Tech Valuation Metrics

What is your tech company worth right now?







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- 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 companies are unique.







Price Discovery



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



What Buyers Value





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 failed deal or a valuation at the low end of the range.

2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32

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



38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 **70** 71 **72** 73 74

70 71 72 73 74 75 76 77 78 79 <mark>80</mark> 81 82 83 84 85 86 87 88 89 <mark>90</mark> 91 92 93 94 95 96 97 98 99 <mark>100</mark>





- 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
- ✓ Profitability
- ✓ Undervalued Team/Tech
- √ Growth
- ✓ GAAP Financials

- ★ Immature business model
- ★ Negative EBITDA
- ★ Main assets are team/IP
- ★ No Growth
- ★ No GAAP/Projections



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Most commonly used for tech companies



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Relevant to team + tech acquihire scenarios

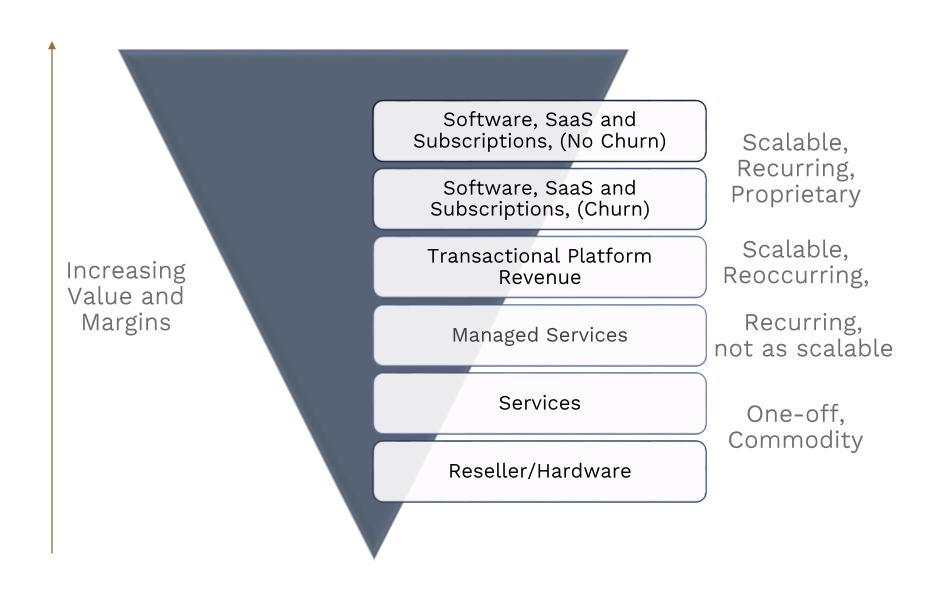


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Not frequently used

Not All Revenue Is Equal





The Buyer's Business Case



- 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.

Customer List

Acquihires

Platforms & Bolt-ons

Valuable IP (Barriers to Entry)

Lower Valuations

Higher Valuations

Challenges In Valuing Tech



METHODOLOGIES

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

DATA QUALITY

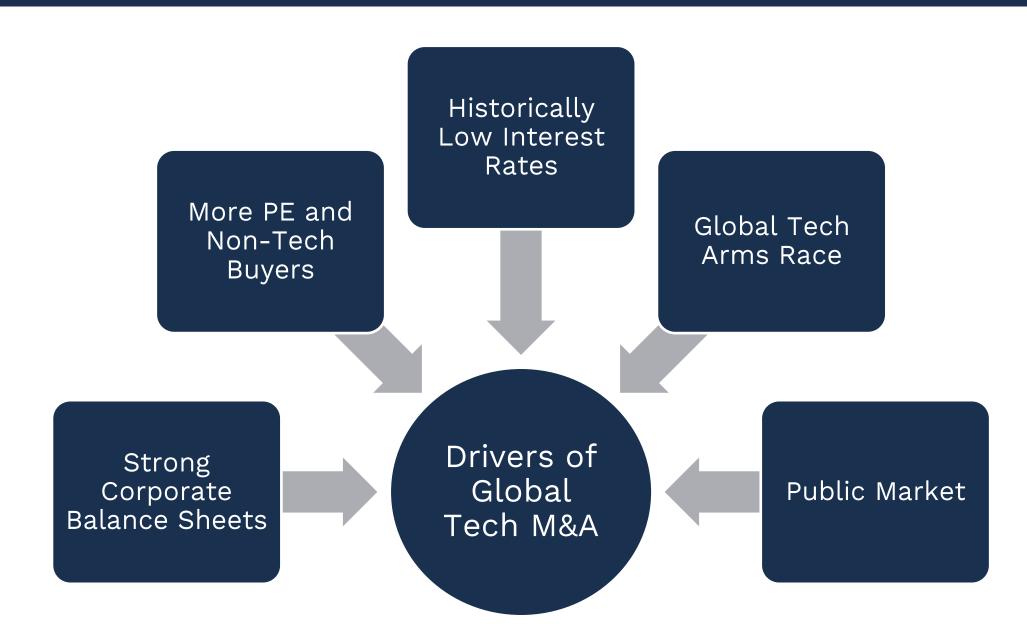
 Even with access to databases, there is limited data on private comparables. As a result many comparisons will be imperfect.

