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Wall Street Journal

Guidewire Software Rises 32% Post-IPO

[Link to Online Article: Guidewire Software Rises 32% Post-IPO](#)

[Guidewire Software](#) Inc.'s initial public offering was greeted enthusiastically Wednesday, with the company's stock gaining 32% on its first day of trading.

The company's stock closed at \$17.12 a share on the New York Stock Exchange, up 32% from its IPO price of \$13. The company sold 8.85 million shares—1.4 million more than expected—at a price above its expected range of \$10 to \$12 a share.

Based in San Mateo, Calif., Guidewire makes core system software for the property and casualty insurance industry. Its programs underpin a range of functions from underwriting to claims management and billing. According to [Gartner](#) Inc., the company's ClaimCenter application is the property and casualty industry's most widely used Web-based claims system as of January 2011.

The software can be installed either on site at a customer's location or out in cloud computing environments. Customers include global insurers like [Zurich Financial Services Group](#) Ltd. and domestic ones such as Nationwide Mutual Insurance Co.; two-thirds of its revenue is generated in the U.S. and Canada.

The company generates money through annual software licensing fees that recur over the life of a multiyear contract with a customer; the average initial contract length is about five years, with the contracts renewable on an annual or multiyear basis. It also generates service revenue from implementation and training services performed for its customers, which are billed on a time and materials basis.

The company had its first quarterly profit in fiscal 2010. In fiscal 2011, total revenue rose 19% to \$172 million, and the company reported net income of \$35.6 million compared to net income of \$15.5 million in fiscal 2010. In the three months that ended Oct. 31, total revenue rose 51%, to \$52 million, and it booked net income of \$4.8 million, compared to net income of \$1.9 million in the same period a year earlier.

Guidewire is confident that it can maintain its profitability because its revenue is so predictable, said Chief Executive Marcus S. Ryu during a telephone interview.

"No customer has ever left Guidewire. That gives us a lot of security, and allows us to plan our budgeting and investing" into the future, Mr. Ryu said.

Guidewire says that it benefits from an aging technical infrastructure and scarcity of experienced tech workers at property and casualty insurers, as well as inefficient paper-based processes that can hurt productivity. Continued pressure on underwriting margins is pushing insurers to venture into new products and use the Internet to access customers, something that it says its software can facilitate.

The company's two largest owners, U.S. Venture Partners and Bay Partners, own 44.8% of its stock post-IPO. Neither sold shares in the offering. Another owner, Battery Ventures, purchased an additional 400,000 shares of common stock at the IPO price, presenting investors with a bullish view of Guidewire's prospects.

[J.P. Morgan Chase](#) & Co. and [Deutsche Bank](#) AG managed the offering.

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GuideWire CEO On Year's First Tech IPO: "The Stock Price Will Take Care Of Itself"

Link to Online Article: [GuideWire CEO On Year's First Tech IPO: "The Stock Price Will Take Care Of Itself"](#)



Photo Caption: CEO Marcus Ryu was all smiles after ringing the bell at NYSE Wednesday.

[Guidewire Software Inc.](#), the first U.S. technology company of the new year to go public, rose nearly 32% today in its first day of trading and closed at \$17.12, up \$4.12 from its IPO price of \$13.

A maker of software for the property and casualty insurance industry, Guidewire sold 8.85 million shares—1.4 million more shares than expected—priced above the expected range of \$10 to \$12, [The Wall Street Journal reported](#).

Battery Ventures, which owned 2.8 million shares or about 6% of Guidewire, asked to buy as many as 400,000 more shares at the IPO price, according to Guidewire Chief Executive Marcus Ryu, while two other principal stockholders—U.S. Venture Partners, which owns about 25%, and Bay Partners, which owns about 21%—did not sell shares.

For Ryu, who rang the NYSE's Opening Bell this morning, it's been a long wait. He co-founded the San Mateo, Calif.-based company over a decade ago, in 2001, and has held several jobs there, managing the engineering, marketing and strategy departments before he took over as CEO about 14 months ago.

Ryu talked with VentureWire about why he thinks Guidewire can retain its value on the public markets even though some other technology companies have floundered. (This conversation is edited for clarity and length).

You filed your S-1 in September. Why did you decide to go public now?

We were going public if and only if it supported our underlying company mission, and that is constant and has not changed from day one—it's all we've done for the last decade. So the question was whether an IPO would advance that mission or impede it, and (whether) it gives us the capital to be solid and continue to invest in great products, but also the transparency of value to customers we sell to, since our customers—large insurance companies—are naturally and rationally conservative.

Those factors, along with the maturity in our products and our rate of customer acquisition and the referenceability of our customers, all harmonized, and this was the right time.

What was your impression during the roadshow?

The reception was overwhelmingly positive, and I wasn't sure what to expect since we've toiled in relative obscurity with respect to the capital markets. But a lot of the dimensions of our story were extremely well received, including the \$1.2 trillion insurance industry, the non-negotiable need to replace those aging systems, our customer support and our recurring revenue model, which connects with what customers are looking for.

Guidewire is profitable. This is unusual lately for a tech company going public. Was profitability important to you?

Yes, we joked internally about having depression-era values. We've been extremely capital-efficient since 2001...and for me and my colleagues on the management team, our track record of being profitable over the medium and long term and expanding that profitability was extremely important and could not be in question.

The nature of the demand we serve is not speculative—it's extremely solid, an essential and non-negotiable need, and we felt...profit was a big part of that. We didn't want to make promises for growth that had yet to materialize, and we were well received on the roadshow. Many expressed the same surprise that you did, but we've been profitable for two years, and cash-flow positive for longer than that.

Given the fluctuations in the stock market lately, how well do you expect Guidewire to hold its value?

A lot of macro phenomena govern the stock market, but our underwriters counseled us to focus on delivering clear customer value, to keep our eyes on the horizon and don't get distracted by the fluctuations of the market. They said that over time, the market does find the right level and focuses on companies that are making customers successful. I took great comfort in that advice, because we'll just continue to do what we've done and the stock price will take care of itself.

Is being public like playing in a big league ball game?

There is a bit of that feeling. But tomorrow, it's back to business as usual.