

SaaS/Application Software

2Q Travels: New Innovation Suggests the HCM Novel is Far From Written

REPORT HIGHLIGHTS: We had the opportunity to visit with several private HCM companies and HCM events during 1H15 that highlight overall demand and innovation levels remain quite high. Our travels brought us to iCIMS, HireVue, PeopleMatter, and CD2 Learning but also included an interesting stop at a Salesforce.com HR presentation. While we believe much of the investor interest over the last several years has focused on whether or not the final chapter of the hyper-growth HCM technology novel is currently being written, we remain big believers that we are closer to chapter five of a 30 chapter novel than the final chapter. If anything, we believe the younger companies are leading the innovation charge towards HCM 2.0 which we believe will be more focused on individual employees than workforce management of a single employee mass. Below we highlight four themes on Recruiting Software, Performance Management, Learning Management, and a Salesforce.com entry into the space that we believe should impact investor perspective on the HCM software space over the next several years.

The overall impact to our current HCM coverage universe is limited today, but believe several of these technologies or trends will be adopted by or acquired by our covered companies in the future which is why they are important to track.

In terms of actionable opportunity, our travels highlighted a demand environment that remains in 2Q and could serve as an early indication overall HCM 2Q sales activities.

- **Recruiting innovation did not die when Kenexa and Taleo were acquired in 2012.**
- **Performance Management could undergo a big shift towards team lead development.**
- **The Learning Management space keeps learning, lack of standards creates opportunities for new vendors.**
- **Salesforce.com moves into another HR segment, new Servicenow competitor?**

Companies Mentioned in Report:

- **Salesforce.com, Inc. (CRM: \$69.63, PT: \$85.00)**

Topic of Discussion:

SaaS/Application Software

Contributing Analysts

Scott Berg
(763) 350-4027
sberg@needhamco.com

Sector Chart

Nasdaq (NDA)

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Recruiting innovation did not die when Kenexa and Taleo were acquired in 2012. We had the chance to visit with three private HCM companies that are firmly rooted in Recruiting (or Talent Acquisition) software yet are taking a very different approach on the space than trailblazers Kenexa and Taleo. We believe the new functionality effectively demonstrates that Recruiting software innovation still has a long way to go and did the space did not die in 2012 when IBM acquired Kenexa and Oracle acquired Taleo.

- **Hiring with a View, Hireview shows the future of candidate interviews has arrived.** We attended HireVue's Digital Disruption customer conference in June and came away with the impression that candidate video interviewing is not just well-suited for today, but a platform for the future of candidate recruiting. Attendance topped 450 and the company's current client list includes 26 of the Fortune 100 and 11 of the Fortune 25. For one very large technology and consulting firm, HireVue expects this customer to conduct 100k video interviews this year alone on its platform. However, we find the most important part of this momentum is the realization that the technology platform is scalable enough and cost-effective enough to handle the expected millions and millions of interviews this year alone which shows video interviewing is ready for Prime Time 2015.

Two new HireVue products were found quite useful that could be new product trends in the space. **HireVue Coordinate** is a new application use for interview time scheduling. The application lets candidates select interview times from an availability list that the app pulls from the interviewers calendars. The company's new **Accelerate** application allows companies to video record its best employees and their work for training purposes.

- **iCIMS, Connecting Recruiting software to the 21st century.** We met with iCIMS in 1Q who we believe is the fastest growing "big" private company in the space. We say big because over the last three years the company has become a number one player in the traditional Recruiting software space. However, iCIMS continues to take a different path towards a much deeper suite focused entirely on only different Recruiting functionality that is not addressed by most other traditional Recruiting vendors.

The two newer products we believe could be trends in the space include its Video Screening application—a video cover letter for candidates—and the company's iCIMS Connect application. Its Video Screening functionality can be an impactful method for candidates to differentiate themselves and can save manager's time interviewing while the Connect application captures a big Talent Management trend on recruitment marketing to reach and cultivate more passive candidates through the early stages of the recruiting process. Recruiting marketing functionality was a highlight amongst new

vendors at the 2014 annual HR Technology Conference and we believe iCIMS integrated platform could give it a leg up on other vendors that need to integrate.

- **PeopleMatter targets the difficult segment for hourly employees; Mobile is a big deal.** We had the opportunity to attend the PeopleMatter conference in early May in our first broad exposure to the company. For a smaller company in the recruiting space, its momentum is clearly one to watch considering the company added 1,1518 customers over the last year. PeopleMatter is really taking a unique approach to the recruitment of hourly employees, especially in segments with high turnover like restaurants or retail companies. In our May launch of a broader Human Capital Management space, we highlighted mobile use as significantly high in HCM and PeopleMatter accentuates this trend with more than 30% of candidates applying through a mobile device.

Functionality we found highly interesting was the “6 Minute Assessment” where candidates can take a skills assessment in six minutes or less and the employer can use these results to improve recruiting time frames by filtering out those with low scores early in the application process. Although a shorter pre-hire assessment does not fit every potential hire, we believe other vendors offering assessment likely must follow PeopleMatter’s framework for speed and efficiencies to improve mobile adoption before mobile use passes them by.

