DLA Capital Advisors

Software & Tech Enabled Services Update

October 2021 | CONFIDENTIAL

Venture & Mid-Market Tech Sector Observations

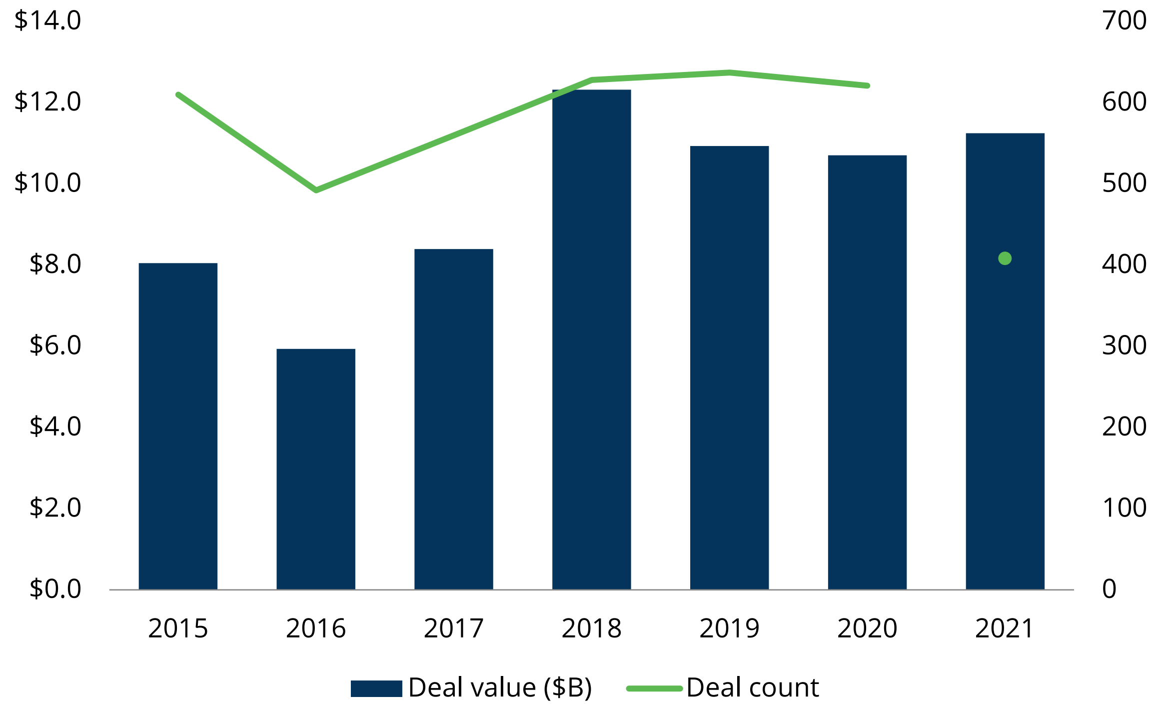
COVID-19 served as a catalyst for digital change in 2020, and these changes are here to stay

- The pandemic materially accelerated consumer and business adoption of technology fueling growth in e-commerce, cloud, cybersecurity, collaboration platforms, and SaaS implementations
- Many tech companies, particularly in the middle market space, are still only midway around their technology adoption curve; public and private companies alike cite digital transformation as one of their core areas of focus in 2021, with 57% of tech companies adding new digital projects according to a recent BDO survey
- While true SaaS companies command dizzying multiples, tech-enabled companies seeking to achieve those valuations must expand recurring revenue from subscriptions and SaaS, while moving away from on-premise licensed revenue and tech-enabled services
- We expect to see both corporate and financial sponsors continuing to invest IT assets to position their portfolios to take advantage of the digitization megatrend, as the earnings and growth prospects of the industry remain compelling
- Key drivers of Tech Multiples:
  - *Speed of technological change*
  - *Diversification and quality of customers*
  - *"Rule of 40"*
  - *Viability ratio (LTV/CAC)*
  - *Churn rates*
  - *Customer retention rates*
  - *Nature of earnings (recurring or once-off)*
  - *Size, scale, and geographic coverage*

