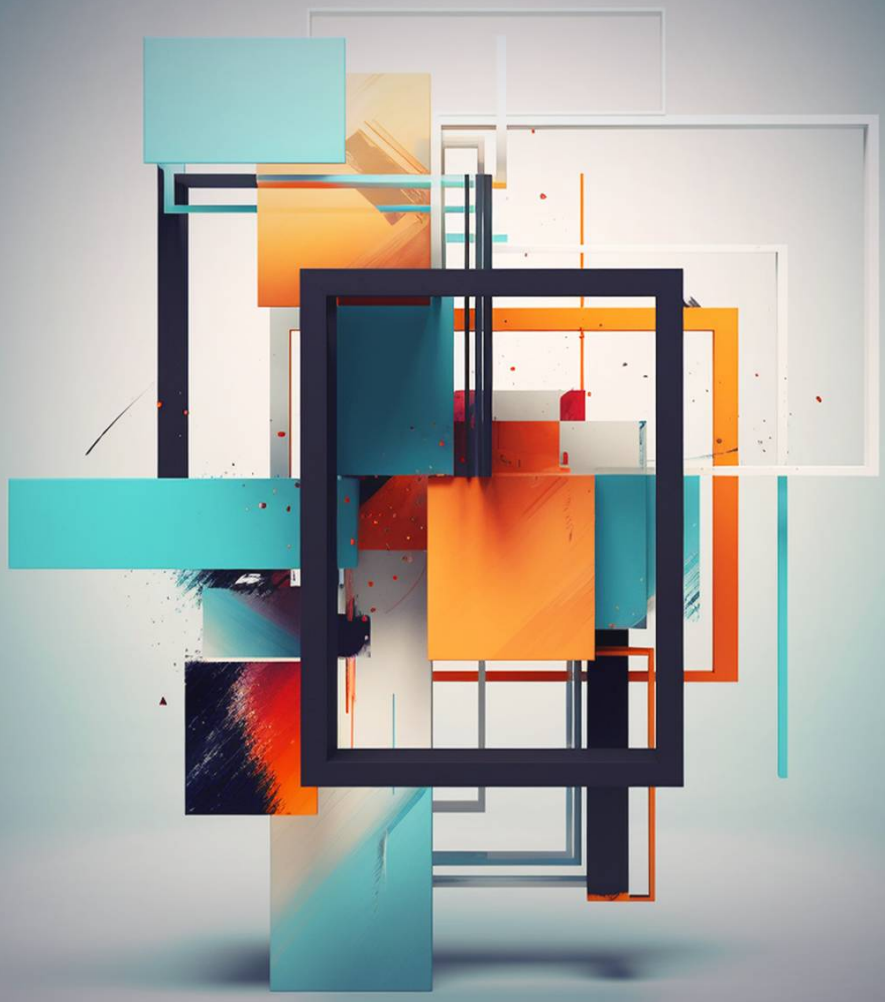
CLIPPERTON

The Journey from Venture Capital to Private Equity: A Guide for Tech Startups



How Private Equity funds have become a viable and appealing exit option for VC-backed companies and what they need to achieve to succeed

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TABLE OF CONTENTS

1 Introduction

VC-to-PE deals: welcome to the new (old) world 8

Decoding the DNA of venture capital and private equity investors 10

Liquidity options for VC-backed companies: the rise of private equity exits 11

PE exits: a massive but misunderstood opportunity both for entrepreneurs and VC funds 14

2 What are PE funds looking for when evaluating VC-backed companies?

The primacy of capital efficiency 21

The pillar of customer retention 21

Tactical operational improvements 22

Buy-and-build: the compound strategy 23

Multiple expansion and exit strategies 23

3 How to successfully prepare a VC-to-PE transition: a guide to optimize deal terms

Short guide to help you understand the way PE investors think 25

Overview of different company profiles and their chances of succeeding in an LBO transaction 27

4 Conclusion

Our view on the VC-to-PE trend in the upcoming years 32

About Clipperton 33

ABOUT CLIPPERTON

Since 2003, Clipperton has been dedicated to assisting leading innovators in the long run in their strategic and financial development. With a track record of over 400 transactions in the broader technology industry, we have played a pivotal role in helping entrepreneurs, top-tier investors and corporates in complex cross-border M&A, growth financing and leveraged buyouts.

At Clipperton, we have a dedicated focus on assisting European companies with international ambitions. On top of our core execution hubs in Paris, London, Berlin, and Munich and our Senior Advisors in Asia and the US, we are the Tech team of the Natixis global M&A Alliance. This gives us a collective strength of over 500 dedicated M&A professionals spanning more than 35 countries worldwide.

400+
Tech transactions since 2003

50+
Tech bankers globally

100%
Processes involving international counterparts

€40bn
Total Deal Value

SELECTED CREDENTIALS

LEGAL TECH

Received an investment from

Oakley Capital

HEALTHTECH

Received a $70m investment from

CARLYLE

RETAIL TECH

Sold to

MARLIN EQUITY PARTNERS

MARTECH

Raised $160m led by

Bridgepoint BlackRock. bpifrance

TRAVEL TECH

Acquired a minority stake in

travelsoft

LOGISTICS TECH

Acquired a majority stake in

Sinari

DIGITAL SERVICES & MEDIA

Sold a €300m majority stake in

EQUATIV to Bridgepoint

ESG

Invested $500m in

ecovadis

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In 2003, Stéphane Valorge co-founded Clipperton and led its expansion into Germany in 2013. For the last 20 years, Stéphane has had the opportunity to observe the transformative journey of the European technology ecosystem. He has witnessed the widespread pan-european digitalization across various industries and the changing landscape of investors, moving beyond traditional venture capitalism.

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ANTOINE GANANCIA
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Antoine Ganancia joined Clipperton in 2010, and focuses on SaaS, health tech, and consumer applications. In the last decade, he has orchestrated over 60 transactions, including landmark VC-to-PE deals such as the sale of Inova Software to Carlyle and the sale of Brevo (formerly Sendinblue) to Bridgepoint. His extensive experience provides him with valuable insights into the evolving trend within the European technology ecosystem.

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ELIE HODARA
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Elie Hodara has actively contributed to the execution of transactions across diverse sectors, including Cybersecurity, HR, E-commerce, and Mobility. Highlights include his involvement in HarfangLab's fundraising, the execution of Advens' LBO, and the sale of Reporting21 to Cority (backed by Thoma Bravo).

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ISMAIL ROQAICHAOUI
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Ismail Roqaichaoui has played a significant role in completing successful transactions across various sectors, including Healthcare, Travel, NewSpace, Point of Sale (POS), and E-commerce. Highlights in his career include the acquisition of Travelsoft by Capza, and the acquisition of Praxedo by MBO+, and the sale of L'Addition to La Française des Jeux.

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FOREWORD

With over 110,000 VC-backed companies in the world, the race for successful exits and fresh funding rounds has never been more fraught. A significant number of these startups may not achieve a successful exit or further funding rounds, but those that do can generate substantial returns for stakeholders and investors when comes the time to exit.

After years of frenzy and soaring valuations, the value of Venture Capital (further referred to as "VC") exit activity is on track to have its worst year since 2009 - with U.S. VC exits plummeting by a staggering 90% compared to last year. Stakeholders and investors globally are facing seismic shifts in exit strategies.

In the 'new world', founders and VCs have no choice but to get more creative when it comes to exit strategy to maximize their chances of success. Since 2006, buy-out deals have grown from a mere 8% of VC-backed exits in Europe to a whopping 26% in 2023. Private Equity (further referred to as "PE") as an exit avenue for tech businesses can no longer be overlooked. As the boundaries between private equity and Venture Capital continue to blur, it seems likely that this trend will not only continue but likely speed up in the years to come.

For two decades, Clipperton has served as a trusted advisor to Europe's tech sector. We have witnessed first-hand the ascent of PE deals, from a niche alternative to traditional M&A exits or IPOs, to become what now should be a vital part of the exit playbook for tech entrepreneurs. However, there remains a remarkable lack of understanding within the VC ecosystem of how these PE funds operate and the potential benefits for both entrepreneurs and VC firms.

This guide, "Journey from Venture Capital to Private Equity: A Guide for Tech Startups" aims to assist startup founders and Venture Capital firms in optimizing their chances for a successful PE exit. Building on our extensive experience and dialogues within both the VC and PE sectors, this paper delves into the unique challenges and adaptations required, offering insights, strategies, and actionable tools to help you successfully navigate the intricacies of the private equity world.

We hope this guide will serve as a valuable resource as you prepare for your next stage of growth and discussions with Private Equity funds.

- Stéphane Valorge and Antoine Ganancia, Clipperton



KEY TAKEAWAYS

→ For many years time, VC-backed companies had only two main avenues for exiting: either sell to a strategic buyer (M&A), which accounted for 75% of all exits* (2006-2010), or navigate the risky process of an initial public offering (IPO), 17% of all exits* (2006-2010).

→ However, the exit landscape for VC-backed startups has undergone a substantial transformation over the past decade; notably thanks to the emerging trend of what we like to call "VC-to-PE deals". While exits to PE funds made up just 8% of total exits for VC-funded companies between 2006 and 2010, that figure has surged to a whopping 24% for the years 2021 to 2023.

→ For European software businesses valued above €30M, PE funds actually accounted for 80% of all exits in 2022 (in volume).

→ This shift is gaining momentum and reshaping the way tech companies approach exits. This trend is likely to endure, and it has become crucial for both VC firms and Tech entrepreneurs to understand how to successfully prepare their companies for a PE exit.

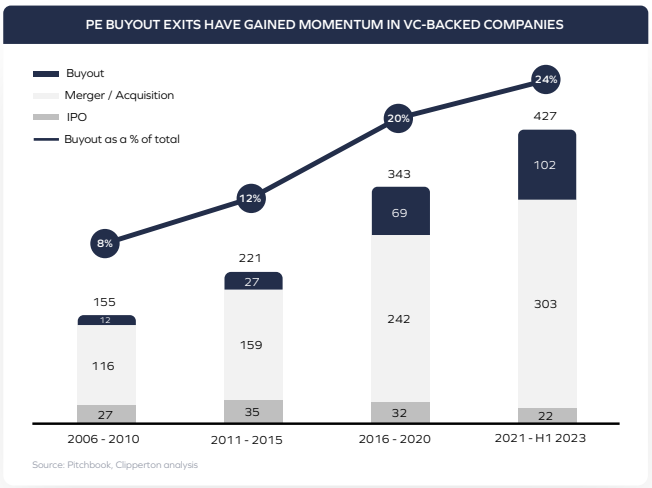
→ The benefits for entrepreneurs and VC firms are plenty: i) maintain a degree of independence, allowing teams to uphold their vision and strategic direction; ii) high chance of success (vs M&A deals with strategic acquirers and IPOs which tend to be more hazardous); iii) high level of flexibility (to decide who gets to cash out, stay on board, partial cash-out, etc); iv) compelling structured incentives for managers (PE deals are often accretive in terms of cap table for the management team); v) on-board a financial partner to drive a consolidation play through external acquisitions.

