

INVESTOR PRESENTATION

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# Responding to Avalara's Misleading Claims

## Avalara's Investor Presentation Reinforces Our View That the Transaction Is Flawed

September 2022

# Disclaimer

## **CERTAIN INFORMATION CONCERNING THE PARTICIPANTS**

In connection with the proposed acquisition of Avalara, Inc. (the “Company”) (NYSE: AVLRL) by affiliates of Vista Equity Partners Management, LLC (the “Merger”), the Company entered into an Agreement and Plan of Merger, dated as of August 8, 2022, with Lava Intermediate, Inc., a Delaware corporation (“Parent”), and Lava Merger Sub, Inc., a Washington corporation and wholly owned subsidiary of Parent (the “Merger Agreement”). The Participants (as defined below) intend to file a definitive proxy statement and accompanying proxy card with the SEC to be used to solicit proxies for votes (the “Proxy Solicitation”) opposing the adoption of the Merger Agreement at the special meeting of shareholders (the “Special Meeting”) and regarding other proposals that may come before the Special Meeting. The Participants in the Proxy Solicitation are anticipated to be Altair US, LLC, a Delaware limited liability company (“Altair US”), and Richard Bailey (collectively, the “Participants”), the Manager of Altair US. As of the date hereof, each of the Participants may be deemed to beneficially own, in the aggregate, 850,892 shares of common stock of the Company.

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# Executive Summary

- Avalara's September 23, 2022 investor presentation reinforces our belief that **the Board chose the wrong time to sell, oversaw a flawed sale process and endorsed an inadequate price**
- The **tone of the investor presentation is in stark contrast** to the optimism of the Company's Analyst Day presentation just three months ago
  - We believe the Company is intentionally taking a **pessimistic tone to justify the sale to Vista** at what we think is less than full and fair value for the Company
  - Avalara **appears to be manipulating data** to manufacture an argument that the transaction offers an attractive premium when it does not
- Notably, the Company's presentation **fails to address some of the most concerning issues and facts** about the transaction
- We believe if the transaction were voted down, **Avalara's stock price would soon be exceed the offer price**
- The Company's presentation is, in our view, **disheartening evidence that this Board is not interested in helping Avalara reach its full potential** and is instead seeking a sale of the Company as a means to avoid the hard work of adjusting to transient headwinds
- We intend to **vote AGAINST** the suboptimal transaction with Vista

# Avalara's Presentation Is a Dramatic Change of Tone from Analyst Day

## What Avalara Said Three Months Ago



“[A]fter 19 years of doing this, we believe transactional tax automation in the US is still roughly 10% penetrated, and even less so globally, leaving **many years of runway to compound growth** at high rates. And Avalara is a leader in this space, and we believe, is **well-positioned to capture more than the fair share of the market opportunity.**”<sup>1</sup>

## What Avalara Is Claiming Now



“**Now is the right time to sell** considering expected degradation of performance and **further operating challenges** anticipated as a standalone public company resulting in **significant downside risk.**”<sup>2</sup>

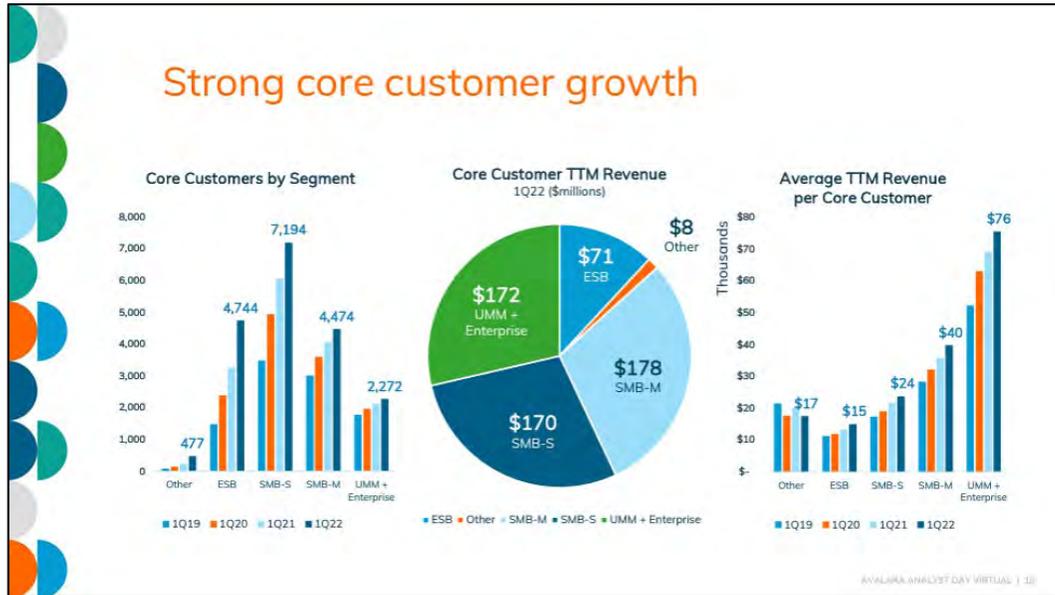
**We find it dubious that Avalara went from being a “special company” to a company requiring a “multi-year rebuild” and “evolution of the leadership team” in just three months**

<sup>1</sup> Source: Avalara Analyst Day, June 28, 2022.

