

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Keynote Systems Inc. (KEYN)



UMANG GUPTA is Chairman and Chief Executive Officer of Keynote Systems, Inc., the worldwide leader in Web performance measurement and management services. A well-known technology visionary and early Silicon Valley entrepreneur, Mr. Gupta wrote the first business plan for Oracle in 1981. He was the Founder and Chief Executive Officer of Centura Software Corporation, formerly known as Gupta Corporation, the software company he started in 1984 and grew into one of the world's leading independent software tools and database companies by 1994. Mr. Gupta was a seminal influence on the growth of the enterprise software marketplace by bringing to the world the power of relational databases and PC development tools. Mr. Gupta has also been an active investor and advisor to a number of Silicon Valley startup companies including serving on the Board of Trustees of Mosaix, a publicly held call-

center systems company from 1997 to 1999 until its sale to Lucent Technologies. Mr. Gupta began his career in 1973 with IBM, where he held several sales and management positions. He then served as Vice President and General Manager of the Microcomputer Products Division of Oracle Corporation from 1981 to 1984. Mr. Gupta received his Bachelor of Technology degree in Chemical Engineering from the Indian Institute of Technology at Kanpur in 1971 and his MBA from Kent State University in Ohio, in 1972. In 1996, he received the Distinguished Alumnus Award of the Indian Institute of Technology at Kanpur for his outstanding contributions to information technology and entrepreneurial achievements.

(SAY212) TWST: Would you begin with a brief historical sketch of Keynote Systems and a picture of the things you are doing at the present time?

Mr. Gupta: Keynote Systems began its life in 1996. We have been known for a long, long time now as the preeminent provider of measurement and monitoring services for e-commerce Websites. Companies using our services range all the way from Amazon and Cisco to Dell, Microsoft, IBM, American Express, Fidelity and Barnes & Noble. Almost 2,200 customers today utilize Keynote services of one kind or another that involve measuring or monitoring the health and performance of their e-business Websites. Over the last few years, four years since the bubble burst, we've added many additional services that are more complex and higher value and that provide consultative engagement-based support for capacity plan-

ning, load testing and tuning, along with customer research involving perceptual audits and brand audits for helping customers improve the usability of their Websites. Essentially our entire business is all about helping customers improve the performance of their e-business systems worldwide.

TWST: Are different customers required to be serviced in different ways?

Mr. Gupta: We have three different categories of customers. One, customers who only use our low-cost monthly subscription services for measuring or monitoring their Websites. These typically are handled on the phone through our telesales group headquartered in Plano, Texas, and this represents about 50% of our business today. The other 50% breaks out into two roughly equal categories. One of them is service level management customers,

which utilize our higher value-added technical consulting services. Almost all such services involve our proprietary technology, combined with experts from Keynote who help deliver the results of specific project engagements involving the optimization of their Web infrastructures or application systems.

The remaining part is what we call customer experience management services where our primary customers are actually Chief Marketing Officers of e-business operations or people reporting to the Chief Marketing Officer. And there also we provide a combination of proprietary technology and consultative value-added engagement that helps more of the marketing brand and Website effectiveness audits to be done, rather than technical audits.

TWST: Have your customers come back to you with specific numbers for savings or for improved performance?

Mr. Gupta: We have a host of examples that I could speak to, but very broadly speaking, customers find that our services help them to sell more products on the Web because they are able to use our customer experience management services to help improve the effectiveness of their Website, thereby improving the conversion rates from prospects to customers. Our customers also tell us that we help them save money and provide better quality of service to their customers. For example, improving the performance of your transaction services on the Web can oftentimes move customers away from expensive telemarketing salespeople to transacting business with you solely via the Internet. That's a great example of an immediate ROI that you get by improving the quality of service of your Website.

TWST: You said that you're out in front of all the competition.

Mr. Gupta: I think so. We have been known for a long time as the leader and the dominant player in Website measurement and monitoring. By our own estimate, we believe we have about 80% of the Website monitoring and measurement services market ever since we got into this space. In the service level management (SLM) area, we are a small part of a very, very large systems management market. In fact, the entire systems management software market is really a multibillion-dollar market dominated by major players such as IBM, Hewlett-Packard, BMC and Computer Associates. What we provide are really services that add value to the existing software that customers build or buy, and I don't think there are very many other players that have that kind of niche focus that we've got on SLM services. But clearly as part of the broader ecosystem of the entire software marketplace, we are still a drop in the bucket. But as a services player, we believe we are further ahead than anybody else. In the customer experience management area, while a lot of customers do have in-house software to measure how many customers come to their Website or what those customers did, we believe we are the major player offering the high-touch consultative services that help you make sense of that data and to help you actually answer the question of why customers do something on your Website, not just what did they did.

