8 START-UPS THAT ARE NOW TRANSFORMING ECONOMIES

"ONE SIGN OF SUCCESS IS ENTERING A COUNTRY AND 'SMASHING' THE STATUS QUO THERE"

PAULO ROSADO, LEADER OF OUTSYSTEMS.

IT TOOK A DECADE TO TAKE OFF

—

TWICE TEETERING ON THE VERGE OF BANKRUPTCY

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TODAY, THE COMPANY LEADS A MARKET SOON TO BE WORTH 22 BILLION EUROS

THE NEXT UNICORN

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2018

OUTSYSTEMS

THERE ARE THOSE WHO THINK 'OUTSIDE OF THE BOX' AND THERE ARE THOSE WHO THINK OUTSIDE OF THE SYSTEM THAT CONTAINS THE BOXES. PAULO ROSADO IS ONE OF THE RARE LATTER TYPES. WHEN HE WAS ON THE HUNT FOR CAPITAL TO LAUNCH OUTSYSTEMS IN 2001, AFTER MAKING HIS PITCHES HE WAS MET WITH WORDS SUCH AS "IMPOSSIBLE" AND "MADNESS". NOW, ALMOST 17 YEARS LATER, THE PORTUGUESE TECHNOLOGY FIRM IS TURNING OVER 100 MILLION EUROS AND SHALL SHORTLY BREAK THROUGH THE MYTHICAL EVALUATION BARRIER OF ONE BILLION EUROS.

THE NEXT UNICORN

TEXT BY JOAQUIM MADRINHA AND LUÍS LEITÃO | PHOTOS BY VICTOR MACHADO

When Paulo Rosado emigrated to the United States in the mid-1990s on a Fulbright Master's Degree grant to study computational science at Stanford University in California, the future plans of this recent IT engineering graduate from Lisbon's Nova University were focused on having an academic career. After just a few minutes talking with him, it is easy to understand that he would have been successful. Contrary to the majority of engineers, Paulo is very much at ease communicating with humans and manages to get them to immerse themselves in the world of software without meeting the imperative of knowing Java, C++, HTML or any other of those odd languages – and FORBES has two witnesses. However, as he himself affirmed, the airs of Silicon Valley proved too sweet. "I remember perfectly the day when I changed what I wanted. It was four in the morning, I was at a workstation, a type of university co-working facility, finishing off a project, myself and four Chinese students, when suddenly it seemed as though a lightning bolt flashed through my head and I thought: this is not the life that I want", he said. On that night, a great professor got lost, but one of the best ever Portuguese managers was gained.

Today, 17 years after founding of Outsystems, Paulo leads the Portuguese technology firm with the capacity to attain the scale of huge companies such as SAP or Oracle. Shamit Mehta, lead analyst at the risk capital fund Guidepost Growth Equity, which invested around 50.5 million

PAULO ROSADO

AGE: 53

EDUCATION: Graduated in Computer Engineering from Nova University of Lisbon and holds a Master's Degree in Computational Sciences from Stanford University, in California, USA.

POSITION: Founder and executive-president of Outsystems.

For Outsystems, being a Portuguese company never amounted to an obstacle for international growth. However, there was the need to grow in Portugal given how, at the outset, many national companies and corporations contracted their technology services from multinationals simply on the grounds they thought the international scale of these entities meant their services could be trusted. This never motivated Paulo to give up on his country. On the contrary, the heart of the technology firm remains here, with the company headquarters located in Linda-a-Velha, in Oeiras council. The same is the case with Paulo who, despite travelling the world multiple times per year for meetings and contacts with clients, always comes back home. This manager said that this helps keep his feet very much on the ground and, simultaneously, endows an enormous competitive advantage over his competitors given the profile that Portugal now holds within the technology universe.

OUTSYSTEMS

euros in the Portuguese company in 2016, told FORBES that "the ingredients are all there". Last year alone, company revenues soared by 63% to reach over 100 million euros. However, this is just the beginning. He estimates that the market for "low-code" software development platforms, the field in which Outsystems operates, will amount to 22 billion euros in 2022. This reality places the current market leader and supplier of the best product according to the prestigious technological consultancies Gartner and Forrester, on the verge of becoming the next Portuguese unicorn. According to calculations made by FORBES based on recent expansion rates and the potential for market growth, the value of Outsystems comes in at around 600 million euros. Questioned by FORBES, Shamit Mehta preferred not to comment but Joaquim Sérvulo Rodrigues, manager at Armilar Venture Partners, the third largest shareholder in the technology firm, showed no hesitation in affirming that this "represents a conservative evaluation."