→ To qualify for an exit via a private equity firm, VC-backed companies need to display specific attributes that appeal to PE firms: they should be profitable or mature enough to provide a clear path to profitability, show capital efficiency, steady growth display, and have a robust customer retention track record along with a solid plan for external expansion. Management quality and leadership are also undoubtedly crucial factors that will be considered by PE funds.

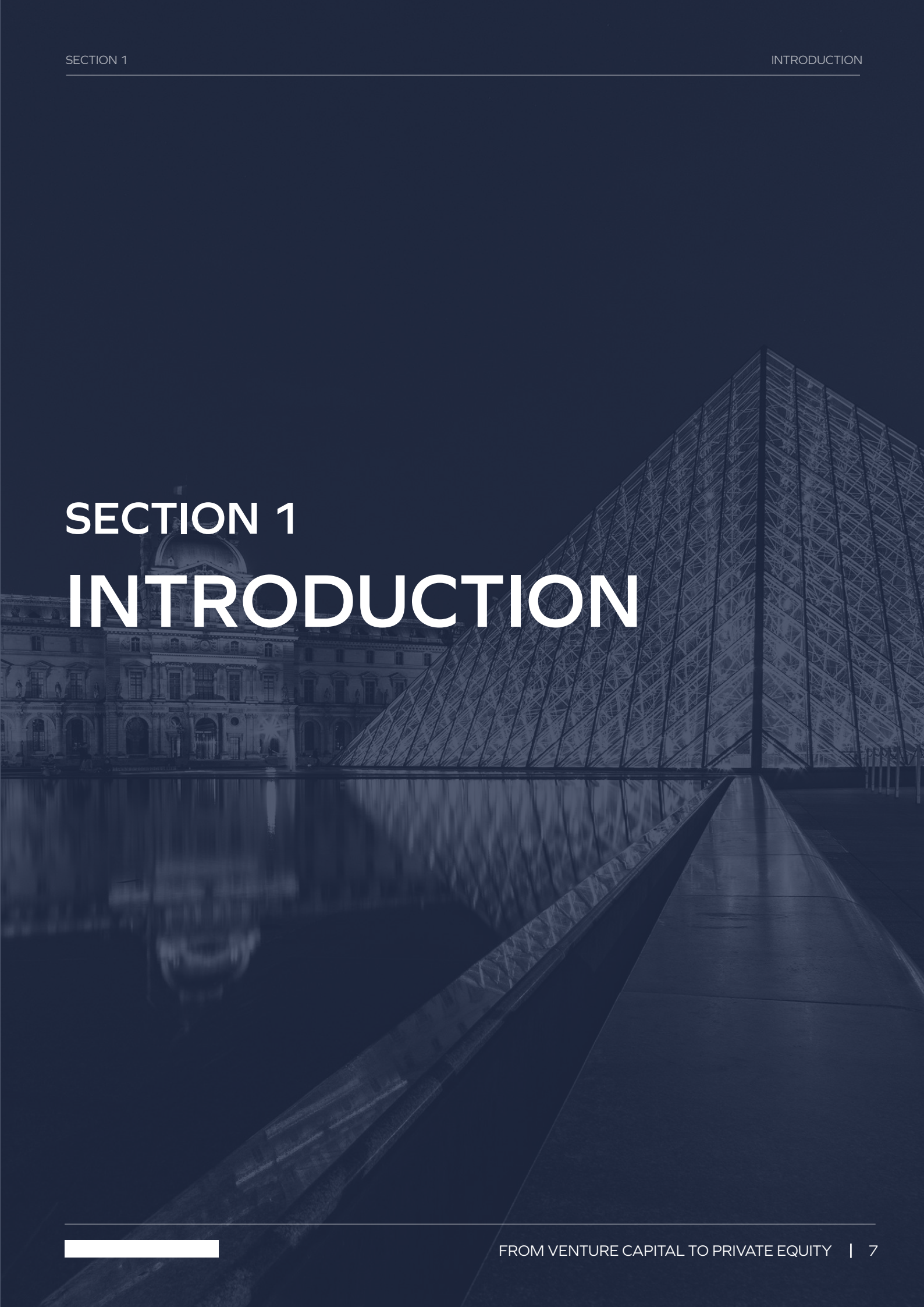
→ VC-to-PE deals are much more complex than a vanilla fundraising. Tech companies contemplating PE buyouts must therefore be carefully prepared before launching their process.

→ Entrepreneurs and VC investors can benefit significantly from the guidance of experienced advisors, such as investment bankers, specialized lawyers, and board advisors. These experts provide strategic insights, facilitate investor outreach, aid in transaction structuring and financing, and play a pivotal role in negotiation and deal execution.

→ As LBOs become an increasingly popular exit strategy in the world of Venture Capital, the roadmap to success is clear: thorough preparation, access to expertise, and strategic advice are essential components of a successful transition from VC to PE.



*For European companies having raised more than €5m



SECTION 1
INTRODUCTION

VC-TO-PE DEALS: WELCOME TO THE NEW (OLD) WORLD

As Clipperton gears up to commemorate its 20th anniversary in 2023, we have spent the last two decades as a corporate finance advisor exclusively focused on the Technology sector. From this unique perspective, we have witnessed the pivotal financial trends and exit strategies shaping the continent's Technology industry.

As such, we have experienced first-hand a truism that, to some extent, still endures: Venture Capital and Private Equity are different breeds, and might as well be estranged relatives when it comes to dialogues on deal-making.

This occurs in a world where, on the one hand, Technology is increasingly becoming the lifeblood of multiple sectors and a level of maturity that makes it sensitive to macroeconomic fluctuations. On the other hand, the 'traditional' Private Equity world has been broadening its economic horizons, tiptoeing more aggressively into the Technology sector and emerging as a formidable liquidity avenue alongside conventional IPO and M&A routes.

This dissonance is likely the primary motivation for this paper: we are convinced that the VC-to-PE deal phenomenon (i.e. the sale of VC-backed Technology companies to PE funds) is a major trend gaining traction for the past years that will soon be a mainstay in the financial lexicons of the foreseeable future. For Tech companies and their existing VC stakeholders, recognizing and planning for this emerging scenario is not just advisable but indispensable in charting a nuanced roadmap for business development.

WHEN SIBLINGS UNITE: THE CONVERGING PATHS OF VENTURE CAPITAL AND PRIVATE EQUITY

As anecdotal evidence, a notable transaction recently made headlines: Kyriba, a VC-backed global leader in cloud-based finance and IT solutions with French origins, was acquired by Bridgepoint, a major UK Private Equity fund, for a valuation exceeding one billion euros ($1.2bn), alongside a $160m capital raise to foster its growth.

For a company that posted $110m in revenue the year before, this transaction has not only proven lucrative for historical investors, including Bpifrance and US VC fund Upfront Ventures, but also helped provide Kyriba with the right partner for its next phase of growth.

However, not too long ago, there was little to suggest that such convergence was possible.

> **Rewinding to a time when late VC mega-rounds were common daily news, one might have easily believed that collaboration between VCs and PEs suffered from structural and innate divergences.**

If we picture VC and PE as two siblings in the broader Private Equity family, VC is the audacious younger sibling who thrives on taking risks and ventures into uncharted territories in the quest for gems that will provide tremendous returns. On the other hand, PE, the older sibling, takes a more calculated and measured approach, scrutinizing established markets and seeking out proven, profitable assets to optimize their value.

The simplified table below delves into the specific differences between VC and PE.

	PRIVATE EQUITY BUYOUT	VENTURE CAPITAL
TARGET COMPANIES	Mature companies with established business models, generally profitable, and cash flow generative	High-growth companies focusing on growth rather than profitability
TARGET INDUSTRIES	All sectors with well-established markets and reference products/services	High-growth sectors like software, Artificial Intelligence or biotechnology
EXPECTED IRR	15%-25%	30%-50%
LIQUIDITY HORIZON	Both funds have an average exit timeframe around 5 years; However, we observe longer exit timeframes for VC funds	
	3-5 years	5-7 years
TYPICAL TRANSACTION	Acquisition of ordinary shares or preferred shares but typically with no liquidation preference and with a structured management package	Acquisition of preferred shares containing a liquidation preference
INVESTOR FOCUS	Buy and build approach	Focus on product market fit and organic growth
FINANCING STRUCTURE	Equity and debt financing (senior and mezzanine debt)	Primarily equity financing
STAKE ACQUIRED	Often one fund aiming for majority control (mostly through secondary) of the target company	Typically a syndication of funds acquiring a minority stake in the target company (through capital increase)

[1] In this research, we use the term 'Private Equity' in the context of Private Equity Buyout funds. These funds primarily acquire existing shares of a company, whether it's a minority or majority of the capital, using partial debt financing. The level of leverage may vary depending on the company's capacity to manage the additional pressure on cash flows. This is in contrast to Venture Capital (VC), which primarily invests by acquiring newly issued shares through a full equity capital raise, often involving convertible bonds.

DECODING THE DNA OF VENTURE CAPITAL AND PRIVATE EQUITY INVESTORS

> **In the high-stakes world of Venture Capital, investors have developed a keen eye for identifying the next potential "fund returners", usually loss-making companies with hyper-growth potential.**

They fund these companies through successive equity raises in the hope that they will become the undisputed leader in a new category within a disrupted value chain (think of Amazon with e-Commerce or Uber with taxis). They operate within the startup ecosystem, offering not only funding but also strategic guidance, mentorship, and industry connections.

Risk is the name of the game, and venture capitalists are all in, fully aware that a significant portion — often more than a third — of their portfolio companies may not succeed as anticipated when making the investment. Yet, it is a gamble they are willing to make for the potential windfall of returns that can soar to 10x or even 100x their initial investment. Venture Capital has emerged as a dynamic force in the private capital ecosystem fueling the growth of highly innovative companies, with its roots back to the mid-50s in the US and the development of the Silicon Valley in California. Despite its pivotal role in nurturing entrepreneurial projects, the VC industry remains a small slice of the broader Private Equity pie.

