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# The Industry Software Revolution

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## THE CLOUD'S UNSUNG HERO

Industry-specific cloud software companies don't get as much attention as their horizontal brethren like Salesforce or Workday. Why? It's been assumed that the markets they serve are simply too small and sleepy. We think that's misguided.

While companies like Guidewire, athenahealth, DealerTrack, Veeva, Demandware, and RealPage don't get much fanfare in the press, they are solving real problems in each of their industries. And they have quietly grown to become multi-billion-dollar publicly-traded companies.

This is just the beginning. We're convinced that many more industries—from banking to mining to agriculture—will be transformed by ditching their legacy vendors and migrating to the cloud.

# AN INDUSTRY SOFTWARE REVOLUTION

We think there are a few important drivers that make the opportunity to build industry-specific software larger than ever before:



## **A Changing Philosophy Among Buyers**

The executives in charge of purchase decisions are a new generation of technology-savvy buyers. They understand that technology is a critical source of competitive advantage. This dynamic can fuel an industry arms race in which all companies in an industry are forced to adopt software as it quickly moves from a “nice to have” to “table stakes.”



## **Winner-Takes-Most Dynamics**

This creates a unique opportunity for those that do succeed. Industry insiders talk to each other. They attend the same conferences and run in the same circles. When it comes to software, they typically buy what their peers buy. This creates a virtuous cycle of adoption—resulting in “winner takes most” market share for leaders. And once established as the “gold standard”, the door is open for leaders to cross-sell additional applications.



## **Cloud/Mobile Capabilities**

Cloud and mobile have made software more useful than ever before. Software is now used in the field via mobile devices, in a collaborative web environment, in conjunction with other web services, in a consumer-like user experience, and in a way that doesn’t require a dedicated IT support staff. This has dramatically increased the number and types of customers that can be served by industry software.

## PLAYBOOKS THAT EXCITE US

We don't always get it right, but we've been fortunate to learn from many of the best teams in the industry and have picked up quite a bit from them over the years. Here are a few ways we think founders can build big businesses within specific industries:



### **Replace Sleepy Incumbents**

The most common and most successful playbook to date. While a handful of publicly-traded industry-specific companies that are native to the cloud have emerged, it is still early days. Hundreds of industries are still held captive by terrible software or have been neglected altogether and so are ripe for innovation.



### **Help Customers Find New Ways to Grow**

Cloud software can not only help a business run more efficiently, it can also bring a business closer to its customers. Companies like OpenTable drive revenue with features for its end consumers. This was never possible with installed software.



### **Focus on the Mobile User**

Enterprise software historically catered only to people at their desks. But today's mobile apps can make a field worker's day far more productive, freeing up hours that would otherwise be spent physically filling out forms and pushing paperwork. This slows down everything from real estate (broker updates of listings) to hotels (housekeeping) to transportation (repair logs) to restaurants (food inspections) to local governments (work orders to fix potholes). Data entry and workflow challenges are just the tip of the iceberg—virtually every aspect of enterprise activity in the field will be reimagined thanks to mobile devices.

## PLAYBOOKS THAT EXCITE US (Cont.)



### Attack the SMB Market

Not long ago, small businesses were off-limits. It was simply too expensive to hire sales teams to reach them. It was just as problematic to get software up and running. The world is very different today, thanks to the Internet. The key to making this playbook work is to build software with the simplicity of a consumer product.



### Build a Platform

When most people think of software, they imagine a stand-alone product. But cloud connectivity and APIs allow industry cloud software companies to become platforms with an ecosystem of applications around them. We love the platform model because it drives long-term customer lock-in. If your customers rely on you to act as the hub for other critical applications, it becomes extremely difficult for any new competitors to replace you.



### Tap into Data at Cloud Scale

Customer data used to be siloed in a company's data center. The cloud now makes it possible to aggregate data and draw insights for a company's customers. Data enables software to do unprecedented things like benchmarking, predictive analytics, and connecting suppliers and buyers between organizations.

## PLAYBOOKS THAT EXCITE US (Cont.)



### **Look to Emerging Hardware Platforms**

We are in the midst of a hardware revolution. And software is powering it. New hardware platforms will prompt an era of profound opportunity to harness the power of software for industry. Some of the emerging platforms we are excited about include wearables, robots, drones, sensors, and satellites. These devices are becoming increasingly inexpensive, powerful, connected, and ubiquitous. We expect to see a new generation of software built to take advantage of these devices with industry-specific applications.



