

Aventis Advisors

SaaS Valuation Multiples

January 2023



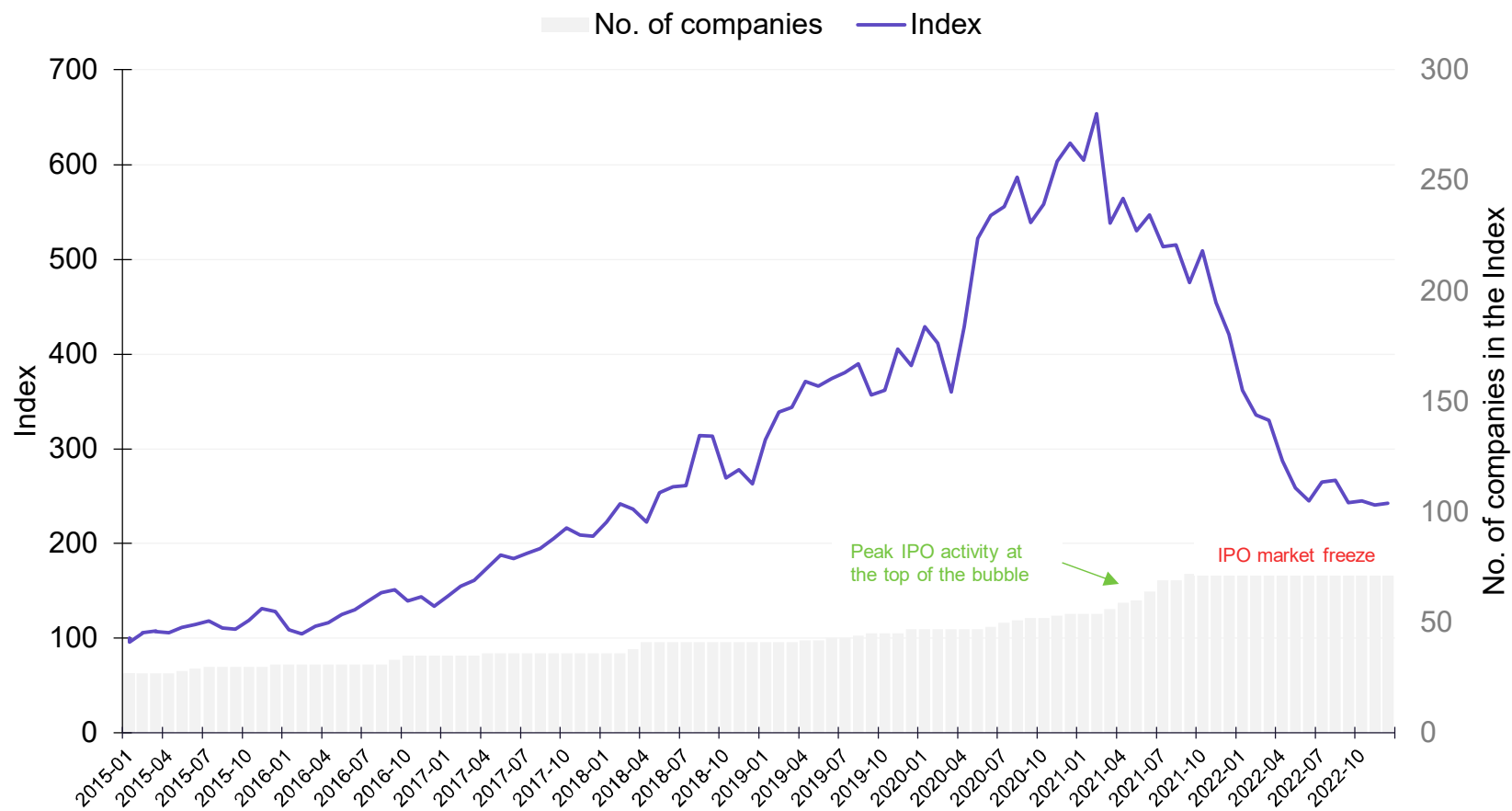
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SaaS Valuations: Aventis SaaS Index

SaaS valuations exploded over the past 5 years, reaching an index of more than 600 points, before falling dramatically over 2021-2022

