



# Consumer Subscription Software

Enhancing everyday life

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# The view from GP Bullhound



Eric Crowley, Partner, Advisory

★★★★★

“It’s unprecedented! The app stores are the largest consumer marketplace in history. Entrepreneurs can produce a product and instantly have it available for five billion people to buy around the globe.”



Alec Dafferner, Partner, Advisory

★★★★★

“Having covered the CSS sector from its infancy, we are excited to see the continued growth of the market as the overall number of CSS players continues to expand, meeting specific consumer needs and interests. With a meaningful number of CSS leaders reaching significant size and scale, we expect an acceleration in investment and acquisition activity from both strategic and financial investors.”



Daniel Roberts, Associate, Advisory

★★★★★

“We are excited to see CSS apps grow and become indispensable to consumers as they navigate their daily lives. We expect to see these apps become mission critical to consumers similar to how enterprise software has become critical for so many companies.”

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# The view from GP Bullhound












Per Roman, Managing Partner, Investment Management

★★★★★

“We are passionate supporters of the CSS ecosystem and have been impressed as entrepreneurs have created tools and solutions for millions of consumers. We are excited to see the ecosystem evolve as it empowers consumers through new use cases of AI and other technological breakthroughs.”

## ■ GP Bullhound CSS investments

 INVESTMENT BY <b>GP.Bullhound</b> Fund V	 INVESTMENT BY <b>GP.Bullhound</b> Fund V	 INVESTMENT BY <b>GP.Bullhound</b> Fund V	 INVESTMENT BY <b>GP.Bullhound</b> Fund IV	 INVESTMENT BY <b>GP.Bullhound</b> Fund IV
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# About GP Bullhound's CSS team

# GP Bullhound's CSS team

GP Bullhound's CSS team leverages decades of collective experience, proprietary intelligence, deep industry relationships, and leading data sources to identify and communicate what you need to know to stay ahead of the curve.

Our CSS practice is led by our San Francisco-based Partner, Eric Crowley, who has over 11 years of advisory, operating and private equity experience.



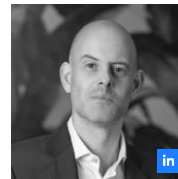
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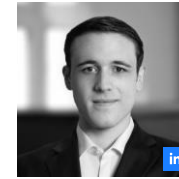
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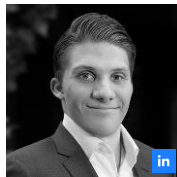
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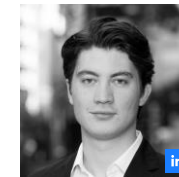
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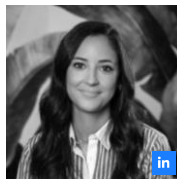
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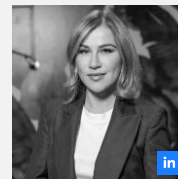
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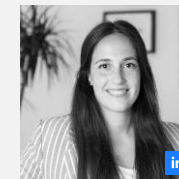
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**Insights and  
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# Deep domain expertise in consumer subscription sector

 **First investment firm with CSS focus**

 **Consistently serving as a contributor and guide to the CSS ecosystem and entrepreneurs**

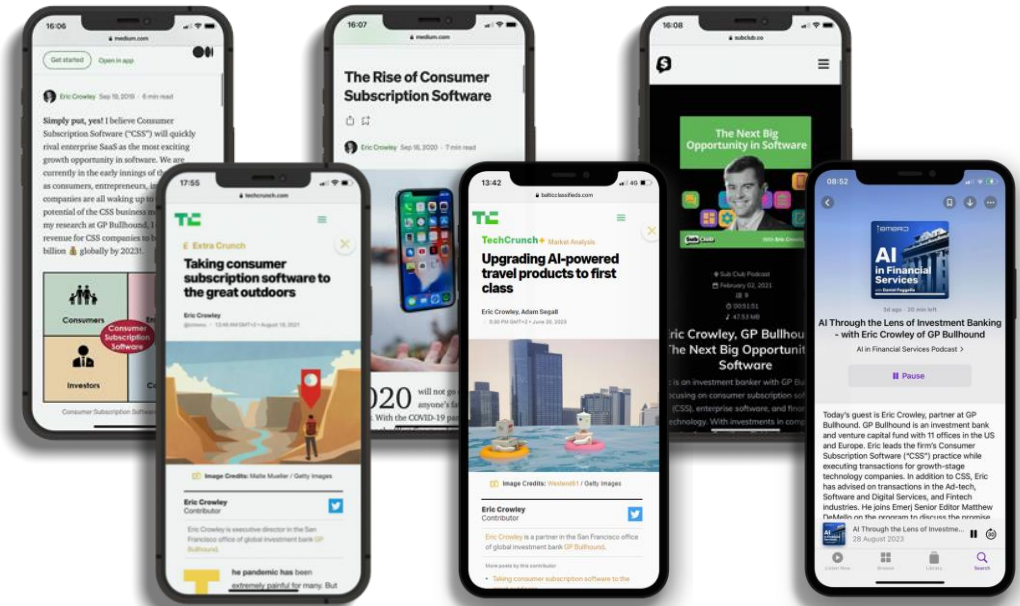
## Our CSS reports

Click on the images below to read more



## Celebrated news articles

Click on the images below to read more



**Eric Crowley**  
PARTNER

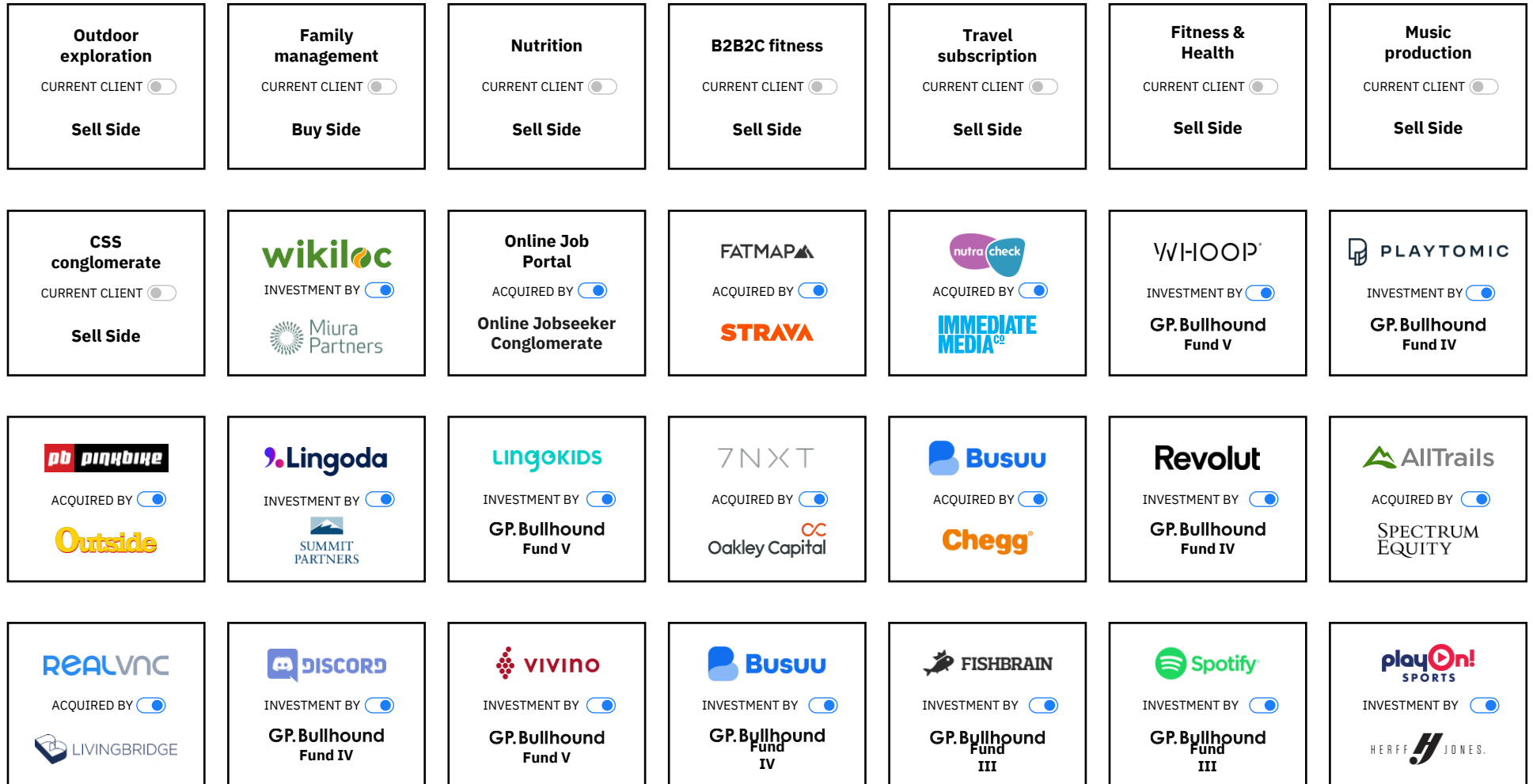
### Featured in TechCrunch, 2021

*"I believe CSS is still in the early stages of its growth – perhaps where B2B SaaS was a decade ago. The beauty of the CSS model is the complete alignment between the business and its customers. CSS companies don't have to please advertisers, and they can design purely for their users."*



# GP Bullhound's recent CSS activity

GP Bullhound continues to lead in the CSS sector in its advisory and investment activities.



# Market update

# App stores are the largest markets in human history

## ↗ Our view

- Apple and Google’s app stores can drive sales for five billion consumers globally
- The Apple App Store is already larger than ~450 of the Fortune 500 by revenue
- 5m+ businesses sell through app stores

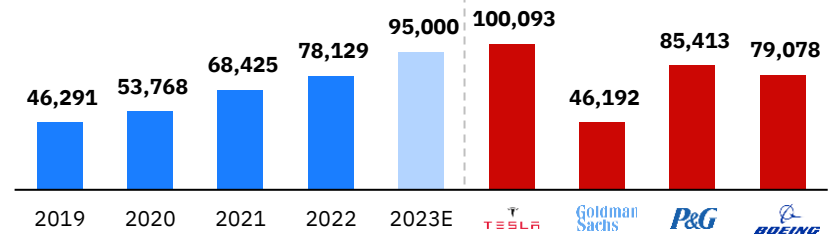
<p><b>5.7 million</b> Total apps<sup>1</sup></p>	<p><b>\$87bn</b> FY22 app store spend<sup>2</sup></p>	<p><b>\$109bn</b> In-app ads (FY22)<sup>3</sup></p>	<p><b>40</b> Avg. # apps installed<sup>4</sup></p>
<p><b>~33%</b> Apple Services contribution to GM \$<sup>5</sup></p>	<p><b>+150 million</b> Increase in subs YoY<sup>6</sup></p>	<p><b>1 billion</b> Total subscriptions<sup>7</sup></p>	

GP Bullhound expects increased interest in consolidating applications within app stores, similar to roll ups in the Amazon and Shopify ecosystems.

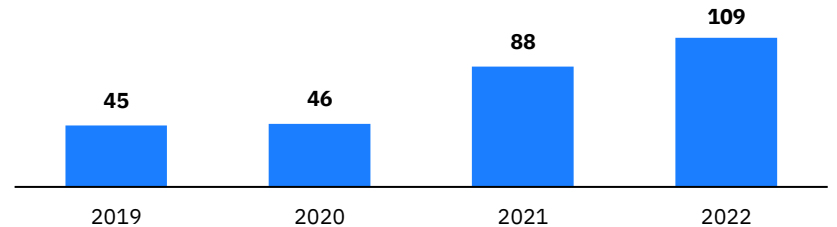
Who will be the Berkshire Hathaway of app stores? We have included a list of premier CSS aggregators with a head start in the Investor section.

## Apple services dwarf well known Fortune 500 companies

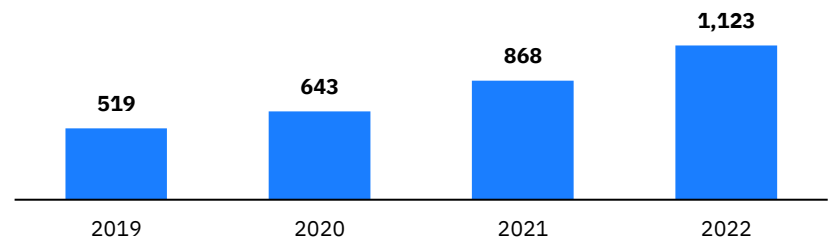
Total Apple services revenue vs. large cap peers<sup>5</sup> (\$bn)



Total in-app advertising facilitated by the App Store<sup>3</sup> (\$bn)



Total billings and sales facilitated by the App Store<sup>3</sup> (\$bn)







# Epic Games case against Apple ushers in new era

## ↗ Our view

- While Apple did prevail against Epic in Epic Games, Inc. v. Apple Inc, it has led to some substantial changes to the Apple App Store and Google Play stores
  - Many more plaintiffs have echoed Epic’s complaints in the subsequent months
  - Pressure remains high on Apple to reduce its commission rate broadly which would be a huge boost for the industry
- The fallout from the court case has only been positive for developers and consumers with a few changes including:**
  - Apple App Store:** Apple reduced its subscription fee to 15% for the first \$1m in annual revenue from 30%
  - Google Play:** Google reduced its fee to 15% on all revenue for developers if customers keep a subscription for 12 continuous months
  - Alternative payment methods:** This was a ruling that Epic won in its case. The court ruled that Apple's anti-steering policies, which prevent any app from directing or informing its users to a different storefront outside of Apple's iOS to make purchases was not legal. This opened the door for developers to direct users to other payment methods that could circumvent App Store fees
  - These changes have given developers and regulators momentum as cases mount in the courts to try and capture more value for the CSS ecosystem**

## Many other parties have taken the torch from Epic in the courts

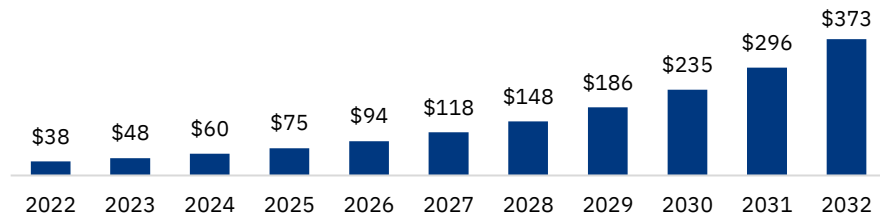
Plaintiff	Allegations	Size (\$m)
1,500 UK app developers	Apple’s charges to app developers are excessive and only possible due to its monopoly on the distribution of apps onto iPhones and iPads	1,000
Coalition including:   	The coalition criticises the fact that, for now, the app stores of both Apple and Google charge their clients a 30% fee on any purchases made over their stores	Undisclosed
Dutch Foundation	Apple has taken advantage of their monopolistic position, forcing the foundation to increase their prices	5,500
Société du Figaro	Apple is being accused of violating US antitrust law by overcharging Figaro to use its app store	Undisclosed
	Anticompetitive practices, unfair 30% commission on in-app purchases, favouring Apple's own services over third-party apps	Undisclosed

