

Xactly Exacts \$15M Third Round

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By Clifford Carlsen

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On-demand compensation management software maker Xactly Corp. raised \$15 million in a third round of venture capital to support continued expansion and product development that is expected to take the two-year-old company to profitability.

Alloy Ventures of Palo Alto, Calif., led the deal, joining Rembrandt Ventures and Bay Partners of Menlo Park, Calif., and Outlook Ventures of San Francisco to bring total funding of the San Jose, Calif., company to \$27 million.

Xactly chief executive Christopher Cabrera did not disclose pricing of the deal, but said the company has doubled its valuation in each funding round.

"This is more than enough to get us to profitability, and there was a lot of interest from investors," Cabrera said. "We did not spend a lot of time talking to investors, and had five term sheets for the funding."

Xactly's service allows customers to see compensation for their sales staff as deals close and lets salespeople track their own commissions. It replaces spreadsheets and other proprietary systems, and can be integrated with the hosted customer relationship management software and traditional ERP systems. The company partners on sales with companies including Oracle Corp. of Redwood City, Calif., Microsoft Corp. of Redmond, Wash., and Salesforce.com of San Francisco.

Xactly operates a hosted service that provides customers an automated tracking system for sales commissions and compensation, enhancing accounting for regulatory compliance, as well as providing a real time tracking of sales performance. The company's products are aimed at medium-sized companies with 2,000 or fewer sales people, and replace expensive, bulky on-premises software products, or traditional spread sheet-based internal systems.

Cabrera said that after launching its first products in September 2005, the company spent much of its sales effort on introducing companies to the advantages of adopting an automated sales force compensation system to replace in-house functions. But he added that Xactly more recently has begun to win over customers abandoning more expensive on-premises software to shift to a hosted service.

"The advent of on-demand software is what made this doable," Cabrera said. "With the hosted service there is no notion of shelfware; if it doesn't work you don't pay for it." Xactly's products cost about \$50 per user, and Cabrera said the company's average deployment is about 175 users per customer.

Richard Gorman, a venture partner with Bay Capital, said he was attracted to the company's \$4 million first round of September 2005 based on the opportunity to introduce new automation features to customers that had previously relied on spread sheets, and he said there now is much wider recognition of the benefits of such systems.

He said the current round will enable the company to greatly accelerate marketing.

"They have had very good adoption by customers and are going through rapid growth," Gorman said. "But now they have the ability to dramatically ramp sales and product development."

Xactly used no outside financial adviser for the round, and called on Matthew Sonsini of Wilson Sonsini Goodrich & Rosati PC in Palo Alto. Cooley Godward Kronish LLP in Menlo Park represented the investors.