

*Aventis Advisors*

# SaaS Valuation Multiples: 2015-2024

Q4 2023 update

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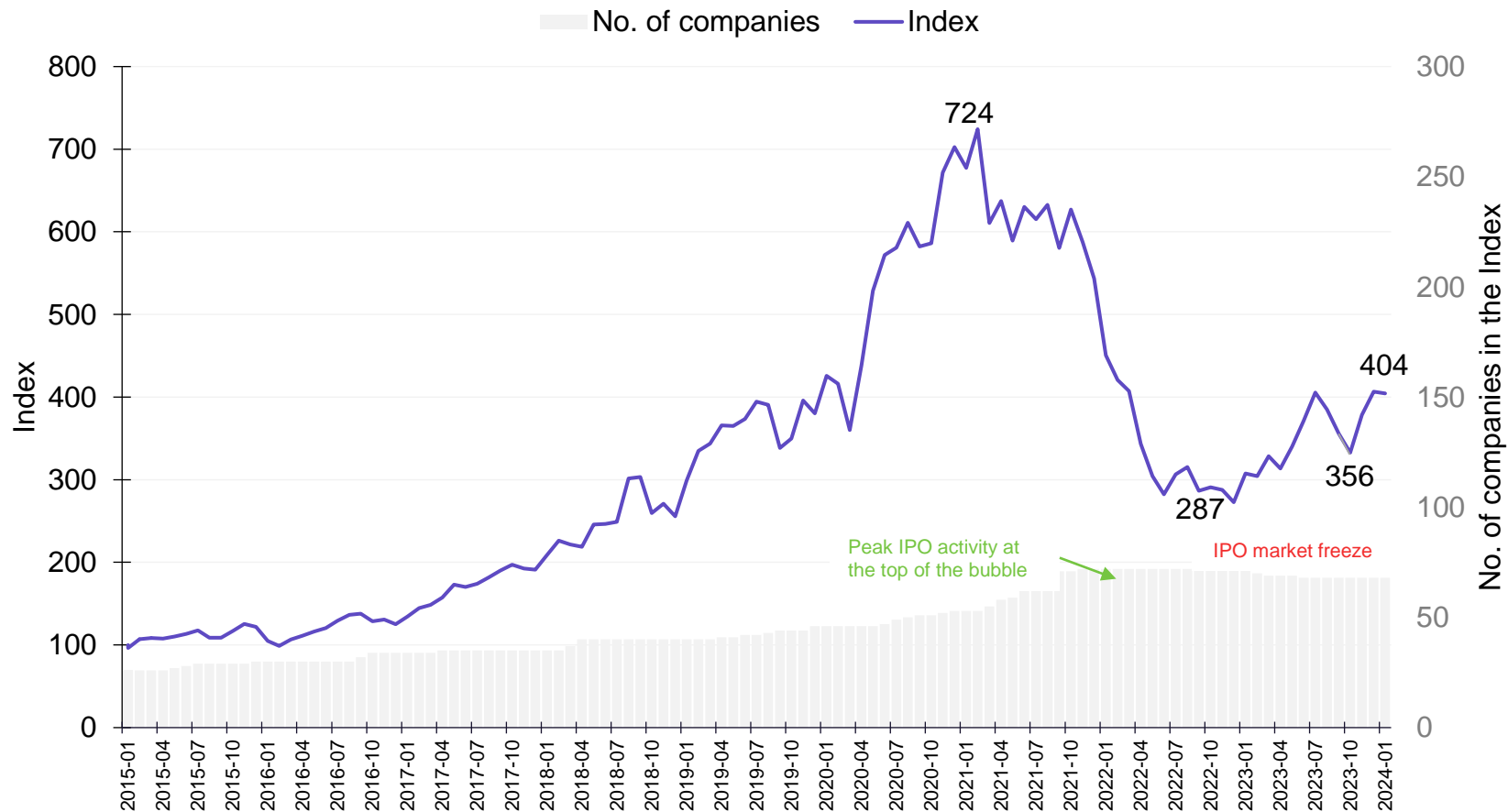
## Listed SaaS companies: Scorecard

Median metrics		Listed SaaS companies: Q4 2023	vs. Q3 2023
EV/Revenue	x	7.4x	-0.3x
Revenue growth	%	18%*	unch.*
EBITDA margin	%	4%*	+3pp*
Net profit margin	%	0%*	+5pp*
Rule of 40	%	22%*	+1pp*

