

## SaaS/Application Software

### Private Company: iCIMS Innovates, Thrives in Recruiting Space Most Thought Dead

**REPORT HIGHLIGHTS:** We had the opportunity to discuss with iCIMS CFO Ron Kasner the state of the Talent Acquisition (TA) software market within the broader Human Capital Management space and iCIMS' differentiated approach in a space that is consolidated yet remains hungry for a new leader to emerge. What we believe makes iCIMS unique in the Talent Management and broader HCM market today is the company's sole focus on developing what we believe to be the deepest solution within the Talent Acquisition software ecosystem versus other vendors that may be broad across Learning and Performance Management along with Talent Acquisition. We have highlighted and summarized several themes within our conversation below that we believe are of most interest to public investors.

Generally speaking, we believe most public investors view the TA space as relatively mature with little new innovation: Taleo and Kenexa made the space scalable for very large companies through their initial singular initial focus on Recruiting, but both were acquired in 2012. Since then, public investors' only exposure to the TA space has been through new product extensions at Cornerstone OnDemand and Workday, with Ultimate Software also reporting solid attach rates to its payroll product.

However, we believe the TA market to be very vibrant today with new innovations around analytics and a new sector of TA functionality called Candidate Engagement or Candidate Marketing for candidate sourcing to create a more interactive recruiting processes between employers, candidates and traditional recruiting processes. Although iCIMS may not be well known to many public investors, we believe iCIMS to be the largest and one of the fastest growing of several vendors seeking to redesign the TA space, including Gr8 People (private) and Jobvite (private). iCIMS currently has more than \$100mm in contracted Annual Recurring Revenue and grew revenues more than 40% in 1Q16 in what we believe highlights the large growth opportunity that remains in a multi-billion dollar end market.

#### Highlighted Summary of HCM Themes:

- End market demand for Talent Acquisition software remains very strong as legacy vendors struggle; up to 50% could still be greenfield, creating long tail for iCIMS.
- Customers continue to seek best-of-breed functionality in Talent Acquisition, even more so than in other Talent Management areas.
- Demand for Candidate Engagement or Recruitment Marketing software is growing fast. We expect others to add this functionality.
- We believe one of the best use cases for analytics is in HCM. iCIMS Insights is well positioned with massive amounts of candidate data.

#### Companies Mentioned in Report:

- Cornerstone OnDemand, Inc. (CSOD: \$37.03, PT: \$45.00)
- Ultimate Software Group, Inc. (The) (ULTI: \$195.14, PT: \$220.00)
- Workday, Inc. (WDAY: \$75.19, PT: \$80.00)

#### Topic of Discussion:

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#### Sector Chart

Nasdaq (NDA)

05/24/16

## Company Profile: iCIMS

### Industry Leading Cloud Based Talent Acquisition Software

**Scott Berg (SB):** Hi Ron, let's start off by you telling me a little about iCIMS. The genesis of the company, the core business issues you are trying to solve and then extrapolate that out 1-3 years for what you believe the business solving landscape could look like?

**Ron Kasner (RK):** *iCIMS was first founded in 2000 and grew its roots from a staffing company called Comrise. At the time, the company was using an internally developed workflow management tool for its recruiting needs. Our founder and CEO, Colin Day, saw the opportunity to sell the software as a standalone Applicant Tracking System (ATS) product, and iCIMS was born.*

*I joined iCIMS in 2010, when the company was approximately \$20M in revenue, highly profitable, but growing by only 17%. The challenge was to accelerate the growth of the business and incorporate the strategic planning, execution, and risk management frameworks to further professionalize and scale the business. Fast forward to today, ARR is over \$100M and has been growing by over 30% for 12 straight quarters.*

*As for our customers, they are trying to win the war for talent. Companies acknowledge how crucial hiring is to business success, and addressing attracting top talent concerns is cited as the number one hot button issue of CEOs. Moreover, the process of hiring talent has changed drastically in recent years. Millennials make up an even greater segment of the talent pool, and how to engage those candidates, and almost all candidates, requires elements of social, mobile, and video. This is increasing both the development and adoption of tools and technologies used by companies in the recruiting process. These tools and technologies are not offered by ERP or HCM suite providers, hence the move to best-of-breed products to address such a crucial component to their business. We see this trend continuing to grow and, with north of \$120B already spent on talent acquisition, offers a huge opportunity.*

**SB:** How does iCIMS fit into the overall Talent Management market place today? More specifically, why only Applicant Tracking/Recruiting functionality in end market that is seeing most vendors trying to offer horizontally broad suites? And how does your vertical market strategy separate you from other platforms with a horizontal reach?

