

Investor Presentation

Q3 2020



NASDAQ: SHSP

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The information provided in this presentation may contain illustrative financial projections, or forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these statements by use of the words "may," "will," "should," "plans," "explores," "expects," "anticipates," "continues," "estimates," "projects," "intends," and similar expressions. Illustrative projections and forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. These risks and uncertainties include, but are not limited to, general economic and business conditions, effects of the ongoing COVID-19 pandemic, continued geopolitical unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in completing new customer offerings, changes in customer order patterns, changes in customer offering mix, continued success in technological advances and delivering technological innovations, delays due to issues with outsourced service providers, those events and factors described by us in Item 1. A "Risk Factors" in our most recent Form 10-K and subsequent filings with the Securities and Exchange Commission, and various other factors beyond the control of SharpSpring, Inc. (the "Company").

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Adjusted EBITDA is a non-GAAP financial measure. See the Appendix for the definition and reconciliation of Adjusted EBITDA.



Overview

Investment Highlights



Best-in-class SaaS metrics with significant estimated customer lifetime value



Approaching EBITDA and cash break-even while growing rapidly



Winning customers from incumbents
HubSpot, Act-On & Pardot



Technology capabilities and agency presence are strategically important in a sector with significant M&A activity



SharpSpring at a Glance

Corporate Overview

○ Ticker	NASDAQ: SHSP
○ Market Cap (as of 9/30/20)	\$129.24M
○ Shares Outstanding	11.6M
○ 2015–2019 CAGR	50%
○ Q3-20 YTD Total Revenue	\$21.6M
○ Q3-20 YTD Gross Margin %	72%
○ Q3-20 YTD Adj. EBITDA	(\$2.4M)
○ Cash (9/30/20)	\$15.0M

Revenue Growth*

\$ in millions



Marketing Automation

- Sophisticated, affordable marketing automation
- Improves effectiveness of marketing programs to win new business
- Designed for digital marketing agencies and small and mid-sized businesses
- Winning business against larger competitors such as HubSpot, Act-On and Salesforce/Pardot
- Unified brand, focus and resources around key growth driver

Customer Mix

Diverse group of customers with a focus on digital marketing agencies





Global SaaS sales
and marketing
automation solution



Caters to the needs of
digital marketing agencies
and SMB customers



10,000+ businesses
utilize SharpSpring to
improve communications
and accelerate sales

SMB and mid-market businesses represent 1.2M market



We Reach the 1.2M SMBs via *Digital Marketing Agencies*

- Typically 5-50 employees
- Managing 10-100 clients simultaneously
- Responsible for generating leads and sales
- Provide creative, PPC, SEO, email and social
- Increasingly need to show their ROI/value

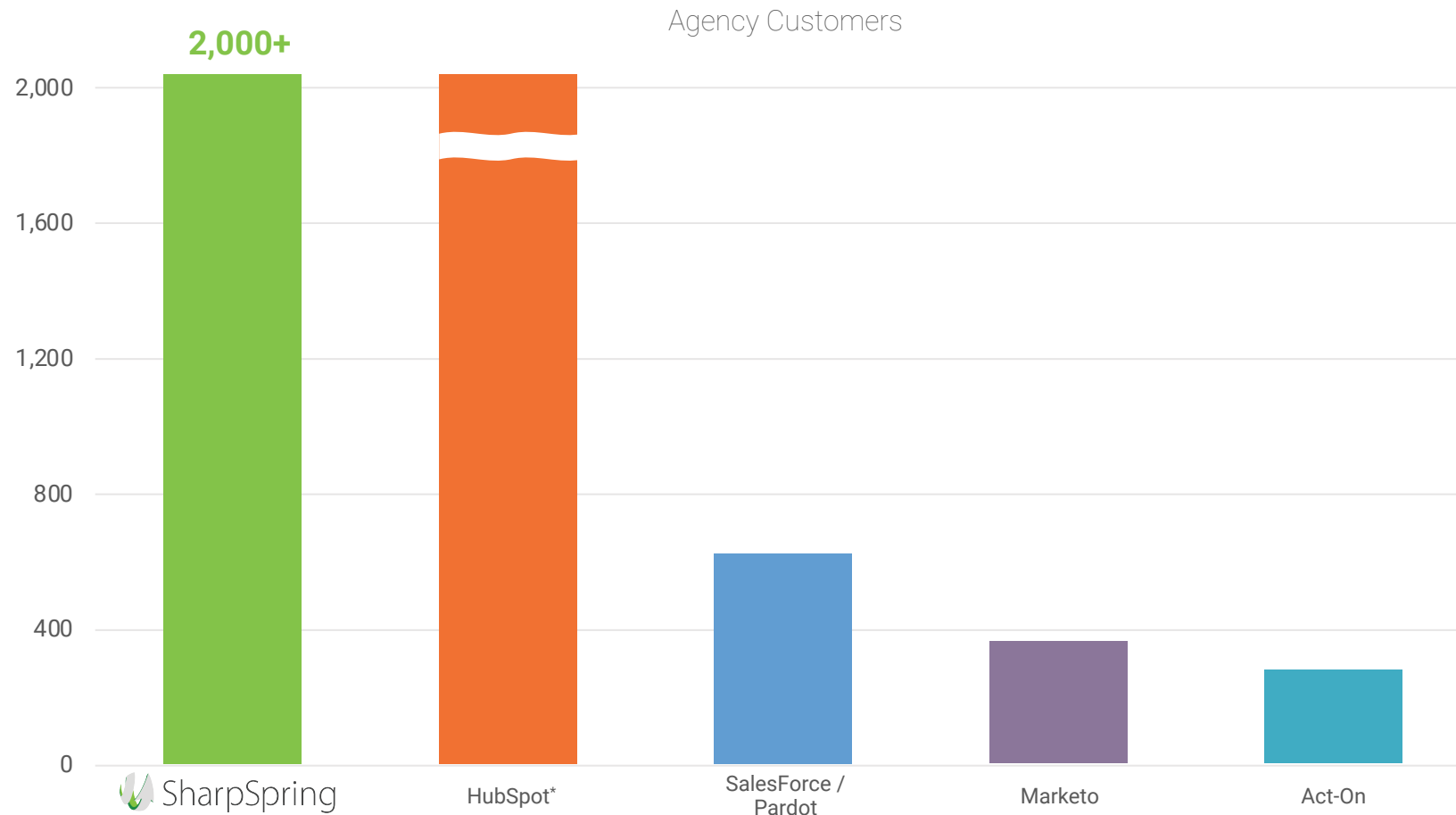


Agencies are regarded as the thought leaders in the digital industry



More than 300,000 businesses turn to digital agencies to address complex needs

Leader in the Digital Marketing Agency Vertical



Digital marketing agencies are the thought leaders in the space.
Winning here lays the groundwork for future growth.

SharpSpring is a Platform

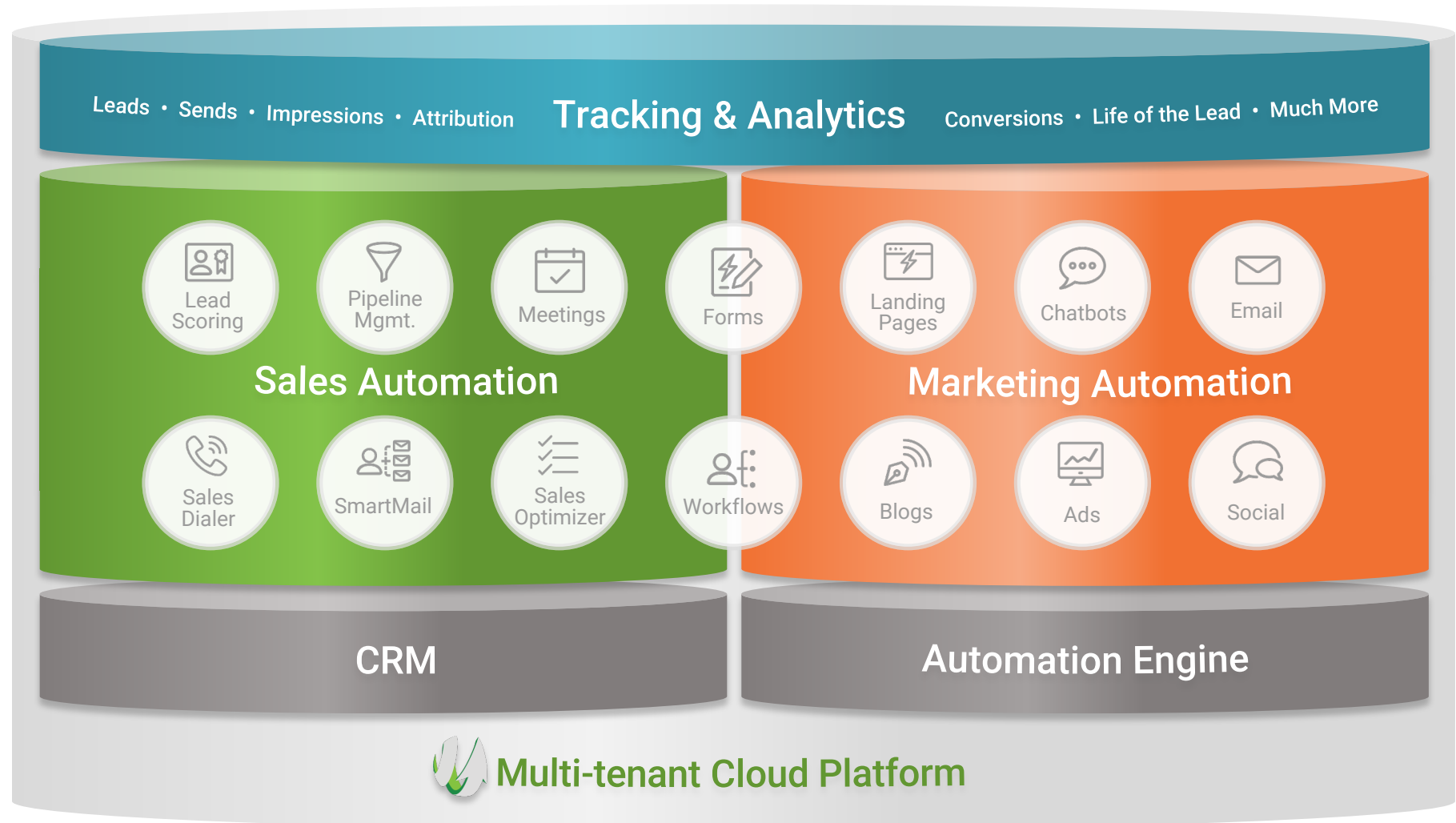
Companies built their entire sales and marketing process within our platform.

