
RESEARCH NOTE

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SUBJECT: **Human Capital Management SaaS Market Map**

What is Human Capital Management? Human Capital Management (“HCM”) is a broad term that describes the various functions in the human resources process stack. HCM can in turn be broken down into the Human Resources Information Systems (“Core HRIS”) and “Talent Management” categories. HCM vendors come in many forms: software providers, BPO outsourcing companies, consulting firms, benefit management companies, etc. For the purposes of this paper, we are going to focus on software providers with a particular emphasis on SaaS providers.

Core HR – Core HR covers the more transactional side of HR management, particularly employee records, benefits administration, compliance and position management. Core HR usually includes an employee and manager self-serve portal, providing tools to both parties to view pay stubs, update personal data, monitor sick and vacation days, etc, and occasionally branches out to Payroll processing and Time and attendance tracking software (particularly in conjunction with payroll processing).

Adjacent sectors to the Core HR stack are pure play payroll processing, tax filing liaison services, broad Enterprise Resource Planning (“ERP”) companies, benefit platform companies and Professional Employer Organizations (“PEOs”), travel & expenses management or procurement systems, accounting software and collaboration/intranet providers.

Talent Management – Talent Management covers the more developmental side of HCM, meaning the recruiting, hiring, training and management of employees. “Core Talent Management” refers to the following three areas:

- Recruiting software covers the recruiting, applicant tracking, workforce planning and new hire “onboarding” and “offboarding” functions.
- Performance Management software tracks performance reviews, cascading goals, succession planning, and career management.
- Compensation Management enables the analysis of compensation structures, non-cash compensation and incentive plans, including industry comps.

More advanced Core Talent Management suites also include a business intelligence layer with dashboards, reporting and other analysis. The other, less common, area of Talent Management is Training Management, which can include simple training tracking functions on one end to full-blown learning management systems on the other.

Adjacent sectors to the Talent Management stack are testing and evaluation, contingent workforce management, temporary staffing services, compensation consulting, compensation information services, training content, certification schools, job boards, traditional executive recruiting and background screening and verification.

Who are the players? We will break down the market three ways. First, we will distinguish between those that lead with Core HR vs. those that lead with Talent Management. Second, we will distinguish between those that target enterprises and those that target small to mid size businesses (although there may be some overlap). Lastly, we will distinguish between those that whose core “DNA” is SaaS vs. those that are primarily on-premise. We have highlighted the strategic leaders in each space.

Core HR – Enterprise Focus							
Core HR Company	Public / Private	DNA	Payroll	Time & Attend.	Recruiting	Core Talent Mgmt	Benefit Platform/ PEO
Oracle/Peoplesoft	Public	On-prem	x	x	x	x	
SAP	Public	On-prem	x	x	x	x	
Infor - Lawson	Private	On-prem	x	x	x	x	
Epicor	Public	On-prem		x	x	-	
AON / Hewitt	Public	BPO	x		x		x
Xerox / Excellerate	Public	BPO	x		x		x
NuView	Private	On-prem	x	x	x	x	
PDS / Vista	Private	On-prem	x	x	x		
Ultimate Software	Public	SaaS	x	x	x	x	
Kronos	Private	SaaS	x	x	x	x	
Workday	Private	SaaS	x	x		-	
ADP	Public	SaaS	x	x	x	x	x
Ceridian	Private	SaaS	x	x	x		x

Key: “x”=has feature; “p”=partners for feature; “-“= has some functionality

Core HR – SMB Focus							
Core HR Company	Public / Private	DNA	Payroll	Time & Attend.	Recruiting	Core Talent Mgmt	Benefit Platform/ PEO
Sage	Public	On-prem	x	x	p	p	
Microsoft Dynamics	Public	On-prem	x	x	x	x	
ADP	Public	SaaS	x	x	x	x	x
Ceridian	Private	SaaS	x	x	x		x
Ultimate Software	Public	SaaS	x	x	x	x	
Paychex	Public	SaaS	x	x	x	x	
Ascentis	Private	SaaS	x	p	p		
People-Trak HR	Private	On-prem		x	x	-	
Paylocity	Private	SaaS	x	x			x
SimpleHR	Private	SaaS	x	x			x
OrangeHRM	Private	SaaS		x	x	-	
EmpXTrack	Private	SaaS	x	x		-	
PeopleStrategy/HROnline	Private	SaaS		x	x		
High Line	Private	SaaS	x	x	x	-	
Fidelity Inv./HR Access	Private	SaaS	x	x		-	x