# VR – the next consumer platform?

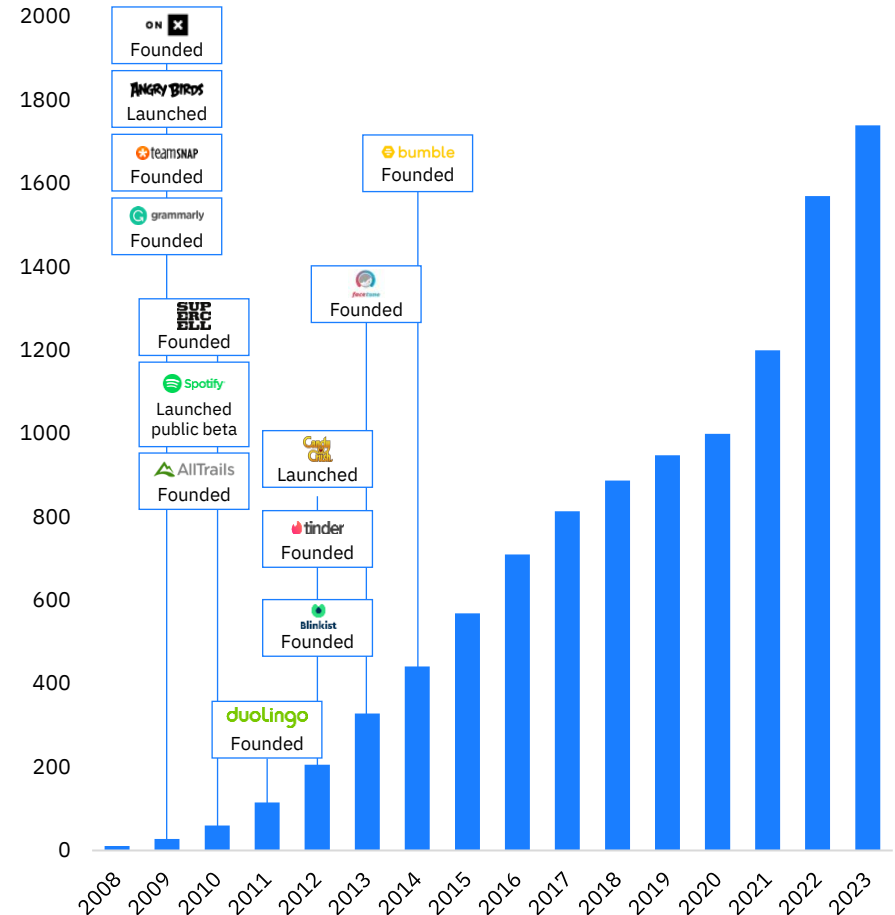
## ↗ Our view

- With the release of Apple’s Vision Pro, AR/VR is finally coming to the iOS ecosystem in a major way
  - While we don’t yet know if VR will be a long-term success, **we do know early adopters will be winners in the space**
- 
- Backed by the world’s first spatial operating system, VisionOS, Apple’s Vision Pro will unlock an incredible opportunity for developers to create a new kind of application that interacts with consumers and the spaces around them
    - Algoriddim, a DJ software, has already updated its applications to be able to interact with AR and give DJs the feeling of performing on stage
    - Black Box VR lets users work out in a gym, but feel as if they are in a video game
  - The opportunity is huge for the AR/VR market as the number of individuals using these tools is expected to grow to over two billion by 2027

Augmented reality and virtual reality market size, 2022 to 2032 (\$bn)



iPhone users globally (in million)



# CSS is the only streaming game in town

## ↗ Our view

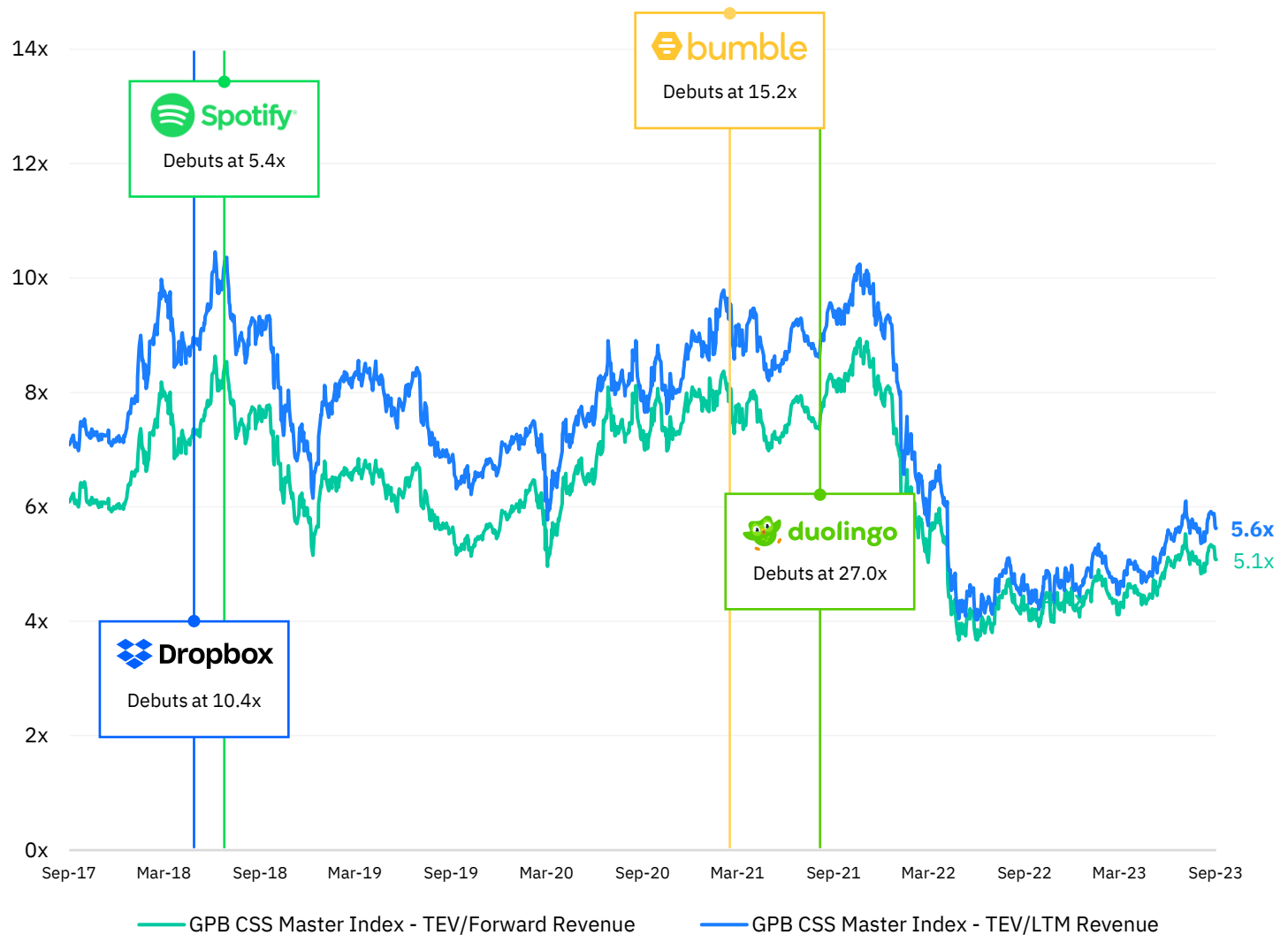
- Live rights to sporting events was one of the last bastions for cable providers to lure consumers into packages
  - The changing economics are upending sports leagues from US College Football to Indian Cricket and the repercussions will be felt in players' salaries and league revenues
- 
- **Consumer choice:** Consumers now have access to niche sports that wouldn't make economic sense on broadcast television such as ESPN while allowing fans to watch in any geography at any time
  - **Latency:** Advancements in bandwidth and more access to high-end hardware have given consumers overall quicker internet speeds
  - **Streaming production:** Gone are the days of needing high-end equipment for production. A simple mounted camera paired with quick internet speeds provides consumers with a great experience
  - **Consumer interest:** Many consumers have taken a keen interest in new sports that are only available via streaming platforms
  - **Rising subscriptions:** Sport being premium content is driving subscriptions for streaming platforms

## Noteworthy agreements

Streaming Platform	League	Size (\$m)
		2,000
		595
		2,760
		3,004
		1,500
		1,500
		Undisclosed


# Public CSS valuations have stabilised over the last year

➤ Our CSS index, the first to track how public CSS companies are valued, includes:




# CSS ecosystem includes multiple future IPO candidates


## ■ CSS IPOs to look out for in the next 24 months

 **Chess.com**


- **Description:** Provider of an extensive suite of free and paid options including online chess gameplay, puzzles and game analysis as well as lessons taught by chess grandmasters and coaches
- **Founded:** 2005
- **Amount raised:** Undisclosed
- **Lead investor:** General Atlantic
- **Product and pricing overview:**
  - Monthly and annual subscriptions
    - 3 Tiers (Gold, Platinum and Diamond)
  - Monthly subscriptions ranges from \$6.99 to \$16.99
    - Users can save 40% with an annual subscription
  - Platform has more than 100m users

 **Outside**


- **Description:** Operator of a digital media company intended to publish a collection of active lifestyle and sports content
- **Founded:** 2017
- **Amount raised:** \$169m
- **Lead investors:** Sequoia Capital, JAZZ Venture Partners
- **Product and pricing overview:**
  - Outside+ priced at \$4.99 monthly, and includes access to the following brands: Outside, Trailforks Pro, Gaia GPS, VELO, Pinkbike, Backpacker, and Yoga Journal
  - Outside Magazine has 675,000+ monthly subscribers

 **Discord**


- **Description:** Developer of an instant messaging and digital distribution platform designed to help users socialise with their friends and communities
- **Founded:** 2012
- **Amount raised:** \$1.1b
- **Lead investors:** Dragoneer Investment Group, Tencent Holdings
- **Product and pricing overview:**
  - Nitro Basic and Nitro subscription offers larger file upload sizes, enhanced video streaming capabilities and many other features
  - Nitro Basic is \$2.99 per month and Nitro is \$9.99 per month
  - Discord has more than 150 million users

 **playOn! SPORTS**

- **Description:** Operator of a digital media platform intended to produce, distribute and monetise high school sports in the US. The company's platform includes video production capabilities and a multi-platform distribution system
- **Founded:** 2008
- **Amount raised:** \$162m
- **Lead investors:** KKR, Panoramic Ventures
- **Product and pricing overview:**
  - Brands include:
    - NFHS Network:
      - Annual pass is \$79.99 and monthly pass is \$11.99
    - rScholToday: Activities management
    - NVV: Sports marketing platform

 **ON X**


















- **Description:** Developer of a mobile mapping technology designed to show clearly marked property boundaries, and public and private landowner names, and aggregates nationwide data on trails and permitted land use in the US
- **Founded:** 2009
- **Amount raised:** \$108m
- **Lead investor:** Summit Partners
- **Product and pricing overview:**
  - Three products, each being sold in premium and elite packages
    - OnX Offroad: Premium: \$2.92 monthly; Elite: \$8.33 monthly
    - OnX Hunt and OnX Backcountry: Premium: \$29.99 monthly; Elite: \$99.99 monthly























 **STRAVA**

- **Description:** Developer of a social application platform that allows users to record fitness activity, analyse, share and compare data against themselves, friends and pros
- **Founded:** 2009
- **Amount raised:** \$180m
- **Lead investors:** Sequoia Capital, TCV
- **Product and pricing overview:**
  - App allows users to compete on segments, accelerate their training with advanced analytics, and discover new routes
    - 100 million active users
    - 30+ activity types featured on app
  - Monthly subscription of \$6.67

# M&A deal activity is improving

## Notable deals since our previous report













Date	Target	Buyer	Category	Value (\$m)	TEV/LTM revenue
Aug-23			Utility	-	-
Jul-23			Entertainment	-	-
Jul-23			Edtech	1,610	10.05x
 Jun-23			Outdoor	-	-
May-23			Utility	200	-
May-23			Lifestyle	-	-
May-23			Health	-	-
Apr-23			Fintech	-	-
Mar-23			Utility	52	0.28x
Feb-23			Cybersecurity	1,530	2.70x
 Jan-23			Outdoor	-	-

Date	Target	Buyer	Category	Value (\$m)	TEV/LTM revenue
Jan-23			Health	-	-
Jan-23			Social	17	-
Jan-23			Cybersecurity	-	-
Dec-22			Gaming	83	2.67x
Dec-22			Education	-	-
Nov-22			Sports	-	-
Nov-22			Productivity	300	3.00x
 Nov-22			Health	-	-
Nov-22			Gaming	-	-
Oct-22			Sports	-	-
Sep-22			Design	20,000	50.00x

# Private financing continues to surge

## Notable deals since our previous report

Date	Issuer	Lead investor	Category	Investment (\$m)
Sep-23		Goodwater	Edtech	15
Aug-23		OpenAI	Edtech	16
Jul-23		PRIMETIME PARTNERS	Lifestyle	8
Jun-23		777 PARTNERS	Streaming	74
May-23	BENDING SPOONS	INTESA 	Design	77
May-23		Community fundraise	Publishing	3
May-23		CERCANO	Audiotech	25
Apr-23		CATTERTON	Fitness	130
Apr-23		Goodwater	Utility	50
Apr-23		Balderton.	Health	7
Mar-23		CAMPING WORLD 	Audiotech	6
Mar-23		andreesen.horowitz	Productivity	150

Date	Issuer	Lead investor	Category	Investment (\$m)
Mar-23		METAMATIC	Audiotech	n.a.
Feb-23		THE K FUND	Gaming	14
Jan-23		AirTree	Finance	35
Jan-23		ivp	Productivity	100
Dec-22		SUMMIT PARTNERS 	Design	30
Nov-22		Balderton.	Design	19
Nov-22		OpenAI	Productivity	23
Oct-22		INSIGHT PARTNERS	Productivity	125
Oct-22		SUMMIT PARTNERS	Outdoor	87
Sep-22	BENDING SPOONS	INTESA 	Design	340
Sep-22		GENERAL ATLANTIC	Edtech	n.a.
Sep-22		83NORTH	Audiotech	59

# GP Bullhound key CSS insights

# CSS flywheel attributes to drive premium valuation

## We advise founders on CSS opportunities using our proprietary CSS flywheel

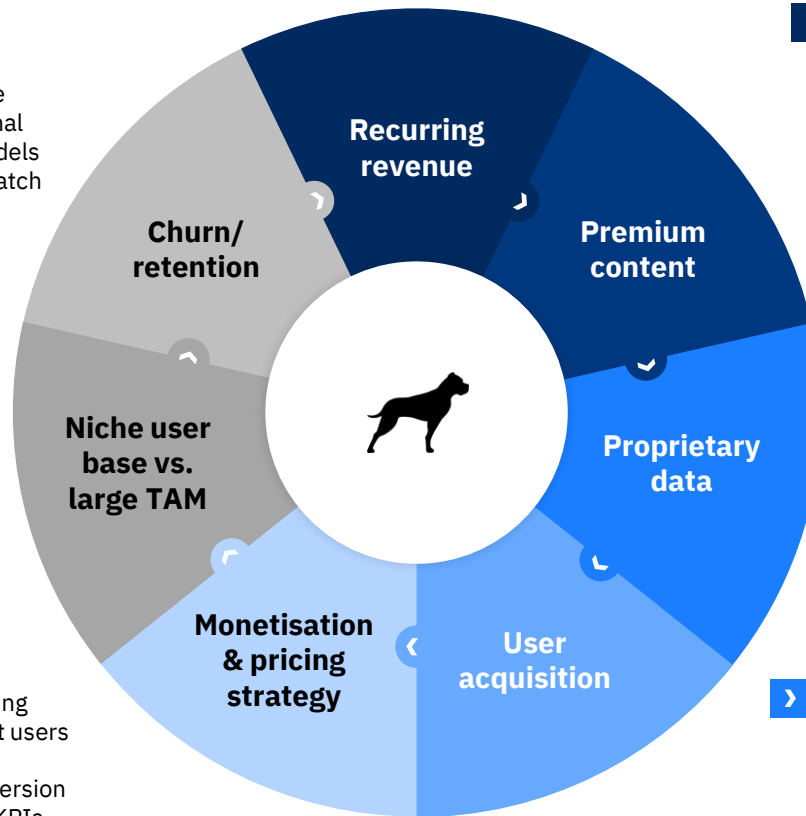
➤ A key valuation driver for investors is the concept of winner-takes-all in CSS apps; if the company has the potential to dominate a niche or a broader market through network effects, investors will pay up

➤ It is important for entrepreneurs to understand their competitive positioning and be able to define their market niche

- Churn of consumer subscriptions will be higher than traditional enterprise SaaS models
- LTV/CAC a KPI to watch

- Monopoly in a small market can be lucrative
- Large TAM apps need to prove differentiation and moats (e.g., fitness apps)

- Create a compelling benefit to convert users from free to paid
- Free to paid conversion rates are critical KPIs



