

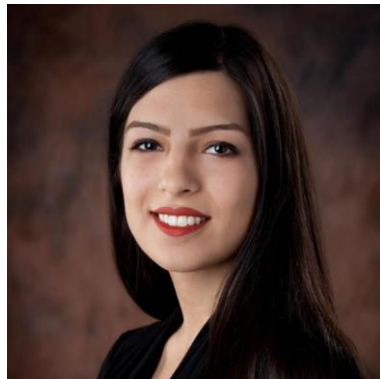
# Tech Valuation Metrics

What is your tech company worth right now?

CORUM  
MERGERS & ACQUISITIONS



## **YASMIN KHODAMORADI, DIRECTOR OF VALUATION SERVICES**



- Yasmin Khodamoradi joined Corum Group in 2015, providing research on valuations and assisting with sell-side M&A transactions.
- As Director of Valuation Services, she has helped dozens of tech companies determine their value in the market, with a focus on enterprise software and vertical sector solutions.
- Previously, she worked for a fintech startup and a global angel investment firm.
- Yasmin graduated from the Foster School of Business at the University of Washington, specializing in Finance and International Business.

**What is my  
company worth?**

**It's complicated...**

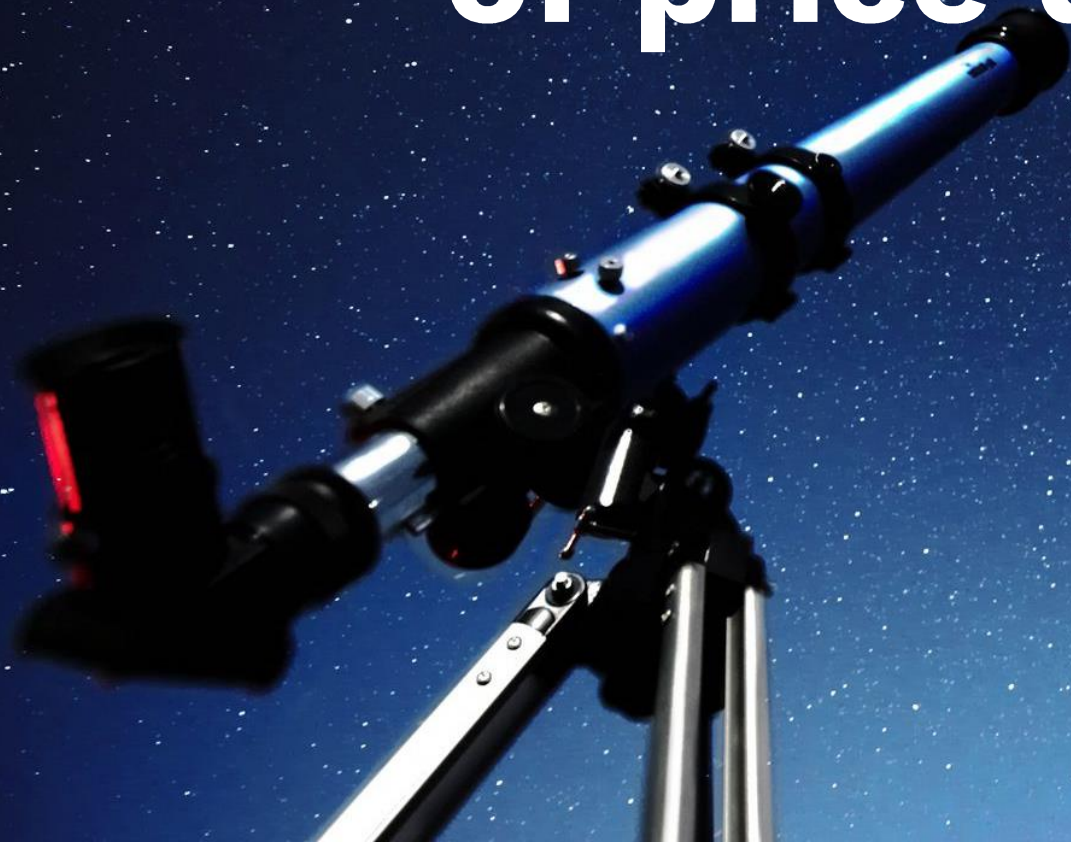
**Private company  
transactions are...  
private.**