**RK:** *We view the landscape for talent management technologies partitioned into three primary categories. At the onset you have sources of candidates, such as job boards and social networking sites, with profiles that candidates create to interact with companies or other candidates. Next comes your tools to attract, find, screen, and hire candidates, which is where we focus exclusively. These are tools that companies use to connect with and market to potential candidates, capture and store them in their database to find and match candidates for open positions, then screen candidates before hire, and finally onboard them as new employees. The last component is any product that deals with managing employees post-hire, such as payroll and HRIS providers, HCM suites, learning management software, and ERP suites.*

*We focus on talent acquisition because more than \$120 billion is spent annually in the U.S. alone. This is a huge market deserving its own suite of solutions. By focusing exclusively on talent*

*acquisition, we are able to provide best-of-breed products for what is arguably the most important part of any organization: finding top talent.*

*Since iCIMS stores all of a company's candidate information, we are their database of record within hiring, and any other piece of the hiring process requires the information stored within it. We now have nearly 300 third party integrations, what we understand is the largest ecosystem of recruiting technology partners, which allow our customers to add on the many point solutions that customers value.*

**SB:** How do you view the overall demand environment for 2016? Does it look like 2015, which was a very strong year for iCIMS, or have you seen any notably change?

**RK:** *2015 was a banner year for us for a number of reasons: we crossed \$100 million in annual recurring revenue, maintained 30%+ annual recurring revenue growth for the third consecutive year, and continued to maintain profitability for the 13<sup>th</sup> consecutive year, to name a few. For 2016, we see this continuing and plan to maintain growth north of 30% and remain profitable and cash flow positive.*

**SB:** Describe the competitive landscape as you see it. Who would you say you compete against the most today?

**RK:** *Our competitors vary by customer size. In what we would consider the mid-market, companies with 100-2,500 employees, we oftentimes compete with payroll providers such as Ultimate Software and ADP. As we get into the large and enterprise segment of those with 2,500+ employees, we see more of the ERP providers such as Oracle (Taleo) and IBM (Kenexa). At the low end of the market, it's much more fragmented.*

**SB:** Our research for a couple years recently clearly showed HR software customers were moving towards purchasing a broader suite from fewer vendors, but in the 2<sup>nd</sup> half of 2015 we began picking up a lot more data that says the pendulum might be swinging a little back towards best of breed for HR software. Why do you think that is and how is that playing into your overall demand?

**RK:** *Companies recognize the need for having a great software for hiring, and with the changing candidate landscape, the way companies hire has also evolved. One third of the workforce are Millennials, and companies are engaging with them via social, mobile, and video technologies. This adoption of technologies for hiring has accelerated in recent years, and legacy ERP providers have not kept pace. Maintaining check-the-box solutions is insufficient, and employers recognize this. New entrants have made a push into the market, but they can't deliver the breadth and depth of service required given the complexities of hiring and need to scale with growing organizations, which has uniquely positioned iCIMS for success.*

**SB:** How vibrant is the growth and demand in the Recruiting software market today and has it changed since the acquisitions of Kenexa by IBM and Taleo by Oracle in 2012? I ask because I believe investor perception is that this market is very mature and essentially played out once these two competitors were acquired. How much greenfield opportunity remains?

**RK:** *We have seen considerable growth in the market and still see a large runway of opportunity ahead. We have a proprietary tool developed in-house that allows us to scour a database of U.S.*

*companies with greater than 100 employees, and we believe that more than 50% of the market is still greenfield. Even excluding this greenfield opportunity, there is massive spend in talent acquisition.*

**SB:** Switching to your product, the iCIMS suite is comprised of three primary products. The general functionality in your core Recruit and Onboard products is fairly well understood by more investors, but the Connect product is likely new to them and in what I believe is one of the more interesting growth areas for Talent Management. Could you talk a bit about its functionality, market opportunity, and customer reception to this type of product?

