Gartner CEO Summit 2015

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Investment Banking and Strategy Consulting

For Tech Companies and Tech Focused PE/VC Firms

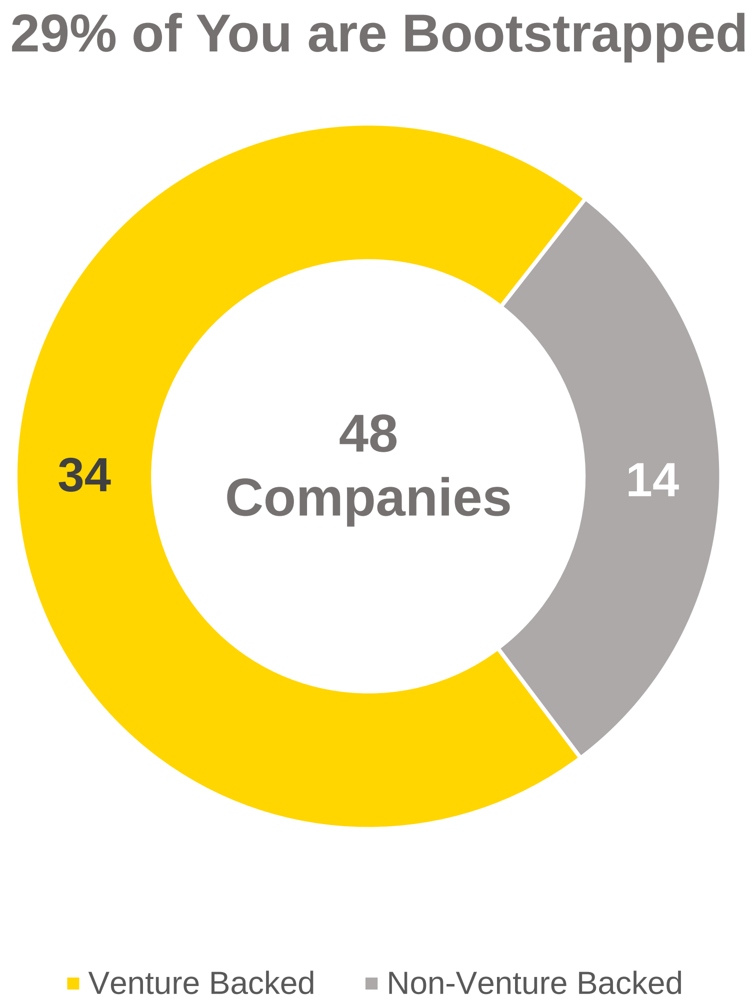
Who Are We?

bulgerpartners

The Tech Sector's leading integrated source of strategic advice and transaction execution

1st	10x	24/7	100%	∞
Clients First	**Value Creation**	**Availability**	**Discretion**	**Passion**
Our priority is to deliver critical solutions to our clients	We strive to deliver a minimum 10X value on our engagements	We understand that critical solutions are urgent	We are committed to discretion and client confidentiality	We have boundless passion for the Tech sector

Who Are You? Profile of Today's Attendees



$32.9M Raised on Average

$3.0M to $92M Range of Funding

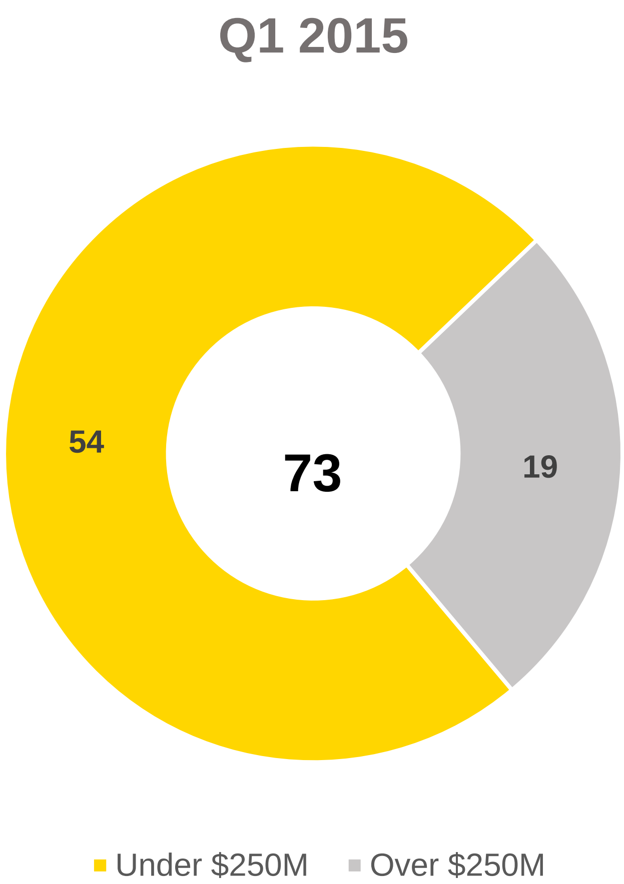
Average Age of 9 years

Agenda For Today

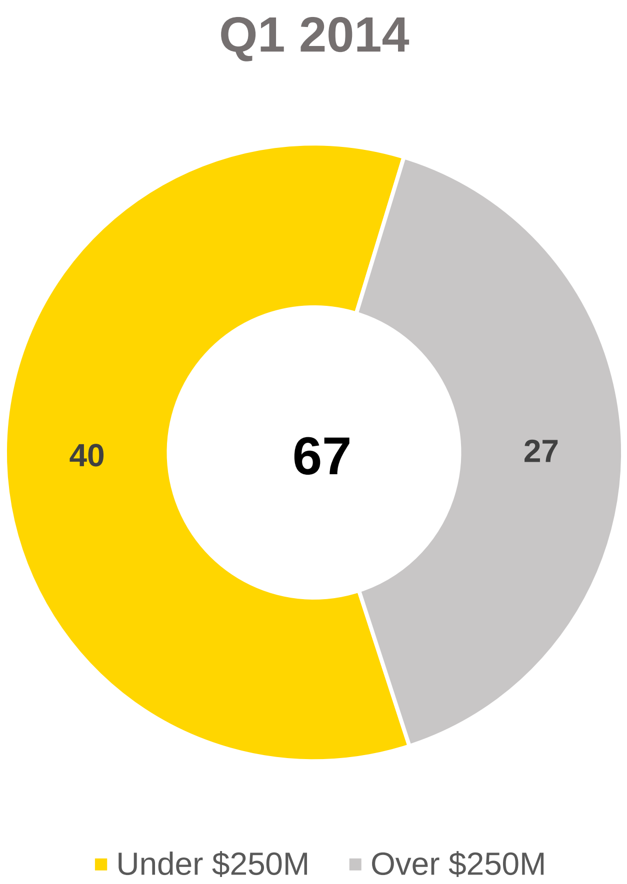
1. How are Private Equity Buyers Changing Tech M&A?
2. The Curious Incident of The Disappearing Tech IPO
3. What The #*^$ Do Unicorns Have To Do With Fundraising?
   A. Guidance for successful fundraising

How are PE Buyers Changing Tech M&A?

Tech M&A Market Stable From Prior Year



Vs.



