

**Human Capital Management Software Market Map**

# Market Trends in Human Capital Management Software

*A crowded HCM application sector was one of the most active space for investors and is maturing into a landscape prepared for a new wave of consolidation following a few years of light activity*



- Left in the wake of the HCM platform arms race of 2010 – 2012 (led by Oracle acquiring Taleo and SAP acquiring SuccessFactors), was an overcrowded market of small and upcoming vendors across virtually all functional areas of HCM software
- Customers were turning their focus toward end-to-end platforms that could replace their core systems that were either rigid legacy systems or an integration of many point solutions across the HCM stack
- We believe that this trend of replacing legacy systems with highly flexible, end-to-end cloud-based systems will continue as we've entered an era of 'postmodern ERP', where solutions have moved beyond their former rigid architectures
- The continued integration of separate talent areas into whole suites will drive a new wave of innovation and consolidation activity
  - Many of the integrated systems being put in place today (acquired or built internally) look and function similarly to each other, as opposed to prior years when they were still standalone apps
  - Buyers will replace entire core system (formerly disparate applications for each functions) with one suite and will look to add ancillary , innovative applications through add-on modules from additional vendors
  - These new innovative vendors will be the focus for acquisition activity, as core suites are largely complete at the high-end of the market

## Thesis for 2015

*We saw a record setting investment pace in HCM software in the past few years, and will expect that to continue, along with a new wave of M&A consolidation after a few years of little activity*

- Talent management continues to be a priority for HR purchasers – this fast growing segment of HCM applications will continue to attract attention from both investors and buyers
- The ‘socialization’ and ‘datafication’ of HCM functions will lead to emerging vendors with new exciting tools gaining traction from HR purchasers as add-on products which will catch the eye of leading platform vendors

### **Investor Perspective on the Market**

- Investors put more money into HCM companies than any other sector last year for the following reasons:
  - Market is proven, fast-growing and well understood, as a key functional category for all businesses
  - The market is extremely crowded across its entire functional blueprint, leaving no absence of opportunities to put money to work
  - Many emerging vendors leveraging the ‘socialization’ and ‘datafication’ of HR functions to create new categories in HCM
  - Opportunity to consolidate across categories over time

### **Strategic’s Perspective on the Market**

- Acquisition activity is beginning to pick up again:
  - Strategics have historically focused on building end-to-end suites for core HCM / talent management functions
  - Acquirers prefer to amass talent management / corporate training portfolios through acquisition – will continue to do so as subcategory leaders emerge in the space
  - New vendors that gain traction as the key add-ons to core suites will provide a new focal point for leaders
  - Our conversations with acquirers point to a focus on combatting the Workday threat

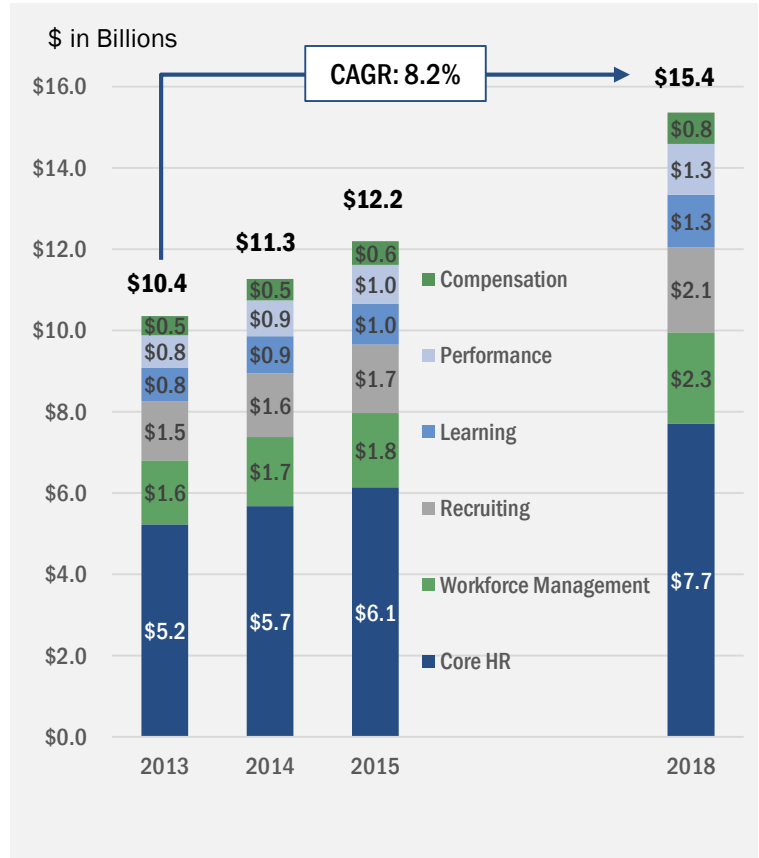
# Overall Market Growth Remains Strong

*The HCM application market continues impressive growth even as it matures – performance and learning management functions will be the fastest growing subsectors*

