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KKR-Owned OneStream Software Could Go Public

By Peter Cohan

Henry Kravis, co-chief executive officer and co-founder of KKR & Co., right, and Marie-Josee Kravis ... [+]

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Two years ago, KKR sunk hundreds of millions into a software company. Based on my interview with the software company's CEO, I would not be surprised to see it go public.

The company in question is Rochester, Mich.-based OneStream Software which supports a cloud-based platform that helps companies close their books accurately and do planning, budgeting, forecasting and analysis.

In February 2019, KKR invested over $500 million in OneStream, valuing the company at over $1 billion, according to the Wall Street Journal.

After my February 11 interview with CEO, Tom Shea, I concluded that OneStream is on a glide path to an IPO. Here are three reasons this is one to watch:

- Clear demand for its services
- Successful IPOs of peer companies
- OneStream's focus on delighting every customer

KKR's Investment In OneStream

OneStream is majority owned by KKR.

OneStream sought feedback from potential investors and concluded that KKR was the best one. As Shea told me, "We hired Wells Fargo WFC -1.9% to see if [potential investors thought] we could be a good public company as we approached the $100 million mark. We talked to 10 investors and got four offers in the $1 billion range. We chose an offer from KKR because it could use its balance sheet more strategically. There would be no debt and the KKR Global Institute could help us win government customers."

KKR's majority stake in OneStream was secured with a more than $500 million investment through KKR's private-equity and growth-equity funds. According to the Journal, up until its February 2019, OneStream had self-financed.

OneStream's rapid growth sprang from the way its platform simplifies reporting and planning for financial executives by tying together separate accounting systems. In 2018, OneStream grew its revenue by 137% and expanded its customer base by 66%. Shea told the Journal that its platform "enables finance professionals to complete reporting and planning tasks from a single platform."

Evidence of Demand For Corporate Performance Management

Corporate performance management software is a large market growing modestly. According to Statista, 2020 revenue was about $4 billion and by 2024, the market is expected to grow at a 2.4% compound annual rate to $4.4 billion.

Demand for cloud-based performance management services is growing far more rapidly — at a 16.5% annual rate — than on-premises software's 3.7% growth rate, according to IDC.

Large enterprise software companies have entered this industry through acquisition. For example, Oracle acquired Hyperion for $3.3 billion in March 2007 — which had previously acquired UpStream Software, a company that Shea ran, in January 2006. SAP bought another rival, Business Objects for $6.8 billion in October 2007.

Meanwhile, the Journal cited Anaplan, a business performance management platform provider, about which I wrote in July 2018 and Workiva, a financial reporting software provider — as rivals to OneStream.

These publicly-traded competitors provide evidence that there is sizable pie worth fighting over here.

Anaplan And Workiva Growing Fast

Although Shea told me that Anaplan — which he views as a point product — does not offer the integrated platform that customers so value from OneStream, its rapid growth and considerable returns to investors could foreshadow the opportunity available to investors should OneStream go public.

Back in July 2018 — three months before its IPO — CEO Frank Calderoni told me that Anaplan had enjoyed very rapid growth the year before. As he said, in its fiscal year ending January 2017, Anaplan had $120 million in revenue, was growing at 75%, added 250 customers for a total of 700, employed over 700 people in 16 offices in 12 countries, had raised a total of $240 million in capital, and generated good cash flow.

That was enough for Anaplan to go public. Since then its stock price has soared and its revenues have increased quickly. More specifically, Anaplan stock has risen at a 66% average annual rate to about $79.45. Meanwhile, its revenues have increased at a 42% average annual rate over the last three years to $348 million, according to *Morningstar*.

Workiva has also rewarded investors — though not quite as well. Since its December 2014 IPO, Workiva shares have risen at a 39% average annual rate to $105. Meanwhile, its revenues have increased at a 19% average annual rate over the last three years to $352 million, according to *Morningstar*.

OneStream seems to be growing faster while its revenues — Shea did not share them — seem to be in the same ballpark. As Shea said, “Our goal is to grow 100% — we grow or die. We want every customer to be willing to serve as a reference [for potential customers.]”

