

VENTUREDEAL M&A ANALYSIS

Cornerstone
OnDemand To Acquire
Saba Software For
Talent Mgmt Tech

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Credit Karma For
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Funnel

Wipro Digital Acquires
Rational Interaction
For Customer
Experience Tech.

March 2020

VentureDeal

Cornerstone OnDemand To Acquire Saba Software

Quick Take

Cornerstone OnDemand ([CSOD](#)) has [announced](#) the proposed acquisition of Saba Software for \$1.395 billion in cash and stock.

Saba has developed a machine learning-based talent experience platform for enterprises.

With the deal, CSOD is making a big bet on talent enhancement capabilities but appears to paying a high price while providing no forward guidance.

Give those uncertainties and CSOD's high stock valuation, my bias on the stock is NEUTRAL.

Target Company

Dublin, California-based Saba was founded to help businesses of all sizes improve their talent management processes.

Management is headed by Chief Executive Officer Phil Saunders, who has been with the firm since 2015 and was previously SVP at Gemalto after the acquisition of SafeNet in early 2015.

Saba's primary offerings include:

- Learning
- Performance
- Engagement
- Recruiting
- Workforce Planning

Company partner categories include:

- Technology
- Content
- Reseller
- Service

Investors have invested at least \$30 million and include Sequoia Capital, Crosslink Capital and Berkeley International Capital Corporation.

Market & Competition

According to a 2019 market [research report](#) by MarketsandMarkets, the market for human capital management will reach an expected \$26.5 billion by 2024, growing from \$16.7 billion in 2019.

This represents a forecast CAGR (Compound Annual Growth Rate) of 9.7% from 2019 to 2024.

The main drivers for this expected growth are growing adoption of HCM technologies by large enterprises, with consumer goods and retail organizations expected to produce the greatest growth during the period.

Major vendors that provide competitive services include:

- Workday ([WDAY](#))
- Ultimate Software
- Ceridian HCM ([CDAY](#))
- Meta4
- Infor
- Bamboo HR
- Namely
- Workforce Software

Source: Research Report

Acquisition Terms & Financials

Cornerstone disclosed the acquisition price and terms as \$1.395 billion in cash and stock.

From the [form 8-K](#), CSOD is planning to pay \$1.33 billion in cash (95% of the deal) and 1.1 million shares of common stock for the deal.

The firm is taking out new debt to pay the cash portion of the transaction.

With Saba's annual revenues of \$260 million, CSOD is paying a Price / Sales multiple of 5.36x for the deal, or about an average of \$423,000 per Saba customer (3,300).

Management did not provide a change in financial guidance as a result of the proposed transaction, but said it is 'on track to achieve the Rule of 40 on a standalone basis.'

A review of the firm's most recent published [financial results](#) indicate that as of December 31, 2019 Cornerstone had \$417.5 million in cash and short-term investments and \$807.6 million in total liabilities of which \$293.2 million was long-term debt.

