

#### 0 4 E D 0 0 Δ ٩ • • ) $\bigvee$ . . D F Δ l l Ц $\bigcirc$ $\Box$ Δ P $\sim 1$







## **Alex Clayton**



benchmark<mark>it</mark>

Alex Clayton General Partner Meritech Capital







### **Table of Contents**

- 1. Trended Valuation Multiples
- 2. Operating Metrics and KPIs
- 3. Growth and Profitability Analysis and Regressions
- 4. Company Rankings



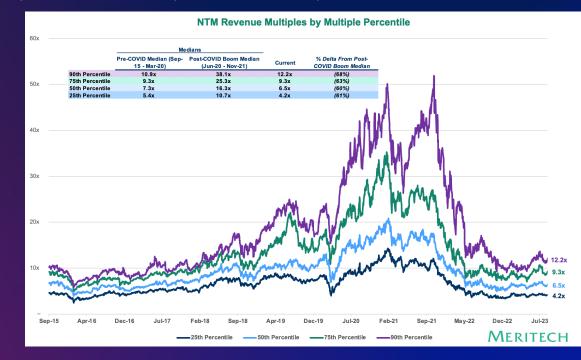


### **Trended Valuation Multiples**



### **NTM Revenue Multiples by Multiple Percentile**

The below shows the 25th, 50th, 75th and 90th percentile NTM revenue multiples. 90th percentile companies have seen the most compression, down 77% from a 2021 high of 51.9x to 12.2x today. The current median multiple is 6.5x, still below the pre-COVID median of 7.3x but down 69% from the 2021 high of 20.8x.





MERITECH

Source: CIQ as of 01-Sep-2023. Note: NTM defined as next-twelve months consensus estimate

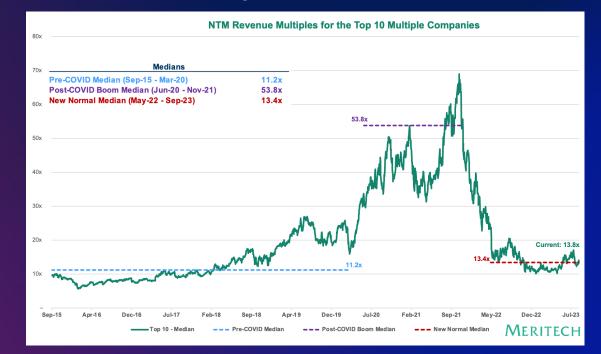
benchmarkit

### benchmark<mark>it</mark>

### MERITECH

#### Enterprise Value / NTM Revenue Multiples | Top 10

The following chart shows the same view but only for the 10 companies with the highest multiple on each day. The current top 10 company median is 13.8x, 23% above the pre-COVID median of 11.2x but down 80% from the 2021 high of 69.0x.





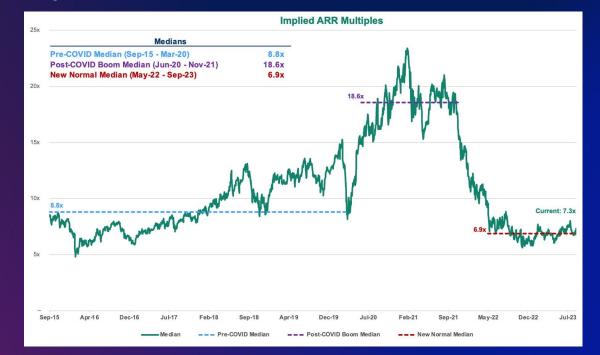
Source: CIQ as of 01-Sep-2023. Note: NTM defined as next-twelve months consensus estimate





#### **Enterprise Value / Implied ARR | All SaaS**

The following chart looks at Implied ARR multiples for the SaaS market for the last 8 years. The current median multiple is 7.3x, below the pre-COVID median of 8.8x but down 69% from the 2021 high of 23.4x.





Source: Company Filings and CIQ as of 01-Sep-2023. Note: Implied ARR defined as quarterly total revenue multiplied by four.



