

# Mountain High or Valley Low?

## *Key Considerations in Current SaaS Valuations*

**It's one of the most persistent questions in the SaaS world:** Does investing in growth at the expense of profitability impact valuation, and to what degree? In the early days, many SaaS businesses focused on growth and ignored profitability, burning an immense amount of cash along the way. However, an increasing importance has been placed on profitability in recent years. Growth at all costs is no longer an acceptable strategy to many SaaS investors.

Baird recently completed an analysis of SaaS, revealing a real-time snapshot of valuation trends as of Q2 2017. Our analysis revealed a number of trends, including:

- Revenue growth and EBITDA margin are the most important financial metrics-based drivers of valuation
- Despite the influence of margin on valuation, growth remains king and is ~3X as important a driver of valuation as EBITDA margin
- Surprisingly, gross margin and scale do not appear to have a meaningful impact on valuation multiples

The full output of our analysis appears on the following pages, as does Baird's recent SaaS and software transaction experience.

Contact Baird to discuss this analysis or the firm's sector expertise, relationships and transaction experience.



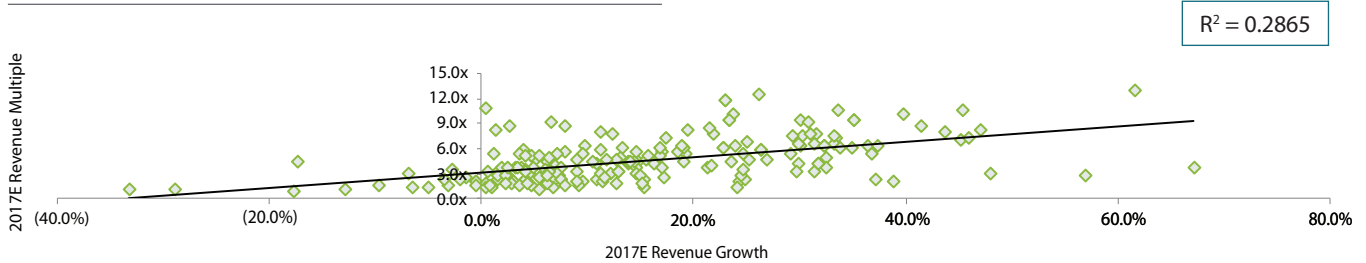
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## Mountain High or Valley Low? *(continued)*

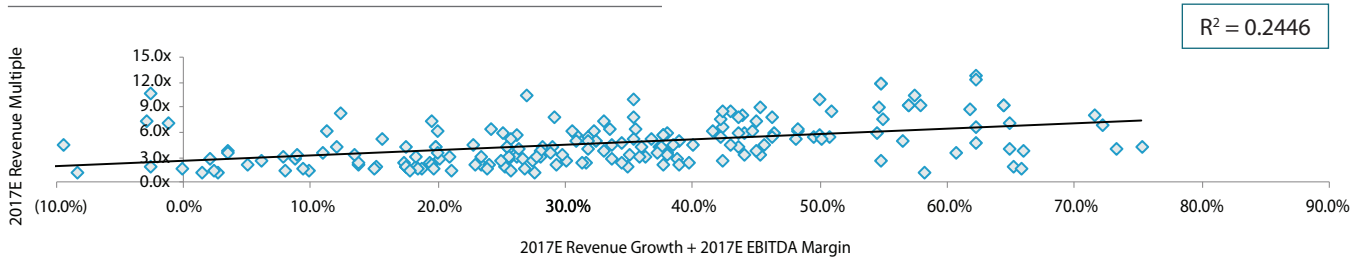
### Margin Matters: Correlation of Multiples to Growth and EBITDA

While software multiples in recent periods were most highly correlated with combined “revenue growth + EBITDA margin,” revenue multiples are now most highly correlated with revenue growth.