### **Transform an Entire Industry**

Occasionally, technology is so revolutionary that it can transform the way an entire industry works. This is perhaps the most compelling opportunity—an industry-focused startup that uses its software to reshape an industry rather than just selling tools to existing industry incumbents.

Uber is perhaps the best example of this. Uber didn't build a software application to connect livery companies with passengers. Instead, it used technology to fundamentally change how we book cars. Amazon is using technology to reimagine retail. Airbnb is using software to transform the hospitality sector. And LendingClub is reinventing how the financial markets connect borrowers with capital. These companies don't feel like technology businesses or application vendors—instead, they are using technology to fundamentally reshape the way a good or service is delivered.

A company that reimagines an industry is the most difficult type of company to build. But because it captures much more of the value chain, it also tends to have the biggest upside. Building a company that will see the world differently seems like a lofty goal, but it's been proven possible. And we think it is inevitable that visionary founders will continue to transform the way we consume industries like financial services, healthcare, education, and real estate.

# INDUSTRIES RIPE FOR INNOVATION

We are far more excited to have founders tell us about industry software opportunities than being prescriptive about where the opportunities lie. With that said, here are a few broad industries that we think are ripe for innovation:



## **Banking**

continues to be controlled by core vendors like FIS, Fiserv, and Jack Henry, which use their footprint in core transactional systems to cross-sell mediocre point solutions. As a new generation of executives drives purchasing decisions, we expect to see best-of-breed cloud entrants give the core vendors a run for their money.



## **Asset-heavy industries**

like oil and gas, mining, agriculture, manufacturing, and industrials have historically lacked innovative software startups altogether. This will change. Many of the trends we have discussed – including mobility and hardware platforms – are particularly well-suited for these markets.



## **Government**

is responsible for more IT spending than any other industry but is dominated by dinosaurs like Tyler Technologies, Constellation, Infor, and SunGard – all of whom are focused on cash flow and not innovation.

# INDUSTRIES RIPE FOR INNOVATION

## *(Cont.)*



### **Healthcare**

is a trillion dollar plus industry that continues to be largely operated with paper, fax, and the phone. Large electronic medical record companies like Epic and McKesson built out their systems in the 1970s and 1980s, and we see opportunities for newer cloud competitors to gain share.



### **Real Estate**

has been dominated by a handful of full-suite solutions like RealPage, Yardi, and MRI. Innovative best-of-breed point solutions are taking share from these players and technology-oriented service providers are aiming to transform the brokerage industry.



### **Manufacturing**

represents one of the largest sectors in the economy and drove the growth of software behemoths like SAP, Infor, JDA, and others. This industry has been slow to migrate to the cloud and we expect to see a wave of new cloud innovators take share from the incumbents.



# INDUSTRIES RIPE FOR INNOVATION (Cont.)



## **Legal**

is dominated by powerhouses like Thomson Reuters and Lexis Nexis. As large practices see increased pressure to cut costs, we expect a new generation of players to challenge the old guard. And as small practices move away from paper and pencil, new technology will emerge.



## **Education**

is seeing a wave of innovators take share from the likes of Blackboard (software), Apollo (for-profit university), and Pearson (publishing). New delivery models are filling the void left in higher education and the “skills gap” arenas. Cloud-based software solutions are taking share from Blackboard. And new content platforms are transforming the way that education content is delivered.



## **Local Services**

are all about SMBs, who have historically lacked access to software. With the cloud making it easy to sell software to SMBs, we're seeing a wave of solutions emerge for local restaurants, yoga studios, home services providers, hotels, and retailers.

