 10-K, Investor Relations, Barclays, J.P. Morgan, UBS, and Wells Fargo

Risks

Restructuring and Execution Risk

Elastic's mid-2026 restructuring introduces execution risk as the company adjusts its workforce and reallocates resources to better align with strategic initiatives. Therefore, disruption to product development or sales execution could limit the benefits of the restructuring and weigh on growth.

Consumption-Based Revenue Volatility

Elastic recognizes Elastic Cloud revenue based on usage-based pricing for customer consumption, making revenue less predictable than a fixed subscription model. If customers reduce usage or expand consumption more slowly than expected, ESTC could miss revenue growth estimates.

Regulatory and Compliance Uncertainty

The regulatory environment surrounding AI is evolving, creating uncertainty around the development and deployment of AI-powered products. New regulations could increase compliance and development costs, potentially pressuring margins and earnings.

Sources: Bloomberg, Company's Website, 10-K, WSJ

Comparable Companies

	Company Name	Market Data		Valuation & Growth				Profitability		Performance	
		Market Cap ($Bn)	Price as a % of 52 Week High	P/FCF	Forward EV/EBITDA	EBITDA Growth	Sales Growth	EBITDA Margin	Operating Margin	ROA	ROE
Infrastructure	Datadog Inc	$96.98	89.6%	88.5x	88.2x	68.1%	31.5%	3.7%	0.6%	2.7%	4.8%
	Dynatrace Inc	$18.37	95.9%	32.9x	24.9x	36.3%	17.9%	16.4%	14.3%	4.5%	7.2%
	Snowflake Inc	$118.22	87.1%	96.2x	111.1x	17.0%	32.0%	-17.9%	-22.5%	-12.8%	-47.7%
Developer Software	GitLab Inc	$8.86	91.8%	42.2x	48.7x	39.5%	23.0%	-4.7%	-5.9%	-4.3%	-7.6%
	JFrog LTD	$11.34	88.7%	64.9x	76.4x	48.5%	36.4%	-5.2%	-10.5%	-2.9%	-4.3%
	Atlassian Corp	$52.00	95.3%	40.1x	26.5x	-	26.0%	6.2%	4.1%	2.5%	12.6%
	PagerDuty Inc	$1.31	98.0%	10.9x	9.1x	-	2.3%	11.4%	8.1%	18.9%	84.6%
	Mean	$43.87	92.3%	53.7x	55.0x	41.9%	24.2%	1.4%	-1.7%	1.2%	7.1%
	Median	$18.37	91.8%	42.2x	48.7x	39.5%	26.0%	3.7%	0.6%	2.5%	4.8%
	Elastic NV	**$9.67**	**85.2%**	**27.6x**	**26.4x**	**52.2%**	**16.2%**	**-0.2%**	**-1.4%**	**31.1%**	**75.9%**

Commentary: Comps are separated across two buckets: Infrastructure Software and Developer Software, since Elastic has exposure to both enterprise data workloads and developer tools. We show Elastic on P/FCF and forward EV/EBITDA, where it trades at 27.6x and 26.4x, below peer medians of 42.2x and 48.7x, respectively. Elastic's 16.2% sales growth trails the peer median of 26.0%, helping to explain such a discount, although its 52.2% EBITDA growth exceeds the median of 39.5%. We believe stronger enterprise consumption and improving sales productivity can narrow the discount as Elastic demonstrates faster revenue growth and more consistent profitability.

Sources: Bloomberg, 10-K, Yahoo Finance

Valuation – Discounted Cash Flow Analysis

Year	2027E	2028E	2029E	2030E	2031E	Terminal
UFCF Walk						
EBIT (GAAP operating income)	64.9	202.6	331.9	483.1	620.8	620.8
(-) Unlevered Taxes	(13.6)	(42.5)	(69.7)	(101.4)	(130.4)	(130.4)
NOPAT	**51.3**	**160.0**	**262.2**	**381.6**	**490.5**	**490.5**
(+) D&A	11.3	8.4	7.5	8.0	8.5	11.4
(+/-) Chg in WC (incl. deferred revenue & DCAC)	152.5	133.3	140.5	175.4	145.7	--
(-) CapEx	(6.1)	(7.2)	(8.5)	(9.9)	(11.4)	(11.4)
Unlevered FCF	**209.1**	**294.6**	**401.7**	**555.1**	**633.3**	**490.5**
Memo: SBC expense (not added back)	*341.1*	*366.6*	*404.5*	*441.3*	*467.1*	
Memo: UFCF margin	*10.1%*	*12.1%*	*13.9%*	*16.4%*	*16.3%*	
Discount Period (mid-year convention)	0.5	1.5	2.5	3.5	4.5	5.0
PV of UFCF	$198.47	$252.05	$309.76	$385.73	$396.62	$291.61

