Market Positioning

December 22, 2019

Acquisition Thesis

Following our initial research and analysis period, Basis State has formed its opinion of who would acquire SampleCo, and the value the asset would present to an acquirer.

Assets of Interest

1. **Code Base**
   SampleCo has a complete standalone application that can be added as a feature to an existing suite or product.

2. **Audience Footprint**
   SampleCo has ‘interacted’ with 6MM users in the past 2 years. Each user was issued a SampleCo ID/cookie. 25-50% of the cookies are likely still addressable.

3. **Contracts**
   SampleCo has 22 active customers that represent $120K in ARR. All contracts are transferrable to an acquirer. But given low value of contracts and high churn, most acquirers will not assign a material value to these contracts.

Value to an Acquirer

1. **Conversion Lift**
   SampleCo increases site conversion.
   SampleCo has run A/B tests showing that the presence of its widget on an ecommerce site lifts conversion by 11%. Lift is achieved through two mechanisms:
      - By providing early feedback on new products, enabling the most promising products to be featured earlier
      - By creating another way to identify buying intent, so the user can be reminded of the product on the site or retargeted

2. **Ratings/Reviews Revenue**
   SampleCo would increase activity in ratings & reviews apps.
   SampleCo basically provides a low-friction review. Users submit feedback to SampleCo at 10X the rate they submit reviews. The SampleCo feature could be added to any ratings/reviews app to increase interaction. For companies that monetize interaction (ad revenue), SampleCo provides clear, quantifiable lift.

3. **Ad Revenue**
   SampleCo identifies users with a propensity to convert or interact with ads.
   In an analysis of SampleCo user data, we determined that users that interact with SampleCo consume 5X the amount of web content as visitors that do not interact with SampleCo. While we can't ascertain that SampleCo is the cause of the difference, we can be certain that as users, SampleCo interactors generate more ad revenue than non-interactors. This knowledge could fuel retargeting or ad optimization decisions.

Target Segments

Basis State has identified the following segments for outreach.

Segment	Qualifier	Est. Potential Acquirers	Value Proposition		
			Conversion Lift	Ratings/Reviews Revenue	Ad Revenue
E-Commerce Merchants	Sales >$100MM and high product count	80			
E-Commerce Tools & Suites	Sales >$5MM	30			
Ratings & Reviews Apps	Sales >$5MM	10			
Web Publishers	Top 100, ad revenue model	50			
Web Publishing Tools & Suites	Sales >$5M	40			
Ad Tech	Sales >$20M, specifically content-driven ad tech	20			
	TOTAL	**230**			

Outreach Strategy

Principal Contact

As with most engagements, the preferred point of contact at each company is as follows:

1. If company has M&A function: Corporate or Strategic Development Head
2. If not,
    - Companies <500 employees: CEO
    - Companies >500 employees: relevant division or product head

Outreach Messaging

Basis State will create a differentiated value proposition, based on the 3 identified earlier, for each prospect. These value propositions will be used in outreach to ensure we are speaking to prospect in terms that are relevant.

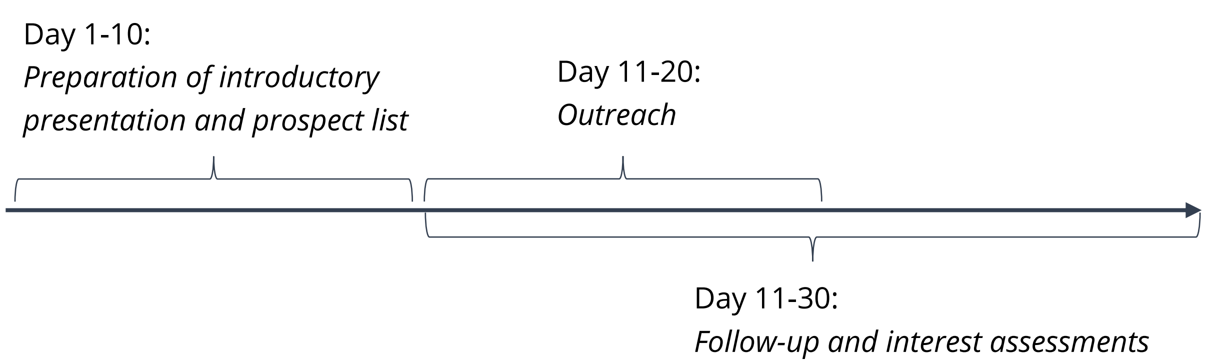
Collateral

Basis State will create a 5-slide introductory presentation for prospects. The content will be available before any NDAs are signed, so while it will not be posted by Basis State publicly, it will be distributed somewhat freely.