In stark contrast to their Venture Capital counterparts,

> **Private Equity investors are seen as prudent investors, focusing on later-stage and less risky assets, particularly in profitable companies.**

PE investors invest in established companies with solid track records and growth potential, both organic and external. They aim to acquire sizable ownership positions in companies, pursuing either majority or important minority stakes. They often use debt as leverage to maximize returns, and generally target cash on cash multiples in the 2-4x range within five years, with a very high success rate.

> **Both VC and PE investors play indispensable roles by injecting capital into the economy, fostering innovation, and spearheading the mutations of the economy.**

Each with their unique modus operandi, both ensure a dynamic balance between supporting innovative ideas and backing established companies.

LIQUIDITY OPTIONS FOR VC-BACKED COMPANIES: THE RISE OF PRIVATE EQUITY EXITS

Just like any investment fund, VC fund general partners (GPs) find themselves under amplified pressure, given the elevated expectations for multiples and IRRs set by limited partners (LPs) within the Private Equity value chain. Consequently, GPs of VC funds are now showing a growing fixation on achieving liquidity.

Liquidity events serve as a twofold validation — first, they are the litmus test for a VC firm's investment acumen; second, they fulfill the fiduciary responsibility to return profits and capital to limited partners (LPs), usually within a decade.

THE TRADITIONAL EXIT ROUTES FOR VC-BACKED COMPANIES HAVE LONG BEEN THROUGH EITHER:

M&A (mergers and acquisitions)	IPO (initial public offering)
Share of exits 2006-2015: 73% The sale of portfolio companies to an industrial player, typically a strategic acquirer, provides a premium in value by integrating part of the synergies created by this acquisition into the offered price.	Share of exits 2006-2015: 16% The listing of such portfolio companies on a public market allows existing investors to sell their shares to the public.

While M&A can be applicable for companies at any stage of their development (from early acqui-hires to mega deals in the billions), IPOs are a labyrinthine process requiring a perfect storm of public interest, performance metrics, and favorable economic conditions.

In a nutshell, IPOs are not suitable for everyone nor at any moment, and certainly not for the faint-hearted, as recent times have demonstrated heightened volatility.

M&A deals and IPOs are subject to high fluctuations in investor sentiment, economic conditions, and geopolitical factors. These factors can significantly impact valuations and demand for VC-backed companies. As of today, the IPO window is scarcely open, while M&A activity in 2022 is down by double digits compared to 2021, ranging between 30% and 60% depending on the geography and sector.

In parallel, the amount of liquidity raised by PE funds investing in Europe has surged, increasing from €14bn in 2011 to €186bn in 2022.

(Pitchbook)



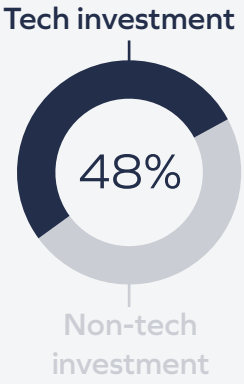
PE funds have progressively become more proactive in exploring the adjacent Technology segment, becoming more open to doing business with less mature companies than before while offering exciting growth opportunities.

They typically began with IT services companies and then moved on to niche players in the software space, such as vertical ERPs.

Today, the Technology sector is the fastest-growing segment for Private Equity Buyouts worldwide, representing a whopping 48% of the value of buyouts in Q1-23, according to research firm Value/Add. This is an increase from 37% in FY 2022 and 22% in FY 2021.

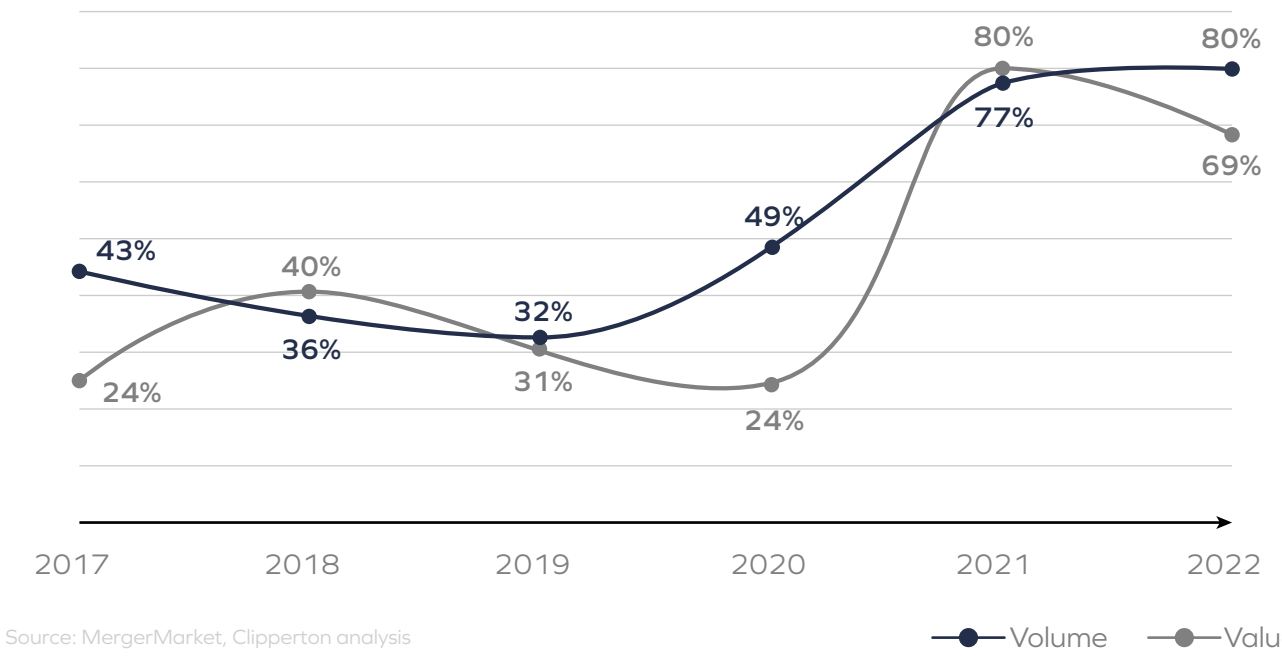
Q1-23 Buyouts: Tech Sector's Share of the Pie

Europe, in €m invested
- Source: Value/Add



Conversely, Private Equity has become the primary exit route for many Technology-driven sectors, particularly for software companies in Western Europe, making up more than two-thirds of transactions for deals exceeding €30m for the past two years (see graph below). The recurring and foreseeable nature of revenue in SaaS (Software as a Service) companies notably explains PE's appetite for such acquisition opportunities.

RISE OF PE DEALS IN SOFTWARE COMPANY EXITS OVER THE PAST 5 YEARS



Source: MergerMarket, Clipperton analysis

Share of PE deals in exits for Software companies (Western Europe, EV>€30m)

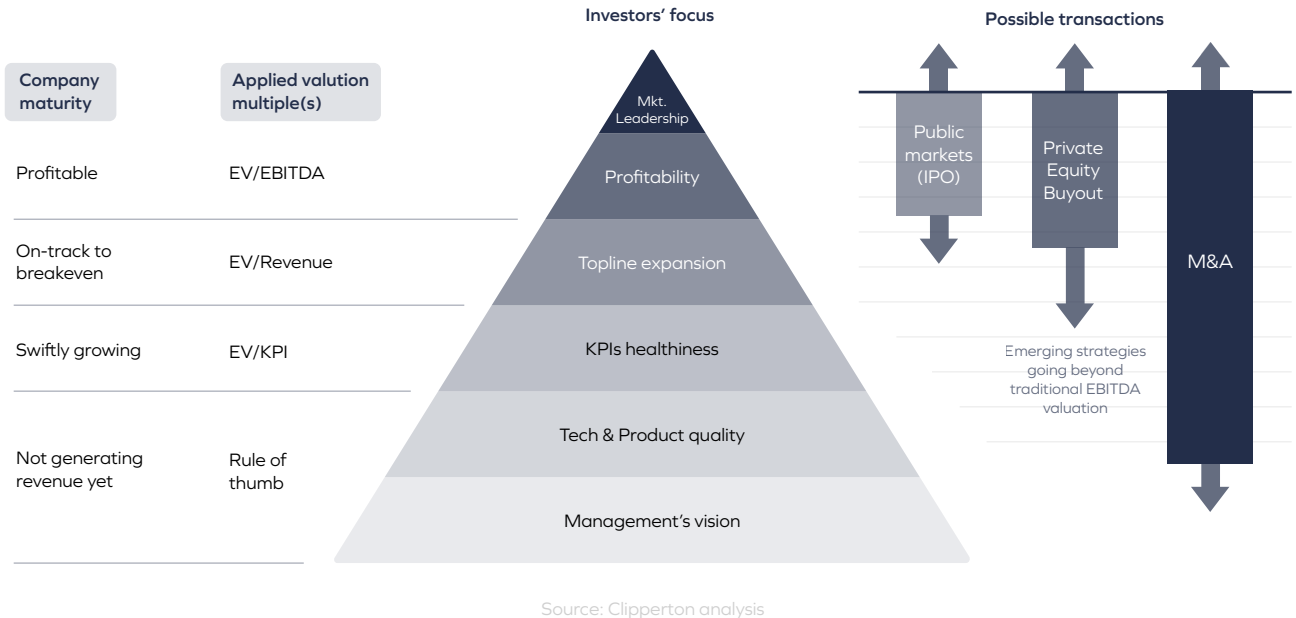
Lastly, Private Equity funds, operating on relatively long cycles (typically five years, more in some cases), also tend to offer a more stable exit route compared to the risky path of an IPO or the occasionally uncertain negotiations with industrial acquirers, who are often publicly traded and subject to quarterly pressures regarding their strategy and financial performance.

Now, we believe that Private Equity has clearly emerged as a compelling 'Third Way' for VC-backed companies seeking liquidity while ensuring their next phase of growth

that should be considered alongside M&A and, potentially, IPO.

As seen in the illustration below, PE exit is a viable option for more mature companies valued by EBITDA multiples. It is also suitable for companies in transition towards profitability, as PE funds have been able to value companies that are still not profitable based on multiple revenues, particularly for SaaS models.

EXIT VALUATION METHODOLOGY DEPENDING ON THE MATURITY OF THE COMPANY



Source: Clipperton analysis

One of the most appealing aspects of a PE buyout is the smoothness of the transition it affords. Unlike M&A deals, which can often result in a loss of identity and autonomy for the acquired company, a PE-backed exit often leaves the existing management structure largely intact. Private Equity buyouts also offer a high degree of flexibility in terms of capital structure and timing (see next chapter).

PE EXITS: A MASSIVE BUT MISUNDERSTOOD OPPORTUNITY BOTH FOR ENTREPRENEURS AND VC FUNDS

From our perspective as financial advisors exclusively focused on the Technology sector, we view this trend as a tremendous opportunity for VC funds and entrepreneurs, offering a novel and exciting exit route.

