

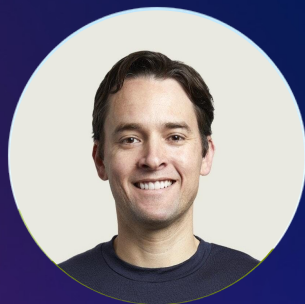


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# SaaS METRICS PALOOZA



# Alex Clayton



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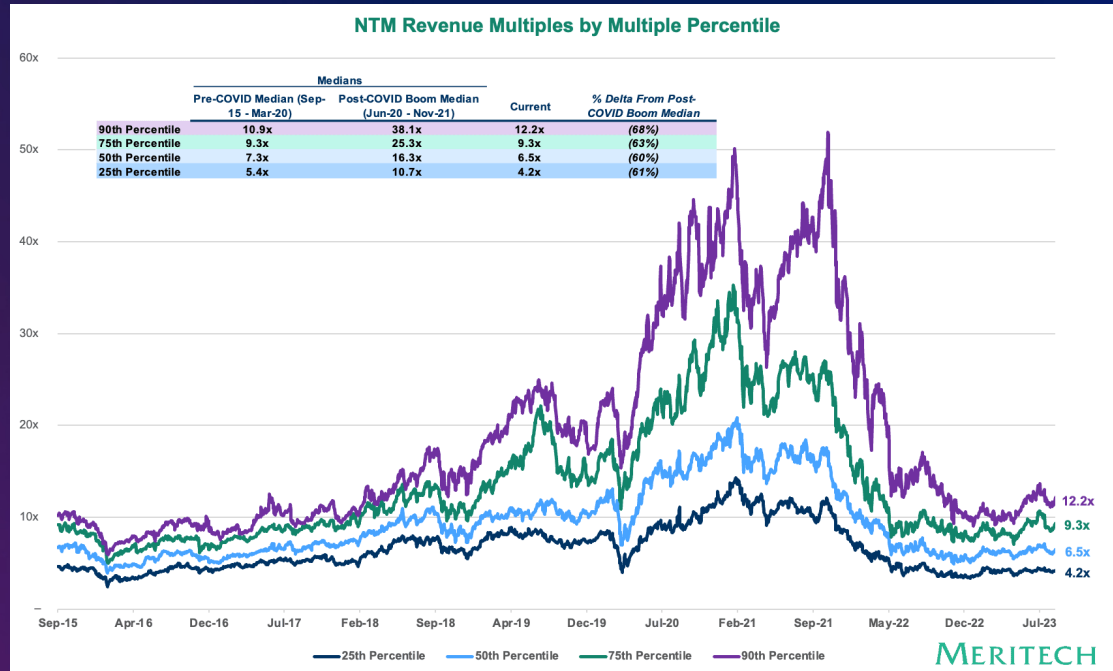
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# Trended Valuation Multiples



# 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.

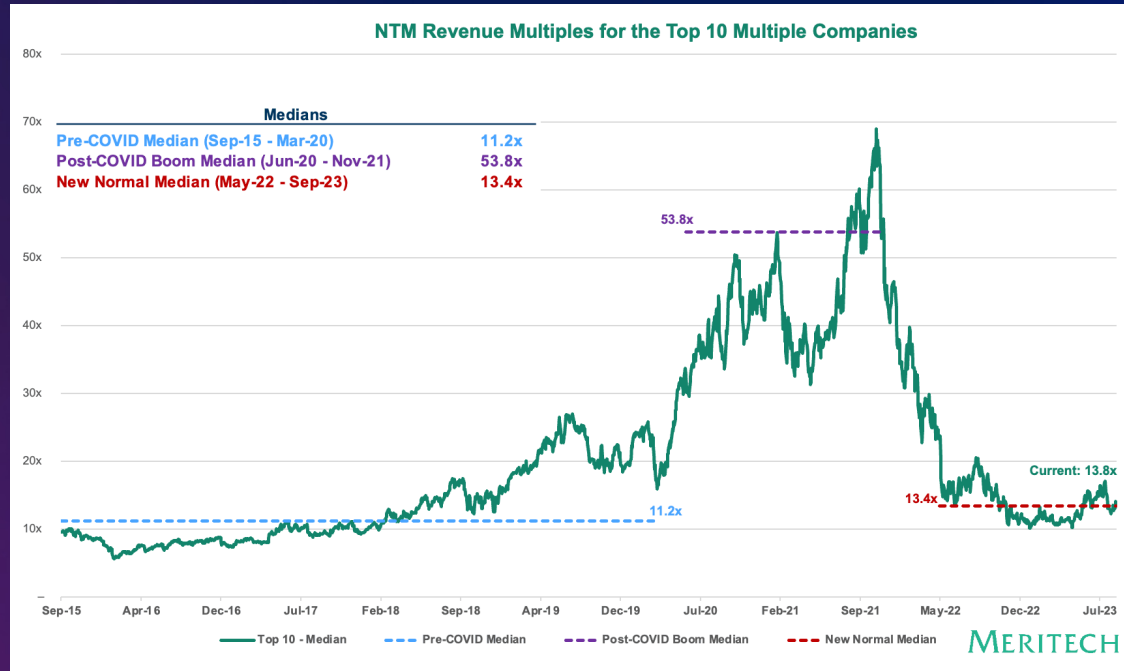


Source: CIQ as of 01-Sep-2023. Note: NTM defined as next-twelve months consensus estimate