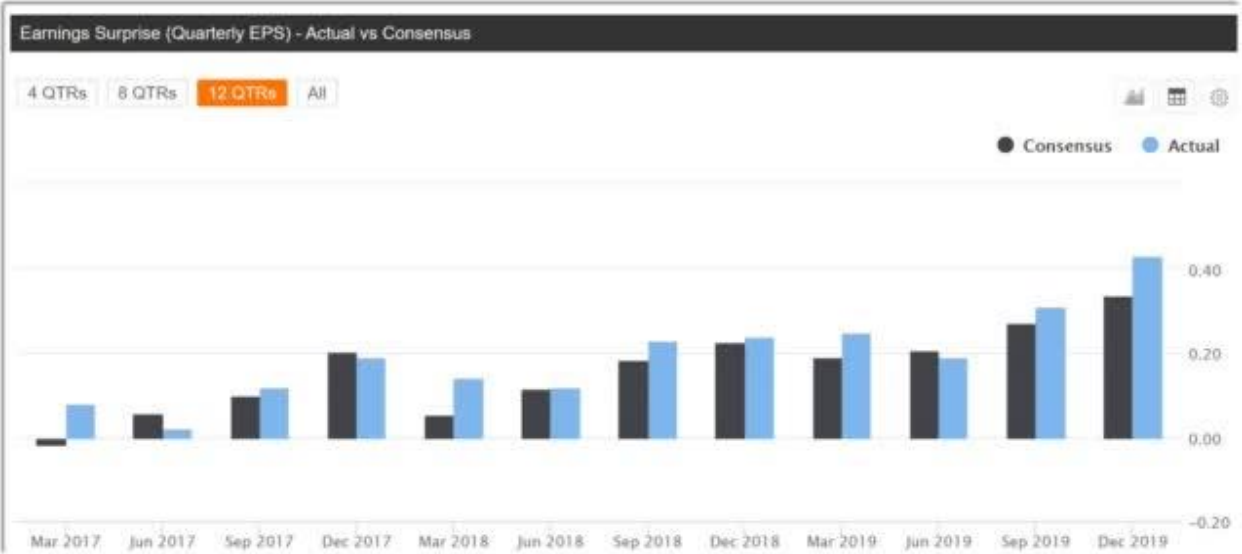
Free cash flow for the twelve months ended December 31, 2019 was \$98.4 million.

In the past 12 months, Cornerstone’s stock price has fallen 27.8% vs. the U.S. Software industry’s rise of 20.4% and the U.S. overall market index’ growth of 5.2%, as the CSOD chart indicates below:



Source: Simply Wall St.

Earnings surprises versus analyst consensus estimates have been positive in nine of the last twelve quarters, as the chart shows here:



Source: Seeking Alpha

Valuation Metrics

Below is a table of relevant capitalization and valuation figures for the company:

Measure	Amount
Market Capitalization	\$2,540,000,000
Enterprise Value	\$2,490,000,000
Price / Sales	4.31
Enterprise Value / Sales	4.31
Enterprise Value / EBITDA	50.64
Free Cash Flow [TTM]	\$91,380,000
Revenue Growth Rate	7.18%
Earnings Per Share	-\$0.07

Source: Company Financials

Below is an estimated DCF (Discounted Cash Flow) analysis of the firm:

DCF Parameters	DCF Results
Earnings Per Share : \$ 2.3	Fair Value : \$ 41.8
Growth Rate In the Next 10 Years : 8 %	Result may not be accurate due to the low predictability of business.
Terminal Growth Rate : 4 %	Tangible Book Value : \$ 0.81 <input type="checkbox"/> Add to Fair Value
Years of Terminal Growth : 10	Growth Value : 23
Discount Rate : 8 %	Terminal Value : 18.8
Business Predictability : ★☆☆☆☆	Stock Price : \$ 41.48
<input type="button" value="Save the parameters"/>	Margin Of Safety : 0.77%

Assuming the above generous DCF parameters, the CSOD would need to generate EPS of \$2.30 for the shares to justify their current valuation.

Since management is declining to discuss the projected earnings of the combined entity, we don't know what the earnings picture is until the deal is done.

Commentary

CSOD is acquiring Saba in an attempt at a large acquisition to position the firm to take advantage of increasing demand for machine learning driven talent development in the enterprise.

As CSOD founder and CEO Adam Miller stated in the deal announcement,

Saba and Cornerstone have always shared a passion for people development, and together we can accomplish great things. The additional depth of expertise and capability from Saba is an ideal complement to Cornerstone. With the combination, our product development team is expected to significantly expand, giving us the ability to develop faster, further increase competitive differentiation, and help millions of people around the world to overcome the skills divide.

The deal almost doubles the size of CSOD's customer base, assuming no client overlap, but the price CSOD is paying for those customers is an average of \$423,000.

