

# Needham & Company, LLC

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## HCM Market Update

Feb 23, 2018



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# Recent HCM Marketplace Activity

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## January: iCIMS acquired TextRecruit

- Candidate engagement platform
  - Using Texts and an App
- Terms not disclosed



# Recent Activity

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## January: ADP acquires Workmarket

- Contingent workforce management platform
  - Think Fieldglass
- Small deal, roughly \$6mm in revenues



# Recent Activity

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**January: Peoplewave raises \$500k**

- **PM type functionality around appraisals & onboarding**



# Recent Activity

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**January: PageUp raises “significant” round**

- **Based in Melbourne but has >\$30mm in revenues coming from US**
- **Standard TM platform**

**PageUp** 

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# Keynote

*"Think Like a Investment Analyst –  
Act Like an Institutional Investor."*



## How to do an annual financial review with your HCM vendors



*Though hesitant at first, Hank orders the "Watching Paint Dry Network" offered exclusively through his satellite provider.*

**What financial QUESTIONS to ask during the vendor selection process and what the ANSWERS mean:**

- **CAC – Customer Acquisition Costs**
- **Cost to Serv Metrics**
- **Annual Contract Value growth**
- **Gross Margins**
  - **What are they?**
  - **Why does Company A generate 68% GM and you generate 78%?**



## Investment Terminology 101

- **Shorting stocks/short covering**
- **50 or 200 Moving Averages**
- **Inverse relationship between bonds and interest rates**
- **PEG ratio analysis**
- **Leverage buyout discussion**
- **Others you've heard?**

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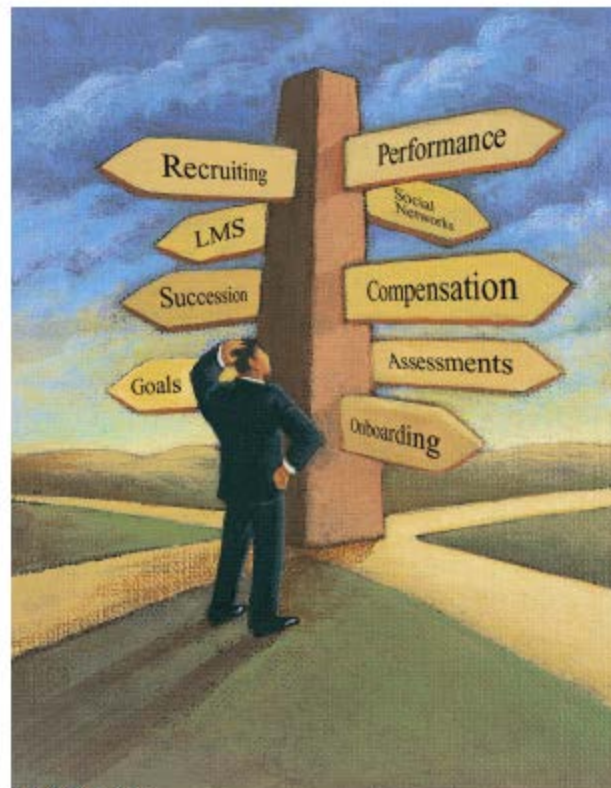
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# Think Like an Investment Analyst

