July 30, 2010

Dear Colleague,

For the past 4 years, OPEXEngine has conducted its annual benchmarking study of the small and mid-sized software industry. Several hundred software companies have participated in OPEXEngine’s benchmarking. OPEXEngine’s benchmarking includes both public and private software companies, primarily located in the U.S. with revenues up to $300M in 2009. OPEXEngine has developed a comprehensive set of operating benchmarks that provides context for executives to manage their businesses more efficiently. Participating software vendors input their confidential data into our secure, web-based system, reflecting a broad set of measures that detail their businesses. About half of the participating companies participated in our 2009 benchmarking and half were new companies to the survey.

This year, we partnered with the SIIA and its software advisory board to bring a broader range of companies into the benchmarking. The Software & Information Industry Association is the principal U.S. trade association for the software and digital content industry.

We’ve expanded our metrics to include more data about customer value, and we have dug deeper into SaaS-specific metrics. The benchmarks track key metrics for major software business models, by revenue size, by profit leaders and by typical size of customer. OPEXEngine’s benchmarking survey has been developed and refined each year through extensive consultation with a group of leading software CEOs and CFOs as well as this year together with the SIIA’s software advisory board. Having collected extensive operating data covering the past four fiscal years, we have identified revenue size and growth models that are uniquely available through our benchmarking. We also provide analysis on several year-over-year trends.

Successful software companies tend to be very metrics driven and use benchmarking as a key management process and information tool. Benchmarking helps leadership companies evaluate their performance against peers, as well as set internal targets and performance expectations. Benchmarking also helps companies understand the latest changes in software business models and track to the most successful companies. Further, companies use benchmarking to assess their positioning vis-à-vis mergers and acquisitions, or their growth path to or in the public markets.

Our benchmarks will help you to prepare your operational roadmap for the upcoming year and operating strategies going forward. The metrics provide important context for the budget planning process and strategic decision-making. We hope you will find this data useful as you navigate through the complex business environment and make decisions that impact your growth and profitability. Please feel free to contact me directly at any time if we can be of help in understanding this report or in interpreting the benchmarks.

Sincerely,

Lauren Kelley
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Overview

The 2010 Software Benchmarking Industry Report is the 4th annual benchmarking of the small and mid-sized software industry conducted by OPEXEngine. The full report is almost 70 pages and contains analysis, executive dashboards, graphical presentation of benchmarking data as well as the full benchmarking data for all software peer groups. The following is excerpted from the conclusions of the Industry Report without including the actual benchmarking data.

The 2010 Confidential Software Benchmarks were developed based on the confidential data directly input by approximately 50 small and mid-sized software vendors into OPEXEngine’s secure, on-line survey form. The participating companies ranged in size from a few million dollars to $300 million in 2009 recognized revenues. Slightly more than half of the companies surveyed were public and the rest were private software vendors. Approximately two-thirds of the companies sell either all or some portion of their software products through a hosted, subscription model (SaaS). Participating firms sold business-to-business application and infrastructure software. About 45% of the participants are headquartered on the East Coast, slightly more than 20% from the Central and Mountain regions of the US and about a third are based on the West Coast. The 2010 Benchmarks are generated from our fourth annual benchmarking survey.

We broke out the data into an extensive range of peer groups to provide a better window into the different operating models. We looked at the benchmark differences between public and private software companies, as well as by the age of the company and number of employees. We then separated the participants into peer groups based on revenue size to see the different models used at various growth stages. In addition, we separated out the SaaS companies into a separate grouping and included SaaS-specific metrics around expenses, hosting operations and customer benchmarks.

Further, we have developed several peer group categories to show how companies are impacted by the size of customers to which they sell and average deal size. We created classifications of software vendors based on average deal sizes, size of customers and whether they sell to global, enterprise customers, or small and mid-sized customers.

We believe that is far more useful to compare your company to peer groups made up of companies at a similar stage of growth with similar business models. Often, in the software industry, vendors compare themselves to their closest competitors in the marketplace, companies that may be much larger or smaller in size or operating with a very different business model but selling the same type of product. We find it is far more useful to compare performance to companies that are similar from a business model perspective to see where a more efficient use of resources affects performance or where similar companies are achieving better performance with the same model. We tend to group companies by the sales and delivery model as that typically is the biggest expense driver of a software company and represents the biggest investment risk.

