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Apply yourself: Software firms fight financing drought

New applications and federal contracts keep tech companies afloat

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Despite massive cost cutting among his cash-strapped corporate customers, Clarabridge CEO Sid Banerjee says his business-to-business software company is booming — a strikingly different story from that of most companies trudging through the dismal start of 2009.

The Reston, Va.-based company, whose software helps convert customer information into usable data, tripled its revenue in 2008, closing big wins with Wal-Mart Stores Inc., Walgreen Co. and Choice Hotels International Inc. in the fourth quarter. Clarabridge has inked deals with existing customers last year to double their software investments as the economy spiraled into a black hole.

In the first half of 2009, revenue is up more than 50 percent from the same period in 2008, Banerjee said, although he wouldn't provide exact figures.

Tech professionals who recall the tech bubble explosion circa 2001-02 — if it's not too painful — are finding that their industry is doing fairly well this time around, aside from companies that sell direct to confidence-lacking consumers and those with cash issues when the financial crisis hit. Tech may even be showing early signs of recovery, ahead of most other industries, especially in the Baltimore/Washington region, for a few reasons.

First, unlike the 2001-02 recession, other industries are the root of the problem. Second, for the Washington-area tech sector, about half of its revenue comes from federal contracting, which grew locally nearly 8 percent to about \$135 billion in 2008, said Stephen Fuller, director of the Center for Regional Analysis at George Mason University.

And finally, the local tech sector is dominated by software development companies, not the capital-intensive hardware manufacturers found in other tech hubs.

'Going gangbusters'

"The [software] applications guys have been going gangbusters," Fuller said.

Baltimore-based Metastorm Inc. is one of those companies, though it's experienced some turbulence in the tough macroeconomic storm.

It's expecting \$84 million in revenue this year and has both a load of cash and eager investors looking to offer financing to acquire other companies, CEO Robert Farrell told the Baltimore Business Journal recently. Metastorm specializes in software known as business process management and business process analysis. The company's products are used to streamline complicated business processes, such as the opening and coordination of franchises, and also to model and plan for the effects of growth.

Clarabridge is another one of those applications guys. Its software enables customers — including AOL, Best Buy Co. Inc., Oracle Corp., Capital One Financial Corp., Gaylord Hotels and Marriott International Inc. — to analyze and respond to customer feedback.

“Despite economic challenges, many of our clients are ramping up their focus on retaining and up-selling to customers,” Banerjee said.

Companies trying to maintain sales and cut costs in the recession are looking for automation technologies, industry experts say, and that is what Clarabridge and many Washington-area technology companies are all about.

Corporate clients of local tech companies have cut budgets and reduced their work force, becoming “lean and mean,” Fuller said.

“They've kept their best workers and are going to continue focusing on using technology to improve productivity,” he said. In times like these, those companies “buy technology before they increase work force.”

A new day

Other local tech companies — from startups to public companies — are growing too, claiming the worst is behind them.

For example, last year Broadsoft Inc., a Gaithersburg communications company that sells software for Voice Over Internet Protocol (VoIP), acquired competitor Sylantro Systems Corp. and bought Genband Inc.'s M6 product line. Broadsoft also achieved the strongest quarter in its history in the fourth quarter of 2008.

CEO Michael Tessler attributes Broadsoft's 130 percent growth in the last three years to rising demand for hosted software applications, which enable customers to get computing services they need without buying expensive servers and other equipment.

Software sold as a hosted application — or software-as-a-service — is a recession-friendly product, analysts say, because customers purchase it through a subscription, rather than buying a license for hundreds of employees in a large, one-time investment.

Metastorm filed to go public in May 2008 to raise money for acquisitions, but as the market for initial public offerings soured the Baltimore-based company pulled its filing and decided

to rely on its institutional investors, including Internet Capital Group Inc., ABS Capital Partners and W Capital Partners, should an acquisition opportunity arise.

Having cash on hand has been Metastorm's saving grace.

"We weren't asking [investors] for working capital" to run day-to-day operations, said Farrell, and sales teams are still closing software deals, especially with banks and other financial services customers. "I think the corner's been turned," Farrell said, "but I think it will take into 2010 for growth rates to get back to where they were."

Bouncing back

Among the region's publicly traded companies, some are still watching their stock values dip. But others have made notable gains in 2009 — about on par with software companies around the country.

"Software has been really resilient through the downturn," said Terry Tillman, a researcher at Raymond James and Associates Inc., a St. Petersburg, Fla.-based investment company.

The "large recurring revenue streams" of their business models set these software companies apart from other kinds of technology businesses, Tillman said.

Shares of McLean, Va.-based MicroStrategy Inc., which sells business intelligence software, rose 68 percent from Jan. 2 to Sept. 1. After falling apart in the third quarter of last year and through March 2009, the company finally broke a streak of weak software sales in the second quarter, Tillman said.

MicroStrategy took a hit from retail and other customers that reduced spending by about 50 percent. Tillman also noted that unlike some of its peers, the company has increased its sales and marketing expenses by more than 20 percent in the last three years.

Washington, D.C.-based Blackboard Inc.'s stock price was up 27 percent as of Sept. 1. The education software company is projecting 10 to 15 percent sales growth for the year because it serves one of the markets pressured to do more with less: the education industry.

Blackboard and other education software companies are benefiting from increased demand as more classrooms use online teaching tools and more students take classes online, Tillman said.

Hanging in

Meanwhile, local startups are experiencing their own measured successes despite a significant decline in venture investment.

Venture capital investments in local companies was down 23 percent in 2008 compared with 2007. For the first two quarters of this year, investments were barely half of what they were by that time in 2008.

Still, smaller firms are bulking up. Hiring at startups and venture-backed companies has risen slightly this year, mainly among companies that provide software and information technology services.

According to Vienna, Va.–based recruitment company StartUpHire LLC, of the 10 fastest-growing VC-backed companies in the Washington-Baltimore corridor, two are based in Greater Baltimore: Metastorm and Millennial Media Inc.

Steve Fredrick, a partner with venture capital firm Grotech Ventures and adviser to StartUpHire, said more hiring could signal an upswing.

“I think things are starting to work there way out,” he said. “There are plenty of companies that on an operating level are just fine.”

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