# Sage Intacct: Acquisition On Track

Now more than a year post acquisition, Sage Intacct remains on a solid growth trajectory with accelerating product / technology investments and evolving distribution capabilities. Earlier in October, I had a chance to catch up with the leadership team in San Jose, CA, prior to their annual user and partner event just completed in Nashville.

## Business Update

Early on in the Analyst Day meeting, it became clear that virtually the entire leadership team has remained on board, and are committed to its future – and the Intacct “get-it-done” and people-centric culture has been maintained, with the business unit intentionally left alone for the first year. Having been involved in a number of acquisitions / mergers myself, maintaining a low attrition rate across the board is a sign that things are going well.

CEO Rob Reid emphasized that the business unit continues to achieve strong 30-40% top-line growth – with Sage corporate significantly investing in marketing and product management capabilities, and helping expand Sage Intacct’s VAR distribution channel internationally (especially in Europe). Given the $850 million (8.5X trailing 12 month) valuation associated with the acquisition just prior to its planned IPO – we estimate that the unit will likely reach a $130+ million run-rate before year-end, which is a real win for Sage.

While its AICPA channel remains important to its future, the business unit has increasingly targeted a range of micro-verticals (and channel partners) since the acquisition – including SaaS and Software firms, NFPs and Professional Services firms, with plans to expand into Financial Services, Healthcare, Hospitals and Wholesale Distribution.

This evolved go-to-market strategy is apparently working well, as seventy five percent of its new opportunities are now focused around the micro-verticals versus more traditional horizontal marketing campaigns. No doubt, leveraging Sage's traditional partners has helped grow its VAR channel – however, it is also aggressively building new micro-vertical targeted relationships as well, as it attempts to evolve its Direct / VAR deal mix from 55% / 45% to 40% / 60% going forward.

## New Initiatives

While Sage Intacct made a number of new announcements at its annual Advantage 2018 conference in Nashville, TN last week (3,000+ attendees – up more than 50% from last year), the two big initiatives that I'd like to highlight are its launch of the new Sage Intacct Budgeting and Planning Solution, and its investments to embed a range of AI / ML capabilities into the product.

## New SMB Budgeting / Planning Tool

While Sage Intacct continues to primarily target companies with 100-500 employees – the unit has a significant number of customers both above and below these thresholds. In fact, its new budgeting and planning offering is especially well suited for companies with 50-200 employees, a segment not very well served by the range of FP&A competitors in the marketplace (including Adaptive Insights, Host Analytics and others).

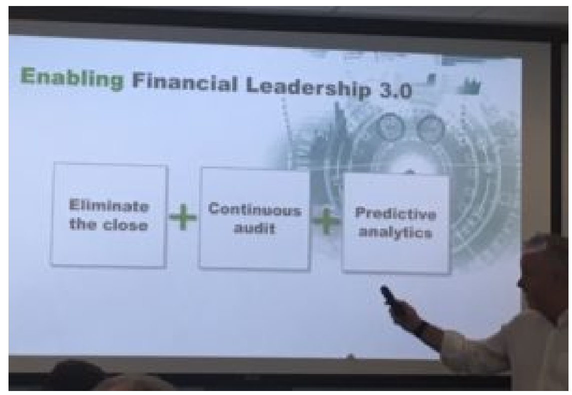
This past Spring, Sage Intacct acquired a small Tel Aviv-based software developer, Budgeta, that brought the initial version of the cloud-based financial planning and analysis application to market two years ago. Since its acquisition six months ago, Sage Intacct has been harmonizing the data models between its core Financial Management database and the acquired offering, as well as implementing "dimensions" (before launching at Advantage). Based on the demo that was provided during the Analyst Day, the product is clearly very easy to use, has bi-directional data synchronization with the core Sage

Intacct data engine, and offers collaborative and what-if scenarios that make it very powerful. The offering is highly customizable, with the ability to add widgets, KPIs and dashboards.