Source: 2021 BDO Technology Digital Transformation Survey

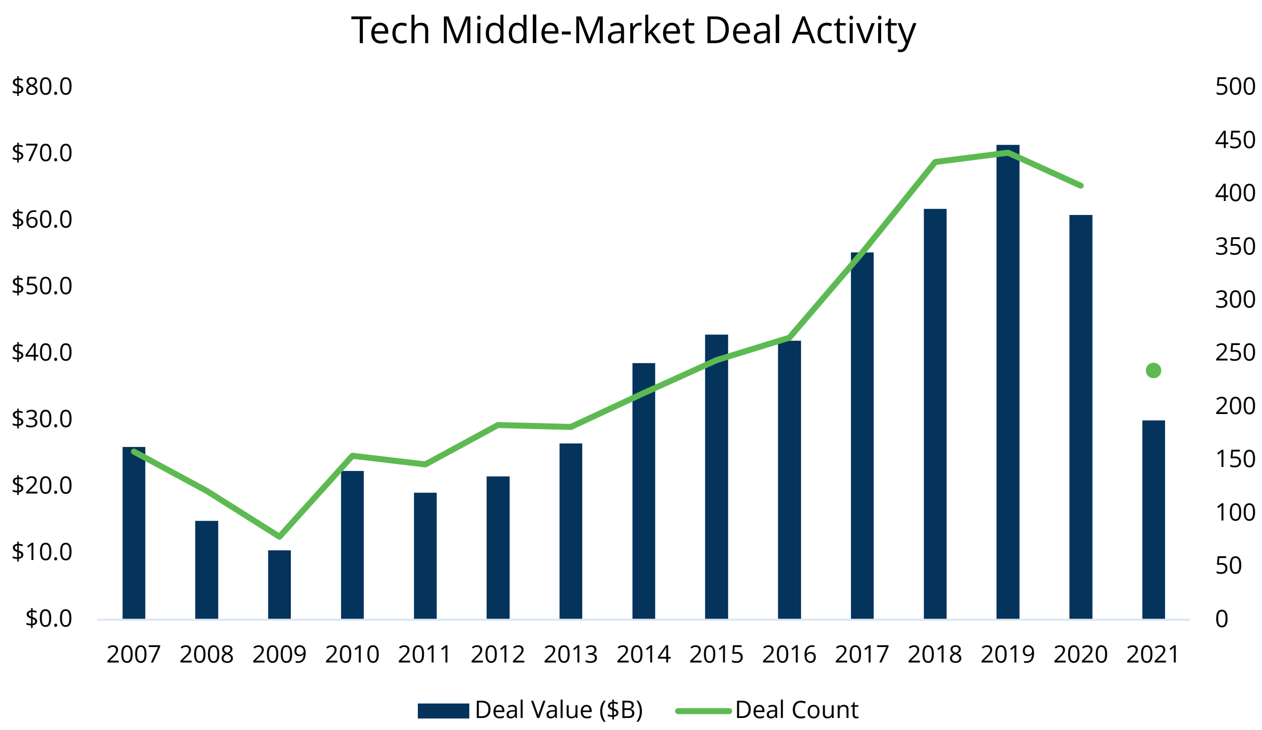
Venture Tech Deal Activity – 1st Half 2021

- Deal activity in the Emerging Tech sector is set to reach unprecedented levels in 2021
- Natural disruption due to a changing post-COVID world and piles of dry powder are pushing venture capital and other investors to chase more deals