<sup>2</sup> Source: Avalara Investor Presentation, filed with the SEC on September 23, 2022.

# We Believe Avalara Is Misrepresenting the Strength of Customer Demand

## What Avalara Said Three Months Ago



“[W]e have had **meaningful growth seen across our core customers** across all size segments and have grown our total core customer count by 22% in each of 2021 and Q1 of 2022... [O]ur average **trailing 12-month revenue per core customer has increased meaningfully** by segment.”<sup>1</sup>

## What Avalara Is Claiming Now



“Current [go-to-market] operations **requires a rebuild** to support demand generation growth.”<sup>2</sup>

**Avalara is now claiming that it requires a dramatic “go-to-market transformation to reaccelerate anemic demand” when just three months ago it was touting strong customer growth**

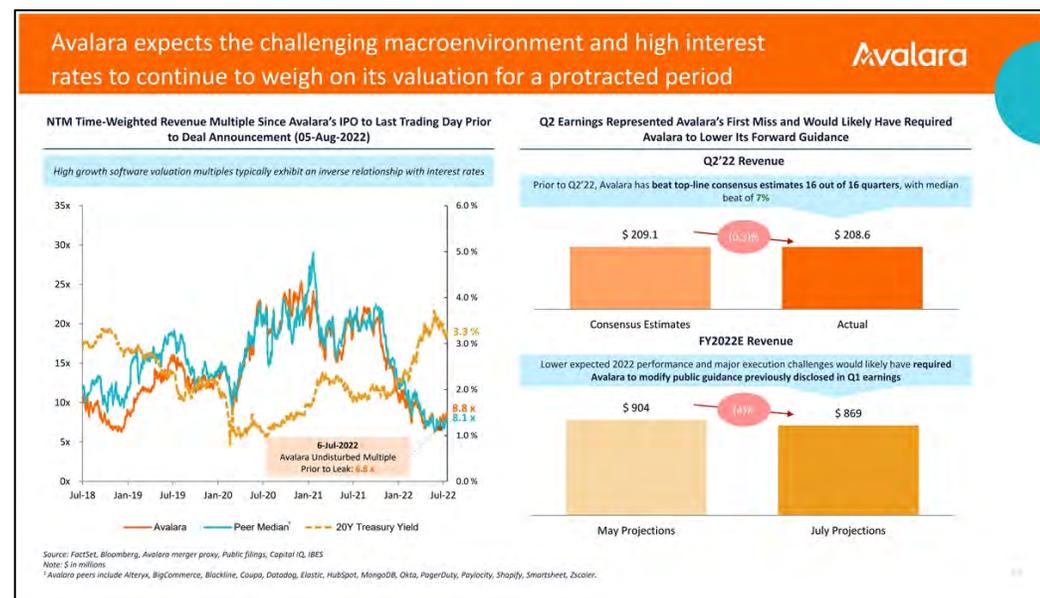
# Avalara Has Touted the Resilience of Its Business to Macro Factors

## What Avalara Said Three Months Ago



“Our **business model has proven to be resilient**, historically showing **low volatility in good and challenging times** because our customers must always calculate taxes and file returns. And, our **pricing model is designed to absorb downside shocks** and upside bounces amid changes in economic activity. All this continues to reinforce our belief that **we can compound growth organically in the 20% to 25% range** for years to come...”<sup>1</sup>