Integrations

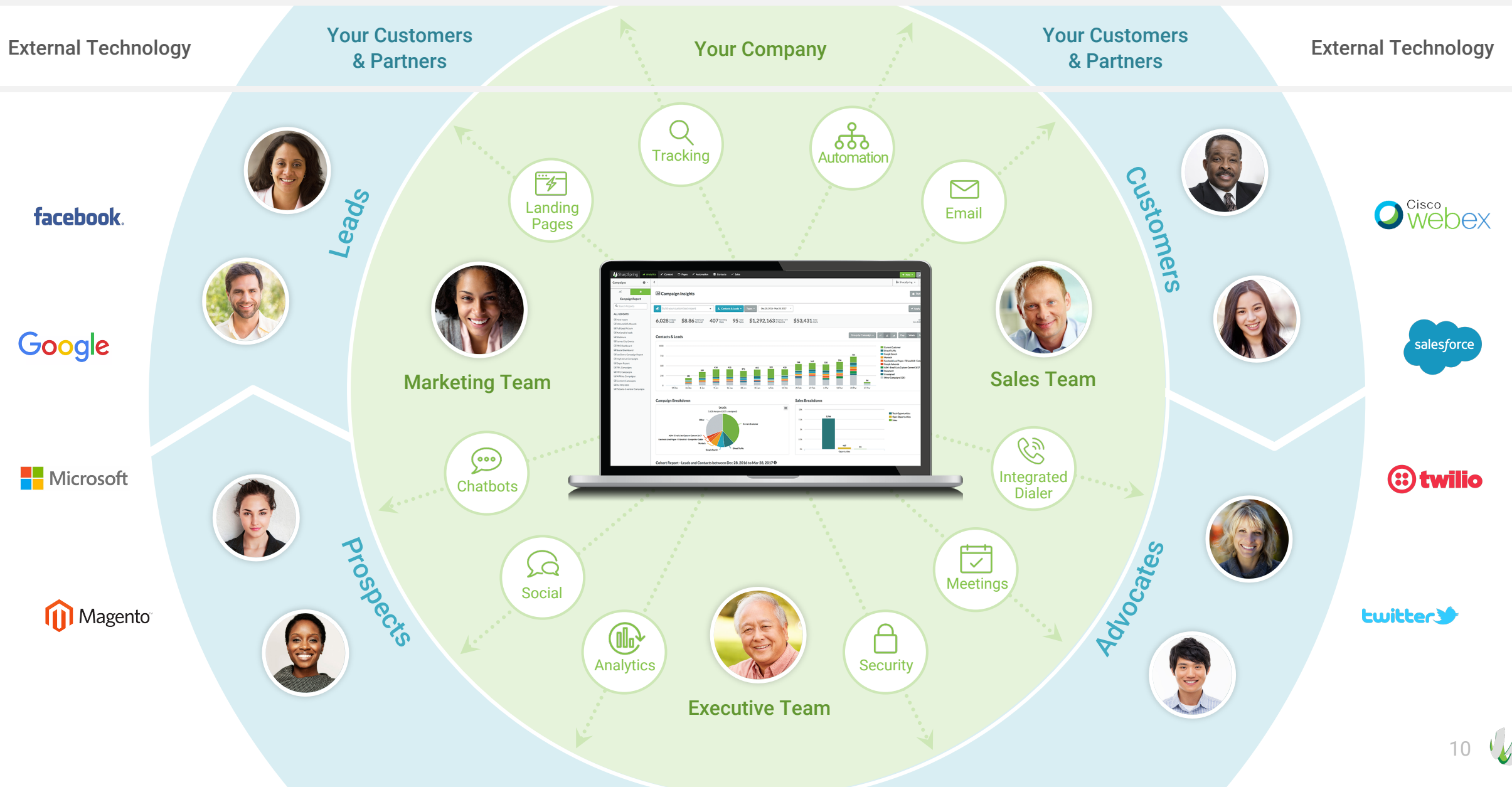


... and many more

Developer API

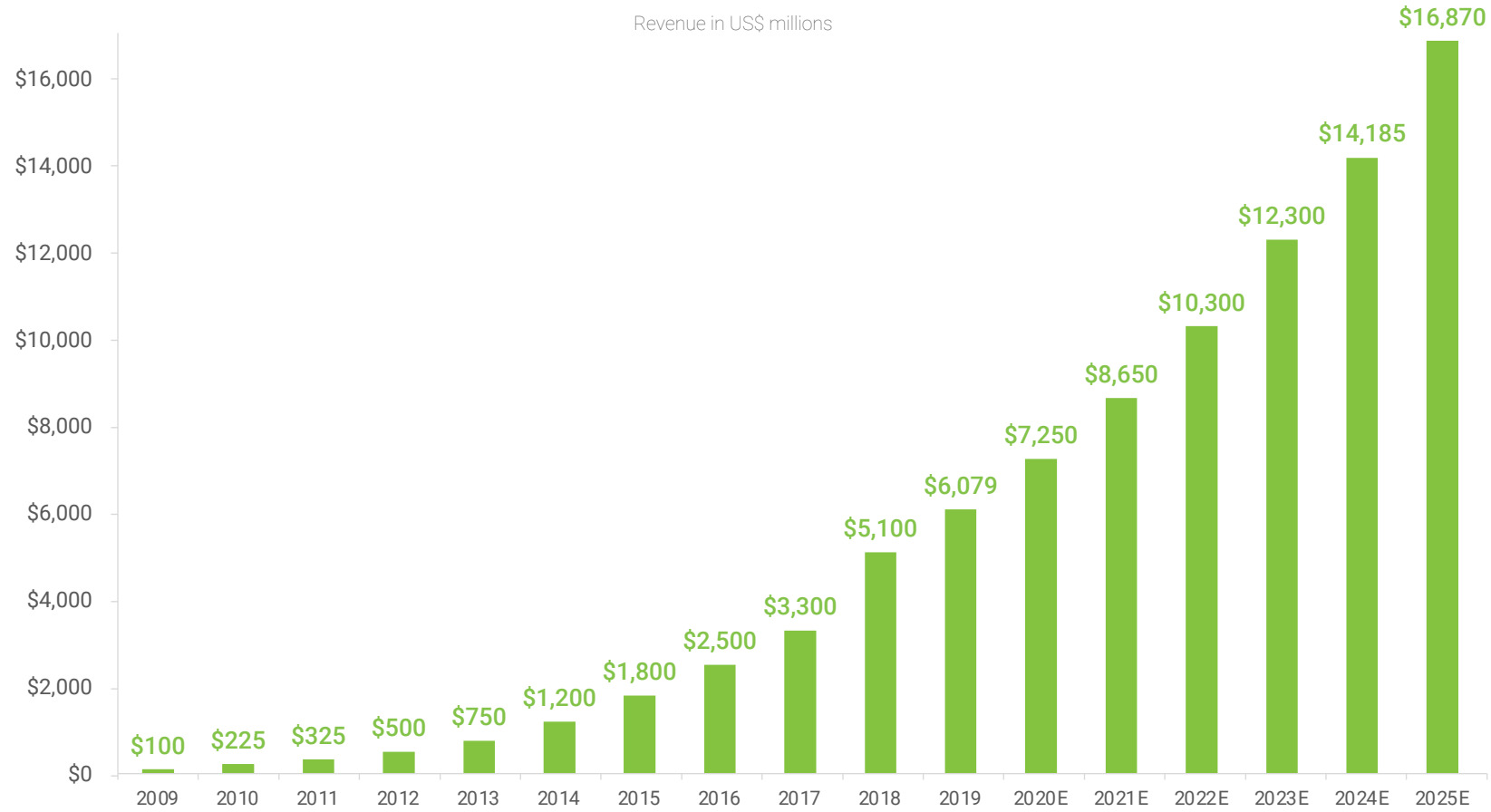


SharpSpring is the heart of a customer experience ecosystem.



A Rapidly Growing Market

B2B Marketing Automation Systems Market ⁽¹⁾



Marketing Automation is an essential backbone of the marketing stack. Businesses adopt MA today the same way they adopted CRM in the 90s.

(1) Raab Associates VEST; Mordor Intelligence (January 2020); and SharpSpring marketing estimates



\$11+ Billion in M&A Activity Since 2010

Notable recent acquisitions:



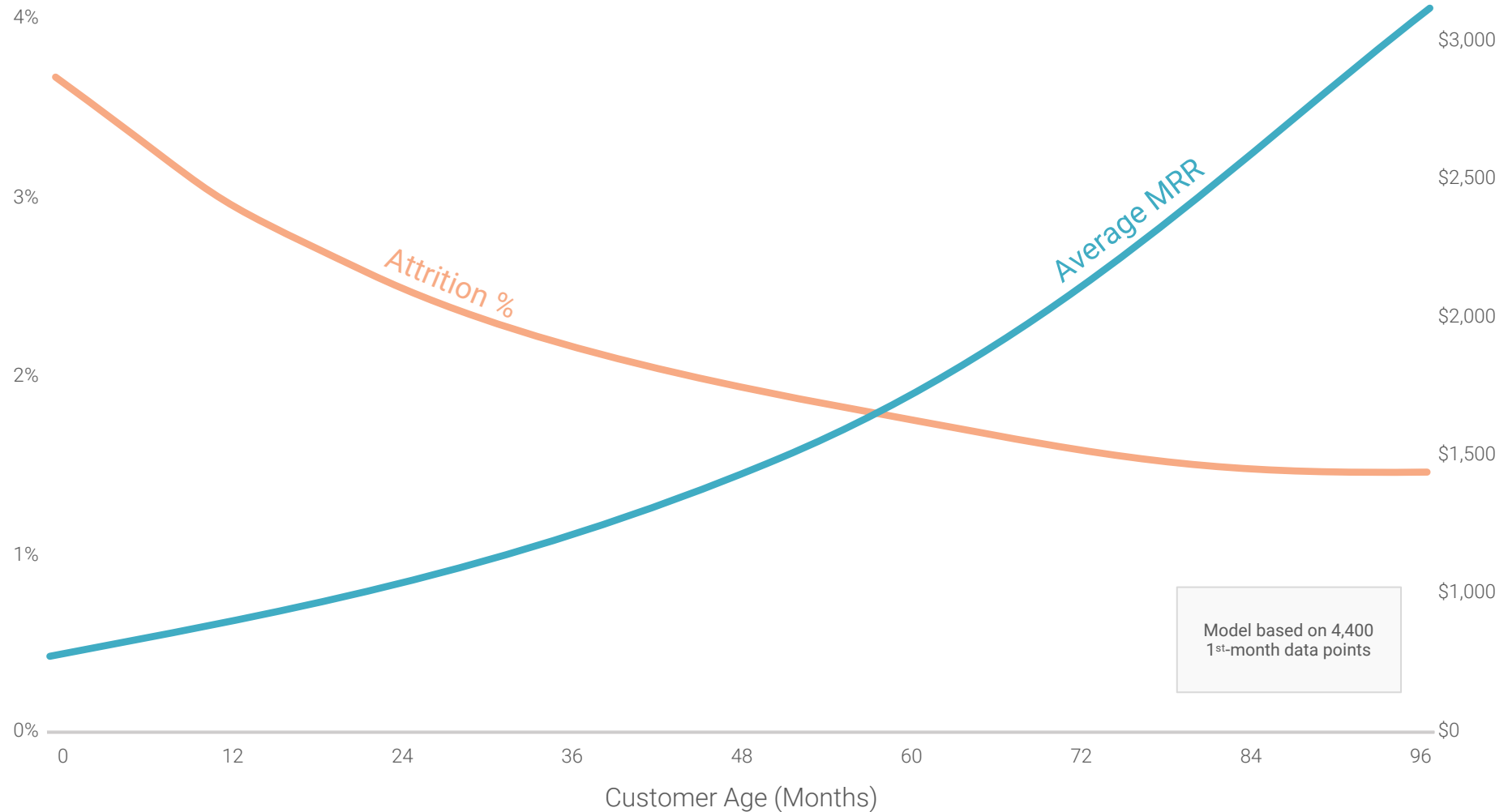
2018 Adobe acquisition of Marketo at 12x Revenues



