

► HR TECHNOLOGY

\$637 MILLION IPO LIFTS WORKDAY INTO THE CLOUDS

BY MICHELLE V. RAFTER

Workday Inc. pulled off what could be one of the most successful initial public stock offerings of the year. So, what's next?

The maker of cloud-based people-management software is on a tear after its Oct. 12 IPO raised \$637 million from selling 22.5 million Class A shares, or about 14 percent of the company. In the days immediately following the sale, Workday stock jumped as high as \$57, more than doubling its opening price.

Investors' interest in Workday doesn't surprise industry analysts and insiders. The successful IPO is the latest validation of cloud-based software, or software-as-a-service—terms used to describe software delivered over the Internet.

Investors like software-as-a-service, or SaaS, businesses because they can grow quickly from predictable, recurring revenue, says Paul Sparta, a human resources industry veteran and founder of Plateau Systems, a pioneering learning management software vendor. On top of that, Workday is a well-managed company in an expanding market. "It's putting them in the sweet spot, and investors like it a whole lot," says Sparta, who sold Plateau to SuccessFactors Inc. in 2011.

It's not just Workday that will benefit from the higher visibility the stock offering has brought to SaaS-based people management vendors. "A rising tide lifts all boats in my view," says Lisa Rowan, HR services research program director at IDC.

Workday has become an HR software leader on the strength of its human resources management suite, which unlike some rivals, was cloud-based from the get-go, and gives employees as well as HR staff access to key HR data. The 7-year-old Pleasanton, California-based

company has used that to collect 350 customers. The largest is computer-maker Hewlett-Packard Co., which has roughly 350,000 employees. Other clients include electronics manufacturer Flextronics and enterprises such as Chiquita Brands International Inc., Four Seasons Hotels Inc., Kimberly-Clark Corp. and Salesforce.com Inc.

The IPO will aid Workday's efforts to take on industry leaders Oracle Corp.

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and SAP for a bigger share of the market for software that covers payroll, time and attendance, and other employee management functions. Oracle and SAP have rolled out their own cloud-based services to better meet demand for cloud-based human resources software. In the past year, both acquired smaller cloud-based software vendors to further support their efforts, with Oracle buying talent management vendor Taleo Corp. in February for \$1.9 billion, and SAP buying SuccessFactors in November 2011 for \$3.4 billion.

Oracle and SAP's combined share of the global market for human capital management software still overshadows Workday. In 2011, SAP had 17.4 percent of the market, followed by Oracle with 12.4 percent, according to research firm IDC. Workday had just 3.5 percent.

But Workday is picking up steam. The IPO reinforces Workday's place on the short list of prospective vendors that major enterprises consider when they're actively searching for a new HR management system, says

Tom Keebler, HR tech-

nology group practice leader at consultant Towers Watson & Co. "Workday and SAP are virtually tied in the top slot."

The IPO is sweet revenge for Workday co-founder David Duffield, who previously started and ran PeopleSoft before losing control of the company to Oracle's Larry Ellison in a hostile takeover in 2005. Duffield's stake in Workday is estimated to stand at about \$2 billion, according to the company's SEC filings.

The wild success of the offering is reminiscent of the dot-com era, when it was common for Internet startups with little or no revenue—or profits—to go public.

But dot-com era comparisons end there. Workday still is operating in the red, but the company's revenue is growing quickly based on continued strong sales. In the first half of 2012, the company saw revenue double, to \$119 million, from the same period the previous year.

Industry watchers expect to see Workday use proceeds from the IPO to continue spending on research and development, and on sales efforts.

Experts don't expect Workday to use funds from the stock sale for acquisitions, at least not right away. "I don't see any acquisitions of note short term," Rowan says.

Workday declined requests to comment on the stock sale. The company's stock is listed on the New York Stock Exchange under the symbol "WDAY." **w/m**

