

AP CAPITAL RESEARCH

M&A Deal of The Week

Permira & Squarespace



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Executive Summary

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Deal Summary

- On May the 13th 2024, Squarespace (NYSE: SQSP) announced that it had entered into a definitive agreement to be taken private by Permira, the global Private Equity firm, in an all-cash transaction valued at approximately \$6.9 billion. In response to this deal announcement, Squarespace stock rallied 13.2% in after-hours trading.
- Under the terms of the agreement, Permira will pay a premium of 15% compared to Squarespace's last closing price or a premium of 44% compared to SQSP's 90-day Volume Weighted Average Price of \$34.09.
- Squarespace CEO Anthony Casalena and long-term investors General Atlantic and Accel, representing approximately 90% of the Company's voting shares, have agreed to vote in favour of the transaction. This acquisition was also unanimously approved by the Board of Directors.
- Long-term Investors General Atlantic and Accel will re-invest as part of the go-private agreement, meaning Permira will not hold 100% equity in Squarespace.
- JP Morgan is acting as financial advisor to Squarespace, and Skadden, Arps, Slate, Meagher & Flom LLP is acting as legal counsel to Squarespace.
- Goldman Sachs is acting as financial advisor to Permira, and Latham & Watkins LLP is acting as legal counsel to Permira Advisers. Blackstone Credit & Insurance, Blue Owl Capital, and Ares Capital are acting as Joint Lead Arrangers on the debt financing.
- This acquisition is expected to close in the fourth quarter of 2024.

Key Figures

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| • Deal Premium: 15% | • Squarespace EV/EBITDA: 59.3x |
| • Closing date: 2024 Q4 | • Squarespace EV: \$6.405 billion |
| • Permira AUM : €80 Billion | • Squarespace P/E: -850.1 |
| • Permira Business Portfolio: 300+ | • Squarespace D/E: -249.4% |
| • Permira Buyout/Growth Funds: 21 since 1985 | • Squarespace Price/Sales: 5.7x |
| • Permira Fund's Revenue CAGR: 12% | • Squarespace Market Cap: \$5 billion |

Company Information

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Permira

- Permira is a Global Investment firm founded in Europe in 1985 that operates within two main asset classes. These sectors consist of Private Equity and Credit - with Permira emphasises a thematic approach focusing on growth in four main sectors: technology, consumer, healthcare, and services.
- Permira has over €80 billion in committed capital with over 300 businesses backed. It has been involved in several substantial deals over the past decades, a few examples being the \$300 million acquisition of Dr Martens and was a partner in the \$4.7 billion acquisition of Ancestry.com alongside Silver Lake, another well established PE firm.
- Permira has €45bn invested in buyouts since inception, €2.7 billion invested across 24 companies through growth equity, and €15 billion in direct lending - allowing them to support multiple business's growth and success.
- Permira credit chiefs have plans for growth in 2024, with the aim being to expand their product range for both the private and public credit side. They are also hoping to expand the size of Permira's credit investment team in North America by targeting current and new geographies.

Squarespace (NYSE: SQSP)

- Squarespace was founded in 2003 with the company having the vision of a future where everyone can be an entrepreneur, with millions of businesses being created on the Squarespace platform, which provides a service of simplifying the creation and management of a website.
- Squarespace's financials have seen an improvement in the past year, with revenue growing by 19% year over year to \$281.1 million in the first quarter of 2024. Their 3-year Compound Annual Growth Rate (CAGR) stands at 17.7%, which is higher than Wix's and GoDaddy, some of their biggest competitors in the website-design space.
- While the cost of revenue increased by nearly \$38 million from 2023's first quarter, the increase in Squarespace's revenue grew by a large enough amount so that gross profit saw an increase of \$6 million. Though, due to increasing operating expenses Squarespace has seen a decrease in net income, falling to \$144,000 for the first quarter of 2024.
- 2023 resulted in an EPS of -\$0.05 which was a reduction from 2022's negative EPS of -\$1.82., showing signs of improved profitability.

WRITTEN BY
Max Hanson

Deal Rationale and Risk

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Digitalisation and Privatisation Benefits

Digitalisation Growth Benefits

There has never been a greater need for businesses to have an online presence, particularly for those looking to grow through e-commerce. The primary drivers behind digitalization include lowering costs, allowing workers to work remotely, and guaranteeing excellent client service. The pandemic made it clear how important it is to keep a strong online presence. A time when companies with an internet presence may maintain contact with their clients and carry on offering their services uninterrupted online. Moreover, according to a study done by PwC, digitization significantly boosted global economic output by \$193 billion in 2011 which led to the creation of approximately 6 million jobs.

Permira's Privatisation Benefits

After its initial IPO, Squarespace has struggled with becoming profitable, with an average net income of -\$169.5 million over the last previous 3 years. This is due to a constant increase in operating expenses, as well as interest expenses from debt handicapping it from achieving net profitability. In its latest quarter, Squarespace reported that it had a total debt of \$556.9 million and an interest coverage ratio of only 2.1x. This large burden of debt is stopping Squarespace from increasing capital expenditure to reduce operating expenses, something that Permira isn't restricted with, which over time will allow Squarespace to generate positive net profit. Furthermore, Permira has a strong track record with increasing value in digital companies, with an example of this being Klarna.

