

TechStrat

Exit Strategies for Emerging Technology Companies

Growth – Funding – Exit
www.TechStrat.com

TechStrat

- Tech M&A Services **Since 2005**
- Founders have closed **over 100** transactions
- Over **\$1 billion** in wealth created
- **International Coverage** including in North America, Europe and Asia
- **Network & Credibility** established over 25+ years
- **Commitment** to client objectives
- **Focus** on core expertise and mission
- **Clarity** of purpose
- In every communication, action and interaction, a fundamental directive to **do the right thing.**



INDUSTRY LEADERSHIP



Nat Burgess, **Founder & Managing Partner**

- 25+ Years M&A Experience
- Morgan Stanley, Activision, SEC
- Licensed Attorney (WA)
- 100+ transactions
- Former Chairman, World Financial Symposiums
- CNBC, WSJ, Geekwire



Andrew Kalinovsky, Sector Professional, **Services**

- Founder and CEO, Validio (sold to Global Logic)
- EVP, Global Logic
- VP, M&M Data Systems
- Managing Director Alis Software
- 20 years experience as a technology leader in software development and offshoring



Ed Ossie, Sector Professional, **Fintech & Emerging Companies**

- COO, Majesco (a publicly listed financial software company)
- CEO Asia/Australia, Innovation Group
- President, Innovation Group
- US Regional Manager, Texas Instruments



Richard Horsman, Sector Professional, **IOT & Telematics**

- 25+ years experience building and selling companies.
- CEO, Cybit (sold to Francisco Partners)
- CEO, Atego (sold to PTC)
- Executive Chairman, Guardian Group
- Non-Executive Chairman, Toople
- Senior positions at Baan, Ask, JDA, Dun & Bradstreet



Ravindra Koka, Sector Professional, **Artificial Intelligence and Distributed Systems**

- Founder and CEO, StockSnippets
- Adjunct Professor, Carnegie Mellon
- Founder and CEO of SEEC (NASDAQ SEEC), acquired by Polaris
- Partner and CTO, Polaris



Alan Gould, Sector Professional, **Mobile**

- Founder and CEO, Westlake Software (wireless integration products and services)
- VP Business Development, Paging Network, Inc.
- Founder, President & CEO, Silverlake Communications

Morgan Stanley



Cybit



POLARIS
live your dream



Baan

ACTIVISION®

GlobalLogic

TechStrat

Presenter



- Founder and Managing Partner, **TechStrat**
- Morgan Stanley, Activision, SEC
- Over 100 Tech M&A Transactions; \$1 billion + in value
- (Fallen) angel investor, board member, advisor
- Attorney (Washington State)
- Commentator on CNBC, MSNBC, Geekwire, WSJ



RECENT EXPERIENCE

M&A

 has acquired 	 has acquired 	 has acquired 	 has acquired 	 has acquired 	 has acquired 	 has acquired 	 has acquired
 has acquired 	 has acquired 	 has acquired 	 has acquired 	 has acquired 	 has acquired 	 has acquired 	 has acquired

Strategic Advisory

TechStrat has completed a strategic advisory assignment for TechStrat	TechStrat has completed a strategic advisory assignment for TechStrat	TechStrat has completed a strategic advisory assignment for TechStrat	TechStrat is engaged as a strategic advisor to TechStrat	TechStrat has completed a strategic advisory assignment for TechStrat	TechStrat has completed a strategic advisory assignment for TechStrat	TechStrat has completed a strategic advisory assignment for TechStrat	TechStrat is engaged as a strategic advisor to TechStrat
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Investment

TechStrat has invested in TechStrat	TechStrat has invested in TechStrat	TechStrat has invested in TechStrat	TechStrat has invested in TechStrat	TechStrat has invested in TechStrat	TechStrat has invested in TechStrat	TechStrat has invested in TechStrat	EOC CAPITAL INDUSTRY INVESTMENT have invested in TechStrat
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TechStrat NETWORK

“ It takes village to sell a startup. You are the village medicine man, concocting the M&A magic.

Jonathan Sposato
PicMonkey

“ We owe you a great deal of gratitude. Thank you for offering adult supervision and being a guardian angel on our side during the crucial negotiations.

—Ari Salonen
Midaxo

“ Your work was instrumental in helping us successfully complete our spin-off. Thank you!

—Alex Algard
Whitepages.com

Former Clients

Financial Sponsors

Strategic Buyers in Multiple Verticals

TechStrat

Market Timing

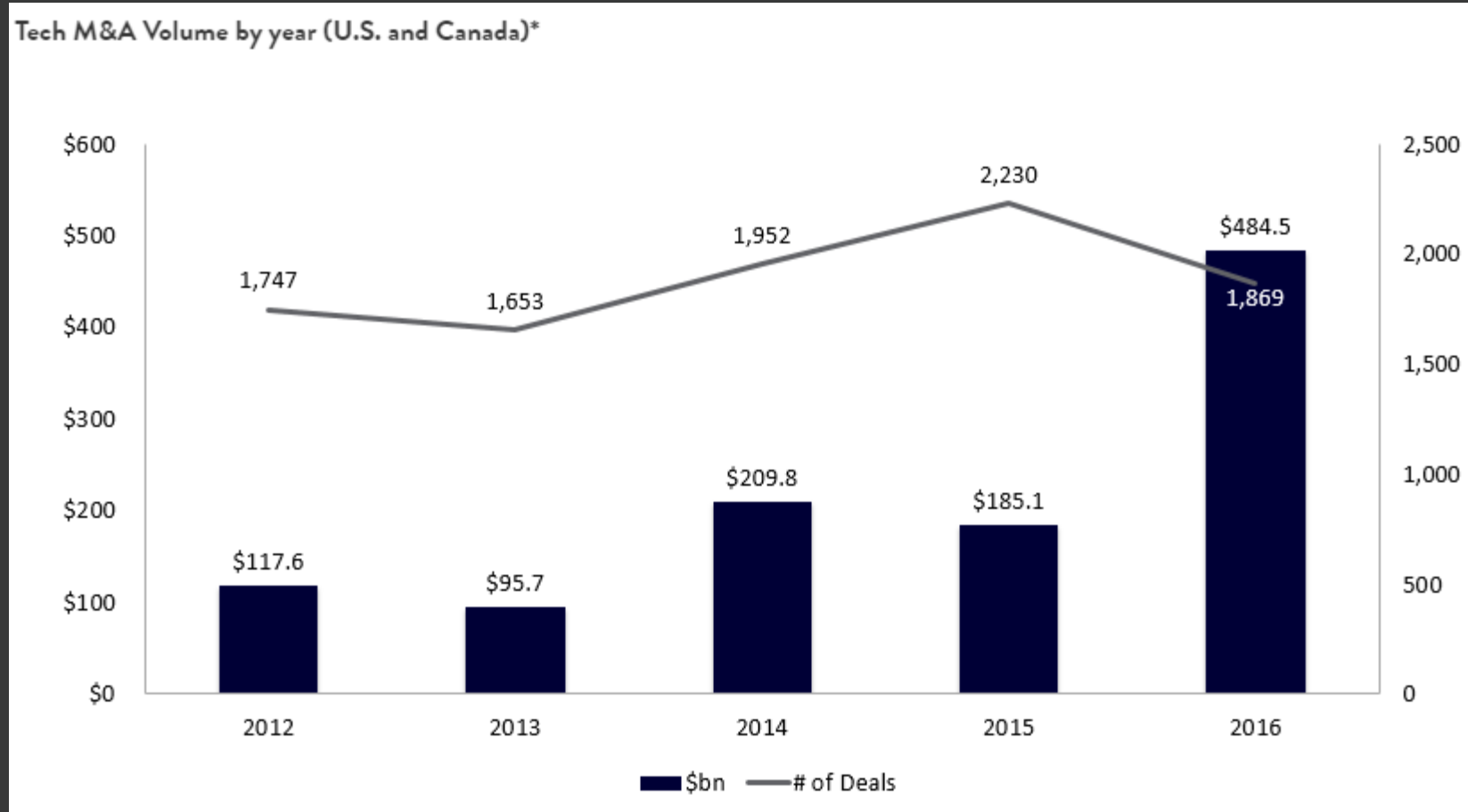
- Public Markets: Equity Values
- Public Markets: Balance Sheet
- Deal Volume
- Dollar Volume
- Active Buyers
- Investment: Activity
- Investment: Target Markets

NASDAQ Composite – 5 YEAR

NASDAQ Composite (^IXIC) 6,121.23 5.27 (0.09%) As of May 12 5:15PM EDT. Market closed.

