

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Semantra, Inc.



CHRIS DAVIS is President and Chief Executive Officer of Semantra™, the leading software company that provides natural language search within software application databases. Mr. Davis is a seasoned executive with a proven track record of success in domestic and international markets including global sales and marketing management, profit and loss management, as well as consulting and general management in technology companies and startups. Prior to Semantra, Mr. Davis served as Vice President of Business Development and General Manager of the Wireless Software Division at Metrowerks, a software subsidiary of FreeScale Semiconductor. Prior to Metrowerks, Mr. Davis served as President and co-Founder of MobileGateway, a wireless systems integration company serving the Fortune 1000 market.

Mr. Davis has served in other key positions in the IT, wireless and telecommunications industries, including Ernst & Young Consulting and GTE Wireless. Mr. Davis holds a Bachelor of Business Administration degree and an MBA from the University of Texas at Austin.

TWST: May we start with a short introduction to your company?

Mr. Davis: Semantra is based in Dallas, Texas, originally founded in year 2000. From 2000 to about 2004 we were in stealth R&D mode, originally founded by a man named Marvin Elder who is a serial entrepreneur and a pioneer in both natural language and semantics, largely in the database arena. So, I was lucky enough to team with him in 2005 and from 2005 to current is the commercial period of the company, actually turning that intellectual property into a commercial application. What do we do? We live in the chasm that is beginning to evaporate between business intelligence and search, enterprise search in particular. What we do is we enable non-technical or technical business users to get at information, extract information and manipulate information that exists within their relational databases, largely those databases that are underlying an important enterprise application such as Siebel CRM. I mentioned Siebel as one of our core focuses in our go-to-market strategy, which is to work closely with both Oracle and Siebel to embed our application or couple it with their applications.

TWST: How does it correlate with content and data management? Would you give us an example of your solution at work?

Mr. Davis: I am glad you bring up content. I spoke at an enterprise content management conference about a year ago, which really kind of broadened the context in which we refer to content, which is beginning to be defined as any type of data or information that's important to an organization. So we live in that enterprise content world as well. A specific example that will help crystallize what we do is take a call center agent, for example, leveraging a CRM application within their organization, and now having that application extended and simplified, if you will, with the Semantra solution. What that means is our solution manifests itself with — for lack of a better description — a Google-like search user interface that enables the user to put in very specific requests and queries for information in the language of their business, which means, for example, “show me all customers that bought products from our eastern region.” Hit go, get that response, and be able to then have an ongoing conversation with the database or application and carry that conversation fur-

ther or move into more of a reporting mode of manipulating that into a histogram, bar chart, what have you, but do it all in real time. There is no latency here, this is banging the database and getting it back, but the key and unique differentiator or extender that we are providing is enabling anyone of any level of knowledge to get at the database. This has been a conundrum and tough hurdle to get over for both business intelligence and, candidly, enterprise search does not address this directly yet.

TWST: Does your software span over structured and unstructured data?

Mr. Davis: The answer is yes, but we put the majority of our focus on structured data, within a relational database, because this is where companies' most important data resides. I will give you an example of the unstructured or semi-structured data we also go after at this point, such as a free-form text field within an enterprise application such as Siebel that is not structured in nature, it's really a collection of various terms and concepts that the user pumps into the application but are not residing in the actual database structure. So we have the ability to do that, but due to focus — and let me say laser focus — on what we know, our distinction is, as unstructured becomes more important to our customer base, the likely conversations will continue to ramp up between us and people like Endeca, Autonomy, FAST and those folks that are very good at the unstructured side of things.

TWST: When was the solution launched and how much traction have you gained in the marketplace?