VC funds are now increasingly engaging in discussions with their 'Private Equity siblings' to orchestrate these exits. This represents significant opportunities for not only the VC fund but also the entrepreneur and management, as shown in the chart below:

ADVANTAGES IN ENGAGING IN A BUYOUT DEAL FOR THE ENTREPRENEUR AND THE MANAGEMENT

HIGH CHANCE OF SUCCESS

PE exits happen faster and with a higher success rate than M&A or IPOs. PE firms specialize in deals, have strong relationships with stakeholders, and face fewer regulatory hurdles compared to IPOs and major M&A deals.

STAY INDEPENDANT TO BECOME THE MARKET CONSOLIDATOR

PE funds empower entrepreneurs, providing them with fresh capital and a buy-and-build approach. This enables them to expand by acquiring value chain participants or competitors, creating synergies and boosting market competitiveness without compromising their autonomy.

HIGH LEVEL OF FLEXIBILITY

PE funds provide customized deal structures to meet the entrepreneur's and VC funds' specific needs, including management packages, equity rollovers, investor flexibility, and manager stake retention, among other options.

COMPELLING STRUCTURED INCENTIVES FOR MANAGERS

PE funds offer management attractive incentives, including equity-based compensation and cash rewards upon a successful exit, aligning their interests with long-term company success during the investment period, typically four to six years.

VCs NOW SEE PRIVATE EQUITY AS A PLAUSIBLE EXIT ROUTE

In the past, PE interest in VC-backed scale-ups would typically occur during challenging times, such as after a crisis (e.g. the dot-com crisis, the great recession of 2008, etc.), when PE funds would swoop in to acquire promising but beleaguered firms at slashed valuations, capitalizing on market downturns and then try to turn companies around.

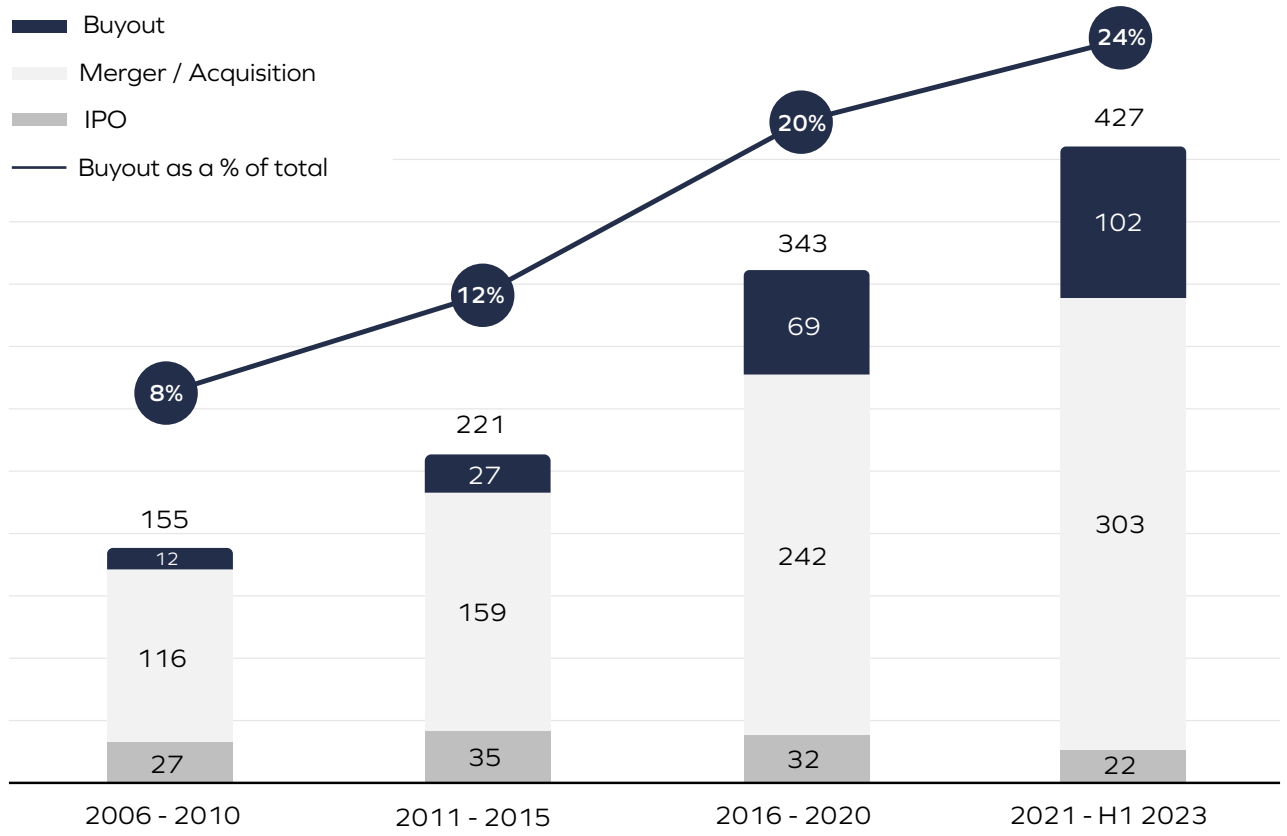
However, as Technology has become ubiquitous in the global economy, PE funds expanded their footprint in the tech arena, including through the development of crossbred funds that integrate both cultures for growth and profit.

Consequently, the market has witnessed a significant increase in VC-backed companies exiting to buyout funds.

For VC-backed companies that raised more than €5m, there have been as many VC-to-PE exits since 2020 as during the entire period from 2006 to 2019.

PE exits accounted for about 25% from 2021 to H1-23 of all exits in Europe, from a meager 8% in the 2006-2010 period.

PE BUYOUT EXITS HAVE GAINED MOMENTUM IN VC-BACKED COMPANIES

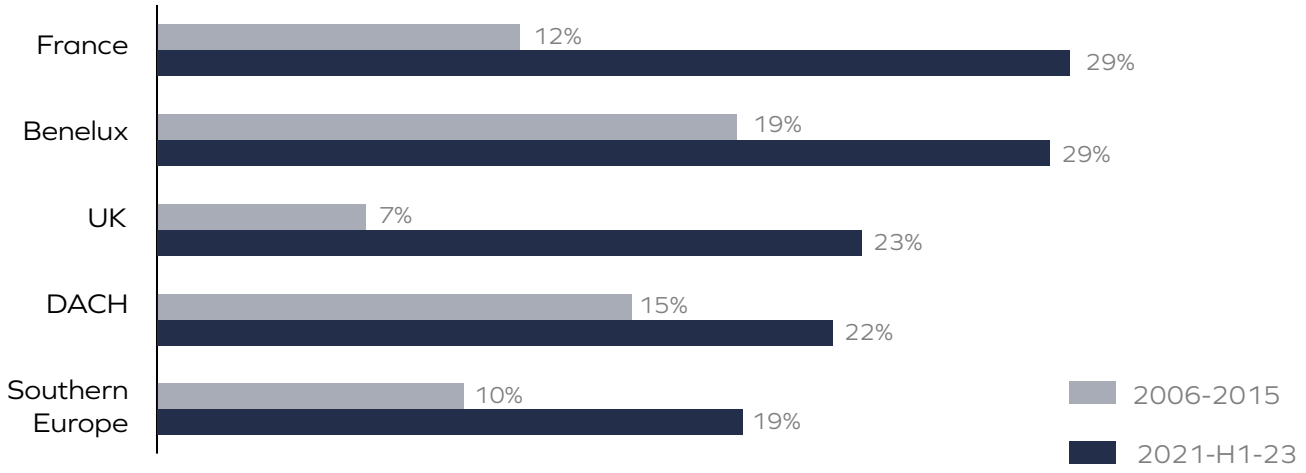


Source: Pitchbook, Clipperton analysis

Exit count per exit type for European companies having raised more than €5m.

In the last two years, France and Benelux have paved the way for this phenomenon, with almost 30% of exits led by PEs, while Southern Europe lags a bit behind at 19%. In the US, we observe a similar trend as c. 22% of exits were led by PE firms since 2021 (vs. 7% in the 2006-2010 period).

FRANCE AND BENELUX ARE LEADING THE VC-TO-PE TREND IN EUROPE

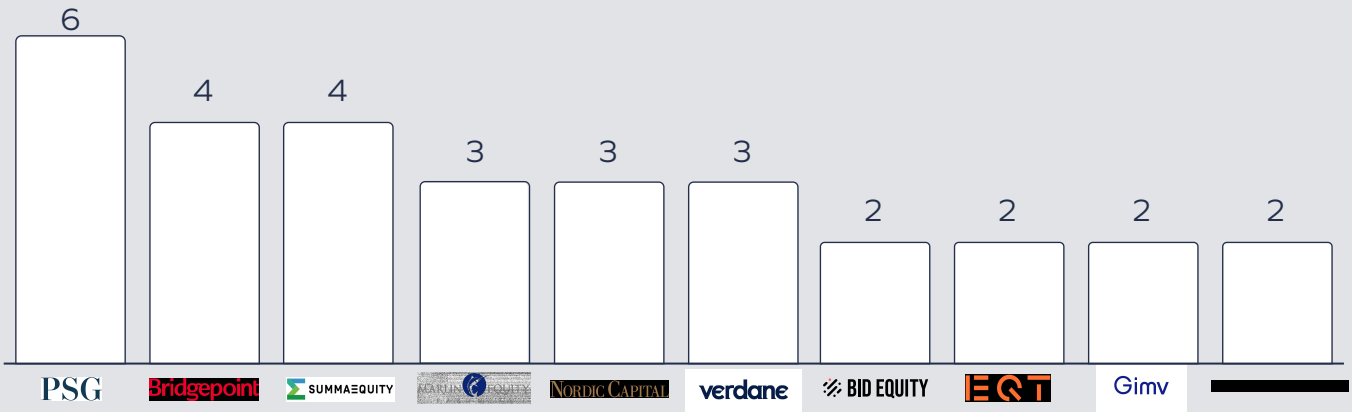


Source: Clipperton analysis, based on Pitchbook data

Buyout as % of total exits for main European geographies

We have listed 120+ electable VC-to-PE transactions that have taken place in Europe since 2018. A few funds come out as pretty active, with PSG topping the group with five acquisitions. Close behind are Bridgepoint and Summa Equity. Additionally, several other proactive investors have made their mark in this space, including Scandinavian funds Nordic Capital, Verdane, EQT, as well as Marlin Equity, among others.

