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Smartsheet's rapid growth could see it reach \$1bn in revenue in just a few years

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By Chris Marsh

The company's FY 2019 financials were driven largely by new product add-ons supporting larger enterprise deals. Plentiful use cases generating higher ACVs should continue to power its revenue; at its current 60% Y/Y growth rate, it may reach \$1bn in just a few years.

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Introduction

Smartsheet's flexible and increasingly extensible platform for businesses to apply structure, connectivity, automation and reporting around their work is allowing the company to pick up general, divisional and enterprise-wide use cases. This is proving a rich opportunity; we can't think of another category above individual and small team-based tools that can boast this diversity of buyers' (not just users') job titles – chief legal officer, VP analytics, art director, corporate treasurer and worldwide pathology chief – all actual Smartsheet customers.

Also, the amount of whitespace the category is tackling is disproportionately large compared with the small cohort of direct competitive vendors there. Smartsheet is showing itself increasingly able to address uncatereed-to demand, some of which is work existing only on paper, but is also where Smartsheet is gathering business, from more discrete individual and team tools that don't provide the feature breadth and scale, from other business divisional-specialist offerings that can't provide the customizability and connectivity into other work, and from larger traditional business systems and PPM tools that can't provide the same flexibility or user engagement. Having grown largely as the ultimate 'jack of all trades,' Smartsheet is increasingly specializing while also developing a unified platform that could see it further disrupt up the stack.

451 TAKE

Smartsheet is taking advantage of an unusual market dynamic. The growth of the work management segment has other software vendors beginning to take more notice. It's still such an intangible addressable market, however – all unstructured knowledge work, the recasting and connecting of separately structured work – that it's difficult to position competitively against from outside the category and difficult to interpret the route Smartsheet will choose to monetize over the coming few years. For this reason, if 2018's growth rate continues, which of course isn't guaranteed, the company may reach \$1bn in revenue by the end of 2023 in a category there currently isn't a good name for and that people can sometimes struggle to understand.

Strategic vision and product focus

The abundant opportunity Smartsheet is tapping into is allowing it to position itself as a platform that remains in the work management market but also allows it to play in other markets beyond that. In a post- Excel spreadsheet vision, it's moving toward persona-based views. There may be a spreadsheet of data, but users will less often work directly in what Smartsheet calls its Grid view and more with its forms, reports, dashboards or via Dynamic View, which gives highly customized views into underlying sheets.

Ultimately it wants to support an endless range of purpose-built applications leveraging its feature, template, accelerator and solution flexibility. To get there it focuses on five key product areas – improving its scaling and performance, supporting more complex solutions its customers are building, enhancing engagement and collaboration by its users, improving its dashboard capabilities, and layering in new workflow and automation capabilities.

This is a difficult strategy for competitors to emulate or attack in other ways. Smartsheet is leveraging existing archetypes that everyone knows – spreadsheets, Kanban cards, Gantt charts, task lists, forms, dashboards and reports. Around those archetypes the company is layering on the kinds of capabilities that either make what users can do in those base formats more fully functional or that uses those

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underlying formats as the basis for net new custom applications. In the process, it's creating new net archetypes for how to structure and think about work.

Smartsheet's Dynamic View capability is an example. By allowing highly customized views into a spreadsheet based on permissions and context, the result is not so much just a spreadsheet, a report or a dashboard. Integrate workflow, automation and collaboration into that, along with connectivity with other format types and into other business systems, and you have something for which there isn't really a comparison – a flexible and customizable canvas. It's the basis for something that could be simple, or, especially in the context of investments Smartsheet's making in its workflow engine, visual designer and overall scalability, a much more complex business application.

A growing range of templates and 'Accelerators' – Smartsheet's premium packaged solutions sold either as subscriptions or specific horizontal or vertical use cases – will be vehicles for quick value and allow the company to leverage developers and technical partners building on top of Smartsheet, especially where it can integrate Accelerators with its connectors.

There is another area of opportunity for Smartsheet – where it's a critical part of a business application or transactional process on the back end but one potentially not even seen by users. There are manifold use cases here around lead handling and routing, for example, that could see Smartsheet act as a neutral fabric connecting other systems. It's similar to how it could be used as a neutral fabric through which its different formats connect for its users into their other business applications. Recruits like Praerit Garg, CTO and EVP engineering, previously a GM at Amazon Web Services; Ben Canning (formerly of Microsoft), who joined a year ago and is involved with scaling Smartsheet's infrastructure; and Tony Lucas, through acquisition of his company Converse AI in January 2018, have provided product leadership to prepare Smartsheet for this opportunity. It will have to become more developer-friendly and look at how functions on the back end could be made turnkey in order to realistically consider Smartsheet critical application infrastructure.

Financials

Smartsheet announced its FY 2019 results in mid-March, showing positive operating and free cash flow for the first time. It posted revenue growth of 60% over FY 2018, ending at \$177.7m with billings growth at 59% to \$216.6m. Of its fourth-quarter revenue of \$52.2m, 89% was subscription, representing a 56% increase over the year, with services constituting the rest. Enterprise is now Smartsheet's largest growth segment, with about 150 customers. It still has a 'land and expand' model; many of its largest accounts were previously smaller ones.

