

Office of CFO Market Map: Tax Management Software

January 2021

Agenda

→ Shea & Company Overview

Office of the CFO

Market Overview


Market Activity

About Our Firm

1	2	29	\$10Bn+	15+	100+
Firm focused exclusively on enterprise software	Offices in Boston and San Francisco	Professionals focused on the software industry	Advised transaction value in last 12 months	Average years of experience amongst our senior bankers	Transactions completed representing billions of dollars in value

Mergers & Acquisitions, Private Placements & Capital Raising

Shea & Company has advised on important transactions representing billions of dollars in value across the strategic acquirer and financial investor landscape with Clients in the U.S. as well as Canada, Europe and Israel.

 has received a majority investment from 	 has received an investment from 	 has been acquired by 	 has received an investment from   	 has made a majority investment in 	 has received an investment from 	 has acquired 
 has been acquired by 	PERFORCE has received an investment from 	 has been acquired by PERFORCE	 has been acquired by 	 Public Sector & Healthcare  have been merged with 	 has acquired 	 has acquired 
 has acquired 	 has been acquired by 	 has received an investment from 	 REAL ESTATE SOFTWARE has received an investment from 	 INTELLIGENT COMPLIANCE™ has been acquired by 	 REAL ESTATE SOFTWARE has received an investment from 	 has been acquired by 

Case Study: HgCapital’s Acquisition of Sovos Compliance

Transaction Profile

- In March 2016, HgCapital announced a majority investment in Sovos Compliance, a leading global provider of regulatory tax compliance software solutions
- **Consideration:** Not disclosed
- **Sector:** Tax Compliance
- **Shea & Company Role:** Exclusive financial advisor to Sovos and its owner Vista Equity Partners

Sovos Profile

- Sovos is a leading provider of regulatory tax compliance solutions, managing all aspects of the tax compliance process including tax calculation, forms completion, ultra-high-volume filing and secure funds transfer to state and local revenue departments
- Sovos serves approximately 4,500 worldwide customers with a focus on the financial services, manufacturing, retail and technology verticals
- Sovos was a portfolio company of Vista Equity Partners, a leading private equity firm focused on investing in software and technology-enabled businesses
- Sovos was carved out of ADP in 2012 and is headquartered in Wilmington, MA

HGCapital Profile

- HgCapital is a leading private investment firm that currently manages over £5.2Bn in capital commitments through middle market private equity investing across TMT, Services and Industrials, primarily in Western Europe
- HgCapital investment teams currently manage three investment funds: HgCapital 7, their latest mid-market buyout fund; RPP2, their renewable energy infrastructure fund; and HgCapital Mercury, their TMT-focused small buyout fund
- The firm is based in London, England

Not Disclosed



has received a majority investment from



Shea & Company served as the exclusive financial advisor to Sovos Compliance & Vista Equity Partners



Transaction Notes & Rationale

- HgCapital had followed Sovos closely for several years and the investment was in line with HgCapital’s proven, sector-focused approach of investing in leading global providers of regulatory-driven software
- Sovos demonstrated many of the financial and market characteristics that HgCapital looks for when investing in platform companies and provides an excellent platform for future growth
- **“We are delighted to begin our work with Sovos CEO Andy Hovancik, his talented Management Team, and Vista Equity Partners. HgCapital has a strong track record of successful investments in tax and regulatory compliance-driven software companies. We have been tracking the excellent progress Sovos has made in establishing itself as a global player in this sector, and we look forward to supporting their continued growth growing forward.”** – Jonathan Boyes (Director, HgCapital)
- Upon close of the transaction, HgCapital will work closely with the Management Team and Vista Equity Partners to accelerate Sovos’ strong, organic growth and support further accretive M&A to build a global software champion
- **“HgCapital’s investment presents a significant opportunity to build on our success and accelerate the development of our global platform for tax compliance and reporting. With the support of Vista Equity Partners, Sovos transformed into a trusted partner for companies navigating today’s dynamic regulatory environment. HgCapital’s talented Team, in-depth knowledge of regulatory compliance markets and commitment to growth allows us to solidify our leadership position and deliver even more value to our Clients.”** – Andy Hovancik (CEO, Sovos)
- Vista Equity Partners will retain a significant minority stake in Sovos
- Shea & Company served as the exclusive financial advisor to Sovos and its owner Vista Equity Partners

Case Study: HgCapital’s Majority Investment in Sovos Compliance

Transaction Profile	Sovos Compliance Profile	HgCapital Profile	TA Associates Profile
<ul style="list-style-type: none"> ■ Consideration: Not disclosed ■ Sector: Governance, Risk & Compliance ■ Shea & Company Role: Financial advisor to HgCapital’s Saturn II Fund 	<ul style="list-style-type: none"> ■ Sovos was built to solve the complexities of the digital transformation of tax, with complete, connected offerings for tax determination, continuous transaction control compliance, tax reporting and more ■ The company supports more than 8,000 customers, including half of the Fortune 500 and operates in over 70 countries ■ Their SaaS products and proprietary Sovos S1 Platform integrate with a wide variety of business applications and government compliance processes ■ Sovos was carved out of ADP in 2012 and is headquartered in Wilmington, MA 	<ul style="list-style-type: none"> ■ Hg is a leading investor in software and services; their deep technology expertise, complemented by vertical application specialization and dedicated operational support provides a compelling proposition to management teams looking to scale ■ Hg has over \$30 billion in funds under management, an investment team of over 140 professionals and a portfolio team of more than 35 operators providing practical support to help their businesses realize their growth ambitions ■ Based in London, Munich and New York, Hg was founded in 1990 	<ul style="list-style-type: none"> ■ TA Associates is a leading global growth private equity firm, investing as either a majority or minority investor ■ TA employs a long-term approach, utilizing its strategic resources to help management teams build lasting value in high quality growth companies ■ TA has raised \$33.5 billion in capital since its founding in 1968 and is committing to new investments at the pace of over \$2 billion per year ■ Headquartered in Boston, with offices in Hong Kong, London, Menlo Park and Mumbai, TA was founded in 1968

Not Disclosed



has made a majority investment in



Shea & Company served as financial advisor to HgCapital



Transaction Notes & Rationale

- Prior to this transaction, HgCapital first invested in Sovos (via HgCapital 7) in 2016, in which Shea & Company served as the exclusive financial advisor to the prior sponsor, Vista Equity Partners; Hg became majority owner after purchasing the remainder of Vista Equity’s stake in 2017
- Sovos has grown substantially since Hg first invested in the company – acquiring more than 10 companies across North America, Latin America and Europe, over doubled its customer base to 8,000+, including half of the Fortune 500 companies and added more than 1,000 employees across 10 countries
- **“Sovos has been a cornerstone partnership for Hg as we’ve expanded into the U.S. over the years. The new Hg investment marks a new stage for the business, with Sovos offering an increasingly valuable proposition for customers with complex multinational operations. We’re absolutely delighted to continue our support for the Sovos team.”** – Gero Wittemann (Partner, HgCapital)
- **“In 2016, Hg invested in the Sovos vision to put tax compliance software where it belongs – in the modern, digital financial core. Since then, Sovos’ team has executed perfectly on a formidable strategy. In addition to strong organic growth generated from a robust recurring revenue model, Sovos has also executed on its targeted acquisition strategy, bringing new entrepreneurial founders into the business. As we move further into a world of digitized tax and regulation, Sovos is a trusted, future-ready solution for its multi-national customers.”** – Jonathan Boyes (Partner, HgCapital)
- **“Sovos leads a large, acyclical, global sector driven by increasingly complex tax regimes. Without a global solution, the rise of digital taxation has the potential to disrupt supply chain and finance transformation efforts. Sovos recognized that, and its leadership team has built the regulatory expertise, product innovation and business strategy to address it. We believe Sovos is ready to execute globally, and TA Associates is ready to support the company as it enters this next stage of growth.”** – Hythem El-Nazer (Managing Director, TA Associates)
- Shea & Company served as financial advisor to HgCapital’s Saturn II Fund

