UNION SQUARE ADVISORS

2021 OUTLOOK

A Time of Transition

Contents

Overview

Union Square Advisors is a leading technology-focused investment bank that supports clients in pursuing and executing their most important strategic transactions.

Our team includes former heads of the world's largest technology investment banking practices, plus senior professionals with deep experience providing superior advice to boards of directors and management teams in multiple arenas. We specialize in strategic relationships and corporate development, mergers & acquisitions, buyouts, restructurings, special situations, public and private capital raises, capital structure optimization, liability management and other capital markets transactions. With extremely deep sector knowledge and strong relationships throughout the tech ecosystem, our business centers on advising the leading companies and pools of capital across the enterprise technology universe.

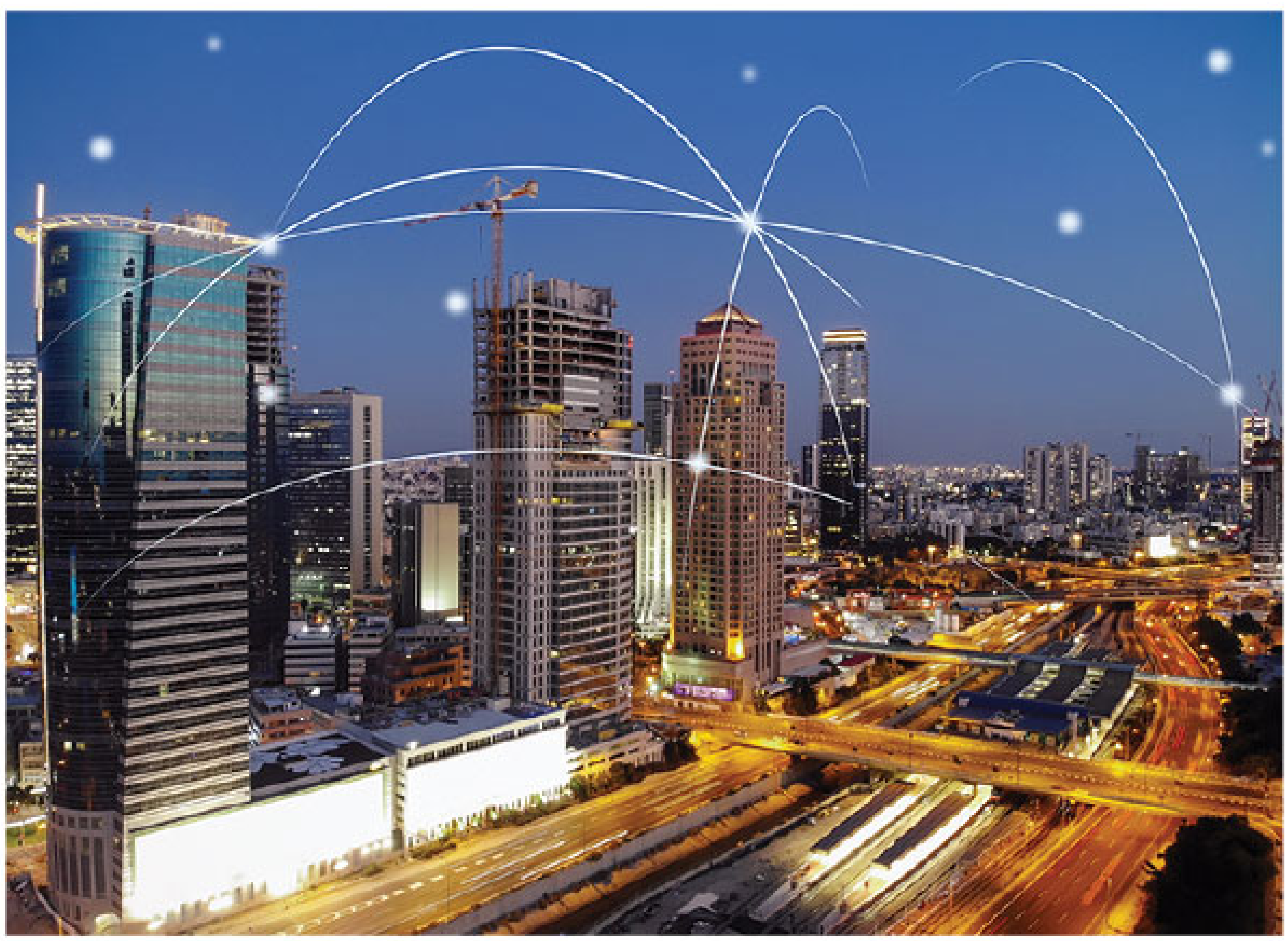
Since its founding in 2007, Union Square Advisors has advised on 125 transactions, with total transaction value in excess of $105 billion.

Since its founding in 2007, Union Square Advisors has advised on 125 transactions, with total transaction value in excess of $105 billion.

Technology Coverage

Within the technology sector, we focus on companies and transactions in the Software, IT Infrastructure and Internet & Digital Media markets, including those driven by such trends as:

- *Enterprise Digital Transformation*
- *Big Data and Advanced Analytics, powered by AI/ML*
- *The Morphing Security and Identity Landscape*
- *Next-Generation FinTech, Payments, Procurement and Risk Management*
- *NPM/APM, Infrastructure Visibility and ITOA*
- *IT-as-a-Service Across Layers 4 – 7*
- *Converged and Edge-Based Solutions for Faster and More Secure Computing*
- *AdTech Meets MarTech*
- *Evolving Consumer Needs and Customer Experience Management Responses*
- *Changing Human Capital Management Requirements*
- *Mobile-First Applications*
- *Vertical Marketplace Models*



Welcome

A Time of Transition

Carter McClelland
Co-Founder and Chairman

Ted Smith
Co-Founder and President

Orson Welles, the legendary Hollywood director, once said: "If you want to tell a story with a happy ending, it depends on where you end the story." It's such a provocative statement, and one that perfectly sums up the tech M&A and financing experience in 2020.

