

Smart Sheets with Smartsheet

An aggressive growth company looking to maximize the value proposition for the project management and workflow software space

BUSINESSES WANT TO SPEND TO BE MORE EFFICIENT

In a world where technology is the key to transforming any type of business, the layers of integration are so complex. On the very top level, however, there is room for an improvement for project creation and workflow management. Companies want to get organized and having software that can enable users from management, to the janitor, to communicate through one centralized cloud in real time.

Here is my introduction to Smartsheet(SMAR). While this company has been around since 2006, they only recently went public last May. Since that time the stock has risen over 270%.



That's pretty impressive but has it reach its full value after running up so fast?

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DEFFICIENCIES CAN CREATE OPPORTUNITIES

Stepping away from the stock for a bit, I want to assess the company for what it really is without the numbers getting in the way. First and Foremost, does this business have an addressable market that still has room for growth?

The answer is yes.

As per Willington survey, only 22% of companies use Project Management Software.

However, those numbers aren't any secret and the efficiency improvement software industry has become flooded with players looking to build value propositions for specific customers.

Small companies like Monday.com, Asana, Trello, and even Microsoft have created project management software that is geared has a more millennial approach to building a project but through my research I found Smartsheet standing out in what they can do for the customer and how effectively the customer can integrate the software into their normal operations.

THE EVOLUTION OF THE EXCEL SHEET

The Benefit of the modern day spreadsheet can't be overstated. It forever changed the way employees interact with data and eliminated the awful paper process that was good enough to get the job done. The risk of losing data or making miniscule mistakes was always a thought that plagued the minds of business folk.

Fast forward to today and I'm still looking at the same spreadsheet, but it can do so much more than calculations now.

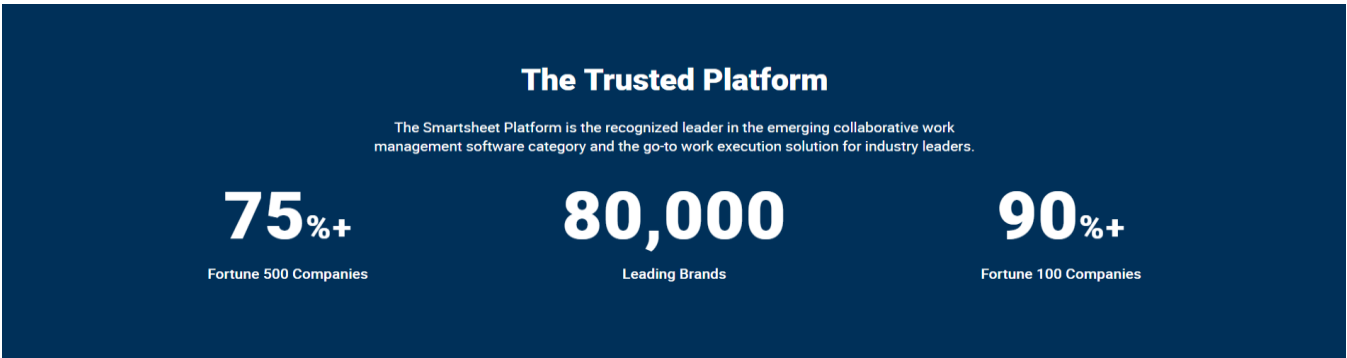
That's where Smartsheets software comes in. They combine the familiarity of using excel sheets with the power of creating efficient project management and workflow features with smart technology.

That was the main pitch point years ago. Fast forward to today and I am seeing an aggressive company that is bent on creating a unique value proposition for any size business that no other product can provide.

The solution has become popular amongst companies looking to increase efficiency. Take a look below at a picture I got from their site that shows you the popularity of the product amongst large fortune 500 and 100 companies.

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SMARTSHEET IS CONSTANLY EVOLVING, AND THAT’S A GOOD THING

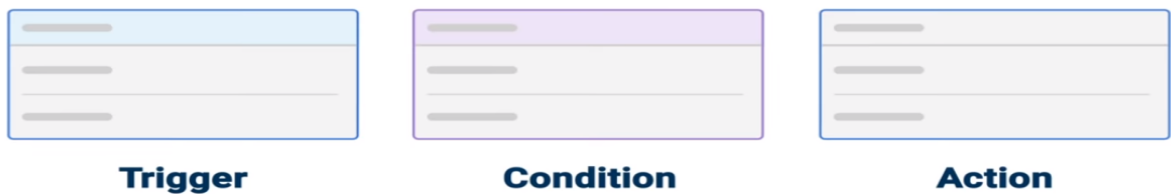
SmartSheet was founded on the idea that having a familiar foundation, like excel spreadsheets, can lead to an increase in attachment and overall user productivity. As the company grew, so did their value proposition.