2010 Profitability Benchmarks Improved Over 2009

The 2010 benchmarks show very significant profitability gains for all software companies on average, and especially for the public and most profitable peer groups. In previous years, we saw a broad difference between companies focused on growth – at the cost of profitability – and companies focused on profitability, typically while achieving significantly lower growth. Last year, all companies were focused on expense management and even the highest growth companies reduced spending to reduce negative operating income levels or achieve positive profitability. This year, all companies focused on improved profitability and achieved gains. The difference in profitability between public companies and private companies this year is also striking.

The profitability benchmarks this year are clearly aligned with revenue size: the smallest companies are the most unprofitable, and this year, we see companies in the $50M + revenue range moving into profitability (last year we didn’t see positive operating income at the median until over $150M). The highest median profit level was in the $50M-$100M revenue range; above that it dropped to a median of 10.7%.
2010 Operating Expense Benchmarks Continue To Decrease

In 2009, our benchmarking found that all participants reduced expense as a percent of revenue somewhat, most noticeably in sales as well as for the overall average of operating expenses as a % of recognized revenue. In 2010, we find that R&D and Sales expense was reduced and marketing and G&A increased. Overall spending as a % of revenue went down most likely as the expense management measures implemented in 2009 took effect together with revenue growth.

Total compensation and benefits expense was 83% of revenue for all companies, running from 92% for the smallest companies (under $10M) to an average of 63% for the profit leaders (typically larger companies).

Travel expense in the 2010 benchmarks was 3.5% on average for all participants and 2.5% for profit leaders, whereas in the 2008 benchmarks, it ran at 5% on average for all participants and 3.5% for the profit leaders.

Highest Growth Companies Continue to Spend the Most

Companies expecting 50% or more growth in 2010 showed the least profitability, while companies expecting the lowest growth (less than 20%) showed among the highest profitability. The companies with the highest growth expectations were all under $20M in revenues while the companies with less than 20% growth expectations were larger (median $95M).

Employee Statistics – Continued Trend Towards Higher Employee Productivity

In 2009, we saw somewhat reduced headcount, reduced operating expense per employee for smaller companies and slightly increased employee productivity on average across the board as compared to 2008, most likely due to tighter expense management. In 2010, we see increased employee productivity continuing the trend from the last two years, but also slightly higher operating expense per employee for the smallest and the largest revenue peer groups.

Balance Sheet Benchmarks

Cash and cash equivalents averaged 33.9% of total assets in 2008 and that benchmark only changed slightly and stayed relatively similar in 2010. However, we saw a significant drop in net cash from operations as a % of recognized revenue averages between 2008 and 2009 and going back up in 2010 overall.

If we break out the difference in balance sheet changes between public and private companies, public software vendors improved their cash and cash equivalents between FY 2008 and 2009 significantly whereas private companies reduced cash. At the same time, public companies increased deferred revenue by a small amount from FY 2008 to 2009, whereas private companies entered 2010 with a larger increase in deferred revenue and a considerable increase in accounts receivable.

Accounts Receivable Days were reduced slightly in 2009 over 2008, reflecting most likely a stronger focus on bringing in accounts payable and cash management.

Key SaaS Benchmarks

The SaaS business is a numbers game and we’ve been tracking it for several years now. We’ve been benchmarking Contracted Monthly Recurring Revenues, Net New Revenues, Net New Customers for the year, Customer Acquisition and Maintenance Costs, Average Contract Values and Renewal Rates, both in terms of Customer Renewal Rates and Dollar Value Renewal Rates and this year we broke out the SaaS metrics for SaaS vendors with revenues less than $25M and for those with revenues greater than $25.
Conclusions

A few conclusions are clear from this year’s benchmarking. In general, the small and mid-sized software industry is showing significantly improved profitability, particularly for public companies, reflecting a continuing trend toward expense management in light of the economic slow down. Departmental expenses seem to be showing a slight shift among some revenue groups from the traditional major expense leader of sales to marketing, perhaps reflecting the increasing importance of web marketing to software revenue growth. Employee productivity is increasing at all revenue sizes and cash from operations improved significantly over last year’s drop. And SaaS is here to stay as SaaS companies show strong metrics and healthy profitability for SaaS companies over $25M in revenues. SaaS companies participated significantly in all revenue categories in this benchmarking.