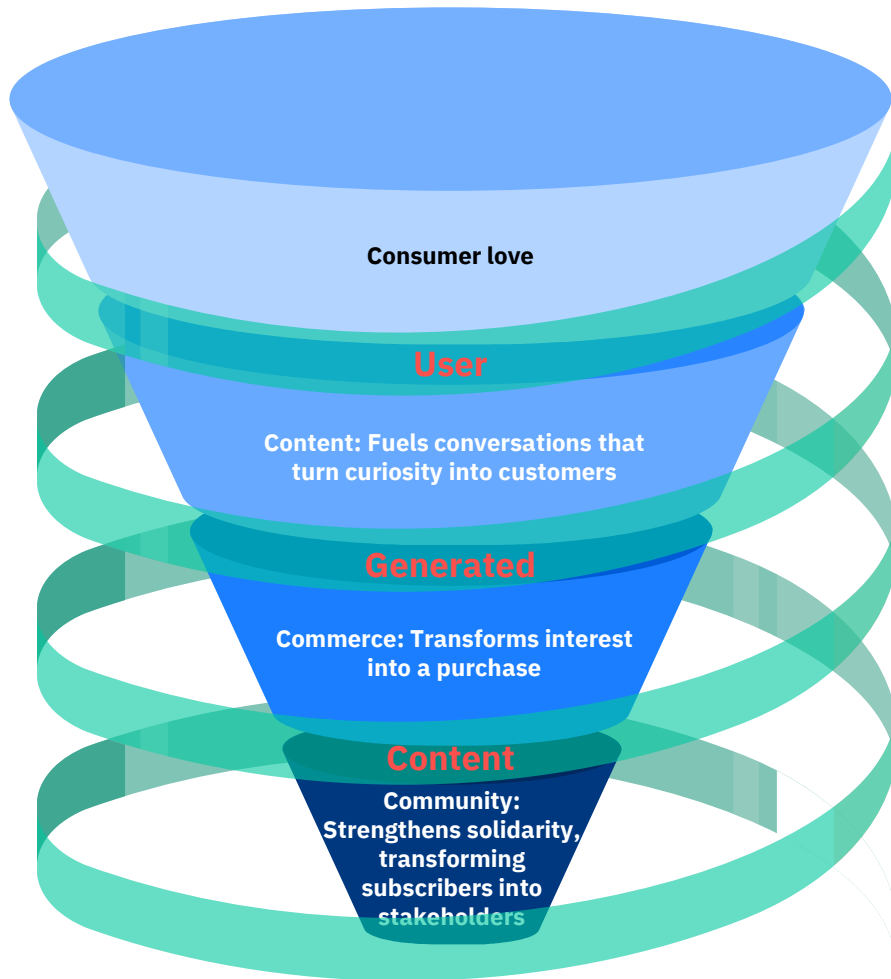
- Intuitive UI paired with high-quality content
- Design & UX crucial to convincing consumer of premium product
- Verticals expanding as consumers become more comfortable paying for apps

- User data retained & utilised within app
- Network effects from existing user base, reinforcing proprietary content and/or monetised data

- Efficient user acquisition & conversion with viral element
- Targeted ads, call to action, SEO, & sharing content proven successful

# Content, Commerce & Community for next-gen companies

Consumer companies are rapidly innovating on how to build or buy missing pieces of the “3C Ice Cream Cone”.



## Content

- *Content establishes trust and facilitates customer acquisition. It can be produced by the company or, even better, its users*
- Consumers discover a brand through content shared by friends or influencers, search engines, or AI tools
- Content is the initial touchpoint for user engagement, highlighting the brand's unique selling proposition and encouraging product discovery
- **Monetisation: Ad revenue/“free” CAC**

## Commerce

- *Allows users to test-drive a brand for the first time*
- Commerce is the conversion engine that transitions interested users into paying customers, leveraging the pull created by engaging content
- By prioritising a user-friendly and seamless purchasing process, commerce solidifies the relationship between brand value perception and actual investment
- **Monetisation: Single purchase/paid trial**

## Community

- *Community enhances value and creates lock-in through initial relationship onwards*
- A community serves as a robust platform for user retention through powerful network effects. It amplifies the impacts of both content and commerce
- An engaged community provides a sense of belonging and facilitates product improvement and free UGC, fostering a cycle of continuous growth and customer satisfaction
- **Monetisation: Subscriptions**

# A new approach to segmentation: unlocking value post-acquisition

## What is user segmentation in this context?

- Segmentation is a powerful and common tool to group prospective customers into segments with common characteristics for targeted marketing/user acquisitions efforts
- This tactic can also be applied **after** customer acquisition to an existing user base based on novel criteria like user age, location, and engagement for a targeted approach to retention and user experience
- This strategy can prove to be extremely effective for A/B testing, fixing issues, or significantly improving key CSS metrics, but it must be approached thoughtfully based on the vertical or product offered

## Key insights

- The best founders do not overlook or oversimplify segmentation. They recognise the importance of underlying motivators for each distinct user base



- Duolingo was able to accelerate user growth 4.5x from a mature product by segmenting by user engagement

## Undesirable approaches to user segmentation



**Over-segmentation:** Too many segments can lead to confusion and noise, impacting results. A balance must be struck between thorough and simple



**Overly broad or generic segmentation:** Segmentation is not a “one size fits all” approach and should be tailored to your specific app/platform



**Biased or impartial segmentation:** Demographic information can be powerful but should be used carefully to avoid bias

## Desirable approaches to user segmentation



**Behaviour or engagement-based segmentation:** Focus efforts on the highest ROI user groups and ignore the “cheetahs” for maximum impact



**Psychographic segmentation:** Interests, lifestyles, values, and preferences, potentially collected during onboarding, can be an effective means for segmentation



**Privacy-focused segmentation:** Privacy is of critical importance for trust with users and compliance with regulatory bodies

## Example engagement metrics







- New User Retention Rate**  
Retention rate of new users in the last year
- Current User Retention Rate**  
Retention rate of non-new current users
- Reactivated User Retention**  
Retention of deactivated/reactivated users
- Resurrected User Retention**  
Retention of churned and resubscribed users
- At-Risk WAU Retention Rate**  
Weekly active users & inactive in past day
- At-Risk MAU Retention Rate**  
Monthly active users & inactive in past 7 days
- Dormant User Retention**  
Retention rate for dormant/inactive users
- Free Trial Retention Rate**  
Retention for free trial to subscription users
- Customer Onboarding Retention**  
Retention directly after onboarding

# B2C goes B2B

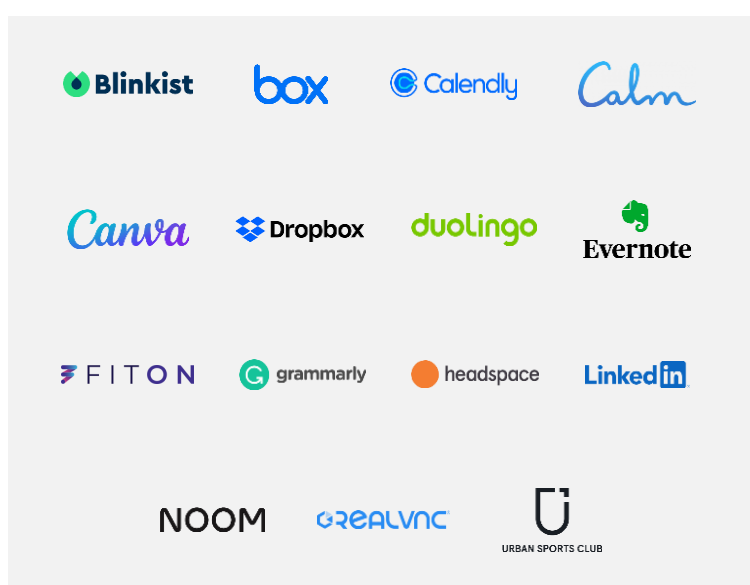
## ↗ Key insights

- CSS companies across fitness, mental health, education as well as prosumer are exploring adding B2B offerings to drive further revenue growth and reduce user churn
- Leveraging rich customer data and intuitive UI designs, CSS companies are uniquely equipped to deliver user-friendly B2B solutions that are actually being used
- Their competency in providing uniform experiences across platforms, in combination with the inherent network effects from existing users, shapes a comprehensive and strategic approach to B2B growth

### How CSS businesses can help supercharge B2B offerings

-  By exploiting the rich customer data at their disposal, CSS companies are strategically positioned to craft robust B2B offerings and drive business growth
-  CSS companies can deliver a uniform web and mobile experience, providing an edge over B2B counterparts typically focused on one platform
-  The proficiency in rapidly launching and updating B2C apps translates into quicker deployment and iteration times for its potential B2B solutions
-  User-friendly UI designs inherited from B2C applications often surpass the aesthetics and intuitiveness of traditional B2B offerings, granting superior functionality and usability
-  Leveraging their experience in safeguarding data for a vast B2C user base, CSS companies can provide a trusted, secure solution for B2B clients
-  When the network effects of a CSS application reach critical mass within an organisation, transitioning to a B2B agreement emerges as the logical next step

### Leading B2B2C businesses



# Where are the opportunities to build a CSS “category killer?”

At GP Bullhound, we have identified six categories where there is white space for a category killer CSS business to be created. We are actively investing here and believe the winners will incorporate the **three Cs of Content, Commerce, and Community** to win.



## Unifying the needs of family management and parenting

**Problem:** There isn't a single resource planning solution for family and parenting management (a family ERP)

- Unifying family management, spending, scheduling and parenting tools presents a compelling opportunity
- Integrating with multiple data sources and enabling product-led growth with aspects like youth sports, school schedules, budgeting, health, wellbeing, and more



## Verticalisation of AI: Personal assistant for any subject

**Problem:** LLMs are built for broad populations but need to balance access /personalisation with privacy

- Existing LMMs have enhanced subject-specific expertise but need to integrate with third-party data sets including email, finances, schedules and healthcare
- Creating a tool that works will generate viral consumer adoption and interest where scale will matter
- OpenAI's ChatGPT has amassed more than 100 million users



## Youth sports/Activities

**Problem:** Parents spend thousands on youth sports and activities with limited adoption of digital tools

- Software that integrates across consumers (B2C) and sports organisations (B2B) will be a must
- Consumers will demand features like stat tracking, player highlights and automatic scheduling of games/events



## Replacing the private wealth manager and tax advisor

**Problem:** Limited digital tools for complex finances and human advisors remain expensive with questionable quality

- AI coupled with access to personalised information will automatically offer best practices customised to the individual and goals
- Services can go outside public market investing to include private investments, taxes, home management and spending answers



## Meeting the growing sophistication of news consumption

**Problem:** Traditional news is tarred with click-bait headlines and too much opinion, with declining trust from audiences

- Demand for premium and factual news fuels monetisation potential
- Lucrative reader communities already exist in established domains like technology, business and politics



## Stage-agnostic Femtech to unify women's health



**Problem:** There is no Apple for female health

- Fragmented women's health offerings require an integrated platform for lifelong care, boosting accuracy and cutting costs
- Opportunity for a provider to streamline the experience, from preparing for pregnancy to childcare, has a huge opportunity



# The second coming of newsletters and message boards

## ↗ Key insights

- Digital newsletters were viewed by many as just another marketing ploy by businesses. They since have evolved into robust consumer subscription businesses on their own
- As cheap and low quality has proliferated on the internet, consumers are increasingly willing to pay for high-quality content, from news and finance, to technology, sports, and farming
- Paid newsletters and forums are increasingly supported by major tech platforms including Substack, WordPress, YouTube, Medium, and X (formerly Twitter)

### Where newsletters have thrived

#### Finance & daily news

- Newsletters have risen in prominence in finance due to the need to stay up to speed on daily deal announcements
- Large publishers have pivoted their offering to cater to both traditional consumers who prefer to visit the publishers' websites and those who prefer curated topics via newsletters

#### Culture

- Many newsletters offer subscribers an escape from daily life with updates on art, wellness and various other topics

#### Newsletter and message board facilitators

- Sports have always been conducive to newsletters dating back to the first newspaper. Message boards have become the home for many sports fans

### Selected expert companies operating in the space

A grid of logos for various expert companies operating in the space. The logos are arranged in three rows. The first row includes AXIOS, Bloomberg, The Economist, ExecSum, and finimize. The second row includes The Information, MORNING BREW, The Motley Fool, The New York Times, and Seeking Alpha. The third row includes SPOTGAMMA, STRATECHERY, The VAN TRUMP Report, and WSJ. Below this, there are three more rows of logos, each preceded by a blue arrow icon. The fourth row includes Going, LIFE KIT, RV LIFE, TheFutureParty, and the Skimm. The fifth row includes 24/7 SPORTS, The Athletic, FRONT OFFICE SPORTS, and ON3.

# “Picks and shovels” to increase “downloads and subscribes”

The ecosystem of “pick and shovel” tools comprises mainly horizontal applications that provide the building blocks necessary to stand up an app and manage key functions.

For the largest and least specialised platforms, CSS customers may only represent a small amount of revenue. But for tools with a focus on the CSS ecosystem, investors and acquirers can consider them equally (if not more) valuable, with significant consolidation and investment in the space.

Typical tools used in the foundations of leading CSS platforms

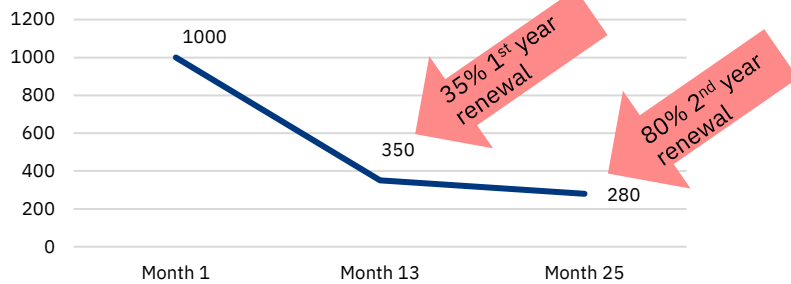


# Re-marketing to churned users (there is gold in churned users)

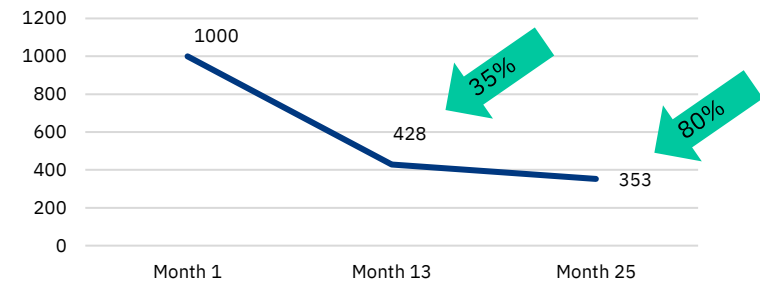
## Key insights

- All consumer apps experience churn. In our experience, leading consumer apps make the departure of a consumer easy with the goal of re-acquiring those consumers when their needs change
- Firstly, it is important to understand why the consumer churned. Did they no longer need the product (fitness/weight loss), have they stopped the activity (biking/hunting), or were they just testing a need (prosumer)?
- Tracking auto-renew status on annual subscriptions provides an early look at likely subscriber churn, which helps inform LTV assumptions and allows for targeted re-engagement months before users churn
- CSS businesses see churn through app usage, with most subscribers who turn off auto-renew for annual subscriptions doing so in the first month
- As apps grow, the cohort of churned users also grows, which means the opportunity to re-engage past users expands

## Typical cohort journey for CSS businesses

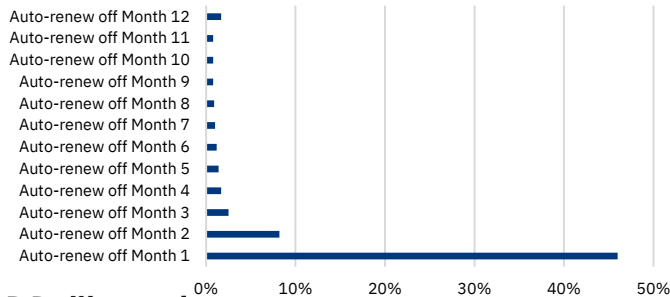


With CSS businesses capturing 12% resubscription each year, results in a 26% improvement in subscribers in year 2 vs. a typical cohort



*of the people who turned off auto-renew during the year, 12% turned it back on as they engaged with the service*


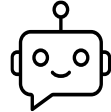

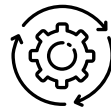

## When do subscribers turn off auto-renew?








# Harnessing Generative AI: a game-changer for CSS

- The consumer interest in generative AI has been nothing short of meteoric since the release of ChatGPT towards the end of 2022. The burgeoning technology smashed adoption records, with the app reaching 100 million users in just two months and prompting OpenAI to quickly adopt a CSS strategy to capitalise on the commercial opportunity
- Many CSS players have fully embraced the technology with deployments ranging from novel and truly value-add to unnecessary or downright bizarre
  - Snap launched a controversial generative AI chatbot in Snapchat+
  - Replika offers a virtual companion in the form of a 3D avatar powered by ChatGPT that can serve as a friend, coach, or romantic interest
  - Grammarly and QuillBot supercharged their suite of personal writing tools with generative AI capabilities
- The promise of generative AI in CSS is undeniable, but there are plenty of pitfalls on the path that could lead to potentially disastrous results if not properly supervised or regulated
- But if executed properly, generative AI can decisively distinguish your platform and truly enhance the user experience
  - invaluable competitive advantages clearly linked to CSS success via accelerated organic growth, improved unit economics/retention, and creation of avenues for upsell/additional opportunities for incremental monetisation






**Potential ways to integrate**

				
Hyper-personalisation	Virtual assistants/interactivity	Automated/dynamic content	Internal/external automation or integration	Realtime translation

**Benefits of successful execution**

				
Accelerated organic growth	Increased engagement and retention	Increased efficiency and unit economics	Capture of valuable usage data	Sustainable competitive advantage















**Potential pitfalls**

				
Resource intensive integration and maintenance	Data privacy concerns	Limited real time data and hallucinations	Unpredictability, particularly with chatbots	Neglect core competencies/offerings

# Expert views from company builders

# GP Bullhound's CSS Report participants have a successful track record

Statistically, if your company is featured in our CSS report, you have a nearly 80% chance of raising or selling for a great exit.

