



VENTURE CAPITAL INVESTMENTS IN ENTERPRISE SOFTWARE

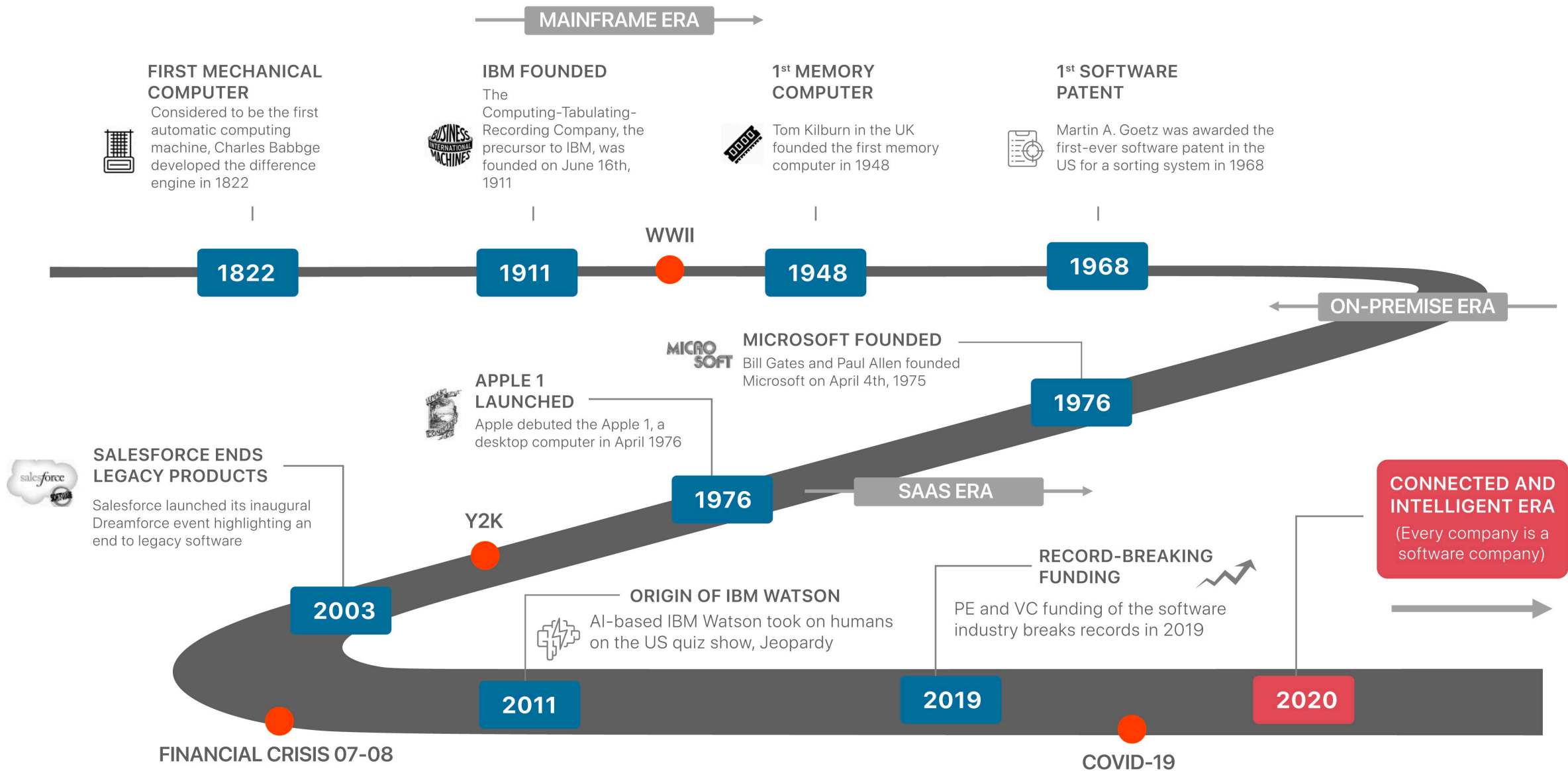
A JOINT THOUGHT LEADERSHIP BY PERSISTENT AND ZINNOV

H1 2020









CHANGING LANDSCAPE OF ENTERPRISE SOFTWARE AND THE ROLE OF VCs

MAJOR GLOBAL EVENTS HAVE TRIGGERED A MASSIVE DISRUPTION IN THE WAY ENTERPRISES CONSUME SOFTWARE



VENTURE CAPITAL FIRMS ARE AT THE FOREFRONT OF INVESTMENT IN DISRUPTIVE SPACES

CONNECTED AND INTELLIGENT ERA	VC INVESTMENT	NOTABLE DEALS
AI+ML+IA	\$34.3 Billion VC investment in AI, ML, & IA across 3,453 deals in 2019	<div>  <p>RPA platform, Automation Anywhere, raised \$290 M in Series funding at a valuation of \$6.8 B in November 2019</p> </div> <div>  <p>Autonomous endpoint protection company, SentinelOne, raised \$120 M in Series D in June 2019</p> </div>
CLOUDTECH & DEVOPS	\$6.3 Billion VC investment in Cloudtech & Devops across 395 deals in 2019	<div>  <p>HashiCorp raised \$175 M in Series E funding at a valuation of \$5.1 B in March 2020</p> </div> <div>  <p>Microservices company, Netlify, raised \$53 M in Series C funding in March 2020</p> </div>
IOT SOFTWARE	\$1.1 Billion VC investment in Internet of Things across 912 deals in 2019	<div>  <p>IOT platform Particle raised a \$40 M Series C, doubling its Series B valuation in October 2019</p> </div> <div>  <p>ARMIS raised Series C round of \$65 M from Sequoia in April 2019 and was later bought by Insight Partners at a valuation of \$1B in January 2020</p> </div>