I don't have the number of seats per customer in order to do a per seat cost, but \$423K average sure seems high and will likely have a lengthy payback period on the face of it.

Given the lack of visibility into the effects of the proposed deal on CSOD's forward guidance and the apparently high price CSOD is planning to pay for Saba, even after the stock's recent drop, I still see no upward catalyst for CSOD in the near term.

There are too many moving elements at this point so my bias on the stock is NEUTRAL.

Intuit To Acquire Credit Karma For Consumer Finance Funnel

Quick Take

Intuit ([INTU](#)) has [announced](#) the proposed acquisition of Credit Karma for \$7.1 billion in cash and stock.

Credit Karma has developed an online resource for consumers and small business owners to learn about and manage their credit information, loans, taxes and related services.

With the deal, INTU gains an important 'front door' to consumer financial information with the prospect of smoothing out its revenue stream in the bargain.

However, INTU the stock looks priced for perfection. Maybe management can execute perfectly, but my bias is NEUTRAL.

Target Company

San Francisco, California-based Credit Karma was founded to provide consumers and small business owners with information about their credit profile, related offers, financial information on loans and tax filing information.

Management is headed by founder and CEO Kenneth Lin, who was previously President at Multilytics Marketing and Director of Analytics at E-Loan.

Credit Karma's primary offerings include:

- Credit card information
- Loans - auto, home, personal
- Tax filing
- General education

Investors have invested at least \$868 million and include Tiger Global Management, Susquehanna Growth Equity, SV Angel, QED Investors, Founders Fund, Felicis Ventures, CapitalG and others.

Market & Competition

According to a 2019 market [research report](#) by TransUnion, the market for U.S. consumer personal loans reached \$138 billion by the end of 2018.

Notably, the report indicated that fintech companies were responsible for the 17% growth over the previous year, while bank loans dropped accordingly.

Furthermore, the U.S. vehicle finance market is expected to reach \$1.36 trillion by 2023, a roughly 4% CAGR from 2018 to 2023.

Acquisition Terms & Financials

Intuit disclosed the acquisition price and terms as \$7.1 billion in equal portions of cash and stock, with \$1 billion allocated for equity awards vested over a three-year period.

Management didn't provide a change in financial guidance as a result of the transaction.

A review of the firm's most recent published [financial results](#) indicate that as of January 31, 2020 Intuit had \$2.27 billion in cash and short-term investments and \$3.0 billion in total liabilities of which \$373 million was long-term debt.

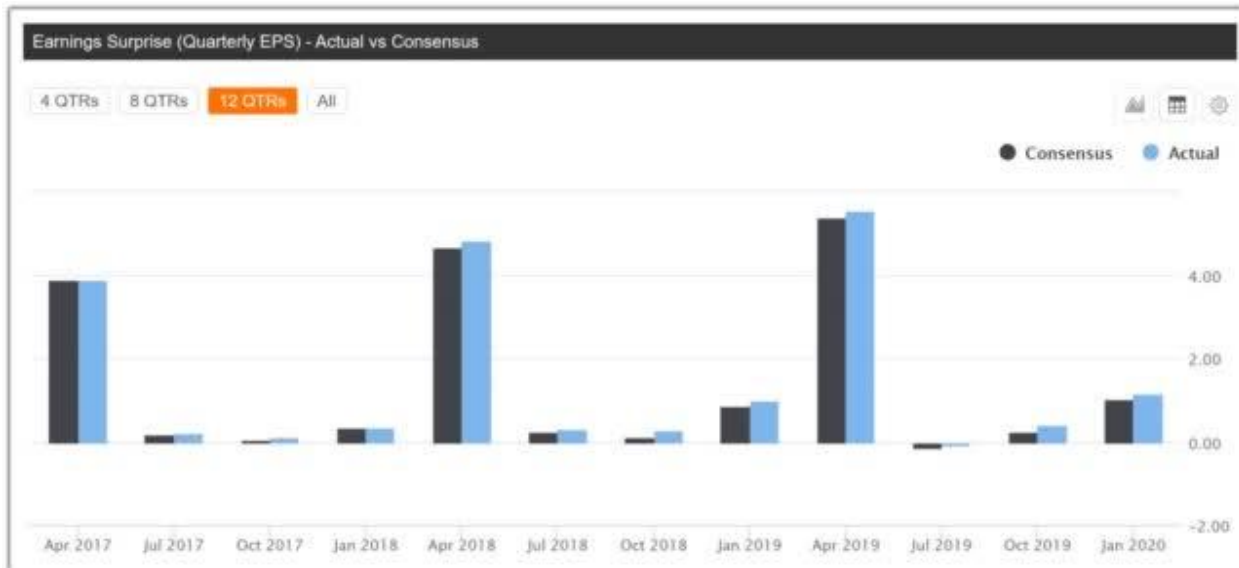
Free cash flow for the twelve months ended January 31, 2020 was \$2.25 billion.