# BVP'S INDUSTRY CLOUD PORTFOLIO

## Current Companies

### Healthcare



### Retail



### Construction



### Education

INSTRUCTURE



### Legal



### Local Services



### Real Estate

HIGHTOWER



### Hospitality & Leisure



### Financial Services



### Communication



# BVP'S INDUSTRY CLOUD PORTFOLIO

## Exited Companies



acq. by Cox



IPO



acq. by Towers Watson



IPO



acq. by Genstar



IPO



IPO



acq. by Nielsen



acq. by Cisco

# Industry Software M&A since 2010



Date	Target	Acquirer	EV	EV / Rev (LTM)	EV / EBITDA (LTM)	Company Description
ACQUISITIONS BY STRATEGICS						
11/11/14	Xtime	Cox Automotive	325	8.1x	N.A.	Automotive CRM Automation SaaS
11/3/14	bswift	Aetna	400	10.0x	N.A.	HR healthcare benefits and related payroll software
10/01/14	GlobalCollect BV	Ingenico S.A.	1,119	2.7x	16.4x	Payment solutions for the travel, eCommerce, and gaming industries.
9/15/14	TriZetto Group	Cognizant	2,700	3.8x	N.A.	Healthcare benefits administration software
9/8/14	Multimedia Games Holding	Global Cash Access Holdings	1,098	5.0x	11.0x	Casino gaming software & systems
09/05/14	MICROS Systems, Inc.	Oracle Corporation	4,604	3.4x	17.5x	Enterprise software for the F&B, hotel, and retail industries.
09/04/14	TouchNet Information Systems, Inc.	Heartland Payment Systems, Inc.	347	5.0x	11.5x	Campus commerce solutions for higher education institutions.
8/11/14	Ooyala	Telstra	270	5.1x	N.A.	Streaming video distribution & analytics SaaS
8/1/14	Bally Technologies	Scientific Games	5,100	3.7x	14.7x	Gaming systems & software provider
7/30/14	TouchNet Information Systems	Heartland Payment Systems	347	5.0x	11.5x	Education institution ecommerce SaaS
07/24/14	OpenTable, Inc.	The Priceline Group Inc.	2,496	12.6x	41.5x	Restaurant reservation software.
7/16/14	International Game Technology	GTECH	6,400	2.8x	10.1x	Slot machine hardware & software
07/16/14	Evolution1, Inc.	WEX Inc.	533	6.0x	20.0x	Healthcare reimbursement account administration software.
06/30/14	Enett International Pty Ltd	Travelport Worldwide Limited	406	7.4x	NA	Automated payment solutions for the travel industry.
6/23/14	MICROS Systems	Oracle	4,642	3.5x	18.1x	PoS software provider
04/07/14	Third Coast Holdings Inc	Wolters Kluwer	290	5.1x	NA	Enterprise legal management software and services for law firms.
03/01/14	Dealer Dot Com, Inc.	Dealertrack Technologies, Inc.	994	5.4x	31.1x	Digital marketing and operational technology to automotive retail dealers.
2/26/14	Third Coast Holdings	Wolters Kluwer Corporate	290	5.1x	N.A.	Enterprise legal management software & SaaS
02/06/14	Delcam plc	Autodesk, Inc.	246	3.1x	21.9x	CAD/CAM systems for manufacturing applications.
1/30/14	Accelrys	Dassault Systemes	644	3.6x	21.9x	Scientific PLM software provider
1/21/14	API Healthcare	GE Healthcare	350	3.5x	N.A.	Healthcare workforce management software
01/14/14	Realtime Technology AG	Dassault Systemes SA	263	2.3x	18.4x	3D visualization software for the transportation and industrial industries.
12/2/13	Digital Insight	NCR	1,650	5.0x	15.7x	Online banking & payments software
11/7/13	Delcam	Autodesk	258	3.3x	23.0x	CAD, CAM & project management software
08/20/13	Market Leader, Inc.	Trulia, Inc.	314	6.6x	NA	Real estate marketing software solutions.
08/16/13	Harland Financial Solutions, Inc.	DH Corporation	1,629	5.8x	18.5x	Software for commercial banks, thrifts, credit unions, and mortgage companies.
8/6/13	Avelo FS	IRESS	321	3.8x	14.6x	Financial management software provider
07/13/13	Triple Point Technology, Inc.	Ion Investment Group Limited	900	4.5x	NA	Commodity management software for the commodity and energy value chains.
5/29/13	Apriso	Dassault Systemes	205	4.1x	N.A.	Manufacturing operations management software
5/28/13	Lender Processing Services	Fidelity National Financials	3,850	2.0x	11.4x	Mortgage loan origination software
3/12/13	Epocrates, Inc.	athenahealth, Inc.	229	2.1x	40.4x	Medical application for clinical content and practice tools.
3/5/13	dbMotion	Allscripts Healthcare Solutions	235	9.4x	N.A.	EHR management software provider
2/6/13	Retalix Ltd.	NCR Corporation	613	2.3x	25.5x	Software solutions for supermarkets, convenience stores, and gas stations.
10/2/12	Deltak	John Wiley & Sons	220	4.1x	N.A.	Learning management SaaS provider
10/2/12	TMW Systems Inc.	Trimble Navigation Limited	334	3.5x	NA	Enterprise software solutions for transportation and logistics companies.
8/27/12	TMW Systems	Trimble Navigation	335	3.5x	N.A.	Truck fleet management software
8/22/12	Sunquest Information Systems, Inc.	Roper Industries Inc.	1,390	7.1x	12.8x	Diagnostic information technology and outreach solutions for healthcare providers.
8/17/12	FX Alliance Inc	Thomson Reuters Corporation	611	5.0x	13.1x	Electronic foreign exchange trading solutions to institutional investors.
7/9/12	FX Alliance	Thomson Reuters	576	4.8x	11.2x	Trade execution SaaS provider
6/1/12	Hughes Telematics	Verizon	703	9.1x	N.A.	GPS & telematics software & systems
5/17/12	Archipelago Learning, Inc.	Edmentum, Inc.	301	4.1x	13.7x	Educational institution software solutions.
5/2/12	Convio, Inc.	Blackbaud Inc.	274	3.4x	35.5x	Constituent engagement solutions for nonprofit organizations.
4/26/12	Gemcom Software International	Dassault Systèmes	360	4.0x	11.0x	Mine modeling software provider
4/25/12	Transcend Services, Inc.	Nuance Communications, Inc.	318	2.5x	12.2x	Transcription and clinical documentation solutions for the healthcare industry.
3/29/12	Callataÿ & Wouters S.A.	Sopra Group	238	2.3x	NA	Banking and financial services software.
3/23/12	MediConnect Global	Verisk Analytics	349	7.0x	13.9x	EHR EDI SaaS provider
3/14/12	GlobeOp	SS&C	790	3.6x	12.6x	Hedge fund management SaaS
3/7/12	Transcend Services	Nuance	321	2.6x	12.4x	Medical transcription software provider
2/14/12	DemandTec, Inc.	IBM	427	4.8x	NA	Workflow automation software for consumer products enterprises.
12/8/11	DemandTec	IBM	440	5.0x	N.A.	SCM analytics SaaS provider
12/5/11	eMeter	Siemens	200	7.1x	N.A.	Energy data management software
11/30/11	Magma Design Automation	Synopsys	507	3.5x	50.8x	Semiconductor EDA software provider
10/21/11	Algorithms, Inc.	IBM	380	2.3x	34.9x	Enterprise risk management solutions for financial institutions.
9/6/11	Right Hemisphere	SAP	380	10.9x	N.A.	3D visualization software provider

