

INVESTOR'S BUSINESS DAILY

Veeva Helps The Medicine Go Down Faster for Drug Giants



Veeva officials shown at the company's IPO in late 2013. Veeva stock is getting back to levels it reached when shares first hit the market.

4:58 PM ET



When health care behemoth **Johnson & Johnson (JNJ)** decided last year to use **Veeva Systems'** (VEEV) software for gathering data from clinical trials needed to get a new drug approved, Veeva's rivals took notice.

For good reason. Thanks to J&J, it wasn't long before Veeva's content management application turned the heads of its potential customers as well.

"They (J&J) said we're going to standardize this globally, and within 12 months we had 6 customers (among the 20 biggest drugmakers) do the exact same thing," Veeva Chief Financial Officer Timothy Cabral told a **Stifel technology conference** in June.

In this case, though, imitation wasn't just the sincerest form of flattery; it was pretty much according to plan. The cloud-based software company's insiders call it "the Veeva way."

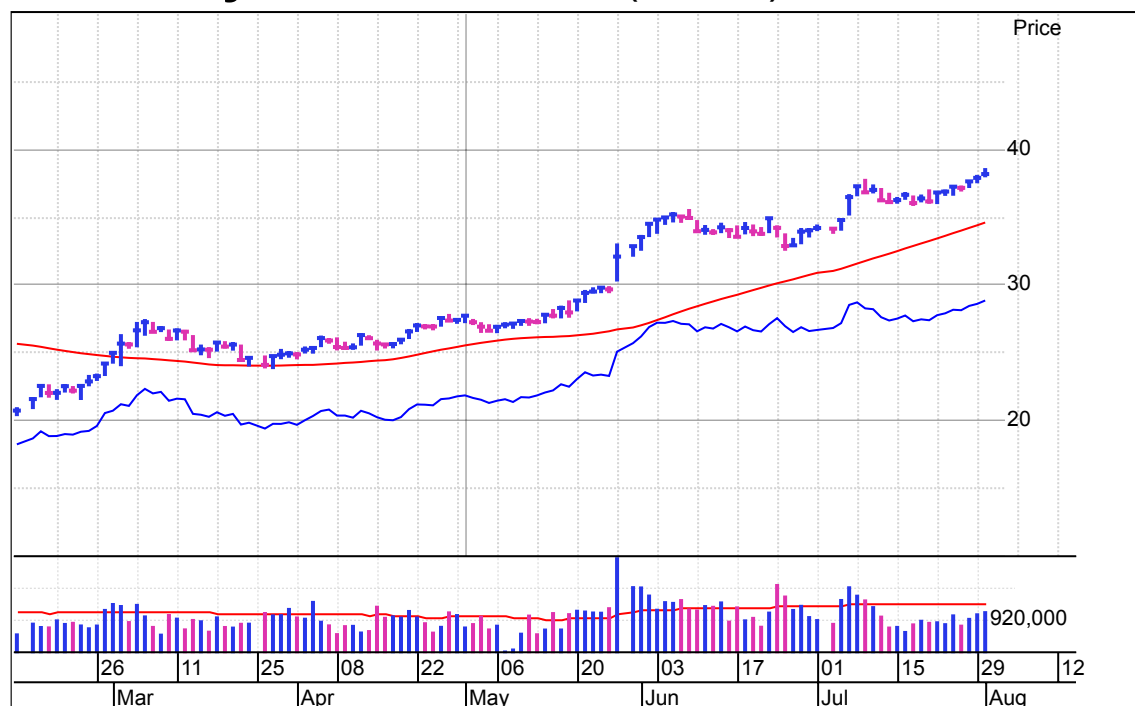
By that, they mean rapidly developing industry-specific applications with functionality that is miles ahead of the legacy offerings. Then they use positive customer outcomes to take the market by storm.

When Chief Executive Peter Gassner left **Salesforce.com** (CRM) to start Veeva in 2007, he launched the company with one primary goal in mind -- replace biopharma companies' legacy systems with cloud-based software designed to make their painstaking regulatory requirements a lot less painful.