The year started well with strong transaction volumes, but then it cratered in the spring as the full impact of the pandemic took hold. Had the story of 2020 stopped there it would have been a tragedy, compounded by an ongoing slew of economic and social disruptions. Wisely, most tech companies and their capital providers took swift action to prepare for the worst: finances were restructured, strategies revisited, and contingency plans implemented.

The rapid response and clear-sightedness paid off. Soon after, it became clear that tech companies not only could withstand the massive economic and social disruption caused by the pandemic, but that they were critical to their customers' being able to do so as well. Even the most skeptical investor could appreciate the resilience and adaptability of the technology sector, which helps explain why valuations returned to record highs following a brief (albeit precipitous) drop in March and April.

We recognize that other parts of the economy have not been as fortunate, with many industries facing a much longer road to recovery. It's a further reminder that the world's evolution to what McKinsey & Co. is calling "the next normal" won't be a return to business as usual. New realities – like remote working, smaller office footprints, and reduced business travel – are here to stay. But there is a silver lining for the providers of critical enabling technologies, such as video streaming & optimization, human capital management and collaboration, virtual reality, enhanced e-commerce and payments, industrial AI, healthcare management, and biometrics.

Technology will provide the tools that guide us through this time of transition – which is far from over.

Despite the shifting sands in Washington D.C., we anticipate strong bipartisan support for economic recovery, so we can expect stable interest rates and new rounds of stimulus. These factors will only brighten the outlook for technology deal making in 2021.

By mid-2021, COVID-19 vaccines should be widely available. After breathing a sigh of relief, the newly inoculated will transition back to more active lifestyles that have been on hold for so long. They will seek to satisfy their pent-up appetites for travel, entertainment, shopping, and spending in general. And in so doing, they may well fuel an economic resurgence not seen since the end of World War II.

Again, the technology sector stands to gain meaningfully from the forces that will rebuild the global economy. However, while the future looks bright, it's not likely to be all smooth sailing. One significant byproduct from the pandemic is that tech companies will face greater scrutiny of their management teams and capital structures, which are essential for driving and optimizing growth. Due diligence procedures will likely continue to take longer and have more detailed evaluation criteria, extending the time to complete transactions. And, lest we forget, the largest tech buyers are under significant governmental and regulatory scrutiny in the U.S. and abroad, creating the potential for them to evaluate curtailing their acquisition activities.

For all these reasons, it has never been more important for technology companies to understand and utilize the breadth of capital and strategic tools available to them. Our Capital Markets team assists companies and capital providers in evaluating and structuring the best available financing solutions across the entire capital spectrum – from traditional equity and debt offerings to more complex and structured alternatives, including the growing use of SPACs as vehicles for companies to go public. And our M&A Execution team continues to work with leading public & private companies and their capital providers to achieve optimal outcomes on the most important buyside and sellside transactions.

In closing, we would like to once again thank you for the trust you have continued to place in our team during a particularly challenging time, and amid the shifting demands and expectations of the markets. Our objective remains to be the strategic advisor of choice to the technology sector, delivering conflict-free advice of the highest quality and integrity. Despite the bumps and bruises we've all felt over the last 12 months, we are looking forward to a very active and positive 2021 – and with an even greater sense of purpose and enthusiasm.

With Warmest Regards,

Carter McClelland
Co-Founder and Chairman

Ted Smith
Co-Founder and President

Technology M&A

The Comeback that Will Continue

Wayne Kawarabayashi
Partner, COO and Head of M&A

Devon Ritch
Partner, M&A

Phillip Kim
Managing Director, M&A

You know you're living through unprecedented times when, in a single year, there is near-record activity in M&A, private financings and IPOs happening alongside a global pandemic, record unemployment, and an ongoing US/China trade war, not to mention a string of other social and economic tensions.

How can such an incongruity be explained? In a word, it boils down to resilience.

When the coronavirus began spreading rapidly, the nation came to a standstill. But almost as soon as government-mandated shutdowns began, it became clear that tech companies would not just survive the fallout of COVID-19, but could also thrive in a world gripped by an ongoing pandemic. Deal momentum returned at the beginning of Q3, and the pace of transactions accelerated throughout the second half of 2020. As we start 2021, this trend is poised to continue.

2020's Second-Half Surge

Tech M&A dollar volume for 2020 was $555B, growing 29% year-over-year. The second half of 2020 accounted for 79% of the year's volume. There was particularly strong activity in deals greater than $5B, which amounted to 29 deals totaling $350B vs 17 deals over the same period last year, which totaled $218B. Cloud tech, AI/ML and data analytics, remote working/digital transformation, security, collaboration/communications, customer engagement, and e-commerce were areas of focus.

The largest deals in 2020 included: S&P Global/IHS Markit ($44B), Next/Altice Europe ($43B), Nvidia/Arm ($35.5B), AMD/Xilinx ($35.3B), Salesforce/Slack ($27.7B), Analog Devices/Maxim Integrated Products ($21.8B), Teladoc Health/Livongo Health ($18.5B), Morgan Stanley/E*TRADE ($13.7B), and Intercontinental Exchange/Ellie Mae ($11B).

Private equity also enjoyed strong activity in 2020, accounting for 14% of Tech M&A dollar activity. The largest deals included: Koch/Infor ($11B), Thoma Bravo/RealPage ($10.2B), Warburg, GA & Ocean Link Partners/58.com ($8.7B), Platinum Equity/Ingram Micro ($7.2B), Veritas Capital/DXC state & local health and human services assets ($5B), Insight/Veeam ($5B), Blackstone/Ancestry.com ($4.7B), and CD&R/Epicor ($4.7B).

Strong Recovery in Private Placements, IPOS, and SPACs

Private placement deal activity came back strong in the second half, accounting for 65% of the year's volume with $111B in total. That's an increase of 43% year-over-year. The largest deals included: Rivian ($2.5B), Yuanfidao ($2.2B), WM Motor ($1.5B), Flipkart ($1.2B).