SaaS Index, 01.01.2015=100



Comment

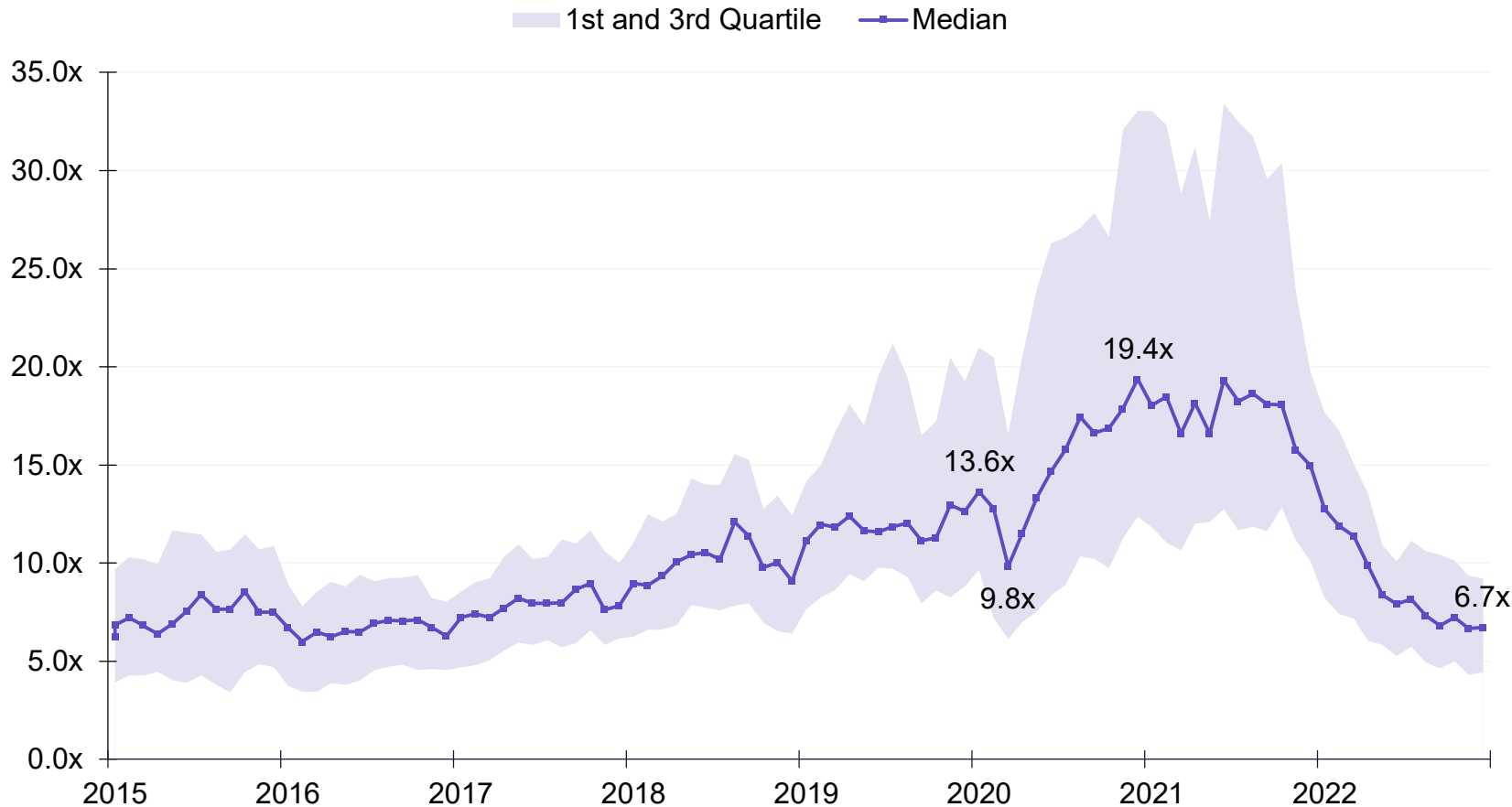
- Index of SaaS companies has been slowly growing in the 2015-2020 period driven by the expanding valuation multiples, as well as by rapid growth of the companies.
- After the unprecedented monetary and fiscal stimulus and COVID digitalization tailwinds, the index jumped in 2020 to over 600 points by 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.

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

SaaS Valuations: EV/Revenue multiple

SaaS revenue multiples almost doubled during 2020, as investors poured money into software

