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**What You Believe About Rates and Equity Markets Matters**

Long Term Yield	Sell Business Now And Reinvest in S&P 500 for 5-YRS									
	Annual Return on the S&P 500 Over the next 5-years									
	-10.0%	-7.5%	-5.0%	-2.5%	0.0%	2.5%	5.0%	7.5%	10.0%	
5.00%	3.5x	4.1x	4.6x	5.3x	6.0x	6.8x	7.7x	8.6x	9.7x	
4.50%	3.5x	4.1x	4.6x	5.3x	6.0x	6.8x	7.7x	8.6x	9.7x	
4.00%	3.5x	4.1x	4.6x	5.3x	6.0x	6.8x	7.7x	8.6x	9.7x	
3.50%	3.5x	4.1x	4.6x	5.3x	6.0x	6.8x	7.7x	8.6x	9.7x	
3.00%	3.5x	4.1x	4.6x	5.3x	6.0x	6.8x	7.7x	8.6x	9.7x	
2.50%	3.5x	4.1x	4.6x	5.3x	6.0x	6.8x	7.7x	8.6x	9.7x	
2.00%	3.5x	4.1x	4.6x	5.3x	6.0x	6.8x	7.7x	8.6x	9.7x	



**Strategy 1: Sell Now and Re Invest in S&P 500**

- Assume Founder sells business today at 6.0x current multiple and reinvests in S&P 500
- Assume an average annual return of 5% on the S&P over the next 5-years
- 5-years from now the investment will be worth 6.0x  $(1 + 5\%)^5 = 7.7x$
- 6.0x EBITDA Multiple assumes 40% EBITDA attrition during transition, 5.00% long term rates and 5.00% Risk Premium.  $6.0x = (1-40\%) / (5.0\% + 5.0\%)$

Long Term Yield	Sell Business 5-YRS From Now									
	Annual Return on the S&P 500 Over the next 5-years									
	-10.0%	-7.5%	-5.0%	-2.5%	0.0%	2.5%	5.0%	7.5%	10.0%	
5.00%	6.0x	6.0x	6.0x	6.0x	6.0x	6.0x	6.0x	6.0x	6.0x	6.0x
4.50%	6.3x	6.3x	6.3x	6.3x	6.3x	6.3x	6.3x	6.3x	6.3x	6.3x
4.00%	6.7x	6.7x	6.7x	6.7x	6.7x	6.7x	6.7x	6.7x	6.7x	6.7x
3.50%	7.1x	7.1x	7.1x	7.1x	7.1x	7.1x	7.1x	7.1x	7.1x	7.1x
3.00%	7.5x	7.5x	7.5x	7.5x	7.5x	7.5x	7.5x	7.5x	7.5x	7.5x
2.50%	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x	8.0x
2.00%	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x	8.6x



**Strategy 2: Wait and Sell 5-YRS from now**

- Assume Founder waits to sell the business 5-years from now hoping that rates come down and multiples recover
- Assume long term rates come down from 5.00% to 3.50%
- Multiple would increase from 6.0x to 7.1x  $= (1-40\%) / (3.5\% + 5.0\%)$
- 5-years from now the investment will be worth 7.1x

Long Term Yield	Sell Now VS. Sell in 5-YRS									
	Annual Return on the S&P 500 Over the next 5-years									
	-10.0%	-7.5%	-5.0%	-2.5%	0.0%	2.5%	5.0%	7.5%	10.0%	
5.00%	-2.5x	-1.9x	-1.4x	-0.7x	0.0x	0.8x	1.7x	2.6x	3.7x	
4.50%	-2.8x	-2.3x	-1.7x	-1.0x	-0.3x	0.5x	1.3x	2.3x	3.3x	
4.00%	-3.1x	-2.6x	-2.0x	-1.4x	-0.7x	0.1x	1.0x	1.9x	3.0x	
3.50%	-3.5x	-3.0x	-2.4x	-1.8x	-1.1x	-0.3x	0.6x	1.6x	2.6x	
3.00%	-4.0x	-3.4x	-2.9x	-2.2x	-1.5x	-0.7x	0.2x	1.1x	2.2x	
2.50%	-4.5x	-3.9x	-3.4x	-2.7x	-2.0x	-1.2x	-0.3x	0.6x	1.7x	
2.00%	-5.0x	-4.5x	-3.9x	-3.3x	-2.6x	-1.8x	-0.9x	0.0x	1.1x	



**Bottom Line: Strategy 1 vs Strategy 2**

- Founders who are even moderately optimistic about public market returns over the next 5-years and/or believe that rates are unlikely to rally much below 2.0% should choose to sell their business today and reinvest in public equity markets all else equal.

\*Source: Crunchbase. Excludes deals with less than \$1mn in funding

We are looking for partners to invest alongside in a selected group of early-stage B2B SaaS firms looking for financing. Please book an appointment on LinkedIn with us to discuss further

**CLLOUDREK**  
HR-TECH  
MARKETPLACE

**ASK**  
**\$1-4MN**

**REV**  
**\$2.0MN-'24**

- CloudRek's online recruitment platform matches employers, recruiters and job seekers. The platform provides a front to end workflow from job posting to recruitment to onboarding and final offboarding for clients. The platform provides transparent pricing, AI-based pre-vetting including candidate interviewing and will reduce staffing costs by 30% and time to hire from months to days by bringing transparency. **Platform expects to grow revenue to \$100MN over the next 4-5 years.**

**EVENTIBLE**  
EVENT-TECH  
MARKETPLACE

**ASK**  
**\$3-5MN**

**REV**  
**\$1.2MN-'25**

- First B2B events review platform where attendees, speakers, and sponsors share authentic experiences which are scored using a proprietary algorithm to rank events in various categories. Revenue sources will include event and travel ticketing, event advertising, corporate subscriptions, monetization of event attendance data. **Platform expects to grow revenue to \$10MN over the next 4-5 years.**

**GENIE AI**  
GEN-AI-ANALYTICS  
NO CODE

**ASK**  
**\$2-5MN**

**REV**  
**\$0.8MN-'24**

- Allows non-technical users to query their proprietary databases and systems using generative-AI technology in a secure manner. Users do not need to write code to extract information from their databases. The company has joined **Nvidia's** inception program and **Oracle's** partner network. **Platform expects to grow revenue to \$8MN over the next 4-5 years.**

