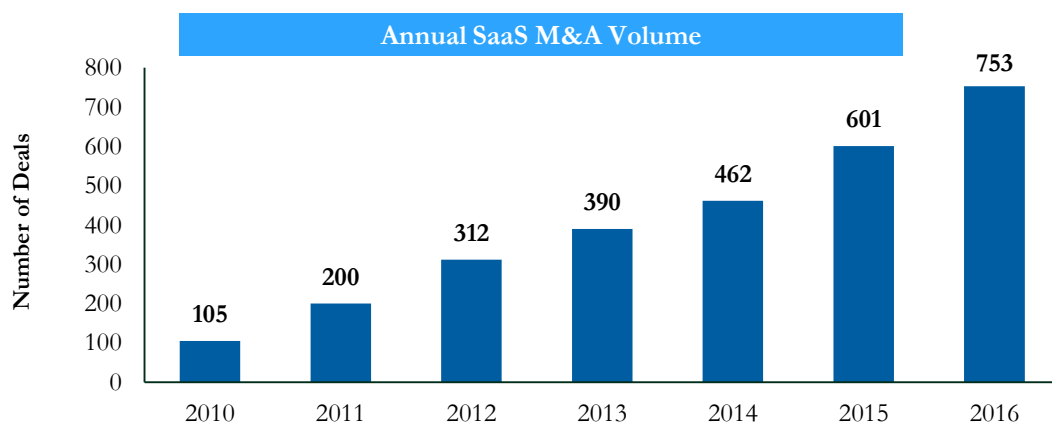
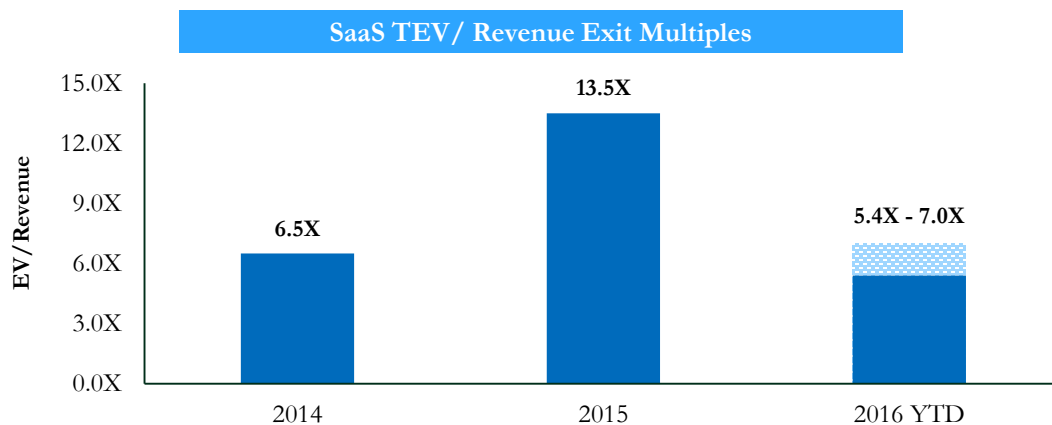


It's Still a Seller's Market, but Buyers Are Starting to Flex Their Muscle When It Comes to Valuations – a New Sobriety And, We Discuss the Phenomenon of the “Quasi-Uncorns” Where Price is Not an Issue