## What Avalara Is Claiming Now



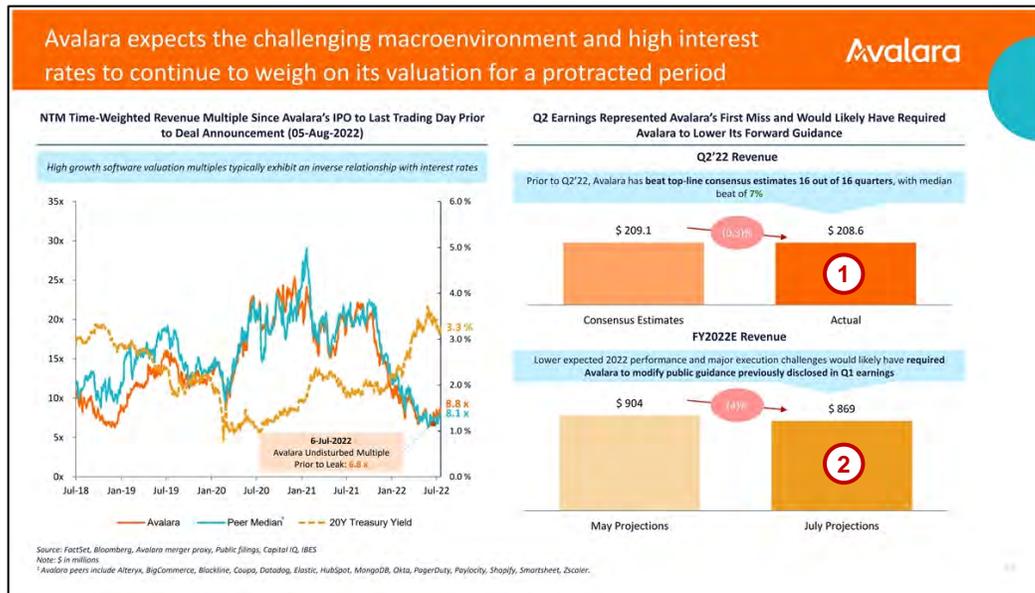
“Avalara **expects the challenging macroenvironment [sic] and high interest rates to continue to weigh on its valuation** for a protracted period.”<sup>2</sup>

**We agree with the Company's remarks at its Analyst Day and believe it is insulated from economic challenges and remains positioned to grow in the current environment**

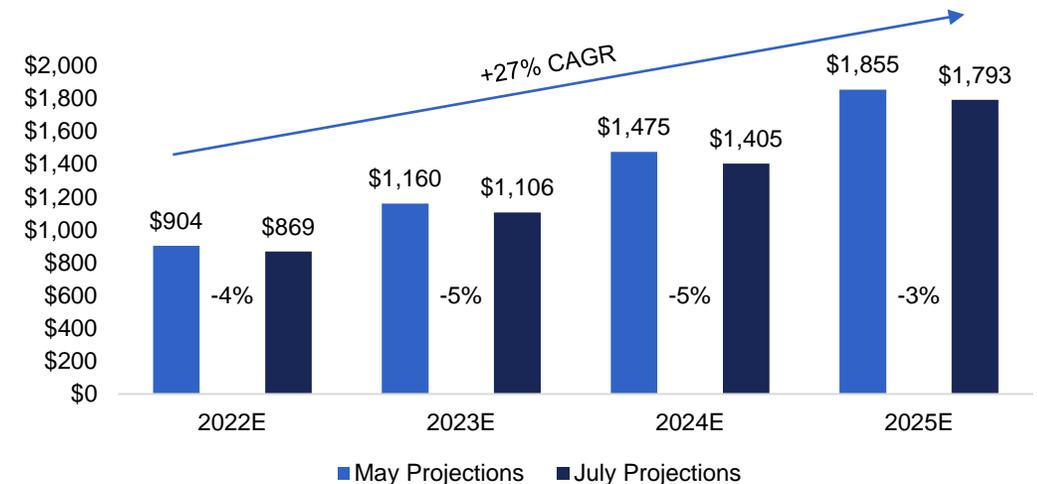
<sup>1</sup> Source: Avalara Analyst Day, June 28, 2022.  
<sup>2</sup> Source: Avalara Investor Presentation, filed with the SEC on September 23, 2022.

# Avalara Remains a Fundamentally Strong Business

We do not believe a \$500,000 revenue “miss” in one quarter has any bearing on Avalara’s ability to realize long-term value



## 3 Avalara Revenue Projections<sup>1</sup>



- 1 Avalara's Q2 2022 revenue “miss” was \$500,000; we do not believe this is material, let alone that it portends a deterioration in the Company’s prospects
- 2 This “downward revision” in guidance still implies 24% YoY revenue growth, which is consistent with the Company’s long-term goal of compounding revenue at 20-25%<sup>2</sup>
- 3 The Company’s July Projections – which reflect the Company’s greater pessimism – still imply revenue growing at a CAGR of 27.1% through 2025; this is essentially unchanged from the May Projections, which implied a CAGR of 27.3%<sup>3</sup>