**PUBERRY**  
ED-TECH  
Teen Health

**ASK**  
**\$0.5MN**

**REV**  
**\$1.0MN-FTM**

- Gamified app for kids approaching and going through puberty. Users share current state of emotional and physical well being and ask questions that are answered by verified health experts. Complete daily check-ins to create self awareness and emotional intelligence. **Piloted at 5 NY/NJ schools. Partnering with Aunt Flow to integrate into schools and potentially onboard 30K in 2024. Platform expects to grow revenue to \$11MN over the next 4-5 years.**

**RICOVR**  
HEALTH-TECH  
Medical Testing

**ASK**  
**\$1-2MN**

**REV**  
**\$3.4MN-'25**

- Developed a non-invasive, highly accurate and portable **diagnostics platform** with applications in many areas including **testing for drugs of abuse, maternal health, and infectious diseases.** Company's **first product is a marijuana test** for the workplace and roadside. Initial applications at state and federal transportation level and at corporations. **Platform expects to grow revenue to \$135MN over the next 4-5 years.**

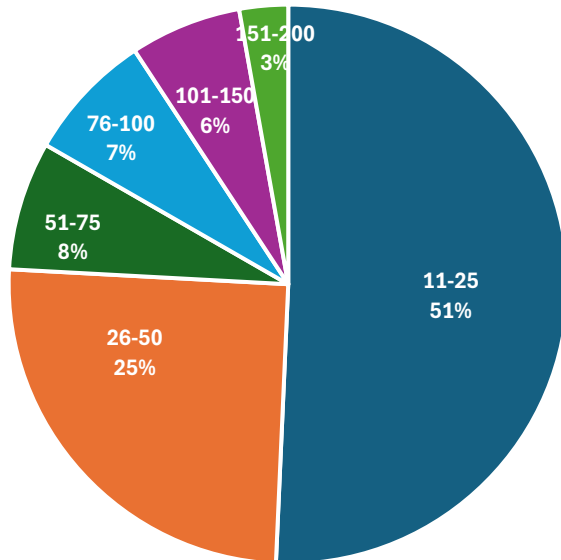
Cities in Tier 1 and Tier 2 cities like Denver (CO), Colorado Springs (CO), Salt Lake City (UT), and Las Vegas (NV) have large number of MSPs and are also have SMB growth profiles that are at or above average.

- In our January-April 2024 Newsletters we provided a brief overview of the IT MSP space in the greater NY, FL, IL and Mid Atlantic state areas.
- This month we take a closer look at IT MSPs in the Mountain States including CO, UT, AZ, and NV.
- The key difference between the Mountain States and the other regions we have studied lies in the dispersion of economic activity which is much more concentrated in the Tier 1 and Tier 2 cities for the Mountain States than it is for other major centers. Roughly 80% of MSPs in the region and 60% of the SMBs in the region lie in the top 20 states compared with 70% and 40% respectively for the other regions.
- We estimate there are 497 firms in the Mountain State area providing some degree of Managed IT services. 41% located in Colorado, 34% in Arizona, 13% in Utah, and 12% in Nevada.
- We excluded IT firms with 10 or fewer employees. 75% of the remaining MSPs have been 11-50 employees.
- 55% of the MSPs have shown stable y-o-y headcount growth, 34% have grown more than 10%, while 11% have shrunk by more than 10%\*\*.
- To assess how attractive it might be to target an MSP business in a city, we look at two key metrics – SMB per MSP and SMB Growth %
  - SMB per MSP: We define this as number of Small and Medium Sized Businesses (SMBs) per MSP. The greater the number of SMBs per incumbent MSP the more desirable it would be to target an MSP in a city. Across all top 20 MSP cities\*\*\*, the average value for this metric is 634.
  - SMB Growth%: We define this as the fraction of SMBs in a city that grew y-o-y headcount by over 10%. The greater this fraction the more desirable it would be to target an MSP in the city. Across all top 20 MSP cities, the average value for this metric is 13%.
  - Henderson (NV) has the highest SMB per MSP count at 1333 while Lehi (UT) has the highest SMB Growth % at 25%.

\* Mountain State area is defined to include CO, AZ, NV, and UT. \*\*We excluded firms with 10 or fewer employees for this study. \*\*\*Firms exhibiting more than 10% y-o-y decrease or increase in headcount growth are categorized as Distressed or Growing respectively. The remaining firms are categorized as Stable.

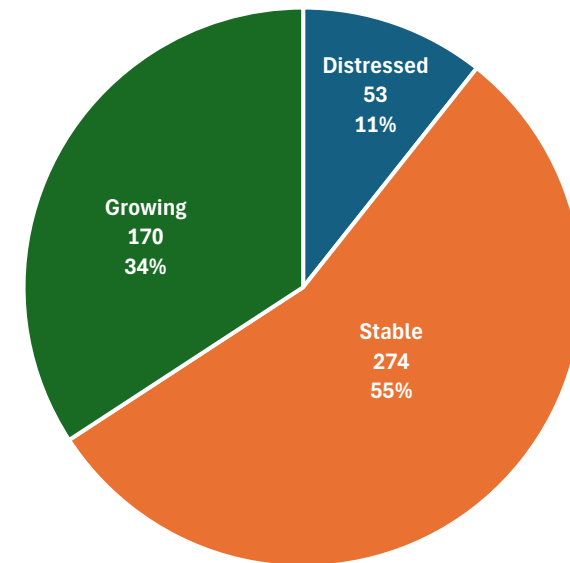
- We estimate there are 497 MSPs in the Mountain State\* area providing some degree of Managed IT services.
- 51% have 11-25 employees, 25% have 26-50, 15% have 51-100 and 9% have over 100 employees.\*\*
- 55% of the MSPs have shown stable y-o-y headcount growth, 34% have grown more than 10%, while 11% have shrunk by more than 10%\*\*\*.

MSPs By Employee Count in Mountain States  
(497 Firms)



75% of MSPs  
have between  
11-50 employees  
~  
\$2MN - \$12.5MN  
in Revenue

MSP by Headcount Growth in Mountain States  
(497 Firms)

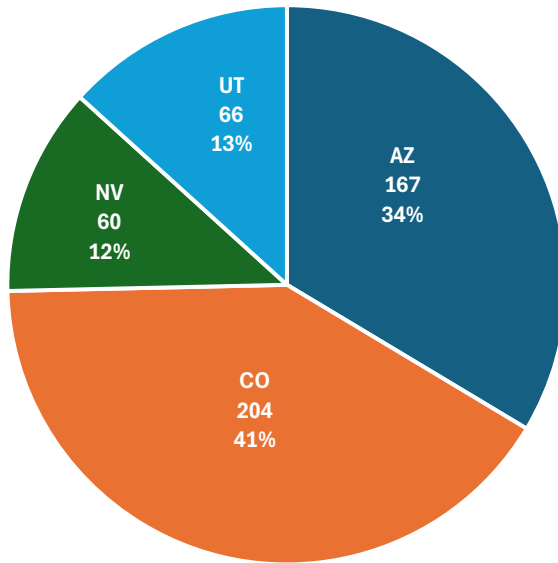


\*Source: Linked-In.