# Private companies are unique.





**Your company's  
valuation is a function  
of price discovery**



**The process of determining the price of an asset in the marketplace through the interaction of buyers and sellers**







## MARKET

Growth Potential

Market Position

Competitiveness

Barriers to Entry

Stickiness



## ORGANIZATION

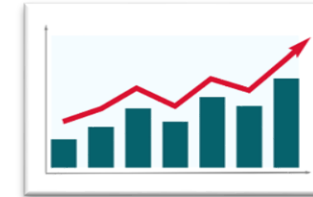
Team

Product/Technology

Sales Channel

Customer Base

Strategic Partnerships



## FINANCIAL

Recurring Revenue

Earnings/Profitability

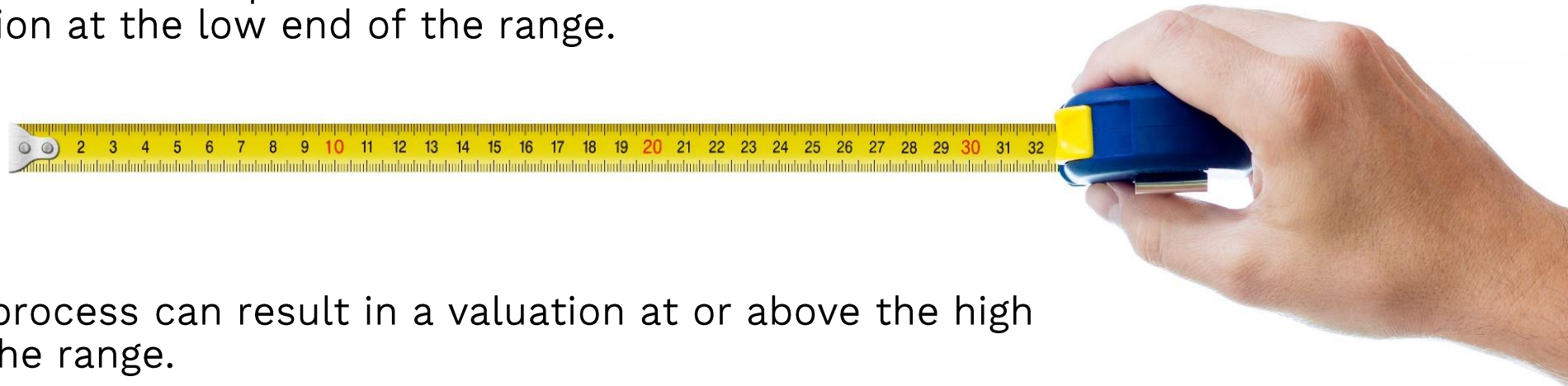
Growth Rates

Balance Sheet

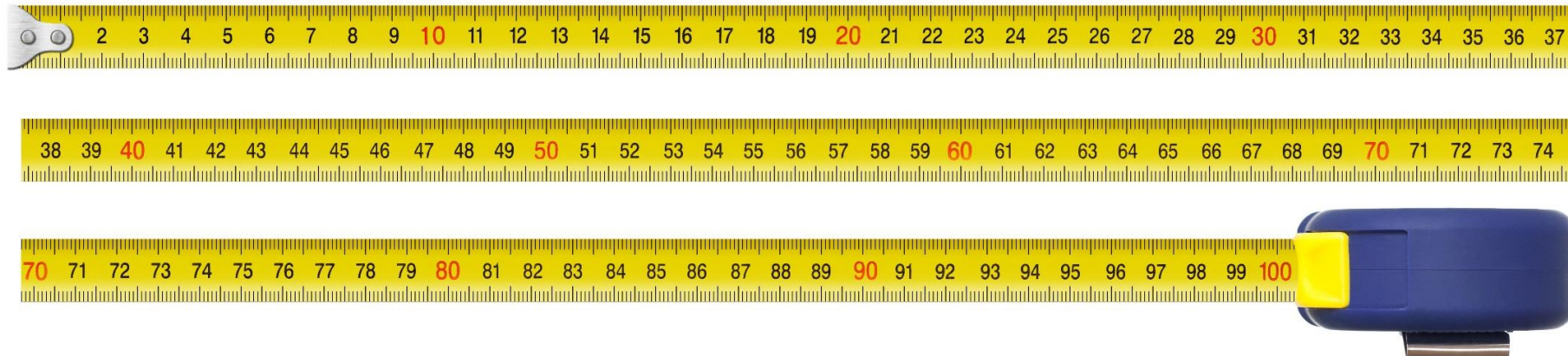
————— INTANGIBLE ASSETS —————

# Valuation Methodologies – Necessary, But Not Sufficient

1. Models and methodologies do often define the boundaries – what ballpark are you playing in?
2. A bad process or no process often results in a valuation at the low end of the range.



3. A good process can result in a valuation at or above the high end of the range.



- Sales multiple – Public peer group
- Earnings multiple – Public peer group
- Comparable M&A transaction analysis
- Discounted cash flow (DCF)
- Replacement cost analysis
- Dollars per R&D Developer
- Internal rate of return (IRR)
- Liquidation value
- Book value
- Internal Transaction Price

# When Are Traditional Valuation Methods Appropriate?

- |                         |                           |
|-------------------------|---------------------------|
| ✓ Mature business model | ✗ Immature business model |
| ✓ Profitability         | ✗ Negative EBITDA         |
| ✓ Undervalued Team/Tech | ✗ Main assets are team/IP |
| ✓ Growth                | ✗ No Growth               |
| ✓ GAAP Financials       | ✗ No GAAP/Projections     |



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Most commonly  
used for tech  
companies

