



GP.Bullhound

Consumer Subscription Software Insights

August 2019

GP.Bullhound

- 1** **Consumer Subscription Software (“CSS”) Insights**
- 2** CSS CEO Commentary
- 3** Investor Interest in CSS is Growing
- 4** About GP Bullhound

Consumer Software Perspectives – Executive Summary

- **GP Bullhound** is a leading technology advisory and investment firm, providing transaction advice and capital to category leaders with a robust focus on Enterprise & Consumer Software globally
- We publish this Consumer Subscription Software (“CSS”) market report to provide qualitative insights into company business models, technology and customer trends
- In this report, we also feature several of the leading CSS companies & CEOs across interesting sub-sectors as well as establish a first of its kind ecosystem mapping for the CSS market
- Our research and report focus on software business models and content and do not include physical products or goods due to different margin and cash flow profiles
- In the next few years, we expect many consumer companies to transition from transactional to subscription business models:
 - Uber is experimenting with combining discounts on Uber rides with free Uber Eats delivery and Jump Bikes for \$24.99 a month
 - Apple is moving away from selling individual songs on iTunes to primarily selling Apple Music Subscriptions
 - Google launched Stadia Pro, a gaming subscription, that allows gamers to forgo purchasing an expensive system, instead paying \$10 a month to access various titles
- As a firm, GP Bullhound has been active in the CSS sector from both an advisory and an investment perspective:



GP Bullhound's views on the CSS Ecosystem

① *Passionate fans are demanding software to enhance their activities and make their lives easier*

- Consumers want a product that is tailored to their needs, saves them time and makes their lives easier. **Unlike in the early days of the internet, consumers are now willing to pay for that privilege**
- Entrepreneurs are responding with applications and services tailored to enhance the user experience versus primarily deliver ads. A key attribute is the ability to capture user generated data to enhance the individual experience as well as the total user population's collective experience
- Integrations with consumer collaboration tools including social media, GPS and wearables, are allowing rapid user distribution and data collection
- CSS use cases are extremely broad with many categories yet to crown a winner and new use cases being developed frequently



ON X

SUMMIT PARTNERS
Capital Raised: \$20m
Deal Date: 2/2018

talkspace

Capital Raised: \$50m
Deal Date: 5/2019

② *Business models are evolving with entrepreneurs focusing on the CSS flywheel*

- Companies are developing content and activities to engage users, leveraging that data to improve and enhance the experience for all users
- Freemium models with crucial services hidden behind a paywall are critical to capturing initial users and then encouraging power users to become paying customers



AllTrails

SPECTRUM EQUITY

Deal Date: 10/2018

teamsNAP

FOUNDRY GROUP

Capital Raised: \$25m
Deal Date: 1/2017

③ *Consequently, CSS Unicorns are being crowned with more on the way*

- The highly public and visible Spotify and Calm transactions result in these CSS companies becoming successful unicorns. Following closely in their footsteps, other CSS companies are building highly profitable and sustainable business models, drawing investor interest.
- GP Bullhound expects additional investment and M&A deals to be announced as financial investors and strategic buyers are rapidly grasping the power of the CSS business model
 - Muslim Pro acquisition by CMIA & AHAM
 - Foreflight acquired by Boeing