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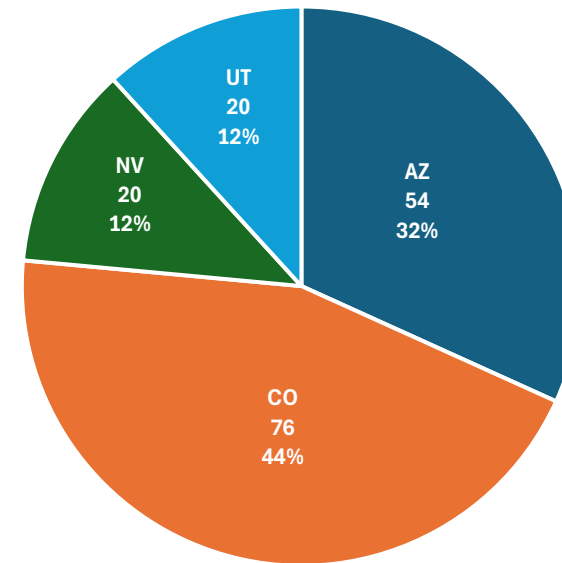
- We estimate there are 497 firms in the Mountain State area providing some degree of Managed IT services. 41% located in Colorado, 34% in Arizona, 13% in Utah, and 12% in Nevada.
- The share of MSPs experiencing over 10% y-o-y headcount growth in any state is roughly proportionate to the overall share of MSPs headquartered in the state.\*\*.

MSPs By State in Mountain States  
(497 Firms)

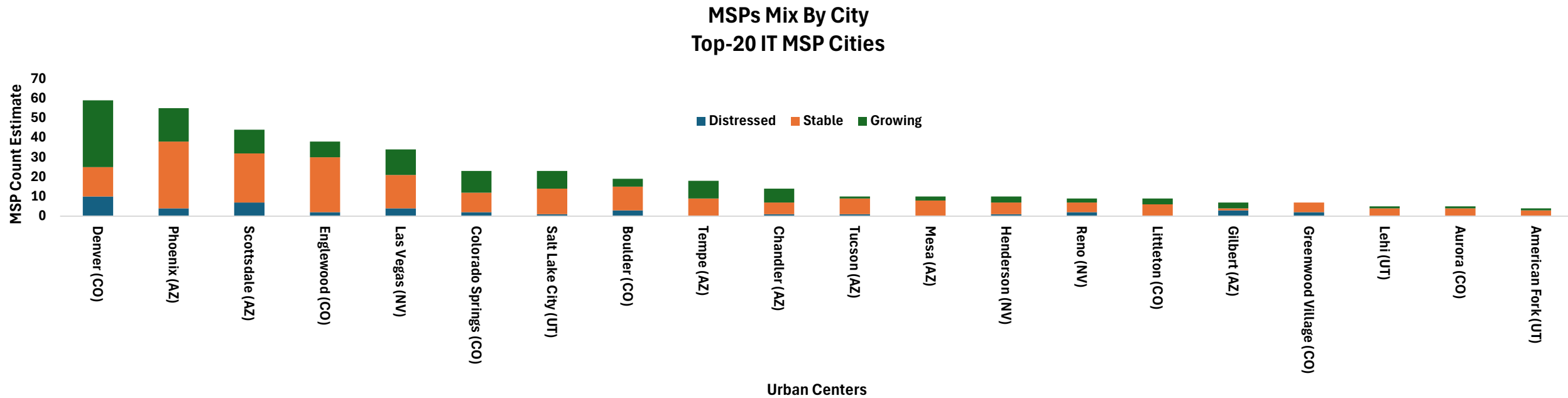


Share of MSPs experiencing growth in any state is in line with the overall share of MSPs in that state.

MSP Share That is Growing in Mountain States  
(497 Firms)



- Denver (CO), Phoenix (AZ), Scottsdale (AZ), Englewood (CO) and Las Vegas (NV) have the largest number of MSPs.
- The Top-20 MSP cities have 403 MSPs, about 80% of the total MSP count in the greater Mountain State area\*.

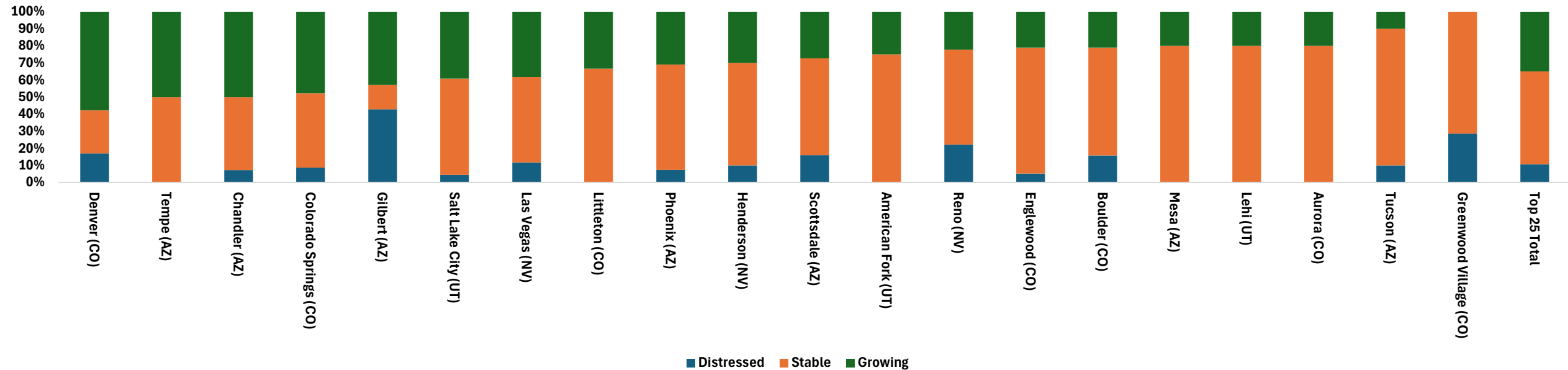


\*Source: Linked-In.

