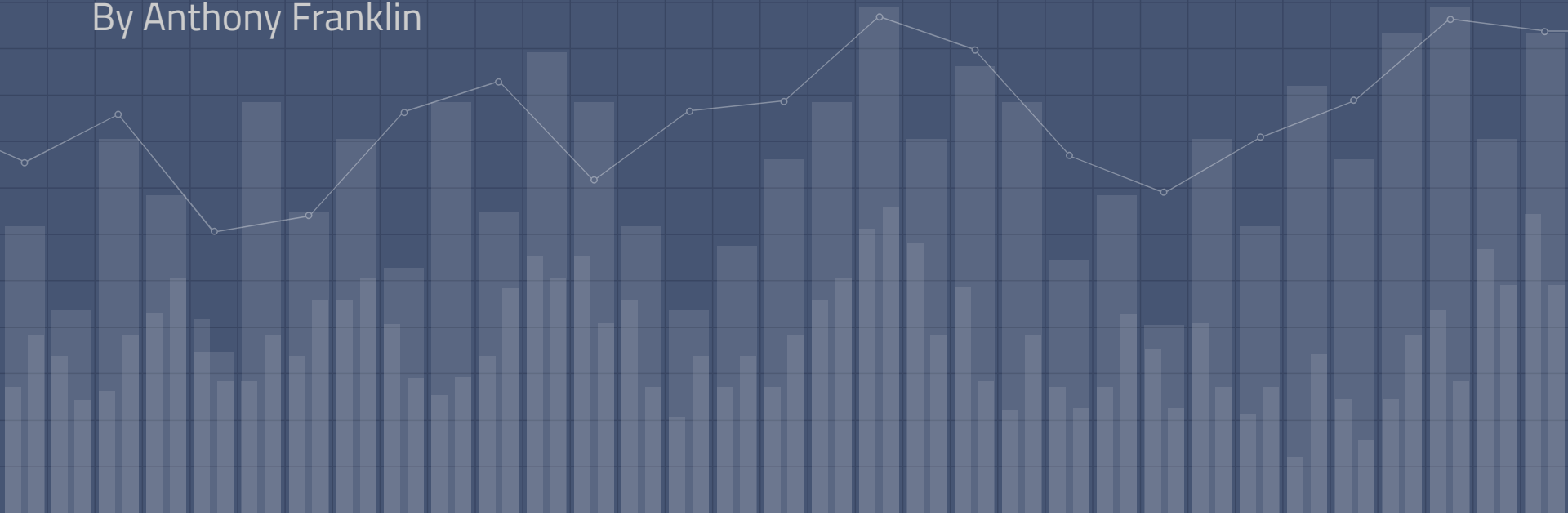


Spearhead Capital Partners

Search Fund Investment Deck - Lunch at the Club

By Anthony Franklin



Agenda

1. Search Funds as Investments
2. Principal Background
3. How We Win
4. Industry Analysis





“It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat.”

