

# THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

## Perficient, Inc. (NASDAQ:PRFT)



**JEFFREY S. DAVIS** became the Chief Executive Officer of Perficient, Inc. and a member of the board in 2009 and became Chairman of the board in February 2017. He previously served as the Chief Operating Officer of the company following its acquisition of Vertecon in April 2002 and was named the company's President in 2004. He served the same role of Chief Operating Officer at Vertecon from October 1999 to its acquisition by the company. Before Vertecon, Mr. Davis was a Senior Manager and member of the leadership team in Arthur Andersen's Business Consulting Practice, where he was responsible for defining and managing internal processes while managing business development and delivery of all products, services and solutions to a number of large accounts. Mr. Davis also served in a leadership position at Ernst & Young LLP in the Management Consulting practice and in industry at Boeing, Inc. and Mallinckrodt, Inc. Mr. Davis is an active volunteer member of the board of directors of the Cystic Fibrosis Foundation of St. Louis and a member of

the University of Missouri Trulaske College of Business advisory board. Mr. Davis has an MBA from Washington University and a B.S. degree in electrical engineering from the University of Missouri.

### SECTOR — BUSINESS SERVICES

**TWST:** Please introduce Perficient with an update on how the company has evolved since we last spoke a few years ago.

**Mr. Davis:** Perficient's been around quite a while, more than 20 years to be exact, and has grown over that time to about \$500 million with more than 3,000 employees worldwide. Not surprisingly, we've really pivoted the business over the last four or five years toward digital transformation. We go to market around three main pillars: digital experience, business optimization and industry solutions, where we've also established a strong capability over the last few years.

More recently, though, we've evolved mostly in the digital space. We've done some acquisitions in that space as well as made some investments organically, or from a greenfield standpoint, to build out our digital capability and continue to build the business. Another thing that's happened over the last couple of years is pretty substantial growth in our delivery centers — both onshore in Lafayette, Louisiana, as well as offshore in India and China, and actually a little bit of near-shore in Mexico City. That's grown at a pace substantially ahead of the rest of the business. So we've definitely seen a mix shift to more offshore work as well over that same time frame.

And we've invested in new partnerships, some through acquisition, a lot through, again, greenfield. Pivotal, OneStream, MicroStrategy and Red Hat OpenShift are newer to the portfolio. We've cultivated some substantial relationships around that to drive more of a cloud solutions capability. And then, we've certainly gained and grew client relationships. Of course, one of our big focus areas is taking care of our top 50 customers, which averaged about \$5.5 million in revenue each in 2018. Those clients make up about 55% or 60% of our total revenue.

**TWST:** Let's start with a closer look at the fabric of your customer base, your top 50 customers, and with a view to where you'd like to expand into.

**Mr. Davis:** Among our top verticals, health care is number one at about 30% of revenue, financial services is about 15%, retail and automotive about 10%, and manufacturing is right in there as well. So in terms of the client base, it's not surprising that a lot of that top 50 are in those verticals. Our average growth rate organically among the top 50 was also just under 11%, so we're making a lot of good progress in those relationships.

And these are pretty much household names, Fortune 1000 companies for the most part. There are some exceptions to that, particularly in health care where there aren't that many Fortune 1000 businesses. However, we do have some large health care customers.

**TWST:** How sticky are your customers in the top 50? Do you serve them with proprietary technologies?

**Mr. Davis:** The stickiness is fantastic. The average tenure with those top 50 is over eight years. And we tend to add about 90 days every quarter. Once we land a customer, we tend not to lose them. While their position in the ranking might ebb and flow some, the relationship tends to go on. How to expand and maintain that long-term relationship is certainly a key part of our strategy.

**TWST:** What factors support the longevity of your customer relationships? What differentiates your solutions?

**Mr. Davis:** When you look at differentiation relative to our competitors, it's a highly competitive industry and highly competitive market. I truly believe that what makes us different and special is that we've got the depth and breadth, and that's what our reputation is. We

have enough breadth in our portfolio to be an end-to-end provider to these customers, but we also have great depth. And I think our style and culture is also very different than a lot of our competitors.

Our customers consistently say that we're a breath of fresh air, particularly compared to the larger competitors. And that applies to what and how we're delivering for them as well. I said earlier about 70% of our business falls into the digital umbrella, but it's a lot of custom development, and it's very proprietary to the customer. These solutions enable our customers to provide new products or services that differentiates them from their competitors. That's really kind of the heart of a lot of the work that we do.

