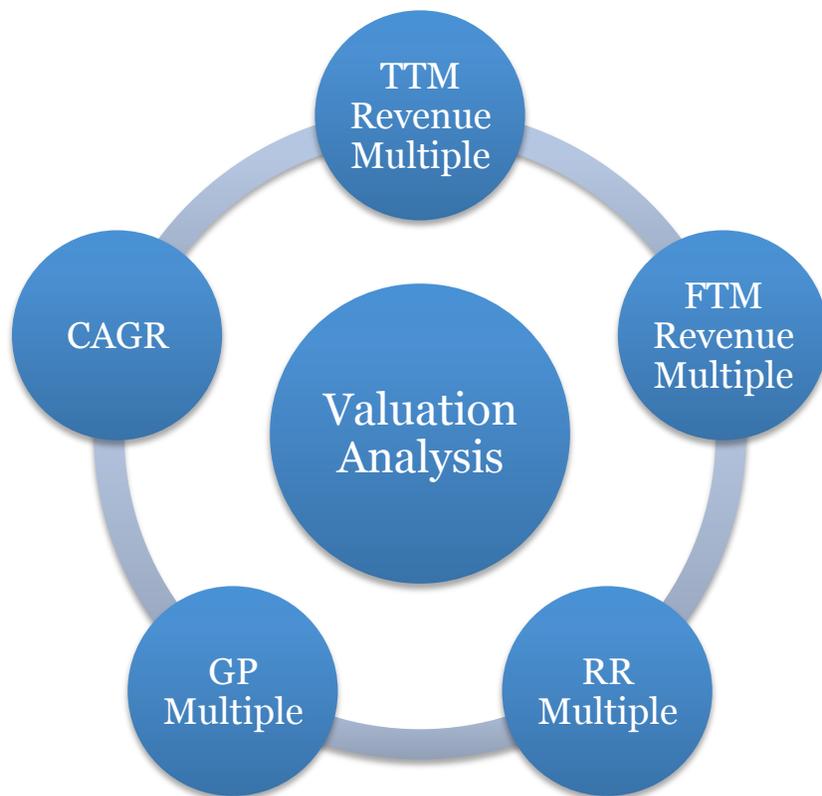


SOFTWARE CEO GUIDE:

Valuation Analysis – Online Marketing Software



From the Partners

Determining the value of a private software company in most instances is a challenging undertaking. The proper valuation process requires analysis and evaluation of a number of complex factors including: (a) whether the company is public or private; (b) the history of revenue and profit growth; (c) company size, (d) market (mass or niche) and competition; (e) software product and/or products; and (f) company staff experience; and expertise. The greatest challenge facing software company owners is understanding equity value. There are a number of methods used in determining a software company's value. The goal of our research (the "paper") is to provide software companies with meaningful guidance by reviewing effective ways to determine value through the analysis of selected software mergers and acquisitions. We explore certain strategic transactions in light of our experience as investment banking professionals. Our hope is that you will find this paper to be of interest and a useful resource.

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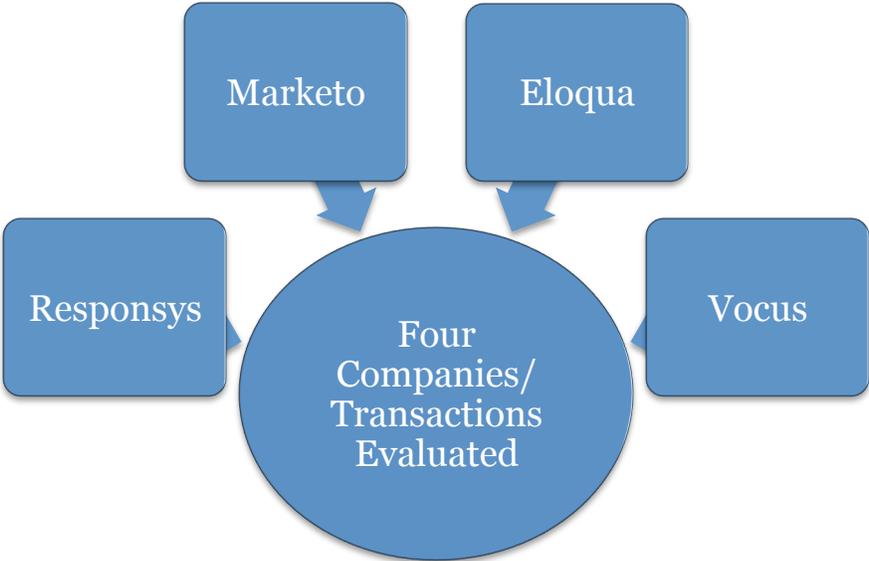
Introduction

