Panel Discussion:

CFO Perspective on IPOs and Life in the Aftermarket

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Panelists

Alan Black
Former CFO
Zendesk

David Faugno
Former CFO
Qualtrics &
Barracuda Networks

Lee Kirkpatrick
Former CFO
Twilio

Moderator

David Spitz
KeyBanc Capital Markets

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DAVID SPITZ, KeyBanc Capital Markets:

Welcome. I'm David Spitz. I run the SaaS investment banking practice at KBCM. I'm lucky enough to have three former clients who I always enjoy speaking with, and they're never shy. The genesis of idea for this panel is that once companies go public, it's like wearing a straitjacket. You can ask a question to a CFO or CEO, but it's hard to get all the answers. It's not a lack of honesty. It's just that there are so many different restrictions and so many different things that they can and cannot say. And yet, there's a wealth of information in these guys' heads. And so, for people who are executives of private companies now, learning from these panelists provides an incredible opportunity. And if you're an investor, especially if you're a public market investor, you can get answers to questions that you can't get on the quarterly conference call. So now I'm going to get out of the way, at least initially, and let each of them introduce themselves.

LEE KIRKPATRICK, Former Chief Financial Officer, Twilio:

Thanks David. And thank you for the invitation. It's great to be here. I'm Lee Kirkpatrick. Very brief on the background, I've worked for five venture-backed companies. Two of those reached over $100 million in revenue and were sold. What's most relevant for this discussion is my last job at Twilio, where I was for seven years. I joined Twilio as the second finance employee. I think about 75 people, $15 million ARR and was fortunate enough to ride that growth. We did six acquisitions when I was there including the acquisition of SendGrid, which was a public acquisition at a $2 billion price. We did multiple financings including venture

and an institutional round of crossover investors, IPO, secondary offerings, convertible debt. And when I left Twilio at the end of 2018, we were just under $1 billion in revenue. Right now, I spend some time on two boards and advising three companies.

DAVID SPITZ:

I don't recall what the market cap was when you left. You probably know very well, but I'll just say that at least as of a week ago, it was $18 billion. So, a pretty sizable company.

LEE KIRKPATRICK:

Yeah, it was substantial growth during my tenure.

DAVID FAUGNO, Former CFO, Qualtrics & Barracuda Networks:

Thank you very much, Dave, for having us. So, I also worked for a number of private technology companies, a couple of which were sold. I was at a company that was sold to Cisco and I wound up staying at Cisco and doing Corporate Development, M&A work for them for awhile. After that, I joined a company called Barracuda Networks, many, many years ago now. Similarly, under 100 people at the time, very early in their trajectory, and was there for 10 years. We took that company public in late 2013. Wound up selling Barracuda several years later, into private equity, Thoma Bravo. After that transaction. I joined as CFO of a company called Qualtrics, that was moving toward an IPO. That company was sold, literally days before we were to price our IPO on our roadshow. We wound up finding a different path forward there, [selling to SAP]. I'm still active there, working on some strategic projects there for Ryan, the CEO. And I've also joined Accel Partners as a venture partner, EIR, and like Lee and Alan, doing some board and advisory work as well.

ALAN BLACK, Former Chief Financial Officer, Zendesk:

Thanks. I'm Alan Black. Most recently, I think people would know me as the former CFO of Zendesk. I was with them from 2011 to the latter part of 2016, from its early growth, through the IPO and beyond. After Zendesk, I've been primarily focused on advisory and board work. Last year I worked as part of the team helping Looker in the sale to Google, as the audit committee chair there. And other than that, working as a board member and advisor to a number of clients. I have a half-dozen or so pre-IPO tech companies that I work with, helping them along the journey, preparing to either go public, or as was the case with Looker, be acquired. The things that you do to prepare are similar, in a sense. What you do to be able to get best value as a company whether you end up selling or not, is making it obvious that you have a choice as to whether you'd be going to go public or not.

DAVID SPITZ:

You're front-running my first question, Alan! Well just to put a point on it… as I did for Lee…The market cap for Zendesk is something like $10 billion right now. So, obviously you had a tremendous run from the time that you started, Alan, all the way through your departure. And to finish this out, for Dave, Qualtrics sold for $8 billion, I think originally we filed the IPO at $4.5 billion to $5 billion. Each of these three companies achieved quite significant market cap.