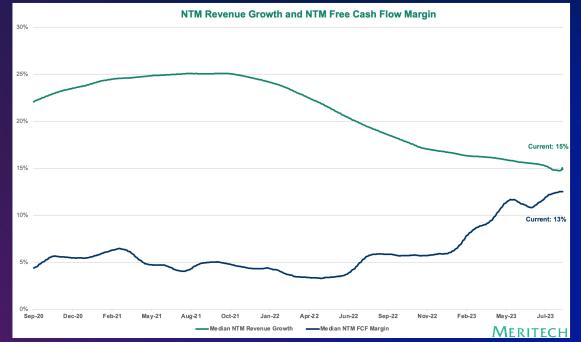
### **Operating Metrics and KPIs**





#### Median NTM Revenue Growth & Free Cash Flow Margins | All SaaS

Public SaaS companies have rapidly shifted towards efficiency. Forward growth rates have come down dramatically, and free cash flow margins have risen across the board. Put simply, companies are trading growth for profitability in today's market.





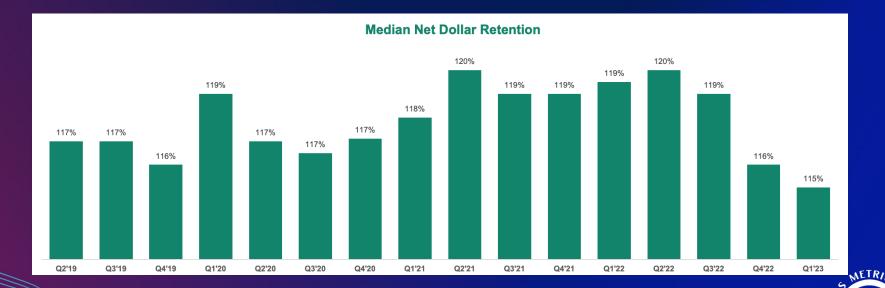
Source: CIQ as of 01-Sep-2023 and Company Filings. Note: NTM defined as next-twelve months consensus estimate. Free cash flow defined as cash flow from operations minus capital expenditures and capitalized software costs. Data represents the 30-day rolling average.





#### Median Net Dollar Retention | All SaaS

Net dollar retention rates across public SaaS have continued to decline and are at their lowest point in years at a median of 115%. Upsells have decreased and churn and contraction have increased.

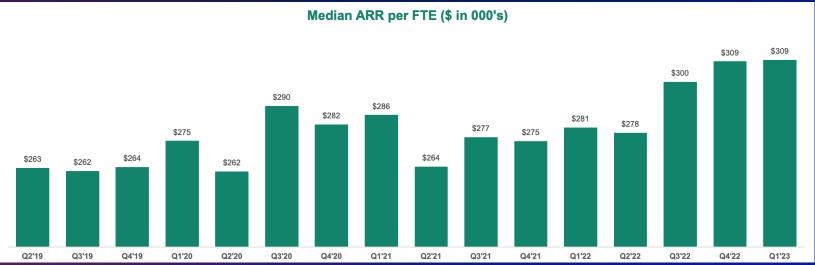


Source: Company Filings. Note: Quarters are only shown after all companies report earnings.



### Median Implied ARR per FTE | All SaaS

While companies are raising free cash flow margins, they're being forced to do more with less given layoffs and slower hiring.



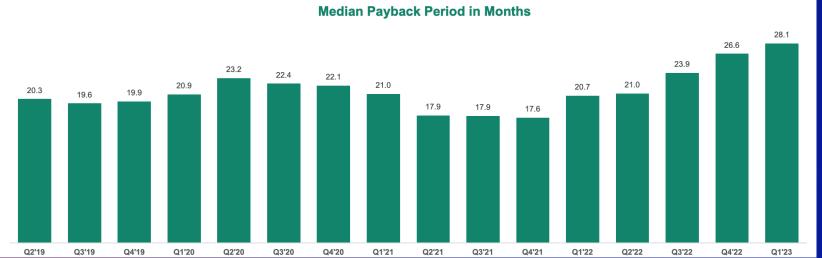
Source: Company Filings. Note: Implied ARR defined as quarterly total revenue multiplied by four. Quarters are only shown after all companies report earnings.





#### Median Payback Period in Months | All SaaS

No surprise, payback periods are increasing as new business is slower, expansion is harder to come by, and churn and contraction are increasing.



Source: Company Filings. Note: Payback period shown in months. Payback period calculated as prior quarter LTM non-GAAP sales and marketing expense divided by current quarter LTM net new implied ARR multiplied by current quarter LTM non-GAAP gross margin multiplied by 12. LTM (last-twelve-months) defined as the last four reported quarters. All financial figures are non-GAAP which adjust for items such as stock-based compensation, amortization of intangibles, and other one time and/or extraordinary expenses. Quarters are only shown after all companies report earnings.





