

**ANNOUNCEMENT**

# G2 Supports Bank in Assessing and Exiting a Venture-Backed Portfolio Company

APRIL 2024

**CLIENT:**

G2 Capital Advisors (“G2”) was engaged through counsel by a large commercial bank (the “Bank” or “Lender”) that specializes in lending solutions for entrepreneurs and investors in the technology and innovation industry.

**SITUATION:**

In the first half of 2023, a growth equity-backed portfolio company (the “Company”) providing payments as a service (PaaS) defaulted on its credit agreement and anticipated a significant liquidity need to support ongoing operations. Founded in 2020, the Company showed promise in its target market—banks—primarily due to its international payment processing solution. However, in 2022 and 2023, as revenue growth slowed and cash burn remained elevated, the Bank sought guidance from G2 to assess the Company’s forecasts, management’s revitalization plan, liquidity need, and strategic alternatives.

**ENGAGEMENT:**

G2 was engaged by the Bank to conduct a one-month diagnostic assessment. This operational and financial analysis is tailored to companies troubled by unsustainable capital structures or challenging industry or operating conditions. Bespoke financial restructuring and operational revitalization are made possible by G2’s sector depth, enabling a more granular understanding of a company’s position and market opportunities.

**Assessment work included:**

- Liquidity and cash flow management evaluation,
- Business and operational strategy review,
- Long-term forecast assessment

- Evaluation of the management team, and
- Strategic alternatives, including prospects of a sale, refinancing, or other exit.

**Applying a sector-specific lens, a managing director from the Technology & Business Services Investment Banking team was engaged to deliver market intelligence by:**

Demoing the product and evaluating its intuitive user experience, ease of integration, and assimilation across a range of bank applications, from compliance to treasury to risk management.

Interviewing Company executives for insight into the demand generation process, sales cycle duration, and the customer acquisition cost (CAC) to customer value (CV) ratio.

Identifying a precise competitive set and benchmarking the Company's performance across critical criteria.

In May 2023, G2 completed the assessment, revealing a significant liquidity gap in the Company's 2023 forecast. The business analysis also uncovered an imbalanced CAC: CV ratio and an inefficient implementation process, meaning the Company was spending more on customer conversion and onboarding than it was capturing in revenue. Management's reductions in force lowered expenses but proved insufficient to staunch the shortfall.

**G2 presented the Bank with three possible paths forward:**

1. Force a sale of the Company,
2. Invest in a long-term commitment to the Company and support a turnaround, or
3. Force the Company to refinance the Lender.

With G2's guidance, the Lender focused on the third option. G2 negotiated a forbearance with the Company that required specific milestones to be met to ensure the refinancing tracked to plan while providing the Company with covenant relief.

**OUTCOME:**

As part of the forbearance, the Company secured substantial financing through the sponsor and co-investors, a sum that aligned with and reflected the accuracy of G2's assessment of the liquidity needs.

Throughout the refinancing process, G2 closely monitored the Company's cash flow to ensure sufficient runway for a successful outcome. In the end, the Company repaid the Bank in full. The Company gained additional capital through the refinancing and elevated insight from G2, enabling a more competitive PaaS position.

**LOOKING AHEAD:**

In the last decade, we have observed investors attracted to SaaS models' transparency, sticky revenues, and high margins, resulting in significant capital deployment at lofty valuations and leverage levels leading up to 2021. The soaring interest rate environment from 2021 to today, combined with a more challenged fundraising ecosystem, has resulted in a concentration of overleveraged, if not otherwise healthy, tech firms in need of capital support and balance sheet restructuring.

The most effective advisors serving these needs have vertical and horizontal expertise, enabling deft navigation of industry dynamics and multi-step financial restructuring processes. In the SaaS space, this means fully understanding the business models, technical products, and unique financial metrics gauging performance.

At G2, our integrated model embeds expertise at every angle, from decoding rapidly evolving tech sub-sectors to servicing restructuring and financing needs. Learn more about how we deliver solutions for the 70+ clients we are actively serving across our focus industries.

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