



Arcos Group

Sample Due Diligence Document

Client: *Middle market PE firm*

Industry: *cloud-based SaaS software*

Scope: *n=100 survey; 15 expert interviews;
TAM sizing and segmentation*

JUNE 2020

Project summary

Commercial Due Diligence examining a SaaS target on behalf of a Silicon Valley PE fund

We helped a private equity fund size and segment the market for a B2B technology player. Our insights gave the deal team additional insight needed to complete the transaction and informed strategic priorities in post-merger integration.



Impact

Our findings revealed that the B2B software provider was operating in a highly lucrative market with comparatively weak competitors. While cost pressure was a concern, our findings suggested the market would continue to grow as more customers migrated away from "pen and paper" and toward advanced technology solutions like those offered by the target.

Context

A Silicon Valley-based private equity fund with \$15B+ under management approached one of our consultants asking for support in executing commercial due diligence. Our team executed the project in a two-week time frame with limited follow-on requests during week three.

Approach

Our diligence included 15 interviews of CXOs and careful examination of 3rd party research reports related to the space. Coupling these insights with web-search of publicly available records enabled our team to develop a detailed view of the market, including segmentation, expected growth and market share over time. Our findings were synthesized into a management prestation with read-outs performed at weekly intervals.

Agenda

Process update

Executive summary

Market assessment

Risk assessment

Competitive profiling

Customer buying patterns

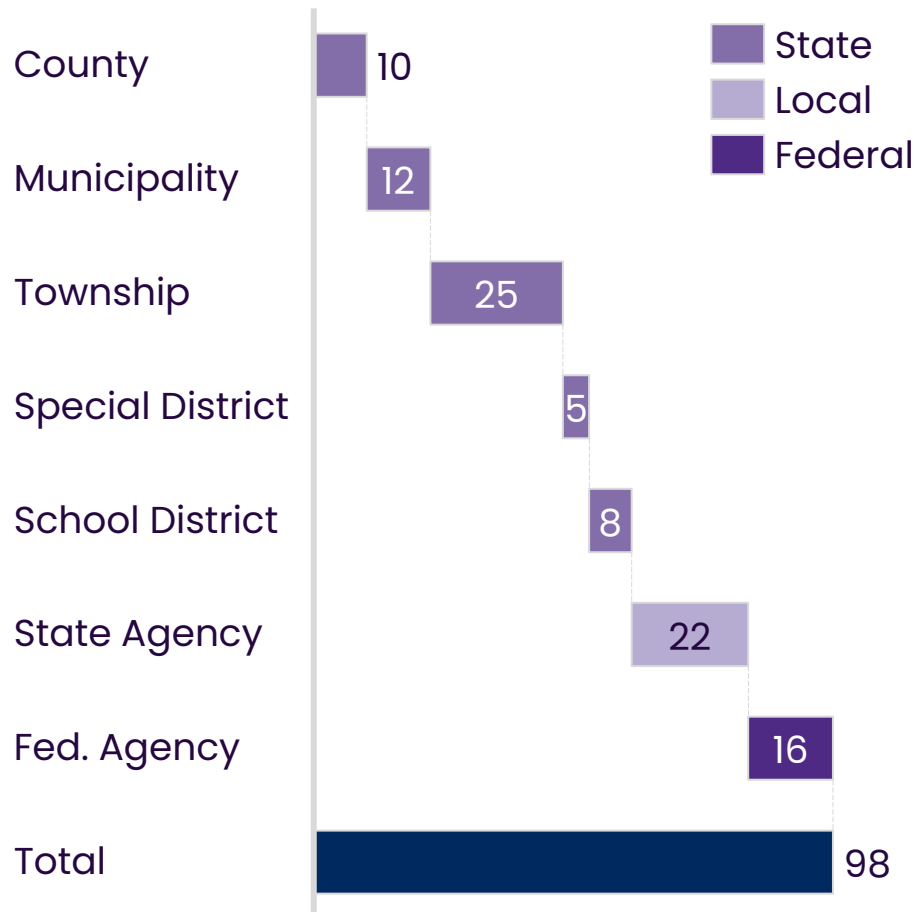
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Expert interview overview

