

Cautious Optimism

**The Software and Services Sector
at Mid-Year**

A Mixed and Mixed-Up Market at Mid-Year

By Kevin Cable, Executive Vice President, Cascadia Capital

Colleague,

It's almost the mid-point of one of the most difficult investing years any of us can remember. The first months of 2009 were, without doubt, colored dark and stark; but now there are some mixed shades and tones out there, and maybe we're even starting to see signs of recovery. That means there are opportunities to weigh and consider in the software and services sector.

Venture capital firms appear to have taken care of the problem issues in their portfolios, and many investors are now focusing on forward-looking possibilities. They also realize that the current environment won't last forever and that their competitors are funding the best companies. That said, pricing is still an issue because the public market recovery is still in process; multiples aren't back to where they once were, and probably won't get there for a long time.

In terms of technology M&A, large companies are well aware that they still need to play the role of consolidator to achieve growth and fuel their share price recovery. And, as their revenue and profit visibility increases, they will begin to get more aggressive with their acquisition targets. They've been kicking tires for the last six months. Conversations with buyers indicate they are shifting gears. Oracle's acquisition of Sun is a good example of extremely aggressive behavior in this environment.

The backdrop here, of course, is the public market, which has rallied and stabilized to a degree. People are just getting comfortable with the notion of a long-term recovery, so I'd call this an emotional victory of sorts.

What does this mean for the health and well being of early-stage technology companies? Well, I thought Q2 would be the very worst revenue quarter because any momentum companies had built up in Q3 of 2008 would have dried up by now. But most companies we are working with are experiencing a loosening of the budget strings of the IT departments they are selling into, an increase in order velocity, and even some record-setting order values.

In the following pages, you'll hear from a few of the real players in the software and services market. They'll tell you first-hand how they see things today—and where they see things heading tomorrow.

Read on, and hopefully you'll gain insight. We need as much of that as we can get these days.

Sincerely,

Kevin



Brett Campbell

Senior Vice President and Co-Founder, Nintex

Where do you think we are in the cycle?

At Nintex we are in consolidation and caution mode until Sept 30, 2009. We are storing cash, watching our expenses, streamlining processes and building our global partner program for our low cost scalability. From a customer and partner point of view, we have seen an increase in activity since March 2009, and I would say the purchasing cycle has now become more real and deals are being closed. We are also looking at new ways to grow by either acquisition or more products and services built on the new platforms (eg. Cloud and SaaS). This would be a mutation of the existing products, but into a subscription-based model."



What customer activity are you seeing? How has it changed in the last three months?

"The customer view is: 'We can't do nothing for too much longer; we need to innovate and move forward.' Customer activity has increased in the last two months, and since mid-March we have seen an increase in our trial software, requests for demo stats, and also revenue. The only thing I'm seeing that is different from this time last year is that the procurement process in the enterprise has lengthened by about 40 percent. We're seeing deals stuck in procurement for more than three months. This is a concern because I gather the economy has driven additional approval policies to be introduced has been put in place by many customers."

What are your expectations for the rest of 2009?

"We're looking forward to achieving on target results for FYE June 30, 2009. We don't have big expectations for the remainder of the calendar year based on the past six months. However, we do have expectations moving into the Q4 CY09 period because we believe that the market will begin to stabilize and confidence will come back in a number of key segments.

We still see healthcare, education and government as being strong for us, so we'll take advantage of this and build more direct vertical offerings into these markets. With an increase last year of approximately 300 percent, we're cautious about doing this back to back. Our software assurance business is firm, and we see this as a crucial part of our revenue growth.

In summary, we expect the market to continue making a comeback from September onward, and companies that can make it through with no wounds will drive bigger and stronger businesses into the market."

With over 1,000 customers in 60 countries, including 40 Fortune 500 companies, Nintex is a leading global innovator of software products that extend Microsoft technology

Lewis Carpenter

CEO, Winshuttle

Where do you think we are in the cycle?

"Based on our own experience, and on some recent conversations with executives at other companies, I think we may have seen the absolute 'bottom,' both emotionally and in terms of business results, as we exited Q1 (fingers crossed). Q2 will probably remain under pressure, even as we see more optimism emerging (witness Ben Bernanke's recent comments), with the real, measurable improvements more likely to show up in the second half of the year."