**RK:** *Connect acts as a recruitment marketing automation platform and allows companies to engage with talent pools, largely passive candidates who may not be actively looking for a job or who may be relatively unfamiliar with the company. The company can send information to a set distribution list or create specific talent pools and engage with them via targeted content. For example, a company can engage with candidates who have a targeted skill, such as a programming language, and send content specifically relevant to that candidate (e.g. news releases, current employee profiles, or culture articles).*

**SB:** Can you walk us through the workflows of the overall suite in terms of the candidate experience verse how a customer would actually use the data?

**RK:** *On the candidate side, an applicant is able to engage with a company through social networks and get added to its distribution lists to stay informed on the company. As the candidate becomes more interested or finds the right opportunity, they're able to apply for a position on their computer or mobile device, import information directly from their resume, LinkedIn, Facebook, or Google+ profile, and upload a video cover letter to further share their experience and interest in a company. If a candidate is hired, they can then use the system through the onboarding process to manage an automated, paperless workflow prior to and immediately following their start date to complete any initial tasks that might be required for employment. Through this onboarding portal experience, they can further engage with the company and watch videos or consume other content to learn about the organization or their role.*

*For recruiters and hiring managers, the process begins with the job requisition process and, once approved, moves on to job distribution across the web via traditional, social, and mobile platforms. They then establish set of screening questions relevant to the open role to determine a candidate's eligibility, as well as review brief videos to learn more about the candidate. As a candidate progresses, any notes can be outlined summarizing interactions, capturing e-mail threads, takeaways from interviews, and rankings across different candidates. This all culminates in the ability to select or decline a candidate with automated, yet personalized e-mails for rejected applications and congratulatory notes for those that have advanced, as well as our patent-pending dynamic calendaring function for more simplified interview scheduling. The new hire is then moved into the onboarding process and their tasks uploaded and tracked for completion.*

**SB:** Analytics continues to gain some momentum with the HCM software market. How is iCIMS weaving in new analytic functionality into the suite?

**RK:** *We have a large customer base with more than 160 million candidate profiles in our system, and our customers hired nearly 2 million candidates through our software last year. Couple this with the*

*extensive integration platform that we are building out, and you can grasp that the amount of data that we have is considerable. Our first step towards using this for our customers' benefit has been on making sense of this information. Early in 2015, we hired a Data Architect from IBM's Watson Team, Peter Hagelund, to begin architecting all of this data in a product we are calling INSIGHTS. With this architecture, we can start to infer what the information is telling us and create our quarterly hiring report. We then hired a labor economist, Josh Wright, in Q1 of this year to further analyze the data and champion the report. Whereas post-hire systems can show how many employees companies have hired and give a historical look at hiring trends, we have a forward-looking view of what companies are hiring for across all industries and across companies of all sizes.*

*Over time, INSIGHTS will enable customers to benchmark metrics on a de-identified basis across their industry or geography and garner actionable data on how they should hire.*

**SB:** As you continue to enhance functionalities and develop newer solutions, what types of new innovation are on the product roadmap outside of analytics that can further expand the iCIMS suite's reach?

**RK:** *We focus on ease of use, service, and performance to continue delivering a great product to our customers. To address the first, we continue to improve on our intuitive user interface, searching, reporting, and overall experience for candidates, recruiters, and hiring managers. As I also alluded to previously, we now have more and more companies in the talent acquisition technology market integrating to the iCIMS platform through our APIs. Beyond ease of our product, we want to make it easier for our customers to use all of their recruiting technologies. By better integrating our large ecosystem of partners to our platform, we are able to better connect customers to these technologies and ultimately unify the experience.*

*iCIMS has always stood for delivering a customer experience second to none. We continue to invest in delivery and support to maintain that service experience as we scale. We're also improving performance by upgrading our cloud hosting environment, which will further allow us to scale.*

**SB:** Describe your go-to-market strategy and how you utilize a direct or indirect sales channel? Does indirect become a larger portion as you continue to have more success with larger enterprise customers?

