



# Valuing SaaS Companies

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Q3 2019 Update

# We Are Clear Thinkers

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ClearThink Capital is a boutique transactional and strategic advisory and merchant banking firm.

## **PROFESSIONALS**

A team of seasoned professionals with long and successful track records as a result of their experience in finance, investment banking, law, marketing, technology and operations.

## **EXPERIENCED**

Our team has advised and assisted more than 200 management teams and owners to help them achieve their business objectives through the design of innovative transaction structures and the execution of numerous corporate finance, M&A, and commercial transactions totaling in excess of \$15 billion.

## **PRINCIPALS**

Our team has led more than 240 public transactions and hundreds of private transactions.



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# The Largest Public SaaS Companies

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# Largest Public Companies

The first analysis we conducted was of 17 of the largest publicly traded SaaS companies.

## The Companies

Salesforce  
Workday  
ServiceNow  
Shopify  
Splunk  
Veeva  
Atlassian Corporation  
LogMeIn  
Guidewire Software  
Medidata Solutions  
Proofpoint  
RealPage  
Wix  
RingCentral  
Twilio  
Box

**\$24.24B**

Average Enterprise Value

**8**

Nasdaq Companies

**\$2.12B**

Average Revenue

**8**

NYSE Companies

**\$1.38B**

Average Gross Profit

**8**

Profitable Companies



# Largest Public Companies

This chart illustrates the data behind the metrics mentioned on the previous page

Company	Market	Symbol	Revenue	Gross Profit	EBITDA	Stock Price	Enterprise Value
Salesforce	NYSE	CRM	\$ 14,730,000,000.00	\$ 9,830,000,000.00	\$ 2,060,000,000.00	\$ 149.83	\$ 136,020,000,000.00
Workday	Nasdaq	WDAY	\$ 3,240,000,000.00	\$ 1,990,000,000.00	-	\$ 164.79	\$ 37,810,000,000.00
ServiceNow	NYSE	NOW	\$ 3,010,000,000.00	\$ 1,990,000,000.00	\$ 164,900,000.00	\$ 250.48	\$ 47,730,000,000.00
Shopify	NYSE	SHOP	\$ 1,300,000,000.00	\$ 596,270,000.00	-	\$ 287.48	\$ 33,360,000,000.00
Splunk	Nasdaq	SPLK	\$ 2,040,000,000.00	\$ 1,460,000,000.00	-	\$ 115.64	\$ 17,910,000,000.00
Veeva	NYSE	VEEV	\$ 968,710,000.00	\$ 616,930,000.00	\$ 289,090,000.00	\$ 150.14	\$ 20,980,000,000.00
Atlassian Corporation	Nasdaq	TEAM	\$ 1,210,000,000.00	\$ 999,840,000.00	-	\$ 123.78	\$ 30,620,000,000.00
LogMeIn	Nasdaq	LOGM	\$ 1,240,000,000.00	\$ 923,410,000.00	\$ 329,500,000.00	\$ 69.93	\$ 3,760,000,000.00
Guidewire Software	NYSE	GWRE	\$ 719,510,000.00	\$ 395,160,000.00	\$ 41,420,000.00	\$ 105.28	\$ 7,930,000,000.00
Medidata Solutions	Nasdaq	MDSO	\$ 684,560,000.00	\$ 476,540,000.00	\$ 78,050,000.00	\$ 91.42	\$ 5,520,000,000.00
Proofpoint	Nasdaq	PFPT	\$ 800,030,000.00	\$ 515,230,000.00	-	\$ 128.06	\$ 6,920,000,000.00
RealPage	Nasdaq	RP	\$ 930,090,000.00	\$ 541,100,000.00	\$ 154,410,000.00	\$ 63.56	\$ 6,300,000,000.00
Wix	Nasdaq	WIX	\$ 679,510,000.00	\$ 476,760,000.00	-	\$ 119.50	\$ 6,010,000,000.00
RingCentral	NYSE	RNG	\$ 779,090,000.00	\$ 516,500,000.00	\$ 7,010,000.00	\$ 128.07	\$ 10,410,000,000.00
Twilio	NYSE	TWLO	\$ 881,370,000.00	\$ 349,230,000.00	-	\$ 109.63	\$ 13,750,000,000.00
Box	NYSE	BOX	\$ 655,180,000.00	\$ 434,790,000.00	-	\$ 17.23	\$ 2,730,000,000.00
<b>SUMMARY</b>			<b>\$ 2,116,753,125.00</b>	<b>\$ 1,381,985,000.00</b>			<b>\$ (24,235,000,000.00)</b>





# Largest Public Companies

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Below are the three valuation metrics we looked at for this analysis.

