

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

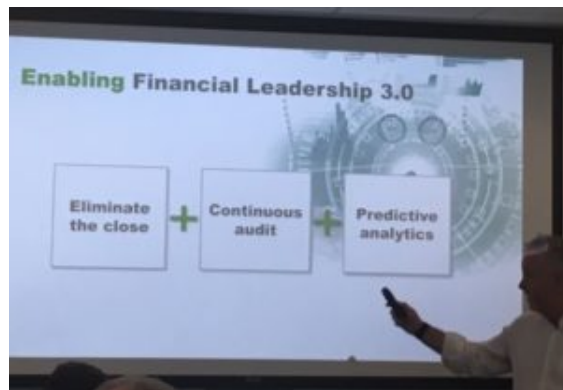
Intacct data engine, and offers collaborative and what-if scenarios that make it very powerful. The offering is highly customizable, with the ability to add widgets, KPIs and dashboards.

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.

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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.