*How what I research can help in your vendor selection*



## ThinkPeople-Power Picking the Big Winners in HCM



Source: Getty Images

## Picking the Big Winner in HCM

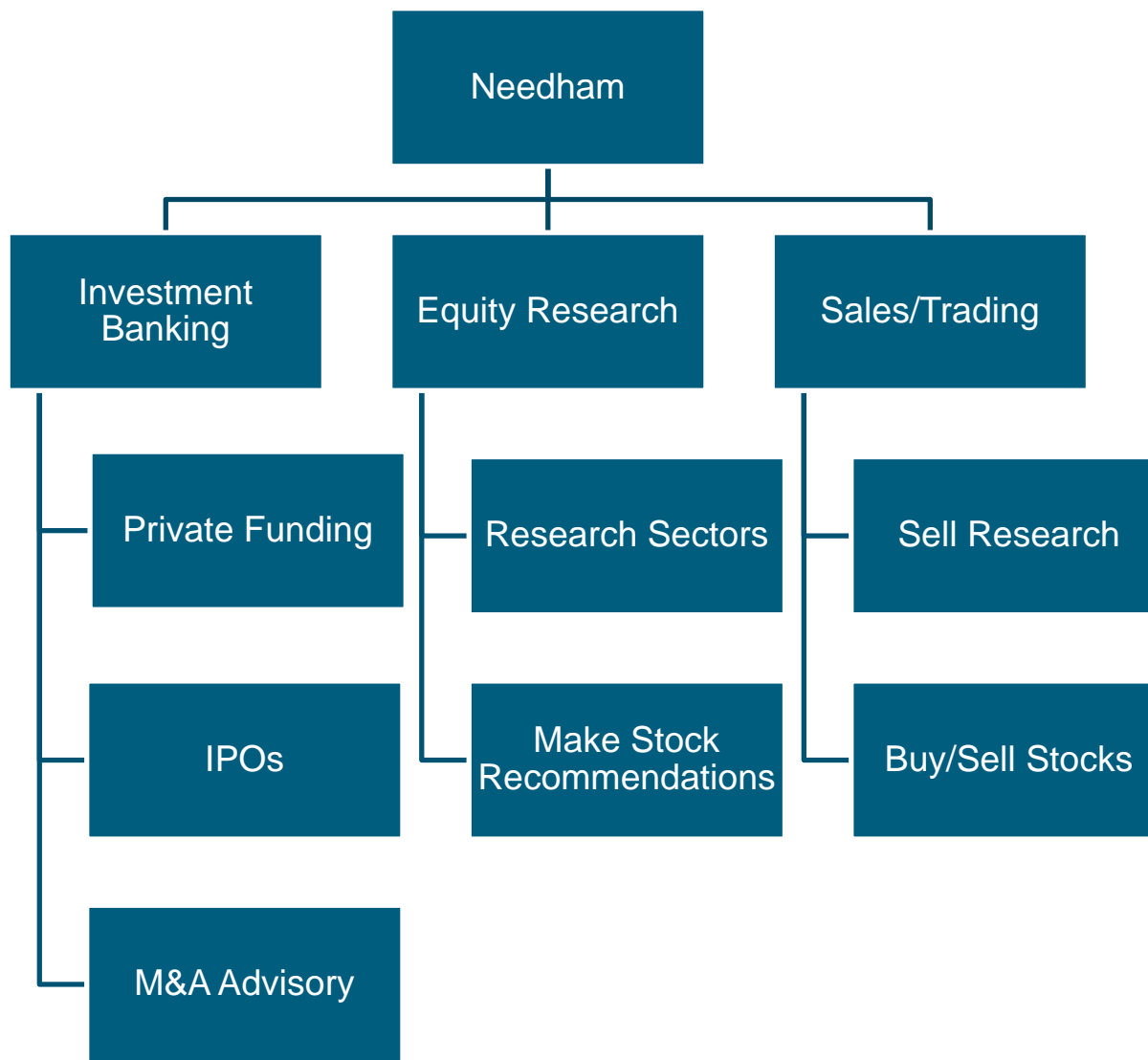
- **Human Capital System of Record**
- **On-Demand**
- **Organically Built**
- **Scalable**
- **Global and Local**
- **Created for Mass Consumption**
  
- **Who are the winners today?**
  
- **Who are tomorrows big winners?**

## What we will learn:

- **My work and how it can relate to your work**
- **Why is management so important**
- **Understand the market**
- **What makes a “market leader”**  
(profitability, market share, R&D, key staff, clients, & more)
- **Product is critical**
- **Financials 101**

# Think Like an Investment Analyst

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# What I do as a Research Analyst

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Cover 20 public companies today



# What I do as a Research Analyst

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Following 100 private companies today