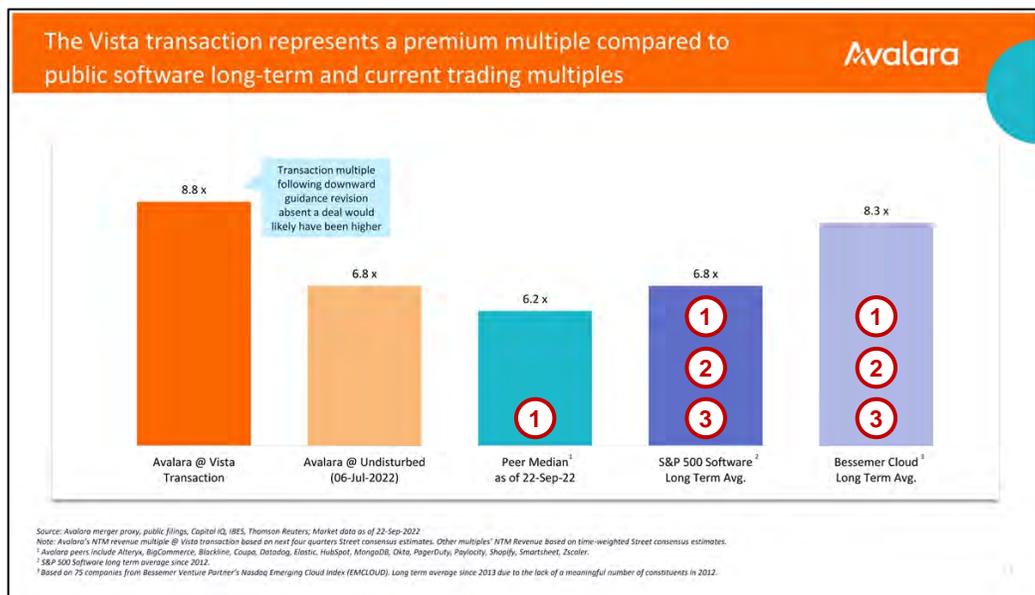
<sup>1</sup> Source: Avalara Definitive Proxy Statement, filed with the SEC on September 12, 2022, at pages 63-64.

<sup>2</sup> Source: Avalara Analyst Day, June 28, 2022 (“[We believe] that we can compound growth organically in the 20% to 25% range for years to come...”).

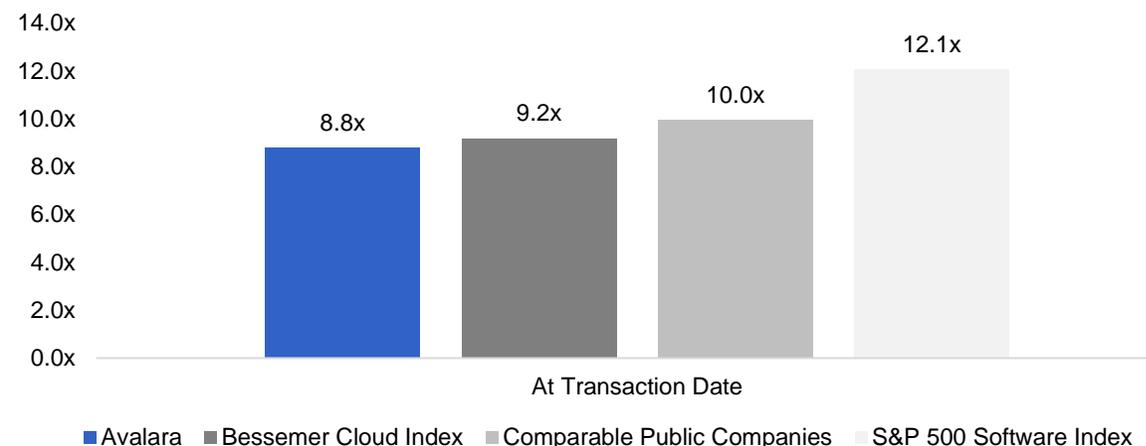
<sup>3</sup> Source: Avalara Definitive Proxy Statement, filed with the SEC on September 12, 2022, at pages 63-64.

# Avalara Appears to Be Manipulating the Data to Manufacture a “Premium”

We believe the “premium multiple” touted by Avalara’s Board is illusory and based on a fundamentally flawed analysis

