**Memorandum**

**To**: Karim Kombucha

**From**: Qash Bucks, CFO

**Date**: July 1, 2021

**Subject**: Raise vs. Exit for Make My Store Inc. (“MMS”)

This memo will discuss the valuation techniques used in calculating both a pre-money valuation as well as an exit price for MSS. I have also highlighted the payouts for you under both scenarios (raising a $15M USD round with an exit 5 years from now and selling the company today). If MSS proceeds with raising a financing round, I have calculated the amount that the new investor would have to invest. There is also a qualitative discussion and rationale provided for 3 potential investors and acquirers that I have researched and consider to be the best options for MSS. The memo closes off with my recommendation on the path that MMS should take going forward and some next steps that should be taken to the next board meeting for discussion.

**Valuation techniques**

**Overview**

There are many different valuation techniques to value a company such as MMS, a start-up that has received its seed funding and is on its way to seek its Series A funding. One major method is to use a revenue multiple to calculate the implied enterprise value. Some of the resources that you have provided have been useful in determining a range for the business’s valuation. I will first describe these methodologies and provide a summary before diving deeper into the company’s valuation today and in 5 years for the exit.

**SaaS Capital Valuation**

In the whitepaper “What’s your SaaS company worth?”[[1]](#footnote-0), the shorthand formula for valuation of private SaaS businesses such as MMS will be its annualized revenue multiplied by a revenue-to-enterprise-value multiple. The reason why a revenue multiple is used is because “net income takes a long time to materialize for growing SaaS businesses, even if underlying unit economics are robust.”[[2]](#footnote-1) More specifically, factors such as heavier expenditures upfront from sales and marketing, depreciation and other R&D costs to develop products, will cause the company to likely be unprofitable at first. In this case, it should also be noted that the revenue to be used for the multiple refers to the total annualized run rate revenue (ARR), which is the projected revenue for an upcoming year rather than the actual revenues for the year. The white paper outlines SaaS Capital’s Saas Capital Index, which tracks a list of public companies that “represent pure B2B SaaS companies”[[3]](#footnote-2), which can be used as comparables to determine the valuation multiple for MMS. Currently, the June 2021 base multiple is 15.5x ARR to the value of the business according to the SaaS Capital Index.

Private company discount:

A 28% discount on the revenue multiple should be applied to the latest public multiples from the SaaS Capital Index report, as this was the discount factor that was calculated based on a study that compared public company multiples from the index and the private company valuations. This results in a private company multiple of 11.2x.

Company specific drivers:

1. Growth and scale of revenue

One of the biggest determinants of valuation is the company’s growth rate, and if the business is growing faster than its peers in the industry, then there should be a growth premium applied to the revenue multiple to increase the valuation of the business. In this case, MMS is projected to generate ARR in the range between $3-10 million, with a year over year (YoY) projected revenue growth of more than 50%. MMS’s projected growth rate is roughly 65% YoY until December 2021. Therefore, growth premiums of 1.0x to 3.0x would be appropriate for MMS and was added to the private company multiple.

1. Market size

The market size or total addressable market (TAM) is also important to the growth and valuation of the company. The greater the market, the more growth opportunities will exist and the company will be able to generate greater revenue and profits each year without being limited in its upside. As there is little public data available and the TAM can be subjective, given the facts that you have provided in that the business has been able to provide to many small and medium-sized businesses as well as the fact that the company is likely to be sustainable and standalone in the long term, no discount is applied to the valuation of the company. However, as I am not fully certain about the size of the market share, I would need to do more research to obtain information such as the size of the market based on the services MMS provides, the industry that it operates in, the types of customers who use MMS’s products and other factors to determine whether a premium to the valuation multiple is justified.

1. Revenue Retention

Retention of revenue, or the percentage of recurring revenue retained from existing customers each period is another important metric to consider, as higher retention of customers and revenue will increase the revenue growth rate, keep revenue consistent and also predictable YoY. Even small churns each month can reduce revenue significantly over a year due to its compounding effect. Specifically, SaaS Capital has stated that even a “1% improvement in net retention will increase a SaaS company’s value by 12% over five years”[[4]](#footnote-3).