METRICS

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

External Factors





Strategic Buyers \$1T CASH















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

Private Equity Portfolio Companies



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

















Not All PEs Are the Same





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

Not All PEs Are the Same



- 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



Not All PEs Are the Same





- 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

Financial Buyers \$3T CASH











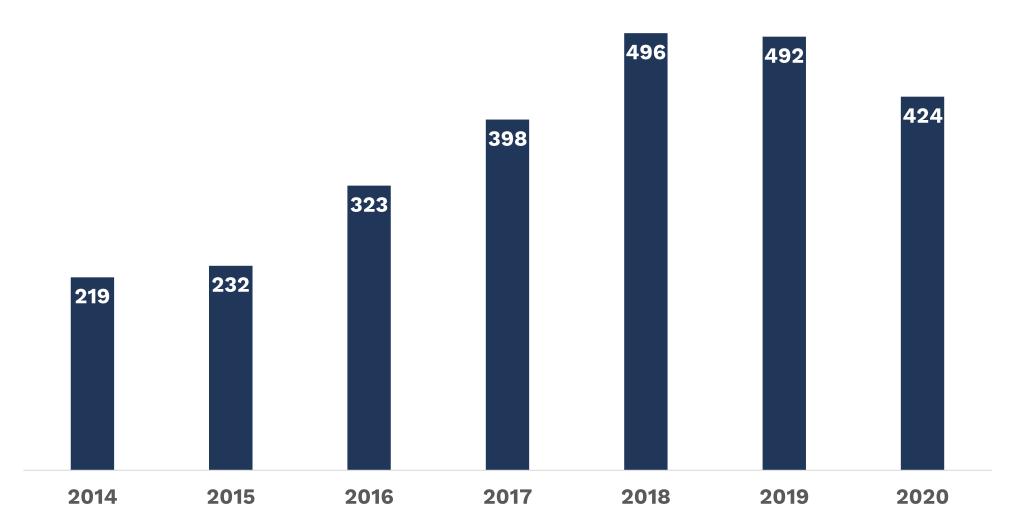




- Financial engineers ("smart money")
- Some high-volume, tech-savvy firms
- Others lower volume and/or less tech-savvy
- Usually cash—be careful of complex structures
- Primarily concerned with ROI
- Usually plan to hold and sell again
- Due Diligence is tougher (NO leverage)
- Rarely more than 90%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