# What I do as a Research Analyst

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## New HR Innovation

### Employee Engagement/Surveys

qualtrics



**MEDALLIA**

### Global Employment Outsourcing



# What I do as a Research Analyst

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Market Macro Trends

Financial Performance

Competitive Position

Management Background

Product Strategy

Pricing



Stock Recommendation



# What I do as a Research Analyst

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**My Goal**



**Understanding  
expectations**

# What I do as a Research Analyst

**Needham**

April 17, 2017

## Everbridge, Inc. (EVBG)

**Bridging the Power of SaaS with Threat Management - Initiate at Buy, \$25 PT**

**INVESTMENT HIGHLIGHTS:** We initiate coverage of Everbridge with a Buy rating and \$25 PT. We believe Everbridge is standing at the forefront of an outdated, paper-based end market that is ripe for modernization. Armed with an evolving product suite, Everbridge has cemented itself as the dominant early industry leader and the only vendor that can automate the end-to-end processes of this market that combines threat identification, robust communications, and task management to execute response plans. We believe this well positioned product suite creates an attractive opportunity to sustain a 20% revenue growth profile for several years in a nascent end market seeking mature solutions. Stock valuation looks attractive currently trading at 4.0x EV/FY18E revenues versus like SaaS companies with 25%+ revenue growth typically trading at 5.0x or greater.

### Investment Positives:

- **Attractive end market ripe for modernization.** We believe the company's end markets, commonly referred to as the Critical Events Management solutions market, but also the corporate Enterprise Risk Management market, are ripe for modernization.
- **Large, expanding TAM offers significant growth opportunities.** Everbridge competes in the critical events management market, which we believe to be growing at a 12.9% CAGR and should eclipse \$21B in 2020.
- **Evolving product suite cementing Everbridge as industry leader.** We believe Everbridge's core Mass Notification module to be the dominate leader in its core end market today.
- **Attractive valuation at current levels.** We believe current valuation of 4.0x EV/FY18E revenues offers an attractive entry point for growth investors seeking premium revenue growth rates.
- **We prefer subscription-based revenue models given better visibility.** We prefer the SaaS delivery model in general to traditional on-premise, perpetual license software delivery models because the SaaS model delivers more predictable near-term revenue and cash flows while also being more profitable over the long term.

|            | FY 12/31/2016 |         | FY 12/31/2017 |         | FY 12/31/2018 |         |
|------------|---------------|---------|---------------|---------|---------------|---------|
|            | Actual        | Old     | New           | Old     | New           | New     |
| Rev. (MM)  | 76.8A         | 100.6E  | 100.6E        | 125.2E  | 125.2E        | 125.2E  |
| Growth     | 30.8%         |         | 31.0%         |         | 24.5%         | 24.5%   |
| Op. Margin | (5.8)%A       | (9.0)%E | (9.0)%E       | (5.5)%E | (5.5)%E       | (5.5)%E |
| EPS: 1Q    | (0.12)A       | (0.18)E | (0.18)E       | (0.07)E | (0.07)E       | (0.07)E |
| EPS: 2Q    | (0.08)A       | (0.11)E | (0.11)E       | (0.06)E | (0.06)E       | (0.06)E |
| EPS: 3Q    | (0.07)A       | (0.03)E | (0.03)E       | (0.05)E | (0.05)E       | (0.05)E |
| EPS: 4Q    | (0.03)A       | (0.01)E | (0.01)E       | (0.07)E | (0.07)E       | (0.07)E |
| EPS: Year  | (0.28)A       | (0.33)E | (0.33)E       | (0.24)E | (0.24)E       | (0.24)E |
| Growth     | (45.1)%       |         | 17.9%         |         | (27.3)%       | (27.3)% |
| P/E Ratio  | NM            |         | NM            |         | NM            | NM      |

### INITIATING COVERAGE

Stock Rating **BUY**  
Price Target **\$25.00**

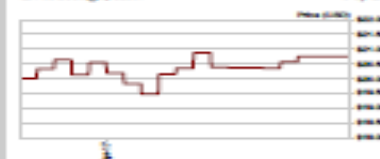
### SaaS/Application Software

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### Stock Price Performance

Everbridge, Inc. 04/17/17



### Market Data

Price (04/14/2017) \$20.74  
52-Week Range \$21.44 - \$11.76  
Shares Outstanding 27.68  
Market Cap (MM) \$574.0  
Avg. Daily Volume 214,613.0  
Total Debt/Cap. 0.00%