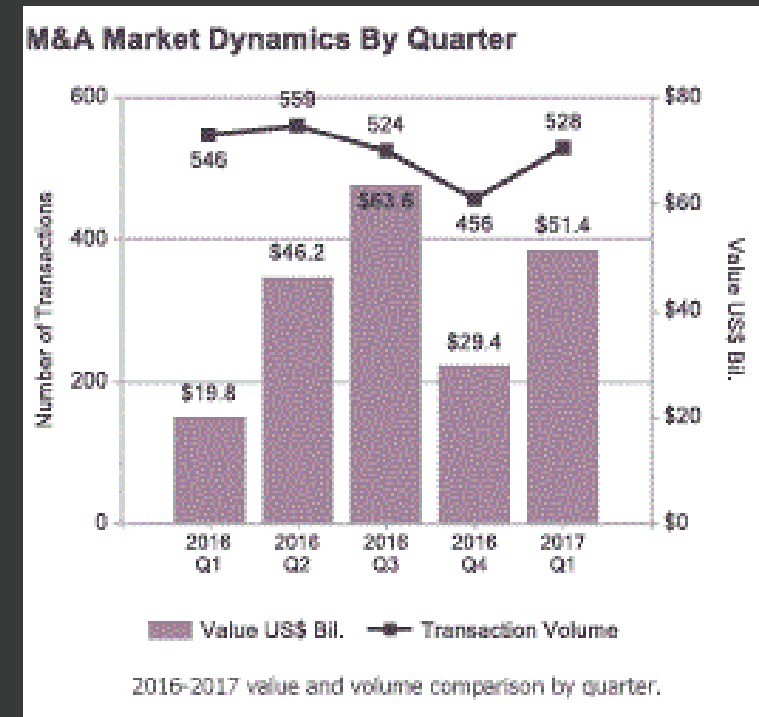
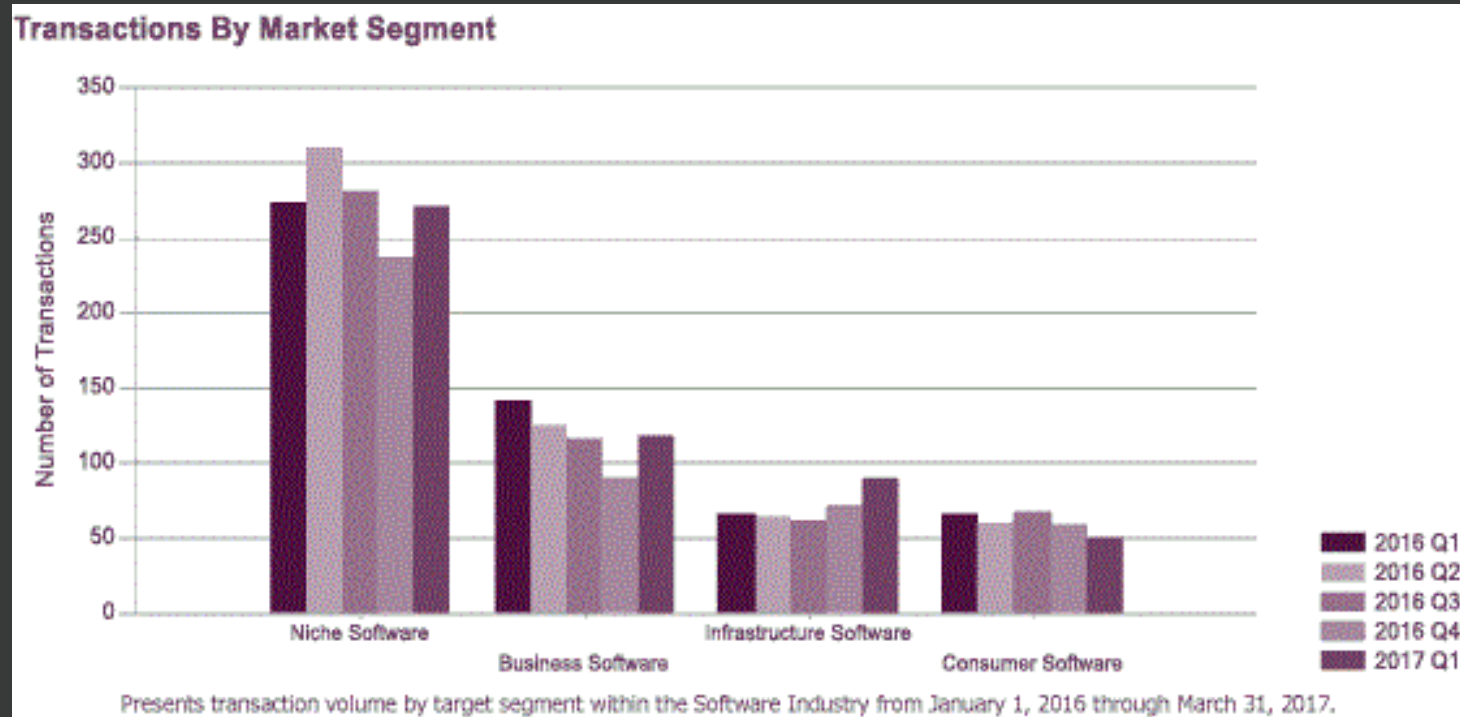


M&A ACTIVITY FOLLOWS THE PUBLIC MARKETS



Source: Pitchbook

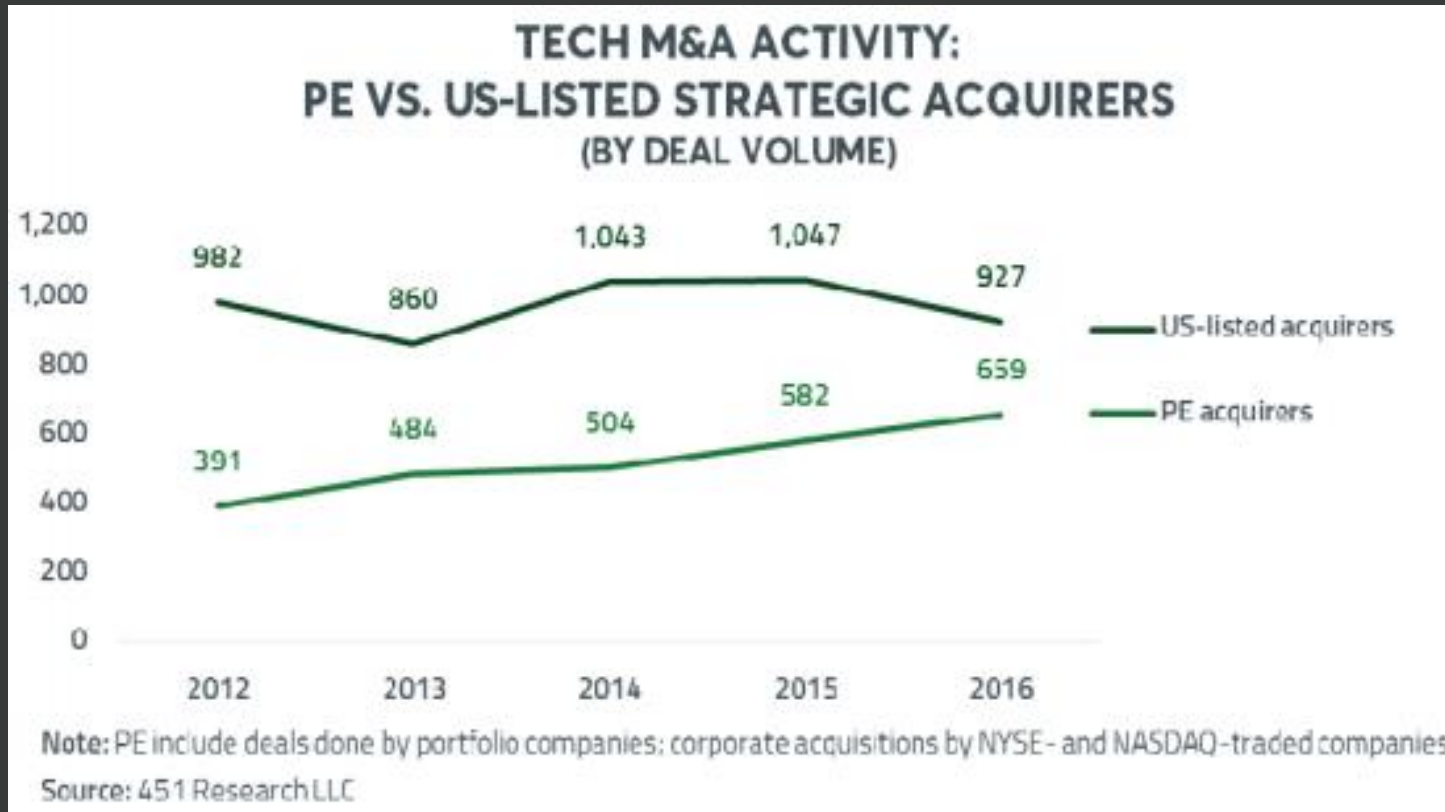
Q1 2017 DATA POINTS TO ANOTHER BLOCKBUSTER YEAR



Software transaction volume increased 16 percent over the past three months, from 456 to 528. Deal value gained 75 percent, from \$29.4 billion to \$51.4 billion. Volume throughout the past five quarters reached its peak in Q2 2016, whereas value reached its zenith in Q3 2016.