Risk

Rising number of cyber attacks

According to the IMF, increased digitalization is correlated with an increase in cyberattacks. After the pandemic, cyberattacks have doubled. Smaller businesses that use website builders like Squarespace are the primary target of cyberattacks as they have a lack of IT personnel and the financial resources to improve security so they make for better targets for cybercriminals. Permira might have a competitive edge if they took this into account when buying Squarespace and made a few adjustments to the company's business model to offer more secure products, increasing Squarespace's USP above its competitors.

Industry Analysis

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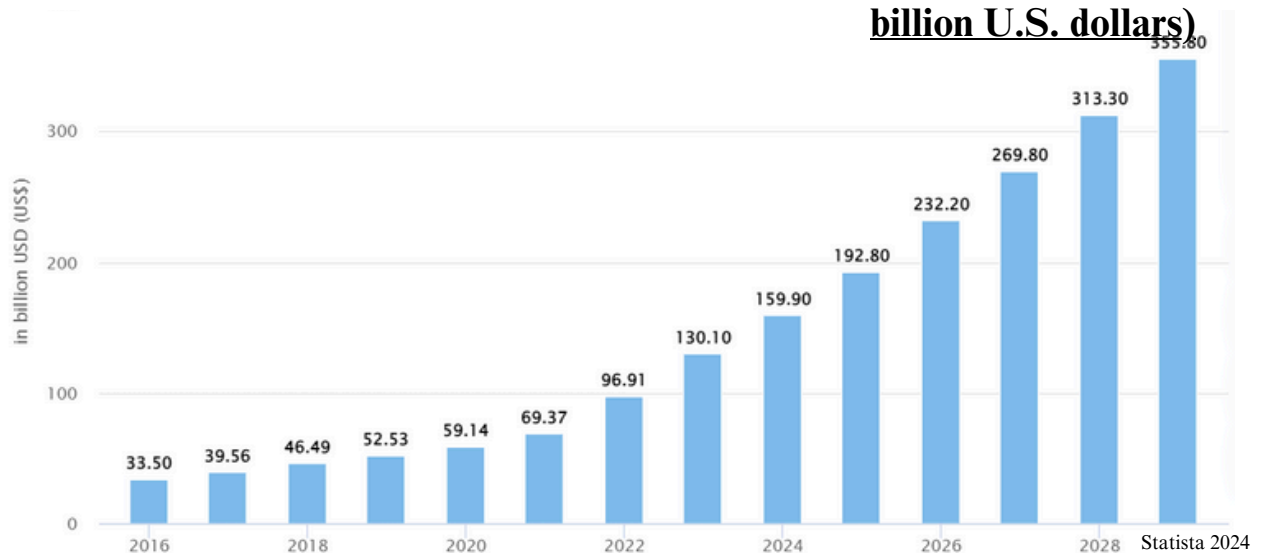
The Website Building and Hosting Industry

The website building and hosting industry is a crucial component of the global digital economy, enabling businesses and individuals to establish and manage their online presence. This sector has experienced significant growth, driven by increasing digitalization and the demand for user-friendly website solutions.

Major companies such as Squarespace, Wix, WordPress and Weebly dominate the market, with Squarespace being recognised for its comprehensive design and customization abilities, while all offering various services to cater to different market segments.

The industry in the U.S. is expected to grow at a Compound Annual Growth Rate (CAGR) of 18.37% from the 2016 to 2028 period, with this being based upon various reliable sources.

Projected size of the Global Website and Hosting Market from 2016 to 2028 (in billion U.S. dollars)



Threats

Competition

- One of the major threats facing this industry is the intense competition from other prominent competitors as previously mentioned. The effect of this on the market could lead to continuous innovation, in order to stand out from their competitors however also potentially reduced profit margins, as there may be downward pressure on prices in order to remain competitive.

Cyber-related threats

- Rising cyber threats create the risk of endangering the industry through system breaches and violation of data protection rights. As a result, this may require significant investment from firms in the security measures department to ensure the protection of user data.

Final Thoughts

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Max Hanson.

Permira's expertise has the potential to elevate Squarespace, given its track record in boosting digital companies, and with online business demand rising, Squarespace stands to grow from this deal. The acquisition could also benefit Permira by leveraging its digital sector experience alongside Squarespace's popularity.

Laolu Gbadamosi.

As the global landscape shifts towards greater digitalization and e-commerce, it's crucial for a smooth human interface. Products from Squarespace offer highly customizable features that appeal to customers and give them a competitive advantage over rivals. Due to Permira's expertise in tech deals, an improved business strategy will positively impact Squarespace and drive it toward profitability.

Adithya Praveen.

As the AI wave sweeps through the private equity industry, Permira plans to significantly increase its investments in tech companies, building on its already substantial portfolio where over a third is tech-related. It will be fascinating to observe how Permira restructures its operations and drives innovation, ultimately enhancing the firm's value.

Dev Basak.

The acquisition of Squarespace by Permira shows the impressive growth potential driven by increasing digitalization and demand for comprehensive online solutions, highlighting Permira's commitment to expand its market share in the industry.

Samuel Thompson.

I believe that this acquisition is good for the long-term feasibility of Squarespace as Permira has the means and access to help transform Squarespace into a net profitable company that can outcompete its competitors. Permira has experience with increasing value in digital companies, one of these being Allegro, which has now become one of Poland's leading online marketplaces. Hopefully, Permira can get Squarespace to follow suit.



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