FOUNDERS ADVISORS

Marketing Technology

Q3 2022
Market Update

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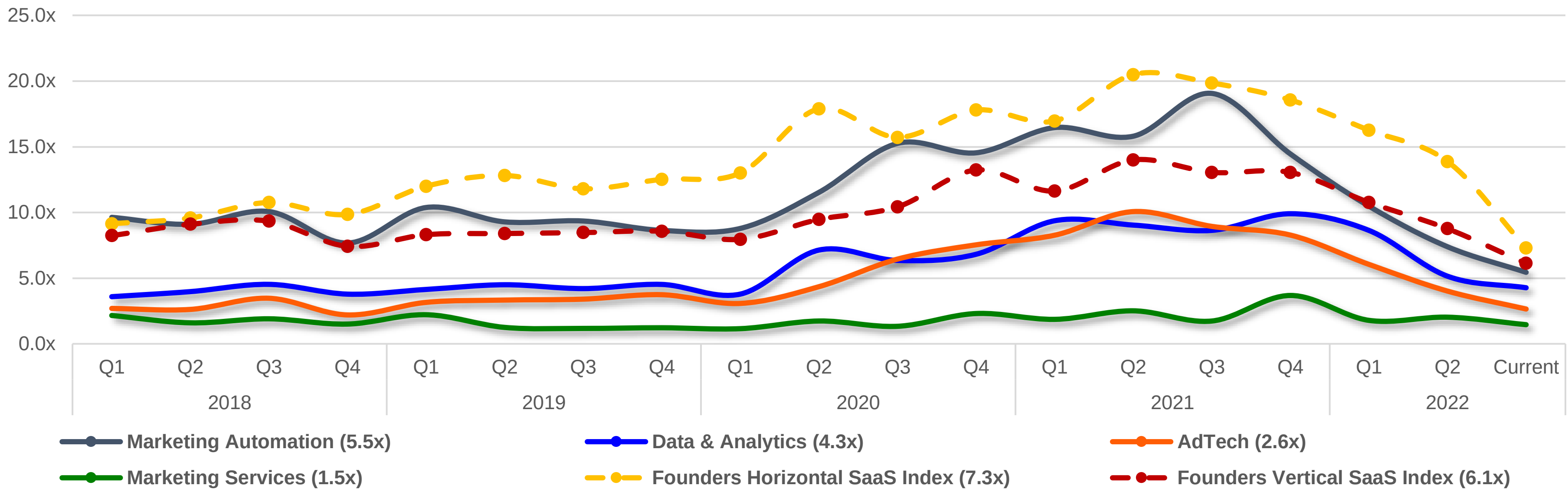
Sector Valuation Trends | Quarterly Enterprise Value / Revenue Multiples



Market Insights | What We Are Reading

Valuation

As economic conditions decline, the best indicator for a software company's value has shifted from revenue growth to profitability – Tom Tunguz provides some insightful data outlining how several key metrics and their correlation to valuation have evolved over time. Anecdotally, our team is hearing similar sentiment in our conversations with private equity firms and strategic buyers.

Recent M&A

There has been quite a buzz around Adobe's announced $20bn acquisition of Figma, especially in light of the reportedly 50x+ ARR multiple. Hunter Walk's blog post on the acquisition provides an interesting lens through which to consider the deal, especially when financial models provide what seems to be little support. This also reinforces the notion that scale does tend to command a premium.

Retention

Our team works closely with entrepreneurs to analyze retention at a granularly level, specifically considering individual cohort trends to craft the best possible story and align growth opportunities with data. Parsa Saljoughian's recent article on retention slopes highlights the value in analyzing retention over a longer period of time – this analysis has a meaningful impact on how investors will view the long-term scalability and valuation of your company .

Operations

In recent months, Founders has discussed with many SaaS company owners the costs of rapid growth in a time when investors are shifting their focus towards profitability. Boston Consulting Group, in a timely article titled The Real Rules of Growth and Profits in Software, defines four stages of growth, provides five rules for profitable growth, and offers other helpful tools for striking the right balance, all backed by data.

