

SPT

Five-Pillar Analysis

A strict test of sector runway, leadership, moat, balance-sheet strength, and free cash flow. Evidence through October 1, 2026.

3 / 5
pillars pass

OVERALL: PARTIAL FIT

A cash-rich compounder-in-waiting with a moat AI could narrow.

Leadership, the balance sheet, and free cash flow all pass on evidence: a proven scaler at the helm, about \$87M of net cash, and six straight FCF-positive quarters. But the sector is growing at 11%, not sunrise speed, and the moat faces a genuine AI question. The engine wants faster growth and a wider moat before this becomes a full fit.

Evidence through October 1, 2026

Reference price: \$10.38 (October 1, 2026 close). Market capitalization about \$570 million. Research, not investment advice.

How the engine judges

02

The five-pillar engine asks five questions. Each pillar passes, partially passes, or fails on evidence, not narrative. A partial grade means the evidence is real but incomplete. A fail means the current state does not meet the standard.

PILLAR	THE QUESTION	GRADE
1. Sunrise sector	Is the industry growing for a decade or more, fast?	PARTIAL
2. Leadership	Has the leader scaled before, and done what they said?	PASS
3. Moat	Can competitors take the customers?	PARTIAL
4. Iron-fortress balance sheet	Can the company survive a bad two years without help?	PASS
5. Free cash flow	Does the business generate real cash, repeatedly?	PASS

The standard is strict on purpose.

A partial is not a failure. It marks the exact evidence that would upgrade the grade. Note the asymmetry in this package: the financial pillars (4 and 5) pass cleanly, while the growth pillars (1 and 3) are where the debate lives. That is the profile of a compounder-in-waiting, not a compounder yet.

Pillar 1: Sunrise sector

01

PARTIAL

The question: is the industry growing for a decade or more, fast?

Social media management software is a durable, growing market, but it is not a sunrise market anymore. Research firms put it at roughly \$11-17 billion in 2025/26, growing at high-single to low-double-digit rates (estimates range from about 8.5% to 12.5% CAGR depending on definition). The drivers are real: social has moved from a marketing channel to enterprise intelligence, AI is expanding what the software can do, and emerging markets keep adding users. Sprout itself holds only about 3% of that market, so share gains are available.

But the company's own growth has cooled. Revenue compounded at 26.8% over five years, then about 15% over the last two, and now runs at about 11%. The small-customer segment faces demand headwinds by management's own admission. A sunrise pillar wants multi-decade, high-teens-plus growth with the company riding the wave; Sprout is growing roughly in line with its market, not faster than it.

Why partial, not pass.

The market grows and Sprout can take share, which is enough for partial. But 11% growth in a 10%-ish market is participation, not a sunrise. The AI-driven social intelligence expansion could re-accelerate the category; until it shows up in Sprout's growth rate, the pass stays out of reach.

What would change the grade: upgrade on sustained mid-teens-plus revenue growth with the enterprise cohort compounding above 20%. Downgrade on growth slipping to high-single digits with SMB churn accelerating.

Pillar 2: Leadership

02

PASS

The question: has the leader scaled before, and done what they said?

Ryan Barretto became CEO on October 1, 2024. The scaling credential is unusually clean: he joined Sprout in 2016 and helped grow it from \$30M of ARR to more than \$385M exiting 2023, and before that spent ten years at Salesforce in leadership roles as it scaled from \$180M to more than \$7B in annual sales. He has now scaled two software businesses through two different orders of magnitude. Co-founder **Justyn Howard** moved to Executive Chair in the same transition and remains a greater-than-10% owner, keeping founder judgment in the room.

Did what they said: the 2026 record is a metronome. Q1 and Q2 both beat revenue and EPS expectations; full-year guidance was raised twice; the exit-Q4 non-GAAP operating margin target was raised from 15% to about 17%; Trellis shipped to all customers on the promised July timeline; the restructuring was announced with specific numbers (\$18-20M of charges, at least \$50M of annualized savings) instead of vague efficiency language. The enterprise pivot shows up in the numbers: the \$30k+ cohort's subscription contribution grew 20% to 61.4% of the total.

Against: the securities class action (filed May 2024, alleging the enterprise pivot and Salesforce partnership were oversold) is a permanent asterisk until resolved, and the CFO seat is held on an interim basis after Joe Del Preto's March 2026 departure.

Why it passes.

Two-time scaler, founder still engaged, and a 2026 scorecard with every promise kept or raised. The asterisks are real but they are about disclosure history and a hire, not about operating competence.

What would change the grade: downgrade on a guidance cut, a Trellis timeline miss, or an adverse class-action development. A permanent CFO hire and two more beat-and-raise quarters would cement it.

Pillar 3: Moat

03

PARTIAL

The question: can competitors take the customers?

The defensive assets are real. Sprout ingests more than 2 billion real-time social interactions daily through hundreds of APIs: a data scale a new entrant cannot replicate quickly. It leads third-party trust and ease-of-use scores (8.8/10 on G2, top marks for accuracy and trust in a March 2026 industry survey). The Salesforce relationship is deep and old: a global partnership since 2022, expanded in August 2025 as the first social platform connected through Salesforce's Bring-Your-Own-Channel architecture, with integrations across Service Cloud, Sales Cloud, Tableau, Slack, and Agentforce. Multi-year contracts are now nearly half of new business, and switching a deeply integrated social workflow is genuinely painful for an enterprise team.