PE ASCENDING

media, information, marketing, software and tech-enabled services sectors



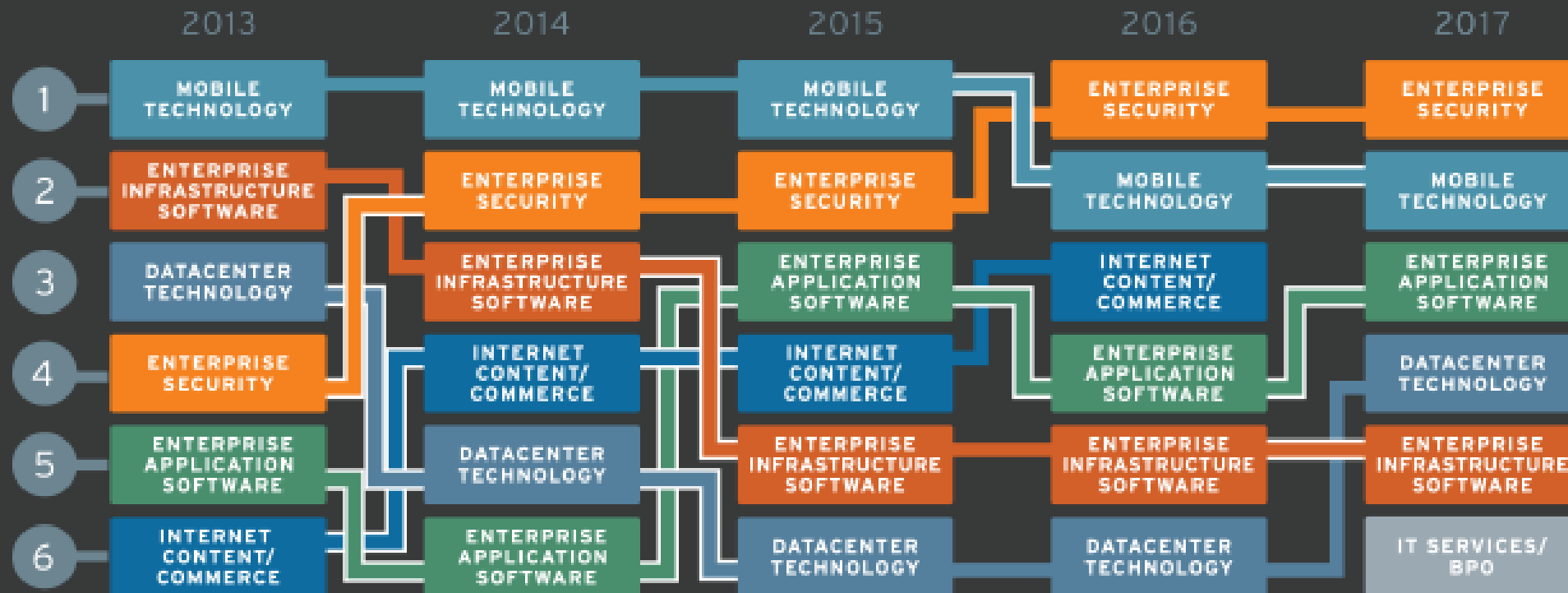
ACTIVE M&A MARKETS (source: JEGI)

M&A ACTIVITY BY SECTOR						
Sector	2016		2017		% Change	
	January - March		January - March		# Deals	Value
	# Deals	Value (mil)	# Deals	Value (mil)		
B2B Media & Technology	25	\$262	26	\$899	4%	243%
Consumer Media & Technology	54	\$939	66	\$3,516	22%	274%
Database & Information Services	11	\$14,977	15	\$4,465	36%	(70%)
Exhibitions & Conferences	19	\$206	18	\$458	(5%)	122%
Marketing Services & Technology	194	\$4,527	160	\$4,683	(18%)	3%
Mobile Media & Technology	45	\$1,115	39	\$586	(13%)	(47%)
Software	147	\$6,617	111	\$7,005	(24%)	6%
Tech-Enabled Services	106	\$11,052	119	\$10,200	12%	(8%)
TOTAL	601	\$39,695	554	\$31,812	(8%)	(20%)

HOT MARKETS (451)

M&A activity outlook, by sector

FORECAST CHANGE IN ACQUISITION SPENDING IN THE COMING YEAR



Source: 451 Research Tech Banking Outlook Survey

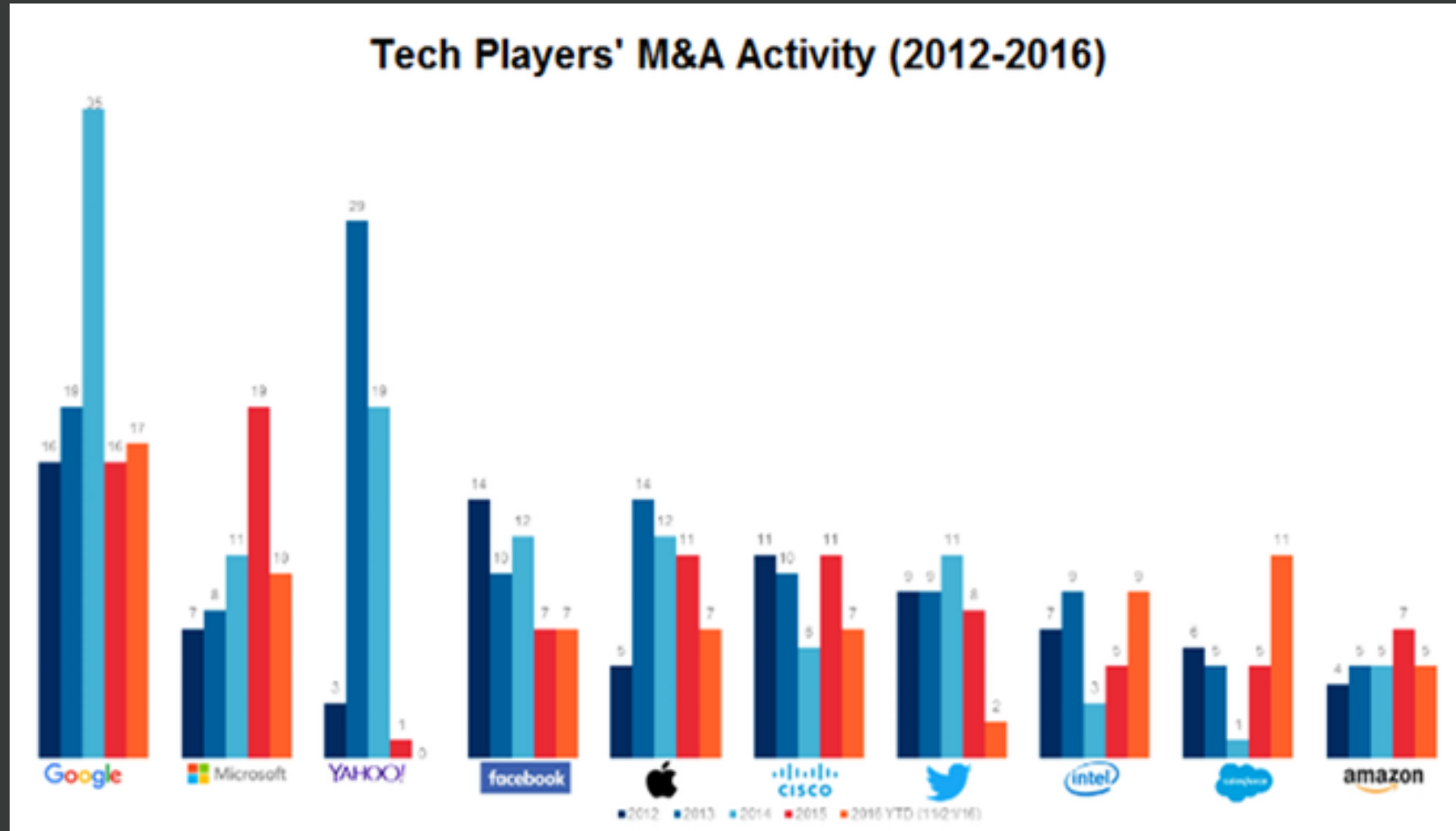
ACTIVE BUYERS IN 2016 (CBINSIGHTS)