M&A Activity | Notable Recent Transactions

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Marketing Technology Transactions *($ in Millions)*

Date	Target	Acquirer	Deal Size	Commentary
Sep-22	MEDIARadar	ENDICOTT GROUP	**Undisclosed**	*MediaRadar is a provider of advertising intelligence services for media planning, buying and selling teams. The Company has more than 20,000 users and its database tracks more than $200bn in annual media spend. Endicott Group is a portfolio company of PE firm Thompson Street Capital Partners.*
Sep-22	Figma	Adobe	**$20,000**	*Figma is a web-first collaborative design platform to help companies brainstorm, design, and build better products from start to finish. Adobe's interest seemed to be based on Figma's growing market share and an ability to join forces in order to make design and developer tools more collaborative and accessible.*
Sep-22	AMOBEE	TREMOR INTERNATIONAL	**$239**	*Amobee is a global advertising platform focused on optimizing outcomes. The Company appears to have struggled as of late, with Amobee's prior parent company (Singtel) announcing last year that the business was under strategic review and given Singtel acquired Amobee for ~$82mm more than Tremor's $239mm offer.*
Sep-22	channeladvisor	CommerceHub	**$725**	*ChannelAdvsior provides cloud-based eCommerce solutions to brands and retailers. While competitive, CommerceHub's take private deal brings together front-end and back-end capabilities for customers, and the transaction is supported by CommerceHub's PE backers – Insight Partners, GTCR, and Sycamore Partners.*
Sep-22	sellics	ASCENTIAL	**Undisclosed**	*Sellics provides a mix of advertising spend optimization, campaign automation and profit analytics to brands within the Amazon ecosystem. Sellics will be incorporated into Ascential's digital commerce business unit, Perpetua, to expand Perpetua's penetration into the European market.*
Aug-22	IRi Growth delivered.	H&F	**$8,000**	*IRI provides big data, predictive analytics and forward-looking insights dedicated to help businesses power action and growth. The NPD Group is a global provider of market information and advisory services, and the deal brings complimentary data assets into one data visualization platform. NDP group is backed by PE firm Hellman & Friedman.*
Aug-22	IPONWEB	criteo	**$250**	*IPONWEB is a leading AdTech company focused on programmatic and real-time advertising. Criteo (NAS: CRTO) first announced the acquisition in Q4-21 for $380mm. While the deal positions Criteo well in the post-third-party cookie world, IPONWEB's final price likely tumbled due to it's connections to Russia via ownership and talent pool.*
Jul-22	omeda	SVERICA	**Undisclosed**	*Omeda offers a full SaaS marketing platform allowing customers to grow, engage, and monetize their first-party data. The Company's all-in-one customer data platform provides a real-time view of an audience and offers clients a range of email and automated marketing campaign functionality.*
Jul-22	digimind	Onclusive	**Undisclosed**	*Digimind provides social listening and market intelligence solutions across the globe. The acquisition enhances Onclusive's social media monitoring, insights, and analysis capabilities. Onclusive, supported by PE firm STG, was largely formed at the beginning of 2022 via a merger of Kantar"s Reputation Intelligence, Prgloo, and Onclusive.*

Market Participants | Active MarTech Buyers and Investors

Below are some of the more active private equity firms and strategic buyers within the marketing technology space. Potential buyer deal experience and the recency of that M&A are key factors our team considers ahead of a transaction process – a partner with a well-oiled M&A engine generally leads to a more efficient diligence and negotiation process.

Private Equity Firms

Strategic and PE-Backed Acquirers

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Transaction Consideration | Deferred Revenue

What is Deferred Revenue

If a software company offers its customers the ability to prepay on longer-term contracts, Deferred Revenue becomes an important consideration during the transaction process. Generally, a prepayment from the customer creates a future liability for that company to service the customer over the life or term of the contract. That future liability is commonly referred to as Deferred Revenue.

Accounting Issues with a Transaction

- If a company is operating under a cash-basis accounting methodology, a prepaid annual contract would result in the company recognizing the full amount of that contract at the time of payment. However, the cash-basis balance sheet would not reflect the continued liability of servicing that customer moving forward. We often see founder-led businesses operate under a cash-basis methodology, thus the Deferred Revenue concept is largely ignored.
- In accrual-basis accounting, a prepaid annual contract is treated differently in a few ways. First, the revenue would be recognized over the life of the contract or "as the revenue is earned." With most software contracts, this would result in a pro-rated monthly revenue recognition over the life of the contract. Second, the prepaid annual contract would create the Deferred Revenue liability on the Balance Sheet. Each month as the revenue is recognized, the Deferred Revenue liability would be reduced by the same amount.
- Most private equity and strategic buyers operate under an accrual-based accounting methodology (or GAAP). Therefore, when going through a transaction process, a Buyer & Seller can face challenges resulting from this accounting conversion at the time of closing and during the post-closing integration period.

Deferred Revenue and Closing Impacts

Aside from accounting nuances, Deferred Revenue can present proceeds impacts for the Seller at the closing table. Depending on the timing of a prepaid contract in relation to a transaction close date, buyers can view those prepayments as penalizing to them – the Seller gets the benefit of 100% of the cash from that customer contract, yet the buyer is on the hook for the future service of that contract post close. In most cases, this is why Buyers push to quantify the outstanding amount of Deferred Revenue and negotiate that impact into the transaction. By treating Deferred Revenue as a liability in the transaction (either as true Indebtedness or in the Net Working Capital considerations), Buyers are able to offset some or all of that future liability through a reduction in Seller Proceeds or through a more favorable Net Working Capital structure for the buyer.