Note: 2021 data through 6/30
Source: Pitchbook

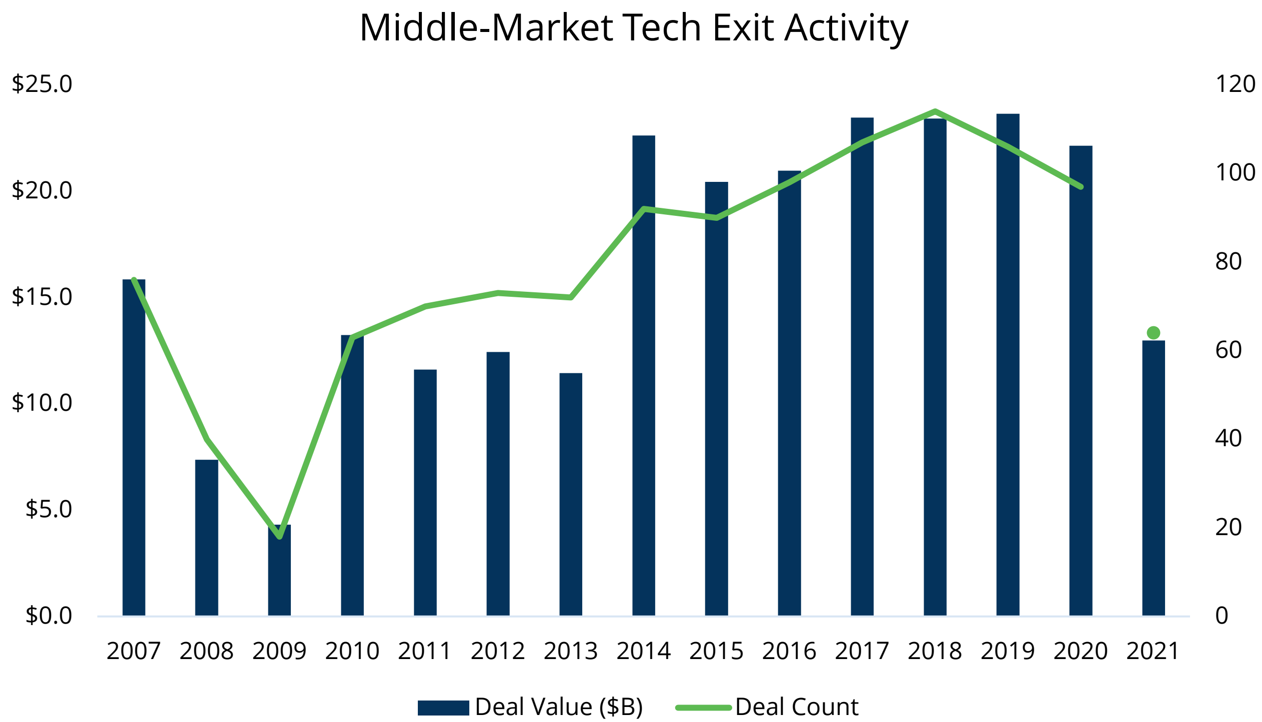
Mid-Market Tech Deal Activity – 1st Half 2021



- Private equity firms have continued their rush to invest in the technology section. Total number of deals in 2021 (234 through 6/30/21) expected to exceed 2019's high of 439