Now, taking a step back on the IPO front, the question I have for you all is "Why IPO?" Alan, you addressed the fact that an IPO puts you in a great position to capitalize on value. But what other reasons are there? An IPO is a great tool, gets you ready, gets your financials ready. Dave, to start with you: you went through the motions. You got yourself ready, and yet, you sold the business. As you look back on it, was this part of the plan going in?

DAVID FAUGNO:

I think any CEO or executive team that thinks about making the transition from a private company to a public

company ought to be thinking about it in a way of: How do I make my business stronger over the long run? How do I give myself optionality to grow the business and take advantage of the opportunities that are out there to go to create long-term value? And so I'm a firm believer that with that lens being ready to be public, it doesn't necessarily mean you have to be public. But operating as a public company in a mature private company stage increases optionality. When we started the IPO process at Qualtrics, to become a public-ready company, we didn't say, "well, let's do it and just hope we sell it." Anybody that does that, I think is probably misguided. You go to take the company public and if [the M&A] happens, it happens. If it doesn't, you go public. The M&A for us just happened to be a byproduct of being ready and building a strong business. And I think that preparedness process really helps the company operate in a much more scalable and efficient way. I'm sure these guys would agree as well.

DAVID SPITZ:

If we drill down on the value created with the M&A, the final filing range was $4.5 billion to $5 billion, as I recall. And the business sold for $8 billion.

DAVID FAUGNO:

Well, we hadn't finalized the last raise of the range. But yeah, I mean, I see where you're going with the question. The folks in this room that are investors, build their models, and they have a perspective on where the thing will trade to. And so that information tends to sort of be in the world somewhere. So, an acquirer has a reasonable opportunity to determine what it's going to cost to get a company to not take that public markets route. There are many more things than just price at stake, obviously. There are a lot of things in the question. In the case of Qualtrics, for Ryan [Smith, founder], it was about getting leverage out of the SAP machine to build his vision sooner and bigger. That was a big, big, big part of it. But you also have a responsibility to shareholders to maximize value, so, price does become a factor.

DAVID SPITZ:

I guess you could argue that the business would have traded probably a good chunk higher in the public markets given what we know about where the markets went subsequently?

DAVID FAUGNO:

Hindsight is 20-20.

DAVID SPITZ:

And as I recall Ryan and his family owned close to half of the business, right. So it's hard to argue with it.

DAVID FAUGNO:

That's right.

DAVID SPITZ:

Interesting…. Alan, you took your business public in a much tougher market as I recall. I mean, it's going back a ways, but Zendesk was one of the first companies to go public out of a pretty tough IPO market.

ALAN BLACK:

Yeah, yeah, it seems like a long time ago, but it was May of 2014, and the market had been really strong, all through 2013 up until the end of February 2014. And then it started getting choppy in March. And then we came out from confidential status and things got really rocky and it was – really, it wasn't obvious whether we should go or not. And we decided that in all other respects we were ready. And one of the things that we had

done over the years is attended conferences like this. I kept track of the number of meetings I had had with public investors over the two and a half years prior to when we went public. There were about 350, including NDRs and conferences…

DAVID SPITZ:

350 meetings!!!?

ALAN BLACK:

350 meetings and bus tours through the city here. And so everybody that we were going to be meeting had met us. But it was also a belief that in every other way we were ready. And so we took the decision to go forward with the transaction knowing that it would be likely we could come back later with a secondary transaction, which we did eight or nine months later.

DAVID SPITZ:

What made you think you were ready? Just revenue size? Predictability of the business? What were the things that you were looking at?

ALAN BLACK:

Yeah. We weren't that big and we had trailing 12-month revenue of about $85 million, so relatively small. But super predictable. I can remember working with my colleague, and, half in jest, giving them a hard time if we missed our revenue number by anything above $40k-$50k for the quarter.

DAVID SPITZ:

It's part of the beauty of a SaaS business, isn't it?

ALAN BLACK:

Yes, it was super, super predictable. We had high retention and a lot of expansion. And our unit economics were great. We had an LTV-to-CAC of about $6.50 at the time of our IPO. So as you know, $6.50 of gross margin in, for every dollar of CAC out, said that you've got a viable business at scale. So, we were predictable and felt that it would be damaging not to continue if the public market window was closed for an extended period of time, causing us to have to go back into the expensive venture market for growth capital.

