

# Valuing SaaS Companies

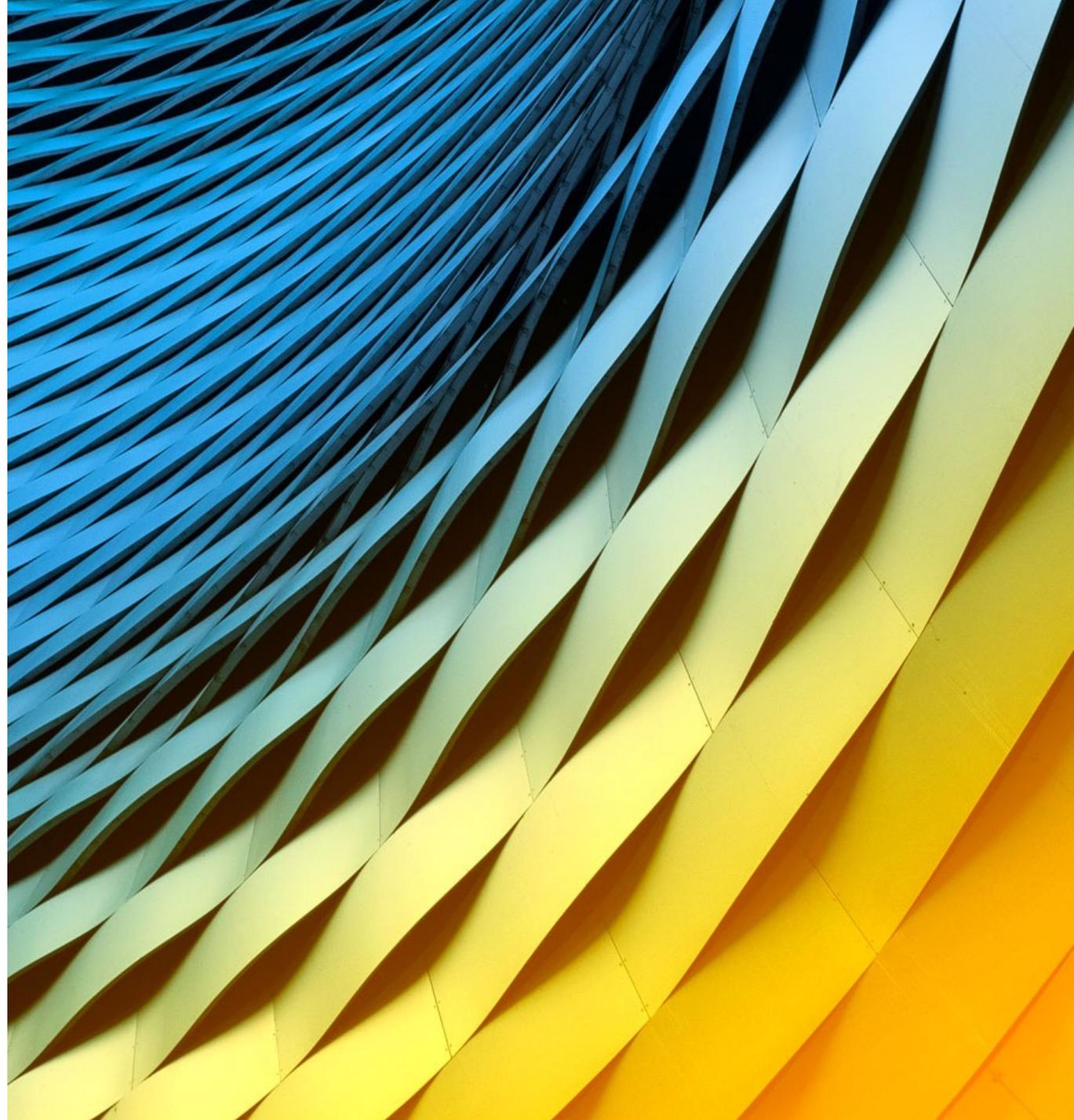
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**June 2, 2021**



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## Valuing SaaS Companies

Presented by:

Sean van der Wal and Jugal Lodaya



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# About

Drawing Capital is a private investment firm headquartered in Silicon Valley, CA.

Drawing Capital aims to capture the expansion of a technology-forward world by investing in leaders that we believe carry undervalued growth. Our expertise in finance and data science enable us to participate in investment opportunities in public markets not captured by passive investing.

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Landscape



SaaS Valuations



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# Introduction to SaaS

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- Stands for “Software as a Service”
- SaaS companies offer unique value created by a unique business model

# What is SaaS?

## Software Over the Internet

Software in the cloud streams data to users. Requires a good internet connection.



