Confidential Draft

Project Centipede

Exit Recommendation (M&A vs. IPO vs. SPAC)

August 18, 2023

Copper Canyon Capital

SUMMARY AND RECOMMENDATION

Exit Strategy Recommendation

Given Centipede's Strong Revenue Growth, It Should Pursue an IPO

Acquisition Offers

Cardinal's Offers Do Not Give Full Credit for Centipede's Future Growth Potential

- Although Cardinal's "Offer A" is based on a 5.0x CY 25 TEV / Revenue multiple, 37% of the purchase price is deferred and linked to Earnouts, an Escrow, and a Management Retention Pool
- If none of these is paid out, the upfront multiple is 3.3x; with the two Earnouts and the Escrow, it's 4.3x multiple vs. a 4.4x median from the public comps
- Both Offer A and B are 90% Stock, so the investor payouts will be delayed even if Centipede qualifies for all the deferred payment components

Strategic Alternatives

An IPO Would Maximize Centipede's Long-Term Value

- The median 2-year forward revenue multiple from the comparable public companies is 4.4x, but we believe that Centipede could trade in the 3.5x – 6.5x range due to its premium growth rate
- An IPO would also give Centipede the currency to expand organically and via add-on acquisitions

Recommendation

We Recommend Preparing for an IPO, with a SPAC Deal as a "Plan B"

- Historically, IPOs have delivered superior performance, but a SPAC / reverse merger presents certain advantages, such as speed and reduced regulatory burden
- Efforts could be made to renegotiate Cardinal's offer, but we believe a higher price is unlikely, given the poor EPS accretion / dilution figures over the projected period

Summary of Operational Forecasts

Comparison of Operational Metrics and KPIs in Forecast Period Intervals

(All Metrics Represent Figures in FY 28 – Final Projected Year in Forecast)

	Downside Case	Base Case	Upside Case
Customer Count	91K	116K	137K
Revenue (CAGR)	$712 million (19%)	$1.0 billion (27%)	$1.4 billion (33%)
Average Billings	$9K	$10K	$12K
EBIT (Margin)	$119 million (17%)	$161 million (15%)	$201 million (15%)
Unlevered FCF	$104 million	$152 million	$209 million
DCF Implied Value	$1.4 – $1.6 billion	$2.4 – $2.8 billion	$3.4 – $4.1 billion