Key: “x”=has feature; “p”=partners for feature; “-“= has some functionality

Talent Management – Enterprise Focus							
Talent Mgmt Company	Public / Private	DNA	Training Mgmt	BI	Core HR	Payroll	Other Adjacent
Workstream	Public	On-prem			x	x	X
Cezanne	Private	On-prem	x				
Saba	Public	On-prem	x				X
Taleo (Oracle)	Public	SaaS	x	x			x
Kenexa	Public	SaaS	x				X
SuccessFactors (SAP)	Public	SaaS	x	x			
Cornerstone OnDemand	Public	SaaS	x				
PeopleFluent	Private	SaaS	x	x			x
Bullhorn (Recruiting only)	Private	SaaS					
Lumesse	Private	SaaS	x	x	x		x
SumTotal (Training Only)	Private	SaaS	x				

Key: "x"=has feature; "p"=partners for feature; "-"= has some functionality

Talent Management – SMB Focus							
Talent Mgmt Company	Public / Private	DNA	Training Mgmt	BI	Core HR	Payroll	Other Adjacent
Silkroad	Private	SaaS					
Rypple (Salesforce.com)	Private	SaaS					
Halogen	Private	On-prem	x				
Payscale (Comp only)	Private	SaaS					
TribeHR	Private	SaaS					
The Resumator (Recruit)	Private	SaaS					
iCIMS (Recruiting only)	Private	SaaS					

Key: "x"=has feature; "p"=partners for feature; "-"= has some functionality

Assessing the landscape – Enterprise Focus. The enterprise segment of the Core HR market is dominated by the leading ERP companies, particularly Oracle (who acquired HR business software and ERP companies PeopleSoft and JD Edwards) and SAP. Also in the mix are smaller ERP companies like Lawson/Infor and Epicor. On-premise software is most common among enterprises, although SaaS-based companies like ADP, Ceridian and Ultimate have made some strides by virtue of their strong position in commodity payroll processing. Workday has made strides as a SaaS-based Core HR company, even without a built-out talent management suite and is expect to file for an IPO in the next few months. Kronos, another SaaS company, is primarily a pure-play on the time and attendance segment.

Forrester’s analysis of the Core HR market for enterprises in 2012 ranked Workday as the best company among the “leaders” followed closely by SAP. *Please see the appendix for the detailed Forrester Market Map.*

The Talent Management segment for enterprises rose later and is therefore dominated by SaaS companies like SuccessFactors (acquired in December 2011 by SAP), Taleo (acquired in February 2012 by Oracle), Kenexa and Cornerstone OnDemand. Most talent management providers to enterprises have avoided the Core HR market. There is really only one diversified on-premise talent management software company: Workstream, a penny stock with ~\$8MM of rapidly-shrinking revenue. Saba Software is specialized as a training management platform and does not have an offering in the core talent management stack.

Strategically, it is not surprising that we have seen the ERP vendors acquire the leading SaaS talent management companies. The remaining public pure-plays (Kenexa and Cornerstone) are probably too large for Lawson or Epicor, but could be valuable to someone like Microsoft, ADP or Ceridian.

Assessing the landscape – SMB Focus. The SMB segment of the Core HR market is dominated by the leading payroll processing companies (ADP, Ceridian and Paychex) and the SaaS company Ultimate Software. The payroll processing companies tend to compete as business process outsourcers, offering HR and benefits outsourcing services, including PEO services. While they operate primarily as SaaS platforms, given the nature of the payroll processing business, they weren't really built as software companies from the ground up. Ultimate Software is a strong SaaS company with ~\$300MM of annualized revenue (growing ~20% yoy) and trading at 8.0x revenue.