<p>Year of report: 2019</p>  <p>INVESTMENT BY <input checked="" type="checkbox"/></p>  <p>NOV - 21</p>	<p>Year of report: 2019</p>  <p>ACQUIRED BY <input checked="" type="checkbox"/></p>  <p>MAY - 23</p>	<p>Year of report: 2019</p>  <p>INVESTMENT BY <input checked="" type="checkbox"/></p>   <p>DEC - 20</p>	<p>Year of report: 2020</p>  <p>INVESTMENT BY <input checked="" type="checkbox"/></p>   <p>MAY - 21</p>
<p>Year of report: 2020</p>  <p>INVESTMENT BY <input checked="" type="checkbox"/></p> <p><b>Growth Investment</b></p> <p>NOV - 20</p>	<p>Year of report: 2020</p>  <p><b>Growing Rapidly</b></p>	<p>Year of report: 2020</p>  <p>INVESTMENT BY <input checked="" type="checkbox"/></p>  <p>FEB - 23</p>	<p>Year of report: 2021</p>  <p>ACQUIRED BY <input checked="" type="checkbox"/></p>  <p>APR - 22</p>

Since 2019, GP Bullhound has profiled 10 companies, of which five have raised additional capital, two have sold and one is still on its journey. We remain bullish on the four companies from our 2022 report to do great things. To be featured, please reach out to Daniel Roberts at [daniel.roberts@gpbullhound.com](mailto:daniel.roberts@gpbullhound.com)



**Joel Gratz**  
CEO



**MISSION**

OpenSnow makes it easy to instantly find accurate weather forecasts.



**LONG-TERM VISION**

Provide comprehensive forecasts for adventurers.



**SCALE**

Create the complete platform for weather forecasts and snow reports.

**HOW DID YOU START THE BUSINESS AND WHAT INSPIRED YOU?**

The business started because we were weather forecasters who were obsessed with understanding the weather patterns that delivered the best snow to regions of the western United States. We started as multiple local weather blogs, and our vision was to grow the audience so that we could have the revenue to allow us to build out a full weather app and website with forecast data, weather maps, and local commentary.

**WHAT ARE THE GROWTH AREAS FOR THE BUSINESS IN THE COMING YEAR?**

Before we think about growth, we think about retention. The renewal rate (of our annual subscription) is high, and we want to keep it that way by adding features and making incremental improvements to the existing product. From a growth perspective, we have a lot of people that are using the limited version of OpenSnow for free, and we think that adjustments to the packaging of our features and more clearly communicating our differentiation will entice some free users to pay for our All-Access subscription. Finally, a minority yet still significant share of our revenue comes from direct advertising sales, so we also ensure that our advertising partners are seeing the results in exposure and conversions that they are looking for.

**WHAT WERE THE MOST CHALLENGING DECISIONS YOU HAVE MADE AND HOW DID YOU OVERCOME THEM?**

In December 2021, we went “full in” with our subscription product. For about eight years prior to this, the free version of our product provided a lot of value, so many of our big fans did not upgrade to our subscription because they could get most of what they wanted to free. Then we made the switch to limit the free product and put most of the value behind the paywall. Having this conviction that our product was worth paying for has changed our business. While we received some hate-mail after this change, the overwhelming result was that a lot of people upgraded, these people continue to be excited at the improvements that we make every year, the usage of our product has increased as our paying users use our product more frequently, and we now have the revenue to reinvest in the business.

**WHAT ARE THE FEATURES THAT POWER USERS’ LOVE OF OPENSNOW?**

The weather nerds (a technical term) love the "Daily Snow" which is a couple of paragraphs written by a local forecaster throughout the season. This local commentary puts the weather into human terms and helps people understand the incoming storms, which days could offer the best snow quality, the uncertainty of the forecast, and we also offer our reasoning about why some forecasts do not work out as we expect. Another popular feature is the ability to quickly scroll through snow forecast graphs for all your favorite ski areas to see which locations have the best chance for powder.

**WHY WOULD SOMEONE USE OPENSNOW VS. FREE WEATHER APPS?**

Most free weather apps focus on forecasts for cities and towns while we focus on forecasts for adventures that often take people away from cities and towns. The ability to get a forecast for any location on earth, which considers that location's elevation, is super useful for skiers/riders and backcountry users like hikers, climbers, and bikers. Also, the views of our weather data are built to allow people to make decisions about where and when to find the best conditions while most other apps are focused on providing a quick view of the temperature and a general forecast. In addition, an increasing number of users find that OpenSnow can serve as the default weather app for forecasts in their house.



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**Matthew Fox**  
CEO



**MISSION**

To unveil how the options market is driving US stock and futures prices.



**LONG-TERM VISION**

Provide a comprehensive portfolio of tools for individual and institutional traders.



**SCALE**

Expand the platform from purely B2C traders to B2B traders across the world.

**HOW DID YOU START THE BUSINESS AND WHAT INSPIRED YOU?**

In early 2020, stock option volumes were often driving stock prices, but traditional investors did not have a way to see or understand the impact. Our founder, Brent Kochuba, viewed this as a clear opportunity to start a twice-daily newsletter laying out key areas where traders were expected to enter the stock market. Since then, the business has expanded to include proprietary software across all US stocks and indices paired with real-time trading tools.

**HOW DO YOU THINK ABOUT PRICING YOUR PRODUCT ACROSS THE THREE TIERS FOR SPOTGAMMA AND SPOTGAMMA ACADEMY?**

SpotGamma has a clear value proposition in that our community gets daily expert analysis, proprietary levels, and comprehensive trade analysing tools. We believe that for between \$4 and \$12 a trading day, our products and services can drive material trading opportunities that fully-justify the ROI of a SpotGamma subscription. Additionally, we track our competitive space to arrive at final prices that also keep us within bandwidth of other offerings.

**WHAT ARE THE GROWTH AREAS FOR THE BUSINESS IN THE COMING YEAR?**

In the B2C arena, we expect to grow our current subscriber numbers, launch new volatility products, and expand our educational programming. In the B2B arena, we are anticipating product launches with both Bloomberg and directly to institutions via a live data feed.

**HOW DO YOU LEVERAGE THE FOUNDER'S NOTE AND OTHER FREE CONTENT ON THE WEBSITE TO DRIVE NEW SUBSCRIBERS?**

We have an exit intent pop-up on our site where you can receive the daily Founder's note by entering your email. In terms of monthly or annual subscriptions, we deliver content via our blog site, YouTube videos, and Twitter posts which all have a pull-through to a one-week free trial before being charged.

**WHAT HELPS SPOTGAMMA STAND OUT FROM OTHER TRADING EDUCATION PLATFORMS?**

We bring forward the pedigree of a world-class financial insights company, being frequently published in the Wall Street Journal and Reuters and deliver our insights in a digestible way for our subscribers. Our proprietary algorithms, twice-daily expert analysis, and unique tracking tools have provided an edge without exposing our core inputs to the markets.

**WHAT WERE THE MOST CHALLENGING DECISIONS YOU HAVE MADE AND HOW DID YOU OVERCOME THEM?**

The transition from being a pure content company to providing unique software tools required more technical experience. We started with multiple part-time programmers to facilitate organic growth, and as we have grown our business, we now have better processes and outcomes with fully-engaged senior software engineers.



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**Vince Mayfield**  
CEO



**MISSION**

TalkingParents helps make co-parents' lives easier.



**LONG-TERM VISION**

To provide the necessary structure and tools to facilitate a successful co-parenting relationship for all parents.



**SCALE**

Expand the platform to more device mediums and invest in the content base.



**HOW DID YOU START THE TALKINGPARENTS BUSINESS, AND WHAT INSPIRED IT?**

The birth of TalkingParents is like those you've heard from many technology startups - an idea born as a solution to a problem brought to life in a homegrown environment. As an attorney running his criminal defense and family law practice, almost every case that founder, Stephen Nixon, worked on involved poor communication between co-parents and a lack of comprehensive, reliable records. Stephen partnered with myself and our COO, Louis Erickson, to fix this issue, and TalkingParents.com was born.

**WHAT ARE THE GROWTH AREAS FOR THE BUSINESS IN THE COMING YEAR?**

Our main growth areas are centered around our customers. We're looking to continue to drive consumer engagement and optimise our technology to improve the experience across multiple platforms and device mediums. We are also looking to continue expanding our content base through blogs, articles, and webinars. Additionally, the company continues to invest in the legal community.



**HOW DO YOU THINK ABOUT PRICING YOUR PRODUCT ACROSS THE THREE TIERS?**

We believe everybody should have access to TalkingParents regardless of economic circumstances. The free tier provides essential co-parenting tools and court needs and provides immediate, compelling value for the platform. At the same time, our subscription model provides an enhanced and premium experience with an additional feature set. Multiple subscription options enable customers to get value at a price point that works for them.

**WHAT UNIQUE STRATEGIES DO YOU UTILISE TO ACQUIRE AND RETAIN CUSTOMERS?**

What sets TalkingParents apart is that our focus is on creating an ecosystem around supporting our customers – the parents going through a divorce. TalkingParents is more than just an application. We provide a community for our customers centered around how to be better parents and aid them in managing their co-parenting relationship. That is how we've achieved our success so far.

**WHAT HELPS TALKINGPARENTS STAND OUT FROM THE COMPETITION?**

We designed TalkingParents from the beginning as a court record that creates and reinforces accountability. We are hyper-focused on the customer. We are not trying to compete with or be any other company. We are being ourselves. We have an experienced leadership team with strong legal and software know-how, but more importantly, have faced the trials and tribulations of parenting.

**WHAT IS ONE FEATURE THAT HELPS TALKINGPARENTS BECOME A KILLER APP IN THE CO-PARENTING CATEGORY?**

First and foremost, being a killer application is not about features. TalkingParents allows our customers, parents, to focus on their children. We want to keep them out of court. And if they go back, TalkingParents and our records have their back. If we had to pick just one thing, our secret sauce, it is that we build accountability into every feature we create. We listen and respond to the needs of our customers. For example, one of our premium features: Accountable Calling, complete with voice and video calls, has transcripts and recordings built into our records. We surveyed and asked our customers what they wanted. Accountable Calling resulted from a direct feature request from our customers.

# SPECTRUM EQUITY



**Ben Spero**  
MANAGING DIRECTOR



## FIRM FOCUS

Founded in 1994, Spectrum is a leading growth equity firm investing in high-growth internet-enabled software and information businesses. The firm partners closely with entrepreneurs, providing them with capital and strategic support.



## INVESTMENTS



### WHAT WAS THE FIRST CSS BUSINESS YOU INVESTED IN AND WHAT ATTRACTED YOU TO THAT OPPORTUNITY?

The first consumer business I invested in at Spectrum was Ancestry.com in 2003. The company had created a whole new product category online, thanks to its massive library of digitised content, its community-driven user generated content, and its technology. Genealogy was a niche hobby then, but there was widespread interest in learning more about one’s family history. We believed Ancestry could tap into latent consumer interest and become more mainstream as product usability improved and the content library continued to grow. Thankfully, that played out well – it’s become one of the biggest online subscription businesses in the world, with well over \$1bn in revenue. Spectrum was a shareholder for 16 years. It was a great run!

### WHAT ARE SOME AREAS THAT FOUNDERS SHOULD FOCUS ON AS THEY SEEK TO ATTRACT INVESTOR INTEREST?

I would advise entrepreneurs to focus on sound business fundamentals rather than catering to perceived investor desires. When we look at companies at Spectrum, we’re looking at their core unit economics – things like LTV/CAC and cohort retention behaviour, as well as the size of the market opportunity and their competitive positioning. We tend to gravitate to companies which have been very capital efficient as they’ve scaled and have built durable competitive advantages.

### YOU’VE BEEN AT SPECTRUM SINCE 2001. ANY REFLECTIONS ON HOW THE INDUSTRY HAS EVOLVED DURING THAT TIME?

Spectrum’s roots go back to offline media and content businesses in the mid-1990s, before the internet really existed. The most successful consumer subscription businesses today – whether Netflix, Spotify, Ancestry, Match.com – share many parallels with those traditional media business models, they’re just delivering their products online. Mobile was another huge growth catalyst for the industry as people had 24/7 access to content and a different hardware form factor to leverage. Time will tell if AI, wearables, VR or some other big macro trend will be an additional catalyst like we saw with mobile, but I think the industry has a ton of growth still ahead.

### HOW DO YOU THINK ABOUT VALUING BUSINESSES FOLLOWING THE CORRECTION IN THE MARKETS OVER THE LAST COUPLE OF YEARS?

There isn’t a magic formula for this. In general, the projects we lean into are companies where we have very strong conviction in forward growth, and we see good alignment with management; particularly situations where we believe we can help them grow even faster based on our experience and resources. However, private valuations need to be grounded in the realities of the public markets as a frame of reference. Despite the multiples that some companies were getting in 2021, it’s unrealistic for a company to expect a big premium to current public valuations unless its financial metrics are fundamentally more attractive.

### IS CSS BUSINESSES EVOLVING TO BECOME HYBRID ENTERPRISE MODELS A BROADER TREND OR GROWTH STRATEGY?

Yes, that’s a trend we’re really excited about. We increasingly see the lines blurring between consumer and B2B businesses. Enterprise-focused companies are doing more content marketing and funnel optimisation, which had traditionally been B2C skillsets. Similarly, several of our companies such as SurveyMonkey, Headspace and Lynda.com developed sales teams and new enterprise go-to-market channels which have become meaningful drivers of growth.





**Jessie Cai**  
VICE PRESIDENT,  
TECHNOLOGY



**MISSION**

General Atlantic identifies emerging companies with strong fundamental performance and organic growth that can accelerate their expansion and scale globally. It partners with companies to help them grow with its capital, insights, global resources and network.



