Aventis *Advisors*

SaaS Valuation Multiples: 2015-2023

H1 2023 update

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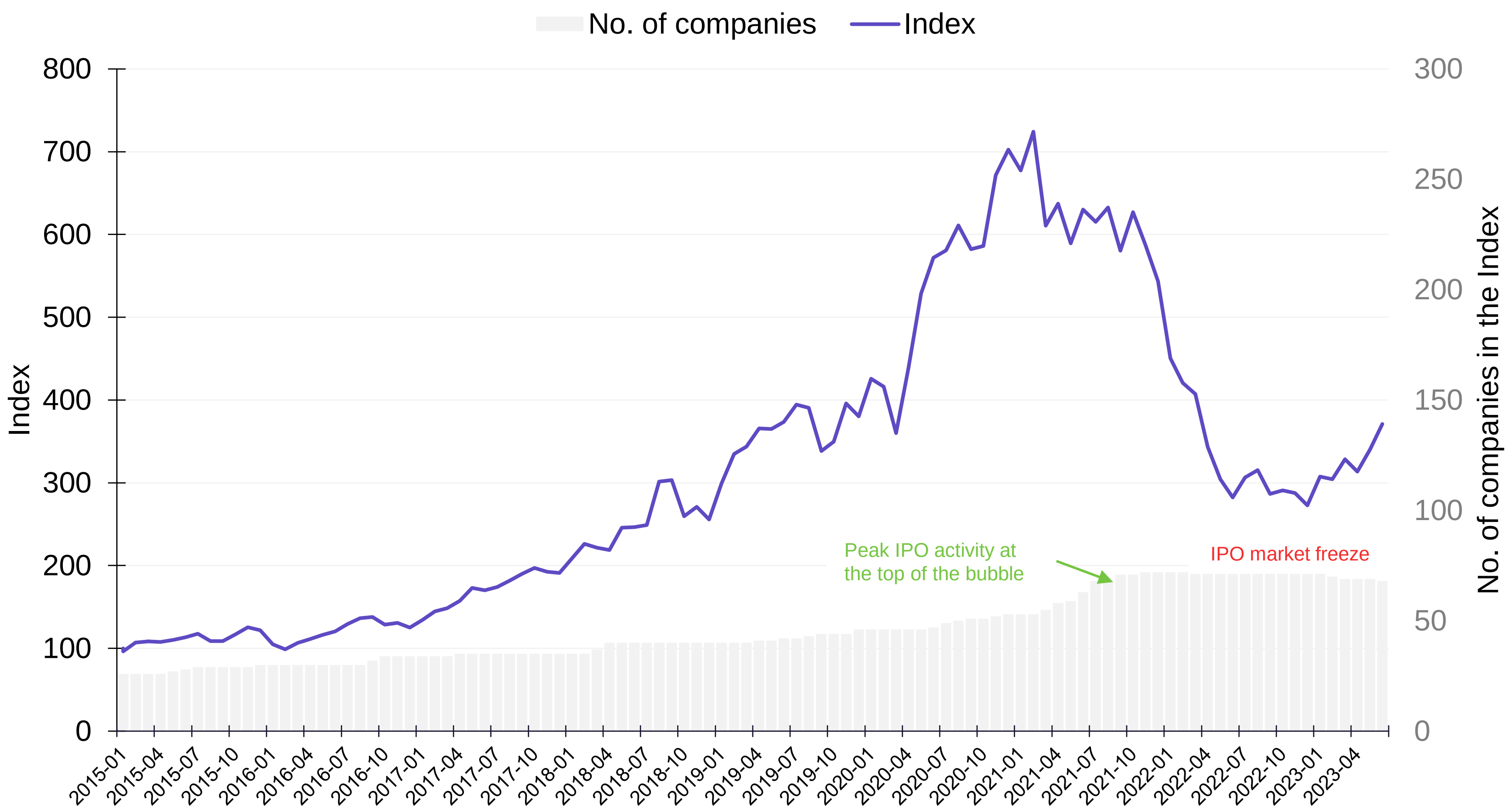
SaaS Valuations: Aventis SaaS Index

SaaS index rebounded in 2023, but is still very far from its peak in 2021

SaaS Index, 01.01.2015=100



Note: equal-weight index; 01.01.2015=100; IPO date=100 for companies that went public after 01.01.2015