Key Considerations

We actively encourage Sellers to have a full understanding of any Deferred Revenue in their business before diving into detailed legal discussions. While it is commercial to acknowledge some liability associated with servicing & supporting customers moving forward, it is overly penalizing to a Seller to categorize that full prepayment amount as a liability. Good software businesses operate at attractive margins, therefore, $1 of revenue does not create $1 of future liability to service a customer.

A generally agreed upon middle ground approach in software transactions is to look at the "Cost of Service" for those customers moving forward. We work with Sellers to understand the Cost of Service by analyzing the true costs the Buyer will incur post-closing (hosting, customer support, payment processing, etc.). A software business that tracks and allocates expenses appropriately for its Gross Margin metrics is well positioned to support and defend a reduced Deferred Revenue liability. Oftentimes, this "Cost of Service" approach can save significant dollars at the closing table, which is why it is crucial for Sellers to have full awareness of Deferred Revenue when diving into transaction negotiations.

Transaction Consideration | Deferred Revenue (cont.)

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Illustrative Example

Below is an illustrative example on the various ways Deferred Revenue can impact a transaction from a closing proceeds perspective:

Key Assumptions: Total deferred revenue balance = $3,000,000 | Gross Margin = 80% / Cost of Service = 20% | For Seller Friendly Approach, Current Assets are sufficient to offset a portion of the Cost of Service

Buyer Friendly Approach

Buyers will often push for the definition of Indebtedness to include the full amount of Deferred Revenue, creating a direct dollar-for-dollar Purchase Price impact.

Closing Consideration Summary	
Initial Closing Purchase Price	$ 100,000,000.00
PLUS: Closing Cash	1,000,000.00
MINUS: RWI Escrow Amount	(500,000.00)
MINUS: Indebtedness	(3,000,000.00)
MINUS: Transaction Expenses	(1,500,000.00)
PLUS / (MINUS): NWC Adjustment	-
Closing Proceeds Payment	**$ 96,000,000.00**

Cost of Service "Middle Ground"

To meet in the middle, parties often can agree to reduce the Deferred Revenue liability to a true "Cost of Service" metric which is generally based on the Gross Margin of the operating business.

Closing Consideration Summary	
Initial Closing Purchase Price	$ 100,000,000.00
PLUS: Closing Cash	1,000,000.00
MINUS: RWI Escrow Amount	(500,000.00)
MINUS: Indebtedness	(600,000.00)
MINUS: Transaction Expenses	(1,500,000.00)
PLUS / (MINUS): NWC Adjustment	-
Closing Proceeds Payment	**$ 98,400,000.00**

Seller Friendly Approach

Depending on other aspects of a Seller's Balance Sheet, Deferred Revenue can be treated as a Current Liability for Net Working Capital purposes, potentially creating a minimal impact to the Purchase Price.

Closing Consideration Summary	
Initial Closing Purchase Price	$ 100,000,000.00
PLUS: Closing Cash	1,000,000.00
MINUS: RWI Escrow Amount	(500,000.00)
MINUS: Indebtedness	-
MINUS: Transaction Expenses	(1,500,000.00)
PLUS / (MINUS): NWC Adjustment	(200,000.00)
Closing Proceeds Payment	**$ 98,800,000.00**

Interview with an Expert | Navigating S-Corp Elections

Big Picture | Many companies are initially structured as an LLC but elect to be treated as an S-Corp for tax purposes. However, there are specific nuances that come with this election, which entrepreneurs often forget or aren't tracking diligently. Consider these common missteps given they can create meaningful issues (time delays + higher costs) during a due diligence phase with a buyer or investor.

Jason Cummings | Attorney

- Partner, Corporate and Securities Practices | Morris, Manning & Martin, LLP
- Wake Forest University, BA | Mercer University, JD cum laude
- Jason has extensive experience representing clients in the information technology, payments, business services, and healthcare IT industries
- Jcummings@mmmlaw.com | 404-495-3650 | LinkedIn Profile

Website | LinkedIn

S-Corp Election Considerations

- **What can go wrong in the S-Corp election process?** Many things, including the failure to become an S-Corp because of an ineffective S-Corp election, which makes your company a C-Corp for tax purposes even if your company has been filing tax returns as an S-Corp.
- **How does the cap table and equity incentives impact election status?** An S-Corp can only have one class of stock (i.e., no preferred stock). With an LLC in particular, it's not always apparent that an equity structure actually results in two classes of stock. Also, an S-Corp can only have certain types of stockholders.
- **How does the election affect distributions based on existing operating agreements?** All distributions must be pro rata based on stock ownership. There can be no priority returns or disproportionate distributions. This may require an amendment to the operating agreement of an LLC that later elects to be taxed as an S-Corp.
- **Are there ways to rectify issues?** The IRS has processes for founders to address inadvertent S-Corp terminations and ineffective S-Corp elections, but these processes can be lengthy and expensive depending on the facts. It is best to identify and address any potential S-Corp issues as soon as possible well in advance of a transaction with a buyer or investor.
- **Any other transaction-related considerations entrepreneurs should keep in mind related to S-Corps?** Aside from the due diligence a buyer will conduct regarding valid S-Corp status, a buyer will often want a "step-up" in asset tax basis, which may result in additional taxes for founders.