EVERYTHING BEGINS WITH PAIN

With some time left on his visa to the United States after having quit his doctoral degree, Paulo embarked on his professional career in the Research & Development Department of Oracle, one of the world's largest software firms, right in the heart of Silicon Valley. With the advent of new Internet linked technologies, the valley was humming with activity as there emerged some of the great web based companies – Yahoo, Amazon.com, among others –, and the demand for professional IT engineers was enormous. "I lost half of my colleagues to start-ups", he stated before underlining the internal struggle he was battling. "It was very difficult for me to be exposed to that environment", he explained. Paulo believes that entrepreneurship is not inherently born in people but is rather something that gets created even if this is not something that his career conveys. Indeed, after two years working at Oracle, the engineer returned to Portugal and founded Intervento, a software and aggregate services firm.

In the late 1990s, banks, insurance companies and other sectors did not want to miss out in the dash for innovation. This ensured that Portugal saw its first major projects in the information technology (IT) field and one of the firms that gained the greatest scale was Altitude Software, which attained an international scale due to its innovative CRM (Customer Relationship Manager) solution. Carlos Quintas, the founder, ended up proposing a merger with Intervento that Paulo accepted, becoming the vice president for products and strategy. Altitude Software continued to grow and was planning its initial public offering (IPO) on the American Nasdaq technology index when the dotcom bubble burst in March 2000 and ruined those plans. Paulo did later participate in the IPO road-show but ended up leaving eighteen months after the merger. He told FORBES, that he never really got to understand the philosophy of the company while nevertheless recalling the experience "as a good learning process". However, the engineer already had other ideas.

His experience at Oracle and at Altitude Software had shown him that the software industry experienced an endemic problem. "Producing software inside companies becomes a Kafkian process in which the majority of projects never get finished", he explained. In his two years at Intervento, Paulo had detected a fallacy prevailing in the industry. Despite software constituting the tool that most contributed towards the automation and efficiency of processes across the most varied of sectors, in itself, the industry was highly inefficient as the project execution periods did not align with the dynamics of

Outsystems currently employs over 600 staff members with a seven-strong management team. Carlos Alves, who joined in 2001 and holds a 0,55% stake, is one of those voices. Responsible for the human resources department, he reveals that Paulo "has an unusual capacity to know about the lives and successes of our people." And he goes still further. With Outsystems competing in a highly competitive market, with its rivals featuring companies such as Google and other such giants, Carlos has no doubt that the popularity that Paulo has built up in this field represents a clear added value. "There are more complicated recruitment processes in which I use Paulo as the trump card."

AT AN ACCELERATED PACE

In the last six years, Outsystems has recorded soaring rates of growth with turnover spiking by an annual average of 41%. Last year, the best in the history of the Portuguese IT firm, income was up by 63% to reach over 100 million euros. Currently, over 80% of this turnover comes from outside Portugal with a particular emphasis on the United States – in 2010, the domestic market accounted for 53% of company income.

Source: Outsystems. Management Report and Accounts.

**OUTSYSTEMS IS A LEADER IN A MARKET FORECAST TO BE WORTH 22 BILLION EUROS IN 2022.**

REVENUES (IN MILLION EUROS)

Year	Revenue
2006	6,0
2007	8,8
2008	12,1
2009	12,4
2010	12,9
2011	13,0
2012	19,1
2013	21,2
2014	29,3
2015	43,2
2016	61,6
2017	100,4
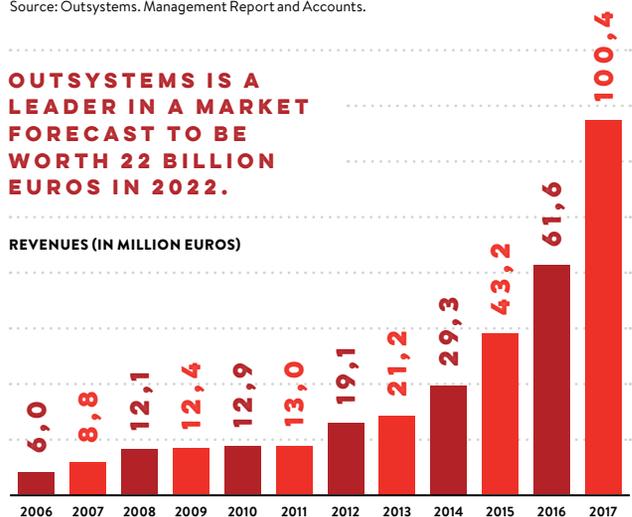
JEWEL IN THE CROWN

