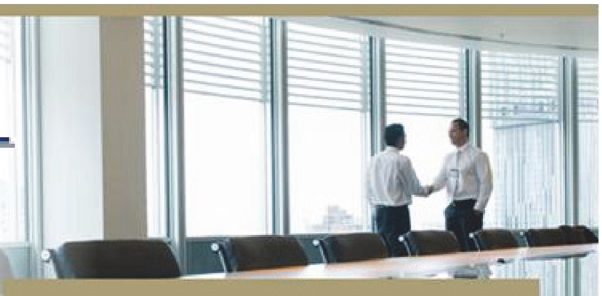
Staying Ahead of the Curve

A Dresner Partners Newsletter
December 2016



DRESNER PARTNERS INVESTMENT BANKING | IMAP

Sector: Technology

Software-as-a-Service and the Cloud – Sector and Financial Overview

Cloud Computing has had a positive and significant effect on the growth and capital efficiency of businesses over the last decade. The Cloud enhances a company's flexibility and speed to market by enabling on demand, convenient network access to a shared pool of computing resource that can be rapidly provisioned with minimal effort.

Software-as-a-Service (SaaS) is a Cloud-based software distribution model in which applications are hosted and managed by a vendor or service provider on its servers. These applications are made available to customers over a network, usually the Internet. Companies pay a subscription fee to access the software, which SaaS companies measure in one of two ways, monthly recurring revenue (MRR) or annual recurring revenue (ARR).

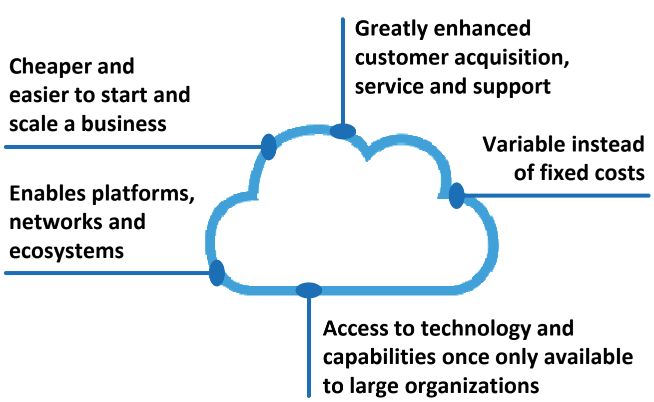
While Cloud Computing has become synonymous with SaaS, there are two other rapidly growing categories in the Cloud Computing stack with similar operational and financial benefits.

- Platform-as-a-Service (PaaS) provides the set of tools and services to make coding and deploying applications quick and efficient.
- Infrastructure-as-a-Service (IaaS) is a way of delivering on demand and as needed Cloud Computing infrastructure, such as servers, storage, and operating systems.

All three Cloud Computing product delivery architectures are having a significant and positive effect on business operations, particularly with respect to small and medium-sized businesses (SMBs).

Implications for Small and Middle-Market Businesses

The Cloud Democratizes IT



Technology Team:

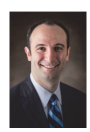
Steven Dresner
President
(312) 726-7206
sdresner@dresnerco.com

Steve Horkay
Managing Director
Head of Technology
(949) 679-4785
shorkay@dresnerco.com

Michelle Moreno
Managing Director
Head of Business Services
(312) 780-7207
mmoreno@dresnerco.com

Paul Hoffman
Managing Director
(312) 780-7229
phoffman@dresnerco.com

Nishant Bubna
Vice President
(312) 780-7242
nbubna@dresnerco.com



Brian Schofield
Vice President
(312) 780-7227
bschofield@dresnerco.com

Wes Decatur
Associate
(312) 780-7217
wdecatur@dresnerco.com

Public, Private, and Hybrid Cloud

There are three types of Cloud implementations by which services can be delivered: Public, Private, and Hybrid Clouds.

