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(VEEV – NASDAQ)
Initial Report

Business Description

Headquartered in Pleasanton, (CA) Veeva delivers industry-specific cloud-based solutions—including data, software, and services—to the global life sciences industry. Founded in 2007, Veeva’s IPO represents one of the first vertical software companies to go public that is built on top of the Salesforce.com platform. At the end of Q2-14, Veeva had 170 customers and offices in 11 different global offices and the company’s geographic sales mix was 60% domestic and 40% international.

Competitive Advantages

- **Strong Product Set:** Veeva’s solutions enable pharmaceutical and other life sciences companies to realize the benefits of modern cloud-based architectures and mobile applications for their most critical business functions, without compromising industry-specific functionality or regulatory compliance. Specifically, the company’s customer relationship management solution for sales representatives, enables a broad range of industry-specific functions such as drug sample tracking with electronic signature capture, healthcare affiliations management, and the ability to conduct interactive, rich media demonstrations with physicians on a mobile device, with or without an internet connection.
- **Large Installed Customer Base:** The company currently serves 170 life science customers, including 33 of the 50 largest pharmaceutical companies. At the end of Q2-14, Veeva’s solutions have been implemented in over 75 different countries and top 10 customers accounted for 54% of total revenues in fiscal 2013.

Enterprise		Emerging Growth	
Abbvie	Janssen	Accera	Norgenix
Actavis	Lilly	Actelion	Pharco
Amgen	Mylan	Alkermes	Questcor
Astellas	Novartis	BTG	Salix
AstraZeneca	Pfizer	Grunenthal	Spectrum
Bayer	Philips	Horizon	United Therapeutics
Boehringer Ingelheim	Teva	Iroko Cardio	Valeant
Bristol-Myers Squibb	Zoetis	Leo	Vertex
* Company’s Roadshow			

- **Cloud Based Architecture:** Veeva is built on a multi-tenant architecture is one that allows multiple customers to use the same hardware and software infrastructure while keeping each customer’s data logically separated. The company’s sells its solutions as a subscription-based service, typically for a one-year initial term, with subscription fees generally based upon the solutions selected and the number of users.
- **Strong Partner Ecosystem:** Veeva’s global systems has developed a systems of integrator partners which help the company implement, deliver and support the company’s expanding customer base. Due diligence suggests that the three most prominent of these vendors are Cognizant Technology Solutions and Deloitte Consulting which collectively trained approximately 1,000 employees to support Veeva’s technology. In addition, the company’s content partner program includes more than 100 digital and advertising agencies that life sciences companies rely upon to create marketing and other promotional materials that may be used in connection with Veeva iRep and Vault PromoMats.
- **Strong Retention Rate:** Veeva’s fiscal years ended January 31, 2011, 2012 and 2013, the company subscription services revenue retention rate was 192%, 159% and 187%, respectively. We believe that this retention metric ranks amongst the best for the entire industry.

- **Strong Balance Sheet:** Assuming that the Veeva IPO is done at \$13.00, the company will have a strong balance sheet with a pro-forma cash balance of \$168 million. This balance sheet should provide the company with the necessary cash need to fund new product initiatives acquisitions and will increase the company's visibility.

Assessment of Management

We believe that Veeva has a strong management team which has allowed for the company to significantly differentiate itself from its competition. Specifically, the company is led by its CEO and Co-Founder Peter Gassner who started the company in 2007 after previously serving as the Senior Vice President of Technology at Salesforce.com where he had the responsibility of building the Salesforce.com platform. Matt Wallach, the company's other Co-founder and current President previously was the General Manager of the Pharmaceutical & Biotechnology division at Siebel Systems, one of the company's primary competitors. Veeva's Chief Financial Officer Tim Cabral joined the firm after serving as the Chief Financial Officer and Chief Operating Officer of Walsh Wireless and was previously the VP of Finance at Peoplesoft before it was acquired by Oracle. In terms of corporate governance, we believe that the company's policy and procedure are consistent with many of the company's peers but note that the company has two classification of shares which provide management and insiders with greater than 90% of the company's voting power.