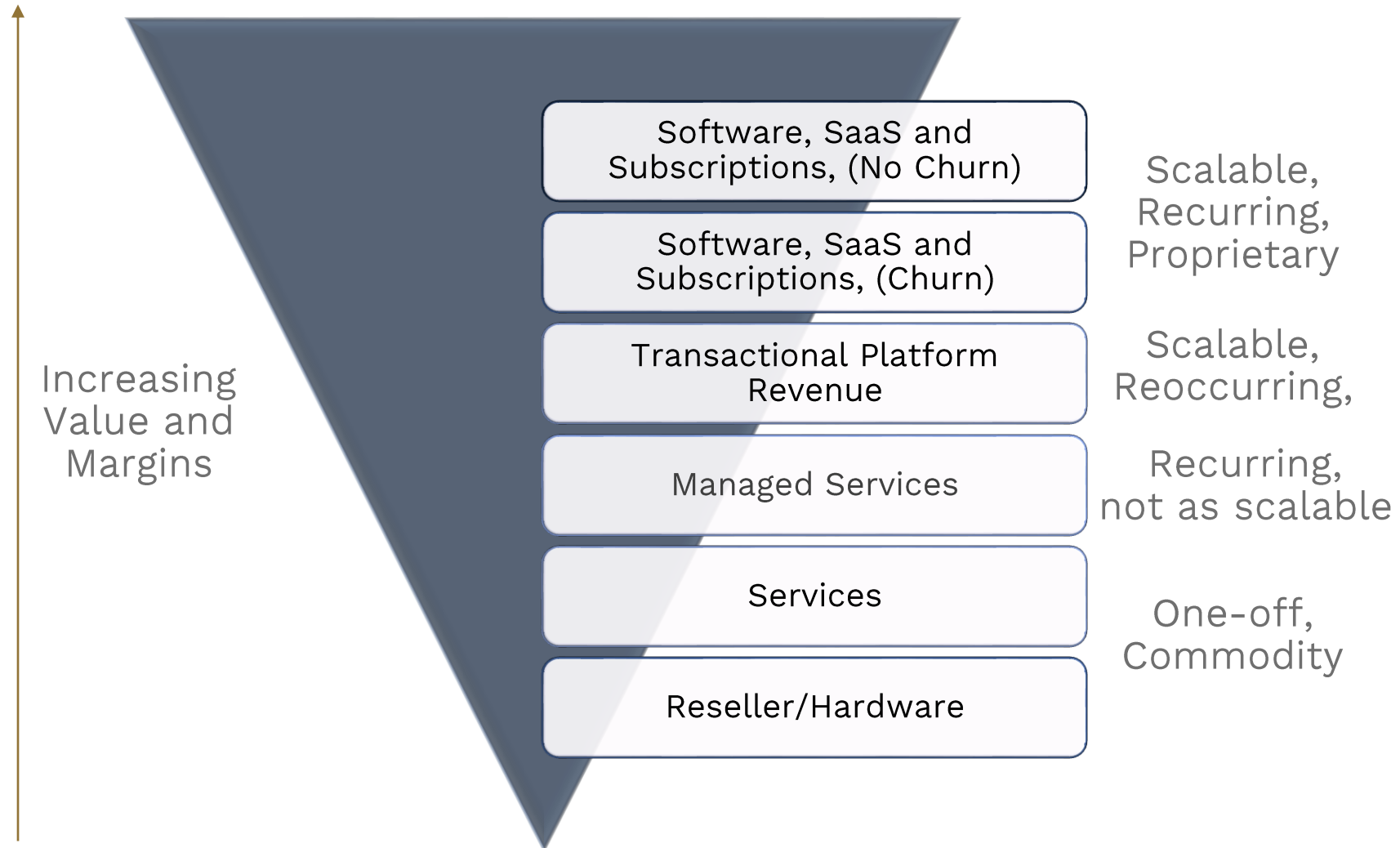
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Relevant to team +  
tech acquihire  
scenarios

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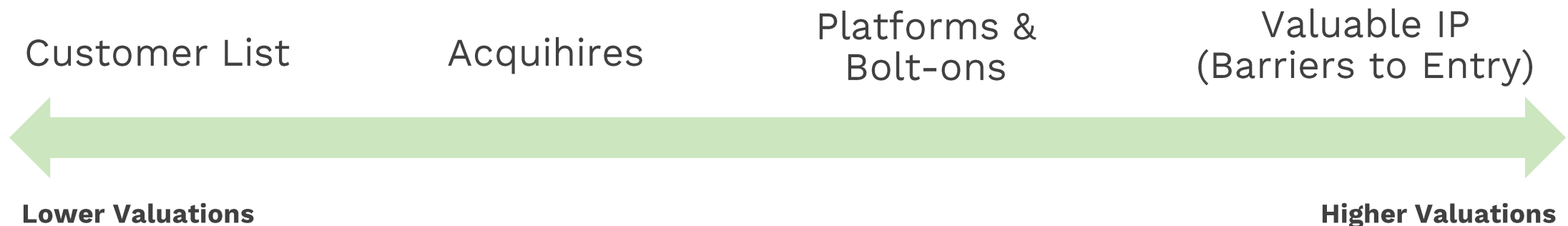
Not frequently used

# Not All Revenue Is Equal





- **Every buyer will have an internal business case for your company.**
  - “How big can we grow this business with the resources at our disposal?”
- **Strategic buyers often have stronger business cases than financial buyers, leading to higher valuations and multiples.**
  - In 2005, Google bought Android, which had very little revenue, for \$50M. *Did they overpay?*
- **Why a buyer wants to acquire you matters too.**