# 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.

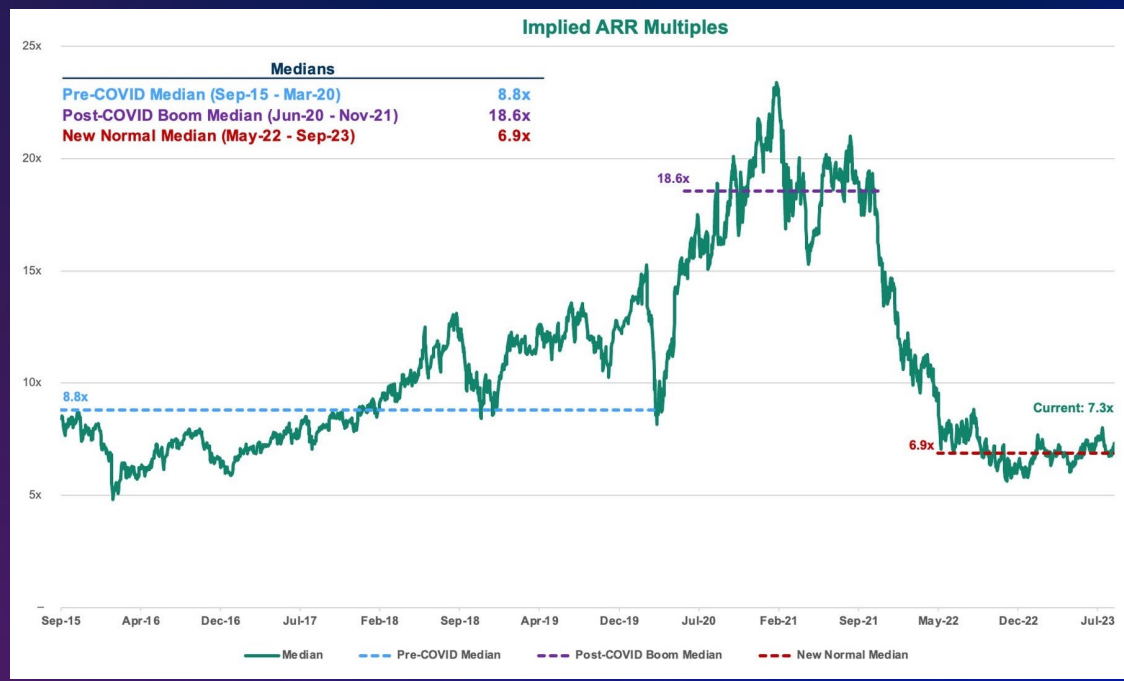


Source: CIQ as of 01-Sep-2023. Note: NTM defined as next-twelve months consensus estimate



# 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.





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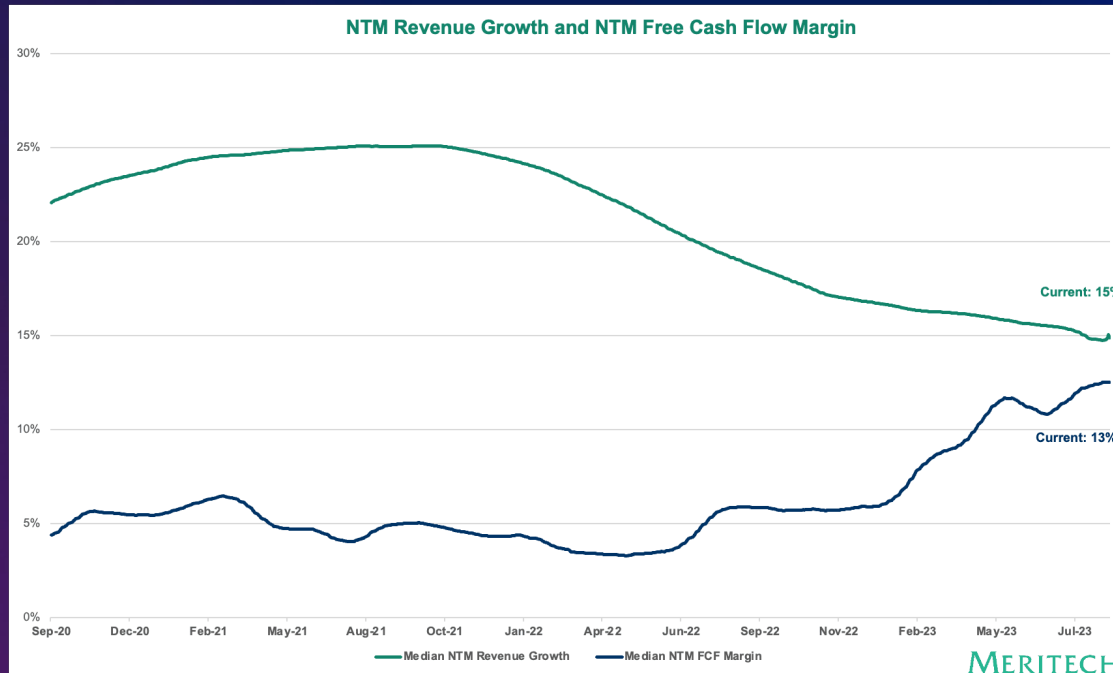
# Operating Metrics and KPIs