In the past 12 months, Intuit's stock price has risen 14.0% vs. the U.S. Software industry's rise of 26.1% and the U.S. overall market index' growth of 10.5%, as the INTU chart indicates below:



Source: Simply Wall St.

Earnings surprises versus analyst consensus estimates were positive in ten of the last twelve quarters, as the chart shows below:



Source: Seeking Alpha

Valuation Metrics

Below is a table of relevant capitalization and valuation figures for the company:

Measure	Amount
Market Capitalization	\$74,190,000,000
Enterprise Value	\$72,680,000,000
Price / Sales	10.41
Enterprise Value / Sales	10.20
Enterprise Value / EBITDA	34.31
Free Cash Flow [TTM]	\$1,770,000,000
Revenue Growth Rate	14.34%
Earnings Per Share	\$6.18

Source: Company Financials

Below is an estimated DCF (Discounted Cash Flow) analysis of the firm's projected growth and earnings:

DCF Parameters		DCF Results	
Earnings Per Share	\$ 6.18	Fair Value	\$ 174.58
Growth Rate In the Next	10 Years 14.3 %	Tangible Book Value	\$ 7.69 <input type="checkbox"/> Add to Fair Value
Terminal Growth Rate	4 %	Growth Value	85.54
Years of Terminal Growth	10	Terminal Value	89.05
Discount Rate	8 %	Stock Price	\$ 282.73
Business Predictability	★★★★★	Margin Of Safety	-61.93%

Assuming the above generous DCF parameters, the firm's shares would be valued at approximately \$174.58 versus the current price of \$282.73, indicating they are potentially currently overvalued, with the given earnings, growth and discount rate assumptions of the DCF.

Commentary

INTU is acquiring Credit Karma to marry Intuit's software-based solutions with Credit Karma's marketing funnel and consumer information business.

As INTU's Sasan Goodarzi stated in the deal announcement,

There's a lot of innovation and investment in FinTech, but we don't see anyone, with our collective capabilities, pursuing a personalized financial assistant to help consumers take control of their financial lives. Together with Ken and the Credit Karma team, we're going to bring together consumers and financial institutions in innovative ways that lower costs for all those involved and level the playing field for consumers regardless of their economic status. We believe we can transform the personal finance industry and power the economy.

So, the deal promises to consolidate consumer information and service delivery under one roof, potentially improving efficiencies and conversion rates in the process.

Also, given Intuit's lumpy earnings calendar, the deal promises to help it smooth out earnings more evenly throughout the year, possibly increasing its valuation as a result.

With Credit Karma's 'nearly' \$1 billion in revenue, Intuit is paying approximately a 7.1x Price / Sales multiple for the deal, which while not cheap, is reasonable given Credit Karma's 20% revenue growth rate.

The greater question is INTU's stock price, which my generous DCF shows is quite extended in its valuation...priced to perfection I would assert.

