

A complex, abstract digital background with a grid of lines, glowing orange and yellow light sources, and a dark blue/black color palette, suggesting a high-tech or data-driven environment.

Possible *(Re)Defined*TM



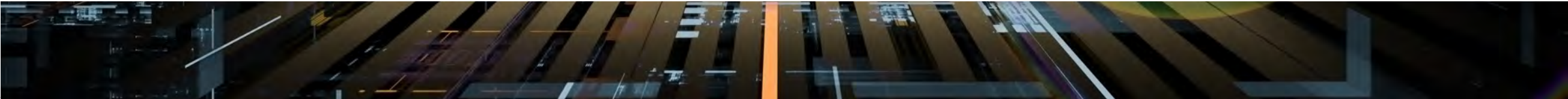
Confidence and Clarity



Integrated Solutions



Insight and Foresight



SAAS ROUNDTABLE

The State of SaaS: Changing Valuations & Strategies to Succeed

WELCOME

Today's Presenters:



Nick Gibbons

Partner, Tax
Armanino



Peter Cowen

Managing Director
Sutton Capital Partners

LEVEL SET

Audience Questions

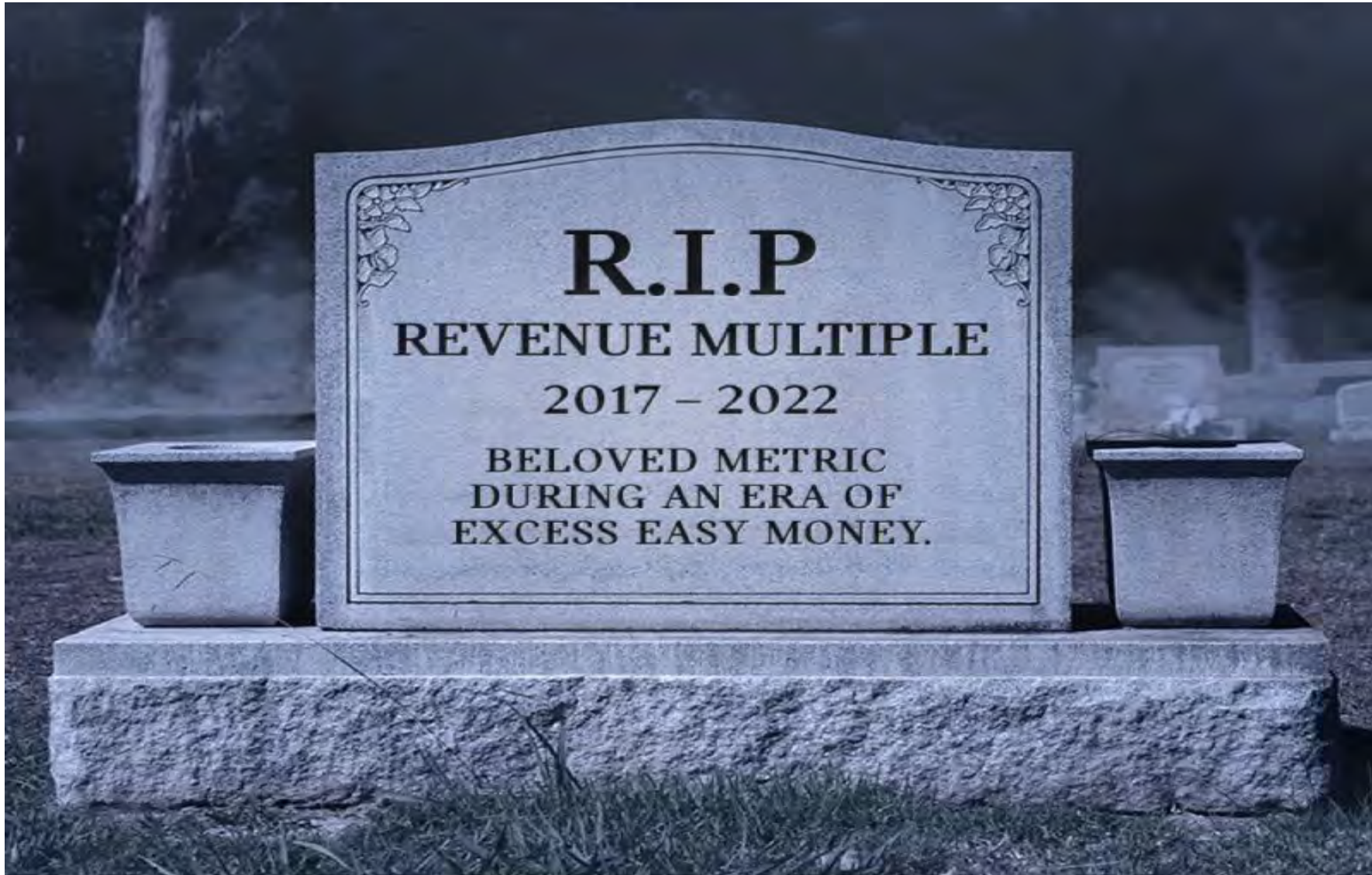
State of SaaS

▼ 2023

Changing Market Dynamics

State of SaaS 2023: Overview

- SaaS Multiples
- Capital
- Key SaaS Valuation Metrics
- The Future of SaaS
- Valuation Analysis
- Churn
- Strategies for Today
- Predictions for 2023