## METHODOLOGIES

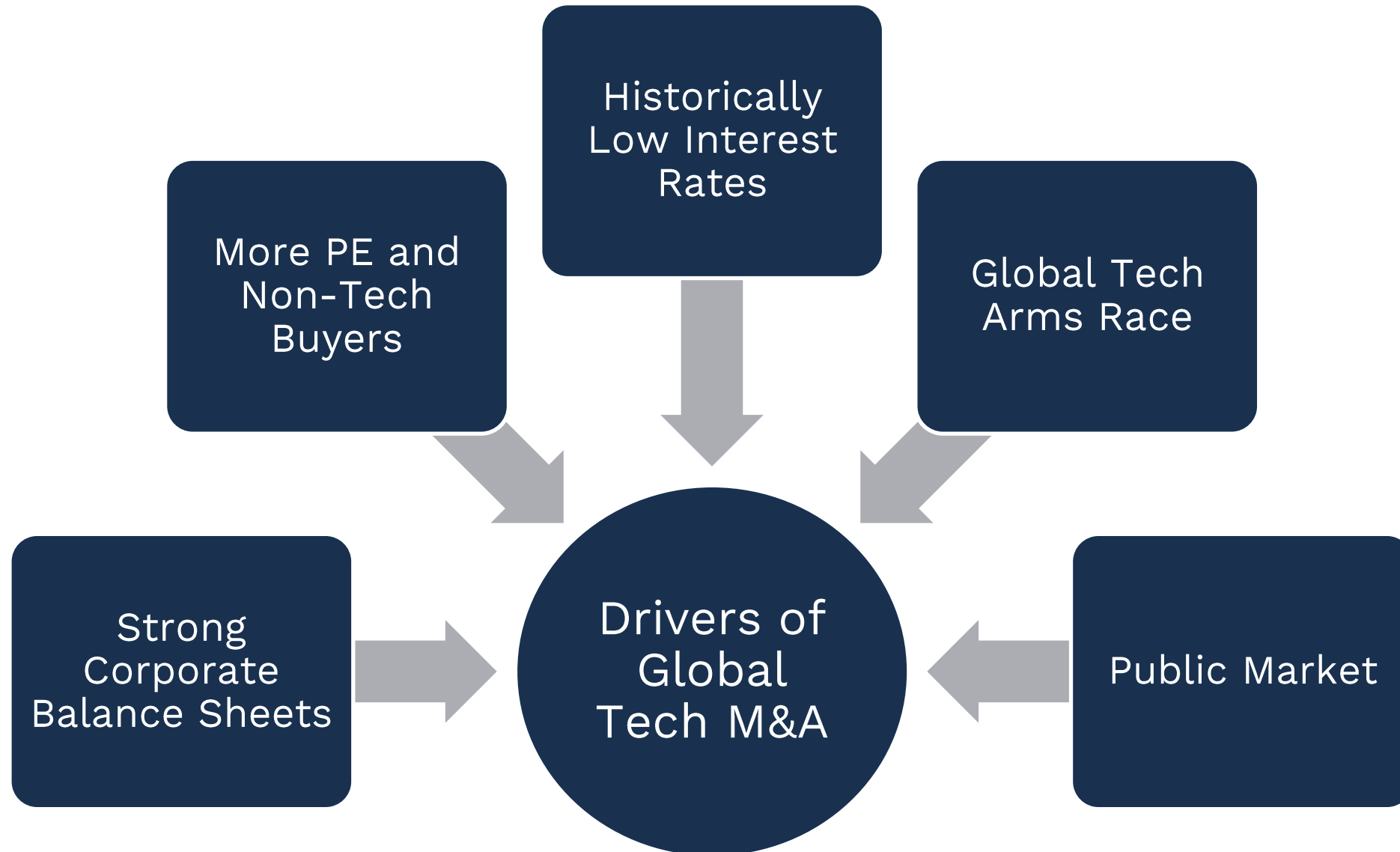
- Traditional valuation methods generally don't take the value of intangible assets into account.

## DATA QUALITY

- Even with access to databases, there is limited data on private comparables. As a result many comparisons will be imperfect.

## METRICS

- Most early stage tech companies lack a dedicated CFO. Problems with GAAP accounting, revenue recognition and bottom-up forecasting are especially common.





- Complementary products/services/distribution
- Similar businesses – different geography
- Part of your “food chain”
- New advanced technology
- Competitors (approach with caution)



- Financial buyers behaving like strategics
- Deploying cash through portfolio companies
- Doing deals for strategic reasons (technology, footprint, channels, etc.)
- Often with strategic prices





- Some deal with high volume of deals, are tech savvy
- Smaller firms operate like search funds

- PEs in this space, seek to grow businesses. So job cuts are rarely seen
- The goal is to sell up to strategics or other PEs for a 3-5x return





- Often there will be rolled equity, meaning a second bite of the apple when the following sale happens
- A strong partner with funds, means focus on growth instead of fundraising