## Key Drivers

- HCM Application market growth has continued at an impressive rate and continues to outpace other application markets
- Refresh cycle continues
  - Continued interest in first-time purchases of new solutions and replacements of aging core systems with SaaS-only deployments
  - 19% of enterprise companies are investing in upgrading and expanding existing HCM deployments
- Postmodern ERP has emerged
  - Buyers want more than just a simple HCM system with standard capabilities
  - ‘Socialization’ and ‘datafication’ of HCM functions emerging as innovative features used in buyers evaluation criteria

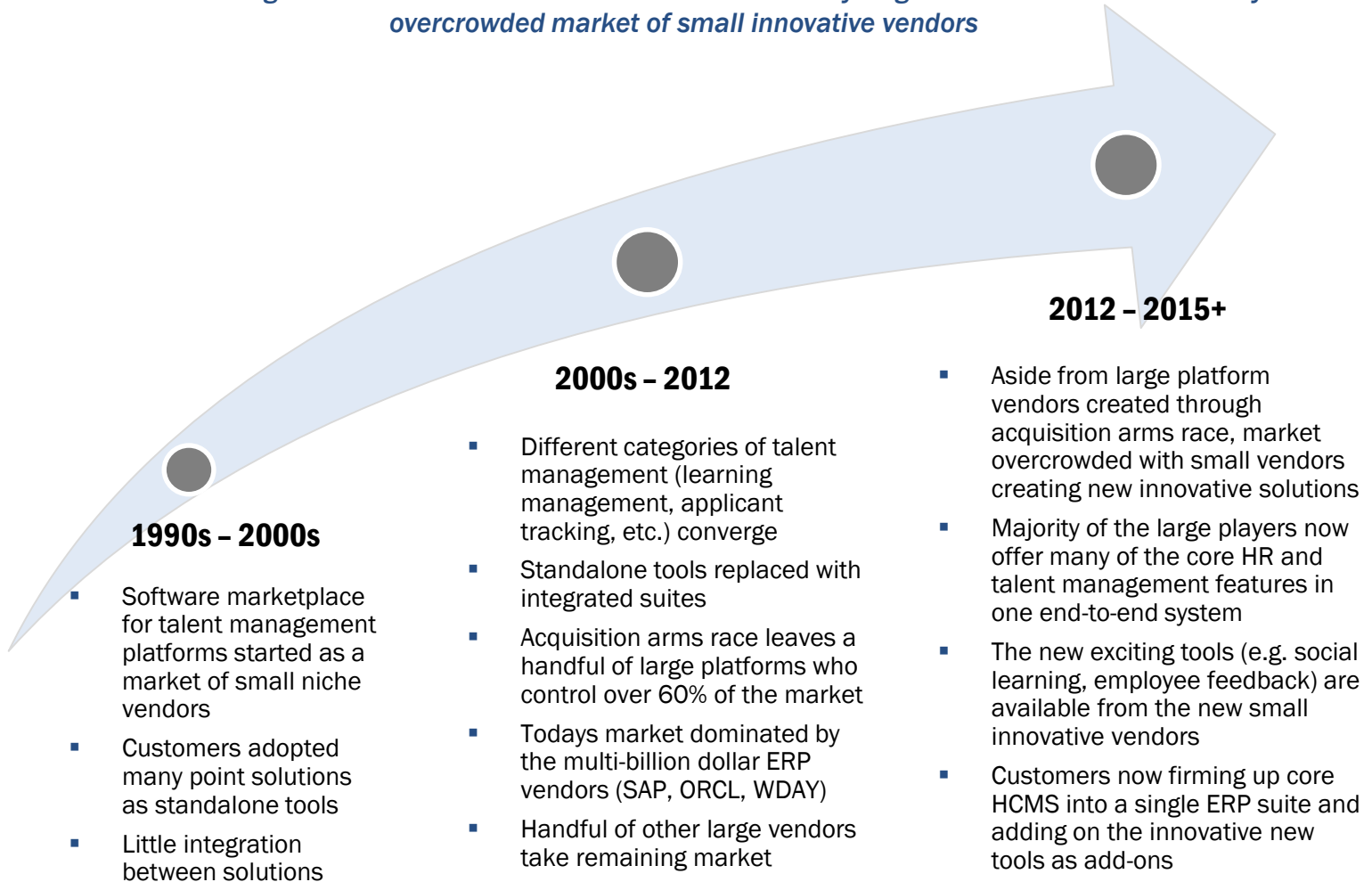
## HCM Applications Market Size and Growth by Segment