— Theodore Roosevelt

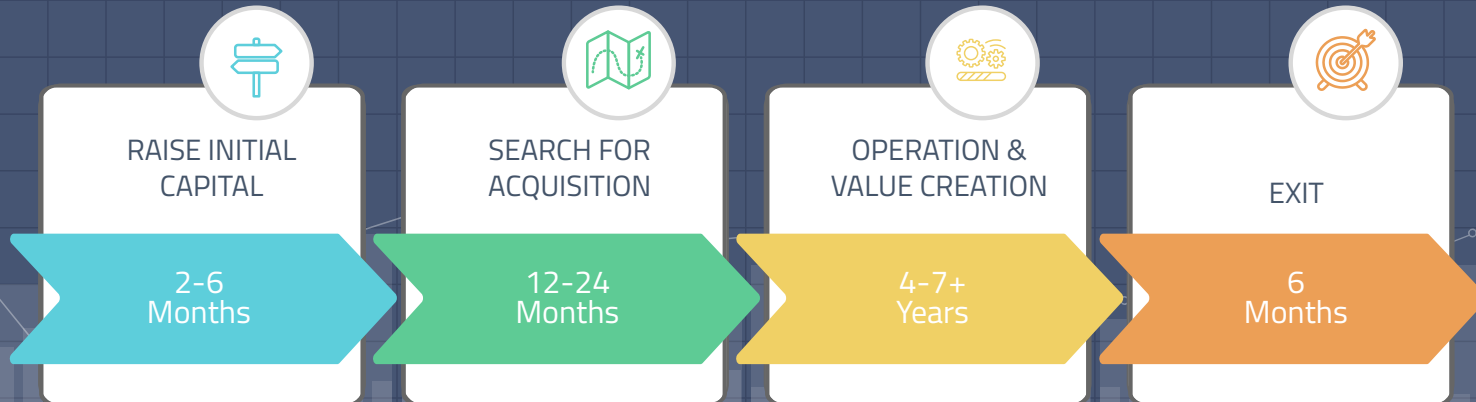
Search Funds as Investments

What is a search fund and how does it work?



What is a Search Fund?

A search fund is an investment vehicle formed by individuals who deploy privately raised capital to search for, acquire, and actively lead privately held companies for the medium term



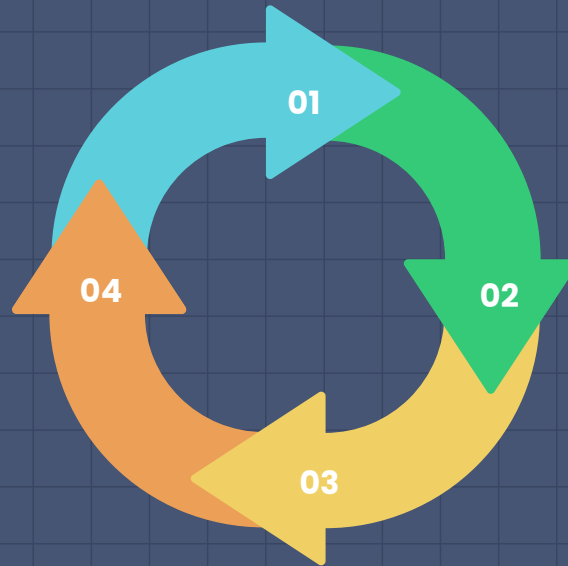
How Investors Support the Search Fund

Raise Search Capital 01

Seeking to raise \$525,000 from the sale of 14 investment units in the fund for \$37,500 each. 50% step-up of initial search capital investment

Operation & Exit 04

Principal/Searcher assumes the role as CEO and investors continue to provide guidance and advice. Exit after significant value creation



Find the Right Target 02

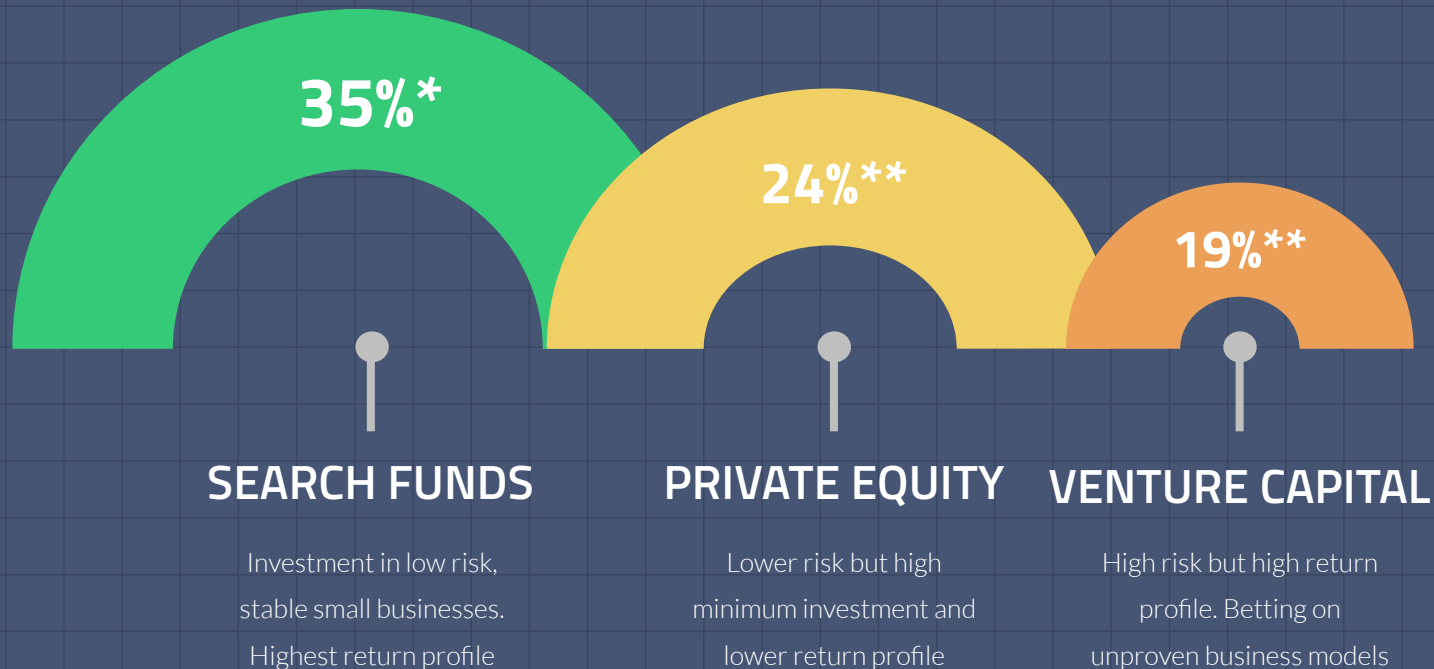
Principal will provide regular updates on outreach as well as acquisition targets at the LOI stage.