Agenda

Shea & Company Overview

→ **Office of the CFO**

Market Overview

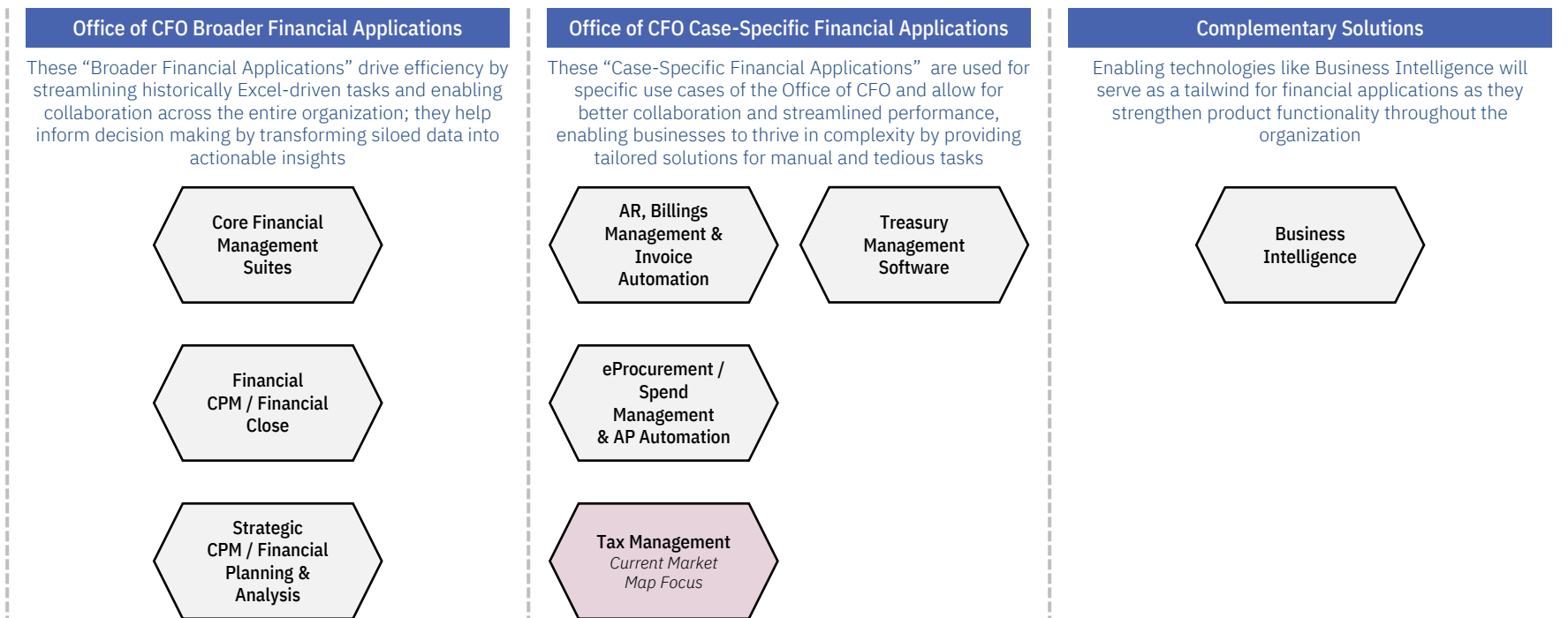
Market Activity

Office of CFO Coverage Areas

The Office of CFO is in the early stages of digitization and automation – there remains a significant opportunity for market growth driven by a desire to drive efficiency, accuracy and superior decision making



Fragmented ERP Landscape Underpinning Solutions



With companies still in the early stages of applying digital technologies to the office of CFO, there remains a significant opportunity for market growth. With technologies such as AI and Machine Learning further augmenting solution sets and the growing need for data-driven insights to inform decision making, the potential for market adoption sees multiple favorable tailwinds driving its path of acceleration

Shea & Company actively covers software that serves the Office of the CFO, with deep domain expertise and experience in the sector

Agenda

Shea & Company Overview

Office of the CFO

→ **Market Overview**

Market Activity

Office of the CFO Pain Points: Tax Management

“In this world nothing can be said to be certain, except death and taxes” and the burden of calculating, reporting and complying with these taxes falls to the Office of the CFO. These tax departments face a number of challenges with compliance, governance and infrastructure, caused by complex tax codes, siloed data and manual processes

Key Challenges

Compliance with Increasing Complexity

- Companies are selling increasingly diverse products and services, in every expanding geographies and in more ways than ever before, creating complex requirements for tax compliance
- Tax rates are constantly changing at the national, state and local level (700 changes in the US in one year alone) and tax jurisdictions themselves are constantly evolving, challenging organizations to maintain compliance

Governance & Personnel

- Limited or miscommunicated ownership and purpose of tax reporting processes – typically between the tax, finance functions, head office and subsidiaries; inconsistent tax interpretation across departments
- Limited communication with owners of complex data (financial instruments, forex and fixed assets) within the business and reliance on them to prepare the relevant tax calculations
- Limited exposure of tax function to decision makers like board and audit committee

Infrastructure of Applications & Operations

- Over-reliance on spreadsheets that are inconsistent, poorly controlled and not maintained, resulting in additional manual review to ensure accuracy
- Siloed approach to tax accounting and compliance; with each performed in isolation and often with a duplication of work, analysis and inconsistency of approach
- Changes to existing or new business systems that do not enable or support tax requirements – typically, the tax function is not involved in planning or customization of new financial reporting systems
- Substandard or no tax reporting process documentation

Tax Department Goals

Through tax compliance automation, enterprises and, more specifically, offices of the CFO seek to avoid costly fines, optimize tax payments and reduce overall manhours...