### Meritech Growth & Profitability Analysis & Regressions





#### **Growth Rate & Profitability Buckets | All SaaS**

The below analysis shows median revenue multiples segmented by estimated NTM revenue growth rate and profitability over time, with 2017 being a proxy for pre-COVID times and 2021 being a proxy for the post-COVID boom period. As the other charts show, multiples have come down across the board, and even more so for higher-growth companies that are burning cash. Note that today there are no public SaaS companies that the Street expects to grow faster than 40% (even while burning cash!) over the next 12 months. This grid can be used by mature private companies to understand hypothetical trading multiple ranges based on the market today.

											∆ in
								%	∆ in	Ma	rket
		NTM F	Revenue Mu	ultiple	Median I	Market Capi	talization	Multiple		Capitalization	
		2017	2021	Today's	2017	2021	Today's	'17 to	'21 to	'17 to	'21 to
		Median	Median	Median	Median	Median	Median	Today	Today	Today	Today
				i i			i i				
40%+	Cash Flow Positive	6.1x	38.0x	! - !	\$2,971	\$46,980	! !	-	-	-	-
NTM Revenue Growth	Burning Cash	10.1x	44.4x		\$6,399	\$19,283		-	-	-	-
				i							
20-40%	<b>Cash Flow Positive</b>	6.8x	17.8x	9.2x	\$2,653	\$16,910	\$11,447	36 %	(48)%	331 %	(32)%
NTM Revenue Growth	Burning Cash	8.0x	20.9x	6.8x	\$1,832	\$6,783	\$4,856	(15)%	(68)%	165 %	(28)%
<20% NTM Revenue Growth	<b>Cash Flow Positive</b>	5.9x	10.3x	5.7x	\$1,669	\$5,711	\$4,782	(2)%	(44)%	186 %	(16)%
	Burning Cash	3.7x	8.9x	   6.0x	\$848	\$3,691	   \$3,155	59 %	(33)%	272 %	(15)%
			0	<u>   </u>			11				



Source: Company Filings and CIQ as of 01-Sep-2023. Note: NTM defined as next-twelve months consensus estimate. Free cash flow defined as NTM cash flow from operations minus NTM capital expenditures and capitalized software costs.





#### Rule of 40 Buckets | All SaaS

The below chart has a similar layout to the prior chart, but is segmented instead based on Rule of 40. Note that CrowdStrike is the only company currently in the Rule of 60 bucket.

	NTM	Revenue Mu	ıltiple	Median I	Market Capit	alization	%Δin Multiple		% ∆ in Market Capitalization	
	2017 Median	2021 Median	Today's Median	2017 Median	2021 Median	Today's Median	'17 to Today	'21 to Today	'17 to Today	'21 to Today
60%+ Rule of 40	8.0x	27.0x	10.6x	\$5,659	\$47,294	\$38,880 \$38,880	33 %	(61)%	587 %	(18)%
40-60% Rule of 40	8.6x	21.5x	9.3x	\$9,594	\$31,524	\$15,689	8 %	(57)%	64 %	(50)%
20-40% Rule of 40	6.5x	14.9x	6.2x	\$1,918	\$8,676	\$5,552	(4)%	(58)%	190 %	(36)%
>20% Rule of 40	5.2x	11.1x	3.8x	\$1,852	\$4,908	\$2,057	(27)%	(66)%	11 %	(58)%



Source: Company Filings and CIQ as of 01-Sep-2023. Note: NTM defined as next-twelve months consensus estimate. Rule of 40 defined as NTM revenue growth + NTM free cash flow margin.





#### **Rule of 40 Composition | All SaaS**

Previously we showed multiples segmented by growth rate and profitability. Here is a more nuanced view, breaking down the composition of the Rule of 40 between growth and cash flow margins and showing both the median multiple and the median Rule of 40 of each bucket. Simple regressions comparing multiples against growth or Rule of 40 are valuable, but this analysis shows that the composition of your Rule of 40 can meaningfully impact your valuation. This is highlighted in the red boxes in the tables which show that companies with similar Rule of 40 but growing faster can trade at a significant premium (9.0x) to companies with lower growth and higher free cash flow margins (5.4x). The bar chart below plots those red boxes and visualizes the inverse correlation between Rule of 40 and multiple for this very reason, a dynamic you could not pick up from looking at a simple regression. Investors pay the highest prices for companies that are growing quickly and have some free cash flow. This implies the company has a great market structure, and if growth was slowed, theoretically, free cash flow margins would rise even further. Note blank cell(s) indicate no companies are currently in that bucket.