2020 was also a strong year for initial public offerings. There were 71 tech IPOs totaling $58B compared to 49 in 2019 totaling $29.3B, with the second half of 2020 accounting for 82% of the year's total volume. The most notable IPOs of the year included: Airbnb (raised $3.5B, 1-day performance of +113%), Doordash (raised $3.4B, +87.5%), Snowflake

($3.4B, +112%), Lufax Holding ($2.4B, +2.2%), KE Holdings ($2.1B, +65%), Rocket Companies ($1.8B, +20%), Dun & Bradstreet ($1.7B, +15%), Unity Software ($1.3B, +31%), GoodRX ($1.1B, 53%), Array Technologies ($1B, +66%), and ContextLogic ($1.1B,-17%).

Palantir ($20B valuation) and Asana ($4B valuation) both did direct listings on the same day in September and traded up +34% and +37%, respectively.

Lastly, 2020 was the year of resurgence for special purpose acquisition companies, or SPACs. Fueled by hedge funds, financial sponsors and family offices all participating in these vehicles, there were 283 SPACs, which raised $88B in IPO issuances. Of these, 83 technology-focused SPACS raised a total of $34B. In addition to capital raising, SPACs also found private companies with which to merge, including: Foley Trasimene Acquisition Corp II/Paysafe ($9B), Hedosophia/Opendoor ($6.3B), CIIG Merger Corp./Arrival ($5.7B), Social Capital Flying Eagle/Skillz ($3.5B), Gores Metropoulos/Luminar ($3.4B), Conyers Park II/Advantage Solutions ($3.3B), and CC Neuberger Principal Holdings I/E2open ($2.6B).

What Will 2021 Look Like?

With the financial markets remaining robust, we believe we will continue to see strong activity in 2021. Barring some significant geopolitical or macroeconomic setback, the global rollout of COVID-19 vaccines coupled with additional economic stimulus and infrastructure spending could set the stage for economic recovery – as well as accelerate M&A and financing activity, particularly in tech.

With the Senate (very narrowly) flipping to Democratic control following the Georgia runoff elections, President Biden now has a clearer runway to address his ambitions regarding additional stimulus, tax reform, foreign affairs and climate change – and we've already seen activity on those fronts with the initial flurry of Executive Orders that were issued immediately following his inauguration. Those new policies may shape some market behaviors, but the fact that global COVID-19 vaccine distribution is imminent, corporate and private capital cash balances remain high, interest rates continue to hover at historical lows and equity markets are at all-time highs, the M&A and financing engines are likely to keep churning well into 2021.

However, while deal activity is anticipated to remain elevated, heavily negotiated deal terms, creative value bridging mechanics (e.g., earn-outs, seller financing), enhanced representations and warranties, business covenants and indemnification protections also will be sought. Deal certainty will continue to be paramount, with tighter requirements for buyers to secure financing and protections for sellers in case of a failure to secure HSR or CFIUS approvals. We also anticipate more corporate carve-outs as companies shed non-core assets and continue to optimize their operations for the post-pandemic world.

Data sources for volume for M&A, private placements, IPO and SPAC activities: 451 Research, Factset, Pitchbook and MergerMarket.

Technology Coverage

The Digital Transformation Wave Continues to Disrupt

Andrew Atherton
Managing Director, Software

Digital transformation has been a force in business for decades, replacing legacy systems with more efficient online processes. The concept is so familiar that the process of digital transformation now includes replacing or enhancing "old" digital technologies with the latest innovations.

The benefits of digital transformation more than justify the costs, so you would imagine that every part of the enterprise would be eager for a make-over. After all, if they do not innovate and disrupt themselves, then some hungry digital upstart will gladly do it for them and seize some, if not all, of their market position in the process.

Rise of the Middle and Back Office

Even so, there are holdouts. Traditionally sleepy middle and back office functions have been slow to embrace digital transformation, but that all changed with the pandemic.

Areas such as accounting, payments, source-to-pay, and risk management are now red hot segments within broader enterprise software as evidenced by valuation multiples of publicly traded entities and acquisitions.

Companies such as DocuSign, Blackline, Coupa, Avalara, and Bill.com in the public markets and Clearwater Analytics, OneTrust, Jaggaer, ISN, ProcessUnity, and other private players have all benefited from this renewed interest in digitizing middle and back office processes. Both M&A and investment activity has been robust and will remain so for the foreseeable future as market leaders seek to create new systems of record within the enterprise and fast-moving startups move to replace legacy incumbents.

Digital Transformation Accelerates Edge Computing

The scope of digital transformation, along with the growth of the Internet of Things, and advent of 5G wireless, is also driving rapid growth in the creation, collection and analysis of many types of data. This explosion in data creation and the consumerization of technology has pushed data processing out from the core of the data center to "the edge" of the network.

Edge computing is the hot new paradigm in technology. In layman's terms, it can be thought of as the way to move data processing functionality closest to end users. The upshot: greater efficiency.

Interestingly, though, "edge computing" does not have a standard definition. It means many things to many different players in the technology ecosystem.

> The transformation of the middle and back office has been supercharged by the pandemic.

That opens the door to a wide range of participants eager to introduce new products and services while expanding their addressable markets.

The growth of edge computing is not without risk, however. As with any new frontier in the technology ecosystem, the possibility of security risks is part of the landscape. That's especially true as computing becomes more distributed. A wide array of smart devices "at the edge" must be secured to protect the data they are now processing and the privacy of end users.

Importantly, investments and acquisitions highlight the massive opportunity in edge computing. For example: Permira's acquisition of a majority stake in Lytx, a leading provider of video telematics for fleets; Omnitracs' acquisition of video telematics provider SmartDrive; and, edge cloud platform Fastly's acquisition of web application and API security platform Signal Sciences.

Technology Coverage

Accelerating Adoption of Intelligent Engagement

Will Andereck
Director, Software

Everyone likes the personal touch. The attention to detail. The anticipating and fulfilling of needs, large and small. Simply being remembered. That's what great experiences are made of. And in the enterprise software arena, they all have one thing in common: Data.