MarTech Scorecard | Factors Driving Valuations

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Founders' Valuation Scorecard isolates the most important quantitative and qualitative factors that impact valuation multiples for software and tech-enabled service businesses in the marketing technology sector.

Enterprise Value / Revenue

1.0x 2.0x 3.0x 4.0x 5.0x *Factors Influencing Valuation Multiple* **6.0x 7.0x 8.0x 9.0x 10.0x+**

% of Recurring Revenue	< 75%	Mix of subscription/recurring vs. reoccurring vs. project	> 85%
ARR	< $5 million	Customer profile, vertical/horizontal, ACV, sales cycle	> $10 million
YOY Growth Rate	< 20%	Historical trends, rule of 40, growth compared to peers	> 40%
Total Addressable Market	< $1 billion	End market dynamics, competition, switching costs	> $ 1 billion
Net Revenue Retention	< 85%	Public benchmarks, pricing vs. product, cohort analysis	> 100%
Gross Margin	< 70%	Fully burdened, end market dependent, scalability	> 85%
CAC Payback Period	> 12 months	Impact of dialing spend up/down, channel analysis	< 12 months
LTV:CAC Ratio	< 3:1	Balancing S&M spend but demonstrating return is key	> 3:1
Avg. Contract Length	< 12 months	Predictability of revenues and stickiness of customers	> 12 months

Qualitative Factors

Management Team	Must understand your gaps and have clear delineation of responsibilities → self-assess strengths/weaknesses to highlight areas for investment
Product Adoption/Usage	Track/present usage stats; understand use cases and patterns across modules/cohorts → usage equates to stickiness in the minds of investors
Payments Opportunity	Opportunity to integrate payments into a proprietary, sticky solution → significantly increases scalability, retention, and expansion levers
Competitive Position	Understand the landscape, why you win/lose, differentiation, blue ocean vs. red ocean → consider roll-up opportunity to scale
IP/Technology Debt	Contracted development is accepted; understand short cuts taken and potential deficiencies → assess third-party dependencies, risks, & "what ifs"
Process/Procedure Documentation	Be able to communicate & show methodologies, onboarding processes (employees and customers), retention strategies, etc.
Talent Retention	Maintain a ranking of all employees and understand where each shines → consider warrants, profits interest, M&A and stay bonuses

MarTech Scorecard | Revenue Mix Considerations

Revenue composition remains a critical driver of valuation for marketing technology and services companies; the below visual displays how the investor community views varying streams of revenue and the considerations influencing valuation models.

Revenue Quality and Value

Revenue Type	Other Considerations
Subscription SaaS Revenue	• Gross margins • Acquisition efficiency • Retention rates
License / Maintenance Software Revenue	• % Recurring maintenance vs. license sales • Contract terms
Recurring Service Revenue	• Service margins • Contract terms and revenue expansion • Retention rates
Reoccurring Service Revenue	• Dependency on new customers • EBITDA margins
Non-Recurring Service Revenue	• Market size and growth rate • Service margins • EBITDA margins

High Value

Low Value

Factors Driving EBITDA vs Revenue Valuation Methodology

EBITDA ← → **Revenue**

Non-Recurring Revenue
Low revenue visibility and a high proportion of 'go-get' revenue lowers investor confidence

Lower Unit Economics
Gross margins <70% limit ultimate profitability achieved through scale

High Churn
Lack of strong retention forces perpetual investment in S&M and limits profit margin potential

Growth
Regardless of current profit margins, growth momentum proves business model viability

Scalability
High gross margins (>75%+) enables material operational leverage as customer base grows

Acquisition Efficiency
Strong LTV:CAC and CAC payback periods signal proven & disciplined acq. strategy