# How can what I do help your vendor selection

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My Goal



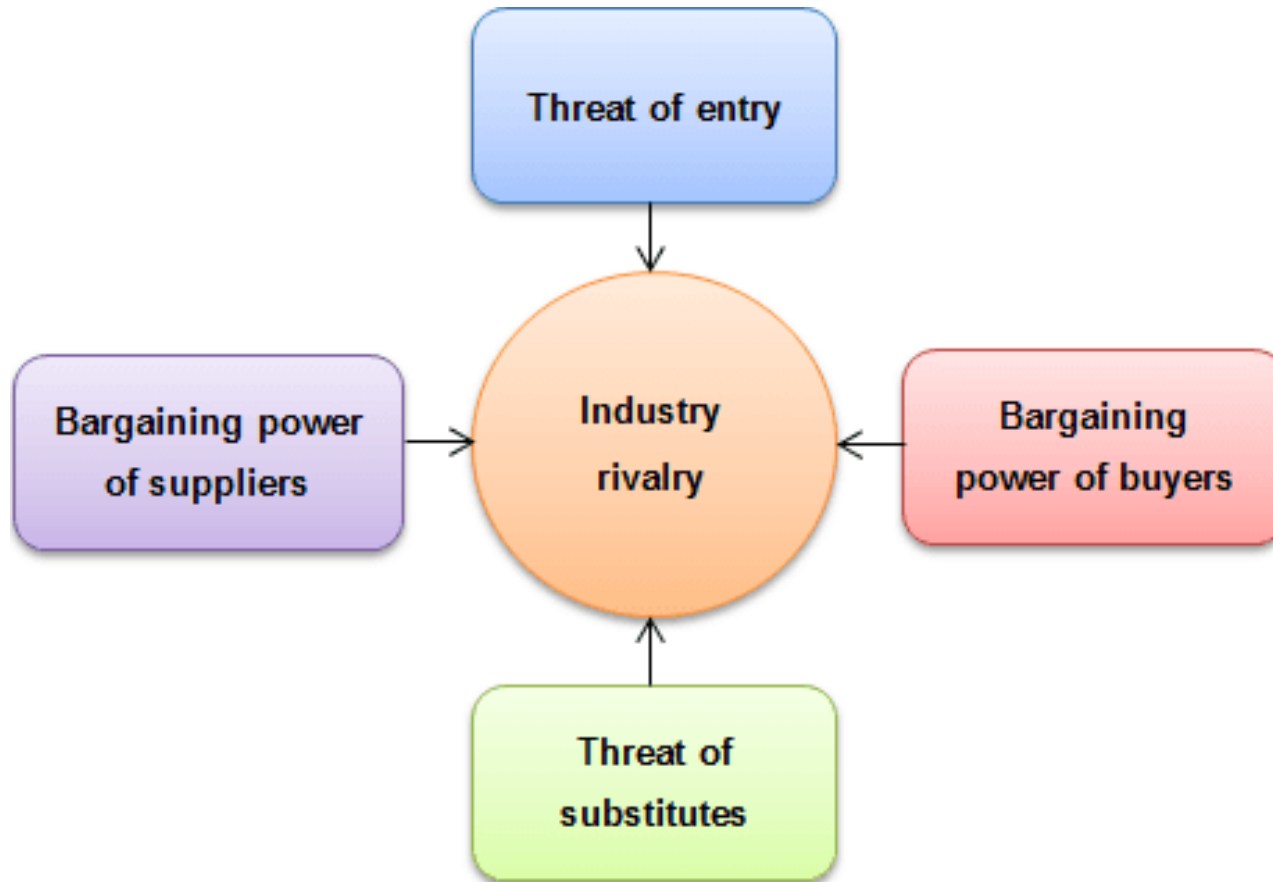
Your Goal



# How can what I do help your vendor selection

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## Strategy - Porter's Five Force



# How can what I do help your vendor selection

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## **Within Strategy – Company History & Management are Key**

- **CEO/Founder background**
  - **How are they attached to this product area**

### **Examples**

- **Dave Duffield?**
- **Lars Daalguard?**
- **Mike Gregoire?**

# Who to Purchase From

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**Former Investment Banker?**