# 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.

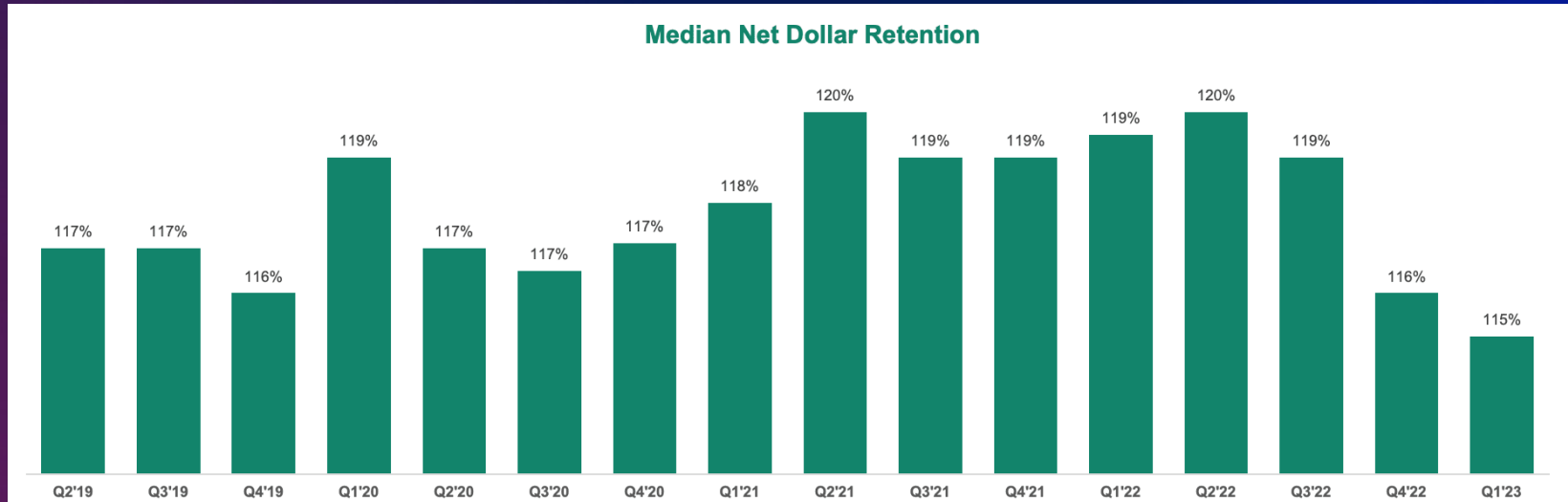


Source: CIQ as of 01-Sep-2023 and Company Filings. Note: NTM defined as next-twelve months consensus estimate. Free cash flow defined as cash flow from operations minus capital expenditures and capitalized software costs. Data represents the 30-day rolling average.



# Median Net Dollar Retention | All SaaS

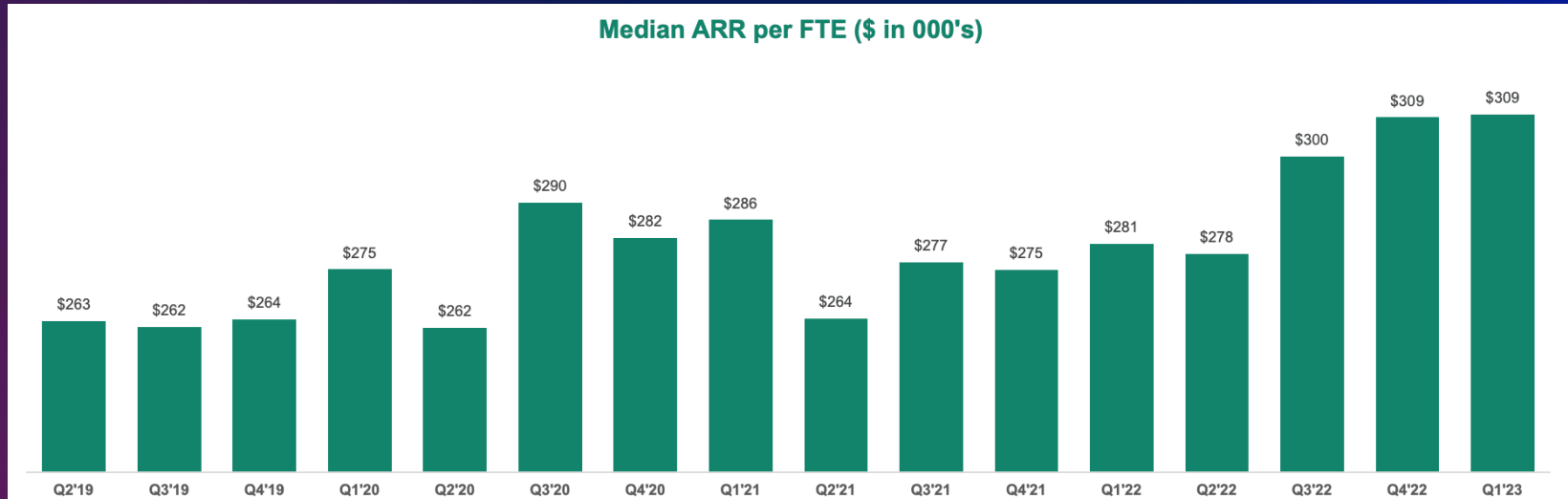
Net dollar retention rates across public SaaS have continued to decline and are at their lowest point in years at a median of 115%. Upsells have decreased and churn and contraction have increased.