DAVID SPITZ:

That makes sense. Lee, you went to the crossover market, as I recall.

LEE KIRKPATRICK:

We did go to crossover market. I did want to make a comment though, because relevant today in a choppy, not a great market. We delayed a couple quarters. We ultimately went public in June of 2016, the day after the Brexit vote and really the first tech company to go public in 2016, pricing at 4x to 5x forward revenue on $220 million revenue, while growing at 78% year-over-year.

And what's interesting about that market. Alan may remember this conversation… I was deciding with CEO, Jeff Lawson, should we go or not. And I said: Let's talk to our friends at Zendesk. Alan was kind enough to come over and we talked about the pros and cons of going out. He said that it takes a lot of chutzpah to go out and do it, but the visibility you get from the buyside. Wow, these guys are going out in a tough market. The attention and interest really impacted our brand and had a very positive impact going forward. And I think that was far more valuable than had we gone public later on, in a better market, amongst 12 other companies.

DAVID SPITZ:

The market was more robust in part and you had 79% growth. So you had some tailwinds behind you. And so, whereas Zendesk obviously performed extremely well over time, the market [at the time of their IPO] was more difficult in the sense that Zendesk stock didn't pop as much. Maybe people would say, hey, that's where you want it [no "pop"]. In contrast, Twilio stock popped quite a bit.

LEE KIRKPATRICK:

And subject to David Faugno's comment, hindsight is 20-20! Sure, but when you go into it and you're talking to a lot of people about why you have a low gross margin, that you're a communications play, etc. So, it's easy now to look back. But at the time, we did a lot of work including getting Fidelity and T. Rowe Price who were investors in that crossover round and we put them on our cover to lock them in and made them put their orders in early to ensure that we were going to have supply-demand in our favor. So that's how we were thinking about it at the time.

DAVID SPITZ:

It was kind of state-of-the-art at the time. Because, for example, back at Zendesk's IPO, I don't think that really came up as an option.

ALAN BLACK:

I think that's true. But we also were super cashflow efficient. We raised a little over $71 million of venture capital, and we still had half of that on the balance sheet when we went public. So, we didn't have a need to go to crossover investors.

DAVID SPITZ:

I think these days though, even people that don't have a need end up doing it. Dave: Did you guys do it at Qualtrics? I can't recall.

DAVID FAUGNO:

We did not. We were also profitable from sort of early, so we didn't really need the capital….

DAVID SPITZ:

There was some secondary financing but there was not the T. Rowe Prices of the world?

DAVID FAUGNO:

Yeah. I know a lot of folks who were doing it obviously, but we didn't do that.

DAVID SPITZ:

I think there's a lot of value-add to [having the crossover investors invested in the company]. Maybe talk about that, Lee.

LEE KIRKPATRICK:

Yeah, I mean, spending time, we had T. Rowe and Fidelity, they sat in as advisors in the non-executive sessions of our board meetings. They don't have all the information that the VCs have. VCs are used to everything: complete access to customer pipeline and profiles, and all the datasets. In contrast, the public market investors are used to asking great questions with limited information. And I think we learned a lot as a senior team working with them – how they're looking at the business, how we communicate, what stories work, what to present and all that. It was a great experience.

DAVID SPITZ:

Yeah. What to disclose in terms of [public company] metrics.

LEE KIRKPATRICK:

We had to learn how to talk about the business in a way that people [in the public markets] expect and help them think about the business.

DAVID SPITZ:

New question: Let's get back to the size issue – How big to you need to be to go public? A lot of people put that magic number at $100 million in revenues or run-rate. Does that make sense? Alan, you went at an even earlier point in time. How does each of you, think about it? In terms of size, critical mass, predictability, etc. What other factors are there?

ALAN BLACK:

As I said earlier, I think for me, it's your ability to be predictable because as important as it is to have a successful IPO, if you go that route, it's what happens after that matters to public investors. And if you don't have the confidence in the predictability of your business, you're really not ready at almost any size. It's not the top line or your growth rate that matters. Rather, it's your ability to be predictable within the guidance and the conversations you've had with public investors about what you think you are going to be delivering.

DAVID FAUGNO:

Yeah. And I just click down on that one level too. I'd certainly echo what Alan just said, but it's also how that predictability is created. What is the tailwind that fuels it? And the way that you're growing the business, so you have your priorities of what you're going to invest in and what those are going to yield in the short-, intermediate- and long- term. Are those things that you have confidence in, that you're seeing the progress in those initiatives? Because sometimes the world changes on you.