Raise Acquisition Capital 03

Raise an additional round of equity capital from the initial search investors (first right of refusal) to acquire target business.

Search Fund Returns vs PE/VC Funds

Average IRR across asset class



**Stanford GSB, 2022 Search Fund Study: Selected Observations*

***US Venture Capital Index and Selected Benchmark Statistics, Cambridge Associates*

What is Attractive About Search Funds?

- Proven model (in existence since 1984)*
- Lower risk than venture capital but great returns
- Easy diversification by industry focus
- Highly attractive returns:
 - Average pre-tax IRR = 35.3%*
 - Return on Investment (ROI) = 5.2x*

Our Acquisition Target

- Enterprise Value: \$10M-\$50M
- Target EBITDA: \$1M-\$7M
- Industry Focus : B2B SaaS*
- Forecasted Returns: 35% IRR
- Launch Date: January 2023

**Please see slides 19-37 for a deeper sub-industry dive*

Structure of Deals - Lower Middle Market

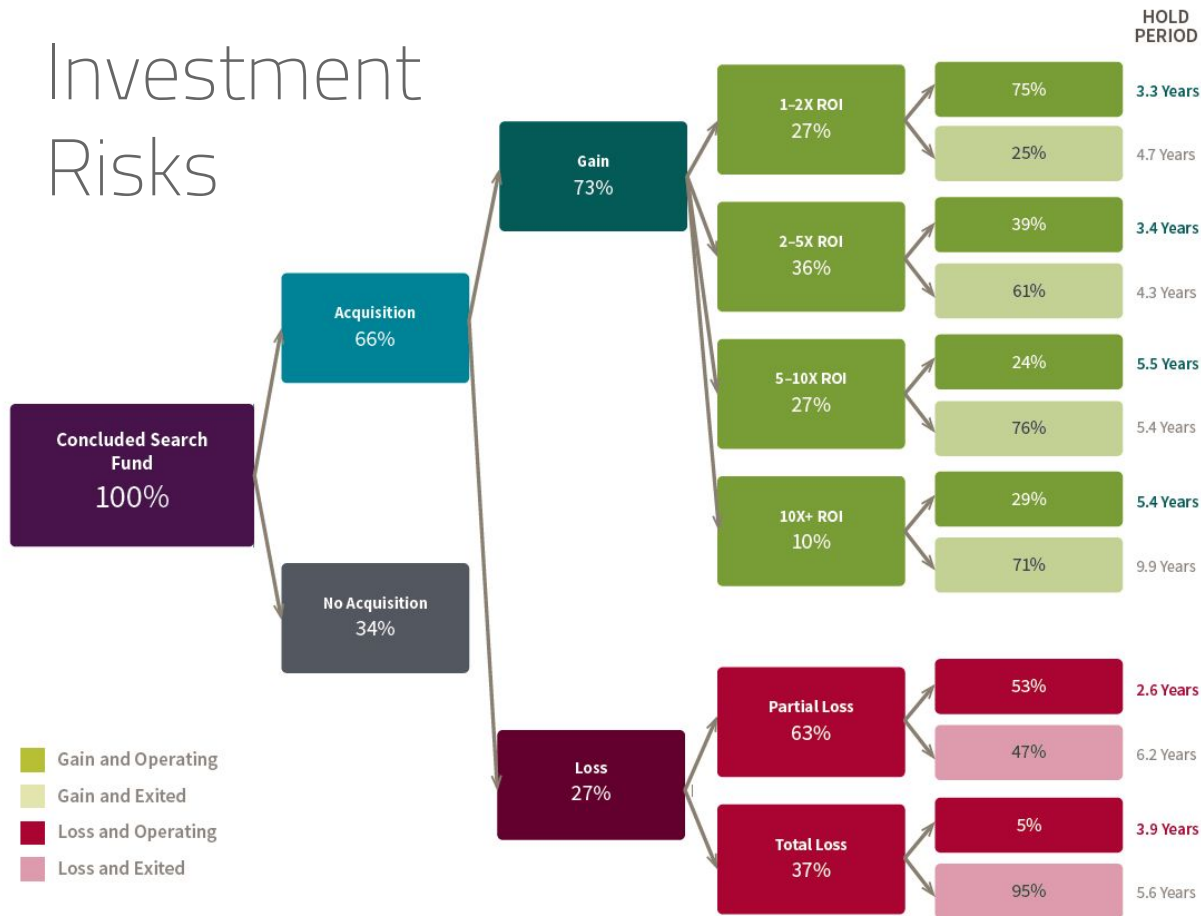
★ Optimal Deal Structure:

- 50% debt
- 30% equity
- 20% seller financing

★ 2 Phases of Capital Raise

- Search Capital - \$37,500
- Acquisition Capital - ~\$200K - \$700K
- Value Creation Plan presented before acquisition raise

Investment Risks



No Acquisition

In some cases, searchers did not successfully acquire a business.

Loss

In a smaller number of cases, the businesses are still operating or exited at a loss.

Image from Stanford GSB, 2022 Search Fund Study: Selected Observations

Principal Background

Who will be searching & operating the investment opportunity?



2

Anthony Franklin

Professional Background:

- ❑ VP of Sales - Curate (venture-backed SaaS)
- ❑ Head of Revenue - Ava (venture-backed SaaS)
- ❑ Sr Business Dev Manager - Gurtam (private SaaS)
- ❑ Inside Sales Manager - Avenir Creative

Entrepreneurial Experience:

- ❑ Founder/CEO - Spearhead Revenue Consulting
- ❑ Senior Pastor - Syracuse International Christian Church
- ❑ Judge - HBS New Venture Competition 2022/2023
- ❑ Executive MBA - Quantic School of Business & Tech
- ❑ Grand Champion (top .5%) - The Business Strategy Game (600 + campuses)



Unique Background

- ★ The son of a Nigerian immigrant & SMB owner
 - ★ Minority search CEO & entrepreneur
 - ★ Only family member to graduate high school
 - ★ Senior Pastor turned VP of Sales
 - ★ Multiplier of the Year 2019 - Wiseman Foundation
 - ★ Revenue Consultant for high-growth SMBs
 - ★ Product-Led Growth Expert
- 

Active Leadership



Finished a grueling endurance race with colleagues



The reseller partner network at Gurtam we built



Surfing off the coast of Honolulu, Hawaii



His three youngest children enjoying a snow day

Startup WEEK BOSTON 2021

Virtual Panel

Startups are for Closers:
HIRING YOUR FIRST SALESPERSON

Anthony Franklin
Vice President of Sales
Curate

SEPTEMBER 23 @ 5:45pm

#SBW2021

SALES + MARKETING

Active voice in the Boston small business community



Celebrating 10 years of marriage with his wife in Milan, Italy

How We Win

How are we better positioned to create outsized returns?

A large, light blue number 3 is positioned on the right side of the slide. The background features a dark blue grid pattern and a bar chart with vertical bars of varying heights, creating a data visualization effect.