Q3 2016 represented another highly active period for SaaS M&A activity, as the 195 announced SaaS transactions for the period marked the 12th consecutive quarter of increasing deal volume. There was a 24% increase in deal activity over the 157 announced SaaS transactions in Q3 2015, driven by strong industry tailwinds. Annual M&A activity also experienced a similar upward trend, with 753 SaaS transactions expected for 2016, representing a 25% increase over 2015 and an almost 100% increase over 2013. Heightened deal activity continues to be driven by cheap credit, which is at 400 year-lows, as well as the ability of buyers to use their high stock prices as a valuable form of currency. As the market is flush with liquidity, investors are seeking any means possible to boost growth and market share, and are particularly attracted to SaaS companies which offer tremendous growth potential, high margins, and recurring revenues. Traditional software companies are also increasingly worried about the fundamental shift to cloud computing applications from on-premise solutions, and feel an urgent need to acquire expertise in order to maintain relevancy (e.g. Oracle's intended acquisition of Netsuite for \$8.7B). Private equity buyers are also extremely active and remain infatuated with businesses that deploy a subscription based software model with high growth and recurring cash flow generation (e.g. Thoma Bravo's acquisition of T2 Systems).

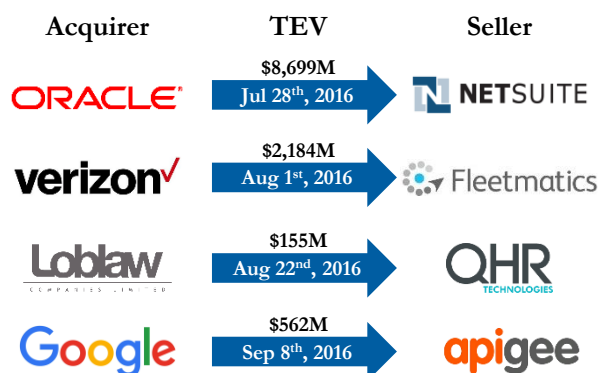


SaaS M&A Revenue Multiples

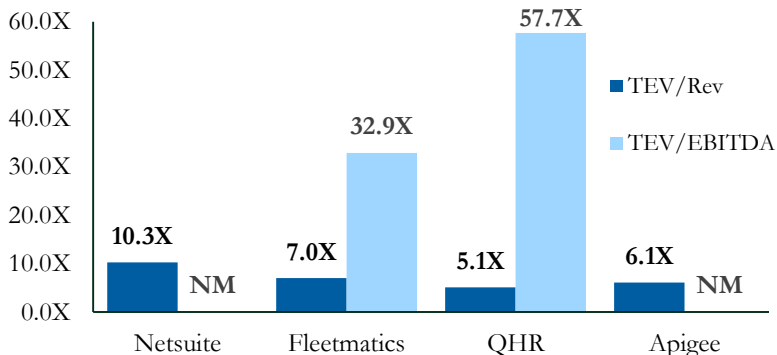
As M&A activity in SaaS companies continues at a fevered pace, one would expect to see valuations rise given the froth. But, in fact, the opposite is true. Average acquisition multiples have decreased by half since 2015. In 2015, based upon both public and our proprietary data, the average acquisition revenue multiple was 12-14X. Today, the average has dropped to between 4.5-7X revenue. Some of our key observations are highlighted below.

- While it remains a “seller’s” market, buyers have gotten smarter and more cautious. Except as noted in the forthcoming section with what we call “quasi-unicorns,” buyers no longer purchase technology without revenue and they no longer purchase projections or promises alone. Targets simply must have actual revenue and real, growing customer bases. Buyers are basing their acquisitions on proven revenue and, more importantly, forward twelve month (“FTM”) revenue. We strongly believe that the actual multiples paid by buyers are based upon the acquirer applying its public market multiple against the target’s FTM revenue projections. So, sellers beware: you need real revenue and real growth. For example, the seller may very well get 12X TTM revenue if projections indicate it would be 6-8X FTM revenue.
- Buyers are somewhat constrained by their own multiples and they are loathe to do “non-accretive” deals.
- While this may appear obvious, it is still important: growth is the key factor in determining whether the seller receives a high multiple. Again, because buyers are using FTM as their guide, targets with high growth should receive much higher multiples on current revenue streams.
- Sellers with significant scale, especially those above the \$20M revenue mark, tend to be rewarded handsomely by acquirers. Sellers with \$20M - \$50M in revenue typically received the highest revenue exit multiples at 5.0X or more, while those below \$5M in revenue were deemed less attractive, receiving only 2.9X or more.
- Strategic buyers are willing to pay hefty premiums to acquire SaaS industry leaders - well above the median range for all SaaS transactions.
- It is important to note that three of the four public SaaS companies that were acquired in Q3 2016 all received revenue exit multiples above the average of 5.4X. This supports the thesis that buyers are willing to pay outside multiples to acquire SaaS companies with strong traction within their respective verticals who can provide expertise to more traditional software providers.