The Paulo Rosado's idea was to build a platform "outside of the system" of companies that would ensure greater agility in the production of software. This objective explains the name of the company and the toll – Outsystems. Today, the Outsystems solution gains the consensus of Gartner and Forrester, two prestigious technology sector research firms, as the best in the market for developing web applications for the most varied of purposes. In essence, this is a programming methodology that enables the development of every type of web solution, such as websites and apps, making recourse to a visual language based on a drag and drop system in which each "ball" represents a particular order underpinned by the thousands of lines of code for its execution. The catchphrase prevailing in the sector refers to these as agile or low-code methodologies as they meet 98% of the needs for hard and pure programming.
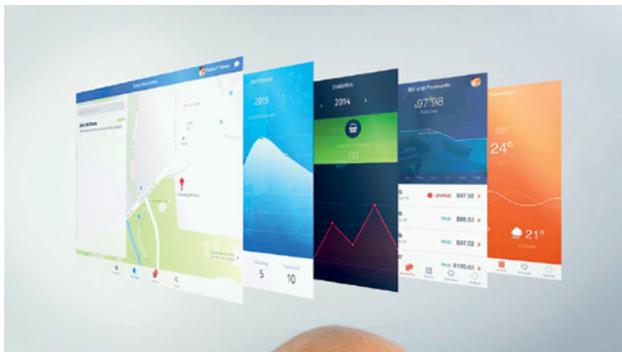
"IF WE LAUNCHED THE COMPANY IN THE USA, WE WOULD NO LONGER EXIST."

"I'M ALWAYS IN THE STARTING HOUSE. I LIKE TO SEE MYSELF IN TERMS OF MY OWN INCOMPETENCE."

"YOU NEED TO GIVE PEOPLE FREEDOM SO THAT INNOVATION CAN EMERGE NATURALLY."

the respective businesses. This is practically like building a bridge while both of the banks and the foundations are undergoing constant movement. With a "wrench" here and another there, jobs did get done but only with two consequences. One resulted in an exponential surge in costs: on average, companies are spending 85% of their annual IT department budgets on maintaining and tailoring existing systems due to the constant alterations ongoing in the business. The other encapsulates how such projects become never ending. "In the two years of Intervento, we did not complete a single project", he admitted, half-embarrassed. As the owner of a company in this sector, Paulo was not too bothered. "Companies paid well for this type of work, which led to a wonderful life for those developing the software but such success was based on the genetic inefficiency of the industry and the entire sector knew this", he clarified. The inertia stemmed from the incapacity to change amounting to the "pain", as he likes to term the need that gives rise to innovation.

THE PATH OF STONES

Analytical and with an almost boundless capacity for abstraction, Paulo divides his scant free time between his family and doing sports but, what he gets most pleasure from is building models. "I'm always creating models, business models, product development models, client relationship models", he explained before confessing that one of the managers he most admires is Charles Munger, vice president at Berkshire Hathaway, the holding group that brings together the conglomerate run by Warren Buffett, exactly because he is also a big fan of models. And it was in one of these model building moments that he broke down the problem and found the remedy to take away the pain from the software industry. Thus, the foundations for launching OutSystems came into being.

Carlos Alves, the right-hand man of Paulo ever since the launch of Outsystems, revealed to FORBES that he "lives the business 100%. He is highly immersed in his work." Among the various models developed, Paulo created one to define the criteria for the success of a business and Outsystems has met almost all of them. The "pain" was identified. There was an enormous market anxiously awaiting its "medication". The engineer had the knowledge and the team able to develop a differentiating product, better than existing ones and at a price that would more than compensate for all the time and the costs put into designing and maintaining the traditional solutions. All that was missing was the money. According to Paulo, investment represents one of the fundamental variables to the success of any start-up. On the one hand, this provides the freedom for the entrepreneurs to focus fully on the business. "We all have bills to pay and many times the option goes to setting up a part-time business while holding onto the regular job. This is already halfway to failure in both the business and in your personal life", he defended. On one hand, being an investor brings responsibilities and avoids financial problems in the short term and the long term. "Being a bad debtor, for example, brings bad karma", he said.