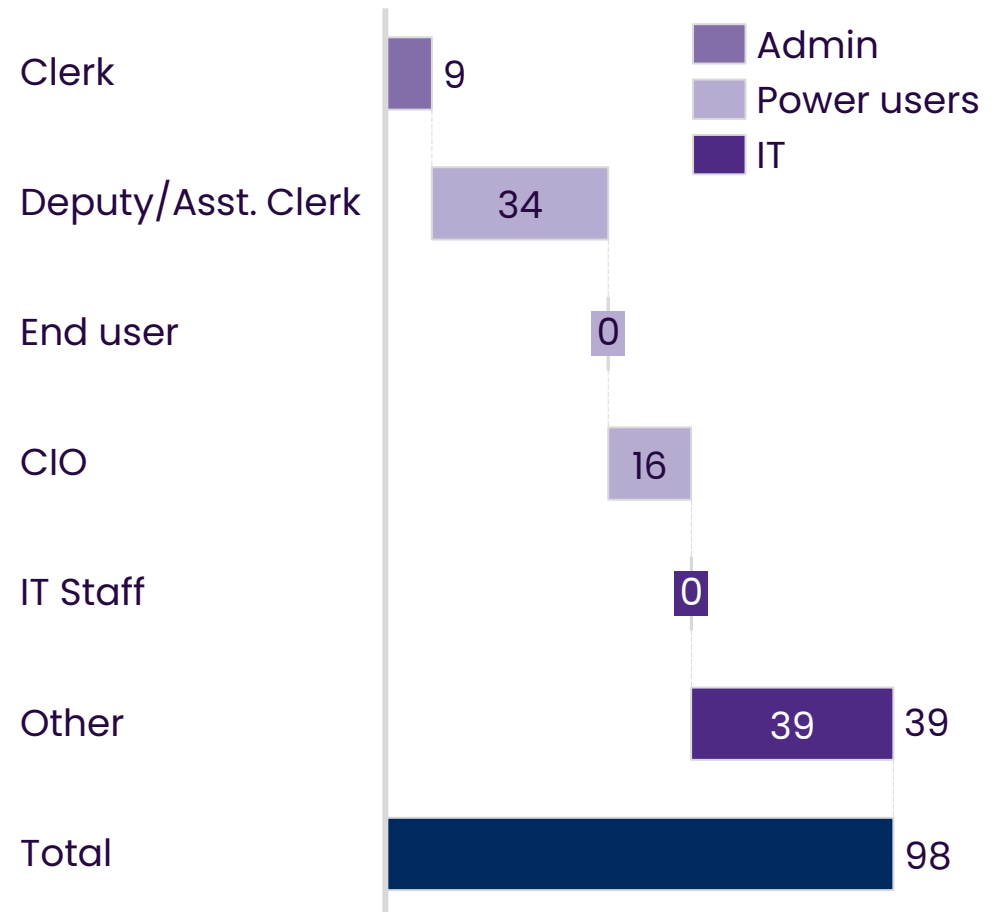
	Name	Role	Organization	TARGET user?
State	▪ Anthony B.	▪ Chief Information Officer	▪ ...	▪ yes
	▪ Brian C.	▪ Chief Information Officer	▪ ...	▪ yes
	▪ Christine D.	▪ Chief Financial Officer	▪ ...	▪ yes
	▪ Daniel E.	▪ Director of Ops and Purchasing	▪ ...	▪ yes
	▪ Erica F.	▪ Chief Information Officer	▪ ...	▪ yes
	▪ Francisco G.	▪ Manager, Digital Services	▪ ...	▪ yes
	▪ Genevieve H.	▪ Chief Information Officer	▪ ...	▪ yes
	▪ Harold I.	▪ Chief Technology Officer	▪ ...	▪ no
Local	▪ Ignacio K.	▪ Chief Procurement Officer	▪ ...	▪ yes
	▪ Lilian M.	▪ Senior Director – purchasing	▪ ...	▪ yes
Federal	▪ Manu O.	▪ Business Support	▪ ...	▪ yes
	▪ Oliver P.	▪ Senior Vice President – purchasing	▪ ...	▪ yes
Target employees	▪ Prakesh Q.	▪ VP of Product Marketing	▪ TARGET	▪ NA
Competitors	▪ Quentin R.	▪ Director of Sales	▪ ...	▪ NA
	▪ Ralph S.	▪ Director of Sales	▪ ...	▪ NA

The survey includes respondents from all levels of government; while more responses are expected, insights included in this document reflect results at n=98

Survey respondents by type of government



Survey respondents by functional role



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1 The PRODUCT CATEGORY market is large and growing

- 2019 TAM is \$1.9B
- 2024 TAM is expected to grow to \$3.5B+ (CAGR ~15%), driven primarily by price increases and increased adoption in SEGMENT3 buyers

2 The purchasing process for PRODUCT CATEGORY software is driven by three players

- **Heavy functional** users are regular users of the tool and **may wield significant influence in software selection** (e.g. ... for USE CASE 1 and USE CASE 2; ROLE2's and CIOs for USE CASES 3, 4 and 5
- **Centralized admin support (e.g. CIOs and CPOs)** are primarily concerned with architectural aspects of software design and cost

3 Consumer preferences appear consistent across all layers of buyer

- **90% of experts surveyed prefer cloud**, with about 80% expressing preference for hybrid cloud over pure cloud solutions
- **REGULATION 1, 2 and 3 are not anticipated to be major threats** to the SEGMENT3 and SEGMENT2 level buyer markets
- SEGMENT3 buyer experts express preference for **value, feature content and stability over pure cost in software selection**. Referrals from other users are influential
- **Switching costs are high**. Averaging \$X-Yk and Z months to execute transition. Users avoid transitioning unless price increases are very high or vendor is deemed financially at-risk

4 TARGET is viewed as a competitive, but not the top player:

- Average score from experts surveyed: **TARGET: 4.1**; Comp1: 4.4; Comp2: 4.6; Comp3: 3.3; Comp4: 4.5
 - **Advantages:** Clean, easy-to-use tech, excellent integration
 - **Drawbacks:** Not as fully featured as COMPI (lacks case flow module), customer support issues during previous ownership transitions

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Total addressable market size for Target is expected to reach \$3.7B+ by 2024; growth is driven primarily by customer SEGMENT 3

Total addressable market size by customer segment (recurring revenue only)
USD Millions