And as I mentioned earlier, health care is an interesting one, because 10 years ago, you wouldn't have thought of health care as being a consumer-focused industry. But it very much is now, as health care organizations embark on digital-transformation journeys to become better stewards of the patients that they care for. And that's for both payer and provider. So the solutions we provide are very proprietary to them.

And yes, we do have some of our own intellectual property, some data solutions, accelerators, blueprints and the like that are proprietary to us, which we offer to our clients. Some of our I.P. we resell, in addition to selling solutions with our I.P. embedded and used as a differentiator to compete.

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**TWST: Tell us about your marketing program and efforts. What is your delivery structure like?**

**Mr. Davis:** From a delivery standpoint, or delivery structure, it may be helpful to talk a little about the organizational structure. We have a sales team that's 100 people strong. And those folks represent various geographies, industries and what I call our “affinity relationships,” or “affinity groups.” In other words, we have a lot of vendor partnerships with IBM, Microsoft, Adobe, Oracle, Salesforce, etc. And we have dedicated salespeople who work in conjunction with the partner's salespeople. They sell software; we sell services.

So that's the go-to-market approach in terms of the actual feet on the ground. And our structure is not dissimilar. Most of the clients we have are in a geography where we actually have offices. And then, in those offices, we tend to have more generalists, more business consultants and program managers. So when we have an opportunity in that particular geo, we'll bring in the industry and/or partner expertise as needed to support the delivery.

**TWST: You started off by pointing out that you've pivoted the business. Could you give us a closer look at what prompted and enabled the change? Was it mainly migration to the cloud?**

**Mr. Davis:** I think the cloud certainly enabled our pivot toward digital transformation. We see our customers increasingly investing in solutions and technologies in order to get closer to their customers. It's all about delivering on the customer experience. I'm not just talking about identifying the customer or creating a website. I'm talking about the analytics behind that — what we call “the customer 360.”

Our clients are asking themselves, “What makes our customers tick? How do we attract them? How do we retain them? How do we better service them and the like?” We saw the market heading there. We saw the CMO gaining more and more influence in what was traditionally an IT spend, and we knew that we need to participate in that. So that was the reason for the pivot to digital.

From day one, we've remained nimble and tried to move with the market and skate where the puck is headed instead of playing catch up. It's not a case of being cutting edge where there's really not a lot of demand; it's being leading edge where new technologies are being introduced and customers are adapting them. That's where we aim to be.

**TWST: Why do some of your customers say, “You were like a breath of fresh air”? Does that have to do with your business model or your corporate culture? What engenders that kind of a description?**

**Mr. Davis:** A lot of that has to do with our people and the capabilities and strengths that they have. A lot of our customers are often trapped in a mindset where they feel like if they have heavy lifting to do, or a really complex or complicated problem, technically or otherwise, that they need to engage one of the big vendors. That's not necessarily true, and that's where we are the breath of fresh air. Our customers say, “You guys are great. You've been a good partner.” And that's because we've been flexible in delivery and easier to work with, frankly, than many of our competitors.

So when you think about that 11% growth in those top 50 accounts I mentioned earlier and that those accounts are mostly Fortune 1000 companies, clearly, we're gaining share. And it's typically taking share from one of the larger firms for the reasons I just mentioned.

**TWST: Who are your most important strategic partners, and how do they contribute?**

**Mr. Davis:** IBM has been a partner for a long time. And while I think some of their technologies have been falling a little behind, that's changing. Certainly, the acquisition of Red Hat is going to really breathe in a lot of new life into IBM on the application side, and in turn our relationship. Other key important partners include Microsoft, Oracle, Salesforce and Adobe.

Adobe is an interesting one because that's a practice area and partnership we built from scratch, not through acquisition. And that's up to about a \$50 million business for us right now. Adobe also acquired Magento and has announced the intention to acquire Marketo, both of which are also important partners of ours. Sitecore and Pivotal are other partnerships where we see good ongoing opportunity.

We're always receptive to working with new partners. We have the luxury of being approached by a lot of these firms because the big guys, the Accentures of the world, are kind of beating their own drum and aren't going to work closely with these companies. But we like the partner relationships.