Volume Skewed Toward Middle Market in 2015

Source: PwC

Large Cap Transactions Returned In Q2 2015

Large transactions drive future middle market volume as competitors react and divestitures rationalize product lines

Target	Date Announced	Acquirer	Deal Value (including debt)
Broadcom Corporation	May-15	Avago Technologies	$37.0 billion
Altera Corporation	June-15	Intel Corporation	$16.7
Freescale Semiconductor	March-15	NXP Semiconductors	$16.1
O2	January-15	Hutchison Whampoa	$15.4
Alcatel Lucent	April-15	Nokia Oyj	$13.8
Verizon w ireline assets	February-15	Frontier Communications	$10.5
Verizon w ireless assets	February-15	American Tow er	$5.1
Hutchison 3G UK Hldg (CI)	May-15	Investor Group	$4.8
Informatica	April-15	Investor Group	$4.7
Exelis	February-15	Harris Corp	$4.6
iGATE	April-15	Cap Gemini	$4.4
Telecity Group	May-15	Equinix	$4.1
Life Time Fitness	March-15	TPG Capital LP	$4.1
AOL	May-15	Verizon Communications	$4.0
Windstream-Telecommun Assets	April-15	Shareholders	$3.3
TE Connectivity Ltd-Broadband	January-15	CommScope Colding	$3.1
Cukurova Telecom Holdings	March-15	Alfa Telecom Turkey	$2.8
Axis	February-15	Canon	$2.8
Aruba Netw orks	March-15	Hew lett Packard	$2.7
Adent Softw are	February-15	SS&C Technologies Holdings	$2.6

Source: S&P Capital IQ,

Private Equity has Changed How M&A is Executed

Corporate buyers now mimic the workflow of Private Equity firms

	2005	2015
Expertise	Internal teams only	External – 3+ consultants per bidder. Experts involved Pre-LOI for: • Market Segmentation • Quality of earnings • Product diligence Law firms "on-clock" early
Certainty	Exclusivity expected early. 60 – 75 days LOI to close	P&S negotiated before signing LOI. 3 Weeks LOI to close
Escrow	5 – 15%	1– 5%. Buyer uses insurance
Breadth	Highly selective	Looking at broad set of assets

Include PE Buyers in Your M&A Process

Myth: "Corporate Buyers Are Always 'Best' Partners"

True Strategic Buyers

- 1- 4 partners
- Motivated to "strategic" price
- Fills important product line gap
- Addresses platform shift ("mobile" "cloud")

Private Equity

- **High supply of partners**
- **Will pay near "strategic" price for a platform**
- **Have pressure to deploy capital**
- **Make decisions quickly**

Corporate Buyers

- Couple dozen partners
- Buying revenue or a couple key customers
- Will value business at or below their own trading multiple
- Focused on EPS accretion