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- Denver (CO), Colorado Springs (CO), Salt Lake City (UT), and Las Vegas (NV) have large number of MSPs and also have SMB growth profiles that are at or above average.

**Growth Mix By City**  
**Top-20 IT MSP Cities**



\*Source: Linked-In.

\* Mountain State area is defined to include CO, AZ, NV, and UT. \*\*We excluded firms with 10 or fewer employees for this study. \*\*\*Firms exhibiting more than 10% y-o-y decrease or increase in headcount growth are categorized as Distressed or Growing respectively. The remaining firms are categorized as Stable.

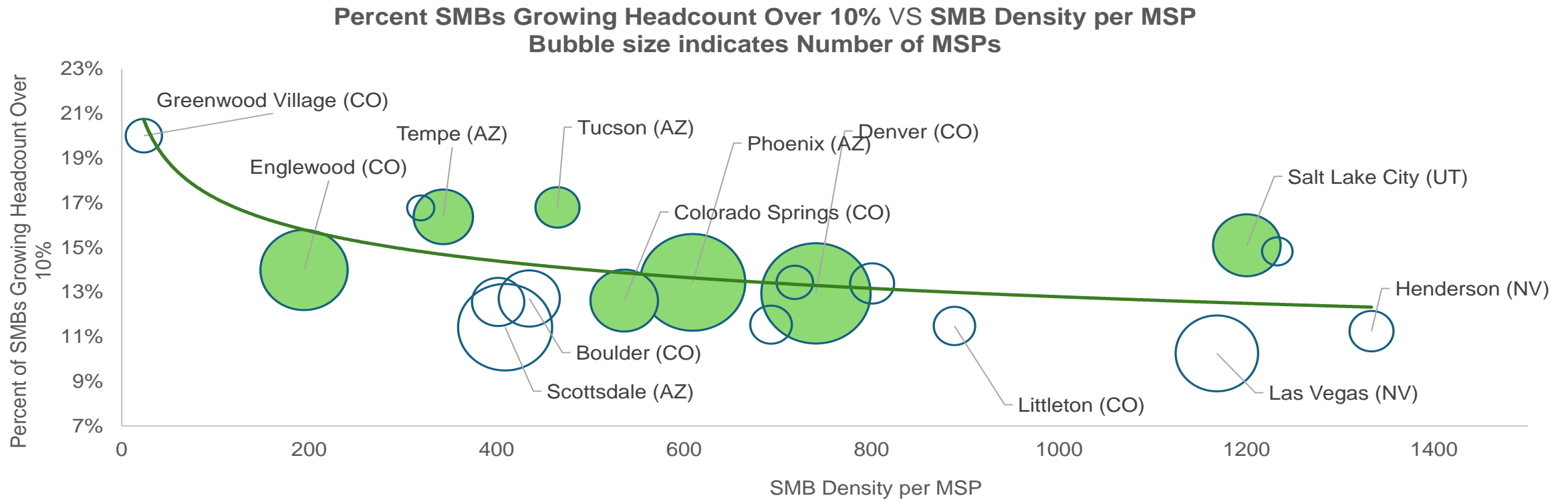


- To assess how attractive it might be to target an MSP business in a city, we look at two key metrics
  - SMB per MSP: The number of Small and Medium Sized Businesses (SMBs) per MSP. The greater the number of SMBs per incumbent MSP the more desirable it would be to target an MSP. Across all top 20 MSP cities, the average value for this metric is 634.
  - SMB Growth%: The fraction of SMBs in a city that grew y-o-y headcount by over 10%. The greater this fraction the more desirable it would be to target an MSP. Across all top 20 MSP cities, the average value for this metric is 13%
  - Henderson (NV) has the highest SMB per MSP count at 1333 while Lehi (UT) has the highest SMB Growth % at 25%**

Top 20 MSP Towns	SMB (1-500) / MSP	% Large MBs*	SMB Growth%	MSP Count
Denver (CO)	↑ 741	→ 13%	● 13%	▲ 59
Phoenix (AZ)	→ 609	→ 14%	● 13%	▲ 55
Scottsdale (AZ)	↓ 409	↓ 11%	● 11%	▲ 44
Englewood (CO)	↓ 195	↑ 19%	● 14%	▲ 38
Las Vegas (NV)	↑ 1168	↓ 9%	● 10%	▲ 34
Colorado Springs (CO)	→ 536	↓ 11%	● 13%	▲ 23
Salt Lake City (UT)	↑ 1200	↑ 17%	● 15%	▲ 23
Boulder (CO)	→ 435	↑ 15%	● 13%	▬ 19
Tempe (AZ)	↓ 343	↑ 19%	● 16%	▬ 18
Chandler (AZ)	↓ 402	→ 14%	● 13%	▬ 14
Henderson (NV)	↑ 1333	↓ 10%	● 11%	▬ 10
Mesa (AZ)	↑ 801	→ 13%	● 13%	▬ 10
Tucson (AZ)	→ 465	→ 14%	● 17%	▬ 10
Littleton (CO)	↑ 888	↓ 12%	● 11%	▼ 9
Reno (NV)	→ 693	→ 12%	● 12%	▼ 9
Gilbert (AZ)	→ 718	↓ 10%	● 13%	▼ 7
Greenwood Village (CO)	↓ 24	↑ 25%	● 20%	▼ 7
Lehi (UT)	↓ 388	↑ 23%	● 25%	▼ 5
Aurora (CO)	↑ 1233	↓ 11%	● 15%	▼ 5
American Fork (UT)	↓ 319	↑ 17%	● 17%	▼ 4
<b>Top 25 Total</b>	<b>634</b>	<b>13%</b>	<b>13%</b>	<b>403</b>

\* % Large MBs is the proportion of SMBs with 11-500 employees

- Cities like Denver (CO), Salt Lake City (UT), Phoenix (AZ) and Colorado Springs (CO) are the sweet spot to target MSPs. They have reasonable scale and either have higher than average SMB count per MSP, or they are cities with higher-than-average SMB growth profile.