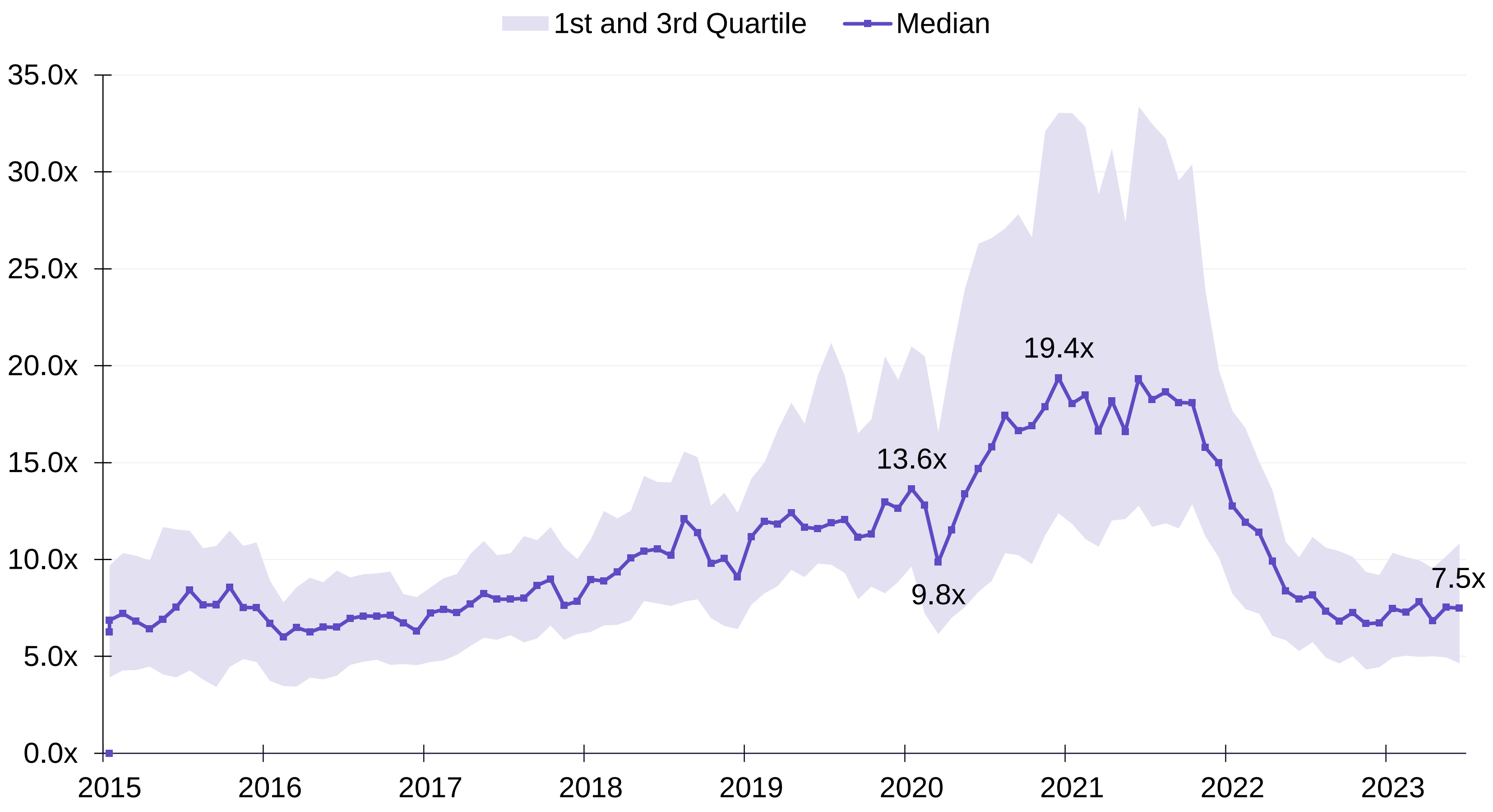
Comment

- Index of SaaS companies has been slowly growing in the 2015-2020 period driven by the expanding valuation multiples, as well as by rapid growth of the companies.
- After the unprecedented monetary and fiscal stimulus and COVID digitalization tailwinds, the index jumped in 2020 to over 600 points by early 2021.
- Rich valuations have driven the wave of IPOs, with multiple SaaS companies raising capital at peak valuations.
- After the investor sentiment changed, interest rates grew and profitability came back to focus, investors rushed to sell SaaS companies, especially the ones with no profits.

SaaS Valuations: EV/Revenue multiple

EV/Revenue multiples for listed SaaS businesses stagnate at around 7.0x with much of the stock price increase coming from larger revenue

Median EV/Revenue multiple, 2015-2023



Comment

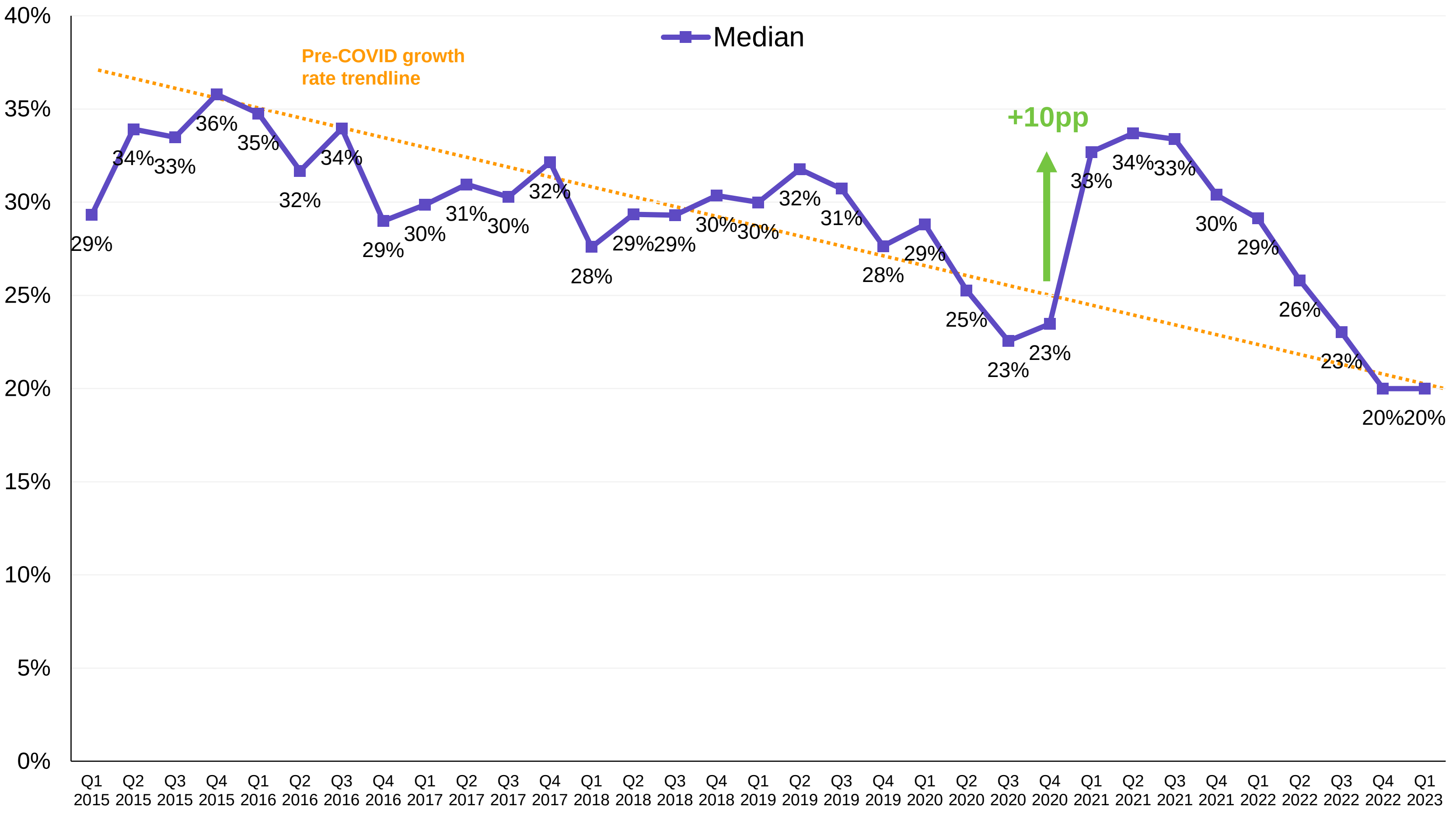
- Revenue multiples have been growing slowly between 2015-2019, reaching a median of 13.6x before the COVID drop.
- Market drop in March 2020 was short lived, with the multiples quickly recovering.
- Many SaaS companies went public during the peak of the valuations, with the 25% highest valued companies trading at above 30x Revenue.
- The valuation multiples reached their peak and plateaued for a period of time in January-October 2021.
- The highest multiple recorded in our sample was Asana, closing at 89.0x LTM Revenue in November 2021.
- After Federal Reserve started to raise interest rates and growth decelerated, the valuations dropped significantly.
- By June 2023, multiples reached a plateau at around 7x.