Tech M&A PE Platform Deals 2014-2020

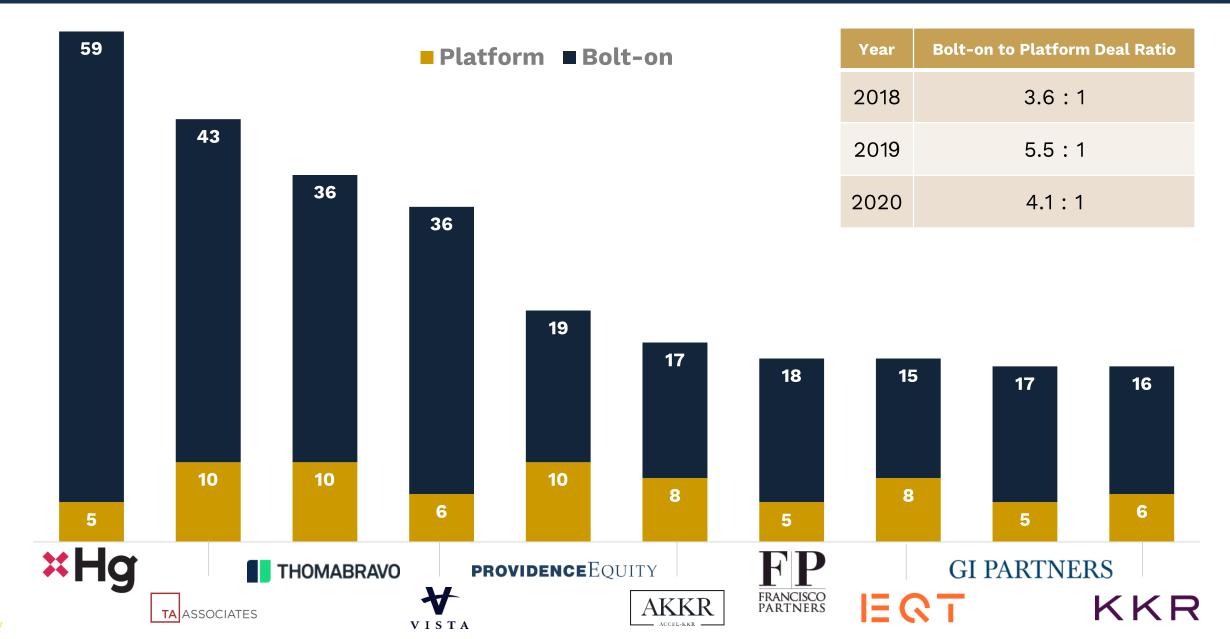




Source: 451 Research & Corum Group

PE Platform VS. Bolt-On Acquisitions

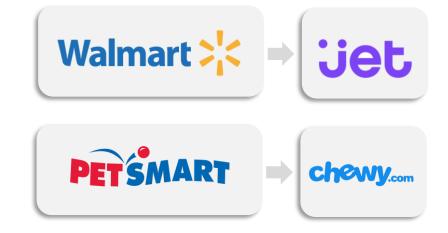




Non-Traditional Tech Buyers



Gaining ground in ecommerce...



Differentiating through services...



Using AI to better target customers...



Using AR tech to drive sales...