Your Model Should Drive M&A Partner Focus

Big Vendors Buy Assets That Leverage Global Sales Force

Horizontal Solutions

Your Model Should Drive M&A Partner Focus

Growth Equity Is a Better Partner For Many Vertical Market Companies

Vertical Solutions

INSIGHT VENTURE PARTNERS

JMI EQUITY

FP FRANCISCO PARTNERS

Great Hill PARTNERS

THOMA BRAVO

VISTA EQUITY PARTNERS

Advent International GLOBAL PRIVATE EQUITY

ACCEL KKR

TA Associates

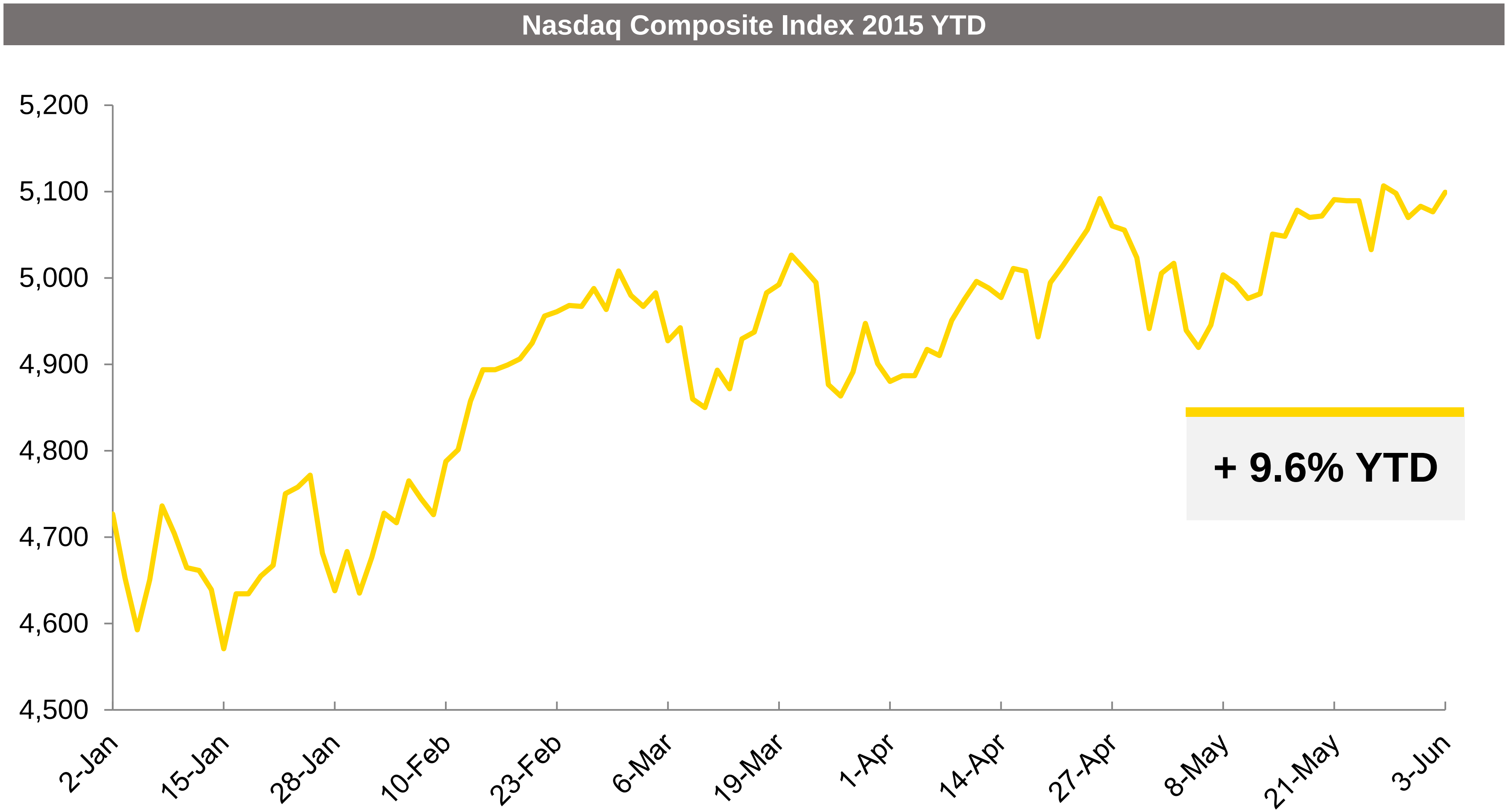
Audax Group

FTV CAPITAL

LLR partners

The Curious Incident of The Disappearing Tech IPO

Curious Incident of the Disappearing Tech IPO



NASDAQ Performing At Historic Norms

Source: S&P Capital IQ

Curious Incident of the Disappearing IPO

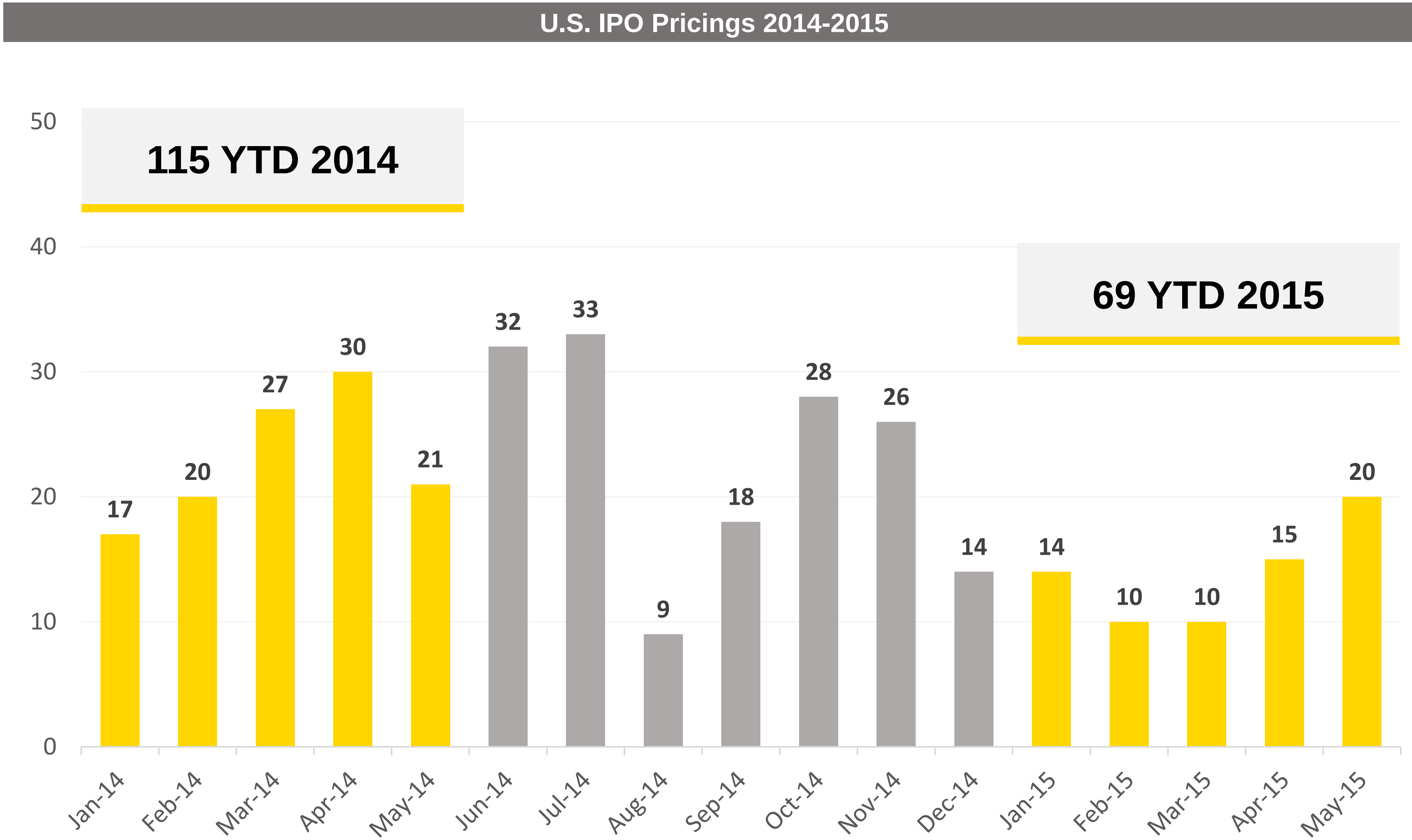
IPO issues priced this year have performed well for investors

Sector	Issues - YTD	Average 1st Day	Average Return Since Pricing
Consumer	3	55.10%	116.20%
Capital Goods	3	20.70%	43.10%
Energy	6	11.10%	27.50%
Healthcare	31	8.20%	13.90%
Financial	12	5.00%	11.90%
Business Services	2	10.30%	11.10%
Technology	9	25.10%	10.10%
Transportation	2	-1.90%	5.70%
Materials	1	-8.80%	3.00%
Total	**69**		
		Weighted Average	**19.5%**

New Tech Issues Performing at Market Rate

Curious Incident of the Disappearing IPO

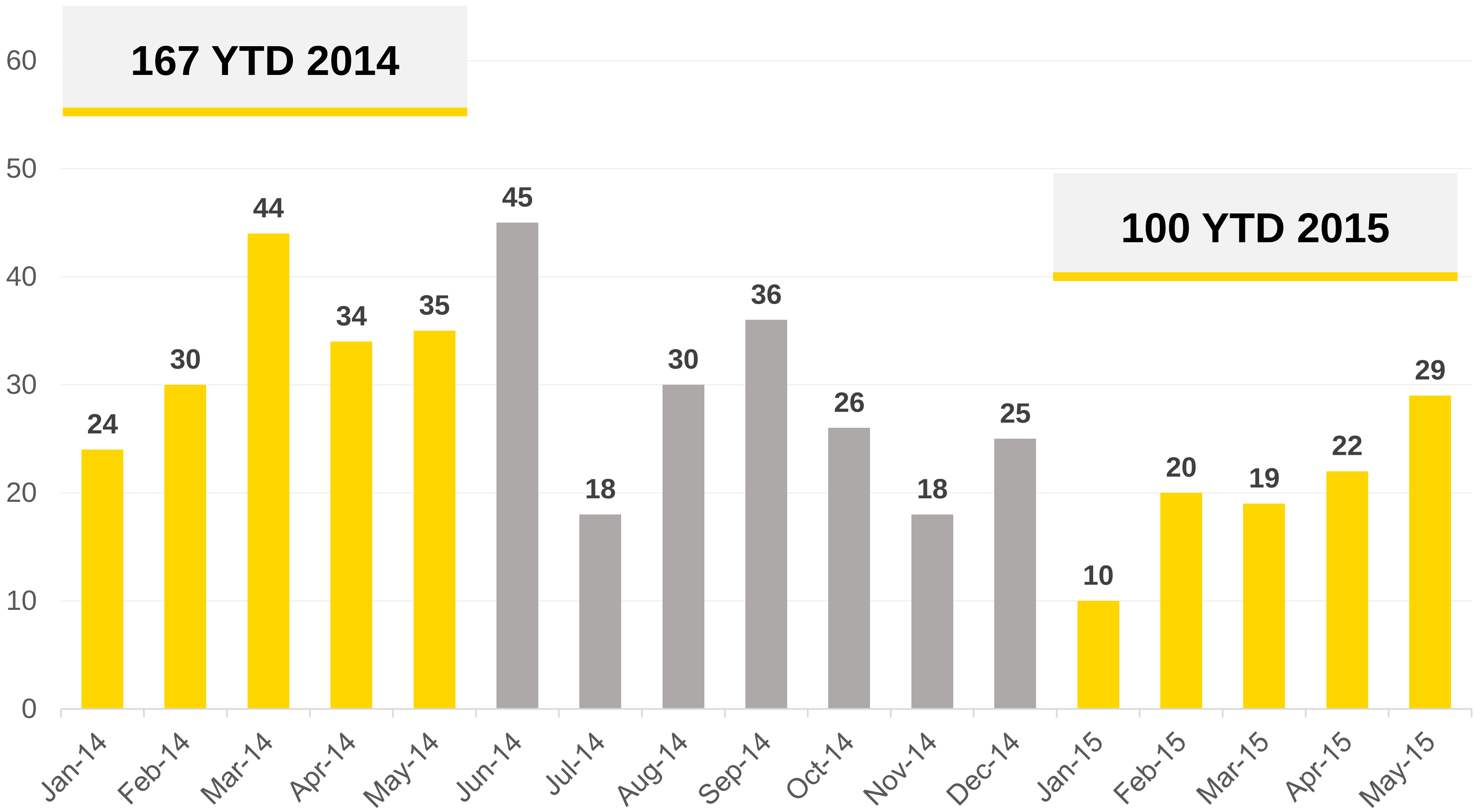
In healthy market, IPO pricings down 40% over last year