Cloud Companies Have Had a Tough Year

Index Performance

ALL 1W 1M 3M 6M 1Y 3Y

-52.0% EMCLOUD

-28.3% NASDAQ

-14.8% S&P 500

-5.4% Dow Jones



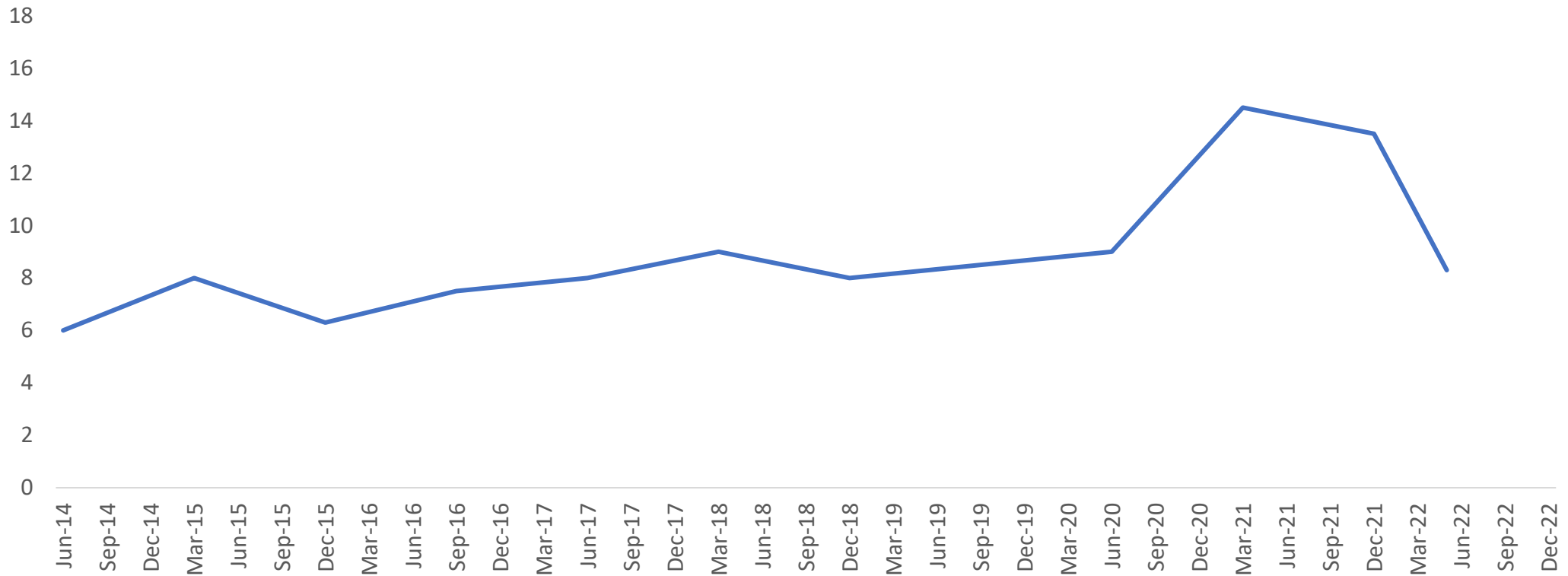
Source: <https://cloudindex.bvp.com/>

...A Tsunami of Valuations Crashing Down



2022 Public SaaS Revenue Multiples have Come Down over 60%

SaaS Capital Index (SCI) through November 30, 2022



From 17x to 6.3x

The Venture Funding Slowdown is Here.... and not going away

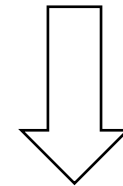


Private Venture Funding hit 12 month low in Q3

Venture Capital Investment is Down Everywhere

Early Stage

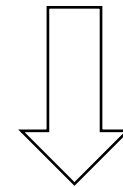
Funding



42% vs 11/21

Late Stage

Funding



83% vs 11/21

The Current VC Environment

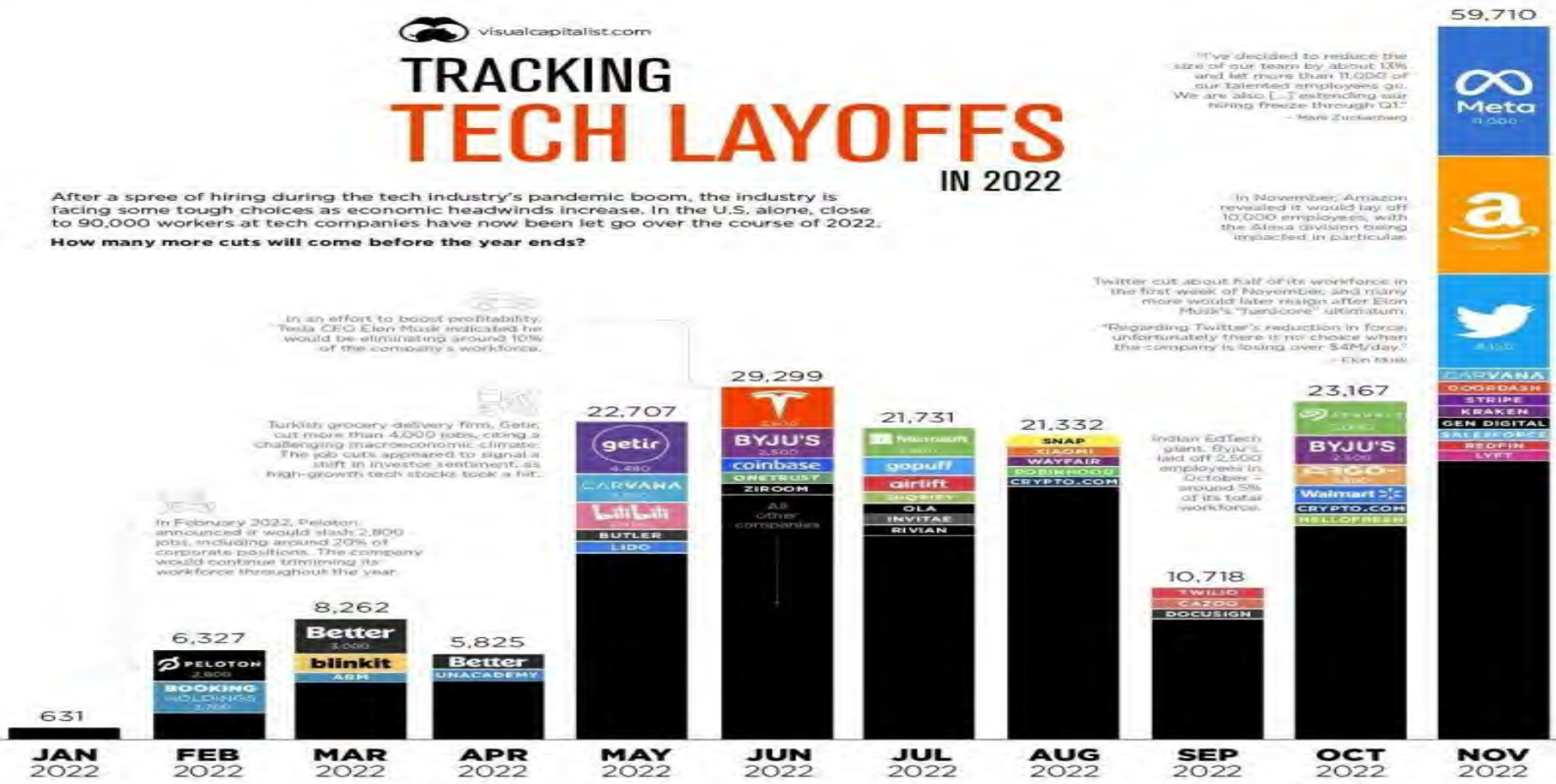
“The most popular round now is the bridge extension”