Compliance



Tax Planning



Efficiency

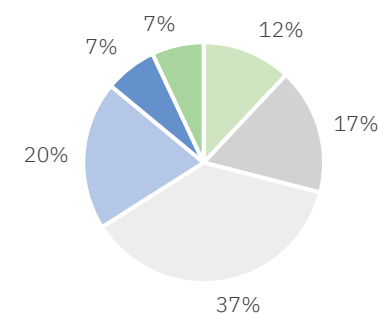
...however, compliance complexity, limited internal communication as well as infrastructural and operational dissonance makes this transition challenging

Growing Number of Disjointed Apps, Data & Processes



- Volume of data is increasing exponentially, and includes both structured and unstructured sources
- Application and data fragmentation results in multiple copies and inconsistencies for a single record (e.g. a contract value in CRM, ERP, billing system)
- Reporting tools are siloed and limited to analyzing data from the source application making cross-application insights impossible

Key Tax Automation Strategies



- Innovation
- Delivery
- Functionality or offering strategy
- Growth
- Cloud strategy
- Architecture strategy

Source: IDC

Tax Management Software Market Definition & Segmentation

The Tax Management Software market is comprised mostly of point solutions that calculate and report specific tax aspects, along with a handful of solutions that are deeply integrated to the general ledger and manage all tax aspects – from invoicing to filing

Corporate Tax Management Suites

- Solutions that enable enterprises to address their various tax compliance needs within a single, consolidated platform; not all suites cover the entirety of functionalities buckets outlined below

Sales and Use Tax

Sales & Use Tax Determination and Reporting

- Manages the calculation and collection of taxes applied for the sale of tangible goods or use of services
- Collects, validates and reports tax information across business functions to federal, state or local government entities

SMB Focused Sales & Use Tax Solutions

- Lower-cost, easy to use/implement solutions aimed at businesses with lower volumes of taxes to process

Exemption Certificate Management

- Maintains current, valid exemption certificates to avoid penalties and interest charges in the event of an audit

Value-Added Tax (VAT)

- VAT compliance solutions including registration, invoicing, reporting and returns management for geographies that have VAT
- Includes compliant local invoicing, country-by-country registration, applying tax rates and managing foreign exchange rates and exposure across

Payroll Tax

- Payroll software allows companies to manage and streamline payroll processes and ensure employees are paid timely and accurately
- Includes automating payroll processes, calculating wages, taxes and pre- and post-tax deductions and ensuring government compliance

Excise Tax

Alcohol

- Tax on wines, beers and spirits

Tobacco

- Tax on the sale of tobacco products

Fuel

- Tax on sale of gasoline; varies between states

Other

- Aviation, Cannabis, Telecom, etc.

Property Tax

- Calculation of tax on real property based on location and value
- Property tax is one of the largest operating expense for many corporations

Corporate Income Tax

- Direct tax imposed on an enterprise's profits based on jurisdiction
- Many countries impose such taxes at the national level, and a similar tax may be imposed at state or local levels
- Also includes solutions to manage compliance with Global Reporting needs

Customs Tax

- Tax related to goods transported internationally

Tax Information Reporting

1099

- Income unrelated to wages, salaries and tips

Brokerage

- Realized gains and losses through sale of stocks, options, commodities, etc.

ACA

- Value of health insurance coverage offered to each employee

W-8 / W-9

- W-8: foreign entity exemptions
- W-9: Taxpayer ID and certification

Tax Services

- Tax services are offered by firms which specialize in filing and preparing taxes. Often these services are provided by accounting firms. Tax firms use their in-depth understanding of complex regulations to offer expertise and guide corporations through the tax process

eInvoicing

- Electronic billing systems that promote real-time tax clearance of invoices
- Governments worldwide are promoting / requiring eInvoicing to boost their collection rates and to improve efficiency

Government Software

US States & Municipalities

- Reporting and filing of taxes levied at the state and local government level

National Government (incl. FACTA / CRS)

- Data exchange and management between regulated industries and federal regulators

Tax Management Software Taxonomy

The Tax Management Software market is comprised mostly of point solutions that calculate and report specific tax aspects, along with a handful of solutions that are deeply integrated to the general ledger and manage all tax aspects – from invoicing to filing

Corporate Tax Management Suites 			
Sales and Use Tax Sales & Use Tax Determination and Reporting 		SMB Focused Sales & Use Tax Solutions 	
Exemption Certificate Management 		Value-Added Tax (VAT) 	
Payroll Tax 			
Excise Tax Alcohol 		Tobacco 	
Fuel 		Other 	
Property Tax 		Corporate Income Tax 	
Customs Tax 			
Tax Information Reporting 1099 			
Brokerage 			
ACA 			
W-8 / W-9 			
Tax Services 			
eInvoicing 		Government Software US States & Municipalities 	
		National Government (incl. FACTA / CRS) 	

Market Forecast & Outlook

With a 6.3% overall market CAGR, growth is primarily driven by widespread adoption of digitization initiatives, with direct and indirect tax applications paving the way to manage all aspects of tax and tax workflow considerations

Commentary

- Corporate tax applications help corporations calculate taxes for current transactions, estimate tax burden for future transactions, determine tax exemptions and manage filing and compliance and house tax-related forms
- These applications are split into two subcategories:
 - Direct tax applications: Supporting internally focused tax workflows including tax filing, tax planning, tax provisioning and transfer pricing
 - Indirect tax applications: Managing tax considerations for external business transactions such as sales and use tax, value-added tax (VAT), goods and services tax (GST) and excise tax
- Given the digital transformation being undertaken within governments and relevant taxing authorities, the adoption of cloud-based tax compliance solutions should continue to rise
 - When tax determination is managed entirely in the cloud by a tax compliance vendor, regulatory updates are delivered automatically, removing the manual intervention each time regulations change
- While the transition from manual tax management continues to be the primary driver, advancements in machine learning are likely to play a key role as the market for corporate tax software matures

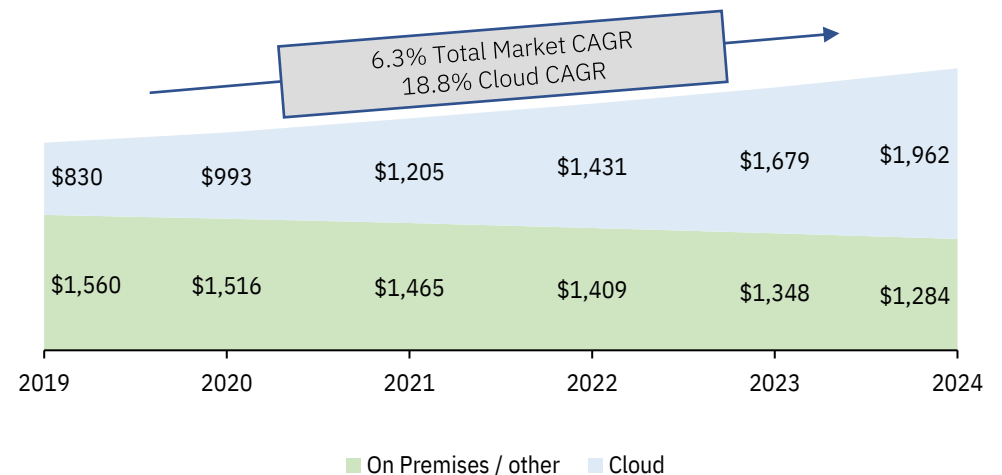
Regulatory Risks / Cost of Non-compliance

- ✗ Significant fines
- ✗ Sanctions under criminal law
- ✗ Protracted audits
- ✗ Negative publicity
- ✗ Cashflow disruptions
- ✗ Operational shutdowns

Current Market Size: Corporate Tax Management Software

The Tax Management Software market is large (~\$2.4Bn) and growing particularly well for public cloud providers (18.8% CAGR). Adjusted for COVID-19, total market CAGR has fallen between forecasts from 7.7% (2019-2024) to 6.3% (2019-2024)

TAM Estimated at \$10Bn+



Growth Drivers

Digitization Initiatives

- Presently, an over-reliance on spreadsheets and manual processes drives the transition toward digital solutions; in the outyears, cognitive computing, AI / ML and blockchain will be primary forces driving market growth
- The demand for the benefits provided by these technologies will guide near term market spend and providers that can quickly incorporate these technologies and expand functionality will have a definite strategic advantage