# Industry Software M&A since 2010



Date	Target	Acquirer	EV	EV / Rev (LTM)	EV / EBITDA (LTM)	Company Description
8/16/11	Renaissance Learning	Permira Funds	446	3.3x	11.7x	Educational software provider
8/10/11	Seismic Micro-Technology, Inc.	IHS Inc.	502	8.4x	20.2x	Geoscience interpretation software for the exploration and production industry.
6/30/11	Apache Design Solutions	ANSYS	306	6.7x	N.A.	Semiconductor EDA software provider
6/14/11	Explore Information Services, LLC	Claims Services Group, Inc.	519	6.6x	16.7x	Data and analytic tools for the automotive property and casualty insurers.
5/13/11	RP Data Pty Ltd.	CoreLogic, Inc.	294	4.7x	13.4x	Property information and risk management solutions for the real estate industry.
5/9/11	Tekla Corporation	Trimble Navigation	475	5.5x	25.3x	Construction industry software provider
4/30/11	LoopNet, Inc.	CoStar Group, Inc.	752	8.2x	30.3x	Online marketplace for buying and selling commercial real estate.
4/26/11	SchoolNet	Pearson	230	3.1x	N.A.	Education management software provider
3/24/11	Mortgagebot	Davis + Henderson	232	6.2x	11.5x	Mortgage origination software provider
3/1/11	Sophis Technology Limited	Misys plc (nka:Misys Limited)	604	5.9x	NA	Portfolio and risk management software for the financial industry.
1/14/11	Norkom Technologies	BAE Systems	232	3.6x	27.0x	Financial anti-fraud software provider
12/7/10	Medicity	Aetna	500	16.7x	N.A.	Healthcare information exchange software
9/7/10	ChamberlinEdmonds	Emdeon	260	3.0x	11.9x	Patient screening and enrollment software provider
8/24/10	Eclipsys Corporation	Allscripts Solutions, Inc.	1,170	2.3x	21.6x	Clinical, revenue cycle, and performance management software.
8/11/10	Phase Forward Inc.	Oracle Corporation	591	2.7x	19.5x	Integrated clinical research suite for life sciences companies.
6/9/10	Eclipsys	Allscripts Healthcare Solutions	1,181	2.3x	16.9x	EHR management software provider
6/1/10	RiskMetrics Group, LLC	MSCI Inc.	1,619	5.3x	16.2x	Risk management and governance solutions for the financial services market.
5/27/10	Ventyx, Inc.	ABB Ltd.	1,000	4.0x	NA	Enterprise software for energy, defense, and transportation industries.
4/16/10	Phase Forward	Oracle	743	3.5x	25.7x	Data management SaaS provider
3/1/10	RiskMetrics Group	MSCI	1,612	5.3x	16.3x	Financial risk management software
			<b>Mean:</b>	<b>5.0x</b>	<b>19.4x</b>	
			<b>Median:</b>	<b>4.3x</b>	<b>16.5x</b>	