WACC Calculation	
Cost of Equity	
Risk-Free Rate	5.2%
Beta	1.30
Expected Market Return	10.0%
CAPM	11.4%
Cost of Debt	
Weighted-Average Interest Rate	4.125%
Tax Rate	21.0%
Cost of Debt	3.3%
WACC	
Total Equity	$9,934.9
Total Debt	$570.9
Total Capital	$10,505.8
Weight of Equity	94.6%
Weight of Debt	5.4%
Cost of Equity	11.4%
Cost of Debt	3.3%
Weighted Average Cost of Capital	**11.0%**

Exit Multiple Method	
Sum of PV of UFCFs	$1,543
Terminal-Year EBITDA (FY31E: EBIT + D&A)	$629
Exit Multiple (EV / EBITDA)	26.4x
Terminal Value at Exit	$16,639
PV of TV	$9,893
EV	$11,436
Less: Net Debt / (Net Cash)	(799)
Equity Value	$12,235
Diluted Shares (mm)	107.9
Implied Equity Value per Share	**$113.38**
Implied Return	***23.2%***

	22.4x	24.4x	26.4x	28.4x	30.4x
12.0%	$95.73	$102.37	$109.00	$115.63	$122.26
11.5%	$97.60	$104.38	$111.16	$117.94	$124.72
11.0%	$99.51	$106.44	**$113.38**	$120.31	$127.25
10.5%	$101.47	$108.56	$115.65	$122.75	$129.84
10.0%	$103.48	$110.74	$118.00	$125.25	$132.51

Equity Bridge	
Current Share Price ($)	$92.06
Diluted Shares (mm) - from TSM block below	107.9
Total Debt (FY26A, carrying value)	570.9
Less: Cash & Equivalents	768.7
Less: Marketable Securities	601.5
Net Debt / (Net Cash)	(799.4)

	22.4x	24.4x	26.4x	28.4x	30.4x
12.0%	4.0%	11.2%	18.4%	25.6%	32.8%
11.5%	6.0%	13.4%	20.7%	28.1%	35.5%
11.0%	8.1%	15.6%	**23.2%**	30.7%	38.2%
10.5%	10.2%	17.9%	25.6%	33.3%	41.0%
10.0%	12.4%	20.3%	28.2%	36.1%	43.9%

Diluted Shares (Treasury Stock Method)	
Basic Shares Outstanding (mm)	104.991
Options Outstanding (mm)	1.299
Weighted-Avg Exercise Price ($)	$52.33
Net Option Dilution (mm)	0.560
Unvested RSUs (mm)	9.944
Unrecognized RSU Comp ($mm)	$697.6
Net RSU Dilution (mm)	2.366
Fully Diluted Shares (mm)	**107.918**

Commentary: Our discounted cash flow analysis implies a share price of $113.38, representing 23.2% upside, using a WACC of 11.0% and an exit EV/EBITDA multiple of 26.4x. The model uses a weighted-average interest rate of 4.125%, equal to the coupon on Elastic's sole / only outstanding debt tranche (its senior notes due in 2030). Applying a 21.0% tax rate results in an after-tax cost of debt of approximately 3.3%.

Sources: Company Website, 10-K, IR, Bloomberg, Wells Fargo

Appendix

Elastic (NYSE: ESTC) Revenue Build	2024A	2025A	2026A	2027E	2028E	2029E	2030E	2031E
MEF Total Revenue	**1,267.3**	**1,483.3**	**1,739.3**	**2,067.4**	**2,443.9**	**2,889.2**	**3,394.2**	**3,892.3**
Revenue Growth		17.0%	17.3%	18.9%	18.2%	18.2%	17.5%	14.7%
Bloomberg Total Revenue	1,267.3	1,483.3	1,739.3	2,005.4	2,294.9	2,626.4	3,005.2	3,350.3
Consensus Revenue Growth		17.0%	17.3%	15.3%	14.4%	14.4%	14.4%	11.5%
Revenue Variance vs. Consensus	**-**	**-**	**-**	**62.0**	**149.0**	**262.8**	**389.0**	**542.0**
Revenue Variance (%)	-	-	-	**3.1%**	**6.5%**	**10.0%**	**12.9%**	**16.2%**
MEF Sales Led Growth	-	-	-	-	21.1%	20.6%	19.5%	16.1%
Implied Consensus Sales Led Growth	-	-	-	-	16.8%	16.4%	16.3%	12.7%

Comparison to MODL								
MODL Adjusted Operating Income	142.4	225.1	285.3	390.2	481.4	588.1	682.0	695.0
MODL Implied Operating Margin	11.2%	15.2%	16.4%	19.5%	21.0%	22.4%	22.7%	20.7%
Operating Income Variance				**49.5**	**122.7**	**189.0**	**292.8**	**449.0**
Operating Margin Variance (bps)				**181.0**	**374.0**	**450.4**	**602.6**	**864.7**

FY28 Sell-Side Margin Benchmarks	
JPMorgan	20.5%
UBS	21.3%
Barclays	21.5%
Wells Fargo	22.3%

Sources: 10-K, Bloomberg, Earnings Calls