

BUSINESS INSIDER

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PREMIUM STARTUPS

This startup ditched plans to go public and sold to a private equity firm for \$3 billion. Here's the pitch deck it used.

Melia Russell

- **AuditBoard agreed to a \$3 billion acquisition by private equity firm Hg.**
- **Startups are increasingly turning to private equity as IPOs and exits decline in Silicon Valley.**
- **Private equity offers quick liquidity and strategic support, appealing to cash flow-positive firms.**

Not 24 hours after Scott Arnold left a Morgan Stanley conference, where he had gone to drum up investor enthusiasm for AuditBoard, the startup he ran, an unexpected email hit his inbox as it weighed an IPO.

European private equity firm Hg expressed interest in buying a majority stake in the enterprise software company.

“It was like getting an email that says, ‘I want to marry your daughter,’” said Arnold, who is a father. He added, “If somebody is serious enough to say that, I’m going to take the meeting.”

In a span of just two months, Hg put a ring on it. AuditBoard reached an agreement to be acquired in a deal valued at over \$3 billion by Hg.

Private equity is hoovering startups as exits have tumbled in Silicon Valley. The biggest startup players are holding off on market debuts. Corporates are unwilling or unable to cut



GETTY/BI

Exits are becoming few and far between in Silicon Valley.

deals. PitchBook data shows the transaction value of this year’s IPOs and mergers and acquisitions is tracking towards \$98 billion, an 86% nosedive from 2021.

For startups, private equity represents a deep-pocketed buyer willing to move quickly, pay a premium, and potentially help the business by tapping into complementary companies in their portfolio. A sale also gives shareholders a fast pass to liquidity, unlike an IPO that restricts insiders from selling their shares during a lockup period.

AuditBoard is the kind of startup that private equity goes gaga over. The company helps audit and risk teams stay on task by providing software that simplifies reporting and data

collection. Founded in 2014 by Daniel Kim and Jay Lee, AuditBoard is used by over 2,000 enterprises, including nearly half of the Fortune 500. It's been cash flow positive for a decade and was generating \$200 million in annual recurring revenue in February, Fortune reported.

A long courtship

When Hg director Alex Johnson wrote to Arnold in March, it wasn't the first time the firm had come knocking. Johnson had asked Battery Ventures principal Dallin Bills to arrange a meeting with Arnold in 2022. But Arnold said thanks, but no thanks. The company was on a growth tear, Arnold said, as enterprises looked to beef up security and compliance measures in the fallout of a pandemic, a global supply chain crisis, and costly cyberattacks.

"We were heads down on execution," Arnold said, "and frankly we didn't need the money." The company's last funding round was a Series B led by Battery Ventures in 2018, though it had allowed insiders to sell shares to new investors, Dragoner and Tiger Global.

The next time Hg connected, Arnold was in a different mindset. He had discussed with his board going public to give returns to investors and life-changing money to employees. The company assembled a pitch deck and showed it off to investors at Morgan Stanley's tech, media, and telecom conference in San Francisco in March.

Many founders dream of a splashy IPO, but Arnold said being a public company boss was "not a bucket list item." As an executive at Shutterfly, before it went private in 2019, he saw how the pressures of quarterly earnings could shift focus from long-term value to short-term stock market gains. He also valued AuditBoard's nimble, five-member board for its quick decision-making.

He went into his first meeting with Hg with two demands, which he credits to board director Roxanne Oulman's wise counsel. If Hg wanted to buy AuditBoard, it had to buy the whole company. The initial email had said a majority stake which could mean as little as 51%. And Hg would have to pay at the top of the range of multiples they had paid for similar businesses.

"I'm sitting across the table from Nic [Humphries — Hg's senior partner and executive chairman], and he said yes and yes," Arnold said. "So this was serious."

Bidding war

Arnold then delivered the pitch deck that he had shown to public market investors just weeks before. The second slide

highlighted the company's stickiness with customers.

AuditBoard has a gross retention rate — a measure of how much annual recurring revenue is retained from existing customers over a year — of more than 95%. This made growth easier, Arnold explained because customers were able and willing to purchase additional products.

The company grew annual recurring revenue by 40% in 2023, an impressive feat during a dramatic pullback in software spending across industries.