What customer activity are you seeing? How has it changed in the last three months?

"Winshuttle sells our software tools to SAP customers globally, so we're dealing with large-to-very-large enterprise customers. During Q1, our collective market seemed to be 'holding its breath,' trying to assess the impact of the recession on its businesses and, while our sales results were still up year-on-year and we sold a solid number of new accounts, some of those (particularly in Europe) started with smaller, proof-of-concept deployments. Much of our target market is still struggling—with new layoffs still hitting the news—but we've recently seen a resumption of larger, 'enterprise deployment' discussions with new and existing customers. We're also seeing significant interest in some new products we just announced, which is a positive sign. One data point in April: we promoted a Webinar on our new query tool for SAP with an email blast to our normal data base of prospects and customers, expecting to have 100-200 sign up, and we were delighted to have over 650 people register for the event."

What are your expectations for the rest of 2009?

"In our Global 2000 target market, I think we'll continue to see slower sales cycles and heavy pressure on budgets through mid-year, with positive momentum starting to build some time in Q3. Because Winshuttle's products fall into the 'do more with less' high-ROI category rather than the 'nice to have' category, we expect to continue to grow throughout the year. However, when we look back at 2009, I think we'll see a marked difference between growth rates in the first half of the year and the second half."



Winshuttle lets both business and IT users easily enter and download SAP data, using familiar desktop applications—Excel and Access. The company's tools automate a wide range of SAP data entry and reporting tasks, freeing individuals to focus on more critical business operations

Mike Kennewick

Co-Founder, Chairman, CEO, VoiceBox Technologies

Where do you think we are in the cycle?

“Well, some folks say things are improving. And others believe the second catastrophe is coming in commercial real estate that will impact banking, lending and the capital markets. So what part of the cycle are we in? That’s for the national economists to decide. What we’re doing at VoiceBox is ensuring that we have a cash cushion, and we’re managing against unforeseen events. We’re playing as if we’ve encountered the worst-case scenario—namely, that we’re in year one of a three-year downturn.”

What customer activity are you seeing? How has it changed in the last three months?

“We are seeing some activity and growth. While Q4 2008 and Q1 2009 were down—VoiceBox’s major customers are automobile manufacturers and consumer product companies—there is clearly new activity in Q2. The expectation in Q4 and Q1 was that clients would be at 50 percent of plan, and this has played out accordingly. Yet we haven’t lost a single customer. All of them have been impacted, but still no client losses. All customers are performing, and I’m bullish on the remainder of the year. The capital markets are opening, and so are VC opportunities. Anecdotally, there are many more conversations right now among, and with, top-drawer financiers.”

What are your expectations for the rest of 2009?

“Cautious optimism. Customers have significant activity. There will be new product launches during the rest of the year; and we’re launching a new product this summer. Basically, product lines aren’t getting dropped, and we see continued growth on the horizon.”



VoiceBox Technologies develops Conversational Voice Search software that lets people search, navigate and discover content and services simply by using natural, free form language.

Sunny Singh

CEO, Edifecs

Where do you think we are in the cycle?

"I believe that we are still in a downward cycle. Firstly, there are fundamental problems with the economy, and that includes the housing market and the financial sector. Companies are going to continue cutting staff with unemployment reaching 12-13% before stabilizing. We will continue to see a soft market for the rest of 2009 and most, if not all, of 2010. I anticipate that any significant recovery will take place starting in 2011. There will be some solid jumps for first six months or so, after which we will see slow, albeit steady, growth that gets us completely out of this crisis over the course of three to five years."



What customer activity are you seeing? How has it changed in the last three months?

"We are seeing good customer activity. Given that we squarely focus on reducing costs and tackling inefficient processes, the ROI is compelling and immediate. The client activity has not changed over the last three months."

What are your expectations for the rest of 2009?

"We expect 2009 to continue being soft overall. Healthcare as an industry will continue struggling and growing. It is growing, but for all the wrong reasons. We do not see any catalyst in the market that will change that. Pent-up demand may exist, but 10-12% unemployment will neutralize that. Economic stimulus will help, but it will take some time to show its effects, only to put us back into a cycle of pumping of what I call 'artificial money' in the economy."

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