Source: IDC, Forrester

# Evolution of the Talent Management Landscape

*The Talent Management Market has evolved to one dominated by large ERP vendors surrounded by an overcrowded market of small innovative vendors*

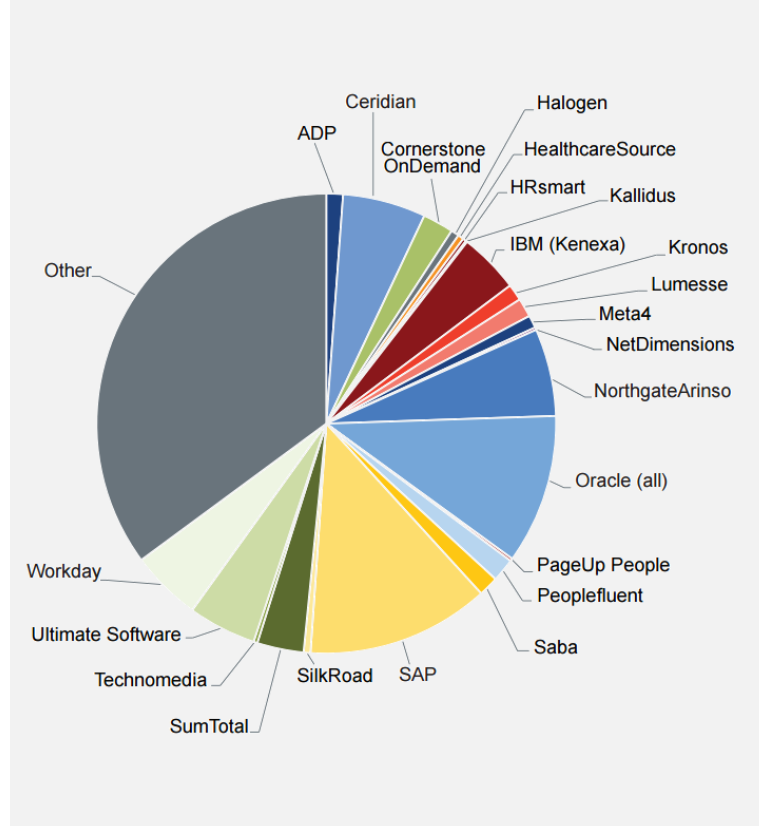


# Talent Management Market Share Largely Controlled by \$B+ ERP Vendors

## Key Drivers

- Talent management market is largely controlled by the few large \$B+ ERP vendors who have created a full platform in the last decade
  - Many of these winners have been built through acquisitions of leading category platforms (e.g Oracle via Taleo and SAP via SuccessFactors)
  
- A few dozen mid-market solutions surround those large ERP vendors who control 60% of the market (Ultimate, Ceridian, Halogen)
  - These competing vendors are also mostly end-to-end suites with highly flexible, cloud-based solutions though may be lacking the multinational execution of their larger counterparts
  
- Vendors trying to compete via standalone applications as opposed to integrated suites can no longer compete in this market

## Talent Management Suites Market Share by Revenue



Source: Bersin by Deloitte

# SaaS Suite Vendors Continue to Dominate the Market

*Although the market is overcrowded with point solutions at the low end, vendors offering highly flexible, end-to-end cloud based systems have come to dominate the market in recent years*

