

Workday And Adaptive Insights: A Strong Pairing

Earlier today I opened my laptop for the first time in 10 days (after a glorious family vacation to Yellowstone) – to Workday’s announcement that it is acquiring Adaptive Insights for \$1.55 billion (in cash), inclusive of \$150 million in unvested equity issued to Adaptive Insights employees. At 13x (+) trailing 12-months revenue of \$114 million (33 percent y/y growth, 3,800 customers), investors Bessemer, Norwest, Salesforce, JMI and others will no doubt be pleased with their return on the \$176 million invested across several venture rounds.



While the price tag might appear to be high – more

than double what Adaptive Insights impending IPO was valued at – what is less surprising is that these two companies came together in the first place. The Workday leadership team has long known that powerful cloud-based financial planning, budgeting, forecasting, consolidation and modeling software is the most important beachhead to successfully penetrate the Office of the CFO. And Adaptive Insights is a clear leader in this category.

In fact, rumors have long circulated that Workday danced with several companies – including Anaplan, Tidemark and Adaptive – prior to announcing its own Workday Planning offering in 2015. Today that product has more than 250 customers. However, all but a handful are squarely focused around Workforce Planning, as Workday has not yet delivered competitive feature / functionality in the financial planning and modeling arena.

Don't Derail the Train

Given this, the acquisition should be a win-win for customers. As Workday CEO Aneel Bhusri explained in the investor call earlier this morning, Adaptive Insights will be largely left alone to run as a stand-alone business. The good news is that Adaptive Insights has been integrated with Workday since 2015 – although Workday will move quickly to “*harmonize*” the Adaptive Insights offering, leveraging Workday’s UI, security and meta-data models. How this ultimately

plays out within the context of Workday's core mantra of "the power of one" is still unknown – but it would not be surprising to see a highly coupled model emerge, given the architectures currently in place. Workday Planning will become the de facto offering for Workforce Planning, whereas Adaptive Insights will become the core offering for both Finance and Sales planning (and any other functional domain it may pursue).

While Adaptive Insights began as a channel-driven mid-market focused player, it has been investing significantly over the past several years to both better scale and support large-enterprise customers (see [Adaptive Insights: Poised for Continued Growth](#), 13Feb2018). In fact, 23 percent of the business now comes from Enterprise customers – which is up substantially over the past three years. With an overlap of only 30-40 customers, the enterprise-focused Workday salesforce should be able to quickly monetize the acquisition by upselling the Adaptive Insights solution into the 450+ Financial Management customers it already has (60 percent of whom are now live) – let alone leveraging it as a lead value proposition to drive new customer acquisition with large enterprise Finance prospects, and cross-sell to Workday's existing 2,000+ HCM clients.

Given Adaptive Insights heritage, the acquisition should also help Workday evolve its nascent plans to go down market with targeted / packaged HCM offerings

that appeal to mid-market customers. What is less clear is how Adaptive Insights highly tuned channel strategy will play out in the new scenario, and how many of its mid-market customers will flee over time that are hooked to other cloud-based systems of record (e.g., NetSuite).

Change in M&A Strategy

While the acquisition is the largest Workday has undertaken to date, the announcement clearly reflects a fundamental change in Workday's M&A strategy. What the announcement suggests is that unlike many of its previous acquisitions that have focused on enabling technologies / capabilities or to acquire talent / teams (e.g., Rallyteam, SkipFlag, Platfora, Gridcraft, CapeClear) – *Workday is now beginning to look seriously at a broad range of adjacencies* that can help it maintain its rapid growth clip.

While it would be surprising to see Workday pursue Manufacturing in the near-to-midterm, my bet is that Supply Chain and a deeper / broader view of Procurement could be on the table over the next 12-to-24 months – both sectors that play well in the cloud, and that are ripe for further consolidation. As Bhusri emphasized, however, acquisitions of this type need to be highly strategic for the company, and bring with them complimentary company values and culture.

While advanced analytics and data are clearly at the

center of its evolving vision, it was very clear from the recent Analyst Summit I attended that Workday will continue to put the pedal to the metal around its core HCM and Finance offerings. At this point, HCM is highly profitable with an industry-leading position among enterprise customers. The acquisition of Adaptive Insights only strengthens and accelerates its market momentum in Finance – with a well-oiled solution that should provide significant cross-sell opportunity.

Net / Net: this acquisition will clearly help Workday accelerate its roadmap by 2+ years, and deliver significant value to customers. All-in-all, this should be exciting to see play out over the next 24 months. What will determine its ultimate success will be how well the go-to-market synergies are exploited / monetized, not only among large enterprise customers but in the mid-market as well.