As an example, for Barracuda, we had an amazingly predictable business, much like Zendesk, because we served smaller businesses. So, it was much more transactional and there weren't big spiky quarters. And so, at the time that we started to get ready to go public, our business model was highly predictable. What we didn't anticipate was how dramatic the shift from on-premise IT deployment for SMBs to SaaS and Infrastructure-as-a-Service IT deployment was going to hit that sector of the market. And so, we had a business model transition to deal with as a public company. The things that we were investing in at the time that we felt we were ready to go public, were not the things that actually needed to be invested in, in order to grow the business longer term. Sometimes you can see it coming, and sometimes you get blindsided. But I think the predictability is not just having the [financial] infrastructure in place to manage your business, but it's really having conviction in the long-term growth prospects of the things that are critical to your business strategy.

DAVID SPITZ:

Yeah. A lot of people that I talk to when they are on the front-end, especially in the SaaS world, will talk about predictability of the revenue. "Hey, we're a SaaS business and we know 90% of our revenues going into the quarter." But what I point out is that investors have gotten a lot more sophisticated. So, they're not just going to look at your GAAP revenues, they're going to look at your change in deferred. They're going to try to figure out what you booked. And so, you can't hang your hat on [meeting revenue expectations] anymore.

DAVID FAUGNO:

Anybody who says, oh, we just won't guide to billings, is missing the boat.

LEE KIRKPATRICK:

And there's a lot more to predictability. Certainly revenue is important, but obviously getting product out the door and having that predictable product roadmap, predictability around hiring. If you say you're going to hire people, you need to get those people on board. So, there's that whole operational aspect to the business that's equally important.

DAVID SPITZ:

Any questions from the audience here?

[Talk about cash flow generation vs. growth]

ALAN BLACK:

Super good question. In our case, we were already generating cash from operations and the cash that we were investing was predominantly in co-location facilities. (We're dating ourselves here!) And I can remember vividly on a non-deal roadshow in the fall of 2013, investor after investor was asking why we weren't investing more because our growth rate was at a level and our cash generation was at a level that we should have been investing more. And I said [at that time], as soon as we figure out how to do that profitably, we will. But in the meantime, we're going to stay disciplined. And those same investors, six months later, when we were on our [IPO] roadshow were saying "why are you here?" And it turns out, we were there, because we could be there. Because we stayed disciplined. We said we didn't need to go public to have the cash to run the business other than to be able to invest for the growth that we were actually experiencing, which is different than growth that you are getting by investing to obtain it. So, if you have a business that grows as virally as Zendesk did at the time, then you're really responding to the growth that's coming to you as opposed to laying down bets with the hope that the growth comes. And, in our case, it was a situation where we were already generating cash.

LEE KIRKPATRICK:

So, I was asked that often. We were slightly below breakeven when we went public, operating margin minus 5% or less. And we were going to be profitable on an operating margin basis, five or six quarters out. We had a lot of internal debate regarding whether we should communicate that or not. We wanted to make people understand that we were going to invest in the business. This was not a business that was going to suck up a whole bunch of cash. We wanted to be thoughtful on that. We had good growth opportunities, but questions about profitability and long-term operating model were very important. I think they were looking at long-term growth. People wanted to make sure we were going to be good stewards of capital.

[Audience Question re: sandbagging at the IPO]

DAVID FAUGNO:

Ok, I'll start. We went out on our road show at Qualtrics last year, just after this recent wave of IPOs came out. And there were a couple that their guidance was so far below what the reality of the business was that it was just almost comical. And so, we took a very [different approach]. We had a predictable business at Qualtrics. We wanted it to be honest about how we looked at the business. We wanted to approach it with the requisite conservatism, and wanted to control expectations, but be transparent about it. We talked a lot about it internally, including with my audit committee chair, Murray Demo, who was the CFO at Atlassian at the time. And so, one of the things that I was very careful to do on those interactions with public market investors, was really describe our guidance philosophy so that the investor understood how we think about guidance and how we think about communicating it as opposed to leaving it to the imagination regarding how much you may be sandbagging. But we saw some other folks with highly predictable businesses that were just so far below what the reality must've been for their business …

DAVID SPITZ:

But David, even if you take the approach that you did [with more realistic guidance], my sense is you still want to "beat and raise" after you went public. Right?