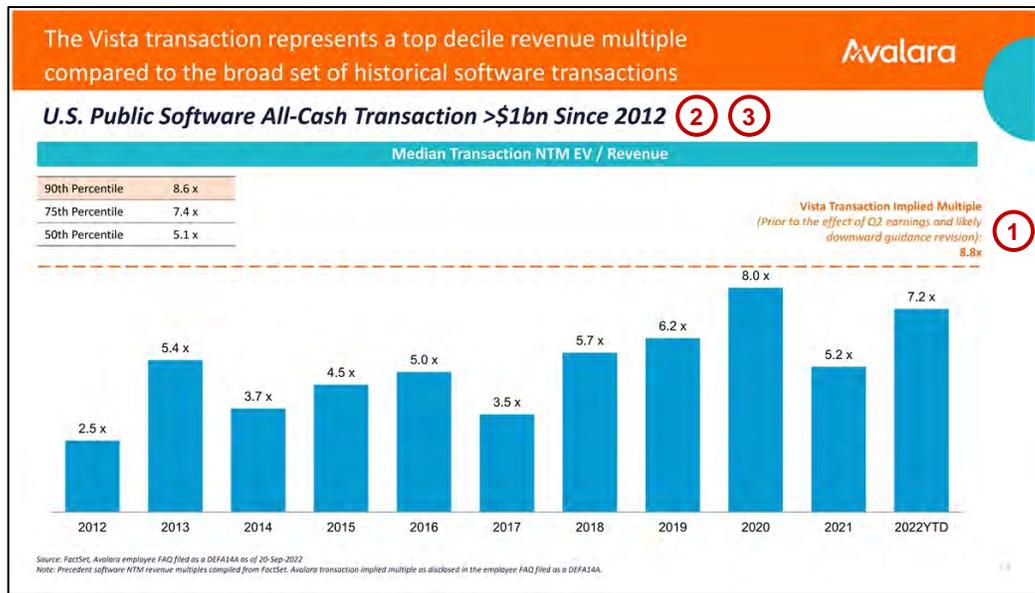


## ① Illustrative EV/NTM Revenue Multiples with an Appropriate Control Premium<sup>1</sup>



- ① Using comparable *trading* valuations rather than comparable precedent *transactions* fails to account for an appropriate control premium; we estimate that these multiples should each be ~26% higher (as shown in the chart at right)<sup>1</sup>
- ② Avalara is using a 10-year multiple; in our view, this is unusual and flawed because it does not reflect the state of the markets when Avalara’s deal was signed or today; Goldman Sachs did not use this methodology in *any* of the other transactions in its Selected Transactions Analysis for which it provided a fairness opinion
- ③ Neither of these two indices were included as part of Goldman’s fairness opinion analysis that was approved by Goldman’s Fairness Committee

# Avalara Appears to Present an Inaccurate Revenue Multiple



## Total Transaction Value / NTM EBITDA<sup>1</sup>

Per Share Consideration	\$93.50
x Common Shares Outstanding	88,557,882
<hr/>	
Total Equity Value	\$8,280
Plus: Total Debt	\$1,019
Less: Cash	\$1,461
<hr/>	
Total Transaction Value	\$7,838
Divided by: Analyst consensus NTM Revenue (as of July 31)	\$957.5
<b>TTV/NTM Revenue:</b>	<b>8.2x</b>

① Avalara appears to be using an inaccurate revenue multiple. Based on our calculations (shown below), the Total Transaction Value / NTM EBITDA is 8.2x,<sup>1</sup> not 8.8x, as Avalara optimistically states. (If the deal were truly at 8.8x, the value to shareholders would be \$100 per share.)

We find it curious that Avalara would cite as its source for this data an employee FAQ, rather than analyst consensus estimates, as it uses for comparable transactions

② Again, Avalara appears to be using a 10-year look-back period, which is inconsistent with the methodology used by its financial advisor in its fairness opinion<sup>2</sup>

The universe of comparable transactions – all U.S. software companies – is, in our view, far too broad and likely contains dozens of irrelevant deals

③ In its fairness opinion, Goldman selected 23 precedent transactions,<sup>3</sup> most of which involved high-growth, SaaS-based businesses like Avalara's

It is worth noting that the median multiples for these selected transactions were 8.9x NTM Revenue,<sup>4</sup> which is substantially higher than the 8.2x NTM Revenue multiple for Avalara

<sup>1</sup> Source: FactSet and Company filings. Data as of August 5, 2022 ("Transaction Date").

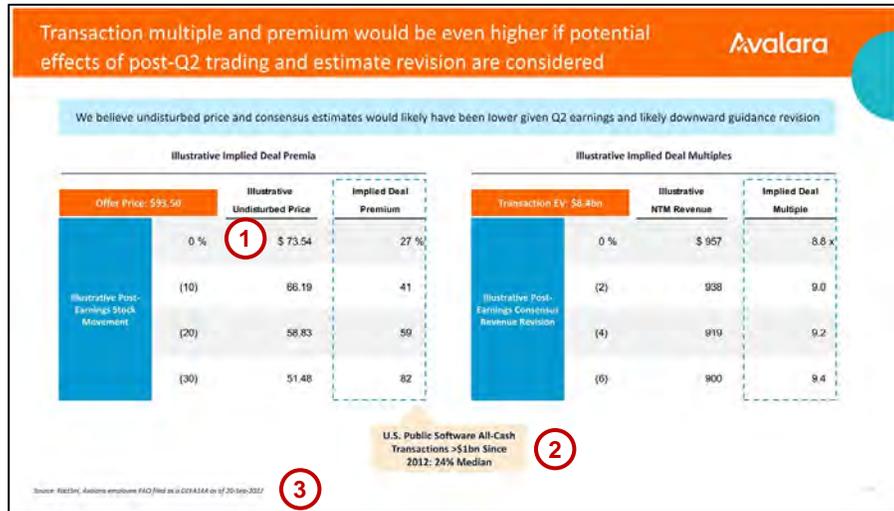
<sup>2</sup> Source: Avalara's Definitive Proxy Statement, filed with the SEC on September 12, 2022, at page 56 ("Goldman Sachs calculated and compared the implied EV/NTM revenue multiple... at the time each such transaction was announced.").

<sup>3</sup> Id.