In 2001, given all of the hangover from the technology bubble bursting in the North American markets, raising capital was not expected to be an easy task but, as the popular saying goes, "fortune favours the brave". One month after 9/11, Paulo raised one million euros. "We got in through a crack in the door. Six months later, the market closed", he said while laughing, highlighting that you also need to be lucky. In the case of Outsystems, this luck came after the over 40 pitches that Paulo made to potential inves-

OUTSYSTEMS

Outsystems has thousands of clients dotted all around the globe alongside a community of over 167.000 professionals developing thousands of applications through their platform. In Portugal, BPI has worked with Outsystems since 2011 in the digital banking channels sector, which includes web and mobile applications (BPINET and BPI App). Furthermore, there is also Benfica SAD with its mobile application built through recourse to the Outsystems platform. Whether in Portugal or internationally, the company's tool is looking ever more convincing.

tors at the end of which he would get, at least most of the time, answers such as "impossible" or "madness". During the the company's "Sales Kickoff" at the Hotel Grande Real Villa Itália, in Cascais, at the beginning of February, an event that brought together the over 200 Outsystems employees for a week, Carlos Alves recalled an episode that well reflects the determination of Paulo. "In 2004, the two of us went off to make a pitch to one of the top analysts at a company in the market. At the end, the analyst told us that Outsystems would not survive more than three years because the market would get eaten up by IBM and the other giants. Paulo did not spare his words in response and left the meeting absolutely certain that the guy was wrong and that we would prevail."

With all the tools in the box ready for launch, Outsystems designed a business model that started out by targeting the telecommunications sector. They got their first client with the Portuguese telecommunications company Optimus, which would be crucial to the survival of the technology firm, before they secured the Spanish operator Telefónica, and then another Dutch operator. However, the sector then suddenly went into recession due to the high prices paid for 3G licenses and the market dried up. The needs of the hour required ingeniousness in the product and financial model.

WHEN BANKRUPTCY CAME KNOCKING

If your business is selling yogurt, you know there is going to be demand to a greater or lesser extent. However, if your field is electric cars, then that no longer proves the case. "Now, there is demand for electric vehicles, if a manufacturer had tried to move into the market at the beginning of the century, then they would have had serious difficulties surviving", explained Paulo. When reaching a market with a very different product that still does not have any demand, then the company has to go through a phase that often gets termed "the evangelic sales phase", which reflects the efforts needed to close a sale, almost

STAKEHOLDERS

Holding over a third of the capital, Paulo Rosado remains the key shareholder in the Luxembourg-based Outsystems holding group. Holding a practically equivalent stake in the shareholder structure is the risk capital fund Guidepost Growth Equity, which last year took up a 33% stake in the company following investment in excess of 50 million euros. Source: Orbis, Bureau Van Dijk.

OUTSYSTEMS WAS TWICE ON THE VERGE OF BANKRUPTCY. THE FIRST TOOK PLACE SHORTLY AFTER ITS LAUNCH.