- Public Cloud utilizes the Internet to deliver services and infrastructure. Most consumer and SMB services are provided this way.
- Private Cloud is an implementation whereby the services and infrastructure are maintained on a private network, enhancing security and control of data and services. Many large-scale enterprise solutions are provided this way.
- Hybrid Cloud is an implementation in which key data and/or internal services are run on a Private Cloud, and other services are provided by Public Cloud service providers.

All three Cloud segments are critical to IT operations and continue to show significant growth. For the purposes of this newsletter, we are focused on Public Cloud SaaS services (a $12-14 billion industry in 2016 in the US that is projected to grow to $37 billion by 2021), which represents the fastest growing market segment.

Benefits of SaaS

The main benefits of using SaaS services, especially for SMB's which are generally more cash strapped for IT services and require greater flexibility, are:

(i) no software or hardware to purchase or maintain, and subscription fees eliminate software licenses
(ii) rapid deployment and use
(iii) easy accessibility from any device, anywhere, as long as there is an Internet connection
(iv) efficiencies in growth and lowering costs due to easy access to a broad range of applications
(v) flexibility to move to another solution for cost or functionality reasons
(vi) better performance when addressing shifts in business requirements
(vii) ability to scale IT resources as necessary

As such, SMBs are increasingly adopting SaaS. It is estimated that 64% of companies rely on Cloud-based technologies, and this adoption rate is projected to grow to 88% by 2017. As one can logically conclude, the resulting enhancements to productivity, efficiency and profitability support the relatively attractive valuations that SaaS companies command.

REPRESENTATIVE TRANSACTIONS

PROJECT HERMES
Critical Communications Software Platform
Sell-Side Advisor
DRESNER PARTNERS INVESTMENT BANKING

infutor
Infutor Data Solutions
On-Demand Data Solutions Provider
has received a strategic investment from
NORWEST VENTURE PARTNERS
Financial Advisor
DRESNER PARTNERS INVESTMENT BANKING

ISI
ISI Telemanagement Solutions
Unified Communications Management Solutions
has been acquired by
VALENT CAPITAL PARTNERS
Sell-Side Advisor
DRESNER PARTNERS INVESTMENT BANKING

bulletin
SaaS Products and Services
has been acquired by
MILFORD INVESTMENT PARTNERS
Sell-Side Advisor
DRESNER PARTNERS INVESTMENT BANKING

CENZIC
Dynamic Application Security Testing
has been acquired by
Trustwave
Financial Advisor
DRESNER PARTNERS INVESTMENT BANKING

appthority
Enterprise Mobile Threat Protection
Institutional and Strategic Private Placement
Financial Advisor to Appthority
DRESNER PARTNERS INVESTMENT BANKING

Contractually
Web-Based CRM Software and Contract Management System
has been acquired by
coupa
Sell-Side Advisor
DRESNER PARTNERS INVESTMENT BANKING

coupa
has been acquired by
Xpenser
Buy-Side Advisor
DRESNER PARTNERS INVESTMENT BANKING

Key Trends

The Cloud and SaaS markets are evolving rapidly, and the lessons of the last few years provide opportunities to enhance and repair issues with the current operating environment. In order to continue accelerating growth, the industry will focus on a number of key market topics, a few of which are discussed below:

1 Evolution and Growth of Vertical SaaS

- Horizontal software providers seek to design a "one size fits all" solution to maximize their market opportunity
- Vertical SaaS providers target to provide a "best of breed" solution to a vertical's specific problems. This solution also generally provides faster sales cycles, and easier adoption processes
- These vertical solutions tend to become deeply entrenched in customer's workflow upon adoption, so churn is lower
- A study by a leading venture fund found that vertical SaaS solutions, with similar growth characteristics as a horizontal SaaS company, have on average 20-25% higher EBITDA

2 Proliferation of APIs and Micro-SaaS Businesses

- The growth of SaaS solutions has the downside of trying to force integration into existing digital ecosystems, including data sources, and other SaaS services to ensure collaborative workflows
- Well-defined APIs will enable this process to occur much more efficiently. While many SaaS companies offer open API's, the growth in API platforms with a broad number of connectors will continue to be more important
- An increasing number of 'Micro-SaaS' businesses – small (two to three-person) teams producing niche products for very specific needs or add-on products that complement existing applications – should continue to grow and thrive in the near-term