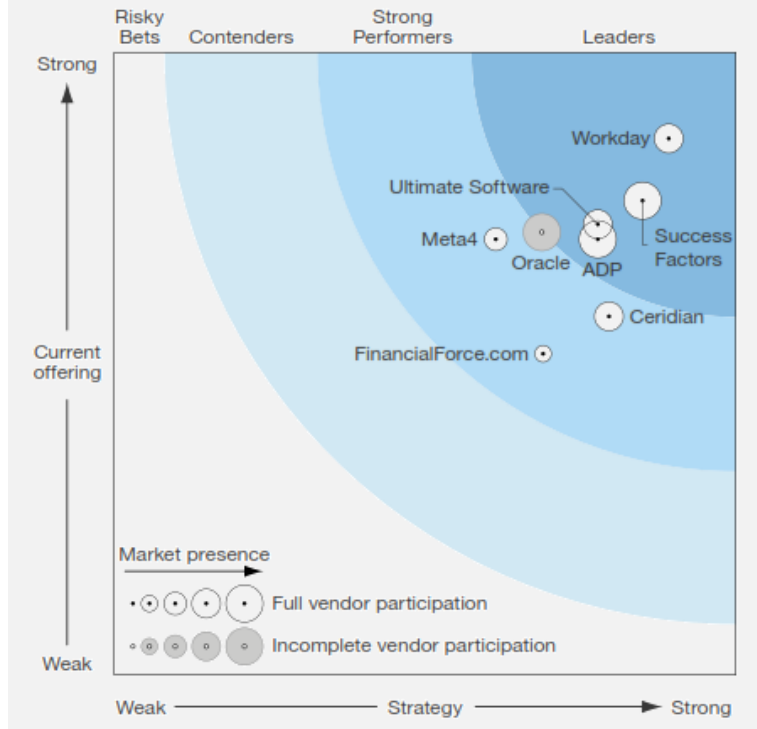
## Gartner Magic Quadrant: Talent Management Suites, 2015

- Little change in recent years, as leading platforms remain those built through acquisition and integration



## Forrester Wave: SaaS HCMS Q4 2014

- Leaders serve the needs of complex, multinational organizations



Source: Gartner, Forrester

## Leading Vendors Built through Acquisition / Integration of HCM Portfolio Assets

*Though relatively quiet in recent years, the leading HCM vendors are ERP vendors who established a large customer base in targeted solutions and extended that foothold into surrounding HCM areas via acquisition*

Platform	Heritage Focus	Expansion		
 an IBM Company	Recruiting	 	 	 
 An SAP Company	Performance	 	 	
	Core HR		 People. Performance. Potential. 	 
	Learning	 	 	 
	Payroll	 	 	 the HR Company 
	Recruiting	 	 	 



# Next Wave of Acquisition Activity Beginning in Earnest



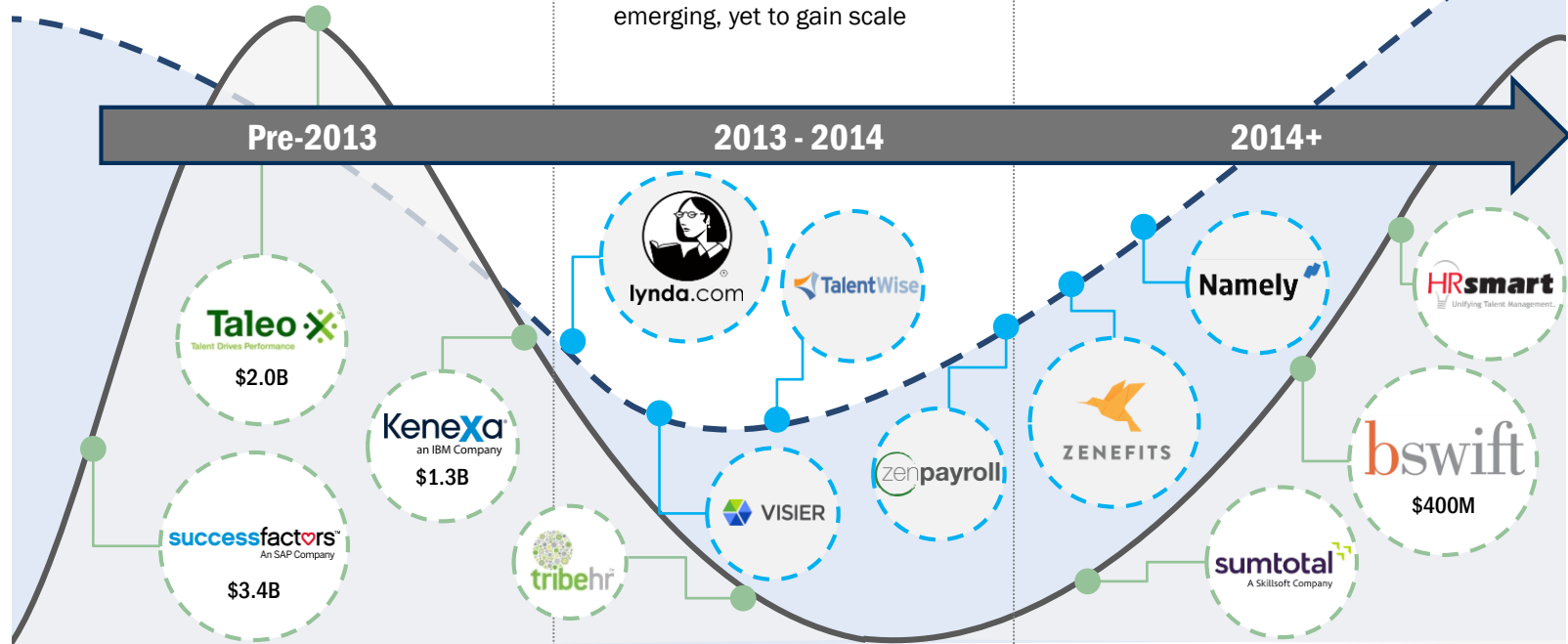
*After a few years of 'wait & see' by acquirers, a new wave of M&A is gaining momentum in 2015, along with continued investment activity in both early- and late-stage companies*

