



The Importance of Specialist Knowledge

by Veena Gundavelli, Chief Executive Officer, Emagia Corporation

In 2004, Emagia had a refinancing. We had seen good growth and the market was expanding for enterprise management solutions. It was a US\$7m dollar round which closed in October 2004 and we are looking to invest that money in 2005. We have already expanded our sales and marketing operation and we are looking to recruit more people to that team. We are also planning several projects with partners in different regions in Europe as well as Asia.

Our specific focus is on cash flow management. Working capital management comprises inventory management, receivables and payables. Inventory, to a large degree, is covered by supply chain management systems, so we focus mainly around receivables, payables and treasury management. Our software primarily manages the entire cash process and we consolidate all the receivables at a central location. This allows customers to set collection strategies. For example, for payables strategies, we have most of the system automated for maximum efficiency, which makes for reduced costs and provides a very strong ability to conduct accurate cash forecasting, including corporate short-term cash forecasting on a real time basis.

This is typically very useful for companies that have a large number of transactions on the accounts receivable and payable side, particularly large operations that are geographically exposed and have multiple businesses across the world. Our customers are corporates that need an efficient system to tell them what is going on in all parts of the business. We develop a common shared platform across all of the divisions of a business. So we have customers such as large hardware suppliers with global business that might have 53 different companies operating in 35 different languages. The advantages of this are that you can reduce the cost of working capital for the company, you can optimise the operations cost and reduce the cost of those operations, you can reduce bad debts and you can control disbursements more efficiently.

Reaching new markets

The main purpose of the latest round of funding was to reach into new markets, in addition to expanding the range and scope of the solutions it offers. A proportion of the funds raised will definitely be going towards development

summary

One of the key factors that makes for a successful capital raising exercise is to ensure that you are seeking the right type of funding from an appropriate source. A good example of this is the approach of management solutions software company Emagia, which raised US\$7m in 2004, in its third round of financing. Here the CEO of Emagia describes how it set about finding its sources of finance among venture capital funds, and the uses to which the money will be put.

but the bigger emphasis was on sales and marketing. We are expanding our sales and marketing operation to cover South America and Europe. It is a global expansion including the Asia Pacific region also. The plan was that 2005 was going to be the year of expansion and these funds were specifically raised for that expansion.

We have seen good growth in our business over the past couple of years as there are several market drivers that are raising the attraction of these kinds of solutions, one being Sarbanes-Oxley.

Secondly, we are seeing many initiatives concentrated on streamlining operations. There is a lot of emphasis on improving profitability and reducing costs for the company and that again is one of the consequences of Sarbanes-Oxley. In the era of Sarbanes-Oxley compliance, Six Sigma quality standards and the continued proliferation of Shared Service Centres and Business Process Outsourcing (BPO), Global 2000 companies need sophisticated and specialised solutions to meet market demands. Primarily because of these factors, we are clearly seeing an increased demand for solutions such as those Emagia can provide.

In fact, this was the third round of funding for the company. Emagia has been around since 1998. The initial round of funding came from 'Angel' investors, such as the chairman of Peoplesoft, and we have been working in the sector for a long time. Then we sought another round of financing in late 2002/early 2003 where we sought US\$7, which was led by Sigma Partners and West Bridge Capital Partners. We did that primarily for expansion. The business grew over 2003 and 2004 and at the end of 2004 we have taken another round of financing for our international expansion.

Venture capital investment

The fact that Emagia had already successfully sought

funding from specialist venture capital firms meant that this was the obvious place to go when the company wanted to expand. These funds were raised from three venture capital firms. Two of the companies we had dealt with before, but one was a brand new investor. Two were existing investors which means they had participated in the previous round of financing in 2002 and early 2003.

Timeline Ventures, based in San Diego California, led the round and two existing investors followed: Sigma Partners, who are a venture capital fund with over one billion dollars behind them, as well as WestBridge Capital Partners. Timeline Ventures is a venture capital firm specialising in providing private equity for young, high-growth companies and those at their initial expansion stage. Sigma Partners is based in Silicon Valley and concentrates on high-tech venture capital investments. WestBridge Capital Partners is a venture capital fund set up to focus primarily on cross-border US-India technology and services ventures that are targeting global markets. We have an R&D Centre out in India so they have a good interest in exploring that involvement

The specialist knowledge that these firms have of the hi-tech sector was a major advantage when it came to Emagia seeking their backing. It is absolutely paramount that we have sources of finance that are familiar with the business we are in and with the market and with the market

opportunities, because without that, it is very hard for a venture capital firm to be willing to put money into a company. They will be able to follow all of the processes to identify which companies are well established in this business and that is part of the process of defining the customer. We profile the customer and then try to develop specific products to sell to that customer, so it is a very similar process. So we were looking for venture capitalists which were very familiar with our type of business and could have confidence in how their money is going to be used.

We didn't look at the bank financing route. Using venture capital funding was more appropriate for a company of our size and also with the existing investors there is a network to tap into. If you can raise finance without dealing with the banks, that is a much simpler and less stressful way of doing it. The objective behind this was also important in that we were more comfortable with the giving of equity to venture capital investors rather the raising of debt, which then has to go on the books.

Due diligence requirements

The due diligence required in a venture capital transaction is definitely less onerous than with a public offering, but, at the same time, there are requirements for a significant level of due diligence on the technology side, the operations side and the legal side. It takes about six months to complete the whole financing process.

It takes usually three to five months just to prospect and get the venture capital-ists interested. They want to be comfortable with the investment, so they are monitoring your progress and seeing how you are performing. Obviously then you have due diligence and going through the legal process before transferring the money.

Future funding

If our company continues to fulfil its planned global expansion, there will come a time when it will have out-grown the venture capital pool. Then we will probably have to go outside the venture capital market to raise more money. As we grow and expand there are more possibilities and as you grow your business and grow your sales then obviously you have the option of going to the banks. Seeking other financing sources makes good sense, and, at that stage, I'm sure we would want to consider that option, but you need to have reached a certain size to make it worthwhile. □

Emagia Corporation

Emagia Corporation is based in Santa Clara, California. It provides computer software to manage cash flow through products including cash conversion efficiency, monitoring cash flow trends and improving internal compliance. Customers include Syngenta, Leiner Health Products, Volt Information Sciences, Solectron, BMC Software, Autodesk, Textron and Parker Hannifin.

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