NON-TRADITIONAL/TOURIST INVESTOR PARTICIPATION



Growing acceptance and usage of secondary markets to obtain liquidity is fueling the growth of non-traditional investors

PEs BECOMING VCs and VICE VERSA



PE firms are increasing focus on Growth Equity with around ~60% of the total PE deals (excluding add-ons) being focused on growth and expansion

TECHNOLOGY AT THE FOREFRONT OF VC INVESTMENTS



50+ software-related funds closed by VCs and Growth Equity PEs in 2020

CORPORATE VENTURE CAPITAL



400+ active portcos



\$1.5 B in AuM



\$4.5 B in AuM

SINGLE/MULTI-FAMILY OFFICES



60+ active portcos



60+ active portcos

LARGE PEs FOCUSING ON GROWTH EQUITY



\$2 B growth fund



\$4.9 B growth fund



\$1.5 B growth fund

VCs TRANSFORMING TO PEs



70% of deals since 2019 in Growth Equity



10% of investments since 2019 in PE model

SPARK CAPITAL

Raised \$450 M to invest in later stage software companies



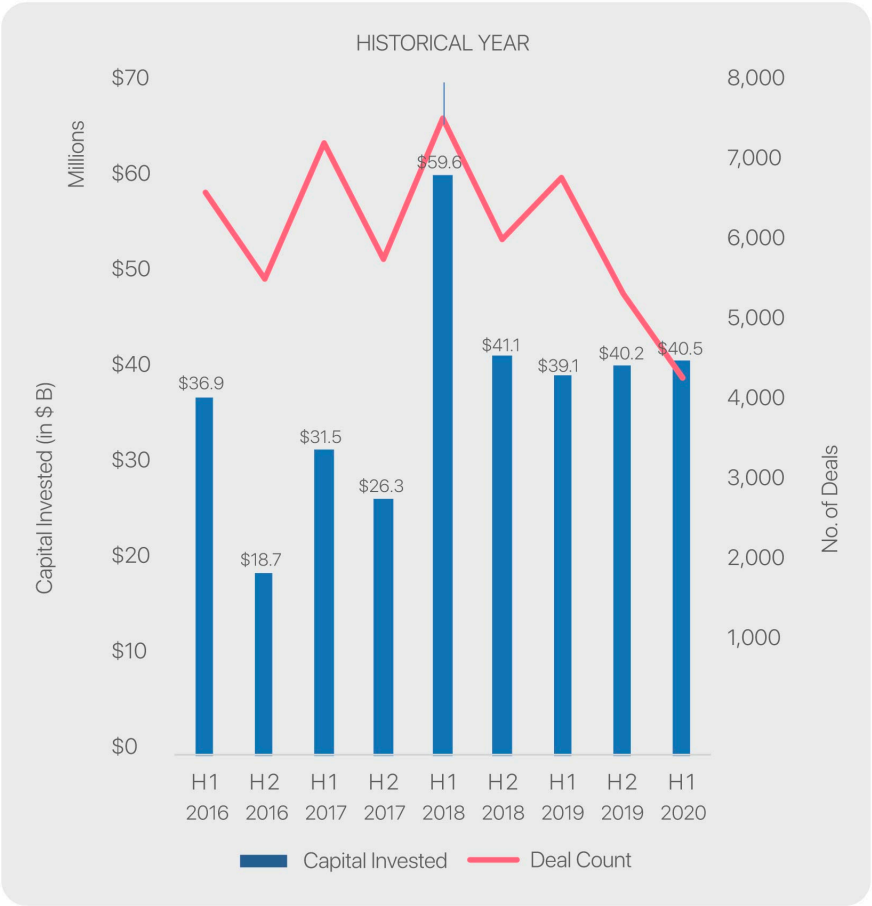
Closed \$780 M early stage venture fund for software companies