**12.35x**

## Average Enterprise Value/Revenue

EV/revenue was relatively stable across the twenty companies. 11 out of the 16 companies were in the 5x-20x revenue multiple range.

**20.55x**

## Average Enterprise Value/Gross Profit

Although there are some companies which are significantly higher than the average, 7 out of the 16 companies were within the 10x-20x range.

**N/A**

## Enterprise Value/EBITDA

One thing that we found surprising during our analysis is that EBITDA was not a useful metric for valuing these companies. Enterprise Value/EBITDA ranged from 11.41x to for LogMeIn to 1485.02x for Ring Central

Valuations for publicly-traded SaaS companies and are at an all-time high.



# Largest Public Companies

This chart illustrates the data behind the valuation metrics mentioned on the previous page

Company	Enterprise Value/Revenue	Enterprise Value/Gross Profit	Enterprise Value/EBITDA	Profitable?
Salesforce	9.23	13.84	66.03	Yes
Workday	11.67	19.00		
ServiceNow	15.86	23.98	289.45	Yes
Shopify	25.66	55.95		
Splunk	8.78	12.27		
Veeva	21.66	34.01	72.57	Yes
Atlassian Corporation	25.31	30.62		Yes
LogMeIn	3.03	4.07	11.41	Yes
Guidewire Software	11.02	20.07	191.45	
Medidata Solutions	8.06	11.58	70.72	Yes
Proofpoint	8.65	13.43		Yes
RealPage	6.77	11.64	40.80	
Wix	8.84	12.61		Yes
RingCentral	13.36	20.15	1485.02	
Twilio	15.60	39.37		Yes
Box	4.17	6.28		
<b>SUMMARY</b>	<b>12.35</b>	<b>20.55</b>	<b>N/A, not consistent</b>	





# Largest Public Companies

Below are the valuation metrics when looking at different cross sections of companies.

Profitable Companies (EBITDA-Level)	11.13X Enterprise Value/Revenue	17.42X Enterprise Value/Gross Profit	Profitability had no effect on valuation
Nasdaq Companies	10.14X Enterprise Value/Revenue	14.40X Enterprise Value/Gross Profit	Nasdaq companies had a decrease in value when compared to the average
NYSE Companies	14.57X Enterprise Value/Revenue	26.71X Enterprise Value/Gross Profit	NYSE companies trade at a premium
10 Largest Companies (by Enterprise Value)	16.35X Enterprise Value/Revenue	27.69X Enterprise Value/Gross Profit	The largest companies trade higher than the smaller companies. This is understandable as the risk often decreases as the company size increases.



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# Small-Cap Public Companies

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# Small-Cap Public Companies

The second analysis we conducted was of 12 small-cap SaaS companies.

## The Companies

Smith Micro Software  
Veritone, Inc  
eGain Coporation  
Zix Corporation  
GlobalSCAPE  
Medical Transcription Billing Corp  
Asure Software Inc  
CYREN Ltd.  
Park City Group  
Pareteum Corporation  
Mind CTI  
Marin Software Incorporated

**\$172.90M**

Average Enterprise Value

**11**

Nasdaq Companies

**\$29.28M**

Average Gross Profit

**\$56.07M**

Average Revenue

**1**

NYSE Companies

**8**

Profitable Companies



# Small-Cap Public Companies

This chart illustrates the data behind the metrics mentioned on the previous page