Source: S&P Capital IQ

Deep-dive: SaaS growth rates

SaaS revenue growth rates continued to deteriorate reaching a median of 20% in the past two quarters

Median YoY quarterly revenue growth, %



Comment

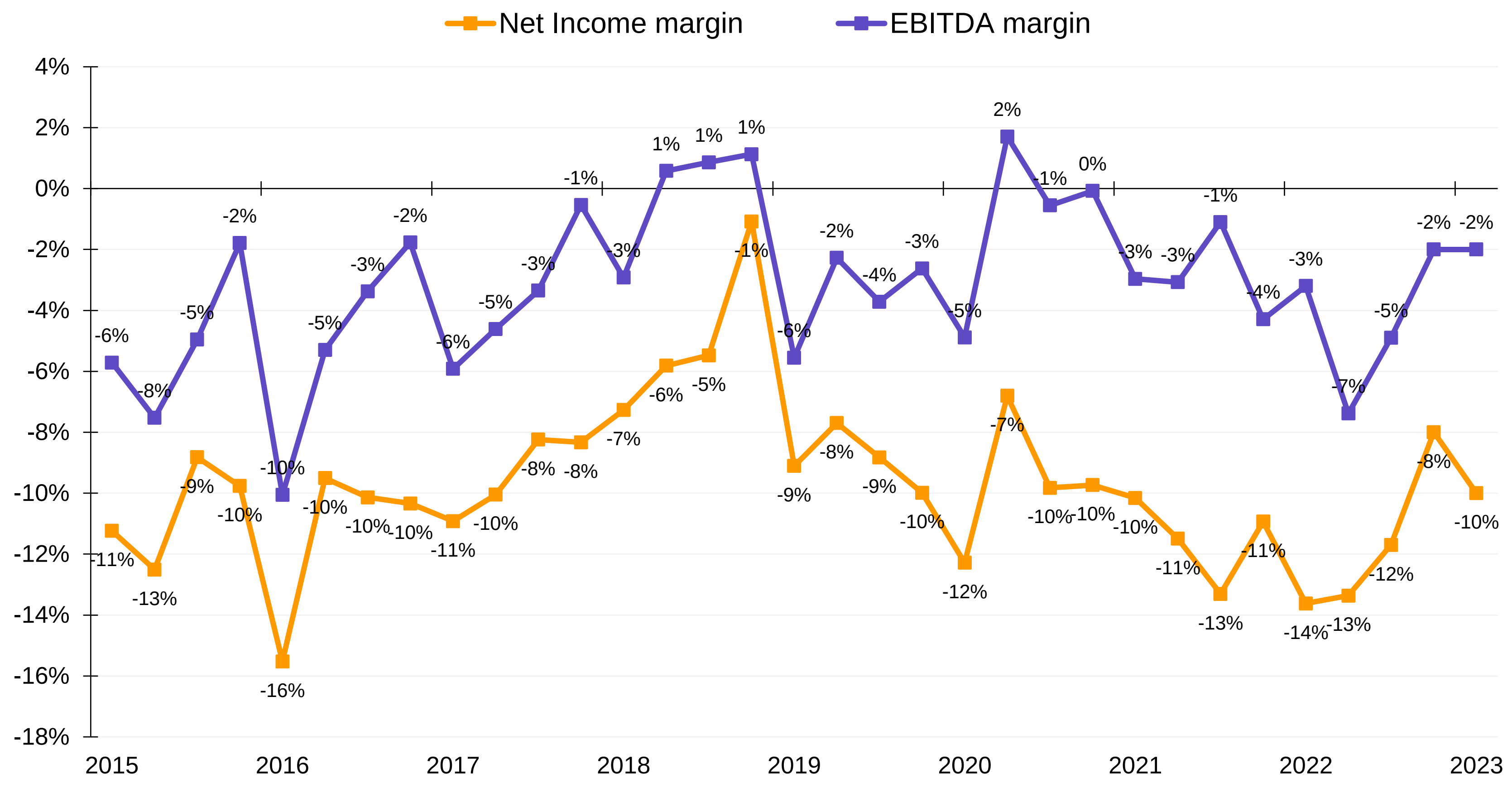
- SaaS growth rates have been slowly decelerating over the past nine years, as many companies reached scale.
- By Q2 2020, the median growth rate of SaaS business declined to 23% YoY.
- Pandemic provided a temporarily relief, pulling forward the demand for software and accelerating the growth by 11pp.
- After peaking in Q2 2021, the growth rates are slowly returning to the long-term trendline and may even overshoot to the downside in case of a major recession.

