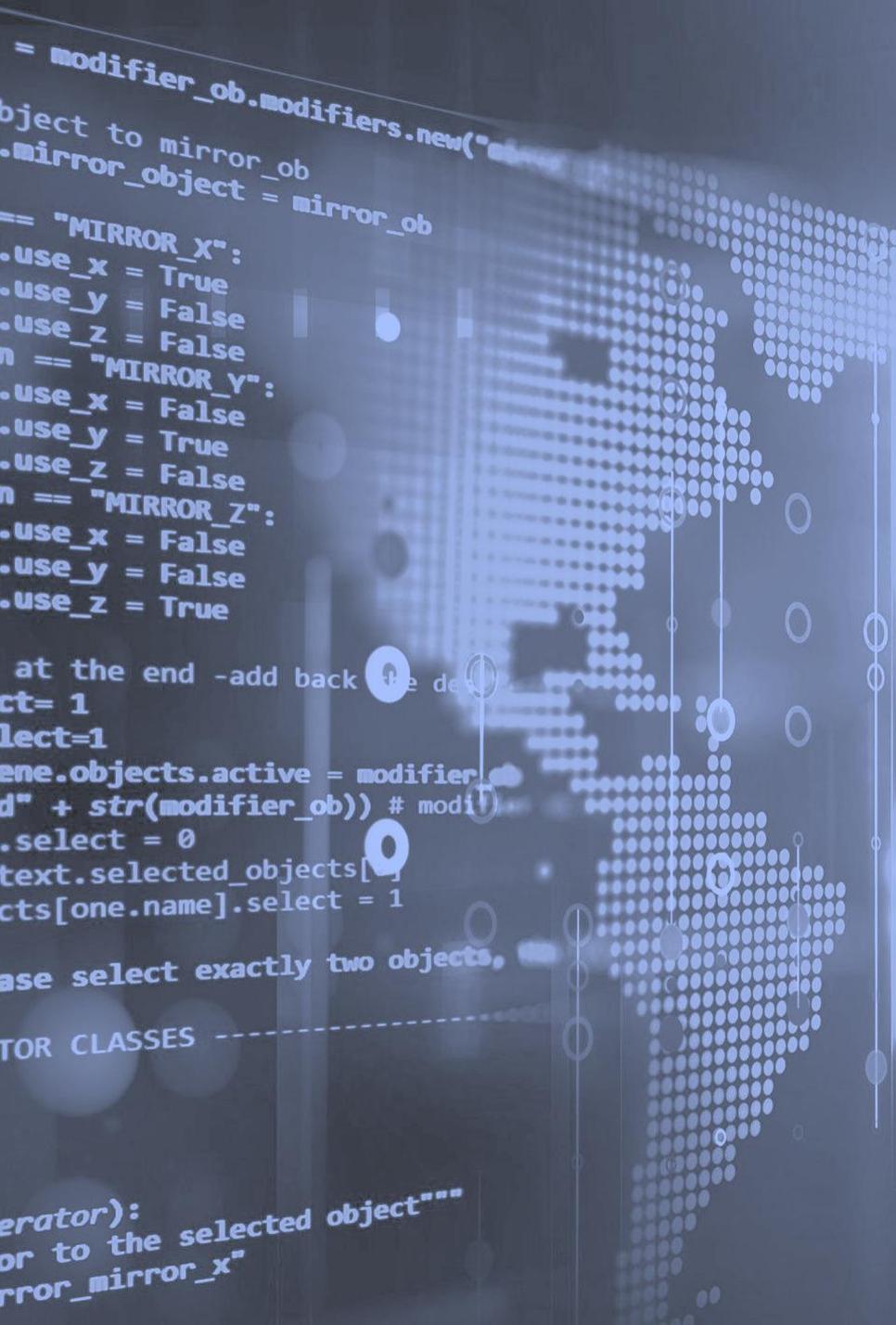


FOUNDERS ADVISORS

Marketing Technology

Market Update | 2023 Outlook



I. Market Snapshot | *M&A Activity, Public Market Trends, and Active Market Participants*

II. Entrepreneurs' Corner | *Curated Content and Valuation Scorecard*

III. Valuation and Operating Metrics | *Analyses of Key Performance Indicators*

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2023 M&A Outlook

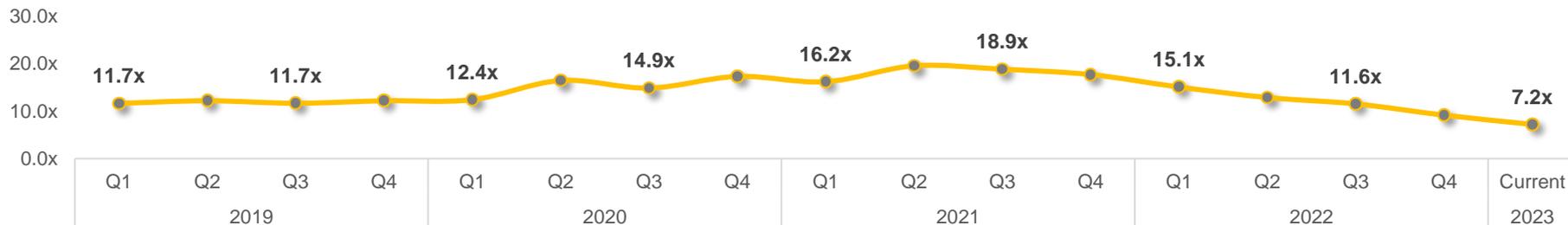
- Strategic acquirers continue to see acquisitions as a great lever to expedite growth → In a market survey of U.S. CEOs completed by EY, 63% of CEOs indicated they will pursue acquisitions in 2023.
- PE groups still have a meaningful amount of dry power on hand – approximately \$1.3 trillion. Valuation misalignment remains a hot topic with public tech stocks returning to 2018/2019 levels and the cost of debt continuing to rise. A seller's best weapon to neutralize valuation headwinds is sustaining reasonable revenue growth, top-quartile retention metrics, capital efficiency, and ideally a positive profitability profile.
- 2023 is expected to be a strong year for add-on acquisitions as platforms companies seek growth through M&A. In 2022, add-ons made up a record 71.9% of buyout transactions, and this pace is expected to continue.