Rule of 40 Composition Analysis: Median EV / Implied ARR Multiple										
NTM Revenue Growth										
<10% 10-20% 20-30% >30%										
	<10%	2.9x	6.3x	10.3x	9.0x					
FCF gin	10-20%	3.0x	6.9x	9.6x	-					
NTM FCF Margin	20-30%	-	6.7x	14.8x	13.5x					
	>30%	5.4x	13.2x	13.7x	12.5x					

Rule of 40 Composition Analysis: Median Rule of 40											
		NTM Revenue Growth   <10%									
	<10%	13%	15%	28%	31% 						
NTM FCF Margin	10-20%	23%	29%	37%							
NTM Mar	20-30%		37%	48%	53%						
	>30%	41%	51%	54%	62%						



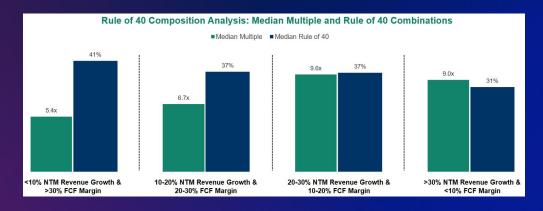
Source: Company Filings as of 01-Sep-2023. Note: NTM defined as next-twelve months consensus estimate. Implied ARR defined as quarterly total revenue multiplied by four. Free cash flow defined as cash flow from operations minus capital expenditures and capitalized software costs. Rule of 40 defined as NTM revenue growth + NTM free cash flow margin.





#### **Rule of 40 Composition | All SaaS**

Previously we showed multiples segmented by growth rate and profitability. Here is a more nuanced view, breaking down the composition of the Rule of 40 between growth and cash flow margins and showing both the median multiple and the median Rule of 40 of each bucket. Simple regressions comparing multiples against growth or Rule of 40 are valuable, but this analysis shows that the composition of your Rule of 40 can meaningfully impact your valuation. This is highlighted in the red boxes in the tables which show that companies with similar Rule of 40 but growing faster can trade at a significant premium (9.0x) to companies with lower growth and higher free cash flow margins (5.4x). The bar chart below plots those red boxes and visualizes the inverse correlation between Rule of 40 and multiple for this very reason, a dynamic you could not pick up from looking at a simple regression. Investors pay the highest prices for companies that are growing quickly and have some free cash flow. This implies the company has a great market structure, and if growth was slowed, theoretically, free cash flow margins would rise even further. Note blank cell(s) indicate no companies are currently in that bucket.



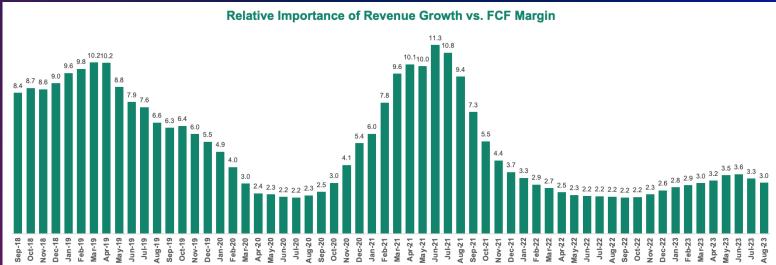


Source: Company Filings as of 01-Sep-2023. Note: NTM defined as next-twelve months consensus estimate. Implied ARR defined as quarterly total revenue multiplied by four. Free cash flow defined as cash flow from operations minus capital expenditures and capitalized software costs. Rule of 40 defined as NTM revenue growth + NTM free cash flow margin.



#### Relative Importance of Revenue Growth vs. FCF Margin

The chart below is based on a two-factor regression of NTM revenue growth and NTM FCF margin to ARR multiple. It shows that growth is 3.0x as correlated with multiple vs. FCF margin. Said another way, a 1% increase in growth would have the same impact on multiple as a 3.0% increase in FCF margin.

