2020 Advisory Conference

October 27–29
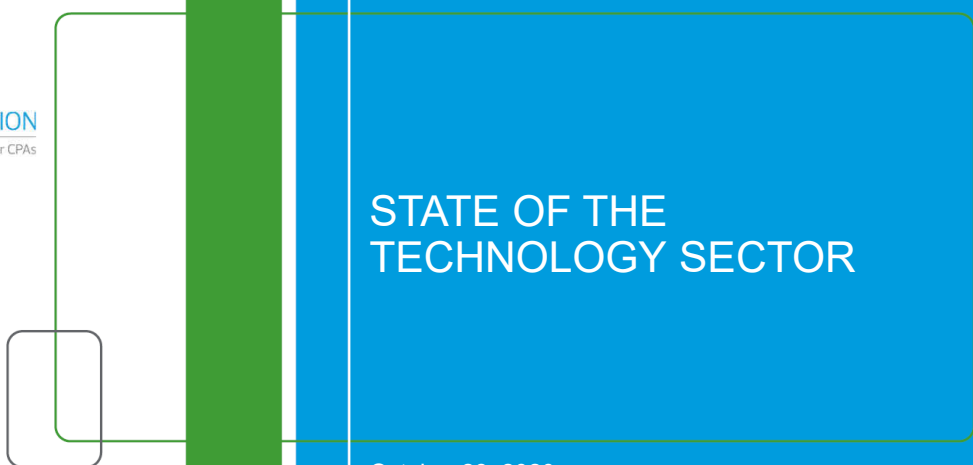
Converging knowledge and behaviors to deepen client relationships

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STATE OF THE TECHNOLOGY SECTOR

October 28, 2020

Speakers list

Kurt Shenk

Senior Technology Analyst

Kurt has over nine years of audit and accounting experience, serving innovative venture backed and private equity backed technology clients.

Davis Nordell

Senior Technology Analyst

Davis has more than 11 years of experience in providing tax compliance and tax consulting services to innovative venture and private equity backed technology companies.

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Agenda

Topic	Minutes
Introductions	5
Economic update	10
Technology ecosystems	15
Industry trends and outlook	15
Media, entertainment and telecom brief	10
Q&A	5

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Objectives

By the end of this course, you will have:

- A general understanding of the economic and business conditions impacting technology firms
- Insight into the current environment of the investment and capital markets
- Insight into the outlook for technology firms

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ECONOMICS AND POLICY

Technology enables **PROGRESS**

PRO   PROGRESS

"Forward" or "For"

The opposite of PRO is….

CON   GRESS

"Against"

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Pandemic economics, recovery and beyond

US economy: Nascent Rebound
- Supply, demand and financial shocks beginning to ebb
- Resilient rebound
  - Housing & manufacturing lead rebound=17% of the total economy
- Household consumption a risk due to lack of fiscal support
- Major risk to the economic outlook: second wave of pandemic

Policy response
- Policy impasse over further fiscal aid a cause for pullback in Q4'20 & Q1'21 growth forecast
- Main Street Lending Program
- Until there is a vaccine there will be no meaningful recovery

Shape of recovery
- K shaped recover
- Elongated and frustrating in some industries
- Housing and Auto manufacturing to lead
- Large firms pickup activity
- Mid-market moves out of recession
- Long term damage to service sector

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Pandemic economics, recession and beyond

US Growth Picture
- Q1'20: -5%
- Q2'20: -31.4%
- Q3'20: RSM Forecast +33.5%
- Q4'20: RSM Forecast +2.25%

Financial Conditions
- Financial conditions are solid & supportive of growth
- Equity prices back to near or at all time highs
  - Equity market not connected to conditions in the real economy
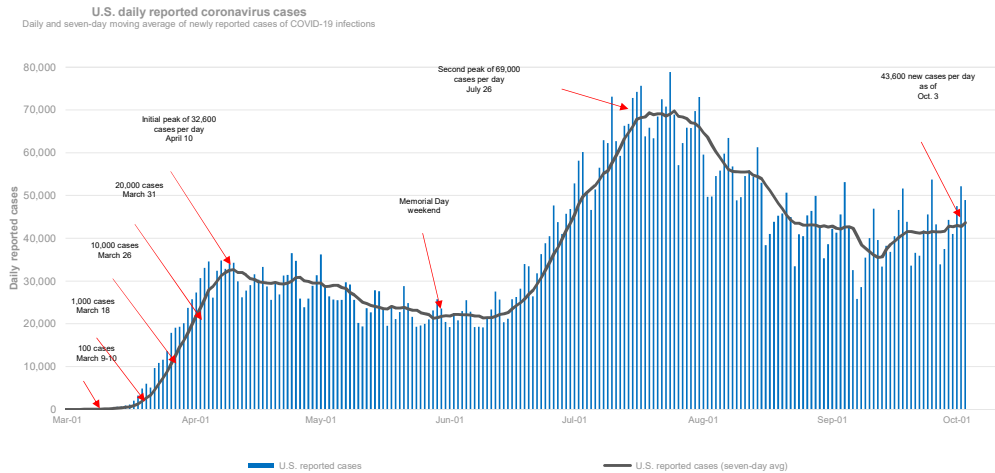- Real negative rates

Important Upcoming Dates
- November 3, 2020 U.S. Election
- Federal Protection for employment has expired
- Risk of permeant unemployment rising