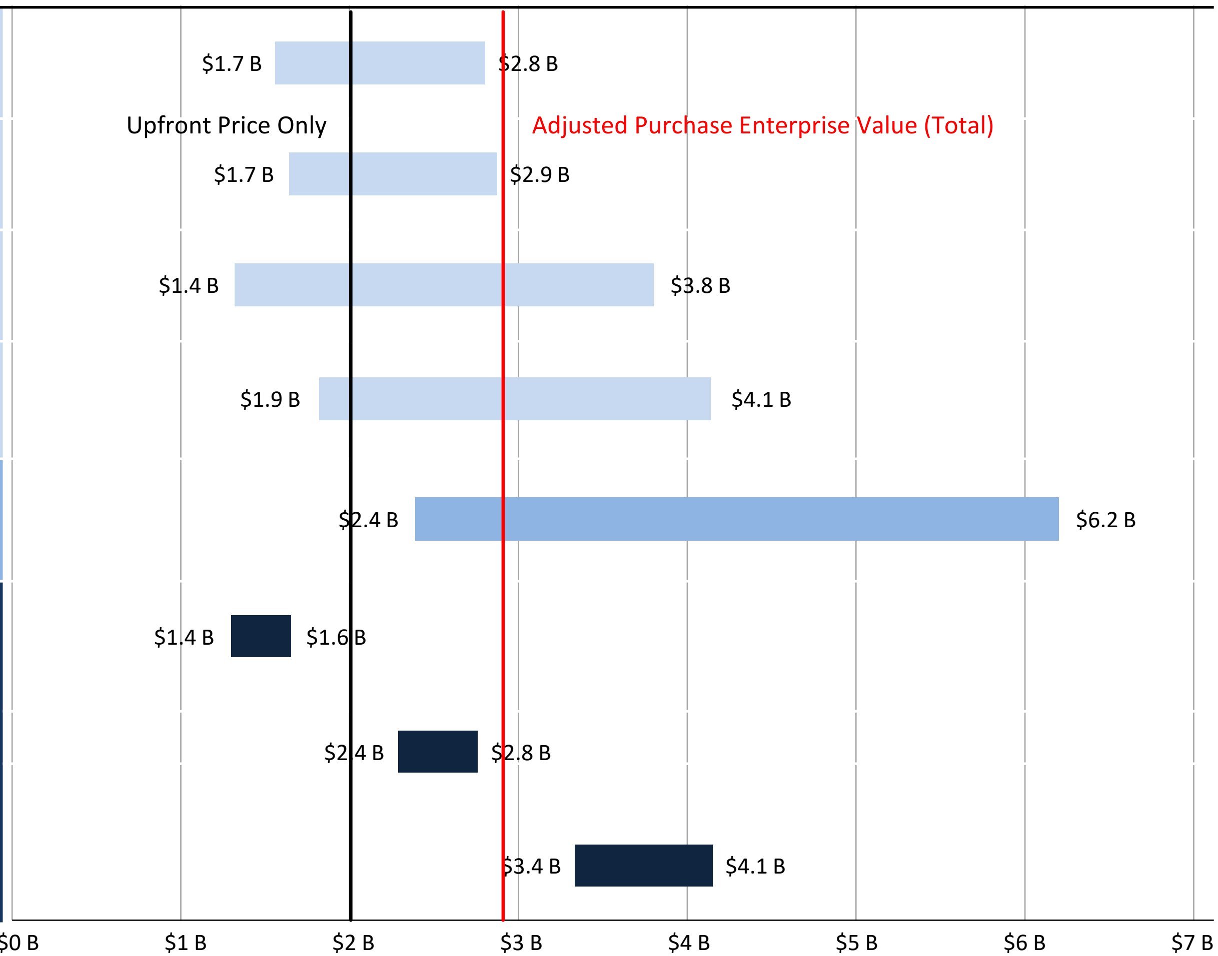
OPERATING MODEL AND VALUATION

Valuation Summary

"Offer A" vs. Implied Values Based on Management Plan & Consensus Forecasts(1)(2)

Approach		Metric	Range
Trading Valuation	Public Comps (Consensus Forecasts Assumed)	CY 24 TEV / Revenue	3.5x – 5.9x
		CY 25 TEV / Revenue	2.9x – 4.8x
		CY 24 TEV / EBITDA	27.2x – 71.1x
		CY 25 TEV / EBITDA	21.0x – 46.4x
M&A Valuation	Precedent Transactions	LTM TEV / Revenue	8.0x – 20.5x
Intrinsic Valuation	Corporate-Level DCF Analysis	Downside	Initial WACC of 11.0% – 13.0%, Declining to 9.0% – 11.0%
		Base	
		Upside	

Implied Enterprise Value from Selected Methodology (25th to 75th Percentile)



(1) Market data based on closing prices as of 8/18/2023.

(2) Consensus forecasts based on Capital IQ data as of 8/18/2023.

Summary of Centipede Valuation Assumptions

Cardinal's Offers Are Reasonable, But Below the Likely IPO Valuation

The Comparable Public Companies and DCF Both Point to a Similar Valuation Range

#1	Implied Valuation	Centipede's likely valuation is an Enterprise Value between $2 and $3 billion, a range that corresponds to the "Base Case" output of the DCF and the range of values implied by the comparable public companies
#2	Comparable Public Companies	A set of U.S.-based SaaS public companies with CY 22 revenue between $100 and $500 million and revenue growth between 30% and 60% implies a Centipede TEV between $1.5 and $3.5 billion based on the projected revenue and EBITDA multiples
#3	Discounted Cash Flow (DCF) Analysis	The DCF, based on an initial Discount Rate of 12.0% declining to 10.0%, declining revenue growth rates, and increasing margins into the Terminal Period, produces an Implied Enterprise Value between $2.4 and $2.8 billion in the Base Case
#4	Precedent Transactions	A set of U.S.-based software targets with LTM revenue between $100 million and $1 billion and revenue growth >= 30% implies a very wide range of values ($2.4 to $6.2 billion), but the most likely range is $3 – 4 billion