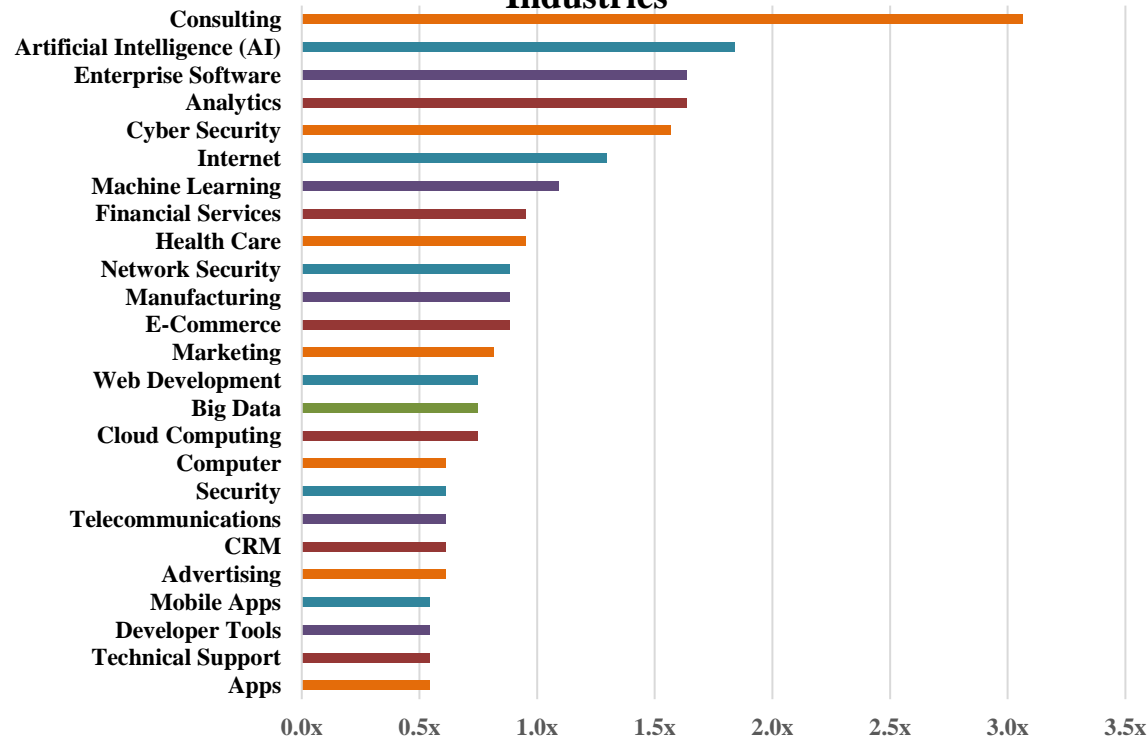
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## Software and IT M&A and Funding Activity Picked up in May 2024 as valuations normalized.\*

- The contraction in SaaS multiples that started in Mar 2024 continued in May. SaaS multiples have declined 20% from peak levels and in combination with greater resolution around interest rates is leading to the pickup in M&A and funding activity.
- 349 M&A transactions were announced globally in May 2024, up from 319 deals announced in April 2024 and up from a monthly average pace of 281 transactions over the LTM period ended May 2024.
- 721 private software and IT companies received some form of funding in May, up 68 (10%) from 653 in April and up 38 (6%) from the average monthly rate of 683 over the trailing twelve months (TTM) ending May 2024. Funding activity in May 2024 is still below activity in May 2023 when 798 companies received funding.
- Artificial Intelligence (AI) and Machine Learning (ML) were the dominant theme for funded companies in May, no different from the TTM.
- VC funding increased to 633 in May 2024 from 585 in April 2024 up 8%. VC funding activity in May 2024 is still below activity in May 2023 when 685 companies received funding.
- Changes in global funding activity were mixed across regions although regional shares remained mostly in line with TTM average levels. North America, Western Europe and Australasia accounted for 47%, 16% and 13% of total funding activity in April with the Rest of the World accounting for the remaining 24%.

AI/ML, Analytics, Consulting, Cyber Security and Enterprise Software were key M&A themes in Apr-24

Relative Frequency of Occurrence of Top 25 Acquiree Industries



\*Source: Crunchbase.

## Notable Service Provider and Software Deals of the Month

### Recruitment Services



Acquiror – Kelly Services



Target – Motion Recruitment Partners

- Kelly Services acquired Motion Recruitment Partners for \$425mn plus a potential \$60mn earnout payment conditional on gross profit hitting certain thresholds over the next year.
- MRP is a leading provider of staffing, consulting and Recruitment Process outsourcing (RPO) services in the technology, telecommunications and government sectors in NA.
- Kelly Services is a leading specialty talent solutions provider that helps companies recruit and manage skilled workers. As of 2023 it had revenues of about \$4.8bn.

### Software Services



Acquiror – Permira (PE)



Target – Squarespace

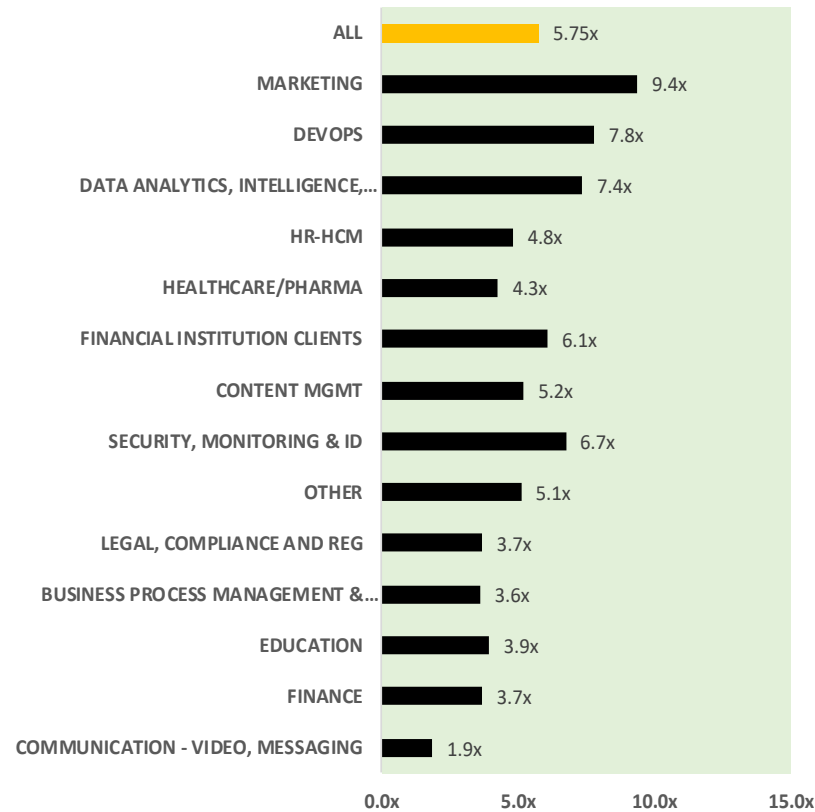
- Squarespace, a design-driven platform that helps small businesses build brands and scale their online businesses, was acquired in an all-cash transaction by PE firm Permira in a transaction valuing Squarespace enterprise value at about \$6.9bn. The target had revenue and EBITDA of \$1.05bn and \$128mn as of FYE Dec 2023. Anthony Casalena, CEO of Squarespace will continue as CEO.
- Squarespace's products range from websites, domains, ecommerce, and marketing tools, to tools for scheduling with Acuity, creating and managing social media presence with Bio Sites and Unfold, and hospitality business management via Tock.