Company	Market	Symbol	Revenue	Gross Profit	EBITDA	Stock Price	Enterprise Value
Smith Micro Software	Nasdaq	SMSI	\$ 33,160,000.00	\$ 21,950,000.00	\$ 5,020,000.00	\$ 5.12	\$ 214,900,000.00
Veritone, Inc	Nasdaq	VERI	\$ 42,890,000.00	\$ 20,570,000.00	-	\$ 4.01	\$ 51,620,000.00
eGain Coporation	Nasdaq	EGAN	\$ 67,230,000.00	\$ 45,390,000.00	\$ 6,320,000.00	\$ 8.14	\$ 220,640,000.00
Zix Corporation	Nasdaq	ZIXI	\$ 111,540,000.00	\$ 55,290,000.00	\$ 9,510,000.00	\$ 7.16	\$ 679,020,000.00
GlobalSCAPE	NYSE	GSB	\$ 37,930,000.00	\$ 28,180,000.00	\$ 13,480,000.00	\$ 11.71	\$ 203,840,000.00
Medical Transcription Billing Corp	Nasdaq	MTBC	\$ 65,390,000.00	\$ 19,290,000.00	-	\$ 4.01	\$ 46,430,000.00
Asure Software Inc	Nasdaq	ASUR	\$ 99,480,000.00	\$ 58,120,000.00	\$ 10,260,000.00	\$ 6.76	\$ 220,180,000.00
CYREN Ltd.	Nasdaq	CYRN	\$ 38,440,000.00	\$ 21,360,000.00	-	\$ 1.71	\$ 100,170,000.00
Park City Group	Nasdaq	PCYG	\$ 22,830,000.00	\$ 15,450,000.00	\$ 5,500,000.00	\$ 6.26	\$ 121,940,000.00
Pareteum Corporation	Nasdaq	TEUM	\$ 79,510,000.00	\$ 22,110,000.00	\$ 2,640,000.00	\$ 1.22	\$ 160,150,000.00
Mind CTI	Nasdaq	MNDO	\$ 19,540,000.00	\$ 11,990,000.00	\$ 5,410,000.00	\$ 2.36	\$ 36,150,000.00
Marin Software Incorporated	Nasdaq	MRIN	\$ 54,900,000.00	\$ 31,650,000.00	-	\$ 2.54	\$ 20,140,000.00
<b>SUMMARY</b>			<b>\$56,070,000.00</b>	<b>\$29,279,166.67</b>	<b>\$7,267,500.00</b>		<b>\$172,931,666.67</b>



# Small-Cap Public Companies

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Below are the three valuation metrics we looked at for this analysis.

**3.13x**

## Average Enterprise Value/Revenue

The decreased average enterprise value/revenue multiple compared to larger SaaS companies is likely due to the perceived risk of investing in smaller companies. There were two companies that were part of the analysis that brought the number down, by trading at a less than 1 enterprise value/revenue multiple, while the highest company is valued at a 6.48 multiple.

**5.53x**

## Average Enterprise Value /Gross Profit

Although there is variance across the enterprise value/gross profit multiple, 10 out of the 12 companies are valued between 2x and 10x gross profit. The 5.53x enterprise value/gross profit multiple seems to be a valid way to value a small-cap public SaaS company.

**N/A**

## Average Enterprise Value /EBITDA

As with the larger public SaaS companies, the average enterprise value/EBITDA metric varied too much across companies to be useful. It is however worth noting that three of the eight EBITDA-positive companies were in the 40—48x multiple range.



# Small-Cap Public Companies

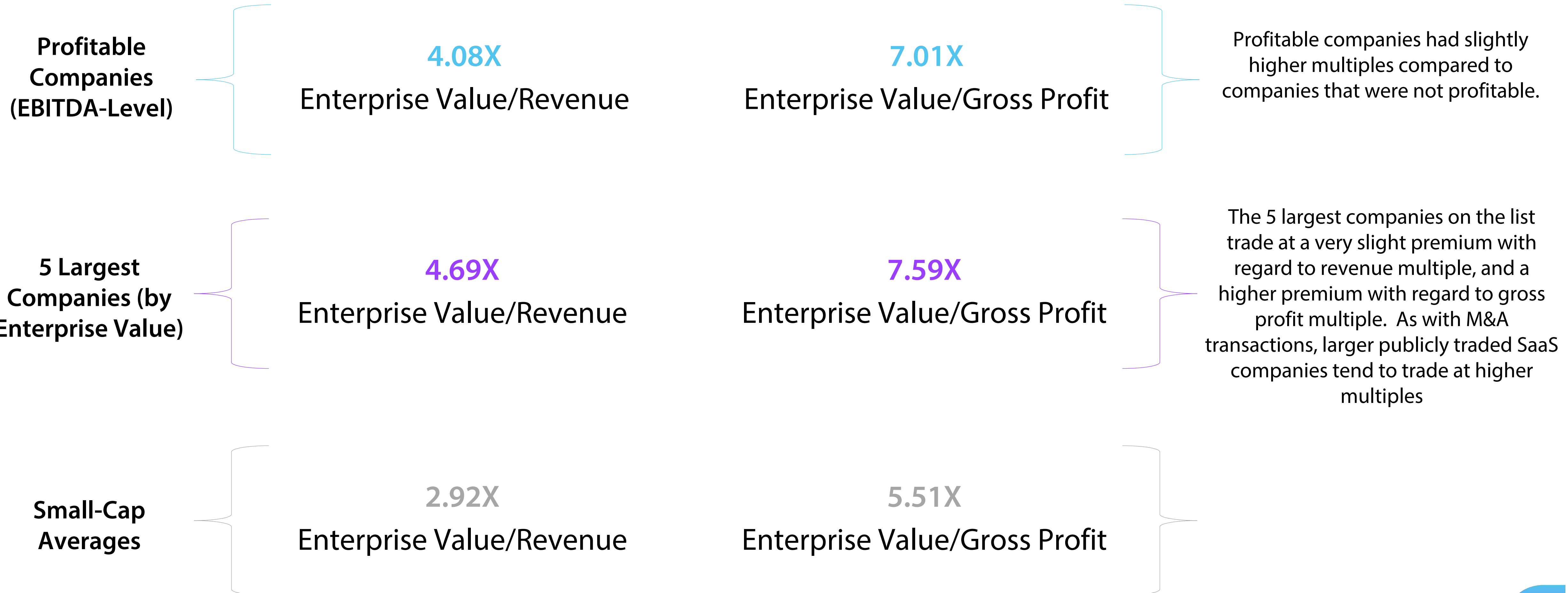
This chart illustrates the data behind the valuation metrics mentioned on the previous page