Data is the key ingredient that enables powerful, actionable insights and personalization at scale. But developing effective customer engagement strategies requires much more than data gathering and maintenance. It requires a complex orchestration that harmonizes marketing, sales, service, and contact center activities. It requires the *platformization* of the entire customer experience.

Large sales and marketing cloud providers – Salesforce, Adobe, SAP, Oracle and others – have been building out their CX platforms with next-generation AI to maintain structured and unstructured data sets in real-time. This makes it possible for enterprises to unify once siloed data with front-office applications to create a holistic view of the customer journey.

Armed with greater awareness of their customers' behaviors, preferences, and needs, companies can respond swiftly and effectively. Marketing teams can serve up content tailored to individual tastes. Sales teams can quickly determine the right pricing strategy. Service teams can review a customer's past behaviors in order to devise the most effective response plan. The result is a more efficient and satisfying relationship for the customer and a more profitable relationship for the company.

Customer data platforms are viewed by many as essential for omni-channel engagement with modern customers who now move effortlessly through the digital landscape. And while the large sales and marketing clouds have an advantage with their platform approach, they recognize the need for best-of-breed capabilities and data strategies. This has driven an acceleration of strategic investments and M&A in the space – from Twilio's acquisition of Segment, a leading customer data platform, to SAP's acquisition of Emarsys, an omni-channel engagement platform that marries a data platform with orchestration and automation to enable personalized interactions. Private equity is also joining the fray – with Vista Equity acquiring Gainsight, a leader in Customer Success, among other transactions.

Agile Digital Collaboration

Seamless experiences are highly valued in the workplace too. Even before the pandemic, enterprises were becoming more complex, relying on agile work processes and a fluid network of employees, freelancers, and consultants working across cloud-based and legacy systems. Now that working from home is part of our regular routines, the complexity has only increased.

Against this backdrop, the need for intelligent digital systems that can connect to a broad and complex range of data sources in real-time is clear. Organizations can unlock a host of benefits by optimizing productivity and collaboration.

With the help of integrated systems, teams are able to access content from a single source of truth or system of record and immediately share across internal channels. Likewise, they can better organize, update, and control digital assets including images, video, presentations, and documents. Intelligent systems take the advantages to the next level. Machine learning, combined with user-friendly interfaces make it easy for teams to customize data for specific tasks, set dynamic permissions, and generate insights on how content is being used.

Obviously, the easier these tools are to use, the more use they'll get, resulting in greater impact for the enterprise. So it follows that new digital collaboration tools are being designed with low-code/no-code interfaces, which means that virtually any employee can tailor an application to their needs without any programming knowledge. The spreadsheet-database hybrid, Airtable, is a popular example of this new realm of platform-driven enterprise software.

The market momentum for businesses optimizing workflow and collaboration is also leading to consolidation and strategic activity. Salesforce made a splash with its acquisition of Slack, which further cements Salesforce as the central platform for digital work, communication, and decision-making. Adobe picked up workflow capabilities that optimize collaboration between creative cloud and experience cloud users with its acquisition of Workfront.

Optimizing the Employee Journey

Intelligent engagement platforms are improving not only how work gets done, but also who does the work. This is a radical shift from the past when HR departments were focused on implementing controls, standards, and systems to drive alignment and execution. Now HR's priority is enabling speed, innovation, and agility. To meet those goals, they are turning to employee engagement platforms that help them attract, develop, and manage talent.

This kind of software can help recruiters identify and communicate with preferred candidates from the initial contact through the onboarding process. Powered by AI, HR managers can select and deploy staff for specific assignments requiring specialized skills. Individual and team performance can be assessed in real time, allowing for immediate course corrections as needed. And the data collected from recruiting and performance can be leveraged to improve overall decision making across the employee journey. A key component for connecting with employees is communications – and companies like SocialChorus, acquired by Sumeru Equity Partners this past year, are using AI to optimize internal, operational and strategic communications.

Additionally, human capital management capabilities can strengthen administrative, compliance, and cultural aspects of an enterprise. Compensation programs can be fine-tuned based on aggregate workforce data. Specialized training modules can be rolled out to designated groups of employees, while broader initiatives, such as diversity and inclusion seminars, can be made available to the entire workforce.

Demographic shifts and new work-from-home routines will continue to alter how enterprises interact with their customers and employees. Intelligent software capabilities that help improve how businesses connect with these key stakeholders will be critical to maintaining a competitive edge.

AdTech: An Evolving Ecosystem

Todd Holman
Director, Internet & Digital Media

Online, nothing stays the same for long. New developments – from chat bots to payment methods, from cookies to contextual targeting – continuously reshape the landscape forcing participants to adapt or suffer the consequences.

Then came the pandemic. As society adapted to a new set of circumstances, so did the AdTech and e-commerce ecosystems that we increasingly rely upon.

From March through November, e-commerce activity saw an unprecedented surge. As you'd expect, business-to-consumer (B2C) transactions rose significantly as people settled into their work-from-home routines. Over the same time frame, however, there were substantial increases in business-to-business commerce too. The interactions were widespread, taking advantage of online transaction processing capabilities, inventory and supply management systems, automated data collection and exchange systems, digital marketing, automated AP processing and so on.

These shifts in behavior are interesting at different altitudes and will reverberate through 2021.

Starting with consumers, the big take-away is the acceleration of omni-channel lifestyles. The pandemic made clear just how fluid our days could be, wandering between platforms, programs, and devices. A day in the life might start with a wake-up call from a voice-assistant. From there, we might spend a few hours at a desktop for work. Then it's time to walk the dog, so we shift to our mobile device to continue fielding calls while simultaneously browsing online for groceries and delivery options. Then it's back to our voice assistant while making dinner before capping off the evening with a movie on our connected TV.