We think this is a very smart line-extension for Sage Intacct. We anticipate rapid product adoption, well beyond the 30 or so accounts that participated in the BETA program – as this is a terrific cross-sell opportunity to expand the footprint into important market adjacencies that are under served (especially for small but complex orgs, with multiple departments outgrowing Excel). Sage Intacct believes that only 5-10 percent of its 12,000 customers have a planning tool. If it can sell even 10 percent of its customer base over the next two years, this would create a significant recurring revenue stream at $10-15K per customer per year. In fact, we would not be surprised to see the new FP&A solution potentially lead a product sale over time, with the ability to up-sell the core Sage Intacct accounting solution when the customer is ready. *Everybody does budgeting and planning*.

# Finance 3.0 and AI

During the Analyst Day event, Sage Intacct emphasized that it believed we are entering a new era of Finance – what it is calling Finance 3.0. It framed Finance 1.0 as representing yesteryear’s focus on financial statements, compliance and the like, with Finance 2.0 helping CFOs move from GAAP accounting to a focus on real-time analytics. In its scenario, CFOs and their teams are increasingly freed up from repetitive tasks in Finance 3.0, to focus on strategic, future-focused issues, including evolving opportunities and threats.




Source: Sage Intacct, October 2018

As the chart highlights, at the heart of Finance 3.0 are three key aspirations: 1) eliminating the close; 2) continuous audit; and 3) predictive analytics. In this regard, Sage Intacct made a number of product announcements that begin to support its vision (e.g., Dynamic Allocations).

However, much of its investment going forward will focus on leveraging powerful (embedded / integrated) AI and Machine Learning (ML) capabilities to automate a number of routine financial tasks being performed today – where a huge chunk of staff time is devoted. In this regard, we wholeheartedly agree with Sage

Intacct, as the Office of the CFO is especially ripe for the AI and Automation / bot revolution we are in the middle of.

Great examples of initiatives already underway include performing banking reconciliations, anomaly detection, continuous trend monitoring, and the like. While a number of other financial management players are likewise moving toward a "continuous accounting" or "continuous close" model (see Workday and Adaptive Insights: Summary Notes from Rising 18) – it is clear that Sage Intacct is right there with them for their SMB-targeted market segments.

Lastly, in regards to Predictive Analytics, Sage Intacct highlighted two key initiatives – a new interactive custom report writer and embedded financial analytics (coming in 2019). Importantly, Sage Intacct is now working more broadly with Sage corporate on a range of AI-based initiatives including cash flow forecasting, and real-time performance insights. Leveraging these core technology assets will be critically important to the business units success longer term.

# Net / Net

I first started tracking Intacct more than 10 years ago. To see where they have journeyed is truly impressive. I walked away from the meeting firmly believing that the acquisition of Intacct by Sage is working – and will continue to work – so long as Sage continues to give the business unit some breathing room, and foster its people-centric “intrapreneural” culture.

The business unit has remained highly customer-focused – with Sage corporate investing for the future both in terms of enabling technologies (especially around AI), as well as innovative line-extensions such as its Budgeting and Planning solution. With no deflections thus far, Sage Intacct should be in for continued growth over the next 12-24 months. Stay tuned.

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# Workday and Adaptive Insights: Summary Notes from Rising 18

Earlier this month, I traveled west to the City of Lights (Las Vegas) to attend Workday Rising 2018. No doubt, we all missed CEO Aneel Bhusri’s charismatic presence. But the show went on without a hitch for the 10,000+ who attended. This blog post summarizes some of the broader key themes, but primarily focuses on the key takeaways relative to the acquisition and integration of Adaptive Insights.