Smartsheet ended the year with 1,100 employees, having added roughly 300 over the course of FY 2019; it has over four million users and over 800,000 paid license users. The company is now present in 75% of the Fortune 500. In its fourth quarter, its net dollar retention rate stood at 134%, the majority coming from expansion and the majority of that from customers with ACV of over \$50,000. In its fourth quarter, more than 700 customers purchased products such as its Control Center, Accelerators and Dynamic View. Over this next year, Smartsheet plans to expand its lineup of packaged solutions to include corporate governance, marketing and construction. To that end, the company acquired TernPro in January, the maker of Slope, giving it content lifecycle capabilities to bring into its core application experience and to enable new solutions for creative teams. At the start of May, it also acquired resource management SaaS vendor 10000ft, which gives it another piece to support an offering for marketers and creative teams as well as the basis for a PPM product to sell to PMOs.

The company also recently announced a new London office and has achieved FedRAMP-ready status, which puts it on the path to full authorization.

Challenges and obstacles

The breadth of the directions Smartsheet is going in – features to solutions to application infrastructure – represents both opportunity and challenge. The company has significant opportunity, as its financials illustrate, to penetrate larger customers but doing that at even greater scale will require adjustments. From a discovery point of view, Smartsheet's ecosystem of inter-related capabilities can still be challenging to navigate. Its flexibility becomes a problem when the 10 different ways it can be used to do something get in the way of actually doing it. That's also a problem when it comes to how its services teams support customers that are getting started. Adding a robust marketplace and growing its roster of pre-built solutions would help solve that but it is still going to be challenging to deliver quick time to value for new customers.

Marketing and messaging around its range of capabilities is also a challenge: what exactly is Smartsheet? It uses the term 'work execution platform' to describe itself, which is an improvement on 'work management' and the ubiquitous 'collaborative work management' but still doesn't speak either descriptively or aspirationally enough to cover the growing range of things it does. A related challenge is messaging the addressable market Smartsheet is primed to take advantage of. Unlike a server technology, a system of record or a singular or business divisional or persona-based tool, its relevance is much more diffuse but how to articulate that is an issue. Moving in product and its sales motions to more use case and solution approaches will help but at some point, it'll need a more definitive category creation effort. The company's first ever CMO, Anna Griffin, formerly of CA Technologies and Juniper, was announced at the end of April and will lead those efforts.

Competition

Part of the reason why we're bullish on continued growth for Smartsheet is because of this unusual market dynamic, which we think plays to its favor. The lack of clear ways to describe the category, as much as that's a challenge, obscures the evident demand and future addressable market from potential competitors from outside the category. It's difficult to emulate, attack and anticipate a company when you can't easily describe what it's doing, where it's going and why it's doing it. Smartsheet is one of a few companies driving a modern progressive narrative for the future of work; if you're not on that bandwagon already, it's not easy to join. Think of it as a generic productivity tool and you miss the more significant opportunity in more complex use cases. Smartsheet is not a traditional productivity suite, a system of record, strictly an application development platform nor a cloud database; albeit these do partially describe it. That opacity, the ability of Smartsheet to exploit it and the difficulty of attacking it is why we won't be surprised if it breaks the \$1bn annual revenue mark sooner than people might have imagined.

That's not to say Smartsheet doesn't face competition. Others playing in the work management category are doing well. Asana has also posted significant growth, is fueling international expansion and has put out some compelling messaging of its own. Wrike and Workfront are equally part of the rising tide. Others around the edges of this space, like AirTable and Kintone, are making noise. ServiceNow and Atlassian are also maybe ones to watch. Microsoft, with Office 365 and its Project and Planner tools, should be mentioned given relevant overlap.

It's more of a stretch but application development platforms like Outsystems and business process management vendors like Appian could be considered. Maybe even cloud databases like Snowflake and Google's BigQuery, the latter especially in the context of its recent announcement of what it calls Connected Sheets, having Sheets as a front end to BigQuery and pitched at non-technical users. For a long time we've said there's interesting overlap with workflow automation tools like Nintex and a good reason to consider the more progressive corporate performance management players like Anaplan and Workday's Adaptive Insights, if only as longer-term potential competition.

SWOT Analysis

STRENGTHS

With a successful IPO behind it, new senior leadership talent and thinking long term enough to be building for massive scale, Smartsheet has the wind in its sails. It is rationalizing how to tackle the opportunity in front of it, investing in the right areas such as solutions and in enterprise scale that should continue rapid growth over the next few years.

WEAKNESSES

Discovery is still a challenge with the flexibility of the platform could keep it from actually being used or limit future areas for adoption. This isn't necessarily a deal-breaker for new business or expansion but could limit the pace of growth. This should be ameliorated by new packaged solutions but without a more tangible overall category value proposition, it will still likely be unclear for some customers and prospects how exactly they should be thinking about the platform.

OPPORTUNITIES

One of Smartsheet's advantages is that it isn't having to leave some existing markets while it develops stronger ones. In fact, it is showing itself able to continue to land and expand with plenty of product pathways to develop existing clients into bigger ones.

THREATS

The biggest threat comes from outside the category, with a larger enterprise software player taking a chunk of the addressable market with if not a full-frontal competitive comparison, something that limits Smartsheet's freedom to continue to reshape the overall opportunity in its image.