DAVID FAUGNO:

For sure. I mean you want to build in room for that. We all have the models, where they nest [each quarter's performance] of the beat and raise over a period of time, and how long does that string out. So, you iterate through all of that, but there's a philosophy behind it that marries to the model. And you adopt that philosophy and then you communicate what that philosophy is effectively.

DAVID SPITZ:

Do you recall what you did, Lee?

LEE KIRKPATRICK:

I'm not going to confirm or deny. How we looked at the business, I think that David nailed it. We explained, here's how we're looking into business. Here are the drivers of the business. Here's what could make it go up or down. We didn't want to be gnashing our teeth if we're going to be close to make a number or not make a number. So, we were appropriately conservative but again, explain, hey, here's why things are. So, we just want to spend our time focusing on the great business we had versus talking about why we missed a number.

DAVID SPITZ:

The thing is as a banker working on these things, even if a business is expected it to grow at 50% a year. You'd be crazy to put even a 40% estimate out there. You're not going to get rewarded for it and you don't have the room to do the beat and raise, which is necessary. Let's face it. So yes, when someone comes forward with, yeah, we're going to grow 18% and they just grew 50% it's crazy. And I've seen that. But it's a tough spot.

DAVID FAUGNO:

You lose credibility if you create so much of a buffer, and you're trying to say on one hand, my business is really predictable and this is what we've done every time, and all of a sudden, here's what we're going to do. And try to say that with credibility, it's difficult. So, if you have a story that talks about a predictable business, then you have to marry that with an approach to guidance that is conservative, but not ridiculous.

DAVID SPITZ:

The thing that's super confusing when you look at valuations and see businesses that are trading at 12x, 15x, and even 20x next year's revenue. Really what's going on is that the buyside has estimates that are a lot higher than what the sell-side has. And so those businesses aren't trading at 20x, but a much lower multiple based on "whisper numbers."

Let's talk about the alter ego of that phenomenon – how do you deal with the big "pop" in the stock that you get at the IPO, which probably was built on the notion that companies have sandbagged their numbers. How do you look at that? We'll talk about it from the IPO perspective and then talk about direct listing as an alternative. As CFOs, each of you had very different experiences in terms of stock "pops." As you see it as CFOs, what is that ideal "pop" that you would want? I mean, I have my own view as a banker, but what would you look at as being ideal and what was the experience that you had? Let's start with you, Lee.

LEE KIRKPATRICK:

Yeah. I mean, how we look at the IPO, we were selling 11% of our company at that time, so we wanted to really optimize for the remaining 89% of the value of the company. And so, what is more important? Eking

every dollar out at the IPO or thinking long-term? So, it was important for us to get out there and get the investors that understood our business well, get a very strong book. We wanted to arrive at a price which was going to get momentum, a lot of talk, trading velocity, etc. It's great for customers; people feel good; it's great for employees [when the stock performs well]. So that was very important to us.

And you know what that right number is, between leaving money on the table for the short-term to the long-term, it's hard to determine. When I look back in retrospect, one thing in hindsight, when I look at subsequent financings that we did at Twilio – in terms of a follow-on offering, convertible debt. And then six months after I left, Twilio raised another $1 billion at a very favorable multiple. That foundation I think was laid by successful financings earlier, [including the IPO]. It was after the IPO when the stock price was much higher, that we made the really big commitment to get capital. So, we were really less concerned about the IPO "pop," and we were ultimately rewarded with the increase in value when we ultimately went out to market to raise more significant amounts of capital later.

ALAN BLACK:

In my case, the way I measured success in terms of the debut (I took another company public in 1999 – I'm dating myself a bit –Phone.com). My way of thinking about it was: what is the cap table going to look like 2-3 years from that date? From the IPO, the company's ownership shifted from private to public. So over that time period, how did we perform and how did the stock perform? Because if you sell 10% of your company in an IPO, over the ensuing years your venture investors and management employees get some liquidity and those shares are being sold into the marketplace and being absorbed.

A successful debut in my mind is measured by the quality of the investors you have 2-3 years post-IPO. And some of it is a function of the job you've done managing their expectations. The other is execution. If you execute flawlessly over time, investors come to a point of confidence that they can put money into the company and trust that you're going to deliver. So yeah, [at Zendesk] it was important for us to price as close to the market as we could. It was a really choppy market. So, I don't know if there's anybody… and certainly I couldn't peg and be perfect about what the value was actually going to be…. As you may recall, Zendesk closed up 43% following the offering.

