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## The God of Small Things

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SEARCH THE ARCHIVES of any of the still (barely) living New Economy magazines — Red Herring, Upside, Business 2.0. You'll find scant reference to **JDA Software (JDAS)**.

That's ironic, because the stock of little-known JDA has performed a whole lot better than most of the companies those magazines once touted. JDA is tap-dancing through the technology depression. Shares have been on a tear, up 54% so far this year, after a stellar 2001. In anticipation of glowing results expected in Monday's upcoming earnings announcement, JDA is touching record highs on high volume, and the company says the rest of the year looks strong. From **IBM** (IBM) on down, tech companies complain that customers are reluctant to spend on information technology. Customers aren't being stingy with JDA, though.

I'm not necessarily recommending JDA as an investment. I own none of the stock. Value investors won't be interested anyway — too late for that. Growth investors can decide how much steam remains, and buy on dips. Maybe a lot of steam. Maybe not.

My point is that companies like JDA will lead the technology recovery, because they provide demonstrable returns to their customers' bottom lines, unencumbered by a legacy of business-will-never-be-the-same voodoo.

JDA, of Scottsdale, Ariz., sells software and services to retail chains, and, increasingly, their suppliers. The

consumer economy never did tank, and most retailers continue to do well. Sales were up in March for major retailers — and **Target** (TGT), **Gymboree** (GYMB), **Sears Roebuck** (S) and **Wal-Mart Stores** (WMT) exceeded their own plans.

But if JDA were merely fortunate in its markets, its competitors would be in great shape. They're not. Its most direct competitor, **Retek** (RETK) of Minneapolis, eked out a profit in the latest quarter, its second in a row, after a long series of losses. Investors weren't impressed; when the earnings announcement came Wednesday, they shot the stock down 7%, to \$25.15. Retek went public in November 1999. Today, its stock price is 38% below the offering price. In the same period, JDA's stock climbed 127%.

**I2 Technologies** (ITWO), once a favorite subject for New Economy hagiographers, is also reeling. About 30% of its supply-chain software business comes from the healthy retail and packaged goods sectors. Not enough to help. On April 15, the company kicked out its chief executive. On April 16, it announced that profits were bad and sales worse: a breathtaking revenue drop of 54%. The stock is at \$4, down from \$100 in the heyday.

"The last 12 months have been extremely challenging for I2," the new CEO, Sanjiv Sidhu, explained in a press release. For I2, challenging indeed. "Based on changing economic conditions," Sidhu continued, euphemistically,

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“we saw a shift in customer buying patterns from large projects to smaller, tactical solutions.”

My translation: “Our customers told us to bag the baloney about megascale end-to-end business ‘solutions’ that create more problems than they solve. Instead, they want software that actually works, and a reasonably quick return on investment. Otherwise, they said, take a hike.”

It’s no wonder that companies like **PeopleSoft** (PSFT), **Oracle** (ORCL) and the like continue to suffer. These are companies that promised the moon, descended on customers with armies of arrogant technicians, and created major systems that too often don’t quite work. I read all the time about how business enterprises are taking time to “integrate” their systems. You know what that means? They’re still struggling with how to make the stuff they already bought work, never mind anything new. And they’re paying the original providers to help fix it. Why do you think customer relationship management (CRM) service revenue is doing so well?

Retailers won’t put up with nonsense. Retail “is such a supercompetitive business, you need to have the right systems, or you’re toast,” says Thierry Wuilloud, portfolio manager at Becker Capital Management. Wuilloud is a strict value investor who bought big into JDA in 1998 and 1999, when the market, reaching full boil, figured founder James D. Armstrong (and ergo JDA) was a bumbling old-fashioned doofus who didn’t “get” the Web, and valued the company accordingly. Wuilloud, on the contrary, thought Armstrong was pretty bright, and scooped up cheap stock.

Armstrong is a 50-year-old Canadian gent with thinning hair, the fashion sense of an Arizona chain-store salesman and a smile that’s both amiable and a bit goofy. On first meeting, you might underestimate him. He founded the company in 1985, with a handful of others, and has expanded it into a company with 1,400 employees in 60 countries, with annual sales of \$207 million.

At the start, the company sold simple inventory and financial systems for stores. Now JDA provides data software and services that go from the cash register to the loading dock to headquarters to suppliers and back again. It sells software to predict sales patterns that run on massively parallel computers from **NCR** (NCR). Inventory systems drill down to color and size at the rack level, in search of maximum sales per square foot. Animated programs let managers

rearrange their stores on a computer screen, allowing a 3D walk-through.

JDA isn’t without its flaws. Few of its customers were willing to talk to me, but one IT executive did tell me off the record that “JDA’s systems aren’t perfect — far from it.” But, he said, “we do see a return” in profits that the CEO appreciates. And while there are problems, JDA “is usually upfront about getting them fixed...it’s a pretty low BS quotient.”

JDA went through management turmoil in the late ‘90s as it struggled to modernize. The CEO at the time was fired, and founder Armstrong was brought back in to run the show along with co-founder Frederick M. Pakis. He seemed to be moving too slowly for most of Wall Street. Competitors were pushing systems with all the bells and whistles the Web could offer, backed by huge marketing budgets. Retek started a business-to-business Web site, retail.com, with huge ambitions, since reined in. JDA didn’t have a B-to-B site. Armstrong’s goofy grin was found nowhere in the New Economy business press. Investors got antsy, and many fled.

“He was not a CEO who positioned the company just to have a good stock story to tell,” says Becker Capital’s Wuilloud. “But he was getting calls from investors saying, ‘You have to start talking a fancier game.’” (JDA is in a quiet period right now because of its pending earnings announcement, so Armstrong can’t elaborate.)

Instead, says Wuilloud, Armstrong and his president, Hamish Brewer, were “realistic.” At a time when losing money was a badge of honor, JDA put profits before sales. It moved methodically, buying up small software companies and carefully integrating them into its product offerings. Its biggest purchase was E3, a global inventory-control systems company, also a New Economy darling, which sold fairly cheap in September 2001. Unlike competitors, who teamed up with big fish like Oracle and PeopleSoft, in part to attract big customers, JDA linked up mainly with hardware makers like IBM and NCR and with niche software companies that neatly filled JDA’s weak spots.

In its low-key way, JDA has created a company selling systems that already work together well. Its customers can’t afford to pause to “integrate” their data-shop mess. Meanwhile, the bombastic titans of tech can stop complaining about tightwad customers when they start showing, not telling, how their systems pay off for customers.