Two days after its first meeting with Hg, AuditBoard hired Goldman Sachs to run a market check. The startup met with between five to nine, handpicked private equity firms and corporates.

"We ended up with a crazy number of people that were bidding something with a three in front of it," said Arnold, meaning billions. "And so the board was in a really cool decision dimension."

The board considered the offers on three axes: price, timing, and certainty. Hg won out in each. It increased a previous verbal offer by \$100 million. Hg was willing to sign an agreement within a day. And it provided certainty that it would get the deal done by agreeing to backstop the full amount, meaning the acquisition wasn't contingent on Hg's ability to secure debt financing.

"That was a huge, huge and gutsy move on his part," Arnold said of Humphries, "that further affirmed that he was really committed to making this happen."

Happily ever after

Arnold was in Paris on a sales call when he signed the agreement to be acquired. The sale price came in at \$3 billion, over 20 times Auditboard's valuation when it raised its Series B. The transaction also included a payout to employees.

For startup employees, hearing "buyout" may cause panic with visions of cost cutting and head count reductions. Private equity's push for efficiency and eventual profit has been known to get ugly. However, Arnold believes he's found a champion in Hg.

"It's not that Hg doesn't care what our results are on a quarterly basis. They care very much, but they care very much in the context of a much longer-term value creation view and strategic perspective," Arnold said. "I love that. That was one of the things that we really cared about."

Here's the 19-slide pitch deck that AuditBoard used to court a \$3 billion buyout from private equity.

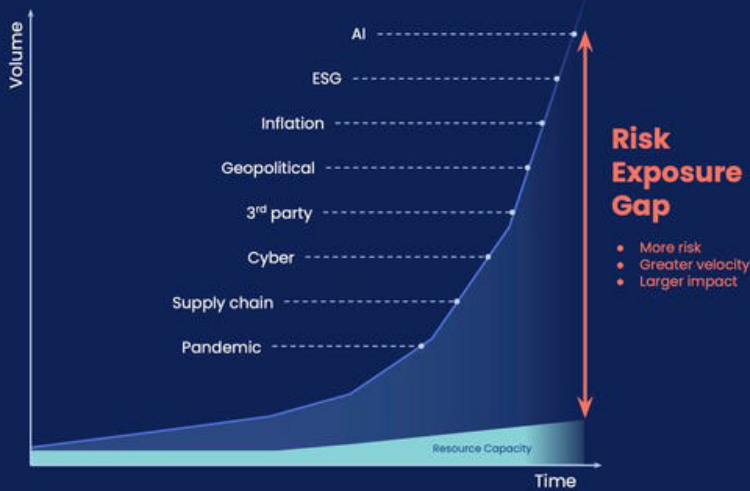


AuditBoard



AuditBoard

Risk demands outpacing capacity to manage



Negative business consequences

\$14M

average cost per noncompliance event

\$1B

estimated cost per third-party incident

-4%

share price change following a material weakness

Sources: PricewaterhouseCoopers, Deloitte, Gartner



AuditBoard

Enterprises today must deal with a sea of regulations and concerns

Risks

- Cybersecurity
- Data Breach
- Compliance
- Regulatory
- Reputational
- Operational
- Financial
- Market
- Credit
- Liquidity
- Foreign Exchange
- Interest Rate
- Systemic
- Legal
- Third-Party
- Supply Chain
- Business Continuity
- Fraud
- Technology
- Counterparty