## Key Growth Themes

It is very clear that Workday is pumping on all cylinders right now – with multiple growth levers driving ever higher performance across all segments of Workday's main marketing mantra of "Plan, Execute and Analyze." On the Execute front, this includes continuing to grow its core HCM and Financial Management solutions domestically, as well as a major push to expand its international presence. With 95% retention rates, its 2,300+ customer base is fueling the expansion of a broad cross-sell strategy, with a major emphasis to further round out the "Planning" and "Analytics" segments (focused on below). Rounding out its announcements, Workday introduced what could be a significant initiative it is calling the "Skills Cloud", as well as further investments its data-as-a-service and benchmarking offerings, its emerging set of Cloud Platform services (both native and on AWS) and future products – all of which will be additive like Lego blocks stacked on top of each other.

Throughout the event, company leaders emphasized the emergence of Workday as the "Predictive Machine." As we have seen with other significant cloud apps players (see Salesforce 18: And the Beat Goes On), Workday is now several years into its journey to add a machine learning (ML) fabric into the core of its solutions / platform to bring a new level of intelligence and predictive power for its users.

Workday’s Leighanne Levensaler shared in her opening keynote remarks that Workday is “taking a very pragmatic approach to making predictions” – at the same time that developing predictive models in HR and Finance are “more difficult than we initially thought.” This has driven a new hiring profile for the firm that emphasizes next-gen skills, and a better pairing of its growing army of data scientists with subject-matter (business) experts to make sure that they are targeting and solving the right problems. The net of it is that the new ML / predictive layer is clearly becoming table stakes for virtually all major Cloud apps players going forward – which will no doubt only increase customer value and customer stickiness.

# Adaptive Insights

With its recent $1.55B acquisition only months behind it (see [Workday And Adaptive Insights: A Strong Pairing]), it wasn’t surprising that Workday’s plans for Adaptive Insights were front and center at the event.

First, and foremost, it was clear from the get-go that Workday wanted to calm any fears that Adaptive Insight’s existing customers may have – as it repeatedly emphasized that the product line would not be re-platformed, and Adaptive Insights would be managed as a totally separate business unit that leverages a common Workday back-office. The Adaptive

Insights product and marketing teams stay intact, which will operate under the Adaptive Insights brand.

The BU is getting beefed up immediately, as the entire Workday Planning team heads over there. Best of breed capabilities and next-gen technology initiatives will be shared (both directions). It is clear that Adaptive Insights will remain a very viable, strong and independent offering for its 4,000+ customers which should help minimize deflections from its large customer base (including NetSuite customers).

As noted, Workday has multiple routes to market with Adaptive. Cross-selling Workday’s HCM and Financial Management solutions into Adaptive Insights upper-mid and large enterprise customer base should yield some quick and sustainable wins. In fact, almost half within Workday’s upper-mid and large-enterprise target zone (1,900 of 4,000) – and only 326 have Workday. While Workday’s direct sales force will focus on these larger accounts, Adaptive Insights highly tuned digital and inside sales driven go-to-market model will continue to target small-to-medium accounts.

No doubt, Workday will begin to aggressively market the Adaptive Insights Financial Planning and Analysis (FP&A) solution to its installed base of 2,300 upper-mid and large enterprise customers. While we anticipate high long-term penetration rates, at issue, however, is how rapidly customers will adopt – as several that we talked to indicated that they will move forward, but only after a wait of at least a year (until Workday fully works out its integration plans).

## Adaptive Insights Integration Plans

**Workday "Power of 1" Integration Plans: Adaptive Insights**

| | Workday 32 [Spring 2019 (e)] | Workday 33 [Fall 2019 (e)] |
|---|---|---|
| *One Source for Data* | • Native Data Integration<br>• Drill Through to Data | • Drill Through to Objects<br>• Plan to Execute-Job Requisitions<br>• Budgetary Control<br>• Workday Prism Analytics Data Sharing |
| *One Security Model* | • Single Sign-On | • User Management Synchronization<br>• Domain Mapping to Roles and Permissions |
| *One Experience* | • Adaptive Worklet on Workday Landing Page<br>• Business Process Framework-Workday Inbox | • Unified Look and Feel<br>• Predictive Planning |

Source: Workday Presentations, Rising 18

In a small group meeting with the Adaptive Insights CMO, Connie DeWitt emphasized that they have already begun work on a unified UI, and within 12-18 months, will have deployed a unified data model and security model that is consistent with the "Power of 1." Just to be clear, the two offerings already had some level of data integration.

