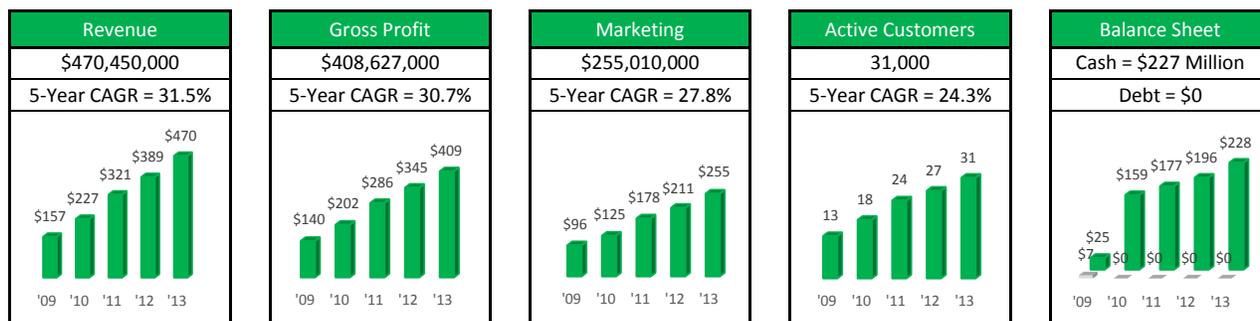




Qlik Technologies
May 14, 2014

General Overview

Qlikview Technologies sells software that helps business decision makers analyze data quickly and increase profits for their business. The software is a tool, like Microsoft Excel, that allows their customers to build very powerful solutions to solve unique problems – especially problems that revolve around understanding large amounts of data. Purchasing Qlikview software helps businesses save thousands (or even millions) of dollars annually through the work it performs.



Divisions

Qlik Technologies operates in one reportable segment related to their business intelligence software product.

Problem & Solution

Problem

Businesses all around the world collect vast amounts of data and spend millions of man hours sorting, querying, and analyzing this data to help improve business decisions. How can a business collect and analyze the data it needs with as little time and effort as possible?

Example Problem #1: Imagine you run a healthcare company with 100 hospitals. There are roughly 25,000 employees across your network of hospitals that are highly trained and difficult to replace. Every time an employee leaves to a competing hospital or quits it is expensive to replace them because the new hire has a 6 month learning curve to understand your particular work processes. You are interested in knowing – what is the turnover rate at our hospitals? What is the turnover rate for the doctors? The nurses? The administrative personnel? If you can monitor these metrics closely you can make changes – such as increase benefits, larger bonuses, reduced weekend hours, etc. If you can make simple changes, such as an employee appreciation dinner once per quarter, and improve retention by a few percentage points, it can save hundreds of thousands of dollars.

Example Problem #2: Imagine you run a small retail chain with 5 stores. You keep track of the inventory and know how much of each item you currently have in stock, but you don't know how long it takes for each item to sell. How long does it take to sell a bag of Doritos vs. a bag of Lays potato chips? If you could monitor your inventory with more detail you could increase the shelf space for items that are selling well and decrease the items that are not. The change in product mix to delivers customers what they want could increase your revenue by tens of thousands of dollars per store.

Example #3: Imagine you are part of a global organization that develops software. Your software solutions are design to protect your customers from viruses and malware. You are interested in knowing what parts of a PC are most commonly infected? What features do the end users actually use? What features do they disable? If you could gather and analyze this data you could focus your development efforts on protection from the most common viruses and malware. You also could eliminate features that users are disabling and find frustrating. Improving your product in these ways could increase revenue by millions of dollars.

Business intelligence is a very high priority for mid-size and large businesses. For mid-size and large enterprises when a business decision maker needs data to improve the decision making the process they typically do the following: They explain to IT what data they need to make important decisions and how they would like to view that data. The skilled IT staff then implements their desire and delivers a report in the required format. Every time the business decision maker revises what he or she would like to see the skilled IT pros modify and enhance the solution. This presents a large problem – every time the business managers need to see new information or different views of existing information they are dependent on skilled IT staff (or need to build a new Excel spreadsheet).

Solution

Qlikview is a software tool specifically designed for business intelligence. It reduces the costs associated with providing business information in two important ways: 1) The tool allows skilled IT professionals to generate custom reports faster than existing solutions reducing the man-hours required, 2) The tool is intended for end-users (business decision makers) to be able to view, sort, and create new views rapidly with no further input from IT. In the IT world it is referred to as a “self-serve” model, because business decision makers can very easily and intuitively view data sets in new ways with no further assistance from IT.