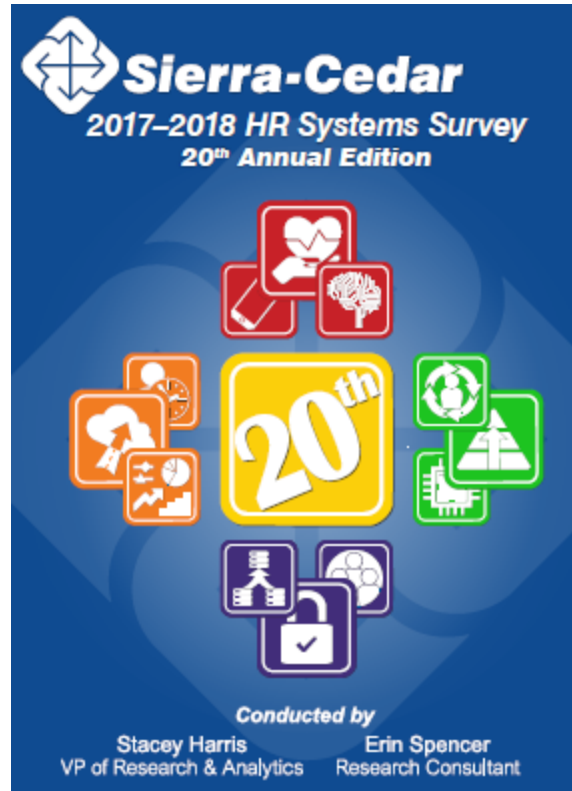
**Former Global Practice Lead for PeopleSoft & Oracle at Bearing Point?**





- **Total Addressable Market (TAM)**
  - **Several Sources - IDC, Gartner**
  - **Large TAM = More Competitors = Buyer Pricing Power**
  - **Core HR/Payroll = \$20B+**
  - **Workforce Planning = \$500mm?**
- **TAM Growth Rate**
  - **Leaders typically grow at >2x**
  - **Losing share consistently means?**
  - **Is the industry contracting?**

## Surveys more interesting than Industry Analyst Reports



# Industry Dynamics

Update  
Briefings

| HCM Suite Vendor       | Weighted Total* | Place     | HCM Suite Vendor       | Popular Vote | %   |
|------------------------|-----------------|-----------|------------------------|--------------|-----|
| <b>Workday</b> 🗨️      | 71              | <b>1</b>  | Namely                 | 15           | 75% |
| Namely☹️               | 63              | <b>2</b>  | BambooHR               | 13           | 65% |
| <b>Ceridian</b> 🗨️     | 56              | <b>3</b>  | Workday                | 12           | 60% |
| Ultimate Software☹️    | 49              | <b>4</b>  | Ceridian               | 11           | 55% |
| Oracle HCM ?           | 49              | <b>5</b>  | Ultimate Software      | 9            | 45% |
| <b>BambooHR</b> 🗨️     | 49              | <b>6</b>  | SAP/SuccessFactors     | 9            | 45% |
| Paylocity☹️            | 49              | <b>7</b>  | Oracle HCM             | 9            | 45% |
| SAP/SuccessFactors☹️   | 37              | <b>8</b>  | SyncHR                 | 9            | 45% |
| SyncHR☹️               | 36              | <b>9</b>  | Paylocity              | 8            | 40% |
| Sage People☹️          | 36              | <b>10</b> | Kronos                 | 7            | 35% |
| <b>Cornerstone</b> 🗨️  | 29              | <b>11</b> | Sage People            | 6            | 30% |
| <b>Kronos</b> 🗨️       | 24              | <b>12</b> | Cornerstone            | 5            | 25% |
| Paycor ?               | 20              | <b>13</b> | Microsoft Dynamics 365 | 5            | 25% |
| Microsoft Dynamics 365 | 18              | <b>14</b> | Infor                  | 4            | 20% |
| Infor ?                | 16              | <b>15</b> | ADP                    | 4            | 20% |
| ADP ?                  | 16              | <b>16</b> | Paycor                 | 4            | 20% |
| PDS Vista HRMS ?       | 12              | <b>17</b> | SilkRoad               | 3            | 15% |
| Paycom ?               | 10              | <b>18</b> | SumTotal               | 3            | 15% |
| SilkRoad ?             | 8               | <b>19</b> | Paycom                 | 2            | 10% |
| SumTotal ?             | 8               | <b>20</b> | PDS Vista HRMS         | 2            | 10% |
| Saba ?                 | 5               | <b>21</b> | Saba                   | 2            | 10% |
| IBM ?                  | 2               | <b>22</b> | IBM                    | 1            | 5%  |