**INVESTMENTS**



**WHAT WAS THE FIRST CONSUMER BUSINESS THAT YOU INVESTED IN AND WHY?**

It's funny to look back on – in many ways, the company is certainly not a Consumer Subscription Software business, yet it still shares many of the same core characteristics that great CSS businesses have. The business was called Grand Design RV, a luxury RV manufacturer that I invested in while I was at my former firm, Summit Partners, in 2013. The RV category – long before Covid – was a surprisingly large industry, with \$10bn of RVs sold annually and attractive tailwinds from baby boomers and young families increasingly getting into the field. The investment ultimately came down to the experienced founders, a leading product with excellent consumer and dealer reviews, and effective distribution through unique dealer relationships. Although this was a consumer product business, these same tenants still hold true for what we at General Atlantic look for in consumer internet businesses – visionary teams building product-led companies with unique and effective distribution that are less reliant on paid marketing spend. And we've seen a number of CSS businesses that are able to drive market growth in seemingly “niche” verticals through a fundamentally better product experience combined with greater affordability.

**WHAT ARE THE AREAS THAT FOUNDERS SHOULD FOCUS ON IN THEIR BUSINESSES TO DRIVE INTEREST FROM INVESTORS?**

We get a lot of questions from founders around the financial KPIs that we are focused on, or what our minimum user growth and download thresholds are. Solely focusing on user growth can be inefficient. I'd instead encourage founders to focus on building an irreplicable product and community. I believe, if you get those right, the financial profile and scale will inevitably follow. It will always be challenging to stay on top of consumer trends and even more difficult to predict how preferences may shift. One of our portfolio companies, Chess.com, has really nailed building a market-leading app, today with a community of more than 150 millions chess users. The team at Chess.com was hyper-focused on building a platform that leveled up an experience already engrained in human culture. By prioritising product for chess enthusiasts, they were able to gain incredible organic growth and top-of-funnel traction and, in addition to that, demonstrate uniquely strong retention. It's easy to pay for users, but it's really hard to keep them engaged and retained without a strong product and community. We're excited to share more of Chess.com's growth story in an upcoming episode of General Atlantic's podcast featuring their CEO, Erik Allebest.

**WHAT ARE YOUR THOUGHTS ON THE EVOLUTION OF THE CSS ECOSYSTEM?**

We published a piece last year called “Leading the Wave of Consumption in Consumer Tech” in which I discuss the proliferation of the subscription model in consumer tech and some of the interesting trends we've seen as the category evolves. Overall, it's been amazing to watch the CSS ecosystem expand from traditional media and entertainment to new verticals that have really captured consumers' time and interest. For example, the shift from Blockbuster to SVOD models from the likes of Netflix and Disney+ was something that permanently changed the media industry. Similarly, we've seen the CSS offering unlock affordability, experience, and massive growth across individual markets like fitness, wellness, education and content creation. While there is currently some pressure on consumer spending, we remain excited about the CSS ecosystem, especially for those companies delivering incremental value to consumers. In fact, research from our Growth Acceleration team indicates that the average consumer is expected to increase annual spending on subscriptions by 33% over the next three years<sup>1</sup>. I'm eager to see what AI and more comprehensive and readily available data can do for the CSS ecosystem. I believe there is so much value to be uncovered through delivering targeted experiences and even personalised pricing and packaging for the individual consumer.

Continued >>





<<< Continued

**WHAT SKILLS WILL CSS BUSINESSES NEED TO DEVELOP TO EXTEND THEIR OFFERINGS FROM PURELY B2C TO B2B2C?**

This was an exciting vein for companies over the past few years, particularly during Covid, when corporations were focused on improving the employee experience across all dimensions. When I think about some of the GA companies that have seen success in B2B2C or B2C2B, Slack and Gympass (which sells both B2B and B2C with strong retention rates) come to mind. Ultimately, both companies’ success stories from a go-to-market perspective come down to product. While you still need end-user adoption and true engagement – corporate signups are great, in theory, given quick user growth in bulk and potential for higher retention – these sign-ups may be short-lived if customers don’t come back to use the product habitually. Slack benefits from daily user engagement across a team (which drives network effects) and from being a system of record of your daily communications and your day-to-day workflow. Gympass similarly relies on employee feedback (which translates into engagement). Their strong revenue retention rates, which are more similar to enterprise SaaS and even on the B2C side, drive strong expansion through members electing to sign up for higher plans. While CSS businesses will inevitably need to adapt their customer service engine to their go-to-market motion to sell top-down, we believe some of the best B2B2C companies get bottom-up demand from a passionate freemium user group.



**Jessie Cai**  
VICE PRESIDENT,  
TECHNOLOGY



**MISSION**

General Atlantic identifies emerging companies with strong fundamental performance and organic growth that can accelerate their expansion and scale globally. It partners with companies to help them grow with its capital, insights, global resources and network.



**INVESTMENTS**



**HOW DO YOU THINK ABOUT VALUING CSS BUSINESSES GIVEN THE CHANGES IN THE INDUSTRY?**

I’ve been drawn to CSS businesses as I think they can exhibit some of the best financial characteristics seen in consumer internet, that even rival those of software companies in many cases. However, unlike software, shifts in the competitive landscape and major changes in search and social algorithms can impact these businesses’ financial profiles dramatically on key metrics like retention or paid marketing. I would continue to reiterate that building a premium product and community is a company’s best defense and something we prioritise when we are evaluating businesses. From there, you’ll likely start to see organic growth, strong retention characteristics, and eventually a unique moat that may stand out to consumers and, of course, investors – even in a seemingly competitive or saturated ecosystem.

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# ALLEN & OVERY



**Helen Christakos**  
PARTNER,  
HEAD OF US PRIVACY  
/DATA SECURITY



## MISSION

Allen & Overy is a global law firm that helps the world's leading businesses to grow, innovate and thrive.

For almost a century, it has built a reputation for commitment to thinking ahead and bringing original solutions to clients' most complex legal and commercial challenges.



## REPRESENTATIVE CLIENTS

bill.com

Meta

PELOTON

stripe

## WHAT ARE THE NEXT PRIVACY LAW CHANGES THAT ENTREPRENEURS NEED TO BE CONCERNED ABOUT?

Artificial Intelligence (AI) is something that is on everyone's minds. Globally, there are a lot of newly enacted privacy laws (and pending privacy laws) that are designed to regulate the development and use of AI. The European Union's AI Act is set to become the world's first comprehensive legal framework for AI. The text of the AI Act is not yet in final form, but in general it creates harmonised rules for offering AI services in the market. The AI Act, as currently drafted, reaches beyond the EU's borders to service providers outside the EU who offer AI-related services to EU residents. The United States does not have a federal AI law; however, it does have approximately 10 enacted state laws that regulate the use of AI – particularly with respect to the fairness of its application and any biases that it may create. There are also an additional 30-40 state laws that are pending, many of which will likely be enacted in the coming year or so. The UK Government published its AI White Paper earlier this year setting out its proposal for regulating AI in the United Kingdom. The AI White Paper takes a different approach to the EU's AI Act. The UK is focusing on setting expectations for the development and use of AI while empowering regulators (such as the Information Commissioner's Office) to issue guidance and regulate the use of AI. China's Cyberspace Administration recently published new rules for generative AI which are applicable to services that are available to the general public in China. Among the key provisions is a requirement for generative AI service providers to conduct security reviews and register their algorithms with the government if their services are capable of influencing public opinion or can "mobilise" the public. The regulations are complex, and it is challenging creating a global compliance program.

## HOW SHOULD FOUNDERS PREPARE FOR CHANGES IN WHAT DATA IS CLASSIFIED AS "HEALTH DATA?"

The definition of "health data" is broadening in the US. Washington State recently passed the first-in-nation health data privacy act with a private right of action which creates protections for: (a) personal information relating to Washington residents' consumer health data and their attempts to obtain health care services; and (b) other consumer health data that is processed in Washington. My Health My Data Act (MHMDA) is specifically designed to cover health data collected by entities not subject to the federal Health Insurance Portability and Accountability Act (HIPAA). HIPAA only covers "protected health information" (PHI) collected by "covered entities," (namely health plans, health care clearing houses and health care providers who transmit health information in electronic form), and their "business associates." Non-covered entities that are not subject to HIPAA that collect or process consumer health data from Washington residents and/or collect or process personal health data of non-Washington residents in Washington (including advertisers, mobile app providers, wearable device manufacturers, website providers, health and wellness trackers and wellness industry providers), could be subject to MHMDA. Companies subject to this law must take a number of steps to comply, including (1) having a Consumer Health Data Privacy Policy that complies with the specific requirements of the statute; (2) not collect consumer health data (as defined in the statute) without the consumer's affirmative consent; (3) not share consumer health data except with consent that's separate and distinct from the consent to collect; and (4) enter into binding contracts with service providers that specify how service providers may process consumer health data. Companies in health-related fields should work with legal counsel to determine if they are subject to this law and take appropriate action to comply.

Continued >>



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# ALLEN & OVERY



**Helen Christakos**  
PARTNER,  
HEAD OF US PRIVACY  
/DATA SECURITY



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Allen & Overy is a global law firm that helps the world's leading businesses to grow, innovate and thrive.

For almost a century, it has built a reputation for commitment to thinking ahead and bringing original solutions to clients' most complex legal and commercial challenges.



## REPRESENTATIVE CLIENTS

bill.com

Meta

PELOTON

stripe

<<< Continued

## IN PREPARING FOR A TRANSACTION – WHAT SHOULD FOUNDERS DO TO ENSURE THERE ARE NO PRIVACY OR CYBERSECURITY RED FLAGS THAT MAY IMPACT THEIR DEAL TERMS?

If you haven't been working closely with privacy/cyber counsel on an ongoing basis, consider meeting with privacy/cyber counsel prior to the diligence process to evaluate your level of compliance. Legal counsel can quickly assess what global privacy/cyber laws you are required to comply with, and whether you comply with them. To the extent any non-compliance may impact deal terms, privacy/cyber counsel can help remediate the issue prior to the transaction.

Compliance these days goes well beyond having an accurate privacy policy on your site and/or app. Depending on what laws a company is subject to, it can also include having accurate and appropriate information security policies, handling security incidences in an appropriate manner, having a data map, having on-going security audits (including penetration tests and vulnerability scans), implementing employee and vendor training on privacy and security matters, having statutorily required flow-through terms in service provider and customer agreements, utilising appropriate data transfer mechanisms, having consumer opt-out mechanisms in place, offering data subjects certain rights and adhering to data subject requests (such as data deletion), performing data impact assessments, implementing enhanced measures with respect to the processing of sensitive personal information, having appropriate website cookies, banners and opt-out mechanisms, and the list goes on. Counsel can assess any deficiencies in these areas and help remediate them, so they won't impact deal terms.



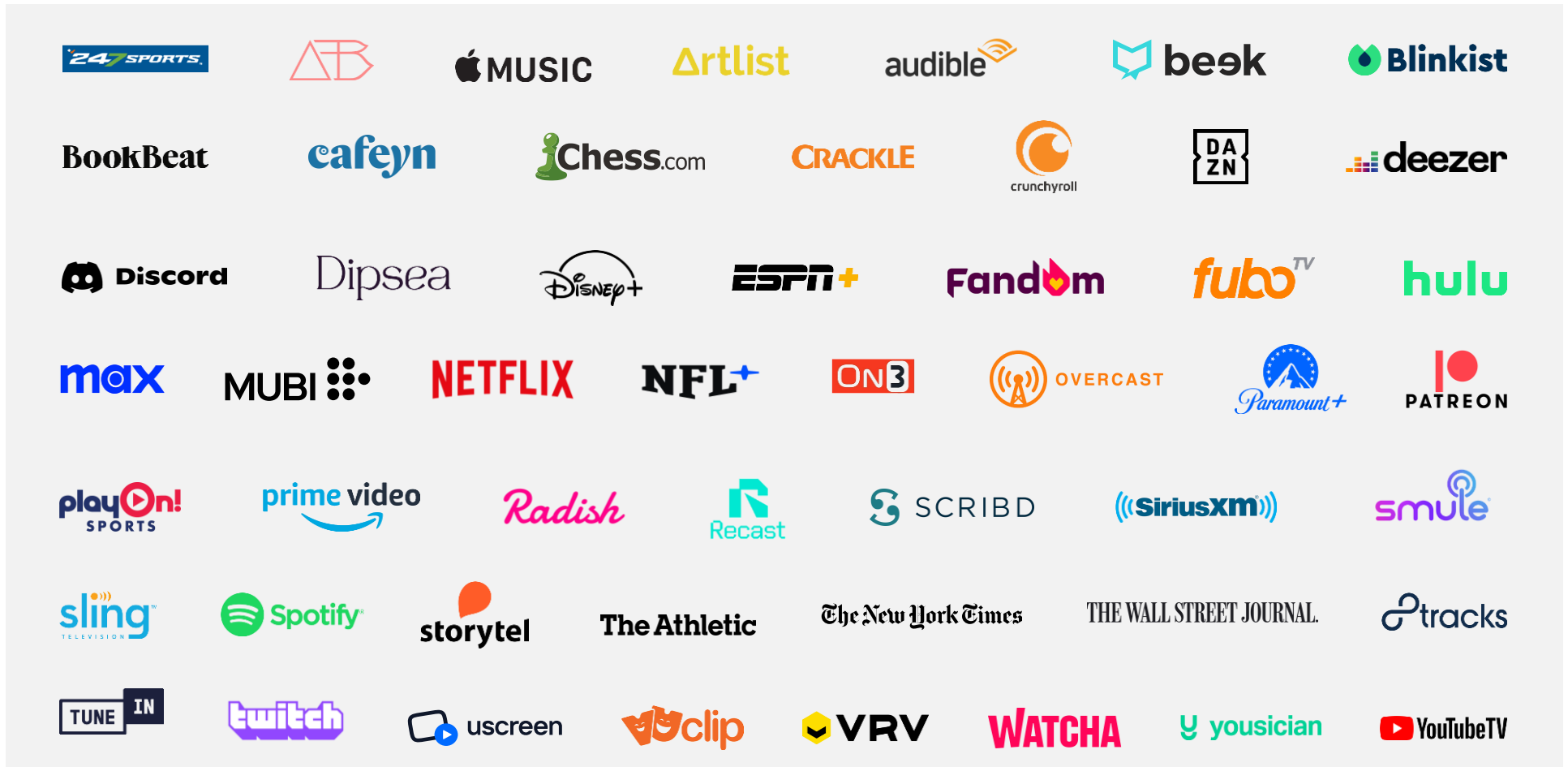
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# Current CSS ecosystem

[If we skipped your company – click here to get in touch!](#)

Entertainment was the first CSS category to garner great consumer interest. Its constituents are now searching for ways to keep up the momentum.

Entertainment



The Fitness/Recreation space continues to lead in converting users from freemium to paid but has been challenged to maintain growth post Covid.