Source: S&P Capital IQ

Deep-dive: SaaS profitability

Despite large layoffs and focus on efficiency, margins for many SaaS companies remain below zero

Median quarterly margin, %



Comment

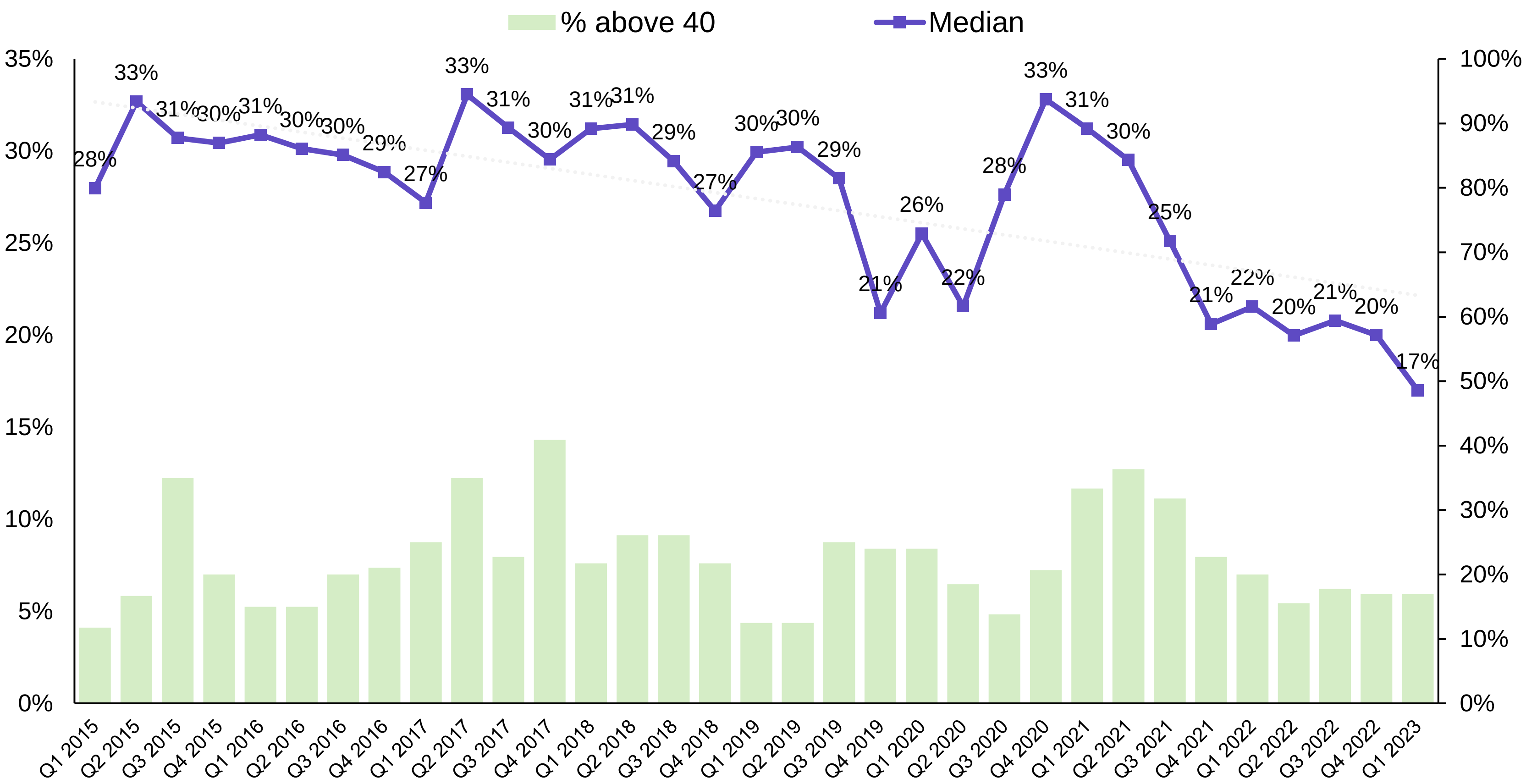
- Over the 2015-2022 period, a median SaaS company lost money on both Net Income and EBITDA margin basis.
- Following the margin increase in 2016-2019, SaaS margins deteriorated again as the companies invested in growth aggressively.
- While many companies report positive FCF margins, it commonly includes the add-back of stock-based compensation.
- Focusing on efficiency in 2022-2023 has brought some improvement in margins, yet the median margins are still below zero

Source: S&P Capital IQ

Deep-dive: SaaS Rule of 40

Rule of 40 metric for SaaS companies have been slowly declining over the past nine years

Rule of 40, %



Comment

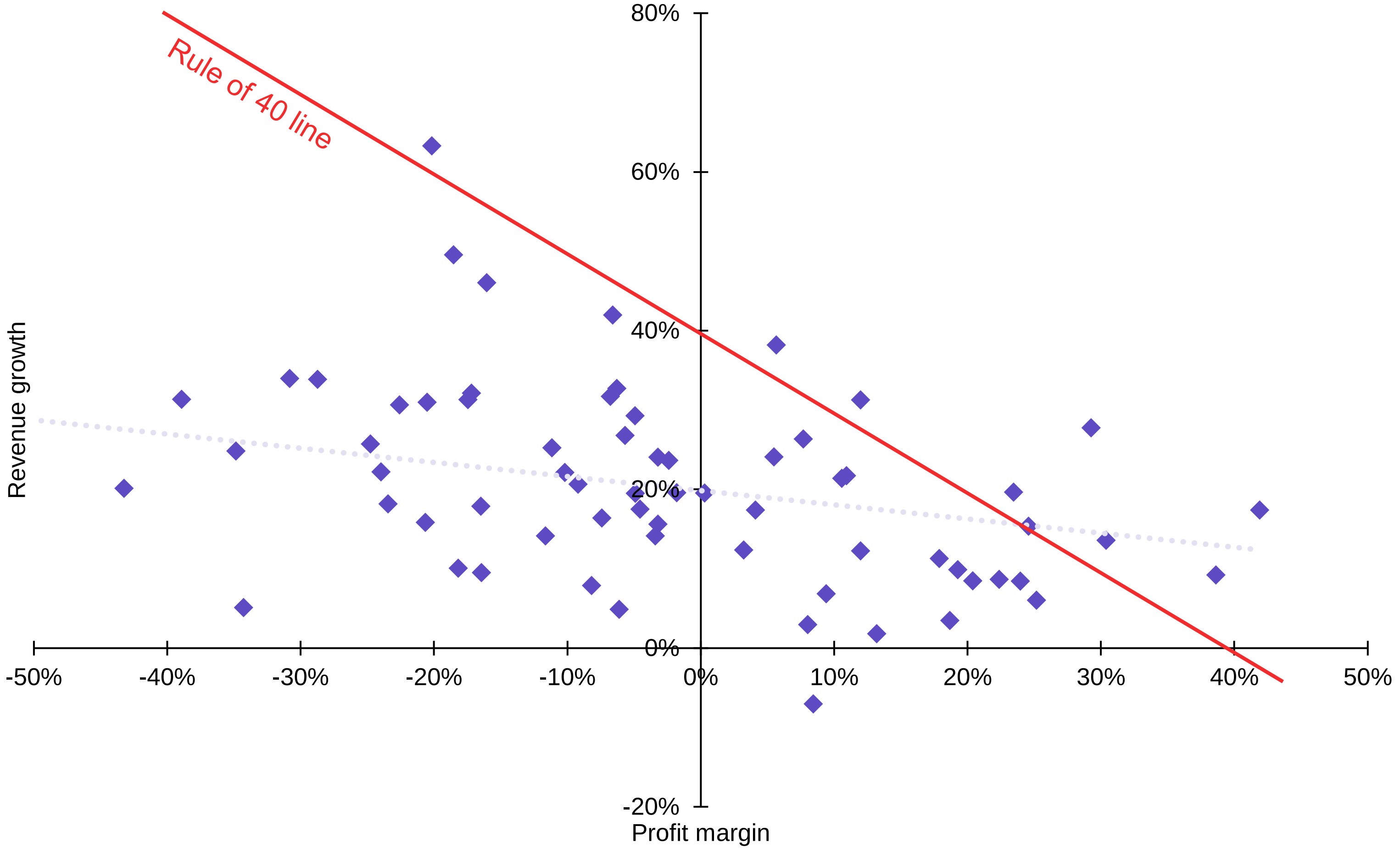
- Rule of 40 for a median SaaS company, calculated as sum of revenue growth and EBITDA margin, has been slowly declining since 2015.
- The median Rule of 40 metric declined from around 30% in 2015 to around 20% in 2022.
- Only 17% of the companies in our index passed the Rule of 40 test.