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No Vaccine, No Meaningful Recovery: US Economic Outlook

U.S. daily reported coronavirus cases
Daily and seven-day moving average of newly reported cases of COVID-19 infections

Sources: Worldometers.info; RSM US

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Middle market sentiment senses relief, rebounds

An easing of the pandemic in August and a late-summer stabilization in overall economic activity were the primary catalysts behind the sharp increase in the MMBI to 124.1 in the August monthly reading, up from 101.0 in July 2020.
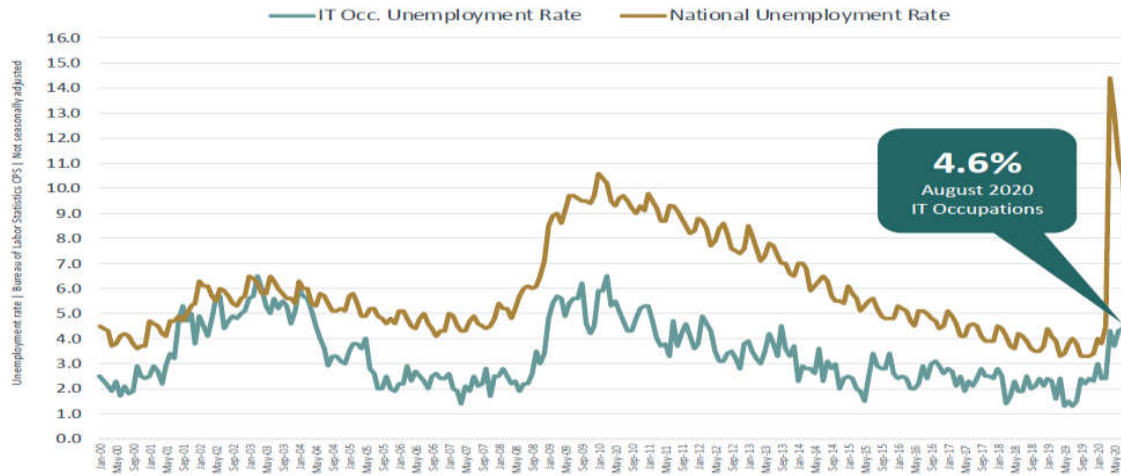
RSM US Middle Market Business Index
(seasonally adjusted)
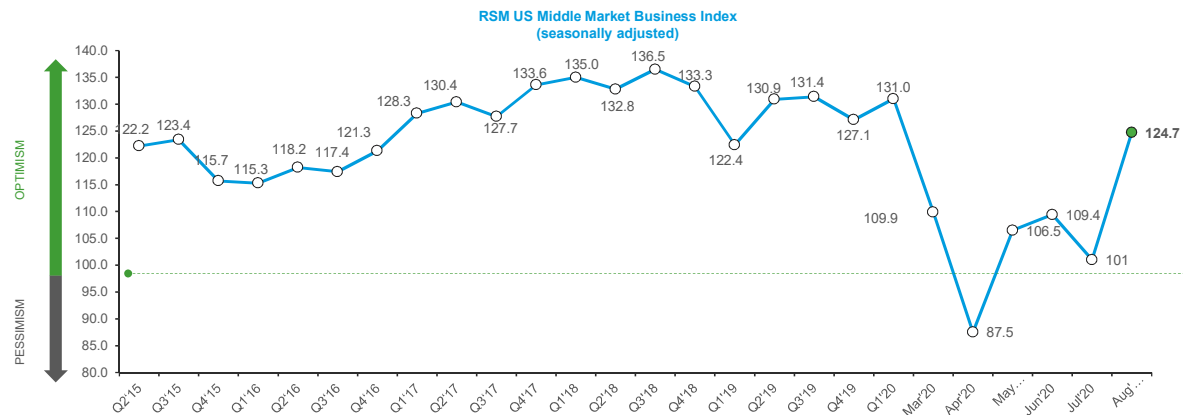
19

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U.S. Tech Sector Employment

HISTORICAL UNEMPLOYMENT RATE TRENDING

—IT Occ. Unemployment Rate   —National Unemployment Rate

4.6%
August 2020
IT Occupations

20

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TECH ECOSYSTEMS

New economy: companies are doing more with less

Table 4-1 Market Capitalization and Total Employees for Top Firms, 1962 and 2017

Largest companies	Market cap (in $ billions)	Total employees
1962		
AT&T	20	564,000
General Motors	12	605,000
2017		
Apple	800	116,000
Google/Alphabet	679	73,992
Microsoft	540	114,000
Facebook	441	18,770
Oracle	186	136,000
Cisco	157	73,390
Priceline	92	20,500
Qualcomm	85	30,500