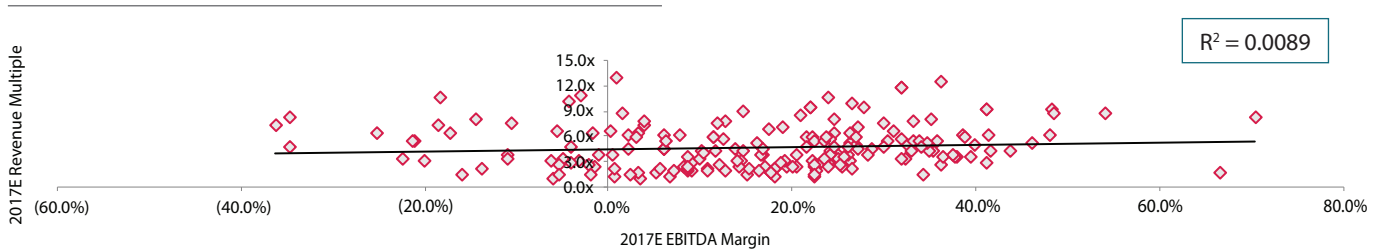
#### Revenue Multiple vs. Revenue Growth



#### Revenue Multiple vs. Revenue Growth + EBITDA Margin



#### Revenue Multiple vs. EBITDA Margin



Source: Capital IQ as of June 30, 2017.

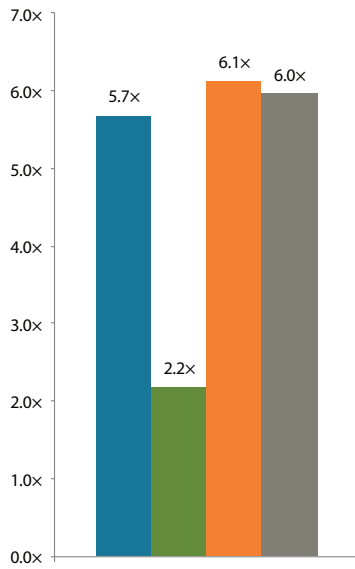
Note: Charts above reflect metrics for Baird's Software index, comprising ~200 publicly traded SaaS and traditional software companies.

## Mountain High or Valley Low? *(continued)*

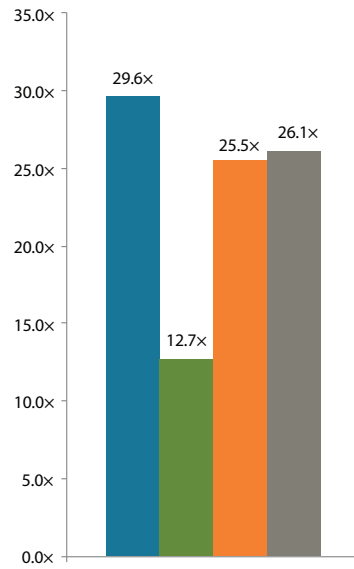
### SaaS Companies Have Maintained Valuation Levels and Growth Attributes

Valuations continue to benefit from scarcity value, increased understanding of SaaS models and investors seeking growth.

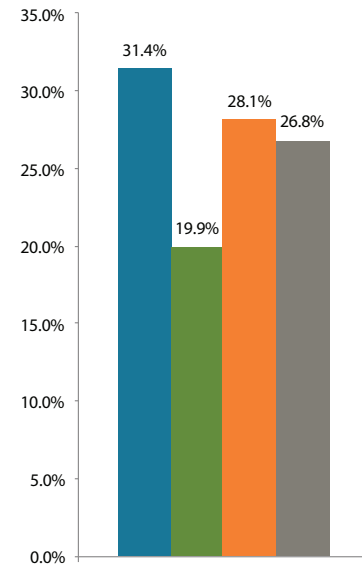
Forward Revenue Multiples



Forward EBITDA Multiples



Forward Revenue Growth



CY2007E as of Dec 2006 (Pre-Crash)

CY2009E as of Mar 2009 (Bottom of Market)

CY2015E as of May 2015 (Recent Market Peak)

CY2017E as of Jun 2017 (Current)

Source: Capital IQ as of June 30, 2017.