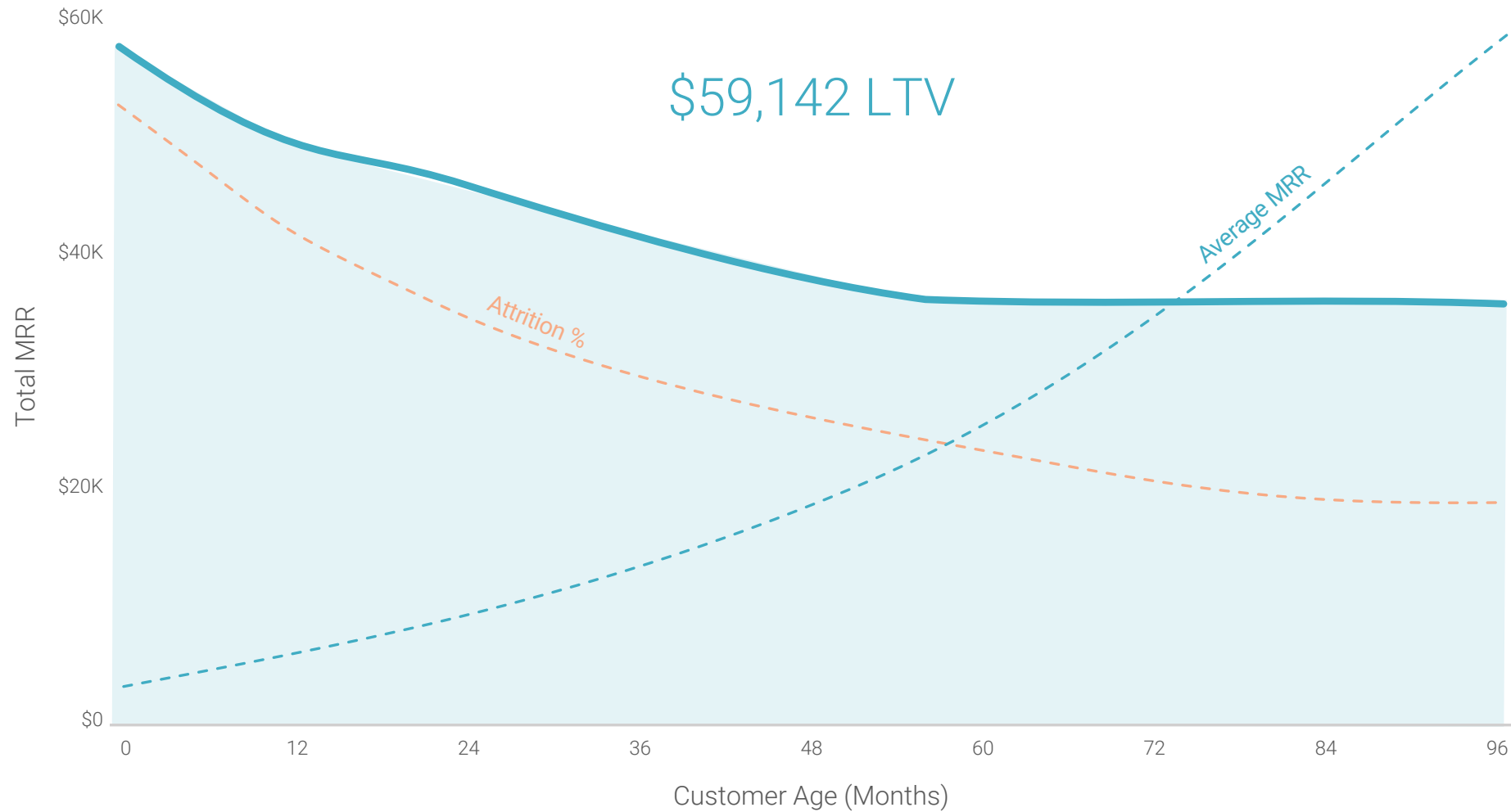
SharpSpring SaaS Metrics & Margins

Life of an Agency Cohort

Agency attrition decreases while expansion increases over time.



Agencies offer a long-term revenue stream.