Paulo Rosado	34%
Guidepost Growth Equity	33%
Armilar Venture Partners	25%
Rui Pedro Pereira	6%
Outros	2%
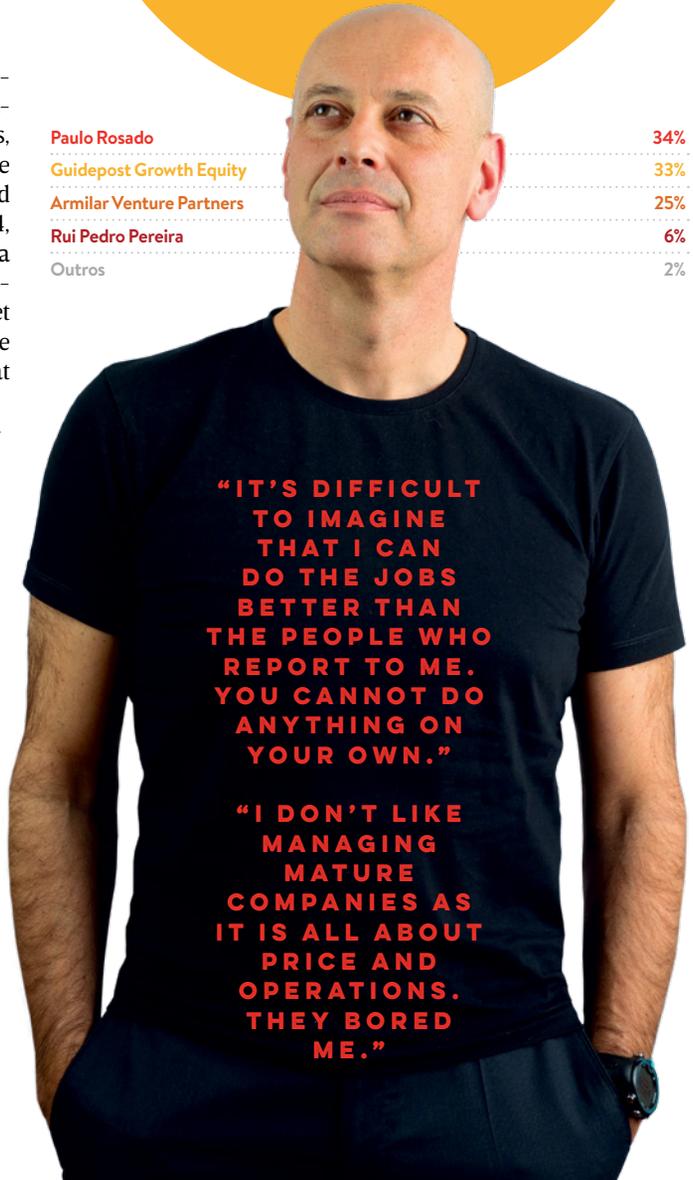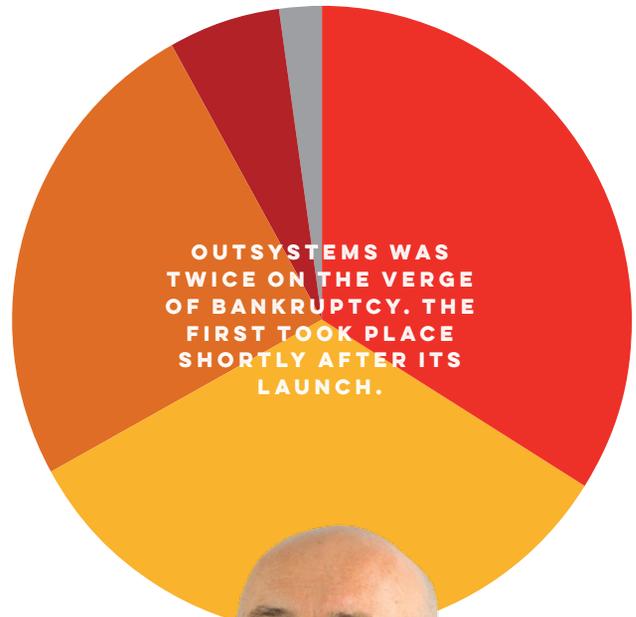
"IT'S DIFFICULT TO IMAGINE THAT I CAN DO THE JOBS BETTER THAN THE PEOPLE WHO REPORT TO ME. YOU CANNOT DO ANYTHING ON YOUR OWN."

"I DON'T LIKE MANAGING MATURE COMPANIES AS IT IS ALL ABOUT PRICE AND OPERATIONS. THEY BORED ME."

begging, to try and change and create opinions in people about the product. "In these cases, the idea is to get to market two or three years before demand rockets. We arrived twelve years before", he exclaimed before confessing that over this period, Outsystems twice teetered on the verge of bankruptcy.

One of the darkest days, with collapse looming over the company's offices, took place just shortly after its foundation. The business model planned for initial fund raising of one million euros followed by another round raising three million eighteen months later. However, the state of both telecommunications firms and of the capital markets were not at all favorable. And this is where the importance of Optimus comes in. Due to its agility, the Sonae group telecommunications operator had begun using the platform to come up with internal applications. "Let's sell this to companies as a solution for making applications", thought Paulo. And thus it happened. They won over the toll-road company Brisa, after came ANA – Aeroportos de Portugal, large companies that were then followed by 20 more clients that enabled reaching the break-even point. "We spent three years spinning out that one million euros. Nobody knew but we were practically out of cash in the bank. That was the time when I lost all of my hair", he suggested.