It's true that our digital lives have been growing more complex and multi-faceted for some time. Yet, the pandemic revealed just how deep and wide our online consumption patterns run. E-commerce is now omnipresent across social media, streaming platforms, and extending into new and innovative forms of user-generated subscription-based content.

For advertisers and agencies, that's good news. Never before has there been such a target-rich environment. But there's a hitch. Many online platforms are discontinuing the use of third-party cookies as a means of

> The pandemic made clear just how fluid our days could be, wandering between platforms, programs, and devices.

tracking customer behavior and preferences, thus depriving advertisers of a powerful tool for gathering data and insights.

In response, the industry is looking to contextual targeting as a way to provide more relevant advertising content – not only in display, but also in native and video formats. Cutting edge AI-tools are helping shape this new approach. These advanced capabilities are being trained to determine both the sentiment and nuance of written language. Likewise, they are learning how to evaluate the content and tone of video and images. Armed with this knowledge, AI-fueled contextual targeting can then dynamically alter and update ad creative to fit into the appropriate form, size, and location within a web page, video, or other browsing experience.

Another major pivot from 2020, which will extend this year, is how the scope of consumers' lives has narrowed to the local or even hyperlocal. The rapidly evolving trend of buying-online to pick-up-in-store is forcing advertisers to narrow their focus to the unique and ever-evolving trends at the city or even neighborhood-level. This is forcing advertisers to ensure they have the right media partners and technology suites that enable an extremely precise level of targeting.

Embracing Cloud-Native Architecture

Ubaid Dhiyan
Director, Software

In a year of tumultuous change brought on by the pandemic, we saw the acceleration of some key themes in enterprise digital transformation. Specifically, the mainstream adoption of cloud-native architectures for application development, deeper integration of security and AI in DevOps, and the shifting dynamics of the data ecosystem that increasingly favor cloud-native platforms.

Broad adoption of work-from-home policies across the globe have resulted in enterprises adopting and prioritizing IT infrastructure projects that enhance productivity – especially across distributed teams and operations. These initiatives tend to focus on workforce collaboration and business momentum/agility under changing economic conditions. At the same time, they are geared toward maintaining data privacy and confidentiality for employees, customers and partners.

Cloud-Native Application Development

A cloud-native approach, with containers as the foundational technology for application development, offers greater scalability, flexibility, and portability for new and modernizing workloads. Significantly, the cloud-native approach is no longer limited to ephemeral or stateless compute. Rather, it is increasingly being used for stateful workloads with storage and networking functions evolving to support such applications. With Kubernetes emerging as the de facto orchestration platform, we have seen increased M&A activity in the container ecosystem, with Rancher's trade to SUSE, Portworx's sale to Pure Storage, and Kasten's sale to Veam being the most noteworthy.

Evolution of DevOps to DevSecAIOps

DevOps has now become synonymous with agile software development, and the focus is now shifting to incorporating security earlier in the development process. The next generation of developers equate secure software with higher quality; therefore, they are enthusiastically adopting tools and frameworks that make developing secure applications far less painful and much more streamlined than just a few years ago.

As security gets more deeply integrated into the "Dev" part of DevOps, we see AI technologies becoming critical to the smooth functioning of "Ops." The capabilities of AI are essential to managing what would otherwise be overwhelming amounts of logged data.

Likewise, AI has the power to help govern highly distributed workloads, evaluate application performance, and interpret sophisticated business metrics. Companies like Snyk, which has raised $450M ($350M of that in 2020), exemplify the 'shift-left' of security in the development process. IBM's recent acquisition of application performance monitoring platform Instana, and ServiceNow's acquisition of workflow platform Element.AI are recent examples of enterprise technology providers using acquisitions to fill the AI gaps in their IT Operations focused offerings.

Shifting Dynamics of the Data Ecosystem

Big Data has been one of the most vaunted terms of technology evolution since McKinsey's May 2011 report popularizing the term and arguing it to be the basis of new growth in productivity, innovation, and consumer value creation. Reality has played out differently – some of the highest-flying vendors, particularly in the Hadoop ecosystem, have seen their prospects dwindle (e.g. Cloudera/Hortonworks) after their once buzzworthy technologies crashed against the wall of heightened enterprise expectations and an evolving technology stack. The pandemic has forced a further reckoning for the weakest players in the broader ecosystem, while allowing the emergence of winners that were able to stand apart from the crowd on the basis of superior (typically cloud-native) technology, enthusiastic customer adoption, and market momentum.

The most notable of these was Snowflake, which debuted in the public markets with the largest Software IPO in history. Private market investors have also been active, backing Confluent, Redis Labs, Couchbase, Cockroach Labs and SingleStore with large, late-stage rounds at aggressive valuations.

We expect both M&A and funding momentum for each of these technologies to accelerate in 2021 as investors look to deploy historically large amounts of capital and enterprise technology providers seek growth and innovation via acquisitions.

Recurring Revenue Lending: Underwriting to Growth

Michael Meyer
Partner, Head of Capital Markets

Mark Villanueva
Managing Director, Capital Markets

While almost everyone in credit believes 2021 will continue to be a hot market for debt (we certainly do), there is one aspect of credit – recurring revenue lending – that will almost certainly stand apart. Explained simply, recurring revenue financing is the process of extending credit against a multiple of revenue to software-driven businesses having a subscription-based or some other recurring revenue model. Why will it be such a big deal? In a word: COVID-19.

Prior to the pandemic, there were devout believers in the software-as-a-service (SaaS) business model. But when numerous businesses ground to a halt in March of 2020, many lenders developed an even greater appreciation for reliable, scalable, on-demand profitability, and to high-cash burn vs. free cash flow, was to go against their DNA. Over the past couple of years, however, many more credit funds, and even banks, have surfaced or added talent to underwrite to recurring revenue. And not just for large scale and established private equity portfolio companies, but also to earlier-stage, founder-owned companies with revenues less than $30 million. Like never before, these companies have alternatives to the traditional use of dilutive equity as they continue to seek financing to drive growth. Where once cash was king, now growth, retention and unit economics make a decent proxy.