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

# Median Implied ARR per FTE | All SaaS

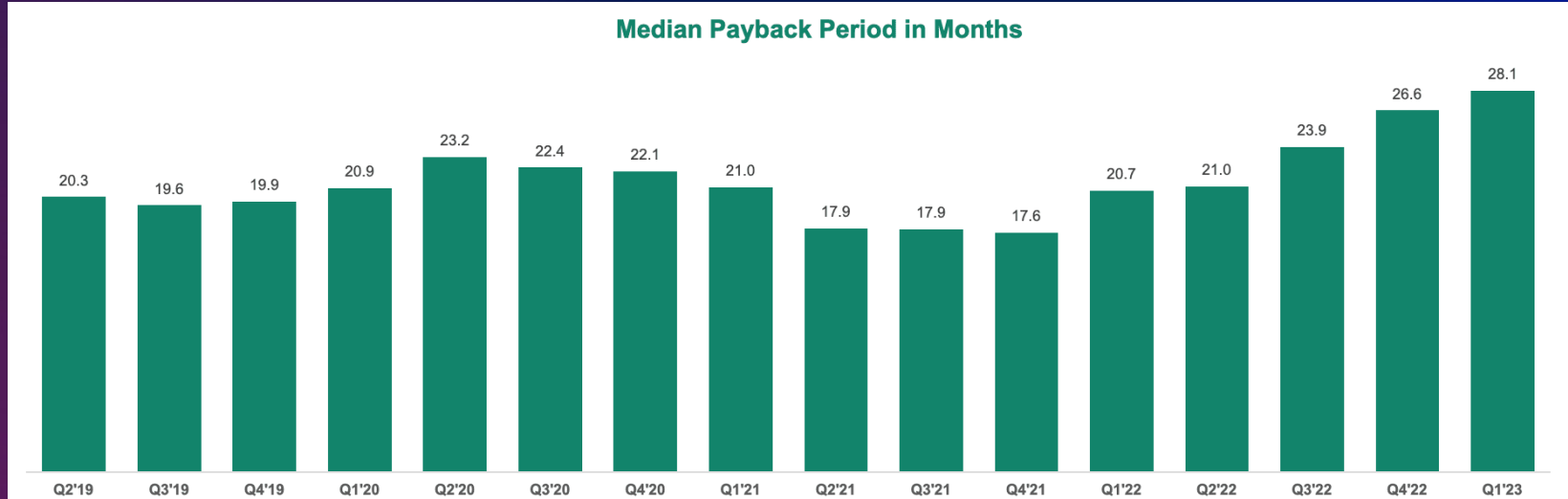
While companies are raising free cash flow margins, they're being forced to do more with less given layoffs and slower hiring.



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.





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# 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.

		NTM Revenue Multiple			Median Market Capitalization			% Δ in Multiple		% Δ 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
40%+ NTM Revenue Growth	Cash Flow Positive	6.1x	38.0x	-	\$2,971	\$46,980	-	-	-	-	-
	Burning Cash	10.1x	44.4x	-	\$6,399	\$19,283	-	-	-	-	
20-40% NTM Revenue Growth	Cash Flow Positive	6.8x	17.8x	9.2x	\$2,653	\$16,910	\$11,447	36 %	(48)%	331 %	(32)%
	Burning Cash	8.0x	20.9x	6.8x	\$1,832	\$6,783	\$4,856	(15)%	(68)%	165 %	(28)%
<20% NTM Revenue Growth	Cash Flow Positive	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)%

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 Multiple			Median Market Capitalization			% Δ in Multiple		% Δ 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
<b>60%+ Rule of 40</b>	8.0x	27.0x	<b>10.6x</b>	\$5,659	\$47,294	<b>\$38,880</b>	33 %	(61)%	587 %	(18)%
<b>40-60% Rule of 40</b>	8.6x	21.5x	<b>9.3x</b>	\$9,594	\$31,524	<b>\$15,689</b>	8 %	(57)%	64 %	(50)%
<b>20-40% Rule of 40</b>	6.5x	14.9x	<b>6.2x</b>	\$1,918	\$8,676	<b>\$5,552</b>	(4)%	(58)%	190 %	(36)%
<b>&gt;20% Rule of 40</b>	5.2x	11.1x	<b>3.8x</b>	\$1,852	\$4,908	<b>\$2,057</b>	(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%
NTM FCF Margin	<10%	2.9x	6.3x	10.3x	9.0x
	10-20%	3.0x	6.9x	9.6x	-
	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%	10-20%	20-30%	>30%
NTM FCF Margin	<10%	13%	15%	28%	31%
	10-20%	23%	29%	37%	-
	20-30%	-	37%	48%	53%
	>30%	41%	51%	54%	62%