Q&A

- **Number of competitors**
  - **Compare growth rates**
    - **Growth rates reflect customers' "vote"**
- **Competitors relative strength by product**
  - **Platform vs. Best-of-Breed**
- **Product segments in a market**
- **Market penetration rates**

Why does all this matter to us?



Probable Vendor Viability

# Product Review

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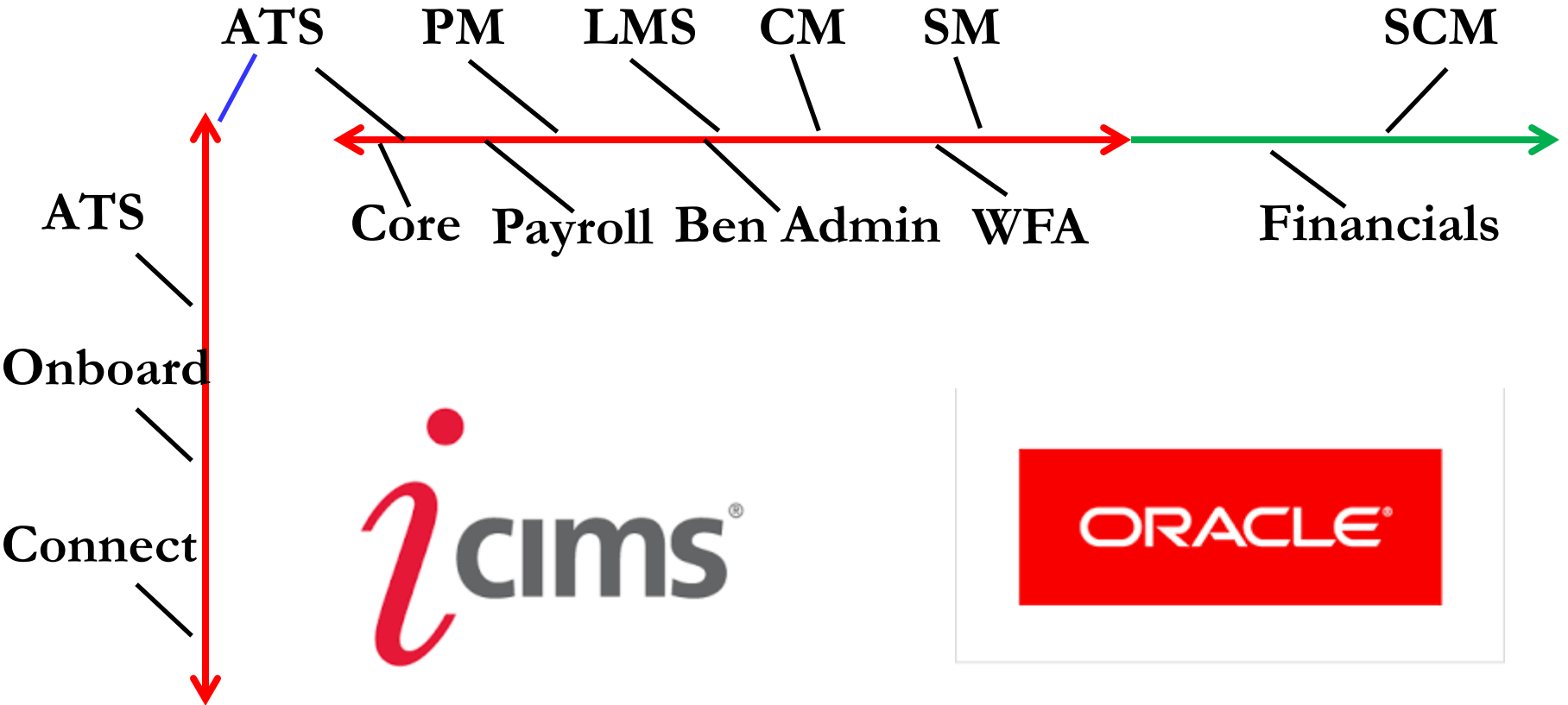
- **What product areas is a vendor in? Do they relate?**
  - **What could a buyer also purchase going forward?**
- **Typical assessment review w/ strengths and weaknesses**

# Product Review – Insert Oracle

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Long term product strategy?