In 2020 alone, we helped finance multiple sub-$50 million revenue software businesses, with numerous

> Where once cash was king, now growth, retention and unit economics make a decent proxy.

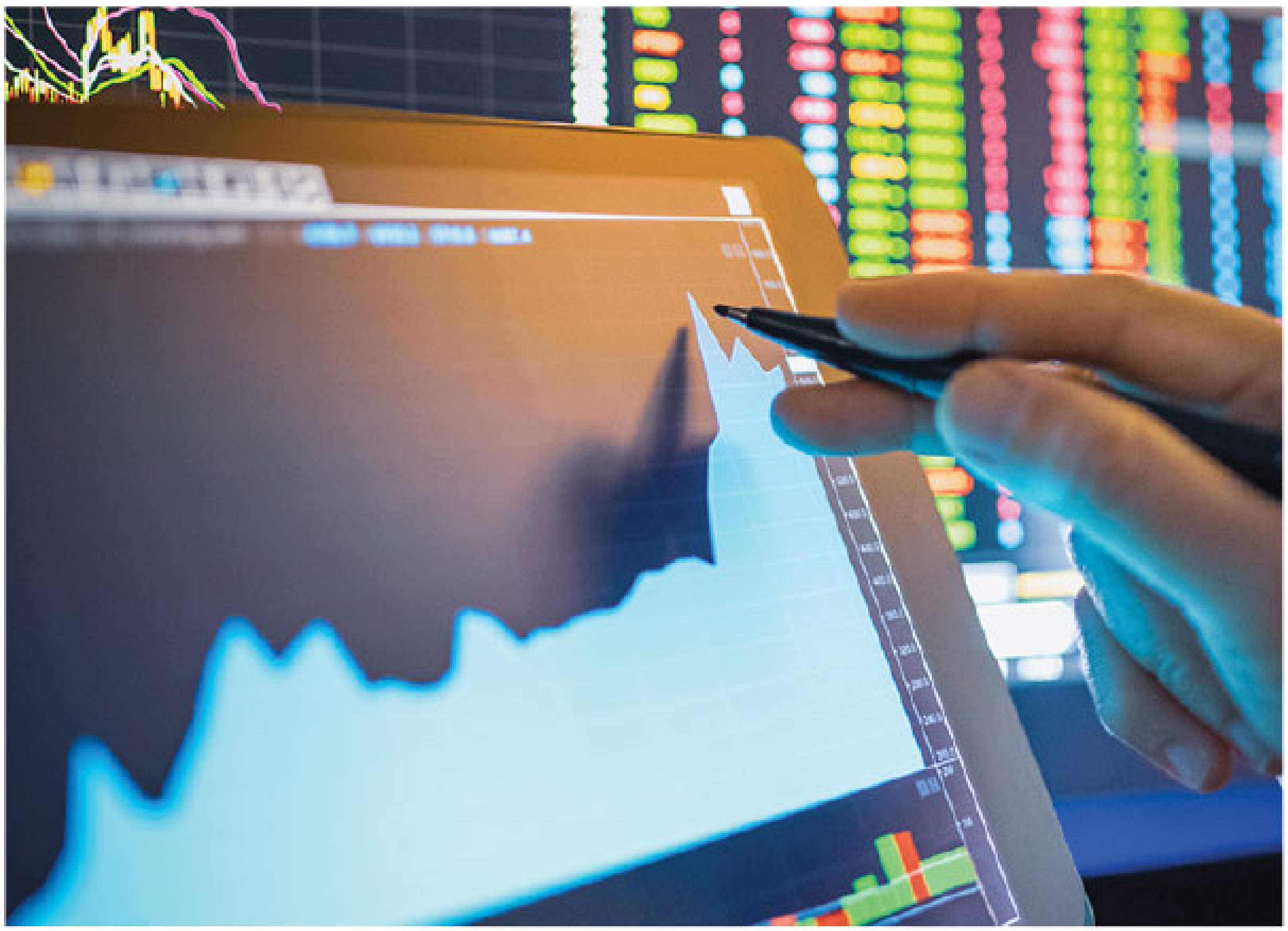
software models – not to mention the predictable, subscription-based revenue that comes with them.

At Union Square Advisors, we've had the unique perch to transact in recurring revenue financings with both large cap and small-scale issuers. Just a few years ago, there were only a modest group of specialized funds that had the appetite and ability to underwrite loans to software companies – companies that were scaling fast, unprofitable and burning cash. To traditional credit funds, the idea of underwriting to growth vs.

bidders able to provide debt on terms that were unthinkable a year or two ago. While we expect scaled, private equity-backed companies to continue to have access to both the broadly syndicated market and private debt markets in 2021, we are optimistic about the momentum and velocity of capital being deployed by tech-focused funds into companies at earlier stages of growth.

From our own coverage efforts at Union Square Advisors, it is evident that private equity continues to see the allure of SaaS platforms. PE leaders in the technology space highlight that the attractiveness of investing in these businesses is not price, but the market for growth – making money through operational excellence vs. applying leverage is the play today. Nonetheless, the ability to lever-up on a recurring revenue multiple – even in cases where there is positive free cash flow – may yield more available debt vs traditional EBITDA metrics, and this approach continues to be an attractive option for private equity.

M&A has continued in earnest after a brief lull last spring that saw massive amounts of capital sitting on the side-lines. Looking ahead, with the high likelihood of a continued low interest rate environment, we anticipate the cadence of buyout activity to persist throughout 2021. As capital markets experts, with a firm focus on software as well as other technology verticals, Union Square Advisors is well-positioned to help clients take advantage of this market opportunity.



Pandemic Revelations for Capital Providers

Dean Riskas
Vice Chairman

Emily Todd Anderson
Managing Director,
Head of Sponsor Coverage

Amid all the chaos for which 2020 will be remembered, three constants defined the tech M&A marketplace: a steady flow of liquidity, high valuations, and a zealous appetite for large deals. That's how the year started and, thankfully, that's how it ended. But for a moment in the spring, everyone was holding their breath.