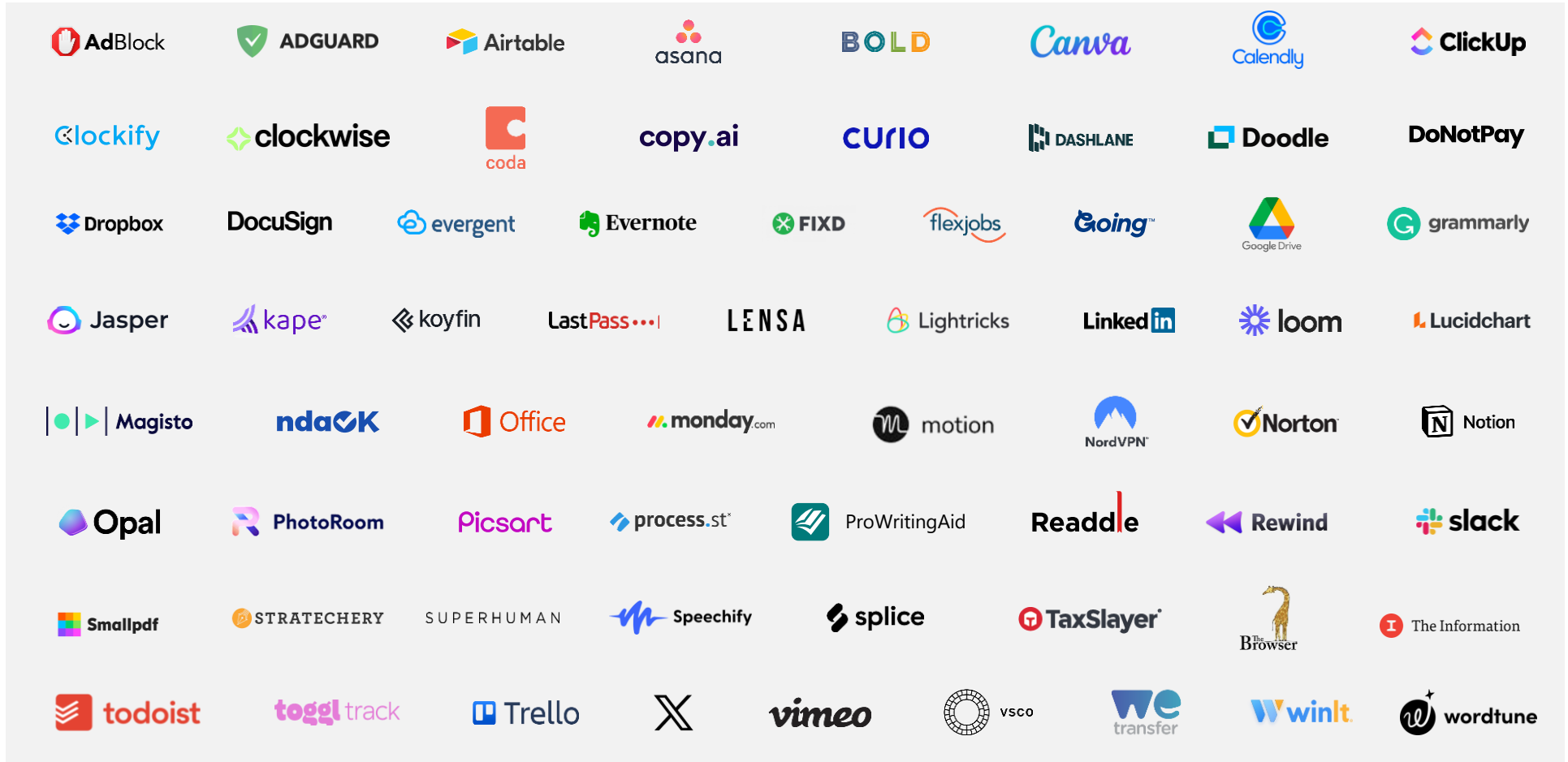
Fitness/Recreation/Outdoors



## CONSUMER SUBSCRIPTION SOFTWARE

The Prosumer category has exploded in the past years with more to come as gains in artificial intelligence have created a whole new cohort of companies focused on increasing efficiency for consumers.

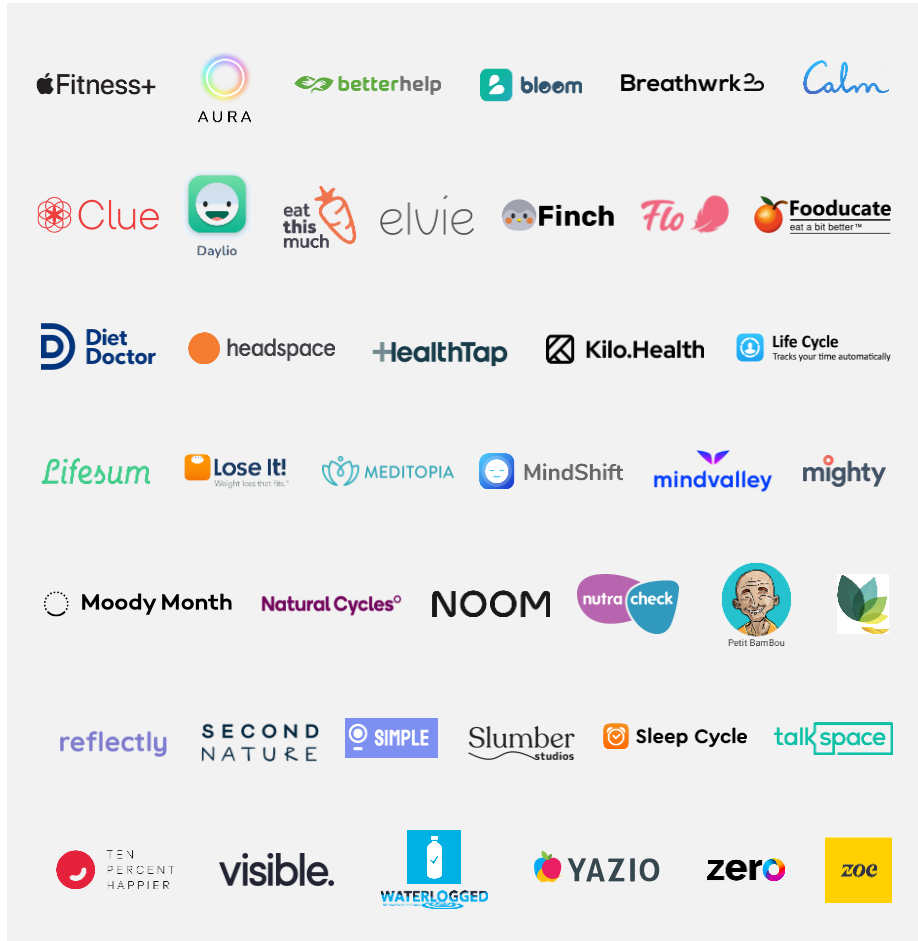
### Prosumer



## CONSUMER SUBSCRIPTION SOFTWARE

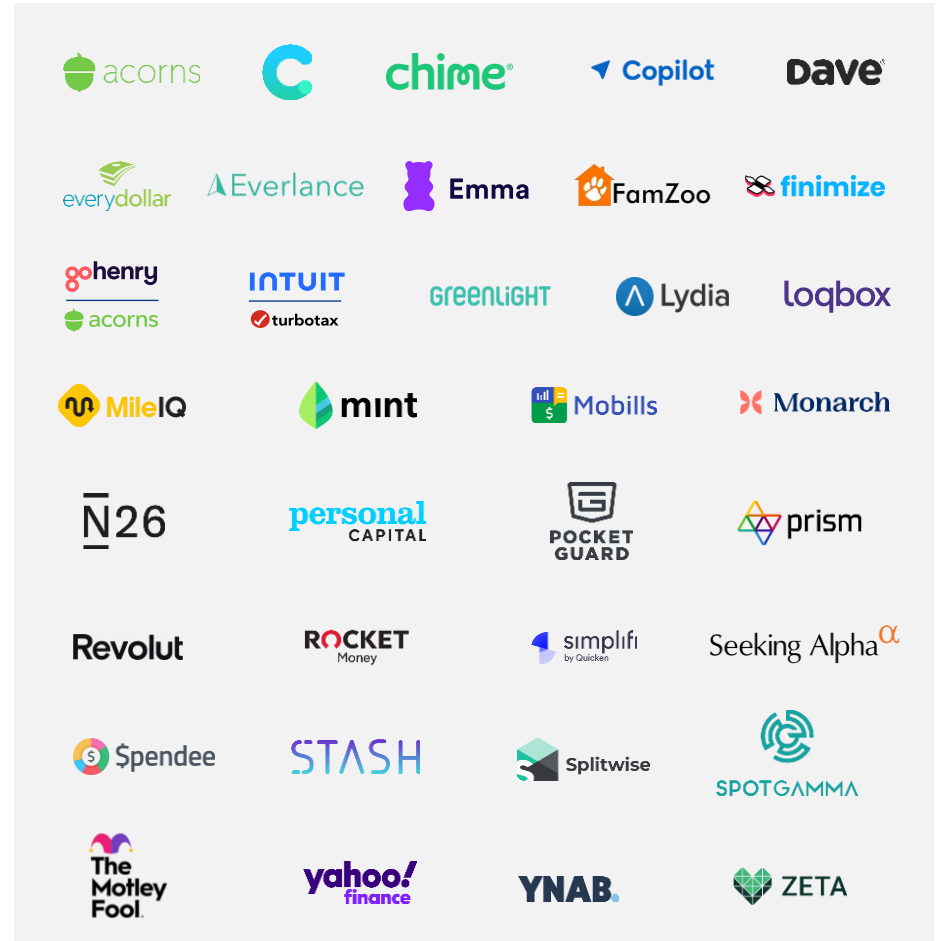
Health & Mindfulness have grown as enterprises began seeing value in offering employees access to their various services.

### Health & Mindfulness



Finance is expanding, but still focused on monetising payments or transaction flow. Huge opportunity remains.

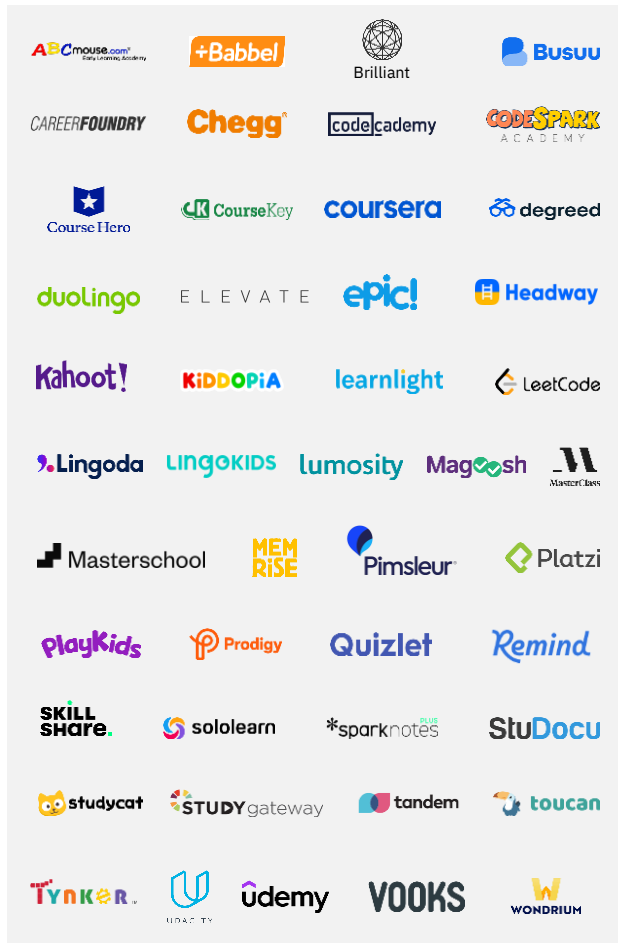
### Personal finance



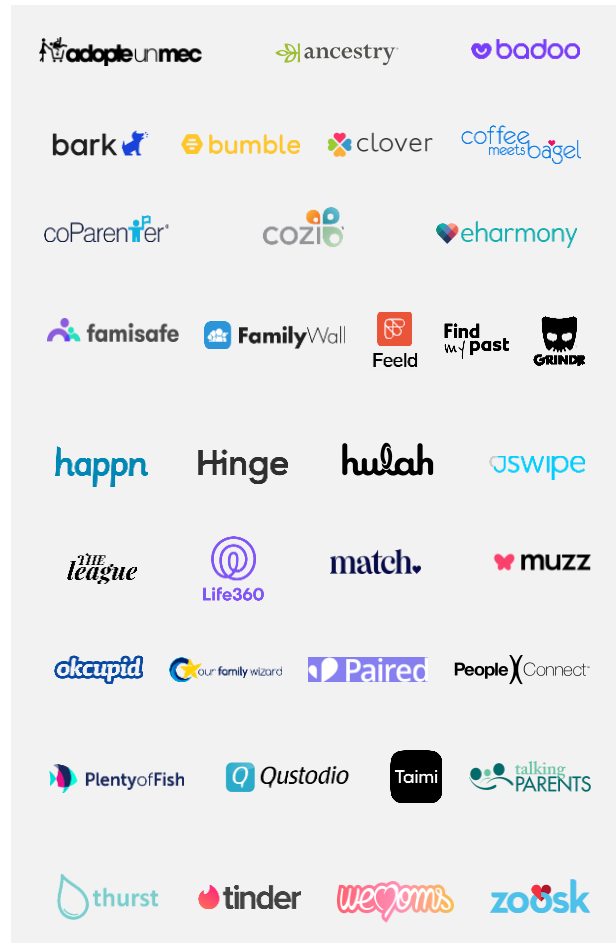
## CONSUMER SUBSCRIPTION SOFTWARE

Edtech tools have expanded from the classroom to the home as more and more individuals use new tools to learn. Dating and family apps have become the default instead of being an outlier. Religion remains a huge opportunity.