## Wave of Acquisition / Investment History

- Acquisition arms race between large ERP players
- Snapping up category leaders for outsized valuations
- Investment activity takes a back seat to M&A spree

- Acquirers turn focus to integrating their latest platform buys
- Take 'wait & see' approach – few category leaders remain in ecosystem
- Investment activity begins to pick up – new HR technologies emerging, yet to gain scale

- Acquisition activity begins to pick up
- Buyers adding smaller assets to their talent management portfolios
- Investors pour record amount of capital into HCM application sector



## HCMS Functional Footprint – Three Core Functions

*While many large providers have assembled end-to-end HCM platforms, the heritage focus of these vendors and newcomers typically involves a core competency in one of the three core HCM functions*

Talent Acquisition	Talent Management	HR Core Administration
<ul style="list-style-type: none"> <li>▪ Finding and retaining employees with the necessary skills, experience and cultural fit are key as companies continue to hire in earnest</li> <li>▪ Emergence of more vertical focused solutions, especially on the sourcing side (e.g. internships, executive recruiting, sector specific jobs)</li> <li>▪ Primary functions include:               <ul style="list-style-type: none"> <li>▪ Workforce planning</li> <li>▪ Sourcing &amp; social recruiting</li> <li>▪ Candidate engagement</li> <li>▪ Applicant evaluation</li> <li>▪ Diversity &amp; compliance</li> <li>▪ Onboarding</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Ensuring that individual performance and goals are clear</li> <li>▪ Learning management systems in place to fill performance gaps</li> <li>▪ Succession planning – ensuring employees know the future opportunities available to them</li> <li>▪ Primary functions include:               <ul style="list-style-type: none"> <li>▪ Employee performance</li> <li>▪ Goal management</li> <li>▪ Career planning</li> <li>▪ Talent review</li> <li>▪ Retention management</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Automating the many disparate functions in the human resources department is key</li> <li>▪ Area largely dominated by the \$B+ ERP vendors</li> <li>▪ Many providers now offer end-to-end capabilities for these functions</li> <li>▪ Primary functions include:               <ul style="list-style-type: none"> <li>▪ HR Compliance</li> <li>▪ Compensation management</li> <li>▪ Payroll administration</li> <li>▪ Benefits administration</li> <li>▪ Time and attendance</li> <li>▪ Employee engagement</li> </ul> </li> </ul>