Source: The 1962 number for total employees comes from Compustat via Jerry Davis, "Capital Markets and Job Creation in the 21st Century," Center for Effective Public Management, Brookings Institution, December 2015, p. 7. The 1962 market capitalization values for General Motors and AT&T were computed by the author. The 2017 market capitalizations and employee figures are quoted in Mary Meeker, "Internet Trends," Kleiner Perkins, 2017.
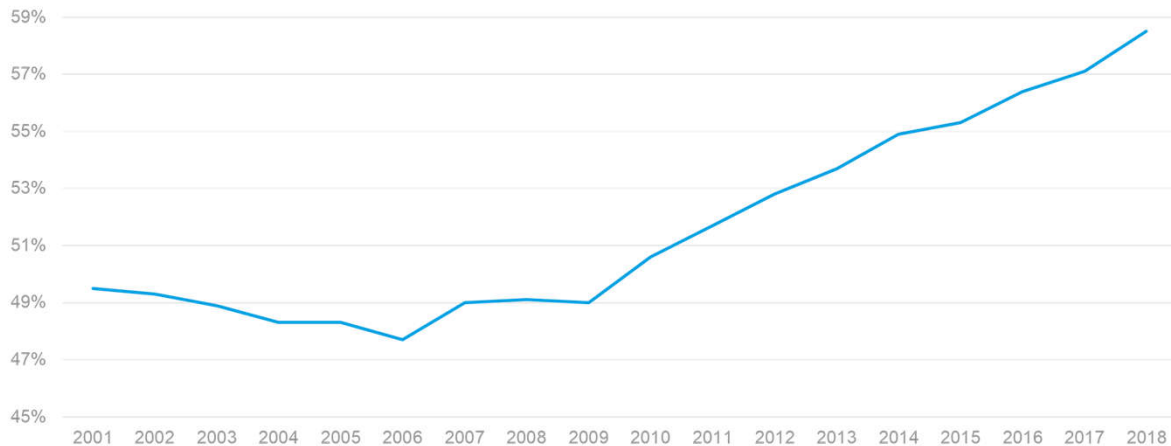
Book: The future of work

The World's Most Valuable Brands 2019
Brand Values in Billions $

Source: How much ...

World's largest economy, but concentrated …
…31 counties generate 32% of U.S. GDP

31 U.S. counties generate 60% of the technology industry's output

Source: Bloomberg analysis of Bureau of Economic Analysis data

Brookings Institute: Top 20 U.S. metros generate more output per worker in in the technology and finance industries.
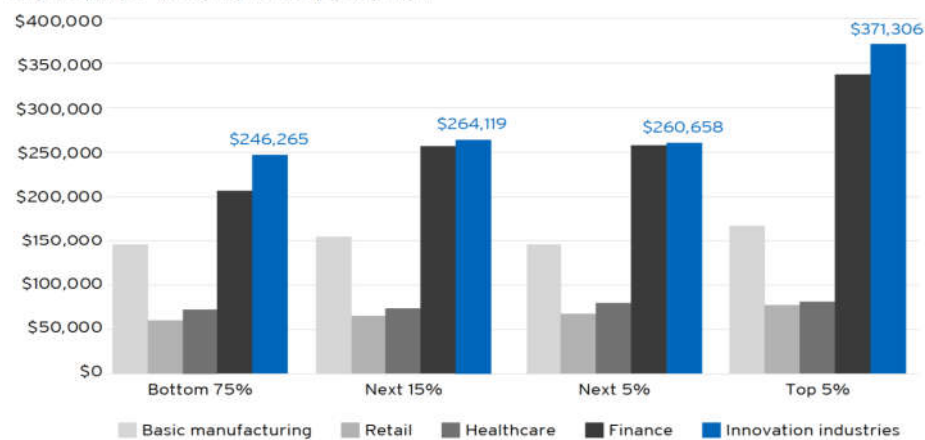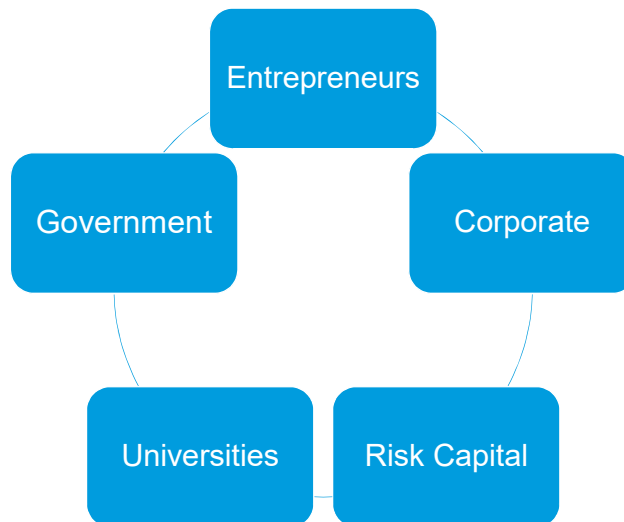

Note: Percentage "bins" reflect cohorts of metro areas, ranked in each year. The "top 5%" includes 20 metros.
Source: Brookings and ITIF analysis of Emsi data