Curious Incident of the Disappearing IPO

IPO filings in U.S. market also down 40% over last year

U.S. IPO Filings 2014-2015

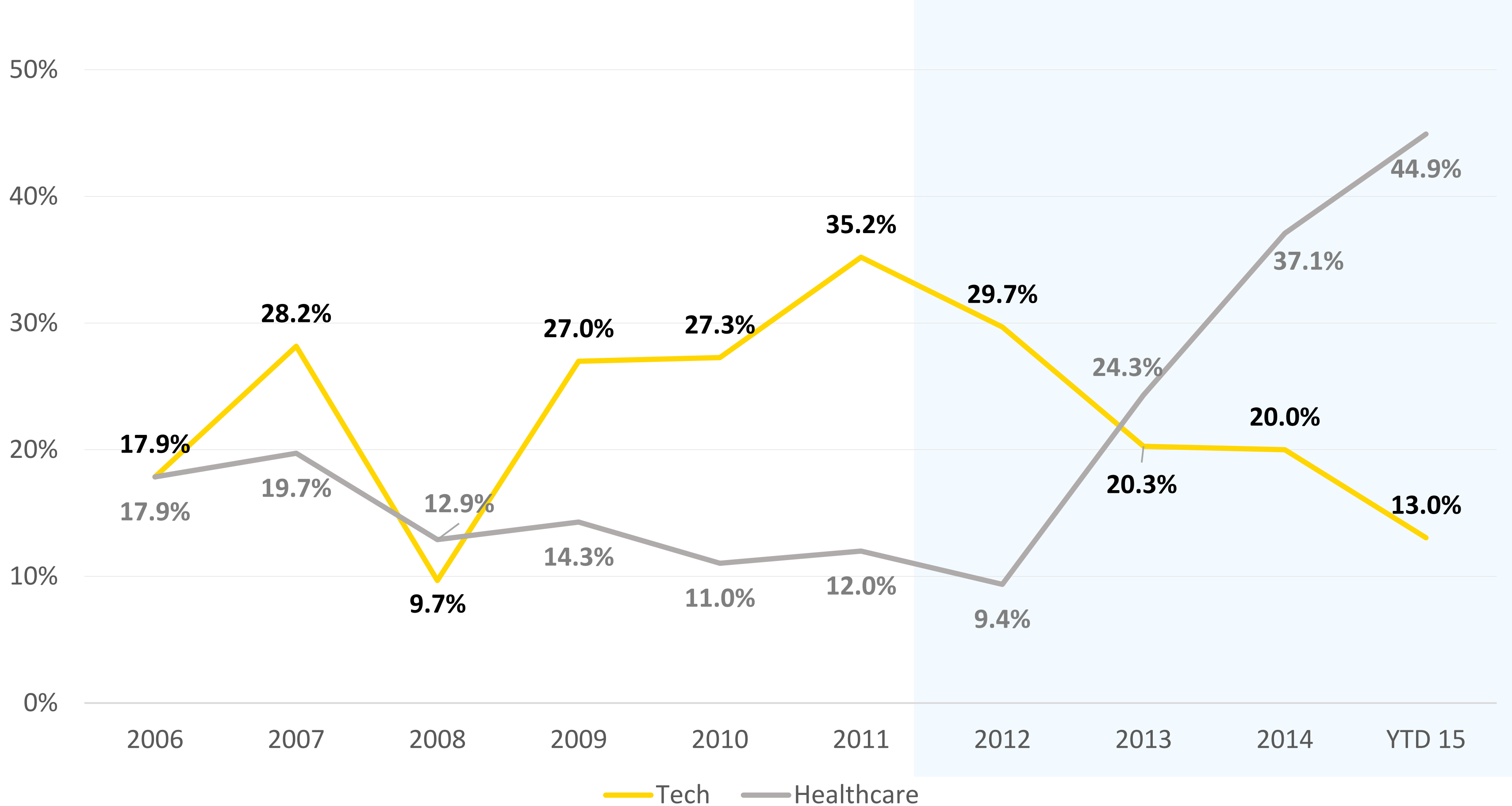


Source: Renaissance Capital

Curious Incident of the Disappearing IPO

Within shrinking IPO market, tech sector is losing Portfolio Manager mindshare to healthcare