There are also a number of smaller companies targeting SMBs (and HR and benefit outsourcing firms that target SMBs) like Ascentis, High Line, Paylocity, SimpleHR and others. Traditional SMB ERP vendors like Microsoft Dynamics and Sage Software have a presence in the market as well, although Sage partners with Cornerstone OnDemand and Visibility for their talent management functionality.

The Talent Management segment for SMBs is much thinner, with Silkroad as the only pure-play diversified SaaS talent management provider. On-premise company Halogen and UK-based Lumesse also have some presence in the market. Silkroad is an overcapitalized, VC-backed company with about \$40MM of revenue (we passed on a round earlier this year). Other SMB focused companies in the talent management field are generally point solutions or crossover from Core HR. An interesting recent development was the acquisition of Rypple, a performance management point solution (with a "social" bent to it), by Salesforce.com, an example of horizontal consolidation by the SaaS CRM giant.

Strategically, the suite-based solution makes sense for SMBs who don't want to manage multiple vendors. The natural lead product is Core HR (including payroll), since that is something every company needs from the beginning. It is therefore not surprising that the leaders are the payroll BPO companies like ADP and Ceridian and Core HR SaaS provider Ultimate Software. There is room for other SaaS competitors in the space that focus purely on SMBs like Silkroad or Ascentis, or potentially Workday or Cornerstone OnDemand moving downstream.

How big is the market? According to Forrester Research, the human capital software market (excluding payroll processing revenue, but including both on-premise and SaaS) is currently \$9.5 billion, with Core HR suites accounting for about half, or \$4.7 billion of the revenue. The Core HR segment is growing at 8.2% per year and ***the Core HR SaaS market is growing at a 15% rate. The talent management segment (both on-premise and SaaS) is growing at 16.5%.***

While we don't have a precise estimate of the size of the SaaS market for HCM software, Gartner estimates the entire ERP SaaS market (which includes HCM) to be only \$2.0 billion in 2012. At least half of that amount is comprised of revenue from the large public, formerly public or soon-to-be public ERP SaaS companies: Netsuite, Ultimate, Cornerstone, Kenexa, SuccessFactors, Taleo and Workday, most of which focus on enterprises or rapidly growing mid-sized businesses. SaaS is expected to continue to gain market share

The SMB side of the ERP market is still pretty nascent for both SaaS and on-premise software (excluding on-premise accounting suites like Microsoft Dynamics, Sage Peachtree or Intuit). The fact that the payroll companies like ADP, Ceridian and Paychex are already doing business with SMBs explains why they have been able to make pretty good inroads into that market.

According to Everest Research, the HR business process outsourcing market (generally for small businesses) is \$2.85 billion. This is only relevant as it signals the amount of money that SMB already spend on HR services. These BPO companies are potential partners for HCM SaaS companies.

Is the market consolidating? There have been a large number of acquisitions in the HCM SaaS space. They have come in three general forms:

- (1) Horizontal point solution acquisitions – There have been a number of acquisitions or point solution providers by companies within the HCM space or those operating in adjacent markets. Examples include Hewitt buying RealLifeHR; Saba buying THINQ; Workstream buying Empagio, ProAct and Kadiri; Secova buying UltraLink; Taleo buying White Amber, Learn.com and KnowledgePoint; Kenexa buying Salary.com; SuccessFactors buying Plateau; Kronos buying SmartTime and ADOPT; ADP buying Employease, eLabor, Workscape and SHPS; Lumesse buying Mr. Ted and Edvantage; Sage buying Federal Liaison services.
- (2) On-premise ERP software companies buying SaaS providers – examples include Oracle buying Taleo; SAP buying SuccessFactors; Infor / Lawson buying Workbrain, Infinium and Enwisen.
- (3) SaaS vendors from other horizontal areas making HCM acquisitions – Salesforce buying Rypple is the first example, but we expect more to come.

What are the trading comps?

Below is a list of relevant precedent transactions. While the available M&A multiples are limited, the average revenue multiple of our selected comp set is 6.0x revenue. The largest transaction over the past six months would be Oracle’s acquisition of SaaS Talent Management Company, Taleo, valued at 5.7x LTM revenue.