The white paper also suggested that the benefits of revenue increases and overall company’s growth are already captured by the revenue growth premium and its ARR, and any premium will come from having a revenue retention above the median net retention rate of 100% compared to industry peers for private SaaS businesses. Specifically, the guidance states that retention rates of less than 85% will lower the business’s value while rates above 105% will increase its value via a premium. As there is not enough information currently, I have neither included a premium nor a discount for this factor. However, if you have information related to the inputs of the revenue retention rate, I can help you as follows:

* Monthly recurring revenue of the last month (A)
* Revenue generated through upgrades and cross-sells (B)
* Revenue lost through downgrades (C)
* Revenue lost through churn (D)

*Net Revenue Retention = (A + B – C – D) / A*[[5]](#footnote-4)

1. Gross Margin & Revenue Mix

The gross margin is used to determine the profitability of the company, and equal to the Subscription Revenue less Cost of Revenue in MMS’s case. For a SaaS company at its early stages, being able to reinvest its proceeds to generate additional revenue is crucial to its speed of growth. Therefore, higher gross margins are very favorable. Based on the white paper, the median private company’s gross margin is 74%. A gross margin multiple for the MMS can then be derived from this information, which can then be used to calculate the implied revenue margin, as shown in Exhibit 1 - Gross Margin Adjustments.

Essentially, the gross margin multiple is calculated through using the private company revenue multiple for MMS to calculate an implied company valuation at the ARR, and then applying the average 74% gross margin for peer private companies to determine the implied gross margin in dollars and then express it as a multiple of the implied value of the MMS. Then, the actual gross margin of MMS is calculated from MMS’s gross margin ratio and its ARR, and then implied gross margin multiple calculated earlier is then used to calculate the implied valuation, which can then provide the implied revenue multiple after the gross margin adjustment.

1. Customer Acquisition Efficiency & Unit Economic

Customer acquisition refers to how efficiently a company can convert sales and marketing costs into new customers and therefore new revenue opportunities. The white paper has mentioned that “companies with higher customer acquisition costs (CAC) need more capital to grow, and thereby, diminish overall returns whether the buyer is a VC, a corporation, or a public stockholder”[[6]](#footnote-5).

The white paper has listed the formula to calculating the CAC ratio as follows:

CAC Ratio = New ARR from new customers/ sales and marketing spend to acquire those customers

In 2019, the median CAC ratio is 0.78, meaning that each dollar of sales and marketing expense generated 78 cents of ARR, and “companies that are inefficient at acquiring new customers and have a CAC ratio below .6 will be valued less, and those that are efficient and have a ratio above 1.2 will be valued higher per dollar of revenue.”[[7]](#footnote-6) If you can provide information related to the new ARR from new customers, I will be able to help calculate MMS’s CAC Ratio. Otherwise, no adjustments have been made to the valuation of MMS.

1. Profitability

There are three major factors to profitability that is worth mentioning:

* If the company is unprofitable and also experiences a slow growth, the multiples will be a low 0.5x-2.0x of ARR. However, this does not apply to MMS as it is growing month over month and has been profitable in the last few months.
* Impact on the motivations to sell is another factor to consider, as less profitable companies can impact the sales price while more profitability means that the business can self-sustain and attract more potential buyers. In this case, you have already mentioned that there are a few buyers interested, and as the company is also profitable this is no longer a concern.
* If the company is unprofitable, capital becomes even more scarce due to the need to constantly stretch the capital it receives from financing. However, this also does not apply to MMS.

Other drivers of valuation:

1. Competitiveness of the sale/ fundraising process

As you have been receiving calls from some of your larger peers and competitors for an acquisition, there appears to be strong demand from different sources for your business. As a result, having multiple bidders will drive up the valuation for the company.

1. Market leadership

As the company is a leader in the cloud-based commerce platform, it will likely maintain and grow its market share compared to other players in the market. Therefore, there are long term growth opportunities for the business, which will increase its valuation.

1. Strategic fit to buyer

There can be considerable benefits for a buyer if they choose to acquire MMS, which can make the company more attractive and worth more in their eyes than the company’s enterprise value. Some strategy factors include access to technology, economies of scale, cost or revenue synergies, growth in market share or entry into a new market for the acquirer, and other factors.

1. Management team expertise

As you are a driven and motivated but realistic entrepreneur, I can see that you have expertise and drive to help the business go further with its growth, which helps with MMS’s long term performance and therefore its valuation.

1. Competitive advantage

While it is uncertain whether the company has a technological advantage or intangible assets such as intellectual properties that can provide it a significant advantage in the market, having these assets can also increase the valuation.

All of the above qualitative factors can help increase the valuation or exit price of MMS. However, as these drivers can be difficult to quantify, along with the fact that the “impact is still generally within the context of a revenue multiple premium or discount”[[8]](#footnote-7), I have not made any additional adjustments in terms of a premium onto the valuation of the business.

**Software Equity Group (SEG) report**

SEG has provided “M&A advisory services for emerging and established B2B software

companies”[[9]](#footnote-8) for 25+ years. From its report “SEG SaaS Index: June 2021 Monthly Update”, the SEG SaaS Index is an index created that comprises “96 publicly traded companies that primarily offer solutions via the cloud and / or through a subscription or transaction-based model.”[[10]](#footnote-9) A list of multiples for the Median EV/ TTM Revenue from January to June of 2021 from the report has been included in Appendix 3 Note 1. The June multiple was selected because it is the most recent multiple and therefore the most representative of the current business climate. As this multiple is from a list of publicly traded companies, an adjustment will need to be made following the process outlined in the SaaS Capital Valuation white paper.