**RK:** *We have two drivers for the company, Prospect and Customer sales, each with three engines of growth. Prospect sales are powered by marketing demand generation, inside sales, and our referral partner network. For Customer sales, it's upsell, cross-sell, and expansion sales.*

*Historically, we have been largely driven by demand generation, and that has had its biggest impact for us within small businesses and mid-market companies. Our partner network has and will continue to play a large role in our ability to continue to grow, and we are continuing to sign partners that can be additive to gaining business across all customer sizes. As we've grown and begun to garner more traction at the large and enterprise company level, we've taken a more targeted approach by building out an inside sales team focusing on these companies. We began building out and ramping up this team in Q3 of 2015, and we are fine tuning the model further as we land more deals and learn from the process.*

**SB:** Who is the typical iCIMS customer both in terms of the company size and type, along with the person inside the company you are selling to?

**RK:** *We service customers of all sizes. We began as an SMB provider and gradually moved up market as our software became more configurable and grew with the businesses we serviced. During the company's infancy, smaller companies were eager to adopt a service delivered exclusively through their browser with no on-premise component or customization. Not only was this more cost-effective than the ensuing costs to upgrade and customize that comes with an on-prem model, but businesses were also looking for industry best practices to take on rather than steer the boat themselves.*

*Eventually, competitors began claiming to provide SaaS, though this would be G-SaaS: Generation 1, or "Ghetto SaaS", as we affectionately call it. In some cases they would still offer local hosting, whereas in others they were hosting the software but ultimately customizing it to cater to individual customer needs. This is reflected in both the financials of the companies that did (and still do) this: Gross margins are lower, and revenue comes from non-recurring streams via upgrades, customizations, and other service components. Additionally, having customers on customized software leads to service problems. If customers are on multiple releases, there is a level of local knowledge required to service them, or at least to do so quickly. Calling in and being able to speak to any individual customer service representative may not be an option, and if a problem is resolved it is only resolved for that one customer. The correction doesn't flow through to everyone on different releases. Thus, it requires multiple iterations to fix a problem, and there are a lot of disparate problems that need to be addressed.*

*iCIMS, on the other hand, has always been a pure SaaS vendor. We do the hosting, and all of our customers are on a single source code and on the same release. They all receive upgrades as part of their service, not at an additional cost, and we are able to address any customer issue by any single representative at the company and can fix them with one correction. As this model has continued to garner further adoption and grown to be widely accepted as the norm for businesses of all sizes, our customer mix has shifted to reflect this. We now sell to companies with 30 people or those with 300,000 and across all industries, with no industry accounting for more than 10% of our customer base and no single customer accounting for more than 1% of revenue.*

*As to who we sell to, this varies by customer size. With large and enterprise customers, we sell to the Director of Talent Acquisition. In smaller companies, we may sell to the head of HR.*

**SB:** Even with more than 3100 customers, the vast majority of your business is domestic with customers' HQ in the US today. How, or rather, will that change as the company continues to have more success up market with larger enterprise customers?

**RK:** *Our product has evolved servicing the needs of our customers. We started off with smaller companies and grew up with their needs as their businesses scaled. We're seeing the same story continue today. As we land more customers with a multi-national presence, we continue to build out our product and service delivery to meet these needs. Our customers use us across over 70 countries. Our ability to grow with the needs of these international customers continues to be part of our product roadmap.*

**SB:** What percentage of your sales today are based outside of North America?

**RK:** *More than 90% of our revenue comes from customers within the US and Canada.*

**SB:** How much of your sale today is “land & expand” verse “logo additions” and can that change over the mid to longer term?

**RK:** *Our focus is, first and foremost, on landing as many customers onto our Recruit product as possible. From there, we then move into expanding across our Connect and Onboard products and, more recently, selling integrations to our technology partners, call Connectors. From a “land” perspective, we see a large greenfield opportunity, especially in the mid-market. Additionally, building out our partner network and inside sales team to target the enterprise is garnering traction. From an “expand” perspective, we see opportunity to continue to cross-sell Onboard into our customer base. Connect is a much newer product and we still have a lot of runway with its adoption among our customers. Connectors also have a huge potential as we unify the Talent Acquisition marketplace. Even given their nascency, Connectors are our second largest and fastest-growing product, and there is no limit to how many of these a company can buy.*

**SB:** Who do you typically market and sell to within your customers? As Talent Management continues to be highlighted as a strategic initiative for many companies, is this target customer changing?