Example Solution #1: You run a healthcare company with 100 hospitals. There are roughly 25,000 employees across your network of hospitals that are highly trained and difficult to replace. You are interested in knowing – what is our turnover rate at our hospital? What is the turnover rate for the doctors? The nurses? The administrative personnel? If you can monitor these metrics closely you can make changes – such as increase benefits, larger bonuses, reduced weekend hours, etc.

An old “business intelligence” solution would require IT to build a solution and generate a report for each question posed by the business decision makers. With Qlikview IT can input all the data from all departments into the software platform and the business decision makers can mine the data themselves. They could answer all of the above questions very quickly...but more important...answer new questions as they learn from the data with no further input from IT. It removes the need to constantly return to IT and ask for additional data or new information.

How To Win

The business intelligence market is a very large and competitive space. In order to win clients and be the provider of business intelligence solutions you need to accomplish three tasks superior to your peers: 1) Provide the required data in a friendly and intuitive manner, 2) Allow end-users to continue searching data in ways they had not previously imagined, 3) provide this information and data mining capabilities at the lowest possible total cost of ownership.

User Friendly & Value Added

Points 1) and 2) really address user friendliness and value added. These two metrics are subjective, but there is important empirical evidence that Qlikview scores extremely high in these two categories. The renewal rate for Qlikview customers is over 90% and has been trending upward for the last 5 years. This is evidence that the end users find value in the product. Even more telling is the new license growth Qlikview is experiencing. In 2013 63% of all new license sales were made to existing customers. The company calls this sales technique as “land & expand”. The land & expand approach works as follows:

When Qlikview acquires a new customer they typically sign a few licenses with individuals in a specific department with that business – say 10 users in Human Resources. As Human Resources utilizes the Qlikview software they recommend it to other divisions of the business and Qlikview is able to increase their business with that existing client. The following year that same customer may have 10 users in Human Resources and 15 users in Manufacturing – with a total of 25 users. The 15 additional users are new license sales to an existing customer. In 2013 63% of their new license revenue came from existing customers.ⁱ This indicates that clients who utilize Qlikview are eager to expand the relationship and is a testimony to the value added proposition for end users.

Total Cost of Ownership

The total cost of ownership for a ‘business intelligence’ solution is often calculated in dollars per end user per year. If your IT department spends \$1 million annually to support 1,000 business decision makers across the enterprise then the total cost of ownership per user per year would be \$1,000 (\$1 million / 1,000 users). The primary cost incurred are salaries to the skilled IT professionals that are building custom solutions in-house. Traditionally every business had a robust IT department that built custom solutions from the ground-up to answer business related questions. Qlikview is a tool that drastically reduces the time required for IT pros to build custom solutions.

In addition to reducing the time required to build a solution the end-users are also able to interact with data faster and in a more robust manner. This reduces the number of calls to IT to ask for additional features or a new view of existing data.

The annual cost per user for traditional business intelligence is roughly \$1,106 per year. Qlikview’s business intelligence solution delivers results of \$652 per year per user or 40% cheaper than the traditional method. The reduction in total cost of ownership explains why they are rapidly winning business, retention rates are high, new license sales are expanding with existing customers, and the testimonials from IT professionals are overwhelmingly positive.

Additionally, as a business that drives efficiencies their sales tend to increase in all economic conditions. Reducing costs while improving productivity is a clear investment during all economic cycles.

Products & Services

Qlikview Technologies currently offers their flagship software solution – Qlikview 11. This product generates the lion’s share of all their revenues, but in 2014 they will be launching the next generation of the software – Qlikview Next.

The growth in new license sales have slowed down in the last 180 days and this has caused a decline the price of the stock (they are still growing, just not as fast). We believe that one of the major reasons for the slow down is the anticipation of the release of Qlikview Next. The product has been showcased at several roadshows to prospective clients and we believe this may be impacting the timing of customer purchases. We expect to see new license sales accelerate in 2015 when Qlikview Next is released.