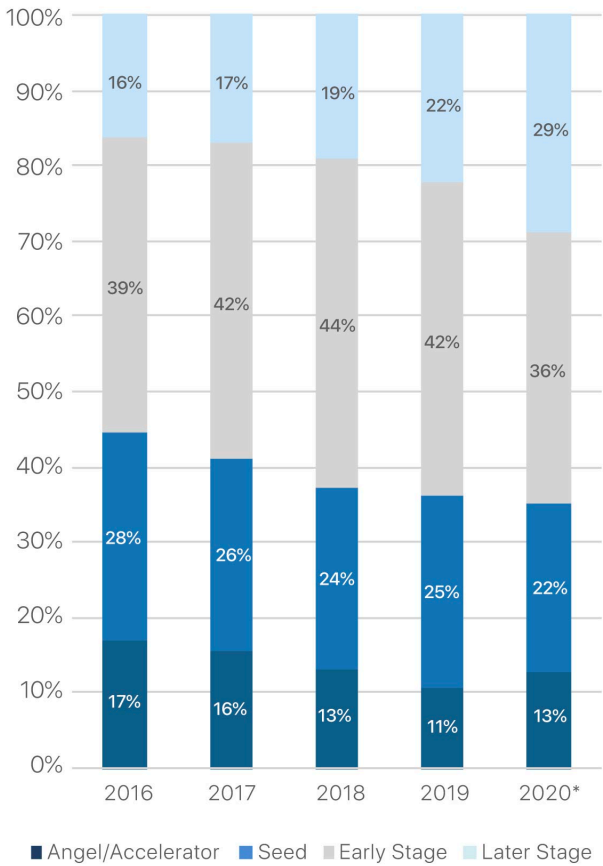
Raised \$1.5 B fund to provide Growth Equity investments between \$25 Mto \$150 M range in deal sizes

LATE STAGE INVESTMENTS ARE INCREASING AS VCS LOOK TO MINIMIZE RISK POST THE PANDEMIC

VC investments in Enterprise Software
(capital invested & number of deals)



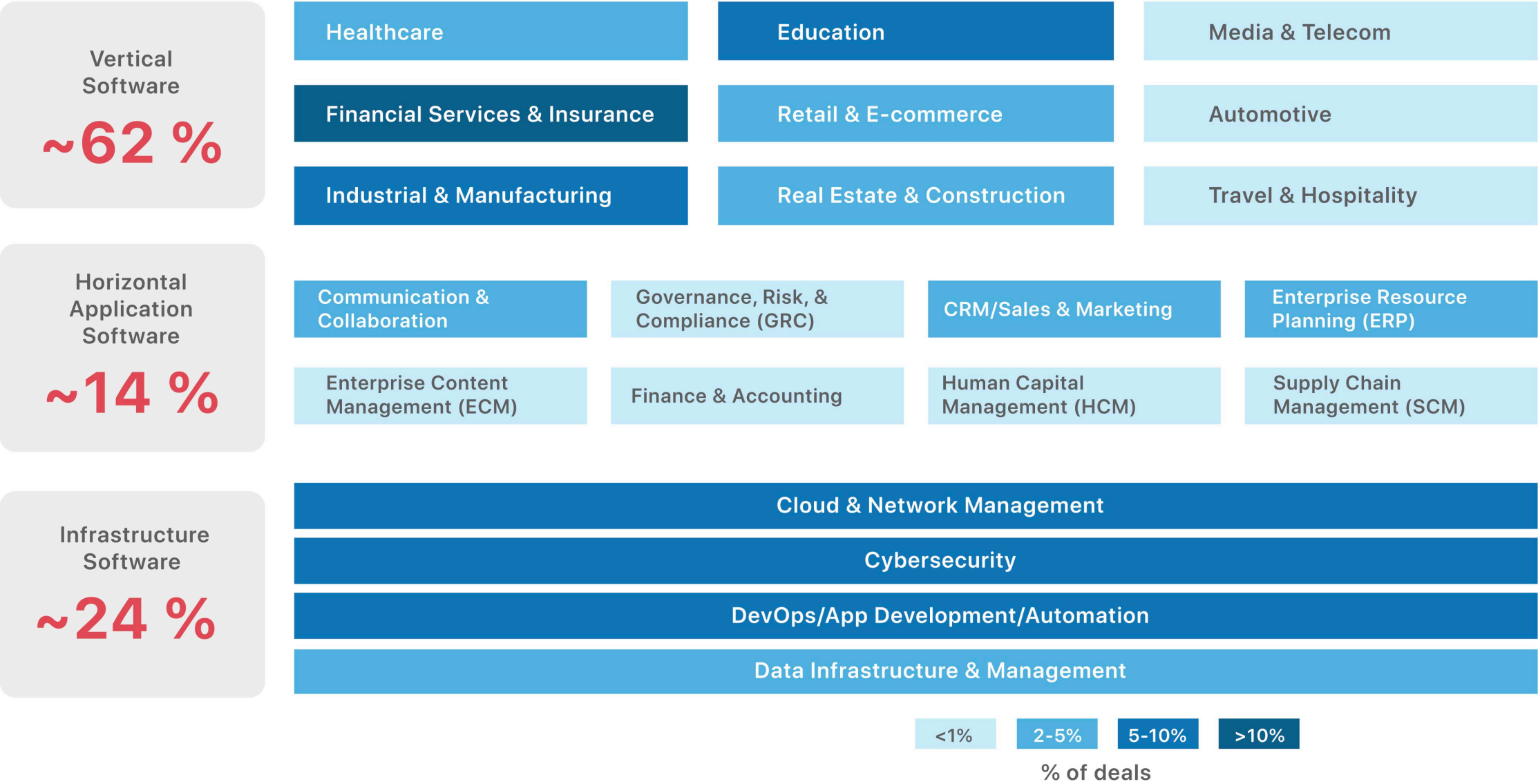
Split of Deal Types
(by number of deals)