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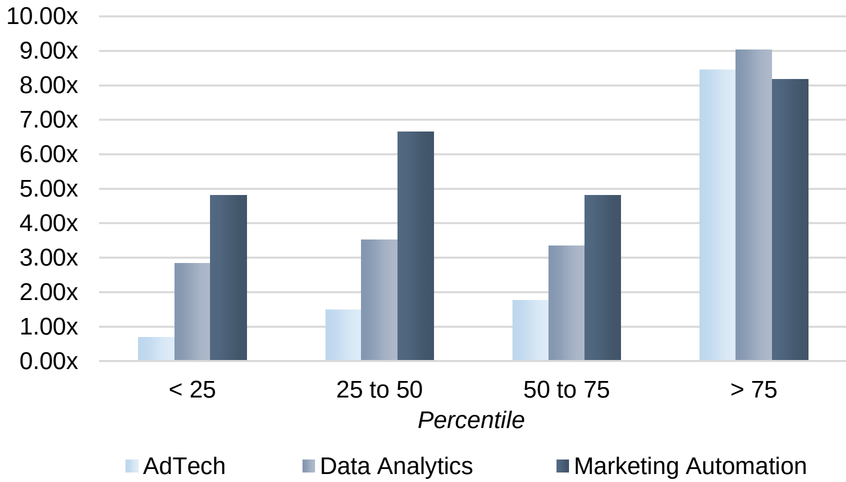
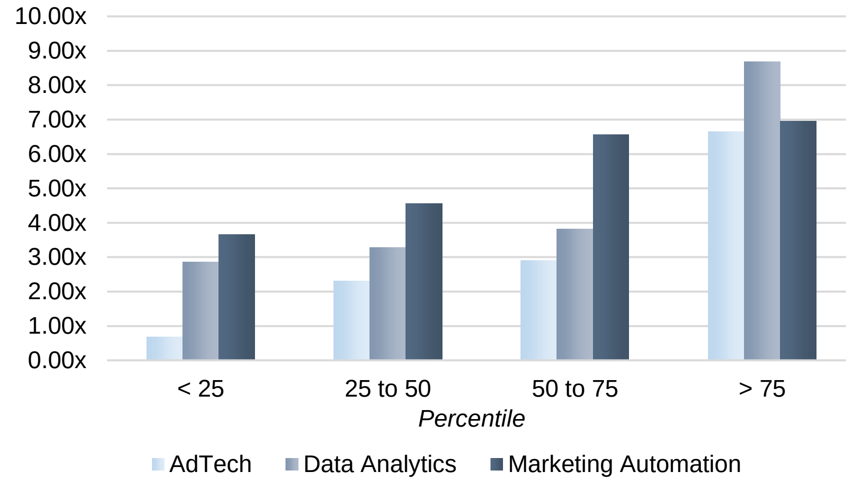
Operating Metrics | Key Performance Indicators

Enterprise Value Metrics

Revenue Growth Percentile vs. EV/LTM Revenue



Gross Margin Percentile vs. EV/LTM Revenue

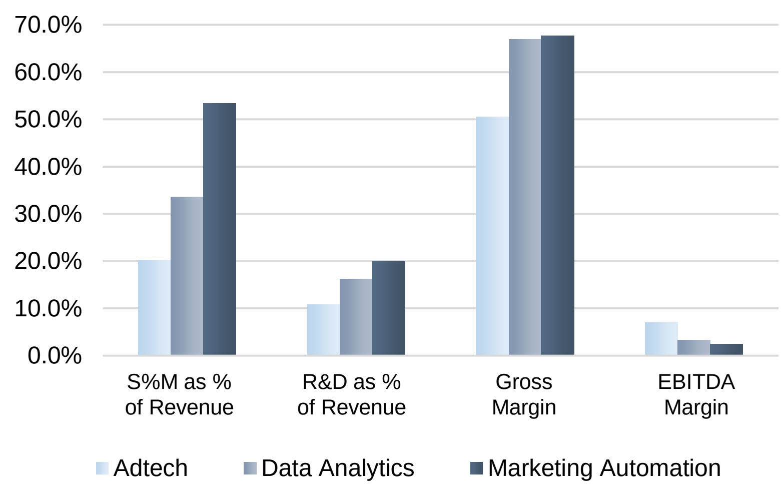


Best Performers

% of 52 Week High

Nielsen *100%*	Gartner *76%*
affle *72%*	Microsoft *69%*
ANTEVENIO *68%*	DV DoubleVerify *68%*