Move to Cloud

- Recent / projected growth has come almost exclusively from cloud solutions; these are often technologically superior and cost less upfront
- The market is shifting to cloud solutions as leaders seek to reduce application support costs, increase application flexibility and shorten the time to value

Market Trends in Tax Management Software

Key Market Drivers

I. Tax Regulations Growing In Complexity

- Governments worldwide are imposing increasingly complex tax schemes – especially at the corporate level – to generate revenue
- The process of managing taxes has been growing increasingly difficult as enterprises and their markets have grown in scale and complexity. Regulatory rules are constantly changing across multiple dimensions creating a more complex tax environment

II. Tax Compliance is Universal, Complex and Rapidly Growing

- The Tax Compliance market, a subset of overall Tax Management, is large with a TAM of ~\$8Bn and is experiencing double-digit growth
- The market can be segmented into: Global VAT automation (GVAT), Sales & Use Tax software (SUT), Shipping Tax compliance (SHIP) and Tax & Regulatory Reporting (TRR)

III. Global Tax Environment Undergoing Rapid Digitization

- In an effort to drive tax compliance, governments around the world are embarking on their own form of digital transformation, by implementing technologies that enforce continuous compliance
- Companies are not only using Tax Management Software to streamline operations and automate tasks, but also to help inform decision making

IV. Fragmented Market Comprised of Point Solutions

- The market is currently served by a number of point and composite solutions with limited functionality
- With very few full suite providers in the market – the existing providers and composite solution providers have begun to improve and build out their platform by consolidating the market via M&A

V. Advanced Technologies Gaining Traction

- 60% of the Tax Management Software market will be deployed in the public cloud by 2024, up from 35% in 2019
- Tax Management Software vendors are expected to boost and broaden their offerings by leveraging AI, data analytics and blockchain
- Integration with other business department software will become increasingly relevant

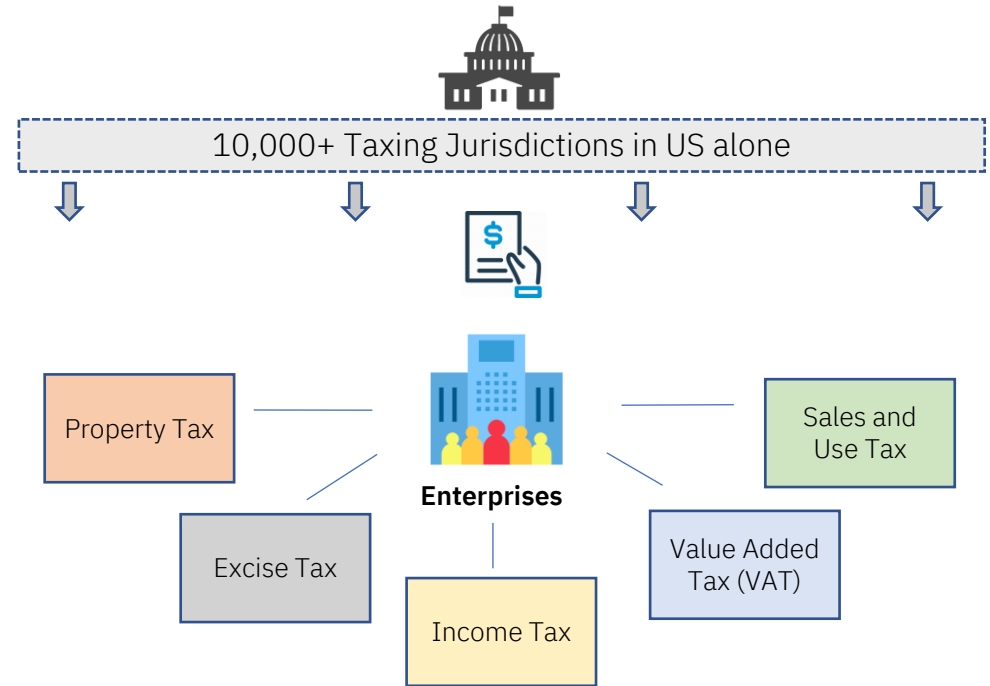
The Tax Management Software market will grow at a CAGR of 6.3% from 2019–2024. The on-premises portion of the market is expected to remain relatively flat, while the cloud deployments of Tax Management Software are anticipated to grow at 18.8% over the same period

I. Tax Regulations Growing in Complexity

As governments worldwide are imposing increasingly complex corporate tax schemes to generate revenue, corporations need to be aware of the dynamics and composition of the various taxes they face

Tax Market Overview

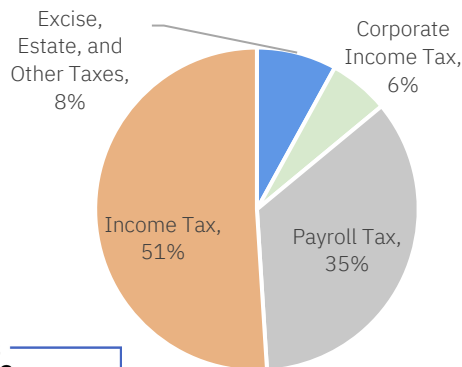
- Corporations face a wide array of taxes – from direct taxes like property and income, to indirect taxes like sales & use and Value Added Tax (VAT) – with applicable taxes and rates varying widely based on geography, location of final sale and type of good/service sold
- Corporate taxes offer a steady-stream of revenue for governments and, as noted above, taxation generally increases rather than recedes over time
- Within the U.S. alone, there are over 10,000 taxing jurisdictions leading global corporations to face a patchwork of country-, state- and city-specific tax regulations; they must comply or risk increasingly hefty fines
- Governments are becoming increasingly aggressive in tax enforcement and are leveraging technology to close the substantial “tax gap” that exists in most jurisdictions which is estimated at 15%-30% of tax revenue depending on the jurisdiction



Tax Revenue by Source

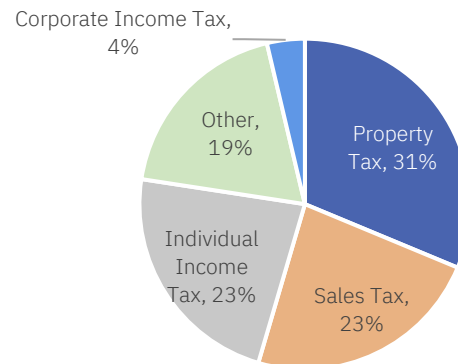
US Federal – \$3.6Tn total revenue

Sources of Federal Tax Revenue



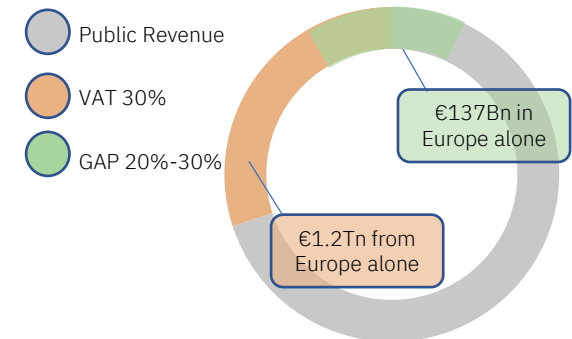
US State – \$1.0Tn total revenue

Sources of State and Local Tax



Global VAT

High-level overview of the contribution of VAT to governments globally and the VAT gap as a portion of that contribution



I. Tax Regulations Growing in Complexity continued

The process of managing the calculation, collection, filing and reporting of taxes has been growing increasingly difficult as enterprises and their markets have grown in scale and complexity. Regulatory rules are constantly changing across multiple dimensions creating a more complex tax environment

Evolution of Corporate Tax Market

Previously:
Static, Reactive
Approach to taxes



Pre-Digital Economy offers relatively simple tax compliance requirements

Companies need to comply with only a couple of taxing jurisdictions

Tax determination calculations are relatively easy to make by applying percentage-based taxes

Tax rates are relatively static and easy to understand

Market Challenges:



Increasingly Global Business:

Companies are selling more products and services in more places and in more ways than ever before, creating complex requirements for tax compliance.