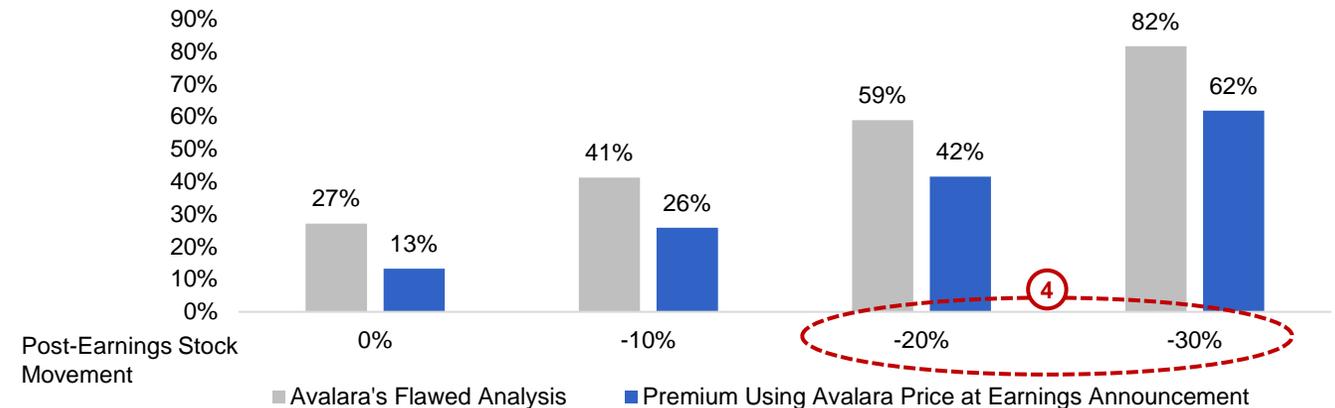
<sup>4</sup> Id.

# Avalara Appears to Be Applying the Wrong Price to Its Post-Earnings Premium Analysis

Even if Avalara's stock had declined 10% after Q2 earnings, the Vista premium would still have been underwhelming, in our view



Illustrative Transaction Premium Given Theoretical Post-Earnings Stock Movement<sup>1</sup>



- Avalara is assuming that its stock price would have remained unchanged from July 6 to August 5; we believe Avalara's stock price would have traded in a manner consistent with its peers (i.e., increasing by approximately 12% from July 6 to August 5, in-line with the peer median); therefore, any "post-earnings stock movement" calculations should be applied to an implied price of \$82.55 per share, not \$73.54
- Avalara is again using a new comparator that was not included in Goldman's fairness opinion ("All US public software all-cash transactions >\$1bn since 2012")
- Avalara seems to be basing its EV/NTM revenue multiple on its employee FAQ as of September 20, 2022, rather than Street estimates, unlike the measure it uses for the peers
- Given that Avalara's stock price has moved up or down by more than 20% on just 1 trading day out of over 1,000 since its IPO,<sup>2</sup> we view these outcomes as less likely

<sup>1</sup> Source: Avalara Investor Presentation, filed with the SEC on September 23, 2022 and FactSet. "Median 1-Day Premium of Precedent Transactions" based on comparable transactions in the "Selected Transactions Analysis" of the Company's financial advisor. See Avalara's Definitive Proxy Statement, filed with the SEC on September 12, 2022, at page 56.

<sup>2</sup> Source: FactSet. Data as of August 5, 2022, the last trading day prior to the announcement of the transaction.

# In Our View, Avalara Overstates the Independence of Its Board



Avalara appears to count as “independent” two directors with longstanding relationships with Vista, its principals and its portfolio companies

**1** Marcela Martin serves on the Board of a Vista-controlled company, Cvent, with four other Vista professionals, including the Vista partner responsible for the Avalara deal<sup>1</sup>

Rajeev Singh has served on the board of a company that Vista acquired<sup>2</sup>

**2** The Company suggests a three-month sale process is exceptional or evidence that the Board’s sale process was particularly robust; in reality, a three-month process is merely typical<sup>3</sup>

**3** The number of meetings does not, in our view, have any bearing on how comprehensive the process was or how aggressively the Board negotiated on behalf of shareholders; we do not believe this is a particularly relevant data point

**Avalara neglects to mention that its CEO stands to realize approximately \$30 million in golden parachute compensation as a result of this transaction;<sup>4</sup> we believe this would have been a vastly more attractive outcome to him than the “leadership changes”<sup>5</sup> that the Board was apparently contemplating**

<sup>1</sup> Source: Avalara Definitive Proxy Statement, filed with the SEC on September 12, 2022, at page 60.

<sup>2</sup> *Id.*

<sup>3</sup> Analysis of the length of the sale processes among the companies used by Avalara’s financial advisor in its Selected Transactions Analysis, the average length of the sale process was 3.2 months.

<sup>4</sup> Source: Avalara Definitive Proxy Statement, filed with the SEC on September 12, 2022, at page 70.