Customers

The company currently has more than 32,000 active customers using the flagship product – Qlikview. The products address the needs of a diverse range of customers from small businesses to middle market customers to large enterprises. During 2013, QlikView was licensed by customers such as American Apparel, Coca-Cola HBC AG Group of Companies, Connecticut Children’s Medical Center, Danone SA, Dreyer Clinic, Fox Head, Inc., Harman International Industries, Inc., Hartford Healthcare Corp, Healthfirst, Humana Italia SPA, MedAmerica, Michelin Tyre Co Ltd, Mitsubishi Chemical, Omnicare, Inc., Red Hat, Inc., Sixt GmbH & Co., Swissphone Telecom AG, Taylor Wimpey PLC, TELUS International, Toys “R” Us GmbH, the U.S. Food and Drug Administration, Unum Group, Virgin Australia, WM Morrison Supermarkets Plc. and Waffle House. The company has customers in over 100 countries and approximately 70% of our revenue for the year ended December 31, 2013 was derived internationally.ⁱⁱ

The extremely fractured customer base has very uniform pricing and profitability. No single customer made up 1% of their revenue or profits. The fractured customer base with high retention makes the revenue very predictable.

Sales & Marketing

The company performs sales and marketing through a direct sales force (people that work for Qlikview) as well as independent sales organizations (people that work for other businesses, but sell Qlikview software). The company seeks to maximize the reach of their software products by employing a multi-pronged sales approach that leverages a direct sales force and partner network which includes solution providers, OEM relationships and systems integrators. The business typically enters new markets through partnerships and solution provider agreements to minimize cost and risk while assessing the demand in the new market. For example, Qlikview successfully grew their initial sales in Spain, France, Italy and Japan without maintaining a local direct sales office and plan to use this strategy to target additional international regions. As of December 31, 2013, the company had distribution capabilities in over 100 countries and a network of over 1,700 channel partners worldwide to help generate demand for the Qlikview software product.ⁱⁱⁱ

The company utilizes a sales technique known as “Land and Expand”. The company seeks to initially “land” within the organization of a new customer by enabling specific business users or departments to meet a business need. After demonstrating the value of the software solution to those initial adopters, the sales organization will “expand” the use across the organization by targeting other business units, geographies and use cases.^{iv} This sales technique generated 63% of all new license sales in 2013 and demonstrates the high value added for the product.

Revenue Creation

Qlikview generates revenue through two primary avenues: License and Maintenance. License revenue is derived when they sign up new users and charge a one-time fee as a perpetual license. Once the software license has been sold customers can subscribe to annual maintenance to receive the most recent versions of the software with updates and patches.

License Revenue

License revenue is a strong indicator of future growth and competitive position. If license sales are accelerating then the customer count is increasing quickly and new customers prefer the Qlikview solution over other alternatives. A revolutionary new product that is superior to Qlikview would make winning new business difficult and decrease license revenue growth.

This is a leading indicator of the health of the business. In the last 7 years license revenue has increased at an annual rate of 27% per year. In 2014 the license revenue growth rate was 2% year-over-year. We suspect that this has occurred because users are anticipating the release of Qlikview.Next. Additionally, even with 2% growth in license revenue annually the purchase price was very attractive.

Maintenance Revenue

When a new customer subscribes to Qlikview a portion of the new contract is assigned to ‘annual maintenance’. This portion of revenue is recognized over the contract term (12-months). The cash comes in up-front but revenue is recognized over a 12-month period. For a new sale the split between license revenue and maintenance revenue is typically 80 / 20, respectively.

The maintenance revenue is recurring in nature and 90% of all customer renew their maintenance contracts annually. Maintenance revenue makes up roughly 34% of all revenue generated by the business with gross margins in excess of 92%. The maintenance revenue is an indicator of clients willingness to stay with the product. Even if a superior product is released by a competitor the maintenance revenue will not be materially impacted because of the high switching costs to a new product line. A breakdown of revenue sources is provided on the following page.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
(in thousands, except share and per share data)					
Consolidated statement of operations data:					
Revenue:					
License revenue	\$ 270,769	\$ 238,674	\$ 204,414	\$ 145,225	\$ 99,864
Maintenance revenue	160,552	120,490	89,129	59,846	41,390
Professional services revenue	39,129	29,373	27,076	21,450	16,105
Total revenue	470,450	388,537	320,619	226,521	157,359
Cost of revenue:					
License revenue	7,345	5,058	3,540	3,670	3,663
Maintenance revenue	10,585	8,526	6,787	4,089	1,709
Professional services revenue	43,893	29,705	24,020	16,319	12,017
Total cost of revenue	61,823	43,289	34,347	24,078	17,389
Gross profit	408,627	345,248	286,272	202,443	139,970
Operating expenses:					
Sales and marketing	255,010	211,314	178,456	125,059	95,655
Research and development	60,400	39,995	24,870	13,798	8,947
General and administrative	89,795	79,309	63,287	36,018	22,202
Total operating expenses	405,205	330,618	266,613	174,875	126,804

Expenses

There are three primary expenses for the business: 1) General and administrative, 2) Research and Development, and 3) Sales and Marketing.