Changing Tax Rates & Jurisdictions:

The tax rates are constantly changing at the national, state and the local level (700 changes in the US in one year alone) and tax jurisdictions themselves are constantly evolving. These changes make it difficult for organizations to maintain compliance.



Global Reporting

In an effort to crack down on base erosion and profit shifting (BEPS), a number of countries are instituting global reporting requirements.



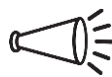
South Dakota v Wayfair

As a result of the South Dakota v Wayfair ruling in 2018, more than 37 states have adopted economic nexus laws which impose sales tax collection on remote sellers (eCommerce), creating a confusing patchwork of requirements.



The Rise of eInvoicing

In an effort to boost compliance and streamline tax collection, governments have been increasingly mandating eInvoicing and converting to digital tax collection.

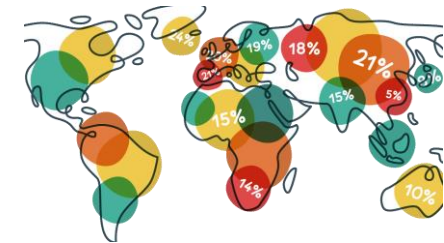


Changing Taxability

As businesses and business models evolve, the taxability of transactions has evolved as well. For example, there have been changes to how software transactions and cryptocurrency transactions need to be handled.

Today:

Real-time, complex and adapting tax environment



Increases in the frequency and pace of audits



Regulations span regions and the globe



Increasing Compliance Cost

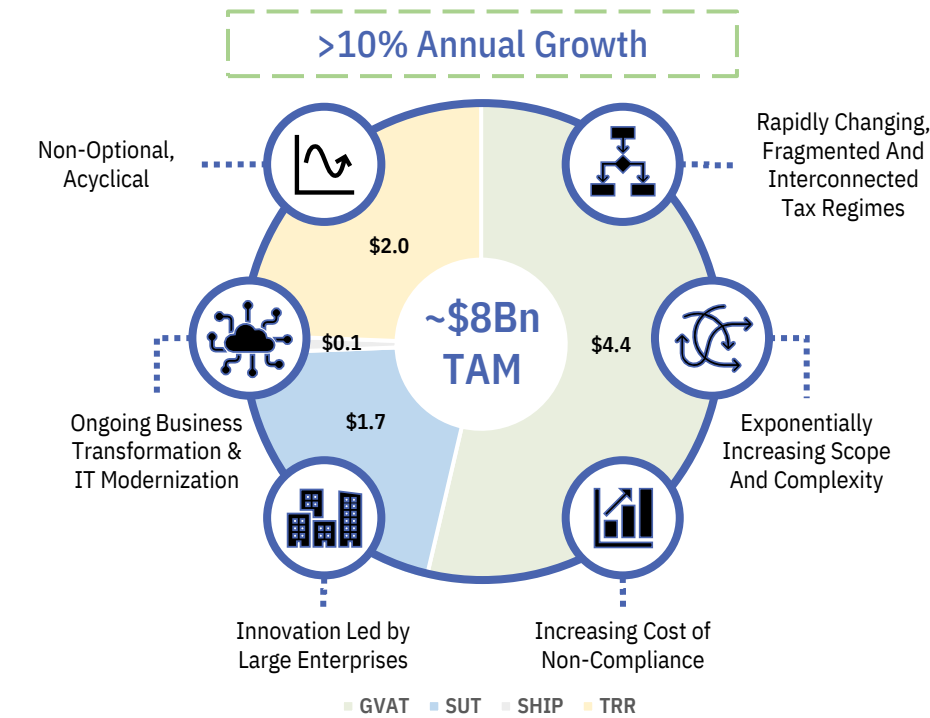


Aggressive Regulatory Environment

II. Tax Compliance is Universal, Complex and Rapidly Growing

Tax Compliance Management is a pervasive and acyclical market growing rapidly both in size and complexity. This exponential growth in complexity coupled with increasingly fragmented tax regimes necessitates a mass-movement towards software and automation

Tax Compliance-Specific Trends (\$ in Bn)



Non-Optional, Acyclical

Rapidly Changing, Fragmented And Interconnected Tax Regimes

Ongoing Business Transformation & IT Modernization

Exponentially Increasing Scope And Complexity

Innovation Led by Large Enterprises

Increasing Cost of Non-Compliance



- Compliance is mandatory
- Government efforts to close tax gaps persist through economic downturns



- 10+ countries expected to significantly revamp tax regulation over the next three years



- ERP software market expected to triple in size from 2018 to 2025
- Cloud ERP, S4 migrations and AP Automation are key growth areas



- 42 states have enacted an economic nexus following the Wayfair case (versus 18 previously)



- Large enterprises comprise 35-40% of VAT base
- Business models, products and supply chains constantly change



- 45% of CFOs recognize compliance as the #1 barrier to growth

Tax Compliance – Segmentation & Sub-Trends

Segment Definition	Trends Observed
<p>GVAT (International)</p> <ul style="list-style-type: none"> Global Value-Added Tax Management Includes registration, invoicing, reporting and returns management 	<ul style="list-style-type: none"> Strong pipeline of countries transitioning to continuous VAT models Governments sanctioning software providers to facilitate clearing functions
<p>SUT (U.S.)</p> <ul style="list-style-type: none"> Sales & Use Tax Automation Includes calculation, collection and filing of taxes applied for the sale of tangible goods or use of services 	<ul style="list-style-type: none"> Wayfair decision subjects more companies to sales tax regulation Increasing complexity with outsized effect on SMB and mid-market
<p>SHIP</p> <ul style="list-style-type: none"> Shipping & Distribution Tax Compliance Includes taxes on the shipping of cannabis, prescription drugs, firearms, tobacco and alcohol 	<ul style="list-style-type: none"> Relaxing regulation driving up alcohol shipments, producers, channels and products Carrier compliance and DTC retailers driving strong double-digit growth
<p>TRR</p> <ul style="list-style-type: none"> Tax Information & Regulatory Reporting Tax forms including ACA, W8/W9, 1099, W2, Crypto and Unclaimed Property 	<ul style="list-style-type: none"> State and Federal divergence introducing complexity, shortening timeframes, lowering thresholds and driving volume growth Growing reporting requirements and lowering reporting thresholds

III. Global Tax Environment Undergoing Rapid Digitization

In an effort to drive tax compliance, governments around the world are embarking on their own form of digital transformation, by implementing technologies that enforce continuous compliance – shifting from post-audit models to clearance & real-time reporting