United States (U.S.) equities have had significant growth over the last 18 months. Specifically, 2013 was the best year for the U.S. equity markets in 16 years, see Bloomberg: "the broadest equity rally on record".ⁱ Strong equity markets lead to stronger activity in mergers & acquisitions (M&A) and initial public offerings (IPOs). Regarding M&A, in a recent Forbes article Jeff Golman states: "Healthy stock market performance – the S&P 500 was up nearly 30 percent in 2013 – which may push companies to demonstrate sustained growth through M&A to validate share prices".ⁱⁱ According to a recent survey by Deloitte: "Strong economic growth forecasts in the U.S. and major western economies are set to continue to have a positive effect on M&A market sentiment. At a sector level, technology, media and telecommunications (TMT) companies saw the greatest activity in the first quarter of 2014 with total transactions valued at \$174.3 billion, compared to \$105.7 billion in the first quarter of 2013".ⁱⁱⁱ Accordingly, SilverCloud Partners (SCP) offers insights and guidance for software companies as they explore their strategic alternatives. Our insights and guidance are based on

four transactions involving selected software companies, primarily niche providers of online marketing software and explores various valuation methods as well as facts and information surrounding each transaction. The purpose of this paper is to provide insights to software companies regarding the current environment for capitalizing on the value of their equity.

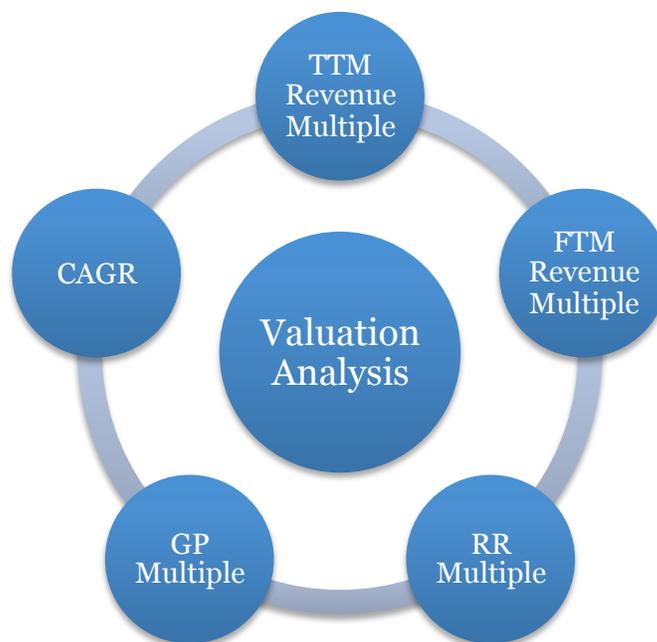
Objectives

The objective of this paper is to provide information on how online marketing software companies are currently being valued by analyzing notable M&A transactions and public company market capitalizations. This will give guidance to private software companies with regard to their potential equity/market value in view of current valuation methodologies.



Methodology

The following figure illustrates the process used by SCP in examining the valuation multiples received by the representative software companies.



In our analysis, we have made the following calculations to determine transaction multiples:

Trailing 12 Months Revenue (TTM) Multiple: calculated based on quarterly/annual SEC filings for each company. To determine a calendar year amount, estimates or approximations may have been used. The TTM calculated on an annual basis is divided into the total purchase price to obtain the multiple.