Source: S&P Capital IQ

Deep-dive: Rule of 40

Very few companies are satisfying Rule of 40, primarily due to failing to improve profitability

Profit margin vs. Revenue growth, %



Comments

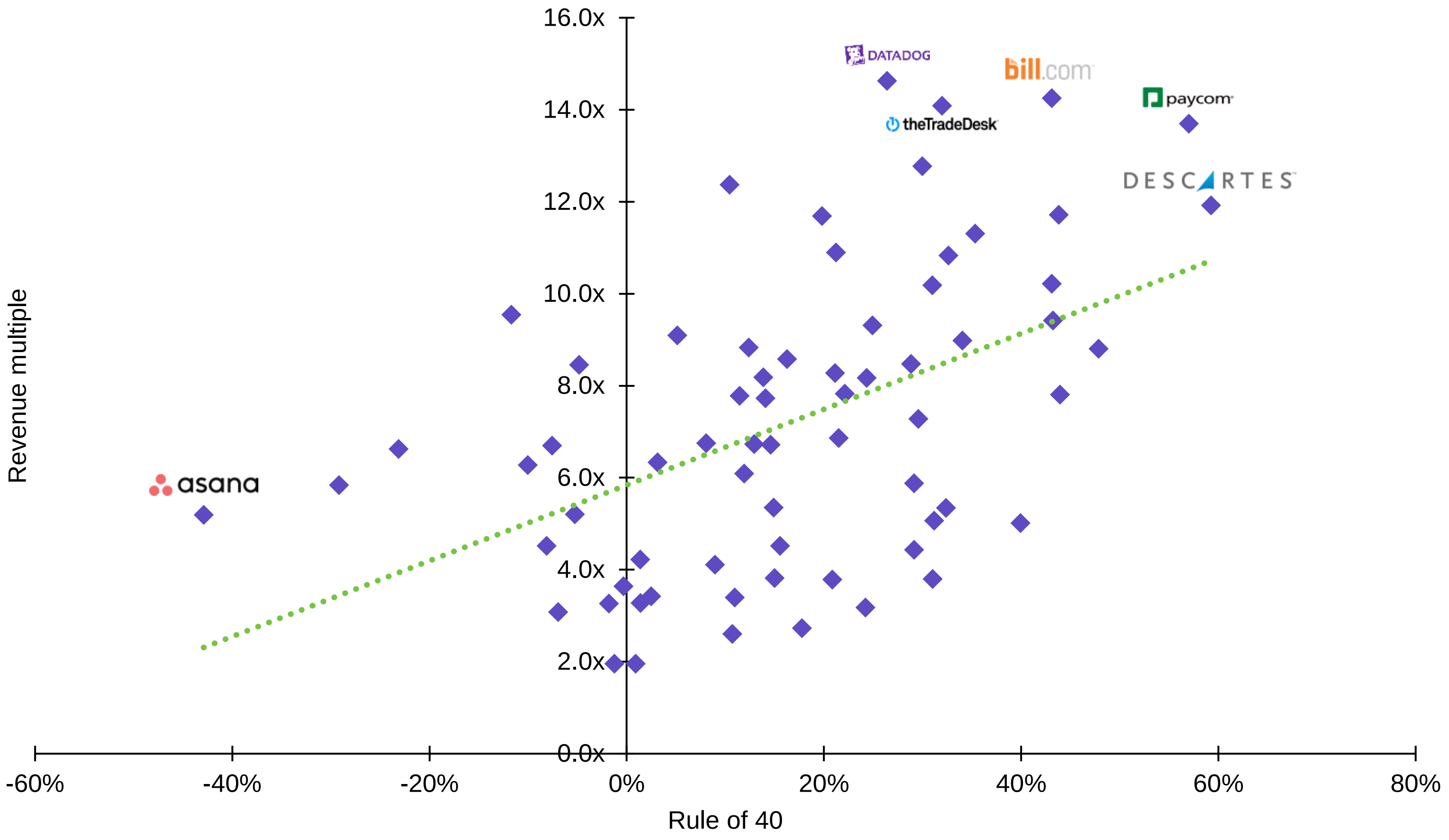
- Among 73 companies in our sample, only a couple stayed above Rule of 40 as of Q1 2023.
- The companies comfortably above Rule of 40 included Adobe, Descartes and EngageSmart.
- Rule of 40 implies a one-to-one tradeoff between a percentage point of revenue growth and margin.
- Actual data shows SaaS companies actually sacrifice around 3pp of margin for 1pp of revenue growth.