MARLIN EQUITY  
PARTNERS

TA ASSOCIATES

THOMA BRAVO

AKKR  
ACCEL-KKR

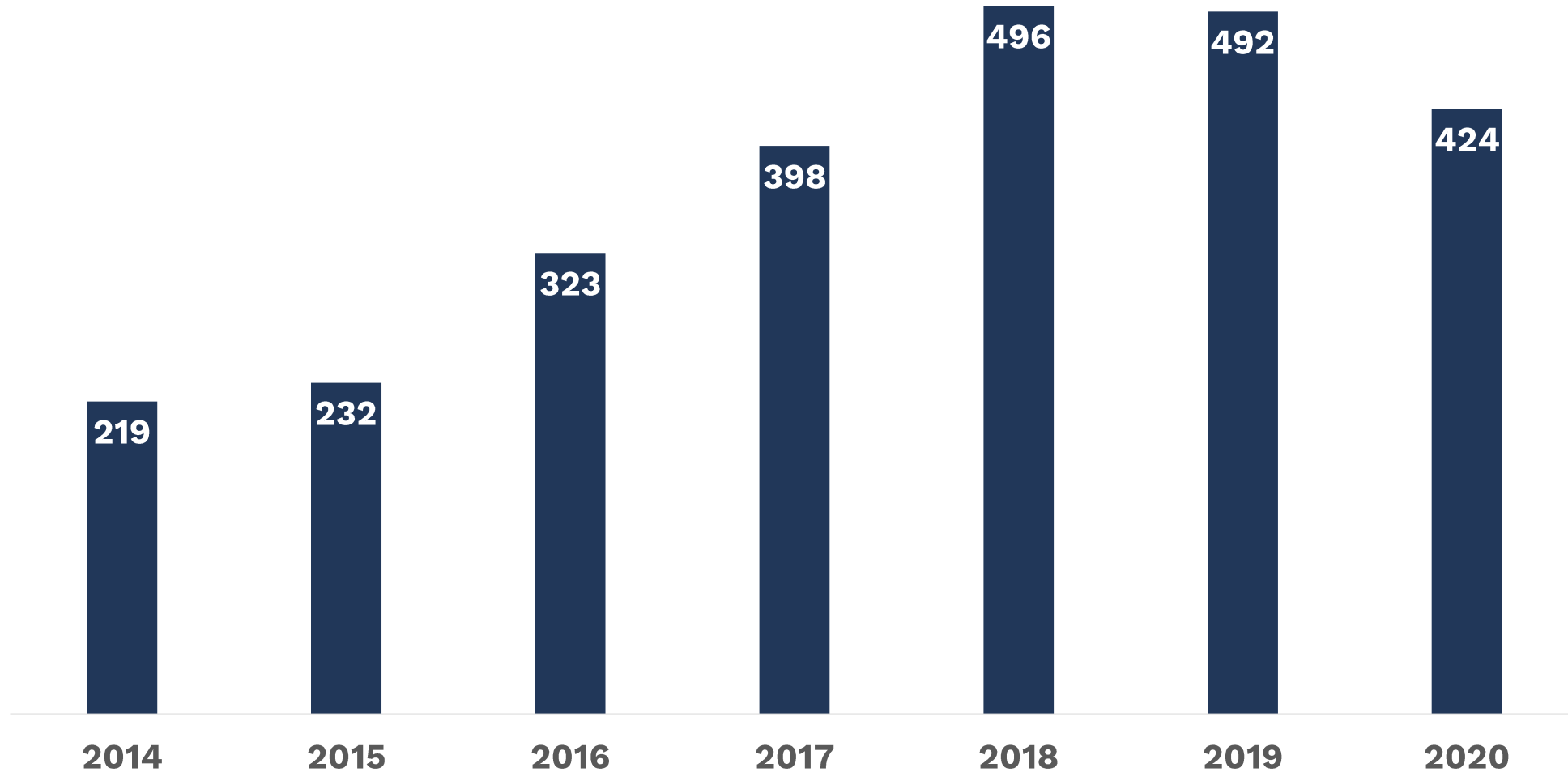
Riverside

VISTA  
PRIVATE EQUITY

- Financial engineers (“smart money”)
- Some high-volume, tech-savvy firms
- Others lower volume and/or less tech-savvy
- Usually cash—be careful of complex structures
- Primarily concerned with ROI
- Usually plan to hold and sell again
- Due Diligence is tougher (NO leverage)
- Rarely more than 90% investment
- Platforms, bolt-ons, roll-ups