Forward 12 Months Revenue (FTM) Multiple: calculated based on quarterly/annual SEC filings for each company along with assumptions based on the estimated growth rate per quarter. To determine a calendar year amount, estimates or approximations may have been used. The FTM once calculated on an annual basis is divided into the total purchase price to obtain the multiple.

Recurring Revenue (RR) Multiple: calculated based on the quarterly/annual SEC filings for each company. In determining the calendar year amount estimates or approximations may have been used. The RR calculated on an annual basis is divided into the total purchase price to obtain the multiple.

Gross Profit (GP) Multiple: calculated based on the quarterly/annual SEC filings for each company. To determine the calendar year amount estimates or approximations may have been used. The GP calculated on an annual basis is divided into the total purchase price as disclosed to obtain the multiple.

Finally, we reviewed the compounded annual growth rate (CAGR) and profitability for each company as a differentiator to gain an understanding of why some companies received higher valuations. As expected, the companies with high growth and strong profit margins obtained the highest multiples.

Analysis

VOCUS®

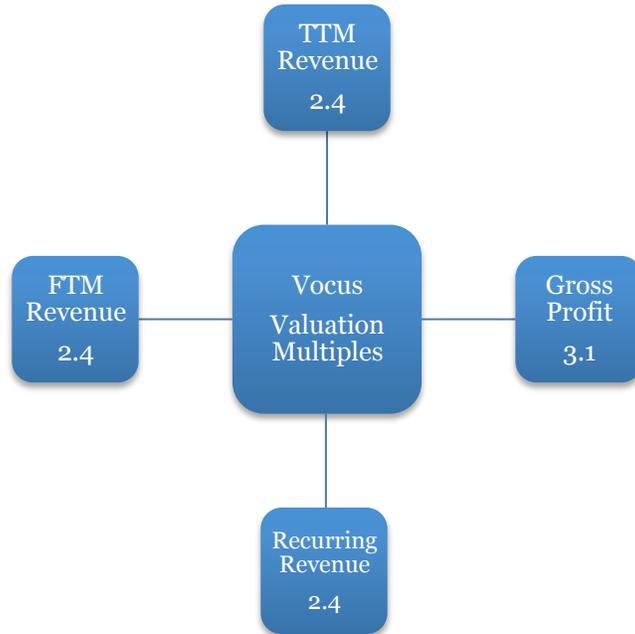
In May 2014, GTCR, a Chicago based private equity firm, acquired Vocus for \$18 per share at a \$446.5 million valuation. The purchase price represented a 48% premium over the stock price at the time of the acquisition. “For our shareholders, this agreement provides an opportunity to realize cash value for their shares at a significant premium to historical share prices,” Rick Rudman, CEO of Vocus stated. ^{iv} Under Rudman's leadership, from 1992 to 2010 Vocus averaged a 40% annual revenue growth and achieved 19 consecutive years of revenue growth. ^v At the time of the transaction, TTM revenue was approximately \$187 million. Vocus was acquired for a 2.4 multiple of TTM revenues, by GTCR a strategic investment firm focused on building an innovative software portfolio.

Transaction Value 446.5M	Revenue (TTM) 186M	Profitability Negative
Market (Niche) Online Marketing Software	Financial Buyer GTCR (PE)	Growth CAGR (17%)

Vocus provides leading cloud-based public relations and marketing software that aids companies in acquiring and retaining customers. The company offers products and services to help customers attract and engage prospects, nurture and convert prospects to customers, and measure and improve marketing effectiveness. More than 16,000 annual subscription customers across a wide variety of industries use Vocus software. The company is headquartered in Beltsville, MD with offices in North America, Europe and Asia. ^{vi}

GTCR is a leading private equity firm focused on investing in growing technology companies. The Chicago-based firm pioneered “The Leaders Strategy” TM – finding and partnering with management leaders in core domains to identify, acquire and build market-leading companies through transformational acquisitions and organic growth. Since its inception, GTCR has invested more than \$10 billion in 200 companies. ^{vii}

Valuation Multiples



Related Articles

- ✓ <http://www.nasdaq.com/article/vocus-ceo-richard-rudman-keeps-buying-cm224096>
- ✓ <http://finance.yahoo.com/news/gtcr-acquires-vocus-inc-205700784.html>
- ✓ <http://www.prweb.com/releases/2014/04/prweb11739616.htm>