 **TOP TECH ACQUIRERS**
2016

Rank	Acquirer	Select Acquisitions
1		 
2		 
2	 High performance. Delivered.	 
4		 



ACTIVE BUYERS – 2012 TO 2016 (CBINSIGHTS)

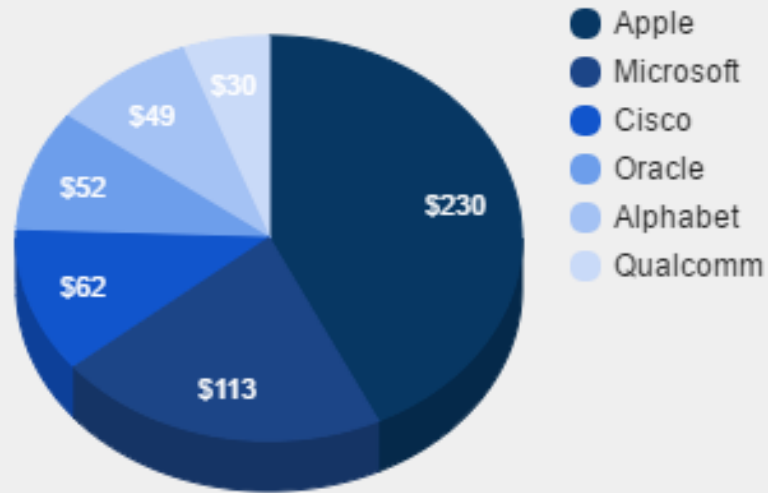


Source: CBInsights

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THE OFFSHORE ADVANTAGE

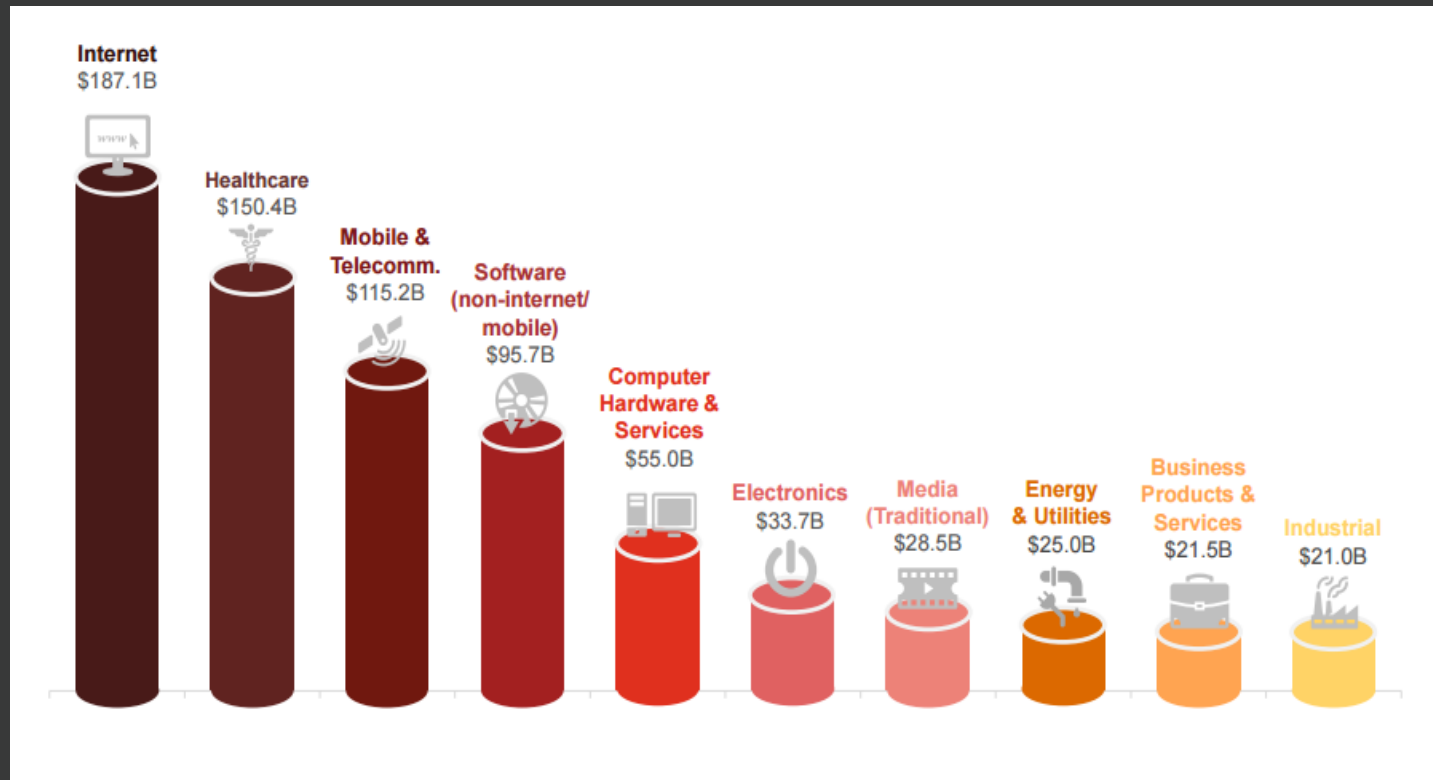
Offshore Cash - the end of 2016 (Billion)



Of the \$1.3 trillion in cash that Moody's Investors Services estimates that all America companies outside of the financial sector held overseas at the end of 2016, \$505 billion belongs to Apple , Microsoft , Cisco Systems , Oracle and Alphabet .

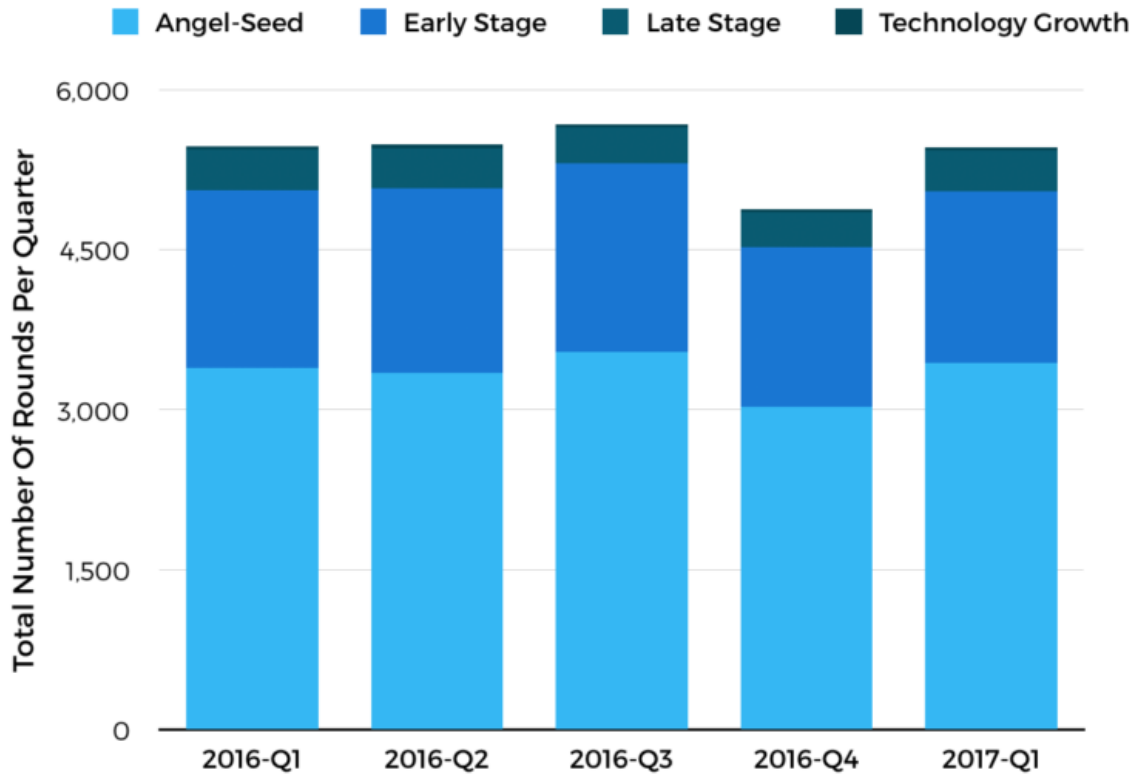
HOT MARKETS - INVESTMENT

Top 10 Sectors in the US based on dollars invested in the last 20 years (PWC)