Fresh capital would only appear in 2005 when the company managed to raise 2.2 million euros and again in 2007, when ES Ventures, today Armilar Venture Partners, invested 3.2 million euros. Joaquim Sérvulo Rodrigues, responsible for the Portuguese fund manager recalled that point in time. Like many other listeners to Paulo's idea, he also exclaimed "impossible". "I remember commenting

to my colleagues that Outsystems was planning to do the impossible", the manager recalled. Eleven years ago, the way of companies worked on their information technology system was the same as it had been at the beginning of the century when Outsystems was founded. Companies would purchase software packages and then contract the large consultancies such as Deloitte or Accenture, for example, to develop a tailored application that would change on a monthly basis in keeping with the dynamics of the business. "One thing was being able to get a market niche and another was changing the functional model in a gigantic industry", said the manager in his justification of the investment. However, it was not only this. Outsystems also risked everything when deciding to change the way it monetized its business.

In 2011, with the business still far from any great leap forwards, Paulo took the decision to change the pricing model, giving up on the sale of open-ended licenses to begin selling software subscriptions. With this change, that he confessed was done "in an act of madness", the company sought to boost experimentation with the platform and, through this, gain more clients. However, this would lead to a sharp downturn in earnings as the value of a subscription was far lower than a lifelong license. Paulo was thus expecting a correction in the company turnover level but he did not predict anything quite as dramatic as what happened. "We thought that we lower our turnover by three times but instead the drop was six times", he said. However, time would justify the decision. Today, practically every company in every sector has switched from one-off license sales to annual subscription models. In the case of Outsystems, the company went from employing 134 staff members of staff in 2011 to over 600. "Within the space of four years we made the shift from a traditional company to a cloud company", highlighted the Outsystems leader.

INGREDIENTS FOR SUCCESS

When seeking to launch an unknown product into the market, the only possible approach is to convince the client of the value the product brings. At Outsystems, the generation of client value represents the number one priority and only afterwards come the sales. "At times, this does generate problems but what I tell people is that in case of conflict, give up on the sale", Paulo explained. This sounds like marketing but makes sense. If you try to relieve the pain of a patient and then find that this does not meet expectations, then the patient is going to have nothing good to say about the remedy. Paulo drew on this philosophy from one of his favourite managers, James Sinegal, the founder of Costco. "That company even had a fascinating rule that profits could not grow by more than 12% per year, which forced the stores to pass on value to the clients", he added. This was the very philosophy that Outsystems applied to win over the market with clients passing on the message that the solution provided by the company did in fact generate added value.

It is easy to understand that this manager's resilience represents one of the secrets to the success attained by the Portuguese technology firm. There has been a decade of treading water, waiting for the demand to appear and this is not normal. "If we had founded the company in the United States, we would no longer exist", he affirmed before adding that "there, a start-up either enters into an accelerated growth phase in three or four years or it goes under". Starting out in Portugal helped, but it was no easy ride. "There was a time, back in around 2010 or 2011, that we wondered whether it was worth continuing to make the effort", confessed Paulo. At that time, Outsystems

had about 120 employees, some already with a significant part of their lives invested in the business. "They would come and ask if they should continue or change career and I responded with my conviction", he said. People stayed on because they believed in the leader.

In any final analysis, the success of a company gets measured by its value but Paulo provides a more personal definition. "One sign of success is entering a country and 'smashing' the status quo there", he said. However, in a business that needs to open up new paths, leadership is one of the most important variables in the equation. For those interacting with the founder of Outsystems, there is no doubt that you are dealing with a person bordering on genius. "Paulo is in fact unusual both in the field of technology and in his vision and management and leadership competences", stated the leader of Armilar Venture Partners, highlighting how "he is able to take others along with him". Joaquim Sérvulo Rodrigues identified the change in the pricing model for the one-off license to the subscription platform as an example of the manager's vision. "He himself proposed and defended this. It was a risk but he saw the change as an investment and the passing of time proved he was right".