Calm

INSIGHT VENTURE PARTNERS

Capital Raised: \$88m
Deal Date: 2/2019

Spotify

IPO
EV: \$23bn
IPO Date: 4/2018

CSS Attributes & KPIs to Drive Valuation

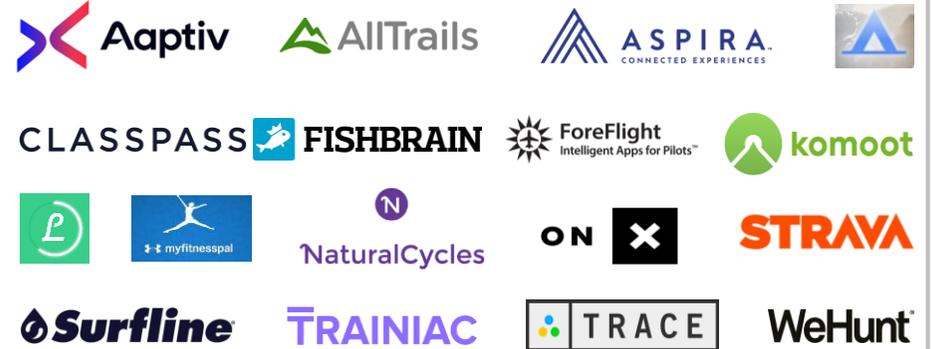


CSS Ecosystem

Entertainment



Fitness / Outdoors



EdTech



Personal Finance



Health / Mindfulness



Online Tools



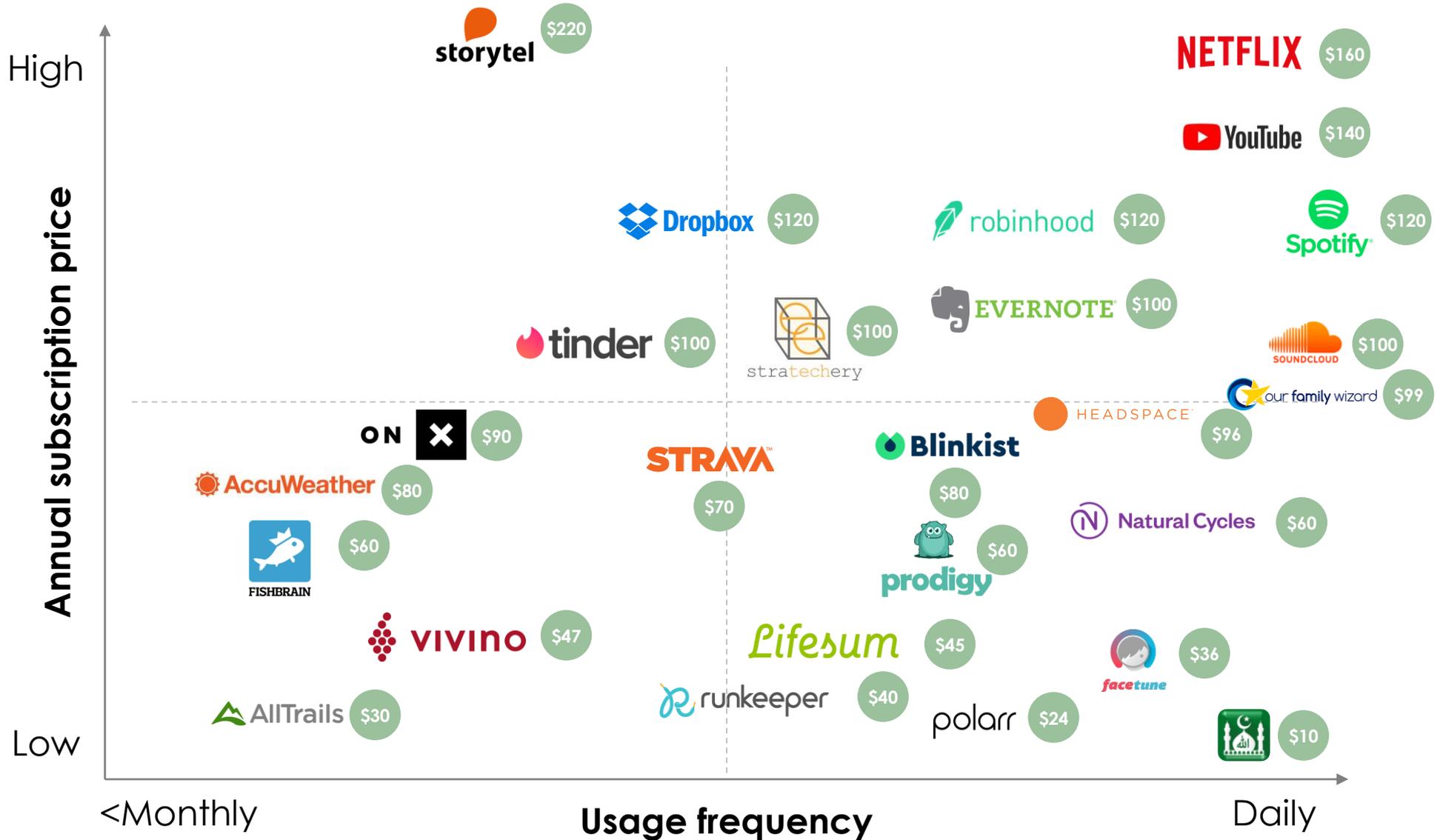
Family



Others (Travel, Religion, etc.)