- Tomasz Tungus, Redpoint Ventures

“Flat round is the new up”

- Crunchbase

Layoffs are Increasing





THE GOOD NEWS

...There is a Silver Lining

SaaS Market to grow at 15.9% CAGR through 2028

Industry Research (11/22)

109,000+ open SaaS job openings

LinkedIn (12/22)

SaaS companies' values will increase 300% by 2030

McKinsey (7/22)

.... Steady Growth Companies



Are well positioned!

Ignore the High-Profile Headlines

Front-Page News:

Unicorn
Blow-ups

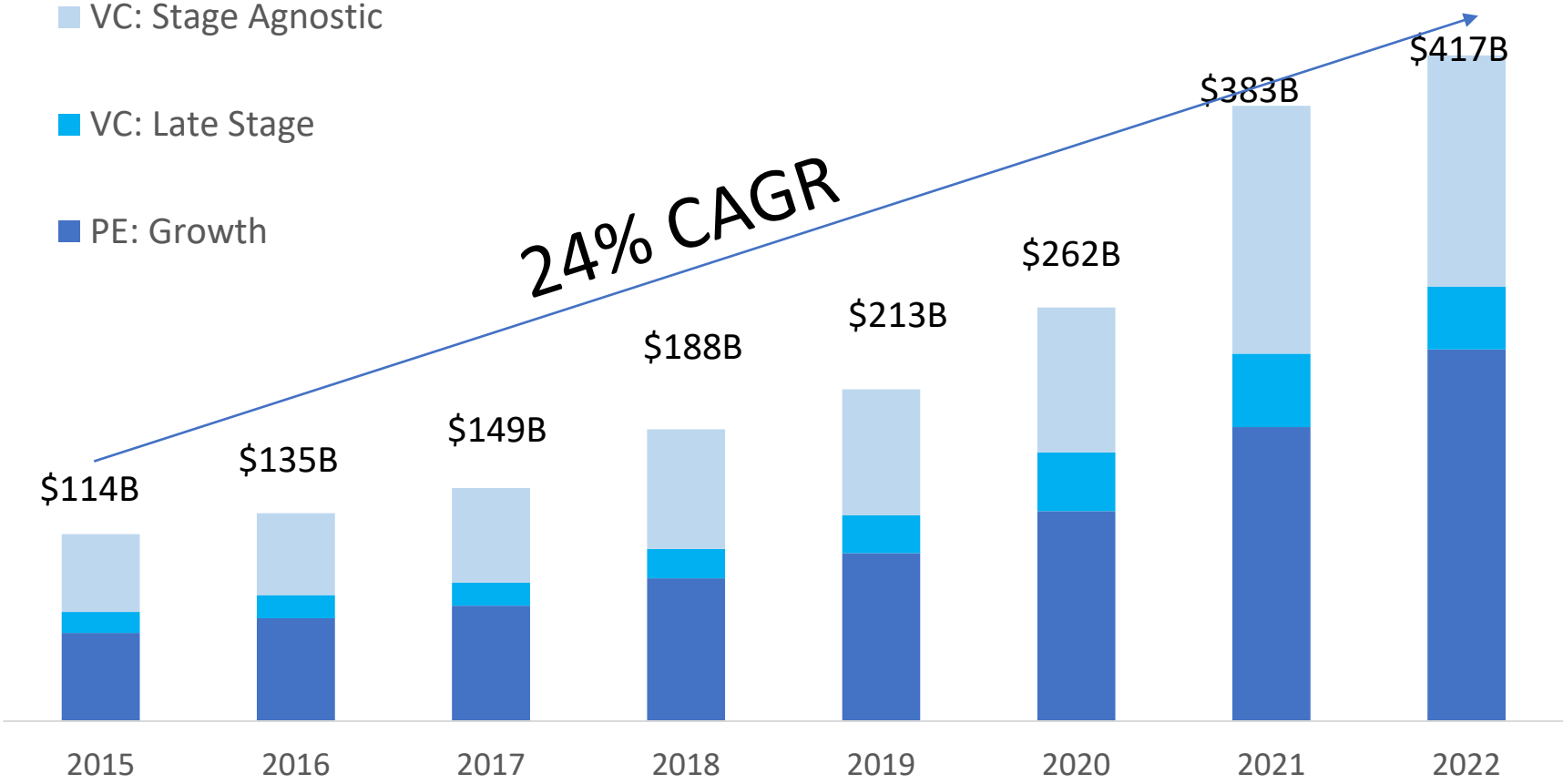
Down
Rounds

Layoffs

