

VMS Ventures – Q&A for M&A teams

December 6, 2021

What is the new VMS Ventures fund?

VSM Ventures is a new, independent \$200 million initiative run by CSI. The fund will invest in early-stage vertical market software initiatives that are sponsored by an existing BU. These initiatives will be set-up as separate companies and the founders, the fund and the sponsoring BU will all receive an equity stake. The size of the investments will vary, but we envisage an initial investment of \$500K-\$1 million, with the potential for follow-up funding if the company reaches its milestones. The fund is aiming to invest in 20-40 companies over the next 3-4 years.

What is the purpose of this new fund?

Over the years, CSI has become a market leader acquiring vertical market software companies. However, while we are world-class in profitably deploying capital via M&A, our organic growth performance has deteriorated. The primary mission of the VMS fund is to learn how to profitably generate organic growth through large initiatives. We hope that we will learn how to produce attractive returns from these investments, and then pass on these learnings to the operating groups. Eventually, we hope this will help CSI reach high single digit organic growth rates.

What are the criteria that the fund will look for in selecting investments?

We are experimenting, so the criteria will likely evolve over time. However, the key basics are:

- A vertical market software company in an area where CSI already operates
- A clear path to \$10 MM in revenue within 5 to 10 years
- A strong founding team with the potential to build this business
- A sponsoring CSI business unit

What investment terms will the fund offer a start-up?

Every investment will be looked at independently. However, in all cases:

- The fund will be the lead investor. While it may not take a majority stake, the fund will always set the key terms.
- The fund will require significant control of the board of the new company.
- The fund will never sell its stake. Hence, to monetize their shares, the founders must either sell to a CSI operating group, receive dividends from profits their company generates or in some extremely successful cases, exit through an IPO and sell their shares to the public markets. We will not permit an exit to a 3rd party.

Will the fund invest in internal or external initiatives?

The short answer is both. We expect most investments will be internal initiatives, drawn from existing CSI business units with the core of the founding team comprised of CSI employees. We are open to investing in external start-ups as well. However, they must agree to our control and exit conditions, which will eliminate many classic start-ups from consideration

What should I do if I find a lead that I think fits the requirements of the fund?

We are always grateful for high quality leads. If you have a lead that you think could meet the requirements of the fund, please email (karl.schabas@vmsfund.com). We will set-up a call with the founder and invite you to participate. Keep in mind that all fund investments will require a sponsoring CSI business unit, so leads from a vertical that you know well and where you know the relevant BUs within CSI are preferred. The potential investee will ultimately need to agree to our control and exit conditions. Companies that have not previously raised outside capital and have only the founders on the cap table are far more likely to agree to these terms.

Any further questions, feel free to reach out to karl.schabas@vmsfund.com.