Geographical Split of VC deals
(by number of deals)



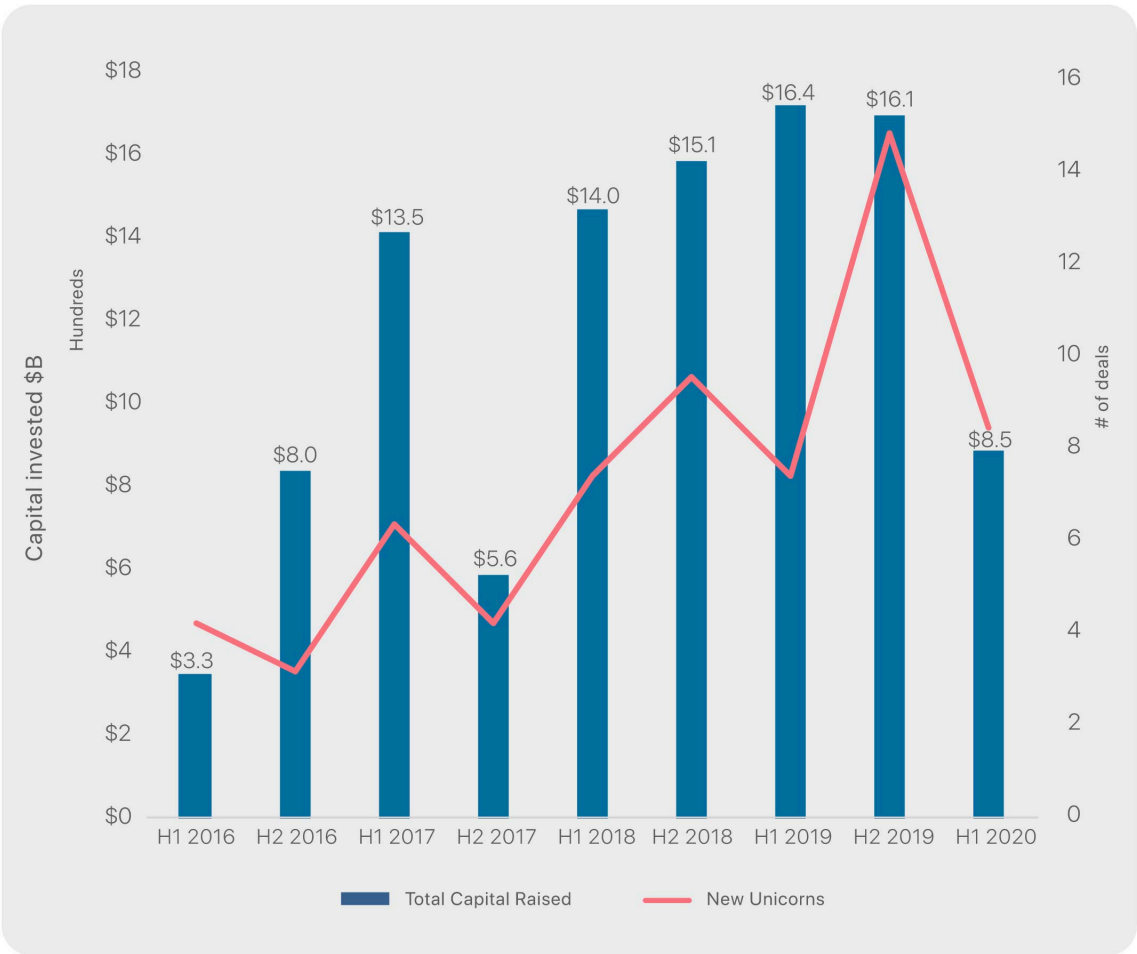
VC FIRMS HAVE HIGH INVESTMENTS IN VERTICAL SOFTWARE COMPANIES DRIVEN BY FINANCIAL SERVICES & INSURANCE



Proportions based on # of VC deals in Last 12 months









STUNTED GROWTH AND IMPACTED VALUATION HAS REDUCED THE NUMBER OF NEW UNICORNS

New VC-backed Enterprise Software Unicorn Births*
(capital invested & number of births)



*Note: Unicorns are companies that have a valuation of \$ 1 B

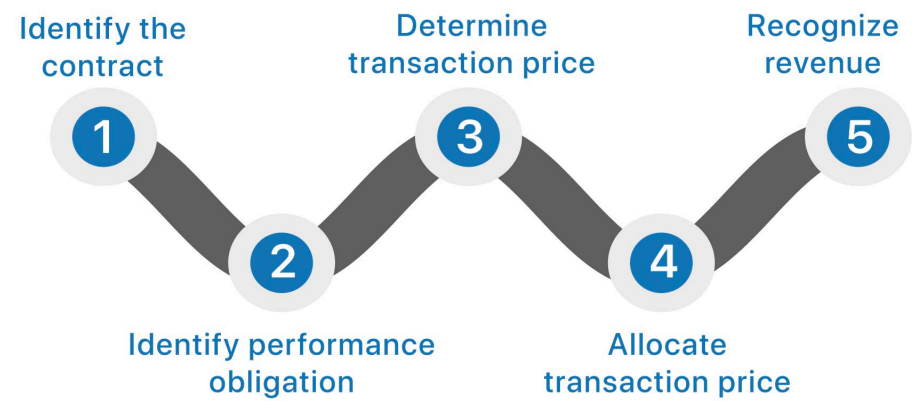
VC-backed Enterprise Software Unicorns in 2020
(H1 2020)