3 Cloud Cost Containment

- Organizations that leverage multiple Cloud / SaaS providers have the potential to incur greater total costs, including internal vendor management costs relative to pre-Cloud implementation. More and more services will be available to assist CIO's in managing and controlling access and consumption costs

4 Growth of DaaS

- The idea behind DaaS (Data-as-a-Service) is to provide large volumes of decision support and actionable data at a fraction of the cost of assembling the data individually. Taken in conjunction with internal data, it is intended to generate smarter strategic decisions

5 Mobile SaaS Demand Continues to Increase

- The proliferation of smartphones, as well as an ever increasing mobile workforce, has driven demand for mobile SaaS access. According to Cisco's VNI Mobile Report, mobile Cloud-based data traffic represents 85% of all mobile data traffic, and is expected to reach 90% of all mobile data traffic by 2019

6 Rise in Adoption of BYOD Policy

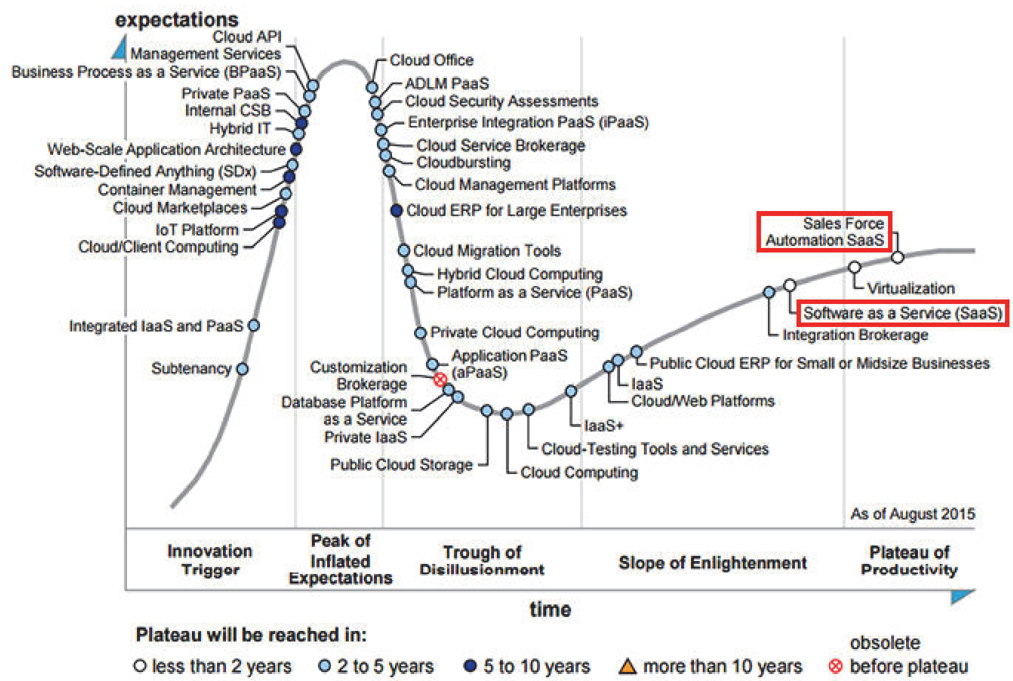
- Implementing "Bring Your Own Device" (BYOD) policies, which allow employees to use their own computers or smartphones for work, is a growing trend driving productivity gains and cost savings
- Security continues to attract significant attention, and enterprises are focused on crafting BYOD policies that protect sensitive data while maintaining productivity

Predictions for 2017 and Beyond

SaaS is the best-known segment of the Cloud Computing market, largely because it has the most users. Many people will have first-hand experience with Cloud-based apps such as Office 365, SalesForce, Box, and Google Apps, but far fewer will have developed apps using PaaS or IaaS.

Given this reality, it should come as no surprise that in its '2015 Cloud Computing Hype Cycle', *Gartner* placed SaaS well on the way toward the 'Plateau of Productivity' (the final stage, where mainstream adoption has been achieved), with 'Sales Force Automation SaaS' already achieving this distinction.