Changing Share of IPO Volume



Source: Renaissance Capital

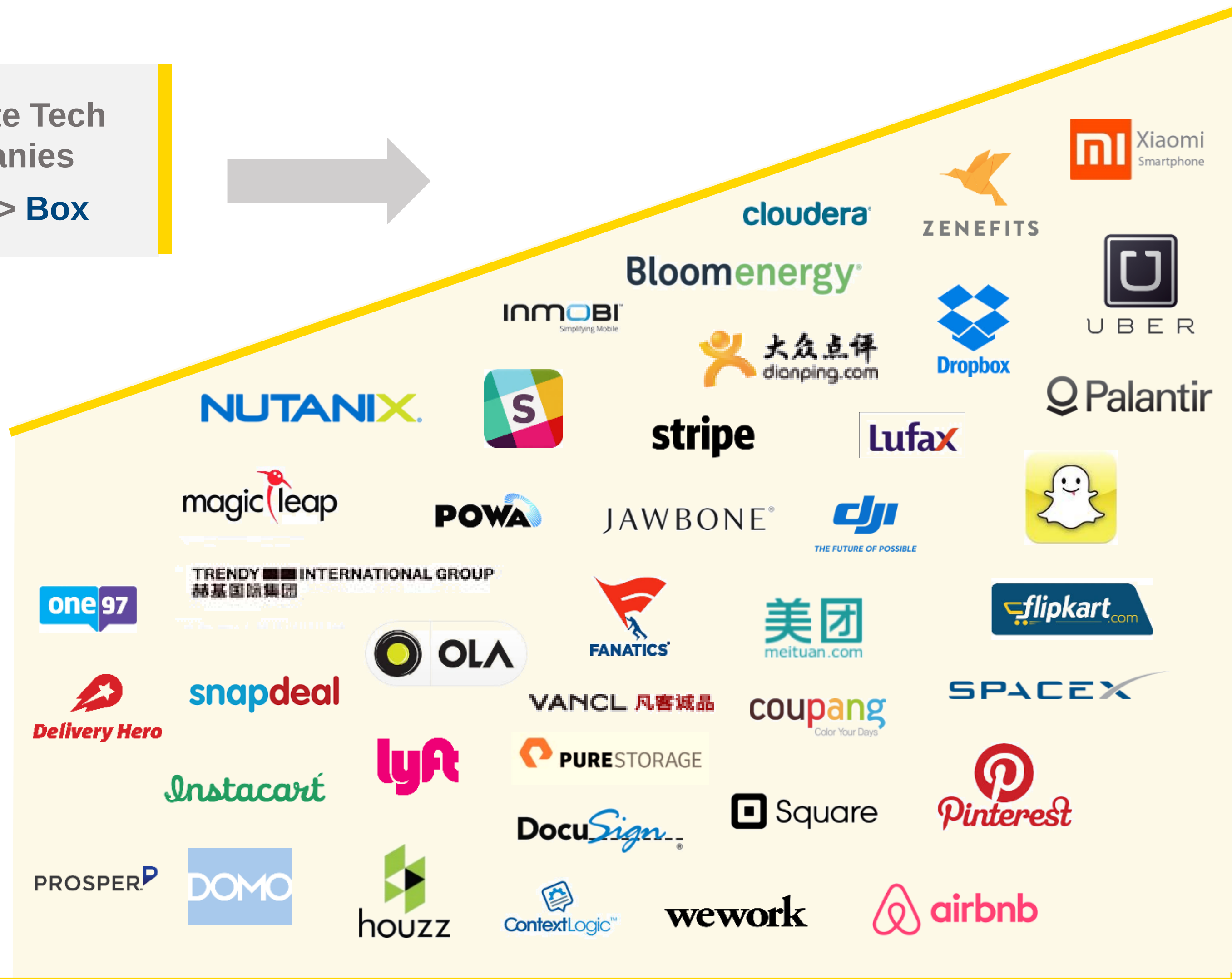
What The #*^$ Do Unicorns Have To Do With Fundraising?

Shift in Private Market – Too Common to be "Unicorns"