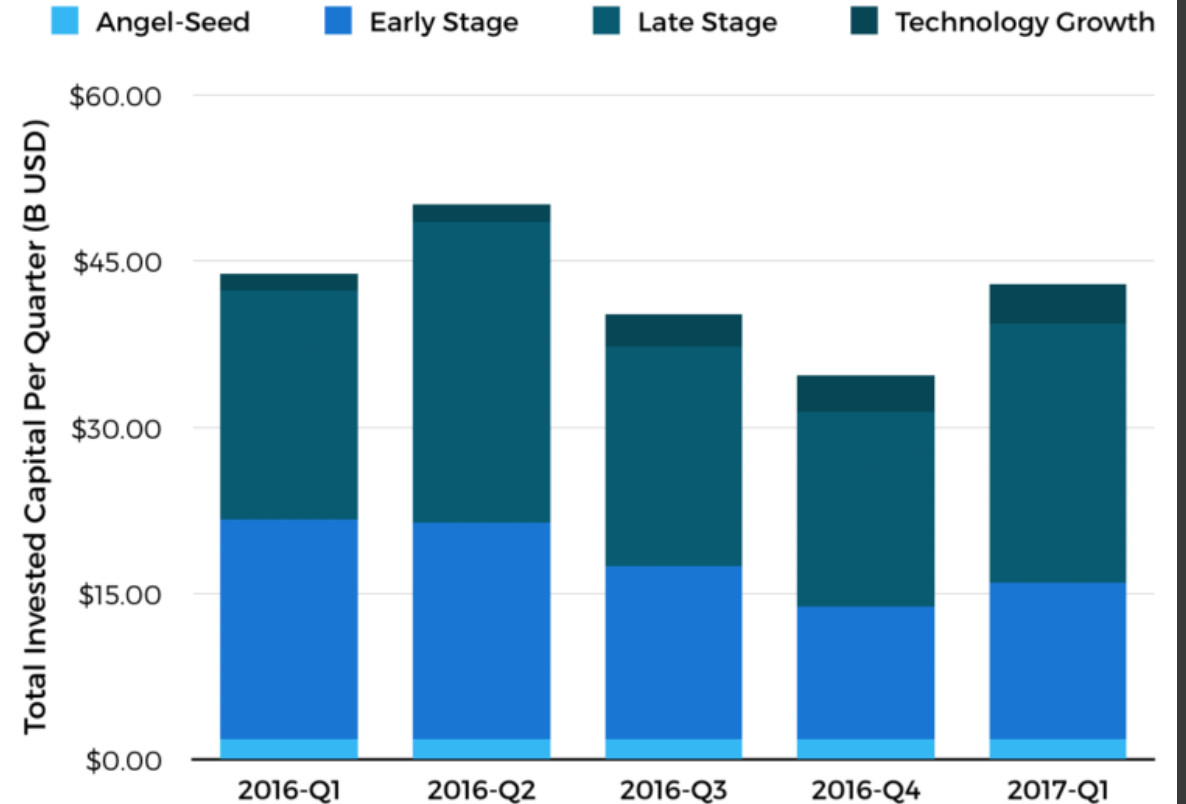


INVESTMENT VOLUME BY STAGE

Projected Global Investment Round Count



Projected Global Investment Dollar Volume



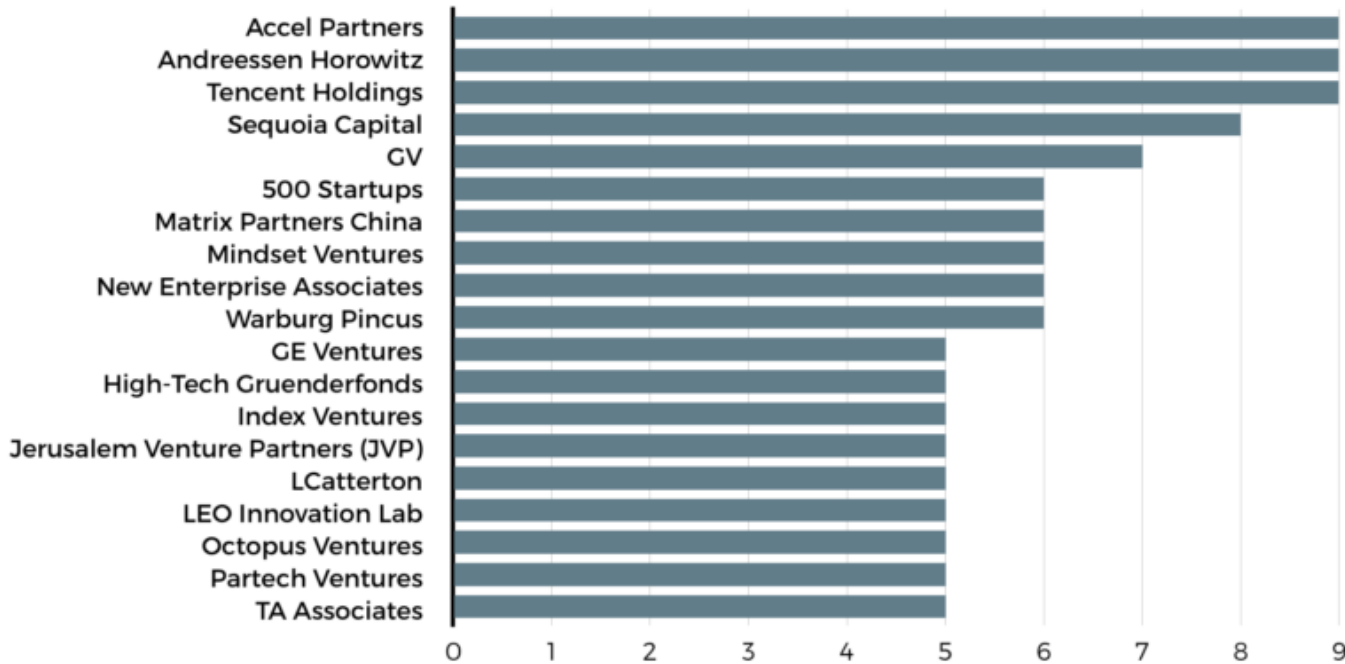
Source: Crunchbase

<http://about.crunchbase.com/news/inside-global-q1-2017-vc-market/>

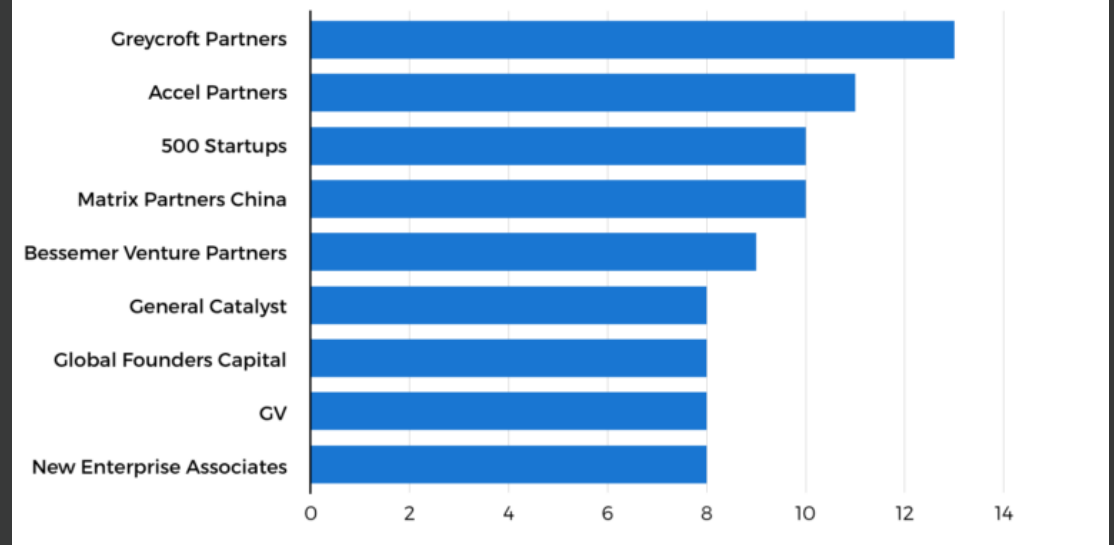
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ACTIVE INVESTORS