- Vertical or horizontal?



# Product Review

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- **Age of the product/UI**
- **80/20 rule – The Vurv Rule**
- **Understand the technology stack**
  - **Modern technologies - .NET, Java, Ruby on Rails**
  - **Legacy Tech – Cobol, Cold Fusion**



# Understanding Financials

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## 3 parts to financial statements

- **Income Statement**
- **Balance Sheet**
- **Cash Flow Statement**
- **Revenue**
- **Net Cash Balance**
- **Free Cash Flow**

Technically, why do companies go out of business?



Not earnings or revenue....cash

# Understanding Financials

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Is this stock price imply good corporate health?



# Understanding Financials

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How about now?



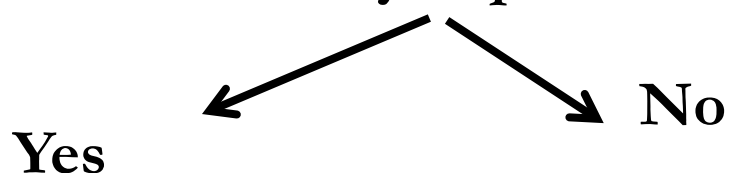
# Understanding Financials

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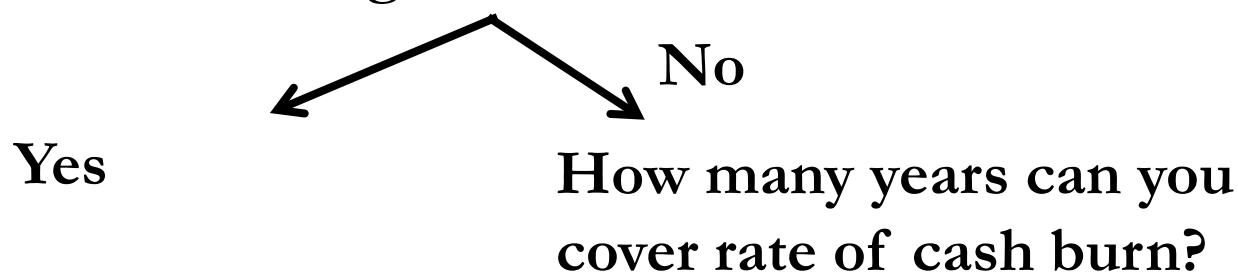
## Cash is King

Questions to ask

Are you profitable?



Does the company generate Free Cash Flow?

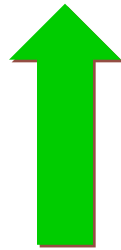


# Understanding Financials

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Subscription model change how to evaluate vendors financially

Revenue Growth



Profitability



Less

Profitability

More



Early Stage

Mature Stage

## Biggest Financial Pitfall



**A.K.A – The race to the bottom**

## Financials Summary

- **Revenue growth = Customer votes**
- **Early = unprofitable...and that is OK**
- **Cash is King, not profitability**
  - **Know cash level, coverage**
- **Revenue growth vs profitability inverse relationship**
- **Price drops can be bad news**



# Key Concepts & Lessons Learned

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**What differentiates successful startups from so-so startups and start-up failures?**

**What differentiates companies that survive and thrive for 5, 10, 20 yrs.**

# Disclosures

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## Disclosures:

The research analyst and research associate have received compensation based upon various factors, including quality of research, investor client feedback, and the Firm's overall revenues, which include investment banking revenues for the following: Cornerstone OnDemand, Inc., Healthstream, Inc., Instructure, Paylocity Holding Corp., Ultimate Software Group, Inc., and Workday, Inc.

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