UNICORN	VC FIRM	DEAL SIZE	SERIES	SOFTWARE USE CASE
 Amplitude	Singapore Invest. Corp, Sorenson Capital, Battery Venture	\$50 M	SERIES E	MOBILE ANALYTICS PLATFORM
 flywire	Goldman Sachs Group, Tiger Global, F-Prime Capital	\$120 M	SERIES E	PAYMENTS
 highradius <small>Receivables Payments</small>	ICONIQ, Citi Ventures, Susquehanna Growth Equity	\$125 M	SERIES B	RECEIVABLES & TREASURY
 Lucid	ICONIQ, Spectrum Equity, Meritech Capital Partners	\$52 M	SERIES D	VISUAL ANALYTICS
 Quizlet	General Atlantic	\$30 M	SERIES C	EDUTECH
 SentinelOne	Insight Ventures, Samsung Ventures, Qualcomm, Vista	\$200 M	SERIES E	ENDPOINT PROTECTION
 sisense	Insight Ventures, Battery Ventures, DFJ Growth	\$100 M	UNDISCLOSED	BUSINESS INTELLIGENCE
 snyk	Stripes, Trend Forward Capital, Salesforce Ventures	\$150 M	SERIES C	IT SECURITY

THE INTRODUCTION OF ASC 606 HAS BROUGHT FORWARD NEW CONSIDERATIONS FOR ENTERPRISE SOFTWARE AND VC FIRMS

REVENUE RECOGNITION FOR SOFTWARE COMPANIES

5-step approach for revenue recognition



KEY CONSIDERATIONS FOR ENTERPRISE SOFTWARE

PROFESSIONAL SERVICES REVENUE RECOGNITION

Under ASC 606, these services are considered separate performance obligations only if they have value as standalone items

UPGRADING & UPSELLING PRODUCTS

Under ASC 606, upgrades may be considered separate performance obligations, which means that revenue may be recognized earlier than under legacy GAAP

ARR OF HYBRID SAAS MODELS

Increased complications and nuances created by ASC 606 for hybrid models to project what exactly is the recurring revenue

CONTRACT TERMS & RENEWALS

To project the impact of transitioning to ASC 606, companies need to relook at their customer contracts around terms, length, and payment terms

EFFECTIVE DATES

PUBLIC COMPANIES

DEC 15, 2017

PRIVATE COMPANIES

DEC 15, 2018

With the COVID-19 outbreak, on June 3rd, 2020, the FASB issued guidance, providing an optional one-year deferral of the effective date of ASC 606



Box shares fell by 19% after it failed to meet analyst growth expectations and cited the reason as the adoption of ASC 606 standard

IMPLICATIONS ON DEAL-MAKING

PRE-TRANSACTION CONSIDERATION

New Investment Due Diligence

Potential impact on cash flow projections, costs and resources needed to implement the standard

Exit Strategies

Potential changes to pricing and market strategy of the company impacting strategic exits

POST-TRANSACTION CONSIDERATION

Management compensation/Incentive structure

Determine whether the plans require modification to align accounting treatment and goals while still incentivizing employees

Debt Covenants

Monitor existing debt covenants to prevent violations stemming from any potential accounting changes

Taxes

Assess how changes in the timing of revenue recognition versus cash receipts potentially impact recognition of corporate tax, transfer pricing, and sales tax

THIS NEW NORMAL PRESENTS MULTI-FOLD CHALLENGES TO ENTERPRISE SOFTWARE COMPANIES...

FINANCIAL CHALLENGES

GROWTH AT LOW COST

Businesses are facing cash crunch but in order to survive companies must focus on growth without investing a lot

CASH FLOW MANAGEMENT

Maintaining a positive cashflow to pay rent, salaries to employees

DECREASED VALUATION

Declining valuation multiples leading to negative impact on valuations of all Enterprise Software Companies



MARKET DRIVEN CHALLENGES

UNCERTAINTY OF REGULATIONS

Governments facing political pressure for new regulations and legislations to favor domestic economic activity

TRANSFORMATION OF DEMAND

Businesses, consumers are accelerating the adoption of digital technologies, and as economies unlock, the market demand is also recovering

SUPPLY CHAIN DISRUPTION

Closure of supplier/vendor offices, restriction on movement of goods and personnel, etc.