In March and April, as massive layoffs swept the country, the nation braced for economic freefall. Companies in all industries updated their worst-case scenario plans and took swift actions to blunt the impact of the pandemic. Although the technology sector showed remarkable strength and bounced back fairly quickly, this response was not enough for many other segments of the economy. To this day, entire industries continue to struggle and their road to recovery will be long.

stayed strong, valuations remained high, and deals keep getting bigger.

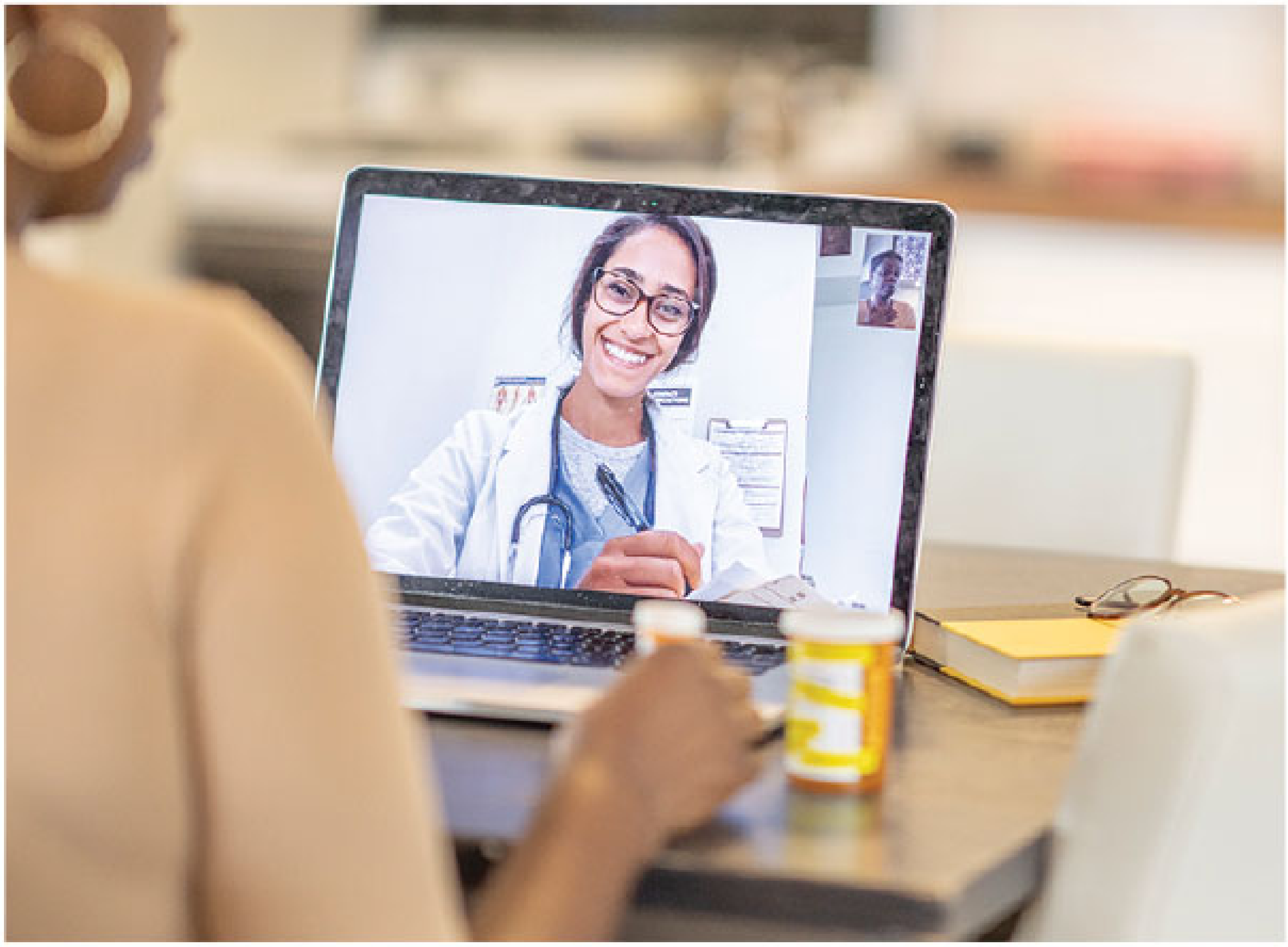
Nevertheless, it's fair to say that buyers and sellers had a good scare early in 2020. Or put another way, 2020 served up some "pandemic revelations" that will influence M&A activity in 2021 and beyond.

Chief among these is the need to reevaluate portfolio strategy. The pandemic showed us how established, well performing industries can be sidelined. So portfolio managers need to be thinking about ways to complement and enhance the value of existing holdings. Take healthcare for example. We now know, with brutal clarity, how poorly equipped the nation is to deal with an ongoing public health crisis. But we can also see how emerging sectors like healthcare IT hold great promise.

Enterprise software and other pandemic-resilient businesses demonstrated remarkable resiliency. Nevertheless, buyers and sellers of these technologies learned some important lessons.

Things played out differently for the technology sector, however. Enterprise software and other pandemic-resilient businesses demonstrated remarkable staying power. Some segments, like video collaboration, cloud security & infrastructure, e-commerce, streaming and digital entertainment, had their best performance ever – many even scrambling just to keep pace with demand. And because of this, liquidity

Connected personal devices, like the Apple Watch, and streaming video have the potential to greatly enhance telemedicine, which is no longer a "nice-to-have" niche offering. Capital providers, especially strategics, need to be thinking about these new horizons. Maybe there is something you need but don't yet know.



Another area ripe for reconsideration is due diligence. Never before have business models, quality of management, and capital structure been more important. The rigorous questions and vetting procedures we've come to rely on must now be supplemented with an assessment of adaptability. How confident are we that a prospect can navigate unforeseen events and withstand dramatic economic shifts that inhibit cash flow? They can't all respond as deftly as Airbnb did.