# 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.
- 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.

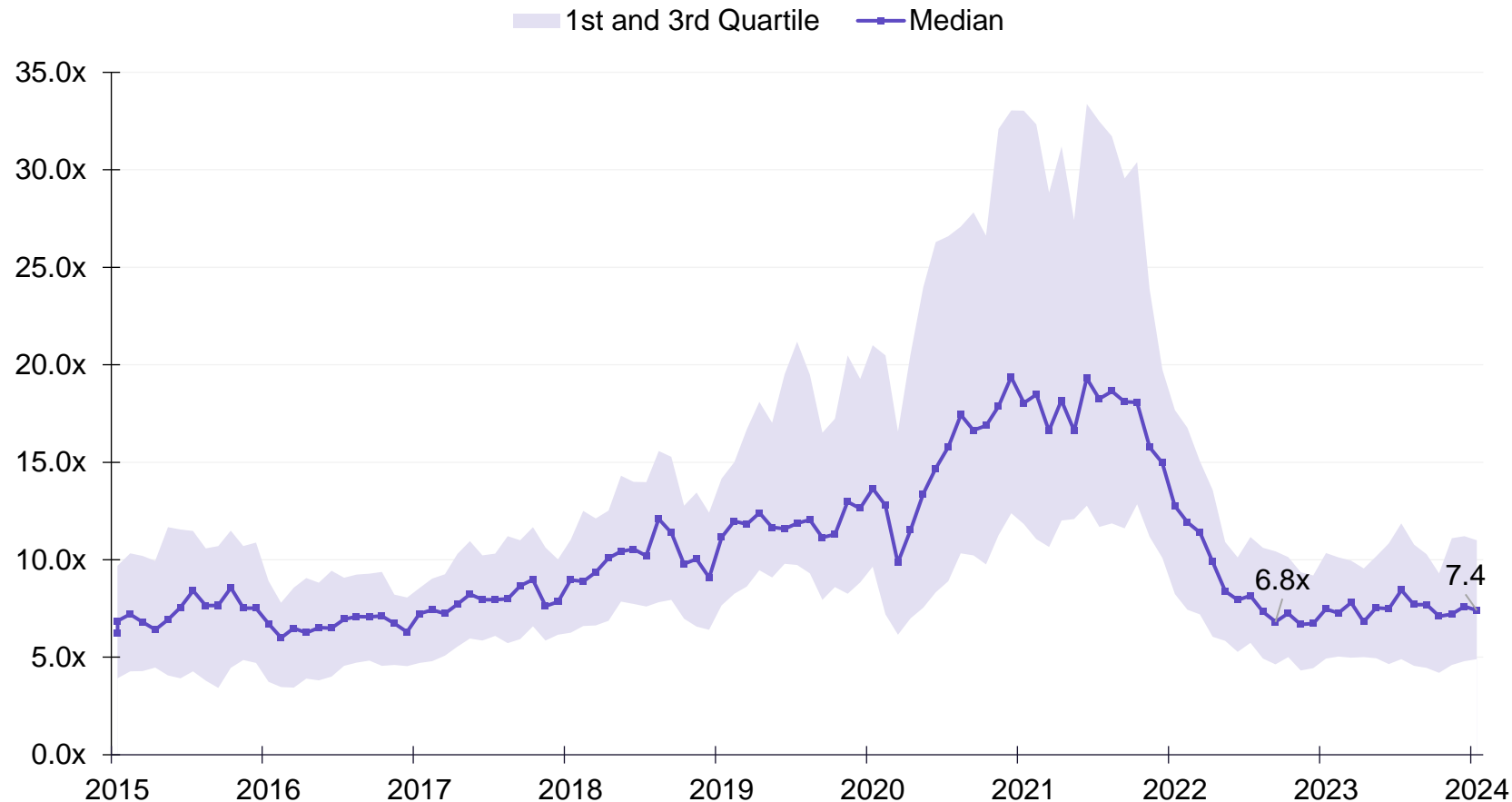
## Q4 2023 update

- Aventis SaaS Index declined by 4% between Q2 2023 to Q3 2023. But it erased the losses by January 2024.
- This is roughly 49% rise in the index when compared to same quarter (Q4) last year.

# 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 highest multiple recorded in our sample was Asana, closing at 89.0x LTM Revenue in November 2021.

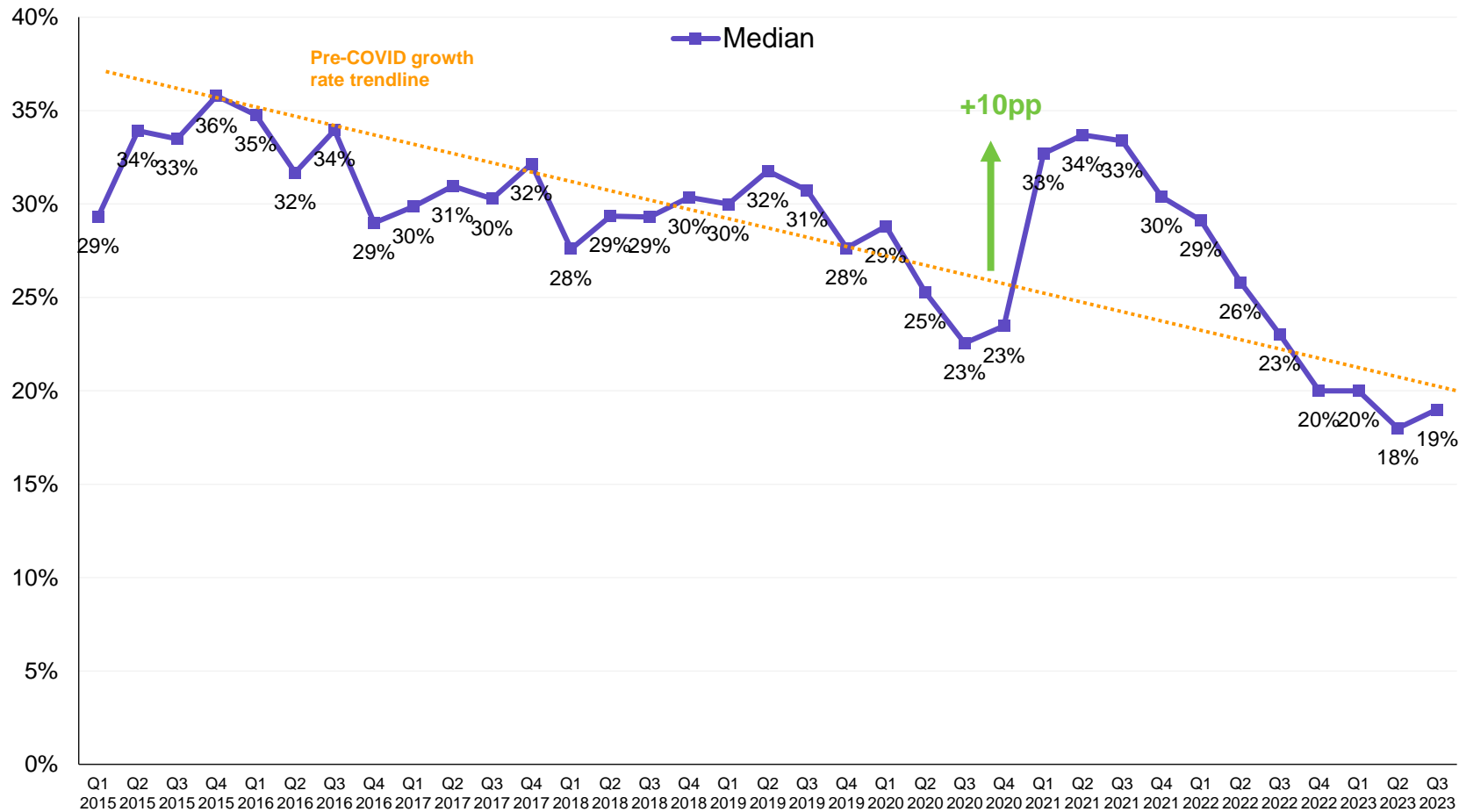
## Q4 2023 update

- The median EV/Revenue multiple at the end of Q4 2023 was 7.4x while during the same quarter in 2022 the revenue multiple was 6.7x. Looking at QoQ, the median revenue multiple decreased by 0.3x in Q4 2023