41 Private Tech Companies

Valued > **Box**

High Profile IPO

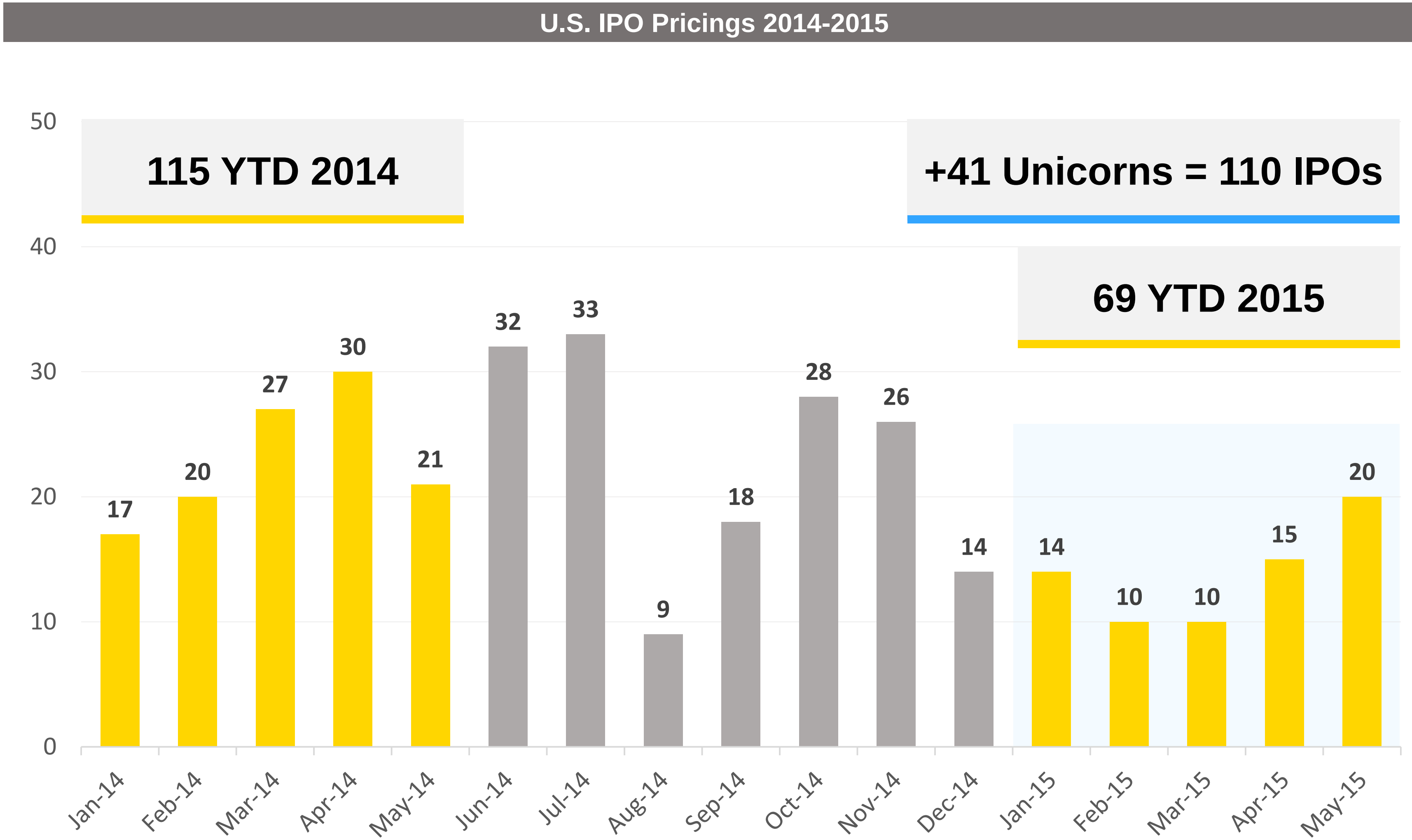


box

$1.8 | Valuation - $ Billion | $46

Tech Unicorns are the IPO Gap

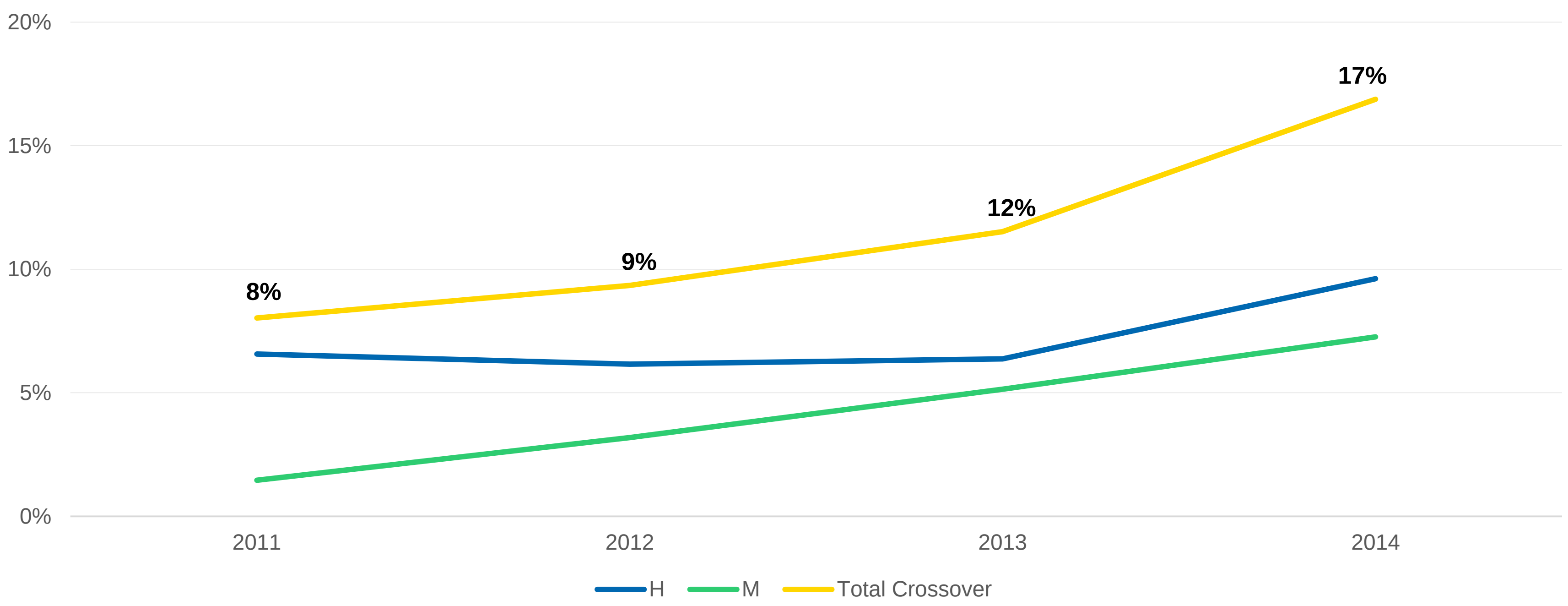
IPO pricings in US market down 40% over last year



Fund Managers are Crossing into Private Market to Add Names

17% of minority growth equity syndicates now include a crossover investor

Percentage of Minority Growth Rounds That Included a Crossover Public Market Investor



Hedge Funds, Mutual Funds and Global Institutions Now Active in the Private Market

COATUE
T.RowePrice
Maverick
FALCON EDGE
Fidelity INVESTMENTS
TIGER
Tiger Global Management, LLC
WELLINGTON MANAGEMENT
VALIANT

Note: Tech private placement include investments greater than $14.9M, including pending transactions. Tech IPOs are completed offerings greater than $14.9M. Public markets include companies traded on all major North American exchanges and LSE AIM Market. Private markets include companies receiving investments with HQs in the US, Canada, and developed Europe. Sources: Capital IQ, SEC Filings, Bulger Partners Analysis

Good Time to Raise Private Capital – Impact of "FOMO"

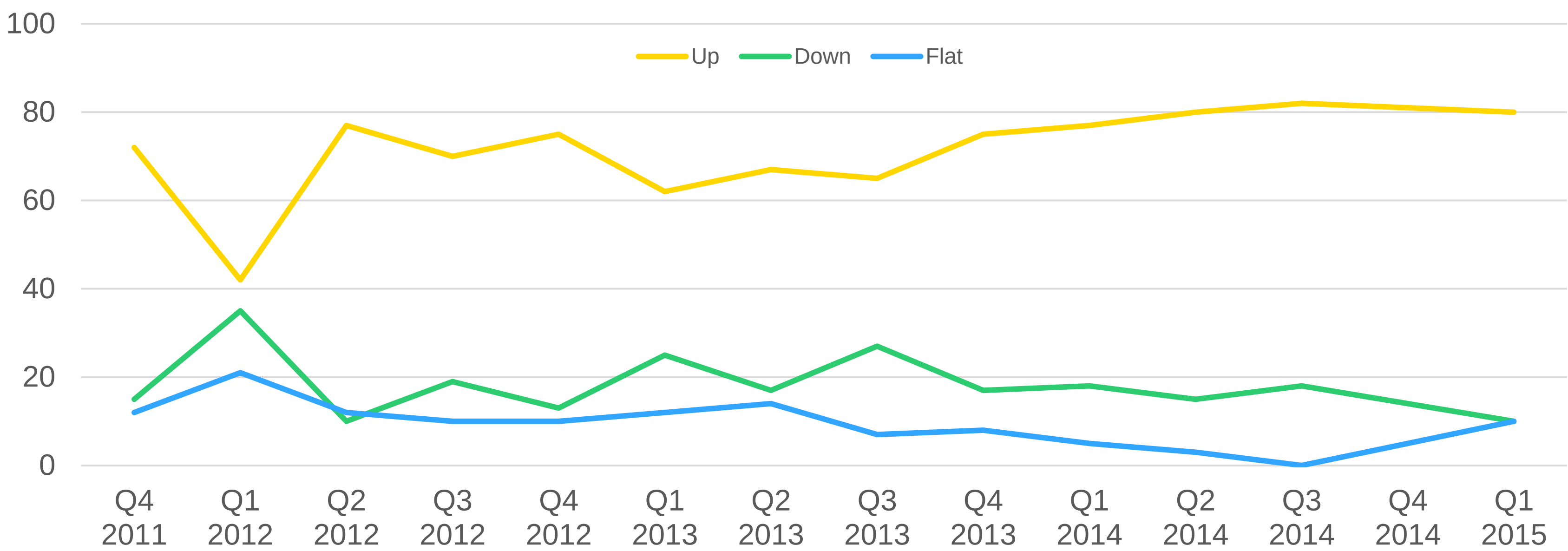
Investors priced illiquid Snapchat shares at $16 billion, equal to COMBINED liquid value of AOL, The New York Times, Pandora, IAC and RocketFuel