Usage Frequency vs. Pricing Matrix



Source: Public data and GP Bullhound research

The CSS TAM is Expected to Top \$150B by 2022

CSS TAM excludes gaming purchases as well as one-time app purchases

CSS TAM Analysis ³

Increases in CSS app spend per person from <\$10 currently to \$100+ in the US and \$35 globally



270M US Smartphones by 2022



3.5B Global Smartphones by 2022¹

Ad Remover



STRAVA



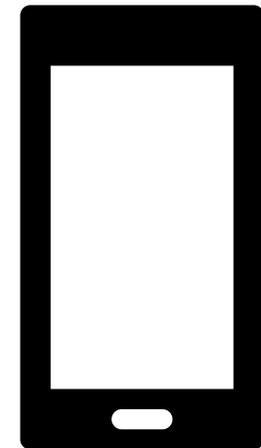
NETFLIX



EVERNOTE



\$150B in CSS Spend Annually by 2022 ²



Proliferation of consumer subscription models in daily life

1. Global Smart phone users excludes US smart phones.

2. \$150B in 2022 CSS spend equates to an average \$100 annual spend per US smart phone user and \$35 per global smart phone user

3. CSS TAM Analysis excludes mobile gaming spend

Sources: Statista, App Annie, GPB Research.

Subscription Development Becoming Cheaper and Easier

Tools are becoming market ready to allow niche consumer subscription companies to launch quickly

Subscription management



Customer acquisition



Customer lifecycle



Payment processing



Reporting & Analytics



Enterprise SaaS VS Consumer Subscription

While the metrics measured may be similar, CSS businesses will have a different definition of success

	Enterprise SaaS	Consumer Subscription
Average Revenue Per User (ARPU)	Higher	
Churn		Higher
Expansion Revenue	Higher	
Mass Market Potential		Higher
Acquisition Costs	Higher	
Word of Mouth (WOM) Distribution		Higher
Content Sharing		Higher
Free vs Paid Users	Equal	
Implementation Difficulty	Higher	

Source: CSS vs. Enterprise SaaS Framework developed in conjunction with Nicolas Wittenborn, who has written about the CSS market on Medium

Best in Class Subscription Cohort Metrics

Investors can be educated on the differences between Consumer Subscription and Enterprise SaaS KPI levels

	 Consumer	 SMB	 Midmarket	 Enterprise	
ARR Growth	Good	50%	40%	50%	30%
	Better	75%	45%	55%	35%
	Best	100%	50%+	60%+	40%+
LTV/CAC	Good	3X	3X	4X	4X
	Better	5X	4X	5X	5X
	Best	7X	5X	6X	6X
Net Dollar Retention	Good	70%	80%	90%	100%
	Better	80%	90%	100%	115%
	Best	100%	100%+	110%+	120%+

Source: GP Bullhound and industry research

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AllTrails – Outdoors Experiences



An online platform that offers hand-curated trail maps for outdoor explorers. The online platform offers complete, accurate, global datasets for off-road recreation provided through detailed trail maps and also gives reviews, photos and information.

"After years of low quality applications supported by ads, consumers are willing to subscribe to services that deliver actual value - high quality music in Spotify or a unique service and community like AllTrails."

"I grew up camping in the Sierras with my grandfather and backpacking up there. I looked around the space and it felt like there was a lot of room to build something meaningful that would help people find places to get outdoors and feel safe once they are out there."



Jade Van Doren
CEO

Blinkist – Education Tools



Blinkist, a Berlin-based learning company, is inspiring people to keep learning by offering the key insights from outstanding nonfiction books in 15-minute explainers, available in audio and text.

“We started Blinkist to solve our own problem- we didn’t have time, motivation, or attention to read books anymore.”

“We decided to pursue a subscription-based business model with the conviction early on that we had to monetize from day one. We believed that subscriptions were going to be a mainstream model for content-driven business models five years ago and realized very quickly that it was the best way for us to build a big business.”