There is Valuation Compression (30-60%)
And more structured debt/equity deals

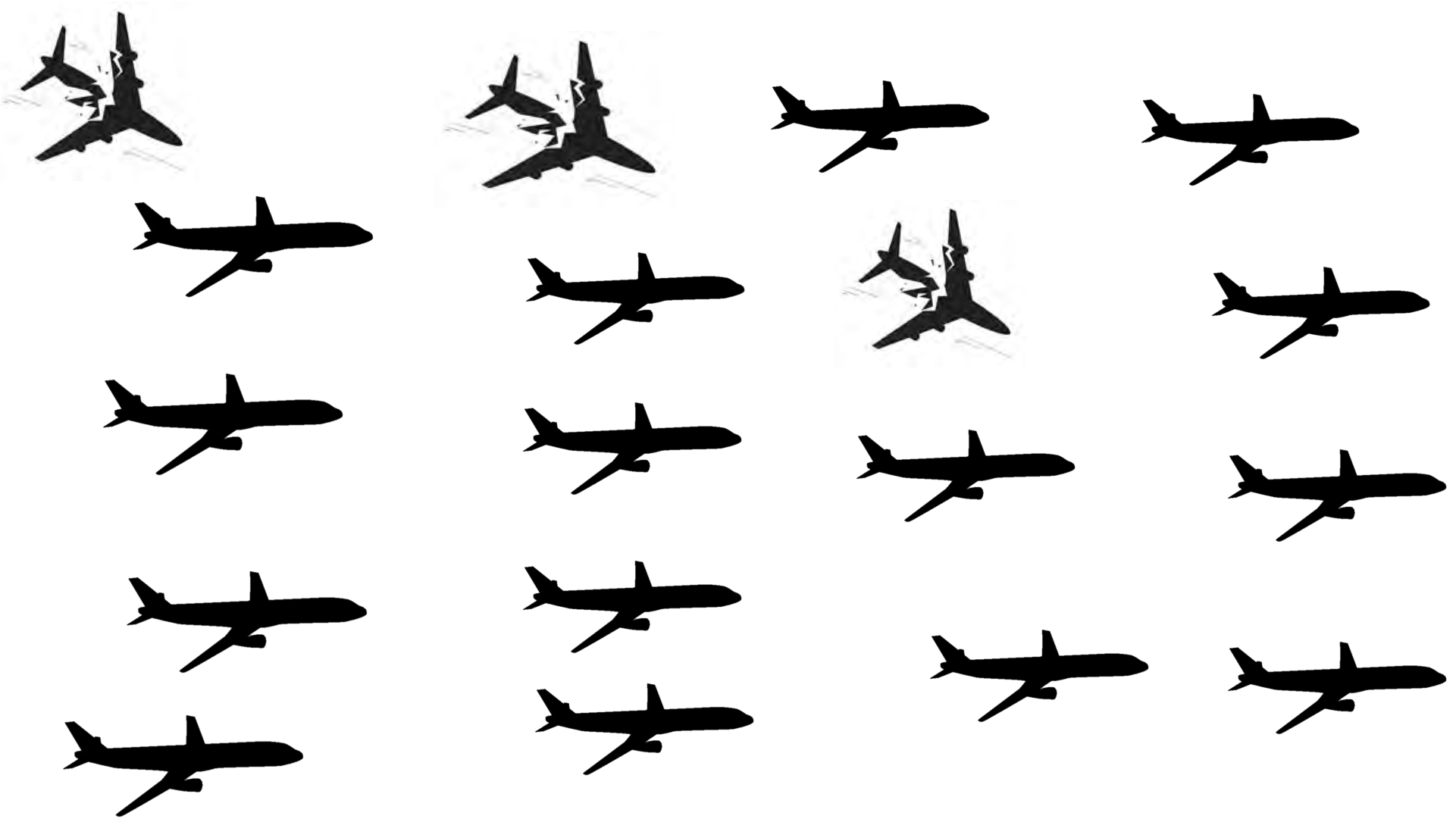
VC and PE Funds have More \$ than Ever

Dry Powder



Source: svb.com

Most Companies are Not the Ultra-high Flyers that will Crash



VCs and Wall Street love SaaS



SaaS Companies enjoy a Premium to other Businesses

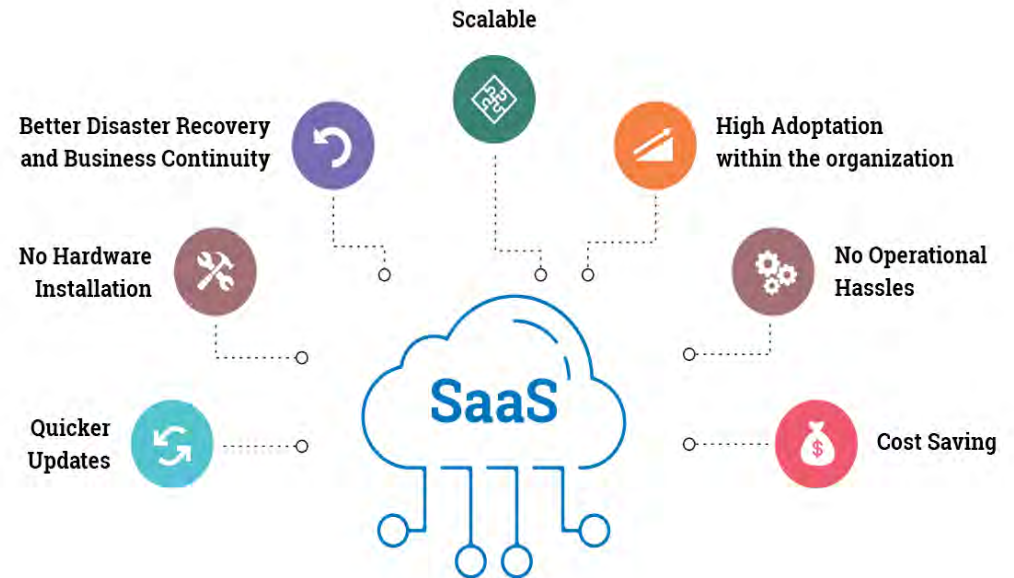
Valued based on
Revenue not
EBITDA

Short term growth is
associated with
continued long term
growth rates

Losses can be
tolerated

Why Are SaaS Companies More Attractive?