The presentation will include the following:

- Company overview including history, summary financials, and key personnel
- Technology overview
- Information on key value propositions for acquirers

Outreach Timeline



Valuation Guidance

Methodology

Basis State uses a three-pronged valuation to give us a range of expected value.

It should be noted that our valuation uses assumptions about the buyer, and is designed to give us some expectation of a 'market price'. Ultimately, value will depend on the acquirer's individual circumstances and use case for the acquisition.

- **Run-Off Model**
  The value of cutting operations to the bare minimum to monetize current contracts until they churn or their aggregate value reaches a minimum.

- **Accelerate Roadmap Model (Low and High)**
  The value of the asset as a new feature of an acquirer's software. Model captures the value of bringing the feature to market faster via acquisition versus building it in-house.

Run-Off Model (Base Case)

Key Assumptions		Value	
Current ARR	$120K	Value of Contracts	$275,000
Annualized Churn Rate	40%	Cost to Service Contracts	-$110,000
Gross Margin %	60%		
Minimum Level to maintain	$10K	**$165,000**	
Years to maintain	5		

Accelerate Roadmap (Low)

Key Assumptions		Value	
Dev Hours	3,120	Code Replacement	$241,000
PM Hours	416	Acquired Code Adjustment	-$72,000
TTL (Weeks)	52	Acceleration Opportunity	$550,000
Acquired Code Adjustment	-30%	**$720,000**	
Acquirer Revenue Basis	$5MM		
Conversion Lift from Feature	11%		

Accelerate Roadmap (High)

Key Assumptions		Value	
Dev Hours	3,120	Code Replacement	$241,000
PM Hours	416	Acquired Code Adjustment	-$72,000
TTL (Weeks)	52	Acceleration Opportunity	$1,100,000
Acquired Code Adjustment	-30%	**$1,270,000**	
Acquirer Revenue Basis	$10MM		
Conversion Lift from Feature	11%		

Appendix

Accelerate Roadmap Model Explained

Basis State uses various proprietary models to value software assets. This particular asset was valued using the Accelerate Roadmap model, which applies when the primary value of the asset is its tech and IP.

- **Code Replacement & Acquired Code Adjustment**
  Minimum expense for the typical potential acquirer to develop and test the code from scratch, including development and project management costs. Cost is adjusted to arrive at valuation to account for the fact that code developed externally carries an integration cost.

- **Direct Revenue**
  Transferrable customer contracts, adjusted by a percentage that would not be willing to migrate and normal annual churn.

- **Acceleration Opportunity**
  The financial impact that results from placing the feature or product in-market sooner than if it were developed internally. Impact can result from direct incremental revenue from the product itself, or a change in metrics (depending on a foreseen use case). Example metrics might include churn reduction, conversion rate increase, or manual processing time reduction.

Salability Criteria

Basis State interviewed the SampleCo founders, reviewed their financial statements, and performed a thorough analysis of their key metrics to standardize the reporting and accuracy of the 12 metrics below. These metrics were included in the Outreach Collateral and informed the Acquisition Thesis. Below are the results including the impact on the salability of SampleCo:

Criteria	Metric	Impact	Commentary
Monthly Recurring Revenue	$10K/month	Negative	SampleCo also sells $3K/month in services to enable activity. Acquirers not likely to place much value on renewing $120K of ARR.
Avg. Revenue Per Account	$2K/account	Neutral	
Revenue Churn Percentage	40%/year	Negative	High churn will discount value placed on existing contracts
Revenue Concentration	Top 20% represents 40% of revenue	Positive	Revenue concentration is low
Gross Margin	60%	Negative	Below industry standards, clients require significant help in onboarding and maintaining usage
CAC/LTV	1.5:1	Negative	Below 3:1 industry average. LTV driven down by high churn
Activity/Usage	Customers average 12 sessions a month	Neutral	
Activity/Usage Concentration	Top 20% represent 90% of activity	Negative	This implies that a large percentage of customers are not active in the product
Lift Metrics/Customer ROI	11% lift to conversion	Positive	Methodology behind A/B test is defensible, results are significant
Seasonality of Renewals	None	Positive	Spread evenly through year on monthly billing, attractive to acquirer
Key Employees Retained	Yes	Positive	All key employees willing to work for acquirer
IP Ownership/ Assignment	Yes	Positive	All employees and contractors sign standard offer letters and IP agreements