Mr. Davis: The traction has been excellent. The initial traction, which we did not expect, came from the public sector. The public sector, as you probably know, is not viewed as dynamic or progressive on the technology front but they really are. We began working with the State of Wyoming two years ago leveraging our technology in an independent way, so not as an OEM application, but an independent search platform that enables them to automate a number of processes and quickly find and make decisions based on the information in their database. So what we are doing is helping the state manage anything that's injected into the watershed or water within Wyoming, and this helps automate and educate various stakeholders from the EPA, the State of Wyoming, and big companies like Exxon Mobil that are actually doing the injecting into the ground on private land. So that was the first example of a commercial deployment.

We have also worked with companies in the distribution and logistics arena that manage millions of numbers of stock keeping units, and need to find things easily and find things in common terms and not according to inventory numbers or product numbers or serial numbers, for that matter. So Reynolds Company, which is about a \$300 million distributor here in the Dallas-Fort Worth area. Some bigger companies that we are beginning to deal with or have been dealing with in more of a proof of concept arena are folks like Citicorp and Nokia. Both of these companies, due to their girth and expertise, already understand semantics and ontologies, which we will probably talk about in a little bit, which are two key differentia-

tors and really bleeding edge techniques, if you will, to our platform. So we are working with both of those entities. The last comment I will make on commercial traction is we have now ramped up our efforts on original equipment manufacturer situation of embedding the Semantra solution within enterprise applications that already dominate the market in the CRM, ERP and BI categories. We're working with many of the brand name leaders, as you might guess, but our initial focus is with Oracle and Siebel in particular.

TWST: Does the size of the enterprise matter?

Mr. Davis: It does not matter. We are finding that the bigger the organization, the more inflection and emphasis they put on taking advantage of their information, and most of the bigger organizations, let's say, \$500 million plus and especially over the \$1 billion plus top-line revenue mark, have invested significant amounts of money, usually in the seven figures, related to enterprise applications, data warehousing and data management. Those folks are sophisticated and understand what we are doing, usually quicker than someone that's smaller and struggling with how to manage their IT shop.

TWST: Has the space been defined in terms of market size and opportunity?

Mr. Davis: Yes, and there are two different spaces we will have to touch on here because Semantra really has not been put in a bucket as of yet. We are being included in two spaces; one is business intelligence. The incumbent business intelligence market is \$11 billion, and I think that's according to Gartner. But the reality is that \$11 billion is on the incumbent market that is a technical customer base. If you broaden the market to include the non-technical employees that we are going after, it's really the rest of the enterprise, that's in the \$80 billion to \$85 billion range. So we know it's large. When you are talking on those types of numbers, whether it's \$85 billion or not, it is less relevant than the fact that it is a large market. So that's the BI side of things. The enterprise search market is really still being defined by unstructured activities. So we are included with enterprise search due to the fact that our application is used in a search metaphor but our practices and our technological focus appear to be more aligned with business intelligence, i.e. focusing on relational structured databases. The enterprise search market, I believe, has been quoted to be growing to the \$2 billion to \$5 billion range by 2009, 2010 but are continuing to evolve those estimates.

TWST: Would you comment on your marketing initiatives and your strategy for new corporate wins?

Mr. Davis: We have really honed in on the best use of our dollars and what we think will reach more of the market than we would through other channels, and that is ramping up the efforts behind our OEM strategy. So what you will see from Semantra in the near term will be a lot of activity and participation with Tier 1 software publishers like Oracle at the corporate level, and Siebel, the market leader within CRM, as well as those key partners that exist within their ecosystem both as systems integrators, value added resellers as well as other independent software vendors. So we are taking a less,

independent marketing roadmap and/or attaching ourselves to those smart marketing dollars and collaboration in the markets that already exist. We are adding a very unique product differentiation to solutions like Siebel and you will see us coupled with their brand name. You will see over the balance of 2008 and into 2009 our name attached to a lot of different brand names well beyond Oracle.

TWST: What is the average cost to deploy and implement your solution?