In the current environment, the concept of technology ecosystems is still intact

Entrepreneurs

Government

Corporate

Universities

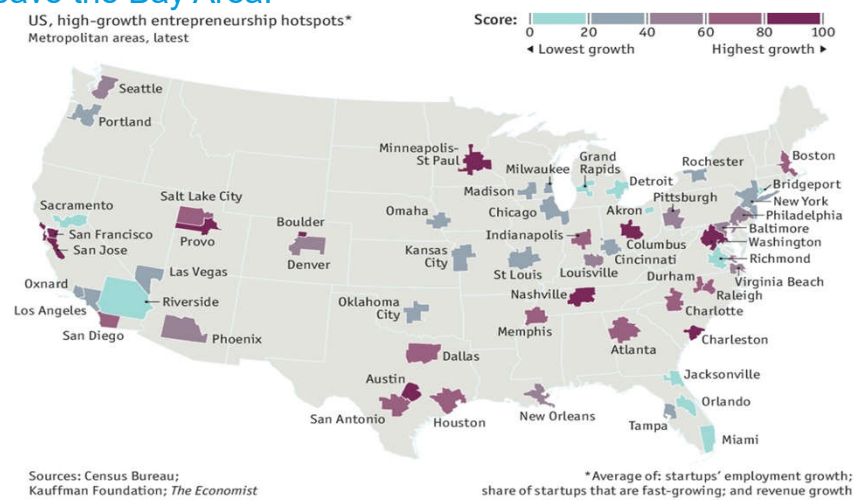Risk Capital

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Source: MIT

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The DMV is an ecosystem with a fast-growing number of entrepreneurs. Many U.S. Tech hubs are expected to receive an influx of tech talent as people leave the Bay Area.

US, high-growth entrepreneurship hotspots*
Metropolitan areas, latest

Score: 0 20 40 60 80 100
◄ Lowest growth   Highest growth ►

Seattle
Portland
Minneapolis-St Paul
Milwaukee   Grand Rapids   Rochester   Boston
Detroit   Bridgeport
Madison   Pittsburgh   New York
Sacramento   Salt Lake City   Omaha   Chicago   Akron   Philadelphia
Boulder   Indianapolis   Baltimore
San Francisco   Provo   Columbus   Washington
San Jose   Kansas City   Cincinnati   Richmond
Denver   St Louis   Louisville   Durham   Virginia Beach
Oxnard   Las Vegas   Nashville   Raleigh
Los Angeles   Riverside   Oklahoma City   Charlotte
San Diego   Phoenix   Memphis   Charleston
Dallas   Atlanta
Austin   Jacksonville
Orlando
San Antonio   Houston   New Orleans   Tampa
Miami

Sources: Census Bureau;
Kauffman Foundation; *The Economist*
Economist.com

*Average of: startups' employment growth;
share of startups that are fast-growing; and revenue growth

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"

"I think we're going to be the most forward-leaning company on remote work at our scale, for sure, but we're going to do this in a way that is measured, and thoughtful and responsible, and in phases over time."

—*Mark Zuckerberg*, CEO of Facebook Inc.

"

"What I worry about the most is innovation. Innovation is hard to schedule—it's impossible to schedule."
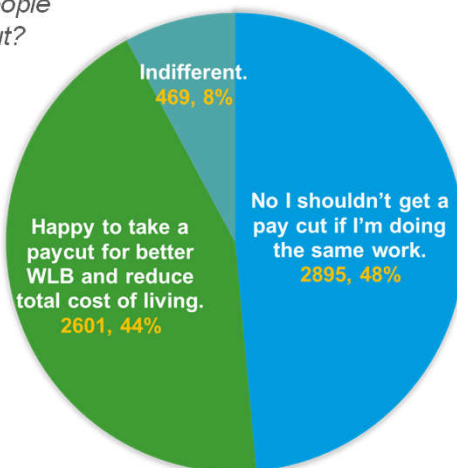
— *Ellen Kullman*, CEO of 3-D printing startup Carbon Inc.

—*Tim Cook*, CEO of Apple Inc., speaking at a virtual conference hosted by the Atlantic in September

"In all candor, it's not like being together physically. And so I can't wait for everybody to be able to come back into the office. I don't believe that we'll return to the way we were because we've found that there are some things that actually work really well virtually."

Survey Says…

VMware and Twitter have reduced pay for remote workers. How do people feel about people leaving the bay with a pay cut?

Indifferent.
469, 8%

No I shouldn't get a pay cut if I'm doing the same work.
2895, 48%

Happy to take a paycut for better WLB and reduce total cost of living.
2601, 44%

Source: Blind poll results as of September 16, 2020
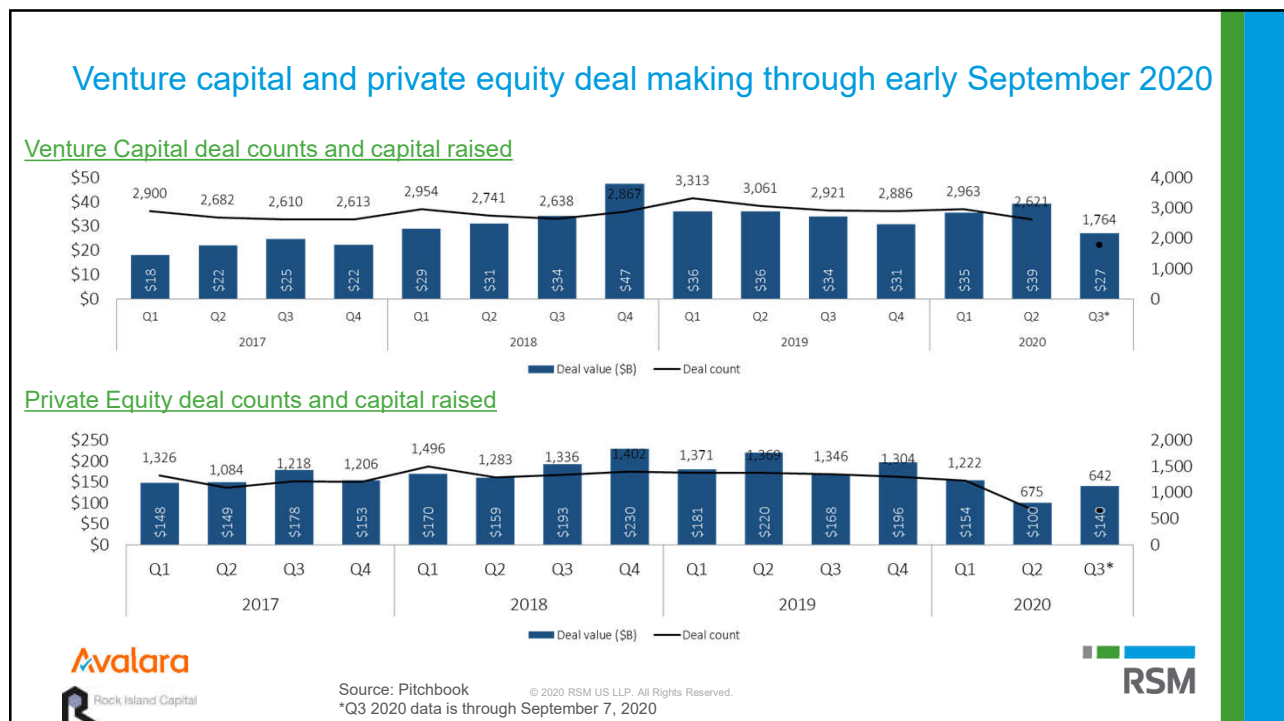
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INDUSTRY TRENDS AND OUTLOOK