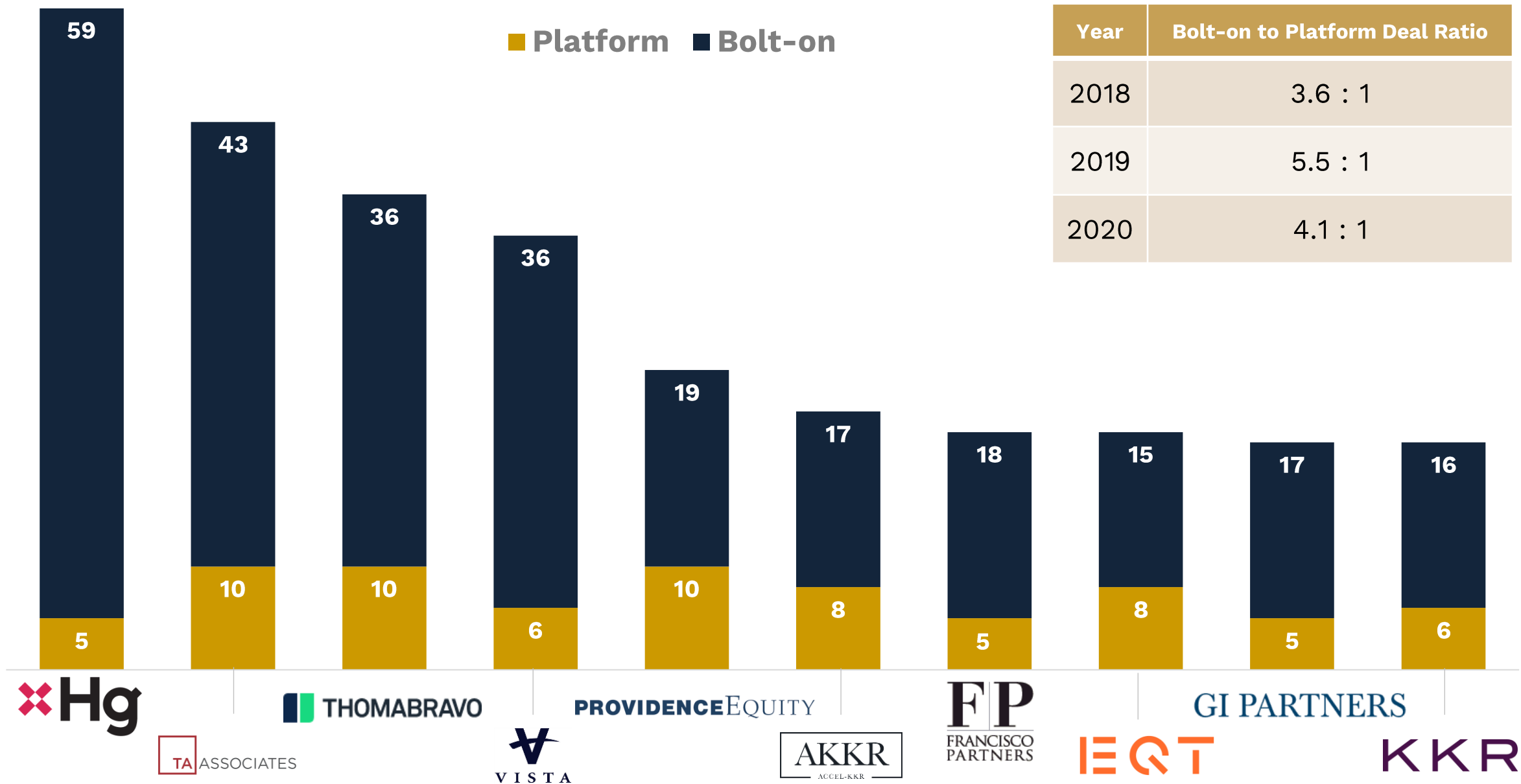
# Tech M&A PE Platform Deals

## 2014-2020



Source: 451 Research & Corum Group

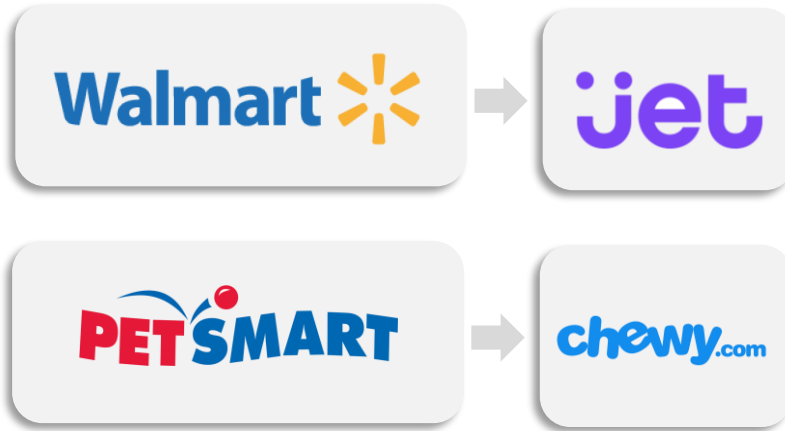
# PE Platform VS. Bolt-On Acquisitions



Year	Bolt-on to Platform Deal Ratio
2018	3.6 : 1
2019	5.5 : 1
2020	4.1 : 1

# Non-Traditional Tech Buyers

Gaining ground in ecommerce...



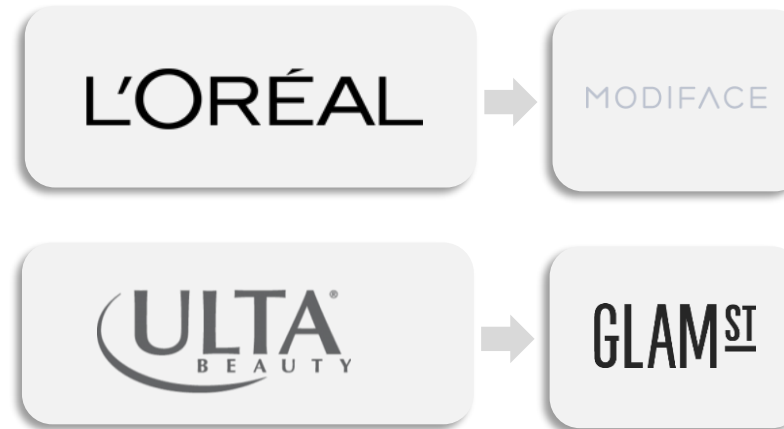
Using AI to better target customers...



Differentiating through services...