The culture is the other differentiating characteristic of Outsystems. The company philosophy is based on "A small book with a few big rules", referring to the book given to each professional on joining the company that encourages constant innovation. The first of these rules is "Ask why". According to Paulo, this is the most important because people have the right to know what they are doing and why but above all because solutions only emerge out of questions. In the internationalization process, this rule did run into some problems because in some countries "asking offends".

Among these company "commandments", there is also the constant challenge of innovation and internal communication. According to Paulo, the latter is the greatest problem faced by large companies. "The top always needs to have contact with the base", he affirmed. In the initial growth phase of the technology company, the establishing of hierarchal levels generated problems in this area. Paulo said that they had already recovered but he remains aware that as the company grows in scale, the challenge of keeping up fluid communication patterns also rises. However, this is far from the only issue.

MYTHICAL POTENTIAL, HERCULEAN CHALLENGE

Despite having reached the 100 million euros turnover benchmark, Outsystems operates in a market with a potential value of 22 billion euros. The biggest issues, nevertheless, may be resisting a potential takeover bid. With the company having already attracted clients such as Toyota Motors, Siemens and the insurer Axa, and gaining market share in the United States, it is natural and legitimate for the large software giants to feel threatened. However, Paulo told FORBES that this hypothesis did not feature among his plans. "Money was never my objective", he stated. Furthermore, he also confessed to being the target of massive interest from new investors. Were a takeover to happen, this would have to have the agreement of the founder. As Joaquim Sérvulo Rodrigues explained, "despite a majority of shareholders being able to make this decision, to go against the will of the founder would involve an enormous loss of value", he explained while conveying how, in any such situation, Armilar Venture Partners would always take the side of Paulo Rosado. Meanwhile, the founder of Outsystems remains concentrated on the current phase of accelerated growth and all the challenges that such brings. "We want to sharpen our cutting edge and clean out any fat", he said in

>200

MILLION EUROS

After having received record investment of 50.5 million euros from the risk capital fund Guidepost Equity Growth in 2016 and having already notched up four rounds of investment, the next time Outsystems goes to the markets, this should already be above the 200 million euro barrier and thus placing the Portuguese technology firm on a new and different level. According to sources contacted by FORBES, this operation may yet take place this year.

PORTUGUESE ECOSYSTEM

Paulo Rosado does not participate as much as he would like in developing the national entrepreneurial ecosystem but this distance does not prevent a clear vision on what the country needs. "The model that functions here is the Israeli one that involves having the engineering here but the sales and marketing elsewhere", he explained. According to the manager, companies that head off very early to the United States and that receive investment there end up leaving mere centres of R&D outsourcing behind in Portugal. "Such cases hold no interest to us as they do not accumulate the know-how and contrary to Feedzai, Unbabel and Farfetch, which have the majority of their operations here". For Paulo, it is fundamental to encourage companies to keep all of their chain of value in Portugal and providing fiscal incentives in order to attract senior management specialists in product, engineering, marketing and sales.

explaining how the perspectives underlying this market expansion are very much in effect.

The company wishes to continue expanding and improving the quality of its team. After all, nothing works without a team of staff to execute the vision and the strategy defined by the leader. Paulo lets a smile of pride emerge when talking about this subject. He does not hesitate to accept that he comes across work done by staff that he could not do better and takes advantage of this to send out a message to entrepreneurs. "You need to give the freedom so that innovation can naturally emerge. You cannot do anything on your own", he said in terms of advice. For example, in the technical component, despite having the best product on the market, Paulo is aware that the engineering could be four times better, which requires Outsystems to employ the very best professionals. The same philosophy extends to other areas.

This explains the recent hiring of Steve Rotter as chief marketing officer and Mike Lambert as sales director, both professionals who came to join an already extensive range of specialists and with the experience fundamental to the company's current growth phase. According to Joaquim Sérvulo Rodrigues, a year ago, the great challenge for Outsystems was to grow in the United States at the same pace as in other geographies but this no longer remains the case due to the recent policy for contracting "advanced experience". According to this shareholder, Outsystems now has two major challenges: maintaining a culture of innovation and convincing the major consultancies, such as Accenture, KPMG and Deloitte, to adopt the company platform, which requires them to cannibalize a business area that has hitherto been extremely profitable. This is a Herculean task but Paulo is both aware and ready. "We are already setting up a new cycle so as not to fall into the stereotype of a mature company. I do not like managing mature businesses as afterwards it is all about price and operations. They bore me." ✪