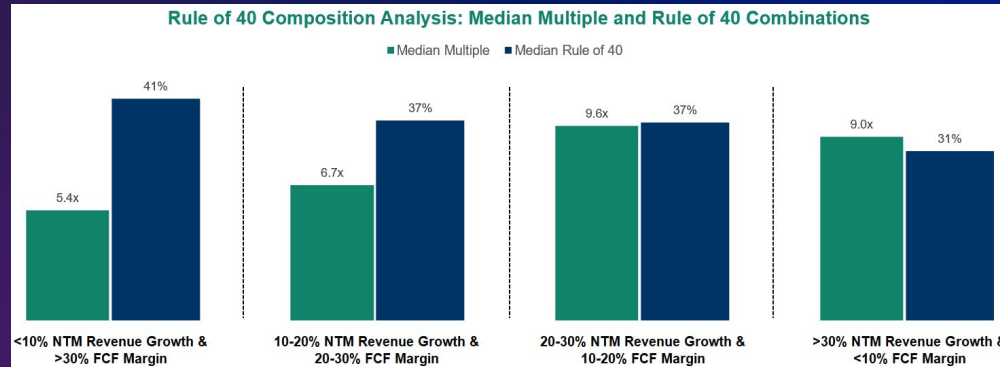
Source: Company Filings as of 01-Sep-2023. Note: NTM defined as next-twelve months consensus estimate. Implied ARR defined as quarterly total revenue multiplied by four. Free cash flow defined as cash flow from operations minus capital expenditures and capitalized software costs. Rule of 40 defined as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

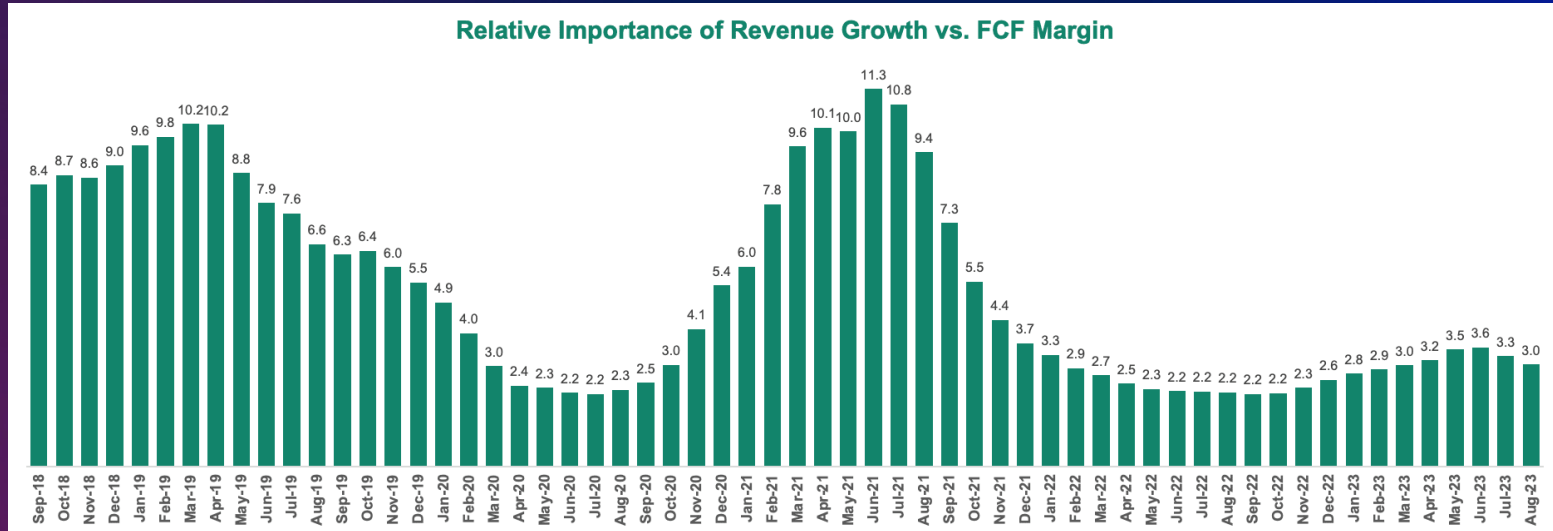


Source: Company Filings as of 01-Sep-2023. Note: NTM defined as next-twelve months consensus estimate. Implied ARR defined as quarterly total revenue multiplied by four. Free cash flow defined as cash flow from operations minus capital expenditures and capitalized software costs. Rule of 40 defined as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

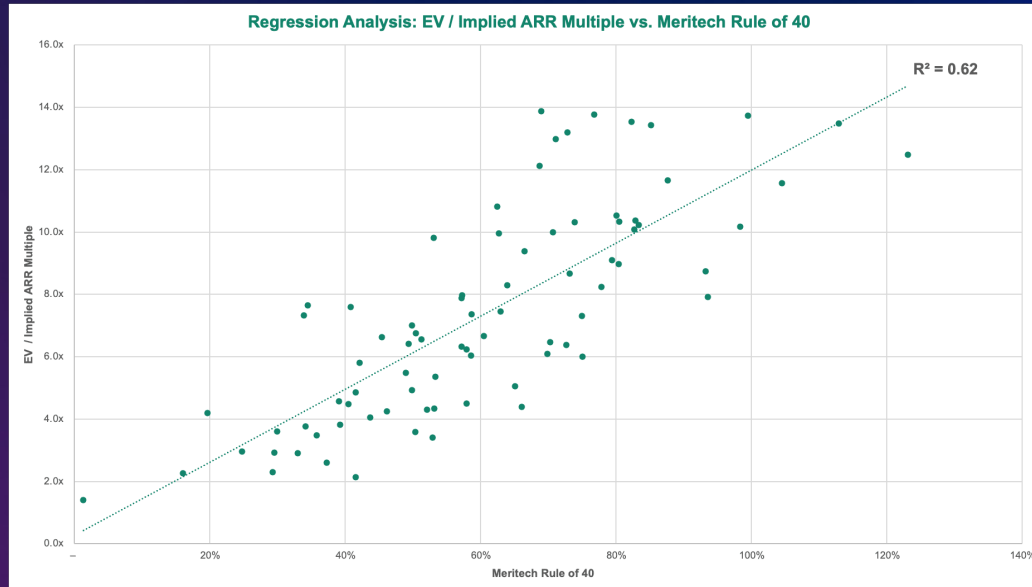


Source: Company Filings. Note: We define relative importance as the ratio of the correlation of NTM revenue growth and NTM FCF Margin to EV / Implied ARR Multiple based on a two-factor linear regression analysis. Represents two-quarter rolling average. Data excludes Zoom.