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Venture capital and private equity deal making through early September 2020

Venture Capital deal counts and capital raised

	2017				2018				2019				2020		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*
Deal value ($B)	$18	$22	$25	$22	$29	$31	$34	$47	$36	$36	$34	$31	$35	$39	$27
Deal count	2,900	2,682	2,610	2,613	2,954	2,741	2,638	2,867	3,313	3,061	2,921	2,886	2,963	2,621	1,764

Deal value ($B) — Deal count

Private Equity deal counts and capital raised

	2017				2018				2019				2020		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*
Deal value ($B)	$148	$149	$178	$153	$170	$159	$193	$230	$181	$220	$168	$196	$154	$100	$140
Deal count	1,326	1,084	1,218	1,206	1,496	1,283	1,336	1,402	1,371	1,369	1,346	1,304	1,222	675	642

Deal value ($B) — Deal count

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Source: Pitchbook   © 2020 RSM US LLP. All Rights Reserved.
*Q3 2020 data is through September 7, 2020

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U.S. technology industry has been targeted for 2020 SPAC IPOs.
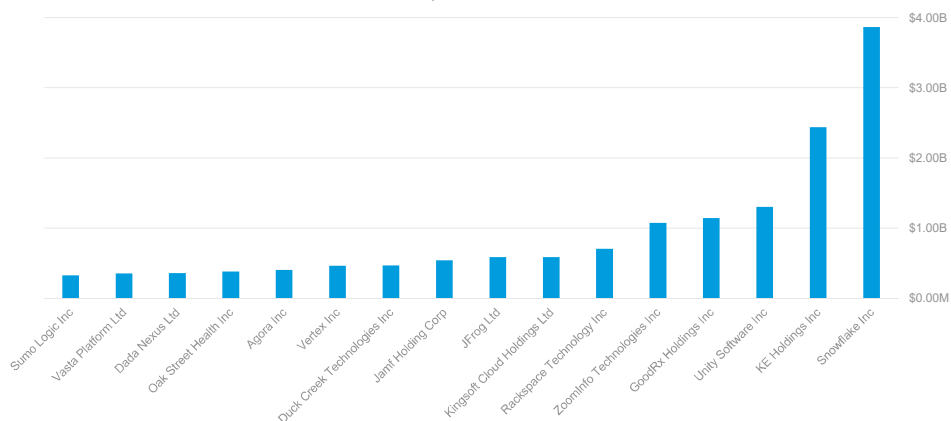## The average SPAC this year has raised $389 million (70% increase from 2019)
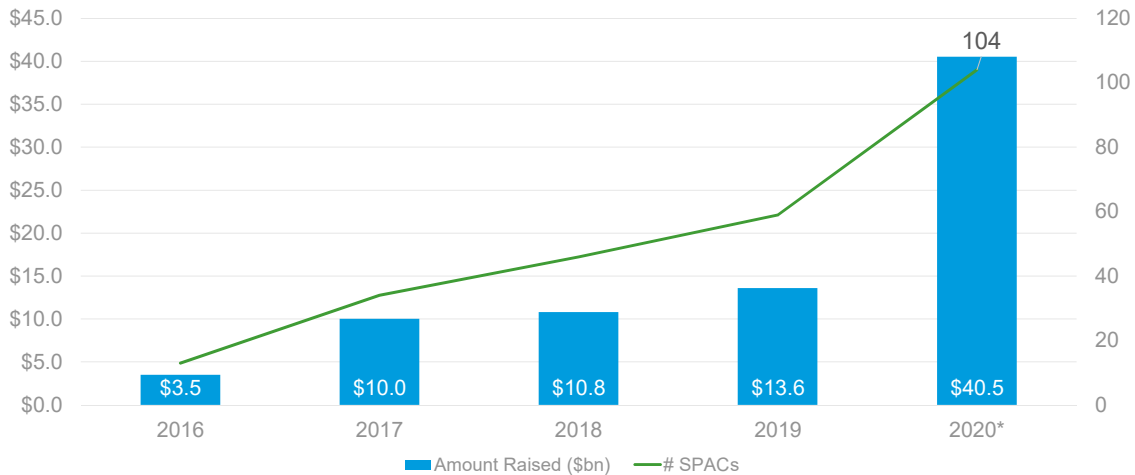
U.S. TMT IPO Activity - 2020

U.S. TMT IPO Activity – 2020

U.S. TMT listed IPO's capital raised and deal count

Legend: Capital Raised — Deal Count

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Tech Bubble?