ANGLOSAXON AND SCANDINAVIAN FUNDS ARE FRONT RUNNERS IN VC-TO-PE TRANSITION

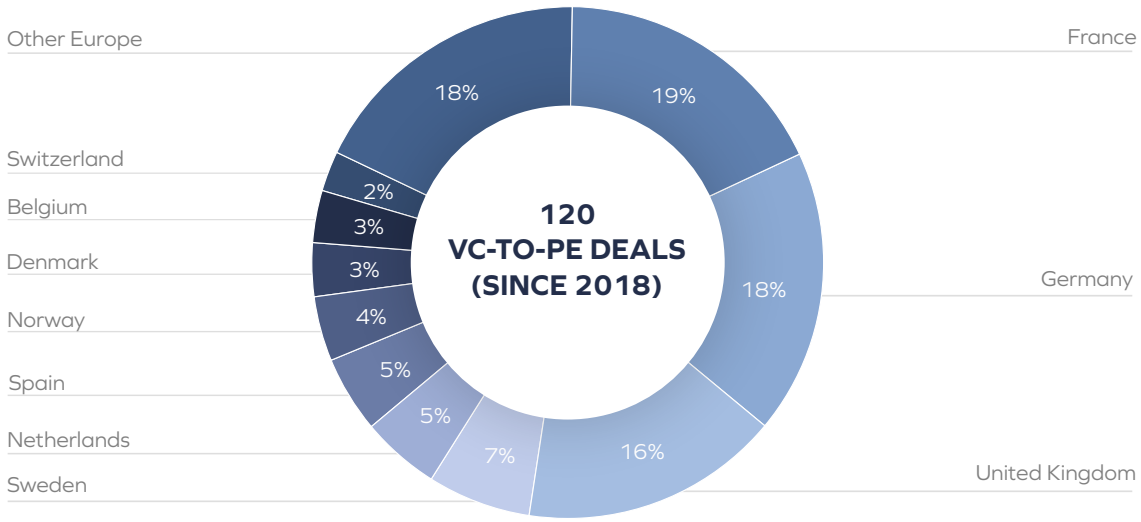


Source: Clipperton analysis, based on Pitchbook data

Most active buyout funds in the VC-to-PE transition, and selected acquisitions between Jan-18 and Jun-23

The same data set shows, not surprisingly, that the target countries (i.e. the ones where the VC-backed company is located) are the biggest and most mature countries when it comes to Tech & VC ecosystems: France, Germany and the United Kingdom account for 52% of the transaction volume, followed by Sweden the Netherlands and Spain.

+50% OF PE EXITS ARE LOCATED IN FRANCE, GERMANY AND THE UK



Source: Clipperton analysis, based on Pitchbook data

Split of VC-to-PE transactions between Jan-18 and Jun-23, by target country

SELECTION OF TECHNOLOGY BUYOUT FUNDS THAT ARE INVESTING IN VC-BACKED BUSINESSES IN EUROPE, BY REGION OF MAIN EXECUTION TEAMS IN EUROPE

Methodology: We selected the funds based on the following criteria:

1. Funds able to do both minority and majority deals
2. Funds able to invest >€20m ticket size (excluding small cap funds)
3. Analyses of the last years processes

FRANCE

ARDIAN, astorg, bpifrance, Capital Croissance, CAPZA, CATHAY CAPITAL 凯辉基金, EURAZEO, idi, isai, KEENSIGHT CAPITAL, mbo&co, NEW ALPHA ASSET MANAGEMENT, NextStage, parquest, PARTECH, Rothschild Merchant Banking, Sagard, seven2, TIKEHAU CAPITAL

UK

Apax PARTNERS, BainCapital, BlackRock, Blackstone, BregalMilestone, Bridgepoint, capitalD, CARLYLE, CortenCapital, CVC, GENERAL ATLANTIC, Goldman Sachs, Hg, KKR, K1, MARLIN EQUITY PARTNERS, Oakley Capital, ONE PEAK PARTNERS, OpenGate Capital, PERMIRA, PSG PROVIDENCE STRATEGIC GROWTH, Riverside, sep Scottish Equity Partners, SILVERLAKE, Sumeru, SYNOVA, SUMMIT PARTNERS, TA ASSOCIATES, TCV, TPG, TURN RIVER, VITRUVIAN PARTNERS, WARBURG PINCUS

DACH & BENELUX

BID EQUITY, BROCKHAUS TECHNOLOGIES, CADENCE GROWTH CAPITAL, CROSSLANTIC / CAPITAL, DEDIQ, Deutsche Beteiligungs AG, EMERAM, EQOS, GENUI PARTNERS, Gimv, HANNOVER Finanz, HPE, LIBERTA PARTNERS, MAGUAR, MAIN CAPITAL PARTNERS, NORD, Odewald, PINOVA CAPITAL, WATERLAND PRIVATE EQUITY INVESTMENTS, YTTRIUM

NORDICS

EQT, IK Partners, GRO CAPITAL, NORDIC CAPITAL, SUMMAEQUITY, verdane

US
WITHOUT PRESENCE IN EUROPE

AQUILINE CAPITAL PARTNERS LLC, Guidepost GROWTH EQUITY, LEADEDGE CAPITAL, LEVEL EQUITY, STG, SUSQUEHANNA GROWTH EQUITY, LONG ARC CAPITAL, 6 SIXTH STREET, THL, JMI EQUITY, VISTA

US
WITH PRESENCE IN EUROPE

AKKR, Battery, F/P FRANCISCO PARTNERS, Great Hill PARTNERS, INSIGHT PARTNERS, SPECTRUM EQUITY, THOMABRAVO

SELECTED VC-TO-PE DEALS BY TARGET REGION BETWEEN JAN-18 AND JUN-23

We have compiled a comprehensive list of over 120 transactions that occurred in recent years in Europe, effectively showcasing the VC-to-PE trend. From this extensive dataset, we have selected six transactions per key European region in the last five years, highlighting the most active investors shown page 16 as well as the variety of sectors and verticals.

FRANCE

Feb-23 EQUATIV Acquired by Bridgepoint	Aug-22 zenchef Acquired by PSG	Jul-21 inova Acquired by CARLYLE
Feb-21 LENGOW Acquired by MARLIN EQUITY PARTNERS	Sep-20 Brevo Acquired by Bridgepoint	Mar-19 kyriba Acquired by Bridgepoint

SOUTHERN EUROPE

Mar-23 unnax Acquired by PSG	Sep-22 vilex Acquired by Oakley Capital	Jul-22 musixmatch Acquired by TPG
Dec-20 Signaturit Acquired by PSG	Jul-20 freepik Acquired by EQT	Mar-19 Saphety Acquired by OXY CAPITAL

DACH & BENELUX

Jan-23 bynder Acquired by THL	Jul-22 shipcloud Acquired by WATERLAND	Feb-22 HQLabs Acquired by BID EQUITY
May-21 iBanFirst Acquired by MARLIN EQUITY PARTNERS	Mar-21 sofatutor Acquired by Gimv	Sep-18 BANKING CIRCLE Acquired by EQT

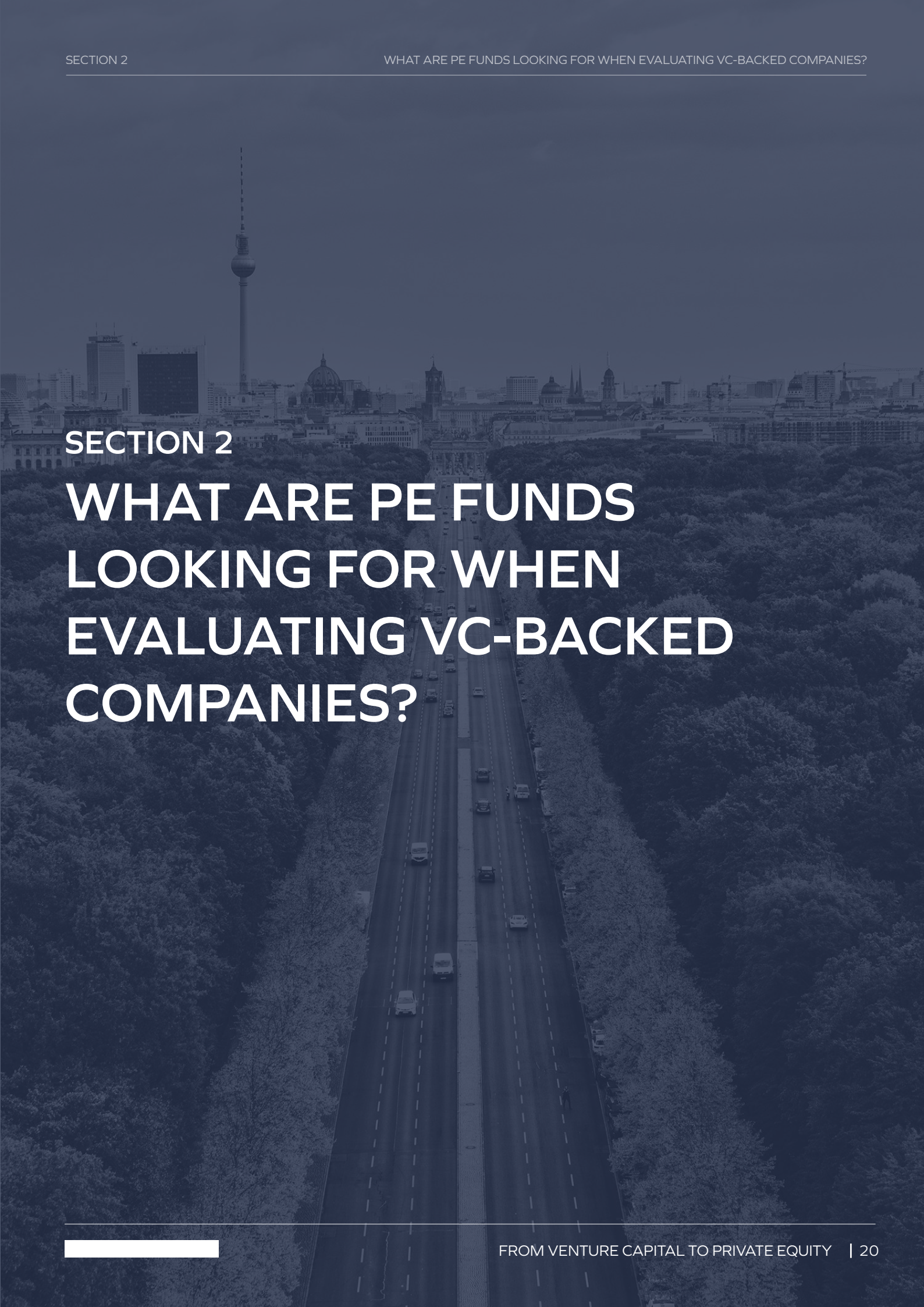
NORDICS

Feb-23 LOGPOINT Acquired by SUMMAEQUITY	Dec-21 PROMON Acquired by GRO	Mar-20 Heimdal Acquired by MARLIN EQUITY PARTNERS
Mar-20 Queue-it Acquired by GRO	Aug-20 Sympa Acquired by PSG	Apr-19 Signicat Acquired by NORDIC CAPITAL

UK

Jun-23 GoReport Acquired by scaleup capital	Nov-21 JAJA Acquired by KKR	Jul-21 DUCO Acquired by NORDIC CAPITAL
Dec-20 CALNSTONE Acquired by CARLYLE	Mar-20 ENTERTAINMENT PARTNERS Acquired by TPG	Nov-19 badoo [redacted]

Deal advised by Clipperton



SECTION 2

WHAT ARE PE FUNDS LOOKING FOR WHEN EVALUATING VC-BACKED COMPANIES?