# Deep-dive: SaaS growth rates

SaaS revenue growth rates continued to deteriorate reaching a median of 18% 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.

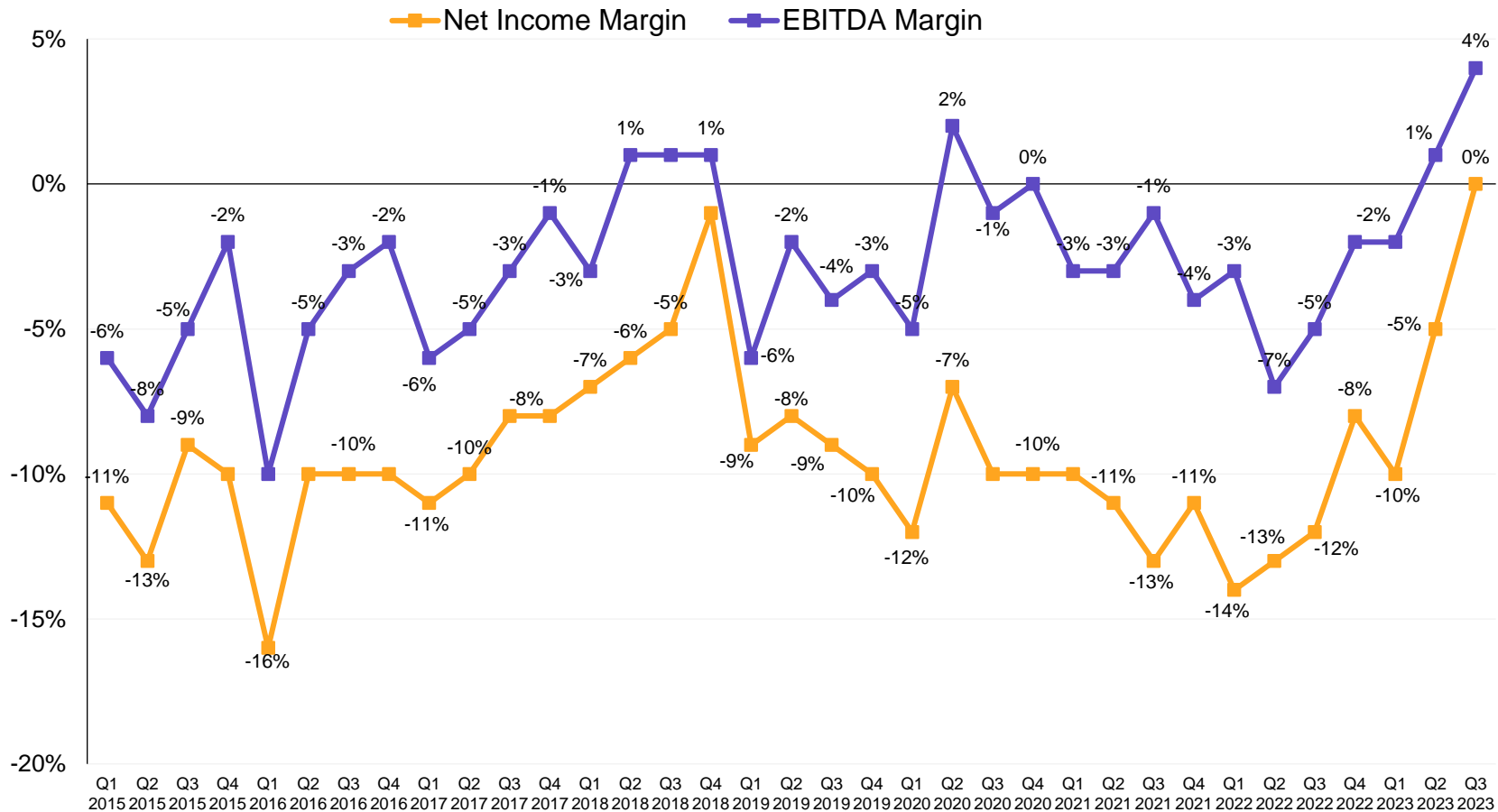
## Q3 2023 update

- QoQ, the median revenue growth remained flat at 18% for companies in the Aventis SaaS Index. However, this is a 5% decline in median revenue growth compared to the same quarter last year.

# Deep-dive: SaaS profitability

After large layoffs signaling cost control and focus on efficiency, profitability margins of SaaS companies have moved towards positive territory