	Microsoft	Amazon	Apple	Intel	Cisco	Micron	Texas Instruments	Oracle
Dot Com Bubble Peak EV to Sales	32.2	47.8	3.0	16.0	36.5	10.5	15.5	25.5
Present - EV to Sales	10.7	5.0	6.7	2.7	3.3	2.5	9.4	5.1
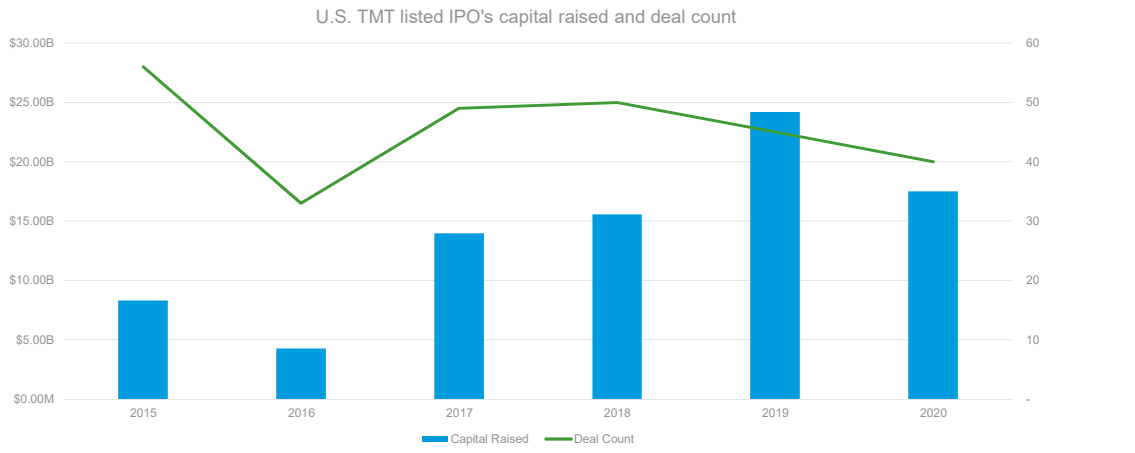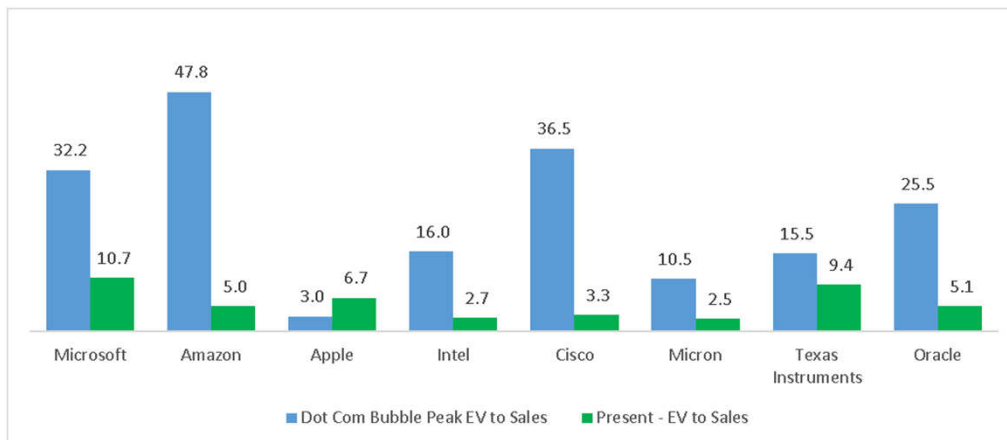
* Comparison of enterprise value to trailing 12 months of sales from the 1999 peak to current ratio

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Cloud market spending forecast (billions)
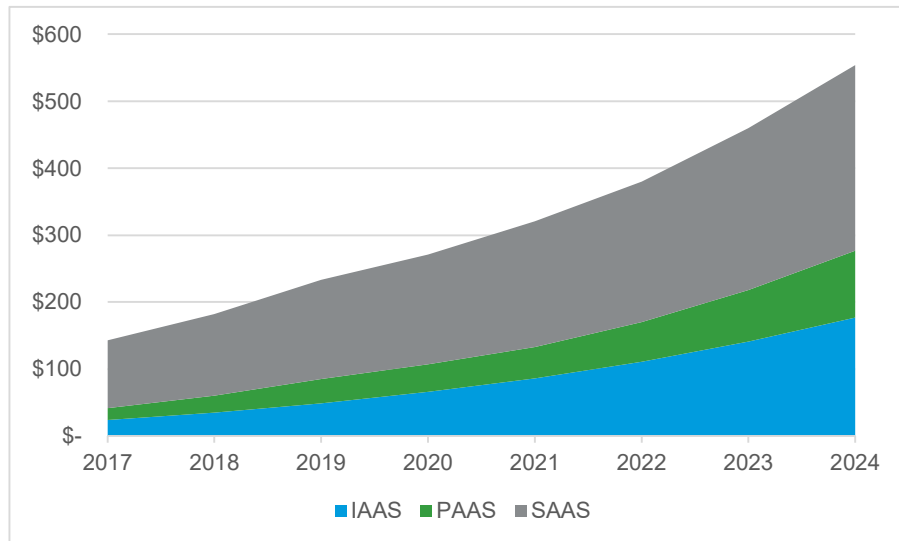
Source: International Data Corporation