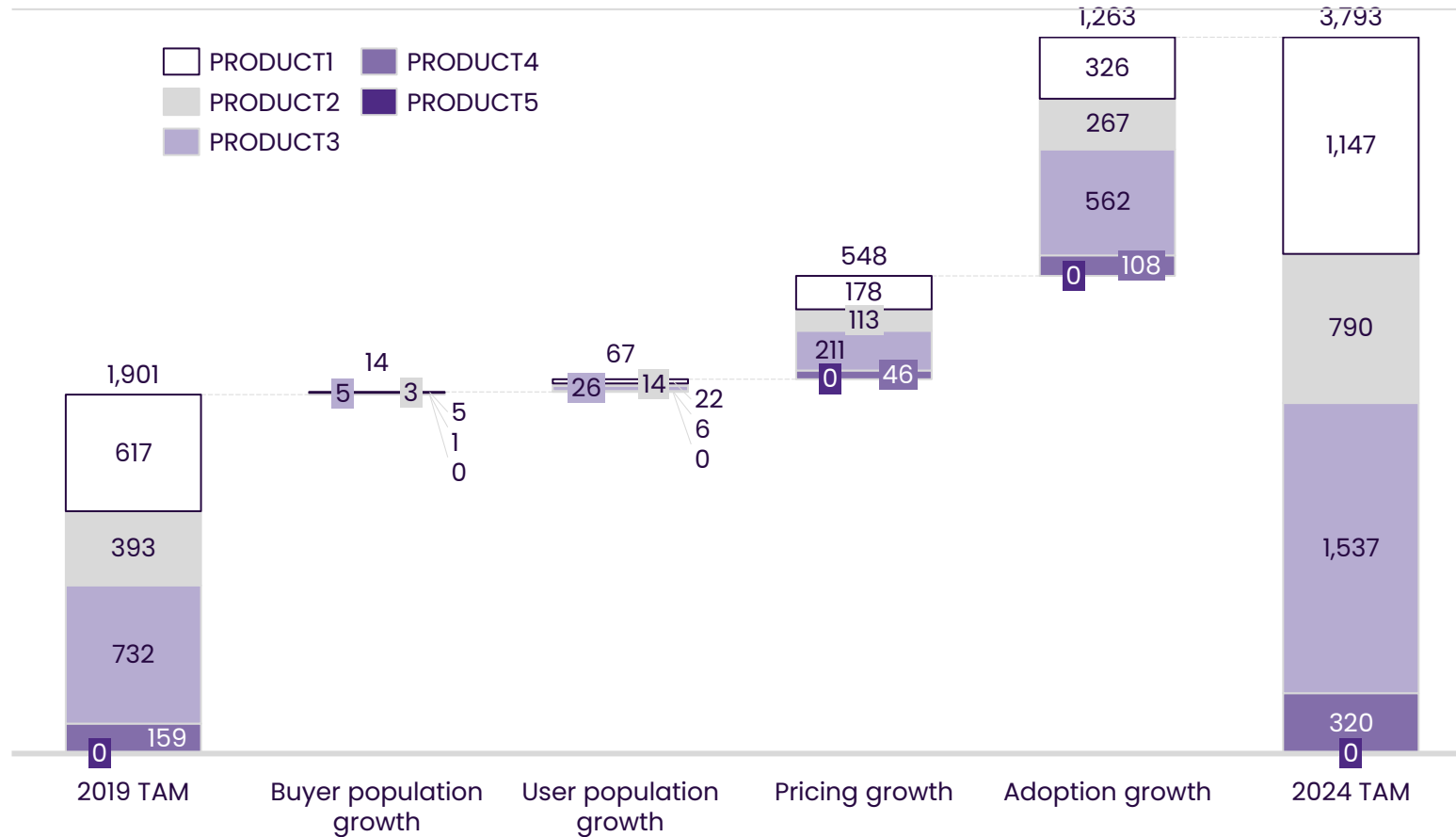


Insights

- ...

Total addressable market size for Target is expected to reach \$3.7B+ by 2024; growth is driven primarily by PRODUCT 3

Total addressable market size by product segment (recurring revenue only) USD Millions



Insights

- ...

2019 TAM detail

USD Millions

2019 Total Addressable Market (TAM)

	Federal	State	Local	Special district	Int'l	Total	% share (insource+ outsource)	% share (outsource only)
Delivery	\$37	\$51	\$89	\$117	\$3	\$297	20%	68%
Meeting management	\$0	\$0	\$100	\$132	\$0	\$232	19%	64%
Self service portal	\$0	\$49	\$277	\$0	\$10	\$336	4%	12%
Transparency platform	\$0	\$0	\$57	\$75	\$0	\$132	6%	20%
Record keeping	\$0	\$0	\$0	\$0	\$0	\$0	NA	NA
Total	\$37	\$100	\$522	\$324	\$13	\$997	14%	45%

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2024 TAM detail

USD Millions

2024 Total Addressable Market (TAM)

	Federal	State	Local	Special district	Int'l	Total
Delivery	\$68	\$127	\$190	\$251	\$4	\$641
Meeting management	\$0	\$0	\$214	\$283	\$0	\$498
Self service portal	\$0	\$120	\$596	\$0	\$13	\$729
Transparency platform	\$0	\$0	\$122	\$161	\$0	\$283
Record keeping	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$68	\$247	\$1,122	\$696	\$18	\$2,151