“The main driver to keep customers engaged is content. We release new book-in-blinks every month to delight users and subscribers. Curation and recommendation are equally important - we try to learn what you are interested in and then push you that content and combine this with human curation to present you books you would have not discovered otherwise.”

“In three years, we will be the most comprehensive content product for lifelong learning.”



Niklas Jansen

Co-Founder and Managing Director

Prodigy Games – Childhood Education



A platform for math instruction and supplementation with detailed reports and analyses conducted on students' performance. The purpose of the platform is to engage and motivate 20M math students, teachers and parents to achieve a fun and effective learning process.

Prodigy offers the software for free to schools and parents at home to encourage adoption, charging them a subscription fee only to unlock optional/extra game features.

“We needed to participate in the education system so that we could actually help students. A freemium model made more sense because it helped us scale faster while also being more equitable.”

“To minimize churn, we aim to keep the school using our product, help kids use it, and ultimately parents will see the value.”

“In the long term, we're trying to build out the world's most demonstrably effective education product. We want to be able to prove that if you use Prodigy, your children will learn more than with any other software product on the planet.”

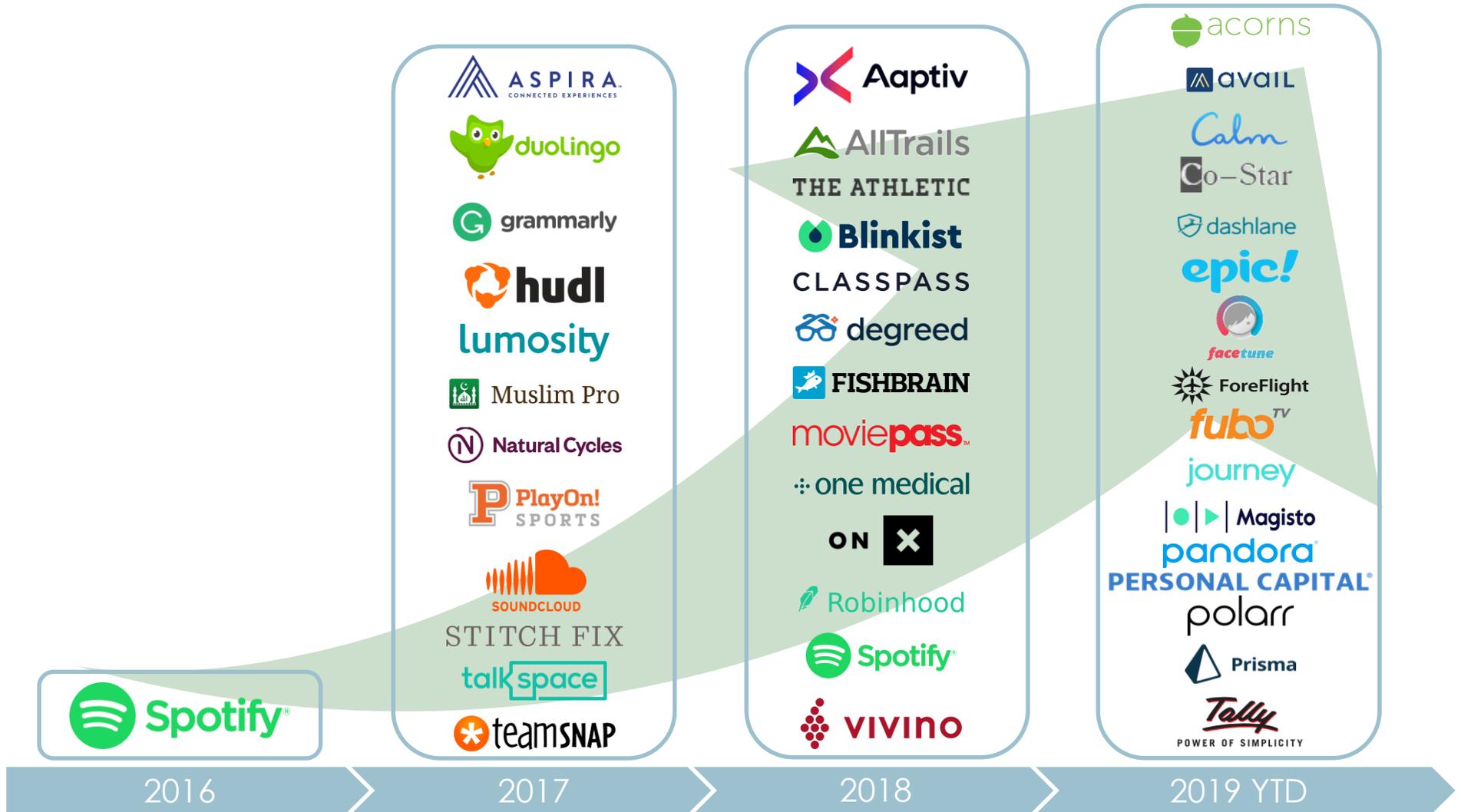


Rohan Mahimker & Alex Peters
CEO

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Interest in CSS Continues to Grow

Investors increasingly are investing in high growth/high quality CSS businesses



Logos represent investments and acquisitions of selected CSS companies

Selected CSS Financial Investors



Notable Subscription Software M&A Deals & Private Financings

Selected M&A and Private Placement Transactions

Announce Date	Target	Buyer	Deal Type	Category	Value (\$m)	Implied EV/LTM Rev (\$m)
Jul 31, 2019	Lightricks	INSIGHT VENTURE PARTNERS	PP	Online Tools	135.0	1000.0