- The company grew from being just a spreadsheet software company to a solution building software company that is organically expanding while also being aggressive in acquisitions of complementary technology.

The vision of the company is clear, which is a great sign for me because usually it takes a lot more guessing and reading between the lines to figure out what the company wants to do.

I believe the CEO of Smartsheet understands the increase in competition and is on a mission to create a package of solutions that offer so much more than the competitors at a price better than having two or sometimes 3 separate services.

Aside from offering a different way to view and interect with your data, SmartSheet uniqly has workflow automation capabilities that remove the need for an engineer to program conditional processes that are constantly changing. Take a look at their simple algorithm to automate many workflow tasks.



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The process above is how Smartsheet has successfully managed to help automate processes for businesses with no IT guy around. Any user can manually insert task reminders and initiates that help make the company operate more cohesively by given them updates as soon as one step is finished. This frees up time for management while also giving their teams more immediate direction.

In the end, it's all about becoming more efficient and automation is a key in doing that in today's world. This is just one of the unique ways that the company is pushing to grow its value proposition organically that is different than any other efficiency software.

THEY HAVE THE TECH BUT CAN THEY MAKE MONEY?

SmartSheet has a couple of revenue streams that are both growing at good if not great rates. First, the company's main product, which is their software, runs on a subscription model that is on the higher end of prices when compared to their peers. The Subscription is currently \$25 a month per user whereas most competition runs in the \$10-\$20 range per user.

Yet, the subscription revenue grew 57% year over year. Gross margins for subscriptions are also at a staggering 83% and they continue to grow minimally.

The second revenue stream is in their services businesses, in which they provide consulting like services to businesses and while that business is only 10% of their total revenue, services are still growing 38% year over year with margins in the 30's.

The only concern I have about the company would be that their operating cash flow is negative and for a growth driven company, cash flow generation is crucial. The reason, however, is much less threatening.

As I mentioned above, Smartsheet is aggressive with its acquisitions. This year alone they have purchase 2 companies, Slope and 10,000ft. This could be a turnoff for some investors but I like the aggressiveness.

I think this industry is becoming a who can build the best solution package, not just a single solution, first. Acquiring companies that help build that package help speed up the time to get to achieve that goal.

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I had the opportunity to talk with an industry contact who was able to give me some color on their customer growth and retention.

The average retention rate in high growth companies is somewhere between 1 and 1.06. Smartsheet has a net retention rate of about 1.2-1.3, which is very high. This means that once they land a customer, they are able to keep them, as well as get them to buy into more of the product.

The average growth rate with customers is between 120% - 130%, which is exactly what you want to see from a growth company. With existing customers, they expect them to grow 20% - 30%, by means of adding more users to their software package or by selling premium add-ons or accelerators that help other areas of the business besides project and workflow management.

Smartsheet is acquiring customers with low to medium subscription packages and manages to get customers to buy into more of their ecosystem of products over time.

When a company has a moat, their business can usually withstand competition to the best degree and the companies with moats end up surviving economic downturns far better than their competitors.

- **Smartsheet has the right ecosystem of products to produce a moat around its business if they continues to build their ecosystem and actively sell it as they are currently doing.**

COMPETITION ANALYSIS

Below are companies that are currently in the same space as SmartSheet. Note, some of these companies are private so I was unable to look at their books. The comparisons will be on a product and pricing standpoint.

- Monday.com – probably the company I have seen the most marketing from, Monday.com specializes in creating a product management schedule by giving users more freedom that helps drive give freedom to the user when creating projects in a short amount of time. The software looks great but lacks the power that Smartsheet has with its sheets.