The State of MarTech M&A

- Many MarTech strategics are more cautiously evaluating acquisition targets given their desire to maintain sufficient cash levels for operations. There is also a strong belief that VC-backed companies may be ripe for acquisition over the next 12-18 months if their next financing round doesn't come to fruition.
- Throughout 2022, we heard a growing theme of strategic interest in AI opportunities – specifically acqui-hires where companies could pick up the right AI-focused talent. With the wave of conversations around OpenAI / ChatGPT, we anticipate this theme will continue as organizations formalize their own strategy and seek to establish a competitive advantage over peers.
- Amongst active private equity firms, there are fears of a prolonged recessionary period, which lead to a more stringent filter when considering new platform investments. Customer retention trends has replaced growth as the #1 factor evaluated to gauge interest.

State of the Software Market

Valuation Trend | Average Revenue Multiple Across Founders' Software Index



Public SaaS Company Valuation Trends

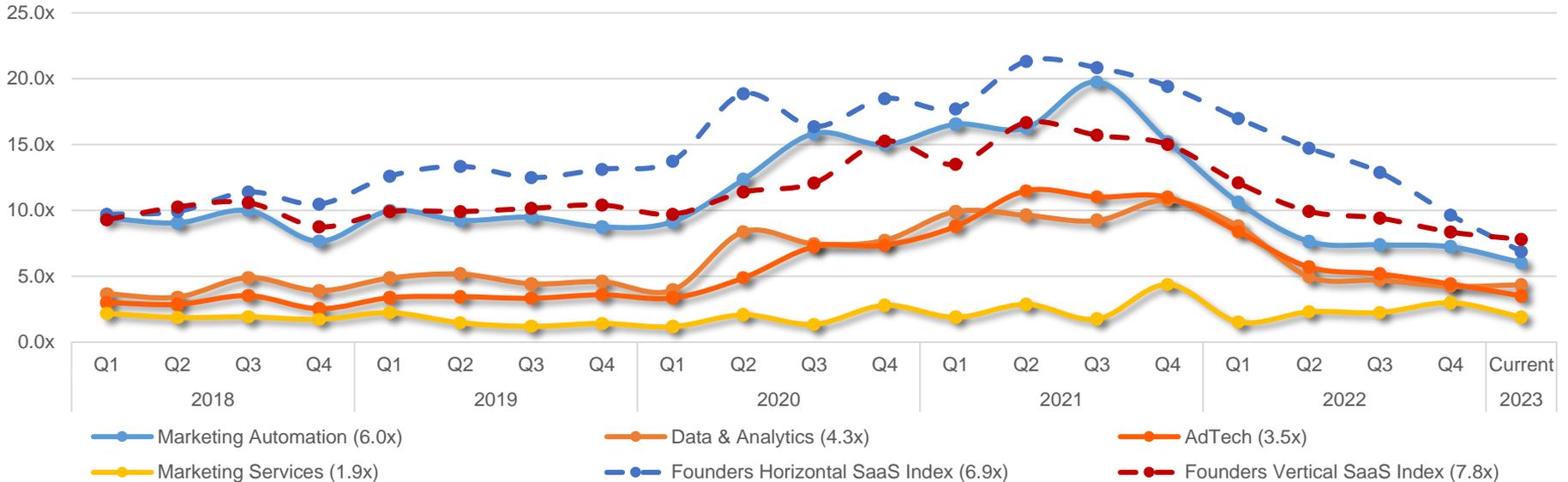
	2021 Peak Multiple	Current Multiple	% Decline Since Peak	LTM Rev (\$M)	LTM Rev Growth	Gross Margin	EBITDA Margin
asana	28.2x	8.1x	-71%	\$509	52%	90%	-76%
ATLISSIAN	33.5x	12.6x	-62%	\$2,972	35%	83%	-4%
HubSpot	29.2x	10.8x	-63%	\$1,731	33%	82%	-3%
monday.com	60.9x	11.1x	-82%	\$519	68%	87%	-27%
salesforce	10.7x	5.9x	-45%	\$31,352	18%	73%	14%
shopify	50.8x	9.3x	-82%	\$5,600	21%	49%	-64%
twilio	32.1x	2.3x	-93%	\$3,826	35%	47%	-25%
workday	12.9x	7.2x	-49%	\$6,216	21%	72%	2%

Feedback from the Market

- Buyers and investors targeting privately-held companies believe there may be a prolonged economic slowdown, which would disproportionately affect companies serving the SMB sector.
- Private equity groups are also grappling with the impact of higher interest rates, which are driving up the cost of debt and making it more difficult to aggressively pursue potential acquisition targets.
- For SMB-focused companies, investors are looking for (a minimum of) gross retention in the mid-80s and net retention in 90s. Minimums for companies serving the enterprise space are higher.
- Despite this backdrop, privately-held software companies that produce strong top-line growth in a capital efficient manner are highly sought after in competitive auctions and are achieving competitive valuations.

MarTech Index | Valuation Trends and Market Insights

Sector Valuation Trends | Quarterly Enterprise Value / Revenue Multiples



Market Insights | What We're Reading

Rev Multiples

[The 10x ARR Club of high-growth SaaS companies](#) has become exclusive, with valuations having compressed by 70% from their peaks in late 2021 and a median decline in market cap of 60%. This means SaaS companies should anticipate 10x ARR multiples to only be awarded to the strongest performers with the hope that multiple expansion could happen if macro trends and rates stabilize.