Maybe INTU can execute this deal perfectly, but as the recent stock drop shows, the firm is not immune to larger market sell-offs.

Given its current price level, my bias on INTU is NEUTRAL.

Wipro Digital Acquires Rational Interaction For Customer Experience Tech

Quick Take

Wipro Digital ([WIT](#)) has [announced](#) the acquisition of Rational Interaction for an undisclosed amount.

Rational has developed technologies to assist enterprises in mapping and orchestrating customer journeys online.

With the deal, WIT adds an important customer experience piece to its digital consulting offering and I like the strategic reasons for the acquisition.

However, WIT's consistent underperformance compared to competitor InfoSys ([INFY](#)) leads me to be cautious on the stock, so my bias is NEUTRAL.

Target Company

Seattle, Washington-based Rational was founded to provide a full service digital agency with integrated consulting services for brands seeking increased return for their online marketing efforts

Management is headed by Chief Executive Officer Ms. Kahly Berg, who has been with the firm since 2017 and previously held several positions in marketing at Microsoft

Rational's primary offerings include:

- Strategy and insights
- Customer acquisition
- Customer life cycle management
- Content and storytelling
- Experience design
- Digital engineering and transformation

Company partners or major customers include:

- Acer
- Microsoft
- Amazon
- PWC
- Zillow
- Accolade

Market & Competition

According to a 2018 market [research report](#) by Grand View Research, the market for customer experience management is expected to exceed \$32 billion by 2025.

This represents a forecast CAGR (Compound Annual Growth Rate) of 22.9% from 2017 to 2025.

The main drivers for this expected growth are an increase in demand from retail sector companies seeking to compete with online e-commerce sites; call center operations are also expected to account for demand growth. By region, the Asia Pacific region is expected to produce the fastest growth during the period, growing at a forecast rate of 24.7%.

Major vendors that provide customer experience software include:

- IBM ([IBM](#))
- SAP ([SAP](#))
- Oracle ([ORCL](#))
- Adobe Systems ([ADBE](#))
- Medallia ([MDLA](#))

Source: Research Report

Acquisition Terms & Financials

Wipro Digital didn't disclose the acquisition price or terms and didn't file a form 8-K, so the deal was likely for a financially non-material amount.

Management didn't provide a change in financial guidance as a result of the transaction.

A review of the firm's most recent published [financial results](#) indicate that as of December 31, 2019 Wipro had \$4.9 billion in cash and short term investments and \$3.8 billion in total liabilities of which \$313.1 million was long-term debt.

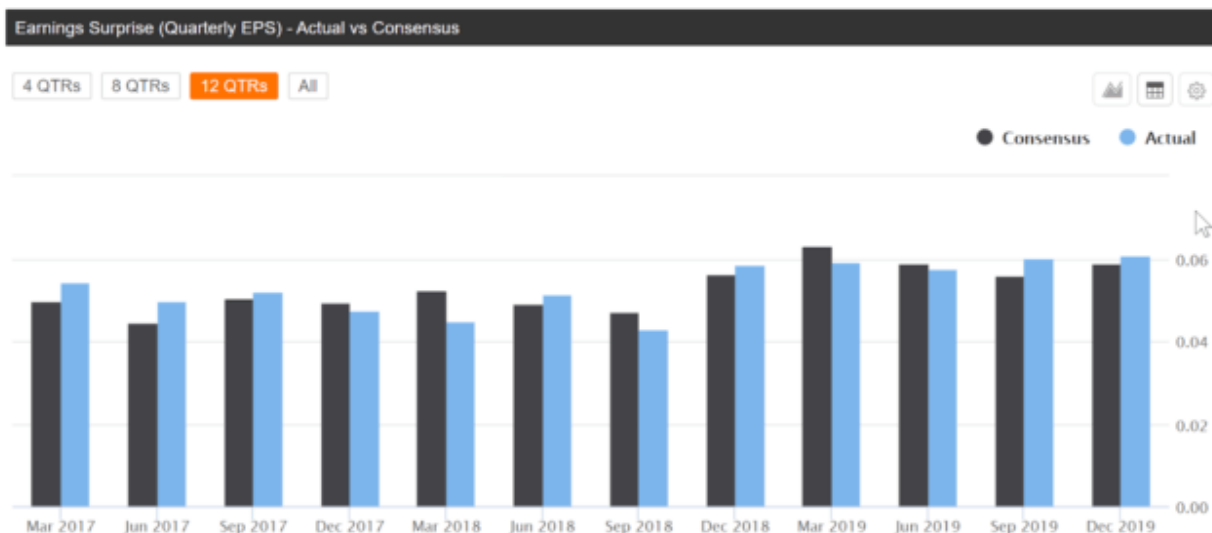
Free cash flow for the twelve months ended December 31, 2019 was \$997.2 million.