# Regression Analysis | EV / Implied ARR Multiple vs. Meritech Rule of 40

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 Meritech Rule of 40. This metric more accurately reflects the valuation environment as shown in the prior chart and results in a higher correlation.

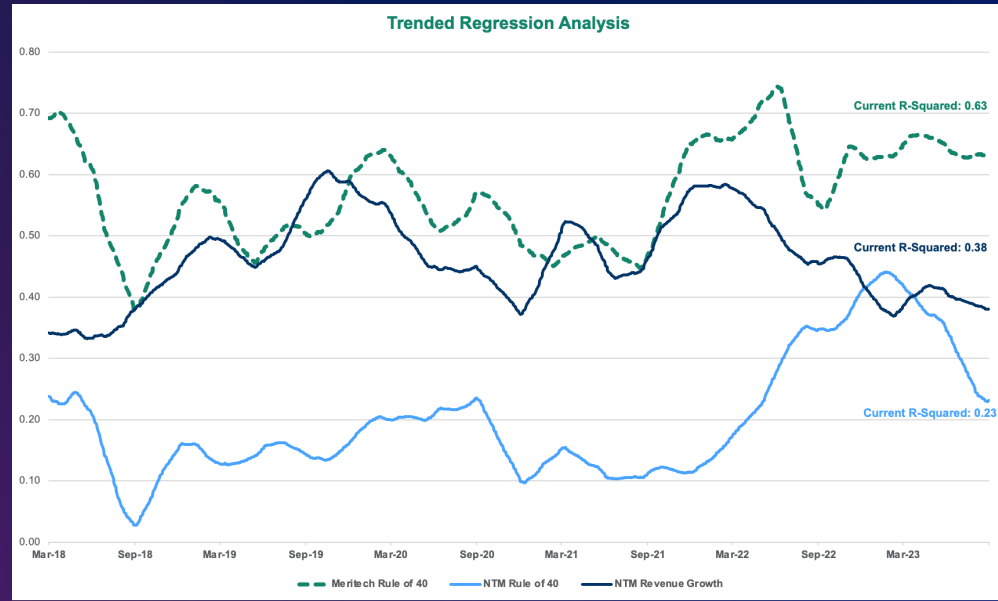


Source: CIQ as of 01-Sep-2023 and Company Filings. Note: NTM defined as next-twelve months consensus estimate. Implied ARR defined as quarterly total revenue multiplied by three. Meritech Rule of 40 defined as NTM revenue growth multiplied by three + NTM free cash flow margin. Excludes companies with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