EXIT OPTION COMPARISON

Strategic Alternatives for Centipede

The IPO is More Complex and Time-Consuming, But More Likely to Maximize Value

Both Cardinal's Offers Are 90% Stock, Which Removes Many Advantages of a Standard M&A Exit

	IPO	SPAC / Reverse Merger	Acquisition
Completion Time	6 – 12 months	2 – 3 months	6 – 12 months
Time to Sell Stake(s)	Several Years	Several Years	Several Years (90% Stock)
Pricing Discount	10 – 20%	N/A	N/A
% Stake Sold	7 – 13%	8 – 15%	100% (Full Exit)
Valuation	3.5 – 6.5x CY 25 Revenue	3.5 – 6.5x CY 25 Revenue	3.3 – 5.0x CY 25 Revenue
Shareholder Conflicts	None	None	Likely due to liq. pref. and participating pref.
Closing Probability	Moderate	Moderate	High
Performance	Median gain of 10 – 15% after 3 – 6 months since 2008[1]	Median 12-month return of (19%) for 2019 – 2020 cohort[2]	N/A

(1) Source: https://www.cnbc.com/2022/01/20/record-ipo-rush-of-2021-led-to-historically-dismal-returns-for-investors-with-no-relief-in-sight.html
(2) Source: "A Sober Look at SPACs" (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3720919)