## The contraction in SaaS multiples continued in May 2024 despite the continued rally in equity markets which was largely driven by a handful of stocks like AMZN, GOOG, META, MSFT, NVDA

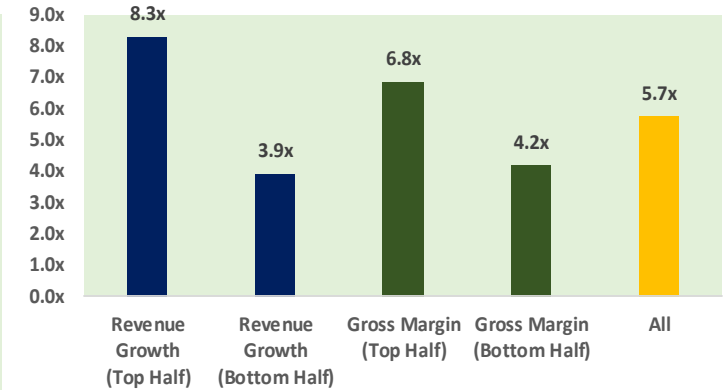
- The contraction in SaaS multiples that started in Mar 2024 continued in May. The average LTM revenue multiple for publicly traded SaaS companies retreated to 5.75x down from its peak of 7.25x in Feb 2024 but still up from its LTM trough of 5.6x in October 2023.
- SaaS multiples have declined 20% from peak levels and in combination with greater resolution around interest rates is leading to the pickup in funding activity we reference elsewhere in this Newsletter.
- Multiples contracted for Cyber, Data Analytics, DevOps, HR and Healthcare and expanded for industry verticals like Financial Institution Clients. Despite the contraction Cyber, Data Analytics and DevOps are still trading at premium multiples relative to the overall SaaS index.
- The difference in multiples between Top Half and Bottom Half companies by Revenue growth and Gross Margin remains elevated. Multiple differences indicate the extent to which the market is differentiating between the companies based on their growth and margin.
- There is a 4.4x multiple difference between top half and bottom half of companies when sorted by revenue growth. There is a 2.6x multiple difference between top half and bottom half of companies when sorted by gross margin.

- The aggregate SaaS TTM Revenue Multiple contracted about 0.25 pts in May 2024 to **5.75x** from **6.02x** in Apr 2024
- SaaS TTM multiple contraction was in contrast with the broad stock market rallying. SPY rallied 4.8% and QQQ rallied 6.4% in May. The rally in broader indexes is being driven by outperformance in a few large technology stocks – Alphabet (Google), Meta (Facebook), Microsoft and NVIDIA.
- **Sector Mattered:** Multiples contracted for Horizontals like Cyber, Data Analytics, DevOps, HR and Healthcare and expanded for Verticals like Financial Institution Clients
- **Quality Mattered:** The difference in multiples between Top Half and Bottom Half companies by Revenue growth and Gross Margin remained about the same

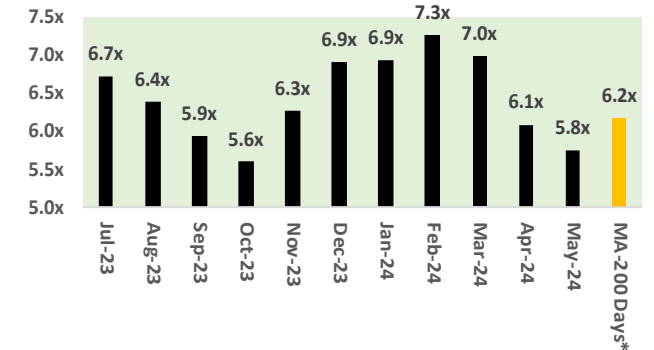
Revenue Xs By SaaS Sector (ME May 2024)



SaaS Revenue Xs (ME May 2024) By Quality



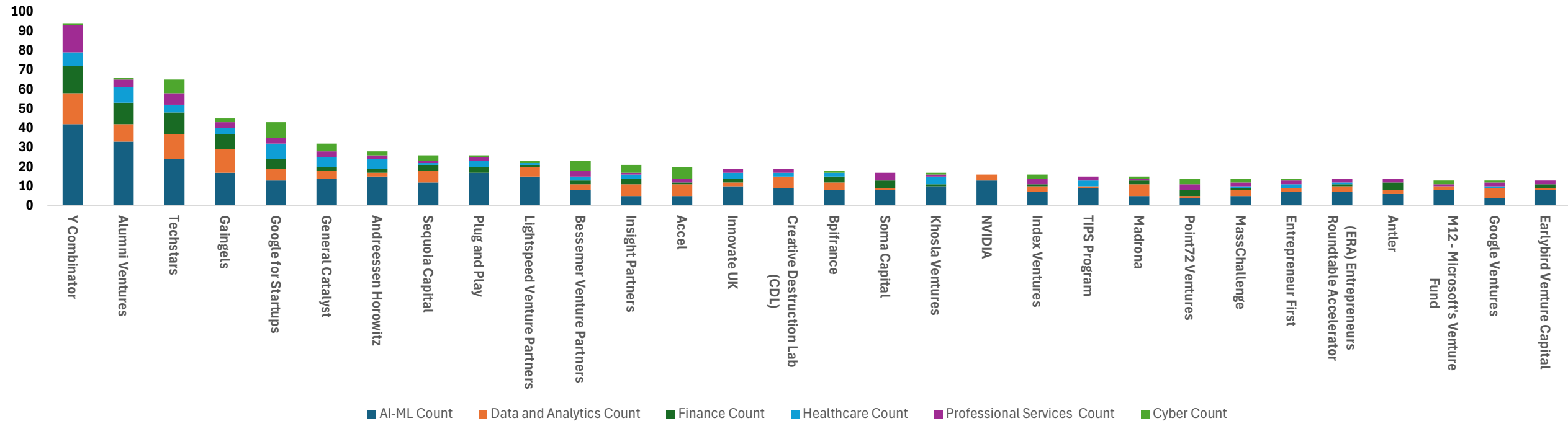
Recovery in SaaS Revenue Xs Stalled in May 2024



\*Source: Yahoo Finance.