**Public Company Comparables**

I have researched three comparable public companies with similar operations and business models as MMS. The multiples are pulled from Capital IQ, a reliable financial resource as of June 30th, 2021, the most updated date in the database. However, as these multiples are for public companies that are much larger in size and scale compared to MMS, their multiples must be adjusted through the process outlined in the SaaS Capital Valuation white paper.

|  | **Salesforce** | **Wix** | **NetSuite** |
| --- | --- | --- | --- |
| **TEV/ LTM Revenue** |  |  |  |
| **Average** | **9.5x** | **14.8x** | **9.6x** |
| High | 10.0x | 17.9x | 10.5x |
| Low | 8.9x | 11.1x | 7.3x |

Salesforce: A cloud-based software company that offers customer relationship management service and other enterprise applications related to customer service, marketing, data analytics and other applications.

Wix: A cloud-based web development company that offers website templates via HTML and mobile sites as well as interactive tools for its applications.

NetSuite: A cloud-based enterprise resource planning (ERP) company that offers ERP software related to a variety of business functions ranging from accounting to customer service.

Other companies with similar functions are not selected due to the difference in the range of multiples. For instance, Shopify Inc. - a company with very similar operations as MMS - has significantly higher TEV/ LTM Revenue metrics averaging roughly 44x. Therefore, these companies have been considered but not included in the comparable range.

**Precedent Transactions**

| **Transaction Date** | **3/3/2021** | **3/23/2021** | **5/25/2021** |
| --- | --- | --- | --- |
| **Target** | Circleloop Limited | Moka Financial Technologies Inc. | Affectiva, Inc. |
| **Acquirer** | Gamma Communications plc (AIM:GAMA) | Mogo Inc. (TSX:MOGO) | Smart Eye AB (publ) (OM:SEYE) |
| **Implied EV/ Revenue multiple** | 13.6x | 10.4x | 15.0x |
| **Implied EV (Millions USD)** | 64.62 | 53.7 | 74.8 |

Target: Circleloop Limited provides cloud-based phone software for business, offered as an alternative to traditional phone systems.

Acquirer: Gamma Communications plc (Gamma) is a company that provides Unified Communications as a Service (UCaaS), including supplying communication solutions and offering network services.

Target: Moka Financial Technologies Inc. is a digital savings and investment platform that automatically invests clients’ spare change and provides other financial services.

Acquirer: Mogo Inc. is a fintech company that offers financial services to its customers such as digital mortgages and credit.

Target: Affectiva, Inc. is a software company that creates artificial intelligence through examining human facial and vocal expressions to understand human emotions and cognitive states.

Acquirer: Smart Eye AB is a technology company that develops and sells products for eye tracking systems, which track the movement of eyes and gaze in real time and have a number of practical uses.

Some of the other alternatives are not selected due to their timeliness (e.g. transactions in a different market climate from previous years) as well as their markets (e.g. in China or Korea, which is a different market geographically than in North America).

**Valuation of the company today**

From Exhibit 1, I have extended the ARR from the actual ARR to the end of the calendar year until December 31st, 2021. I have assumed the monthly revenue will continue to grow at an average rate of 4.19% (e.g. the monthly revenue growth rate from the last twelve months/ LTM from Jul 2020 to Jun 2021).

Following the business valuation methodology, the starting point is the 15.5x median ARR public company multiple from the SaaS Capital Index. A 28% discount is applied to convert it into a private company multiple of 11.2x. As the projected ARR is roughly 6.8M, which falls in the $3-10 million range, and the YoY growth is more than the median growth rate of 52% from MMS’s peers at 64%, warranting a range of growth premiums between 1.0x and 3.0x. This will provide subtotal multiples of 12.2x and 14.2x for the low and high ranges, respectively. Then, a gross margin adjustment is made as the company has a gross margin of 64.9% while the average private firms have a 74.0% YoY gross margin. This will result in implied discounted multiples of 10.7x and 12.4x. As a result, the implied valuation will have a range of $72 and $84 million as the enterprise value for MMS.

