



Progress Software: Enterprise Products Bolster 3Q Results, On-Demand Could Mean Big Lift

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Progress Software (PRGS; \$29.73) has 60,000 customers on its OpenEdge platform, including 90% of the Fortune 500. The company is making considerable inroads with its partners to create on-demand products. Its partnership with **OpSource** provides Progress-ready hosting and call-center services. Now Progress' 2,000-plus software partners can combine the technology of its newest OpenEdge platform and OpSource's Optimal OnDemand services to provide their software on demand, at a lower cost, and with less risk than doing it themselves.

Many customers will like OpSource as a hosting provider, given that it provides some of the hosting for **salesforce.com (CRM; \$46.25)**. For Progress, software as a service (SaaS) could represent a big lift. With the Progress technology safely stowed away inside a hosting provider, customer objections about having to learn and support Progress technology evaporate, allowing software partners to sell more Progress licenses and feel better about continuing to invest in new applications on its technology.

- **Harnessing the midmarket SOA opportunity**— Progress and **IBM (IBM; \$116.78)** are pursuing the opportunity for SOA in the midmarket. Progress provides vendors the full technology stack to promote their SOAs, with customers of **Infor, Epicor (EPIC; \$13.87)**, and **QAD (QADI; \$8.40)** using its OpenEdge product to do so. According to company management, the OpenEdge products achieved solid results in F3Q07. IBM has a sizable installed base of technology in the midmarket, with vendors using its WebSphere middleware. **Lawson (LWSN; \$9.84)** and Infor each have large numbers of customers that run applications on the AS/400 and iSeries platforms and have aligned with IBM to help these customers evolve their IT infrastructures. Lawson uses the entire IBM stack on all client platforms.
- **F3Q07 results**—F3Q07 revenue rose by 9% (5% in constant-currency terms) to \$121.8M from \$111M in the prior-year quarter. License revenue jumped by 4% (flat in constant-currency terms) to \$44M from \$42M last year. Enterprise infrastructure revenue increased by a particularly strong 24%, and newer products lines rose by about 20%. GAAP operating income soared by 46% to \$17.8M from \$12.2M in F3Q06. Non-GAAP operating income rose by 19% to \$27.2M from \$22.8M in F3Q06. GAAP net income increased by 47% to \$13.0M from \$8.9M a year ago. Non-GAAP net income jumped by 22% to \$19.4M from \$15.9M. Diluted earnings per share surged by 43% to \$0.30 from \$0.21 in the prior-year period, and non-GAAP diluted earnings per share rose by 19% to \$0.44 from \$0.37 in F3Q06. F3Q07 non-GAAP results exclude the following: after-tax charges of \$2.9M for stock-based compensation, \$2.9M for amortization of acquired intangibles, and \$0.6M for professional services fees associated with the investigation and shareholder-derivative lawsuits related to the company's historical stock-option grant practices. F3Q06 non-GAAP results exclude after-tax charges of \$3.4M for stock-based compensation, \$2.8M for amortization of acquired intangibles, and \$0.8M for professional services fees associated with the investigation and shareholder-derivative lawsuits related to the company's historical stock-option grant practices. Cash and short-term investments were \$307M at quarter end.
- **F2007 outlook**—For the full year F2007, the company provided guidance as follows: revenue of \$484M–\$486M, GAAP diluted earnings per share of \$1.05–\$1.07, and non-GAAP earnings per share of \$1.73–\$1.75 share. Prior guidance had been revenue of \$475M–\$485M, GAAP diluted earnings per share of \$1.06–\$1.09, and non-GAAP diluted earnings per share of \$1.72–\$1.75. Non-GAAP guidance excludes after-tax charges of about \$16M (\$0.36 per share) for stock-based compensation, approximately \$11M (\$0.25 per share) for amortization of acquired intangibles, and about \$3M (\$0.07 per share) for professional services fees associated with the investigation and shareholder-derivative lawsuits related to the company's historical stock-option grant practices. Consensus is revenue of \$483M and non-GAAP earnings per share of \$1.74.
- **F2008 guidance**—F2008 guidance is revenue of \$505M–\$515M, GAAP diluted earnings per share of \$1.33–\$1.41, and non-GAAP earnings per share of \$1.85–\$1.93. Non-GAAP earnings per share guidance excludes after-tax charges of about \$0.30 for stock-based compensation and \$0.22 for amortization of acquired intangibles.