$16,000,000,000

Revenue	Revenue
Maybe	**$9.7B**

Transaction Terms are Favoring Issuers

Up and Down Rounds by Quarter – Equity Financings

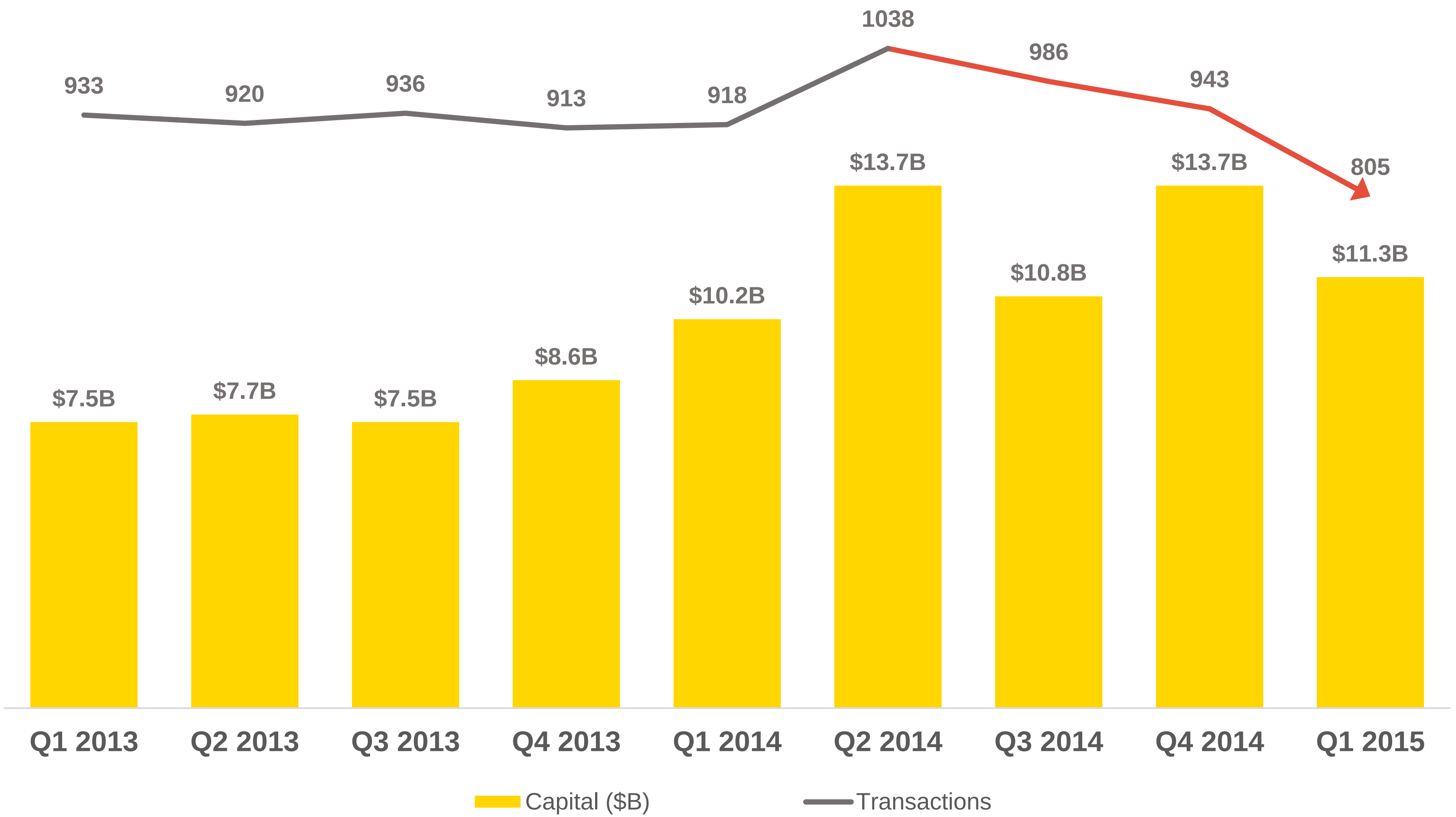


Up Rounds Are Near Historic Highs and Terms Are Favorable

- The wealth of up rounds suggests investors are placing credence in future growth plans
  - Up rounds in 2014 made up about 80% of the transactions
  - Only about 70% of rounds in 2012 and 2013 were up rounds
- Terms are moving closer to standardization
  - Non-participating preferred structure
  - Dividends, but non-cumulative
  - No pay to play provisions

Supply is Solid, But Market is Narrowing

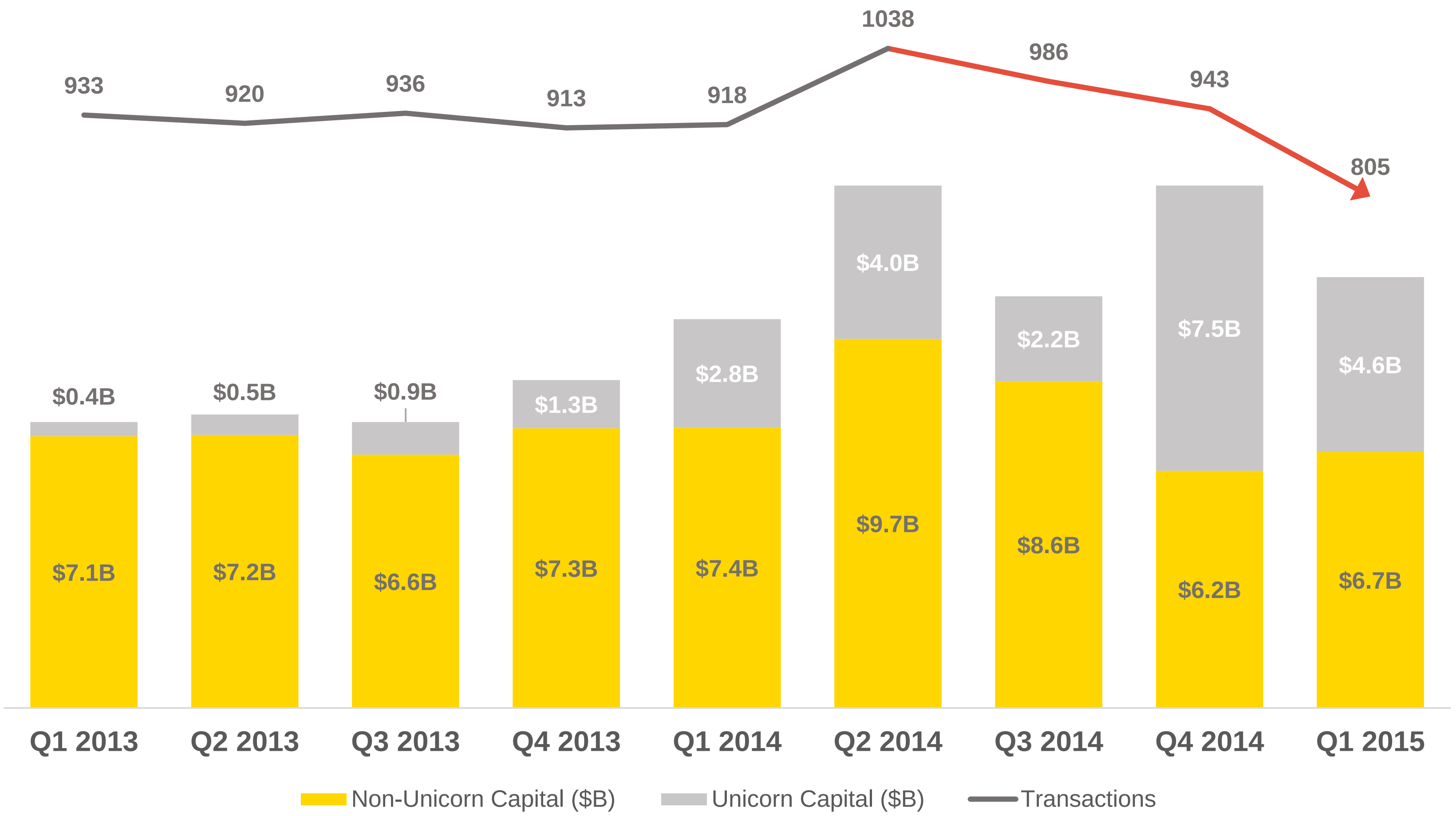
Quarterly VC Investments and Deal Volume Trend – Q1 2013 to Q1 2015