DAVID SPITZ:

And so what you're saying, Alan, just to parse through it (and you were saying roughly the same thing, Lee), is that it's about optimization. And optimization isn't just about the value you're getting at the IPO, but it's also about optimizing for the long-term. In your case, Lee, it was about the value over time of all the funds raised [some of which occurred at much higher prices than the IPO] and getting the right stockholders invested, and the benefits accruing to the owners and people that you've attracted to the business over time. And for you, Alan, it was also about getting the right stockholders in there.

LEE KIRKPATRICK:

And I wouldn't underestimate the enthusiasm within the company, when you go public, from the price going up – from the employees feeling good about the company, obviously issuing shares for future retention, for recruiting, just the excitement for success. I have not been involved with a company where they broke IPO price, but I can't imagine, it's a good thing.

DAVID FAUGNO:

And the process helps you building value over time, to create enough stability in your stock that you don't have employees bailing. Because [otherwise] you get in this cycle where if your stock breaks issue… if you start losing the best people; if you don't have conviction from your shareholders that you've nurtured (whom

you would hope would come in and buy in on the dips and create some stability and then build with you). Alternatively, if you get activist shareholders, and then you stop investing in the business…. then you end up in a "No Man's Land." So, instead, part of what I think you really are looking for [from institutional investors coming in at the IPO] is building, a knowledgeable investor base that is going to understand where there are opportunities to jump back in and create a more stability than there would otherwise be.

DAVID SPITZ:

Yeah. Although one thing I will add here is, that I think a lot of people who haven't done it before become shocked with, is how much shareholder turnover there is from the IPO. You'll have 300+ accounts in these IPOs and by the end of that first trading day, maybe 15 of them still own the stock in any meaningful way, which I think is surprising for everybody, even if they know it's going to happen.

So, let's shift gears and talk about the Direct Listing opportunity. It's obviously a topic that's gotten a lot of attention, post-Slack, post-Spotify. Would any of you look at doing that if the right circumstances were in place for you? And what would those circumstances need to be? Among other things, right now, a Direct Listing cannot accommodate a fundraising event directly. What are your thoughts, any of you, on Direct Listings?

ALAN BLACK:

So, it's not for everybody. I think it is for a certain profile of company. Certainly, it's an alternative. When you distill it down… not having done one myself… but certainly I've studied it as an alternative for the clients that I work with. It's without question a lot more work for the management team.

DAVID SPITZ:

Why is that?

ALAN BLACK:

So as an example, you have your Analyst and Investor Day about a year, year-and-a-half after you go public in an IPO. Well, when you do a Direct Listing, that's all pulled forward to the time when you're going public. And the management team that you have: some of them may have or may have not ever done that before. But for better or worse, you're doing it. Also, think about the education of every investor, you have in the Company – every shareholder: the VCs and employees all have to be prepared to be able to make a decision to trade from the first trade when the stock opens. That isn't the case when you go to a traditional IPO, when there's a lockup.

And… Two direct listings is not enough data. Certainly, in Spotify's case, it was, I think, widely regarded as very successful, the aftermarket in the month subsequent. The aftermarket for Slack's Direct Listing… I think in the timing was almost perfect in terms of where the market conditions were. But then in the after-market of being public, it's not clear that the pricing was dramatically better than what you'd have had in a traditional IPO for the public investor.

DAVID SPITZ:

For the public investors, true. But for the company, the argument would be that it was great. Sellers sold at a higher price than they would have gotten in an IPO. Other opinions?

LEE KIRKPATRICK:

I think, at Twilio, being an API usage-based model, just like what Alan was saying, we needed to find the set of people that understood and bought into our business. So, I think that the criteria, if you had a business that was very clear and well understood, that might open the Direct Listing opportunity up, but for many, many of these technology companies, it takes a while to read and understand and really figure out what's going on.

So, I think it's a limited set [that should pursue the Direct Listing].