Note: 2021 data through 6/30
Source: Pitchbook

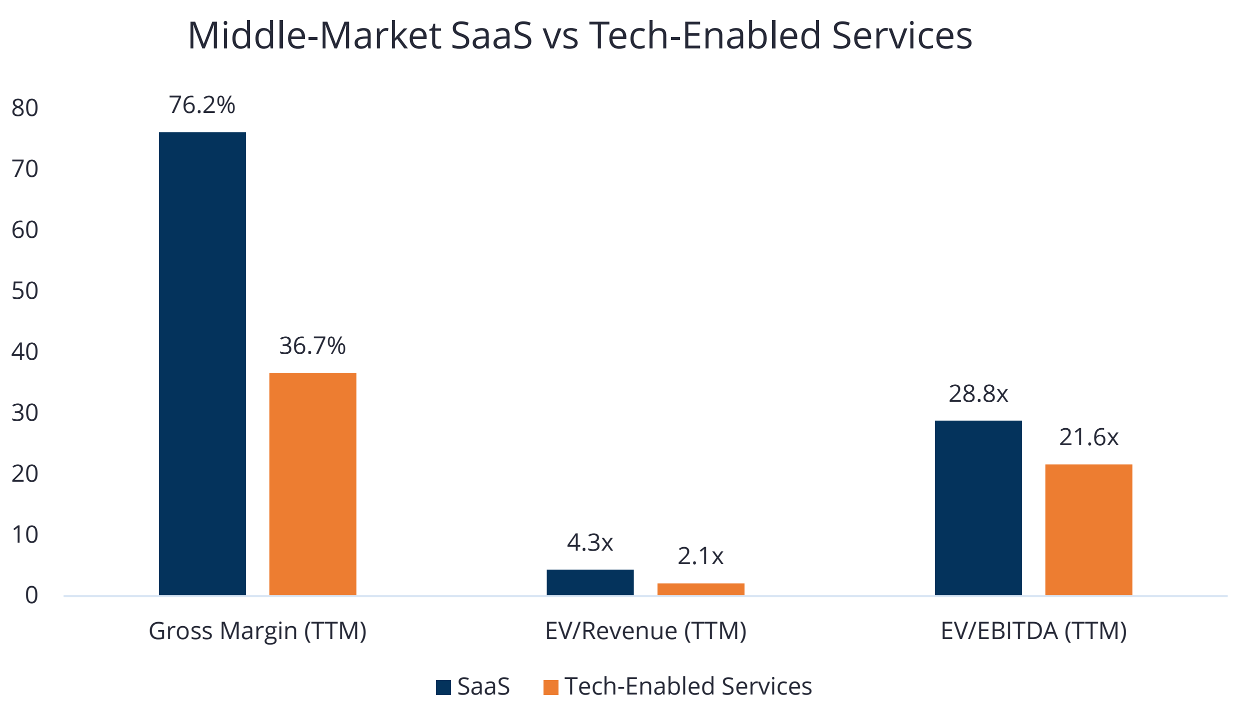
Mid-Market Tech Exits – 1st Half 2021



- The rush to deal in the private equity space is reflected in the exits 2021 has already brought, both in terms of number (64) and value ($13.0B).
  - Both numbers are set to be records as strategic buyers hunt for growth and appetite for secondary private transactions is strong.

Note: 2021 data through 6/30
Source: Pitchbook

Tech-Enabled Services Multiples Lag



- SaaS businesses in the middle-market receive much more favorable valuations from investors than do tech-enabled service ("TES") businesses
- Multiples lag because TES are dependent on a human element, making them less scalable

Source: Pitchbook, US-listed public companies w/ market cap below $1 billion as of 6/23/21

Tech-Enabled Services Multiples Lag

- Many tech-enabled service companies feel like SaaS/tech companies but just miss the cut
  - SaaS businesses defined as having greater than 70% gross margins while those below threshold are defined as tech-enabled services
- TES companies are vastly different in their ability to scale compared to a true SaaS business
  - Though technology may be at the heart of their solution, they rely on human intervention in their processes and quickly see their margins erode
- There are examples of service companies devising new technologies to sell to customers, separate from their service businesses
  - Many consulting firms and MSP's have made strides in reducing the human element in their processes, and searching for in-house solutions, have developed novel technology products
  - These companies may be wise to find opportunities to divest themselves of outmoded service lines, freeing themselves to be seen as high-growth SaaS businesses rather than washed-up conglomerates
- If you are a service company looking to transition, DLA Capital is ready to provide Board and C Suite-level advisory to create the roadmap for the next iteration of your company
  - DLA Capital is a leader in business plan development, capital raising, and executing M&A transactions for companies on the edge of technology

Source: Pitchbook, US-listed public companies w/ market cap below $1 billion as of 6/23/21

A Preference Towards SaaS Models

The Market has Shown a Clear Preference for Software-as-a-Service Models With Subscription Based Solutions Seen as a Potential Interim Solution

On Premise Software

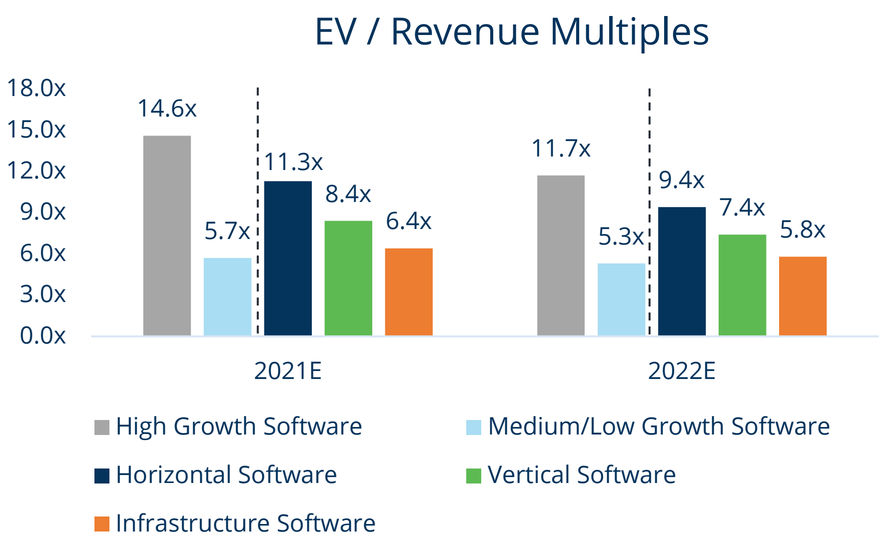
- Less visibility to the future
- Sales-driven P&L
- More moving parts, slow building business
- Value of customer relationship drops off after 1st sale