Operating Metrics

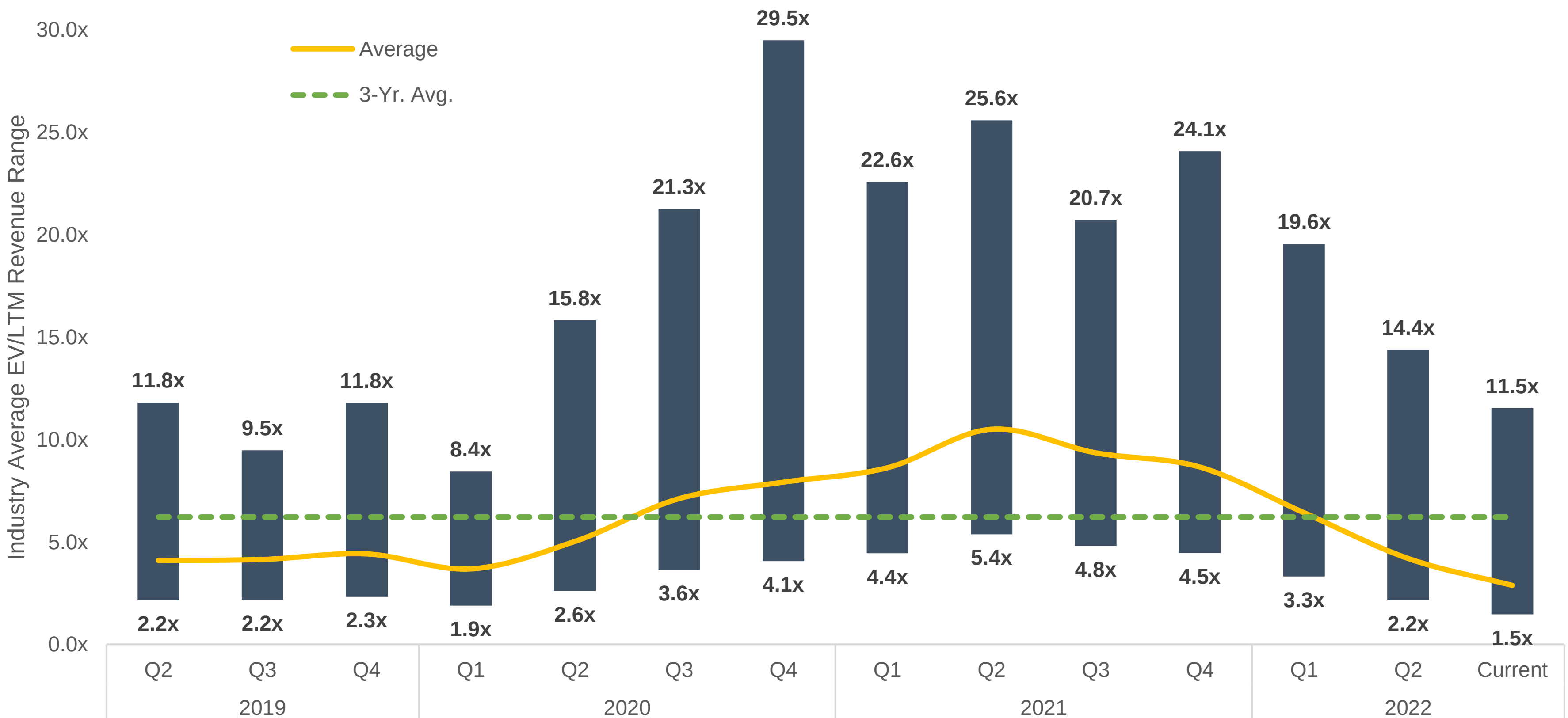


Worst Performers

% of 52 Week High

twilio *20%*	Taboola *19%*
APPLOVIN *18%*	Digital Turbine *16%*
Roku *17%*	cardlytics *10%*