Public SaaS M&A Transactions



Public SaaS M&A Multiples



Exceptions to the Rule

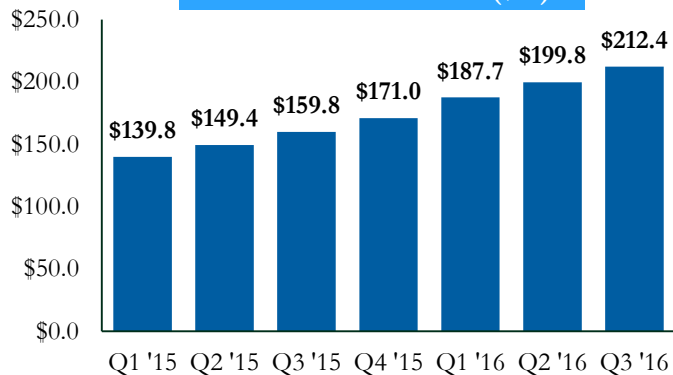
There remains a phenomenon of major exceptions to the market dynamics mentioned earlier. We call them “quasi-unicorns”. In every sector of technology, including SaaS, we find companies that have been sold for absurd and even “infinite” multiples of revenue. Who are they and why do they succeed?

- Let us give you some examples: Google’s acquisition of Nest, Facebook’s acquisition of Oculus Rift, and Amazon’s acquisition of Orbeus and Safaba.
- In each of these cases there was one critical factor at play. The seller had technology that was a “must have” for the acquiring company to achieve its long term road map. Oculus Rift is by far and away the best example. If Facebook wants to play long term in the AR/VR world, then it simply had to acquire Oculus. It did not buy the company for revenue or even for its projected revenue. Oculus was acquired because it had “mission critical” software and platforms that would define the AR/VR world, and Facebook wants to own that space. (And, equally important, Facebook wanted to prevent Google or Microsoft from playing in the space.)
- Furthermore, the Internet of Things (“IoT”) SaaS vertical is beginning to blossom. IoT software platforms allow for seamless machine to machine communication. Large strategic buyers are investing heavily in SaaS companies developing technologies that address the IoT market.
- “Quasi-unicorns” can expect to be rewarded generously, as evidenced by Cisco’s \$1.4B purchase of Jasper Technologies, a leading provider of cloud-based IoT platforms, in February 2016. It was estimated that Cisco paid over 20X TTM revenue for Jasper, and we believe that strategics will continue to pay enormous multiples to acquire leading technologies in the IoT space. It was also rumored that SAP’s acquisition of PLAT.ONE and Verizon’s acquisition of Sensity were also consummated at outsize multiples, further validating the current heat in the IoT SaaS sector.

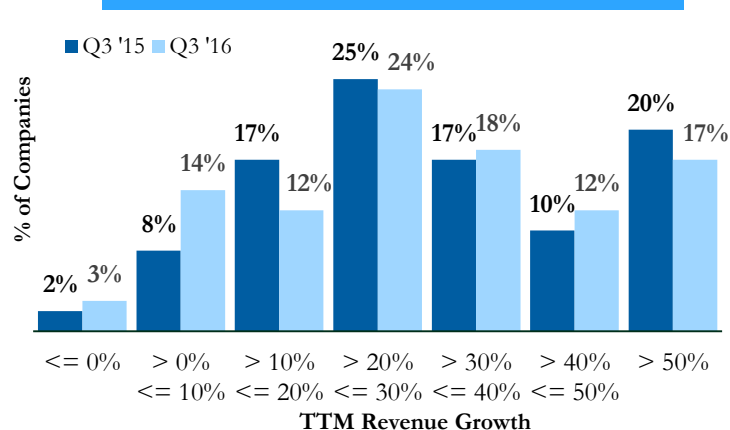
SaaS Public Company Financial Performance