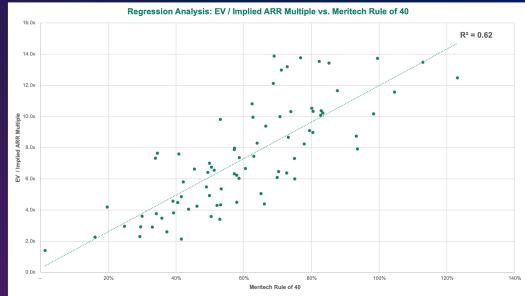


Source: Company Filings. Note: We define relative importance as the ratio of the correlation of NTM revenue growth and NTM FCF Margin to EV / Implied ARR Multiple based on a two-factor linear regression analysis. Represents two-quarter rolling average. Data excludes Zoom.



#### benchmark<sup>\*</sup> Regression Analysis | EV / Implied ARR Multiple vs. <u>Meritech Rule of 40</u>

We've established that growth has (today and historically) an outsized influence on software company valuations relative to FCF margins. So, rather than plot regressions of growth and Rule of 40 separately, we at Meritech plot multiples against an adjusted Rule of 40 score, where growth receives a disproportionate weighting (in this case, 3x) relative to FCF margins – the <u>Meritech Rule of 40</u>. This metric more accurately reflects the valuation environment as shown in the prior chart and results in a higher correlation.





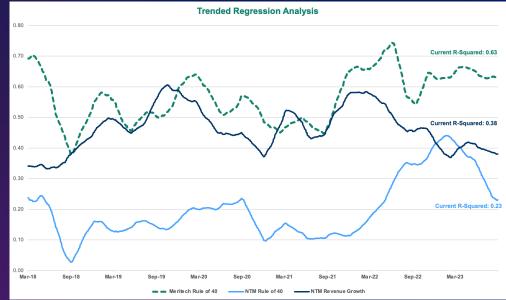
MERITECH

Source: CIQ as of 01-Sep-2023 and Company Filings. Note: NTM defined as next-twelve months consensus estimate. Implied ARR defined as quarterly total revenue multiplied by three. Meritech Rule of 40 defined as NTM revenue growth multiplied by three + NTM free cash flow margin. Excludes companies with top decile residuals from the line of best fit.



#### Trended Regression Analysis | Growth vs. Rule of 40 vs. Meritech Rule of 40

The chart below shows the Meritech Rule of 40 correlation plotted over time alongside standard growth rate and Rule of 40 correlations. Following the market selloff and multiple compression in early 2022, growth and Rule of 40 correlations converged. Recently, however, growth has returned (for now) as being the dominant factor. The Meritech Rule of 40 shows a consistently higher correlation than growth, but the two lines move in unison given the disproportionate weighting of the revenue growth rate.





Source: CIQ as of 01-Sep-2023 and Company Filings. Note: NTM defined as next-twelve months consensus estimate. Implied ARR defined as quarterly total revenue multiplied by four. NTM Rule of 40 defined as NTM revenue growth + NTM free cash flow margin. Meritech Rule of 40 defined as NTM revenue growth multiplied by three + NTM free cash flow margin. Meritech Rule of 40 calculation excludes companies with top decile residuals from the line of best fit. Data represents 90 day rolling average.