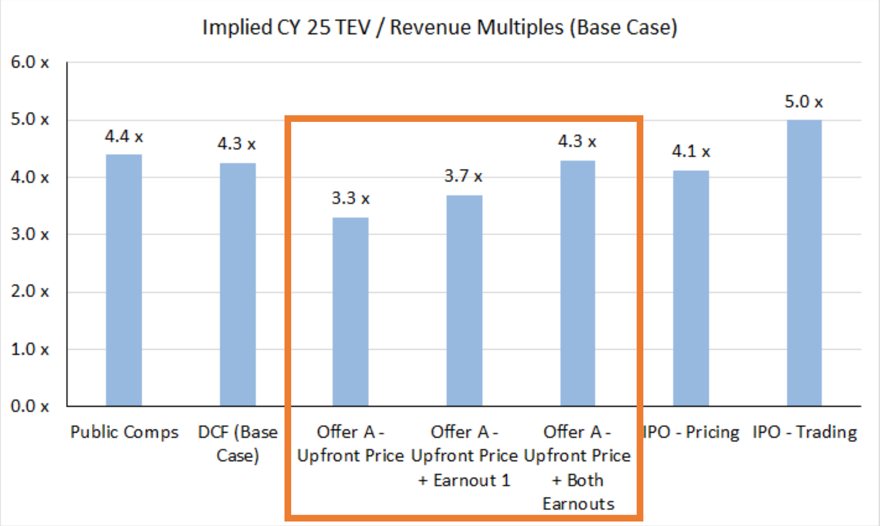
EXIT OPTION COMPARISON

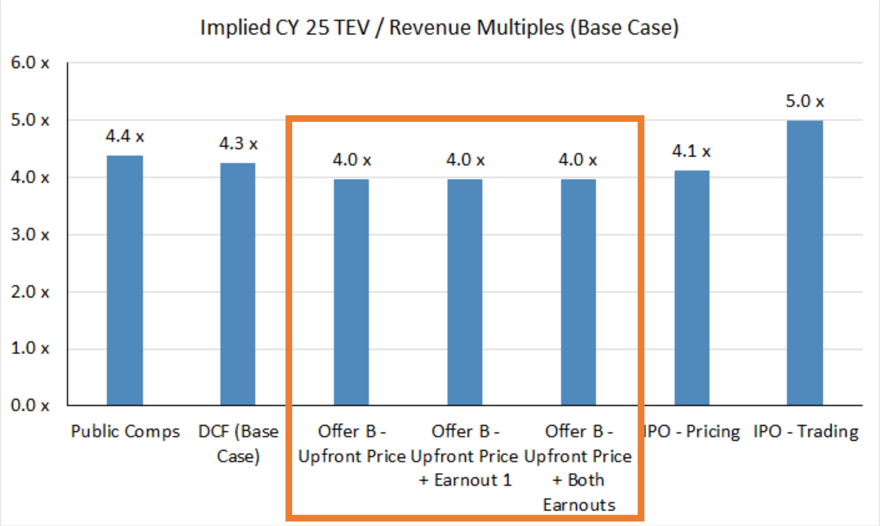
Valuation by Exit Strategy

Only the IPO and SPAC Options Value Centipede at Above-Market Rates

IPOs Are Traditionally Priced Based on Forward Multiples, Such As 2-Year Forward TEV / Revenue

- If both Earnouts are paid in full, Offer A values Centipede in-line with the multiples produced by the public comps and the implied DCF valuation in the Base Case(1)(2)
- If only the first Earnout is paid, Centipede's valuation would be significantly lower than the valuation methodology output(1)(2)
- Offer B offers a more certain outcome since there are no Earnouts (only a 5% Escrow), but also a valuation ~10% below the numbers implied by the other methodologies(1)(2)
- While the IPO valuation is more speculative, we believe that a 5.0x baseline 2-year forward revenue multiple is justified based on Centipede's above-market growth rates and favorable SaaS metrics





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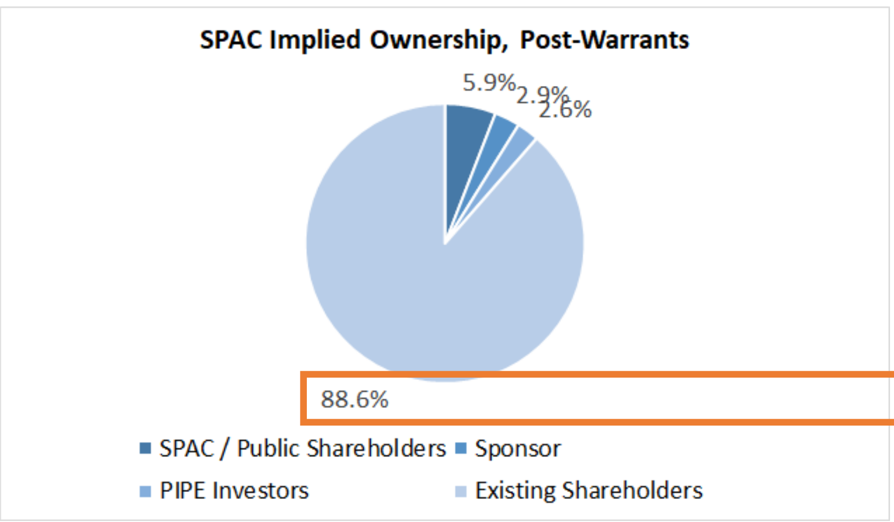
EXIT OPTION COMPARISON