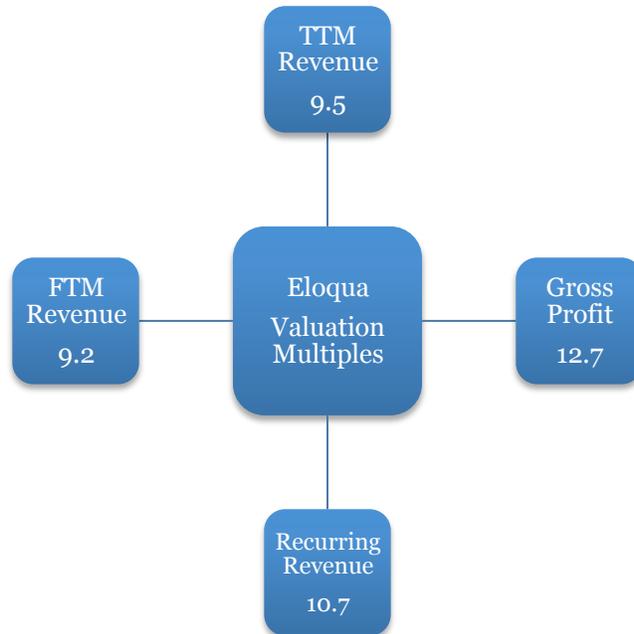
In December 2012, Oracle acquired Eloqua for \$23.50 per share or approximately \$871 million, net of Eloqua’s cash. Eloqua’s modern marketing cloud software delivers best-in-class capabilities to ensure that every marketing component performs fully and efficiently to drive increased revenue. “Exceptional customer experience starts with knowing your customer’s preferences and delivering a highly personalized buying experience,” said Joe Payne, Chairman and CEO, Eloqua. ^{viii} At the time of the acquisition, Eloqua had \$92 million in annual revenue, which represented a 9.5 multiple of TTM revenue. Oracle was a strategic buyer and moving to keep up with Salesforce.com in the CRM market. Niche marketing automation software is critical to accelerate the pace of the modern marketing revolution and allows customers to transform the way they market, sell, support and serve their customers.

Transaction Value 871M	Revenue (TTM) 92M	Profitability Negative
Market (Niche) Online Marketing Software	Strategic Buyer Oracle	Growth CAGR (32%)

Eloqua is a marketing automation SaaS company that develops automated marketing and lead generation software and services for business-to-business marketers. The company has been described as a pioneer and industry leader in lead generation services. ^{ix} The company was started in Toronto, Canada in 1999 by Mark Organ, Steven Woods and Abe Wagner. Its stated goal was to provide improved lead generation and demand management services. ^x

Oracle is a mass-market software provider that concentrates on shifting the complexity from IT, moving it out of the enterprise by engineering hardware and software to work together in the cloud and in the data center. By eliminating complexity and simplifying IT, Oracle enables its customers, 400,000 of them in more than 145 countries to accelerate innovation and create added value for their customers. ^{xi}

Valuation Multiples



Related Articles

- ✓ <http://en.wikipedia.org/wiki/Eloqua>
- ✓ <http://www.oracle.com/us/corporate/press/1887595>

responsys

In December 2013, Oracle acquired Responsys for \$27 a share resulting in a \$1.5 billion valuation, a 38% premium to the stock price at the time of the acquisition. “Our strategy of combining the leaders across complementary technologies signifies Oracle’s overwhelming commitment to winning and serving the C.M.O. better than any other software company in the world,” said Oracle’s President, Mark Hurd, referring to chief marketing officers. ^{xii} At the