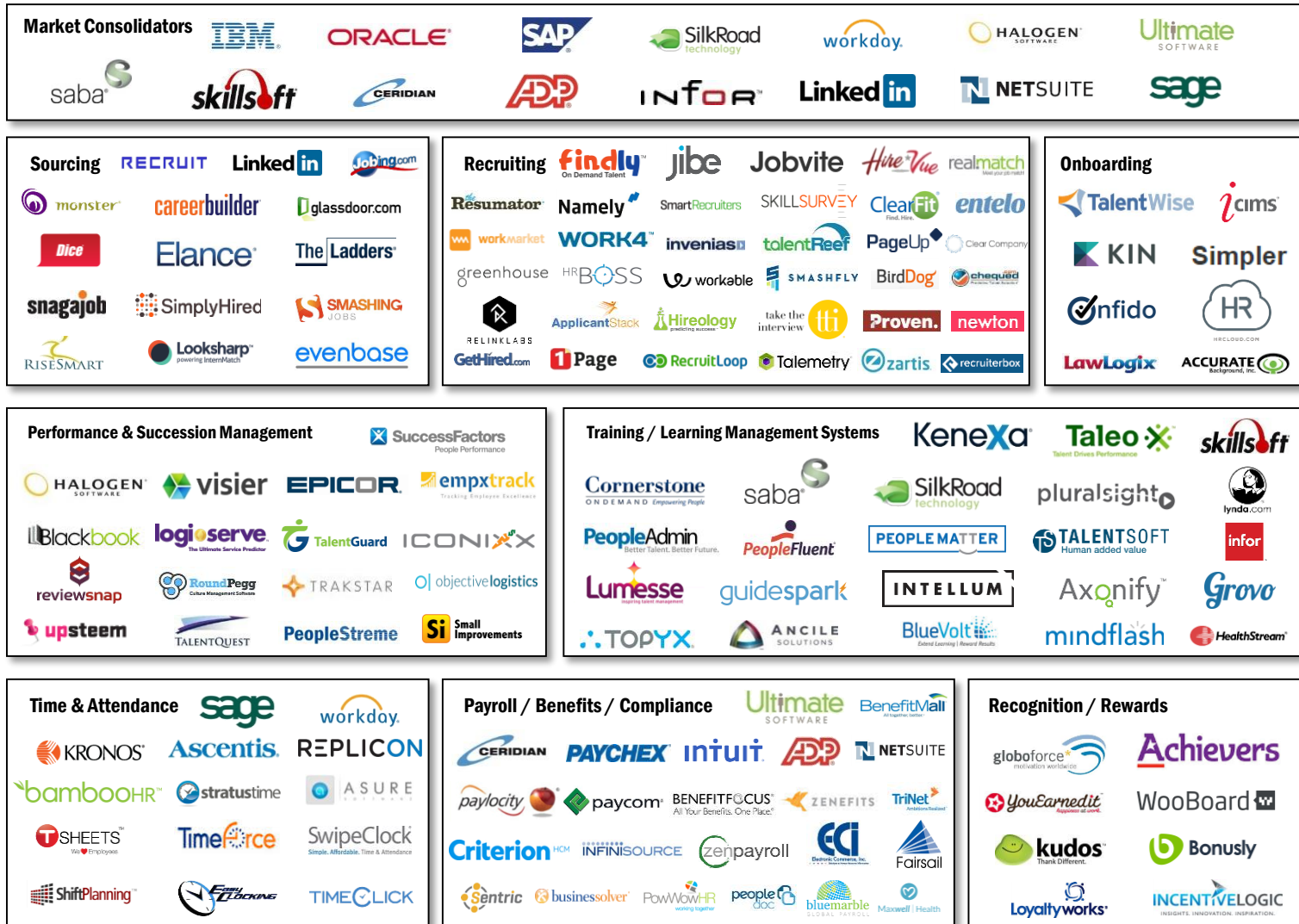
**Human capital management master data, reporting and analytics**

# HCMS Functional Footprint – The Players

Core Function	Solution	Leaders / Private Companies at Scale (Est.)*	New / Innovative Players	Pure-Play Public Companies
Talent Acquisition	Sourcing	 		
	Recruiting			-
	Onboarding			-
Talent Management	Performance & Succession			
	Training / Learning Management			
HR Core Administration	Time & Attendance			
	Payroll / Benefits / Compliance			
	Recognition / Rewards			-