All Technology assets showing healthy metrics can be targeted by PE funds. However, SaaS business models have aroused most PE's interest due to their structural profitability as they are asset-light with robust margins and provide strong visibility on revenue streams.

Prime candidates for Private Equity investments are SaaS businesses with a combination of steady ARR growth, capital efficiency (i.e. breakeven cash flows or a clear path to near-term profitability), and strong customer retention capabilities. These attributes form the foundation for the risk-return profile that buyout funds aim to underwrite. Here are the main characteristics that PE funds will be looking at when evaluating a VC-backed company (or any company for that matter)

1. THE PRIMACY OF CAPITAL EFFICIENCY

Capital efficiency plays a crucial role in identifying suitable candidates for PE investments. Businesses that can achieve breakeven cash flows or have a clear path to near-term profitability are highly appealing to PE funds. This characteristic indicates that the company has efficient cost management practices in place, enabling it to generate positive cash flows.

When a company achieves breakeven cash flows or demonstrates a clear path to profitability, it means that the business has struck a harmonious balance between expenses and revenue generation. This suggests that the company has implemented efficient cost management strategies, enabling it to generate positive cash flow. Achieving positive cash-flows is critical for sustaining operations, funding growth initiatives, and ultimately delivering returns to investors. By investing in such businesses, PE funds can seize the potential for enhanced profitability and cash returns.

2. THE PILLAR OF CUSTOMER RETENTION

In the world of investment, predictability is golden. A loyal customer base offers a stable and predictable revenue stream, which is of particular significance to investors in pursuit of consistent cash flows and long-term profitability.

> ***The revenue generated from existing customers forms a robust foundation for the company's financial performance, diminishing the reliance on acquiring new customers to sustain growth.***

Furthermore, high customer retention rates indicate that customers perceive the company's product or service as valuable, reducing the likelihood of clients exploring alternative solutions. This, in turn, lowers customer acquisition costs and enables the company to allocate resources more efficiently towards enhancing customer satisfaction and expanding its customer base.

> ***Together, the combination of i) steady ARR growth, ii) high capital efficiency, and iii) defensible customer retention establishes a robust foundation for the risk-return profile that PE funds aim to underwrite.***

By investing in SaaS businesses possessing these attributes, PE funds can strategically allocate their capital to companies with the potential for sustainable growth, profitability, and a competitive advantage in the market.

VC CANDIDATES ELIGIBILITY			
	Great	Good	Unlikely
YoY Growth	>200%	100%-200%	<100%
Gross Margin	>75%	50%-75%	30%-50%
Net Dollar Retention	120 %	100%-120%	<100%
CAC Payback	6-12 months	12-18 months	> 24 months
Burn Multiple	<1x	1.0x-1.5x	>2x

PE CANDIDATES ELIGIBILITY			
	Great	Good	Unlikely
Business Model	B2B (SaaS or Recurring)	B2B (Software and Services)	B2C
Revenue/ARR	> €30m	€10m - €30m	< €10m
Growth	>30%	15% - 30%	< 15%
Gross Margin	> 75%	50% - 75%	< 50%
EBITDA Margin	> 20%	0% - 20%	< 0%
Net Dollar Retention	> 120%	90% - 120%	< 90%
CAC Payback	6-12 months	12-18 months	> 24 months
Post deal ownership (Including primary & secondary)	>50%	30%-50%	<30%
Management roll-over (1-% cash-out)	>80%	50%-80%	<50%

PE investors wield an arsenal of value-creation strategies during their investment period, with the main levers being operational improvement, accretive M&A, and multiple expansions upon exit.

1. TACTICAL OPERATIONAL IMPROVEMENTS

Operational improvements led by PE funds for their portfolio companies often involve implementing a repeatable go-to-market (GTM) strategy to optimize sales and marketing efforts, recruiting top talents, and enhancing back-office infrastructure.

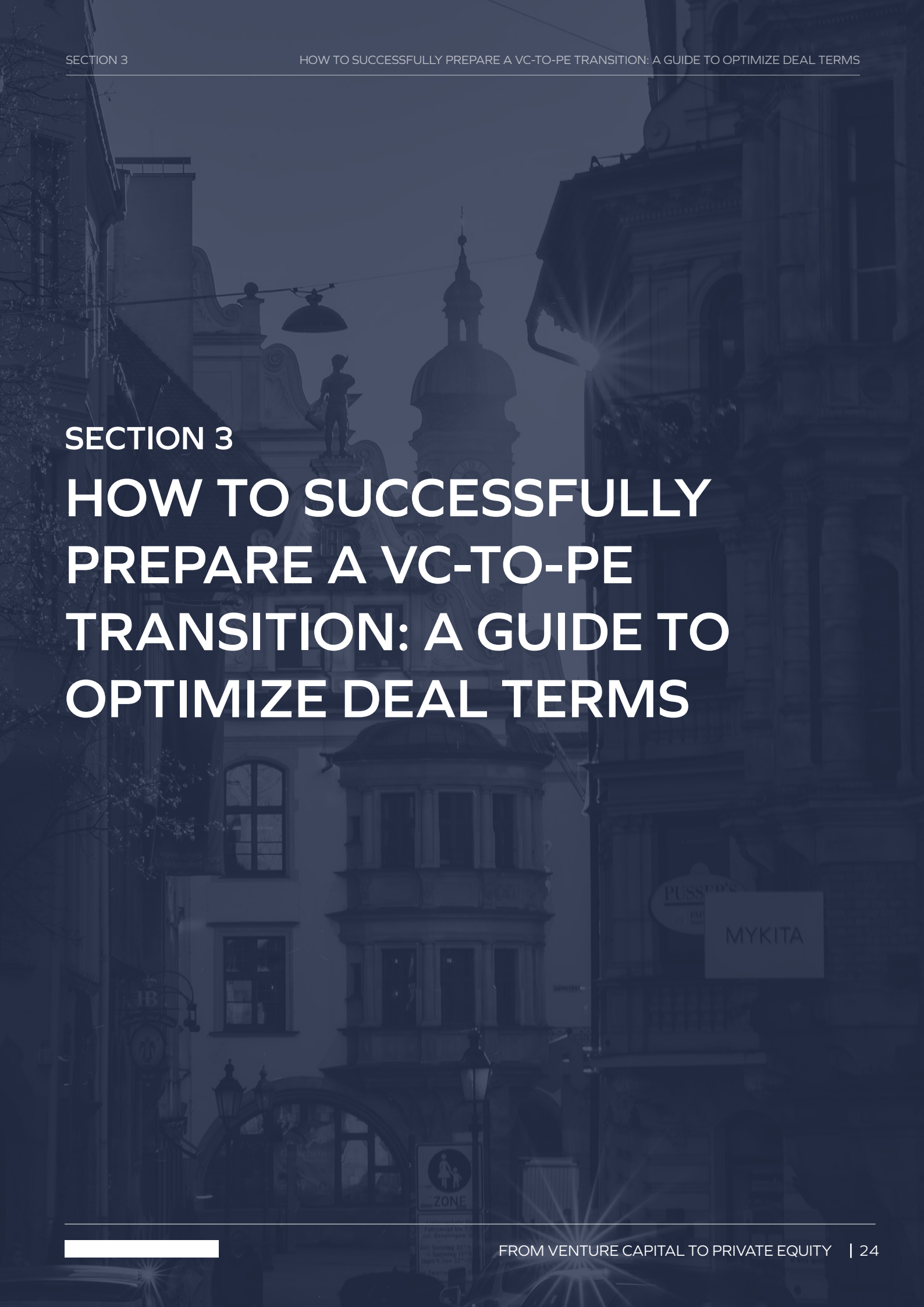
Additionally, PE investors bolster the management team by bringing in experienced professionals, adding strategic expertise, and enhancing leadership capabilities.

2. BUY-AND-BUILD: THE COMPOUND STRATEGY

PE investors leverage a buy-and-build strategy to drive value creation within their portfolio companies. This approach involves acquiring complementary businesses and integrating them into the existing operations, creating synergies and expanding market presence. The buy-and-build strategy enables economies of scale, expansion of product or service capabilities, and access to new markets (TAM expansion). Furthermore, add-on companies can be bought at attractive multiples and using debt leverage, increasing the overall value of the combined entity, which benefits from its platform status to trade at higher multiples.

3. MULTIPLE EXPANSION AND EXIT STRATEGIES

Companies with critical size, which have achieved significant growth and established a strong market position, become highly attractive to strategic buyers and larger buyout funds. When the moment for exit arrives, PE funds excel at staging competitive sell-side processes with the goal of maximizing the exit multiple. These processes usually entail engaging investment banks and advisors to conduct structured auctions, inviting multiple potential buyers to participate in the auction and compete for the acquisition.