AI In Marketing

For those still getting up-to-speed on ChatGPT, [Dataslayer provides a nice overview](#) and [TechCrunch has a helpful update on GPT-4](#). The impact of these natural language processing models on the martech landscape is evolving rapidly, and companies are considering how to leverage [AI such as ChatGPT](#). Christopher Penn, co-founder and chief data scientist at TrustInsights.ai, also [shared a few thoughts](#) on how AI will impact the Martech landscape.

Market Insights | Select Founders' Publications

M&A IN 2023

[Billy Pritchard discusses the Software 2023 M&A Outlook](#) – An uptick in take-private software transactions, driven by public market corrections and a surplus of private equity dry powder, is expected to lead to a more active market for smaller software deals as private equity groups seek undervalued assets and accelerate future growth through a well-executed M&A strategy.

SaaS Insights

We recently published our latest [SaaS market update](#). We share more on what to expect in the tech ecosystem in 2023 based on the conversations we're having with strategic buyers and private equity firms. The newsletter includes market multiples, key operating metrics, a link to [McKinsey's deep dive on the Rule of 40](#), and some information on our tech event coming up in October – [Silicon Y'all](#).

M&A Activity | Notable Recent Transactions

Marketing Technology Transactions (\$ in Millions)				
Date	Target	Acquirer	Deal Size	Commentary
08-Dec-22	 *		\$110.0	Banzai, an end-to-end video engagement platform, has agreed to acquire Hyros, an ad tracking and attribution software for \$110M in a primarily stock transaction and entered into a definitive business combination agreement with 7GC & Co. Holdings Inc., resulting in Banzai becoming a publicly traded company named Banzai International, Inc. on Nasdaq.
07-Dec-22			\$75.0	Helpshift has been acquired by Keywords Studios, a technical and creative services provider to the global video games industry, and will maintain its own brand as a subsidiary; Helpshift's capabilities will be added to Keywords Studios' Engage Service Line, and the two companies will work together to create a market-leading customer support platform.
22-Nov-22		HELLMAN & FRIEDMAN 	\$8,862.2	Zendesk has been acquired by an investor group led by Hellman & Friedman and Permira in an all-cash transaction, with Zendesk operating as a privately held company and remaining headquartered in San Francisco.
15-Nov-22			\$575.9	CommerceHub acquired ChannelAdvisor Corporation, for \$23.10 per share in cash. The combined company now offers over 18,000 customers a significantly expanded network and portfolio of SaaS products and services, enabling businesses to list, find, and sell millions of products every day through more than 400 marketplace and retail channels.
07-Nov-22			\$4,013.5	IronSource (NYS: IS) was acquired by Unity (NYS: U) for \$4.4 billion on November 7, 2022. This acquisition will bring together the Unity game engine and editor, Unity Ads, and the rest of Unity Gaming Services (UGS) with the company's best-in-class mediation and publishing platforms, giving developers a seamless and interoperable way to create, grow and monetize their creations across their lifecycle.
13-Oct-22			N/A	Acqueon, a Singapore-based provider of omnichannel customer engagement software, has received a majority growth investment from Long Ridge Equity Partners, allowing the company to accelerate product innovation and channel partner expansion while continuing to invest in its platform and client services, following a period of growth that has seen over 200 enterprise customers across multiple industries leverage Acqueon's platform for omnichannel customer engagement.
11-Oct-22			\$15,234.0	Brookfield Business Partners acquired Nielsen Holdings, a global leader in third-party audience measurement, data, and analytics for all forms of media and content, in an all-cash transaction worth around \$16 billion, enabling Nielsen to lead the industry into the next generation of audience measurement.
03-Oct-22			\$1,796.5	Carsales, the largest online marketplace in Australia for automotive, motorcycle, and marine vehicles, has announced its intention to acquire 100% of Trader Interactive, including Cycle Trader, RV Trader, Commercial Truck Trader, and Equipment Trader, among others, to expand its brand portfolio and provide innovative digital solutions to seamlessly connect people to vehicles for work and play.

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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Big Picture | Raising capital is not a uniform process for all entrepreneurs, and today, founders have access to a variety of fundraising options. Royalty-based growth capital can be a compelling alternative to traditional equity and debt financing.

Vik Thapar | Managing Director



- Managing Director | Cypress Growth Capital, LLC
- University of Texas (Dallas), B.S. | Southern Methodist University, MBA
- Vik has over 20 years of experience spanning venture capital, private equity, and information technology consulting. He oversees all aspects of Cypress's investment process and provides ongoing support to portfolio companies.
- vthapar@cypressgrowthcapital.com | [LinkedIn](#)



GROWTH CAPITAL

[Website](#) | [LinkedIn](#)

Royalty-Based Growth Capital Considerations

- **How is royalty-based growth capital unique?** This is a type of financing that provides funding to a company in exchange for a percentage of its future revenue. This approach is unique compared to traditional equity or debt financing because it does not require the company to give up valuable equity or control, nor does it come with fixed interest rates or principal repayment schedules. Additionally, Cypress investment partners have decades of operating and entrepreneurial experience and can provide value-added support and expertise to entrepreneurs, assisting in overall strategy and helping them achieve their goals.
- **What is the typical use case when partnering with a company?** The typical entrepreneurs that seek investment are those that are bootstrapped / self-funded, maybe with some limited friends and family, angel, and/or early seed funding only. They are usually at an inflection point where they want to expand their sales and marketing departments, invest in product development, or potentially make an acquisition. Cypress provides capital to help with these use cases in a way that preserves their equity and can set them up for a larger equity transaction or acquisition down the road.
- **What are the most important metrics when analyzing an investment opportunity?** Cypress looks at a few metrics to decide whether to invest in a business including unit level economics like LTV to CAC, sales payback, and margin. More importantly, we assess the entrepreneur's ability to successfully build their business and attract and motivate a leadership team that can achieve scale rapidly. We also look for companies selling mission critical products and services in large, rising tide markets.
- **What should entrepreneurs expect from a support and communication standpoint?** The amount of time spent with entrepreneurs after investment is based on their desired involvement and need for advice, rather than any pre-established plan. A few areas our team has deep expertise in is growth initiatives (sales/marketing strategy), capital strategy, talent development and M&A.