Mr. Davis: You won't like the first response I'll give, which is: it depends. But I can give you a range and sometimes the range is out of our control. Often our systems integrator and value added reseller partners own the relationship with the customer. Therefore, they will dictate at least on the professional services side what the total implementation ends up being. But I will say that the range of our actual application is \$100,000 to \$200,000. That can range a little bit lower, a little bit higher, but we have found ourselves in that range and, candidly, that's where we want to be from an application-specific pricing level. We charge significantly less than a traditional BI application. But, we are more in line with what the pricing appears to be coming out in the enterprise search space, which is \$150,000 to \$250,000, and then things vary when you include the professional services. A traditional rule of thumb for the professional services is anywhere from 1 to 3 times the application value ends up being the services, although some of our initial feedback from our VAR and SI partners is that it wouldn't be quite that much, closer to the one to one and sometimes only 50% of the license. So, in short, the total value of our implementation ranges between \$175 and \$275. It's definitely a very affordable price point for the enterprises we're going after, and I would go so far as to say for the bigger entities we are going after it's a rounding error.

TWST: Would you comment on the required level of customization when dealing with different enterprises?

Mr. Davis: The product as it is today requires more customization, but our road map has everything to do with automating as much as possible. The 80/20 rule is something we like to talk about, that 80% of the application at a minimum should be automated and that means both the core product as well as any tools that a systems integration partner might use in professional services. The professional services environment of the enterprise applications of yesterday, where the incumbent players took a year, 12, 18 months for ERP or CRM cycles are not what we expect at all. What we've learned in the market so far is it's closer to a three to four month effort to do something very custom if required. Candidly, the way our application works, we're able to implement what we would call a fairly standard application and customize it very quickly. Our customization really depends on words, terms and concepts that are either free packaged in our ontology, which, in business terms, would be called a business dictionary. Therefore, we're able to start in an educated way with our clients as opposed to ground zero. For example, Mr. Hospital Administrator, we already have predetermined con-

cepts and terms that define a healthcare data model, so we start in a runner stance as opposed to being flatfooted.

TWST: Would you consider yourself as the early mover in this market? And how would Semantra's search differ from those expected from other startups?

Mr. Davis: I would definitely say that we're a first mover in this space. The funny thing that we talk about internally is that this space is undefined. If we said we are a BI player, that's a crowded road. If we said we were an enterprise search player, it's a much less crowded road and one that's still being defined, and so we are working diligently with folks like Sue Feldman at IDC. We're working with Gartner and others to get their perspective on where they think we fit.

We are being very careful not to say we are enterprise search or BI, because candidly we are in both and very different from both as well. One of the key differentiators we have is we take natural language, common language, however you want to term that, across the goal line. It's something that's been done in different ways, different methodologies in the past by different types of entities. We have uniquely combined semantics — which is how the client speaks with our platform to understand what it is that the user is asking — and we combine that with relational theory, which is really very simply SQL generation. So we have a very non-intrusive approach, we don't ask somebody to create a data warehouse, we don't ask somebody to reconstruct their database or do that for them. We actually build a layer on top of the existing databases and we only request read-only access. That semantic layer, if you will, or intelligent layer buffers the typical business user from understanding anything about the database, other than terms and concepts they would like to use to extract that information, so part of the encumbrances or hurdles within BI are removed. Within BI you need a fairly sophisticated view of the data schema, the database, how it's arranged within the actual data source; with Semantra you don't need any of that. Not only do you not need knowledge of the database, you only need to use very basic terms to get at it, much like the example I gave you: compare Q4 2005 revenues to Q4 2006 in the eastern region. You get that answer, you can make a report out of that or continue the conversation by pointing and clicking, looking at graphs, charts, etc.

So you can see that we're an amalgam of reporting, business intelligence and search wrapped up into one, and the idea is to enable a client and a user in real time to make smarter business decisions. and that is the differentiator in and of itself. The key differentiators are use of semantics and ontologies, which are basically enabling an organization to speak in a very common language that our platform actually understands and we are able to answer in the context of the actual user's request.

TWST: What are the key elements of your strategy for success looking ahead?