Standard Agency SaaS Metrics

\$7,400

CAC

~\$10,900 during COVID adjusted Q2 2020

\$59,142

LTV

8.0x

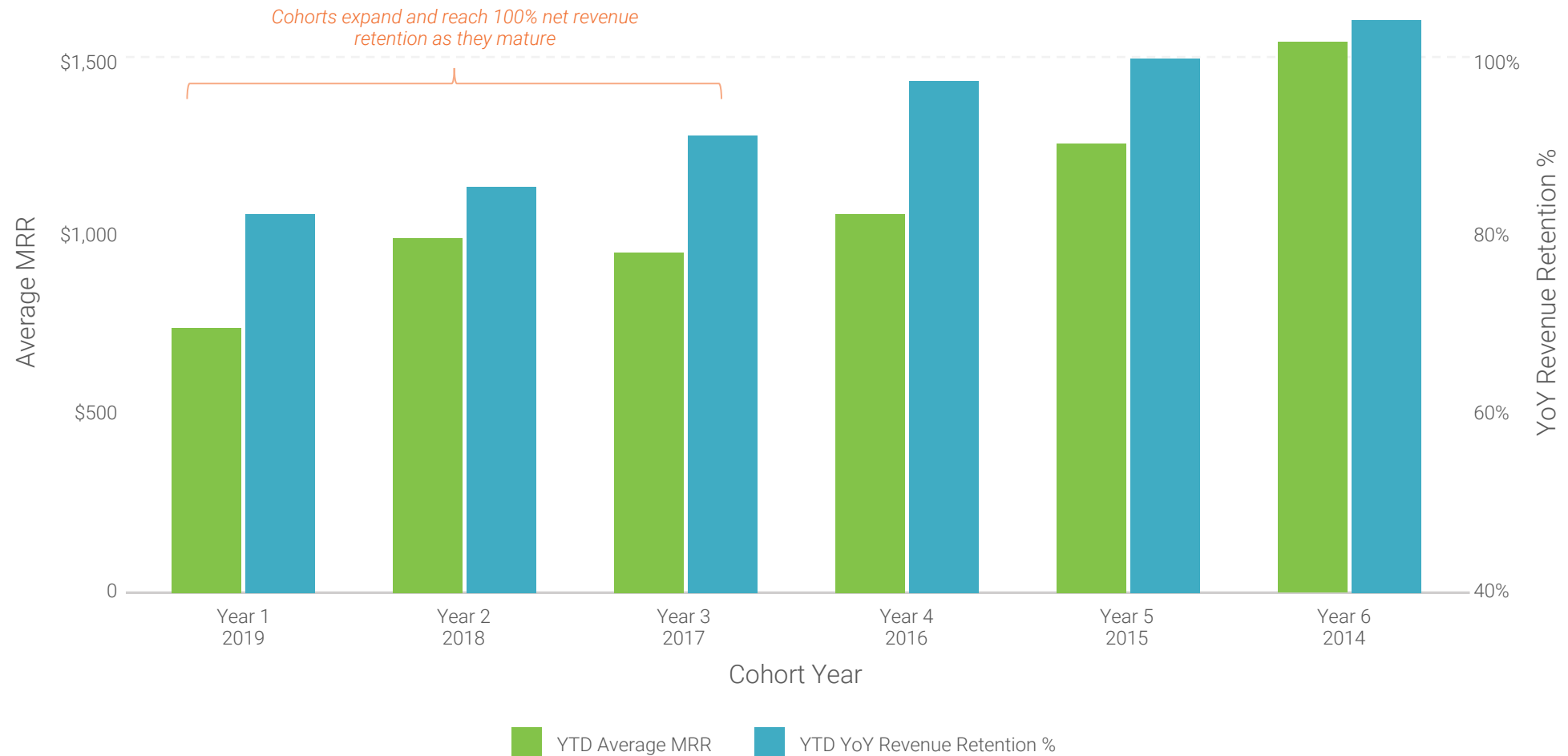
LTV to CAC ratio

~5.4x during COVID adjusted Q2 2020

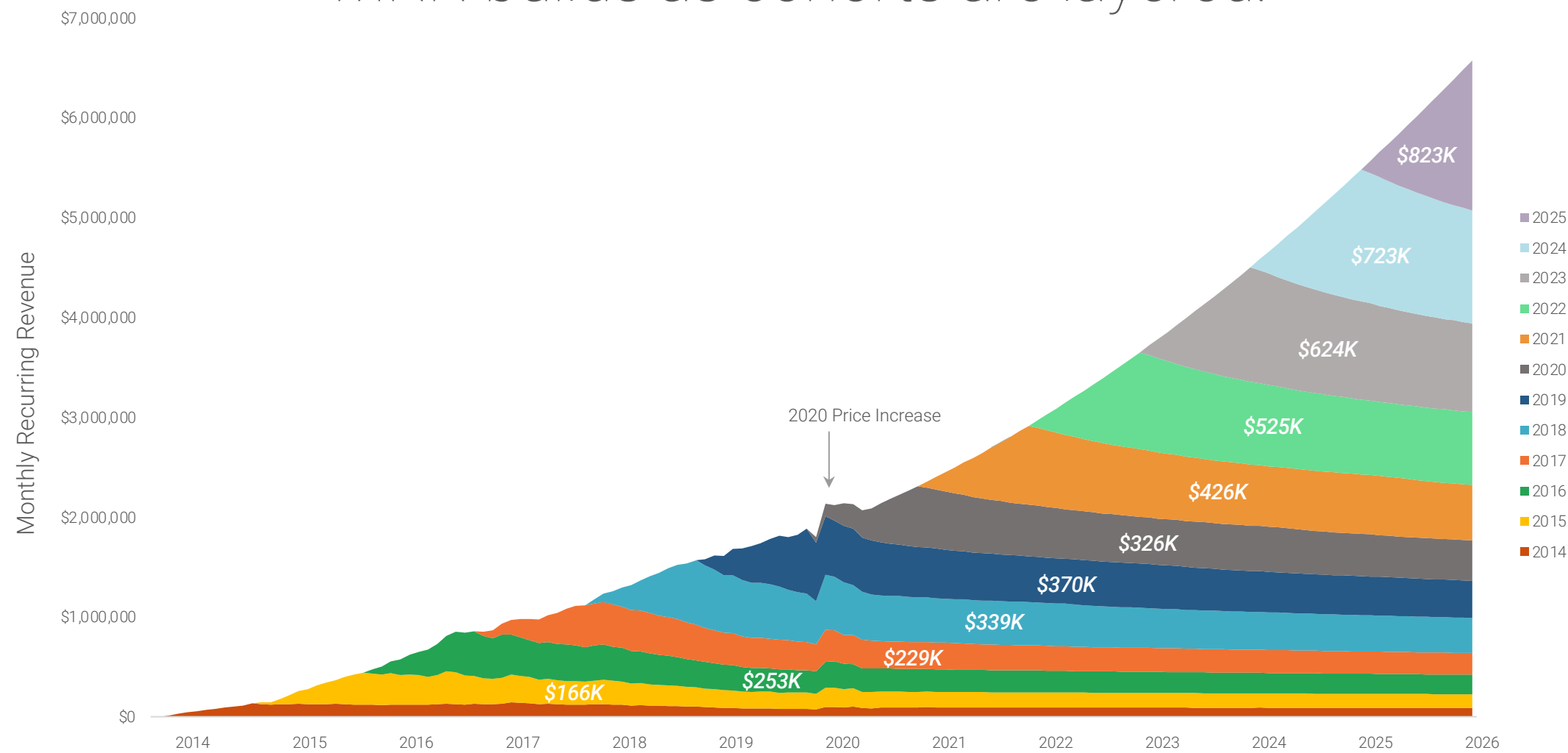


Average MRR and net retention continually increase over time.

(Trailing YTD average)



MRR builds as cohorts are layered.

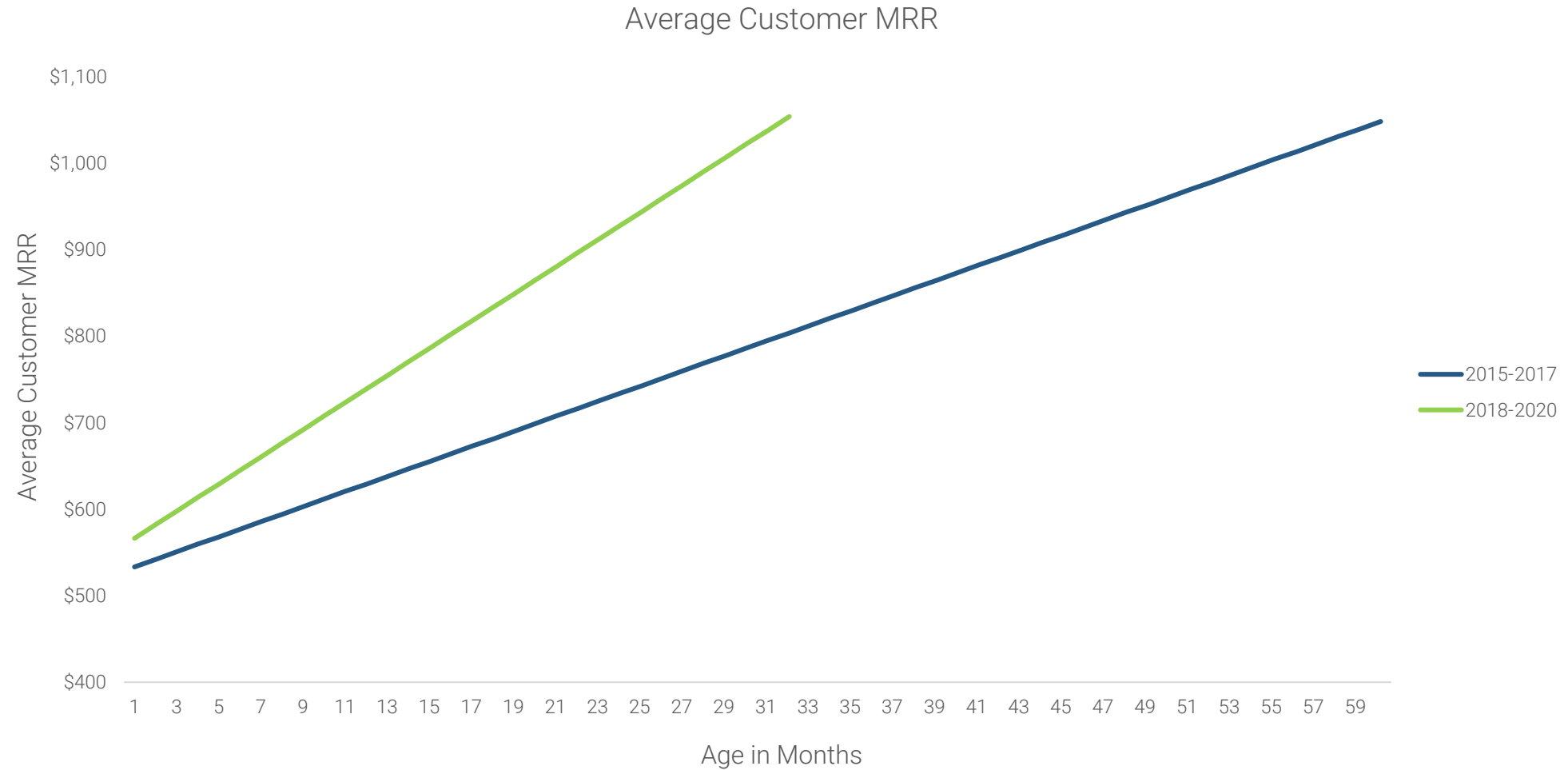


Layering on cohorts leads to predictable growth.

Average MRR reflected within each cohort, measured in the same calendar year.
2021-2024 cohorts reflect monthly new deal sales increasing by 2-3 per month through 2025.
Future periods are for illustration purposes only and should not be used as forward-looking guidance.



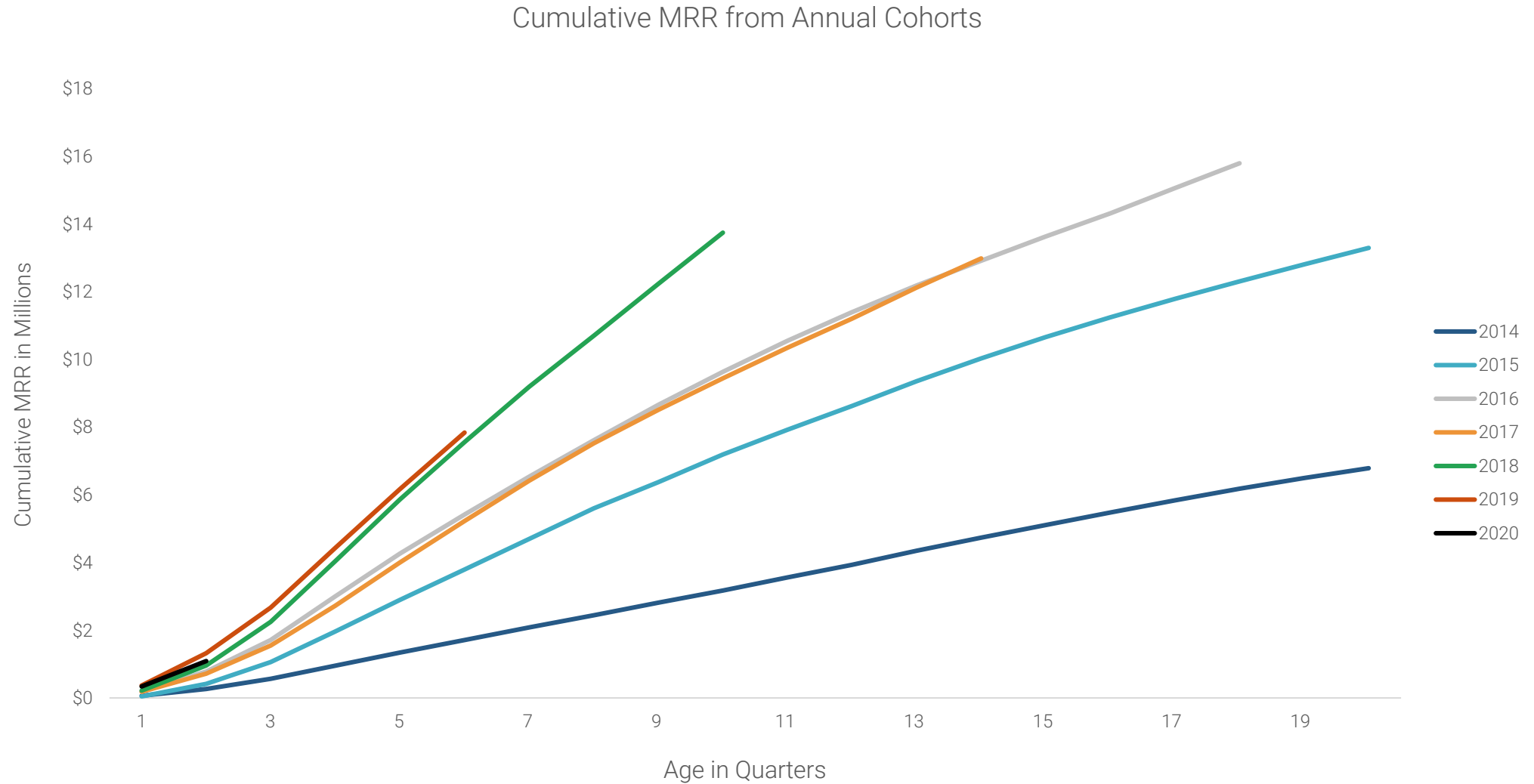
Newer customers start stronger and expand faster



Pricing and process improvements drive performance.