MarTech Scorecard | Factors Driving Valuations

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				

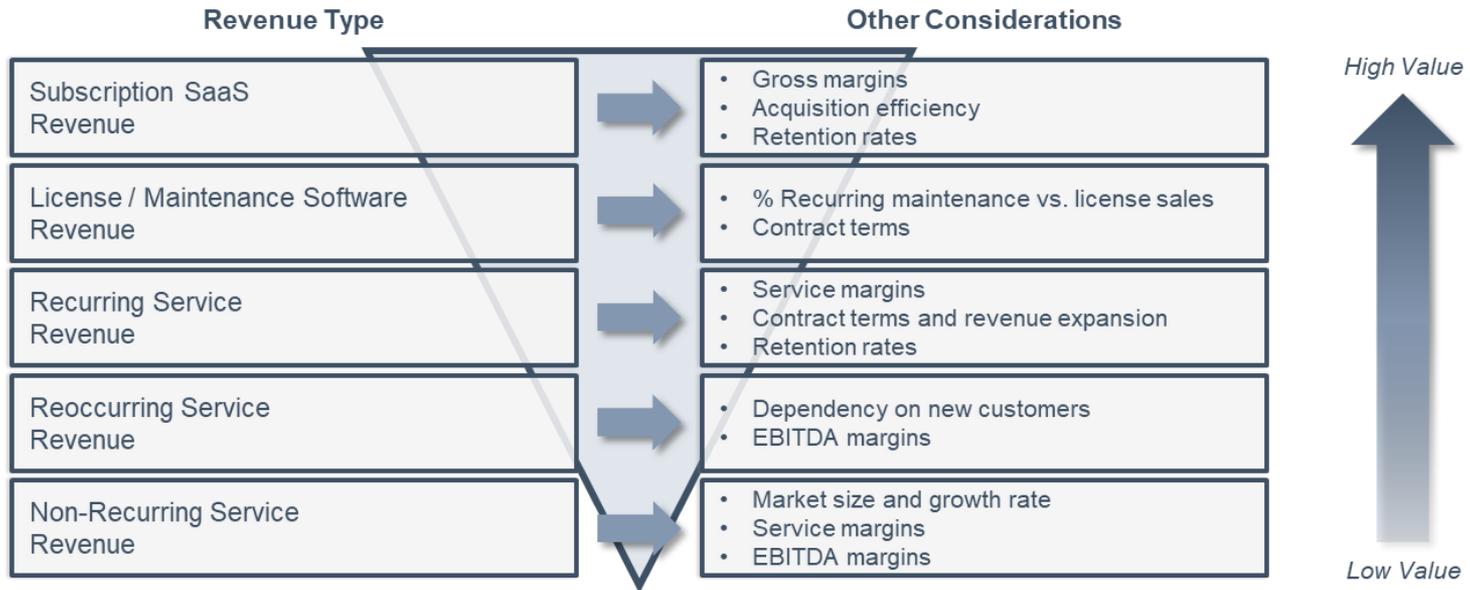
Qualitative Factors

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 & <u>show</u> 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

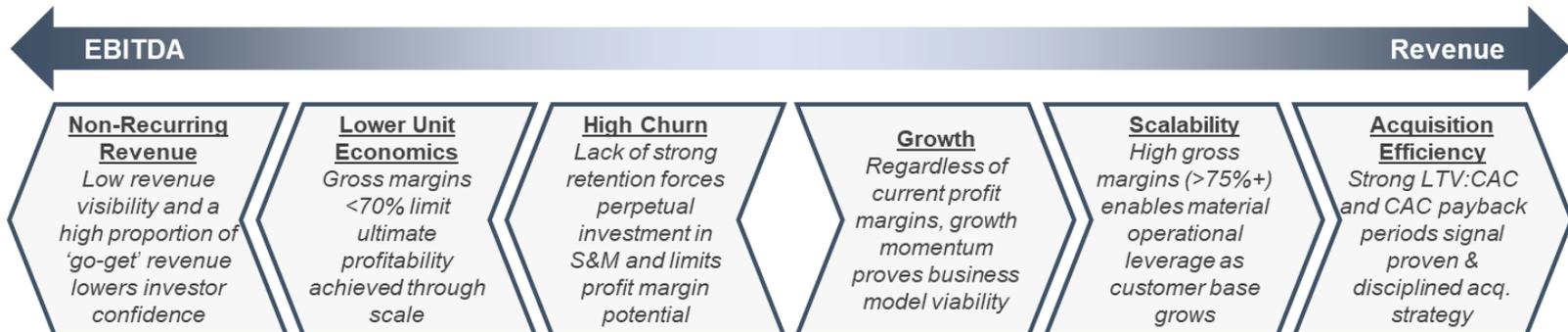
MarTech Scorecard | Revenue Mix Considerations

