

**SaaS Show 2 -- The Impact of COVID-19 on the SaaS sector
Which Sub-Sectors Are Seeing the Most Change Both Positively and Negatively?**

In today's show, you'll hear investor perspectives on the COVID-19 impact on the SaaS sector.

This is Investor Perspectives, I'm the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

It's the time of COVID-19. Software as a Service is currently undergoing tremendous change across the U.S. The lockdown has disrupted many industries such as travel, hospitality, restaurants, and more. We have investors and startup founders describe the impact of COVID-19 on the SaaS market.

Our guests are:

1. **[Matt Oguz](#)**, Chief Investment Officer, **[Iris Family Office](#)** and Founding Partner at Venture Science, **[Venture Science](#)**
2. **[Nick Adams](#)**, Managing Partner, **[Differential Ventures](#)**
3. **[Karey Barker](#)**, Founding Managing Director, **[Cross Creek](#)**
4. **[John Gu](#)**, Principal-Growth Equity Group, **[Spring Mountain Capital](#)**
5. **[JD Weinstein](#)**, Head, Global VC Practice, **[Oracle](#)**

I hope you enjoy this episode.

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Our first guest is Matt Oguz, Chief Investment Officer, Iris Family Office and Founding Partner at Venture Science, Venture Science

Hall T Martin: [00:11:14] So, the SaaS includes many different applications and sectors, and of course, many of them were positively impacted, like Zoom and so forth, because it's online content and engagement. But, were there any sectors that were negatively impacted because they were in a different spot?

Matt Oguz: [00:11:34] Well, I mean, you know, software as a service, I mean, absolutely. I mean, some software as a service companies provide payroll processing, or HR-relevant roles, and, you know, if the companies that they serve, their customer base is negatively impacted, you know, they themselves will, in turn, be adversely impacted during that time. So, anything that fuelled retail was negatively impacted unfortunately.

Hall T Martin: [00:12:10] I read in the early parts of the pandemic that the predictions were made that most SaaS companies should expect to see a 20% drop in sales because of that issue. Your company may be online with content engagement, but your customers are not, and so, some portions will shrink. Was 20% the right number, or do you think it was higher or lower than that?

Matt Oguz: [00:12:35] You know, I don't know what that right number is. I mean, I haven't done or I haven't seen a survey of software as a service companies. I mean, obviously, those that are publicly traded, you could look to see what had happened. I mean, based on their public filings as well as the stock price, the underlying stock price, which today is a little bit of a different story with very high multiples. But again, if the software company is serving a client base that's highly retail, highly face to face, if they're serving restaurants, they're not doing well. You know, Airbnb, for instance, is a good example of that. I mean, one could argue that they are a software as a service, kind of a tenant-management platform or a booking platform, so to say, and if they're in the travel industry where people are out and about, they're traveling, they're staying, of course, they're adversely impacted. But, I guess the question maybe becomes, what percent of our economy today is the digital economy, where digital products are exchanging hands, the digital products are created and service, you know, versus the physical products? Or, you know, do we let major retailers handle all the physical products? Seems like that's kind of the direction that it's been. And then on the digital part of things, everybody kind of becomes part of that digital economy. You know, everybody has a story to tell. For instance, if you want to put out digital content, you need software to design all of that and schedule it and push it out to everybody in the world to see, whether that's a video, whether that's a book, or a podcast like yours. So, you know, everybody picks and chooses these, enablers is the software that

makes the digital world go around. So, I don't really see the world getting less digital by any means. If anything, this massive digital push during COVID era will continue. And so, you know, companies that are on the forefront of that will obviously benefit the most.

Our next guest is Nick Adams, Managing Partner, Differential Ventures

Hall T Martin: [00:04:48] So SaaS cuts across many different sectors, which sectors did you think got the most positive gain from it over this time frame?

Nick Adams: [00:04:57] It's a really good question. I think what we're seeing is actually a lot of the technology laggard industries are really starting to modernize more quickly than they had traditionally. A lot of our companies, even portfolio companies, are seeing a drop-off and slow down in budgets and buying processes in some of the typical sectors, but have started to see growth in government contracts, healthcare sector, financial services, a lot of places that were pretty tough to get through a procurement process in the past have started moving a lot faster. So, not only those, I think, you know, clearly the technology sector has stayed really healthy for the most part and continues to buy and modernize their own infrastructures. And then beyond that, sort of the pharma and bio space has a lot of opportunity and growth ahead of it right now as well.

Hall T Martin: [00:06:00] And so SaaS also goes into industries that were negatively impacted. Which of those did you think took a hit? Even though they're SaaS, they were selling to people that were not COVID-proof, so to speak. What did you find there?

Nick Adams: [00:06:15] Well, I think the obvious ones are retail and travel are clearly not doing all that well. You know, a lot of change for both, I think has been on the horizon. If your short term depended on selling into those industries, it's going to be pretty bumpy times, I think, for a lot of SaaS companies. Long term, I think both will do what our economy does. They will pivot, they will adapt, and they'll come back stronger in a few years' time.

Hall T Martin: [00:06:46] Do you think some of those segments will move online more of their content and engagement, retail moving more in that direction in the future, and so in the long haul, it might come back up? Or do you think it's just not a good fit, it's not going to happen?