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 as of Q1 2023

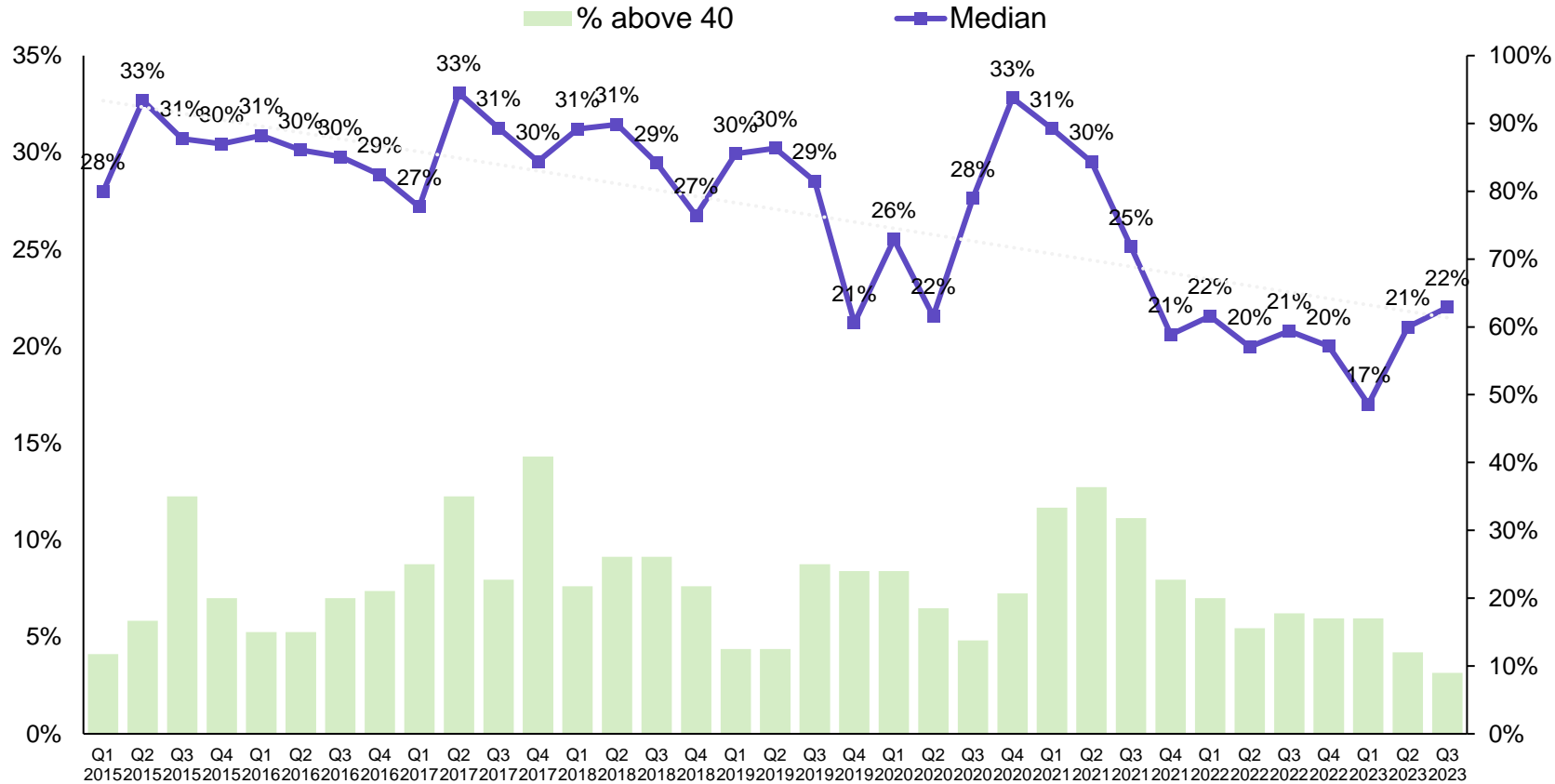
## Q3 2023 update

- SaaS profitability margins advanced towards positive territory in last two quarters. Companies in Aventis SaaS Index touched an all-time high median EBITDA margin at +4% while median net income margin indicated a break-even level at 0%.

# 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 2023.

### Q3 2023 update

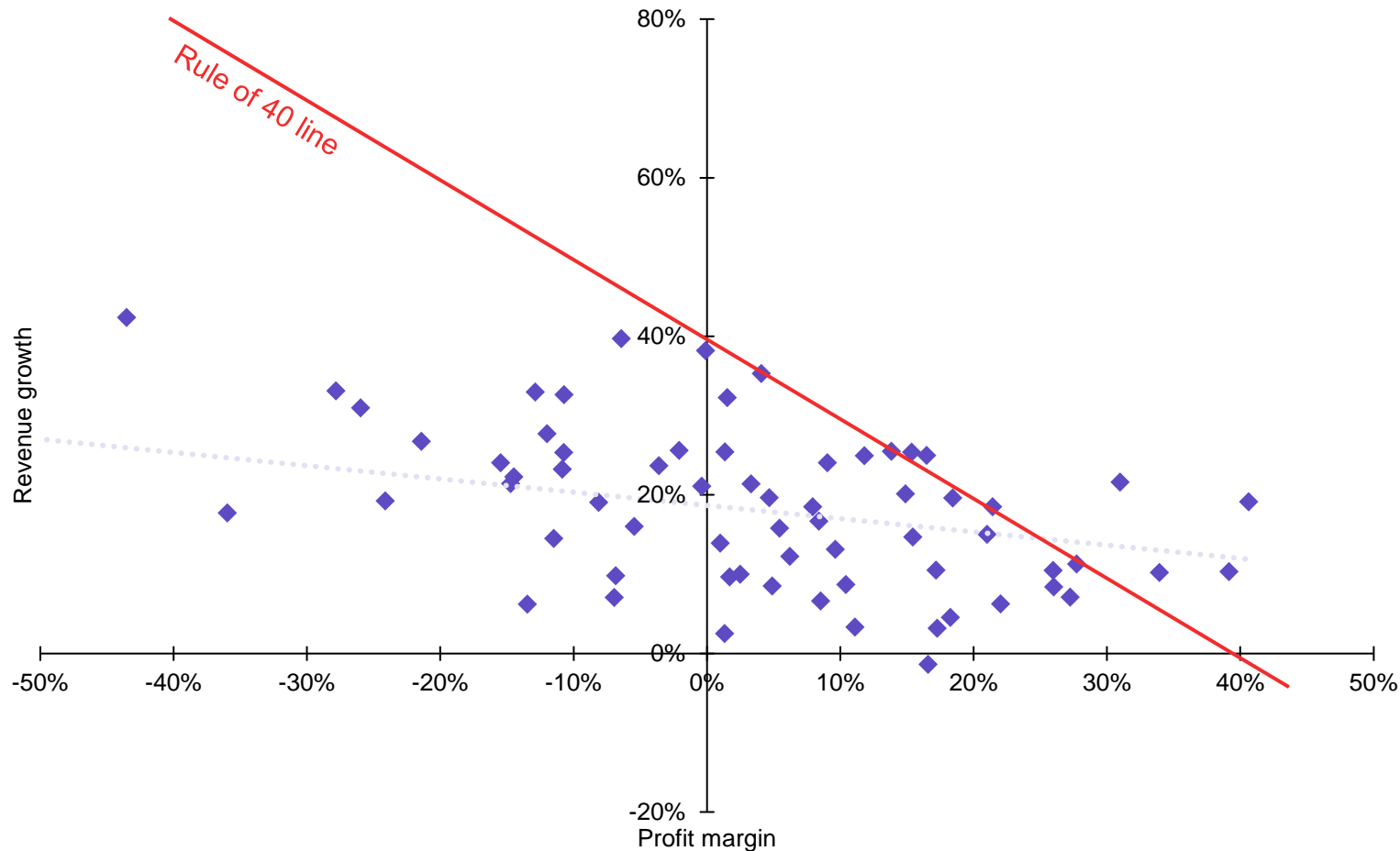
- The number of companies in the index that surpassed Rule of 40 score dropped from 12% to 9% QoQ while the median Rule of 40 score remained almost unchanged.