General and Administrative

This expense includes executive salaries, lawyers, accountants, human resource personal, etc. All of the activities required to run the business day to day. In 2013 general and administrative expenses were roughly \$90 million and we expect this to grow at a rate less than revenue – which increases profits through operating leverage.

Research and Development

Research and development are expenses incurred to improve the software product and develop the next generation platform. This expense is non-discretionary meaning that it is required to compete. If the R&D spending declines and the product becomes obsolete the sales personnel will not be able to win new business in the market place. The R&D expense for Qlikview in 2013 was \$60 million or 12% of revenue. This compares well with their competition (meaning the R&D budget is large) and should allow them to continue to release competitive products. We expect this to increase over time both in real dollars and as a percentage of revenue. Allocating substantial resources to a first-class product is an important element to the business.

Sales and Marketing

Sales and marketing is a discretionary expense. When the company signs up new customers and earns a profit they do not have to spend additional resources to hire more sales and marketing representatives, but it is a wise move. The profits generated by Qlikview are immediately spent hiring additional sales and marketing personnel to expand their client base. This is by far their largest expense category (3x higher than S,G, & A and 7x higher than R&D) with total spending of \$260 million dollars. The sales and marketing team generates approximately \$1.1 of license sales for every \$1 of sales and marketing spend. Those license sales create recurring maintenance revenue in future years and represent an IRR in excess of 60%.

Real Income

Every year as Qlikview earns potential profits they allocate the net income to hire additional sales and marketing personnel *before* the end of the year. This is an excellent business decision as it allows them to reinvest heavily into the business without paying taxes on earnings. Hiring additional personnel for a software firm is analogous to building new manufacturing lines for an industrial business. The more manufacturing lines producing and selling goods the better – especially if the return on the investment is in excess of 60%. In order to calculate the potential earning power for Qlikview we’ve made a few assumptions:

- 1) They stop hiring in all departments and continue to run the business exactly the same as it is today
- 2) The sales and marketing team execute with the same sales efficiency they do today
- 3) A 30% tax rate

These assumption would eliminate the reinvestment of earnings and allow us to start extracting all profits from the company immediately. Below is a table of the earning power of the business over the next 5 years under these conditions:

Year	2014	2015	2016	2017	2018
Total Revenue	\$ 534,264,550	\$ 582,929,845	\$ 26,728,611	\$ 666,147,499	\$ 701,624,500
<i>License Revenue</i>	\$ 280,511,000	\$ 280,511,000	\$ 280,511,000	\$ 280,511,000	\$ 280,511,000
<i>Maintenance Revenue</i>	\$ 214,624,550	\$ 263,289,845	\$ 307,088,611	\$ 346,507,499	\$ 381,984,500
<i>Other Revenue</i>	\$ 39,129,000	\$ 39,129,000	\$ 39,129,000	\$ 39,129,000	\$ 39,129,000
Expenses	\$ 405,205,000				
<i>Sales and Marketing</i>	\$ 255,010,000	\$ 255,010,000	\$ 255,010,000	\$ 255,010,000	\$ 255,010,000
<i>General & Administrative</i>	\$ 89,795,000	\$ 89,795,000	\$ 89,795,000	\$ 89,795,000	\$ 89,795,000
<i>Research & Development</i>	\$ 60,400,000	\$ 60,400,000	\$ 60,400,000	\$ 60,400,000	\$ 60,400,000
Operating Income	\$ 129,059,550	\$ 177,724,845	\$ 221,523,611	\$ 260,942,499	\$ 296,419,500
Net Income	\$ 90,341,685	\$ 124,407,392	\$ 155,066,527	\$ 182,659,750	\$ 207,493,650

The table above shows that by freezing all hiring and continue with business as usual the company would easily post \$124 million in income in 2015. We purchase the business for roughly \$1.9 billion for a forward P/E ratio of roughly 15.