- Phenomenally high growth margins—70% +
- Recurring Revenue—predictable income
- When your clients grow You grow
- Your solution is critical—hard to replace
- Few capital expenses, NO inventory
- Low overhead (except of course, people)
- Tools from other SaaS Companies reduce startup costs
- Massive wealth created in SaaS and founders/funds reinvest



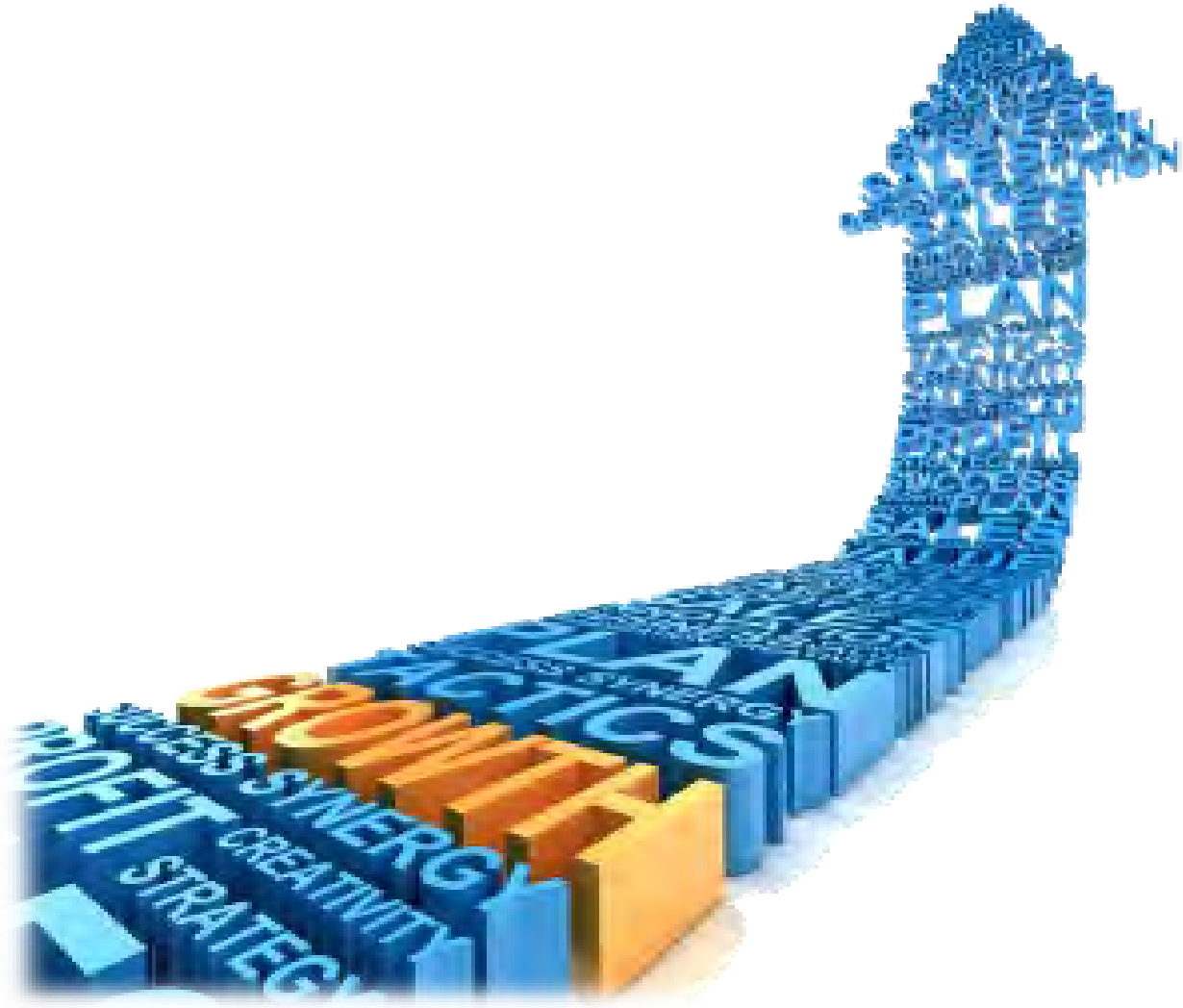
Bigger, Better, Faster

70% said SaaS APM makes them more efficient when it comes to scaling their apps.