Median EV/Revenue multiple, 2015-2022



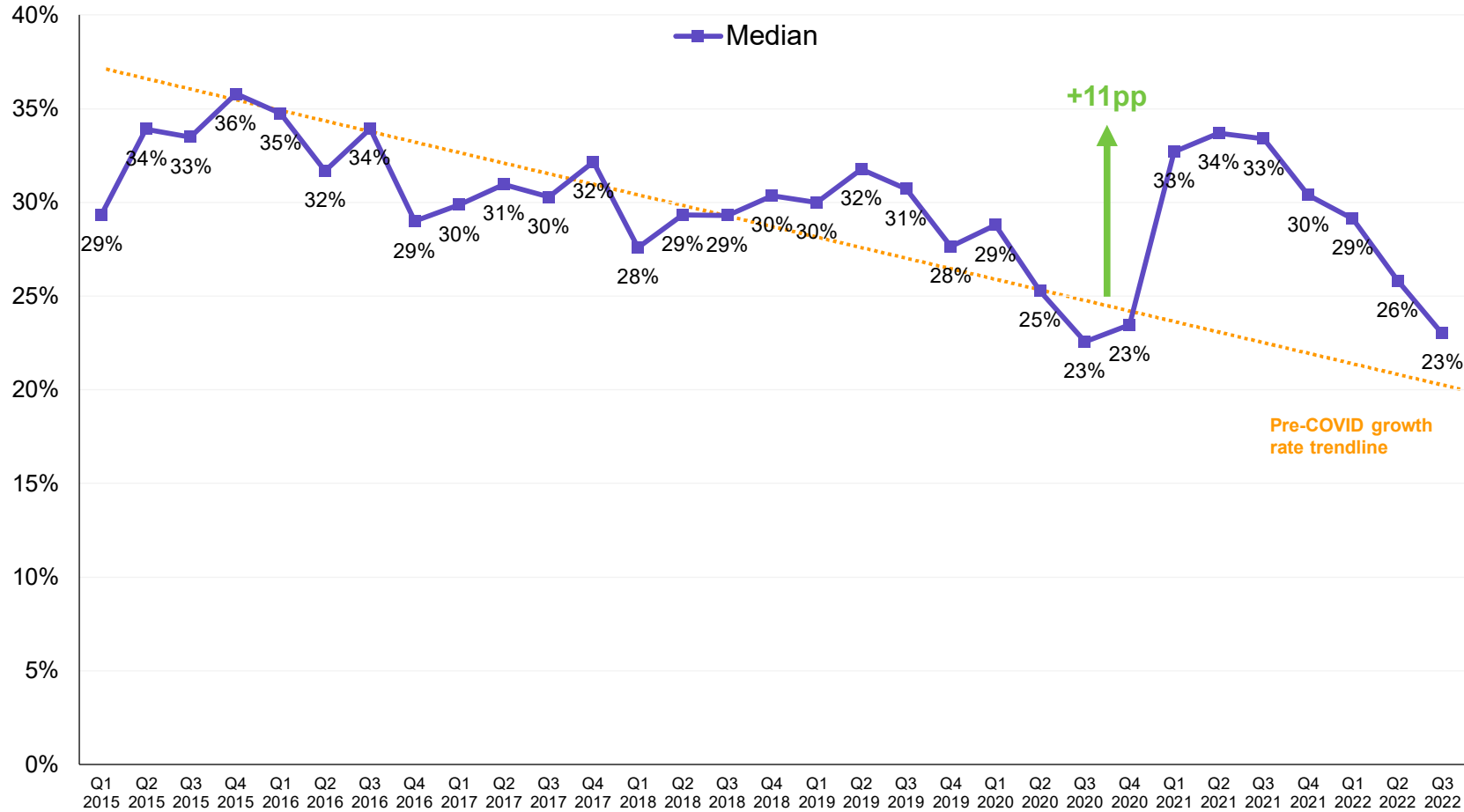
Comment

- 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 December 2022, multiples reached a plateau at around 6.7x.

Deep-dive: SaaS growth rates

SaaS revenue growth rates jumped during the pandemic, but now seem to be coming back to the long-term trendline

Median YoY quarterly revenue growth, %



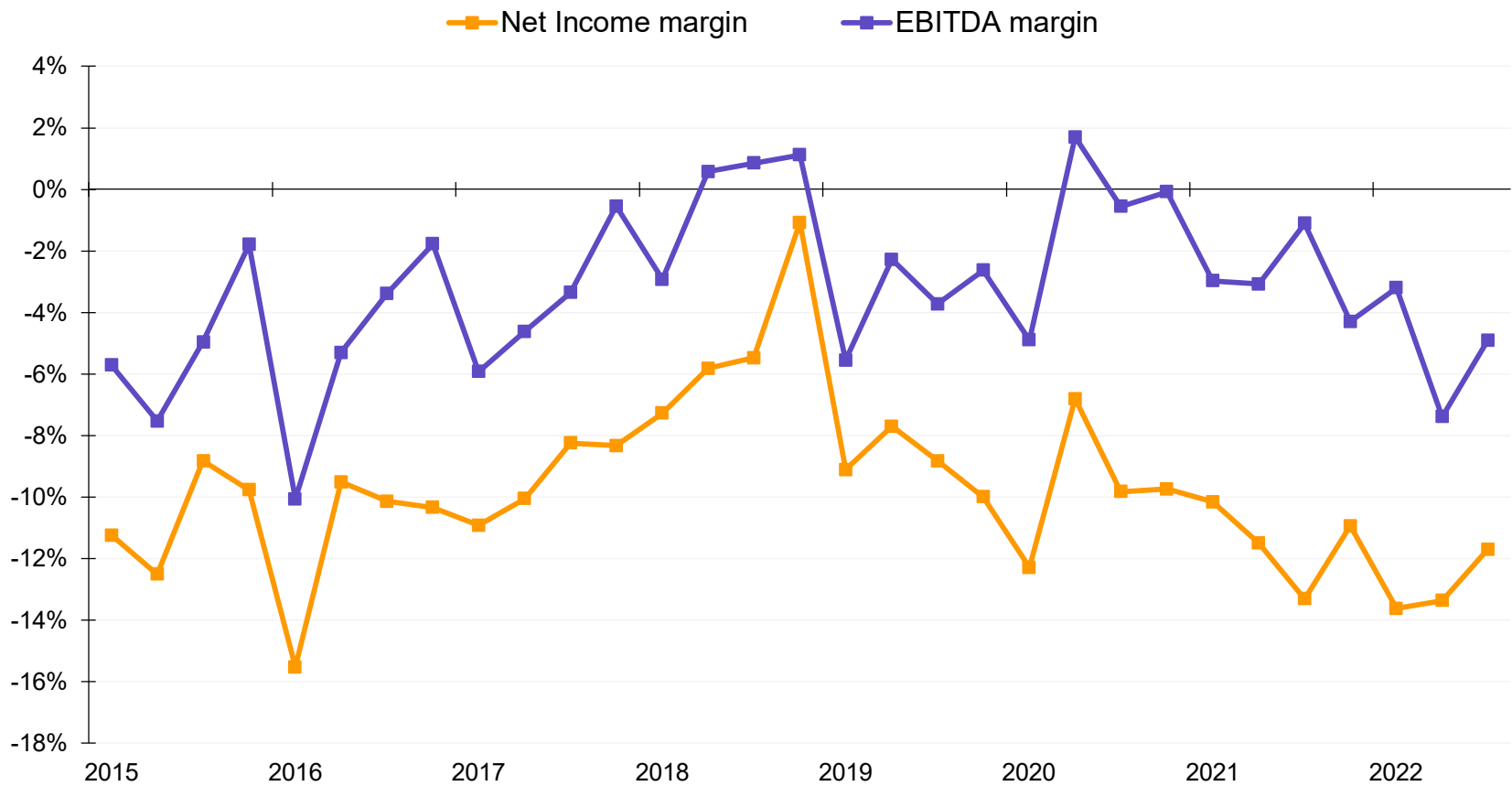
Comment

- SaaS growth rates have been slowly decelerating over the past eight years, as many companies reached scale.
- By Q2 2020, the median growth rate of SaaS business declined to 23% YoY.
- Pandemic provided a temporary 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.