Active Global Lead Investors In Q1 2017



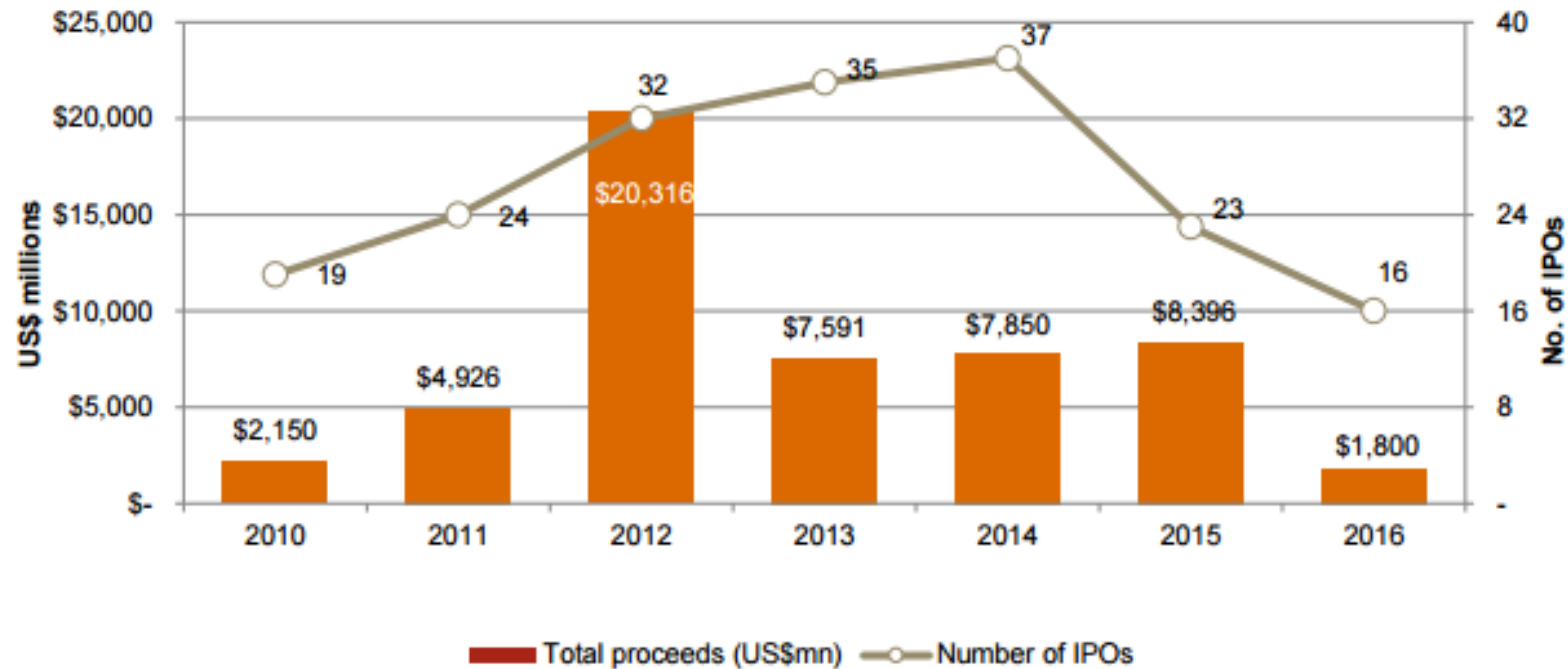
Active Global Early-Stage Investors In Q1 2017



Source: Crunchbase

IPO

Figure 14: 2010-2016 US tech IPOs

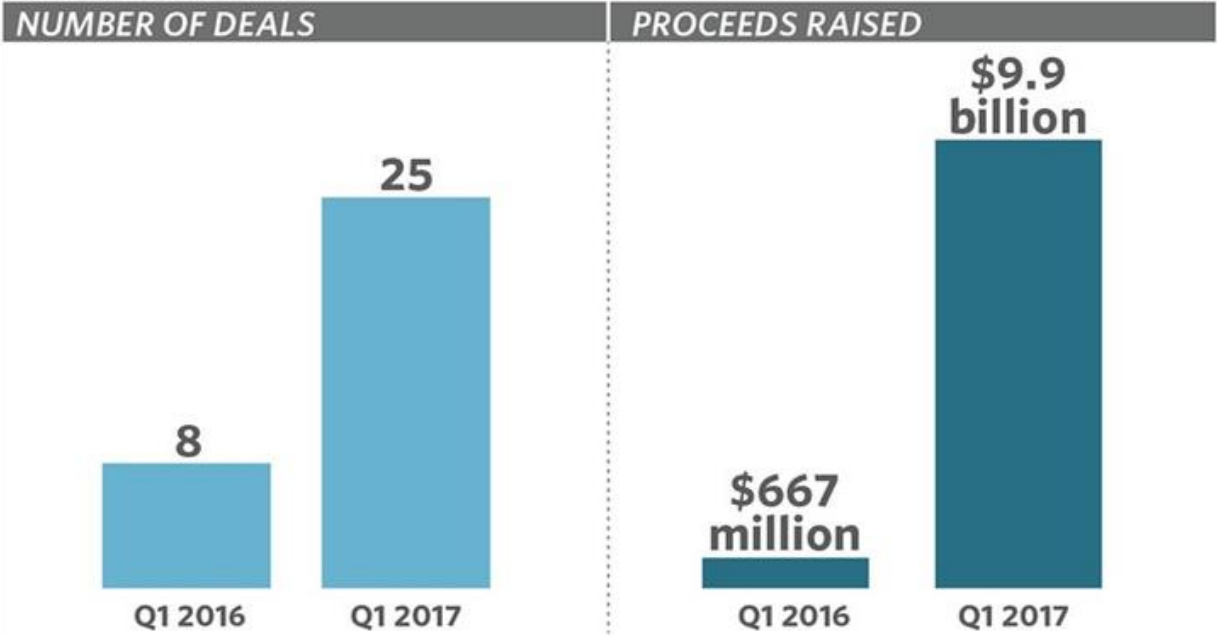


Source: S&P Capital IQ with analysis by PwC

IPO – LOOKING AHEAD

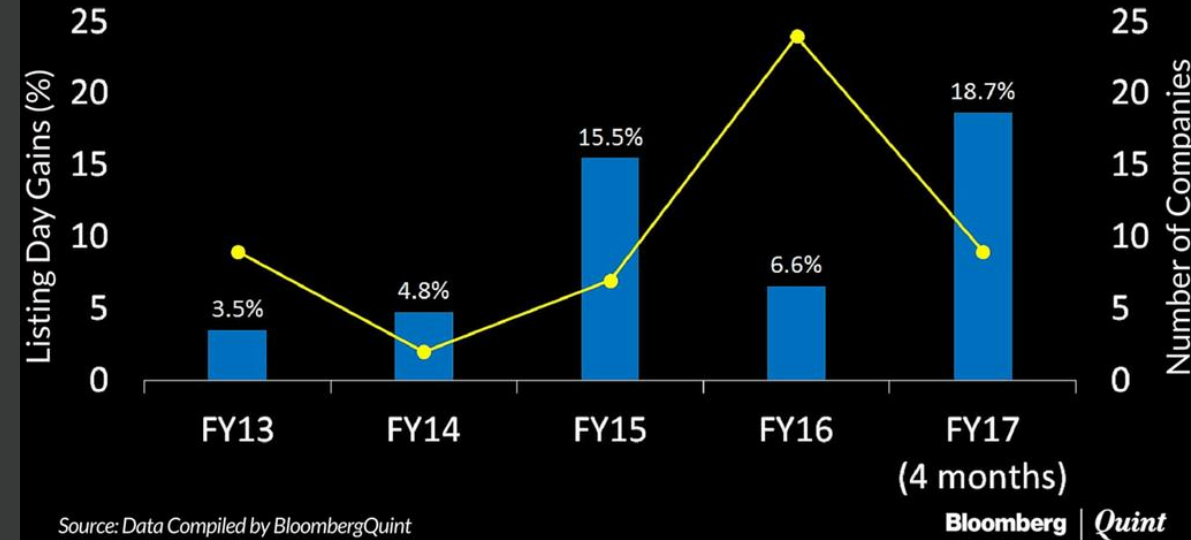
The IPO boom of 2017

The first quarter of 2017 had more than three times as many deals as the same period in 2016



Source: Renaissance Capital

A Rewarding Year For IPOs



Source: Data Compiled by BloombergQuint

Bloomberg | Quint

<https://www.bloombergquint.com/charts/2016/07/29/will-2017-be-a-record-year-for-ipos>

<http://www.marketwatch.com/story/the-ipo-market-is-back-baby-2017-03-30>

COMPANY TIMING

- Value Drivers at Different Stages of Growth
- The Single most Important Determiner of Value



Objective:

- raise money to execute and build value

Valuation Driver(s):

- Acquire (recruiter fees)



Objectives:

- Deploy technology at a real live customer
- Validate ROI to customer
- Validate technology
- Refine business model

Valuation Driver(s):

- *Acquire (recruiter fees)*

- Time to market
- Potential upside (earnout)



Objectives:

- Re-architect product for scale
- Create unique value proposition (*Google ad word test*)
- Get reference customers
- Build viable financial model around gross margins

Valuation Driver(s):

- *Acquihire (recruiter fees)*
- *Time to market*
- *Potential upside (earnout)*
- Replacement Value
- DCF



Objectives:

- Growth
- IPO and M&A Readiness
- EBITDA
- IP Strategy (Patent Portfolio)

Valuation Driver(s):