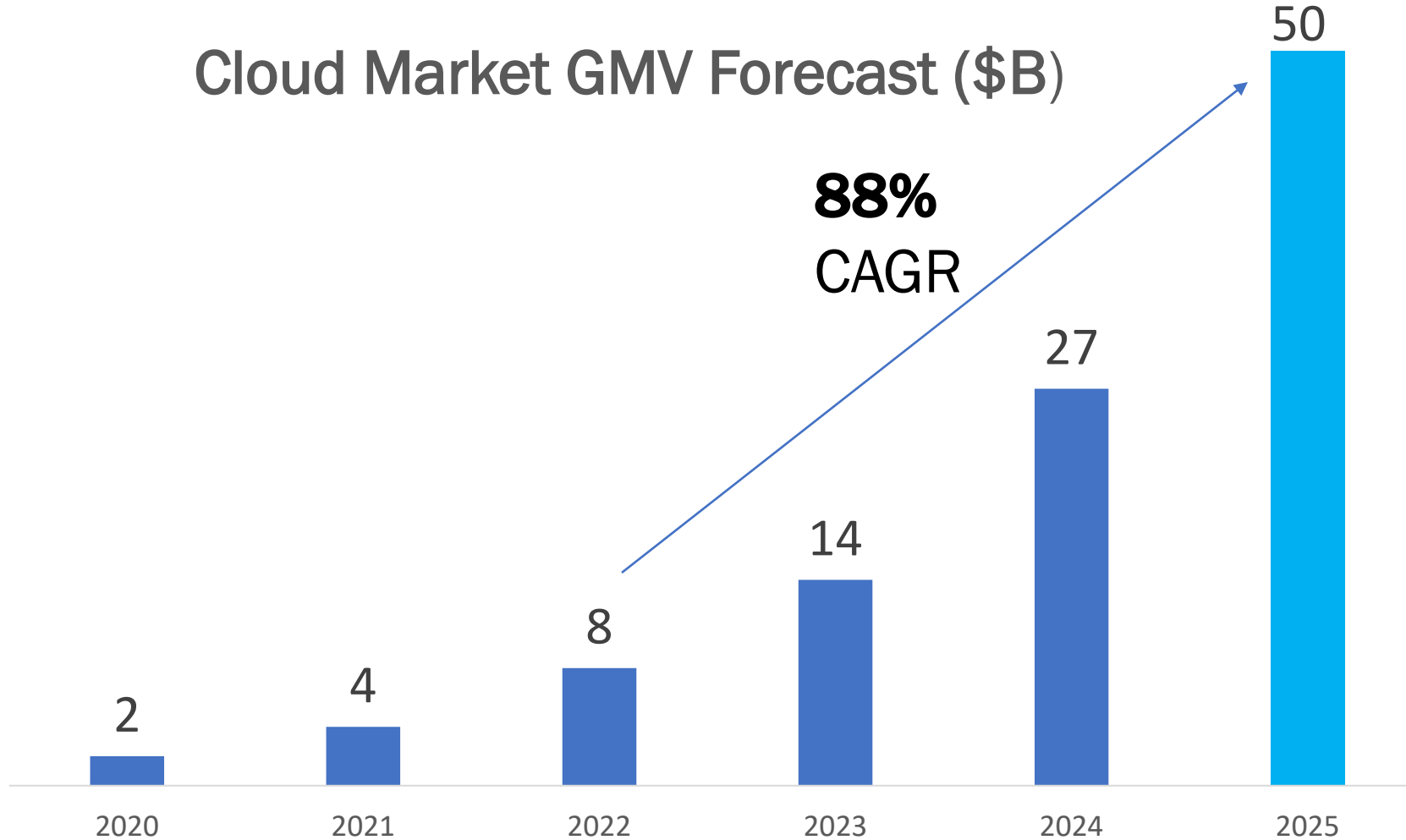


Source: apogaeis.com

The Trend for SaaS/Cloud VERY Promising - High Growth

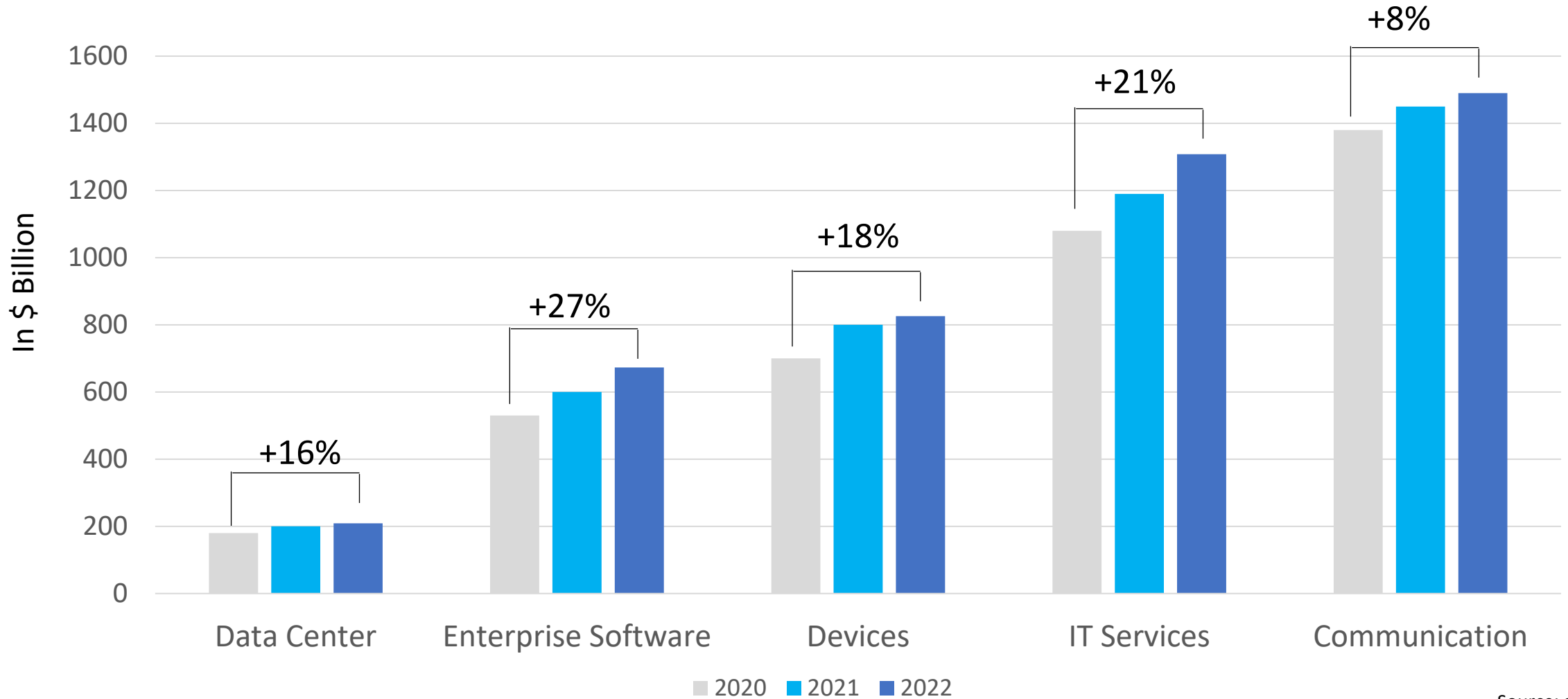


The Cloud...is Selling the Cloud



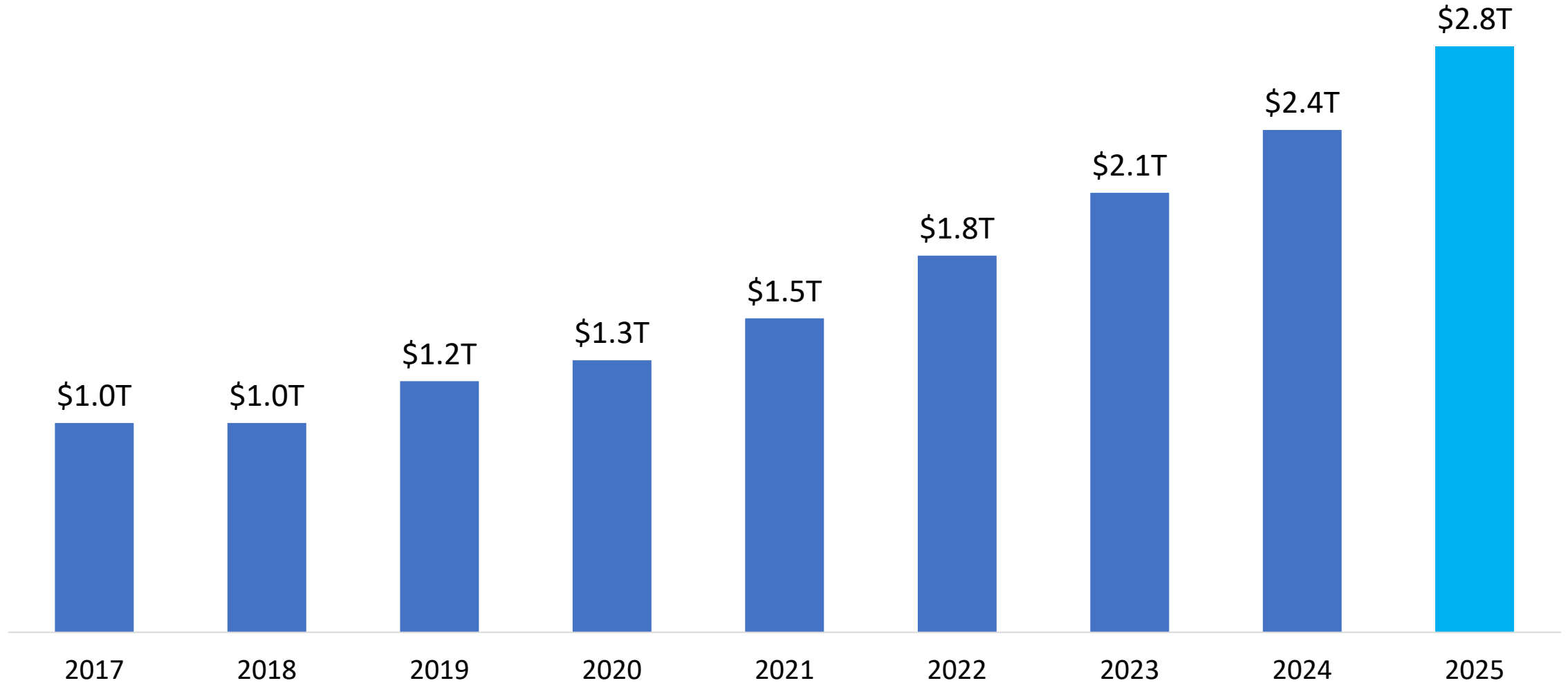
Source: bvp.com

Projected Worldwide IT Spending



Source: svb.com

Spending on Digital Transformation



Source: svb.com

....Other Key Metrics Now Matter More than Growth at any Cost



Burn Multiple = Net Burn / Net New ARR

The Rule of 40 Matters Again



A Return to Fundamentals

Burn Multiple as a Measure of Efficiency

Burn Multiple	Efficiency
Under 1x	Amazing
1-1.5x	Great
1.5-2x	Good
2-3x	Suspect
Over 3x	Bad

Example of Burn Analysis

Company has \$3M ARR (\$250K/month annualized)

Company doubles sales to \$6M - adds \$3M ARR

has a burn of \$3M

1:1 GOOD

has a burn of \$9M

1:3 BAD

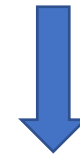
Rule of 40 - Add Growth, Subtract Losses

75% growth 25%
loss



$75 - 25 = 50$
Very Good

50% growth 20%
profit



$50 + 20 = 70$
EXCELLENT

Not all SaaS Companies are Equal

The higher the retention the more valuable (Churn)

Larger average client spend is better (Enterprise Premium)

Vertical SaaS is more highly valued than horizontal

True Net Margins

Pricing Power

SaaS+

Churn—3 Different Types of Analysis



Logo
Churn



Net
Churn



Gross
Churn

Logo Churn

- Clients from 12 months ago—# of actual clients still with you
- Regardless of whether they pay the same, more or less
- Counts only SaaS revenue
- For enterprise clients 90%+ is excellent
- For smaller businesses (SMBs) 80%+ is excellent
- Some markets have higher churn (i.e., eCommerce 70% is good)