Commentary

- Governments worldwide are rapidly moving to digitize their tax collection systems out of a desire to (i) increase tax compliance; (ii) improve efficiency and (iii) drive auditability
 - The ‘VAT gap’ – that is the amount of VAT that goes uncollected – is estimated at ~140 billion EUR annually in Europe alone (11% of total VAT), representing significant leakage
- As opposed to sporadic “post-audit” enforcement, governments are moving to “clearance” models, where tax authorities actively approve invoices prior to issuance / payment and real time reporting
 - Under a clearance model, tax compliance moves from a back-office accounting function, to a mission-critical business-enabler
- This digitization began in the early 2000s – beginning with business-to-government transactions – in Central and South America and is recently gaining momentum worldwide both through independent country regulations and multi-national standards like EU Directive 2014/55/EU and SAF-T (Standard Audit File for Tax)

Digital Tax Transformation

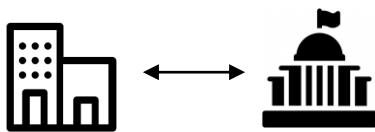
-  **Drive Compliance with Existing Tax Law:** Digitization helps to narrow the 15%-30% VAT gap that is estimated globally and drive additional government revenue
-  **Drive Efficiency:** Makes tax collection more efficient and flexible given real-time nature
-  **Increase Auditability:** Tax authority sits in between the supplier and buyer, capturing transaction information in real time (and with increasing data requirements); data is quickly accessible and auditable
-  **eCommerce Adoption:** Catalyzed by COVID-19, online sales growth drives tax-software demand. Some solutions (e.g. PingPong) are transaction-focused while others are integrated and focus on direct tax applications
-  **The Rise of the Cloud:** The power of cloud computing has reshaped business and government and enabled the real-time transactions needed to make clearance and real-time reporting possible

Post audit



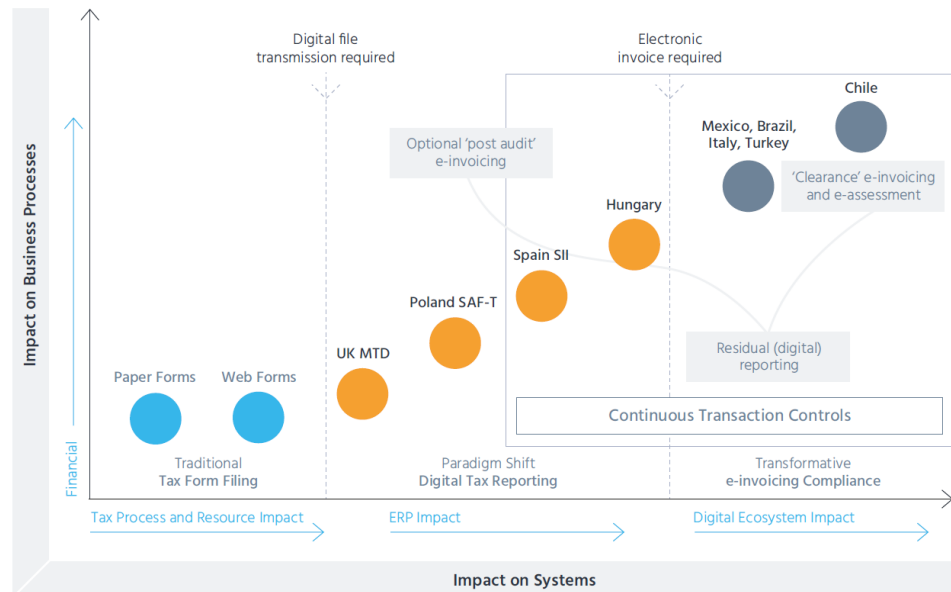
The government audits and reconciles VAT returns submitted by suppliers and customers at the end of a VAT accounting period

Clearance



The government checks and validates an invoice sent by a supplier for compliance with regulations before enabling the customer to access the invoice

Models differ materially from country to country

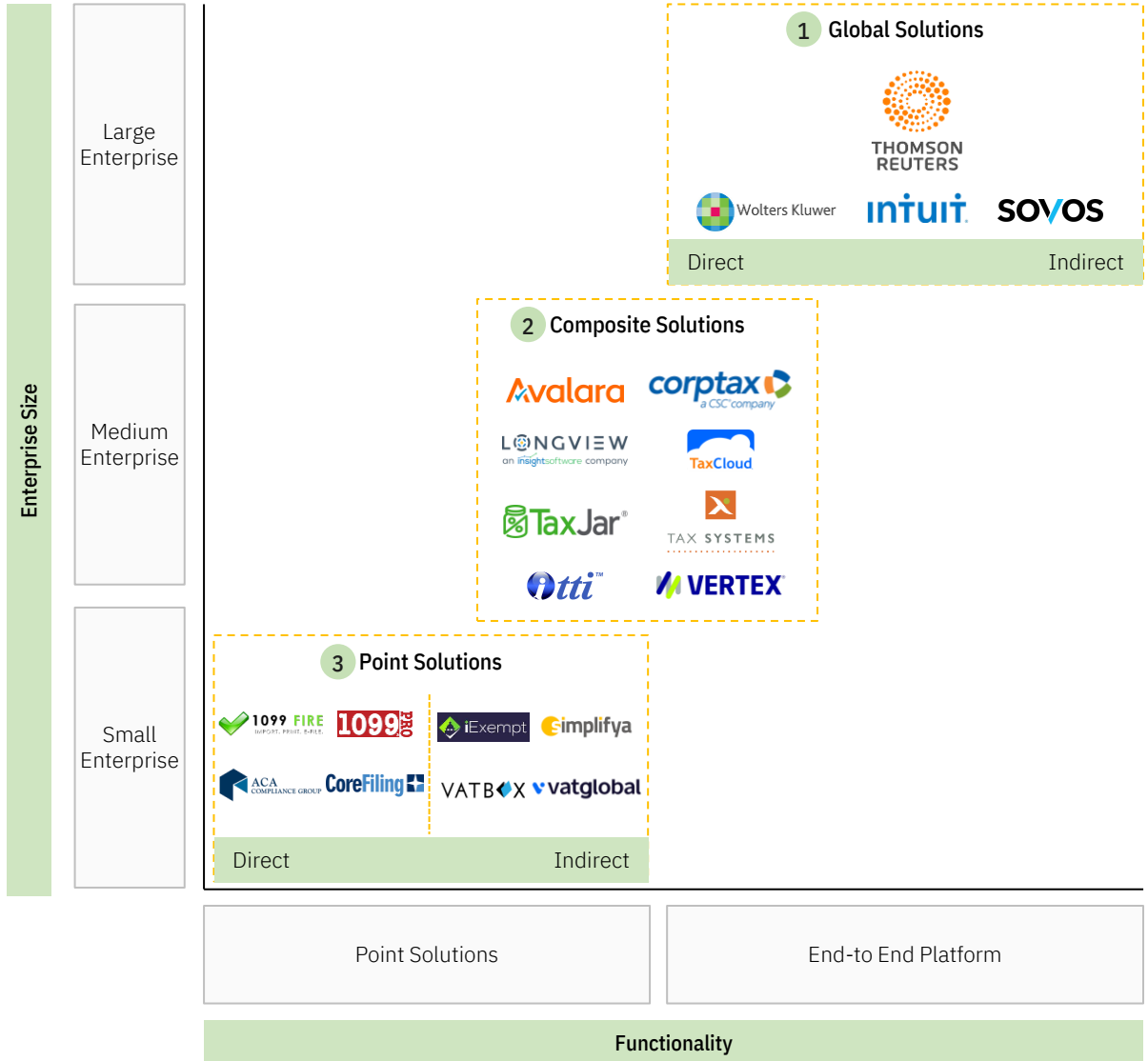


IV. Fragmented Market Comprised of Point Solutions

Fragmented market comprised of point solution vendors and composite solutions offering limited functionality – presenting a large consolidation opportunity