3

Successful outcomes in search begin with...

- Deep understanding of a good business at a reasonable valuation
- Strong work ethic and operational rigor at all phases of the fund
- Ability to persuade a business owner to sell their business to you
- Experience with financial and valuation modeling
- Capability as an operator who can create lasting company value using multiple levers

How we will deliver outsized returns

Business Insight

As a consultant, the Principal has worked with 30+ small businesses, both venture-backed and bootstrapped, low & high margin

Operational Rigor

As the most senior revenue executive, the Principal has been the revenue architect for organizations ranging from \$2M-\$50M in ARR

Deep Connector

Whether connecting with hundreds of customers at scale or a mid-size congregation, Anthony is an expert in authentic human connection.

Value Creation

PE firms create value by growing sales, increasing margins, reducing overhead among others. The principal has robust experience in each of these areas.

Create Deal Flow

Success during the search depends largely on generating dealflow with proprietary search methods. Anthony is an expert on funnel management.

Financial Modeling

With nearly all his revenue consulting clients, the Principal has built evaluated and/or modified SMB financial models with CEOs/CFOs. Highly experienced.

Calling All Investors

Seeking a great investment team for a great opportunity

Targeting investors with some or all of:

- Search fund expertise
- SaaS investments
- M&A experience

1 Investment Unit = \$37,500*

**Investment units will be converted to securities in the acquired company and stepped-up by 50%
Preferred Rate is 8%*



Industry Analysis

What are attractive industries that align with our search?



Software Focused Search

We will be pursuing software businesses addressing niche, industry dependent problems. SaaS as an industry has stable, recurring revenue businesses with great gross margins



Minimum Investment Criteria

ARR Growth	5%
EBITDA Margin	10%
Net Revenue Retention	80%
Gross Margin	40%
Revenue Multiple	2X
Business Type:	B2B SaaS

(Minimum acceptable metrics, characteristics may vary)

Playbook for Attractive Entry Valuation

Finding attractive businesses with less deal competition

	ADVANTAGES	CHALLENGES	DEAL COMPETITION	VALUE CREATION PLAN
Niche TAM*	Less peer competition and low complexity	Must be GTM efficient, may have less upside	Less competitive due to lower growth potential	EBITDA focus, pricing changes, leaner teams
Software + Services	Shifting revenue profile can lead to multiple arbitrage	Service revenue must be replaced recurring revenue	Less competitive due to the hybrid sales model	Growth/ARR focus Automate, outsource or eliminate services.
On-Premise to Cloud SaaS	Shifting delivery of software can lead to multiple arbitrage	Will require capital, new business model and halt on new features	Less competitive typically PE firms less interested in strategy	Close mgmt of product & GTM acceleration post-rebuild
Distressed Series A SaaS	Lower cost growth w/ the upside largely untapped	Difficult transition, company pref stack may dissuade founders	Moderately competitive due to potential upside	Equal EBITDA/Growth focus, restructure org chart for a leaner team

Sub-Industry #1: Fraud Detection Software

Thesis

With the rise of generative AI, we believe fraud detection will increase in importance, despite the already impressive growth. As early adopters rapidly adopt generative AI, there will be an equally important market demand for understanding when human or AI-generated data is fraudulent.



Fraud Detection Software: Why does it fit?

Searcher Fit

One of my longest standing consulting clients was in the SaaS fintech world and fraud was a top problem. It is a mission critical problem for many companies

Fragmented & Profitable

The largest operators are expected to claim just 5%* of industry total revenue. Average profit margins in the industry will account for 5.2% of revenue in 2022, up from 1.4% in 2017*

Growing & Large

Large number of companies to target - 910 fraud detection software companies exist*. CAGR growth rate expected to be 7.34% through 2028*

Fraud Detection Software Economics

- Due to the connected nature of the offering, the industry uses the online SaaS recurring revenue model entirely
- Platform fees can vary but very often provide a KYC (Know Your Customer) service for flat monthly fee
- ex \$1500 monthly fee for 1500 verification checks
- Consulting services may be offered for customers wanting deeper AML (Anti-money laundering) implementation