**Valuation of the company with exit in 5 years**

From Exhibit 2, I have extended the ARR from the actual ARR to the end of the calendar year until December 31st, 2021 and also projected the ARR until Jun 30th, 2026 (5 years into the future). I have assumed the monthly revenue will continue to grow at an average rate of 4.19% in the first year (e.g. the monthly revenue growth rate from the last twelve months/ LTM from Jul 2020 to Jun 2021) but decreases by 0.08% each year, as it is often difficult for businesses to sustain its revenue growth rate as it increases in size. As the first 12 months (Jan 2020 to Dec 2020) of the provided income statement had an average monthly revenue growth rate of 4.27% while the last 12 months (Jul 2020 to Jun 2021) of the provided income statement had an average monthly revenue growth rate of 4.19%, there appears to be a small decrease of roughly 0.08% between the two periods, which is why the adjustment was made. As a result, the annual month over month revenue growth rate is 4.19%, 4.11%, 4.03%, 3.95%, and 3.87% respectively for years 1, 2, 3, 4, and 5 into the future.

Again, following the business valuation methodology, the starting point is the 15.5x median ARR public company multiple from the SaaS Capital Index, and the 28% discount is applied to convert it into a private company multiple of 11.2x. As of Jun 30, 2026, the projected ARR will be roughly $59 million, and the annual revenue growth rate YoY of 58% is still above the average of 52%. According to the white paper, this should warrant a growth premium of 6.0x to 10.0x due to ARR being more than $20 million. However, I believe that this may be stretching the range as the forecast will be 5 years into the future and many factors can impact the ARR from reaching the projected high amount. In addition, having a 20x multiple can easily put the company above $1 Billion in valuation, which is although desirable uncertain as of today. Therefore, to be more prudent and conservative in my projections, I have not changed the growth premium and instead used the same multiples of 1.0x and 3.0x as before. This will therefore result multiples of 12.2x and 14.2x again, and as the gross margin of 70.1% in 2026 remains below the peer median of 74%, the implied revenue multiples will be 11.5x and 13.4x respectively, resulting in an enterprise value of $677 and $789 million for the lower and higher range.

**Summary of methodologies**

The following table contains a summary of all the multiples and their respective enterprise values (EV) of both low and high range for a sale of the business in the near future as well as in 5 years.

| **Source** | **Multiple** | **EV today (low, $M)** | **EV today (high, $M)** | **EV in 5 years (low, $M)** | **EV in 5 years (high, $M)** |
| --- | --- | --- | --- | --- | --- |
| *SaaS Capital Index* | *15.5x* | *72* | *84* | *678* | *789* |
| SEG | 13.5x | 64 | 75 | 597 | 709 |
| Salesforce | 9.5x | 47 | 58 | 437 | 548 |
| Wix | 14.8x | 69 | 81 | 649 | 761 |
| NetSuite | 9.6x | 47 | 59 | 441 | 552 |
| Circleloop Limited | 13.6x | 64 | 76 | 601 | 713 |
| Moka Financial Technologies Inc. | 10.4x | 50 | 62 | 473 | 584 |
| Affectiva, Inc. | 15.0x | 70 | 82 | 657 | 769 |

In conclusion, after reviewing all the methods for the valuation multiples, I still recommend proceeding with the SaaS Capital Index multiple of 15.5x to keep the valuation technique consistent, as the white paper outlines other adjustments based on this multiple, which is based on an annualized run-rate revenue compared to other multiples which can be recurring revenues or just the accounting revenue from the income statement. In addition, the Index excludes SaaS companies that serve B2C customers and other small B2B companies with minimal revenue or have drastically different business models. Furthermore, SaaS businesses with non-SaaS revenue streams are also excluded, and holding companies that mostly grow from mergers and acquisitions of other SaaS businesses such as Constellation Software Inc. are also excluded from the Index. Therefore, this Index is a cleaned dataset that only has pure SaaS companies with adjusted revenue streams, which is why it was deemed the most appropriate resource to determine the starting revenue multiple.

**Raising a $15M (USD) Equity Round - Exit in 5 Years**

**Overview**

Per Exhibit 5, I have prepared an analysis for a $15M USD equity round that will be closed on October 1, 2021. This equity round will consist of a primary and secondary round. As discussed previously, I have determined a range between $72,143,181 and $84,008,835 for the pre-money valuation which can be toggled by using the drop down list feature in Exhibit 5 cell C5. For the purposes of this memo, I have based the quantitative discussion on the conservative pre-money valuation of $72,143,181 but the impact of the higher pre-money valuation can be reviewed by changing the value in Exhibit 5 cell C5. Similarly, we also calculated a range between $733M to $853M for the exit price, but I will discuss the conservative exit price of $733M in this memo. To see the impact of the higher exit price on payouts for each shareholder, including yourself, please use the drop down feature in Exhibit 5 cell C60. Furthermore, as per our discussion, I have also incorporated an ESOP top up to make sure that the ESOP available after the round is equal to 8% on a fully diluted basis.

The secondary round will consist of disposing 34,934 of your common shares at a price per share of $42.94 for total proceeds of $1.5M. Since Dack and Zark have indicated that they will be exercising their pro-rata rights and investing as part of the round, they will each acquire 1,164 shares from the secondary round and the remaining 32,605 shares will be acquired by the new investor.