OneStream expects 2020 to exceed its “great” 2019 results. As Shea said, “When Covid hit on March 8. 2020 it was stark. We realized all our plans were useless. We had to close the books every day. Slowly over time demand came back. Companies needed to eliminate non value-added work. We ended up beating our pre-Covid budget by a good amount.”

OneStream provided some hints of how fast it’s growing last month. According to a press release, its fourth quarter 2020 bookings increase 67% from the year before and 2020 ARR popped 85%.

OneStream’s customer based increased 40% last year to over 650 enterprises — including “The Timken Company TKR -0.7%, Ingram Micro IM 0.0%, Costco, U.S. Steel, Hillenbrand, Chemours and The Downer Group,” noted the press release.

OneStream’s Focus on Delighting Customers

How has OneStream been able to grow enough to attract so much capital from KKR? I was surprised to learn that he credited my 2019 book, *Scaling Your Startup*, with helping OneStream to “do the right thing to scale.”

He might have been referring to the idea I described in the first stage of scaling — to work closely with a company that is an early adopter to make sure they love the product and will happily serve as a reference.

Before getting into that, Shea has big company work experience but the heart and mind of an entrepreneur. As he told me, “Coding is my passion. I sold my first software program at 22. While I originally aspired to be CFO of a Fortune 500 company, maybe I should have started as an entrepreneur.”

He started another company in 2000. As he said, “I started a company with friends. We were successful with every customer each of which became references. We were cash flow positive, never took investment from outside because we did not want to compromise our mission. We sold it in 2006 to Hyperion which was acquired by Oracle ORCL +0.9%.”

After staying with the company, he left to start OneStream in 2010 aiming to fix the problems that diverse accounting systems presented for financial executives trying to close their books, plan, budget, forecast, and analyze accounting data.

As he said, “Hyperion was successful at addressing ERP software. We were babysitting non-integrated SAP SAP -2.3% components — correcting things that weren’t integrated. Our product was on top of ERP systems providing information for decision making — financial reporting, planning, account reconciliation, tax. How do I understand each individual one better and present it in a more consumable format?”

Shea was inspired by the iPhone. “I was impressed by the way the iPhone worked. I previously used a Blackberry and the iPhone had it all in one — a flashlight, camera, and music player. We helped find new patterns and changed how the CFO can help all stakeholders and enable the company to continue to grow. Closing books every day has enabled CFOs and companies to think differently," he said.

OneStream spent years getting the right product before it started adding customers. "From 2010 to 2012, we fit the product to the market. Is it viable to make one product that solves all the problems? In 2012 we got a first customer with 1,000 users in 60 currencies. It was a public company and the numbers had to be right. By 2015 we had 10 customers. We had a 60% growth rate over the entire lifecycle. We broke even after two years — became profitable without using debt."

Between 2010 and 2020 we made the transition to software as a service in the cloud. With an annual recurring revenue (ARR) model we faced capital pressure. We modulated as we worked to $100 million in revenue. In 2018 we went to sponsors to see how they viewed the business. They saw we were hyper-focused on product/market fit, we had a strong culture, we were not afraid to hire go-to-market people. We got people in the top five percent of every functional area. We sped up customer's time to value.

By 2018, OneStream had some big companies as customers. These included UPS, Sagent Pharmaceuticals, Post Holdings POST -1.3%, Fruit of the Loom and The Carlyle Group. It was reaching the $100 million level it needed to go public — but Shea wanted the company to reach $500 million in revenue, according to *Crane's Detroit Business*.

KKR has helped OneStream in more ways than just providing capital. As he told Crane's, the deal helped the company hire Bill Koefoed as CFO in November 2019 with a background at Microsoft MSFT -2.4% and other big technology firms. By December 2019, OneStream's employee base had scaled from 250 that February to 420.

Shea also expected to win government business thanks to KKR Global Institute. That's because David Petraeus, a retired U.S. Army general and former director of the Central Intelligence Agency, joined OneStream's board after the KKR deal closed.

One thing seems clear: OneStream's focus on keeping customers happy is helping it succeed. According to Gartner IT -2.9%, one of its customers wrote in June 2020, OneStream offers "an outstanding product! Genuine commitment to product development, customer satisfaction."

What does the future hold for OneStream? "An IPO is a logical outcome," said Shea.