

Deltek, Inc. (PROJ)



KEVIN PARKER, Chairman of the Board, President and CEO of Deltek, Inc., is a recognized technology industry leader and the driving force behind Deltek's client-focused strategy of providing superior enterprise software, solutions and consulting to project-based businesses worldwide. Leading more than 1,000 employees in 12 offices worldwide, Mr. Parker looks to further Deltek's industry leadership, expertise and product portfolio in a range of industries including architecture, engineering and construction; government contracting; accounting; aerospace and defense; consulting and planning; IT services and management consulting; professional services; project manufacturing; nonprofit; and systems integration. Prior to Deltek, Mr. Parker served as PeopleSoft's CFO from October

2000 to December 2004. He was also named co-President of PeopleSoft in October 2004. At PeopleSoft he was responsible for internal operations as well as worldwide finance and accounting functions, including administration, human resources, legal, facilities and the IT organization worldwide. During his tenure at PeopleSoft, the company significantly improved its margins, increased its cash flow and return on investments, reduced expenses and lowered days sales outstanding to best in class levels. Prior to joining PeopleSoft, Mr. Parker served as Senior Vice President and Chief Financial Officer for CRM provider Aspect Communications Corp., as well as held senior management positions at Fujitsu Computer Products of America, Standard Microsystems and Toshiba America. In addition, Mr. Parker was previously with the accounting firm of Price Waterhouse. Mr. Parker is a Henry Crown Fellow at the Aspen Institute. In 2000, *CFO* magazine named him one of 20 CFOs who would make a difference in the next decade. He received his Bachelor's degree in Accounting from Clarkson University where he serves on the Board of Trustees. Mr. Parker also serves on the Board of Directors for Polycorn, Inc., a leading provider of unified collaborative communications solutions.

SECTOR – APPLICATION SOFTWARE

(AJJ603) **TWST:** Please begin with a brief historical sketch of the company and a picture of the things you are doing presently.

Mr. Parker: Deltek is a 25-year-old software company. We got our start focusing on the government contracting market and being located here in the Northern Virginia area, proved to be a very vibrant market for us. Since that time, we have continued to grow and expand but we've never lost our focus on project-oriented businesses. We have a very large footprint in the government contracting market. We have a very large footprint in the architecture and engineering marketplace as well as adjacent markets in professional services. The applications that Deltek provides and our customers implement are really a broad-based suite of enterprise software applications designed to help those customers run their businesses. They are very project focused, and that is a unique trade in the software business as most of our competitors really got their start in manufacturing.

We got our start in the project-oriented business and we are purpose built for that environment. As a result, we have a lower total cost of ownership, are faster to deploy, easier to operate, easier to install and upgrade as well. Building on that 25 years of experience, the company has experienced a bit of a renaissance here in the

last two or three years as we've had a change in leadership and a change of ownership. The company has always been very profitable, always very well run, but what I think we've done in the last couple of years is create an inflection point that has allowed us to grow at a pretty healthy rate. If you look back over the last few years, our compound annual growth rate on revenue is just north of 25%. Our focus to the future is really taking those applications, continuing to develop and enhance R&D and continue to expand our footprint and taking our products into new areas and markets, both domestic and international. We are really focusing on new areas and new industry verticals, the consulting marketplace, the IT services marketplace, all very project-oriented parts of the world where Deltek can provide a good solution.

TWST: Would you tell us about the specific measures that you have taken over the last two years to improve things?

Mr. Parker: We've done several things, such as bringing in some new senior leadership to complement the folks who were here. Deltek was, as I said, always a very well-run company, but in a way that was almost self-taught; we had a management team that had been with the company for a very long time and we have complemented that team with bringing in experts from other parts of the country who had expertise in software and expertise in services related to software. That new experience and that new exper-

tise combined with the talent of the folks who were here has really helped us grow in new ways. For the first time, for example, we have dedicated sales resources in Europe. We've never had that before. We are enjoying significant growth in Europe over the last couple of quarters and expect that to continue. We've brought in new people to our lead alliance partners; the company had few partnerships to speak of. We now have a dedicated organization really focusing on building an alliance community. So bringing that new subject matter expertise and that new experience has allowed us to grow in ways that I think, quite honestly, the previous management team was not entirely aware of.

"If you look back over the last few years, our compound annual growth rate on revenue is just north of 25%. Our focus to the future is really taking those applications, continuing to develop and enhance R&D and continue to expand our footprint and taking our products into new areas and markets, both domestic and international. We are really focusing on new areas and new industry verticals, the consulting marketplace, the IT services marketplace, all very project-oriented parts of the world where Deltek can provide a good solution."

TWST: Would you tell us about your own background and expertise and about a couple of the other key people?

Mr. Parker: I came to Deltek two and a half years ago as CEO. I was CFO and co-President at PeopleSoft. PeopleSoft, as you probably know, was a much larger software company, with a very long history of success and was very international in its focus. I also held the CFO position at another public company and have been in the CFO business for a very long period of time. I have an affinity for enterprise software, both as a consumer of it in my role as a finance executive and as a provider of it, certainly from my experience at PeopleSoft and at Deltek. I am a real fan of the industry and of the unique functionality and unique capabilities that a company like Deltek provides. I come at it from that perspective.