The primary round will consist of MMS issuing 314,403 new shares. Of the total primary round, Dack and Zark will each need to acquire 15,321 shares which will allow them to maintain their initial level of percentage ownership in MMS (3.33%) post Series A financing. Since the total shares outstanding will increase due to the conversion of the note and the increase in ESOP top up, the shares that Dack and Zark will need to acquire to maintain their 3.33% ownership stake will be greater than a simple pro-rata allocation of the total primary shares. Effectively, they will need to each acquire 4.87% of the total shares issued in the primary round to avoid dilution.

Next I will discuss some of the other intricacies of the model we prepared in Exhibit 5.

**Convertible Notes**

LendCo and DSP Partners hold convertible notes of $1,075,000 and $500,000 (in CAD). First, I converted the amount and cap to US dollars to be consistent with the other investment amounts in the cap table. Both of the convertible notes were converted to USD based on the date that they were issued. After accounting for the accrued interest, LendCo will have a total investment of $934,974.40 and DSP Partners will have a total investment of $413,813.44 in MMS. To calculate the total shares that each investor will receive, we had to first determine the lower of ‘Shares if Cap’ and ‘Shares if Discount’. The ‘Shares if Cap’ was calculated by dividing the total cap amount (in USD) by the total pre-money shares. The ‘Shares if Discount’ price was calculated by applying the respective discount rate to the price per share calculated for the new investor. For both LendCo and DSP Partners, the ‘Shares if Cap’ price was lower and was used to calculate the total shares each would receive. Both of the notes converted to the same class of shares as the subsequent financing event which was Series A.

**ESOP Top Up**

As per our discussion, you indicated that any new investor will want to do an ESOP top up so that the ESOP available after the round is 8% on a fully diluted basis. In order to incorporate this in the model, I multiplied the total shares that are outstanding post-financing by 8% to generate the desired ESOP. Then I subtracted the current ESOP that is still unallocated of $50K from the desired ESOP to arrive at the ESOP top up requirement of 109,564.

**Total Pre-Money Shares**

The total pre-money shares were calculated by adding together the existing shares of 1.5M, the ESOP top up of 109,564 along with the shares from convertible notes of 51,023, and 19,562 to arrive at total pre-money shares of 1,680,149. This is the total number of shares in MMS on a fully diluted basis, meaning all options or convertible notes to acquire future classes of shares have been either exercised or converted.

**Price Per Share**

To determine the price per share for the new investor, I used the total number of shares in MMS on a fully diluted basis and divided it by the pre-money valuation to arrive at a price per share of $42.94.

**New Investors Investment**

As requested, I have calculated the total amount that the new investor would have to pay in total. For the primary round, the new investor will have to pay $12,184,311 which was calculated by multiplying the new preferred shares that the new investor would acquire by the price per share of $42.94. For the secondary round, the new investor will have to invest $1,400,000 which is equal to 32,605 common shares multiplied by the price per share of $42.94. Overall, the investor will need to make a total investment of $13,584,311.

**Payout for Karim Kombucha**

I have also calculated your total payout under the scenario if MMS were to proceed with raising a financing round today and exiting in 5-years. The total payout will consist of proceeds from the secondary round of $1.5M which was calculated by multiplying the 34,934 shares sold by the price per share of $42.94. These proceeds will be available as soon as the secondary round is complete and will essentially be accessible in the current year. However, the remaining proceeds will be available upon exit in 5-years. Since the Series A and Series Seed investors have a stacked preference, they will each receive their portion of the payout first (which is the greater of 1x their initial investment or a prorated conversion to common shares based on their respective ownership). After the Seed and Series A investor receive their payout, your payout would be $242,986,784 upon exit in 5-years.

Since the payout is received 5-years in the future, it is appropriate to consider the time value of money and incorporate a discount rate to bring your portion of the payout to a present value to compare it with the payout from the immediate exit today. Therefore, I calculated a 12% discount rate in Exhibit 5 for MMS, and assumed that the same discount rate would be appropriate for you. The present value of the payout in 5-years is equal to $140,670,917 and therefore, the present value of the *total* payout that you will receive is $142,170,917.

**Selling the Company Today**

**Overview**

Per Exhibit 4, I have prepared an analysis assuming MMS begins to pursue the inbound acquisition interest seriously and closes a deal to sell the company by Oct 1, 2021. Similar to raising a financing round, I have determined a range for the pre-money valuation. The difference here was that the pre-money valuation and exit price are equal since there is no subsequent financing round. Although I did not incorporate an exit premium, it is important to understand that a premium may be applicable here because there are multiple acquirers interested who will be looking to acquire MMS for strategic purposes that will gain synergies due to economies of scale, strategic advantages (eliminating a competitor), etc. I have determined a range for the pre-money valuation/exit price between $72,143,181 and 84,008,835. I will discuss the conservative option once again in this section of the memo, but the impact of the higher valuation can also be viewed by changing the value using the drop down function as discussed previously (Exhibit 4 - Cell C5 & Cell C60).