M&A Comparables			Enterprise Value	Trailing Revenue	
Target	Acquiror	Date	(millions)	(millions)	EV/Revenue
HumanConcepts	Saba	3/20/2012	\$ 24	NA	NA
HR solutions of SHPS	ADP	3/8/2012	NA	NA	NA
Sonar6	Cornerstone OnDemand	3/8/2012	\$ 14	NA	NA
HR Integrations	Talent Technology	2/27/2012	NA	~\$10	NA
Taleo ¹	Oracle	2/9/2012	\$ 1,805	\$ 315	5.7x
Dayforce	Ceridian	2/7/2011	>\$100	NA	NA
Rypple	Salesforce.com	12/15/2011	\$ 51	NA	NA
SuccessFactors	SAP	12/3/2011	\$ 3,516	\$ 292	12.0x
Ceridian ²	Thomas H. Lee Partners, L.P. and Fidelity National Financial, Inc. (NYSE: FNF)	5/30/2007	\$ 5,033	\$ 1,573	3.2x
Kronos Incorporated ³	Hellman & Friedman, LLC and JMI Equity	3/22/2007	\$ 1,783	\$ 594	3.0x
Median					4.5x
Mean					6.0x

¹ 60.9x LTM EBITDA

² 14.4x LTM EBITDA

³ 20.8x LTM EBITDA

The public comparables below are a mix of the Core HR companies and Talent Management companies. Apart from Cornerstone (which trades at 12.7x LTM revenue), Talent Management companies tend to trade at lower multiples (~2.0x revenue) vs. the Core HR companies which trade between 2.0 – 8.0x LTM revenue. Also, as expected, the on-premise software solutions (Saba & Workstream) trade at lower multiples vs. SaaS companies in the space. Together, these companies average 4.6x LTM revenue or 4.2x LQA revenue.

Public Comparables (\$ in millions, except per share data)

Company	Ticker	7/12/12			Revenue		EBITDA		EV / LTM		EV / LQA		YoY LTM Rev. Growth	Revenue Margin	
		Stock Price	Market Value	Enterprise Value	LTM	LQA	LTM	LQA	Revenue	EBITDA	Revenue	EBITDA		LQA EBITDA	LTM EBITDA
Automatic Data Processing, Inc.	ADP	\$55.38	\$27,085.5	\$25,409.7	\$10,535.7	\$11,692.4	\$2,354.1	\$3,216.8	2.4x	10.8x	2.2x	7.9x	10.2%	27.5%	22.3%
Paychex, Inc.	PAYX	31.5	11,421.9	11,105.6	2,229.8	2,206.0	951.7	883.2	5.0	11.7	5.0	12.6	7.0%	40.0%	42.7%
The Ultimate Software Group, Inc.	ULTI	87.2	2,321.0	2,260.8	283.0	313.1	27.9	19.2	8.0	81.0	7.2	117.8	19.6%	6.1%	9.9%
Cornerstone OnDemand, Inc.	CSOD	22.4	1,112.4	1,029.8	81.3	96.0	(20.7)	(27.9)	12.7	NA	10.7	NA	63.2%	NA	NA
Kenexa Corp.	KNXA	24.5	669.7	620.5	300.8	311.2	25.6	17.5	2.1	24.3	2.0	35.4	38.8%	5.6%	8.5%
Saba Software, Inc.	SABA	8.7	258.5	244.4	121.3	121.6	(9.8)	(16.2)	2.0	NA	2.0	NA	7.7%	NA	NA
Workstream Inc.	WSTM.F	0.7	1.9	3.4	8.3	8.0	(1.8)	0.3	0.4	NA	0.4	11.3	52.5%	3.7%	NA
Median									2.4x	18.0x	2.2x	12.6x	19.6%	6.1%	16.1%
Mean									4.6	31.9	4.2	37.0	28.4%	16.6%	20.8%

While the HCM space is fairly crowded with a handful of public companies and over 30 private companies, the market is still growing at extremely high rates (15%+), especially when it comes to SaaS solutions. As discussed above, industry consolidation has begun as ERP vendors acquire SaaS companies and SaaS companies buy into other verticals and adjacent markets. If a company is reasonably valued (2 – 3x revenue) and has the ability to capture market share and add clients profitably, there may be several exit options available as larger HR companies continue to consolidate the market.