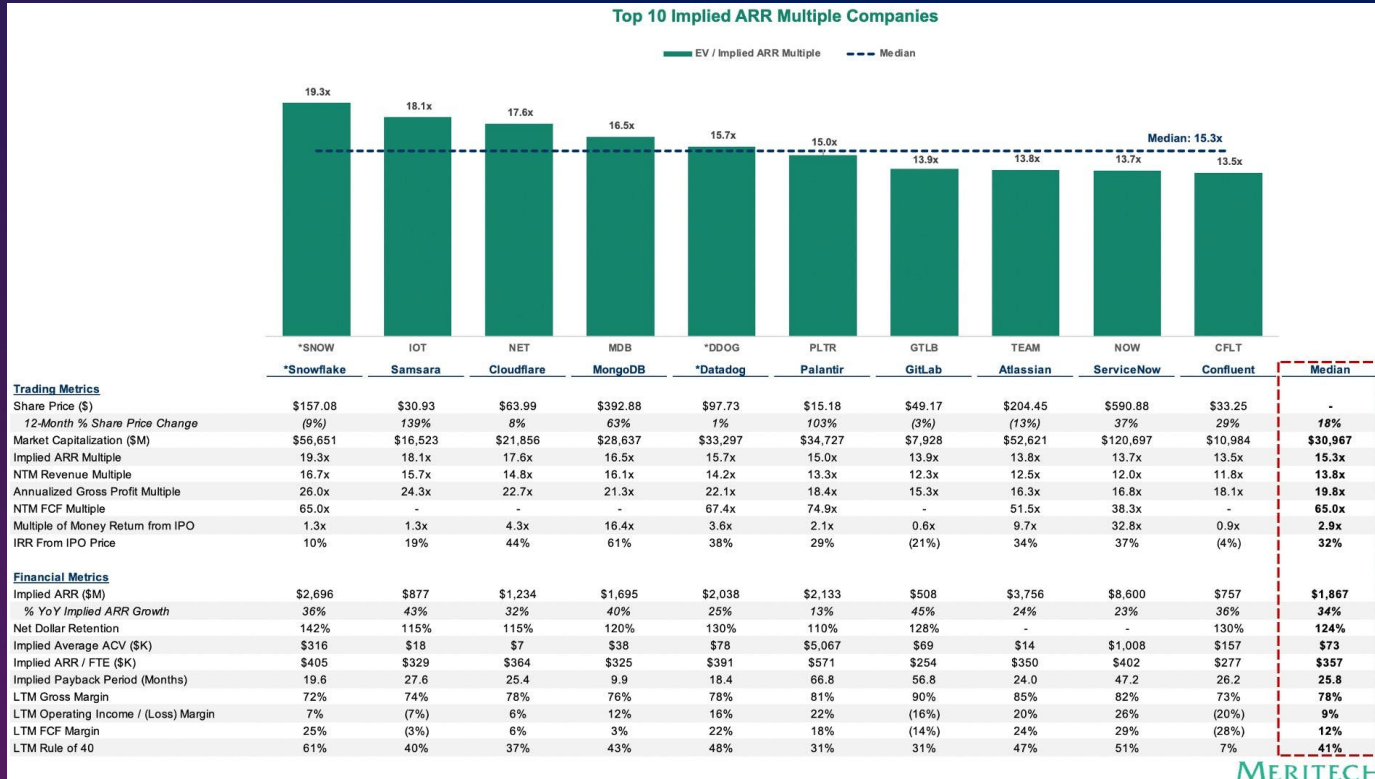




# Company Rankings

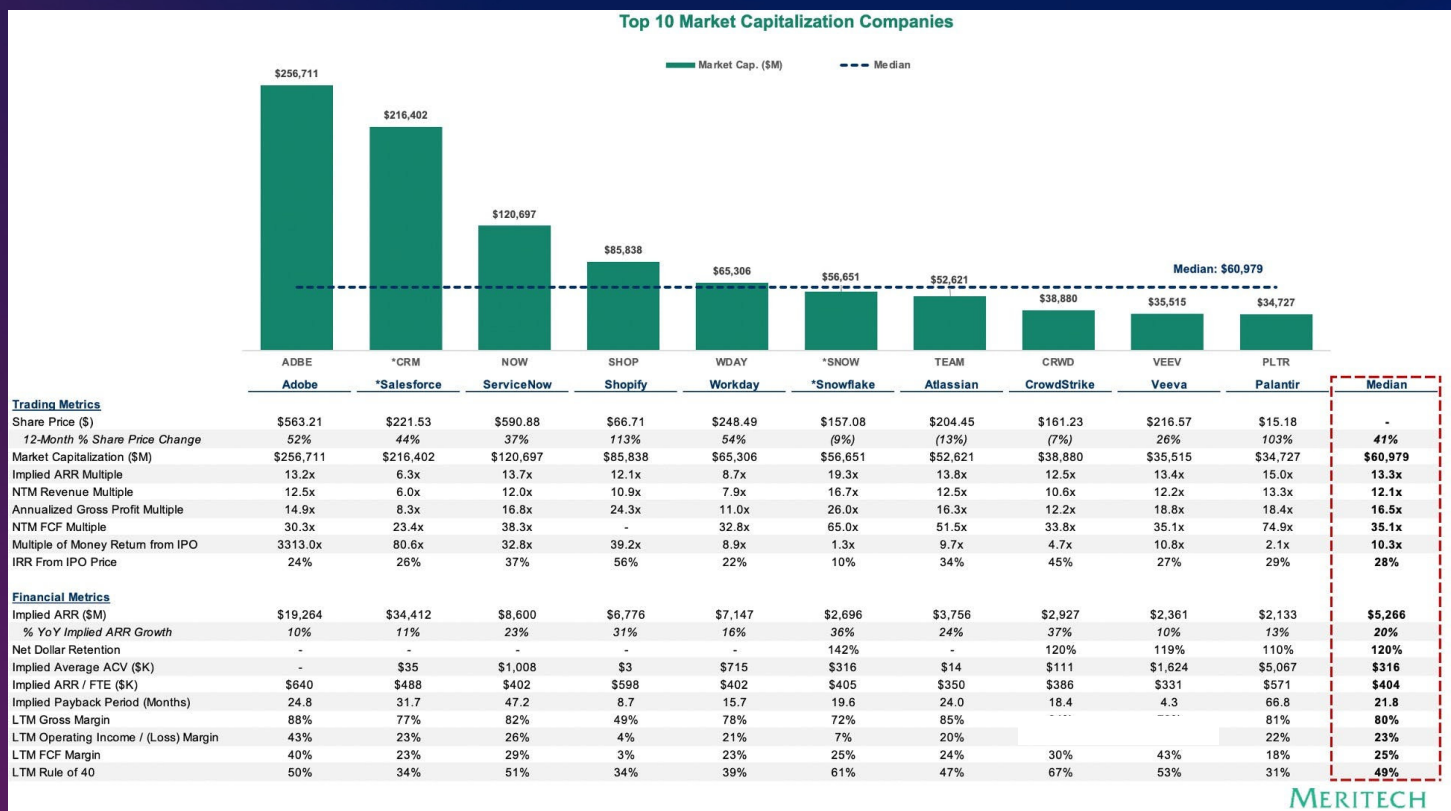


# Top 10 Implied ARR Multiple Companies



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

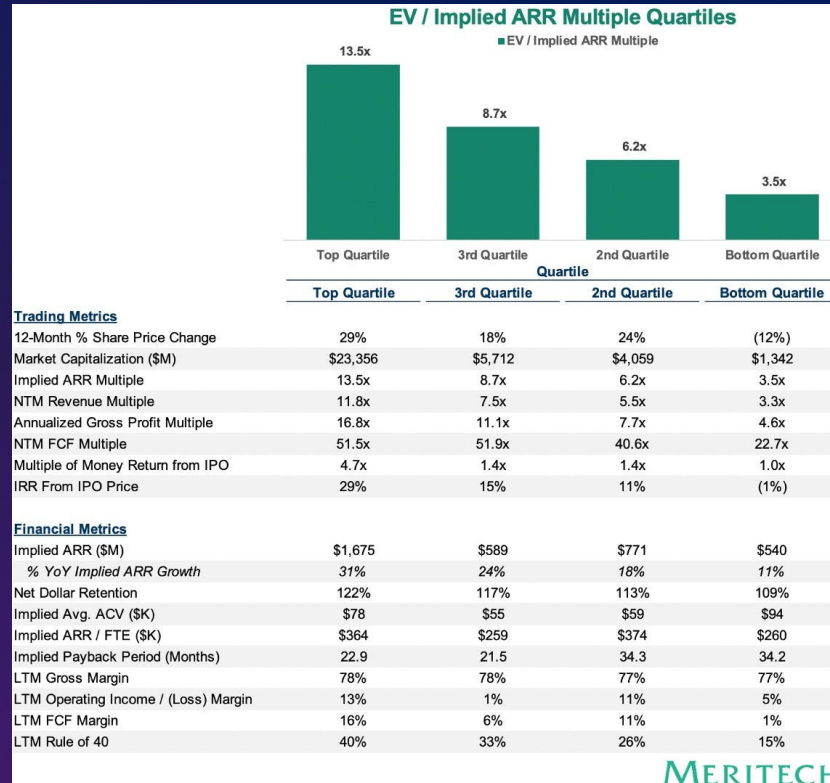
# Top 10 Market Cap Companies



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