I have a hard time seeing large companies making use of this service, considering it offers much less in terms of how much the software can do. The only thing I find that it does better is that it has a drag system on the schedule making software as well as a nice dashboard that shows the progress of every team member in multiple groups

- Trello and Jira (Owned by Atlassian) – Trello is sort of like Monday.com only in terms of look and feel but it is primarily used for collaborative workflow organization and offers

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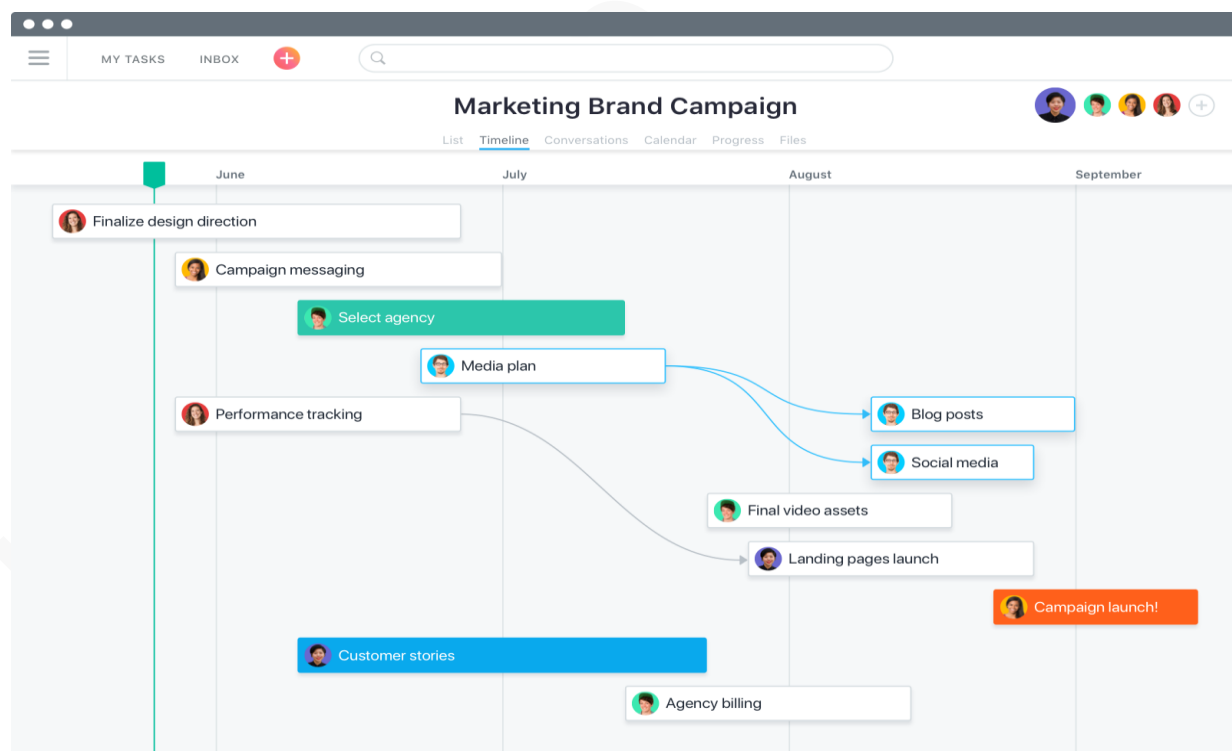
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decent power compared to that of Smartsheet or Asana. According to what their management said on their most recent call, they are still looking to build the brand of Trello, rather than looking to compete competitively.

Jira looks more traditional in its interface but has more analytical integrations with AgileCraft. Jira stands out in pricing as it has the lowest range of price thresholds, going as low as \$1 per user. The appeal is to find exactly the right specifications you need without breaking the bank for unused extra features. The integration of Atlassian's Confluence is helping move Jira projects into the cloud, but this seems late considering Smartsheet has solely operated on the cloud for quite some time.

- Asana – Asana is probably the most competitive product in terms of pure project management power. Asana has a very nice platform that allows a ton of customization in organization and having all the parts of the business connected. Asana allows multiple levels of organization and allows linking and customization between every level, in real time.

Check out the picture below that displays the multiple levels of business that Asana can collect in real time.



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I also think their premium service price point, which goes for \$10 is an extremely attractive for the small business owner. However, their corporate level service runs close to the same price as Smartsheet's corporate package.

THE VERDICT

Smartsheet is an interesting growth company that is clearly looking to separate itself from its competitors. The recent acquisitions along with the continuous improvement to its core software make this a unique company in a crowded space.

While expectations are high, I have a feeling this company will be able to sell itself as a unique enterprise that can give businesses the most power in terms of project management, workflow organization, and data analysis.

In my opinion, Smartsheet has a unique package that would be attractive to any business looking to maximize efficiency and time.

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