**RK:** *We primarily target recruiters and the head of Talent Acquisition. At smaller companies, this may be the head of HR, and in larger companies the VP or Director level. We also market towards the IT and financial positions at companies who influence the buying decisions.*

**SB:** Can you talk in-depth about some of your key partnerships and how you leverage those relationships to expand your reach?

**RK:** *We’ve grown to over 3,000 customers partly thanks to an extensive partner network, and with that have also garnered further traction in gaining more companies in the HCM space interested in joining the iCIMS ecosystem. These companies are now writing to our platform and filling gaps for our customers across the breadth of talent acquisition. In the future, we would likely foresee the need to extend these partnerships to systems integrators that can train and deploy iCIMS software to their customer base, and consulting organizations that can offer other value added services to our customers.*

**SB:** Looking 3-5 years down the road, how do you view the talent management market and the future of HR software functionality?

**RK:** *As hiring continues to be such a huge strategic focus for companies, organizations are moving more and more towards best-of-breed software to address the nuances needed to serve a function they view as imperative to their success. Just as an entire ecosystem of technology for marketing and selling to prospects emerged with the likes of Salesforce.com, we see this same PaaS model taking hold in the marketing and prospecting to talent with the ATS as the hub. As companies incrementally adopt more technologies to address their hiring gaps or to fulfill specific types of hiring, iCIMS becomes the ubiquitous system-of-record with an ecosystem of point solutions established around it.*

**SB:** Your 2015 financials from a press release highlight a 75% gross margin profile. Should we view these gross margins as blended or based purely on subscription revenue? And where could they get to at peak levels?

**RK:** *With 97% of our revenue as recurring, our reported gross margins are blended and remain above 75%. We consider service as a core tenet to our company as we strive to deliver a customer experience second to none. As such, we will continue to make investments in delivery and support in line with growth.*

**SB:** iCIMS today is profitable yet growing 30% plus Y/Y for several years now including 41% growth in 4Q15, how do you manage growth and profitability and could you accelerate growth faster by investing and innovating your sales and marketing initiatives?