Growth

The analysis for “Real Income” is not the scenario that will play out in reality. As the business generates potential profits they will continue to reinvest those profits into future. For example, in 2014 we fully expect the company to spend more than \$60 million on R&D and significantly more than \$255 million on sales to accelerate growth. The additional sales capacity will generate revenues well in excess of the \$582 estimated for 2015. This reinvestment into the business is extremely lucrative as long as the sales team can maintain high levels of productivity.

One critical metric we will watch to gauge the effectiveness of the sales team is the annual license revenue divided by the annual sales and marketing spend. Historically this number has ranged from 100% to 116% with an average value of 109%. As long as the ratio stays above 100% the reinvestment of earnings into sales and marketing is a spectacular investment.

We are anticipating growth in revenue in excess of 15% for the foreseeable future and will continue to analyze the real earning power of the business using the same technique utilized above.

Competition

They compete to win new business in a fiercely competitive landscape. Their primary competitors are Tableau (DATA), Tibco Software (TIBX), IBM, Oracle, Microsoft, etc.

The difficulty is in winning new clients and expanding existing relationships with the clients you have. Once a customer is won the technical build-out and customization make the revenue stream very stable moving forward. In order to monitor Qlikview’s competitive position we will closely watch the ‘win-ratio’; or the ratio of license revenue / sales and marketing expense. If this ratio falls below 100% it would indicate the Qlikview is having a very hard time winning business and may be an indication that the investment should be sold. As it currently stands Qlikview is maintaining the same dominance they have for the last 10 years.

It should be noted that Tableau is actually growing significantly faster than Qlikview. The win-ratio for Qlikview in 2014 was 106% (well within their historical levels), but the win-ratio for Tableau was over 140%. The success Tableau is having is fully reflected in the market price. Tableau generates half the revenue of Qlikview, won less business in absolute dollars, and currently is valued at double the market capitalization of Qlikview. We believe that Tableau is roughly 4x as expensive to purchase as Qlikview.

Company	Revenue	Market Capitalization	Price / Revenue
Qlikview Technologies	\$485 Million	\$2.01 Billion	4.1
Tableau Software Inc	\$266 Million	\$4.18 Billion	15.7

Consolidated Balance Sheet

The balance sheet is very straight forward. They have more than \$227 million in cash and no debt. We believe the source of this cash was \$157 million from equity raises and \$70 million from operations. The majority of earnings are spent on sales, marketing, and research and development.

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 227,693	\$ 195,803
Accounts receivable, net	162,009	144,475
Prepaid expenses and other current assets	16,296	14,455
Deferred income taxes	1,886	1,211
Total current assets	407,884	355,944
Property and equipment, net	21,500	17,048
Intangible assets, net	12,695	5,625
Goodwill	21,233	7,367
Deferred income taxes	2,107	1,761
Deposits and other noncurrent assets	2,503	2,628
Total assets	\$ 467,922	\$ 390,373
Liabilities and stockholders' equity		
Current liabilities:		
Income taxes payable	\$ 2,634	\$ 4,154
Accounts payable	5,262	7,128
Deferred revenue	98,684	84,197
Accrued payroll and other related costs	46,780	36,976
Accrued expenses	29,495	26,075
Deferred income taxes	544	150
Total current liabilities	183,399	158,680
Long-term liabilities:		
Deferred revenue	3,637	1,745
Deferred income taxes	894	512
Other long-term liabilities	7,822	3,874
Total liabilities	195,752	164,811
Commitments and contingencies		
Total stockholders' equity	272,170	225,562
Total liabilities and stockholders' equity	\$ 467,922	\$ 390,373

Accounting Quality

Ernst & Young LLP gave an unqualified opinion.

Legal

None. The most likely legal proceedings they would face would be patent infringement for intellectual property. They were established in 1993 and are one of the first companies to operate in the BI space. The litigation from the normal course of business in the technology space relatively low compared to the profits earned.

Market

The total addressable market for business intelligence is between \$10-15 billion dollars. Qlikview currently holds between 3-5% of this addressable market and competes against very large players (SAP, Oracle, Microsoft, etc.). If they are able to continue to demonstrate the value added for their product the run way for growth is very large.

Corporate Governance

The executive team has remained in place since the companies IPO in 2007.