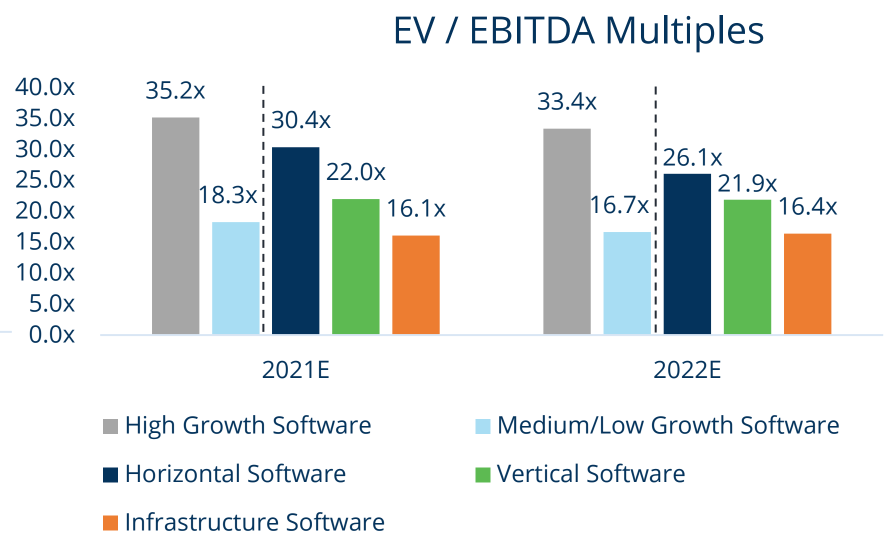
Subscriptions

SaaS Model

- More predictable
- Forecast owned by finance
- Fewer moving parts, faster moving levers
- Maintaining customer relationship is key

SaaS Valuations





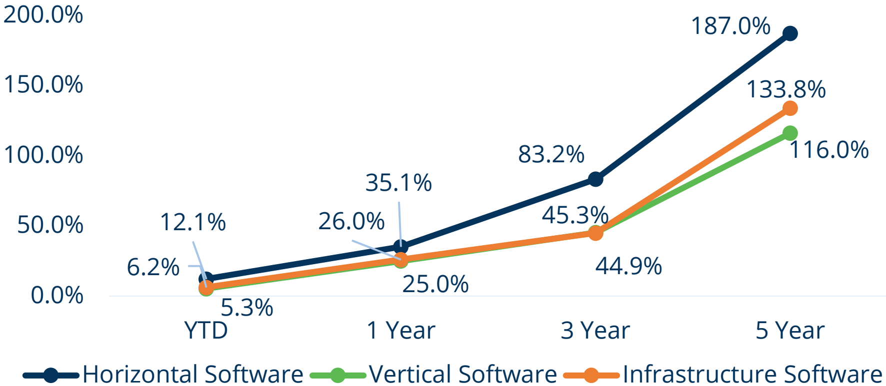
Factors effecting classifications and valuations:

- **80/20** license fees to service revenue mix is the average among ~1,000 publicly traded SaaS business
- **Growth Stage**: High-growth companies follow the T2D3 Model, which calls for tripling revenue growth in the first two years, then doubling for at least 3 years after that, and then maintaining 30-40% revenue growth until reaching $1 billion.
- **Horizontal software** companies are the pure play SaaS companies. Vertical and Infrastructure Software firms offer a suite of software and services to their customers.