<sup>5</sup> Source: Avalara Investor Presentation, filed with the SEC on September 23, 2022, at page 8 (“Transformation will take time and require leadership and team changes”).

# Avalara Appears to Misrepresent a Process with Limited Competitive Tension



1

Of the 7 parties involved in Goldman's "initial outreach," 5 appear to have proactively and independently reached out to Avalara expressing an interest in the Company<sup>1</sup>

The 8<sup>th</sup> party appears to have been overlooked by Goldman during its initial round of outreach and reached out to management independently a month after the sale process had started<sup>2</sup>

2

Goldman's outreach did not appear to extend to *any* strategic acquirers

We believe strategics could have paid a higher price for Avalara and should have been contacted as a means of maximizing the potential universe of buyers during the sale process

3

Though this chart makes it appear as if there was competition until the penultimate stage of the sale process, Party A's last engagement with Avalara was on July 8, leaving Vista as the only interested party for almost a full month<sup>3</sup>

4

The implication that the Board spent time negotiating with Vista is misleading; there was no change to Vista's proposed price from July 19 to August 4; the two price increases came in a span of three days from August 4 to August 7, during which time Avalara's stock was trading above \$94 per share

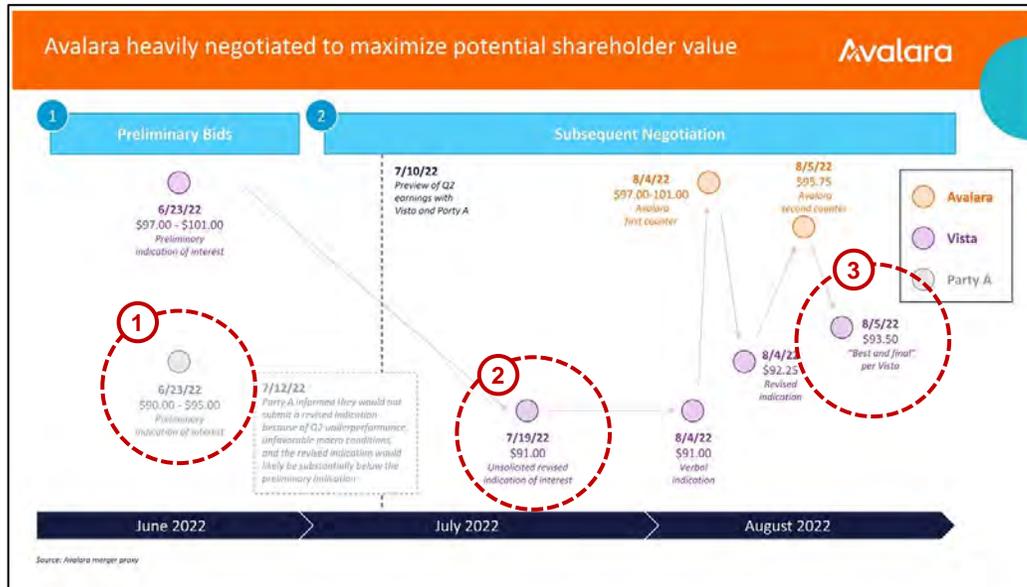
**In our view, because Goldman Sachs' outreach was limited and potential interest was inhibited by macroeconomic factors, the Board's process was neither "competitive" nor "robust"**

<sup>1</sup> Source: Avalara Definitive Proxy Statement, filed with the SEC on September 12, 2022, at page 34 (indicating that Parties A-D had reached out to Avalara in March and April 2022) and 36 (indicating that Party E appears to have reached out to Avalara independently of Goldman's process).

<sup>2</sup> *Id.* at page 36 (indicating that Party G, which does not appear to have been on Goldman's initial list of targets, reached out to Avalara on May 29, a month after the Board determined to initiate a sale process on April 27).

<sup>3</sup> Source: Avalara Definitive Proxy Statement, filed with the SEC on September 12, 2022, at page 40 (indicating Party A met with Avalara to conduct due diligence on July 8, but had no further engagement with the Company and failed to submit a definitive proposal).

# In Our View, Avalara's Board Did Not Negotiate "Heavily"; It Caved



1

Avalara attempts to depict Party A as a genuine competitor to Vista, but Party A never submitted a final bid; by July 12, Vista was the only party left in the process

2

Like several other parties, Party A withdrew citing, among other issues, continued deterioration of the macroeconomic environment<sup>1</sup>

After Vista failed to submit a bid by the due date, the Board terminated the sale process<sup>2</sup>

In our view, the Board should have held firm in its decision that the sale process had not yielded an acceptable offer and recommitted to achieving Avalara's transformation in the public markets

Instead, the Board appeared to eagerly re-engage with Vista even after it presented a significantly inferior indication of interest<sup>3</sup>

3

Avalara's Board seems to desire recognition for "heavily negotiating" a 3% price bump

However, this "heavily negotiated" price is nearly 4% lower than the low end of Vista's initial indication of interest

**In our view, the Avalara Board should not be credited for re-engaging with Vista and accepting an offer price that was below Vista's initial indication of interest**

<sup>1</sup> Source: Avalara Definitive Proxy Statement, filed with the SEC on September 12, 2022 at page 41 ("Party A informed Goldman Sachs that they would not submit a definitive proposal because... general macroeconomic conditions were uncertain and unfavorable...").