Name	Age	Positions Held
Lars Björk (1)	51	President, Chief Executive Officer and Director
Timothy MacCarrick	48	Chief Financial Officer and Treasurer
Leslie Bonney	55	Chief Operating Officer
Anthony Deighton	40	Chief Technology Officer and Senior Vice President, Products
Diane Adams	54	Chief People Officer
Dennis Johnson	40	Chief Accounting Officer
Deborah Lofton	46	Vice President and General Counsel and Secretary

Compensation

A summary of the stock option activity:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding as of January 1, 2011	12,053,445	\$ 2.95	6.71
Granted	2,811,629	26.58	—
Exercised	(5,604,613)	1.71	—
Forfeited	(400,810)	11.41	—
Outstanding as of December 31, 2011	8,859,651	\$ 10.84	7.38
Granted	4,188,950	21.40	—
Exercised	(1,833,377)	2.97	—
Forfeited	(798,866)	18.27	—
Outstanding as of December 31, 2012	10,416,358	\$ 15.89	7.82
Granted	2,676,274	27.85	—
Exercised	(2,572,273)	8.99	—
Forfeited	(723,543)	22.98	—
Outstanding as of December 31, 2013	<u>9,796,816</u>	<u>\$ 20.44</u>	<u>7.79</u>
Exercisable at December 31, 2013	4,091,832	\$ 14.68	6.39
Vested and expected to vest at December 31, 2013	9,242,406	\$ 20.19	7.73

Allocation of Capital

The company currently allocates 100% of their potential profits into expanding their sales and marketing team as well as research and development. We believe this is an outstanding way to spend potential earnings and will continue to drive revenue growth.

Risks

The risks for the business is relatively low due to the highly fractured customer base and very high retention rates. The primary risks would be technological obsolesces, but we even view this as relatively low. The tool they provide is highly customized by the customer base that implements it and creates a sticky end-user. The difficulty if the technology becomes obsolete will be in the inability to continue with license sales to new businesses.

Moat

The beauty of Qlikview's software solution is that it is a tool that requires customized effort to create value. It is highly analogous to Microsoft Excel. A blank Excel file is not useful, but the tool can be utilized to create an infinite number of highly customized solutions. Qlikview is similar in that it empowers their customers a flexible platform to create analytic apps that meet their individual needs. The 32,000 customers that utilize Qlikview have all created their own unique solutions with the platform. When substantial effort is allocated to creating a customized solution using a specific tool, such as Qlikview, the switching costs are typically much higher than the annual subscriptions. The App Development that has occurred utilizing Qlikview by their 32,000 customers drives strong renewal rates and gives them a serious competitive edge as an incumbent with their existing clients.

In the company's own words (*emphasis added*),

"We provide a powerful, easy-to-use BI platform that *does not include* purpose-specific apps when installed out-of-the-box. Each of our customers' business challenges are unique and change rapidly. This includes customers within the same industry. Therefore, our customers are best positioned to create analytic apps that meet their individual needs, and they require a flexible platform that empowers them to quickly address their challenges.

In many cases, business users can build apps themselves and can often take over maintenance of apps that developers have built. In contrast, traditional BI solutions require IT or specialized users to get involved whenever new questions arise. Our products are designed to make it easier for business users to remix and reassemble data in new views and create new visualizations for deeper understanding. With our Business Discovery platform, the cycle time between data collection and deployment of analysis to the business user can be as short as a few weeks and sometimes as little as a few days. Neither users nor developers must manage the associations in the data, as our software maintains the associations automatically. As a result, our customers can go very quickly from prototyping to deployment to refinement."

Works Cited

- 1) *QLIK Annual Report - SEC Filing 10-K*. EDGAR, 2013.

Disclaimer

No part of this document is to be reproduced without our written permission. This document has been prepared and issued by Selective Wealth Management (“SWM”) on the basis of publicly available information, internally developed data and other sources believed to be reliable. The information contained herein is not guaranteed, does not claim to be comprehensive and is strictly for informational purposes only. SWM does not assume any liability for any direct, indirect or consequential loss that may result from the reliance by any person upon any such information or opinions. Any expressions of opinions are subject to change without notice. This document does not constitute an offer or an invitation to trade or invest. No party should treat any of the contents herein as advice. Investing contains risks.

ⁱ Qlikview 2013 10-K, page 46.

ⁱⁱ Ibid., page 3.

ⁱⁱⁱ Ibid., page 9.

^{iv} Ibid., page 9.