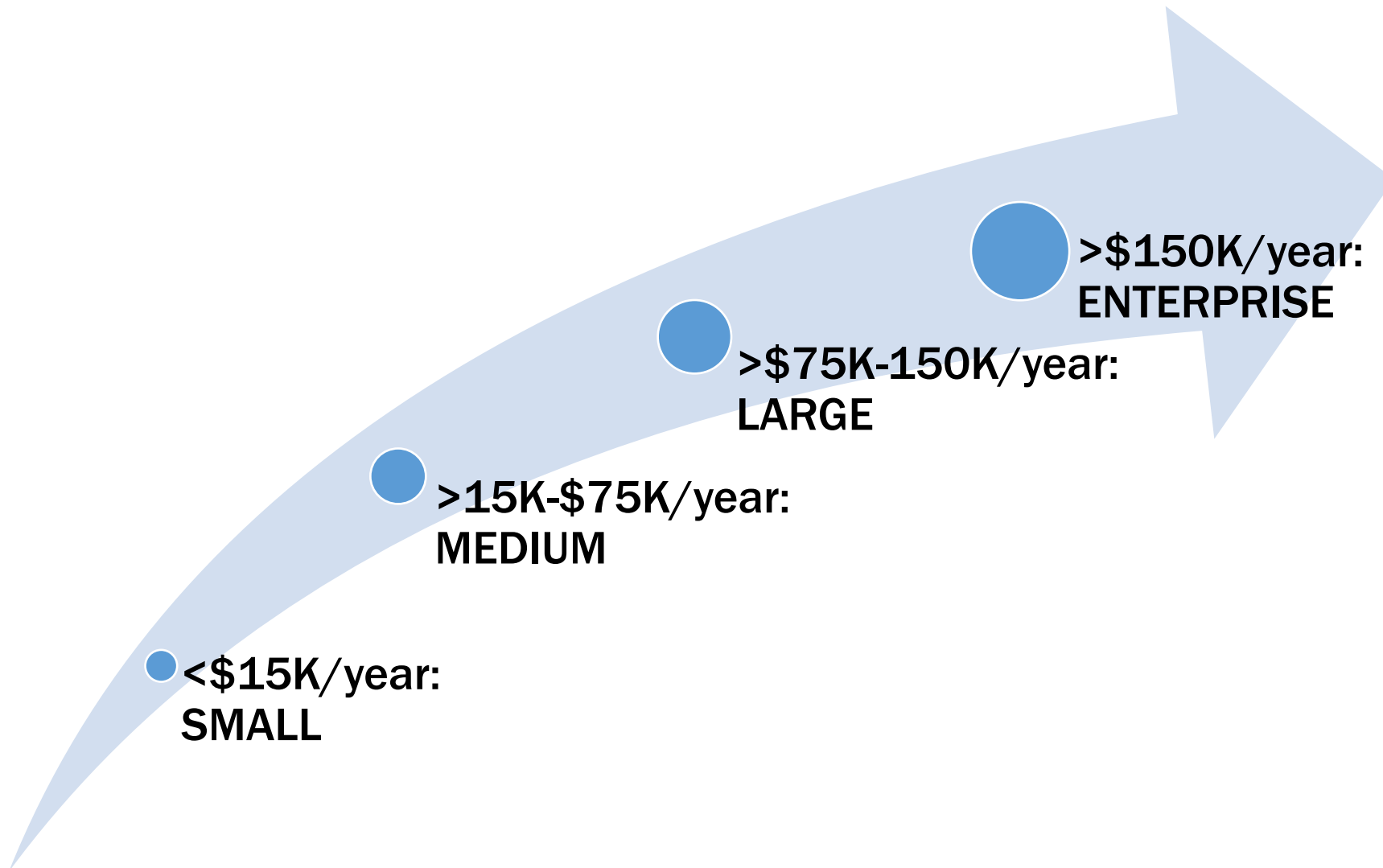
Net Churn

- Total revenue of all clients 12 months ago
- Total revenue of those clients now
- Can include some other revenue besides SaaS
- For large clients 120% net churn is excellent (110% is good)
- For smaller clients 110% net churn is excellent (100% is good)

Gross Churn

- Amount of \$ lost by clients leaving
- Does not award/punish for other clients growing
- 90% is excellent
- More relevant in context with logo and net churn, less by itself

Average Contract Value (ACV)



Different Types of SaaS Companies

- Vertical—integrates multiple departments
- Horizontal—typically less sticky (Dropbox vs Box, expense software)
- Horizontal exceptions (Cybersecurity, ML/AI, Low code)
- Ultimately HOW sticky and HOW price sensitive

Today's Funding Environment

- Both selling and raising capital are far more bifurcated than Q1
- Great companies are getting frenzied valuations—fewer great companies being chased by many well capitalized funds
- Sales/Capital raising cycles are longer—more like pre-Covid, even longer
- Fewer deals overall getting done now
- For most of the market multiples are down 30-60%



Early vs Late Stage— Changing Market Dynamics

- Seed stage less impacted now, amount and valuations down 30-50%.
- Later stages criteria: far more demanding
- Structured deals becoming more common—participating preferred, convertible notes, less company-friendly terms
- Venture funds examining their portfolio companies, providing more runway—at a cost.



Debt Markets Are Changing Too

- Multiples of SaaS debt impacted
- Conventional lenders more cautious
- Higher interest rate
- Venture debt players (many new entrants)—still aggressive

Strategies for this New Economy

- Maniacal focus on retention
- The Dolphin Approach
- Longer Capital Runway
 - Change in the talent war—winning it
 - Accept the new valuation reality
- Emphasis on shorter wins
- Flexibility—ability to react quicker to market changes
- Overcommunicate with your team and investors (briefer, more often)




Dolphin Strategy

- Get to breakeven--at cost to growth
- Slower hiring, reduce long term R&D
- Clarity in levers for longer term investment



Retention Strategies

- 
- Priorities on customer success
 - Proactive retention from metrics
 - Strike longer term deals—even with some discount, throw in training
 - “5% improvement in retention can generate 95% revenue improvement” (Bain & Co)
 - “Retaining customers is 5x less expensive than acquiring new ones” (G2)

The Talent War—An Opportunity

Talented people are being laid off from large companies

Some high profile companies will fail

Stock options are worthless in many companies

The Talent War—Winning It

- ✓ Closely align your key people for a tough year to retain them
- ✓ Reprice stock options (or set expectations it will happen)
- ✓ Articulate how your company will be better positioned after this adjustment
- ✓ Put effort into targeting the previously unattainable talent

Longer Runway—The New Reality

- Showing cash for 24 months
- Used to be 9-12 months
- Valuations are down...for this stage, be prepared for the next stage



Shorter Wins/Flexibility

- Long term R&D for great wins is less desirable
- Priority focus on wins in 3-6 months
- Be leaner—plan a single layoff if possible
- Clarity on showing ability to downsize quickly

Predictions for 2023

- Economy will slow
- SaaS growth will slow
- SaaS clients will slow down—net churn will drop
- Valuations will drop then plateau for good companies
- More marginal companies will fold or be sold cheaply/acquire
- More M&A will be done—opportunistic buyers well funded
- Negative valuation momentum will flatten—comforting investors
- Overall resilience of SaaS will be proven, positioning 2024 for a better year

Summary

- Key metrics determine value
- Buckle up for 2023!
- Return to fundamentals
- Change in strategy
- SaaS is a great market

Sources of Information on SaaS

- David Sacks www.substack.com
- Patrick Campbell www.profitwell.com
- Aaron Ross www.predictablerevenue.com
- Aggregage/Sutton Capital Partners www.saasbrief.com
- Jason Lemkin www.saastr.com
- SaaSCapital www.saascapital.com
- Tomasz Tunguz <https://tomtunguz.com/>
- AngelList www.angel.co
- Bessemer Ventures www.bvp.com

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SUTTONCAPITAL
PARTNERS

WE'LL GET YOU THERE

Thank you for
attending

Additional Questions?

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