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



Factors Driving EBITDA vs Revenue Valuation Methodology



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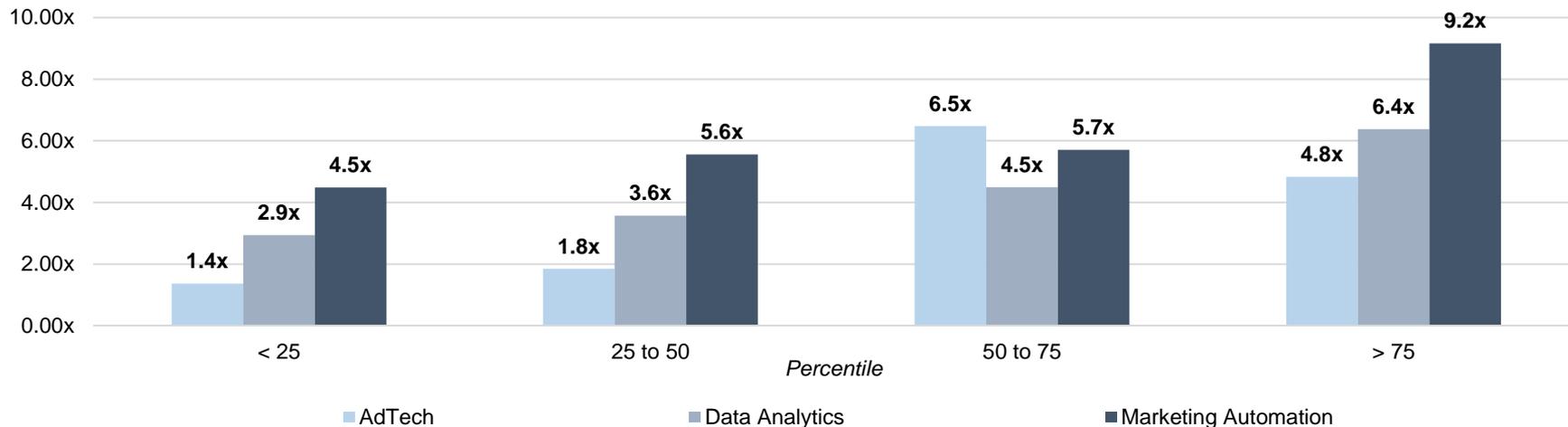
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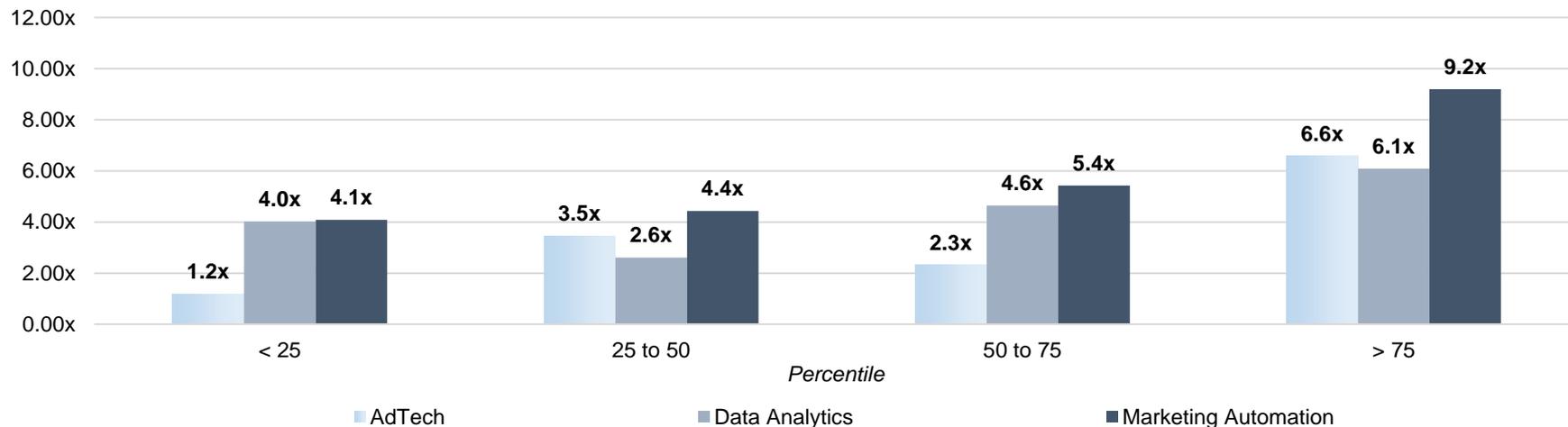
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Enterprise Value Metrics