Jun 19, 2019	tally	ANDREESSEN HOROWITZ	PP	Personal Finance	50.0	285.0
Jun 18, 2019	youper	GOODWATER CAPITAL	PP	Health / Mindfulness	3.0	Undisclosed
May 30, 2019	dashlane	SEQUOIA	PP	Online Tools	110.0	505.0
May 29, 2019	talkspace	revolution growth	PP	Health / Mindfulness	50.0	310.0
May 7, 2019	journey	Canaan	PP	Health / Mindfulness	2.4	Undisclosed
Apr 30, 2019	PRISMA LABS	HAVUS	PP	Online Tools	6.0	Undisclosed
Apr 17, 2019	STAR	maveron	PP	Health/Mindfulness	5.2	30.0
Apr 15, 2019	Magisto	vimeo	M&A	Online Tools	Undisclosed	200.0
Apr 9, 2019	AVAIL	Cultivation Capital	PP	Other / Productivity tools	2.5	14.5
Mar 21, 2019	RENT THE RUNWAY	HARRIS TRISTAR INVESTMENT MANAGEMENT	PP	Fashion / Clothing	125.0	1,000.0
Mar 6, 2019	ForeFlight	BOEING	M&A	Fitness / Outdoors	Undisclosed	Undisclosed
Feb 6, 2019	Calm	TPG	PP	Health / Mindfulness	88.0	1,000.0
Feb 4, 2019	PERSONAL CAPITAL	IGM Financial	PP	Personal Finance	50.0	950.0
Feb 1, 2019	pandora	((SiriusXM))	M&A	Entertainment	3,874.6	3,500.0

Selected M&A and Private Placement Transactions

Announce Date	Target	Buyer	Deal Type	Category	Value (\$m)	Implied EV/LTM Rev (\$m)
Jan 29, 2019	epic!	EMC Evolution Media Capital	PP	EdTech	30.0	Undisclosed
Jan 28, 2019	acorns	NBCUniversal	PP	Personal Finance	105.0	860.0
Dec 31, 2018	Hinge	matchgroup	M&A	Dating	Undisclosed	Undisclosed
Dec 7, 2018	polarr	Threshold	PP	Online Tools	11.5	61.5
Oct 30, 2018	THE ATHLETIC	BEDROCK FOUNDERS FUND	PP	Entertainment	40.0	200.0
Oct 29, 2018	eharmony	NUCOM GROUP	M&A	Dating	85.0	85.0
Oct 18, 2018	OUTFITTERY	HOLTZBRINCK VENTURES	PP	Fashion / Clothing	59.8	Undisclosed
Oct 11, 2018	AllTrails	SPECTRUM EQUITY	M&A	Fitness / Outdoors	85.0	80.0
Aug 24, 2018	Ritual	NORWEST VENTURE PARTNERS	PP	Health / Mindfulness	25.0	125.0
Aug 22, 2018	one medical	THE CARLYLE GROUP	PP	Health / Mindfulness	350.0	1,500.0
Aug 3, 2018	LOOTGRATE	ATALAYA	PP	Entertainment	23.0	Undisclosed
Aug 2, 2018	deezer	Kinoboom orange	PP	Entertainment	179.8	1,150.0
Jul 26, 2018	Splitwise	Undisclosed	PP	Personal Finance	3.8	21.8
Jul 25, 2018	classpass	TEMASEK	PP	Fitness / Outdoors	85.0	610.0
Jun 20, 2018	Blinkist	INSIGHT VENTURE PARTNERS	PP	EdTech	18.8	160.0