As the chart illustrates, in Workday 32 (due out in Spring 2019), the company will provide meta data integration that understands the Power of 1, and provides drill through to the data. In Workday 33 (due out next fall), it will provide drill through to objects, as well as Workday Prism Analytics data sharing and a unified look and feel.

I reached out to Ms. DeWitt after the conference to see if she could provide even greater clarity in regards to the integration plans. She emphasized that the goal is for “Workday customers [to be able to] seamlessly share data across Workday applications including Adaptive Insights, have a single security model, and a common user experience. We will not be doing this by re-writing or re-platforming Adaptive Insights, but rather by creating the right software services connections between Adaptive Insights and Workday.”

She went on to explain: “Fortunately Workday and Adaptive Insights share similar cloud-first in-memory architectures that make this transformation easier. We currently have data integration with Workday using a professional services-led approach. As we realize our Power of One roadmap, this will become a product-led unification that is seamless for Workday customers and will not disrupt our non-Workday customers in any way.”

It was clear from the various presentations and off-line discussions that technologies will be leveraged between the development teams, and where applicable they will bring together various capabilities such as their two report writers, leveraging the best of both worlds. Look for significant cross-“pollenization” of its machine learning investments, with PRISM Analytics heavily leveraged going forward.

## Workday Planning and Financial Management

Adaptive Insights is now the de facto Planning engine for the company. In fact, Workday quickly launched an Adaptive Insights version of Workday Planning (to complement what it already does around Finance) as a firm declaration of its emerging strategy going forward, although it will keep the existing Workday Planning customer whole by continue to support the product for some time to come. We would anticipate a continued aggressive expansion of Adaptive Insights land-and-expand push into other functional markets (e.g., Sales, Marketing), as it positions itself as the primary competitor to Anaplan – in what otherwise is a highly competitive market (including SAP, Oracle, IBM et al).

In regards to Workday’s Financial Management suite, we gathered that it now has more than 500 customers, 60 of which are public companies that are live on the solution. Workday is likewise embedding machine learning capabilities directly into the product. They already offer solutions around expense reporting, account reconciliation and anomaly detection (in regards to payments), with plans to roll out many more in the coming months.

Lots of talk about moving toward “continuous accounting” or “continuous close” – with the advent of the Workday Accounting Center (to launch in 2020), with its ability to bring non-Workday operational data in through as journal entries, and the ability to trace all the way back to source transactions even if not originally on Workday. We just hope that there is some meat behind the slides in these regards.

Other odds and ends:

- They made a big deal about the launch of Workday Assistant, but I didn’t see a lot different than what Salesforce is doing with Einstein.
- Launched “Stories” which looked interesting.
- Last year launched Worksheets – this year adding “Live Sheets” which provides a potentially powerful real-time presentation tool.

## Wrap

While Workday is still very much focused on its core “Execute” offerings in the HCM and Financial Management segments – it is clear that it has expanded its vision significantly into “Plan” and “Analysis.” This provides a much bigger set of add-on opportunities into the base, but also brings with it the many sales challenges associated with a “big-bag”.

With “game-on” in the competitive race to add value from emerging ML fabrics across the broad Cloud apps pantheon, we hope that Workday stays focused on providing very specific / narrow predictive solutions across its primary functional targets, rather than general purpose capabilities.

Longer-term, we would not be surprised by additional strategic acquisitions that help accelerate market growth (especially around Supply Chain) – assuming they can find opportunities with the right cultural and architectural fit. But most we see a period of consolidation over the next 12-24 month (other than tuck-in technology acquisitions), as Workday works hard to make the most of its new go-to-market weapon to expand and grow the company.