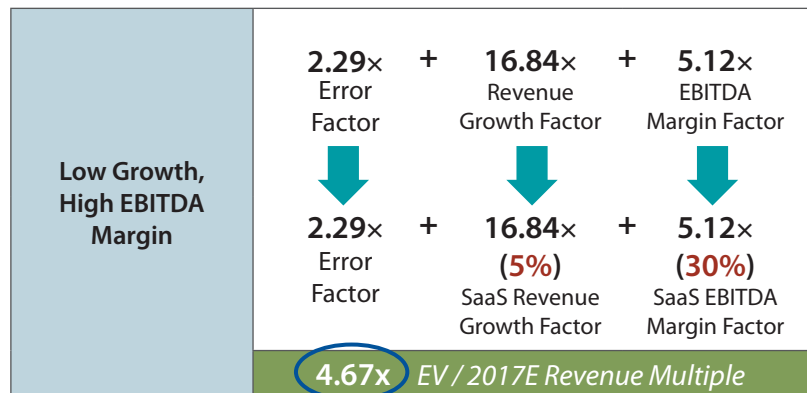
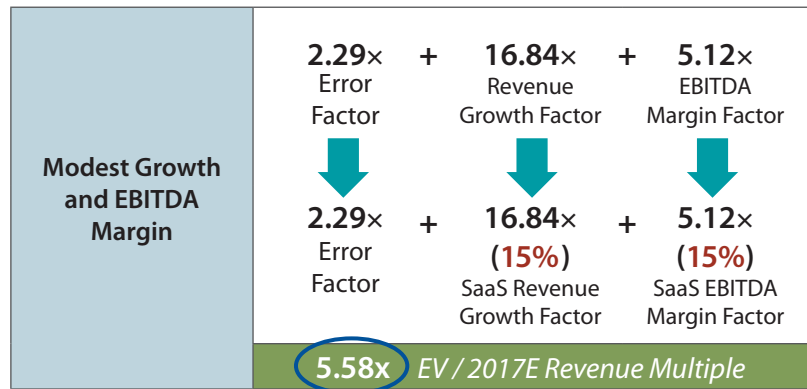
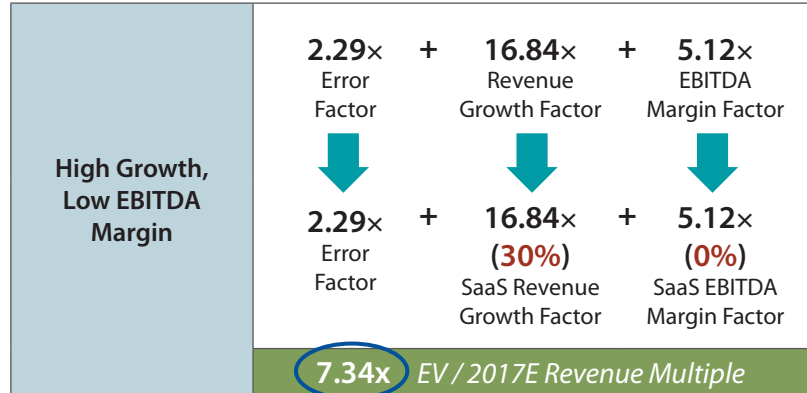
Note: Charts above reflect metrics for Baird's SaaS index, comprising ~75 publicly traded SaaS companies.

## Mountain High or Valley Low? *(continued)*

### What Do Public Market Valuations Mean for Your SaaS Company?

#### Baird's Four-Factor Regression Model

- We analyzed 2017E revenue growth, gross margin, EBITDA margin, size (revenue) and current EV for ~45 SaaS companies
- $R^2$  of 0.79
- Predicted EV multiple is explained as follows:
  - Growth: ~70%
  - Gross Margin: ~0%
  - EBITDA Margin: ~20%
  - Size: ~0%
- Surprisingly, gross margin and scale (size) of businesses do not appear to have any meaningful effect on public SaaS valuation multiples
- We have run three illustrations of this model:
  - High Growth, Low Margin (30%, 0%)
  - Modest Growth and Margin (15%, 15%)
  - Low Growth, High Margin (5%, 30%)



Mountain High or Valley Low? (continued)

Baird's Recent SaaS and Software Transactions

  
Sole to  


  
A Portfolio Company of  
**SNOW PHIPPS**  
Sole to  


**PARTSOURCE**<sup>®</sup>  
A Portfolio Company of  
PRIMUS and   
Sole to  


**Innovyze**<sup>®</sup>  
A Subsidiary of  
  
Sole to  


  
A Portfolio Company of  
  
Sole to  


**revitas**<sup>®</sup>  
A Portfolio Company of  
**LLRpartners**  
Sole to  
**Model N**

  
A Business Unit of  
  
Sole to  


  
Sole to  


  
A Portfolio Company of  
**INVESTCORP**  
Sole to  
  
LEVINE LEUCHOWAN CAPITAL PARTNERS, INC.

  
A Portfolio Company of  
  
Sole to  
**SNOW PHIPPS**

  
A Portfolio Company of  
**Baird Capital**   
Sole to  
 

  
A Division of  
**NewellRubbermaid**  
Sole to  


**PHOENIX**  
ENERGY TECHNOLOGIES  
Sole of majority stake to  


  
A Portfolio Company of  
**inflexion**  
Sole to  


For a complete list of Baird transactions, please visit [rwbaird.com/investment-banking](http://rwbaird.com/investment-banking).