Fraud Detection: Growth Opportunities

- We want to acquire a small, yet profitable fraud detection business operating primarily in finance, insurance, telecom, healthcare or the public sector
- The acquired business needs to efficiently grow in a new market
- With many low or zero profit companies in the space, there is an opportunity for a roll-up strategy to achieve economies of scale
- Businesses offering cloud-based fraud detection become more important as customers move workloads to the cloud
- Drivers:
 - Percentage of business conducted online*
 - Crime rate*
 - Number of mobile connections*

Fraud Detection Software Deals

	MVIC Price	Revenue	MVIC/Revenue
ID Experts Holdings	\$328,225,000	\$106,072,000	3.09x
CDMS Ltd (dba Transactis)	\$9,595,500	\$10,802,309	.89x
WP Roaming III S.á r.l. or MACH	\$701,363,000	\$175,619,000	3.99x

Sub-Industry #2: E-Discovery Software

Thesis

This software helps legal firms, government institutions, and corporations to produce evidence. Increasing regulations regarding the retention, modification, and deletion of ESI (electronically stored information) have prompted many companies to seek e-discovery software to assure legal compliance and to provide the ability to produce electronic evidence when called upon. Moreover, a steady expansion in the complexity and volume of data has bolstered demand for e-discovery software products, which sift through ESI to identify, collect and produce relevant information.



E-Discovery Software: Why does it fit?

Searcher Fit

Buyers of this type of SaaS are typically law firms or financial institutions. Vertical specific GTM strategy is a speciality for the Principal

Fragmented & Profitable

Few large companies influencing the cost structure of the industry. Average industry profit, measured by EBITDA, is estimated to comprise 17.7% of revenue in 2021*

Growing & Large

Large number of companies to target - 547 e-discovery companies exist*. CAGR growth rate expected to be 3.4% through 2028*

E-Discovery Software Economics

- E-discovery is a combination of software + services (55%/45%)*
- This software type offers both online SaaS (84% of licenses) and on-premise legacy systems (16% of licenses)*
- Training for client employees represents ~28% of total revenue and one-time product setup, mainly due to on-premise software, represents 18% of total industry revenues.*
- Price can vary based on the total amount of data stored

E-Discovery: Growth Opportunities

- There are opportunities here to buy a reputable software company with, primarily, an on-premise legacy offering and then develop a more scalable SaaS offering
- When the acquisition target offers a legacy software product, valuation multiples may be more attractive
- Other opportunities are to buy-and-build, then target sales growth into markets without much on-premise demand
- Due to the nature of electronically stored information and how it is used, a partnership with firms offering expert testimony or other legal services is plausible
- Drivers:
 - Percentage of business conducted online
 - Increased use of social media
 - Corporate profit (profitable companies will litigate to protect their market)
 - Demand from law firms
 - More government regulation

E-Discovery Software Deals

	EV	Revenue	EV/Revenue
Avalon Document Services	\$36,000,000	N/A	N/A
Lateral Data	\$30,000,000	N/A	N/A
CaseCentral	\$17,100,000	N/A	N/A

Sub-Industry #3: Speech Recognition Software

Thesis

Speech recognition software recognizes the articulated words of a speaker and converts them into a digital format. Successful companies are focused on vertical applications of this technology (dictation for doctors, voice recognition for lawyers, speech recognition for the deaf, etc.) Voice recognition can be used like a fingerprint and is aimed toward identifying the speaker, often for security purposes, using voice biometrics solutions. Furthermore, voice recognition helps consumers with high accuracy speech recognition, natural language understanding, dialog and information management, and text-to-speech. Because of the variety of voice patterns, the imperfect technology has varying degrees of accuracy because speech is dynamic and human emotion can change speech patterns.



Speech Recognition Software: Why does it fit?