TWST: This "why" part of it — do you think you can evolve in that direction further?

Mr. Gupta: I believe so. In the long run, our business really is predicated on two premises. Number one is that the Internet as a whole will become a greater and greater mechanism for commerce and communications, and I think most people would agree that is going to happen. The second is that as companies attempt to differentiate themselves on the Web, they will pay a greater amount of attention on improving the quality and performance of their Websites to either attract or retain customers compared to their competition. Improving performance will require solutions that measure and improve simple metrics such as availability and reliability, or speed up how long it takes to buy a book on Amazon or how long it takes to do a travel reservation on Travelocity. E-businesses will also need to focus on more complex marketing metrics such as brand perception. How do people feel about a particular Website or a particular product? How do people find a particular Website using search engines or other mechanisms? And when they do come to the Website, how do they actually feel about finishing the transaction versus perhaps just browsing and going away? All of these things are going to get more and more important over time and Keynote is in a very good position to offer services that help our customers do their job better.

TWST: Does this suggest that the barriers to entry are very high and that it would be very difficult for someone to step up and try to compete with you?

Mr. Gupta: Ultimately the barriers to entry in our business come down to either competing with the technology that we've built or acquired over time, or duplicating the infrastructure we have for deploying that technology. From a pure technology viewpoint, we've been at this job longer than anybody else, almost eight years now, and during that period, we have spent hundreds of man-years in building proprietary technology or buying technology. So I think it would be very hard for somebody else to simply put together that kind of technology themselves.

Secondly, deploying this technology is important. We are not just a proprietary software player; we actually take the software and then transform it into a service — sometimes a subscription service, sometimes a consulting service. But to do that, you need a combination of hardware infrastructure to deploy measurement probes all over the world and very specialized consultants in the field of service level management, testing and tuning, customer experience management and behavioral research. And the combination of this sort of consulting expertise and physical hardware infrastructure is very, very difficult for someone else to build quickly.

TWST: Earlier you very briefly mentioned the bubble. I had the sense from you that the bursting of the bubble was almost a stimulus to you to reach out in new directions or intensify your efforts.

Mr. Gupta: Yes, absolutely. When the bubble burst, we were faced with the classic problem that many bubble companies had: half our customers either went bankrupt or decided they couldn't justify their previous levels of purchases from us. Actually in the winter of 2000, we were at about \$13 million-a-quarter in revenues and virtually 100% of our business came from our low-cost measurement and monitoring subscription services. Today, four years later, only about 50% of our services come from measurement and monitoring, and the rest come from service level management and customer experience management. Both these segments were not ones that we were in four years ago, but we found ourselves by necessity, of having to replace lost revenues and lost customers in measurement and monitoring by either building our own products for SLM and CEM or acquiring companies in that space. And over the last few years we've done that. I am happy to report that in this most recent quarter, when we achieved roughly \$13.6 million of revenue, only half of it was from the old measurement business and the other half from all the new businesses. And we're a profitable company too.

TWST: What are the main things you hope to accomplish over the next three years or so?

Mr. Gupta: The last four years have all been about stabilizing the business and rebuilding it and diversifying our revenue stream. And so one could say that over the last four years, what we've really done is to survive — in other words we avoided the fate of many other Internet companies that literally did not survive. In order to thrive we must a) grow the existing business and b) do so profitably. I think we are set to do both.

The measurements business is now stable. The SLM and CEM businesses have historically been doubling every two years, approximately speaking. I hope we are able to continue that trend line, and while clearly there is no guarantee that will happen, if we are able to do that, then investors will actually see some healthy growth in our business and also increased profitability.

TWST: What are the possible problems, challenges or hurdles?

Mr. Gupta: The challenges in building a multifaceted business like ours are mostly in execution. At this point, I believe that most of the strategic challenges revolving around what business we are in and what to emphasize, have been resolved. We clearly need to grow our SLM and CEM business, including expanding into the wireless and mobile services space. We made one small wireless acquisition a few years ago, which has done very, very well for us, but I think we may very well do more acquisitions in this area in the future.