Growth Drivers

- **A Strong Market with A Significant Total Addressable Market:** According to MarketLine, in 2012, life sciences companies had combined global revenues of approximately \$1.6 trillion, and the industry is expected to grow at a compound annual growth rate of approximately 6% per year through 2016. This growth is being driven by life sciences companies face a range of strategic and regulatory opportunities and challenges, requiring substantial investment in IT applications and infrastructure. In addition, International Data Corporation (IDC) estimates that life sciences companies spent approximately \$44 billion on technology in 2012. Of the \$44 billion that IDC estimates life sciences companies spent on technology in 2012, \$28 billion was on software and services and \$16 billion was on infrastructure.
- **New Customer Growth:** Due to the company's core focus on life sciences, Veeva has achieved rapid customer growth and strong customer retention. As of January 31, 2011, 2012 and 2013, the company increased its total customer base to 170 life science companies from 134 at the end of 2013. We believe that Veeva continues to win new customers from legacy providers such as Siebel Systems (NASDAQ-ORCL) and privately-held Ceridigm.
- **New Products:** Veeva Network recently announced customer master solution that will be generally available in late 2013, enables the creation and maintenance of the healthcare provider and organization master data that drives life sciences companies' sales and marketing operations. Veeva's continued growth and profitability will depend on its ability to successfully develop and sell new solutions, including Veeva Vault, Veeva CRM Approved Email and Veeva Network.
- **New Sales Cycle Dynamics:** The sales cycle for a new customer, from the time of prospect qualification to the completion of the first sale, may span over twelve months. The company's products are generally recognizes revenues ratably over the terms of orders under the company's subscription agreements, which are typically one year agreements.
- **International Growth:** In 2013, International sales account for 35% of the company's total revenues. Veeva's solutions are designed to enable compliance with global regulatory requirements and are available in 27 languages. As of July 31, 2013, the company had 593 employees, including approximately 190 employees located outside North America, primarily in Europe, Japan and China.

Geography	2011	2012	2013	1H12	1H13
North America	\$ 27,217	\$ 48,088	\$ 84,546	\$ 37,168	\$ 55,535
Europe	\$ 1,904	\$ 10,433	\$ 29,036	\$ 12,179	\$ 22,470
Asia	\$ 8	\$ 2,741	\$ 15,966	\$ 4,617	\$ 14,364
	\$ 29,129	\$ 61,262	\$ 129,548	\$ 53,964	\$ 92,369
Revenue Mix					
North America	93%	78%	65%	69%	60%
Europe	7%	17%	22%	23%	24%
Asia	0%	4%	12%	9%	16%
Y/Y Growth					
North America		77%	76%		49%
Europe		448%	178%		84%
Asia		34163%	482%		211%
*Source: S-1					

- **Cross-Selling of Customers:** Since its founding in 2007, Veeva has introduced new modules and applications that are complementary to Veeva CRM, including, most recently: Veeva iRep, the company's proprietary mobile application for the iPad, which we introduced in 2011; Veeva CLM, the company's closed-loop marketing solution that enables mobile presentation of multimedia content, which we introduced in 2011; and Veeva CRM Approved Email, our solution that allows life sciences sales representatives to send emails and pre-approved marketing content to physicians in compliance with regulatory requirements, which we introduced in 2013. Over 75% of our Veeva CRM customers utilize Veeva iRep, its proprietary, offline mobile application for the iPad, to access our Veeva CRM solution.
- **New Product Offering:** Veeva's development new product development philosophy is to develop products which serve a large market that currently is underserved or has a dissatisfied existing customer base. In ***, the company launched its or products Veeva Network, our recently announced customer master solution that will be generally available in late 2013, enables the creation and maintenance of the healthcare provider and organization master data that drives life sciences companies' sales and marketing operations.