But nothing here is structural. Hootsuite is the market-share leader, Sprinklr owns the unified-CXM enterprise tier, and the platforms themselves keep improving free native tools. The API dependence cuts both ways: the moat lives on data Sprout does not own, and its own filings call API access a risk factor. And AI is the open question: Trellis could deepen the moat if it becomes the intelligence layer enterprises rely on, or the platforms' and Salesforce's own AI agents could route around it.

Why partial, not fail.

Retention is strong, enterprise customers keep expanding (the \$30k+ cohort grows 20%), and Trellis users renew at higher rates: early evidence the product grips harder as it gets smarter. But the moat is workflow-and-data, not network-effects-or-scale, and AI could narrow it. This is the weakest pillar in the package.

What would change the grade: upgrade on Trellis Plus driving measurable ARPU expansion plus enterprise net retention inflecting up: proof AI widens the moat. Downgrade on share loss to native tools or a major platform API restriction.

Pillar 4: Iron-fortress balance sheet

04

PASS

The question: can the company survive a bad two years without help?

Yes, comfortably. At June 30, 2026: \$119.9M of cash and equivalents against \$32.5M drawn on a \$100M revolving credit facility. That is about \$87.4M of net cash, with \$67.5M of the facility still undrawn and no term loan, no bond, and no convertible anywhere in the capital structure. Cash has grown every quarter: \$90.6M at September 2025, \$95.3M at year-end, \$111.6M at March 2026, \$119.9M at June 2026.

Why it passes.

The fortress test is scaled to the company: a \$570M business holding \$87M of net cash, generating positive free cash flow, with two-thirds of its credit line untouched, can fund a severe downturn from its own resources. The July 2026 restructuring (20% workforce reduction, at least \$50M of annualized savings) was executed from strength, to reallocate toward AI and enterprise, not from distress. The \$50M buyback authorization is the tell: management is returning cash, not hoarding it against a wall.

Watch item: the consolidated securities class action and derivative suits (since May 2024) carry no accrued liability, but the company warns an unfavorable outcome could be material. That is the one contingent claim on the fortress.

What would change the grade: downgrade on a material class-action judgment, or on the revolver being drawn to fund operating losses. Already at the practical ceiling for a company this size.

Pillar 5: Free cash flow

05

PASS

The question: does the business generate real cash, repeatedly?

Yes, and increasingly so. Free cash flow (operating cash flow minus capital spending) has been positive for six straight quarters: \$16.7M, \$4.2M, \$8.5M, \$9.9M across 2025's quarters, then \$24.1M and \$7.8M in the first two quarters of 2026. Full-year FCF was \$39.3M in 2025, up from \$23.4M in 2024 and \$4.4M in 2023. Trailing-twelve-month FCF through Q2 2026 is about \$50.3M. Operating cash flow tells the same story: \$6.5M in 2023, \$26.3M in 2024, \$43.4M in 2025, \$33.7M in just the first half of 2026.

The quality is high because the capex is tiny: a software business barely needs capital spending (about \$4M a year), so operating cash converts almost one-for-one into free cash. The GAAP net loss, \$3.1M in Q2 2026, is now mostly the non-cash SBC charge; on a cash basis the business is already profitable.

Why it passes.

The pillar asks for free cash flow, repeatedly. Six consecutive positive quarters, a tripling in two years, and a capital-light model that converts operating cash at nearly 100%: this is the real thing, not a one-quarter artifact.

What would change the grade: downgrade on two consecutive FCF-negative quarters, or on operating cash flow decoupling from the narrowing GAAP loss (a sign the "profitability" is accounting, not cash).

What would change each grade

08

PILLAR	CURRENT	UPGRADE PATH	DOWNGRADE TRIGGER
Sunrise sector	PARTIAL	Sustained mid-teens-plus revenue growth with the \$30k+ cohort compounding above 20%.	Growth slipping to high-single digits with SMB churn accelerating.
Leadership	PASS	Already passing: a permanent CFO and two more beat-and-raise quarters cement it.	A guidance cut, a Trellis timeline miss, or an adverse class-action development.
Moat	PARTIAL	Trellis Plus driving ARPU expansion plus enterprise net retention inflecting up.	Share loss to native platform tools, or a major API access restriction.
Iron fortress	PASS	At the practical ceiling for this size.	A material class-action judgment, or the revolver drawn to fund losses.
Free cash flow	PASS	At the ceiling: FCF margin expansion toward 15%+ would be the victory lap.	Two consecutive FCF-negative quarters.

The single most important cell. The moat row is the whole debate. Pillars 2, 4, and 5 say this is a well-run, cash-rich, cash-generating business. Pillars 1 and 3 ask whether it can grow fast enough, and defensibly enough, to deserve a growth multiple. If Trellis Plus proves AI widens the moat (ARPU up, retention up), pillars 1 and 3 both start moving and this becomes a full fit. If AI commoditizes the category instead, the financial pillars keep it a fine business at a value price, but not a compounder.