Increasing size and monetization of cohorts



High Gross Margin Business Model

	2016	2017	2018	2019	Q1 '20	Q2 '20	Q3 '20	Long Term Target
Gross Margin	64%	63%	69%	69%	67%	74%	74%	81 - 83%
Sales and Marketing % of Revenue	38%	52%	54%	51%	43%	32%	36%	30-35%
Research and Development % of Revenue	17%	21%	22%	21%	21%	19%	17%	15-20%
General and Administrative % of Revenue	32%	35%	31%	34%	30%	28%	31%	15-20%
Operating Margin	-23%	-45%	-37%	-38%	-28%	-4%	-10%	20-25%

Cost of revenue includes support, account management, onboarding, training, network and hosting costs.



Alternative View of SaaS Metrics

Recasting SaaS Metrics through High-value Agencies



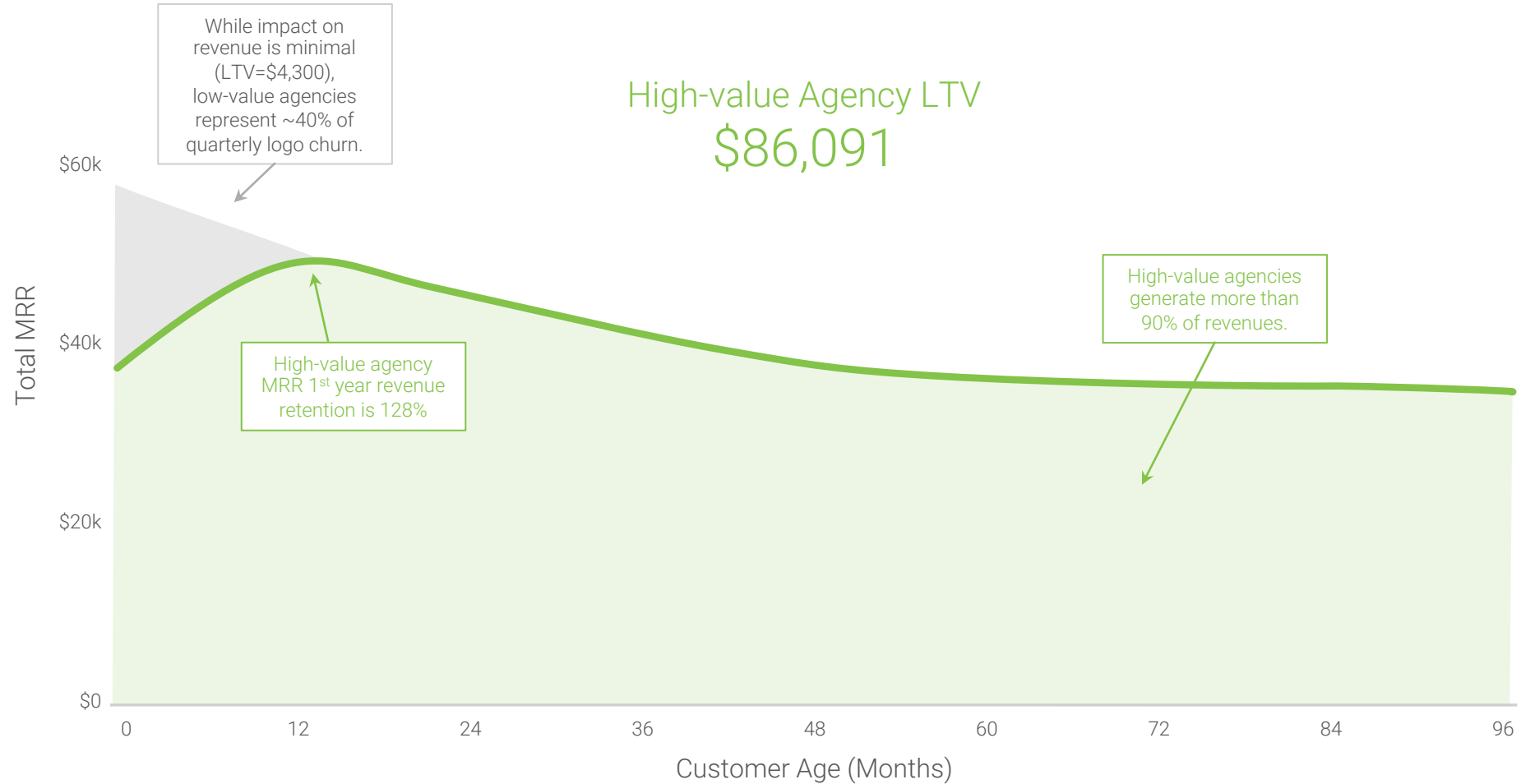
High-value agencies drive our business.

Low-value agencies are a *byproduct* of our customer acquisition strategy. They create “noise” and obfuscate our true performance as they churn during their first year.

The following slides recast SaaS metrics while only counting customers that stay at least 12 months. These high-value agencies are what fuels our business model and future growth.



High-value Agencies Drive Business



The above parameters to the LTV calculations based on:

- over 4,400 historical data points of growth and attrition;
- conservative estimates of gross margin and cost of capital
- a unique monthly growth factor is applied through the agency customer's life, beginning in month 2 through 96, also sourced from the company's historical datapoints for each month of an agency customer's life.
- the LTV is then calculated based on the formula referenced in the appendix for the HV customers.



High-value Agencies Drive Our Business

\$9,300

CAC

~\$14,000 during COVID adjusted Q2 2020

\$86,091

LTV

9.2x

LTV to CAC ratio

~6.1x during COVID adjusted Q2 2020

Standard CAC includes total sales and marketing expenses including all salaries, commissions and program expenses. See appendix for additional details.

The CAC for high value ("HV") agency customers is calculated as follows:

- Multiply the company's standard CAC value (as calculated in the appendix) by the total number of customers within the agency cohort, including HV and low value ("LV") customers
- Offset the above product by all associated revenues from the LV agency customers that attrited (terminated their subscription) within months 1-12
- The above difference is then divided by the number of HV agency customers within the cohort (e.g. the surviving customers at the close of month 12)
- The above quotient = CAC for HV agency customers



Long-term
Sustainable
Growth

Marketing automation is an essential technology that's here to stay.

We are at the beginning of the curve. Businesses are adopting marketing technology today the same way they began adopting CRM in the 1990s.



Drives More Leads

More than just more leads. Capture more relevant leads that convert.



Converts Leads into Sales

Close more deals by sending exactly the right message at exactly the right time.



Optimizes Your Entire Funnel

Get clarity on what's working and what's not with true end-to-end ROI analytics.



Customers rate us higher than our competition.

4.5/5



Consistent Leader on Top 5 Review Sites



 SharpSpring

★★★★★ 4.51 / 5 (620)  FrontRunners

 HubSpot

★★★★★ 4.49 / 5 (4,254)  FrontRunners

 salesforce pardot

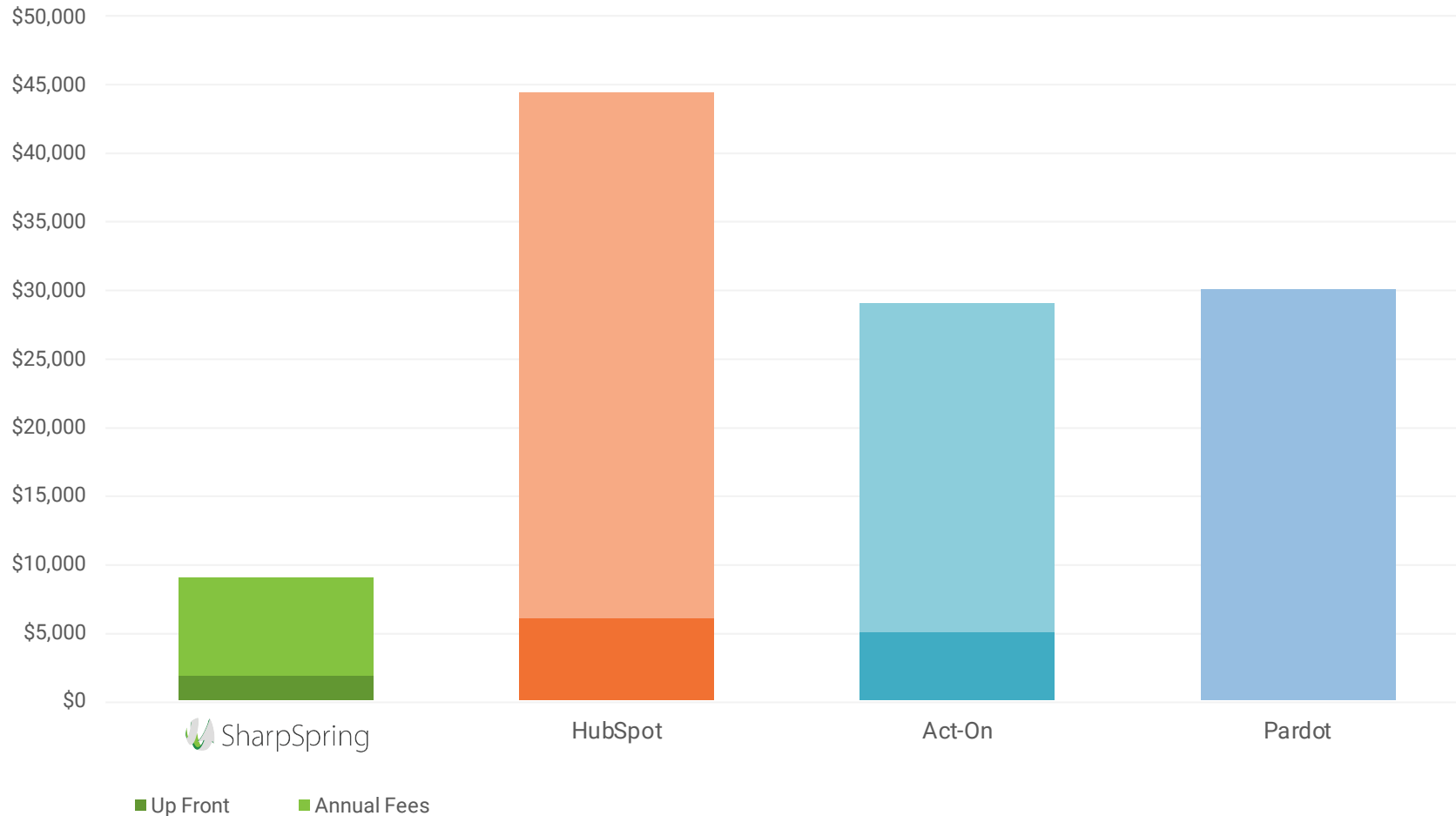
★★★★★ 4.10 / 5 (532)

 act-on

★★★★★ 4.27 / 5 (245)  FrontRunners



Our *higher quality* platform is delivered at a *fraction* of the cost.