Deep-dive: SaaS profitability

Profitability remains a challenge for SaaS companies, with the median margins in our sample well below zero

Median quarterly margin, %



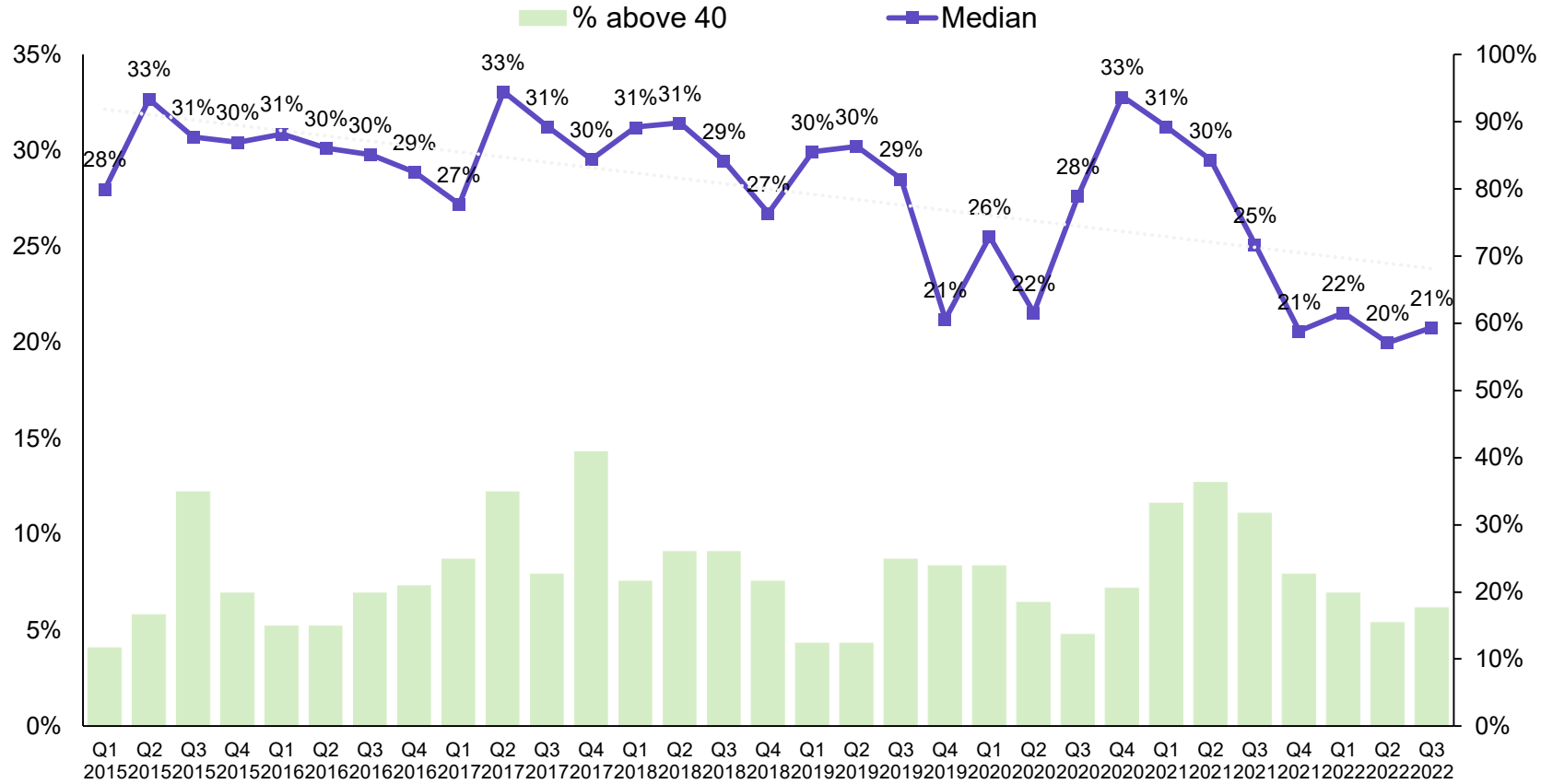
Comment

- 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.