**TWST: Recently, you acquired Elixiter. Give us a closer look at that company's focus and how well you are integrating. What are any challenges you've met with?**

**Mr. Davis:** I would say it was a great fit for Perficient. We wanted to get more into the Marketo space, which focuses on marketing automation, more than we were. So this acquisition accelerated that because Elixiter was focused on Marketo. We did that acquisition before we knew Adobe was going to announce its potential acquisition, so that's all the better for us.

But we had actually seen demand grow for that capability, and it was beyond what we had in-house, and we decided that we'd be better off buying versus building in this case. So we've added 40 new colleagues and added some Fortune 1000 customer relationships as well.

Integration has been smooth. We have very similar cultures. The team's excited, I think, to be part of something bigger. There are obviously more and different career opportunities at Perficient beyond what they might have had at Elixiter. In terms of challenges, I would honestly describe it more as about opportunities, both in terms of us getting in front of legacy Elixiter customers and also bringing our new and expanded Marketo expertise to Perficient's clients.

All in all, the integration has gone very smoothly so far. In fact, I would say it's largely complete. Again, it's just more a matter of making sure that our mutual sales teams are educated in selling the entire Perficient portfolio.

**TWST: Have you made any other acquisitions over the past two or three years that you can elaborate on?**

**Mr. Davis:** Absolutely. Just in the past year, we've strengthened the direction we're heading, pivoting around digital. Southport Services Group, which was a MicroStrategy shop, offered analytics and data expertise, which obviously is huge in the marketplace and our industry in general. And we had seen MicroStrategy demand and opportunities. So that was a good opportunity.

Stone Temple Consulting is one that is particularly interesting. It was built primarily around search engine optimization, and it's helped us really round out the service that we provide, typically as part of an overall engagement in the digital space. And that really gave us depth around search engine optimization, which is a skillset that's in pretty high demand right now.

**TWST: Looking ahead, what do you expect to see as the next big secular or macro drivers? What are you monitoring when formulating your upcoming growth strategy?**

**Mr. Davis:** I think we'll see more of the same. I still think it's digital transformation. And I think digital transformation really never ends. There seems to be consensus on this among the people I talk to in the space.

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But what's fascinating about it is that with the kinds of tools that are available now, even smaller companies have the flexibility and the ability to be nimble. There's a greater ability to adjust, enhance or even replace applications that are not necessarily old but also which weren't very expensive to start with. And that, again, helps the customer, our customer, maintain the competitive edge in products and services. So I think that's just going to continue.

We're already seeing a lot of leapfrogging. We've created and delivered solutions for customers in the past few years that we're still enhancing. And in some cases, I would say it's completely transformed them as they see the competitive landscape change. Open-source platforms and just generally less expensive technology allow companies to pivot constantly and with low-cost, quick-hit, high-ROI engagements.

Looking ahead, 5G is going to be very cool. At this point, I don't know exactly how it might or might not impact us. But almost everything we do has some mobile component to it, so with 5G, which is effectively virtual real time, I think the sky will be the limit with what can be done. I don't have any specific predictions about what will happen, but I would sort of liken it to the internet 20 years ago, 15 years ago. Who would have thought how much of our universe was going to move to the internet? From social and mobile to commerce and shopping and everything else. So who knows what 5G holds in the story, but it's exciting.

**TWST: Looks like you had excellent results in your fourth quarter 2018 report, something like a 21% increase. What was behind that?**

**Mr. Davis:** Yes. It was a 21% increase in earnings and an 11% increase in services revenue. About half was organic and half as a result of acquisitions. And we've guided to something on the same order this year. So we're expecting somewhere in the 5% to 15% range this year when you include acquisitions.

So we're certainly seeing a spike in growth, which I think is going to continue and only improve throughout the remainder of 2019. And earnings have been up substantially. We've had some very nice margin expansion, both gross margin as well as earnings driven by a couple of things. And that growth brings with it additional utilization.

Another thing that I mentioned earlier is the delivery mix shift to offshore. Our offshore gross margins are over 50%. And that's besting most of the major offshore players. Of course, we're tiny compared to them. But we're getting \$40 an hour for the work we do offshore, which I think speaks to the level of sophistication and engineering that we have in place versus the \$20-per-hour, commoditized, maintain and keep-the-lights-on sort of work.

So we're excited about that continued shift. And I think as we demonstrated in the fourth quarter, the company generally is really hitting on all cylinders right now. I don't see that ending anytime soon. The future is bright.