Revenue Growth Percentile vs. EV/LTM Revenue

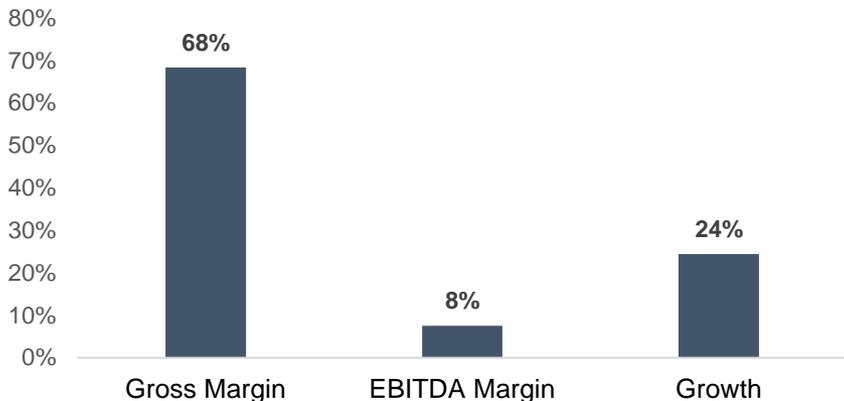


Gross Margin Percentile vs. EV/LTM Revenue

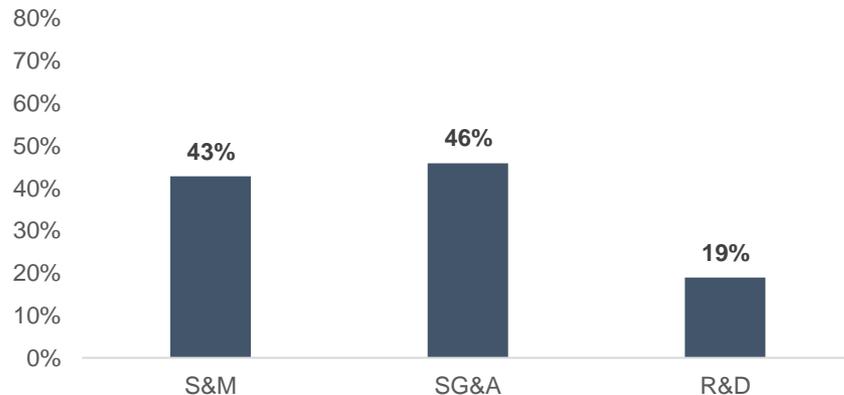


Public Equities Index | Marketing Automation

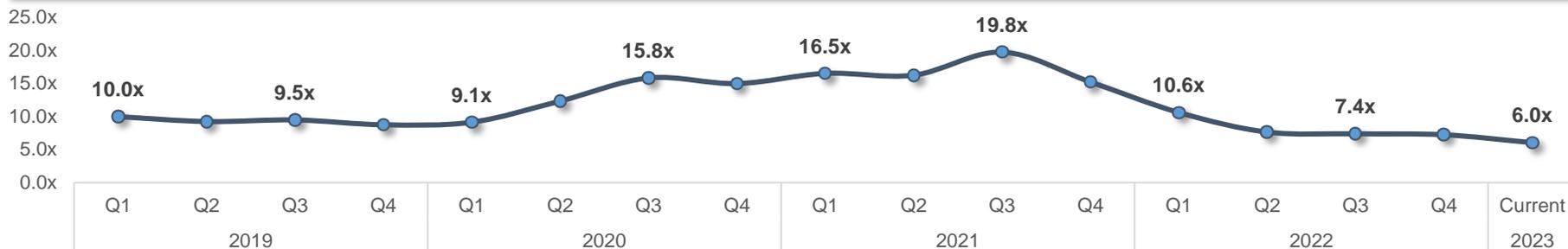
Growth & Margins (Median)



Operating Metrics (Median)*



EV/Revenue (Mean)



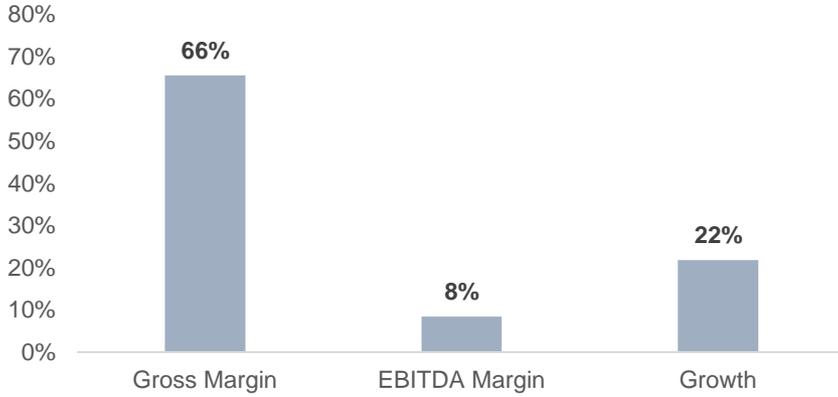
Select Industry Participants



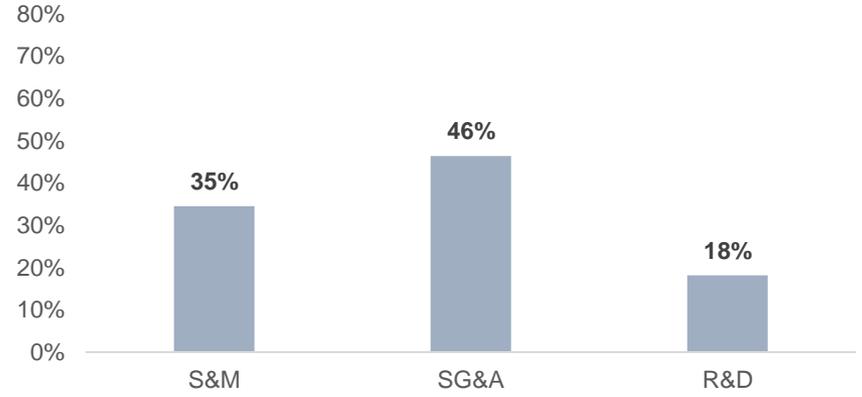
*Shown as percentage of revenue

Public Equities Index | Data & Analytics

Growth & Margins (Median)



Operating Metrics (Median)*



EV/Revenue (Mean)

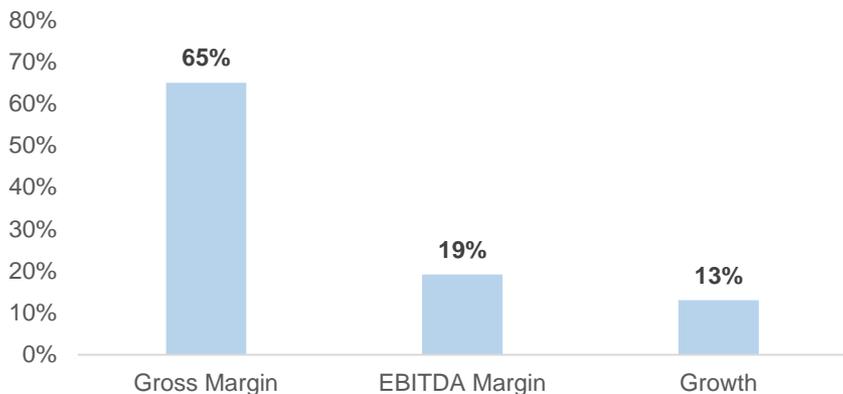


Select Industry Participants

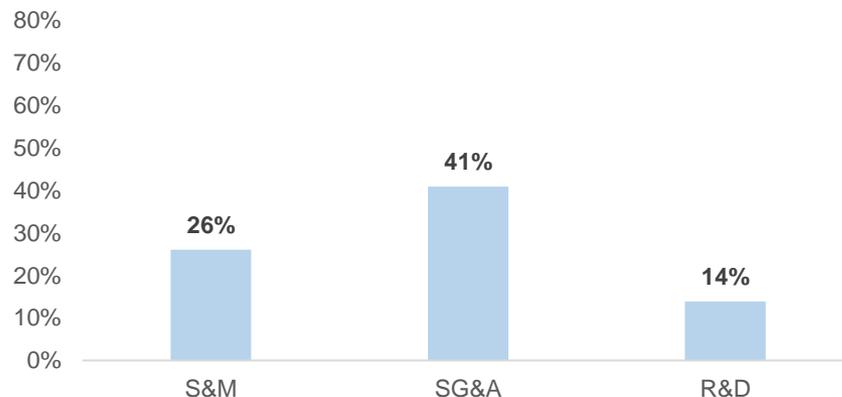


Public Equities Index | AdTech

Growth & Margins (Median)