Deep-dive: SaaS Rule of 40

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

Rule of 40, %



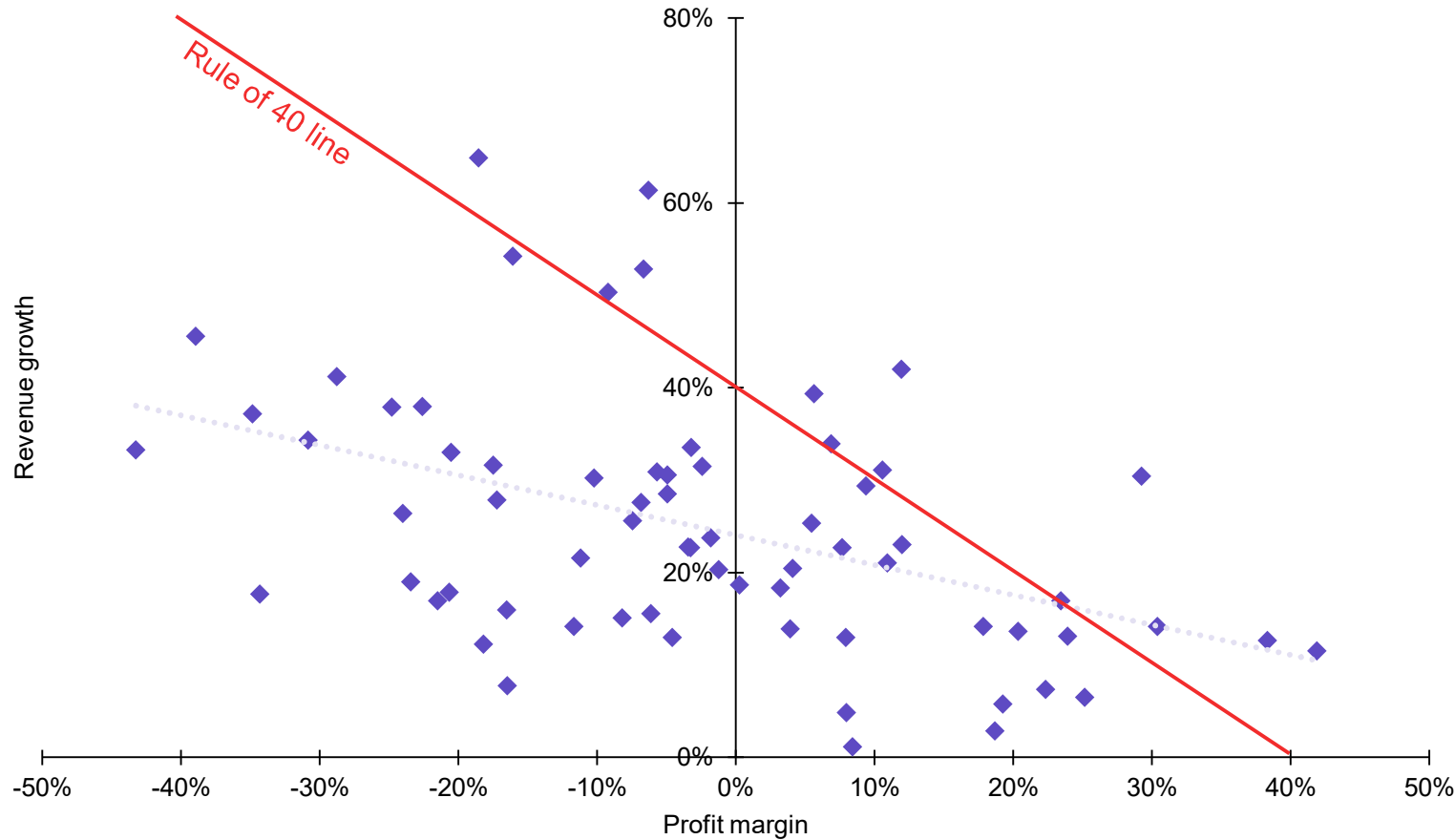
Comment

- 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 18% of the companies in our index passed the Rule of 40 test.

Deep-dive: Rule of 40

SaaS companies seem to be sacrificing 3pp of margin for each extra percentage point in revenue growth

Profit margin vs. Revenue growth, %



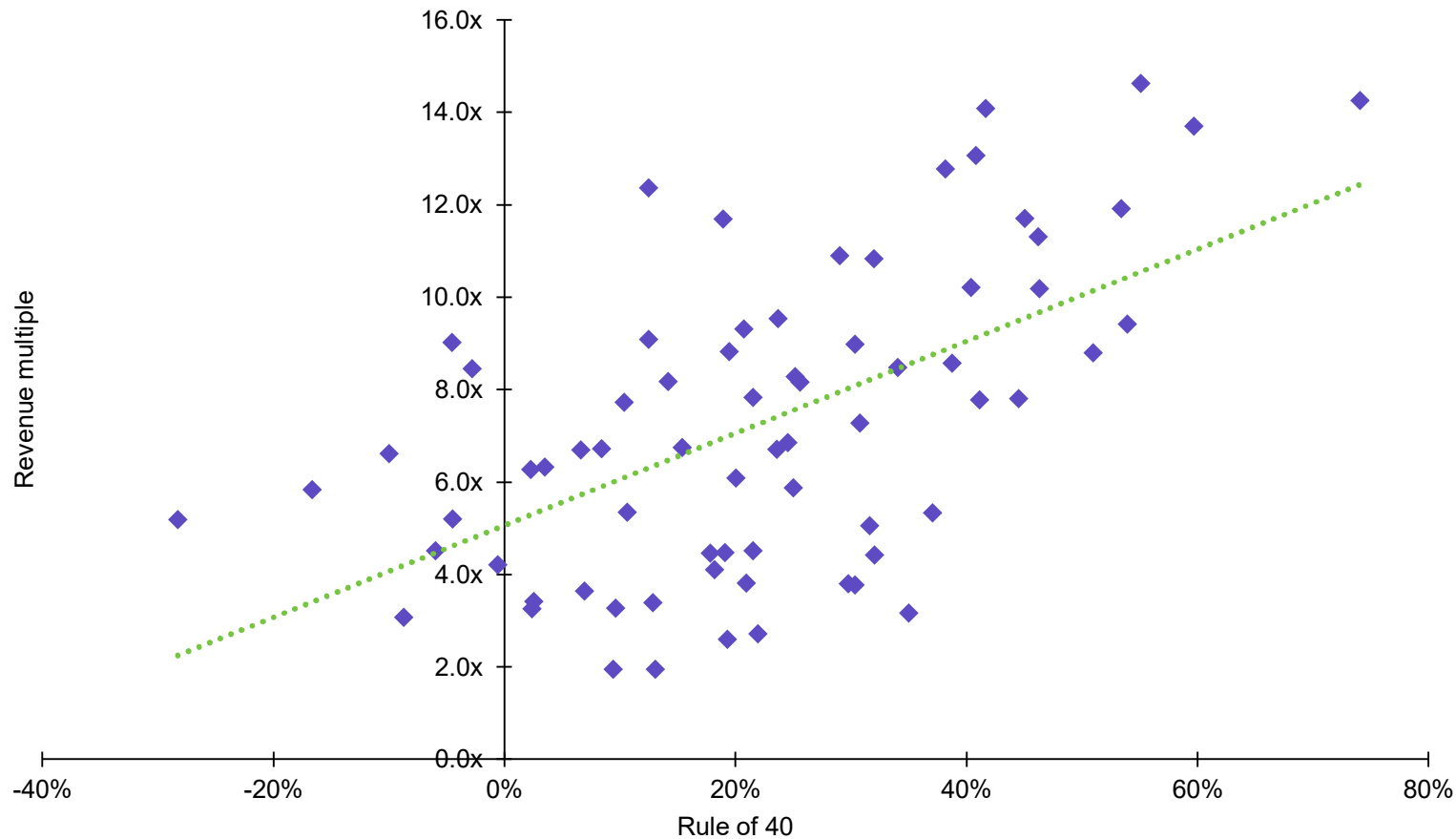
Comments

- Among 73 companies in our sample, only 13 stayed above Rule of 40 as of Q3 2022.
- 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.