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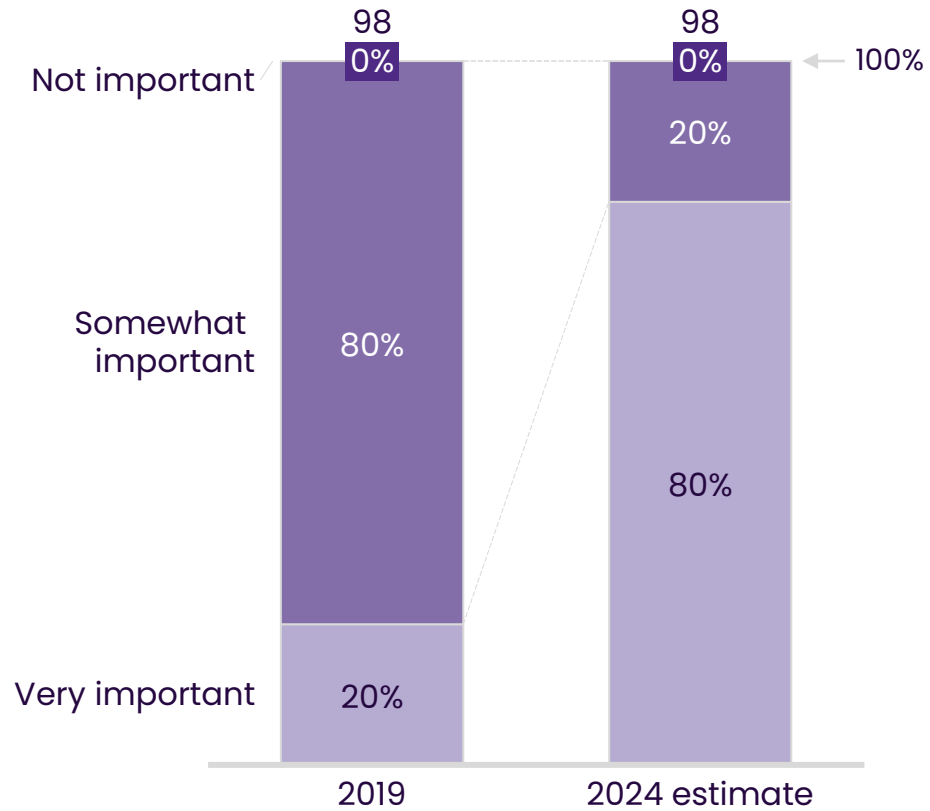
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Experts believe see emerging impact from regulations at the SEGMENT 1 and 2 level today; they anticipate further impact in the future

How important is REGULATION 1,2 or 3 compliance in PRODUCT selection at the SEGMENT 1 and 2 level?



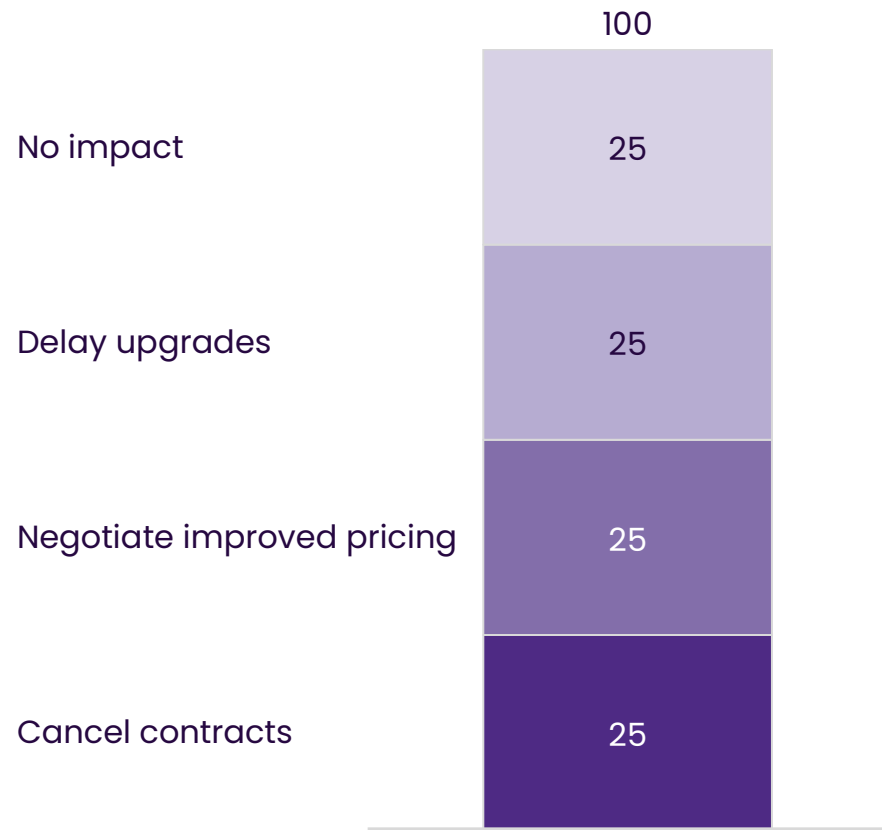
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Experts agree a recession will impact software vendors, but they disagree on how a recession would impact purchasing behaviors

How do you anticipate a recession will impact your organization's purchasing patterns for its PRODUCT CATEGORY?