\*\$50M in Venture Funding or estimated \$30M+ revenue








# HCM Point Solution Market Map by Segment



## Very Active Space Among Investors

(\$ millions)					
Close Date	Company	Participating Investor(s)	Description	Amount	
12/18/15	Gusto.com	General Catalyst Partners, Google Capital, Obvious Ventures, Pivot Investment Partners	Payroll tax and compliance automatoin	\$50	
12/18/15	SmashFly	OpenView Venture Partners	Recruitment marketing and analytics	\$22	
10/30/15	Yello	First Analysis Group, The Argentum Group	Web and mobile recruitment platform	\$5	
10/27/15	TalentSoft	Highland Capital Partners Europe, Goldman Sachs Group	Talent and performance management suite	\$28	
10/05/15	TSheets.com	Summit Partners	Time tracking	\$15	
10/02/15	iCIMS	Susquehanna Growth Equity	Web-based recruitment and hiring	\$57	
09/30/15	PeopleDoc	Accel Partners, Alven Capital Partners, Eurazeo, Kernel Investissements	Human resource document management	\$28	
09/30/15	Workable	83North, Balderton Capital, Notion Capital	Online hiring platform and applicant tracking	\$27	
09/29/15	SynchSource	Boulder Ventures	Human capital amnagement and employee transaction tracking	\$16	
09/16/15	LearnUp	FLOODGATE Fund, Greylock Partners, High Line, NEA, Shasta	Professional learning network	\$8	
08/24/15	Greenhouse Software	Benchmark, Groupe Arnault, Social+Capital, Thrive Capital	Recruiting performance improvement system	\$35	
08/21/15	PlanSource Benefits	Great Hill Partners	Benefits transaction automation	\$70	
07/14/15	Interviewstreet	Battery Ventures, Khosla, Recruit Holdings, Y Ventures	Programming tests platform connecting professionals with students	\$8	
06/18/15	Namely	Greenspring, Lerer Hippeau Ventures, Matrix, Sequoia, True Ventures	Payroll, benefits, human resource information and talent management	\$45	
06/09/15	SmartRecruiters	Mayfield, Rembrandt Venture Partners, Windcrest Partners	Online recruitment platform	\$20	
06/02/15	HireVue	Granite Ventures, IGC, Peterson Partners, Rose Park, Sequoia, TCV	Talent interaction platform for digital screening and video interviewing	\$45	
05/19/15	Hireology	Bain Capital Ventures	Selection management platform for hiring employees	\$11	
05/18/15	Justworks	Bain Capital Ventures, Index Ventures, Thrive Capital	Online payroll and benefits platform	\$13	
05/13/15	Zenefits	Andreessen, Fidelity, Founders Fund, Insight, IVP, Khosla, Otter Rock, Panorama Point, Sound, TPG	Benefits, payroll and employee on-boarding and off-boarding management	\$513	
04/21/15	Cognition	1776 Incubator, 37 Angels, Fresco Capital	Online professional training	\$10	
04/03/15	Empyrean Benefit Soluti	Capital Alignment Partners, FTV Capital	Health and welfare benefits compliance management	\$10	
03/26/15	PhishMe	Aldrich Capital Partners, Paladin Capital Group	Phishing threat management training to employees	\$13	
02/26/15	WorkForce Software	Insight, K1 Capital, ORIX Leveraged Finance, Triangle Capital Corporation	Workforce management automation for managing payroll and processing	\$7	
02/18/15	Grovo Learning	Accel Partners, BoxGroup, Costanoa, Lead Edge, Social Starts, SoftTech VC	Online education and training platform	\$15	
02/10/15	GuideSpark	IDG Ventures USA, Meritech Capital Partners, NEA, Storm Ventures	Digital employee communication technology and training	\$22	

### Notable Recent Funding Activity (\$ millions)

	 GUSTO	 greenhouse	 PLANSOURCE	 Namely	 SmartRecruiters	 HireVue	 ZENEFITS
Latest Round Date	12/18/15	08/24/15	08/21/15	06/18/15	06/09/15	06/02/15	05/13/15
Latest Round	\$50	\$35	\$70	\$45	\$20	\$45	\$513
Post Money Valuation	\$1,050	\$245	\$245	\$182	\$61	\$267	\$4,500