**Convertible Notes**

As discussed previously, LendCo and DSP Partners both hold convertible notes that I converted to USD based on the date of issuance for each note. After calculating the accrued interest, LendCo will have a total investment in USD of $934,974.40 and DSP Partners will have an investment of $413,813.44. The next step was to calculate the shares that each investor would receive. This was calculated by taking the lower of the share price using the respective discount rate versus the cap. Both noteholders would take the discounted price under the valuation cap. LendCo will receive 47,550 shares and DSP Partners will receive 18,230 shares upon conversion. These shares would convert to Series Seed Preferred shares (the most senior class of shares) since there is no subsequent financing event prior to liquidation.

**Total Pre-Money Shares**

The total pre-money shares before exit was calculated by taking the outstanding 1.5M shares and adding the shares from the note conversion to arrive at total pre-money shares of 1,565,780. This is the total number of shares on a fully diluted basis.

**Price Per Share**

The price per share was determined by dividing the pre-money valuation of $72,143,181 by the total pre-money shares calculated above to arrive at a price per share of $46.07.

**Payout for Karim Kombucha**

I have calculated your total payout if you choose to proceed with an immediate exit today. With an exit price of $72,143,181, the Series Seed investors will have priority to their payout (since their liquidation preference is a 1x non-participating *stacked* preference) which will equal to the greater of 1x their initial investment or a conversion to common shares and a pro rata allocation of the total proceeds based on their ownership stake. All four Series Seed investors will convert to common shares and take their pro rata ownership since it is greater than taking 1x their initial investment. After the series seed investors receive their payout, there will be $57,593,644 of funds remaining for the common shareholders. Of this amount, you will be entitled to $34,556,186 (or 60% of the remaining payout) and the remaining $23M will be allocated between Elon Tusk (28%) and the ESOP pool (12%).

**Potential Acquirers and Investors**

**Potential investors:**

When looking at potential investors, I have found 3 potential VCs that may be interested in investing in MMS at the Series A stage. I have evaluated these VCs based on 6 criteria against other VCs and have ultimately decided that they will be the best fit.

1. Have they established success in the e-commerce/SaaS space through previous investments and exists? I am looking to find VCs that have an established history to ensure that they will have the expertise that is best for MMS. I am also interested in what companies they have invested in the past, including their success stories.
2. Do they have a good reputation in general? This is important to consider to avoid any potential public relation issues.
3. Are the VC’s investment strategy aligned with MMS’s goals? There are several factors to consider when determining whether their strategies are aligned, including:
   1. What type of companies are the VCs looking to invest in?
   2. What investment stage do the VCs typically invest in?
   3. What is the timing of the VC’s strategy in terms of an exit? Are they willing to exit with MMS in 5 years?
   4. Is the VC already invested in one of MMS’s competitors?
4. Does the VC have a competent management team (i.e., including partners) who have experience in the industry and established connections? This is important to consider especially for VCs who tend to be more hands on.
5. Where is the VC located? It would be easier for VCs to be located closer to MMS for ease of contact.
6. Consideration of the vintage the VC is investing from. For instance, investing from a fund that has a bad history would not be in MMS’s best interest.

Further information is required regarding MMS for us to examine factor 5-6 in more detail. I have only considered the 4 factors in our memo.

Sequoia Capital

Sequoia is a VC firm focused on energy, financial, enterprise, healthcare, internet and mobile start-ups. They are the largest VC in North America and have an established reputation, controlling almost $1.4 trillion of combined stock market value through their backed companies.

They are interested in what is possible and invest both during early and late stages. In fact, they have over 15 partners for both the early and growth stages. Some of their notable investments include Square, NVIDIA, and Zoom. Similarly, they also invest in other companies that centre around commerce, technology and cloud computing. As such, based on their investment portfolio and future outlook, MMS would be a logical investment for Sequoia. Furthermore, they are happy to co-invest, which is beneficial since MMS is looking for a larger amount of $15 million. Sequoia are also not passive financiers and would be happy with strategy, recruiting, and customer intros. With their established network and management expertise, this can benefit MMS to continue to reinvest and grow into a large standalone corporation.