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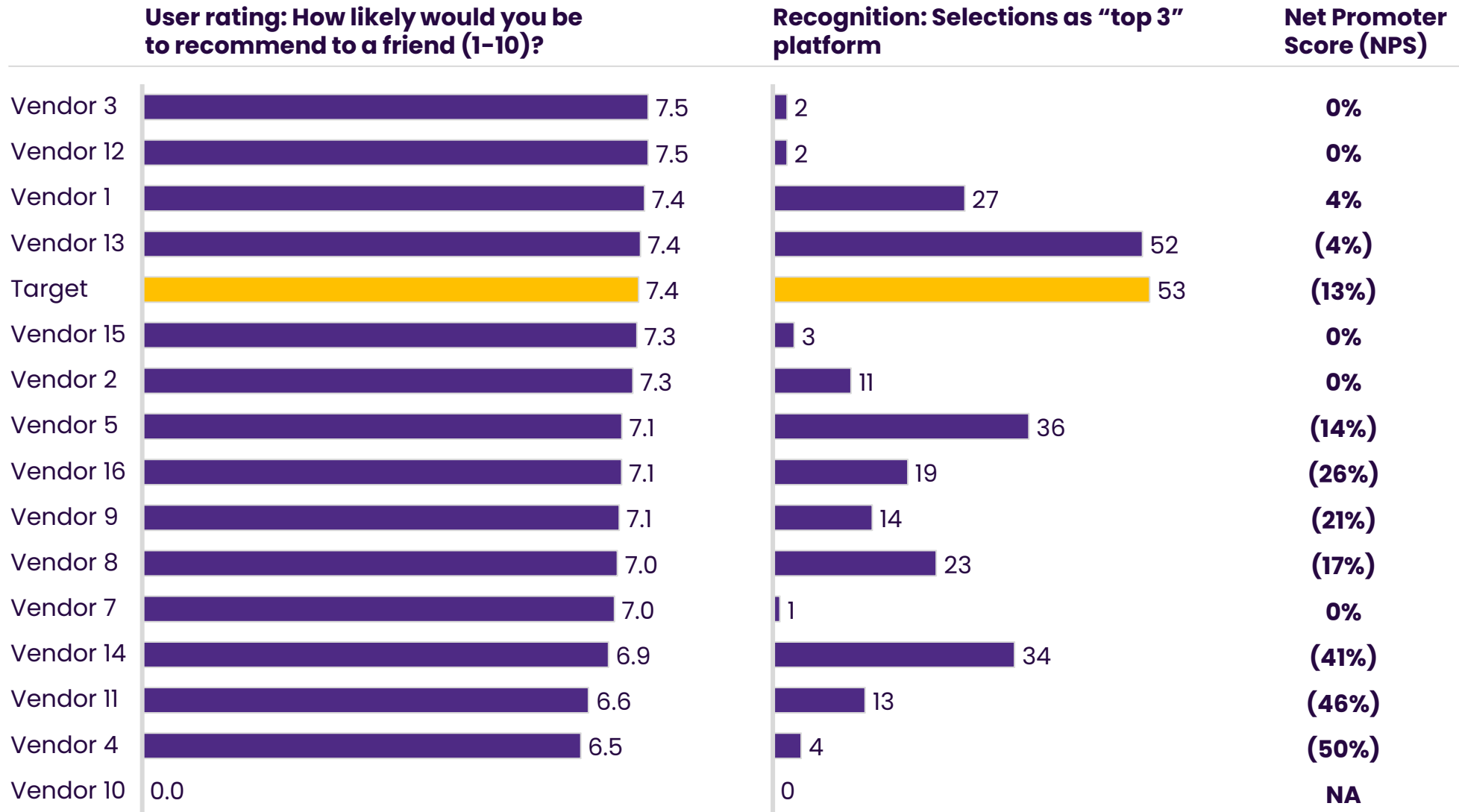
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TARGET scores high in name recognition and is competitive with other top solutions; products are weakly differentiated in terms of overall user rating



Competitive profile: TARGET

Competitive profile

Recognition score: ...
Net promoter score: ...
Revenue: ...
Ownership ...

Summary

Advantages:

- ...

Drawbacks:

- ...

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Expert quote here

Competitive profile: COMPETITOR1

Competitive profile

Recognition score: ...
Net promoter score: ...
Revenue: ...
Ownership ...

Summary

Advantages:

- ...

Drawbacks:

- ...

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Expert quote here

Expert quote here

Competitive profile: COMPETITOR2

Competitive profile

Recognition score: ...
Net promoter score: ...
Revenue: ...
Ownership: ...

Summary

Advantages:

- ...

Drawbacks:

- ...

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Expert quote here

Expert quote here

Competitive profile: COMPETITOR3

Competitive profile

Recognition score: ...
Net promoter score: ...
Revenue: ...
Ownership: ...

Summary

Advantages:

- ...

Drawbacks:

- ...

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The buyer contracting process generally takes 100–200 days once RFP is issued



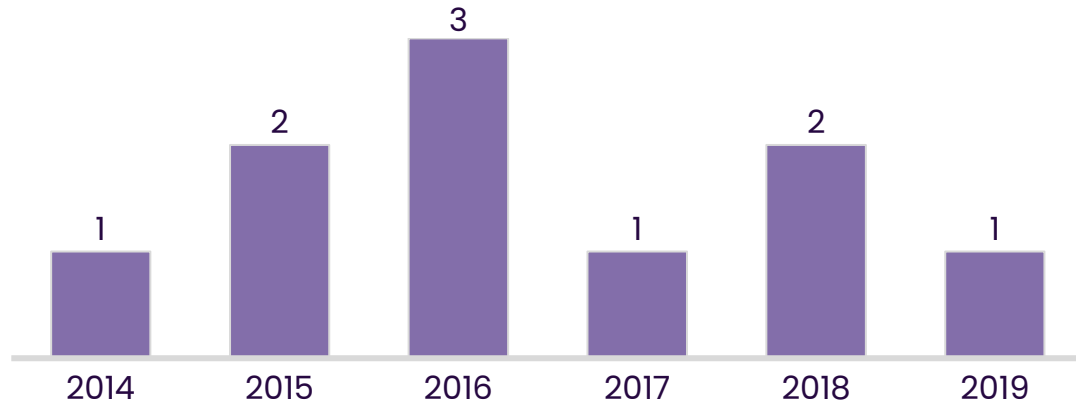
At the SEGMENT3 buyer level, power users typically originate requests for software; they can be influential in the purchasing process