Source: S&P Capital IQ

Deep-dive: Rule of 40

A 10-point improvement in Rule of 40 metric is generally corresponding to a 0.8x revenue multiple growth

Revenue growth vs Profit margin, %



Comments

- Rule of 40 remains a good predictor of a company's valuation multiples.
- As of 30.06.2022, a 10% increase in Rule of 40 metric added 0.8x to the Revenue multiple.
- A company with a zero Rule of 40 metric is expected to trade at around 6.0x Revenue.

Source: S&P Capital IQ

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SaaS Multiples

Since 2015, SaaS companies have had median EV/Revenue of 5.2x and EV/EBITDA of 21.4x

Multiple (2015-2022)	Sample (n)	Median deal size	1st quartile	Median	3rd quartile
EV/Revenue	354	**$86M**	**2.8x**	**5.1x**	**9.7x**
EV/EBITDA	139	**$125M**	**12.5x**	**21.9x**	**46.5x**

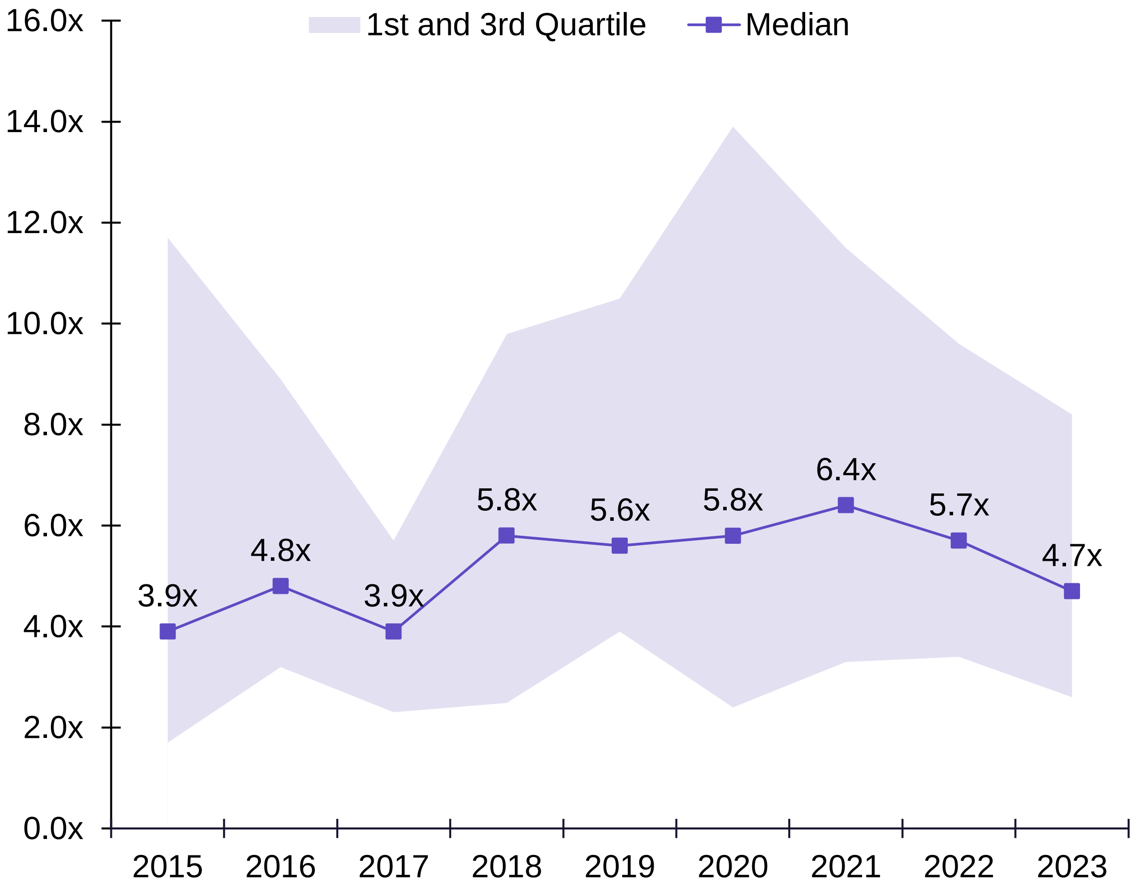
Search criteria:
Industry is Computer Software; Software as a Service (SaaS) targets selected
Deal value and multiples are disclosed
Period: 01.01.2015 – 30.06.2023
N=354 transactions

Source: Mergermarket

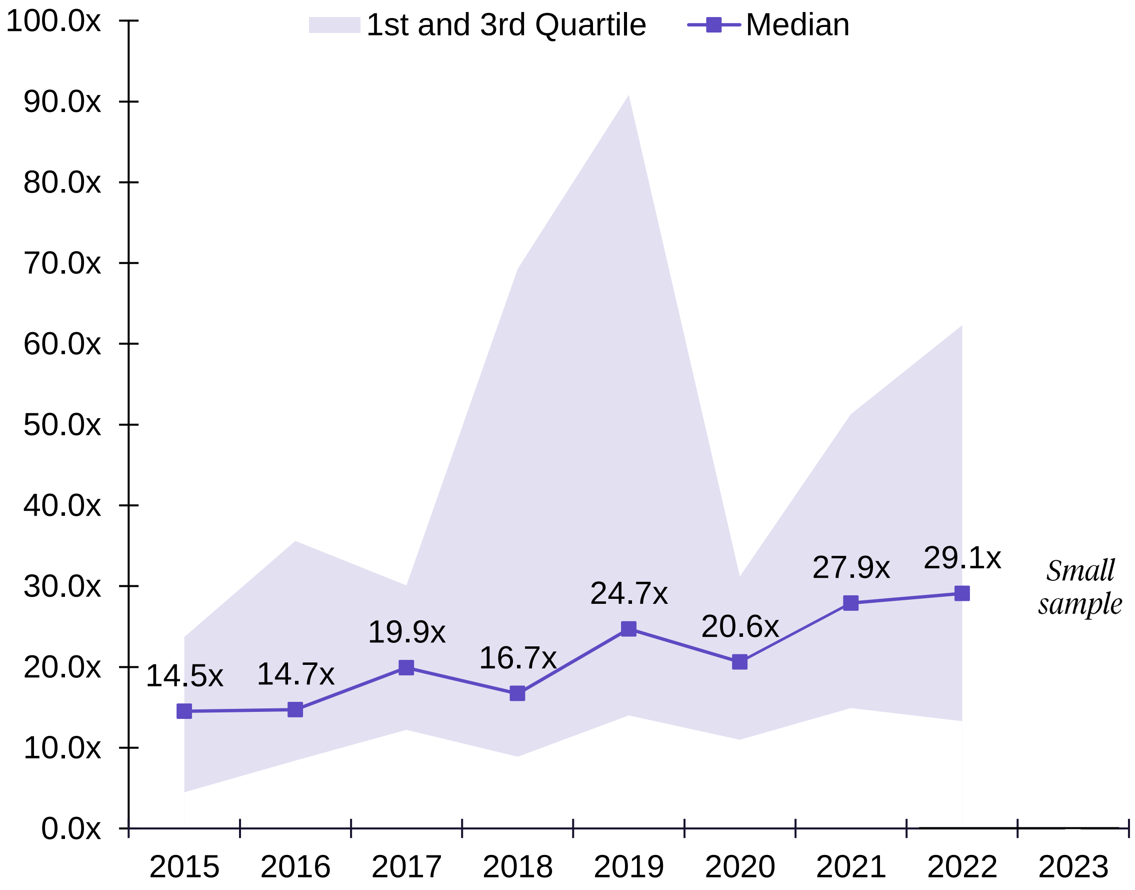
SaaS valuation multiples in M&A transactions