Opportunities for Catalyst

Human Capital Management is a large rapidly growing industry with lots of runway and opportunity. Even though the market is dominated by a few large public companies with scale, we believe there is still an opportunity to invest in the space, especially in companies providing HCM SaaS solutions to SMBs. The following are a few areas where we believe Catalyst could participate:

Core HR product suites: Opportunities may be limited in Core HR for Enterprises due to the high level of competition; however we believe there are opportunities in Core HR for SMBs. A complete suite of SaaS HR solutions could be a great fit for a larger vendor as larger players will eventually want to move down market to acquire customers and/or better technology in the space.

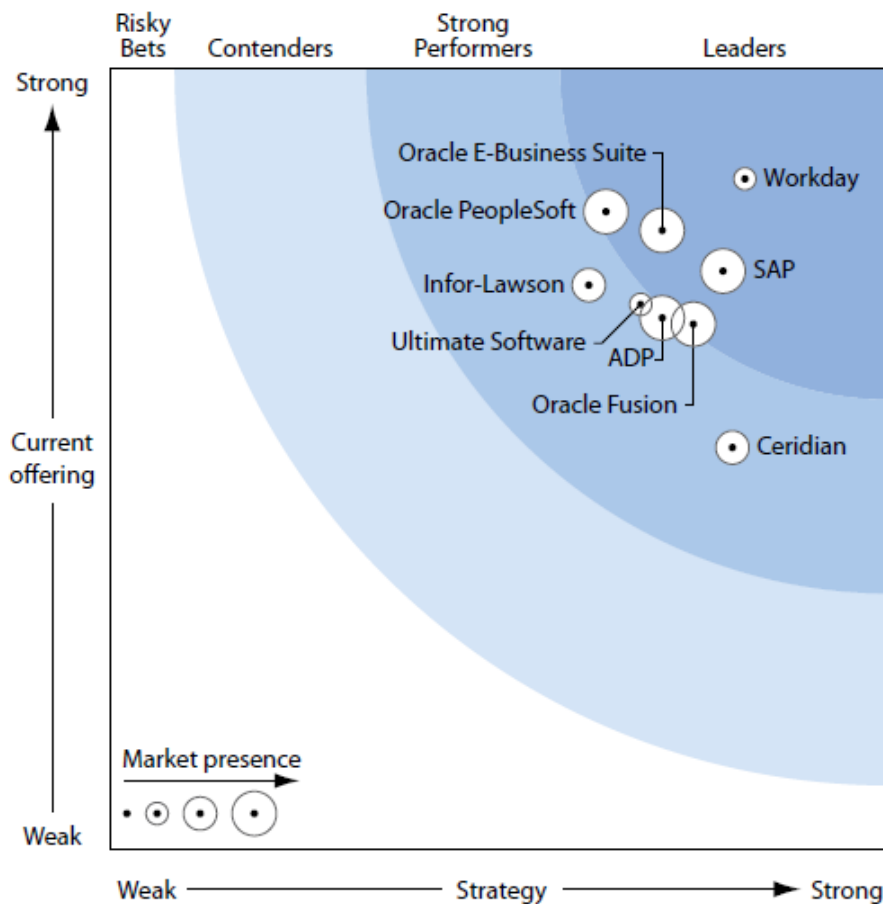
Point/Specialized SaaS solution for SMBs: Highly specialized talent management point solutions could also be an opportunity for Catalyst. Whether the company has a focus on compensation or recruiting, having a horizontal play/best of breed technology could be valuable.

Training Management: Training management solutions support and track corporate and continued education programs. Any industry that requires or supports various levels of certifications will be able to maintain better data around employee skill-sets by implementing a training management platform that connects directly to a client’s Core HR system. This area is also less competitive vs. other HCM verticals.

Benefit Management/Employee Engagement Platforms: As employee self-service platforms have become standard, employee engagement with regard to their benefits has also increasing. Corporate incentive and recognition systems are becoming more and more popular as they have been known to reward employees, motivate workforce behavior and stimulate sales performance. Benefit management including health, wellness and financial benefit platforms could also be interesting.

Appendix:

Forrester Wave™: Human Resource Management Systems, Q1 '12



Source: Forrester Research, Inc.