

**Company:** RightNow provides a software-as-a-service (SaaS) solution that helps consumer-centric organizations manage customer relationships via phone, e-mail, web, chat and social interactions. The company is focused on three verticals within the customer service and CRM space: Web Customer Service, CRM for Contact Centers and Social CRM. RightNow is the recognized leader in the Web Customer Service Market, and the #2 SaaS CRM vendor behind Salesforce.com. RightNow has one of the most robust software suites on the market and more than 1,900 customers.

**Investment Thesis:**

***Positioned to Capture the Customer Service Shift from Phone / E-mail to Web, Mobile and Social:*** RNOW has invested in web, mobile and social media customer service channels, as well as traditional phone and e-mail support; it’s multi-channel support suite is one of the most mature on the market. Thus, it is well positioned to capture the secular consumer trend from phone/e-mail to web and mobile customer service channels. Moreover, organizations prefer the lower cost of web and mobile support versus phone and e-mail support, thus providing RNOW with an easy ROI value proposition for its customers. Finally, RNOW bills clients on an “interaction basis”, enabling it to enjoy the revenue upside associated with the secular trend toward web, mobile and social customer service channels.

***Web Customer Service and Contact Center Markets are Merging; RNOW is combined leader:***Historical CRM contact center solutions have provided customer service reps with phone and e-mail support. However, today service centers must support customers across the internet, mobile and social. Many service providers offers solutions for either web service or contact center phone and email, but RNOW offers a robust offering in both markets, making it a market leader as multi-channel customer support becomes increasingly important to IT purchasing managers.

***Contact Center Replacement Cycle Provides Opportunity:***On-premise legacy CRM contact center solutions such as Siebel and PeopleSoft are undergoing replacement cycles. SaaS solutions have become the preferred option over on-premise incumbents due to simplicity, rapid deployment and lower total cost of ownership associated with web-based delivery methods. RNOW is on the shortlist of IT managers switching to SaaS CRM providers, making it a contender to win more of the Contact Center Market as it moves from on-premise to SaaS.

**Valuation:**

The price target of $31 is based on an FTM TEV/EBITDA multiple of 23.0x, which is the median multiple of other comparable publicly traded SaaS companies. This multiple, which is higher than RNOW’s current TEV/EBITDA multiple of 18.9x, is warranted given that company is reaching an inflection point in profitability. This inflection point is being driven by salesforce leverage of the RNOW’s historical investment in R&D, as well as the completion of RNOW’s shift from perpetual to term licensing. The price target was cross-checked with a discounted cash flow analysis using a cost of capital of 8.7% and a 3% terminal growth rate. The discounted cash flow analysis indicated a per share price of $34.

**Catalysts:**

***Shift to even higher growth as the distribution investment bears fruit:*** RNOW pre-announced Q3 and Q4 2010 results, informing investors that it had beat both consensus revenue and earnings. RNOW’s momentum is being driven by its investment in sales headcount and the hiring of Wayne Huyard as President and COO. Huyard, a sales and marketing professional, is focused on building RNOW into a stronger sales organization.

***Larger deal sizes:*** The merging of RNOW’s target markets is providing it with larger client wins as customers seek full-suite solutions. RNOW closed 18 $1M+ deals in Q4 2010, a record, and this trend will likely continue.

***Harvesting long-term R&D investment:*** As RNOW scales up its sales organization it is experiencing significant margin expansion, growing its operating profit from 8% in 2009 to 14% in Q4 2010. Management expects further expansion to 22% in medium term.

**Risks:**

***Increased Competition from Salesforce.com:***  Salesforce.com is a formidable competitor with over 65,000 customers and a full suite of CRM software. RNOW’s solution is not as robust for front-office sales as Salesforce.com’s. However, RNOW’s recent win of a 1,200 person Yahoo.com contact center over Salesforce.com is encouraging.

***Value destruction via M&A:*** Management has indicated its intention to grow its product offerings organically or through M&A. Acquisition targets in this space can be quite expensive, as we have seen with the dilutive acquisition of Q-go in December 2010. This risk is mitigated by the fact that Greg Gianforte (founder, Chairman and Chief Executive Officer) owns 23% of the Company.

***High Growth Priced into Stock:*** RNOW’s stock price is premised on its current and forecasted high growth stage of its company lifecycle. The company’s earnings multiples could be adversely impacted if the company stumbles with its increased sales and marketing efforts.