Regulations

- SOX
- FDICIA
- MAR
- MiFID II
- SEC
- AML
- SASB
- GDPR
- CCPA
- FISMA
- NYDFS
- PCI DSS
- FDA
- HIPAA
- HITECH

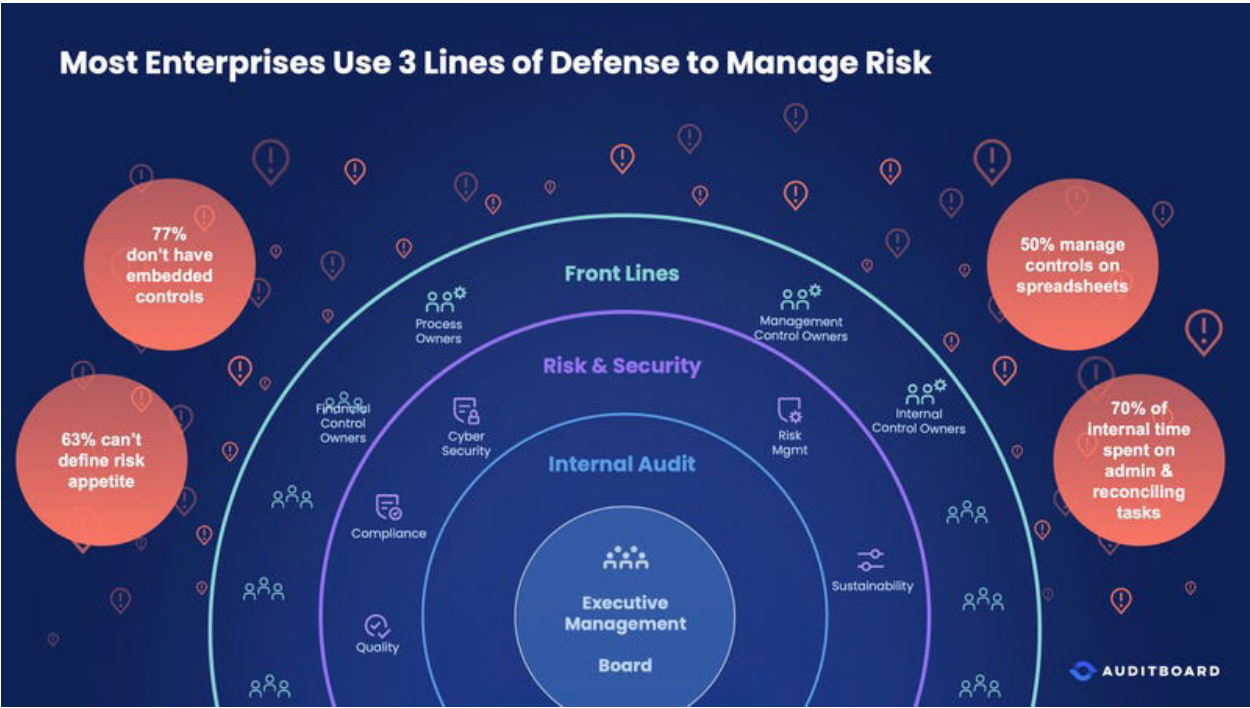
Compliance Frameworks

- COSO
- COBIT
- ITIL
- BCM
- ISO 22301
- ISO 27001
- NIST CF
- NIST SP
- PCI DSS
- CMMC
- CDM
- SOC
- HIPAA
- FedRAMP
- NERC
- HITRUST
- CIS
- ISO 29100
- AICPA
- NIST
- CCPA
- ISO 9001
- ISO 14001
- CDP
- SASB
- GRI
- TCFD
- CDSB
- VRF
- ISSB
- EFRAG
- ISO 31010
- NIST 800-53

Identify → Assess → Measure → Mitigate → Monitor → Report



AuditBoard



AuditBoard



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Why is closing the Risk Exposure Gap so hard?



AuditBoard

Existing Solutions Fall Short



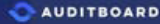
AuditBoard

A Large and Growing Market



- Accelerating risk context
- Increasing regulatory and compliance demands
- Expanding financial impact

* AuditBoard estimate 2023. ** Based on 2022 Gartner *IBM Global Spending Forecast* and 2021 IDC estimates.



AuditBoard

Modern, unifying technology is required



AuditBoard

A comprehensive and scalable Connected Risk Platform



AuditBoard

AuditBoard AI

Generative Content
Domain specific GenAI to accelerate the most time consuming audit, risk, and compliance tasks, including issue and control drafting

Intelligent Recommendations
Connecting the dots for customers to identify risk and accelerate compliance using deeper data insights

Safe & Secure

Intuitive

Purpose-Built

Connected

AUDITBOARD

AuditBoard

The AuditBoard Difference

Modern Connected Risk Platform

Surface and manage more risk

Only purpose-built risk platform designed to connect teams, stakeholders, data, & processes



Unified



Connected

Work smarter with greater impact

Most practitioner-centric and intuitive design, built to accelerate efficiency and time-to-value



Domain Expertise



Intuitive



Automated

Drive front-line ownership

Unparalleled stakeholder experience based on a collaborative work philosophy



Engaging



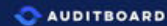
Collaborative



AuditBoard

AuditBoard is the Category Leader

"AuditBoard has supercharged our transformation journey at every level."