Gartner Hype Cycle for Cloud Computing, 2015



Cloud usage is accelerating in both its usage and significance across the globe. An April 2016 report by *Cisco* found that more than 80% of all data center traffic will be based in the Cloud within the next three years. Furthermore, most of this traffic will be going to Public Cloud services – it is anticipated that more workloads (56%) will take place in the Public Cloud rather than in Private Clouds (44%).

As companies will have significantly more workloads moving to Cloud-based platforms, security, performance and management will be critical issues to overcome. A growing focus on dealing with the cybersecurity threat will highlight the importance of technology standardization, automation, and a data-centric approach to information security. Since these are core to the successful deployment of Cloud Computing solutions, industry growth should accelerate.

SaaS Company Valuation Factors

Appropriately valuing a SaaS business is perhaps one of the most contentious debates amongst small business entrepreneurs, investors and advisors. The debate centers on whether a multiple of revenue or EBITDA should be applied to the business and, correspondingly, what that multiple should be.

From 2010 to 2013, market observers posited that valuation multiples were driven by growth alone – the faster the better – no matter the cash burn. Since the public market software stocks hit a speed bump in 1Q14, however, there has been a growing perception that profitability is becoming a factor in driving SaaS valuations.

However, stories of soaring multiples for "unicorns" can seem at odds with the more modest multiples at which smaller businesses are valued, which may confuse the marketplace. However, both narratives are theoretically correct, as the difference between the two situations comes down to size, growth and other specific factors.

While there are many factors that drive valuation, based on our analysis and understanding of the market, we believe the following are key valuation drivers for small and medium-sized SaaS businesses:

1 Attractive Revenue Growth

- Likely the most significant driver of valuation
- Faster growing businesses generally achieve higher multiples relative to slower growing peers
- Due to the industry's recurring revenue model, SaaS-based companies benefit from better visibility into the timing and likelihood of future revenue and profits

2 Addressable Market Size

- The size of a company's addressable market (defined as the upper bounds of future profits) also drives valuation
- In general, category leaders growing relatively fast in larger markets will command higher valuation multiples than similar companies in smaller markets

3 Strong Gross Margins

- Gross margins provide a strong indication of the potential profitability of a SaaS business when it reaches a more mature stage or higher scale of operations, and also indicates how much cash can be reinvested into sales, marketing and R&D to further drive growth
- Given its capital efficient model, well-performing SaaS companies can command 85%-95% gross margins

4 Customer Acquisition Costs (CAC)

- CAC refers to the cost (financial or otherwise) a business allocates to acquire a new customer
- It is critical to recognize that CAC is meaningless without understanding CLTV (Customer Lifetime Value), or the average revenue earned from a customer throughout the relationship and/or subscription
- The CLTV/CAC ratio plays a critical role in calculating the customer's value and its ROI
- A general rule of thumb is that a CLTV/CAC ratio of 3 is ideal for most SaaS businesses

5 Customer Retention Rates

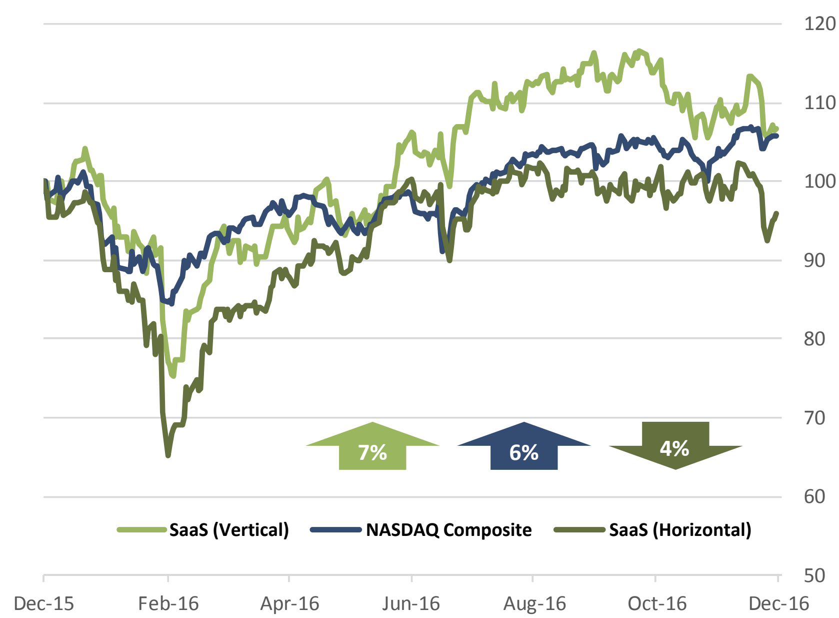
- Investors understand the significant negative effects of churn on long term growth, and typically look for 90-95% retention rates
- There are several ways to calculate churn, such as Net Revenue Retention (NRR), Gross Revenue Retention (GRR), and Monthly Churn
- NRR is the most tracked, as it measures the change in recurring revenue over time, and captures the impact of lost customers, price changes, cross-selling, and usage growth