In the past 12 months, Wipro Digital's stock price has fallen 14.4% vs. the U.S. IT industry's rise of 29.5% and the U.S. overall market index' growth of 14.0%, as the WIT chart indicates below:



Source: Simply Wall St.

Earnings surprises versus analyst consensus estimates in seven of the last twelve quarters, as the chart shows here:



Source: Seeking Alpha

Valuation Metrics

Below is a table of relevant capitalization and valuation figures for the company:

Measure	Amount
Market Capitalization	\$19,440,000,000
Enterprise Value	\$16,120,000,000
Price / Sales	0.44
Enterprise Value / Sales	1.90
Enterprise Value / EBITDA	9.28
Free Cash Flow [TTM]	\$920,560,000
Revenue Growth Rate	5.18%
Earnings Per Share	\$0.25

Source: Company Financials

Below is an estimated DCF (Discounted Cash Flow) analysis of the firm's projected growth and earnings:

DCF Parameters		DCF Results	
Earnings Per Share	\$ 0.24	Fair Value	\$ 4.84
Growth Rate In the Next	10 Years 9.5 %	Tangible Book Value	\$ 1.07 <input type="checkbox"/> Add to Fair Value
Terminal Growth Rate	4 %	Growth Value	2.59
Years of Terminal Growth	10	Terminal Value	2.25
Discount Rate	8 %	Stock Price	\$ 3.73
Business Predictability	★★★★☆	Margin Of Safety	22.93%

Assuming the above generous DCF parameters, the firm's shares would be valued at approximately \$4.84 versus the current price of \$3.73, indicating they are potentially currently undervalued, with the given earnings, growth and discount rate assumptions of the DCF.

Commentary

WIT acquired Rational to bolster its customer experience offerings within its Wipro Digital unit.

As Rajan Kohli, President of Wipro Digital stated in the deal announcement,

This acquisition comes at a time when companies increasingly compete solely on CX, and the market for CX spending is growing exponentially. Discovering, refining and optimizing the customer experience from first impression through repeat sale requires best-in-class talent, unique marketing technologies and methodologies, and the ability to scale and demonstrate payback quickly.

Customer experience [CX] is a hot space in online marketing, as it covers the entire customer journey from first awareness to loyal customer.

While we don't know how much Wipro paid for Rational, the deal makes strategic sense, as it will combine Rational's 'ability to map and orchestrate the customer journey with Wipro Digital's ability to design and build experiences at global scale.'

The deal won't move the needle for the parent group's stock, but it provides investors with a view into management's thinking and resource allocation for areas that the firm intends to broaden and deepen its offerings, which are typically in higher-growth areas such as customer experience.

As for WIT's current valuation, my DCF assumptions indicate the stock may be undervalued. India's economy has been hard hit in recent periods. Although Wipro is a global firm, it has no doubt been negatively affected.

Given WIT's consistent underperformance in comparison to INFY, my current bias on the stock is NEUTRAL.