Company	Enterprise Value/Revenue	Enterprise Value/Gross Profit	Enterprise Value/EBITDA	Profitable?
Smith Micro Software	6.48	9.79	42.81	Yes
Veritone, Inc	1.20	2.51		
eGain Coporation	3.28	4.86	34.91	Yes
Zix Corporation	6.09	12.28	71.40	Yes
GlobalSCAPE	5.37	7.23	15.12	Yes
Medical Transcription Billing Corp	0.71	2.41		
Asure Software Inc	2.21	3.79	21.46	Yes
CYREN Ltd.	2.61	4.69		
Park City Group	5.34	7.89	22.17	Yes
Pareteum Corporation	2.01	7.24	60.66	Yes
Mind CTI	1.85	3.02	6.68	Yes
Marin Software Incorporated	0.37	0.64		
<b>SUMMARY</b>	<b>3.13</b>	<b>5.53</b>	<b>N/A, not consistent</b>	



# Small-Cap Public Companies

Below are the valuation metrics when looking at different cross sections of companies.





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# M&A and Privately-Held Company Valuations

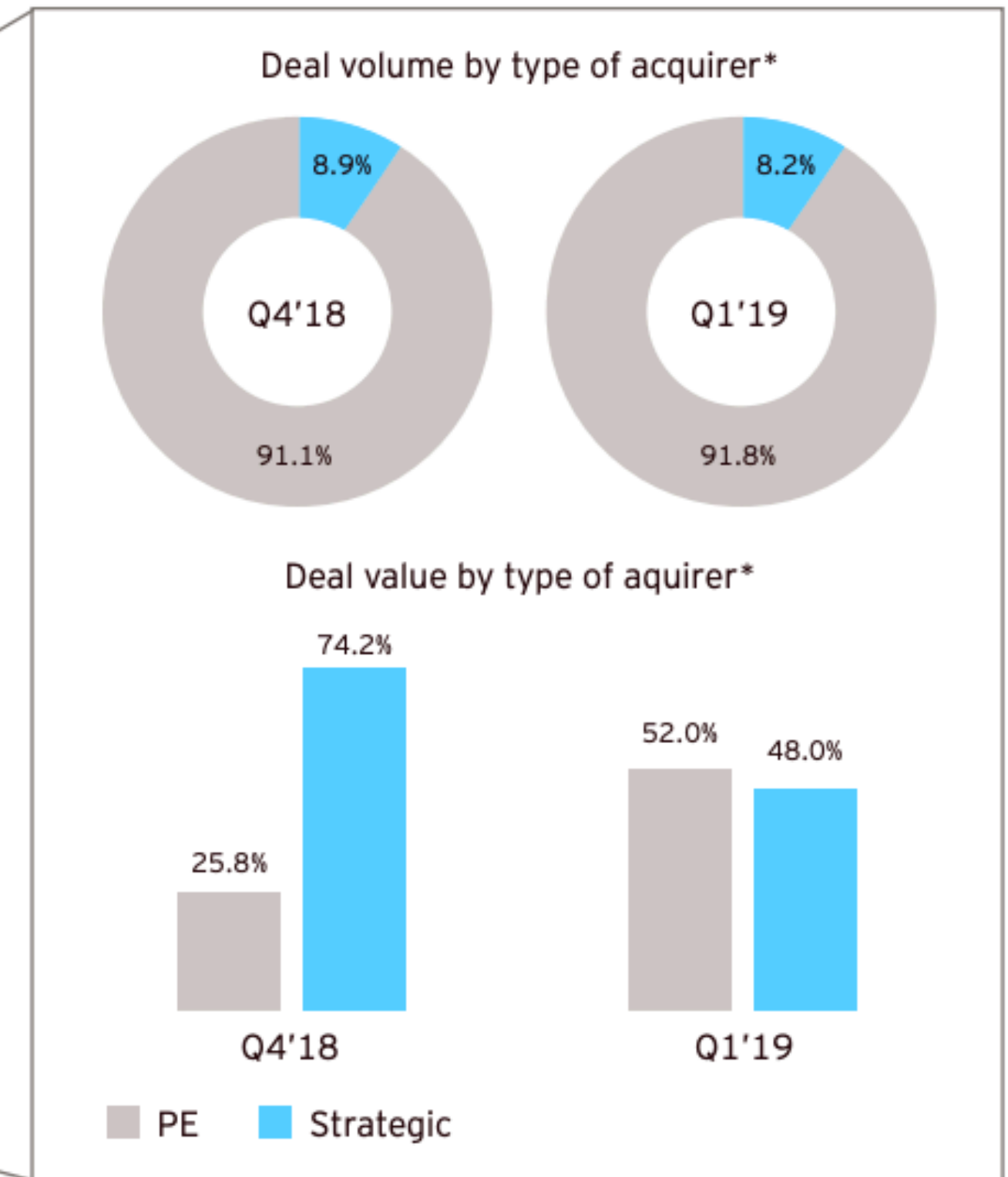
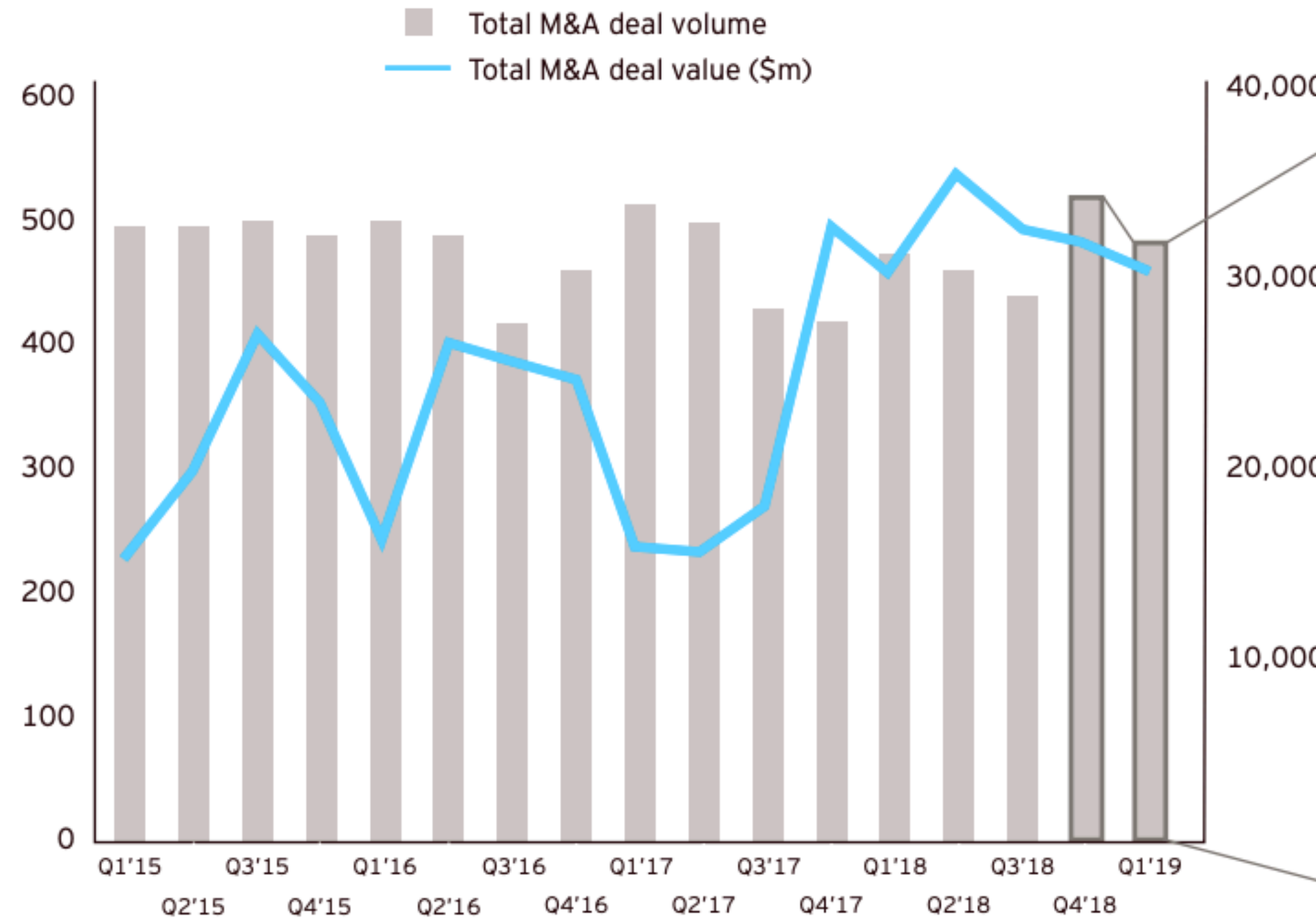
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# SaaS Mergers & Acquisitions