Veeva's first product was a customer relationship management offering for pharma sales reps. Then it started targeting the research and development side of the business with its clinical trial content management application. Now, after a rapid six-month development period, it's launching a new application to track quality control processes for drug manufacturing.

Veeva Systems Inc Cl A (VEEV)

\$38.27 ▲ 0.28 (0.74%)



Real-time prices by Bats®. Volume delayed. Last Update: 03:47 PM EST 08/01/2016. Real-time quote and/or trade prices are not sourced from all markets.

Veeva's drug and biotech customers "are in a race against time -- in two directions," Gassner told Investor's Business Daily. On one hand, they need to expedite regulatory approval to bring their cures to market and keep people from suffering or dying. Then there are the business-driven reasons for fully capitalizing on a market opportunity before patents expire.

That race has become even more critical over time. The cost of developing a new drug has soared to \$2.6 billion, up from about \$1 billion in 2000 in inflation-adjusted dollars, according to the Pharmaceutical Research and Manufacturers of America. Because the stakes are so high, more large drug developers have decided in rapid succession to junk their prior technology investments and embrace Veeva as a critical ally in their race against the clock.

GlaxoSmithKline (GSK) is ramping up adoption of Veeva's customer relationship management product among all its 20,000-plus drug sales team members. Most customer relationship deployments aren't yet global in scale, but most big drug and biotech companies are now Veeva customers.

The company has about 16% of what is roughly a \$2 billion market providing customer relationship solutions to 450,000 global sales reps. Those reps are tasked with teaching 20 million doctors how and when to prescribe their drugs effectively. If all its customers embrace Veeva across their sales geographies, the company's market share could approach 70%.

One relatively new customer relationship feature from Veeva is called Approved Email, which allows drug sales reps to send marketing and educational materials to doctors by email. That had been rare because of regulatory concerns until Veeva provided templates that let the communication happen in a compliant way.

As dominant as Veeva's customer relationship product looks on track to become, management thinks the company's Vault content management platform has an even bigger advantage over the competition.

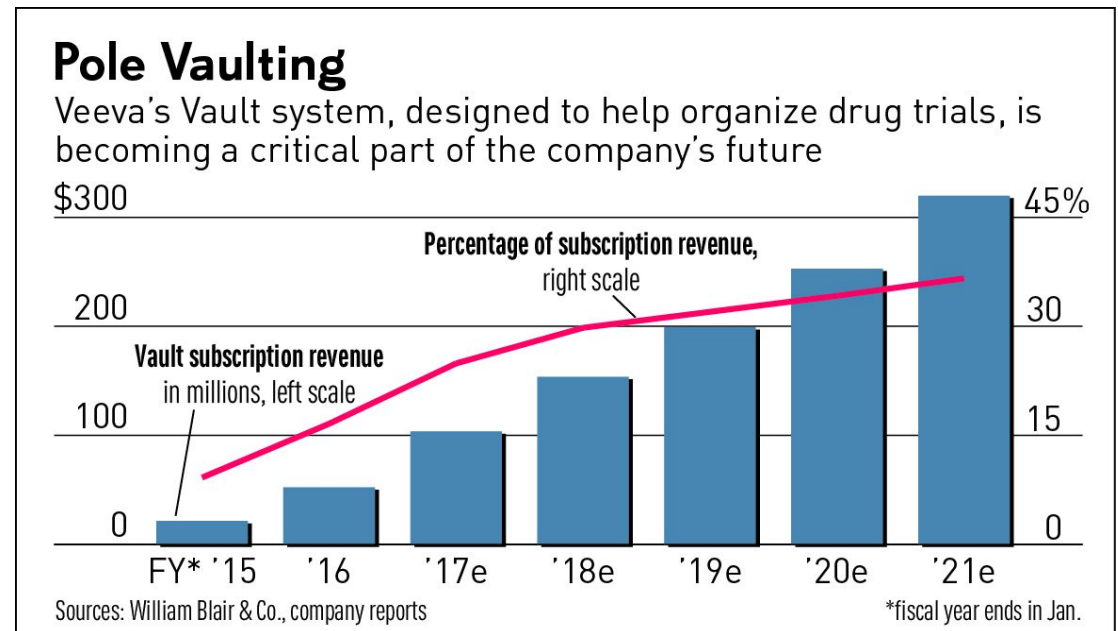
A pharmaceutical giant might have 10,000 people, both inside and outside the company, collaborating on clinical trials for 20 different drug candidates at a time. Sharing, commenting on, updating and record-keeping of all the actions involved in a trial and drug application used to involve couriers, multiple file-sharing systems and document repositories.