OPERATIONAL CHALLENGES

COLLABORATION IN REMOTE WORKING

Lack of remote infrastructure such as laptops and mobile-first business applications

RESTRUCTURED WORKFORCE

Remote working has led to reskilling of workforce, high demand for digital talent, and access to global talent



...CAUSING VC INVESTORS TO EMBRACE SEVERAL MEASURES TO STRENGTHEN THEIR EXISTING PORTFOLIO

COMMUNICATION WITH KEY STAKEHOLDERS

Maintaining open lines of communication with stakeholders of portfolio funds to help them mitigate new threats as well as capitalizing on any opportunities that present themselves

 Accel

Provided advice on fundraising, managing employees, business continuity plans to portfolio stakeholders

TAPPING GOVERNMENT SUPPORT

Looking for federal or provincial programs or loans to meet shortfall in the capital requirement for portfolio companies amid the financial uncertainty surrounding COVID-19

 BLUME VENTURES

 SEQUOIA

Blume Ventures & Sequoia Capital are seeking urgent intervention by Government of India to ensure support and capital infusion for their India start-up portfolio

DEPLOYMENT OF ADDITIONAL CAPITAL

Reviewing the condition of companies in their portfolios to ensure that they have sufficient capital; they are deploying additional funds if required to support portfolio companies

 INSIGHT PARTNERS

Closed a \$9.5 B fund to help support portfolio companies through the pandemic

CASH RESERVES MANAGEMENT

Evaluating revenue models of portfolio companies to understand the impact on cash collections and suggesting cashflow management steps such as putting a freeze on hiring, reducing headcount where necessary

 SEQUOIA

Monitoring cash runway, fundraising plans, sales forecast, marketing as well as headcount and overall capital spend of portfolio funds



REPRIORITIZED GROWTH LEVERS FOR ENTERPRISE SOFTWARE COMPANIES



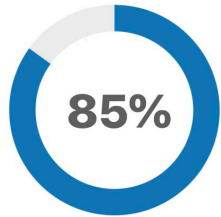
ENTERPRISE SOFTWARE LEADERS NEED TO PRIORITIZE REVAMPING THEIR PRODUCT STRATEGY TO ENSURE TOP-LINE GROWTH

VALUE CREATION LEVERS	DESCRIPTION	TIMELINE		FINANCIAL IMPACT		COVID-LED FOCUS
		SHORT-TERM	LONG-TERM	TOP-LINE	BOTTOM-LINE	
ACCOUNT PENETRATION	Building intelligence on existing customers to increase wallet share by upselling products					
GEOGRAPHICAL EXPANSION	Expanding market presence by entering previously unexplored geographical markets					
VERTICAL EXPANSION	Expanding customer base by selling into previously unexplored industries					
PARTNER-LED BUSINESS MODEL	Creating an ecosystem of tech partners, resellers, system integrators, and developers to address capability gaps, accelerate sales, and simplify implementations					
PRICING STRATEGY	Re-evaluating pricing and packaging to attract new customers and sell deeper into existing accounts					
PRODUCT LINE EXPANSION	Expanding product lines by building or buying new products catering to different use cases					
PRODUCT MODERNIZATION	Improving existing products by moving towards platformization or embedding AI, ML, RPA, Cloud capabilities					
ENGINEERING TALENT OPTIMIZATION	Reducing costs and risks in product development by adopting a distributed global services model					

PRIORITY ZONE – With the onset of COVID-19, Enterprise Software leaders need to evaluate newer and cost efficient ways to approach their product strategy to support top-line sustenance and expansion

ACHIEVING FASTER TIME-TO-MARKET AND SCALABILITY AT OPTIMAL COSTS SHOULD BE AT THE CENTER OF NEW PRODUCT DEVELOPMENT AGENDAS

KEY FINDINGS

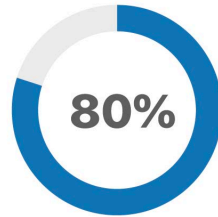


DEFOCUSING ON LEGACY PRODUCTS

Long-term strategy aligned to business around a single platform

LEADING NETWORK SOFTWARE COMPANY

A Bay Area-based network software company decided to defocus from all their legacy platforms and bet on a single platform for their long-term growth



CONSIDERING BUILDING OF PLATFORM SOLUTIONS

Adding new digital platforms to make the best of a stressful and disruptive situation



Launched a Digital Events platform that integrates video conferencing, online voting, and digital signatures to ensure that companies can proceed with their required meetings

STRATEGIC PRIORITIES



FASTER TIME-TO-MARKET

Accelerating product testing, quality assurance, and documentation processes for faster time-to-market



INTEGRATIONS & SCALABILITY

Seamlessly integrating data and functionality between the Cloud and enterprise to support product scale

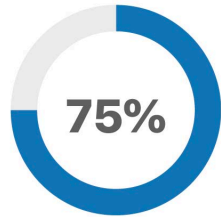


LOW EXPENDITURE

Optimizing the costs incurred in new product development by leveraging partnership models, outsourcing, or low-cost regions

PRODUCT MODERNIZATION INITIATIVES NEED TO BE RELOOKED TO BRING IN MORE AGILITY AND BEST-IN-CLASS CAPABILITIES

KEY FINDINGS

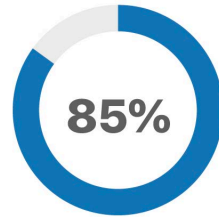


UNDERTAKING PRODUCT MODERNIZATION

Incorporating advanced digital capabilities such as AI/ML, RPA, etc.