Performance Management could undergo a big shift towards team lead development. While not a direct HCM technology in its own right, we twice heard from The Marcus Buckingham Group (TMBG) in 1H how the whole concept of workforce development is flawed around the individual employee and how today’s systems promote this flawed system. TMBG believes the key to improving individual performance is truly driven by proper team lead or manager development and the subsequent systems must be positioned to better train and develop these leaders versus the masses as they are today. We found the argument to be quite compelling, and if accurate, could completely change how Performance Management applications are developed by vendors and used by customers within a few years. We are not aware of any HCM vendor that is taking this targeted approach to Workforce Development.

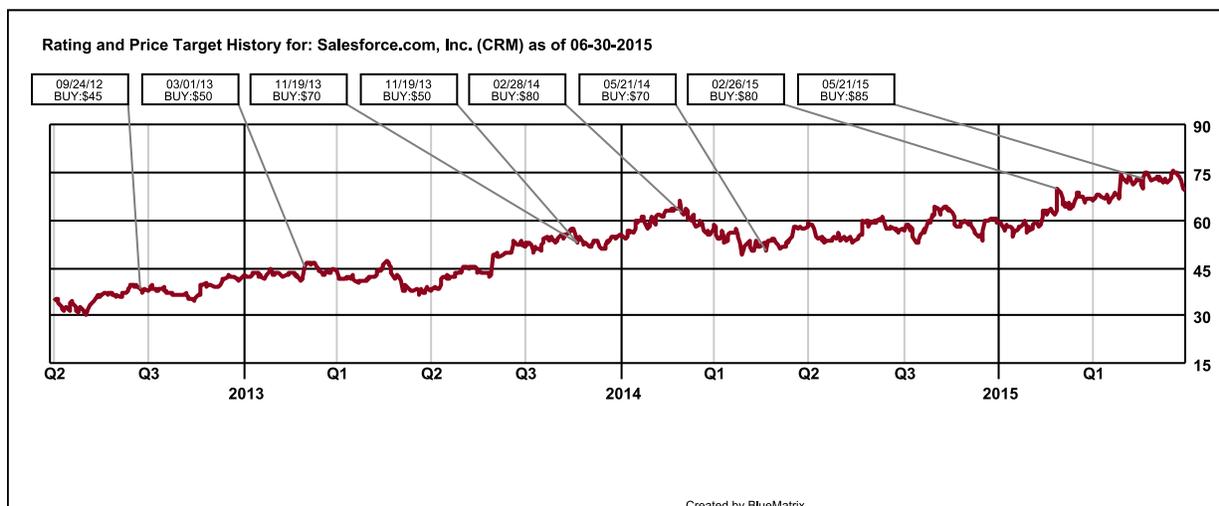
The Learning Management space keeps learning, lack of standards creates opportunities for new vendors. We spoke with a relatively young company in the LMS space called CD2 Learning about the changing dynamics in the LMS space and how customers are approaching LMS versus a couple years ago. Our biggest takeaway was that LMS continues to lack a cohesive standard of unified use cases amongst most customers. Ultimately, these different use cases will make it difficult for a true single LMS platform vendor to have viability across all verticals like what Kenexa or Taleo did early in recruiting or even Successfactors did for the Performance Management space. While we believe Cornerstone OnDemand will be the closest thing to a dominant platform vendor in the LMS space, the vast amount of niche needs will continue to allow smaller, newer vendors like CD2 Learning to find some level of success in the space.

Salesforce.com moves into another HR segment, new Servicenow competitor? We had the opportunity to see an overview of a relatively new initiative by Salesforce.com in the HCM space at a recent HR technology user group meeting. A question we get asked frequently in the HCM space is when or how does Salesforce.com make a bigger move into HR after its acquisition of Performance Management vendor Ryppe in December 2011. While we believe the short answer is the company is unlikely to make such a move in the more traditional sense with payroll, core HRMS, or most Talent Management functionality, the product overview

was about how the company has begun selling its Service Cloud offering to HR departments that seek to build or replace a legacy HR case management application that is typically used by customers to track such things as HR requests, personnel issues, or for self-service Help-Desk use by employees.

The Case Management space is not well-known to most public investors because these vendors have never been public but we find it to be quite active in terms of deals and we are seeing a material up-trend in innovation today. We believe private company Dovetail to be the largest independent vendor in the space today but Servicenow (NOW not rated) has also experienced recent success selling its service platform to HR departments.

We believe CRM's move into this HCM area is actually an excellent fit for its existing application set because CRM does not need to change much, if any, of the service desk application set as the support or ticketing functionality in both segments are similar. We believe the service desk product when paired with its social platform creates an almost HR Portal type of view for customers. Given CRM's ever evolving customer footprint, we believe the company can be involved in plenty of these deals. Competitively however, this adjacent CRM product move might be more of an issue for NOW that is trying to find its foothold in the HR Case Management space than Dovetail because Dovetail has a much deeper product set for Case Management.



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