Mr. Davis: Key elements of the strategy for success ahead are definitely the acceptance and synergy built between us and other enterprise application vendors that already exist. For example, Oracle:

as you know, Larry Ellison has been aggressive on the M&A front and Oracle have done some very innovative things in their M&A strategy over the last few years, such as buying Siebel, the leader in the CRM space, buying Hyperion, one of the key leaders within the BI space, buying JD Edwards, the leader in the ERP space and also buying PeopleSoft, a leader in the ERP and HR space. So those are a few of the applications, but we are also going into SAP, both from their ERP and CRM strategy. IBM, everything they have going on in both the search, CRM in real time enterprise activity. Then we, of course, can't leave out Microsoft. Microsoft goes after smaller-to-medium-sized business market but it's a market we're very interested in as well. I mentioned them because the big players in the market have a lot to do with the success of our strategy — their importance and their client bases' importance on truly turning data into information and making decisions on a more rapid, real time basis. Those pressures being put on their client base and clients asking their software partners, "why aren't you helping us in these areas?" And for them to be able to turn to Semantra and say "help us fill that gap," that has probably the ultimate importance in the success of Semantra in the near term.

TWST: Do you have the management team in place to accomplish all of your goals?

Mr. Davis: We definitely do. I think that's something unique about Semantra. We have a very seasoned management team including myself; VP of Marketing Cody Aufrecht; Rusty Coleman, VP Sales; and Derek Lane, our CTO, and as well as Marvin Elder our 70-year-old founder who has 40 plus years in natural language in database technologies. We all are veterans in the enterprise software market. I was very diligent in my hiring process for the executive team, and candidly diligent with everyone on the team. Holistically, we have folks who have been there and done that. There is no training going on here, it is all execution. So Cody comes from 25 plus years in marketing, mainly in enterprise software, building lead generation and marketing programs that generate revenue, so he is the type of Marketing VP that I like, one who understands revenue and just isn't about positioning and messaging. Rusty Coleman actually comes from Autonomy, another search vendor. He has been and has held the position of VP of Worldwide Sales or CEO for different software entities and is a veteran. Derek Lane comes to us from Countrywide Mortgage in one of their senior technical positions, and he comes on as a CTO and is extremely proficient at creating an agile development environment that basically at the end of the day creates software products very well, very fast and unit testing along the way. That, in conjunction with our founder, Marvin, who stays well ahead of us in terms of years candidly on where our natural language in semantic technology should be, and he obviously communicates on a real time basis with a lot of thought leaders in the semantic and natural language space to ensure that we keep our road map ahead of the gang.

TWST: Would you comment on your funding history? Is your financing in place to take you to your goals?

Mr. Davis: We do. I'm happy to say that we have the advantage of not being in a traditional venture capital relationship. We are funded by a private equity group out of Dallas, named Cardinal, a very sophisticated group but definitely one I would describe as private equity. My emphasis on that definition is that they are more long-term in the horizon of this company being successful in throwing out cash, and/or achieving some sort of exit values. They run both a billion dollar hedge fund in the public markets as well as have \$500 million to \$1 billion in the private equity market, so we are on the private equity side of their interest and have a very good relationship. They have single handedly taken both the first and second round for Semantra, and will potentially be the only investor we require throughout our history.

TWST: What is the short-term and long-term vision for your company?

Mr. Davis: Short-term vision is to be the de facto standard for simple intuitive search within enterprise applications. The long-term vision is being the simple search application for any multitude of enterprise or consumer applications. Something that could happen in the future is Semantra is the enabler, if you will, for entities like Google, or entities like Dell computer that have four, five billion sold a year via their online entity. So we could really enable the consumer at large as well, because they'll simply find exactly what they are looking for and make a decision, whether that's a purchase or a search or what have you. In the next three to five years, however, we are wholly focused on the enterprise market, which is patient enough to learn new technologies as opposed to the general public that uses Internet search engines.

TWST: Thank you.

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