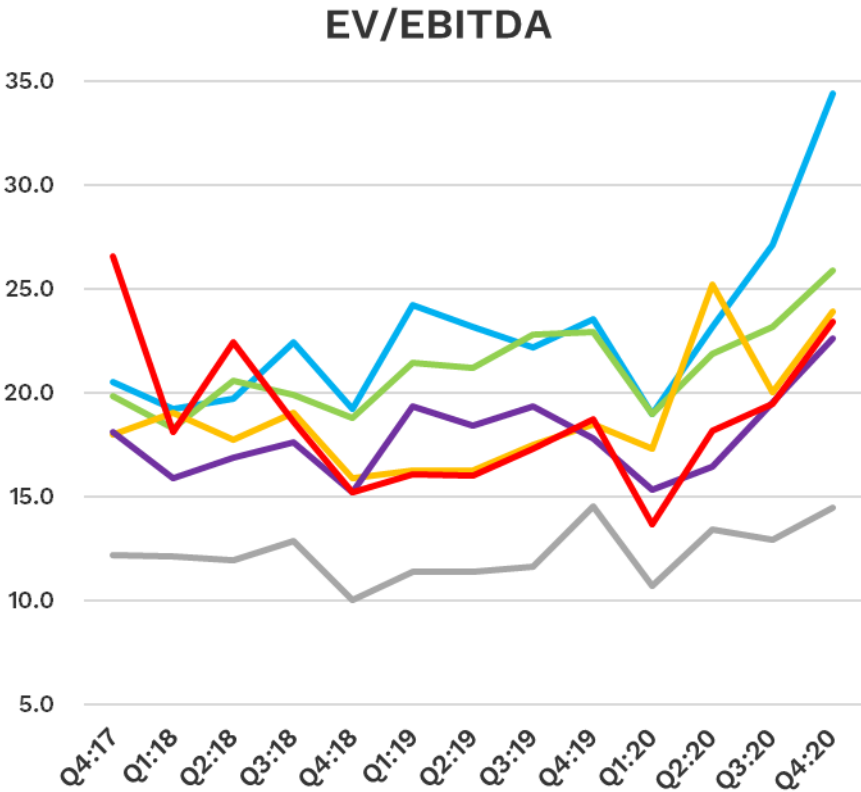
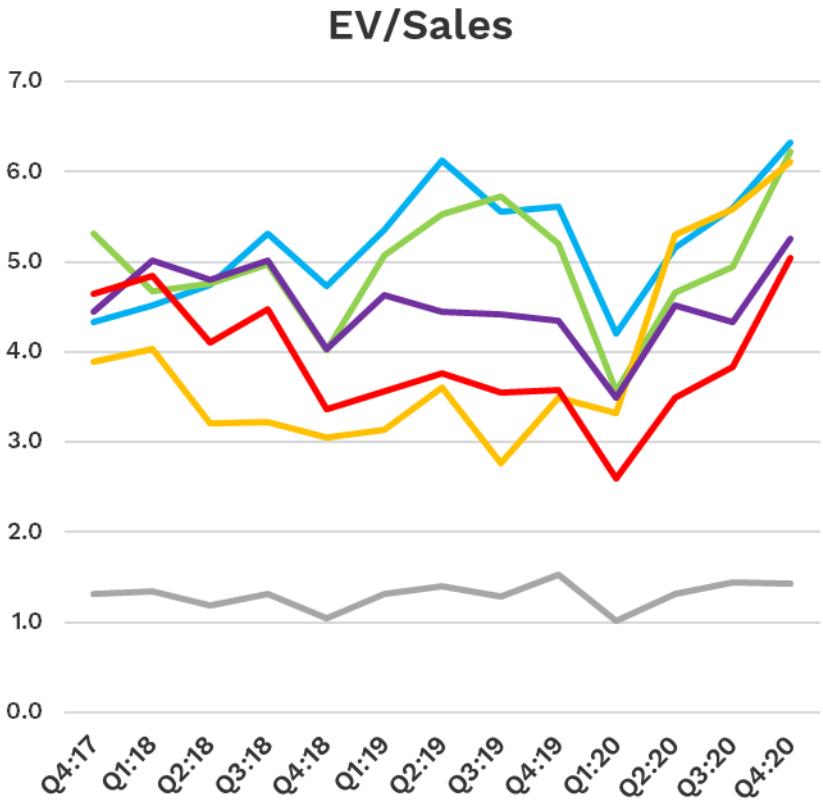
Using AR tech to drive sales...



## Tech M&A Follows the Market



# 3-Year Market Valuation Trends



Horizontal Vertical Infrastructure  
Consumer Internet IT Services



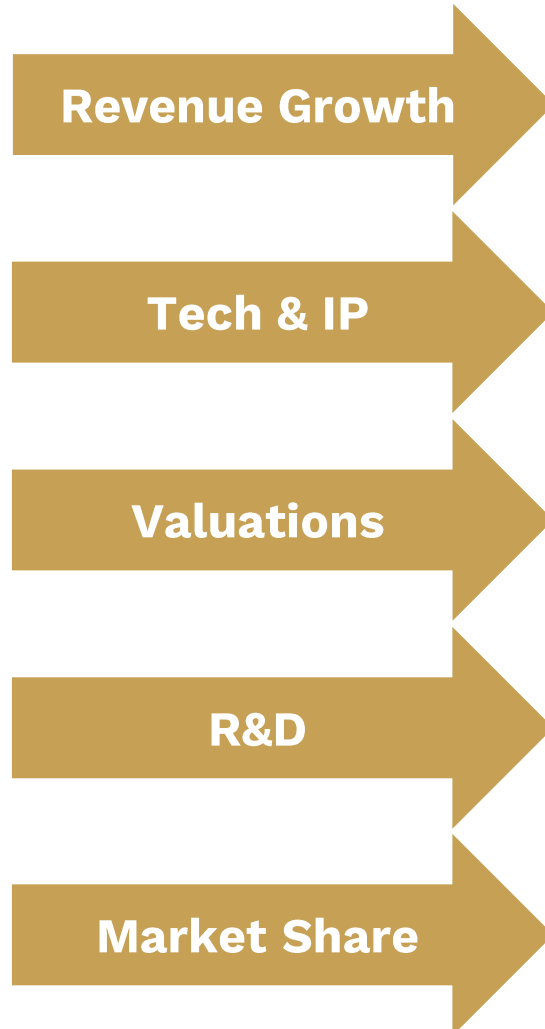
- ~~1. Family – Children take over~~
- ~~2. Management Buyout – MBO~~
- ~~3. Employee Ownership – ESOP~~
- ~~4. Public Initial Offering – IPO~~
5. Merger/Sale or Recapitalization