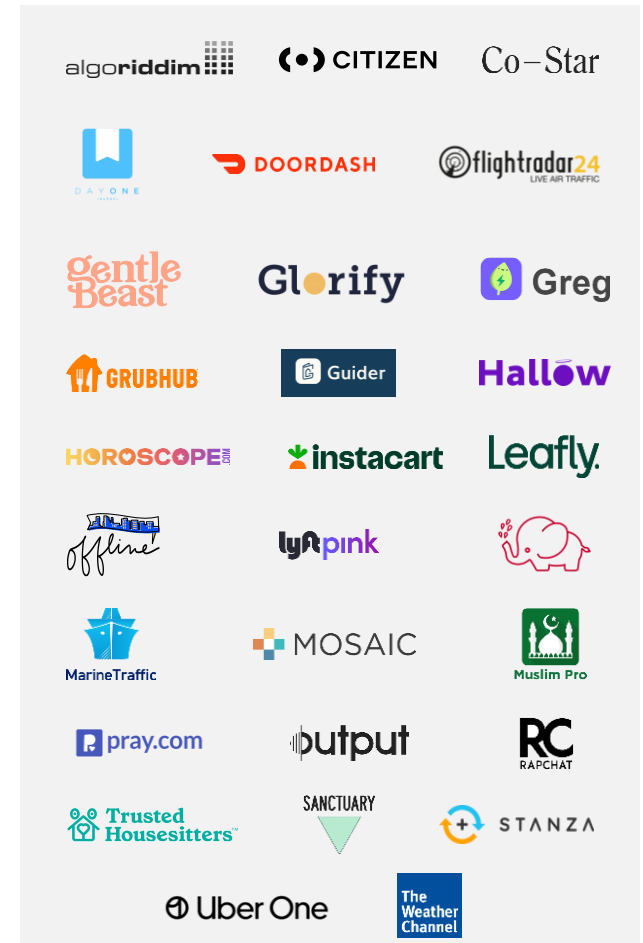
### Edtech



### Family/Dating

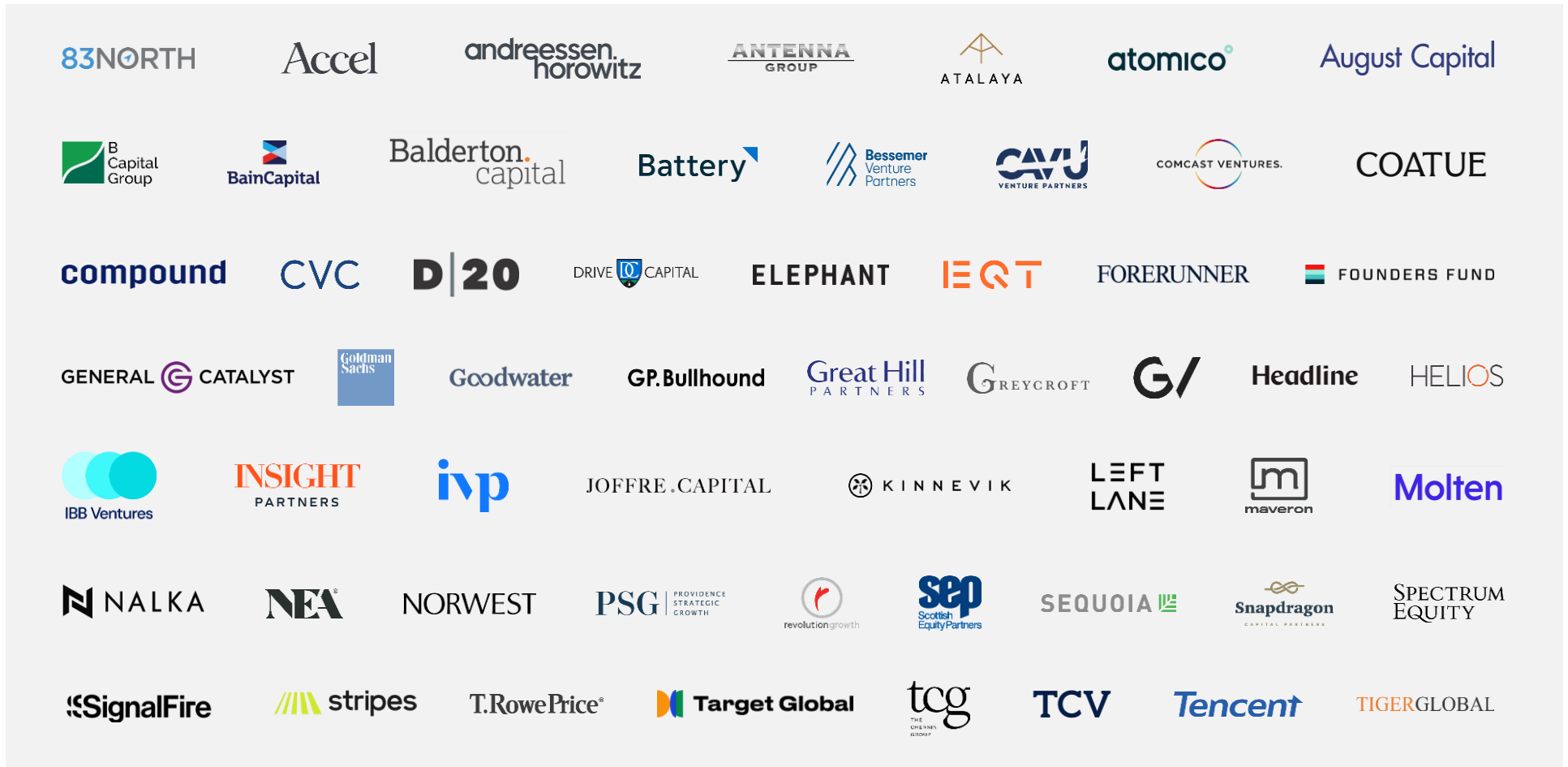


### Other



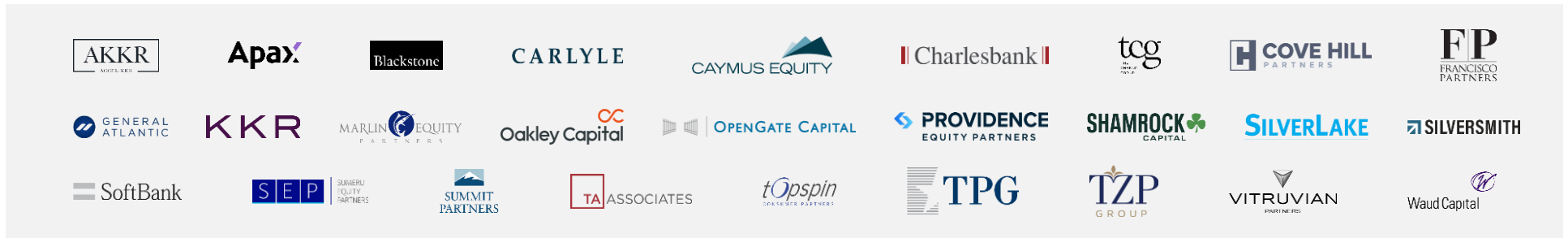
# The pool of CSS investors continues to grow

## Premier CSS growth investors



# The pool of CSS investors continues to grow (continued)

## Premier CSS buyout investors



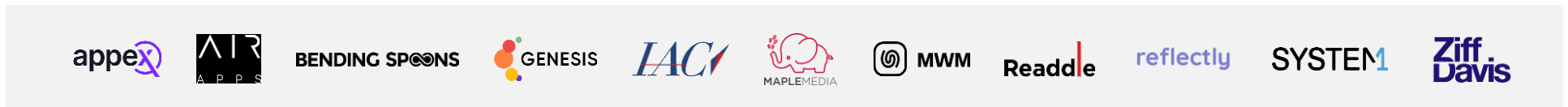
## Premier CSS early-stage investors



## Premier CSS seed investors



## Premier CSS aggregators



# CSS metrics to watch

# Enterprise SaaS vs. consumer subscription

> Investors look at many of the same investment metrics as SaaS companies, but key nuances are important to recognise, and CSS businesses will have a different definition of success.

> Higher early user churn is typically the biggest hurdle for traditional investors to overcome, but entrepreneurs can highlight low customer acquisition cost (CAC) and long-term retention to illustrate the staying potential of their CSS business.

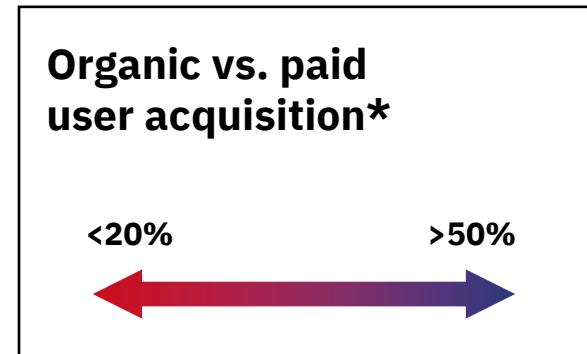
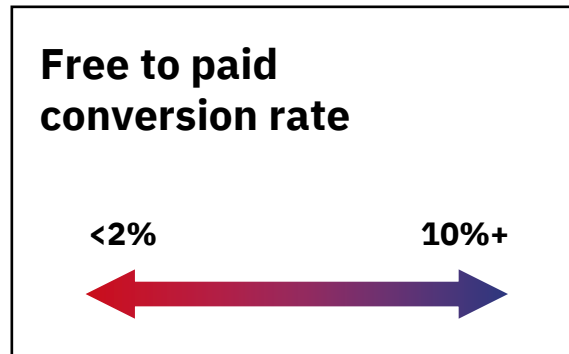
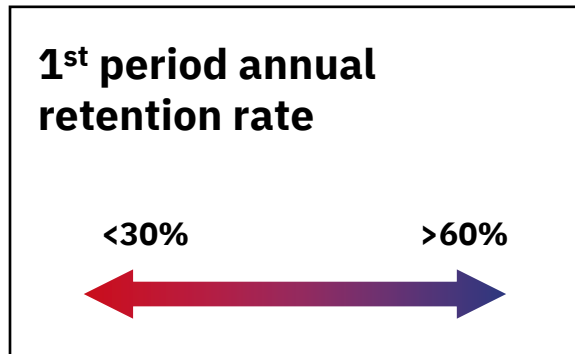
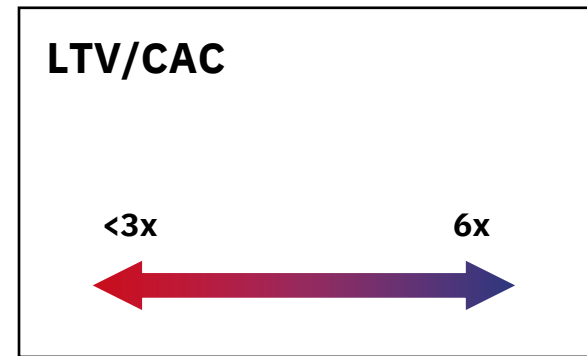
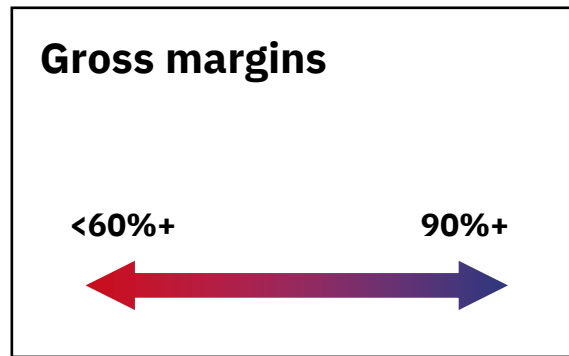
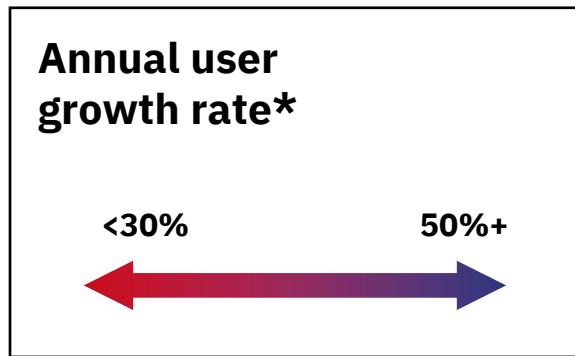


# Investor benchmarking criteria

Investor criteria and expectations have changed since Covid, but the core CSS fundamentals remain the same.

> CSS investors evaluate each business based on its own unique attributes as well as sub-industry nuances.

> There are industry standard metrics that help investors differentiate good businesses from great businesses.



# Investors dive into key CSS metrics and KPIs

<p><b>Users/subscribers</b></p>	<ul style="list-style-type: none"> <li>▪ Entrepreneurs need to closely define and communicate the different types of consumers that interact with the service             <ul style="list-style-type: none"> <li>- <b>Free users</b></li> <li>- <b>Active users</b></li> <li>- <b>Paid users/subscribers</b></li> <li>- <b>Renewing subscribers vs. new subscribers</b></li> </ul> </li> </ul>
<p><b>LTV/CAC ratio</b></p>	<ul style="list-style-type: none"> <li>▪ Customer lifetime value = number of months or years the average customer stays with the company multiplied by the ARPU times the gross profit margin (%)</li> <li>▪ CSS businesses have the unique attribute in that they typically have high churn after the first pay period or trial period ends. Companies typically see churn of first-time users anywhere between 20% and 70% of total sign-ups             <ul style="list-style-type: none"> <li>- <b>Consequently, investors are looking for retention of users after the first pay period – typically the 3<sup>rd</sup>, 6<sup>th</sup> or 12<sup>th</sup> month. High retention in those periods indicates that users are discovering value in the service and are likely to be retained long-term, building the “CSS cohort layer cake”</b></li> <li>- <b>Exceptional CSS businesses renew 60%+ of each annual cohort and 40% of Year 2</b></li> </ul> </li> <li>▪ Customer acquisition cost (CAC) payback period is typically stated in months. Represents the time taken to fully pay back sales and marketing investment to acquire a single customer</li> <li>▪ <b>CAC Payback of &lt;3 months is critical to counter the high churn of initial users</b></li> <li>▪ <b>50%+ of users coming through organic channels is generally considered great</b></li> </ul>
<p><b>Free to paid conversion rates</b></p>	<ul style="list-style-type: none"> <li>▪ <b>Free users:</b> Number of users using the platform or business. Typically measured monthly or MAU</li> <li>▪ <b>Paid users:</b> Number of users paying for a subscription (typically monthly or annually)</li> <li>▪ <b>Free to paid conversion rate:</b> The ratio of users who start as free users and convert to paying users. This number varies by industry and type of business as well as how the benefits behind the paywall are structured and accessed</li> </ul>
<p><b>Gross margins</b></p>	<ul style="list-style-type: none"> <li>▪ The type of service or content being provided can vary between CSS industries. For example, exercise apps develop fitness classes at a high cost while a hiking app may be leveraging user-generated content (UGC) to enhance its offering</li> <li>▪ Typically, companies leveraging UGC have higher gross margins and a sustainable competitive advantage as their product and service is influenced and improved by the content and data users are generating</li> <li>▪ <b>Investors have proven to be willing to pay up for CSS businesses leveraging UGC to provide a unique service</b></li> </ul>
<p><b>Free cash flow/burn rate</b></p>	<ul style="list-style-type: none"> <li>▪ Growth is of paramount importance, with excess cash being used to fuel growth</li> <li>▪ Important, therefore, to understand the cash burn in the business and planning for capital efficient hyper-growth</li> </ul>

# Key CSS definitions & formulas

Metric	Definition	Calculation
<b>Top-line growth metrics – user growth and bookings MRR/ARR</b>	<ul style="list-style-type: none"> <li>Normalised measurement of recurring revenue, most frequently measured with a constant value in each month of the subscription period</li> </ul>	$\text{MRR} = \# \text{ of paying customers} * \text{ARPA/month}$
<b>Customer acquisition cost (CAC)</b>	<ul style="list-style-type: none"> <li>All S&amp;M expenses for new customers. Sometimes excludes personnel management S&amp;M costs</li> <li>Typically measured over a month or quarter</li> <li>Includes users acquired through free and paid channels</li> </ul>	$\text{CAC} = \frac{\text{S\&M}}{\# \text{ of new customers}}$
<b>Customer lifetime value (CLV)</b>	<ul style="list-style-type: none"> <li>Amount of gross profit a customer is calculated to deliver to the company over the lifetime of the customer</li> </ul>	$\text{CLV} = \frac{\text{ARPU} * \text{GM}}{\text{Churn rate}}$
<b>Payback period</b>	<ul style="list-style-type: none"> <li>The number of months a company requires to pay back its cost of customer acquisition</li> </ul>	$\text{Payback period} = \frac{\text{CAC}}{\text{ARPA} * \text{GM}}$
<b>Churn (gross and net)</b>	<ul style="list-style-type: none"> <li>Gross churn is the number of customers lost in a given period or cohort regardless of account expansion or growth</li> <li>Net churn is the number of customers gained or lost in a given period or cohort after taking into consideration new, reactivated, or expanded accounts</li> </ul>	$\text{Gross churn} = \frac{\text{customers lost over time period}}{\text{customers at beginning of time period}}$ $\text{Net churn} = \frac{\text{customers lost over time period} - \text{customers gained over time period}}{\text{customers at beginning of time period}}$

# Past insights

MORE INSIGHTS AND COMMENTARY

# Truth about LTV

Debunking the issues of customer lifetime value.