We've added other people for the team as well; Carolyn Parent is a great example. Carolyn Parent is our Head of Worldwide Sales. Prior to Carolyn's arrival, maybe a year-and-a-half, almost two years ago now, we had no Head of Sales; we had no significant sales force. Carolyn led a resurgence in our sales efforts; we've doubled the size of our sales organization, and really developed a cadre of professional sales leaders that can engage with our customers at levels that we couldn't historically. Rick Lowenstein joined the company almost two years ago and is our EVP of Professional Services. We have a very large and growing consulting practice focused on our customers and focused on the services around our applications. It's almost double the size in the last two years and Rick is a great leader for that. He came out of PeopleSoft, and Agile Software. He also ran a practice building SAP applications. He is very, very experienced in the industry and we are tapping into that experience in the marketplace. Another example would be Bill

Clark. Bill is our Chief Marketing Officer and our Executive Vice President of Marketing. Bill came to us from Novell and Hyperion and has been in the software industry for a number of years and brings a great deal of expertise in that regard. Those are a few examples. We've looked for people who not only have great subject matter expertise but who are great teachers as well.

TWST: As CEO, what occupies your own attention most on a day-by-day basis?

Mr. Parker: Two things; one, I think, the transition from a successful family-run business, which is what Deltek historically was, to now a publicly traded company. That transformation has consumed a lot of cycles. That's not an easy thing to go through. I think we've done it successfully. But that occupies a great deal of time, setting the tone, setting the culture and making sure we've got a vision that we can all strive for and try to attain. The other thing I spent a great deal of time on is alignment with as many opportunities and challenges we have in front of us. I think part of my role as CEO is to make sure that the resources in the company are aligned around three or four key objectives and that we execute against those as flawlessly as we can.

TWST: Would you tell us about those objectives?

Mr. Parker: The objectives I think are fairly straightforward. There is a very large market available to us. The barriers to entry are very high; at least from our perspective, they seem high. Our goal is to really expand our footprint. We are moving off in a couple of directions. One is expanding internationally for the first time. Less than 1% of our revenue is generated outside the United States today. I'd like to see it continue to grow and get to the 20% to 30% in the next four or five years. We are meeting that effort, really focusing our resources and aligning our resources against that, and making sure we've got the people in place to do that.

Adding new products and new features and functionality to our application suite is very important, whether through research and development or through acquisition. We believe that by adding new capabilities to the product offering, it allows us to win new customers, increase our sales to existing customers, and further demonstrate our expertise around being a project-oriented software company. Expanding into new verticals as well and outside of the traditional architectural and engineering space and government contracting where we've had a very strong footprint, but into other professional services like management consulting and IT services. Then, finally establishing that partner community we spoke of a moment ago and really developing a very strong alliance ecosystem around the company, those are our top priorities.

TWST: Since your software is project-focused, it must be very easy for the company to measure results.

Mr. Parker: It is, and most of our customers see improvements in things such as cash flow, overall profitability, and DSOs in some very tangible, measurable ways. They also have the ability to look into their portfolio of projects (most of our customers can be running 10, 15, up to several hundred projects at any one point in time) and easily discern which projects are profitable, which are not, which are on schedule, which are not. It really provides a great diagnostic tool for them to improve the corporate health of their organization. Our customers tend to be very metric-oriented; generally the office of the CFO or the financial organization, somewhere inside the company.

TWST: Would you provide us with a case study or success story?

Mr. Parker: I think there are quite a few — a company like HOK, for example. If you've not heard of them before, HOK is a large multinational architectural and engineering firm. They've got a unique capability and one of the things they are best known for is designing sports stadiums. It's a very unique business, very project-oriented. HOK historically has been running a series of applications, some homegrown, some that they had acquired through some of the acquisitions they made. HOK had no integrated financial system, they had no integrated project control system, and every division did it slightly differently. They came to us several years ago and deployed one of our suites of applications, a product called Deltek Vision, across the entire enterprise and really created for them the capability to drill down across projects and across divisions to establish a common framework and nomenclature for measuring profitability, as well as a common set of metrics and dashboards for their senior executives to allow them to understand company health almost on a real-time basis. They've transformed their company around the capabilities that we provide them with our Vision product.

TWST: You mentioned Deltek Vision. Would you tell us about one or two of your other principal products?

Mr. Parker: Our products are really focused in four major groups; let me go through them. Deltek Vision is a .NET-based application focused primarily on the professional services marketplace, particularly architectural and engineering firms and increasingly consulting organizations — very scalable, very well known in that market. Deltek Costpoint is a robust, enterprise-level solution for government contractors. Many of the largest government contractors in the US run Deltek Costpoint. It's a full suite of applications on a J2EE architecture, everything from payroll to procurement, inventory management, financial solutions and other mission critical applications. It is a very robust solution and very scalable as well. We also have a particular expertise around enterprise project portfolio management built around a series of applications. This is a technology and a process called Earned Value Management, which is a very sophisticated project management capability. Our customers in that marketplace include companies like Boeing, Lockheed and GE, so we provide a very sophisticated set of project management capabilities. Finally, we have an entry-level solution for the government contractor, Deltek GCS Premier, which is the product that most companies use when they win their first government contract. They are moving off QuickBooks. They need a government accounting-compliant software package, and Deltek GCS Premier is the solution of choice for many of those customers.