Those were hard for some participants to access. Now, Vault makes it possible to have a central hub in the cloud where everyone can connect in a way that streamlines regulatory compliance.

Vault launched in 2013, generating \$9 million in subscription revenue in 2014. This year, Vault should generate \$52 million in subscription revenue, doubling to \$104 million in 2017, according to William Blair analysts Bhavan Suri and Alper Tuken.

"They're winning because of better usability," Suri told IBD. He noted that Vault revenues are growing so fast that the Veeva may continue to see revenue growth accelerate a little.

Overall revenue rose 33% from a year ago to \$119.8 million in the first quarter, Veeva announced in May. About 80% of revenue now comes from ongoing subscriptions. Adjusted earnings rose 23% to \$21.2 million. On a per-share basis, earnings rose to 15 cents a share from 12 cents.



IBD'S TAKE: *Shares of Veeva Systems surged on its May 27 earnings news, breaking above a long basing pattern, though they remain below levels hit just after the 2013 IPO. Shares are still close enough to a buy point to merit consideration. For a closer look at the right timing for buying a stock after a breakout, see this **Investor's Corner**.*

"We are more confident than ever that we are on track to achieve our stated revenue run rate target of \$1 billion in 2020, selling just our current solutions within life sciences alone," Gassner told analysts on Veeva's **first-quarter earnings call**, according to a Seeking Alpha transcript.

Shares broke out well past 30 in late May, built a base and then surged again to eclipse the 35 mark in early July. At the close Monday, shares were up incrementally to 38.27.

The key to Veeva's success is that it has brought together enterprise software expertise with industry-specific expertise. That expertise and their applications don't just permit regulatory compliance with the FDA but with regulatory bodies around the world. About 45% of Veeva revenue comes from outside the U.S. Now the company is just beginning to expand its industry expertise beyond life sciences.

Veeva Systems Inc.

www.veeva.com

Ticker	VEEV
Share price	Near 37
12-month sales	\$439 mil
5-year profit growth rate	81%

IBD SmartSelect Corporate Ratings

Composite Rating	99
Earnings Per Share	97
Relative Price Strength	95
Industry Group Rank	41
Rank Within Industry Group	1
Sales+Profit Margins+ROE	A
Accumulation/Distribution	A-

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"We have a tremendous platform involved and we can build applications on it rapidly as we've done with QMS (Veeva's drug manufacturing quality management application), and many of those applications are applicable outside of life sciences," Gassner said.

Gassner announced on the latest earnings call that Veeva has a small team now dedicated to selling Vault to other industries.

"We plan to undertake this new effort in the Veeva way with growth, profit and customer success," he said.

Because Veeva's strong suit is ease of use in a heavily regulated industry, a lot of investors think it may have a future providing cloud-based applications to the financial services industry, including the brokerage business, Needham & Co. analyst Scott Berg told IBD.

But Berg sees more near-term potential in industries "the FDA actually works with," namely food manufacturing, which is vulnerable to costly and reputation-damaging recalls. He mentioned **Hormel Foods** (HRL) and Cargill as two possibilities.

Suri sees Johnson & Johnson, because of its existing relationship with Veeva, as a candidate to adopt its Vault platform for managing quality in other regulated industries. Baby food manufacturers such as Nestle also would be a natural market for Vault to penetrate, Suri said.