SECTION 3

HOW TO SUCCESSFULLY PREPARE A VC-TO-PE TRANSITION: A GUIDE TO OPTIMIZE DEAL TERMS

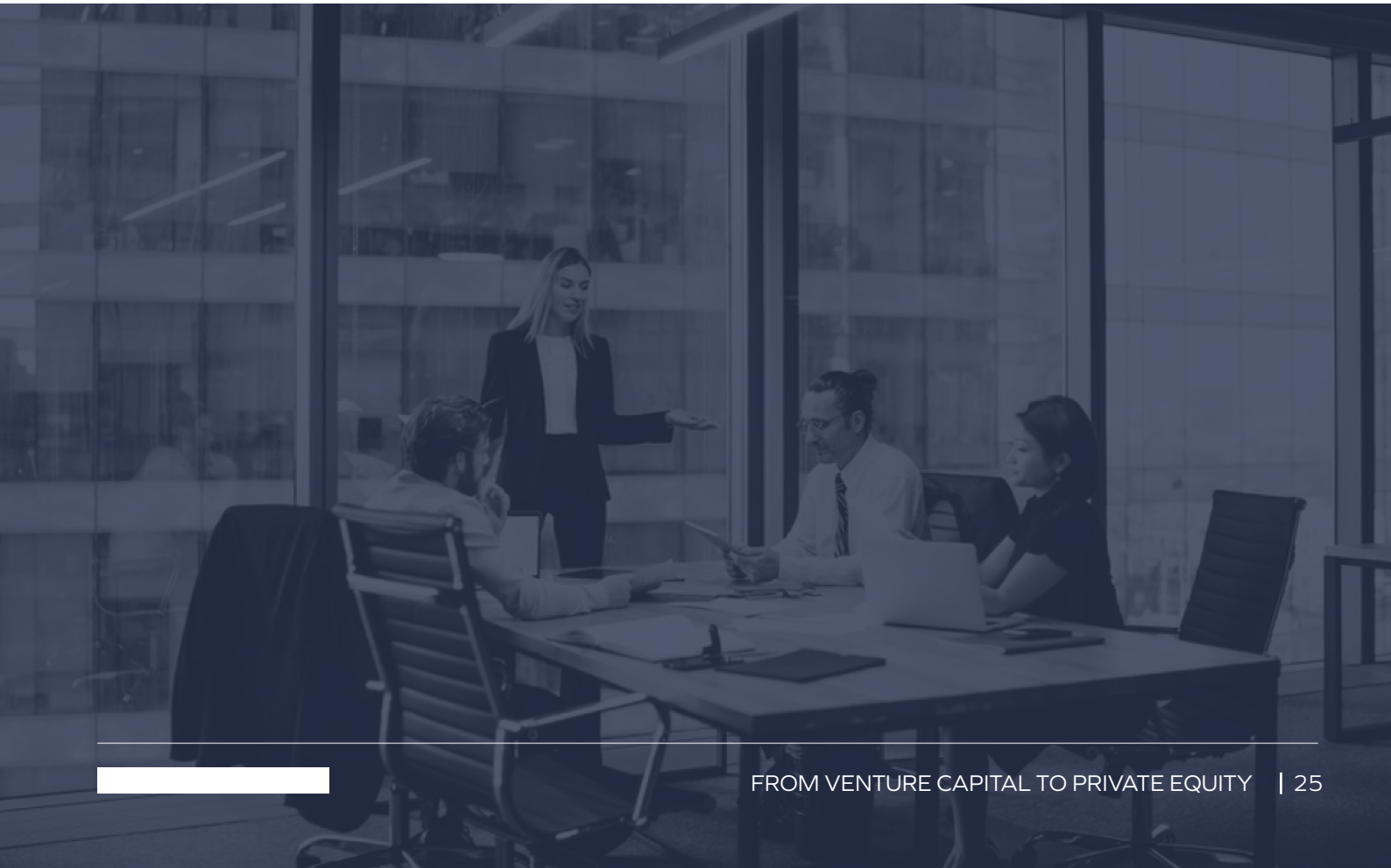
As investment bankers, we are often asked by founders and VCs what is required for a Technology business and its investors to consider a Private Equity buyout exit. Here is a short guide to help you understand the way PE investors think.

1. EXECUTION OF A BUSINESS PLAN WITH PROFITABILITY AS THE ULTIMATE OBJECTIVE

Profitability should be the primary objective for a VC-backed business considering an LBO. The management must implement a business plan that places profitability at the core, prioritizing sustainable revenue growth and efficient management of operational expenses. The ability to isolate growth-driven investments (new countries, new products for example) in the P&L will be key to help PEs understand the company's normative EBITDA level.

2. MANAGEMENT'S QUALITY & EXECUTION SKILLS

Management quality and leadership are crucial factors to consider in an LBO. The ideal candidate for Private Equity funds would be a company led by an experienced management team with a profound understanding of its industry, a long-term strategic vision, and the ability to long-term strategic vision, and the ability to establish itself as a category leader. Additionally, they must excel in utilizing existing resources and have the capacity to develop a business model capable of sustained scalability.





3. METICULOUS TRACKING OF KEY PERFORMANCE INDICATORS (KPIS)

To ensure accountability and measure progress, the company should reinforce the tracking of their KPIs, especially for SaaS businesses (e.g. NRR, Upsell, Churn, ARPA, CAC, Magic Number, Rule of 40, etc.). These KPIs should align with the company's growth objectives and provide transparency into its financial and operational health. Vigilant monitoring of these metrics will enable the management to make data-driven decisions and demonstrate value to potential investors.

4. ACTIVELY SEEK EXTERNAL GROWTH OPPORTUNITIES

Private Equity funds are renowned for their appetite for executing buy-and-build strategies. As such, the ideal candidate should be proactive in the search for potential targets. The company should identify potential acquisitions that can serve as accelerators for geographical expansion and/or product development. Working on an activable external growth plan before launching a PE process can instill confidence in investors regarding the potential to build a category-leading platform.

5. STRUCTURATION OF SUPPORT TEAMS

In preparation for the process, it is crucial to establish well-structured internal support teams (financial in particular but also legal and, in some cases corporate development). These teams will be responsible for navigating the complexities of PE processes, which include conducting due diligence, negotiating agreements, and ensuring compliance with regulatory requirements. Additionally, the team will oversee external growth operations with the financial support of the new investor in the event of a successful deal.

EXAMPLES OF DIFFERENT COMPANY PROFILES AND THEIR CHANCES OF SUCCEEDING IN AN LBO TRANSACTION

COMPANY A

- Activity: B2C ecommerce
- Revenue: €100m
- Annual Revenue Growth: +40%
- EBITDA Margin: (3%)

UNLIKELY

→ Clipperton's Analysis:

Achieving a successful exit with a PE firm may be challenging for the company due to its current lack of profitability and potential cash-flow / working capital issues. Furthermore, the B2C ecommerce sector is characterized by non-recurring transactions, which may not align with the typical investment patterns of private equity funds. Despite the company attaining significant scale and demonstrating encouraging yearly expansion, the inherent risks tied to its business model and financial profile will likely fall outside the comfort zone of PE funds.

COMPANY B

- Activity: Vertical SaaS
- Revenue: €15m ARR
- Annual Revenue Growth: +30%
- EBITDA Margin: (5%)

MAYBE

→ Clipperton's Analysis:

The company's substantial revenue level, robust growth profile, and a clear path to profitability make it a credible candidate for a range of Private Equity funds that prioritize growth over immediate profitability. Despite not being profitable yet, and being relatively low on the Rule of 40, PE funds may see an investment case by leveraging the company's growth trajectory and the scalability of the SaaS business model to attain strong levels of profitability.

COMPANY C

- Activity: Combination of SaaS and software licensing
- Revenue: €40m
- Annual Revenue Growth: +15-20%
- EBITDA Margin: 30%

DEFINITELY

→ Clipperton's Analysis:

The company's size, revenue growth, profitability, and business model make it a very attractive candidate for the majority of Private Equity funds targeting businesses of its size. While the annual revenue growth rate has been consistent, it can probably be boosted through external acquisitions. Upon acquiring the company, the PE fund is likely to propose a buy-and-build strategy to optimize the company's growth and consequently, its return on investment at the end of the investment period.

THE NECESSITY OF EXPERT GUIDANCE: WHY ENTREPRENEURS SHOULD CONSIDER ADVISORS FOR BUY-OUT DEALS

Unlike some Venture Capital deals, where entrepreneurs may opt to bypass the need for external counsel, entrepreneurs and investors eyeing the PE route as an exit strategy will face a complex maze that demands high financial skills, extensive preparation, intricate planning and execution. Entrepreneurs should also leverage the strategic vision of their VC shareholders (i.e. board advisors), who are increasingly involved in these types of exit routes. Engaging investment bankers is also a common practice and provides the management with a sense of confidence in pursuing this route.

ALWAYS SEEK STRATEGIC GUIDANCE

Board advisors and investment bankers can offer strategic guidance to entrepreneurs, aiding them in evaluating the feasibility and potential risks of a PE exit. Investment bankers are typically at the frontline when it comes to evaluating the feasibility and risks of LBOs, enriching the decision-making process with market intelligence, industry trends, and insights into competitive dynamics. Their expertise often stretches beyond pure advice, assisting in the crafting of a persuasive equity story and the required and complex operational documentation, among other tasks.

INVESTOR OUTREACH AND ROADSHOW MANAGEMENT

Investment bankers offer valuable support during the roadshow because of their extensive networks and relationships with various investors. They leverage these connections to identify and target potential investors who align with the company's profile. Investment bankers actively initiate investor profile. Investment bankers actively initiate investor outreach, organizing meetings and presentations to generate interest and foster competition among funds. Additionally, they assist in managing intense processes and provide support to entrepreneurs during thorough due diligence phases.

TRANSACTION STRUCTURE AND FINANCING

Buyout transactions typically entail debt financing. Investment bankers play a crucial role in transaction structuring and financing by offering their expertise and guidance to ensure that the deal is structured in the most favorable and efficient manner.

THE FINAL STRETCH: NEGOTIATION AND DEAL EXECUTION

Investment bankers serve as representatives for their clients, working diligently to protect their interests. They engage with management and shareholders, steering the deal toward a successful outcome through meticulous negotiation of term sheets. Their goal is to secure the most advantageous deal possible for their clients, including the best deal terms for exiting investors and an attractive incentive package for the management.

> ***In conclusion, for entrepreneurs navigating the complex world of LBOs, the involvement of experienced investment bankers and lawyers is usually not a luxury, but a necessity. These experts offer not just a second set of eyes but a panoramic view of the LBO landscape, from planning to execution. As LBOs become an increasingly popular exit strategy in the world of Venture Capital, the mantra for success is clear: preparation, expertise, and strategic advice.***

A FEW WORDS ON DEBT FINANCING MECHANISMS

The unique attributes of the company, such as its profitability and growth potential, will determine how a transaction can be structured, which may range from zero to a high leverage approach. Additionally, specific debt instruments are available, as outlined below.