TWST: What challenges or problems could arise for the company over the next few years?

Mr. Parker: Certainly, the ability to execute around the strategic imperatives I described a while ago is among our most important challenges, and that's where we've spent an enormous amount of time, effort and energy. We certainly don't want to rest on our laurels from a technology perspective. We invest a lot in research and development, and we'll continue to do so. We want to make sure that we continue to stay ahead of the competition. We've

doubled our spending on R&D in the last few years and expect to continue to increase. Those are among the most important things that we are focused on.

"We certainly have a lot of available market around us to continue to grow and we're exploiting that very aggressively. I think the ability to grow internationally is one of the things that I point to. It's a unique company with a very unique heritage, a very unique focus with a very large available market in front of us with very high barriers to entry from our perspective."

TWST: What about your relation to the general economy? If it continues to slip, what does that mean for you?

Mr. Parker: While we have a large segment of the marketplace in the architectural and engineering space, we are not exposed to residential housing in any way; that's not who our customers are and that's not the business that they are in. Many of our customers are global in nature and see their businesses continuing to expand in places like the Middle East and in Asia as well and they are taking us with them. That's not to say that we're immune to a downturn, but we certainly are keeping very close tabs on it.

TWST: What is the picture that you would hope to see for the company in about three years?

Mr. Parker: We think there is an opportunity for us to grow at a fairly good clip over the next couple of years and really focus on delivering that and exploiting the market opportunities. I would like to see us make progress in the international marketplace and see that become a considerable part of our revenue. I think that will be an important measure of success as well as winning in some new vertical markets. It's the growth combined with strategic progress that I think are the true measure of success for me.

TWST: Do you see any need to improve the company's capital structure?

Mr. Parker: No, I don't think so. We have the good fortune of being profitable and I think we're mindful of the fact that we want to make sure that we are investing for the future. We're in a growth mode, not in the profit maximization mode. The capital structure, I think, that we have in place will sustain us through that time frame and we have the advantage of being cash flow positive as well.

TWST: You did your IPO a few months ago?

Mr. Parker: November 1 was the first day.

TWST: Would you tell us about the timing of the IPO and how things have gone since that time?

Mr. Parker: It certainly was a challenging time. I think October 31 was the official end of an upward bias to the stock market. It's certainly been a challenge since then. We priced at \$18 and it's unfortunately traded off a little bit since then, but I think that's more indicative of the overall recent stock market volatility.

What is important to focus on here is our continued financial performance. We just announced our fourth quarter earnings

and license revenue was \$27.1 million, an increase of 15% from the fourth quarter of 2006, a new company record. For the quarter, consulting services revenue increased 8% to \$22.3 million, and maintenance and support revenue increased 21% to \$27.4 million from the prior year period. Total revenue for the fourth quarter increased 15% from the fourth quarter of 2006 to \$77.0 million, also a new company record.

TWST: I believe you have very strong analyst coverage.

Mr. Parker: We're very fortunate in that regard. I think hopefully, the analysts see this as a distinct opportunity separate and apart from the household names in enterprise software, the Oracles, the SAPs and the Microsofts. This is a distinct opportunity for both our customers and hopefully investors.

TWST: What are the two or three best reasons for the long-term investor to look very closely at Deltek?

Mr. Parker: I think there are two or three things that I would point to. One is that we enjoy a unique competitive advantage in the target markets that we serve. The applications that we have are purpose-built for project-oriented businesses. It's very difficult to take a general purpose application and get it to work successfully in our environment. It just requires too much customization and too much consulting. The second thing I would point to is that the project-oriented market is a large and growing market. I think from some of the data that we've seen from indus-

try analyst groups like IDC, it is a current market of \$17 billion worldwide and growing to over \$21 billion in 2010. We certainly have a lot of available market around us to continue to grow and we're exploiting that very aggressively. I think the ability to grow internationally is one of the things that I point to. It's a unique company with a very unique heritage, a very unique focus with a very large available market in front of us with very high barriers to entry from our perspective.

TWST: Is there anything that you would like to add, especially regarding strategies, long-term objectives and reasons for an investor to look at the company?

Mr. Parker: I'll just go back and re-emphasize the things that we've spoken of, which is, as I said, a very unique company and very focused on a particular market. We bring a very unique value to our customers and the market is large and fortunately growing.

TWST: Thank you. (MC)

KEVIN PARKER
Chairman, President & CEO
Deltek, Inc.
13880 Dulles Corner Lane
Herndon, VA 20171
(703) 734-8606
www.deltek.com
e-mail: ir@deltek.com