Operating Metrics (Median)*



EV/Revenue (Mean)



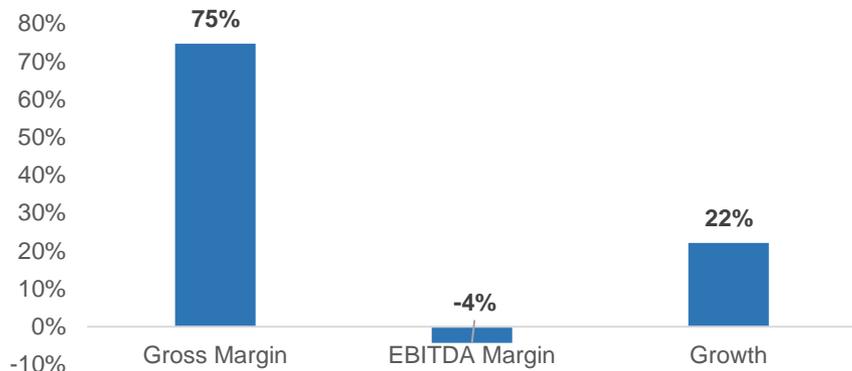
Select Industry Participants



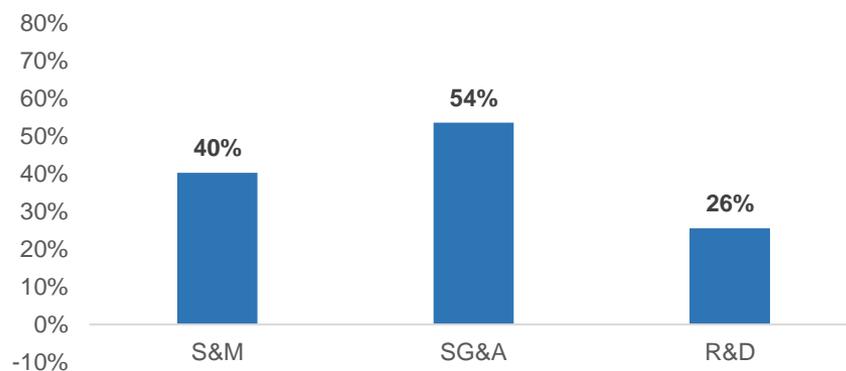
*Shown as percentage of revenue

Public Equities Index | Horizontal SaaS

Growth & Margins (Median)



Operating Metrics (Median)*



EV/Revenue (Mean)



