NO. 004

Why Dropbox Is an Obvious PE Target

I have been doing research on companies, reading 10-Ks, etc.

JULY 06, 2026

But as of late, reading the 10-K and seeing the slowing growth, there was not much to be optimistic about. Again, Steve Jobs was right: Dropbox was indeed a feature, not a Product, and clearly the wave of enterprise companies that were features that IPOed and struggled is many. Thus, I have a thesis of a wave of consolidation in this sector. And SaaS generally has had a history of strategic consolidation.

Dropbox would not be a strategic acquisition since most of the major enterprise companies already have a solid storage business. But it does throw off cash, and a lot of it. In FY2025, it threw off 931 million in free cash flow. From a Hamilton Hemler perspective, their main power is to allow for sustainable long-term cash flow, which would be switching costs. Once a smb embedes their documents with Dropbox and uses it to manage all their work documents, it creates a switching cost because of the complexities in switching and the harm it could cause in switching; apart from that their is no real other power. The switching costs do allow pricing power, but that is likely fragile.

But while this is no revenue-growing juggernaut, it’s a stable, cash-rich business, which is the kind of ideal target for the likes of a Silver Lake to acquire. And the valuation is cheap, making the debt load ratio reasonable, and use the close to one billion to pay down the debt. You could also take an aggressive approach in reducing headcount and cutting R&D. The product has largely remained the same, and there has not been much innovation since the founding. In terms of an exit strategy, there will probably not be a re-IPO, and finding another acquirer is also improbable. So likely just harvesting cash is the ideal play.

So now here are some rough numbers. As of the time of writing, the Enterprise Value is 6.43 billion. Assuming a 25% premium, the price would be around 8 billion. The FCF growth has been strong, around a 10% 3-year average, and 7% in 2025. Assuming a forward 5-year 3% growth rate. Assuming 60% debt, 4.8 billion, and the rest in sponsor equity.

Overall consolidation is cyclical, and there are periods of IPO booms and many new companies, and then bear markets where the Berkshires of the world buy great assets at even better prices. But a lesson from this story is twofold: when Steve Jobs tries to buy you, take it. Economically, the return from a capital efficiency standpoint would be much better. Second, public companies that are truly just a feature never give you great returns.

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