



## AMR RESEARCH

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### **Infor: The \$2B Enterprise Application Company You've Never Heard Of**

Here's today's test:

- Who's the third largest enterprise application vendor?
- Who grew revenue by more than 300% in the past year?
- Who has more enterprise application customers than **SAP** and **Oracle** combined?

The answer to all three is **Infor Global Solutions**. The company hasn't even been in business for five years, but is shaking up the enterprise applications industry with an interesting new business model and a passion for acquisitions that makes Larry Ellison look like a window shopper.

#### **Who is Infor?**

Since it was founded in 2002, Infor (originally known as **Agilisys**) has been one of the software industry's best-kept secrets. It began with a team of software industry veterans and private equity firms that recognized the bursting of the Internet bubble and the recession created an opportunity to assemble a new kind of application business.

Its first purchase was a process-industry ERP system called Adage, followed shortly by a group of applications focused on the auto industry. Company executives say they intended to create a portfolio of products for specific vertical markets, and then it was off to the races. Infor and its major investor, **Golden Gate Capital**, have made an unprecedented string of acquisitions that have taken the company from startup to more than \$2B in revenue in just four years.

A group of AMR Research analysts met with Infor Chairman and CEO Jim Schaper and his team to discuss the company's business strategy, technology direction, and product plans for the dozens of applications it has acquired.

## AMR RESEARCH

14<sup>th</sup> December 2006

We learned that the company remains committed to its original concept of assembling products for specific vertical industries, size segments, and geographies. It is also happy to sell either broad integrated suites or niche products into its own customer base or anyone else's. Mr. Schaper also made it clear that, although the company is digesting a bit after making three massive acquisitions in August (**SSA Global**, **Systems Union**, and **Extensity**), it is not done yet. The company's objective is to push revenue to between \$3B and \$4B in the next two to three years, which clearly means more major acquisitions.

Infor does not necessarily feel bound by traditional market segmentation boundaries, but it believes that its addressable market is roughly one million companies with between \$25M and \$2B in annual revenue. About half of the revenue today comes from maintenance, while professional services and licenses are about 25% each.

Management believes that over time the services revenue will remain flat, while organic license growth should be in the mid-teens. They claim their maintenance retention rate is 95%, substantially higher than the enterprise application market in total.

While this model would result in respectable organic growth in the high single digits, the real growth strategy is to continue acquiring products and companies in the existing verticals and adjacent markets. This will generate additional maintenance and license revenue and increase the opportunities for cross-selling within the ever-growing installed base. The company believes that it has developed a very disciplined and effective process for evaluating, acquiring, and assimilating software businesses, and it intends to capitalize on this core competency.

### **The company**

Infor is organized into three major product businesses that are responsible for sales, support, and development of its products:

**Enterprise Solutions Group (ESG)**—Manages a number of ERP systems for various vertical and geographic markets, and also contains the global accounts sales team

**Financial Solutions Group (FSG)**—Has all the financial and HCM products plus some independent business units for smaller product lines

**Strategic Solutions Group (SSG)**—Contains a variety of products in application segments like CRM, enterprise asset management, SCM, and performance management

## **AMR RESEARCH**

**14<sup>th</sup> December 2006**

These product groups work together and separately to offer products to 25 vertical industries within the manufacturing, distribution, and services areas. In some areas, the company is only a minor player. In others, however, it is the dominant software provider.

For instance, Infor has tremendous penetration within the automotive supplier market, industrial machinery manufacturers, and wholesale distributors. But even in those industries, the Infor brand still lacks visibility. The company is working hard to package and brand a set of go-to-market products and extensions for each industry, company size segment, and geography where it would like to play.

### **Infor customers**

Infor now has 70,000 application customers, and most of them didn't even buy their products from the company. This means that there is a tremendous amount of interest in what Infor's strategy and policies will be regarding customers and products.

The good news is that Infor has a philosophy and strategy that is very customer friendly. Customer retention is a main focus because maintenance and cross-selling is its largest revenue opportunities, and that requires happy customers.

Infor is committed to supporting and enhancing all acquired product lines and says it has no plans to retire products. There is also no strategy to merge the product lines into some amalgamated product or to force customers to migrate from one product line to another.

While Infor is investing in functional and technological enhancements for its products, its approach will be much more evolutionary and the enhancement prioritization will be very customer driven.

Traditionally, software vendors dedicate a major part of their R&D investments to enhancements that might increase sales to new customers, either by expanding the product footprint or addressing adjacent markets. This means that existing customers are often facing the expense and disruption of new releases with very little new functionality that applies to them.

In Infor's case, the strategy is to expand product footprints and enter new verticals through acquisition. This means product enhancements will reflect customer requests and be packaged into smaller, low-impact upgrades.

## **AMR RESEARCH**

**14<sup>th</sup> December 2006**

Infor freely acknowledges that not all products in the portfolio will get equal investment. It categorizes products based on market demand, the size of the installed base, and customer characteristics, allocating resources accordingly.

To its credit, the company is trying to be transparent about its plans for each product line. It has published statements of direction for many of the major products that provide detailed information about its strategy and development plans, as well as current and anticipated compatibility with other complementary products. This is exactly the kind of information that CIOs need for planning and investment purposes.

### **Conclusion**

Infor is a relatively new player in the enterprise applications club, but Jim Schaper has assembled a very experienced team of software professionals. In addition to its internal staff, Infor is also benefiting from the acumen and enormous resources of Golden Gate Capital, which has become the premiere private equity firm in the software business.

At the moment, the company's rather unique strategy is working well. The revenue and profitability numbers are very impressive, and the growth in new customers and licenses is far better than we had guessed. The company now needs to put some effort into building brand awareness—being the \$2B company that no one has ever heard of doesn't do them any good.

The inevitable question for a business like this is, "What's the exit strategy?" Mr. Schaper answered it before we were able to ask it. The expectation is that at some point Infor will go public via an IPO, although the timing is still uncertain. The company still has work to do to get all of the business on common systems and processes and to get Sarbanes-Oxley's internal controls in place. Mr. Schaper indicated that the company would be ready for public reporting by the fall of 2007, but that no decisions had been made about an IPO filing.

Private-equity-financed rollups are quite common in other industries, but no one has attempted one on this scale in the application software market. At this stage, all the signs for Infor are very positive: the customers seem happy, the numbers are excellent, and the investors seemed poised to realize a huge return.

The question is how the market will respond. Will customers see this as a safe and attractive model for a software supplier? Will other software companies and/or investors seek to duplicate Infor's success? Will the consolidation encourage the

formation of new, startup software companies? Stay tuned.