Our Long-term Sustainable Market Position



- ✓ Cannibalization risk
- ✓ High cost structures
- ✓ Lack of agency features



Incumbents can't compete on price



Fraction of the cost • Rules engine makes billions of real-time calculations every day • Decades of development time

Extremely high barriers to entry



Meetings



Tracking



Security



Integrations



Integrated Dialer



Automation



Custom Reporting

- ✓ 1B+ daily automation transactions
- ✓ Incredibly wide features set
 - ✓ Tracking & security
- ✓ Email delivery & compliance
 - ✓ 1,000s of integrations



Analytics



Scalability



Email



Rules Engine



Landing Pages



Social

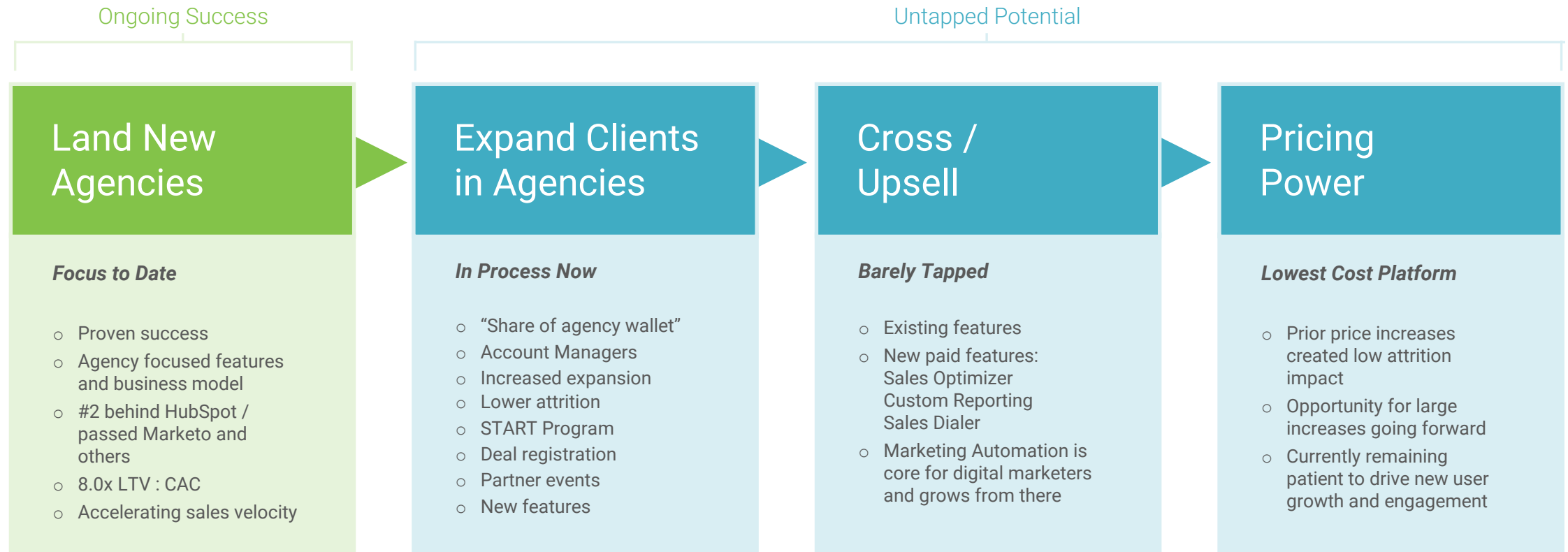


Chatbots

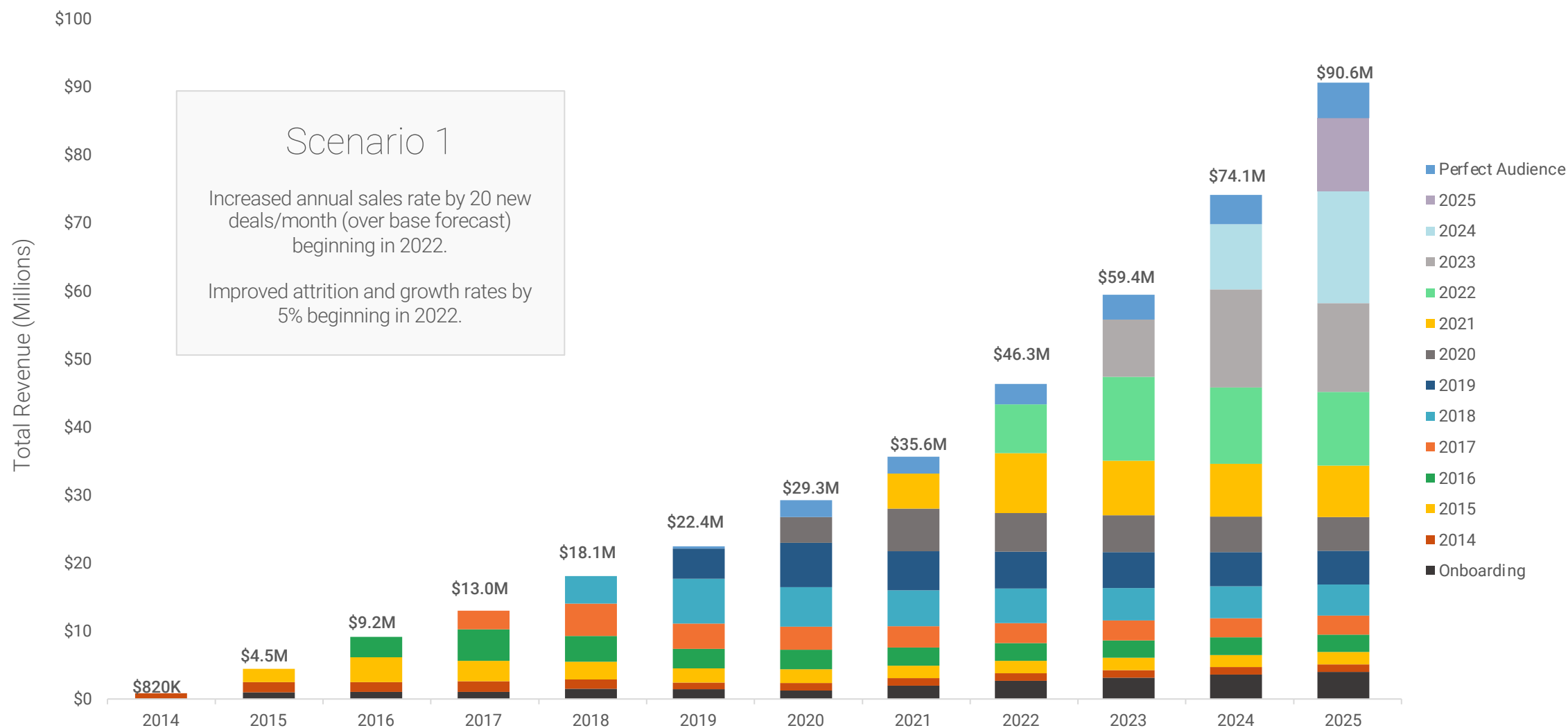


Revenue Model

Several growth pillars for creating incremental revenue:



Layering of cohorts leads to predictable revenue.

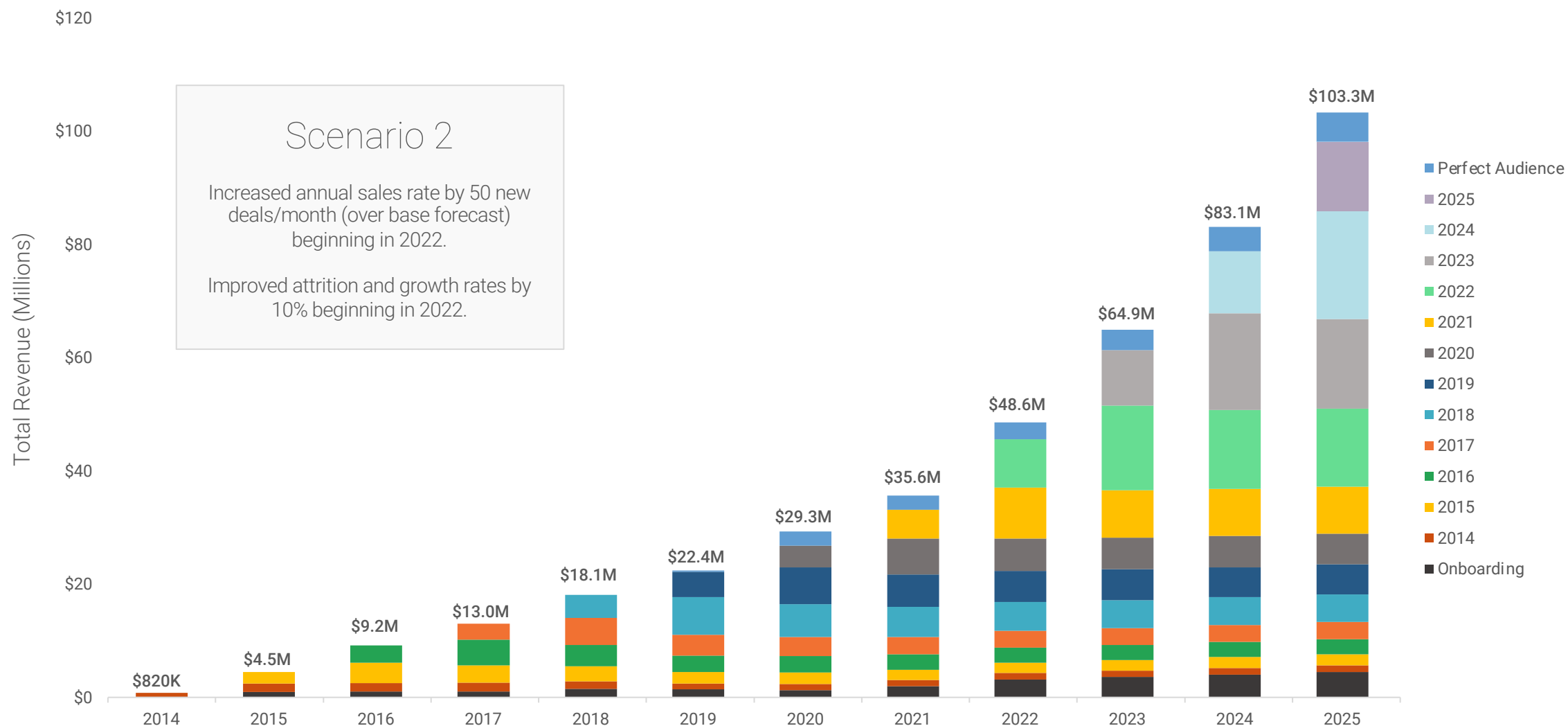


* Future scenarios for illustration purposes only, and should not be used as forward-looking guidance

** Revenue estimates of 2020 and 2021 do not reflect any further adverse economic impact of COVID-19



Layering of cohorts leads to predictable revenue.