ACQUISITIONS BY PRIVATE EQUITY						
05/12/14	TravelClick, Inc.	Thoma Bravo	930	3.1x	13.1x	Revenue-generating solutions for hoteliers.
2/18/14	AFS Technologies	Court Square	303	3.7x	11.3x	Trade promotion management
12/31/13	Total Specific Solutions (TSS) B.V.	Constellation Software	329	1.4x	NA	Public sector software solutions.
11/15/13	Active Network, LLC	Vista Equity Partners	961	2.1x	63.6x	Event management software solutions.
11/04/13	Greenway Medical Technologies, Inc.	Vista Equity Partners	632	4.7x	NA	Business process management software for the healthcare industry.
10/10/12	Deltak, Inc	Thoma Bravo	1,029	3.0x	18.2x	Enterprise software for professional services and government contracting sectors.
08/17/12	MModal Inc.	One Equity Partners	1,074	2.3x	9.6x	Clinical documentation solutions for the healthcare industry.
08/15/12	Alegeus Technologies, LLC	Lightyear Capital	335	2.8x	9.9x	Healthcare and benefit payment solutions.
07/30/12	Paradigm Ltd.	Apax Partners; JMI Equity	1,000	5.0x	NA	Software-enabled solutions for the oil and gas industry.
7/2/12	MModal	One Equity	1,083	2.4x	9.2x	Speech recognition software provider
06/01/12	Misys plc	Vista Equity Partners	2,042	3.2x	16.4x	Banking and financial services software.
4/10/12	eResearchTechnology	Genstar Capital	382	2.1x	8.4x	Medical data software provider
3/19/12	Misys	Vista Equity	2,217	3.5x	15.1x	Financial software provider
11/02/11	Emdeon Inc.	Hellman & Friedman; Blackstone	3,306	3.1x	13.1x	Revenue and payment cycle management for the healthcare industry.
10/04/11	Blackboard Inc.	Providence Equity Partners	1,767	3.7x	22.3x	Enterprise technology and solutions for the educational industry.
9/15/11	Fundtech	GTCR	296	2.0x	14.9x	Transaction processing software provider
08/22/11	Radiant Systems, Inc.	NCR Corporation	1,139	3.1x	20.7x	Solutions for managing site operations of hospitality and retail businesses.
5/23/11	Ipreo Holdings	KKR	425	3.3x	N.A.	Securities issuance management software
01/31/11	OpenBet Technologies Limited	Vitruvian Partners LLP	292	5.3x	NA	Interactive gaming and betting solutions.
10/07/10	Health Grades, Inc.	Vestar Capital Partners	256	4.4x	19.5x	Online information platform about physicians and hospitals.
07/16/10	Logibec Inc.	OMERS Private Equity	248	3.5x	10.5x	Clinical and administrative information systems.

Mean:	\$955	3.2x	17.2x
Median:	\$930	3.1x	14.0x

\* Publicly disclosed transactions above \$200M of EV. Special thanks to Mark Baillie and his team at Stifel and Mike Wilkins and his team at Harris Williams for their help assembling this data.