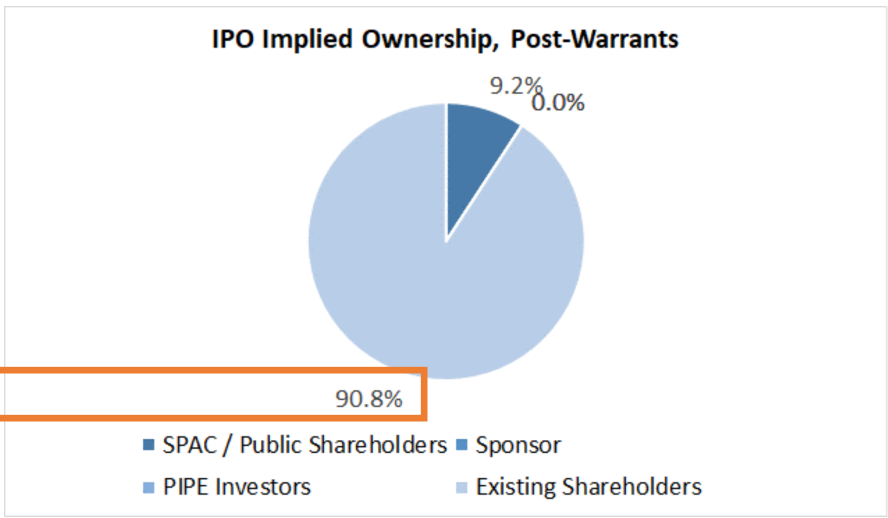
SPAC / Reverse Merger vs. IPO Comparison

Both Options Offer Similar Headline Valuations, But Different Timing and Dilution

Given Centipede's Strong Growth Profile, an IPO is More Likely to Maximize Long-Term Value

- Both options create dilution due to the ~15% Pricing Discount in the IPO and the ~20% "Sponsor Promote" in the SPAC and reverse merger, but the SPAC creates more dilution since millions of shares are granted to the Sponsor for nearly $0
- The main advantages of SPAC deals are speed, reduced complexity/regulation, and reduced uncertainty if a favorable SPAC Sponsor can be found
- Given Centipede's strong growth profile and industry-leading position, institutional interest in an IPO is likely to be high, reducing the traditional advantages of a SPAC





Summary of Merger Model Assumptions

	Offer A	Offer B
Headline & Adjusted Purchase Ent. Value	▪ $3.0 billion; $2.9 billion	▪ $2.4 billion; $2.3 billion
Deal Financing	▪ 90% Stock; 10% Cash	▪ 90% Stock; 10% Cash
Earnouts	▪ 20% of Purchase TEV; 40% in Year 2 and 60% in Year 3	▪ None
Other Deferred Payments	▪ 7% Management Retention Pool and 10% Escrow	▪ 5% Escrow
Earnout Financing	▪ 100% Debt (10% Interest Rate and 5% Amortization)	▪ N/A
Cash, Debt, and Working Capital	▪ Cash-Free/Debt-Free; $140 million WC adjustment; $100 million Minimum Cash	
Synergies	▪ Revenue Synergies are 10% of Centipede's total sales; Expense Synergies are a 15% reduction in Centipede's G&A expense with 2-year realization & integration costs	
Unvested Options	▪ Assumed	▪ Terminated
Purchase Accounting	▪ $1.2 billion in Other Intangibles; $2.0 billion in Goodwill	▪ $1.4 billion in Other Intangibles; $1.4 billion in Goodwill

M&A DEAL ANALYSIS

Pro-Forma EPS Accretion / Dilution

The Deal is Highly Dilutive for the First Several Years Post-Close

EPS Dynamics

- Because of the ~78x P/E multiple Cardinal is offering for Centipede, the deal is dilutive to Pro-Forma EPS until at least Year 3 with the "Offer A" assumptions
- The Offer B numbers are slightly less dilutive, but this offer may lead to shareholder conflicts and unsatisfied employees and managers at Centipede due to the termination of unvested options
- Debt is more expensive than Equity for Cardinal from an EPS perspective, and the company has minimal Cash, so alternate deal financing would not improve the picture
- Only substantially higher synergies, much higher growth rates, or a lower purchase price would change the numbers significantly

Analysis Summary

Offer A – Year 1 PF EPS Accretion/Dilution

Earnout %	Headline Purchase TEV		
	$2.4B	$3.0B	$3.6B
35%	(34%)	(48%)	(60%)
20%	(39%)	(53%)	(65%)
0%	(45%)	(58%)	(69%)

Offer B – Year 1 PF EPS Accretion/Dilution

Earnout %	Headline Purchase TEV		
	$1.8B	$2.4B	$3.0B
0%	(4%)	(14%)	(22%)
0%	(4%)	(14%)	(22%)
0%	(4%)	(14%)	(22%)