	Digital communication s	Meeting automation (leg. Management)	Digital services	Citizen portal + website	Citizen records
Power user	<ul style="list-style-type: none"> ▪ ROLE8 	<ul style="list-style-type: none"> ▪ ROLE 4 	<ul style="list-style-type: none"> ▪ CIO ▪ Treasury / Finance 	<ul style="list-style-type: none"> ▪ CIO ▪ ROLE8 	<ul style="list-style-type: none"> ▪ ROLE 4 ▪ ROLE7
Administrative support	<p>Director of Procurement (ensures adherence to correct purchasing process) CIO / Director of IT (validates compliance with security, architectural, stability, software maturity req's)</p>				
Final contract execution	<p>ROLE7 or Director of Procurement</p>				

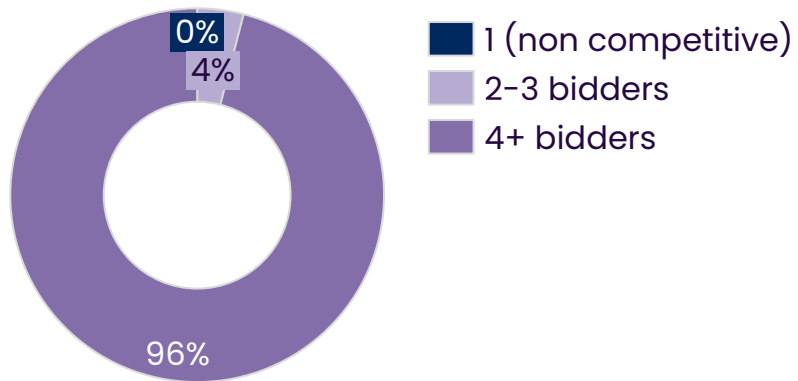
- **Power users are the most frequent users of a software package** and are typically the most sensitive to feature content and usability
- While they may not be familiar with full spectrum of solutions available in the market, **power users may guide IT and Procurement teams to consider specific vendors** based on referrals from other buyer users

Most state and local government buyers require that software contracts are reviewed every 5 years

When was the last time you re-evaluated your software platform?



How many bidders were included on your last RFP?



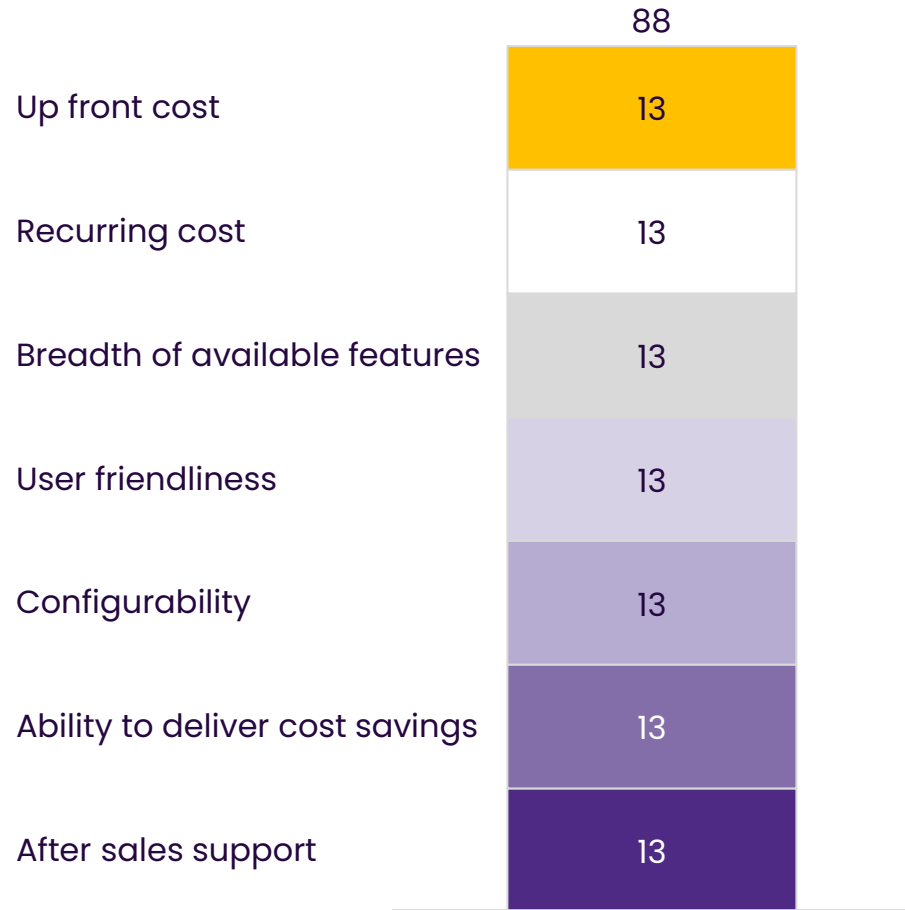
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Experts surveyed indicated that XXX and YYY are the most differentiating features in selecting a PRODUCT CATEGORY

What is the differentiating factor for your #1 choice in software platform?