Public Equities Index | AdTech



Public Equities Index | Data & Analytics

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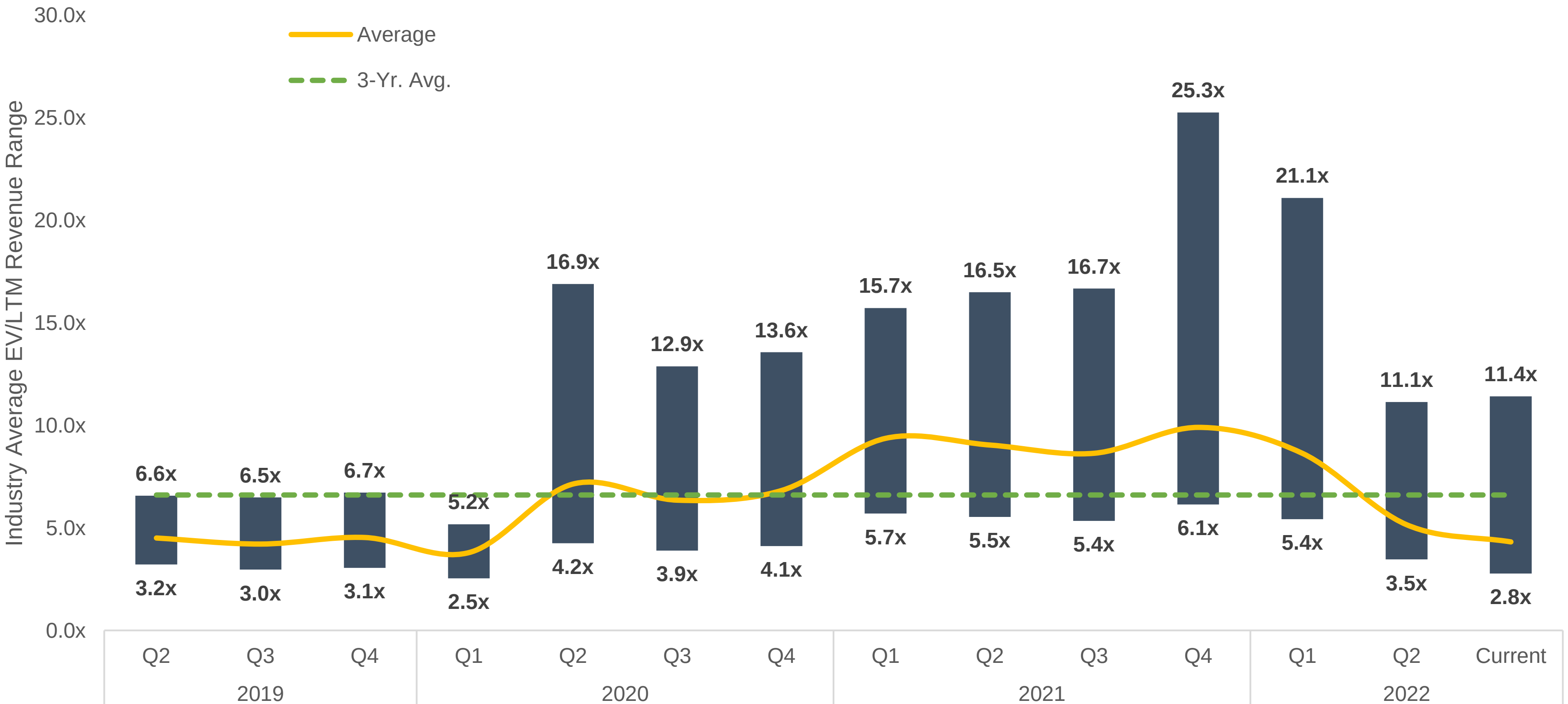

Public Equities Index | Marketing Automation

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Adobe, dotdigital, salesforce, HubSpot, lime, NICE, sprinklr, agillic
braze, SQUARESPACE, twilio, upsales, weave, freshworks, Hyve, ASCENTIAL
Microsoft, shopify, sproutsocial, TechTarget, upland, VERINT, zendesk, LiveChat

Segment Map | Automation and Campaign / Lead Mgmt.

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Each quarter, our team analyzes a sub-category of the MarTech Landscape to highlight how the largest companies stack up in terms of funding source and capital availability relative to employee count.

Employee Count: Large → Small

Privately-Held

Private / Private Subsidiary

- sas
- RightWave – Marketing Automation as a Service™
- antics
- eSputnik.com
- experiture
- emfluence – ONE-TO-ONE, AND THEN SOME®
- LEADMASTER
- POSTALYTICS
- buyergenomics
- GleanQuote
- GENOO
- leadfwd
- leadliaison
- makesbridge™

Capital-Backed

Private Equity / Venture Capital

- aptean
- AXTRIA – INGENIOUS INSIGHTS
- CHEETAH DIGITAL
- ActiveCampaign >
- INTERCOM
- acoustic
- madwire®
- higher logic
- sugarcrm
- Bluecore
- daxko®
- INTEGRATE
- fuse | machines
- Resulticks

Public / Public Subsidiary

- IBM
- Microsoft
- salesforce
- ORACLE
- Adobe
- infor
- teradata.
- HubSpot
- PEGA
- zeta
- braze

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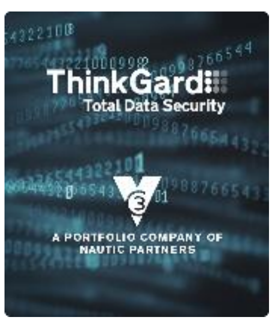
Founders Advisors Overview

Who We Are

Serving Founders and Business Owners For Nearly Two Decades

- Founders Advisors is a merger, acquisition, and strategic advisory firm focused on founder-owned businesses in the lower middle market
- Led by senior bankers with decades of experience in banking, private equity, business development, and entrepreneurship, offering industry expertise across our areas of focus
- Headquartered in Birmingham, AL with an office in Dallas, TX