Number of Transactions

SaaS M&A transactions experienced a slight dip in Q1 2019 compared to Q4 2018. Q1 2019 however, still had growth compared to Q1 2018. As is evidenced in the chart on the right, PE acquirers were far more active in Q1 2019 compared to Q4 2018.



<sup>1</sup> Excludes \$43bn Worldpay- Fidelity and \$41bn Firstdata-Fiserv deal  
<sup>2</sup> Excludes \$34bn IBM-Red Hat deal

\*Deal volumes and values (by type of acquirer) analyzed up to Mar 2019. Data sources: S&P Capital IQ, Mergermarket

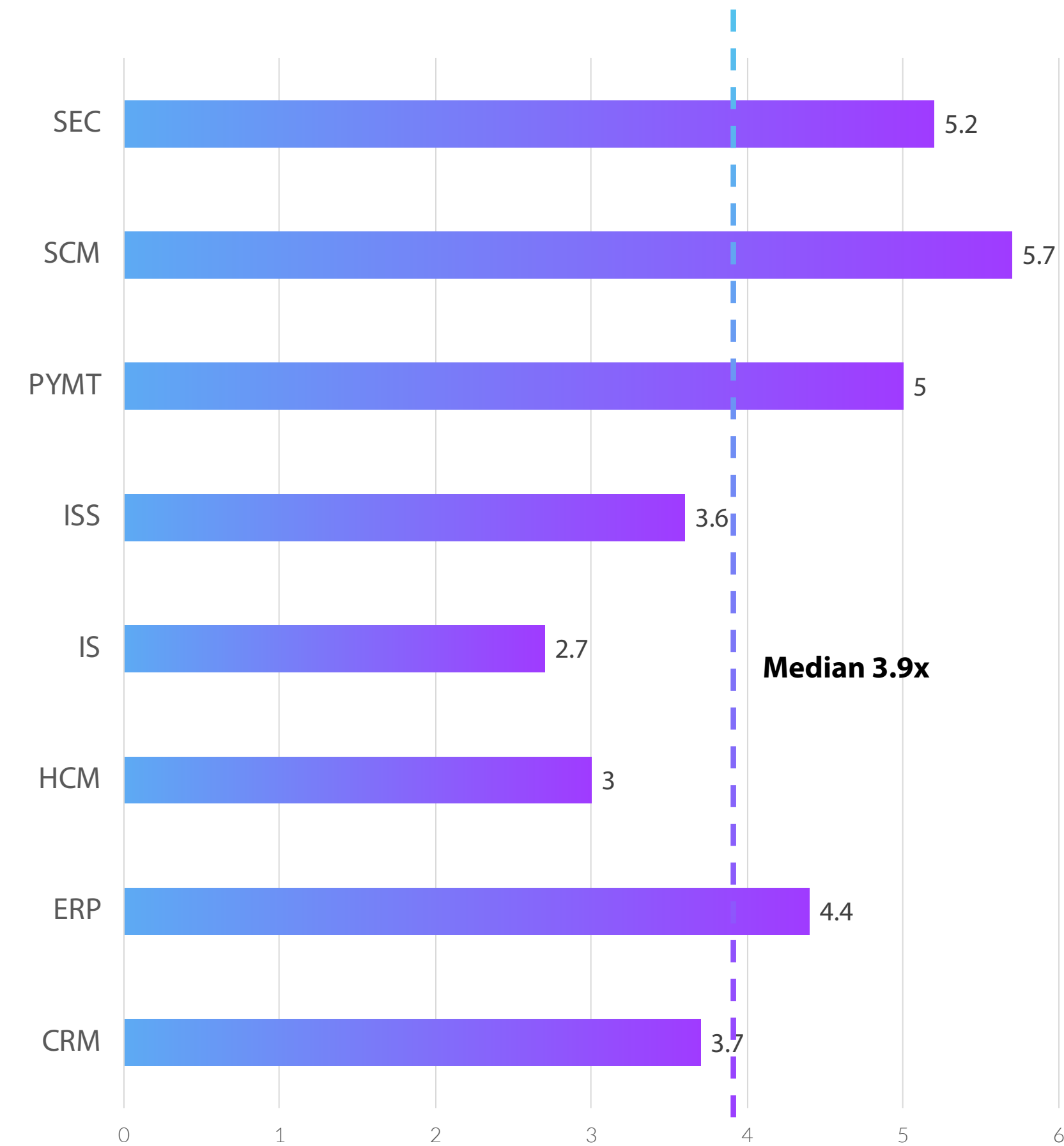