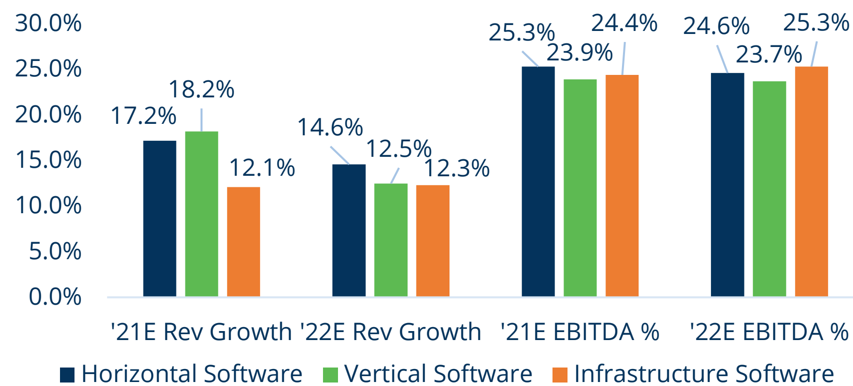
Source: SaaS Capital 'What's Your SaaS Company Worth?' and *Raymond James Software Monthly Market Insights*

SaaS Valuations

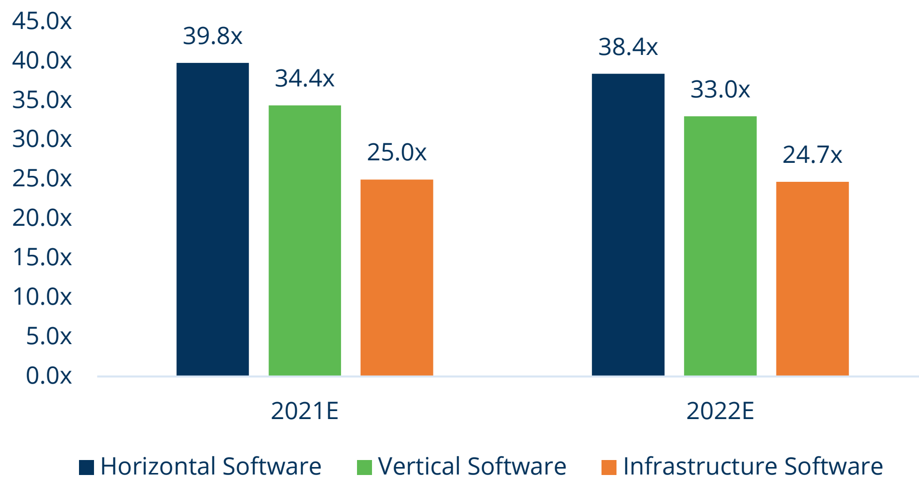
Relative Stock Price Performance



Growth and Margin Analysis

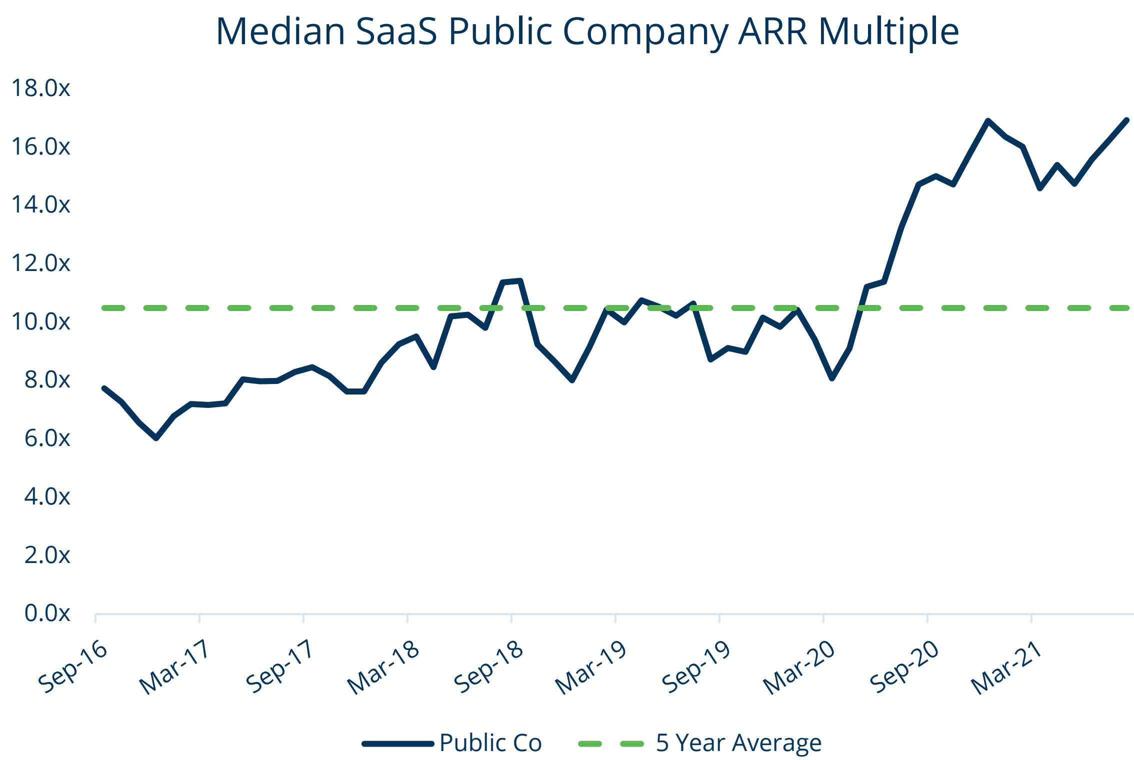


Price / Earnings Ratio



Source: Raymond James Software Monthly Market Insights