Issues / Risks

- **Heavily Reliant on Salesforce Relationship:** Veeva's agreement with salesforce.com expires in September 2015 and does not provide for an automatic renewal. Veeva's agreement with salesforce.com also provides that we can use the Sales force Platform as combined without proprietary technology to sell sales automation solutions only to drug makers in the pharmaceutical and biotechnology industries, which does not include the medical devices industry or products for non-drug departments of pharmaceutical and biotechnology companies. If salesforce.com terminates the agreement, then salesforce.com may immediately terminate its customers' access to the Sales force Platform, which would result in our customers being unable to access the company's Veeva CRM solution.
- **Litigation:** On August 6, 2013, Prolifiq Software, Inc. (Prolifiq) filed a patent infringement lawsuit against Veeva in the U.S. District Court for the Northern District of California, and on September 10, 2013, Prolifiq amended its complaint. The amended complaint alleges that the company's manufacture, use, offer for sale and sale of Veeva CRM Approved Email infringes U.S. Patent Nos. 7,634,556, 7,007,317, 8,296,378, 7,966,374 and 8,171,077 held by Prolifiq.
- **Two Share Classifications:** Similar to other SaaS Providers such as Workdy, Veeva has two different share classifications. The company's Class B common stock has ten votes per share, and our Class A common stock, which is the stock that the company is offering, has one vote per share. Stockholders who hold shares of Class B common stock, including our executive officers and directors and their affiliates, will together hold approximately 98.8% of the voting power of our outstanding capital stock following this offering.
- **Competition:** Veeva CRM solutions compete with offerings from large global enterprise software vendors, such as Oracle Corporation, and also compete with life sciences-specific customer relationship management providers, such as Cegedim SA. The company's Veeva Vault solutions face competition from

large global content management platform vendors including EMC Corporation, Microsoft Corporation and OpenText Corporation.

- **Patents:** Company currently does not have any patents and relies on a combination of trade secrets, copyrights and trademarks, as well as contractual protections, to establish and protect its intellectual property rights. Management mentioned in the S-1 that the company has only recently begun to develop a strategy to seek patent protections for the company's technology.
- **Customer Concentration:** For its fiscal year ended January 31, 2013, two customers (Eli Lilly & Novartis) each represented more than 10% of the company's total revenues. In addition, the company's top 10 customers accounted for 61% (2012) and 54% (2013) of its total revenue.
- **Share Lock-UP:** Similar to other IPOs, for the next six months, Veeva's valuation will be determined by a restricted share count. The company's stock price may come under pressure six months from now when the company's share lock-up is over.

Name of Beneficial Owner	Class B Shares Beneficially Owned Before this Offering		% Total Voting Power Before this Offering ⁽¹⁾	Number Of Shares Being Offered	Shares Beneficially Owned After this Offering				% Total Voting Power After this Offering ⁽¹⁾
					Class A		Class B		
	Shares	%			Shares	%	Shares	%	
Named Executive Officers and Directors:									
Peter P. Gassner ⁽²⁾	15,208,333	13.5	13.5	—	—	15,208,333	13.9	13.8	
Matthew J. Wallach ⁽³⁾	3,500,000	3.1	3.1	500,000	—	3,000,000	2.7	2.7	
Timothy S. Cabral ⁽⁴⁾	700,000	*	*	—	—	700,000	*	*	
Mark Armenante ⁽⁵⁾	14,800,000	13.2	13.2	500,000	—	14,300,000	13.1	12.9	
Ronald E.F. Codd ⁽⁶⁾	312,500	*	*	—	—	312,500	*	*	
Gordon Ritter ⁽⁷⁾	35,000,000	31.1	31.1	500,000 ⁽⁸⁾	—	34,500,000	31.6	31.2	
Young Sohn ⁽⁹⁾	14,450,000	12.8	12.8	500,000	—	13,950,000	12.8	12.6	
Kevin Spain ⁽¹⁰⁾	35,000,000	31.1	31.1	500,000 ⁽¹¹⁾	—	34,500,000	31.6	31.2	
All Executive Officers and Directors as a Group									
(9 persons) ⁽¹²⁾	84,345,833	74.9	74.9	2,000,000	—	82,345,833	74.9	74.0	
5% Stockholders:									
Emergence Capital Partners II, L.P. ⁽¹³⁾									
	35,000,000	31.1	31.1	500,000	—	34,500,000	31.6	31.2	
Craig Ramsey	6,500,000	5.8	5.8	250,000	—	6,250,000	5.7	5.7	
Maja Ramsey ⁽¹⁴⁾	6,500,000	5.8	5.8	325,000	—	6,175,000	5.7	5.6	
Other Selling Stockholders:									
James and Amy Ramsey ⁽¹⁵⁾	3,150,000	2.8	2.8	250,000	—	2,900,000	2.7	2.6	
Jenna and Matthew Mitchell	3,150,000	2.8	2.8	250,000	—	2,900,000	2.7	2.6	
All Other Selling Stockholders⁽¹⁶⁾									
	700,000	*	*	250,000	—	450,000	*	*	