Financial Market Overview

Publicly-traded US SaaS companies are currently valued at average revenue multiples of 4.6x and 4.0x for FY2016E and FY2017P, respectively. While there have been large swings in the valuation of SaaS companies, with some having multiples of 6-, 8-, and above 10-times revenue in the "best of times", the market continues to see its fair share of multiples in the low single-digits for companies that fall out of the market's favor, with a strong correlation of revenue growth and EBITDA margins to valuation.

In early 2016, investors shifted focus to profitability. As stocks of cash-burning SaaS companies began selling off, particularly in overcrowded markets such as big data analytics, the declines in SaaS stocks enabled buyers to find assets at more affordable prices.

LAST 12 MONTHS – INDEXED PERFORMANCE [1]



However, the market experienced a recalibration of valuation expectations in the middle of 2016, sparking an increase in SaaS M&A activity. Given that SaaS companies generate revenue from licensing agreements and often boast low customer turnover, high renewal rates and long-term, recurring revenues, these companies tend to trade at higher multiples than non-Cloud-based provider firms. As such, it is likely that SaaS multiples will continue to trade at premium valuations, and as a result, M&A activity in the SaaS subsector should continue to remain robust. Of note, both technology enterprises and private equity firms are active acquirors of SaaS companies of all sizes. However, the large tech companies are expected to remain the most active acquirors, with Google, IBM, Microsoft and Oracle each having acquired more than 20 SaaS companies over the past four years.

The following table summarizes some notable SaaS M&A transactions by deal size over the past two years:

Announced Date	Buyer	Target	Target Description	Transaction Value	Enterprise Value	Equity Value	LTM Revenue	LTM EBITDA	Enterprise Value / LTM Revenue	Enterprise Value / LTM EBITDA
Jun-2016	Microsoft Corp.	LinkedIn	Enables job seekers and recruiters to connect easily via a social platform using profiles and messaging capabilities	$29,351	$26,191	$27,921	$3,214	$266	8.1x	NM
Jul-2016	Oracle Corp.	NetSuite	Delivers a suite of Cloud-based services including ERP, CRM, and ecommerce software	$9,107	$8,699	$8,821	$846	-$59	10.3x	NM
Aug-2015	The Carlyle Group	Veritas Technologies	Delivers backup and recovery, business continuity, information governance, and storage management solutions	$7,000	$7,000	$7,000	-	-	-	-
Sep-2015	Vista Equity Partners	Solera Holdings	Provides risk and asset management software and services to the automotive and property marketplace	$6,752	$6,272	$3,785	$1,141	$413	5.5x	15.2x
Apr-2015	Permira	Informatica	Provides enterprise data integration software and services	$5,343	$4,844	$5,268	$1,055	$189	4.6x	25.6x
Oct-2015	Thoma Bravo	SolarWinds	Develops infrastructure management software to IT and DevOps professionals	$4,640	$4,446	$4,483	$486	$150	9.2x	29.6x
Jun-2015	Cox Automotive	Dealertrack Technologies	Software solutions and services to the automotive retail industry	$4,552	$4,465	$3,559	$948	$124	4.7x	36.1x