The EV/Revenue multiple for SaaS companies in the sample fluctuated within a range of 3.9x to 6.4x over the past 9 years

Median EV/Revenue multiple, 2015-2023 (n=354)



Median EV/EBITDA multiple, 2015-2022 (n=139)

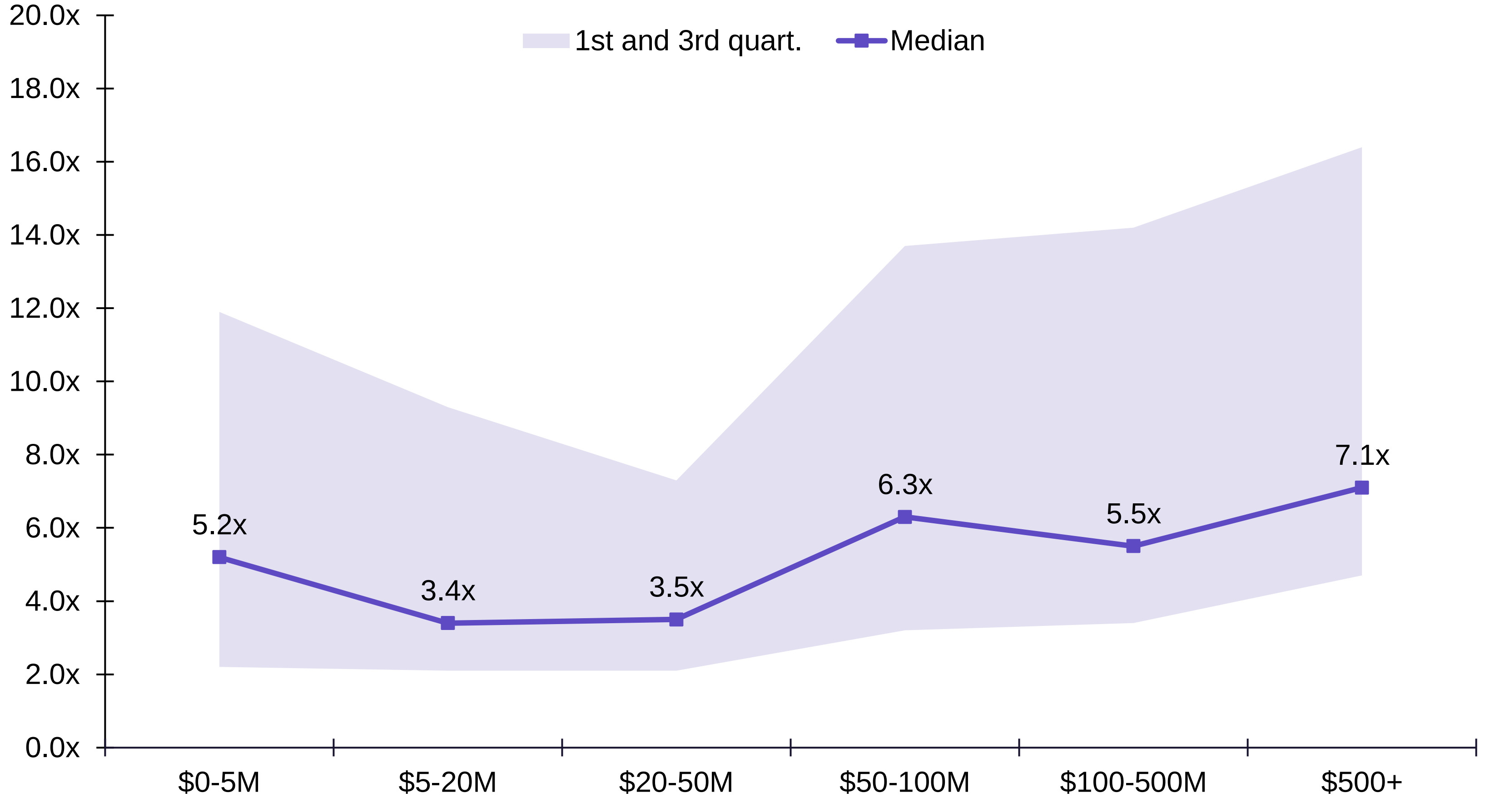


Source: Mergermarket

Valuation drivers: Company size

Deals above $50M have significantly higher valuations than smaller deals

Median EV/Revenue multiple by deal size, 2015-2023



Key findings

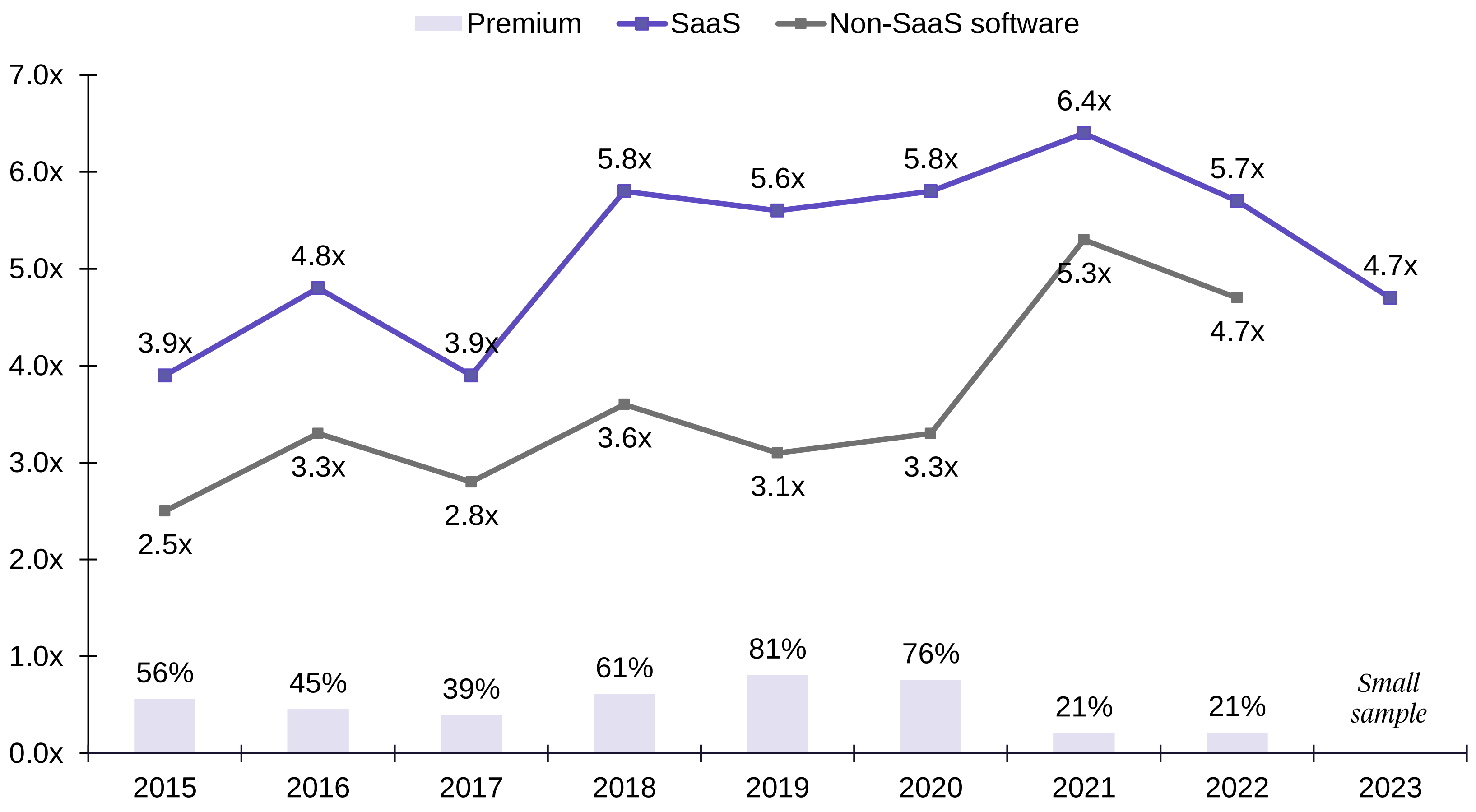
- The EV/Revenue multiple for acquired SaaS companies tends to increase with the size of the company.
- The gap between the 1st and 3rd quartile of the EV/Revenue multiple widens as the size of the company increases.
- Larger deals include strategic acquirors, take-private transactions, yet the elevated competition for such deals is also a major factor.
- The sample size for the “$0-5M" size category is smaller and the companies in this group may have elevated multiples due to lower absolute revenue size.

Source: Mergermarket

Valuation drivers: SaaS vs Non-SaaS business model

The EV/Revenue multiple for SaaS companies is generally higher than for Non-SaaS, but the premium has decreased in the recent years

SaaS vs Non-SaaS software, EV/Revenue multiple



Key findings

- In the sample analyzed, SaaS companies had consistently higher EV/Revenue ratios than other types of software companies.
- The “SaaS premium” stayed elevated in the 2015-2020 period but has since declined.
- We believe the increased competitiveness of investors for any software deals, as well as ongoing transition to the cloud contributed to its decline.

Valuation drivers: Target location

US SaaS companies made up the majority of acquisitions in the sample and had the highest valuations and deal sizes