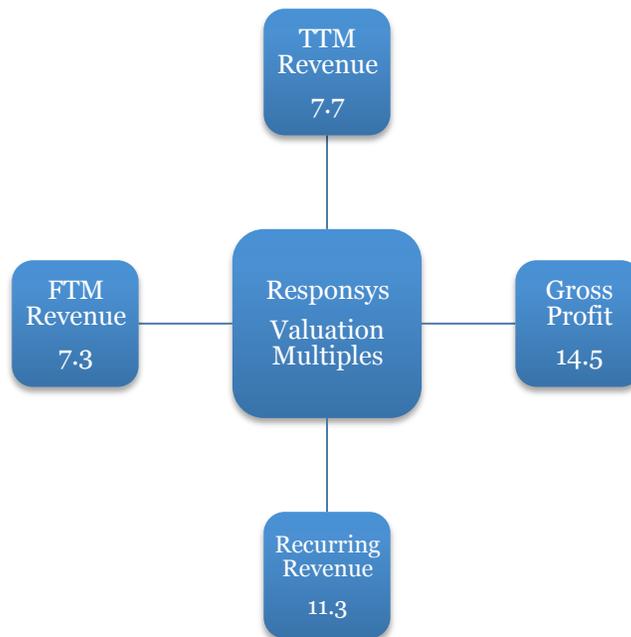
time of the acquisition, TTM revenue was approximately \$194M. Responsys was acquired at a 7.7 multiple of TTM revenue. Oracle was a strategic buyer moving to keep up with SalesForce.com in the CRM market. Niche online marketing software is critical to CRM and SFA solutions.

Transaction Value 1.5B	Revenue (TTM) 194M	Profitability Positive
Market (Niche) Online Marketing Software	Strategic Buyer Oracle	Growth CAGR (30%)

Responsys is a niche provider of cloud marketing software and services. Its mission is to enable smart marketing in the digital world. Many respected brands across the globe use the Responsys Interact Marketing Cloud to manage their digital relationships and deliver the right marketing information to customers via email, mobile, social, display and the web. Founded in 1998, Responsys is headquartered in San Bruno, California and has offices throughout the world. ^{xiii}

Oracle is a mass-market software provider that concentrates on shifting the complexity from IT, moving it out of the enterprise by engineering hardware and software to work together in the cloud and in the data center. By eliminating complexity and simplifying IT, Oracle enables its customers to accelerate innovation and create added value for their customers. ^{xiv}

Transaction Multiples



Related Articles

- ✓ http://dealbook.nytimes.com/2013/12/20/oracle-to-buy-responsys-for-1-5-billion/?_php=true&_type=blogs&_r=0
- ✓ <http://www.oracle.com/us/corporate/press/2088698>
- ✓ <http://www.forbes.com/sites/alexkonrad/2013/12/23/oracle-responsys-cloud-marketing-war/>

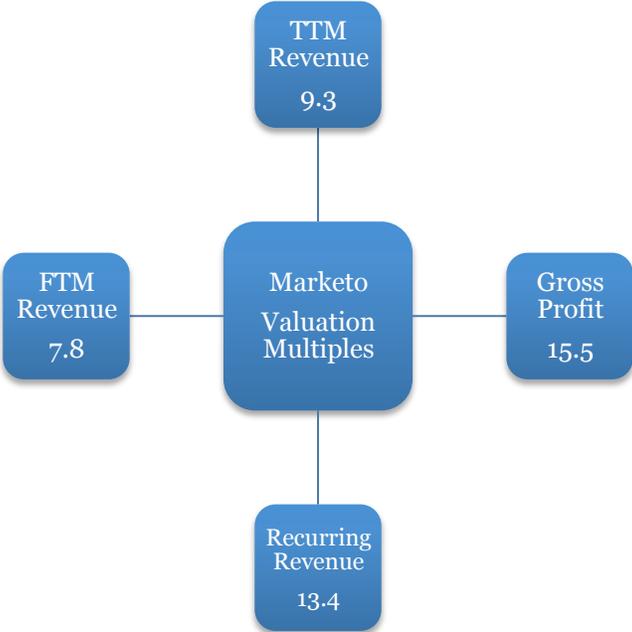


In May 2013, Marketo became publically traded and raised approximately \$80 million giving it a market capitalization of \$724 million on the first day of trading.^{xv} As with most initial public offerings, the primary purpose was to increase financial flexibility, improve visibility in the marketplace and create a public market for shares. Net proceeds were to be used for working capital, general corporate purposes and capital expenditures and in addition to fund opportunities from time to time to expand their current business through acquisitions of or investments in complementary companies, products or technologies. The marketing automation software niche was “hot” as Responsys was acquired and received strong valuation multiples. Marketo took a different approach by going public and raising capital to continue

its growth path and command a higher valuation ^{xvi} in future strategic transactions. ^{xvii} At the time of this paper, Marketo’s market capitalization was approximately \$1 billion giving it the multiples set forth below. It is noteworthy that the company had a CAGR of approximately 57% and was not profitable.