Deep-dive: Rule of 40

A 10-point improvement in Rule of 40 metric is generally corresponding to a 1.0x revenue multiple growth

Revenue growth vs Profit margin, %



Comments

- Rule of 40 remains a good predictor of a company's valuation multiples.
- As of 31.12.2022, a 10% increase in Rule of 40 metric added 1.0x to the Revenue multiple.
- A company with a zero Rule of 40 metric is expected to trade at around 5.0x Revenue.

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2. SaaS valuations: M&A transactions



SaaS Multiples

Over the past eight years, 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 | 327 | \$81M | 2.9x | 5.2x | 9.7x |
| EV/EBITDA | 130 | \$105M | 12.4x | 21.7x | 39.4x |

Search criteria:

Industry is Computer Software; Software as a Service (SaaS) targets selected

Deal value and multiples are disclosed

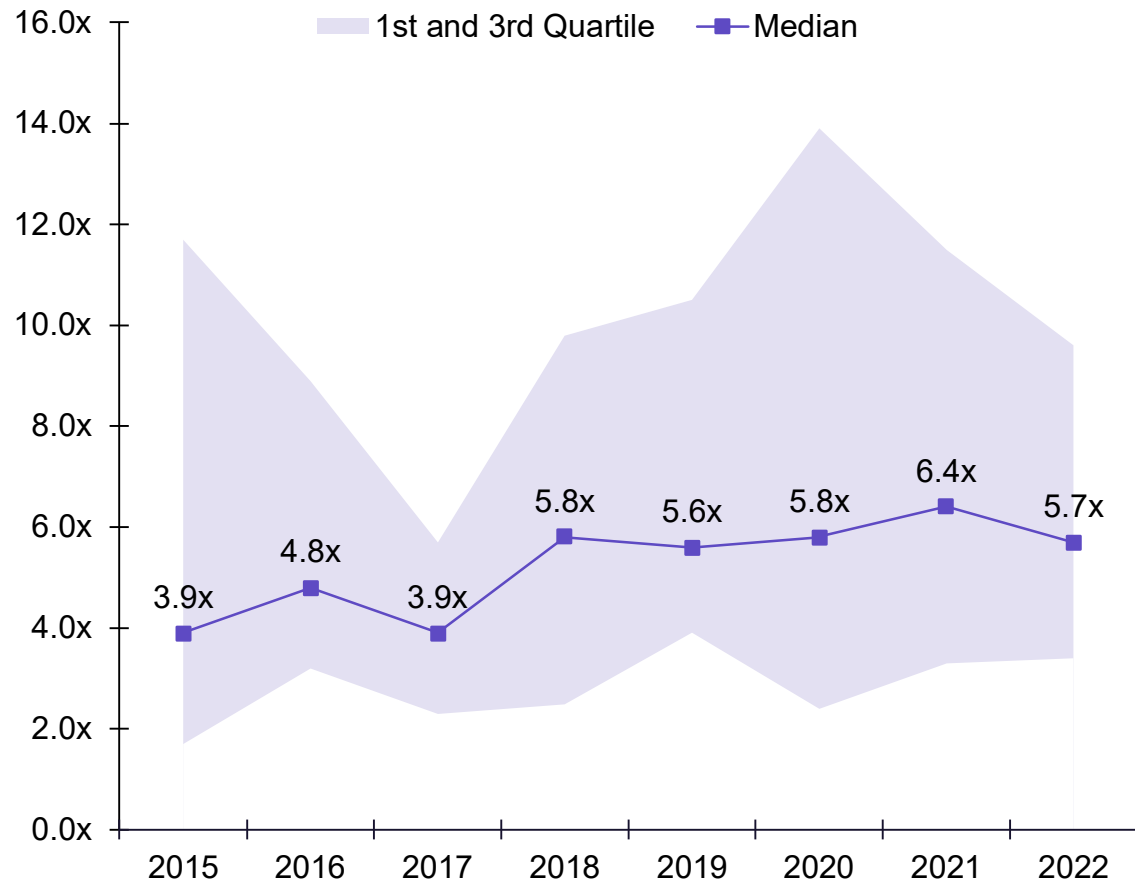
Period: 01.01.2015 – 31.12.2022

N=327 transactions

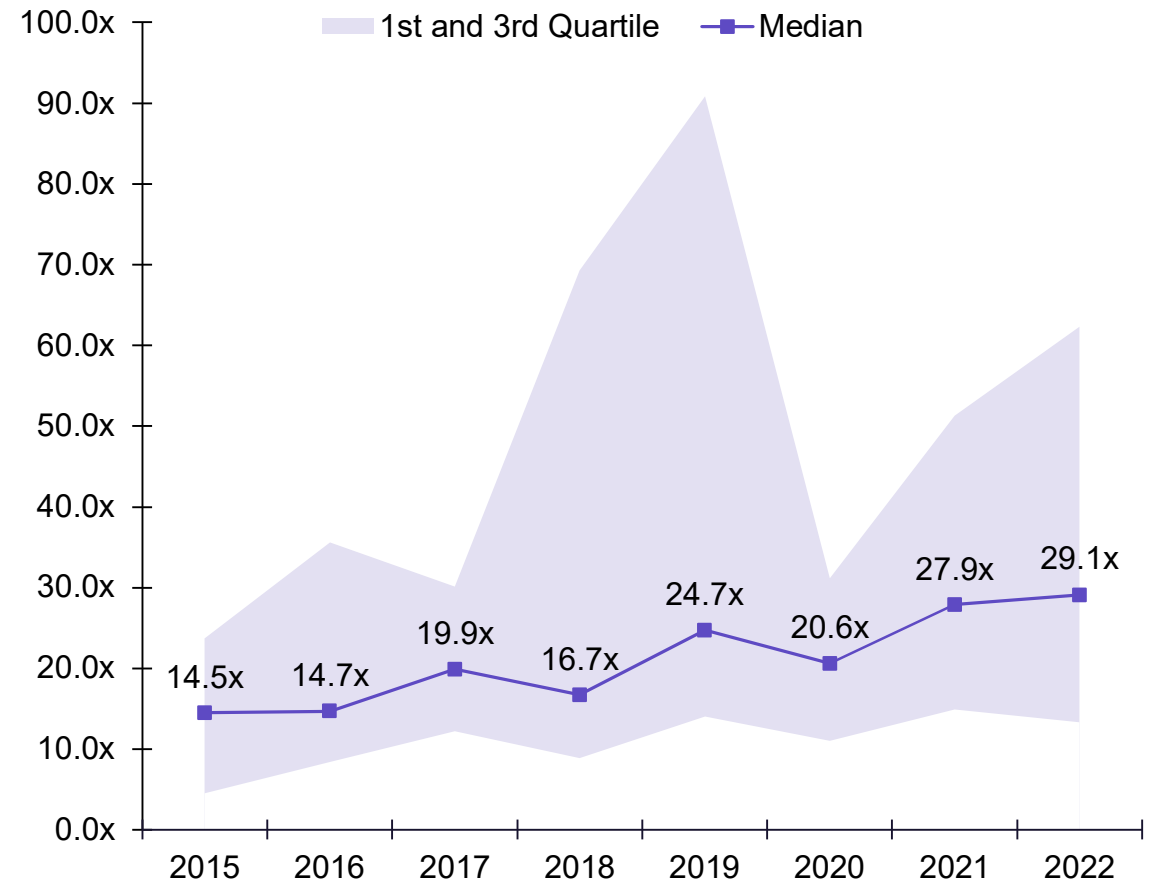
SaaS valuation multiples in M&A transactions

The EV/Revenue multiple for SaaS companies in the sample fluctuated within a range of 3.9x to 6.4x over the past 8 years

Median EV/Revenue multiple, 2015-2022 (n=327)



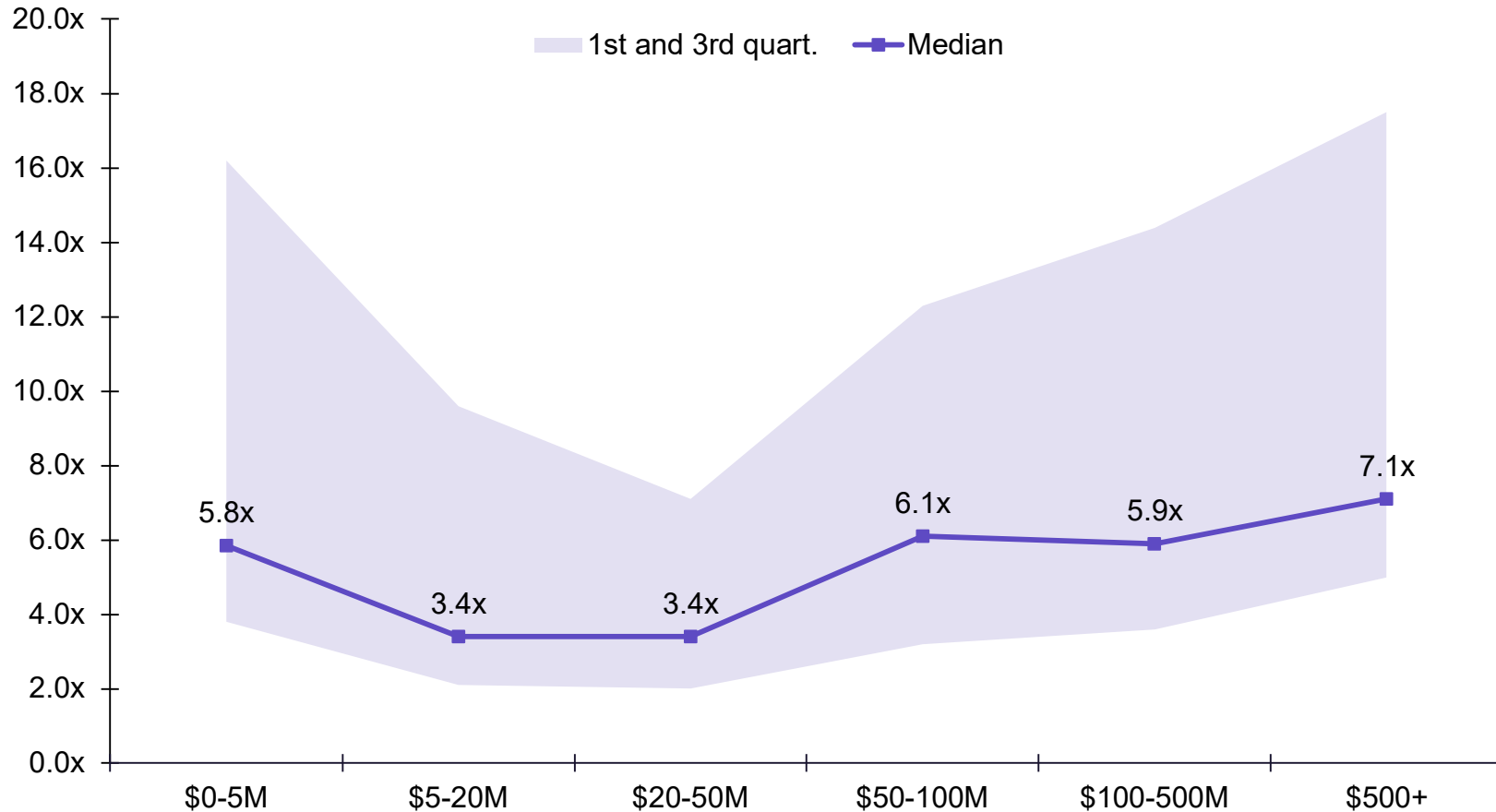
Median EV/EBITDA multiple, 2015-2022 (n=130)