Over 4,600 funds globally provided some form of funding to early-stage companies YTD through May 2024. The top 30 investors accounted for about 8.5% of the total funding by count.

**Top Investors by Count in Key Software and IT Sectors (YTD Through May 2024)**

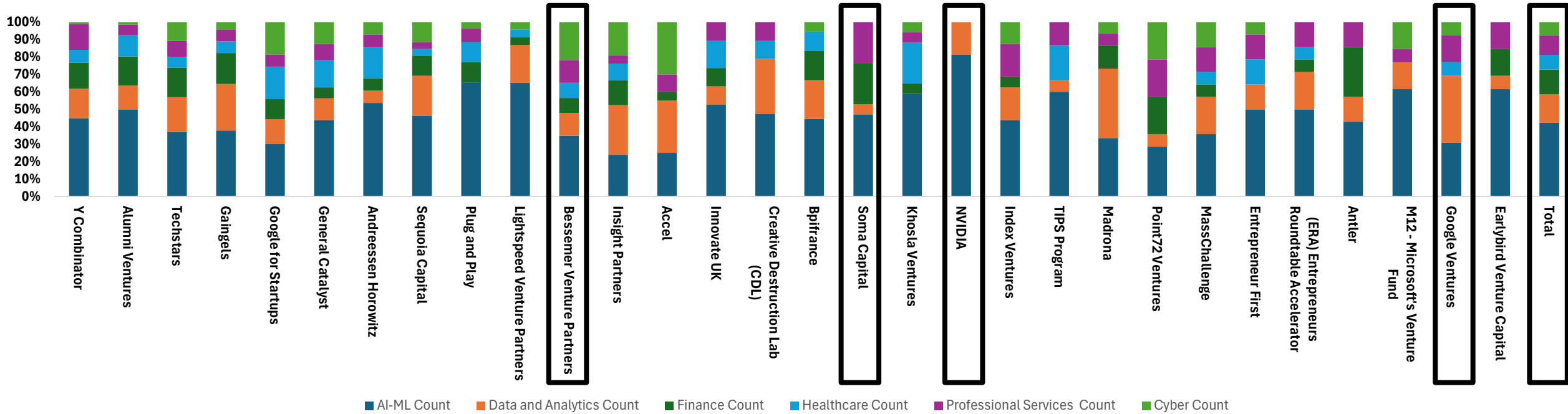


\*Source: Pitchbook.



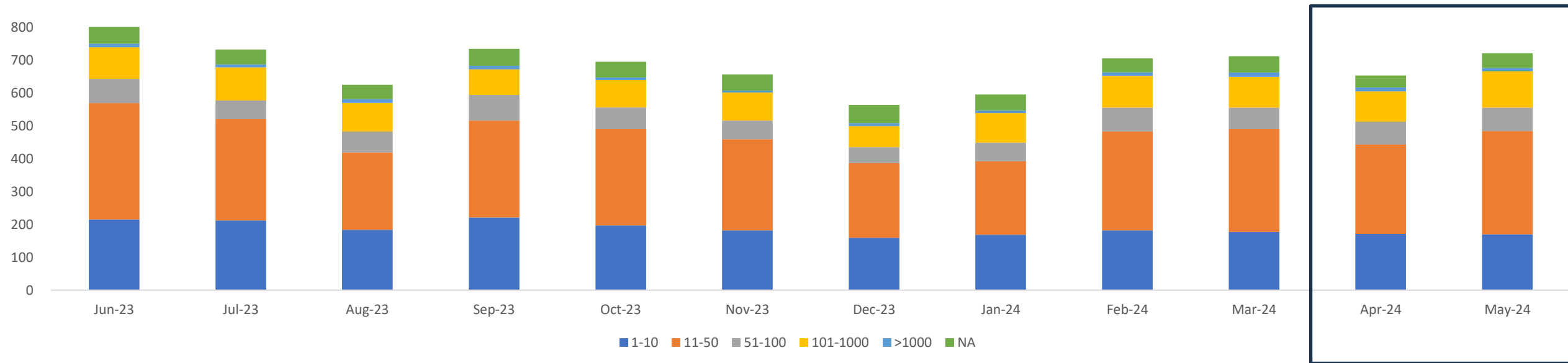
At the aggregate level funding across key sectors was diversified. But some firms chose to focus on specific themes. For example, 80% of NVIDIA’s investments were in AI-ML, 38% of Google Venture’s investments were in Data Analytics, 75% of AWS Accelerator’s investments were in Cybersecurity and 24% of Soma’s investments were in Finance.

Investment Mix by Count in Key Software and IT Sectors (YTD Through April 2024)



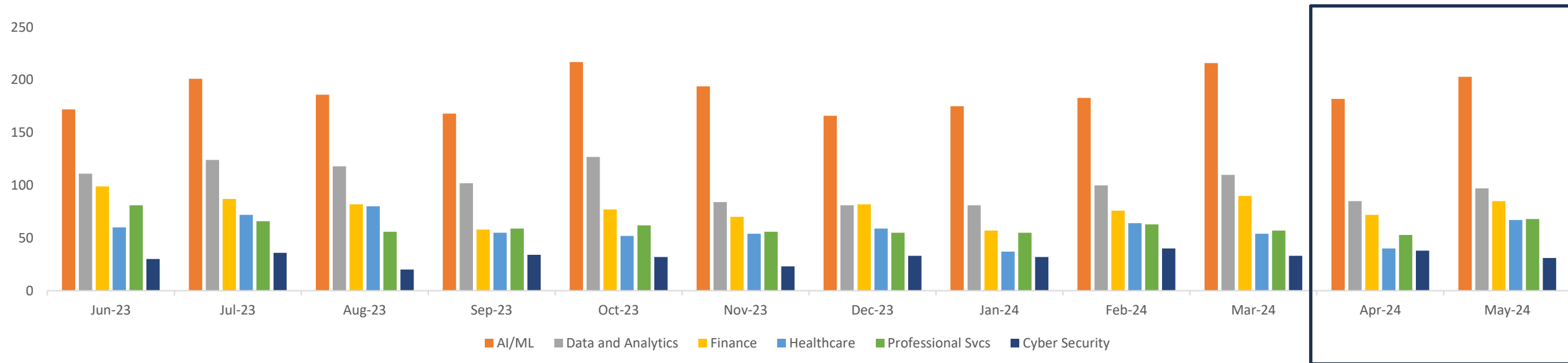
\*Source: Pitchbook.