Apart from acquiring additional companies that help us increase our footprint, I think the most important goal for us is improving the productivity of our sales force and of our consulting organizations so that we can organically increase revenues, and do so profitably.

TWST: How many employees do you have?

Mr. Gupta: We have 225 employees today.

TWST: How do you find, train and develop your employees?

Mr. Gupta: We've been fortunate in that a very large number of our employees have been with us from the early days of our company — many of them have long tenures at our company. Many others came to us as part of acquisitions and over time have broadened their roles at Keynote. The key for us is finding people who are bright, energetic, who have a command of their particular domain, whether it is service level management or customer experience management. We are looking for people who are ambitious, driven and in general want to work for a company they can feel proud of like Keynote. Our focus has almost always been on not just building great technology, but on making sure it can be delivered in a way that makes it easy for customers to do business with us. That requires people who always put the customer first.

TWST: Would you tell us about the background and the expertise of yourself and a couple of your key colleagues?

Mr. Gupta: I've been working in Silicon Valley since 1980. After seven years at IBM in the 1970s, I was lucky enough to join Oracle Corporation, where I wrote their business plan in 1981. I left Oracle in 1984 to start a company called Gupta Technologies that went public in 1993. It was a pioneer in the client server business at that time and a very successful company. This is my third company that has gone public. I got involved with Keynote as an early investor and Board member in 1997, became its CEO a few months later, and we then grew it and took it public in 1999. Many of my management team are similar veterans of Silicon Valley. Our Senior Vice President of Products has been with the company almost eight years and has had tremendous experience in many other hi-tech companies, including Oracle and Aspect Telecom. All of our other executives have come from high-tech companies that are either in our market segment or provided a training ground to do well in our space.

TWST: What would you reasonably expect the company to look like about three years from now, and what might be some milestones along the way?

Mr. Gupta: As you know, we don't provide guidance beyond one quarter. So clearly I cannot speak to the financial aspects of the business, but I can tell you that my goal is to build a company that one day can be a \$250 million company. I can't tell you it will be in three years, but I can say that we will not be satisfied until we build the business to at least that size and that is the largest player in the field of e-business performance management.

TWST: Do you see any reason to improve the company's capital structure?

Mr. Gupta: We have \$150 million of cash in the bank, a building worth approximately \$30 million, and we have no debt. So literally our current hard assets per share are roughly \$180 million or approximately \$9 a share. If anything, we may be a little overcapitalized, which is why we recently announced a "buyback" of up to 10% of our shares in the coming year.

TWST: How much of an effort do you put into investor relations right now?

Mr. Gupta: We have a fair amount of emphasis on attracting those investors who are either value investors or focused on growth at a reasonable price, because much of our own approach to building our business has been on growth through acquisitions, and most of our acquisitions are done based on a value basis. In effect, we try to find small technology companies with a valuable or fast growing product that perhaps would be better off being part of a larger company's product portfolio than trying to survive on their own. But we always look to acquire such companies at a reasonable price. So our focus has largely been on attempting to attract investors who have a similar philosophy for investment.

TWST: What are the two or three best reasons for the long-term investor to take a very good look at Keynote?

Mr. Gupta: First of all, we are a unique company in a unique niche. Even though there's a very large market for systems management software, there are very few players who are totally focused on the service level management side of the business as we are, and the same is true in customer experience management. There are no players who have the combined portfolio of services that we offer. So number one, we do not have a head-to-head direct competitor of our size who offers all the services we do, although we do compete in some parts of our business with players much bigger than us.

Second, the company itself has a pretty reasonable enterprise value relative to current sales and current profitability compared to many other companies. Our enterprise value currently is roughly \$3.50/share and that's about \$75 million. So it's not very much compared to our recent quarter's annualized revenue run-rate, especially since we are also generating healthy cash-flows.

I think when you look at the overall potential of the market, the experience of the management team, and our ability to build a solid business both in good times and during tough periods, you can expect that we will be able to offer a pretty good return on investment for investors who take a long view of our company.

TWST: Would you like to make a closing statement regarding the company's vision or long-term objectives?

Mr. Gupta: Our vision when we got started and our vision today remains the same. We want to improve the performance of e-business worldwide. And we think if investors look at the big picture of the Internet and its potentially explosive growth as a means for commerce and communication, and then look around for companies that help improve the use of the Internet for commerce and communication, they will find that Keynote is a very interesting player in this space and an attractive and worthwhile investment.

TWST: Thank you.

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