Or could they? With the right help, that is.

The pandemic has made us all acutely self-aware. VCs and PE firms would do well to channel that new reflex and look inward. They should ask themselves if they have the right people in place (employees or consultants) who identify obscure risks. Do they have the right experience on board to mentor a promising start-up through difficult times? Can they design a bespoke financial structure that assures the firm's capability to provide capital needed by portfolio companies that seek to grow, but also want to avoid punitive dilution? In other words, are they in a position to add value to their portfolio holdings? These types of constructive questions will help nurture portfolio holdings – whether there's a pandemic or not.

Thankfully, 2020 is behind us. It's tempting to want to keep it in the rearview mirror; but those who do may be outmaneuvered by those who embrace the hard-earned lesson of the pandemic. Make the most of what you have.

Our experts

EXPERIENCE

Carter McClelland
Chairman
carter.mcclelland@usadvisors.com
212-376-1750

Experience: 40+ years of investment banking and advisory experience at Morgan Stanley, Deutsche Bank and Bank of America

Ted Smith
Partner and President
ted.smith@usadvisors.com
415-501-8007

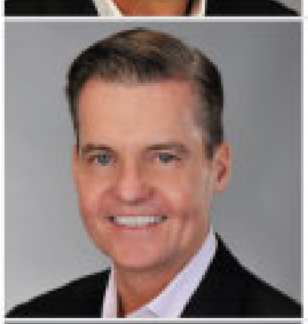
Experience: 30+ years of technology investment banking and advisory experience at Morgan Stanley, Deutsche Bank and Credit Suisse

Wayne Kawarabayashi
Partner, Head of Mergers & Acquisitions, Chief Operating Officer
wayne.kawarabayashi@usadvisors.com
212-376-1730

Experience: 25 years of technology investment banking and advisory experience at Barclays and Lehman Brothers

Dean Riskas
Vice Chairman
dean.riskas@usadvisors.com
415-501-8080

Experience: 35+ year track record providing or privately placing debt and equity financing; former President, North America, of TriplePoint Capital



Michael Meyer
Partner, Head of Capital Markets
michael.meyer@usadvisors.com
212-376-1725

Experience: 30+ years of Leveraged Finance, Global Credit and Fixed Income with Blackstone, KKR & Co., RBC Capital Markets, and Bank of America

Devon Ritch
Partner, Mergers & Acquisitions
devon.ritch@usadvisors.com
415-501-8040

Experience: 16+ years of technology investment banking and advisory experience at RBC Capital Markets. Earlier, Devon practiced M&A law as an Associate at Wilson Sonsini Goodrich & Rosati.

Our experts

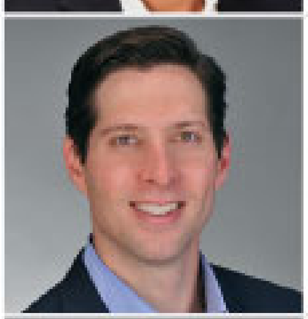
EXPERIENCE

Phillip Kim
Managing Director, Merger & Acquisitions
phillip.kim@usadvisors.com
212-376-1777

Experience: 15+ years of technology investment banking and advisory experience at Greenhill & Co., Lehman Brothers, and Deutsche Banc Alex. Brown

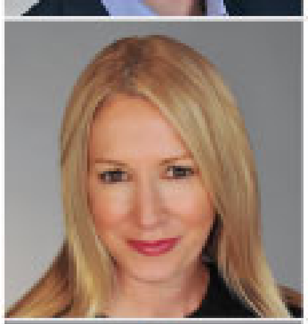
Mark Villanueva
Managing Director, Capital Markets
mark.villanueva@usadvisors.com
212-376-1719

Experience: 15+ years of leveraged finance and liability management experience at Eaglehill Advisors, Citigroup and Weil, Gotshal & Manges. At Weil, Mark practiced law in finance and restructuring transactions.



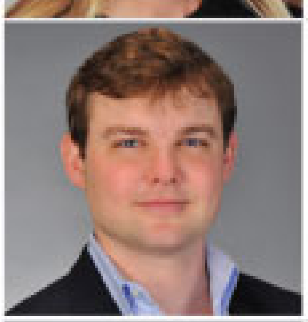
Andrew Atherton
Managing Director, Software
andrew.atherton@usadvisors.com
415-501-8022

Experience: 15+ years of technology investment banking and principal investing experience at RBC Capital Markets, Goldman Sachs and Raymond James



Emily Todd Anderson
Managing Director, Head of Sponsor Coverage
emily.anderson@usadvisors.com
212-376-1760

Experience: 15+ years of transaction advisory experience at CODE Advisors, Goldman Sachs, and Ernst & Young

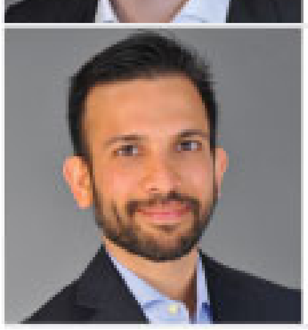


Will Andereck
Director, Software
william.andereck@usadvisors.com
415-501-8023

Experience: 10+ years of technology investment banking and advisory experience at Union Square Advisors focused on the enterprise software sector

Todd Holman
Director, Internet & Digital Media
todd.holman@usadvisors.com
415-501-8025

Experience: 10+ years of technology investment banking and advisory experience at RBC Capital Markets



Ubaid Dhiyan
Director, Software
ubaid.dhiyan@usadvisors.com
415-501-8024

Experience: 16+ years as an investment banker, technologist and engineer at J.P. Morgan, Jefferies, and Juniper Networks

2021
OUTLOOK

UNION SQUARE ADVISORS

NEW YORK
70 E. 55th Street
18th Floor
New York, NY 10022
212.376.1700

SAN FRANCISCO
600 Montgomery Street
22nd Floor
San Francisco, CA 94111
415.501.8000

www.usadvisors.com