# 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, % As of Q3 2023



## Comments

- Among 73 companies in our sample, only a couple stayed above Rule of 40 as of Q3 2023.
- As of Q3 2023, the companies comfortably above Rule of 40 included Adobe, Paycom, and Descartes Systems.
- Rule of 40 implies a one-to-one tradeoff between a percentage point of revenue growth and margin.

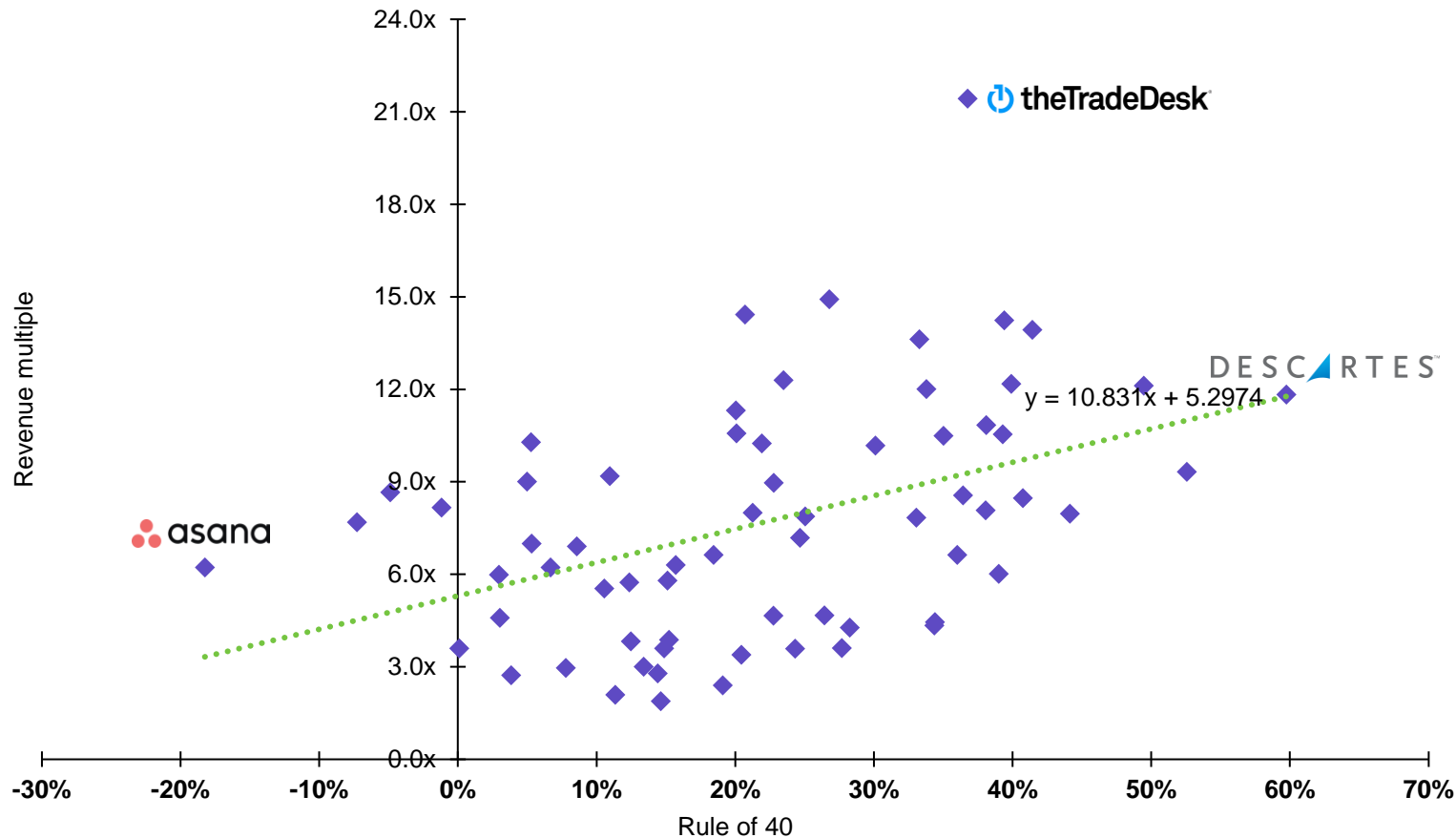
## Q3 2023 update

- Most companies still fail to meet the Rule of 40 score. Out of 73 SaaS companies in our index, 61 companies had a Rule of 40 score below 40.