### **Company Rankings**



#### **Top 10 Implied ARR Multiple Companies**

	Top 10 Implied ARR Multiple Companies										
	EV / Implied ARR Multiple Median										
	19.3x										
		18.1x	17.6x	16.5x	15.7x	15.0x	13.9x	13.8x	Media 13.7x	n: 15.3x 13.5x	
	*SNOW *Snowflake	IOT Samsara	NET	MD B MongoDB	*DDOG *Datadog	PLTR Palantir	GTLB GitLab	TEAM Atlassian	NOW	CFLT Confluent	Median 1
Trading Metrics	Showhake	Sanisara	cioudilare	Mongobb	Datadog	Falanui	Gittab	Auassian	Servicentow	Conndent	median
Share Price (\$)	\$157.08	\$30.93	\$63.99	\$392.88	\$97.73	\$15.18	\$49.17	\$204.45	\$590.88	\$33.25	
12-Month % Share Price Change	(9%)	139%	8%	63%	1%	103%	(3%)	(13%)	37%	29%	18%
Market Capitalization (\$M)	\$56,651	\$16,523	\$21,856	\$28,637	\$33,297	\$34,727	\$7,928	\$52,621	\$120,697	\$10,984	\$30,967
Implied ARR Multiple	19.3x	18.1x	17.6x	16.5x	15.7x	15.0x	13.9x	13.8x	13.7x	13.5x	15.3x
NTM Revenue Multiple	16.7x	15.7x	14.8x	16.1x	14.2x	13.3x	12.3x	12.5x	12.0x	11.8x	13.8x
Annualized Gross Profit Multiple	26.0x	24.3x	22.7x	21.3x	22.1x	18.4x	15.3x	16.3x	16.8x	18.1x	19.8x
NTM FCF Multiple	65.0x	-	-	-	67.4x	74.9x	-	51.5x	38.3x	-	65.0x
Multiple of Money Return from IPO	1.3x	1.3x	4.3x	16.4x	3.6x	2.1x	0.6x	9.7x	32.8x	0.9x	2.9x
IRR From IPO Price	10%	19%	44%	61%	38%	29%	(21%)	34%	37%	(4%)	32%
Financial Metrics Implied ARR (\$M)	\$2,696	\$877	\$1,234	\$1,695	\$2,038	\$2,133	\$508	\$3,756	\$8,600	\$757	\$1,867
% YoY Implied ARR Growth	36%	43%	32%	40%	25%	13%	45%	24%	23%	36%	34%
Net Dollar Retention	142%	115%	115%	120%	130%	110%	128%	181	-	130%	124%
Implied Average ACV (\$K)	\$316	\$18	\$7	\$38	\$78	\$5,067	\$69	\$14	\$1,008	\$157	\$73
Implied ARR / FTE (\$K)	\$405	\$329	\$364	\$325	\$391	\$571	\$254	\$350	\$402	\$277	\$357
Implied Payback Period (Months)	19.6	27.6	25.4	9.9	18.4	66.8	56.8	24.0	47.2	26.2	25.8
LTM Gross Margin	72%	74%	78%	76%	78%	81%	90%	85%	82%	73%	78%
LTM Operating Income / (Loss) Margin	7%	(7%)	6%	12%	16%	22%	(16%)	20%	26%	(20%)	9%
LTM FCF Margin	25%	(3%)	6%	3%	22%	18%	(14%)	24%	29%	(28%)	12%
LTM Rule of 40	61%	40%	37%	43%	48%	31%	31%	47%	51%	7%	41%
										M	ERITECH



Source: See appendix footnote. \* Indicates current or former Meritech investment.

benchmark¥t



#### **Top 10 Market Cap Companies**

#### **Top 10 Market Capitalization Companies** Market Cap. (\$M) --- Median \$256,711 \$216,402 \$120,697 \$85,838 Median: \$60,979 \$65.306 \$56,651 \$52,621 \$38,880 \$35,515 \$34,727 ADBE \*CRM VEEV NOW SHOP WDAY \*SNOW TEAM CRWD PLTR Adobe \*Salesforce ServiceNow Shopify Workday \*Snowflake Atlassian CrowdStrike Veeva Palantin Median **Trading Metrics** Share Price (\$) \$563.21 \$221.53 \$590.88 \$66.71 \$248.49 \$157.08 \$204.45 \$161.23 \$216.57 \$15.18 -12-Month % Share Price Change 52% 44% 37% 113% 54% (9%) (13%) (7%) 26% 103% 41% Market Capitalization (\$M) \$256,711 \$216,402 \$120,697 \$85,838 \$65,306 \$56,651 \$52,621 \$38,880 \$35,515 \$34,727 \$60,979 Implied ARR Multiple 13.2x 6.3x 13.7x 12.1x 8.7x 19.3x 13.8x 12.5x 13.4x 15.0x 13.3x NTM Revenue Multiple 12.5x 6.0x 7.9x 16.7x 12.5x 12.2x 13.3x 12.0x 10.9x 10.6x 12.1x Annualized Gross Profit Multiple 14.9x 8.3x 16.8x 24.3x 11.0x 26.0x 16.3x 12.2x 18.8x 18.4x 16.5x NTM FCF Multiple 30.3x 23.4x 38.3x 32.8x 65.0x 51.5x 33.8x 35.1x 74.9x 35.1x Multiple of Money Return from IPO 3313.0x 80.6x 32.8x 39.2x 8.9x 1.3x 9.7x 4.7x 10.8x 2.1x 10.3x IRR From IPO Price 24% 26% 37% 56% 22% 10% 34% 45% 27% 29% 28% **Financial Metrics** Implied ARR (\$M) \$19,264 \$34,412 \$8,600 \$6,776 \$7,147 \$2,696 \$3,756 \$2,927 \$2,361 \$2,133 \$5,266 37% 10% % YoY Implied ARR Growth 10% 11% 23% 31% 16% 36% 24% 13% 20% Net Dollar Retention 142% 120% 119% 110% 120% Implied Average ACV (\$K) \$35 \$1,008 \$3 \$715 \$316 \$14 \$111 \$1,624 \$5,067 \$316 Implied ARR / FTE (\$K) \$640 \$488 \$402 \$598 \$402 \$405 \$350 \$386 \$331 \$571 \$404 Implied Payback Period (Months) 24.8 31.7 47.2 8.7 15.7 19.6 24.0 18.4 4.3 66.8 21.8 88% 77% 49% 78% 72% 81% LTM Gross Margin 82% 85% 80% 22% LTM Operating Income / (Loss) Margin 43% 23% 26% 4% 21% 7% 20% 23% LTM FCF Margin 40% 23% 29% 3% 23% 25% 24% 30% 43% 18% 25% 50% 34% 34% 61% 47% 67% 53% 31% LTM Rule of 40 51% 39% 49%