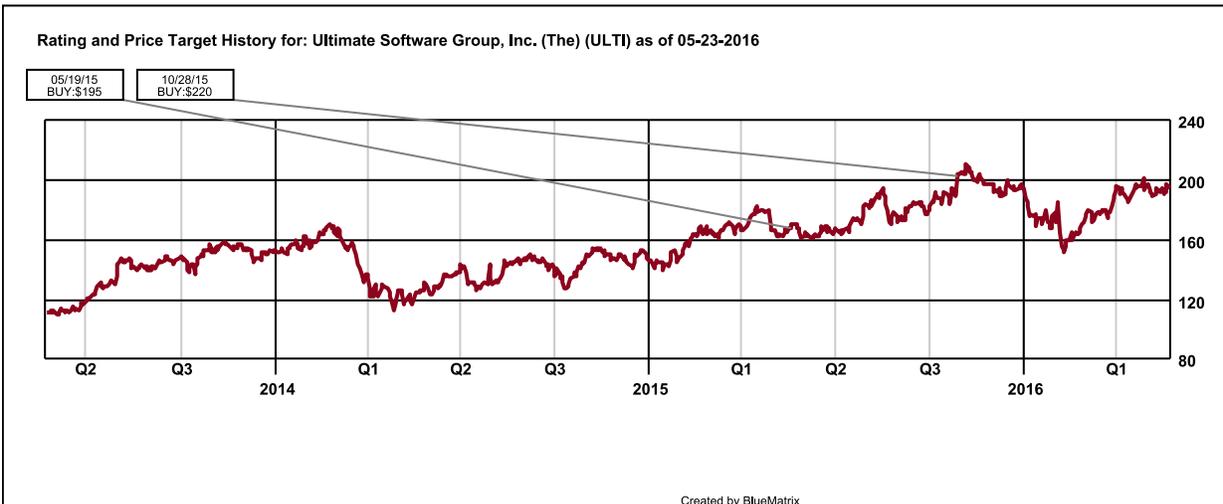
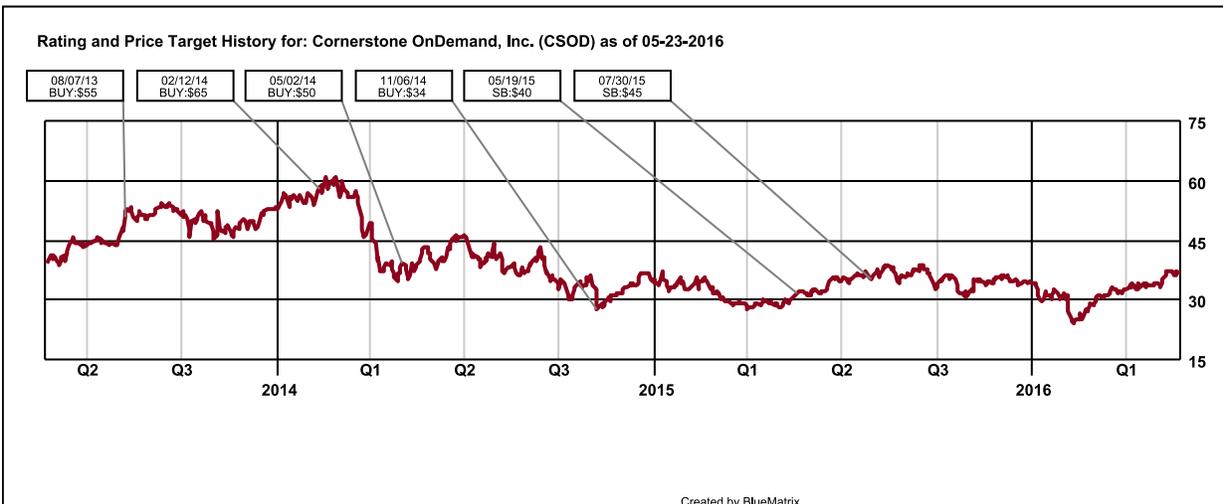
**RK:** *We have historically followed the “rule of 40%” in our business – ARR growth % + EBITDA margin should be around 40% for an efficiently run SaaS business. We could increase S&M spend at the expense of profitability, but it is not in the DNA of the company. We have been profitable since 2003 and intend to stay that way. Exceeding growth beyond our current levels could impact our ability to provide continued award-winning service to our customers and brings with it operational challenges that can become harder to digest, including hiring the right people, and scaling processes and systems for an exceedingly larger organization. We’re confident in our ability to maintain profitability in both the short- and long-term and to continue running an efficient, well-managed business.*

**SB:** Have I missed anything that you think investors would want to know about iCIMS?

**RK:** *I think we’ve touched on many of the major pieces that make iCIMS a great company: a best-of-breed, pure SaaS product with exclusive talent acquisition focus that provides a customer experience second to none. The market opportunity is huge, and we are solving a very important problem for companies.*

*What we’ve discussed less is how we’ve been able to translate that strategy into continued execution. A large part of my role at the company has been to establish the framework around how we execute on our vision, and we’ve broken it down into a specific Execution Framework. With every decision we make we are outlining the fundamental components that go into it: the strategy (overall plan) and result (measurable, desired outcome) that get operationalized via people, processes, and systems, and measured via productivity and quality metrics (leading indicators against the desired outcome). If you have the right strategy in place but are not getting the desired outcome, it will always be a result of one or more of the inputs to the equation. Simplifying execution to this level has allowed us to find the root cause of anything gone wrong with considerable speed and accuracy and make the necessary changes.*

*When asked which is the most important component of that framework, my answer is People. The right people will create the right strategy and operationalize it best. We’ve built a great company largely as a result of the great people we’ve been able to hire and retain. This year marked our tenth year on NJBiz’s “Best Places to Work in New Jersey”, ranked as #10 in our overall category and the #1 software company. We put a huge emphasis on culture and recruiting passionate, driven people to our company, and it’s something we have managed to continue to do despite our rapid growth over the last several years.*





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