As customers continue to move away from on-premise solutions, cloud applications are gaining momentum in the market, as evidenced by the increasing revenues of public SaaS companies. Growth rates for these companies are extremely high, with 47% of public SaaS companies experiencing revenue growth of over 30%. Given the rapid pace at which legacy applications are being phased out for more cloud based solutions, we expect revenues to continue to increase dramatically for SaaS companies.

Median TTM Revenue (\$M)



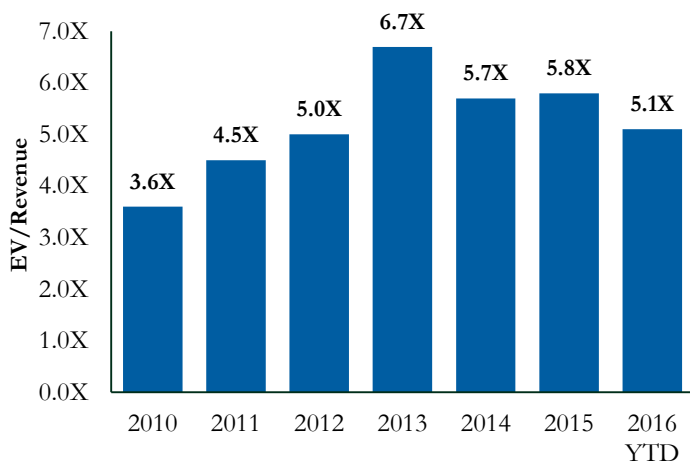
TTM Revenue Growth Rate Distribution



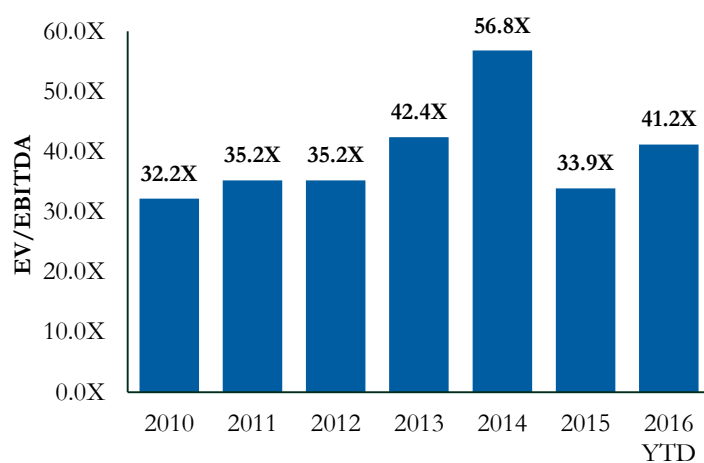
SaaS Public Company Market Performance

In the public markets, SaaS companies have experienced a compression in revenue multiples since the heydays of 2013, when median revenue multiples peaked at 6.7X. While multiples trended upwards in 2015, there was a noticeable drop in public market valuations in 2016. Strategic and financial buyers have clearly taken notices of these softer valuations, as deal volume has consistently increased and numerous large, public SaaS companies have been acquired. It is important to note however, that companies who have strong revenue traction and are leaders in their respective verticals, such as Netsuite, Fleetmatics, and Apigee, continue to fetch premium multiples well above the median. Given the growing market adoption of cloud based solutions, as well as further specialization by providers into industry specific solutions, we anticipate an expansion of SaaS public market multiples in the coming quarters.

