



Frankfurt Partners
Business Consulting



2011
Software as a Service
Valuation and Metric
Report

Summary

SaaS has today the greatest effect on the software enterprise Market. SaaS remains a relatively new business model but it has outperformed the overall software market over the last few years. The global enterprise SaaS market will grow by 16.7% to \$10.7B in 2011. In the past the largest proportion of SaaS customers were SMEs and medium-sized companies, but in the last 18 months SaaS deployments were becoming larger, with deals often covering tens of thousands of users. SaaS still has a great potential for growth in the next few years. As of 2010, it has reached around 10% of its potential market.

Most businesses continue to process applications on their own hardware and many of these are potential customers for SaaS providers. The largest proportion of SaaS customers are SMEs and medium-sized companies with relatively little break-through into the enterprise market. However, the level of adoption by enterprises is starting to increase and may well gather pace.

Reports key findings:

- Although many more companies are entering the SaaS market, most of these are providing SaaS as an extension to their existing product line.
- With a total asset value of \$3,091 million stated in its end 2010 balance sheet, Salesforce is more than three times the size of its nearest rival.
- SaaS offers an attractive business model and generates a higher cash flow than the traditional license model.
- SaaS providers require around 40-60% more capital than traditional software companies before they achieve a positive cash flow.
- Mergers and acquisition valuations have generally increased from an average of 3.4 times revenue in 2009 to 5.8 times in 2010. Overall Deal sizes have increased too.
- Successful pure play SaaS providers such as Netsuite and Salesforce.com are valued much higher than companies that still have traditional business models.

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5.1 Merger and Acquisition Value Metrics

When it comes to acquisitions, Cisco acquired Weber for \$3.2 billion in 2007, valuing it at 8.4 times revenue. More recently, HP paid \$2.4 billion for 3PAR, which represented more than a 300% premium on the price at which the stock was trading three months previously. However, it possibly demonstrates HP's assessment of the value of Cloud Computing to its overall business.

Month	Acquirer	Acquired	Business Valuation (\$Millions)	Annual Revenue (\$Millions)	Revenue Multiple
April	Vista Equity Partners	SumTotal Systems	108	114,4	0,9
May	EMC Corporation	Configuresoft	95	29,7	3,2
June	Intuit	PayCycle	170	29,8	5,7
July	Netsuite	QuickArrow	20		
September	Intuit	Mint Software	179	10,0	17,9
September	RighthNow	Hive Live	6		
September	McAfee	MXLogic	140	38,0	3,7
October	Barracuda	Purewire			
November	CDC Software	gomenbers			
December	Cisco	Scan Safe	183	35,0	5,2
2009 Average			129	37,6	3,4
2010					
January	Unica	Pivotal Veracity	17,8	4,0	4,5
February	CDC Software	computility			
April	Salesforce	Jigsaw	142	17,5	8,1
April	Oracle	Phase Forward	685	213,0	3,2
May	SuccessFactors	CubeTree	50		
May	Allocate Software	Dynamic Change	14	5,0	2,8
May	Intuit	Medfusion	91	10,0	9,1

6.7 General and Administrative

This area of expenditure covers everything else that is needed to run the company. Although not as directly related to performance as sales and marketing and research and development costs, it is an expenditure category that is incurred in servicing the customers and running the data centres.

Company	2006	2007	2008	2009	2010
Athenahealth	21.57	19.77	21.52	19.15	17.56
BlackBoard	19.57	16.15	16.26	14.96	14.75
Concur	14.88	14.53	14.56	11.15	13.93
Constant Contact	9.51	10.79	10.90	10.65	10.35
DealerTrack					
Demandtec	7.34	6.14	10.27	13.18	12.22
Kenexa	21.87	21.62	23.99	25.88	24.69
LivePerson	19.51	17.63	17.47	15.34	15.55
LogMeIn	26.08	13.37	12.72	11.15	12.19
NetSuite	21.76	15.40	15.61	17.55	15.13
RighthNow	8.68	2.48	9.70	10.35	10.09
Salesforce.com	15.49	16.95	15.56	14.73	14.96
Success Factors	22.97	30.13	22.11	16.33	17.45
Taleo	21.75	18.96	19.23	16.71	18.47
Ultimate Software	9.28	9.53	9.87	9.09	8.66
Vocus	23.88	25.38	26.26	24.85	24.38
Average	16.85	16.16	16.35	15.06	15.17

Why would you buy this report:

- Spot future trends and developments
- Inform your business decisions
- Add weight to presentations and marketing materials
- Keep up to date with the latest developments and activities in your market
- Understand the SaaS business model

The report is addressed to:

- Management at Software and SaaS Companies
- Investment Banking Professionals
- Investors
- Private Equity Firm

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