## MBOs – not used in tech:

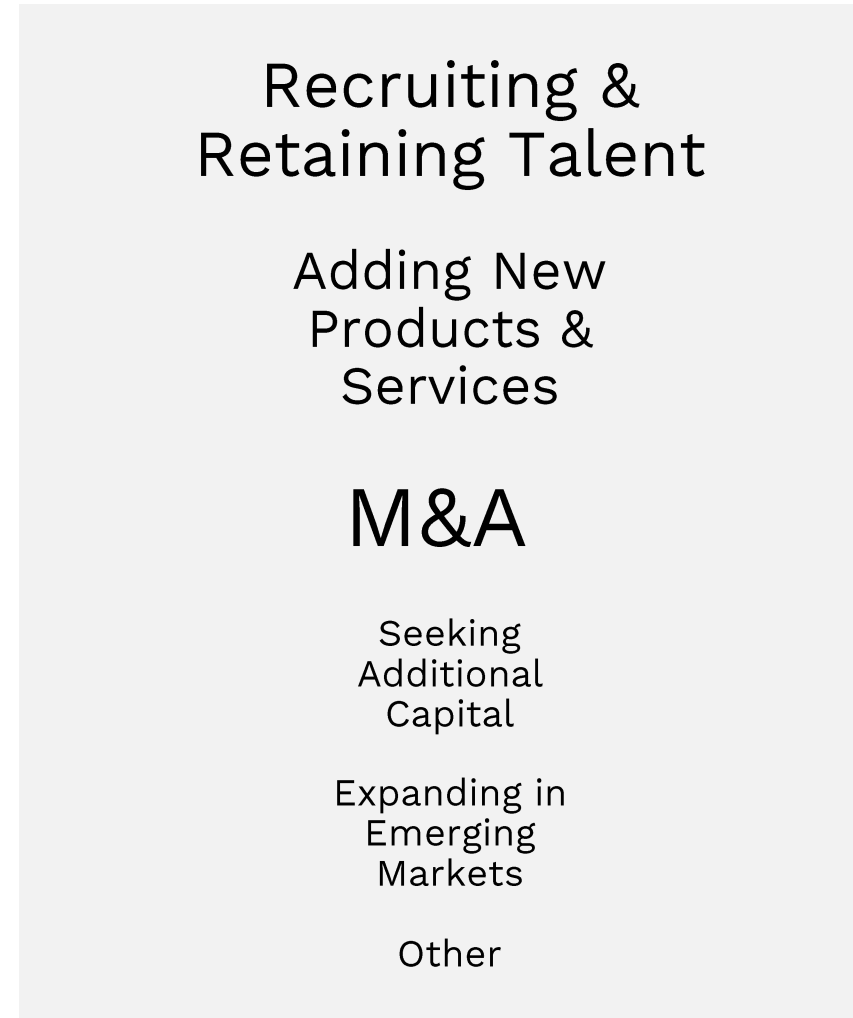
- Lack of hard assets
- Bank financing unavailable

**...Only used in PE leveraged buyouts**

## TOP DRIVERS OF TECH M&A ACTIVITY



## TOP GROWTH STRATEGIES FOR TECH COMPANIES



## **Seller's Market**

\$70 million dollar deal

- All cash at closing

## **On the Way Down...**

\$50 million dollar deal

- 1/2 cash at closing
- 1/2 earn out
- ...over 4 years

## **Market Bottom**

\$30 million dollar deal

- All divided between earnout & stock
- No cash at closing...

# M&A Process and Timeline

## 6-9 MONTHS ON AVERAGE

**The Goal:** Maximize shareholder value and successfully execute the proposed sale

**The Method:** Detailed research, timely communication and time-proven sales process

**The Strategy:** Pro-actively orchestrate a controlled auction that provides your company with multiple options at the highest supportable valuation



## PARTNER TARGETING

- Identifies buyers you may have never heard of, where the fit may not be immediately obvious.

## INDEPENDENT ASSESSMENT

- Independent valuation assessment helps you gauge whether the buyer is offering a fair price.

## FOCUS

- Saves time so you can focus on making your numbers.

## NEGOTIATING POSITION

- Brings more buyers to the table, helps strengthen seller's negotiating position.



## **Effective process determines your company's valuation**

- Going to market
- Communicating with buyers
- Getting feedback
- Learning

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