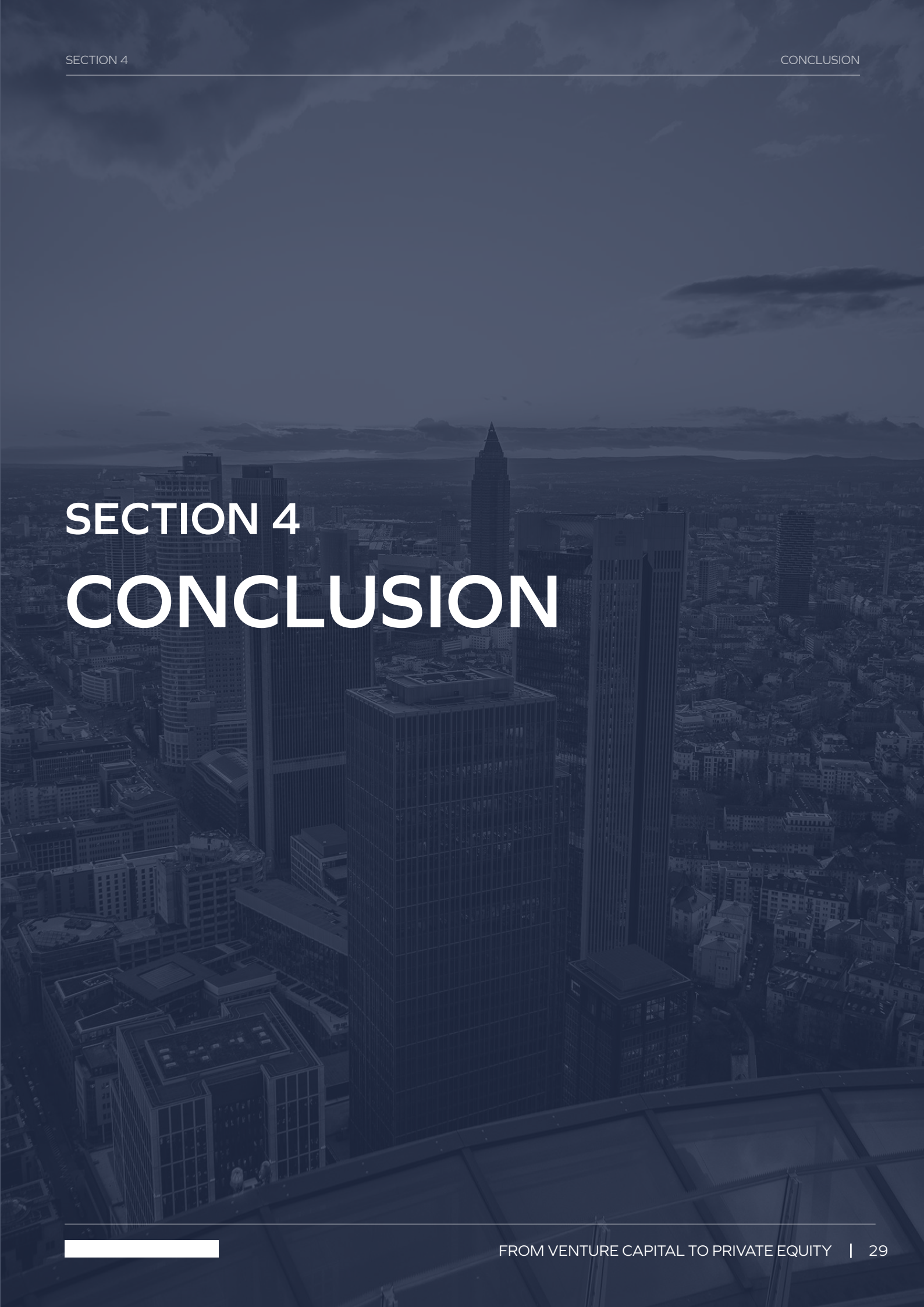
→ **SENIOR DEBT:** This is often the largest component of LBO financing. It's popular because it is considered the least risky for lenders and comes with relatively low interest rates. Senior debt includes bank loans and senior secured bonds.

→ **MEZZANINE DEBT:** Mezzanine debt is commonly used to bridge the financing gap in LBOs. It provides flexibility and can have a higher interest rate than senior debt but lower than equity. Mezzanine lenders often have the option to convert their debt into equity.

→ **HIGH-YIELD BONDS:** High-yield bonds, also known as junk bonds or subordinated debt, are frequently used when additional capital is needed beyond what senior debt can provide. They have higher interest rates to compensate for the higher risk associated with them.

→ **UNITRANCHE FINANCING:** Unitranche financing has gained traction by blending senior and subordinated debt into a single facility. This simplifies the debt structure and reduces administrative complexities. Private Debt funds like BlackRock, Ardian, Tikehau Capital, among others, issue Unitranche, offering more flexibility in issuance time, pricing, and structure compared to traditional bank debt. Notably, Unitranche operates on a bullet repayment basis, reimbursing the principal in full at maturity, albeit at a relatively higher cost than bank debt.

→ **SELLER FINANCING:** In some cases, sellers may offer financing to facilitate the sale. This can be an attractive option when the seller has confidence in the future success of the business.



SECTION 4
CONCLUSION

LAST WORDS

> ***In conclusion, the landscape of deal-making in the technology sector is evolving, with vc and pe playing pivotal roles. the traditional distinctions between these financial realms are blurring as the tech industry matures and economic landscapes shift***

The VC-to-PE deal phenomenon is gaining traction and is poised to be a prominent trend in the foreseeable future. The convergence of VC and PE pathways marks a significant shift, resembling two siblings within the broader Private Equity family.

VC embodies audacity, seeking high-risk ventures and innovative gems, while PE adopts a measured approach, focusing on established, profitable assets. Despite their differences, both play indispensable roles in injecting capital into the economy, fostering innovation, and influencing economic shifts.

The rise of PE as a compelling 'Third Way' for VC-backed companies seeking liquidity and growth is a massive opportunity for entrepreneurs and VC funds. Assets demonstrating capital efficiency, steady ARR growth, and strong customer retention capabilities (mostly SaaS models, but not only), are prime targets for PE investments.

To successfully transition from VC to PE, companies must emphasize management quality, prioritize profitability, actively seek external growth opportunities, and meticulously track KPIs. Structuring robust internal support teams is crucial to navigate the complexities of the transition and LBO process.

In this dynamic financial landscape, the VC-to-PE transition offers a strategic and promising route for Technology companies, aligning with their growth objectives and providing stability and flexibility in capital structure.

As the Technology industry continues to evolve, understanding and embracing this transition is essential for businesses to chart a nuanced roadmap for sustainable growth and success.



WHAT IS NEXT?

In the next 5 to 10 years, we anticipate a significant transformation in the financial landscape. VC and PE are set to break free from their traditional molds and embrace a new era of collaboration and innovation. This shift will reshape the way investments are made and companies are nurtured for growth.

OUR VIEW ON THE VC-TO-PE TREND IN THE UPCOMING YEARS

I - FURTHER BLURRING OF DISTINCTIONS

The line between VC and PE will continue to blur, with both types of firms adopting hybrid strategies and approaches. VC firms might take a more cautious approach, resembling some PE strategies, especially in later-stage investments.

Conversely, PE firms will become increasingly flexible and innovative to capture the potential high-growth opportunities typical of VC.

II - INCREASED VC-TO-PE DEALS

VC-to-PE deals will become more commonplace. As the Technology industry continues to mature, successful startups will look to PE as a viable exit strategy.

This trend will be fueled by the desire for more stable and flexible exit options compared to the uncertainties and fluctuations often associated with IPOs and M&As.

III - RISE OF INNOVATIVE HYBRID FUNDS

We'll witness the emergence of hybrid funds that integrate both VC and PE strategies. These funds will offer a comprehensive approach, providing early-stage funding, nurturing startups through growth phases, and later facilitating strategic buyouts.

This approach allows for a seamless transition and comprehensive support throughout a company's lifecycle.

IV - COLLABORATIVE ECOSYSTEM

VC and PE firms will increasingly collaborate rather than compete. They'll form symbiotic relationships where VC firms identify and nurture startups, and PE firms provide an established path for growth and liquidity.

This collaboration will optimize resources and expertise, benefiting both entrepreneurs and investors.

V - MORE PE FUNDS WILL TARGET QUASI-BREAKEVEN ASSETS

PE firms will further invest in businesses that are not breakeven yet but showing a clear path to profitability. They'll adopt a more proactive approach to exploring and investing in promising but slightly less mature companies. This shift will be driven by the need to capture high-growth potential and diversify their portfolios.

ABOUT CLIPPERTON - KEY FACTS

50	Technology investment banking experts in our offices in Europe
40	Technology transactions closed since 2022 across growth financing, buy-out deals, and M&A
400+	Transactions closed since inception in 2023
100%	Processes involving international counterparts

"Clipperton serves as the trusted partner to innovative technology businesses, assisting entrepreneurs and investors on their strategic transactions on a global scale."



SELECTED TRACK-RECORD

MARKETING & ADVERTISING SAAS

Brevo

LBO with

Bridgepoint

- Vertical: Martech (SaaS)
- EV range: €150m-€300m
- Exiting VCs: Partech
- Brevo (formerly Sendinblue) is a pure SMB-SaaS business model, combining a scalable and efficient self-service engine with high capital efficiency
- Bridgepoint will support Brevo's international growth through organic development and M&A while reinforcing its leading market position in Europe
- Announced in 2020

LEGAL SAAS

vlex

LBO with

Oakley Capital

- Vertical: Legal Tech (SaaS)
- EV range: €50m-€150m
- Exiting VCs: Caixa Capital Risc
- vLex is a profitable legaltech player and has consistently generated double- digit revenue growth in recent year thanks to strong management, differentiated product offering and market tailwinds
- Oakley's investment will help vLex's management accelerate its strategic goal of building a cost-effective leader in the fragmented market for legal research, through organic growth and M&A
- Announced in 2022

HEALTHCARE SAAS

inova

LBO with

CARLYLE

- Vertical: Health Tech (SaaS)
- EV range: €50m-€150m
- Exiting VCs: Nextstage
- The Carlyle Group will support Inova's international expansion, along with strengthening its presence in China and the US, enabling strategic acquisitions and investing in the company's product portfolio
- The Carlyle Group will become Inova's largest shareholder while Management and historical investor NextStage have reaffirmed their strong commitment
- Announced in 2021

E-COMMERCE ENABLEMENT SAAS

LENGOW

LBO with

MARLIN EQUITY

- Vertical: Retail Tech (SaaS)
- EV range: €50m-€150m
- Exiting VCs: Alven, Kima Ventures, Serena Capital, Arkéa, Bpifrance
- Asset positioned as a leading player in the e-commerce landscape with direct access to transactional data from a wide spectrum of e-commerce platforms
- Majority sale to Marlin Equity Partners, with the view to becoming Marlin's investment platform for a broader e-commerce play
- Announced in 2021

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10105 New York

United States

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1 Jianguomenwai Dajie
Beijing 100004

China