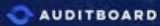


AuditBoard

Trusted by the World's Largest Enterprises

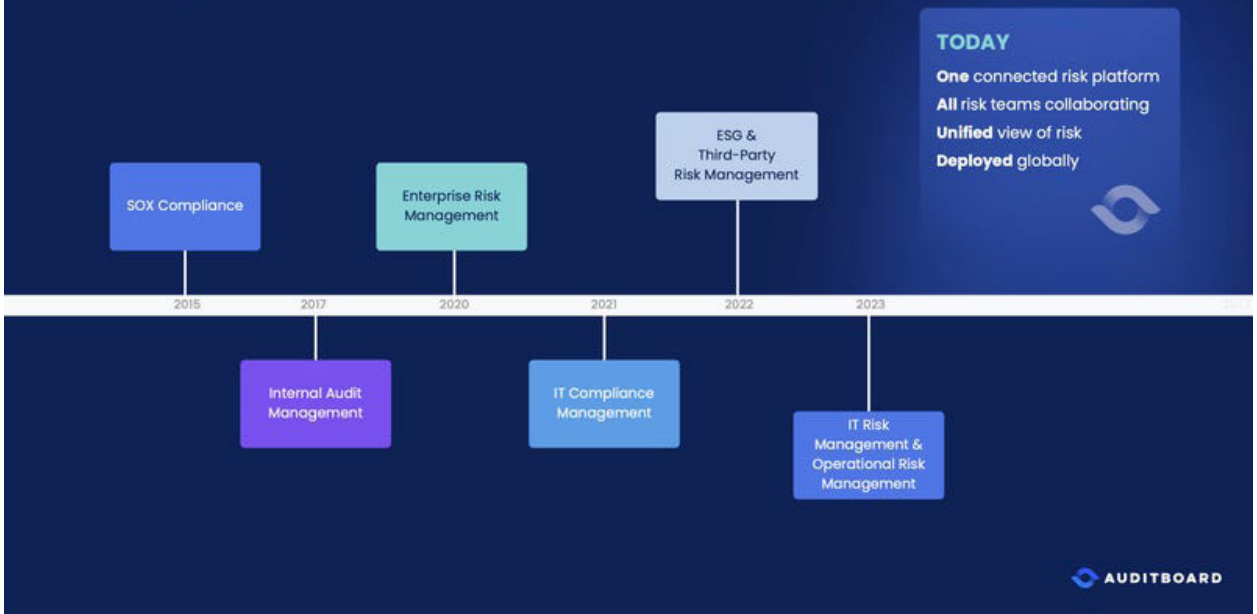
~50% of the Fortune 500, and 6 of the Fortune 10 use AuditBoard

FINANCIAL	HEALTHCARE & BIO-TECH	CONSUMER & RETAIL	INDUSTRIAL & ENERGY	TECHNOLOGY & SOFTWARE	REAL ESTATE & TRAVEL
OLD REPUBLIC	AMGEN	shopify	Raytheon Technologies	workday	AVIS
RGA	EXPRESS SCRIPTS	TRACTOR SUPPLY CO.	Nordson	stripe	B-B HORTON <i>Amesbury Building</i>
Cathay Bank	ZIMMER BIOMET	Always Home	KDSUPPLY	NCR	RE/MAX
NAVY FEDERAL	GUARDIANHEALTH	BACARDÍ	TC Energy	JABIL	CAESARS
IMPAC	illumina	Lenovo	Chevron Phillips	Itron	SIMON



AuditBoard

A History of Customer-Led Product Innovation



AuditBoard

AuditBoard's path to \$1B ARR...



AuditBoard

World-Class Management Team



Scott Arnold
President & CEO



Josh Harding
Chief Financial Officer



Tom Schmit
Chief Revenue Officer



Haiwei Wang
Chief Development Officer



Evan Fitzpatrick
Chief Product Officer



Kevin Jhangiani
Chief Technology Officer



John Reese
Chief Marketing Officer



Chris Doell
Chief Customer Officer



INVESTORS



AuditBoard

Thank you.



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