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## Technology -- Enterprise Software

Richard Davis, CFA  
rdavis@canaccordgenuity.com

617.371.3862

David E. Hynes, Jr.  
dhynes@canaccordgenuity.com

617.371.3882

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## WEEKEND MUSINGS V44

### Choppy summer sets up for a potential big Q4

- **Respectable quarter likely for June.** There are still a lot of random pockets of weakness, but we expect more firms to navigate the slightly less treacherous June quarter than March. Once again, applications seem relatively stronger than infrastructure/systems management.
- **Oracle gives everyone a pass.** Or better yet, get ready for managements to follow Oracle's lead and guide conservatively for the fall quarter. This could produce the confusing comment "XYZ beat, but guided down for the September quarter and kept full year numbers unchanged." I guess this kind of comment has grist for any call you want – bull, bear or indifferent. As these calls come out in July, we expect software stocks to bounce around without much direction.
- **But this sets us up for a possibly powerful Q4 software rally in the momentum/growth stocks.** See the text below for our reasoning, but there are several reasons that the holiday season could deliver early for software investors. The punch line is to assemble a list of quality companies that might seem too expensive right now and hope they get temporarily hammered so you can establish a position on the cheap.
- **Some thoughts on why Salesforce's acquisition of ExactTarget was the best choice.** We make logical, but speculative observations on who Salesforce might have considered when it decided to get deeper in the Marketing Cloud.
- **Competitors leave the field.** Three software analysts bolt, giving Team Canaccord more open field to take market share.
- **Cool private companies.** We differentiate our research by having the largest Rolodex of private company contacts of any sell-side analyst on the planet – yep, and I'm willing to verify that with anyone who wants to compare lists. We have properly hedged comments on Opower, Box, DriveCam, Xactly, Coaxis, Nitro, Zendesk, Imprivata, SugarCRM, Black Duck and iSeek.
- **Below the line.** Why British cabbies are so insightful and my aspirational alternative career.

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We have tracked this firm for nearly a decade for what in the early days was a long and winding road. These days, the business is humming along quite rapidly. There are about a half dozen non-overlapping open source firms that are of similar size and trajectory. With a few more quarters of trendline growth, Black Duck could consider making the always enjoyable right of passage to become a public company. We don't know if this more than capable management team will make that leap, but we will enjoy watching the firm grow from here.

### iSeek

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**Figure 18: iSeek**

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Source: Company materials

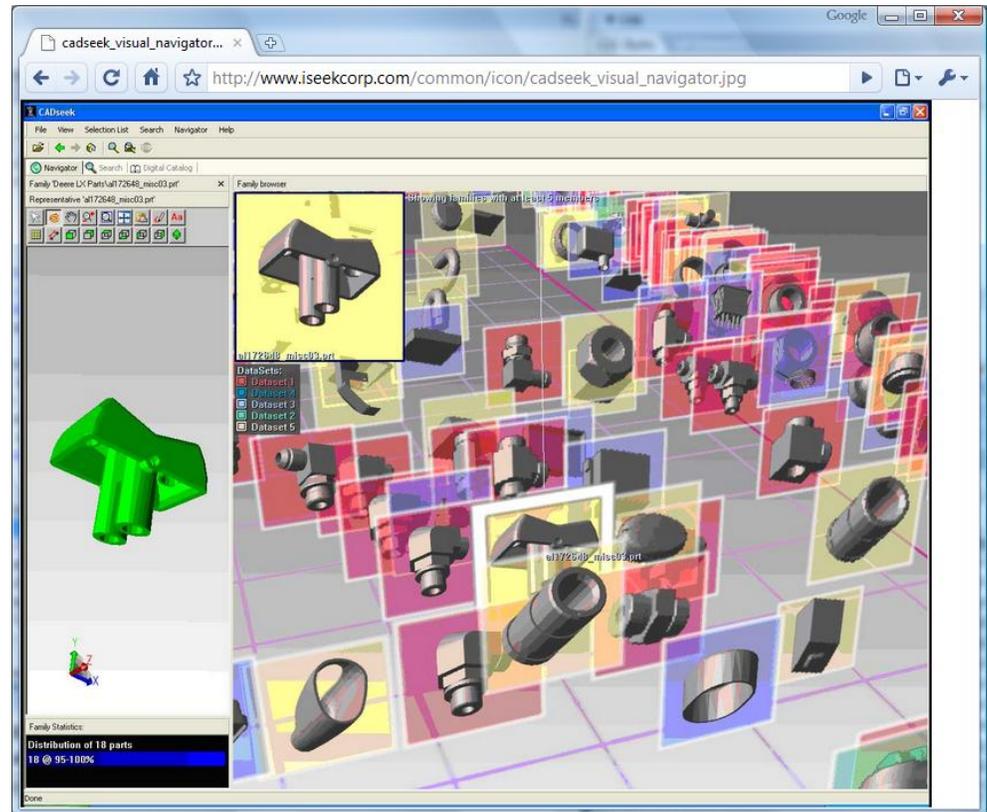
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People sometimes ask me why I keep doing this sell-side research job. After all, I can barely contain my disdain when I get an inbound call from a 20-something investor who hasn't bothered to read anything about a company despite the fact that we recently published a 20-page report explaining the growth drivers and competitive set for the stock in question. Then I have days like this week when it makes it all worth it – when I find what could become a super promising startup that solves a very difficult problem in a brilliant way.

Long-time friend and former partner at Needham, Warren Foss, called me and in a stroke of luck, I was actually in town to meet with a company that he said was “very cool.” I figured I could use the \$12.80 that I'd get as personal car reimbursement for the round trip drive from my house in Wellesley to the Westin in Waltham, so I said, “Sure, see you at 9:00 AM.”

What I discovered was iSeek, a firm with a handful of employees, but an early customer list that includes very well-known industrial manufacturing firms who have purchased a visual search tool that is hard to explain in text, but instantly intuitive in a demo. Basically, what iSeek has built over a decade of hard work is an open-ended search engine that allows users to broadly look for parts in an unstructured manner. If you ever met with Endeca before that firm was subsumed by Oracle, you would instantly recognize the concept – and the next evolutionary stage visual search and analytics functionality that iSeek delivers. So far, use cases include engineers and supply chain managers who want to find parts faster or compare parts to eliminate wasteful purchasing.

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**Figure 19: Quickly navigate your way through a visual jungle of parts**

Source: Company materials

This was my first meeting with the company, but we discussed several different directions and strategies that the company could take to build a much bigger business. iSeek has raised angel funding only so far, but if the firm executes as well as I believe it can, a regular venture round is a distinct possibility.

**Have a great finish to the week,**

Richard Davis and DJ Hynes  
Canaccord Genuity

## **BELOW THE LINE**

### **Summer travel begins**

I haven't taken more than long weekends off since the Christmas season, so as the human version of Trip Advisor/Kayak search engine, I will be looking for places to go. At this point we've narrowed it down to either northern California, if I can set up a father-son golf competition with a CEO friend and his son, or the Davis clan will head to steamy Sea Island. We've been to the former but never the latter. One of the pieces of advice that I'd