Tiger Global Management

Tiger Global Management is one of the other largest investment firms in America. They invest in early stage, late stage, and post IPO stages. Their core focus areas include the internet, software, consumer, and financial technology industries. Being a cloud based e-commerce platform, MMS’s mission and future operations seem to be right in Tiger Global Management’s core focus area. They are currently invested in over 600 companies and have gone through multiple successful exits. Coupled with their great reputation in the technology industry and established network of connections, an investment from Tiger Global Management would greatly benefit MMS. Their investments in private equity have the following outlook: “*We aim to partner with dynamic entrepreneurs operating market-leading growth companies in our core focus areas”*. This is also aligned with MMS’s operations and goals and therefore makes Tiger Global Management a possible contender. Furthermore, MMS is projected to experience large amounts of growth in the next few years to be a large stand-alone company, and therefore would be a perfect addition to Tiger Global Management’s portfolio. Some of Tiger Global Management’s most notable investments in e-commerce include Square and Alibaba. Both have been extremely successful in the e-commerce platform space.

Accel Partners

Accel is a VC firm, headquartered in America that works with start-ups in seed, early and growth-stage investments. They are also one of the largest investment firms in the country, with over 10 investors specializing in cloud/SAAS areas for early stage investments. Accel’s investment portfolio suggests that they are an expert in software and internet companies. Some of their most notable investments include Spotify, Etsy, and Facebook.

Their reputation, expertise, and connections in the e-commerce industry can greatly benefit MMS. Accel aims to invest in start-ups and individuals who have what it takes to “build a world-class, category-defining business”. With e-commerce being the biggest trend in the upcoming years and Karim’s vision for the company’s future, MMS will be a good fit for Accel.

Overall, all of the 3 potential investors that we have compiled above would be a great fit for MMS based on our criteria. Some next steps for MMS would be to ensure that the investors to contact are in a similar geographic location, research the vintage of the fund they would be investing from, and confirm that the VC agrees on MMS’s 5 year exit plan.

**Potential acquirers:**

When looking at potential acquirers, I have found 3 existing established companies that may be interested in buying us out. We have evaluated these companies against others in the market based on 4 main criterias which we felt were the most important to consider before selling.

1. Does this company have an incentive to acquire MMS? What is the incentive? This is the most crucial question as companies don’t engage in a costly and time consuming M&A transactions without reasoning.
2. What is the size of the business? Would this company be able to generate enough capital to acquire a company of MMS’s size and value? This is important as MMS should not be undervaluing itself in order to get sold.
3. Does this company have a history of acquiring growing e-commerce firms such as MMS? What industry does this firm primarily operate in and what industry companies has it primarily acquired?
4. Does this company have a good reputation in general? Though you may no longer be related to MMS’s business operations once acquired, I understand your passion for this business and would not want to stunt its current growth due to potential public relation issues.

Shopify:

Shopify is an e-commerce industry leader that allows users to create online stores which can be used to sell their products. They offer similar services as MMS, including a user-friendly administration interface that allows store owners to manage product inventory and customize their online store. Shopify would have an incentive to acquire MMS as a strategic acquisition in order to eliminate a growing industry competitor, with MMS also being a leading cloud-based commerce platform. With net income of nearly $1.2 billion in Q1 2021 alone, Shopify would have no issues purchasing MMS. Shopify operates in the e-commerce space and has acquired early other e-commerce firms such Handshake, which specializes in B2B wholesale purchasing, and inventory management firms such as Vinderbit. The company also hones a positive public reputation with recent news celebrating its astronomical growth in the Canadian market, and its positive handling of employee safety during COVID.

Amazon:

Amazon is one of the largest companies in the US information technology industry and focuses on e-commerce, cloud computing, digital streaming, and other services. Amazon would have an incentive to acquire MMS as a strategic acquisition, to both eliminate it as a competitor and to also incorporate its technologies into Amazon’s own technological portfolio and model. Amazon may also acquire MMS for talent acquisition purposes. Amazon would not have any issues purchasing MMS, based on its net income of $8.1 billion in Q1 2021 alone. Amazon has a history of purchasing smaller competitive platforms in the e-commerce space, the latest one being Selz in January of 2021. The primary rationale behind this acquisition was to better enable themselves to provide tools to small and medium sized businesses for managing their online stores, thus consequently also increasing competition with Shopify and it’s business model. Other famous e-commerce acquisitions by Amazon include Zappos, an online shoe and clothing retailer, and SOUQ.com, a growing online retailer in the Middle East. Amazon has garnished negative press as of late due to low employee wages and potential anti-competitive behaviour. However, Amazon’s revenues are still predicted to grow 30% year over year in the second quarter of 2021.