About OPEXEngine

OPEXEngine works with high technology companies to develop comprehensive operating benchmarks that enable them to manage and plan their businesses more efficiently. Our mission is to deliver useful operating information to help drive profitability and revenue growth. By conducting confidential surveys of operating data, we document trends in expense allocation, revenue growth, personnel, customer, R&D and financial metrics, and then analyze the results to deliver detailed assessment of a company’s business model and productivity performance against peers in its industry. We work closely with our clients to ensure that data and reporting are relevant to their individual needs.

OPEXEngine was founded by operating executives with decades of experience in finance, sales, marketing, and general management of technology companies and technology investment banking. Go to www.opexengine.com for more information, or contact us as: info@opexengine.com Tel: 617-674-4218.
Overview

By Recognized Revenue
Income Statement as a % of Total Recognized Revenue .......................................................... DR- 6
Operating Expenses as a % of Total Recognized Revenue plus Deferred Revenue .................. DR- 6
Operating Expense Detail ........................................................................................................ DR- 7
Key Income Statement Items by Geographic Area ...................................................................... DR- 8
Balance Sheet Items (as a % of Total Assets) ............................................................................. DR- 9
Performance Measures ........................................................................................................... DR- 9
Customer Information ............................................................................................................ DR- 9
Other Information .................................................................................................................. DR- 9

SaaS Companies by Revenue
Income Statement as a % of Total Recognized Revenue .......................................................... DR-10
Operating Expenses as a % of Total Recognized Revenue plus Deferred Revenue .................. DR-10
Operating Expense Detail ...................................................................................................... DR-11
Company-Wide Expenses ..................................................................................................... DR-12
Key Income Statement Items by Geographic Area ...................................................................... DR-12
Balance Sheet Items (as a % of Total Assets) ............................................................................. DR-13
Performance Measures ........................................................................................................ DR-13
Customer Information ........................................................................................................... DR-13
Other Information .................................................................................................................. DR-13

By Growth Expectations and Typical Size of Customer
Income Statement as a % of Total Recognized Revenue .......................................................... DR-15
Operating Expenses as a % of Total Recognized Revenue plus Deferred Revenue .................. DR-15
Operating Expense Detail ...................................................................................................... DR-16
Key Income Statement Items by Geographic Area ...................................................................... DR-17
Balance Sheet Items (as a % of Total Assets) ............................................................................. DR-18
Performance Measures ........................................................................................................... DR-18
Customer Information ............................................................................................................ DR-18
Other Information .................................................................................................................. DR-18

By Employee Headcount (in FTEs)
Income Statement as a % of Total Recognized Revenue .......................................................... DR-19
Operating Expenses as a % of Total Recognized Revenue plus Deferred Revenue .................. DR-19
Operating Expense Detail ...................................................................................................... DR-20
Key Income Statement Items by Geographic Area ...................................................................... DR-21
Balance Sheet Items (as a % of Total Assets) ............................................................................. DR-22
Performance Measures ........................................................................................................... DR-22
Customer Information ............................................................................................................ DR-22
Other Information .................................................................................................................. DR-22

By Average Deal Size and Number of Years in Operation
Income Statement as a % of Total Recognized Revenue .......................................................... DR-23
Operating Expenses as a % of Total Recognized Revenue plus Deferred Revenue .................. DR-23
Operating Expense Detail ...................................................................................................... DR-24
Key Income Statement Items by Geographic Area ...................................................................... DR-25
Balance Sheet Items (as a % of Total Assets) ............................................................................. DR-26
Performance Measures ........................................................................................................... DR-26
Customer Information ............................................................................................................ DR-26
Other Information .................................................................................................................. DR-26

Appendix
Survey Methodology ................................................................................................................. A-2
Disclaimer .................................................................................................................................... A-2
Ratio Definitions ....................................................................................................................... A-3
About OPEXEngine .................................................................................................................. A-4

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2010 Software Benchmarking Industry Report
About This Report

This report includes comparative financial ratios and operating metrics by all participants overall, by public and private companies, by recognized revenue volume, by average deal size, and by SaaS companies separated by sales volume. In addition, a group of “Profit Leaders” (based on the previous year’s Net Profits Before Taxes as a Percent of Total Recognized Revenue) has been segmented to provide insights about the most profitable companies.