Nick Adams: [00:06:59] I think it will. Look, I might be a little bit old school - I'm 39 years old, so I'm on the cusp of being a millennial and Gen X - but, you know, for me, I think the future of retail, aside from like just pure e-commerce and Amazon in the world, is really a combination of online/offline experiences and how do you merge that into the best possible scenario and best possible experience for customers?

And for me personally, it's a mix of the two, and I think that will continue to grow in terms of adoption and popularity as we find our way out of this e-commerce-dominated market that we're in today.

Our next guest is Karey Barker, Founding Managing Director, Cross Creek

[00:14:26] **Hall Martin:** Well, as in many other sectors, we found COVID accelerates some parts of the industry and deaccelerates other parts _____ outlining what's been positively impacted, but what in the SaaS space has been negatively impacted by COVID?

[00:14:44] **Karey Barker:** That's an interesting question. There's not a lot of examples of traditional SaaS but in the, you know, other than particular customer segments, so almost all of these SaaS businesses, certainly have customers that are in transportation, hospitality, any number of industries that have been impacted. So clearly, for those industries, the SaaS vendor selling to those have been impacted negatively. I think that there's a variety of other examples that are more a referring transaction. So while something like digital ticket sales or hospitality bookings isn't SaaS per se, those software companies obviously have been dramatically impacted by COVID.

[00:15:44] **Hall Martin:** I remember during the lockdown, many people predicted that SaaS sales would go down by anywhere from 20 to 30%, because of the customers, they're taking longer to make decisions, they may not have the funds to renew, and there's lots of reasons why the customer couldn't sign up for it, even though SaaS is up and running its online content, its online engagement, it's not impacted in the most part. But on the customer side, what kind of impact do you think we saw overall in SaaS, did it go down by 20% or what's your estimate?

[00:16:16] **Karey Barker:** I think initially we certainly saw that and it was mostly in that, but we did not see attrition. So we did not see very many SaaS vendors have customers leave. But in terms of new signing, particularly the very high priced items that are generally sold by an in-person, physical salesforce, we saw those signings draw, particularly in industries that were being impacted by COVID initially. But then what we've seen is actually an acceleration as people look to move away from their perpetual on-prem solutions to cloud. So the drop may have initially been that large, but really, it was on new, not across the board, because most of the customers are paying an annual subscription license, and they couldn't or didn't cancel – the new bookings were momentarily delayed, but quickly rebounded as companies wanted to move to a better work environment as their employees continue to work from home.

Our next guest is John Gu, Principal-Growth Equity Group, Spring Mountain Capital

[00:04:46] **Hall Martin:** Right. Well, in most sectors in the economy, we found that COVID accelerated some portion of that sector and then deaccelerated other portions – how do you see that playing out in SaaS?

[00:04:58] **John Gu:** Yeah, so I think the general kind of rule of thumb that we kind of see play out is that for everything that's kind of related to work from home, you're seeing a bit of an uptake. And then for things that require convenient people in person, you're going to see some headwinds. And so, if we look at companies such as those in retail, those in logistics or those in hospitality and travel, you're definitely going to see some headwinds to those businesses. And I could create opportunity in terms of new

business paradigms that have to adopt, but also could create a lot of uncertainty at the management level that could pressure the buying process for a lot of those corporations. From folks that, for companies that actually do help with the work from home situation, some of the names I alluded to earlier such as like the Slacks of the world, the Zooms of the world, they are going to see more and more adoption and uptake. And there are new business models that have been created to address the needs of the current paradigm, and so Telehealth is an area that we spent a fair amount of time and that has actually seen quite a bit an uptake in this environment.

Our final guest is JD Weinstein, Head, Global VC Practice, Oracle

[00:09:25] **Hall Martin:** Great. Well, in particular, COVID-19 came through and changed many industries and it accelerated some parts of the industry and then deaccelerated other parts. What sectors or subsectors in SaaS went positive and what went negative?

[00:09:44] **J.D. Weinstein:** So there's obviously a lot to say about this topic. So first, what I want to throw out there is the future is not something that we try to predict, it's something that we create as entrepreneurs or innovators, disruptors, what have you. An entrepreneur you invest in has to embody this characteristic, being proactive rather than reactive, otherwise you'll always be lagging in the marketplace. There's a partner Mike Maples from Floodgate, I think just worth quoting because he says something around, like, what an entrepreneur really is, is a sort of time traveler, who, based on inflections, identifies a valuable non-consensus future, and then he comes back or she comes back to the present and starts this movement. In terms of specific industries, I think, that being said, it's debatable as to who's going to be going back to the office when this is all over and how right the state of commercial real estate might look. I think other things to look at would be more specific would be keep an eye out on the pet industry. So animal shelters are empty right now, everyone has pets. In a couple of years, that's not going away. Everybody is still, hopefully, the majority of those folks are still going to have pets. International corporate travel is something that we see just from a large enterprise software company perspective, deals that can get closed over Zooms instead of five or six overseas trips, that's going to be a big issue for the airlines. I think the two most interesting areas that I'm personally paying attention to are wellness, number one, as an industry. So that's healthcare or mental wellness and practice, but also fitness and wearables and IoT on the other side. Think about how quickly people changed from soda being the number one consumed bottled beverage to water a couple of years back. So I think that trend is certainly going to be continuing, and a lot of post-traumatic stress disorder and things coming out of some really strange times we've all lived through, hopefully, bringing us closer together. But most importantly is climate change. So obviously this is as crucial for our survival, but more importantly, finally big investor institutions are _____ massive financial opportunity, and now are pouring funds in the space.