Marketo is a niche software provider of marketing automation software that is fundamentally different from other kinds of business applications, like CRM or ERP. With those systems, companies typically configure them once, and then use them for months or even years with little change. Real to marketing is much more dynamic since users conceive, build and launch new marketing campaigns every few days or weeks, with minimum effort and with little or no IT support. And with CRM integration capabilities, the common experience extends to a sales team and the customers with whom they communicate. Looking inward towards its users, Marketo combines completely integrated tools for multi-channel campaign management, social marketing automation, event management, inbound marketing, and customer data management using powerful analytic tools. Combined with its global partner network it has more than 2,500 customers in 36 countries. ^{xviii}

Valuation Multiples



Related Articles

- ✓ <http://www.forbes.com/sites/tomiogeron/2013/05/17/marketo-ipo-pops-more-than-50/>
- ✓ <http://www.cmswire.com/cms/customer-experience/marketo-goes-public-ipo-raises-nearly-us-80-million-020968.php>
- ✓ http://www.mercurynews.com/ci_23266532/marketo-makes-mint-ipo-san-mateo-companys-stock

Conclusion

Company	TTM	RR	FTM	GP	Profitable	CAGR
Vocus	2.4	2.4	2.4	3.1	N	17%
Eloqua	9.5	10.7	9.2	12.7	N	32%
Responsys	7.7	11.3	7.3	14.5	Y	30%
Marketo	9.3	13.4	7.8	15.5	N	57%

- Oracle as a strategic buyer paid significantly higher multiples. Responsys, Marketo and Eloqua received greater than a 10x multiple on RR revenue.
- Financial buyer GTCR produced the lowest transaction multiple of RR at 2.4X in comparison when it acquired Vocus. It should be noted that Vocus had the slowest growth with a CAGR of 17%.
- Marketo, still independent, has been growing the fastest with a CAGR of 57% and is most likely expecting the largest premium if acquired.
- All companies researched were experiencing strong growth rates, while profitability was limited.

As software companies review this analysis to obtain a sense of their potential valuations, it should be noted that the four companies evaluated were public. A public software company in most cases commands a higher valuation as compared to a private company. The various valuation multiples and methods if used as benchmarks should be evaluated along with the company's historical growth rate, profitability levels, size, market niche and mix of revenue (recurring versus non-recurring). In addition, the four companies evaluated have been highly successful in their respective markets. The evaluations for these companies can be used as guidelines; however, every company's valuation differs based on market factors.

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Publication name: SOFTWARE CEO GUIDE:

Publication number: 07022014

Publication date: July 2014

Endnotes

- ⁱ <http://www.bloomberg.com/news/2013-11-04/best-stock-market-since-1997-seen-with-s-p-500-year-end->
- ⁱⁱ <http://www.forbes.com/sites/jeffgolman/2014/01/13/6-reasons-2014-will-be-a-strong-year-for-ma-activity/>
- ⁱⁱⁱ <http://www2.deloitte.com/global/en/pages/about-deloitte/articles/ma-expected-to-make-strong-resurgence-by-mid-2014.html>
- ^{iv} <http://www.prweb.com/releases/2014/04/prweb11739616.htm>
- ^v <http://www.nasdaq.com/article/vocus-ceo-richard-rudman-keeps-buying-cm224096>
- ^{vi} <http://www.vocus.com/about-us/>
- ^{vii} <http://finance.yahoo.com/news/gtcr-acquires-vocus-inc-205700784.html>
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- ^{xviii} <http://www.marketo.com/about/>