Searcher Fit

Principal formerly worked in the speech and voice recognition software industry. He understands the competition and feature differentiation

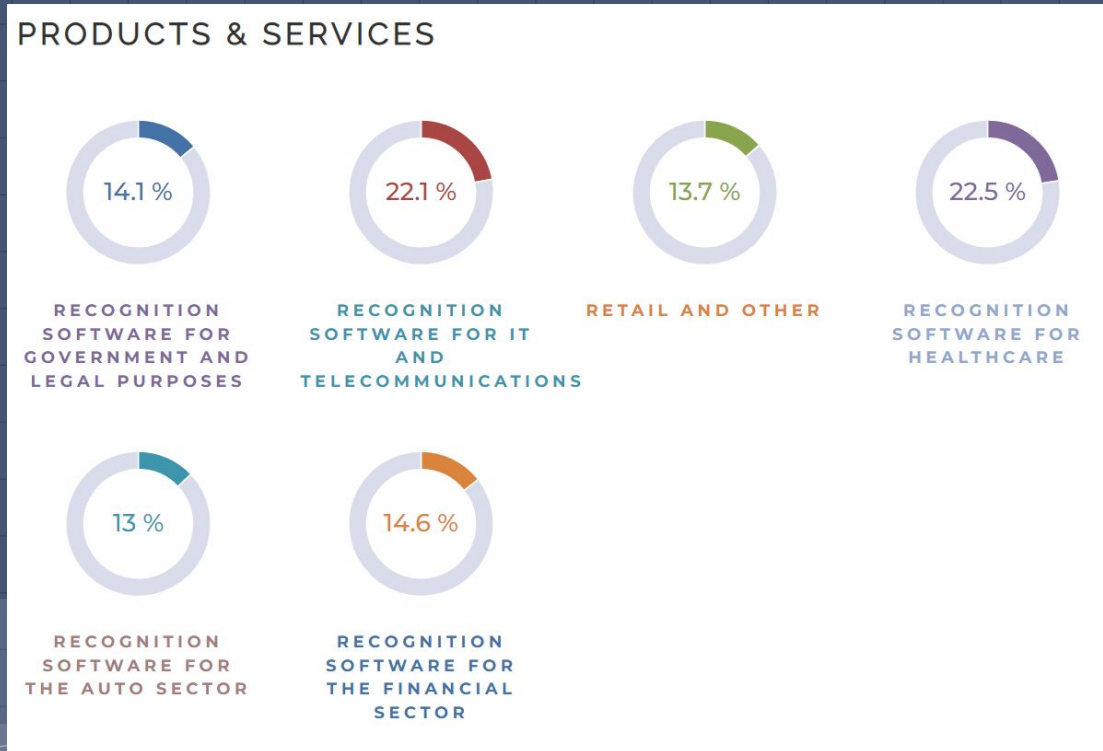
Fragmented & Profitable

Few large companies influence the cost structure of the industry. Industry profit has remained high over the five years to 2021, and is expected to account for 30.4% of revenue going forward*.

Growing & Mission Critical

Industry revenue is expected to increase at an annualized rate of 2.08%*. Niche applications of speech recognition are critical to operations.

Speech Recognition Software Economics



Speech Recognition Software Economics

- There are two types of businesses making money:
 - Large ecosystem players: Google, Microsoft, Apple and Amazon who dominate automotive and their own ecosystems
 - Smaller more profitable niche players: address healthcare, legal, government & telecom (see Nuance acquisition)
- Automated captioning – at best 85% accuracy vs human captioning - 98% accuracy
- Human captioning still requires a software platform and human real-time captioning is \$65-\$150 an hour
- Google charges just \$0.0075 per minute for speech recognition through API
- Businesses often use Google API (or Microsoft) but then white label it as their own speech recognition
- Most business models are recurring revenue models based on a per user seat license, but others have a lower cost API model

Speech Recognition: Growth Opportunities

- The goal would be to buy-and-build a software company serving an important niche of customers and offering some type of human intervention
- Generally, I will want to provide unique services with higher margins: interpretation, translation, audio description
- The niche served can be any type of B2B customer - creators, law firms, health etc
- Privacy is a significant concern as human voice is an identifier - businesses offering privacy-first can charge a premium
- Drivers:
 - Number of mobile internet connections
 - Percentage of business conducted online
 - New car sales
 - Total health expenditure
 - Employment of disabled population

Speech Recognition Software Deals

	Revenue	EBITDA	MVIC Price
Philips Speech Recognition Systems	\$20,972,000	N/A	\$96,606,000
MultiModal Technologies, Inc.	\$20,003,280	\$6,819,973	\$97,902,000
Soliloquy (a Division of JTT Holdings)	\$1,878,632	-\$2,694,851	\$10,685,000

THANKS!

Any questions?

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