Valuation drivers: Company size

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

Median EV/Revenue multiple by deal size, 2015-2022



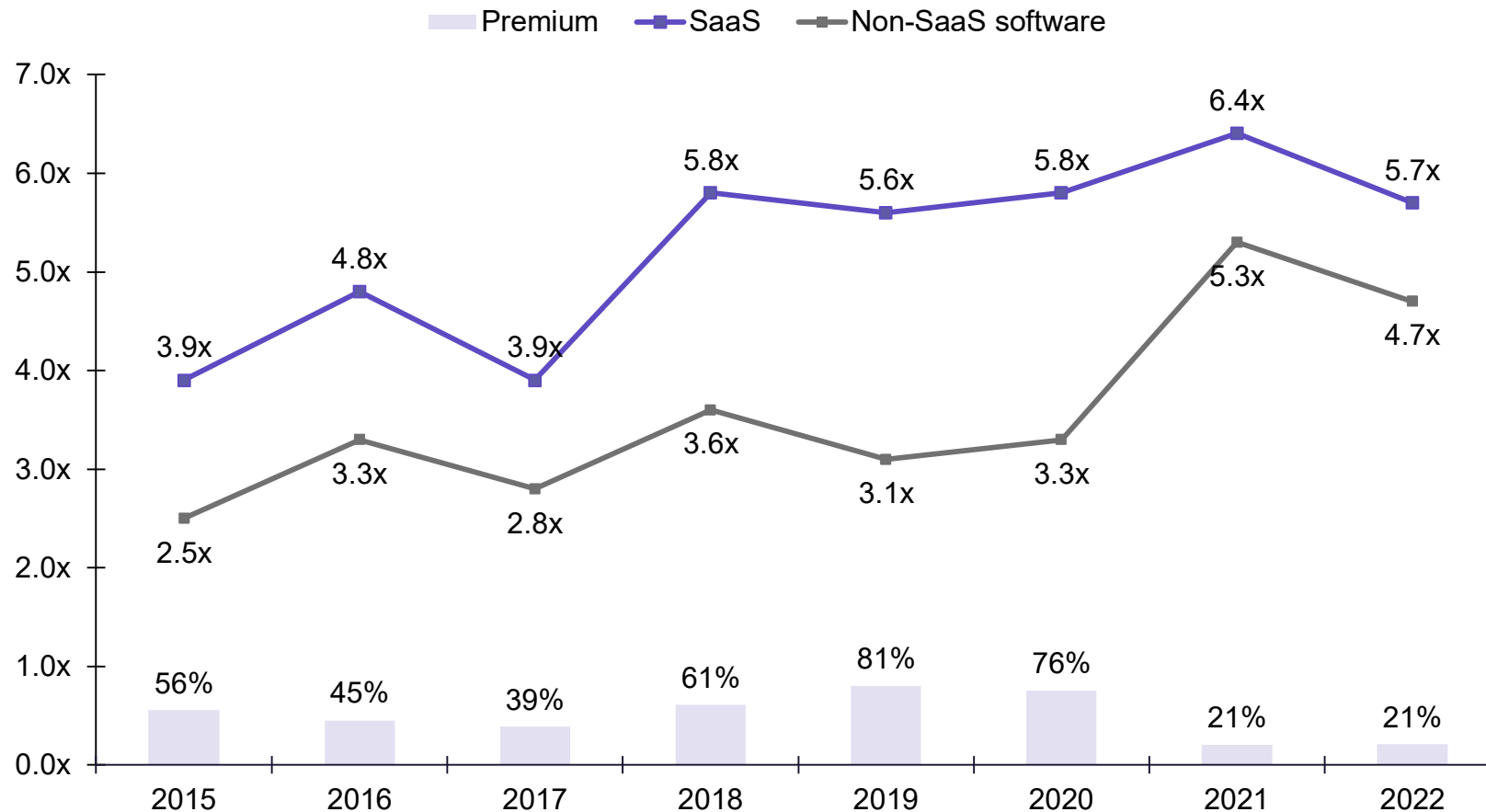
Key findings

- 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.

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 | 140 | 251 | 5.9x | 31.0x |
| United Kingdom | 42 | 34 | 4.7x | 16.4x |
| Norway | 23 | 27 | 5.4x | 21.3x |
| Australia | 14 | 59 | 5.5x | 9.1x |
| Canada | 12 | 80 | 6.0x | 56.5x |
| France | 14 | 45 | 3.0x | 15.1x |
| Other | 82 | 23 | 3.6x | 15.4x |
| Total | 327 | 81 | 5.2x | 21.4x |

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

| Deal 1 | Deal 2 | Deal 3 | Deal 4 |
|--|--|---|--|
| CKSOURCE Sold to PSG PROVIDENCE STRATEGIC GROWTH | Solutions30 Solutions For New Technologies Acquired The Telecom support services of ELMO | Solutions30 Solutions For New Technologies Acquired Telekom Uslugi S.A. | actua Sold to ogicom |
| Avenga Acquired sevenval | avalon Was acquired by R22 | VISMA Acquired saldeo SMART | xServers Sold to R22 |
| USA | CRO, HRV | NOR, HRV | BEL, HRV |

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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