### Funding for Software and IT Firms By Firm Headcount: Increased 10% from Levels in April 2024



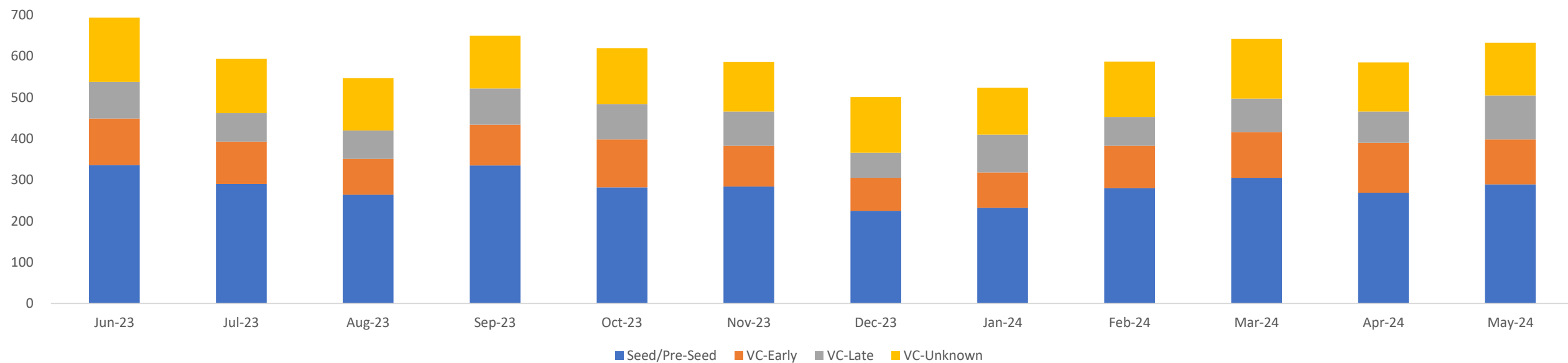
721 private software and IT companies received some form of funding in May, up 68 (10%) from 653 in April and up 38 (6%) from the average monthly rate of 683 over the trailing twelve months (TTM) ending May 2024. Funding activity in May 2024 is still below activity in May 2023 when 798 companies received funding.

Funding for Software and IT Firms By Industry Mix: AI/ML Continue to be the Dominant Theme



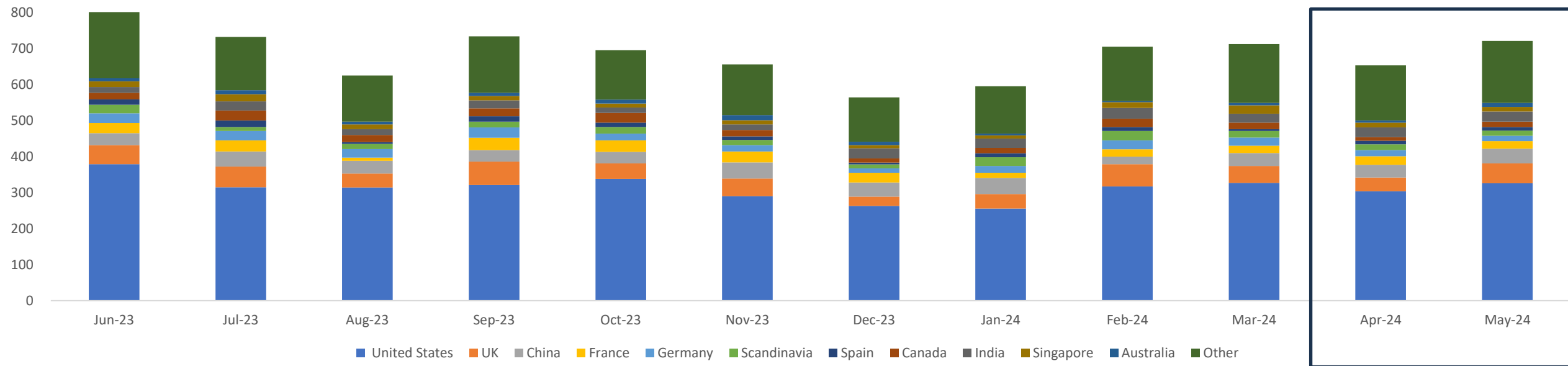
Artificial Intelligence (AI) and Machine Learning (ML) were the dominant theme for funded companies in May, no different from the TTM. AI and/or ML were mentioned as one of the capabilities for 37% of the funded companies in April, up sharply from 29% of the funded companies over the TTM.

**VC Funding for Software and IT Firms By Stage over TTM: VC funding increased 8%; 63% Early Stage**



VC funding increased to 633 in May 2024 from 585 in April 2024 up 8%. The share of Early-stage VC (Angel, Seed and Series-A) funding was down slightly at 63% in May 2024, from 67% in April 2024. Early-stage VC funding is in line with its TTM share of 64%. VC funding activity in May 2024 is still below activity in May 2023 when 685 companies received funding.

### Funding for Software and IT Firms By Regional Mix: NA (47%), W. Europe (16%), Australasia (13%)



Changes in global funding activity were mixed across regions although regional shares remained mostly in line with TTM average levels. North America, Western Europe and Australasia accounted for 47%, 16% and 13% of total funding activity in April with the Rest of the World accounting for the remaining 24%.



Madhur has over 20 years of experience in middle market IT and software Mergers & Acquisitions and Consulting. Prior to joining Excendio, Madhur worked in various senior transaction advisory and middle market SME roles at firms such as Citibank, Barclays, Lehman Brothers, New York Life, KPMG, Moody's and KBRA.

He has worked extensively with companies in the \$10MN-\$1BN revenue range across a range of strategic initiatives including exits and acquisitions, working capital optimization, IT implementation, financial planning, valuation and debt restructuring.

Middle market businesses are personal and can often be someone's passion and life's work. As such, Madhur focuses not just on the specifics of the transaction, but also on how it fits into the life goals of the owner and the importance of career transition for them.

Madhur will often connect founders looking to exit with the right industry participants to ensure founders can confidently exit knowing they've maximized their business's value, gaining the clarity, confidence, and peace of mind they deserve.

Madhur has a PhD in Financial Economics from UC Berkeley, Haas School of Business. He lives with his wife and son in New Jersey. He loves tennis, wine, the outdoors and spending time with family and friends.

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