The enterprise mix, Trellis, and the Salesforce thread



The enterprise mix shift, in one table. This is the operating story the pillars rest on:

	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
\$30k+ ARR customers	3,226	3,374	3,451	3,538	3,711	3,803	3,875	3,926
TTM \$30k+ subscription contribution	\$206.2M	\$219.2M	\$231.8M	\$243.3M	\$255.2M	\$268.0M	\$280.1M	\$291.7M
As % of subscription revenue	53.1%	54.5%	55.9%	56.9%	57.9%	59.1%	60.3%	61.4%

Per company releases. Eight straight quarters of mix improvement: the enterprise cohort grows about 20% while the total grows about 11%.

Trellis, precisely. A proprietary AI agent that answers plain-language questions from billions of social data points, spanning Listening, Publishing, Smart Inbox, and Reporting, plus Trellis Studio for custom AI workflows. Generally available to all customers on all plans since July 2026. Pricing: 100 credits per user per month included in the base plan; Trellis Plus at \$35 per user per month (monthly) or \$28 (annual) for 1,000 credits. Evidence so far: Trellis users retained at a higher rate in Q2 (per the CEO on the earnings call); JetBlue and Ipsy cut reporting and launch-monitoring work from hours to minutes; monthly active usage growing.

The Salesforce thread. A global partnership since 2022, expanded August 2025: Sprout was the first social platform to connect through Salesforce Digital Engagement's Bring-Your-Own-Channel architecture, piping Instagram, LinkedIn, X, Facebook Messenger, and WhatsApp directly into Salesforce. Integrations span Service Cloud, Sales Cloud, Tableau, Slack, Marketing Cloud Intelligence data, and Agentforce for Service Cloud. Salesforce also appears as a customer in recent highlights. The bull reading: this is distribution and validation. The bear reading, and the class-action allegation: the partnership's revenue contribution was oversold. The honest reading: it is a real, deep integration partnership whose financial contribution is unquantified, which is exactly why the moat pillar stays partial.

Sources and methodology

10

Method. Each pillar is graded on evidence available through October 1, 2026. Financial figures come from company press releases and SEC filings. Grades are strict by design: a partial marks exactly what evidence is missing. Where the company's stated totals differ from derived splits, the company's totals are used and the derivation is noted. Note: sec.gov blocked automated fetching during research (HTTP 403); filing content was verified through the filed documents as mirrored by reporting services.

CLAIM	SOURCE
FY2025: \$457.5M revenue (+13%), SBC \$78.7M (17.2%), net loss (\$43.3M), OCF \$43.4M; FY2024: \$405.9M, SBC \$84.3M (20.8%); FY2023: \$333.6M, SBC \$67.7M (20.3%)	Sprout Social 10-K for FY2025, filed February 27, 2026
Q2 2026: \$123.8M (+11%), SBC \$15.9M (12.8%), net loss (\$3.1M), OCF \$8.5M, FCF \$8.3M non-GAAP, cash \$119.9M, revolver \$32.5M/\$100M; H1: \$245.3M, SBC \$34.0M, OCF \$33.7M	Sprout Social Q2 2026 release, August 6, 2026 (GlobeNewswire)
Q1 2026: \$121.5M, cash \$111.6M; Q3 2025: \$115.6M, 9M OCF \$32.5M; Q4 2025: \$120.9M (+12.9%)	Q1 2026 10-Q (May 8, 2026); Q3 2025 10-Q (via StockTitan); Q4 2025 release (via StockTitan)
\$30k+ cohort: 3,926 customers, TTM contribution \$291.7M = 61.4% of subscription revenue; eight-quarter mix table	Sprout Social Q2 2026 release, August 6, 2026
Restructuring: ~20% workforce (~260 roles), \$18-20M charges, >=\$50M annualized savings; \$50M buyback	Q2 2026 earnings call (via Mitrade); Q2 10-Q subsequent events (via StockTitan)
Trellis GA July 2026; Studio; 100 credits included; Plus \$35/\$28 per user/month; JetBlue, Ipsy cases	Sprout Social release, August 19, 2026 (GlobeNewswire); pricing docs (via quasa.io)
Salesforce partnership since 2022; Aug 2025 BYO-Channel expansion; Service Cloud/Sales Cloud/Tableau/Slack/Agentforce integrations	Company releases March 2022, August 7, 2025; sproutsocial.com
Barretto CEO Oct 1, 2024; \$30M to \$385M+ ARR; 10 years at Salesforce (\$180M to \$7B); Howard to Executive Chair	CEO succession release, April 15, 2024
Class action + derivative suits since May 2024; no liability accrued; could be material	10-K FY2025 Legal Proceedings; Q2 2026 10-Q (via StockTitan)
2B+ daily interactions via hundreds of APIs ("strong competitive moat"); Trellis retention evidence; Fortune 50 \$893k expansion	Q2 2026 earnings call (via Mitrade)