SaaS Public Company Median EV/Revenue

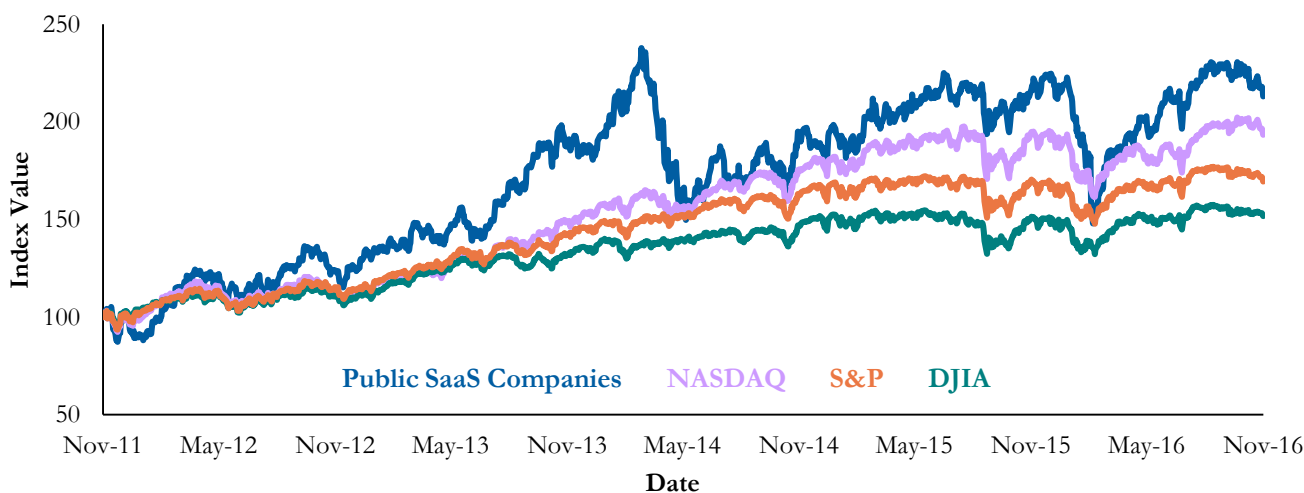


SaaS Public Company Median EV/EBITDA



Since November 2011, public SaaS companies have significantly outperformed all major stock indices. Using November 2011 as a basis, public SaaS companies are up 113%, compared to 93% for NASDAQ, 70% for the S&P 500, and 52% for the Dow Jones.

Public SaaS Companies Relative Price Performance



Key Takeaways

Our final observation is the most important. All averages and means are just that. These are guideposts and nothing more. A seller should enter the market well prepared with many arrows in its quiver to defend higher multiples including size, technology, growth, focus, and customers. All of these factors come into play for a seller seeking to maximize returns for its shareholders.

About Viant Capital

Viant Capital, a FINRA-registered broker-dealer, is chartered to engage in all investment banking activities. Based in San Francisco, Viant's seasoned industry professionals provide advisory services to a global base of SaaS and technology clients. Viant Capital has deep industry knowledge, a strong track record of delivering optimal outcomes, and significant relationships with software and private equity firms actively seeking to invest within the SaaS marketplace.

Core Services

Mergers & Acquisitions

Advise clients with \$20-\$500M valuations

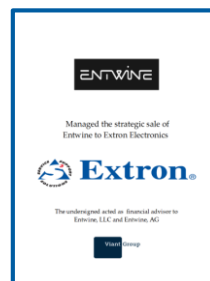
- Buy-side & sell-side M&A
- Consolidation / roll-up
- Fairness opinions
- Restructuring

Capital Formation

Assist clients seeking to raise \$10+ million in capital from Viant's extensive network

- Corporate / strategic partners
- Institutional investors (Private Equity, Hedge Funds, Venture Capitalists)
- Private investors

Select SaaS Transaction Experience



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