SaaS market by application
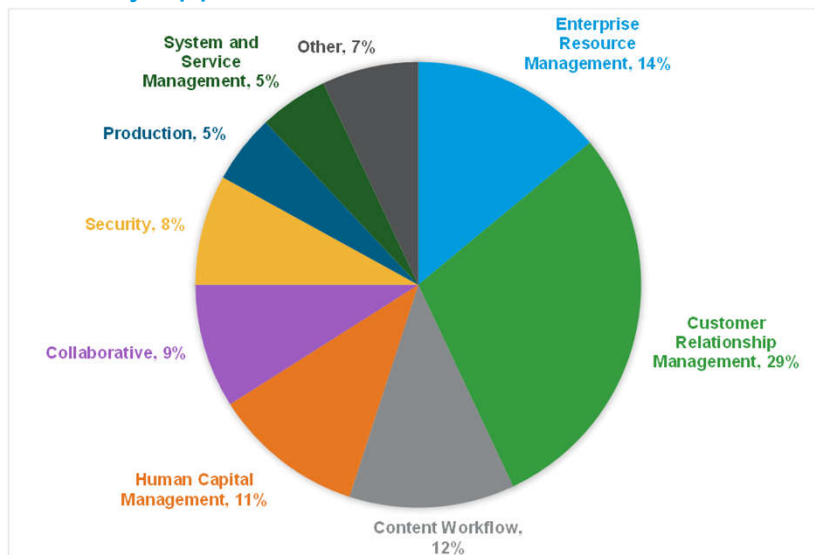
Source: International Data Corporation

Pandemic tailwinds for collaboration tools
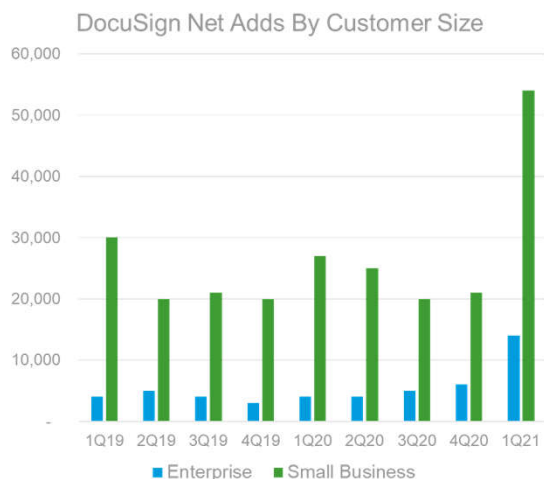
DocuSign Net Adds By Customer Size

Legend: ■ Enterprise ■ Small Business

Source: Company fillings, Bloomberg

Net Dollar Retention

Slack	Zoom	DocuSign	ZenDesk	Box
134%	130%	117%	116%	106%
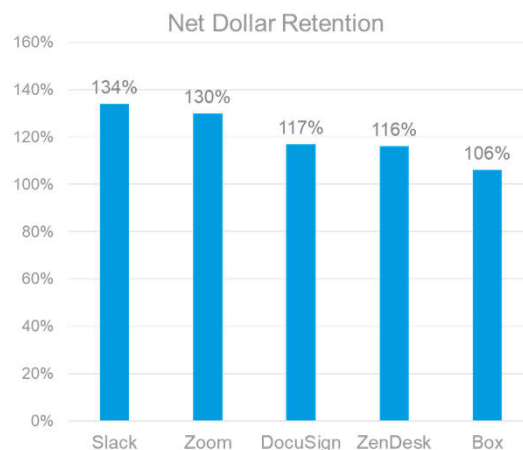
Net Dollar Retention rate considers upsells, downgrades, and churn.