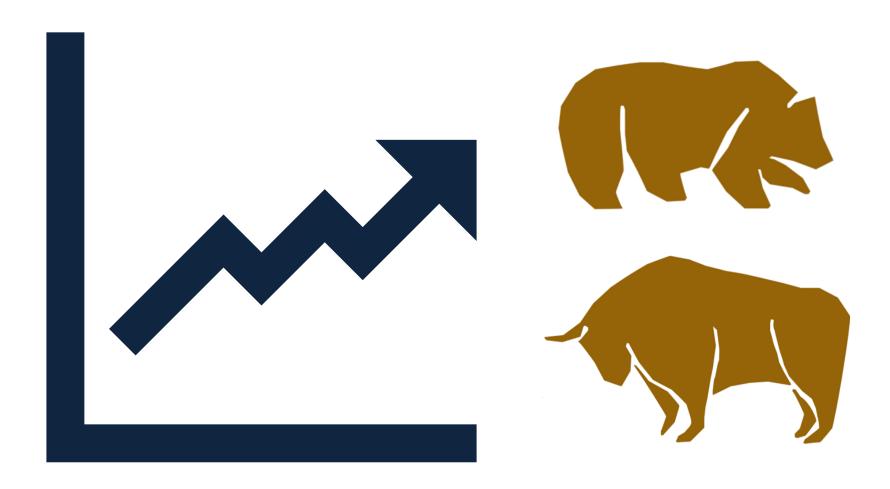


Public Markets

% CHANGE

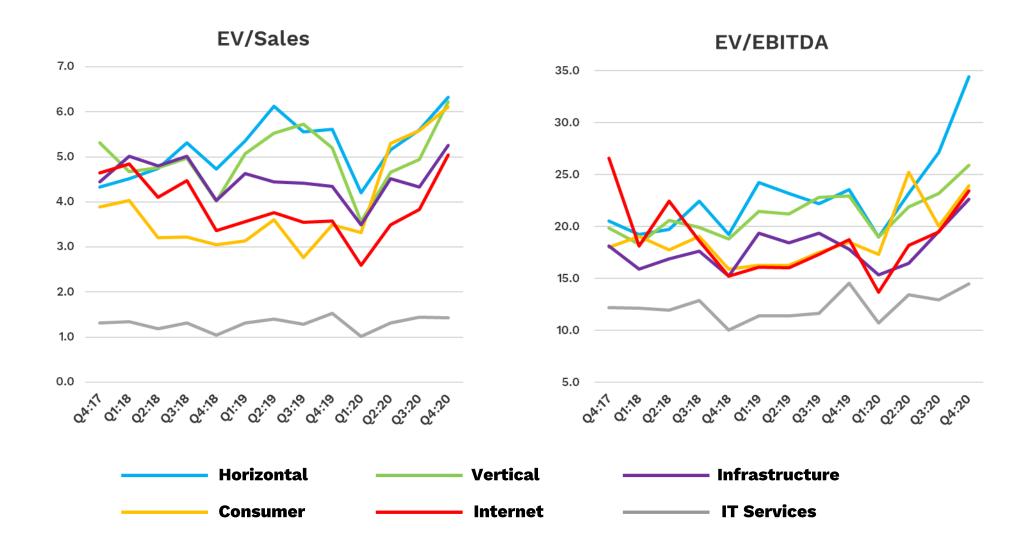


Tech M&A Follows the Market



3-Year Market Valuation Trends





Exit Strategies



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

Exit Strategies



MBOs - not used in tech:

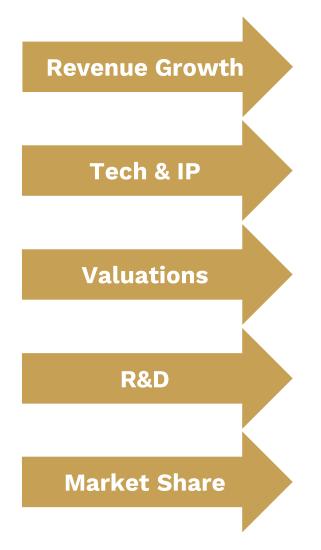
- Lack of hard assets
- Bank financing unavailable

...Only used in PE leveraged buyouts

Outlook for Tech M&A



TOP DRIVERS OF TECH M&A ACTIVITY



TOP GROWTH STRATEGIES FOR TECH COMPANIES

Recruiting & Retaining Talent

Adding New Products & Services

M&A

Seeking Additional Capital

Expanding in Emerging Markets

Other

What Goes Up... Must Come Down?



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 Timeline6-9 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

Weeks 1-5 Preparation

- Complete CEO worksheet
- Conduct IPM with Corum team
- Prepare executive summary
- Finalize buyers list
- Develop synergy and contribution analysis
- ·Compile and review financials
- •First monthly meeting with deal team
- Approve go-to-market deliverables

Weeks 6-14 Buyer Contact

- •Initiate dialogues with potential buyers
- Qualify interest
- Distribute executive summary, NDAs, financials
- •Organize conference calls, site visits and meetings
- Milestone meeting with Corum team, six weeks after go-tomarket
- Valuation report developed, distributed as needed
- Qualify indications of interest
- Monthly meetings with deal team
- Initiate auction phase

Weeks 15-26 Deal Negotiations

- Manage auction process
- •Organize final management discussions/visits
- •Open data room, begin initial due diligence
- Negotiate with top bidders
- Monthly meetings with deal team
- Select buyer
- ·Sign LOI, enter no-shop period

Weeks 26+ SPA & Due Diligence

- •Final due diligence process
- Negotiate definitive purchase agreement and related deal documentation
- •Negotiate employment and non-compete agreements
- Integration planning
- Monthly meetings with deal team
- •Close and receive payment

Benefits of a Structured Process



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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