## ■ Definition of LTV (lifetime value)

LTV captures a user's gross profit that is "scheduled" to be delivered to the company over the lifetime of the user

$$\text{Formula}^1 = \frac{\text{ARPU} * \text{GM}\%}{\text{Churn Rate}}$$

### 👎 LTV issues

The LTV formula has several issues that need to be understood:

- The formula assumes that all users eventually churn at an even percentage each year or average
- It does not take into consideration factors such as upsells and re-subscriptions

LTV does not account for fundamentally different user profiles – discounts the "locals" that stay for **LIFE** and over-emphasises the high "tourists" churn

### Illustrative user profiles

#### 👤 TOURISTS \$

- Low engagement
- Do not input data
- Find the service through **an ad**
- Try many services
- Sign up through discounts

#### 👤 LOCALS \$\$\$

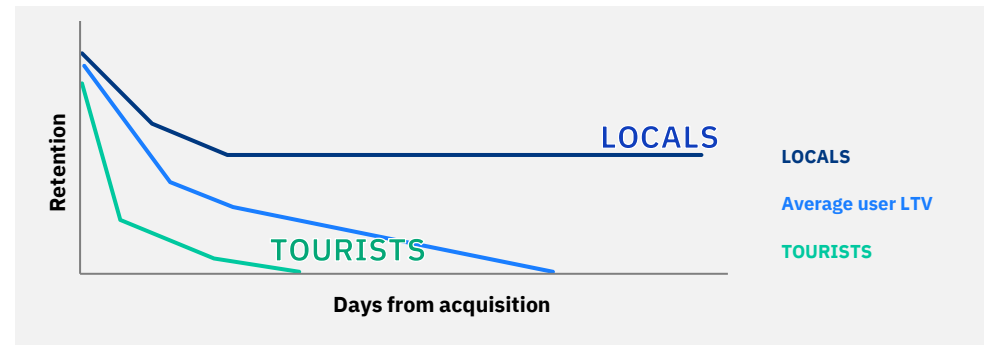
- High engagement
- Connect data sources
- Find the service through **a friend**
- Integrate the service into their life

## ■ To estimate LTV in early-stage companies. Find the locals

- LTV engagement – comments, photos, shares, posting activity, connecting data sources, and logins
- Track auto-subscribe from Apple/Google
- Web-users versus app only
- Tools to measure engagement – RevenueCat, AppsFlyer, Recurly

### 👍 Measurement solutions

- Divide users into "locals" vs "tourists" cohorts by looking at engagement metrics
- Estimate the value of "lifetime users" in the local cohort and then calculate each cohorts' LTV
- Focus on the acquisition of 'locals' and optimise marketing not just for sign-ups and return on advertising spend (ROAS), but for long-term usage
- Discuss your average LTV, as it's important for your customer acquisition cost (CAC) payback, but ensure you highlight the potential of your "locals"

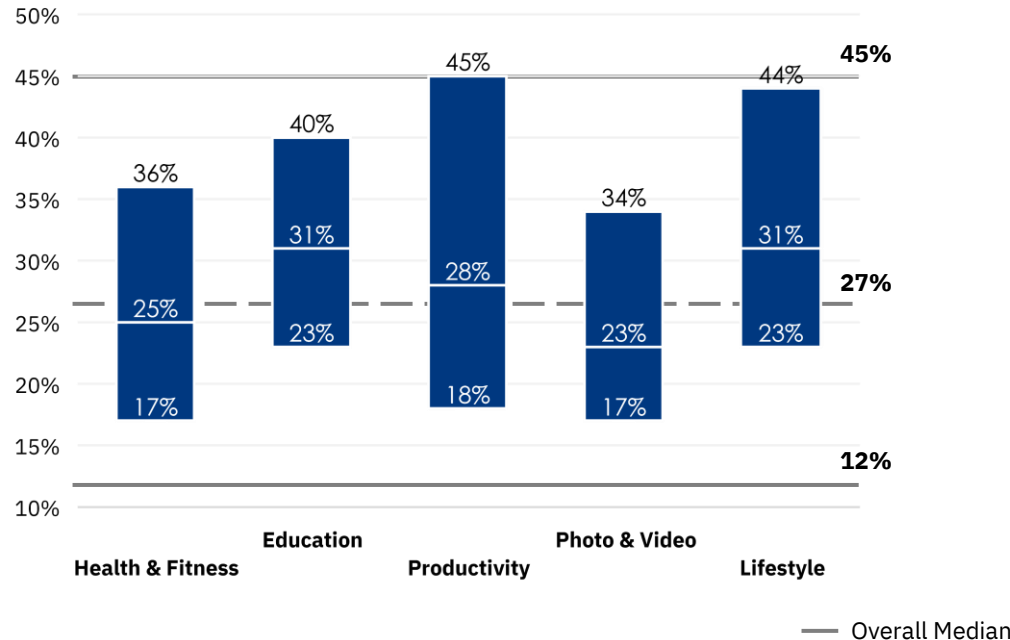


# Data never lies

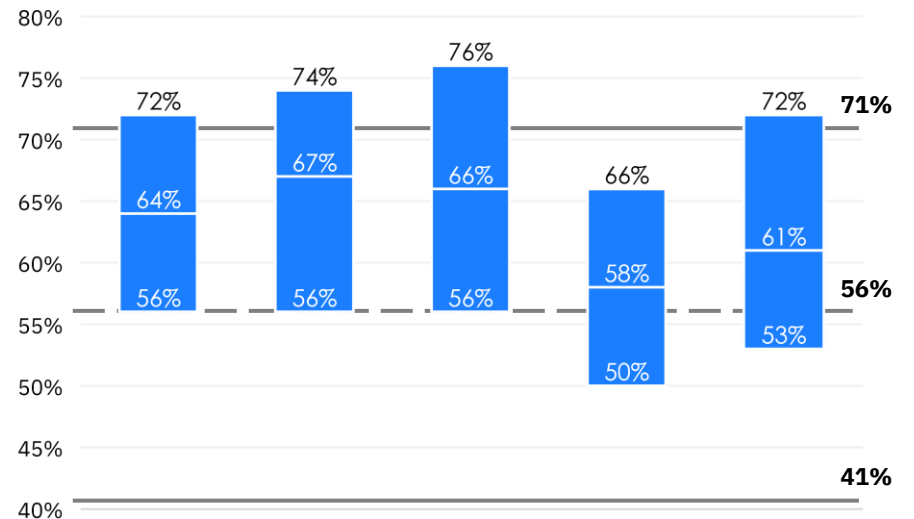
Many CSS market participants are aware that subscriber renewal rates differ by the type of subscription. Now, RevenueCat is providing the data to back that up.

- Generally, the average rate of first-year subscription renewal for CSS companies is c.30% with best-in-class at >60%
- RevenueCat’s data shows that most apps have first-year renewals between 17% and 40% with Productivity tools and Lifestyle tools outperforming Fitness and Photo & Video editing
- 45%+ represents the top quartile of apps and those generally attract the most investor interest

**Review first renewal rate of annual subscriptions**



**First renewal rate of monthly subscriptions**



# Overcoming churn to build the “cohort revenue layer cake”

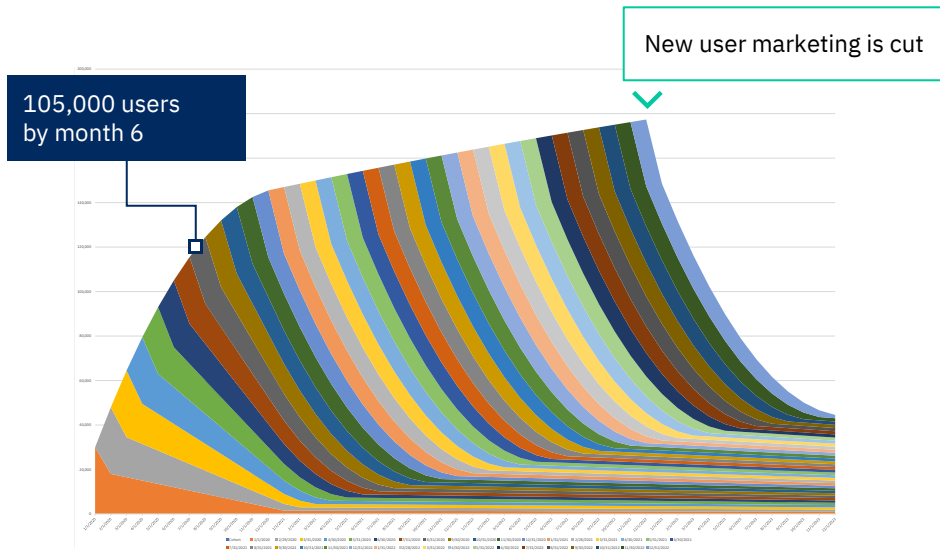
- As entrepreneurs build their companies, they can typically invest in growth marketing or product innovation to drive retention
- Focusing on engagement and mitigating churn will result in a better long-term business than high growth and flashy advertising

**What would you invest in?**



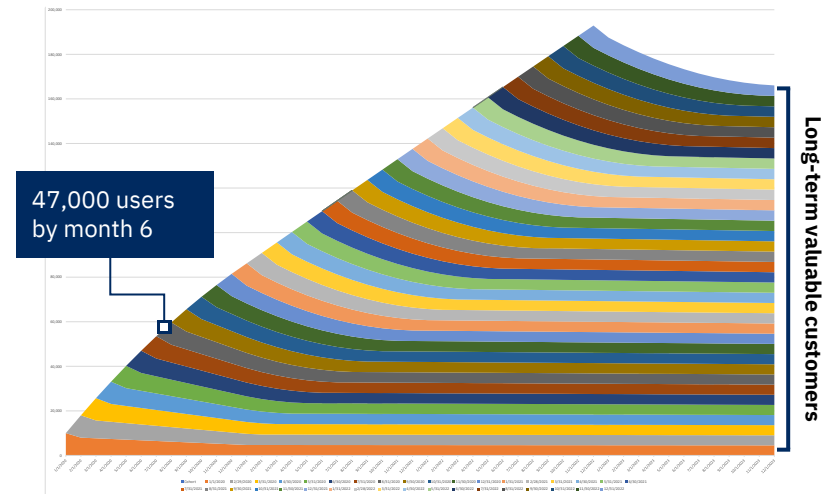
## Cheetah

- Growth: Adding 30,000 users per month with celebrity promoters and heavy Instagram presence
- Usage: Limited customisation of the service and a priority on notifications to consume content
- Cohort Churn: Retains 40% of customers by month 6 and only 10% by month 12



## Thoroughbred

- Growth: Adding 10,000 users per month leveraging targeted marketing through partnerships with limited social media marketing
- Users leverage the data to manage their personal health information and have synched data input into their fitness tracker
- Cohort churn: Retains 68% of customers by month 6 and 50%+ by month 12 (effectively having the cohort become flat)

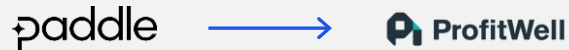


# The importance of subscription pricing

## ↗ Key insights

- Subscription pricing models have been an effective way to drive customer retention and growth
- It's important to determine the value that is being provided when creating a subscription pricing model instead of using an arbitrary price, such as the standard \$29.99 per year offering
- Focusing on weighing a tiered pricing model versus a usage pricing model is important in providing a consistent path of upselling and driving up customer lifetime value

### ■ ProfitWell Case study



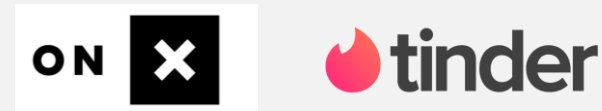
Paddle acquires ProfitWell on the back of its \$200m raise. ProfitWell offers tools to provide analytics and retention data to companies using subscription models. This acquisition provides Paddle with a larger platform to supplement its core payments business.

### ■ Representative AB testing pricing companies

AB testing pricing focuses on multiple methods to find the correct price for new offerings of products and services.



### ■ Subscription pricing considerations



- OnX and Tinder are prime examples of tiered pricing based on the value provided
- Both offer discounts for annual pricing compared to the monthly pricing, with Tinder offering a 66.6% discount and OnX offering a 44.4% discount
- The companies also differentiate their annual offerings based on the number of services provided. OnX expands area coverage with its annual offering and Tinder adds additional features, such as messaging, before receiving a “like” in its platinum offering

# Femtech and family-focused apps

## ↗ Key insights

- Femtech (female-focused apps) and family-focused apps have broken into the CSS space in a large way. A variety of apps are improving how women and future parents communicate and plan their families. Categories include fertility, baby KPIs, childcare support, and family management. We expect to see significant growth in this category over time as app adoption increases and increasingly busy parents look for solutions to everyday problems
- However, there are major privacy and health information concerns that need to be discussed, especially given recent rulings on abortion in the US and the potential impacts on individuals

### Key verticals within the Femtech space

#### Fertility

Pregnant individuals now have a wide range of tools to measure their body rhythms to increase the chance of a successful pregnancy, communicate with their doctors, and learn about their newborn's progress

#### Baby KPIs

Once a child is born, parents are rapidly turning to tools to measure food intake, health, and wellness. This information can easily be shared with partners, including doctors, nannies, and daycares

#### Childcare Support

Parents with limited family support are quick turning to consumer subscription offerings to supplement their childcare plans or find local parenting organisations

#### Family Management

Streamlining what was previously sticky notes, paper calendars, or text messages into automated apps, digital calendar reminders and trackable offerings

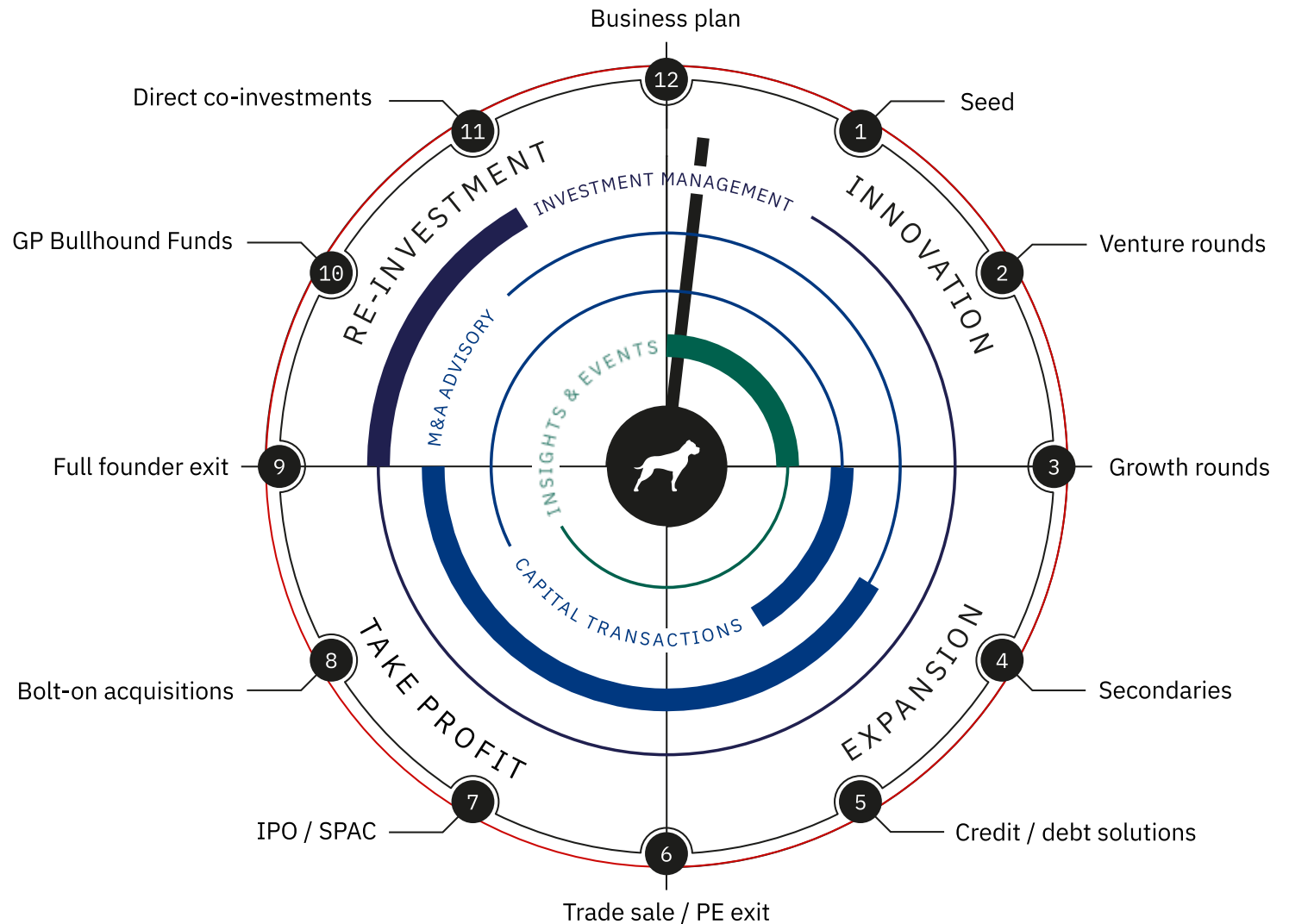
### Selected companies operating within each vertical

# GP Bullhound overview

BUILD THE FUTURE

# GP Bullhound's Entrepreneur clock

GP Bullhound partners with entrepreneurs throughout their founding journey, supporting them with advisory, capital, insights and access to our global network.



# A leading technology advisory and investment firm

Since 1999, GP Bullhound has been an investor in and advisor to brilliant leaders. Powered by more than 150 employees across 14 offices worldwide.

## Mergers & Acquisitions

- Leading global advisor to technology companies in competitive international sale and acquisition processes
- 450+ successful M&A transactions completed to date, with a total value of over \$28bn

## Investments

- GP Bullhound's funds provide investors with access to global category leading technology companies
- Our software focused investment strategies cover the private, public and debt markets
- Our assets under management total more than \$800m and our limited partners include institutions, family offices and entrepreneurs

## Capital transactions

- Leading global advisor to companies and their owners on capital transactions including venture, growth, debt, acquisition funding, secondary block trades and initial public offerings
- 140+ rounds of financing for technology companies completed to date, with a total value of \$5bn

## Insights & Events

- Our events bring together thousands of leading technology entrepreneurs and investors throughout the year
- Our global insights team publishes thought-leading research read by decision-makers and medias worldwide

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