

SUF 690: Final Case Study

Make My Store Inc. (“MMS”)

Company Background

MMS provides a leading cloud-based commerce platform designed for small and medium-sized businesses. Merchants use the software to run their business across all of their sales channels, including web, tablet and mobile storefronts, social media storefronts, and brick-and-mortar and pop-up shops. MMS provides merchants with a single view of their business and customers across all of their sales channels and enables them to manage products and inventory, process orders and payments, build customer relationships and leverage analytics and reporting. With MMS, merchants get an intuitive user experience that requires no up-front training to implement and use, enabling merchants to set up their shops in less than 15 minutes.

From: Karim Kombucha, CEO & Founder <Karim@mms.com>
To: Qash Bucks, CFO
Subject: Raise vs. Exit
Date: July 1, 2021

Qash,

I have been thinking about our strategic options for the last 3-4 months. As you know, we’ve been growing MMS since founding it 2 years ago. Recently I’ve been receiving calls from some of our larger peers and competitors to see if we would be open to being acquired. As I’ve said before, we’ve been building a sustainable company that I think can survive on its own and become a large standalone company.

With your guidance and leadership we’ve been cash flow positive and break even (by choice), as the MMS has raised minimal capital and we continue to invest much of the company’s profits into growing the company.

But, I have realized that in order to accelerate growth we need to consider raising some capital. I’ve been talking to some investors and am considering a \$15M (USD) equity round, which I’m confident we can close in the next 3 months. 10% of the round would be secondary, where I will sell some of my Common shares at the price of the round, and 90% primary. Based on my discussions with investors, I know that any new investor will want to do an ESOP top up such that the ESOP available after the round of 8% on a fully diluted basis. From investors I’ve been chatting with they’ve indicated a 1x liquidation non-participating stacked preference. The Seed Preferred are also 1x non-participating, so I’m hoping we can negotiate the Series A Prefs to be the same. I think its fair to assume that for payouts in an exit scenario for both classes of prefs.

Both Dack and Zark have indicated they will exercise their pro-rata right and invest as part of the round. They will also take their pro-rata of the secondary sale of my common shares as well, with the remainder of common shares being available to the New Investor. Can you let me know how much money the new investor would have to pay in total?

As you know I've always been very driven and motivated but also a realistic entrepreneur. I truly believe we can turn MMS into a household name and eventually go public, but I also know that is a risky undertaking and one that can take many years to materialize (or fail!). Given the strategic inbound requests for acquisition, we're at a fork in the road: do we raise the Series A round or do we pursue the inbound acquisition interest seriously and consider an exit?

I know you've got a few high priority projects on the go right now, but this is something I want you and the team to think about seriously and help us navigate as a company.

As you know, I'm very data driven and like to quantify our options. I want to consider and evaluate both options:

- Raising a \$15M USD round (with an exit, let's say 5 years from now)
- Selling the company today

Let's use our latest Income Statement and our cap table as a basis for the analysis.

I'd like you to provide valuation guidance on how much you think is fair for our stage today, as well as what my payout would be under both scenarios (Raise vs Exit). Some good resources to reference for the valuation would be software equity groups report, SaaS Capital Valuation post and public company comparables and precedent transactions. I heard www.koyfin.com is a good (and free) resource for this. As you'll recall our Seed round was done at a \$24M USD Post Money.

Let's also put some thought into identifying 3 potential investors and 3 potential acquirers for the business so we can run a competitive process and pre-empt an offer. The Board will want to know the rationale for each choice.

Finally, I'd like your recommendation on the path we should take so we can bring it to the next board meeting for discussion. (Not that you needed a reminder, but as you know, I'm not a huge fan of decks, so a written memo would be preferred along with the excel supporting the analysis. There may be some assumptions you have to make - please clearly highlight those.)

Thanks and chat soon,
-K

Attachments: MMS' Income Statement and cap table.