# Deep-dive: Rule of 40

A 10-point improvement in Rule of 40 metric is generally corresponding to a 0.6x revenue multiple growth

## Revenue multiple vs Rule of 40



## Comments

- Rule of 40 remains a good predictor of a company's valuation multiples.
- As of 30.09.2022, a 10% increase in Rule of 40 metric added 0.6x to the Revenue multiple.
- A company with a zero Rule of 40 metric is expected to trade at around 6.0x Revenue.
- It is true that a higher Rule of 40 score generally corresponds to a higher valuation multiple, but this can be influenced by company specific factors that also need to be considered.

## Q3 2023 update

- The relationship between Rule of 40 score and EV/Revenue multiple remains the same QoQ. However, we noticed that in Q3 2023, a 10% increase in Rule of 40 score adds 0.6x to the Revenue multiple Vs 0.8x in Q2 2023.

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# SaaS Multiples

Since 2015, SaaS companies have had median EV/Revenue of 5.1x and EV/EBITDA of 22.4x

Multiple (2015-2023)	Sample (n)	Median deal size	1st quartile	Median	3rd quartile
EV/Revenue	365	\$86M	2.7x	5.1x	9.5x
EV/EBITDA	144	\$133M	12.9x	22.4x	46.6x

**Search criteria:**

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

Deal value and multiples are disclosed

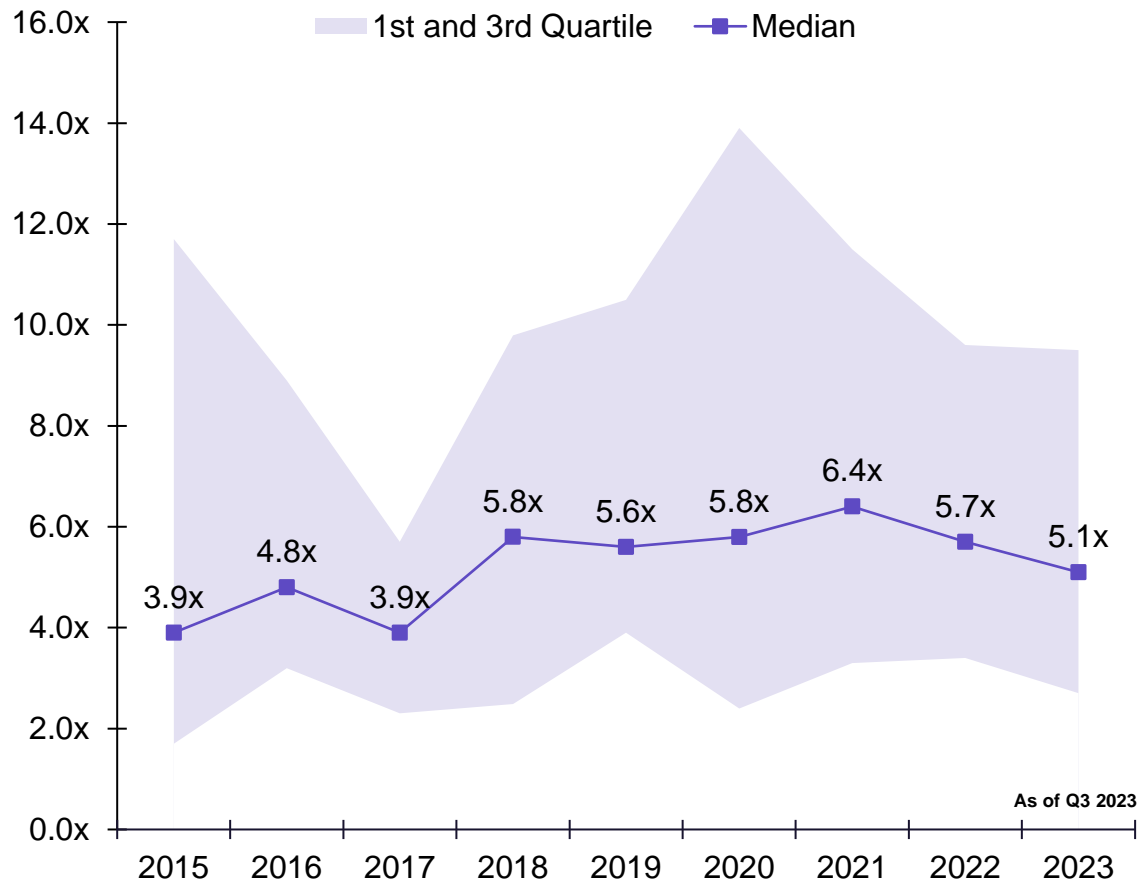
Period: 01.01.2015 – 30.09.2023

N=364 transactions

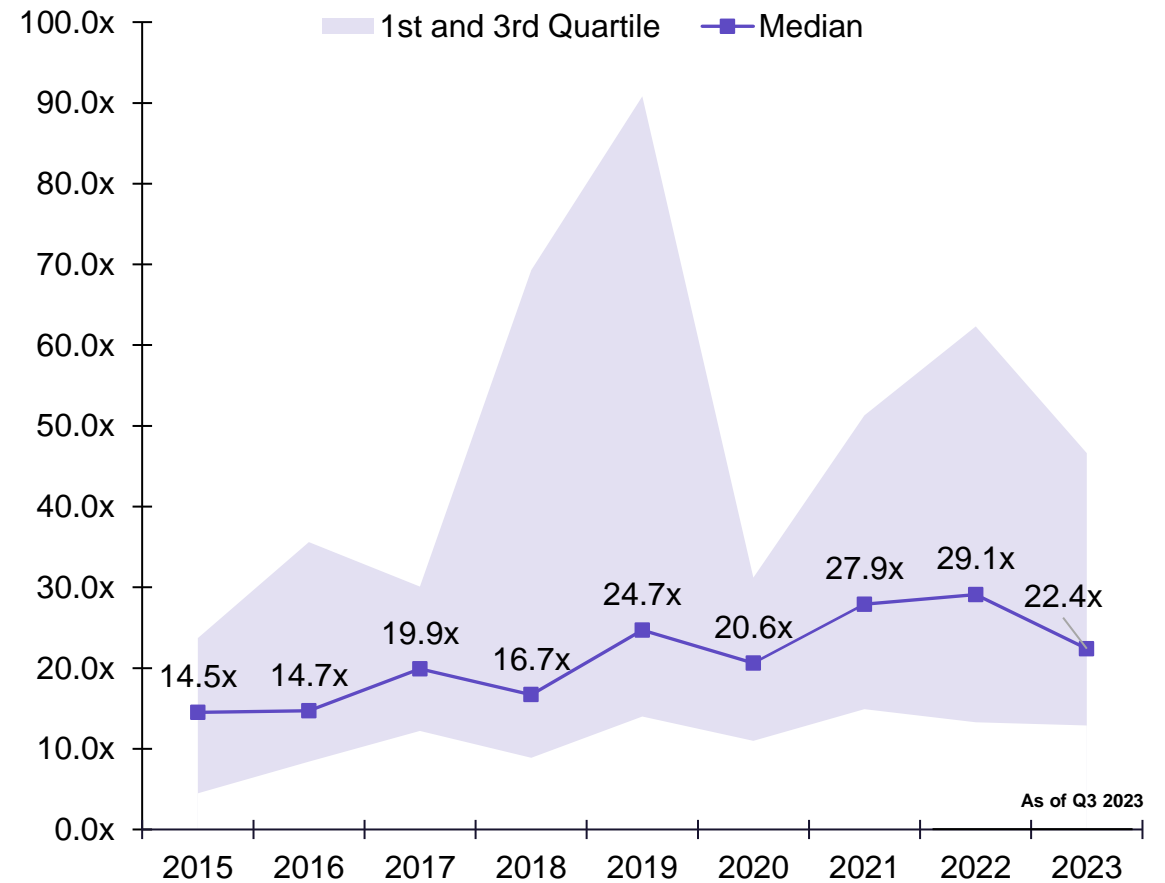
# SaaS valuation multiples in M&A transactions

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

Median EV/Revenue multiple, 2015-2023 (n=365)



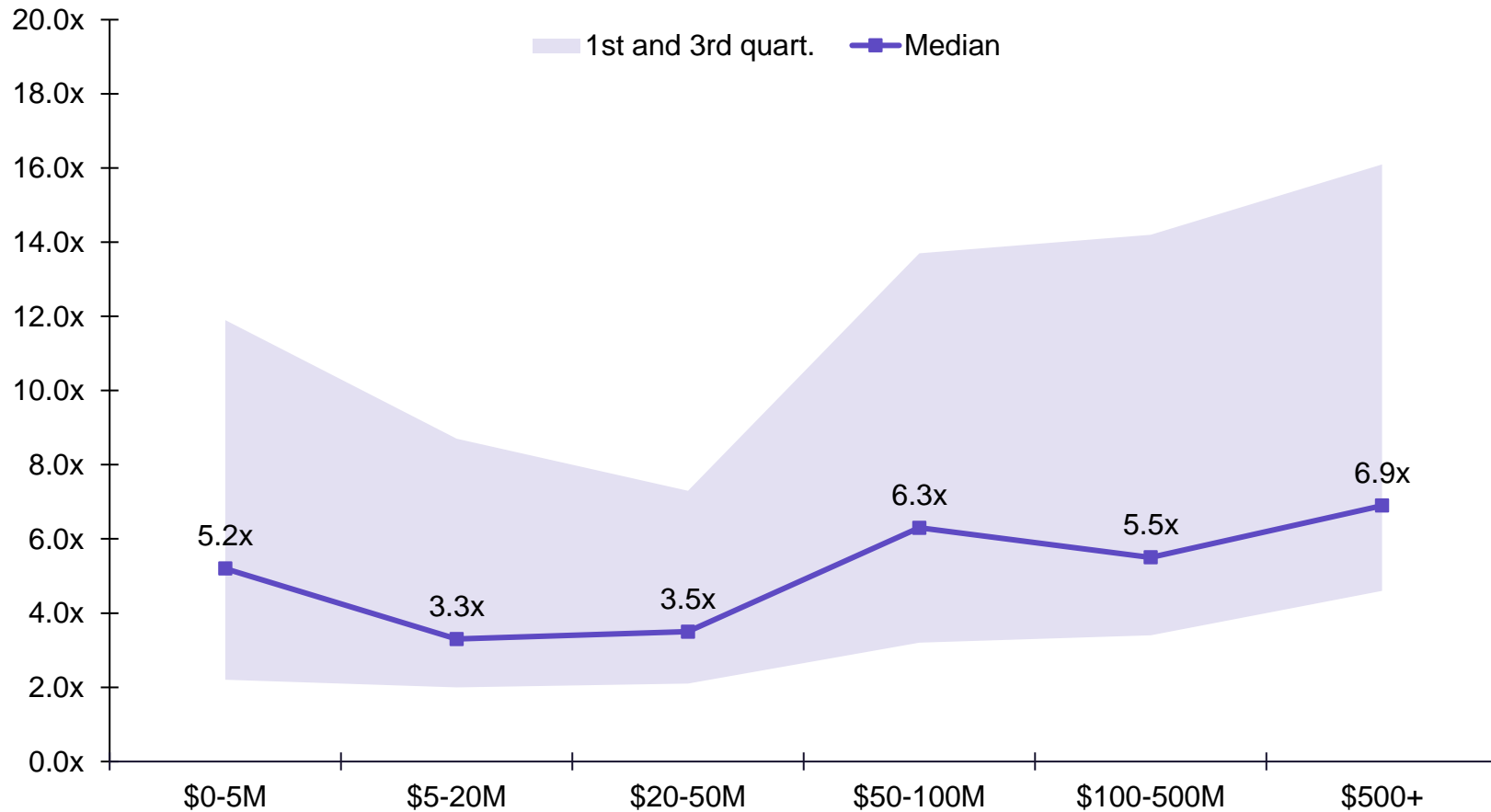
Median EV/EBITDA multiple, 2015-2022 (n=144)