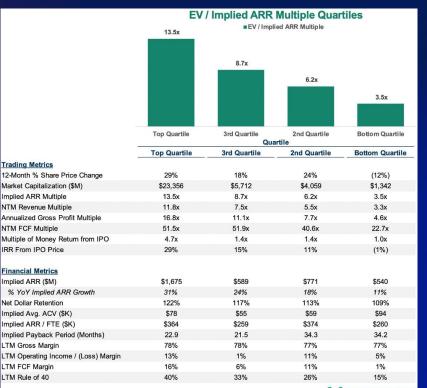
MERITECH

Source: See appendix footnote. \* Indicates current or former Meritech investment.

benchmarkt



### Enterprise Value / Implied ARR Multiple by Quartiles | All SaaS



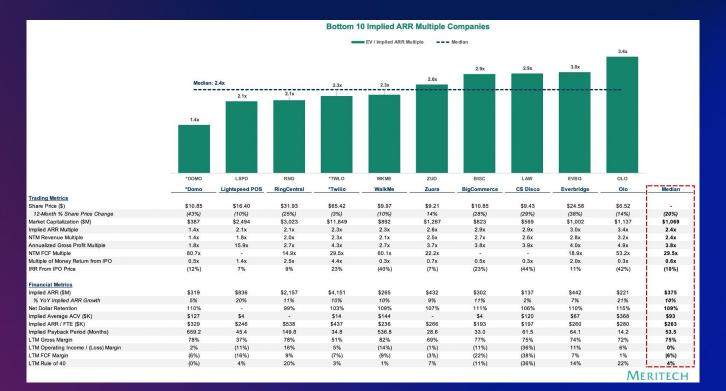
MERITECH

ST ANDARDS

MERITECH

Source: See appendix footnote. \* Indicates current or former Meritech investment.

#### **Bottom 10 Implied ARR Multiple Companies**





Source: See appendix footnote. \* Indicates current or former Meritech investment.

benchmarkit











#### **Appendix Footnote**

Source: CIQ as of 01-Sep-2023 and Company Filings. Note: Implied ARR defined as quarterly total revenue multiplied by four. Annualized Gross Profit defined as quarterly gross profit multiplied by four. Free cash flow defined as cash flow from operations minus capital expenditures and capitalized software costs. LTM Rule of 40 defined as Implied ARR Growth + LTM free cash flow margin. Payback period shown in months. Payback period calculated as prior quarter LTM non-GAAP sales and marketing expense divided by current quarter LTM net new implied ARR multiplied by current quarter LTM non-GAAP gross margin multiplied by 12. LTM (last-twelve-months) defined as the last four reported quarters. ACV defined as quarterly implied ARR divided by quarterly customer count. All financial figures are non-GAAP which adjust for items such as stock-based compensation, amortization of intangibles, and other one time and/or extraordinary expenses. Historical data includes over 100 public SaaS companies as defined by Meritech.





# benchmark¥t

### **Speaker Contact Slide**



#### **Alex Clayton**

ac@meritechcapital.com

www.linkedin.com/in/aclayton/