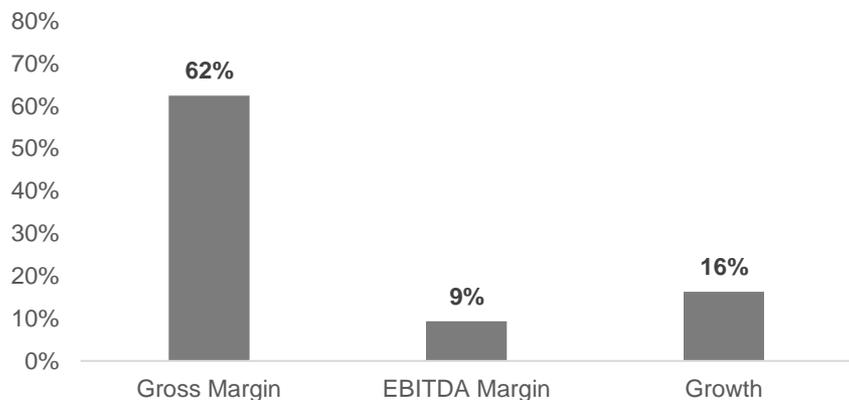
Select Industry Participants



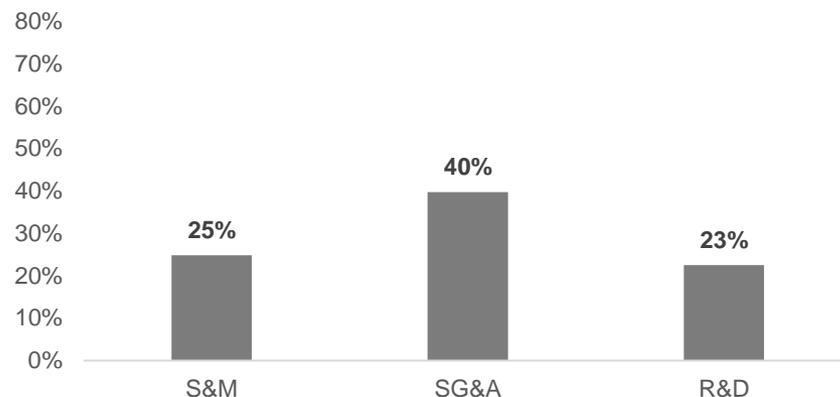
*Shown as percentage of revenue

Public Equities Index | Vertical SaaS

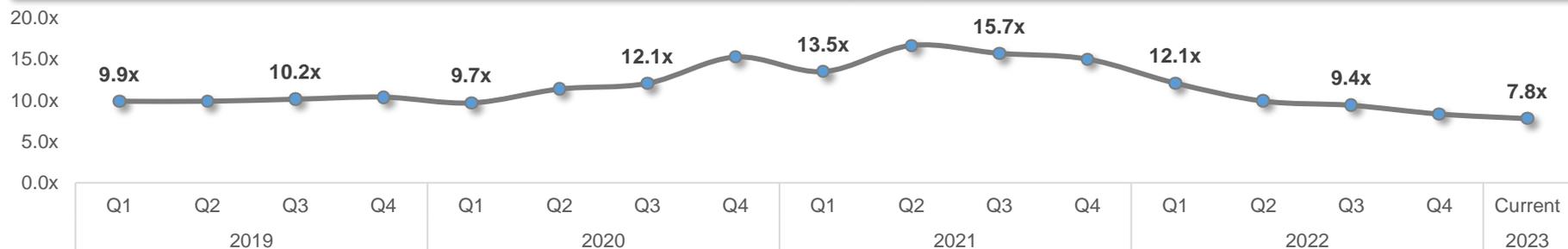
Growth & Margins (Median)



Operating Metrics (Median)*



EV/Revenue (Mean)



Select Industry Participants



*Shown as percentage of revenue

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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



Select Recent Transactions



Values

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



Purpose

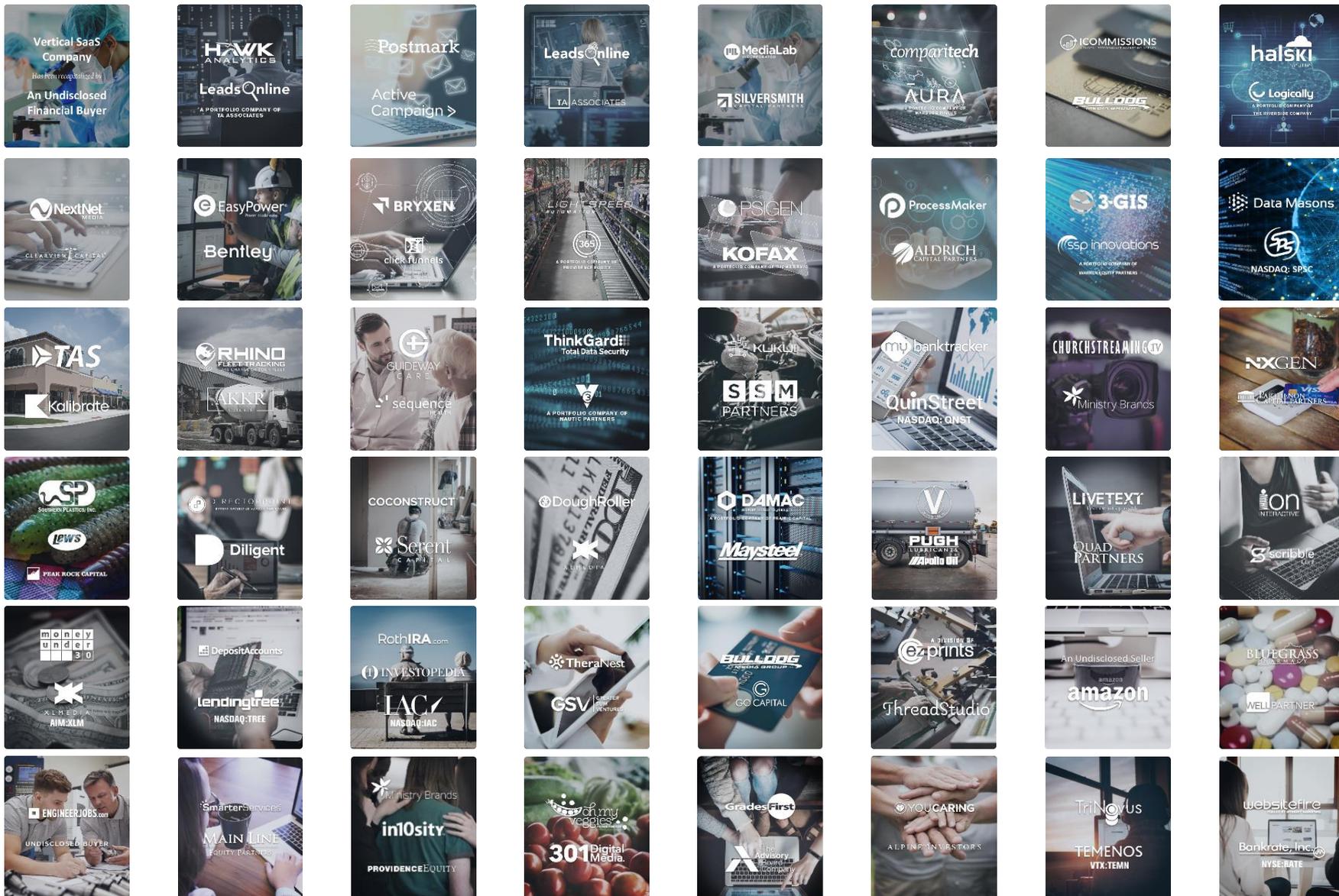
- Be Servant Leaders
- Who Value Relationships and Results



Transaction Experience

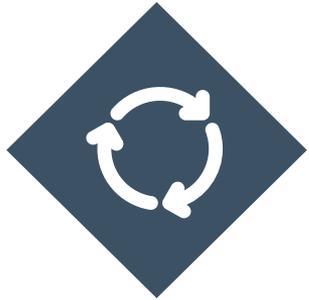


We Focus Exclusively on Technology



Founders' Key Differentiators

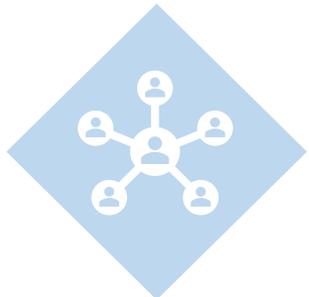
The Founders team offers a multi-disciplinary approach with deep experience across a range of financial advisory services.



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.



*Includes Founders Managing Directors' experience at prior firms

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