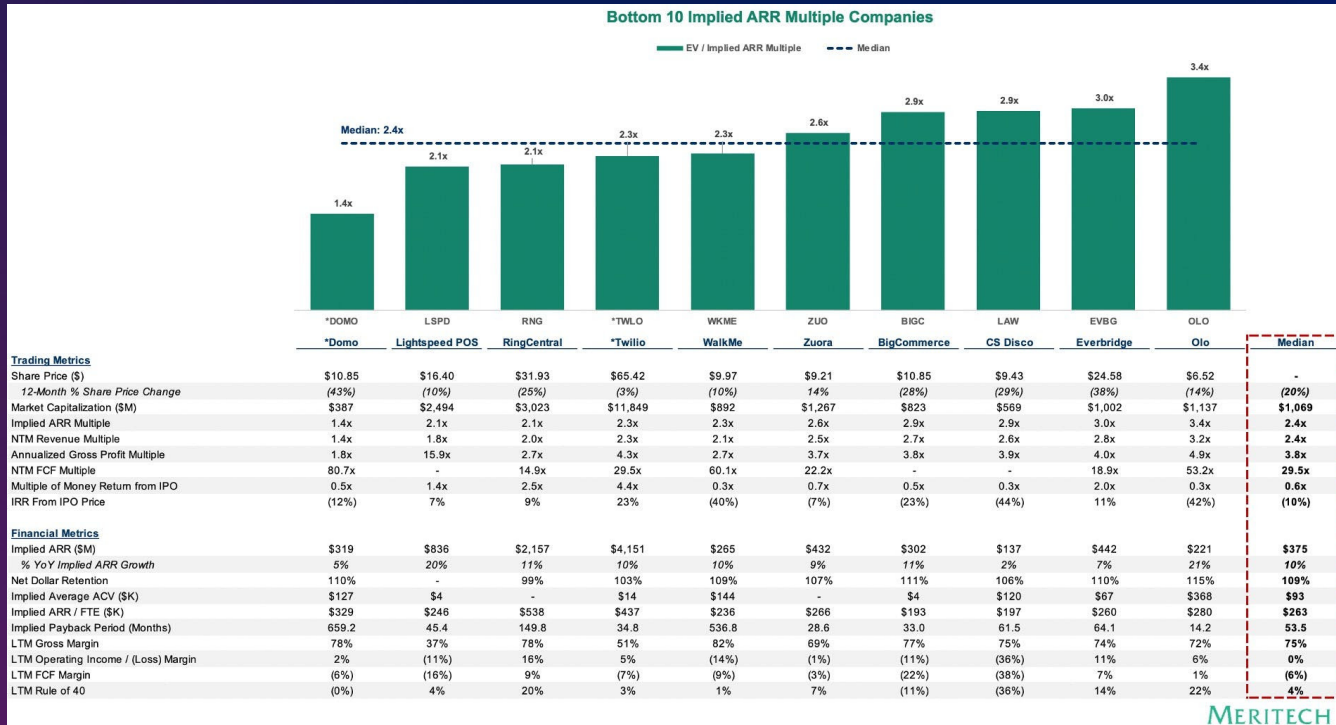
# Enterprise Value / Implied ARR Multiple by Quartiles | All SaaS



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.



# Appendix



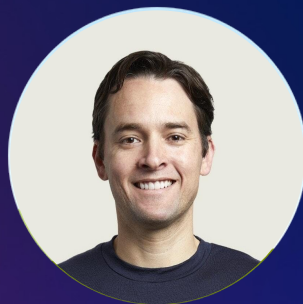


## Appendix Footnote

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.



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