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Ultimate Software CFO Credits Longevity on Quest to $1 Billion

By Maxwell Murphy

Mitchell Dauerman, finance chief of Ultimate Software Group Inc.

Mitchell Dauerman, Ultimate Software Group Inc. finance chief, says he might be the longest-serving CFO among technology companies, having held the post since 1996, a few months after Ultimate’s inception.

This compares with an average tenure of 5.2 years among 662 large-company CFOs studied last summer by executive recruiter Crist|Kolder Associates.

The Weston, Fla., company makes human resources, payroll and talent-management software. Ultimate plans to hit $1 billion a year in revenue in 2018, up 62% from last year. Mr. Dauerman said its ability to hit that target is fueled by that loyal group of long-term employees.

Mr. Dauerman adds he’s had the same controller for 20 years and a vice president of finance for 17 years. He and the company’s founder and chief executive, Scott Scherr have together spoken with investors for 72 quarterly conference calls.
When the dot-com bubble burst fifteen over fifteen years ago, its stock fell to around $2 per share as customers changed their buying patterns. Now the stock trades at about $180 and sports a market value of around $5.1 billion after a nearly ninety-fold increase in its trading price since its 2000 nadir.

“We didn't layoff anyone,” he said, and “we didn't lose anyone” when the company hit a rough patch.

Attracting and retaining employees is key for any business, but especially for Ultimate, he said, given its specialization in helping other firms do the same. That focus has translated into loyal customers, and Mr. Dauerman said its customer retention ticked up last year to over 97% from its 10-year average of 96%.

Strong customer retention gives the company “high visibility” into its revenue, or proves to investors that it will hit its revenue goals. Mr. Dauerman forecasts 25% revenue growth this year, following a 22% increase in 2015.

Ultimate spends 18% to 20% of its revenue on research and development, yet when Congress recently made the R&D tax credit permanent, “it wasn’t a sigh of relief” because the company wasn’t counting on the credit.

“We would have spent the money regardless,” Mr. Dauerman said, adding that the company would have kept most of its R&D in the U.S, even if the credit were abandoned.

The tax credit was first enacted in 1981, and previously had been renewed every few years. It had expired at the end of 2014, but the reinstatement as the permanent credit also allowed companies to claim the credit retroactively for last year.

Other companies had said the lack of a credit could cause them to shift R&D operations overseas.

Mr. Dauerman said the company balks at knee-jerk reactions. “We've never made a short-term decision,” he said.