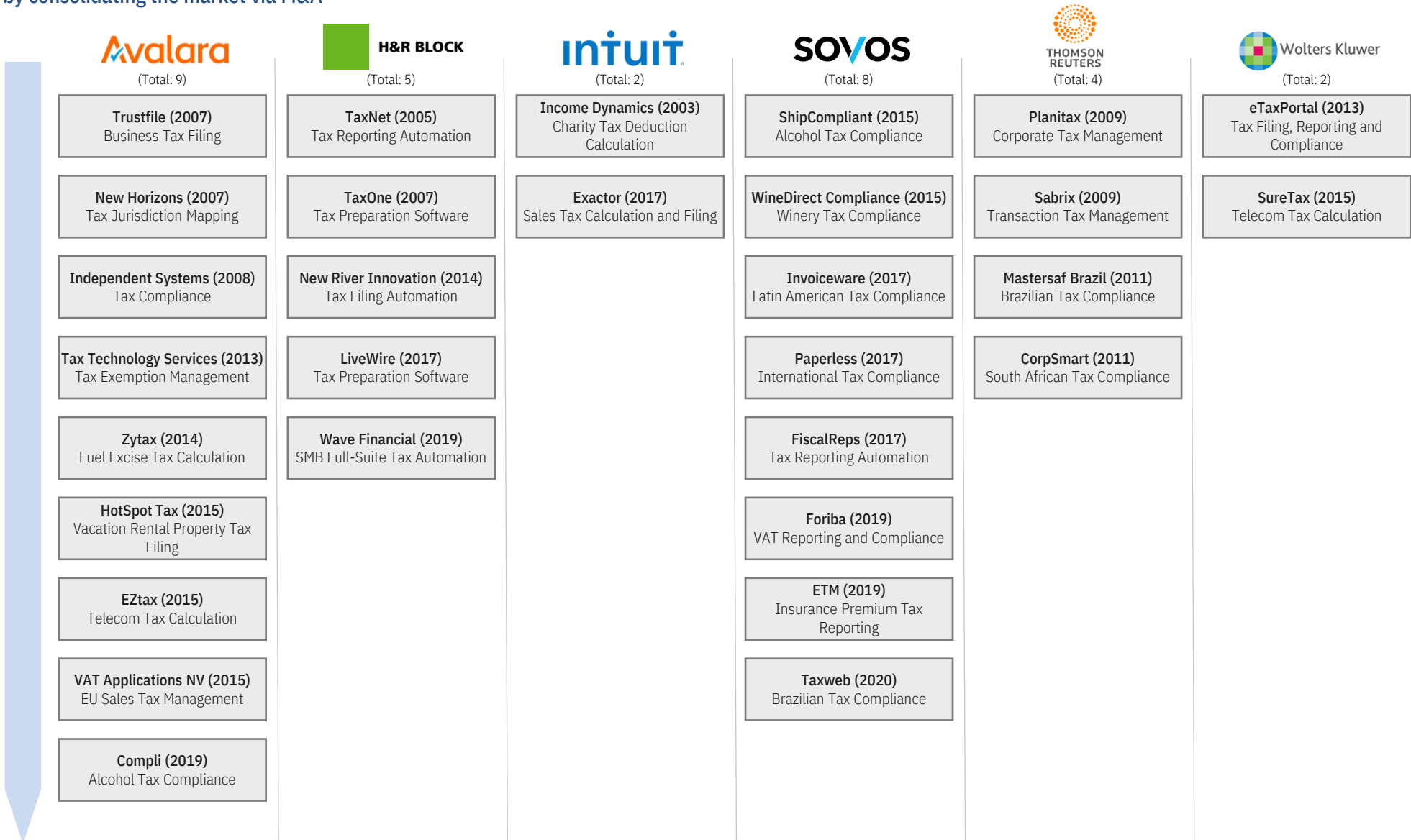
Market Landscape

- 1 Global Solutions**
 - These vendors have a clear competitive advantage in the market by offering adaptable, connected and global solutions that are mission critical for the tax needs of businesses today
 - These vendors have a unique ability to serve large enterprises and have extensive tax and regulatory knowledge embedded in their software; global providers such as H&R Block may also target SMB customers
 - Given their scale and inherent breadth of capabilities, vendors’ product-focus falls on a spectrum with some players focusing primarily on direct or indirect tax and others offering complete coverage for both
- 2 Composite Solutions**
 - These vendors offer more complete Tax Compliance Suites than point solutions, however their solutions still tend to be incomplete, more rigid, tactical and regional in focus than the Global Solutions vendors
 - This segment of the market remains highly competitive packed with both large enterprises (Avalara, Vertex) and small, faster-growing companies (TaxJar, TaxCloud)
 - Vendors in this segment must continue to innovate, add new features and new functionalities to maintain relative market position amongst competitors
- 3 Point Solutions**
 - A number of smaller players exist in the market offering more focused, yet limited, functionality which fall strictly within either direct or indirect tax applications
 - While many of these vendors may offer best-of-breed functionality or better tech than the larger incumbents, they often lack the additional capabilities offered as part of the composite or global solution vendors
 - As the larger players continue consolidating the market through M&A, it becomes more difficult for these point solutions to continue to win deals



IV. Fragmented Market Comprised of Point Solutions continued

With very few full suite providers in the market – the existing providers and composite solution providers have begun to improve and build out their platform by consolidating the market via M&A



Source: 451 Research
Notes: Relevant Acquisitions since 2003

V. Advanced Technologies Gaining Traction

Vendors are looking to expand and augment their solution sets with improved technology stacks to provide key competitive advantages and streamline integration across departments

Key Value Trends



- **Shift to the Cloud:** Vendors continue to invest in building scale and functionality into cloud offerings; a driving factor of growth stems from future cloud-based deployments. Cloud-based vendors will see a 18.8% CAGR from 2019 – 2024; Gartner estimates that on-premise vendors will experience flat to little growth over this time frame



- **Collaboration & Integration:** As the rapid digitization of tax management sweeps through businesses, users will desire integrations and collaborative functionalities with other departments' software systems so that companies can be provided a much higher degree of data visibility



- **Artificial Intelligence:** Companies are already beginning to use artificial intelligence to perform lower-level repetitive tasks like calculating the proper sales tax rate for the proper jurisdiction. Artificial intelligence will also be used by tax professionals to build more accurate forecasts and perform advanced risk/exposure analysis



- **Big Data & Analytics:** The tax department is inundated with data, but insights from that data can be hard to find. Sophisticated big data and analytics will allow tax professionals to identify opportunities and make better tax decisions



- **Blockchain:** While still in the early innings, blockchain technology has the potential to change how transactions are done and how they are recorded. It is particularly well suited to address inefficiencies in the auditing process