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What emerging technology do you believe will have the greatest impact on the finance and accounting profession in the next three years?
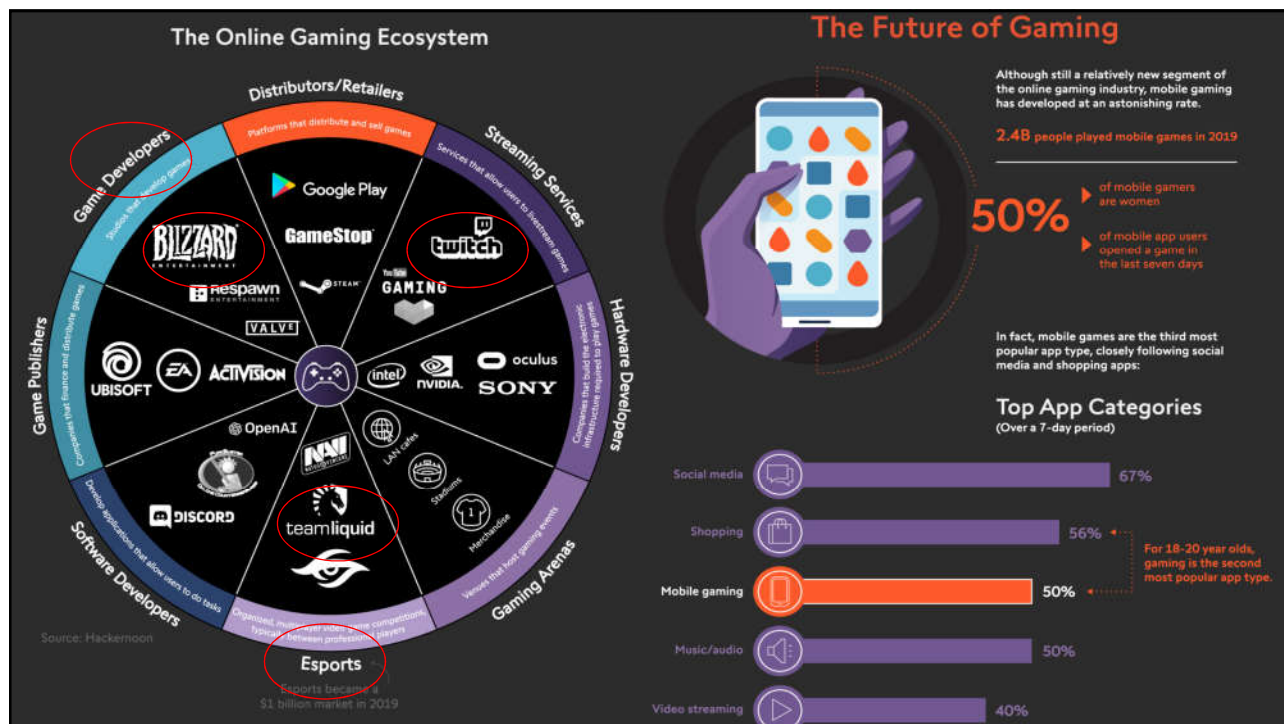
a. Robotic process automation	**34.4%**
b. Data science	**14.1%**
c. Artificial intelligence	**22.7%**
d. Data visualization	**5.8%**
e. Blockchain	**6.6%**
f. Budgeting, planning, and forecasting tools	**12.1%**
g. Something else	**0.9%**
h. Not sure	**3.5%**

Source: Recent RPA webinar hosted by Institute of Management Accountants (IMA) with nearly 1,500 attendees globally

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Covid-19 TMT Dashboard (Bloomberg Style)

TMT Industry Sectors

- Technology
  - Software and IT services
  - Hardware
  - Semiconductors
- Media
  - Video Streaming / VoD
  - TV Broadcasting
  - Box office
- Telecommunications
  - Network service providers

TMT Industry Verticals

- HealthTech
- Gaming
- Conferencing
- EdTech
- Team Collaboration apps
- Data Centers
- CloudTech
- CyberTech
- FinTech
- IoT
- MobilityTech
- HospitalityTech
- Online travel

TMT tailwinds

TMT headwinds
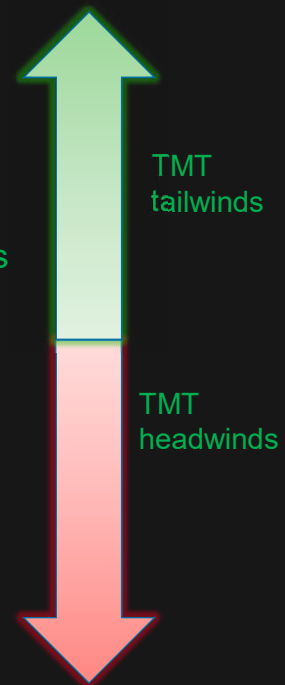
Technology industry business considerations

Our Technology practice offers deep understanding of the issues that affect our clients' businesses to help them grow in a changing digital and connected world.

Rapid digital transformation
- Accessing how well a company transitions from quote to cash
- Prioritizing client experience through onboarding and renewals
- Establishing effective change management
- Assessing and mitigating cyber threats

Regulatory, trade and policy
- Understanding the impact of trade deals and tariffs
- Protecting trademarks and intellectual property
- Reviewing contracts for pricing opportunities
- Accessing security and privacy risks

Scaling and capital markets
- Preparing your business for investment
- Growth investment options
- Navigating the fundraising process
- Managing cash burn while driving growth
- Scaling through resellers vs. inside sales channels
- Buy vs. build strategies for growth

Budgeting and planning
- Mitigating rising labor costs
- Carrying adequate insurance coverage
- Planning for supply chain pricing shocks
- Investing in and applying business intelligence tools

Supply chain
- Section 301 investigations' impact on technology supply chains
- Leveraging technologies to reduce costs and enhance productivity
- Monitoring inventory levels and working capital
- Diversifying reliance on single geography supply chains

Global
- Monitoring geopolitical risks and global economic exposure
- Structuring your business to support changing operations
- Cultivating a global company culture

Innovation
- Taking ideas from inception to impact
- Creating a culture that enables and promotes innovation
- Engaging the startup community
- Actively contributing to innovation ecosystems
- Finding new ways that data and emerging technologies can transform user experiences

Human Capital
- Mitigating the effect of rising wages and changes to benefits
- Recruiting and retaining talent
- Awarding equity grants to employees
- Investing in culture and company values
- Accommodating flexible work arrangements
- Addressing international labor issues

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