Public Company Valuations

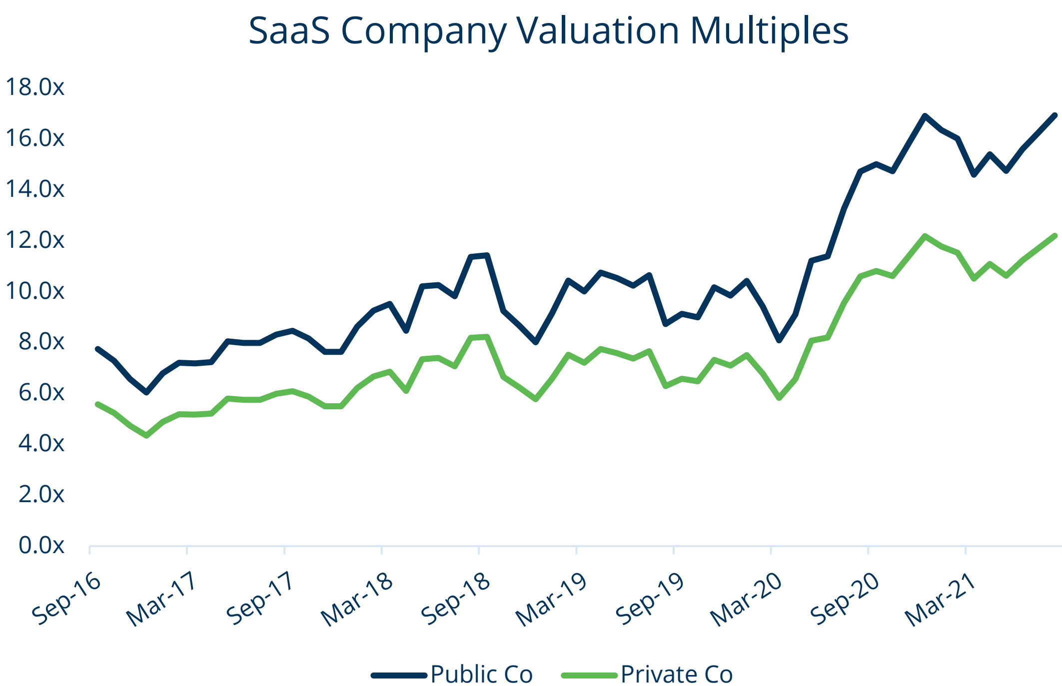


SaaS Public Companies Remain Above Pre-Pandemic Multiples In 2021

After reaching a high of 16.9x ARR in Q4 2020, public SaaS companies' multiples have returned to those levels in Q3 2021. Even the dips in recent quarters were still far above the five-year average baseline of 10.2x.