Source: Gartner, IDC

Agenda

Shea & Company Overview

Office of the CFO

Market Overview

—————> **Market Activity**

Recent Capital Raises and M&A Activity

Recent Capital Raises

	 Deel	 FLOW	 HERBL	 CrossBorder Solutions	 RIPPLING	 pilot	 TaxJar	 Lukka
Latest Round – Date	05/21/20	12/04/19	09/30/19	09/24/19	08/02/19	04/17/19	01/09/19	08/07/18
Latest Round – Size (\$ millions)	\$14	\$37	\$120	\$40	\$45	\$40	\$60	\$15
Post-Money Valuation (\$ millions)	\$19	\$117	n/a	\$215	\$295	\$355	\$179	\$65
Amount Raised to Date (\$ millions)	\$59	\$56	\$122	\$48	\$60	\$315	\$62	\$25

Recent M&A Activity

	 intuit	 H&R BLOCK	 NIC	 i3 Verticals	 BOWMARK CAPITAL	 NCR	 RBS <small>The Royal Bank of Scotland</small>	 Asure
Acquirer								
Target	 credit karma	 wave	 Complia	 NET DATA <small>An i3 Verticals Company</small>	 TAX SYSTEMS	 JetPay	 freeagent	 Evolution [®] HCM <small>AN ASURESOFTWARE COMPANY</small>
Announced Date	02/24/20	06/11/19	05/01/19	04/08/19	03/25/19	12/06/18	03/27/18	05/26/17
Enterprise Value (\$ millions)	\$7,100	\$405	\$15	\$24	\$150	\$193	\$75	\$55
Current Year EV / Revenue	7.1x	9.5x	n/a	n/a	n/a	2.5x	6.1x	4.4x
Current Year EV / EBITDA	n/a	n/a	n/a	n/a	n/a	44.9x	n/a	n/a

Sources: 451, PitchBook and other publicly available sources

Selected Companies for Discussion



	corptax a CSC company	paddle	pingpong
HQ	<ul style="list-style-type: none"> Deerfield, IL, USA 	<ul style="list-style-type: none"> London, England 	<ul style="list-style-type: none"> San Mateo, CA, USA
Product Portfolio	<ul style="list-style-type: none"> Provides software offering solutions for provision, compliance, planning, entity management, sales and use, workflow, calendar, data management and transfer pricing applications 	<ul style="list-style-type: none"> Provider of platform to aggregate and manage software sales. The platform includes unifying payments, subscription and billing management, manual invoicing, sales tax and financial compliance 	<ul style="list-style-type: none"> Provides cross-border payment platform for eCommerce sellers. The platform offers optimization for cross-border payments, VAT payments and supplier payments
Deployment Type	<ul style="list-style-type: none"> SaaS 	<ul style="list-style-type: none"> SaaS 	<ul style="list-style-type: none"> SaaS
Strengths	<ul style="list-style-type: none"> Customer-base including 100 countries, 50% of the Fortune 500 and 60% of the Fortune 100 Strong product with support for complex multi-layered clients 	<ul style="list-style-type: none"> Rapid growth recognized by Deloitte UK Fast 50 as the 6th fastest growing company in the UK International footprint with clients in over 200 countries and territories. 	<ul style="list-style-type: none"> Demonstrated rapid growth as seen through completing series B, C and D funding rounds within one year Integrations with top eCommerce platforms such as Amazon, Wish, Newegg, Shopee and Cdiscount
Weaknesses	<ul style="list-style-type: none"> Complex product which some smaller customers may find challenging to use 	<ul style="list-style-type: none"> In lieu of a subscription model, Paddle charges customers transaction fees which increases revenue variability 	<ul style="list-style-type: none"> Due to current political climate, significant ties with Chinese-based merchants may increase revenue volatility
Employee Count	<ul style="list-style-type: none"> 358 	<ul style="list-style-type: none"> 126 	<ul style="list-style-type: none"> 230
Key Executives	<ul style="list-style-type: none"> David Shea (CEO) Chris Salafatinos (CFO) 	<ul style="list-style-type: none"> Christian Owens (Founder, CEO) Hugo Grimston (CFO) 	<ul style="list-style-type: none"> Robert Chen (Founder, CEO) Ning Wang (Chief Business Officer)
Investors / Acquirers	<ul style="list-style-type: none"> MLM Information Services 	<ul style="list-style-type: none"> BGF Ventures, Notion 	<ul style="list-style-type: none"> China Broadband, Cybernaut, Eight Roads, GF Xinde, High Tech, Ocean Link, Prometheus, SinoWisdom, Tsinghua Holdings, Zfounder
Funding	<ul style="list-style-type: none"> Acquired by MLM Information Services in June 2006 	<ul style="list-style-type: none"> Raised an \$8M Series B with post-money valuation of \$82M (September 2018) \$24M raised to date 	<ul style="list-style-type: none"> Raised a \$102M Series C (September 2018) \$102M raised to date

Selected Companies for Discussion continued



TAX SYSTEMS

HQ	<ul style="list-style-type: none"> Woburn, MA, USA 	<ul style="list-style-type: none"> Haworth, NJ, USA 	<ul style="list-style-type: none"> Middlesex, England
Product Portfolio	<ul style="list-style-type: none"> Sales tax management platform with multi-channel reporting features that organizes sales tax data into return-ready state reports, enabling organizers to automatically file sales tax returns in any US state 	<ul style="list-style-type: none"> Tax Technologies provides software to handle corporate income tax, data collection, tax planning, compliance reporting, provision reporting, audit support, legal entity maintenance and task scheduling 	<ul style="list-style-type: none"> Provider of corporation tax and associated software and services. The compliance suite includes both direct and indirect tax solutions involving collection, reporting and VAT calculation automation
Deployment Type	<ul style="list-style-type: none"> SaaS 	<ul style="list-style-type: none"> SaaS 	<ul style="list-style-type: none"> SaaS
Strengths	<ul style="list-style-type: none"> Competitive pricing mechanism with rave reviews for customer support availability and performance Integrations with top eCommerce platforms including Amazon, eBay and Shopify 	<ul style="list-style-type: none"> Diverse customer-base including companies of all sizes and domiciles Has seen significant growth without the aid of outside capital which speaks to the strength of both the extensive product offerings and founder-led executive team 	<ul style="list-style-type: none"> Strong customer-base within the UK and Ireland capturing 43% of the UK FTSE 100 and 23 of the top 25 Accountancy firms Robust assortment of products including data collection and management, tax compliance, reporting and process management
Weaknesses	<ul style="list-style-type: none"> Underrepresented brand recognition relative to more established competitors in the space 	<ul style="list-style-type: none"> Underdeveloped compliance capabilities relative to larger players in the space 	<ul style="list-style-type: none"> Exclusive operations in the UK and Ireland may alienate the larger US market
Employee Count	<ul style="list-style-type: none"> 153 	<ul style="list-style-type: none"> 275 	<ul style="list-style-type: none"> 93
Key Executives	<ul style="list-style-type: none"> Mark Faggiano (Co-founder, CEO) Matt Bieniek (VP of Finance) 	<ul style="list-style-type: none"> Jae Duk Choi (Co-founder, CEO) Karen Drury (CFO) 	<ul style="list-style-type: none"> Gavin Lyons (CEO) Pete Johnston (CFO)
Investors / Acquirers	<ul style="list-style-type: none"> Insight Venture Partners 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> Bowmark Capital Partners
Funding	<ul style="list-style-type: none"> Raised a \$60M Series A with a post-money valuation of \$179M (January 2019) \$62M raised to date 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> Acquired by Bowmark Capital Partners in March 2019