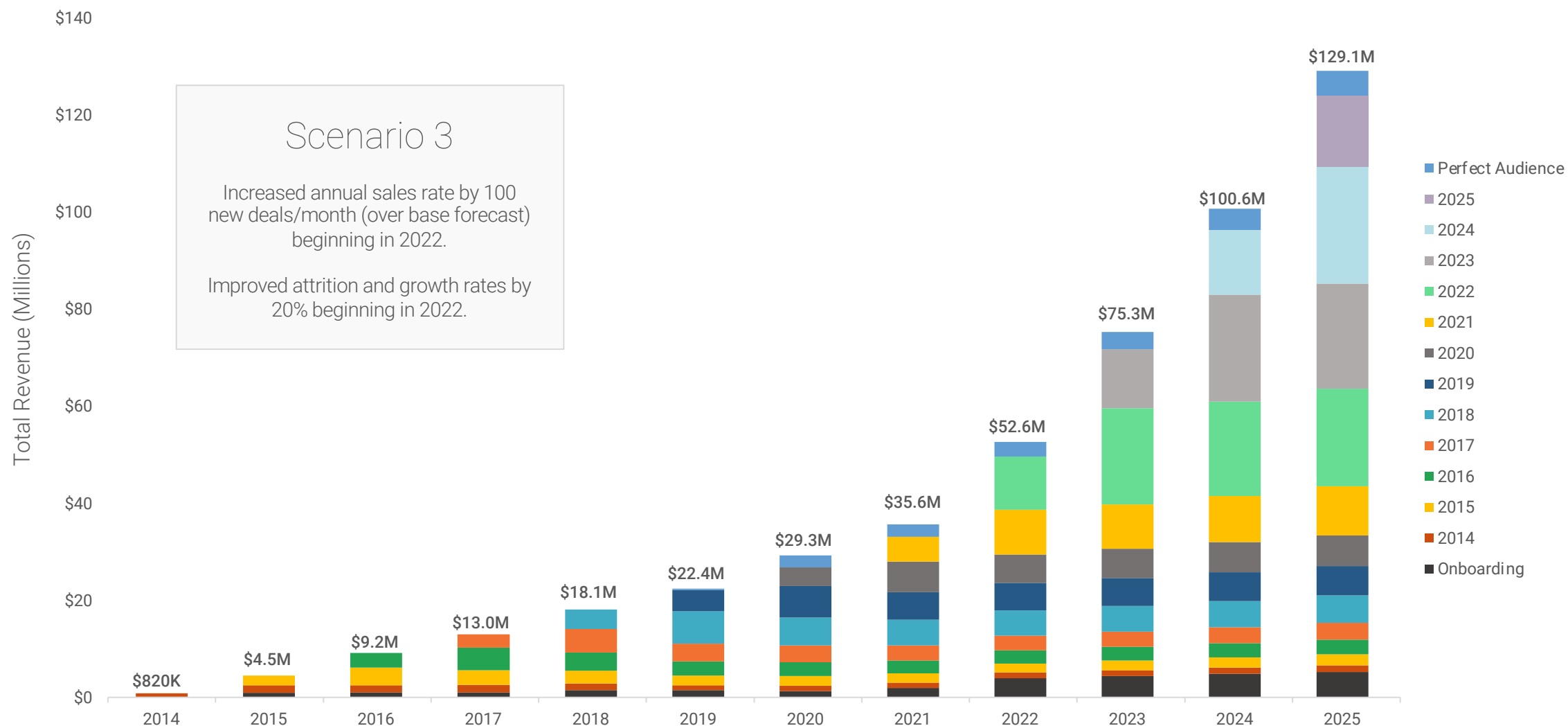


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Layering of cohorts leads to predictable revenue.



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** Revenue estimates of 2020 and 2021 do not reflect any further adverse economic impact of COVID-19



Balance Sheet and Capital Structure

As of September 30, 2020

Balance Sheet ⁽¹⁾	
Cash	\$15.0M
Total Assets	\$44.5M
Total Liabilities	\$17.9M
Shareholders Equity	\$26.6M

Shares Outstanding ⁽¹⁾	
Basic shares outstanding	11,591,191
Options <i>(weighted avg. exercise price of \$7.29)</i>	1,611,966
Unvested Restricted Stock Units	25,716
Fully diluted shares outstanding	13,228,873

- 16% ownership by insiders
- Line of credit provides additional financial flexibility

(1) Represents amounts disclosed in 10-Q filed on November 16, 2020, for quarter ended 9/30/2020



Summary Financials



Investing in sales & marketing to accelerate future growth



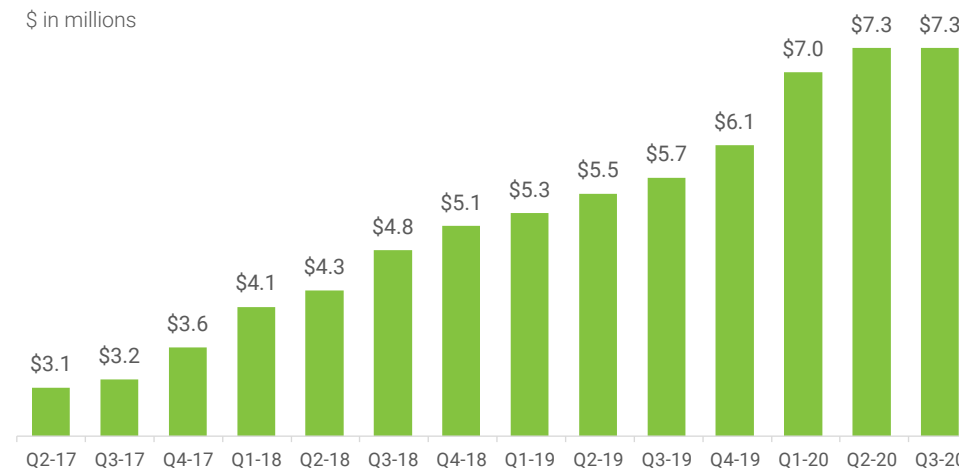
SaaS revenue model



4-year CAGR of 50% ⁽¹⁾

SharpSpring Total Revenue Growth

\$ in millions



Select Results	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Revenue	\$3,023	\$3,246	\$3,412	\$3,767	\$4,185	\$4,442	\$4,873	\$5,151	\$5,326	\$5,517	\$5,724	\$6,132	\$7,053	\$7,271	\$7,307
Gross Profit (GAAP)	\$1,752	\$1,951	\$2,201	\$2,547	\$2,784	\$2,935	\$3,401	\$3,733	\$3,778	\$3,892	\$3,883	\$4,004	\$4,685	\$5,398	\$5,437
Gross Margin	58%	60%	65%	68%	67%	66%	70%	72%	71%	71%	68%	65%	66%	74%	74%
Adjusted EBITDA	(\$1,564)	(\$1,273)	(\$1,248)	(\$1,252)	(\$1,651)	(\$1,530)	(\$1,504)	(\$1,562)	(\$1,830)	(\$1,716)	(\$1,973)	(\$1,921)	(\$1,767)	(\$122)	(\$468)

All figures in \$000's

Please refer to the appendix or the Company's website for a reconciliation to Adjusted EBITDA.

(1) Represents growth of product revenue from 2015 through 2019, excluding legacy and discontinued products



Reconciliation of Non-GAAP Financials

	<u>2016</u>		<u>2017</u>		<u>2018</u>	
	<u>\$ Amount</u>	<u>% of Revenue</u>	<u>\$ Amount</u>	<u>% of Revenue</u>	<u>\$ Amount</u>	<u>% of Revenue</u>
Cost of Revenue	5,149,110	36%	4,996,745	37%	5,798,269	31%
Equity Based Compensation	(49,245)	0%	(30,031)	0%	(75,319)	0%
Non-GAAP Cost of Revenue	<u>5,099,865</u>	<u>36%</u>	<u>4,966,714</u>	<u>37%</u>	<u>5,722,951</u>	<u>31%</u>
Gross Margin	9,138,969	64%	8,452,007	63%	12,853,255	69%
Equity Based Compensation	(49,245)	0%	(30,031)	0%	(75,319)	0%
Non-GAAP Cost of Revenue	<u>9,089,724</u>	<u>64%</u>	<u>8,421,976</u>	<u>63%</u>	<u>12,777,936</u>	<u>69%</u>
Operating Expenses						
Sales and Marketing	5,531,567	39%	6,983,208	52%	10,092,691	54%
Equity Based Compensation	(69,497)	0%	(41,209)	0%	(89,701)	0%
Non-GAAP Sales and Marketing Expense	<u>5,462,070</u>	<u>38%</u>	<u>6,941,999</u>	<u>52%</u>	<u>10,002,990</u>	<u>54%</u>
Research and Development	2,461,548	17%	2,883,714	21%	4,298,031	23%
Equity Based Compensation	(95,822)	-1%	(111,137)	-1%	(176,631)	-1%
Non-GAAP Research and Development Expense	<u>2,365,725</u>	<u>17%</u>	<u>2,772,577</u>	<u>21%</u>	<u>4,121,400</u>	<u>22%</u>
General and Administrative	5,126,463	36%	5,346,135	40%	6,866,648	37%
Equity Based Compensation	(515,968)	-4%	(586,400)	-4%	(1,130,878)	-6%
Non-GAAP General and Administrative Expense	<u>4,610,496</u>	<u>32%</u>	<u>4,759,735</u>	<u>35%</u>	<u>5,735,770</u>	<u>31%</u>
Intangible asset amortization	2,819,646	20%	527,467	4%	460,000	2%
Intangible asset amortization	(2,819,646)	-20%	(527,467)	-4%	(460,000)	-2%
Non-GAAP Intangible asset amortization	<u>-</u>	<u>0%</u>	<u>-</u>	<u>0%</u>	<u>-</u>	<u>0%</u>
Net Income (Loss)	(6,800,255)	-48%	(7,288,517)	-54%	(8,864,115)	-48%
Equity Based Compensation	730,531	5%	768,778	6%	1,472,529	8%
Intangible asset amortization	2,819,646	20%	527,467	4%	460,000	2%
Non-GAAP Net Income (Loss)	<u>(3,250,078)</u>	<u>-23%</u>	<u>(5,992,273)</u>	<u>-45%</u>	<u>(6,931,586)</u>	<u>-37%</u>