Recent Transactions



Values

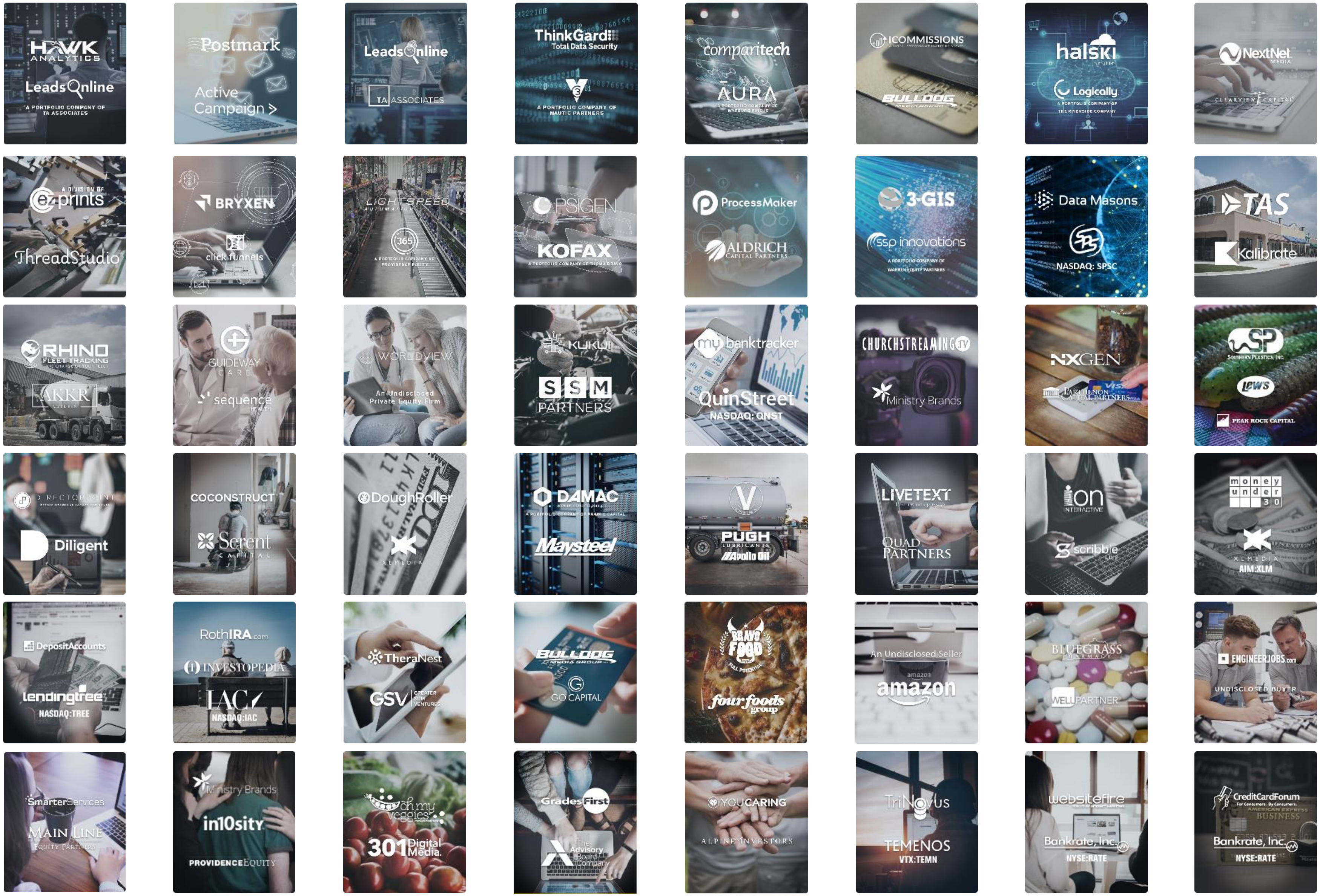
- Order
- Service
- Growth
- Excellence
- Health
- Community

Purpose

Be Servant Leaders Who Value Relationships and Results

Transaction Experience

We Focus Exclusively on Technology



Founders' Key Differentiators

The Founders team offers a multi-disciplinary approach with deep experience across a range of financial advisory services.

Founders is focused on serving founder-owned businesses. Founders is a full-service advisory firm with experience advising clients on full and majority sales, minority recapitalizations, growth equity raises, management buyouts, debt financings / refinancings, and buy-side acquisitions.

Led by senior bankers with decades of experience in banking, private equity, business development, and entrepreneurship, Founders has the experience and sophistication of a bulge-bracket investment bank with the customized, relational approach found in an entrepreneurial business.

Founders has a unique, high-touch approach to finding the right buyers, investors, and lenders, distinguishing us from less-connected, less-thorough boutiques. We have familiarity and credibility with the most active investors both nationally and internationally.

19
Years in Business

+

40
Professionals

+

***$55B+**
Transacted Value

Includes Founders Managing Directors' experience at prior firms

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BIRMINGHAM | DALLAS

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