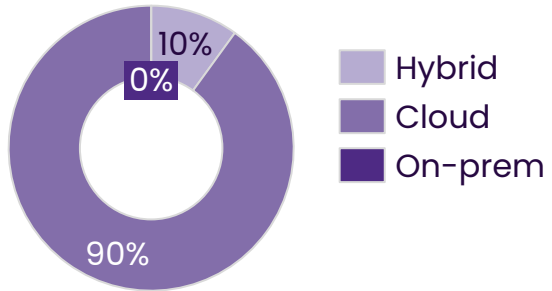
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Experts prefer cloud solutions, but many voice a need to host sensitive data in a private hosted cloud environment

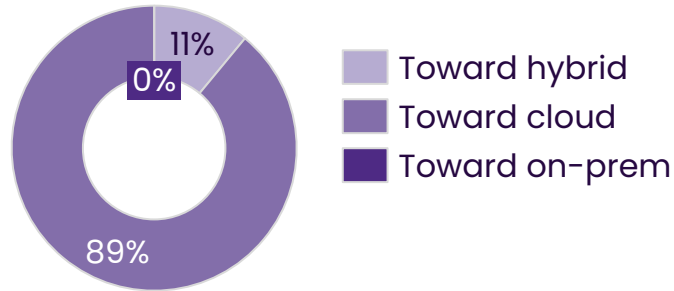
Do you prefer a cloud-based or on-prem?



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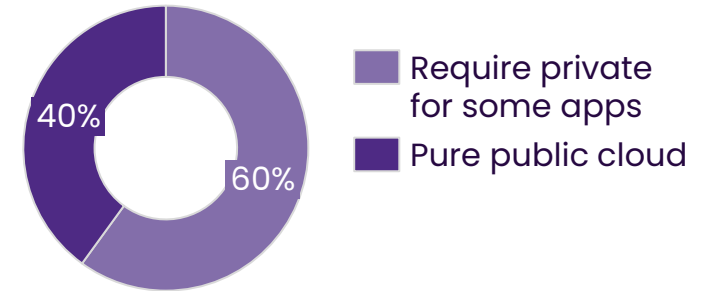
How do you anticipate platforms evolving?



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Do you prefer true cloud or private cloud?

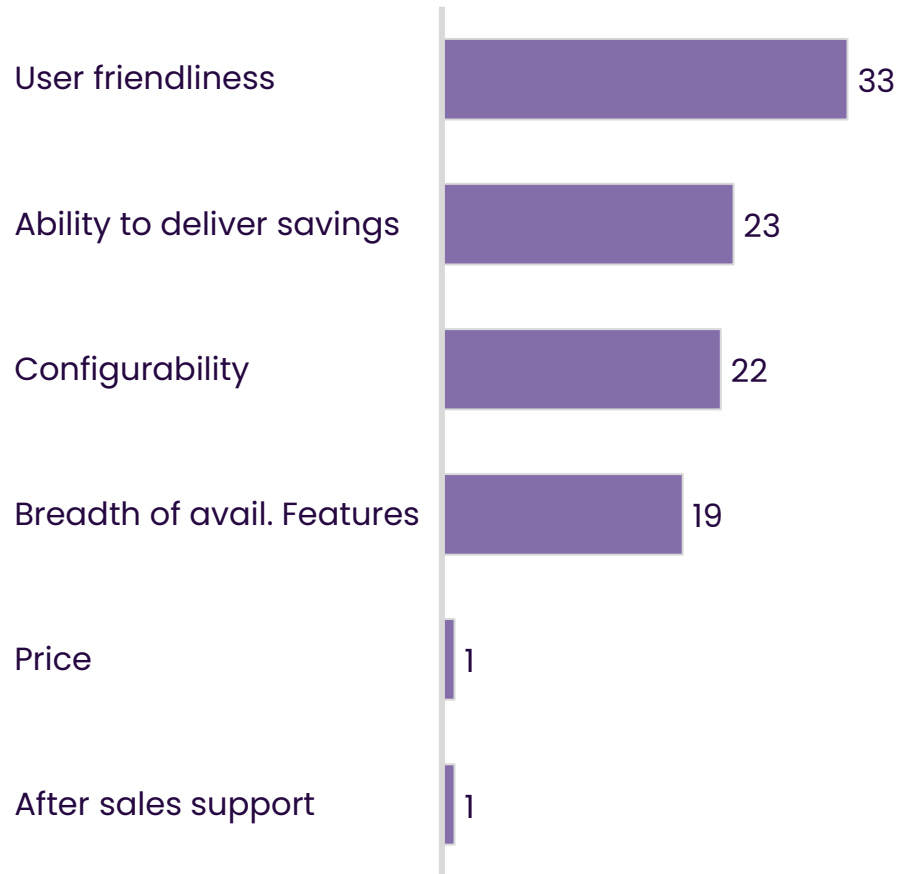


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Most experts agree the PRODUCT CATEGORY is critical to daily buyer operations, especially legislative management and website functions

What is the differentiating factor for your #1 choice in software?