Source: publicly available sources, Capital IQ, PitchBook

# M&A Activity

(\$ millions)										
Ann. date	Target	Acquirer	Consideration		Equity value	Enterprise value	EV / Revenue		EV / EBITDA	
			% Cash	% Stock			Current yr.	Forward yr.	Current yr.	Forward yr.
11/30/15	IFS	EQT Partners	100.0%	0.0%	\$1,658	\$1,045	2.7x	-	nm	-
11/02/15	MedAssets	Pamplona Capital Management	100.0%	0.0%	\$1,881	\$2,711	3.5x	3.4x	11.3x	10.8x
07/29/15	Reward Gateway (UK)	Great Hill Partners	-	-	-	\$217	0.7x	-	-	-
07/09/15	Wealth Management Systems	DST Systems	100.0%	0.0%	-	\$64	-	-	-	-
06/11/15	Achievers	Blackhawk Network Holdings	100.0%	0.0%	-	\$110	2.2x	-	-	-
05/28/15	Ace Payroll Plus	MYOB Technology	-	-	-	\$10	-	-	-	-
05/11/15	Acclaris	Towers Watson	-	-	-	\$140	-	4.0x	-	-
04/30/15	ClickSoftware Technologies	Francisco Partners	100.0%	0.0%	\$438	\$408	2.8x	2.4x	nm	-
02/10/15	Saba Software	Vector Capital	100.0%	0.0%	\$268	\$260	2.1x	-	-	-
11/19/14	Smarterer	Pluralsight	-	-	-	\$75	-	-	-	-
11/03/14	bswift	Aetna	-	-	-	\$400	10.0x [b]	-	-	-
10/17/14	Fenestra	BTS Group AB	85.0%	15.0%	-	\$3	-	-	-	-
10/14/14	Allocate Software	HgCapital	100.0%	0.0%	\$175	\$152	2.3x	-	13.1x	-
10/07/14	Evolv	Cornerstone OnDemand	100.0%	0.0%	-	\$43	-	-	-	-
09/29/14	ISV Software	Dillistone Group	100.0%	0.0%	-	\$2	-	-	-	-
09/22/14	PAI Group	Sage Group	100.0%	0.0%	-	\$158	-	-	-	-
07/08/14	FotoPunch	Asure Software	100.0%	0.0%	-	\$2	-	-	-	-
05/06/14	ISG	Xerox	-	-	-	\$225	-	-	-	-
04/15/14	E-Learning S.A.	John Wiley & Sons	100.0%	0.0%	-	\$175	-	-	-	-
04/09/14	One-Page Company	InterMet Resources Limited	0.0%	100.0%	\$9	\$10	-	-	-	-
04/02/14	Profiles International	John Wiley & Sons	100.0%	0.0%	-	\$51	1.9x	-	-	-
03/26/14	Fieldglass	SAP	100.0% [b]	0.0% [b]	-	\$1,000 [b]	9.5x [b]	-	40.0x [b]	-
03/03/14	KnowledgeAdvisors	Corporate Executive Board	-	-	-	\$52	-	-	-	-
02/26/14	Identified	Workday	-	-	-	\$15 [a]	-	-	-	-
02/18/14	Xora	ClickSoftware Technologies	100.0%	0.0%	-	\$15	-	-	-	-
02/11/14	Talent Neuron	Corporate Executive Board	100.0%	0.0%	-	\$8	-	-	-	-
02/06/14	Bright Media (Bright.com)	LinkedIn	73.0%	27.0%	-	\$120	-	-	-	-
01/21/14	API Healthcare	GE Healthcare	-	-	-	\$350 [b]	3.5x [b]	-	-	-
10/22/13	TribeHR	NetSuite	100.0%	0.0%	-	\$25	-	-	-	-
08/06/13	TrainSignal	Pluralsight	100.0%	0.0%	-	\$24	-	-	-	-
07/13/13	ComOps Limited (ERP business)	Markinson Business Solutions	100.0%	0.0%	-	\$3	-	-	-	-
03/12/13	NinetyFive 5	Franklin Covey	-	-	-	\$4	-	-	-	-
		Mean	93.5%	6.5%	\$738.3	\$246.1	3.8x	3.3x	21.5x	10.8x
		Median			\$353.0	\$69.5	2.7x	3.4x	13.1x	10.8x

## Notable Recent Acquisition Activity (\$ millions)

						
Transaction Date	11/02/15	07/29/15	04/30/15	02/10/15	11/03/14	03/26/14
Transaction Value	\$1,881	\$217	\$408	\$260	\$400	\$1,000
EV / TTM Rev	3.6x	0.7x	2.8x	2.1x	10.0x	9.5x

[b] Source: The 451 Group

Note: EV / Revenue multiples greater than 20x and EV / EBITDA multiples greater than 50x are considered to be not meaningful

# Introduction to Shea & Company

## People ■ Industry Expertise ■ Process Excellence

### Advisory Services and Selected Transactions

#### Mergers & Acquisitions

- Buy-side and sell-side M&A advisory
- Divestitures
- Restructuring

#### Private Placements & Capital Raising

- Late-stage venture and growth equity
- Recapitalizations
- IPO advisory

#### Corporate Strategy

- Corporate development advisory
- Fairness opinions

#### Selected Transactions


Shea & Company has advised on billions of dollars of software M&A and capital raise transactions




has received a majority investment from



Shea & Company served as the exclusive financial advisor to Sovos Compliance



has been acquired by




Shea & Company served as the exclusive financial advisor to LastPass



has been acquired by




Shea & Company served as the exclusive financial advisor to HP




has been acquired by



Shea & Company served as the exclusive financial advisor to MRI Software



has been acquired by



Shea & Company served as the exclusive financial advisor to Bronto




has acquired




Shea & Company served as the exclusive financial advisor to Lagoon




has received a majority investment from




Shea & Company served as the exclusive financial advisor to Bomgar Corporation



has received an investment from



Shea & Company served as the exclusive financial advisor to Ping Identity



has been acquired by




Shea & Company served as the exclusive financial advisor to Pervasive




has received an investment from




Shea & Company served as the exclusive financial advisor to Mimecast




has been acquired by



Shea & Company served as the exclusive financial advisor to Platform Computing



has been acquired by



Shea & Company served as the exclusive financial advisor to SPL WorldGroup