- *Acquihire (recruiter fees)*
- *Time to market*
- *Potential upside (earnout)*
- *Replacement Value*
- *DCF*
- Market Multiples



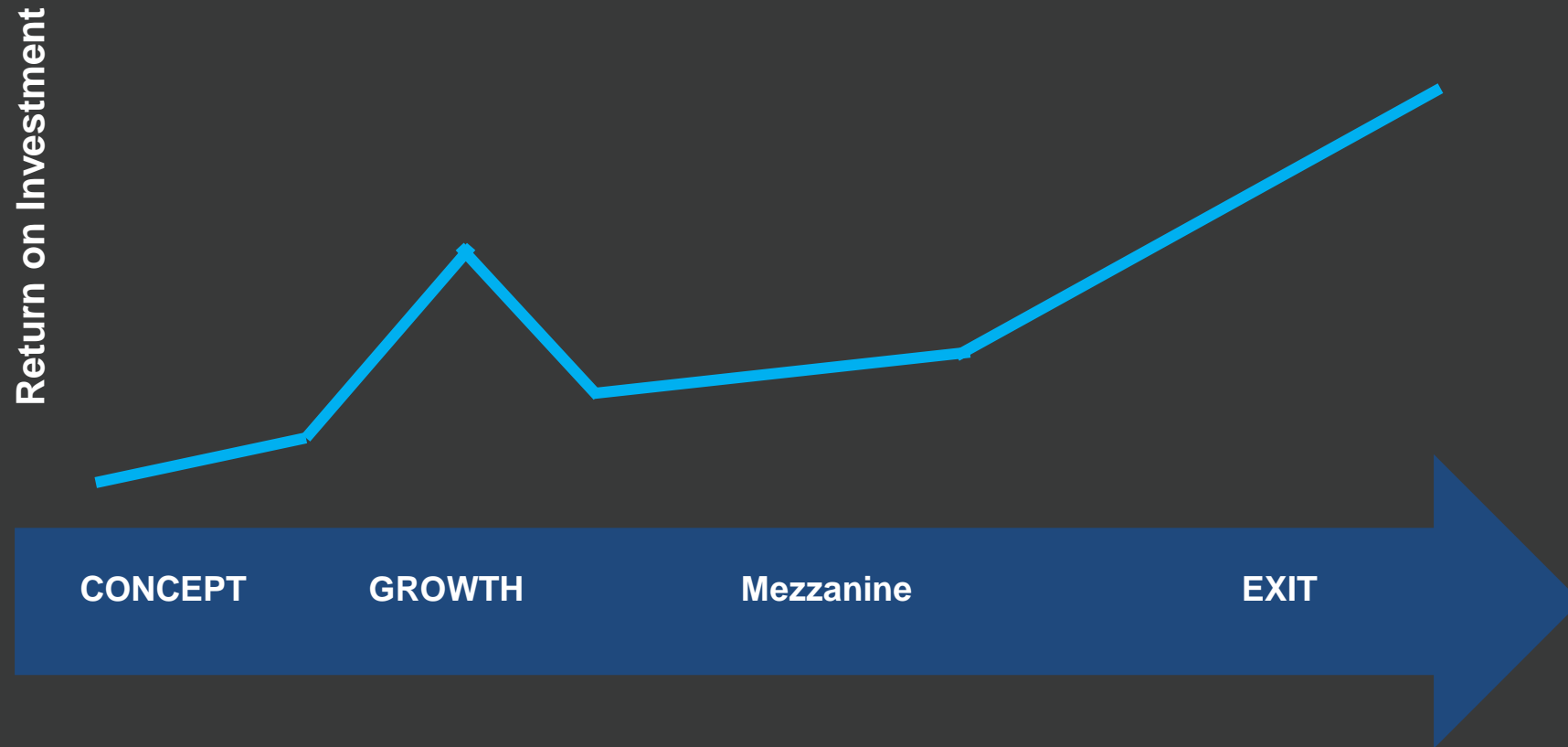
Objectives:

- Market Dominance
- Sustainable Earnings

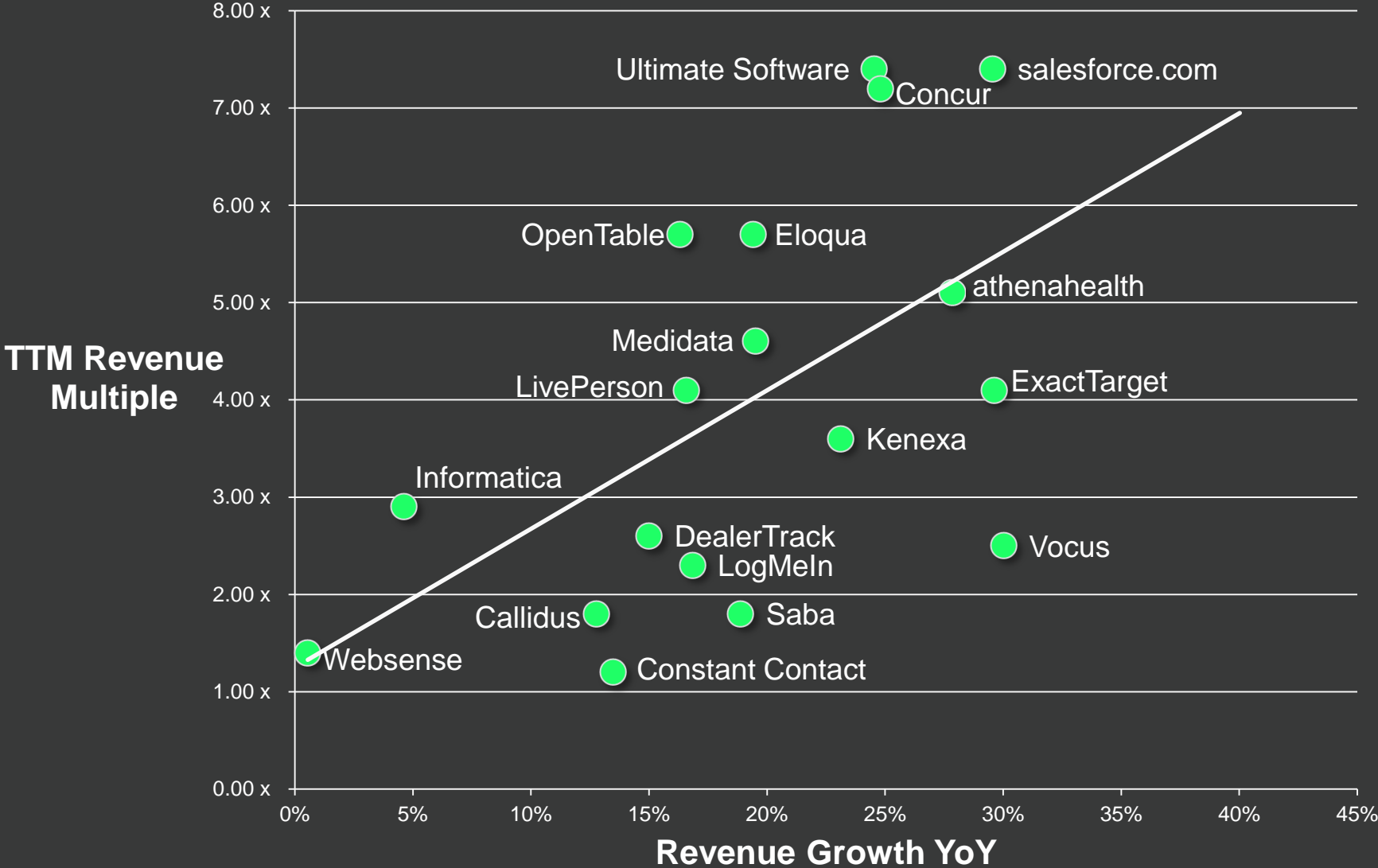
Valuation Driver(s):

- *Acquihire (recruiter fees)*
- *Time to market*
- *Potential upside (earnout)*
- *Replacement Value*
- *DCF*
- *Market Multiples (private)*
- Market Multiples (public)
- Forward Growth
- Forward Earnings