Summary and Recommendation

We believe shares of Veeva are well positioned to benefit from increased spending within the life science and pharmaceutical industries. Veeva is the market leader and fastest growing company for salesforce automation and the company has the potential to significantly grow by winning new customers and increasing its level of sales penetration within its large installed customer base. Given that the company has one of the fastest growth rate amongst its peer group, we rate share of Veeva as a BUY and believe that the company stock could potentially increase to \$30.00 which would represent a 17x EV/Rev multiple.

Valuation

Veeva

Valuation Comparison

All values in millions of U.S. Dollar, except per share items.

			Market	Gross		2012	2013	2014	Revenue	Revenue	2012	2013	2014
Company	Ticker	Price	Value	Margins	EV	Sales	Sales	Sales	Growth	Growth	EV/R	EV/R	EV/R
Salesforce.com	CRM	\$ 52.16	31,087	77.23	\$ 33,828.2	\$ 4,029.3	\$ 5,193.1	6459.32	28.88	28.88	8.40	8.40	6.51
Workday, Inc. Class A	WDAY	\$ 81.27	14,100	55.04	\$ 13,271.8	\$ 446.0	\$ 671.7	977.91	50.61	50.61	29.76	29.76	19.76
Responsys, Inc.	MKTG	\$ 16.36	824	53.69	\$ 703.5	\$ 162.8	\$ 197.3	\$ 234.0	21.19	18.57	4.32	3.57	3.01
Jive Software, Inc.	JIVE	\$ 12.31	846	60.53	\$ 697.3	\$ 113.7	\$ 145.3	\$ 183.4	27.79	26.24	6.13	4.80	3.80
NetSuite Inc.	N	\$ 108.12	8,021	69.06	\$ 7,801.5	\$ 409.2	\$ 523.2	681.95	27.85	27.85	19.06	19.06	14.91
MedAssets, Inc.,	MDAS	\$ 24.70	1,511	62.28	\$ 2,329.1	\$ 640.1	\$ 680.6	\$ 724.9	6.33	6.51	3.64	3.42	3.21
Marketo, Inc.	MKTO	\$ 31.35	1,161	57.79	\$ 506.2	\$ 58.4	\$ 90.3	\$ 115.5	54.50	28.01	8.67	5.61	4.38
Medidata Solutions, Inc.	MDSO	\$ 96.70	2,580	70.21	\$ 2,445.9	\$ 218.3	\$ 275.7	\$ 334.8	26.29	21.42	11.20	8.87	7.31
Cvent, Inc.	CVT	\$ 33.03	1,327	75.35	\$ 484.5	\$ 83.5	\$ 108.4	\$ 135.3	29.88	24.77	5.80	4.47	3.58
Cerner Corporation	CERN	\$ 54.19	18,593	69.59	\$ 18,313.5	\$ 2,665.4	\$ 2,955.8	\$ 3,349.9	10.89	13.34	6.87	6.20	5.47
Average									27.11	26.44	11.89	11.50	8.53
Consensus						2013	2014	2015					
Veeva	VEEV	\$ 30.00	4530.00		\$ 4,363.0	\$ 129.3	\$ 197.0	\$ 254.0	52.36	28.93	33.74	22.15	17.18