# Valuation drivers: Company size

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

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



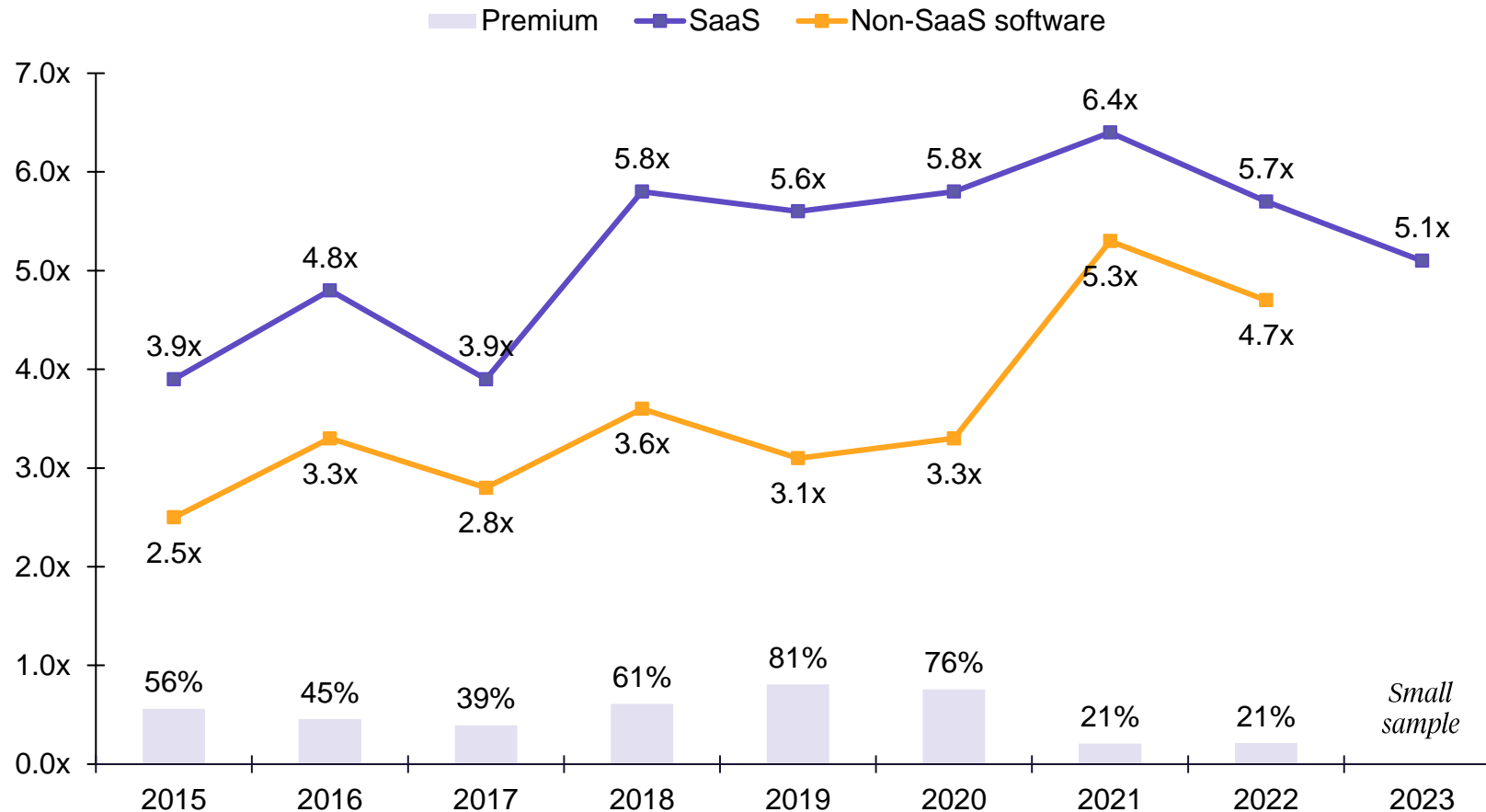
## Key findings

- 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 acquirers, 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	153	313	5.8x	31.7x
 United Kingdom	45	34	4.7x	16.0x
 Norway	23	27	5.4x	21.3x
 Australia	17	58	5.5x	9.1x
 Canada	13	80	5.4x	56.5x
 France	14	45	3.0x	15.1x
Other	100	28	3.4x	17.4x
<b>Total</b>	<b>365</b>	<b>86</b>	<b>5.1x</b>	<b>22.4x</b>



# 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

<p>Aventis Advisors</p> <p><b>CKSOURCE</b></p> <p>Sold to</p> <p><b>PSG</b>   PROVIDENCE STRATEGIC GROWTH</p> <p></p>	<p>Aventis Advisors</p> <p><b>Solutions30</b> Solutions For New Technologies</p> <p>Acquired</p> <p>The Telecom support services of ELMO</p> <p></p>	<p>Aventis Advisors</p> <p><b>Solutions30</b> Solutions For New Technologies</p> <p>Acquired</p> <p>Telekom Uslugi S.A.</p> <p></p>	<p>Aventis Advisors</p> <p><b>active24</b></p> <p>Sold to</p> <p><b>ogicom</b></p> <p></p>
<p>Aventis Advisors</p> <p><b>Avenga</b></p> <p>Acquired</p> <p>sevenval <b>7</b></p> <p></p>	<p>Aventis Advisors</p> <p><b>avalon</b></p> <p>Was acquired by</p> <p><b>R22</b></p> <p></p>	<p>Aventis Advisors</p> <p><b>VISMA</b></p> <p>Acquired</p> <p><b>saldeo</b> SMART</p> <p></p>	<p>Aventis Advisors</p> <p><b>xServers</b></p> <p>Sold to</p> <p><b>R22</b></p> <p></p>

# 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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