Offer A – Year 2 PF EPS Accretion/Dilution

Earnout %	Headline Purchase TEV		
	$2.4B	$3.0B	$3.6B
35%	(22%)	(37%)	(50%)
20%	(27%)	(42%)	(55%)
0%	(34%)	(48%)	(60%)

Offer B – Year 2 PF EPS Accretion/Dilution

Earnout %	Headline Purchase TEV		
	$1.8B	$2.4B	$3.0B
0%	6%	(10%)	(16%)
0%	6%	(10%)	(16%)
0%	6%	(10%)	(16%)

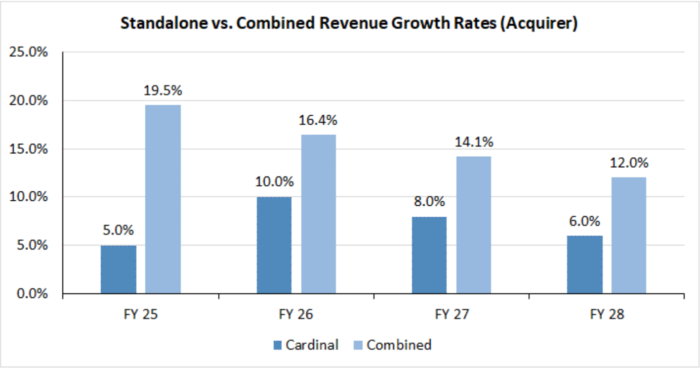
M&A DEAL ANALYSIS

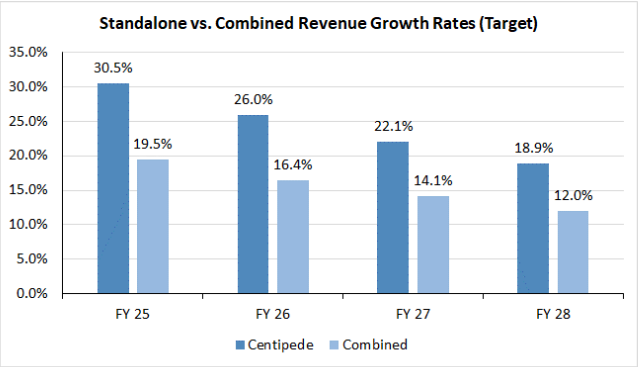
Revenue Growth & Financial Contribution Analysis

The Current Deal Benefits Cardinal More Than Centipede

Growth Rate Impact

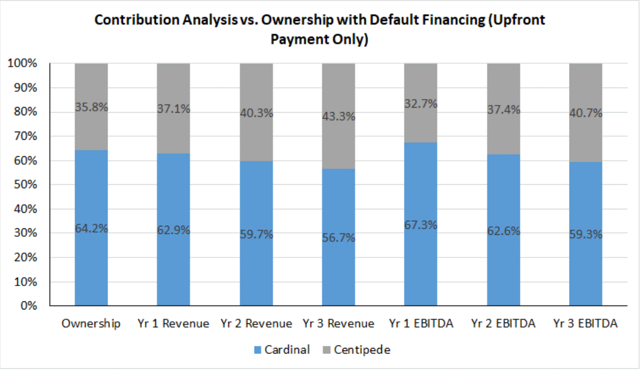
- Centipede's contributions boost Cardinal's growth rates from the 5 – 10% range to the 10 – 20% range
- Meanwhile, Centipede's standalone growth rates are significantly higher than the combined company's in the projected period:





Contribution Analysis

- The ownership percentages are reasonable based on *just the upfront Stock consideration* for Offer A
- However, the ownership percentages look increasingly skewed into the projected years due to Centipede's higher long-term growth rates