[Inaudible Question re: how to know if you're ready for an IPO]

DAVID FAUGNO:

There are a number of different tracks that need to be put in place. First is to have the infrastructure in place; to be predictable. And then, there is a management track -- How does the management team communicate what the priorities are? How do you practice being public while you're private? How do you think about the quarterly cadence? Everything from how you treat your QBR (Quarterly Business Review) process, to how you internally set your own metrics. How those metrics nest into objectives in other parts of the organization. And so, from my perspective, I'd want to see a company practicing or acting like a public company for a full four quarters before they were willing to actually jump into the deep end of the pool. Because you don't know what you don't know until you've gotten some bloody noses.

LEE KIRKPATRICK:

Well, I have a small sample set, but having worked with a couple of companies that did well in that $100 million range, but did not break orbit like we did at Twilio… it's really playing to win. Similar to what David Faugno was just saying to get to that next level, you need a different mentality. Getting a company from $0 million, to $10 million, $20 million, $100 million, it's a great accomplishment. But it's a very different mindset to think really big and go for broad markets, global scale. Do you really have the right people? So, my advice is to ask yourself the question: Are you playing to win? And I found in my career, when I look back, we weren't always doing that and that hurt us.

ALAN BLACK:

I think in my case, the clients that I'm working with, they're doing the things that Dave Faugno has described. Making sure that you have the team in place, the systems in place. Blocking and tackling. But there's a difference as you go from focusing on being a private company and managing it, you focus on the millions. As a public company, you focus on the pennies. And so, it's a different level of rigor and attention to detail. I try to work with each of my clients and have them model themselves to a billion or multiple billions of revenue. It's an exercise that I did when I was at Zendesk. You have to think about where you're going to be much longer than a year or two after you're public. Are you in a market that can enable that continued growth? And so, you tend to spend time on that, and that can be a sobering experience, because it starts to eliminate things in the business that they need to address if they're going to get to that level of top line scale. In some cases, they may say that they're going to need to be thinking about adding a new product in a given area to just sustain the growth rate in an addressable area of the marketplace. In other cases, there may be M&A activity that they're going to be expected to look at. So, it's different from company to company. But in each case, there are a lot of common themes. And then it's customized for the facts and circumstances of the business.

DAVID SPITZ:

What percentage of your time after you were public, did each of you spend on IR-related things? I'm always amazed when I hear some pretty big numbers. I know it's a lot of work, but…

ALAN BLACK:

I'll start. I was super fortunate at Zendesk, as I had a partner on the investor relations side, Marc Cabi, a real pro. And so, he did a lot of the work. And then I was also really fortunate with our CEO, Mikkel. A lot of times the CEO doesn't have as much interest [to spend time with investors], and instead leave that to investor relations and the CFO. In Mikkel's case, to his credit, he was very interested and engaged the entire time I was there. So, for me, it was less than probably a lot of CFOs.

DAVID SPITZ:

So, what would you say it was roughly?

ALAN BLACK:

Yeah. Maybe 15%.

DAVID FAUGNO:

Exact opposite experience. Significantly more. I don't know if it was 30% or more [at Barracuda]. A couple of things. We had a February fiscal year end. So, all the conferences tend to be in our quiet period. And so, to communicate the story took a lot of time on the pavement. Secondly, there weren't many public tech companies selling primarily to SMBs then. We were a pretty unique public company, selling to that part of the market. So, there wasn't a lot of pattern recognition. Educating people about what we actually did and how our business worked, was a lot of work. And I did a bunch of it on my own. BJ [CEO] and I would tag team sometimes as well. But there was a lot of time invested by us.

LEE KIRKPATRICK:

Yeah. I think, I was closer to Alan. I put it into two categories. Preparing –you're closing your books, really understanding your numbers. You need to be completely buttoned up to understand the income statement, balance sheet, going into their earnings call, working on the script and the Q&A, with the team drilling down on the metrics following up if there's a question somewhere. What's going on with customers? I did feel that that was very productive useful work. Then there was the actual amount of time with investors…. Like Alan, I had a very strong partner that ran IR, Greg Kleiner. We had certain people that talked to Jeff Lawson, CEO; and certain people that talked to me. And then Greg handled the remainder. We would do a conference each quarter, plus a full day of buy-side meetings, and then a handful of tours.

DAVID SPITZ:

There was a question earlier about advice to future IPO candidates, management teams. What about turning that around –advice to investors on how best to interact with you; how they can do a better job of getting the information they need that they're allowed to get from you?