# SaaS Mergers & Acquisitions

## Transaction Valuations

Although valuations vary by segment, the median enterprise value/revenue multiple from Q2 2018 through Q1 2019 is 3.9x.

Median Enterprise Value/Revenue by Sector



**CRM** – Customer Relationship Management;  
**ERP** – Enterprise Resource Planning;  
**HCM** – Human Capital Management;  
**IS** – Internet Software;

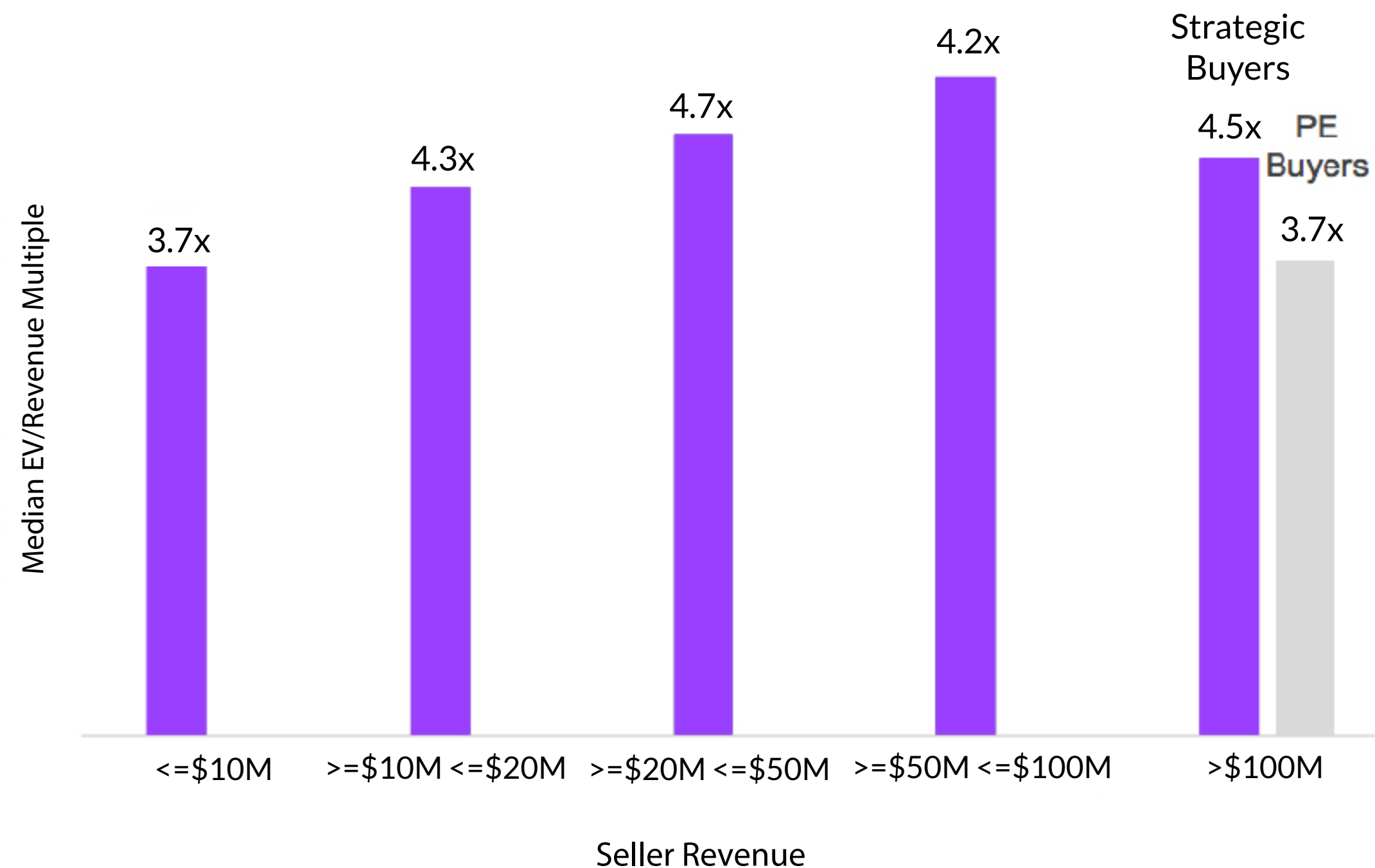
**ISS** – Industry Specific Software;  
**PYMT** – Payment/ Financials;  
**SCM** – Supply Chain Management;  
**SEC** – Security.