Source: CB Insights

Adjusting for the Unicorns, the Market is Really Narrowing

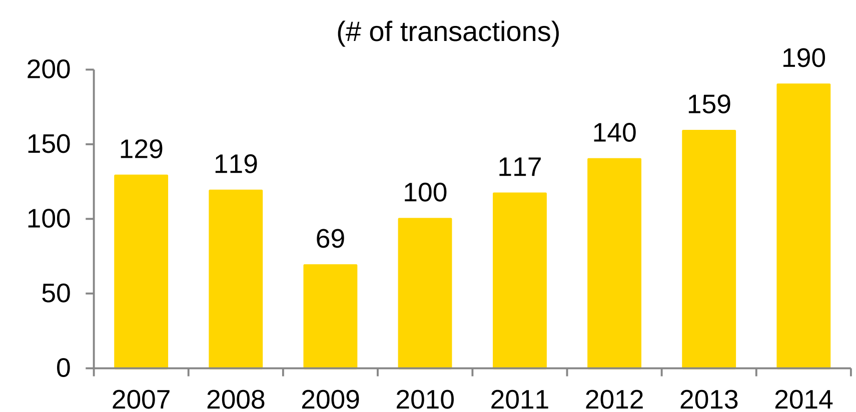
Quarterly VC Investments and Deal Volume Trend – Q1 2013 to Q1 2015



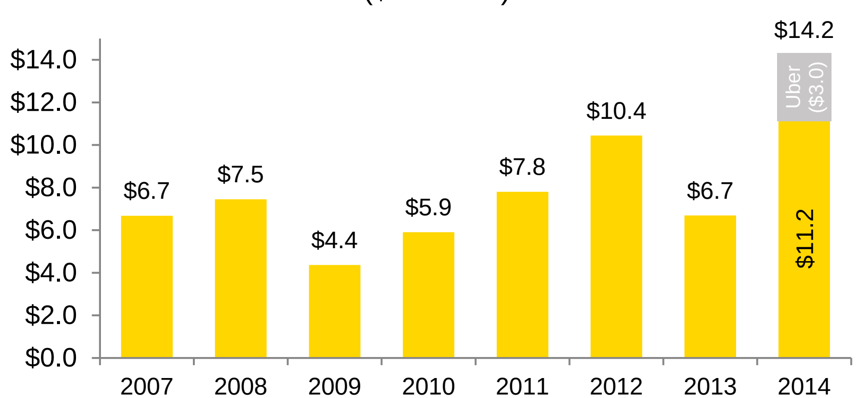
Key Trend: Corporate Venture On the Rise

Large corporates continued moving from business partner to investment partner. Trend should continue during 2015 as tech corporate balance sheets remain strong

Corporate Investments Increased



Corporate Involvement Grew > 2x



Top Corporate Investors	# of Transactions
Google	25
Intel	21
Sapphire Ventures (SAP)	14
salesforce.com	11
QUALCOMM	9
Cisco	7
Samsung	6
SoftBank	4
Comcast	4
Nokia	4
UMC Capital	4
Mitsui & Co. Global	3
Alibaba	3
DoCoMo	3
Tencent	3
GE	3
MasterCard	3
Juniper	3
Accenture	3

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Most Active Corporate Investors By Tech Sub-Sector

Enterprise Application	Enterprise Infrastructure	Consumer Internet	eCommerce
Intel	Sapphire Ventures (SAP)	Google	Tengelmann
salesforce.com	Google	Recruit Holdings	Scripps Networks
Google	Samsung	MGM Resorts International	Nokia
Sapphire Ventures (SAP)	Cisco	Access Industries	Bertelsmann
QUALCOMM	Intel	Advanced Micro Devices	SoftBank
Cisco	Telstra	Amazon.com	Comcast
Horizons Ventures Limited	NTT DoCoMo	Bertelsmann	MasterCard
Adobe	United Microelectronics	IAC/InterActiveCorp	Conde Nast
SoftBank	QUALCOMM		Rocket Internet AG
Comcast	salesforce.com		Difference Capital Financial

CRM/SFA	Marketing Automation	HCIT	HCM
salesforce.com	SoftBank	QUALCOMM	Sapphire Ventures (SAP)
Google	WPP Digital	Wellcome Trust	Google
News Corporation	Adobe	HCA	Recruit Holdings
TripleFive	Intel	salesforce.com	
Adobe	Akamai Technologies	CHV Capital	
Cisco	salesforce.com	Google	
Intel	Comcast	Foundation Medical Partners	
Samsung		GE Ventures	

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Lessons From the Field – Any Fundraising

- Target the Partner, not the firm
  - Do hard reverse diligence – in person if possible
- Learn fund cycles – timing matters
- Rifle shots, not shotgun
  - *"entrepreneurs underestimate how much we cooperate"* – Local VC
- Nail the REAL addressable market
- The Dave Skok metrics are required numbers - SaaS or not

HubSpot	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12
LTV: CAC	1.7	1.9	1.9	2.6	3.5	**4.7**
CAC	$6,025	$7,876	$8,541	$7,809	$6,880	**$6,793**
MRR Churn	3.5%	2.7%	2.8%	2.3%	2.0%	**1.5%**
Avg. MRR	$429	$507	$548	$560	$583	**$577**
Software Margin	83%	81%	80%	82%	81%	**82%**
LTV	$10,074	$14,964	$15,919	$20,325	$23,775	**$31,806**

Source: Dave Skok, forEntrepreneurs

Lessons From the Field – Late-Stage Fundraising

Late stage investors – pricing companies at $100M+ - need to see a plan to grow to $100M+ in revenue. Think IPO Roadshow

- Plans for entering new geographies or adjacent product markets
- The team's experience managing rapid growth
- The role of acquisitions in the growth plan and a target landscape
- History of making and hitting revenue and cost forecasts
- HR team / system robust enough to enable rapid hiring
- The landscape of possible acquirers
- The changes required to build a team to run a public company
- The likely valuation of the business in the public markets

More Fundraising Discussion

If fundraising is of interest, more ideas are available on our blog: www.GrowthEquity.co

RAISING THE NEXT ROUND

MIKE MACKEEN

HOME ABOUT BULGER PARTNERS

Your VC's Cap Table Math Could Be Hurting You

This post includes some geeky accounting issues, but read it. It can change how much dilution you take in the next round.

Later-stage investors are delivering our companies attractive valuations. Just look at the latest Unicorn list.

However, many companies are not really getting the headline valuation in their term sheet. Ultimate ownership and dilution is driven by pre-money share price, not a headline valuation. When follow-on investors are calculating share price, many use an outdated method that is adding dilution to existing shareholders, most often hurting founders and employees.

The trap is that many investors use a fully-diluted share count that treats options and warrants as a full share of stock. This matters because investors divide the headline valuation by share count to reach a share price. The more shares outstanding, the lower the share price.

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