Perhaps the most valuable feature of the survey is that all participating firms automatically received a confidential Individual Company Report. This report presents the company’s own ratios and data computed in a manner consistent with those appearing in this report and displayed alongside the appropriate industry comparatives. (Representative pages from a sample Individual Company Report are illustrated below).

As shown on any given line of the Individual Company Report, a firm’s own data is included along with industry norms overall and with the most profitable companies, along with firms of a similar revenue size, sales format, and those that are either private or public companies.

Sample Individual Company Report
How to Use This Report

This report has been designed to help business-to-business software companies compare their own performance and operations to that of similar companies. The statistics in this report represent broad performance “yardsticks” against which a company’s performance and business practices can be measured and/or assessed.

Using this information, companies can compare their own financial performance and operating statistics with: the industry as a whole; public or private firms; firms of a comparable recognized revenue size; and firms of a similar business model.

Spotting significant differences between your own company’s performance and the industry figures can be the first step toward better understanding and ultimately improving performance. Keep in mind, however, that:

1. A deviation between your firm’s figures (for any measure) and numbers in the report is not necessarily good or bad. It merely indicates that additional analysis may be required. As a rule, the larger the difference, the greater is the need for further investigation.
2. In situations where large deviations exist, it may be helpful to go back and compute the same performance measure over the past several years to identify possible trends.
3. The information in this report should be used as a tool for informed decision making rather than absolute standards. Since firms differ as to their sales emphasis, location, size, and other factors, any two firms can be successful yet have very different experiences with regard to certain performance measures.

Report Format

This report includes the following key sections: an Executive Summary, an Executive Dashboard, Key Benchmark Findings, Company Profiles, a Detailed Results section, and an Appendix.

The Executive Summary analyzes broad trends in the mid-sized software industry and a comparison between our 2009 and 2010 findings, as indicated by the benchmarking data in this report.

The Executive Dashboard provides a quick overview of key information in table format.

The Key Benchmark Findings displays the survey’s key results in a user-friendly, graphical format and is supplemented by brief textual analysis.

The Graphical Overview displays the survey’s key results in a user-friendly, graphical format. Specifically, the overview identifies profile statistics about the companies that participated in the survey, it reveals key performance measures and operating metrics across various respondent types, and it compares respondents’ financial performance of 2009.

The Company Profiles section provides a graphical summary of the demographics of responding companies.

The Detailed Results section lists in a table format all measures computed and reviewed for this year’s study. In addition, all statistics are cross-tabulated by the following categories: all respondents, profit leaders, public firms vs. private firms, recognized revenue, average deal size, growth expectations, employee counts, number of years in operation, typical size of customer, and by SaaS companies separated by revenue size.

The report’s Appendix lists information about the study’s methodology as well as definitions of the key performance ratios used in the study.
Table Organization

The detailed tables in this report provide a complete listing of all ratios and metrics compiled for the study. The tables provide financial statistics and operating metrics.

The data have been segmented into the following groupings:

- All Respondents
- Profit Leaders (top half of respondents, based on Net Profit Margin)
- Firms by Business Type
  - Public
  - Private
- Firms by Recognized Revenue
  - Less than $10 Million
  - $10 Million to $50 Million
  - $50 Million to $100 Million
  - $100 Million or More
- Firms by Business Model
  - SaaS Companies Less than $25 Million
  - SaaS Companies $25 Million or More
- Expectations for 2010
  - More than 50% Growth
  - 20% to 50% Growth
  - Less than 20% or Negative Growth
- Firms by Employee Headcount (in FTEs)
  - Fewer than 100 Employees
  - 100 to 200 Employees
  - 201 to 500 Employees
  - More than 500 Employees
- Firms by Percentage of Customers with Revenues Over $1 Billion
  - Less than 50%
  - 50% or More
- Firms by Years in Operation
  - Less than 10 Years
  - 10 to 19 Years
  - 20 Years or More
- Firms by Average Deal Size
  - Less than $10,000
  - $10,000 to $100,000
  - $100,000 or More