# SaaS Mergers & Acquisitions

## Valuation Drivers

### Revenue Multiple by Company Size



The graph to the left shows the median Enterprise Value to revenue multiples based on seller revenue. Although this graph is from Q4 2018, it is still representative of the way seller revenue affects valuation multiples.

The top indicators driving valuation among SaaS M&A transactions are:

- **Company Size:** as is seen in the graph on the right, larger companies have received higher multiples
- **Growth:** having at least 40% year-over-year growth can increase a company's value
- **Recurring Revenue:** both strategic and financial buyers prefer when a company's revenue is recurring, rather than one-time or project-based revenue
- **Profitability:** although profitability does not seem to have a large effect on publicly-traded SaaS company valuations, probability can increase a company's value when it comes to an M&A transaction

### Privately-Held Companies

**When attempting to value a privately-held SaaS company,** we suggest using the M&A valuation guide. Publicly-traded SaaS companies generally trade at higher values than privately-held companies. This is due to the ability for an investor to sell their position in the company.

When appropriate, we prefer to structure transactions in the public market for our clients.



# Summary

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## LARGE PUBLIC COMPANIES

**12.35X** revenue multiple  
**20.55** gross profit multiple

- Sizable variance between revenue multiple numbers
- Larger variance between gross profit multiple numbers
- Premium for NYSE companies compared to Nasdaq companies
- Profitability has little effect on valuation

## M&A/PRIVATE COMPANIES

**3.9X** revenue multiple

- Lower multiple for financial buyers than strategic buyers
- Higher multiples for larger companies
- Profitability increases value
- Buyers prefer recurring revenues, and will pay less than the average multiple for companies with low levels of recurring revenue
- High growth can increase a company's value

## SMALL-CAP PUBLIC COMPANIES

**3.13X** revenue multiple  
**5.53X** gross profit multiple

- Although the sample size was relatively small for this analysis, we believe that these multiples are good indicators of publicly-traded SaaS companies of these size
- Sizable variance between revenue multiple numbers
- Larger variance between gross profit multiple numbers
- Profitability has little effect on value, unless a company is losing very large amounts at the gross profit, EBITDA, or net profit levels

## OTHER FACTORS THAT AFFECT VALUATIONS

Public company valuations can also be driven by liquidity of the stock, the amount of “buzz” and interest created among potential investors, as well as the story; how an investor perceives the company or stock will perform in the future. M&A valuations and private valuations are driven more by quantitative numbers, as well as the ability of the acquisition candidate to fit into or improve the acquirer's own company or portfolio.



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# How We Can Help

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We are experts at the design and execution of creative financial, acquisition, and other corporate transaction structures. We work with companies to determine the best transaction structure to fit their needs, help prepare the company and its related materials for financial and strategic partners, match them with the most appropriate partners, and work as their advisor throughout the entire process.

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