Country of Target Company	Number of deals	Median size, m USD	Median EV/Revenue	Median EV/EBITDA
USA	149	286	5.8x	32.1x
United Kingdom	45	34	4.7x	16.0x
Norway	23	27	5.4x	21.3x
Australia	17	58	5.5x	9.1x
Canada	12	80	6.0x	56.5x
France	14	45	3.0x	15.1x
Other	94	25	3.6x	16.7x
Total	**354**	**81**	**5.1x**	**21.9x**

Source: Mergermarket

About Aventis Advisors

What do we do?

We are an M&A advisor focusing on technology and growth companies. We advise on company exits, acquisitions, and larger capital raising deals.

Over the years, we have developed a distinctive operating philosophy driven by a set of values.

- We believe the world would be better off with fewer (but better quality) M&A deals done at the right moment for the company and its owners.
- We start with a simple rule: we take the time to carefully listen and understand each client's unique set of needs and goals.
- We then provide honest, insight-driven advice clearly laying out all the options before you – including the one to keep the status quo.

Our closed deals

Aventis Advisors
CKSource
Sold to
PSG Providence Strategic Growth

Aventis Advisors
Solutions30
Solutions for New Technologies
Acquired
The Telecom support services of ELMO

Aventis Advisors
Solutions30
Solutions for New Technologies
Acquired
Telekom Usługi S.A.

Aventis Advisors
active 24
Sold to
ogicom

Aventis Advisors
Avenga
Acquired
sevenval

Aventis Advisors
avalon
Was acquired by
R22

Aventis Advisors
VISMA
Acquired
saldeo SMART

Aventis Advisors
xServers
Sold to
R22

Contact us

Get in touch with our advisors to discuss how much your business could be worth and how the M&A process looks.

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