Source: S&P CapitalIQ as of 12/7/16

1) SaaS Vertical Index: ATHN, VEEV, GWRE, RP, ELLI, MDSO, CSLT, MRIN
SaaS Horizontal Index: CRM, ULTI, JCOM, BCOV, LOGM, APPF, CSOD, LPSN, IL, TNGO, SPSC, ZIXI, NOW, WDAY, LOCK, QLYS, NEWR, CARB, TNET, CALD, BOX, PCTY, BV, ZEN, RNG, FIVN, ECOM, AMBR, XTLY, UPLD

About Dresner Partners

Dresner Partners is a FINRA-registered, middle-market investment bank headquartered in Chicago, Illinois with offices in New York City, Fort Lauderdale, Palo Alto, and Irvine, CA. For more than 25 years, Dresner Partners has provided financial advisory services to middle market companies throughout the world, including institutional private placements of debt and equity, merger and acquisitions advisory, financial restructuring and corporate turnarounds, valuations and strategic consulting services. Dresner Partners is also a member of IMAP, an exclusive global organization of leading merger and acquisition advisory firms.

DRESNER PARTNERS INVESTMENT BANKING | IMAP

Through our IMAP partnership, Dresner Partners maintains a well-established network of international offices in over 30 countries. Thomson Reuters' most recent annual league tables report IMAP advisers as having completed 179 global transactions, with an aggregate transaction value of more than $6 billion. Our relationships with global legal and accounting networks, and multinational private equity groups are extremely valuable when completing a cross-border transaction. We have people on the ground with first-hand knowledge of the local cultural and business environment.

Selected IMAP Transactions

Kennet Partners
Private equity firm
London, United Kingdom
Acquired Majority Control of Business Operations of
Rivo Software Limited
Software as a service (SaaS) business
Birmingham, Warwickshire, United Kingdom
Advised on Sale of Company
IMAP

Waud Capital Partners
Private Equity firm
Chicago, Illinois, United States
Recapitalization with
CyberGrants, Inc.
Develops & markets SaaS platforms for corporations
Andover, Massachusetts, United States
Advised Client on Recapitalization
IMAP

Getinge AB
Global medical technology company
Sweden
Acquired 100 % of Business Operations of
Cetrea A/S
Enterprise software solutions for hospitals
Denmark
Advised on Sale of Company
IMAP

Vitec Software Group AB
Provider of industry-specific business systems
Stockholm, Sweden
Acquired 100% of Business Operations of
Nice AS
Industry-specific software for insurance companies
Oslo, Norway
Advised on Purchase of Company
IMAP

Netmarble Turkey / MV Holding / Ged
A group of investment companies
Istanbul, Turkey
Acquired Investment Interest in Seller's Business
Startershub
Web-based platform providing services for startups
Istanbul, Turkey
Advised on Purchase of Company
IMAP

Solera Inc / Audatex
IT risk management and asset protection software
Dallas, Texas, United States
Acquired 100% of Business Operations
HDS (Health Digital Systems)
Digital solutions for the healthcare industry
Mexico City, Mexico
Advised on Purchase of Company
IMAP

For More Information

please contact a member of our senior management team:

Steven M. Dresner
President
(312) 780-7206
sdresner@dresnerco.com

Steve Horkay
Managing Director
Technology
(949) 679-4785
shorkay@dresnerco.com

Michelle Moreno
Managing Director
Business Services
(212) 729-6695
mmoreno@dresnerco.com

Omar Diaz
Managing Director
Industrials
(312) 780-7221
odiaz@dresnerco.com

Mitchell Stern
Managing Director
Healthcare
(954) 951-0272
mstern@dresnerco.com

W. Robert Friedman, Jr.
Managing Director
Healthcare
(212) 390-0503
rfriedman@dresnerco.com

Tony LeCour
Managing Director
Consumer
(914) 671-4165
alecour@dresnerco.com

Paul Hoffman
Managing Director
(312) 780-7229
phoffman@dresnerco.com