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Introduction
Introduction

A discussion on Software as a Service, from the product perspective

• SaaS has succeed for a range of reasons, not just the economic model

• As SaaS’s appeal expands to new markets and customers, so must the value proposition

• Software as a Service → Solutions as a Service
  • More robust offerings to fill larger “gaps” for customers

• BUT, must remain scalable, and must maintain margins
Update Partners Background
Update Partners Summary

- Update Partners provides growth equity for technology leaders
- We invest in Software, Internet/Digital Media, and Tech-Enabled services companies, globally
- Expansion stage companies that have conquered product and initial customer risk
- Our Partners are all industry veterans – our capital, expertise, and networks help companies scale through exit
- We look for investment opportunities that reflect our broad industry theses
  - …and The Cloud has been a dominant one for some time
The Cloud Computing Opportunity

Cloud computing represents the biggest industry shift in a generation...

- The total Cloud market opportunity, which includes SaaS, PaaS and IaaS, is projected to grow 26% annually from 2011 to 2016

- The SaaS market is estimated to be $19.8bn in 2013 and is growing at a CAGR of 19%...but it’s evolving too
SaaS Domain Expertise

Updata has been successfully investing in SaaS for 10+ years

Updata Partners’ SaaS Investments

30%+

Compound Annual Growth Rate from time of investment¹

¹) CAGR for all Updata SaaS investments shown. Calculated from time of investment until earlier of exit date or 9/30/2013.
SaaS Thought Leadership

Publications on managing, measuring, optimizing the SaaS model

Cloud Computing: GMPP, rCAC and the Importance of Component Level Analysis

Cloud Computing: A Closer Look at Churn

SaaS versus Perpetual: Tastes Great or Less Filling?

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Recent Successes

Update’s recent SaaS exits have validated our approach

- **jobs2web**
  - an Updata III portfolio company
  - has been acquired by SuccessFactors
  - $110 Million
  - December 2011

- **iContact**
  - an Updata III portfolio company
  - has been acquired by Undisclosed
  - $169 Million
  - February 2012

- **COAXIS**
  - an Updata IV portfolio company
  - has been recapitalized by TARA Associates
  - Undisclosed
  - July 2012

- **OrderMotion**
  - an Updata III portfolio company
  - has been acquired by Netsuite
  - Undisclosed
  - May 2013

- **ALERTLOGIC**
  - an Updata III & IV portfolio company
  - has been acquired by Welsch Carbon
  - Undisclosed
  - August 2013
SaaS Market Observations
Software as a Service

Why is SaaS so attractive? It's not just the predictable, recurring revenue…

From an operator's point of view, SaaS is about managing friction

- **REDUCE** Sales / budget friction
- **REDUCE** IT / Integration friction
- **REDUCE** Adoption / success friction
- **INCREASE** Switching costs / friction
The First Wave of SaaS: Software as a Service

Early SaaS vendors established market dominance in horizontal applications

- All the fundamentals were strong: low CAC, high LTV, land + expand, etc.
- Compared against decades of pain from monolithic applications like Oracle and SAP
- **Reduced Sales Friction**: Low entry price, multiple entry points
- **Reduced IT Friction**: Some migration and integration, but not like big, legacy ERP projects!
- **Reduced Success Friction**: Simple, easy to use, web interface = familiar for all users
- **Increased Switching Friction**: They had your data in core applications like HR, Accounting & Finance, Inventory, Supply Chain

However – the horizontal battles have been fought and won. What's next?
The Second Wave: SaaS becomes Specialization as a Service

Focus on verticals, and going deep into more specialized processes

The apps get more complicated, and so does managing friction

- **Reduced Sales/Budget Friction**: Maybe not.
  - Fewer entry points; less expansive budgets.

- **Reduced IT/Integration Friction**: Sometimes.
  - But often integration required with external resources or large data sets.

- **Reduced Adoption/Success Friction**: Hopefully.
  - More complex applications = more need for training and longer time until full value realization.

- **Increased switching friction**: Not as much.
  - Less likely when not housing core data; if not getting job done, will get "fired" for the 1-2 other lookalikes.
The Next Wave: Emerging need for Solution As A Service

SaaS creeps into new places where customers are demanding a “whole product”

- Customers don’t really want software. They want **RESULTS**.
- Successful companies will layer scalable services onto their software to help customers do their job.

**Reduce Entry Friction:** Need to **help the customer get the job done** too.

- “I love your application, but don’t have the team here to manage it.”
- “I don’t have time to act on what your application is telling me.”
- “I can do this function, but it’s not my core expertise. But isn’t it **yours**?”

**Increase Exit Friction:** When the application provider answers these questions well, they make customers look like heroes.
Solution as a Service: Illustrations
Advise: You Can Do It, But Let Us Tell You How

- **Software**: Collects and Analyzes Customer Satisfaction Data…
  - BUT clients must make decisions on how to utilize feedback
- **Solution**: ForeSee advisors meet quarterly with customers to help interpret data
- **Result**: A “whole product” offering that delivers results
  - Pricing power. Gross Margins on par with “pure” SaaS vendors
  - Happy customers! Several years of “positive” churn

- **Problem**: SMB-focused email marketing platform…
  - BUT clients often lack a “marketing guru” to create and/or execute optimized campaigns
- **Solution**: An “enterprise” version of the product. For an additional fee, iContact representatives on call to advise users through every aspect of a marketing campaign
- **Result**: Minimal churn and 10x the price for high-margin services…
Assist: You Can Do It, But We Can Do It If You Like

- **Problem:** Alert Logic brings IT security solutions to the cloud…
  - BUT most companies can’t afford a “security team” to monitor

- **Solution:** Offers a value-added, scalable monitoring service w/ software

- **Results:** Protection offered to customers who previously had little access.
  - Vast majority buy software + service at higher price.
  - Very low churn + upsell to additional, monitored security products

- **Problem:** LendKey software platform allows community banks to offer many kinds of loan products…
  - BUT these small banks don’t have personnel to service loans

- **Solution:** Applications can be processed and loans serviced by LendKey using industry best practices (and LendKey’s software)

- **Results:** Smaller banks able to offer new products to new kinds of clients = new revenue streams
  - LendKey has not lost a customer to churn since inception
Enhance: You Can Do It, But We’ll Make You Smarter

- **Problem**: Global Trade Management is very complex – involves laws, regulations, and tariffs from many, many countries…
  - AND workflow for planning global trade is nice, but not the most complex piece of the puzzle…that’s the ever-changing data

- **Solution**: Aggregate/publish data related to global trade, in-application
  - The software runs your process, the data drives the right decisions

- **Results**: Dramatic reduction in personnel/research costs for clients.
  - “Stickiness” in the form of long-term contracts

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- **Problem**: Order Management software helps eTailers track orders and route data to ERP, Finance, and other apps…
  - BUT every eCommerce transaction generates useful data

- **Solution**: OrderMotion aggregated data across the customer base for predictive assessments on merchandising and bundling
  - Replacing spreadsheets or a merchandiser’s “gut”

- **Results**: Incremental revenue stream, “exclusive” data asset that’s hard to replicate quickly
Conclusion & Closing
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Questions?

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