DAVID FAUGNO:

You start to see the investors that genuinely understand the story. As they interact with you, they're building on the knowledge that they gained in prior discussions. And then, in contrast, you see other folks that are asking the surface level questions that they've already asked before, that you've answered. And they're not demonstrating that they've picked up on the story. And so, I think what we would love to see is investors doing their homework, paying attention to interactions, and building on that knowledge to demonstrate that they get it. And so, when they do ask a question, you're filling in the blanks and not starting from scratch again. It makes our job easier to help them get what they need as opposed to feeling frustrated that we've been through this before.

LEE KIRKPATRICK:

I think, obviously, when you're at a company you're very happy that people are interested in your company and investing, and owners of the company. Key investors are your partners. The investors that worked well were those that really did their homework, as opposed to asking basic questions that were already in the earnings calls and in your financials. The time that they're spending with the CEO or the CFO is very valuable time. Some people were very good about really getting into the questions and how we're thinking about the business and the go-forward. Those could be rich conversations. It's enjoyable, and we got a lot out of it. As

opposed to people just asking about the model, tax rate, what are you using for Treasury Method Shares in your model, and that kind of stuff. That's not a great use of time.

DAVID SPITZ:

Another question: How did you think about how you deal with guidance once you are public? You're not dealing with the same level of sandbagging [as at the IPO].

ALAN BLACK:

Carefully. I think it all comes back to the same overarching theme that you are looking to build a consistent record with your new shareholders, who you're hoping, through your execution, will become larger shareholders over time, absorbing the shares that come to market. There's a multiyear pathway to get there and you've got to navigate it, and provide checkpoints each step along the way, that demonstrate that you're executing against what the Street expects. And the Street expects you to be delivering results minimally above what your guidance is. The art in it is to realize (and I think investors are all plugged into this), that there's a diminishing expectation of the magnitude of "beats" over time, simply because it becomes mathematically more challenging to maintain when the businesses gets bigger. Ultimately, it's an exercise of establishing a relationship with your investor base and providing them a means in which to continue to put more money to work.

DAVID SPITZ:

How about the art of using non-GAAP metrics. As we know, GAAP constrains you in a certain way. As an example, Lee, I'll use you as a guinea pig here: You came up with a metric that said, there are some of revenues that are less meaningful. As you described it, certain revenues had lower margins, and were not as predictable (WhatsApp revenues, for example). Breaking those out ended up working pretty well for you, although some of the things around those metrics ended up causing some consternation until you worked through it. As you look back on that, how did that serve you well? And what would your advice be?

LEE KIRKPATRICK:

Yeah. We called those Variable Revenue. It is a category of revenue, from certain large customers, where we were not entering into commitments. They could go up and down, and that is not good if you're a public company. But we said, hey, this is important revenue. We want to keep it in the business. This is how we've been managed the business for years. I never counted on this revenue to fund my OpEx to grow the business. It was just kind of upside or icing on the cake for the company. So, let's disclose that and be straightforward.

DAVID SPITZ:

And it gave you scale and purchasing power and all those things that made the business very attractive. But created confusion if you hadn't been familiar with the business?

LEE KIRKPATRICK:

Yeah. We looked at our non-GAAP metrics and we asked ourselves "what are we thinking about the business, and what's important to share." And that was really the criteria.

DAVID FAUGNO:

I think it's also important to think about what you're going to guide to and when? What do you to you guide to on an annual basis? What do you guys do on a quarterly basis? And just be transparent about what information you're going to give out and why, and how they should be thinking about the business. So, it's not just the level of guidance, but also the philosophy around how you're guiding and what you're guiding to and when.

ALAN BLACK:

And where you can, you want to pick non-GAAP metrics that are going to provide meaningful insight for investors to understand what you think is important in the business. In our case, when we went public at Zendesk, it was very much around taking a company, which had largely been in the SMB market, into larger businesses. And so, beginning to introduce, over time, the growth that we were experiencing in terms of the number of customers over $100,000 or $200,000 of annual revenue. That was a way for them to see whether we were progressing. And for ourselves, we had something internally that we paid a lot of attention to.

DAVID SPITZ:

Yes. The difficulty of course is, if you introduce the metric and it turns the wrong way on you, you're kind of stuck with it. And I've seen that a few times. That didn't happen to any of you all, but that could be the dark side of it.

So, we're at the end of our hour. I want to thank the three of you for coming by here. I really appreciate it. Always good to talk to you!

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