Source: SaaS Capital Index

Private Company Valuations



SaaS Private Company Multiples Historically Discounted 28%

SaaS Capital's market research shows that private company valuations have not seen the same runup in valuations in the last twelve months as public equities. Their data suggests that private company multiples have settled in the 10x range in 2020 and 2021.

Note: Private company multiples based on estimated historical average
Source: SaaS Capital Index

About DLA

DLA's Dedicated Team

Core Execution Team

Kathleen Lauster
Managing Director
Capital Advisory Group Leader
Select Recent Transaction:
MTS, Swiftbulk &
Vericool

646.978.9860
kathleen.lauster@dlacllc.com

Matthew Lapish
Vice President
Capital Advisory Group
Select Recent Transaction:
OnCourse Learning, SwipeClock,
InsideRE

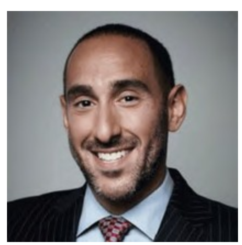
267.974.4459
matthew.lapish@dlallc.com

Subject Matter Experts

Scott Levy
Partner
Software & Services Lead
Select Recent Clients:
Info Hedge, Opti, Bela, Network
Coverage

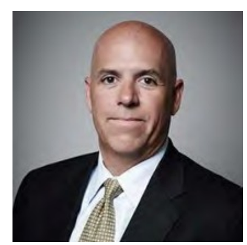
339.225.1015
scott.levy@dlallc.com

DLA Leadership



David S. Landau
Founder & CEO

973.842.1998
david.landau@dlallc.com



Phil Ramacca
President & COO

631.521.5693
phil.ramacca@dlallc.com

14

DLA's Capital Advisory & Restructuring Practice

M&A and Capital Advisory

- Senior debt
- Equity, preferred, convertible & option / warrants
- Buyouts, recapitalizations, and carve-outs
- Control and minority investments
- Management transitions or remaining in place
- Joint ventures and strategic partnerships

Secondary Sale

- Advising on the sale of LP interests as well as secondary direct transactions
- Sale portfolio construction, creating valuation models, & marketing material
- Identifying the optional transaction strategy, marketing the portfolio, leading buyer negotiations
- Structuring & closing

Operation & Liability Management

- Addressing defaults, maturities and other capital structure constraints
- Review current business plan
- Evaluate organizational structure
- Cash flow forecasting and balance sheet deleveraging
- Engaging in creditor communications
- Structuring M&A and other strategic transactions for companies with overleveraged capital structures

Restructuring Advisory

- Restructuring existing debt & equity securities
- Planning, structuring, negotiating, and implementing a restructuring process on behalf of debtors and creditors
- Managing negotiations with lenders, debt holders, trade creditors, and official Chapter 11 committees
- Procurement of financing regardless of market conditions

Why do Clients Choose DLA?

✓ Singular Middle Market Focus

We don't flex down to middle market in slow periods, we <u>are</u> the middle market. We work with family-owned businesses and founder led firms. Our firm has deep relationships with over 1,400 strategic and financial investors in the lower middle market space.

✓ Software / SaaS Industry Experience

Our bankers and advisors have worked with numerous clients and advised on many transactions within the software space. Whether it be SaaS, Subscription, On-Premise software or any ancillary consulting services, we know what buyers are looking for and how address concerns upfront and maximize value.

✓ Direct Access to Senior Bankers

We pride ourselves on building trust and establishing close relationships with our clients. The senior bankers you meet on the pitch will be the ones you will be interacting directly with going forward.

✓ Cost Effective One Stop Advisory

From capital raising to divestitures, to bankruptcy advisory, DLA has a solid understanding of operational restructuring and financial structuring across various sectors. Whether your client needs an equity recap or takeout debt financing, our deep relationships with strategic and financial investors enhance the negotiation process and increase the likelihood of a favorable close.

Experienced advisors to enhance the negotiation process and increase the likelihood of a favorable close