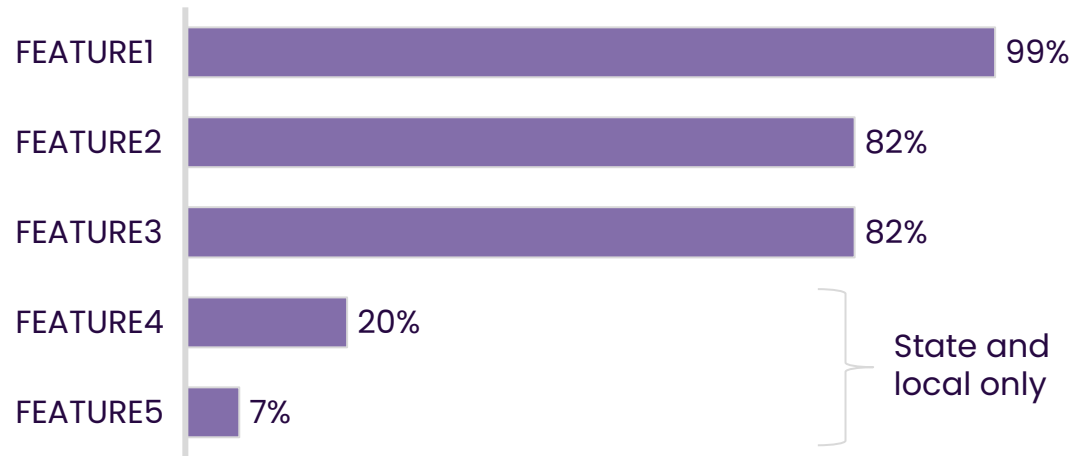
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All levels of buyers reported use of 1, 2 and 3 features in their PRODUCT; Features 1 and 2 are considered most critical

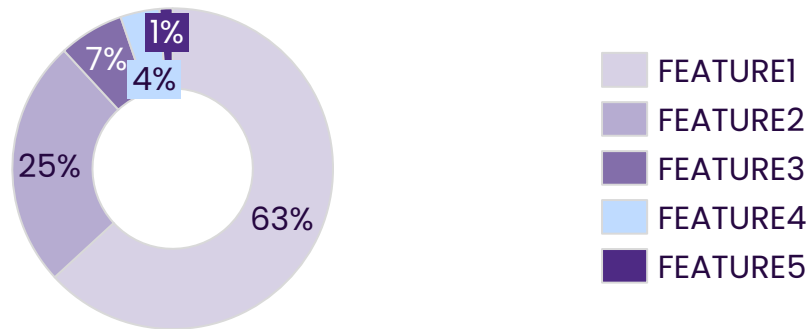
Which modules of the PRODUCT does your organization use?



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What is the most critical module on the PRODUCT?



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Market sizing detail: Meeting management

	Avg ARR per customer (USD thousands)	2017 Population of governing bodies	% of market addressable - 2019	2019 TAM (USD millions)	% of market addressable - 2024	2024 TAM (USD millions)
Federal	\$157.7	1,806	13%	\$37	18%	\$68
State	\$67.5	3,699	21%	\$51	38%	\$127
Local	\$10.6	38,779	22%	\$89	35%	\$190
Special district	\$10.6	51,296	22%	\$117	35%	\$251
International	\$10.6	300	100%	\$3	100%	\$4
Total				\$250-300M		\$600-650M

Market sizing detail: Delivery

	Avg ARR per customer (USD thousands)	2017 Population of governing bodies	% of market addressable - 2019	2019 TAM (USD millions)	% of market addressable - 2024	2024 TAM (USD millions)
Federal	NA	1,806	0%	\$0	0%	\$0
State	\$23.0	3,699	0%	\$0	38%	\$0
Local	\$12.0	38,779	22%	\$100	35%	\$214
Special district	\$12.0	51,296	22%	\$132	35%	\$283
International	NA	300	0%	\$0	0%	\$0
Total				\$200-250M		\$450-500M

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Market sizing detail: Transparency platform

	Avg ARR per customer (USD thousands)	2017 Population of governing bodies	% of market addressable - 2019	2019 TAM (USD millions)	% of market addressable - 2024	2024 TAM (USD millions)
Federal	\$266.1	1,806	0%	\$0	18%	\$0
State	\$63.9	3,699	21%	\$49	38%	\$120
Local	\$33.3	38,779	22%	\$277	35%	\$596
Special district	\$33.3	51,296	0%	\$0	35%	\$0
International	\$33.3	300	100%	\$10	100%	\$13
Total				\$300-350M		\$700-750M

Market sizing detail: Record keeping

	Avg ARR per customer (USD thousands)	2017 Population of governing bodies	% of market addressable - 2019	2019 TAM (USD millions)	% of market addressable - 2024	2024 TAM (USD millions)
Federal	NA	1,806	0%	\$0	0%	\$0
State	NA	3,699	0%	\$0	0%	\$0
Local	\$0.0	38,779	22%	\$0	35%	\$0
Special district	NA	51,296	0%	\$0	0%	\$0
International	NA	300	0%	\$0	0%	\$0
Total				\$0		\$0

Market sizing detail: Self service platform

	Avg ARR per customer (USD thousands)	2017 Population of governing bodies	% of market addressable - 2019	2019 TAM (USD millions)	% of market addressable - 2024	2024 TAM (USD millions)
Federal	\$54.4	1,806	0%	\$0	18%	\$0
State	\$13.1	3,699	0%	\$0	38%	\$0
Local	\$6.8	38,779	22%	\$57	35%	\$122
Special district	\$6.8	51,296	22%	\$75	35%	\$161
International	\$6.8	300	0%	\$0	100%	\$0
Total				\$100-150M		\$250-300M