COMPANY TIMING - ROI



GROWTH DRIVES VALUE



GROWTH DRIVES VALUE

Company	URL	Ticker	Market Data				Financials (TTM)			Performance			Multiples (TTM)		
			Price per share	# of shares	Market Value	Enterprise Value	Revenue	EBITDA	Operating Income	Rev Growth % (TTM)	Rev Growth % (3 yr ave)	EBITDA % (TTM)	EV/S	EV/EBITDA	EV/OI
Unified Signal	http://www.unifiedsignal.com	UNSI	0.16	74	4	4	2	(1)	(2)	113.73%	-9.96%	-50.00%	2.0 x	N/M	N/M
Genesys	http://www.genesys.com	GENESYS	166.45	3.05	508	3,050	628	190	79	107.67%	-25.54%	30.25%	4.9 x	16.1 x	38.6 x
Twilio Inc.	https://www.twilio.com	TWLO	32.24	90	2,902	2,390	277	(33)	(41)	59.63%	77.11%	-11.91%	8.6 x	N/M	N/M
Atlassian	https://www.atlassian.com	TEAM	32.82	222	7,286	5,130	531	11	(24)	35.73%	45%	2.07%	9.7 x	466.4 x	N/M
Apigee (APIC)	https://apigee.com	APIC	17.40	30	535	468	92	(39)	(41)	34.40%	n/a	-42.39%	5.1 x	N/M	N/M
RingCentral, Inc.	https://www.ringcentral.com	RNG	30.45	74	2,253	1,440	380	(14)	(26)	25.24%	33.25%	-3.68%	3.8 x	N/M	N/M
8x8	https://www.8x8.com	EGHT	14.70	90	1,323	1,140	224	4	(6)	19.76%	24.83%	1.79%	5.1 x	285.0 x	N/M
BroadSoft	https://www.broadsoft.com	BSFT	38.70	30	1,161	1,320	341	39	16	13.83%	24.08	11.44%	3.9 x	33.8 x	82.5 x
Rakuten (Viber Media)	https://global.rakuten.com	RKUNF	10.75	1,426	15,330	15,080	7,037	1,095	702	11.93%	14.67%	15.56%	2.1 x	13.8 x	21.5 x
Vonage	http://www.vonage.com	VG	6.58	219	1,441	1,710	956	116	44	7.23%	4.85%	12.13%	1.8 x	14.7 x	38.9 x
Citrix	https://www.citrix.com	CTXS	84.12	156	13,123	12,910	3,418	911	649	0.40%	5.41%	26.65%	3.8 x	14.2 x	19.9 x
Cisco	http://www.cisco.com	CSCO	33.39	5,007	167,184	118,320	48,570	15,461	12,057	-2.91%	0.44%	31.83%	2.4 x	7.7 x	9.8 x
CenturyLink	http://www.centurylink.com	CTL	25.87	548	14,177	31,990	17,470	6,254	2,331	-4.18%	-1.16%	35.80%	1.8 x	5.1 x	13.7 x
Windstream	https://www.windstream.com	WIN	5.68	190	1,079	10,490	5,387	1,601	515	-8.26%	-3.46%	29.72%	1.9 x	6.6 x	20.4 x
Mitel	http://www.mitel.com	MITL	6.97	122	850	1,720	988	151	50	-63.60%	15.76%	15.28%	1.7 x	11.4 x	34.4 x

PERFORMANCE GROUP

High

Medium

Low

TOTAL

High	60%	18%	-12%	5.1 x	241.2 x	38.6 x
Medium	13%	20%	12%	3.8 x	14.7 x	30.2 x
Low	-6%	0%	31%	1.9 x	7.1 x	17.0 x
TOTAL	14%	10%	12%	3.8 x	14.2 x	21.5 x

Company:	31%	34%	2%	3.8 x	7.1 x	30.2 x
Discount for Liquidity, Size/Leadership, Risk:			0.25	2.8 x	5.3 x	22.6 x

GROWTH DRIVES VALUE

PERFORMANCE GROUP

High	60%	18%	-12%	5.1 x	241.2 x	38.6 x
Medium	13%	20%	12%	3.8 x	14.7 x	30.2 x
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Discount for Liquidity, Size/Leadership, Risk			0.25	2.8 x	5.3 x	22.6 x

BUILDING A VALUATION MODEL

EARLY STAGE

Acquire

- Save time and recruiting fees
- Team dynamic already established
- Small potential premium for IP
- New mission

REPLACEMENT

Value

- Total invested person months
- Cost to acquire technology
- Deferred salaries
- Time-to-market premium

MULTIPLE

Methodologies

- Single approach is hard to defend
- Buyers take multiple approaches
- Valuation is defensive, not offensive
- Process creates value

DISCOUNTED

Cash Flow

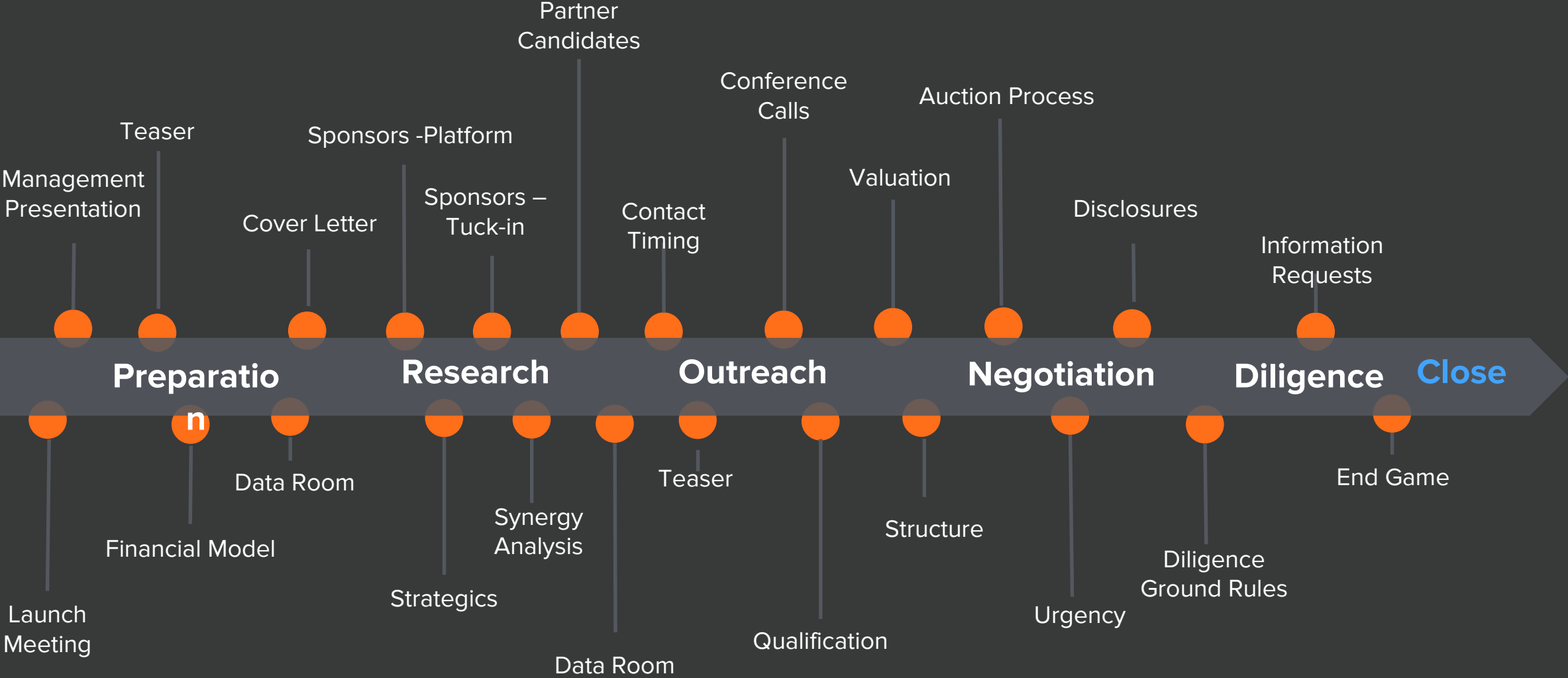
- Present value of all future cash flows
- Forecast determines methodologies
- Often a proxy for market multiples

MARKET

Multiples

- EV/Sales (trailing, current, forward)
- EV/EBITDA
- EV/Headcount
- “adjusted EBITDA”

PROCESS CREATES VALUE



VALUATION – TELLING THE FINANCIAL STORY

	Financial Metric	Applied Multiple	Implied Value	Weight	Weighted Value
Comparable Public Peers					
Revenue (FYE 6/30/2017)	\$15,258,623	2.97 x	\$45,266,286	50.0%	\$22,633,143
Comparable M&A Transactions					
Revenue (FYE 6/30/2017)	\$15,258,623	3.10 x	\$47,301,733	50.0%	\$23,650,000

Weighted Fair Market Value	100.0%	\$46,283,143
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Implied Multiples	Revenue	Multiple	Recurring Revenue	Multiple
2015	\$ 12,370,634	3.7 x	\$ 4,153,572	11.1 x
2016	\$ 14,807,373	3.1 x	\$ 6,193,168	7.5 x
2017	\$ 15,258,623	3.0 x	\$ 7,932,696	5.8 x
2018	\$ 18,443,807	2.5 x	\$ 10,720,738	4.3 x

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Q&A

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