<sup>2</sup> *Id.*

<sup>3</sup> *Id.* at page 42 (indicating that after Vista submitted a revised indication of interest at \$91/share – which Scott McFarlane noted was significantly lower than Vista's initial range – the Board nevertheless directed its counsel to advance the merger agreement with Vista).

# Avalara's Claim That a Majority of Analysts Support the Deal is Misleading

Following review of the proxy statement, majority of analysts endorsed the timing of the sale and the attractiveness of the deal price

**Avalara**

**Timing is Right**

"The filing also enumerated a number of compounding operational and market-related challenges that have been building in recent quarters, introducing substantial amount of uncertainty regarding the company's ability to execute on its strategic vision over the next couple of years... Given the incremental information provided in the proxy filing, we see another offer as unlikely."  
— William Blair, 24-Aug-2022 **1**

"We continue to believe that the agreed-upon acquisition by Vista will remain the best near term offer for AVLR... we believe shares would likely face significant near-term pressures should the sale not proceed until investors can gain greater confidence on its recent investor day outlook."  
— Raymond James, 23-Aug-2022 **2**

**Price is Attractive vs. Standalone**

"We believe the company is fairly priced as it was sold to Vista Equity Partners because: 1) several additional PE firms contacted Avalara financial advisor... none submitted any oral or written indication of interest following the initial contact, while no strategic party expressed interest; and 2) Avalara's 2Q22 revenue came in below expectations and there is uncertainty surrounding the company's expected performance ..."  
— JMP Securities, 29-Aug-2022 **4**

"In Vista [Avalara] found a partner with a proven track record of driving efficient growth, so it would not surprise us to see Avalara reemerge in the years ahead with a different look... when you assume forward estimates were very likely moving lower, the multiple becomes even more appealing."  
— Canaccord Genuity, 8-Aug-2022 **4**

"This acquisition was announced in conjunction with Q2 results that were mixed with the lowest q/q subscription growth rate of 1.9% in five years and a sharp moderation in calculated billings growth that slipped to 17% vs. 28% last quarter. Justification of a higher premium appear challenging from a timing perspective given the uncertain macro backdrop and mixed operating results."  
— Piper Sandler, 8-Aug-2022 **3 4**

Source: Wall Street research  
Note: Select quotes basical for additional emphasis.

This selective quote merely states that another offer is unlikely

**1** William Blair's full remarks on the deal, which Avalara omits, were: "Given Avalara's leading position in the large and underpenetrated market for tax compliance automation software, our initial view is that **the proposed transaction price is somewhat underwhelming.**"<sup>1</sup>

Only states that Avalara's price may face near-term pressure if the sale does not proceed

**2** On the deal, Raymond James also stated: "[W]e are a little **surprised at AVLR's willingness to sell at \$93.50** given its recently laid out medium-term targets (\$250 million of FCF by CY 25) and an aspirational goal of reaching \$3 billion in revenue."<sup>2</sup>

Like other analysts, Piper Sandler notes that a higher premium was unlikely to be obtained given the macroeconomic environment and the Company's mixed Q2 operating results; we believe this reinforces our view that now was not the right time to sell the Company

**3**

**4** Even if we assume that every analyst on this page is supportive (which we do not believe is the case), Avalara has 13 coverage analysts covering the stock;<sup>3</sup> to claim that a "majority" of analysts "endorse" the deal is misleading

**Avalara appears to be misinterpreting analyst sentiment to manufacture support for the transaction**

<sup>1</sup> Source: William Blair Analyst Note, August 8, 2022.

<sup>2</sup> Source: Raymond James Analyst Note, August 8, 2022.

<sup>3</sup> Source: Bloomberg.

# Conclusion

- **We remain convinced that Avalara is a fundamentally strong business** with excellent long-term growth prospects
- Despite the Company's near-term challenges – several of which seem to have been introduced for the first time in its recent investor presentation – we believe **Avalara is well-positioned as a market leader with limited competition** and a strong competitive moat
- The Board appears to have anticipated near-term headwinds and determined that, rather than work to fortify the business and evolve the leadership team, the best outcome was a fire sale in a difficult financing market
  - We disagree; we believe **the Board's decision was the easy one, but not the optimal one** for shareholders
- This transaction suffers from:
  - Bad timing
  - A poorly designed process
  - An inadequate price

Don't be misled by Avalara's false and misleading claims – join us in voting the **GOLD** proxy card **AGAINST** the sale to Vista

# Contact Information



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