Paypal

Paypal is an electronic commerce company which allows for payments between parties through online transfers. In 2018-2019, Square acquired Weebly in order to introduce their own point-of-sale platform, Square Online Store. Square is a financial services and digital payments company and this acquisition allowed them to break into e-commerce to enjoy greater brand reputation and revenues from a larger scale of operations. One of Square’s biggest competitors is Paypal. Similarly to Square, Paypal operates an online payments system. However, it is noted that Square is a better option for small businesses because of the complete suite of business management tools they offer. Therefore, to better compete against Square, Paypal may want to acquire a cloud-based, technology driven, e-commerce platform such as MMS as a strategic acquisition such as this will allow Paypal to integrate MMS’s core areas into their own operations and also incorporate Paypal’s payment systems in MMS. Paypal’s Q1 2021 net income was approximately $1 billion, therefore, Paypal would have no capital issues in acquiring MMS. Paypal has a strong history of e-commerce acquisitions with acquisitions such as Gopay, which provides third party payment services to governments and corporations, or Braintree, which helps small-medium size businesses in processing payments. Paypal’s overall reputation can be assessed as neutral, with no major controversies in the past few months.

**Recommendation & Next Steps**

I have listed some of the key factors that you and your team should consider before finalizing on whether to raise capital and sell the company in approximately 5 years or to sell the company outright today.

|  | **Raising a $15M round with an exit in 5 years** | **Selling the company today** |
| --- | --- | --- |
| Stress on founder / Founder Fatigue | High | Low/Medium |
| Total Founder Payout | $142,170,917 | $34,556,186 |
| Being an employer or being employed | Employer - Full operational control and able to set direction of the business | Employee - Will have to adhere to the vision/mission of the acquiror |
| Monitoring of company valuation & risk of not getting an offer | High - Company may be worth less 5 years into the future | N/A / Low - company already sold |
| Current investor/employee preferences | Need to inquire | Need to inquire |
| Future personal goals / upcoming personal plans for founder | Low flexibility, higher attachment to the company | High flexibility |

**Stress:** You have tirelessly worked on this business for the past 2 years to grow it to the level it is at today. Founders typically experience “founder fatigue” where they either lose motivation or lack energy to make ongoing complex business decisions. I would advise you to evaluate both your physical and mental health before choosing either option. Selling the company alleviates stress while raising capital adds additional stress as you would not only have new VC stakeholders to please but also would need to rigorously grow your company so that it attracts acquirers in 5 years

**Total Founder Payout:** On a purely financial aspect, you would receive a higher payout of $142,170,917 (with $1.5M received immediately through the secondary sale share) if you grow and sell your company in 5 years in comparison to selling it now for a payout of $34,556,186. Please keep in mind that the future payout projection is on the basis that your business can continue to grow as it is today.

**Employer vs Employee:** Keeping your business for the next 5 years allows you to continue being the owner and making your own strategic decisions which you deem necessary to grow the company. However, if you sell the business today and are required to stay on as an employee as per deal terms, the acquirer dictates how the business is to be grown and the duties that you will take on.

**Valuation Changes & Future Offers:** If you decide to keep the company, you would be required to continuously assess its valuation in preparation of getting it sold in 5 years. Additionally, you would bear the risk of not getting offers in the future if the company’s valuation declines or fails to grow by a considerable margin. On the contrary, selling the company today alleviates the need of doing so.

**Current Investor/Employee Preferences:**  I encourage that you request feedback and opinions from your current stakeholders to see what they believe is the best move for the company moving forward. This may also help you make your final decision.

**Personal goals/personal future plans:** What are your future plans? Do you plan on working for a foreseeable future or is your goal to achieve financial security and retire? Selling your company today allows you for a respectable payout of $37M, which is more than enough to retire upon. Continuing your business as it is instead would allow you to extend the number of your professional years with the company.

**Final Recommendation:**  I recommend that you sell your business today. Despite your motivation and desire to grow this company, I fear for founder fatigue as you have already worked for 2 years and will continuously look to grow your company and increase its valuation for an acquirer for 5 years down the line. The company also faces considerable risk of losing competitive edge to other major e-commerce industry giants such as Amazon and Shopify, which would lead to a decrease in valuation. If you are passionate about being a business owner, I suggest that you use the payout funds from selling your business today to start a new venture, as long as it abides by any non-compete clauses.

This recommendation is under the assumptions that you are comfortable with potentially forgoing a payout of nearly $140M (albeit unguaranteed), your current employees and investors support the sale of your company today, and that you are personally content with working for the acquirer for 1-2 years after acquisition (as common in M&A deals).

**Next Steps**

You should begin by reaching out to all of the 3 acquirors that I had suggested: Shopify, Amazon, and Paypal to see if they would be interested in acquiring MMS. Your team would need to prepare an investment deck which summarizes MMS’s business operations, value proposition, and a basic projection of company financials, to be sent to the 3 companies. If any of the companies are interested, you should request and negotiate a letter of intent, which states an estimate of the price which the acquirer would be paying to acquire MMS.

Successful completion of these steps would take you to the due diligence process and ultimately lead to a purchase agreement.

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