Blue dot introduced Artificial Intelligence, Machine Learning, and Big Data-based platform to track and predict the outbreak and spread of infectious diseases



CONSIDERING PORTFOLIO RATIONALIZATION

Reinventing existing products to offset the disruption to core offerings



Reinvented autonomous car offerings to specifically help companies deploy contact-tracing technology to their workplaces and warehouses

STRATEGIC PRIORITIES



INNOVATION AGILITY

Accelerating returns from R&D investments to pioneer innovation in the software category



PLATFORMIZATION

Building a platform-as-a-service model to support product integrations and customizations

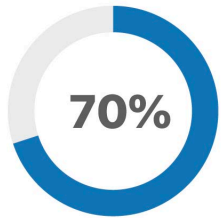


BEST-IN-CLASS ENGINEERING TALENT

Ensuring ready access to industry-leading technical teams for developing best-in-class software products

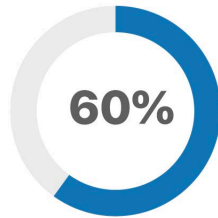
ENGINEERING TEAMS SHOULD BE RESTRUCTURED TO LOWER OVERHEAD COSTS WHILE ENSURING FLEXIBLE ACCESS TO HIGHLY SKILLED TALENT

KEY FINDINGS



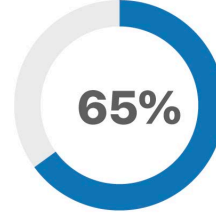
CONSIDERING TALENT RESTRUCTURING

Organization restructuring along with increase in hiring talent for deep-tech roles



UNDERTAKING TECH SKILL DEVELOPMENT

Focus on skill development/reskilling of their existing engineering workforce



ASSESSING ENGINEERING OUTSOURCING

Optimize engineering R&D through outsourcing/Global Centers of Excellence (GCoE)



Adobe Plans to increase hiring at lower cost locations to increase workforce efficiency and reduce personnel-related expenditures



Automation Anywhere is collaborating with NASSCOM FutureSkills to upskill and certify over 300,000 developers and students in India over the next 2 years

US HEALTHTECH COMPANY

US Healthtech Company is planning to leverage India as a low-cost highly skilled destination to optimize/reduce IT and R&D costs

STRATEGIC PRIORITIES



LOWER TALENT OVERHEADS

Restructuring engineering teams to reduce the costs incurred in payroll, benefits, and trainings



EASY ACCESS & SKILLED TALENT

Ensuring ready access to skilled talent for supporting product engineering requirements



LEVERAGE GLOBAL CAPABILITIES

Bringing in the best practices around product innovation, development methodologies, testing, and deployment

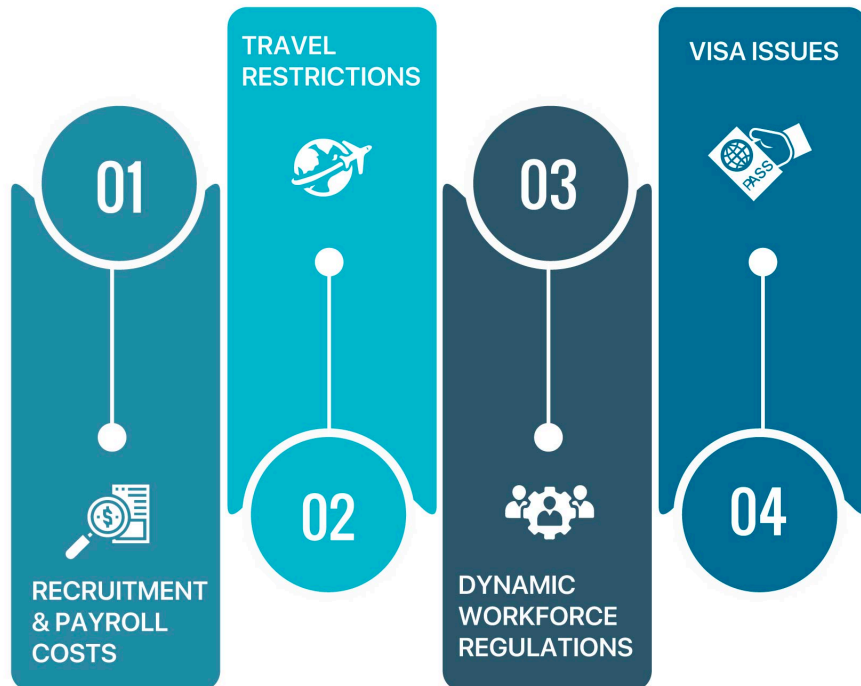


AVOID TECHNICAL DEBT

Ensuring long-term success by taking a proactive approach to minimize the potential for technical debt and addressing it as it accrues