Source: Capital IQ, Pitchbook

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About GP Bullhound

GP Bullhound is a leading technology advisory and investment firm. Founded in 1999, the firm today has offices in London, San Francisco, Stockholm, Berlin, Manchester, Paris, Hong Kong, Madrid and New York.



MERGERS & ACQUISITIONS

We act as a trusted adviser to many of the leading technology companies in competitive international sale and acquisition processes. The firm has completed 400 successful M&A transactions to date, worldwide, with a total value of over USD17.5bn.

CAPITAL TRANSACTIONS

We advise companies and their owners on capital related transactions including venture capital, growth capital, acquisition funding, secondary block trades and Initial Public Offerings. The firm has completed 120 rounds of financing for technology companies to date, with a total value of USD1.5bn.

INVESTMENTS

Through our investment team, we provide investors with access to the most ambitious privately-held technology and media companies. We currently manage four closed-end funds for a total value of more than EUR150m and our Limited Partners include institutions, family offices and entrepreneurs.

EVENTS & RESEARCH

Our events and speaking activities bring together thousands of leading digital entrepreneurs and technology investors throughout the year. Our thought-leading research is read by thousands of decision-makers globally and is regularly cited in leading newspapers and publications.

www.gpbullhound.com



Dealmakers in Technology

\$20bn+

of value delivered to clients

530+

successful transactions

110+

professionals

GP Bullhound

Entertainment



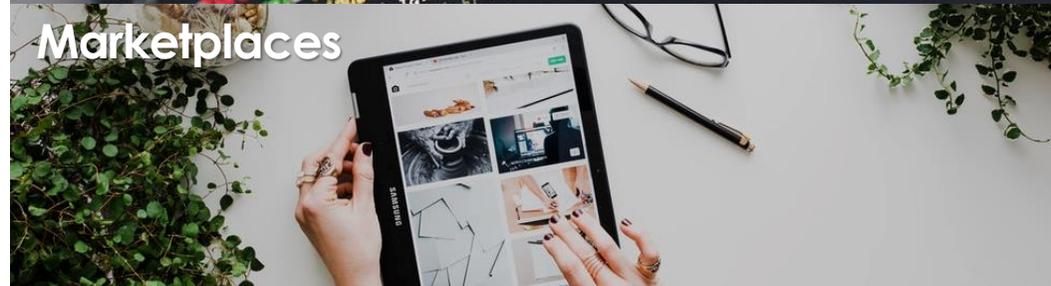
Digital Services



Software



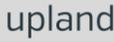
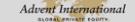
Marketplaces



Fintech



GP Bullhound's Recent Activity in the Software Space

 <i>Private Placement</i> 	 <i>Private Placement</i> 	 <i>Private Placement</i> 	 <i>Sold to</i> 	 <i>Sold to</i> 	 <i>Sold to</i> 
 <i>Sold to</i> 	 <i>Majority Recapitalization by</i> 	 <i>Sold to</i> 	 <i>Sold to</i> 	 <i>Private Placement</i> 	 <i>Sold to</i> 
 <i>Sold to</i> 	 <i>Private Placement</i> 	 <i>Private Placement</i> 	 <i>Private Placement</i> 	 <i>Sold to</i>  	 <i>Sold to</i> 
 <i>Sold to</i> 	 <i>Private placement</i> 	 <i>Sold to</i>  <small>Be a HERO.</small>	 <i>Private Placement</i> 	 <i>Sold to</i> 	 <i>Sold to</i> 

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