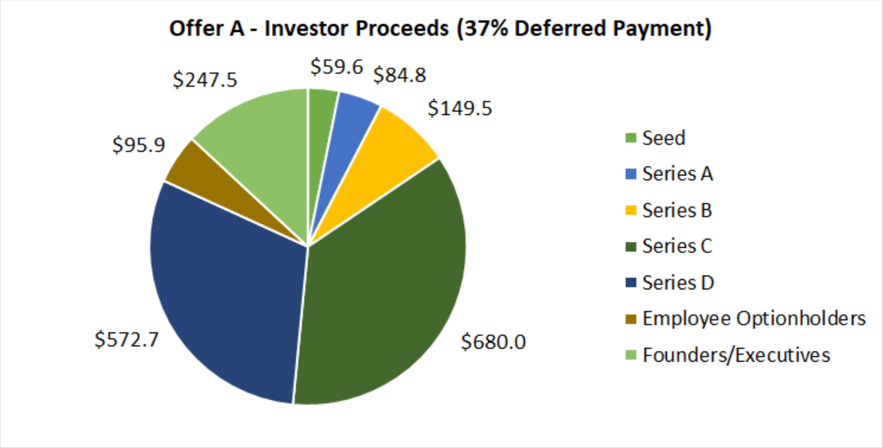
Earnout Treatment & Misaligned Incentives

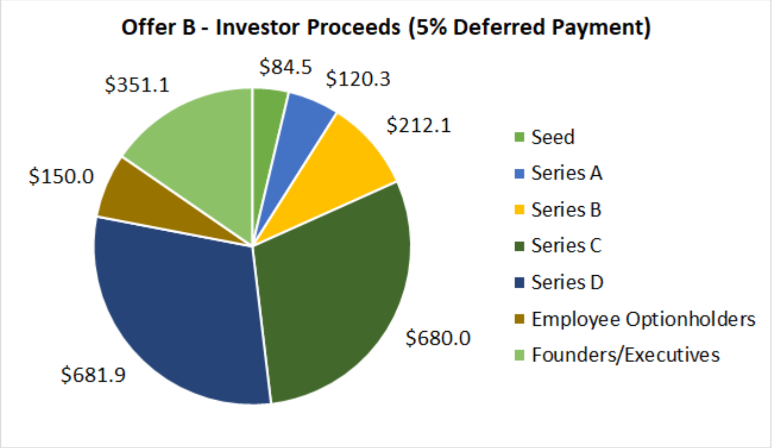
Different Investor Groups Will Favor Offer A or B Based on Their Initial Deal Terms

($ in Millions USD)

Investor Conflicts

- Because of the higher upfront consideration, most VC investor groups will prefer Offer B
- But the largest group of shareholders, the Series C investors, will be neutral because of their 2x liquidation preference; they earn $680 million in either scenario
- The Series C firms invested $340 million at a $1.34 billion post-money valuation; a Series D “down round” at a $756 million post-money valuation followed several years later, and both groups have 2x liquidation preferences
- The employees and management team will prefer Option A since Cardinal will assume unvested options; Offer B terminates all unvested options





Conclusions and Recommendations

Centipede is a Promising SaaS Company with High Growth Potential

A Traditional IPO is Most Likely to Maximize Long-Term Shareholder Value and Investor Proceeds

#1	Centipede's Current Valuation	Currently, Centipede is worth between \$2 and \$3 billion; Cardinal's offer values it appropriately only if both Earnouts are paid in full, but there is uncertainty over the Year 3 Earnout due to the aggressive EBITDA target
#2	IPO vs. SPAC vs. M&A Alternatives	An IPO or SPAC would produce a higher valuation for shareholders (3.5 – 6.5x CY 25 revenue); the time frame to exit would be slower, but since Cardinal's offer is 90% Stock, the M&A option is not necessarily much better in terms of time to exit
#3	Recommended Process and Timing	We recommend starting preparations for an IPO immediately, with an aim to go public in CY 24; the team can kick off a parallel process to locate an appropriate SPAC Sponsor as well
#4	Renegotiated Deal(s) with Cardinal	Given the EPS accretion/dilution and contribution numbers, Cardinal is unlikely to improve its offer substantially; however, if it could offer a slightly higher price under the Offer B deal terms, it might be worth re-engaging in targeted discussions