ENTERPRISE SOFTWARE LEADERS NEED TO REMODEL THEIR TALENT STRATEGY TO SCALE FASTER

ROADBLOCKS TO BUILDING A SUCCESSFUL TALENT STRATEGY



OVERCOMING THE ROADBLOCKS TO SCALING UP QUICKLY

DOING MORE WITH LESS

Undertaking a cost-effective strategy towards scaling up quickly

ATTRACTING THE RIGHT TALENT

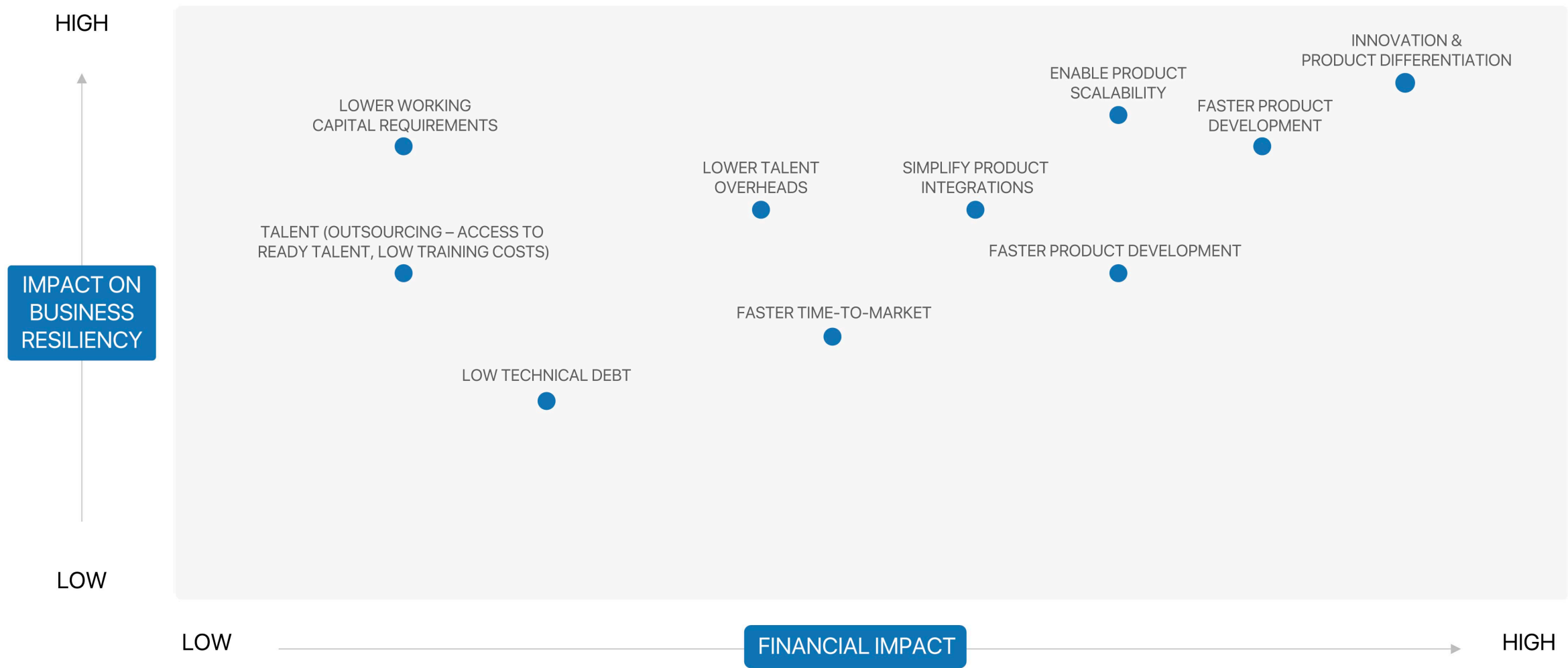
Gaining access to industry-leading talent pool having new-age tech capabilities

GAINING SYNERGIES THROUGH PARTNERSHIPS

Leveraging partnership models to gain access to global talent and achieve synergies

MATRIX FOR PRIORITIZING STRATEGIES THAT SOFTWARE COMPANIES NEED TO ADOPT

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With 11,000 employees around the world, Persistent Systems (BSE & NSE: PERSISTENT) is a global solutions leader, delivering digital business acceleration and enterprise modernization for organizations across industries and geographies. Amongst a range of other services and solutions, Persistent specializes in Digital Product Engineering for ISVs and Enterprise Software at the core of digital transformation.

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Founded in 2002, Zinnov is a global management and strategy consulting firm, with presence in Santa Clara, Houston, Bangalore, Gurgaon, and Paris. With a team of experienced consultants, subject matter experts, and research professionals Zinnov assists Software companies, Global System Integrators, Enterprises, and Private Equity firms in developing actionable insights that help them create value – across dimensions of both revenue and optimization. Over the past 18 years, Zinnov has successfully consulted with over 250+ Fortune 500 companies by:

- Structuring and implementing Digital Transformation levers enabled by technologies like AI/ML, Cloud, IOT, and RPA;
- Advising global PE firms in asset shortlisting and target evaluation, commercial due diligence, and value creation;
- Helping global companies outline and drive their open innovation programs, design and operate accelerator programs, and enable collaboration with start-ups across specific use cases and predefined outcomes;
- Enabling global companies to develop and optimize a global engineering footprint through center setups, and technology and functional accelerators to achieve higher R&D efficiencies, innovation, and productivity;
- Growing revenue for companies' products and services in newer markets through account intelligence, market entry, and market expansion advisory.

Zinnov serves clients from across multiple industry verticals in the US, Europe, Japan, and India.

For more information, visit: www.zinnov.com