**TWST: What are the locations of these offshore customers? Give us a closer look at Perficient's consulting services, especially those that are in greatest demand.**

**Mr. Davis:** When I say offshore, I mean work that is primarily for North American customers that's being conducted offshore via a lower-cost model. We have an office in Oxford, England, where we service some major life sciences clients, including Bayer. Our other

offshore development centers, as we call them, are in Hangzhou, China, and in Nagpur and Chennai, India, as well as Bangalore. And we have a smaller facility in Mexico City that we're investing further in and looking to grow near-shore capabilities.

**TWST: Where will your top focus be over the upcoming year? Can you share some specific goals and targets?**

**Mr. Davis:** We're really focused on working hard to get the business to a 5% to 10% organic growth rate and then supplement that with another 5% to 10% in acquisitions. So 10% to 20% is really where we want to drive the business. And we're getting close to that. We want to get there and sustain it.

One of the key initiatives this year, and probably ongoing, relates to growing our top 50. It's called the Growth 50 and entails identifying and swarming in tiger-team fashion around those next 50 accounts that we believe can produce similar results to our top 50. So ultimately, we're driving the business around those top 100 clients while continuously looking for that next 50. So that's a really important goal.

We're continuing to invest in relationships and to build our relationships with Red Hat and Pivotal. Twilio is another one that we're excited about. We have some intellectual property around call center management that was built on a native Skype and Microsoft CRM.

But we are working with Twilio to build a re-platformed version that leverages more current technology. So we're making an investment there, and we're excited about it.

And we continue to invest in marketing for sure. I think one of the challenges that we have at our size is that while we're getting deserved market recognition in the industry, there are still plenty of companies out there that we haven't met yet and who don't know us. So we are investing in building brand and market awareness as well as investing in sales and increasing sales capacity to get more feet on the street.

We are looking to get a foot in the door and compete with and continue to take market share away from the big guys. In fact, our win rates against the majors — and by that I mean, Accenture, Deloitte, IBM Global Business Services, as well as the offshore guys like Tata and Infosys — our win rates against them are about 65% or 70% once we have an opportunity to get to the table. Our real mission now is largely a matter of getting those feet on the street and building brand awareness to get us to the table more.

**TWST: Give us a view to how your operating expenses have trended over the recent past. Do you have any upcoming plans for trimming anywhere?**

**Mr. Davis:** Last year, in Q4, which we ended very nicely, a very profitable quarter, we did enjoy some good economies on G&A for sure. And I expect that's going to continue as the business continues to grow. We operate very lean on the delivery side. Running utilization at about 80% is pretty much best-of-breed; it's hard to do better, certainly for a project-based business. So I think we're in good shape there. I think now the focus is on growth, which will bring those economies of scale to bear.

I don't see any increased operating expenses. And the interesting thing about that is we've increased capacity and sales dramatically over the last three or four years. And so that cost is baked into this run rate. And we haven't yet realized all the benefit of that. We still probably have about a third of those resources, which have been with us less than 18 months. This is about how long it takes for them to really start gaining traction. So we've got kind of a hidden jewel there from a P&L standpoint that I think will actually help expand margins even further, as that capacity comes online in the coming year or two.

**TWST: What do you see on the horizon that could be most challenging or pose risk? What are your biggest worries?**

**Mr. Davis:** It's always things that I can't control. So macro is always top of mind. And by that, I don't mean the kind of normal ebbs and flows in GDP. I'm talking about some sort of major geopolitical event that's unforeseen where there's a total meltdown of a particular industry like we had in financial services back in 2008. However, I'm not seeing any evidence of any of that.

And we're very happy with our results. Our pipeline is as strong as it's ever been. We continue to close deals and see record bookings and then see the pipeline rebuild very quickly. So our ability to grow the business is going to be something to watch for over the coming months and years. And as I previously discussed, growth in sales capacity and then growth from an investment standpoint is really what the market is looking for in terms of our stock. We've had good results last year in terms of the stock price and returns, and I'm looking forward to repeating or even beating that this year.

**TWST: Is there anything else that you would like to highlight that investors should take note of?**

**Mr. Davis:** I can't underemphasize growth, and I think we're in a strong growth period. And I think investors are going to be very excited about that. I just got back from a roadshow where we saw a lot of interest, as well as at conferences with new prospective investors and, of course, with the existing shareholders. And if Perficient continues to deliver the kind of growth we did in the fourth quarter, I think everyone will be well-rewarded.

**TWST: Thank you. (VSB)**

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