Reconciliation of Non-GAAP Financials

	2019		Q1 2020		Q2 2020		Q3 2020	
	<u>\$ Amount</u>	<u>% of Revenue</u>	<u>\$ Amount</u>	<u>% of Revenue</u>	<u>\$ Amount</u>	<u>% of Revenue</u>	<u>\$ Amount</u>	<u>% of Revenue</u>
Cost of Revenue	7,142,416	31%	2,367,642	34%	1,873,029	26%	1,869,278	26%
Equity Based Compensation	(76,131)	0%	(24,093)	0%	(18,833)	0%	(30,147)	0%
Non-GAAP Cost of Revenue	<u>7,066,285</u>	<u>31%</u>	<u>2,343,548</u>	<u>33%</u>	<u>1,854,196</u>	<u>26%</u>	<u>1,839,131</u>	<u>25%</u>
Gross Margin	15,556,998	69%	4,685,087	66%	5,397,876	74%	5,437,554	74%
Equity Based Compensation	(76,131)	0%	(24,093)	0%	(18,833)	0%	(30,147)	0%
Non-GAAP Cost of Revenue	<u>15,480,867</u>	<u>68%</u>	<u>4,660,994</u>	<u>66%</u>	<u>5,379,043</u>	<u>74%</u>	<u>5,407,407</u>	<u>74%</u>
Operating Expenses								
Sales and Marketing	11,785,227	52%	3,034,121	43%	2,394,100	33%	2,704,114	37%
Equity Based Compensation	(98,249)	0%	(9,616)	0%	(35,794)	0%	(64,279)	-1%
Non-GAAP Sales and Marketing Expense	<u>11,686,978</u>	<u>51%</u>	<u>3,024,505</u>	<u>43%</u>	<u>2,358,306</u>	<u>32%</u>	<u>2,639,835</u>	<u>36%</u>
Research and Development	5,036,613	22%	1,578,139	22%	1,484,890	20%	1,380,926	19%
Equity Based Compensation	(230,370)	-1%	(70,342)	-1%	(86,508)	-1%	(117,724)	-2%
Non-GAAP Research and Development Expense	<u>4,806,244</u>	<u>21%</u>	<u>1,507,797</u>	<u>21%</u>	<u>1,398,382</u>	<u>19%</u>	<u>1,263,203</u>	<u>17%</u>
General and Administrative	8,617,073	38%	2,413,842	34%	2,244,560	31%	2,725,254	37%
Equity Based Compensation	(799,463)	-4%	(266,581)	-4%	(229,284)	-3%	(185,320)	-3%
Non-GAAP General and Administrative Expense	<u>7,817,610</u>	<u>34%</u>	<u>2,147,261</u>	<u>30%</u>	<u>2,015,276</u>	<u>28%</u>	<u>2,539,935</u>	<u>35%</u>
Intangible asset amortization	381,000	2%	152,800	2%	183,745	3%	152,800	2%
Intangible asset amortization	(381,000)	-2%	(152,800)	-2%	(183,745)	-3%	(152,800)	-2%
Non-GAAP Intangible asset amortization	<u>-</u>	<u>0%</u>	<u>-</u>	<u>0%</u>	<u>-</u>	<u>0%</u>	<u>-</u>	<u>0%</u>
Net Income (Loss)	(10,262,916)	-45%	(2,493,815)	-35%	(909,419)	-13%	(1,525,540)	-21%
Equity Based Compensation	1,204,213	5%	370,632	5%	370,419	5%	397,469	5%
Intangible asset amortization	381,000	2%	152,800	2%	183,745	3%	152,800	2%
Non-GAAP Net Income (Loss)	<u>(8,677,703)</u>	<u>-38%</u>	<u>(1,970,383)</u>	<u>-28%</u>	<u>(355,255)</u>	<u>-5%</u>	<u>(975,271)</u>	<u>-13%</u>



Reconciliation to Adjusted EBITDA

	Quarter Ended								
	09/30/2018	12/31/2018	03/31/2019	06/30/2019	09/30/2019	12/31/2019	03/31/2020	06/30/2020	09/30/2020
Net loss	(2,710)	(2,250)	(2,894)	(4,238)	(2,527)	(2,729)	(988)	(970)	(1,542)
Provision (benefit) for income taxes	5	(84)	2	1	(2)	29	(1,563)	57	2
Other expense, net	244	32	104	42	16	(15)	57	3	14
Non-cash loss (gain) on embedded derivative	(27)	(26)	(24)	(190)	0	0	0	0	0
Non-cash loss (gain) on induced conversion	0	0	0	2,163	0	0	0	0	0
Depreciation & amortization	240	260	228	244	256	282	357	418	405
Non-cash stock compensation	235	254	304	262	284	354	371	370	397
Non-Employee stock issuance expense	509	0	0	0	0	0	0	0	0
Acquisition related charges	0	0	0	0	0	176	0	0	0
Restructuring related charges	0	252	133	0	0	0	0	0	0
Sales Tax Contingent Liability	0	0	0	0	0	0	0	0	256
Franchise tax settlement	0	0	318	0	0	0	0	0	0
Adjusted EBITDA	(1,504)	(1,562)	(1,829)	(1,716)	(1,973)	(1,903)	(1,766)	(122)	(468)



Appendix



All-in CAC Calculation

CAC includes total sales and marketing expenses including all salaries, commissions and program expenses.

$$\text{CAC} = \frac{\text{Total sales and marketing expenses in prior quarter}}{\text{Total new customer additions in current quarter}}$$



Conservative LTV

LTV is based on measuring every customer since inception – more than 4,400 first month data points.

$$LTV = \left(\frac{\Sigma (\text{NPV of MRR per period}) \times \text{Gross Margin \%}}{\text{Beginning Customer Count}} \right) + \left(\frac{\text{MRR of Month 60}}{\text{Beginning Customer Count}} \times \frac{(1 + G)}{WACC} \right)$$

Number of periods = 60 months

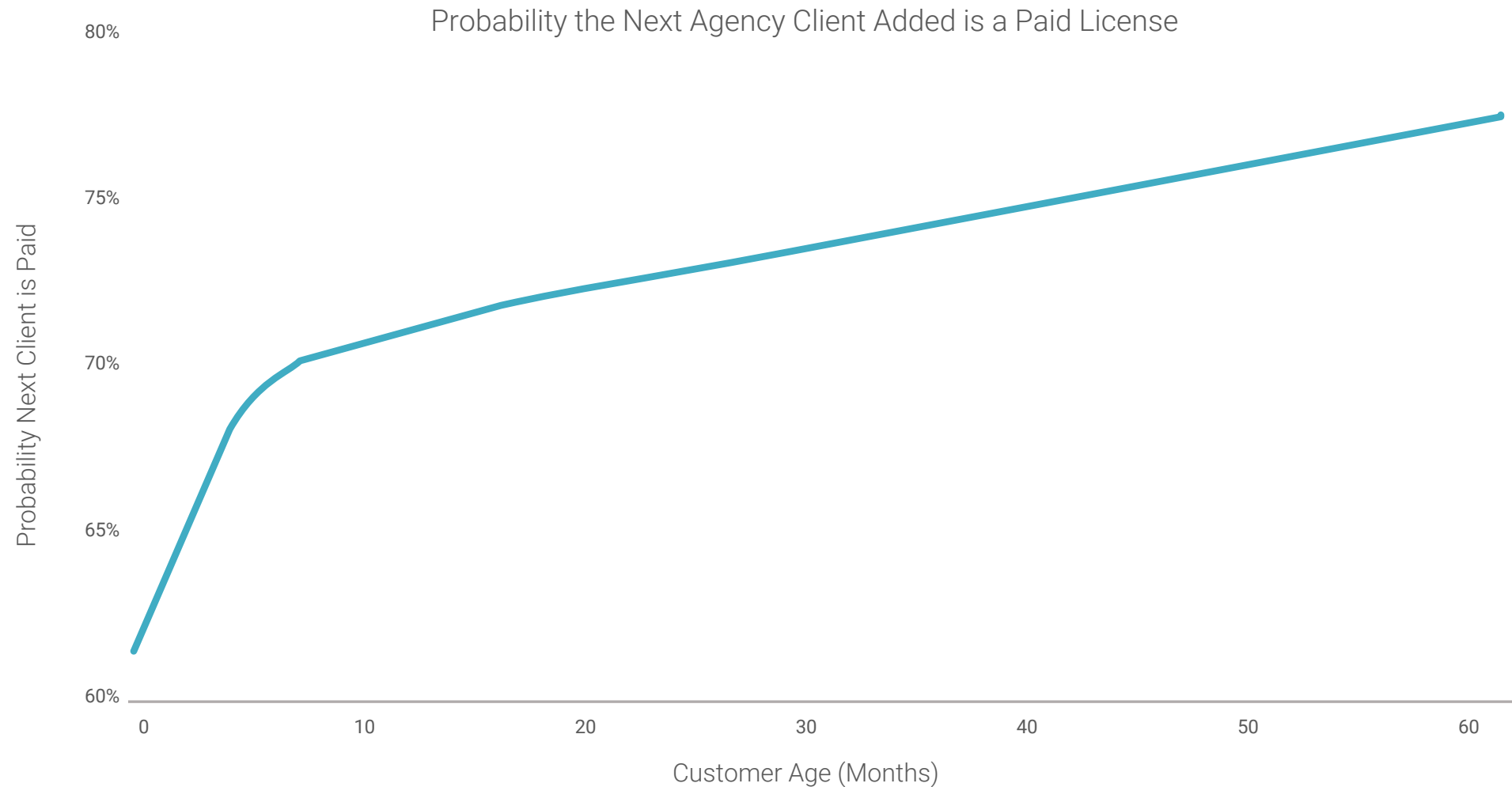
G = Terminal Growth Rate = Trailing 6 months average MRR growth per cohort

WACC – Weighted Average Cost of Capital = 10%

Gross Margin % = 80%



As customers mature, they exhaust “inventory” of initial pack licenses, driving agency expansion revenue.



Improving the Marketing Funnel