## Subscription or Consumption Model

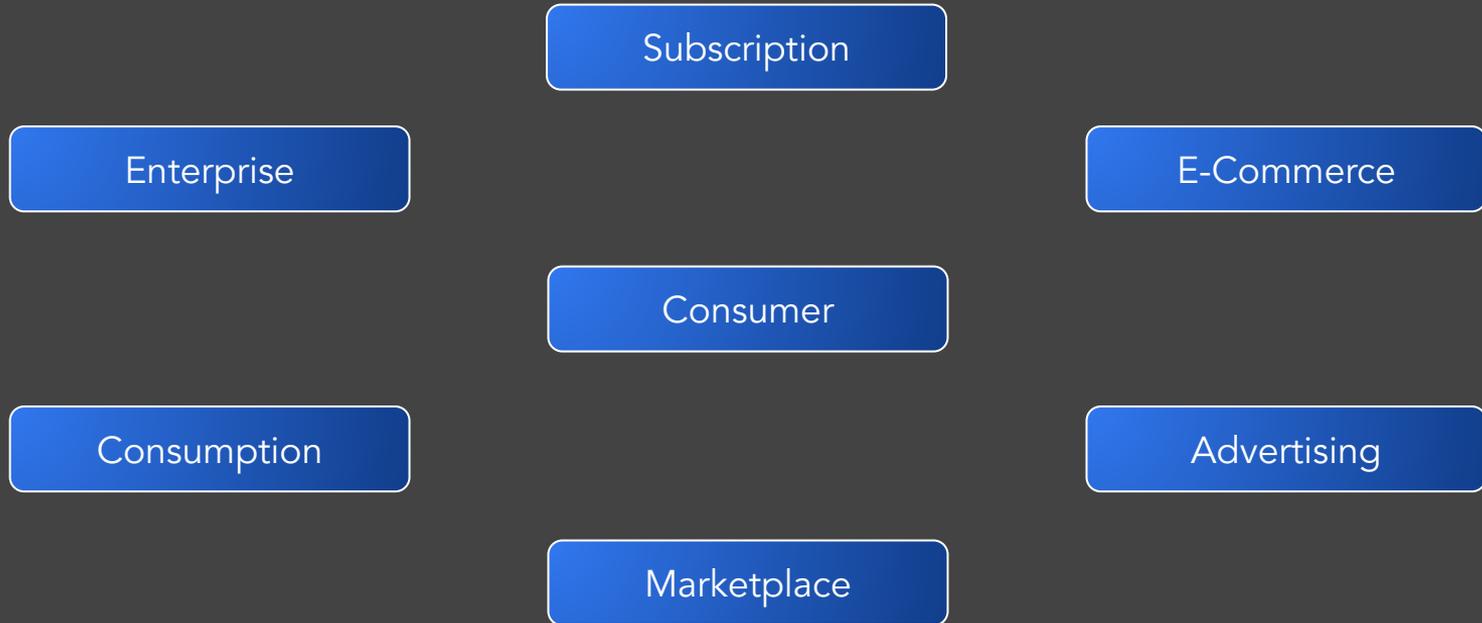
Users pay based on time and space. Often offers variable pricing options.



## “Software as a Service”

Users can subscribe to a service quickly and easily. Cancel anytime. SaaS products reduce the need for additional hardware and complexity for clients.

# SaaS Business Models



# E-Commerce + Subscription



Amazon

E-commerce giant connecting buyers and sellers with 2-day delivery for Prime members.



Shopify

Online commerce platform enabling the creator economy by allowing users to create and manage online stores.

# Consumer + Subscription



Netflix

Unlimited usage of unique media content on any screen with upgradable stream quality



Spotify

Music streaming access to a world of music with single or family level monthly subscription plans.



Adobe

Digital media software at a monthly subscription. Price varies depending on software selections.

# Enterprise + Consumption



Snowflake

Store, query, and analyze your data in the cloud.



Twilio

Pay-per-usage communications platform to programmatically send & receive calls, texts, etc

# Marketplace



Airbnb

Home or temporary stay  
rental marketplace  
charging fees per booking  
to renters and landlords



Etsy

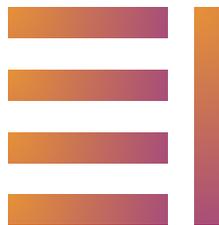
Niche item marketplace  
open to everyone and  
charging seller fees per  
purchase and listing

# Pros of SaaS



High Revenue Growth

Company revenue grows quickly when providing significant ROI & benefits to customers



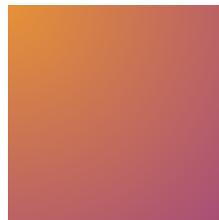
High Margin

Once software is made, it is cheaply replicated to more users. Additional users can be almost pure profit



Scalability

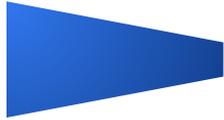
Business benefits from economies of scale, operating leverage, and global distribution



Simpler Infra

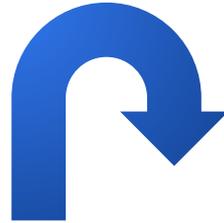
Users prefer this model to others because of less up-front cost and reduction of complex infrastructure

# Downsides of SaaS



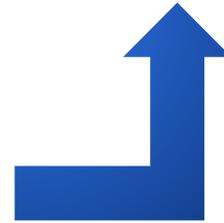
## Longer Conversion Funnel

Numerous free trials, marketing costs, and enterprise procurement timeline extend customer acquisition process



## Low Barrier to Entry

Software services have lower fixed costs and capex than traditional manufacturing companies



## High Barrier to Excellence

Software services often demonstrate a “winners take most” dynamic.



# Landscape

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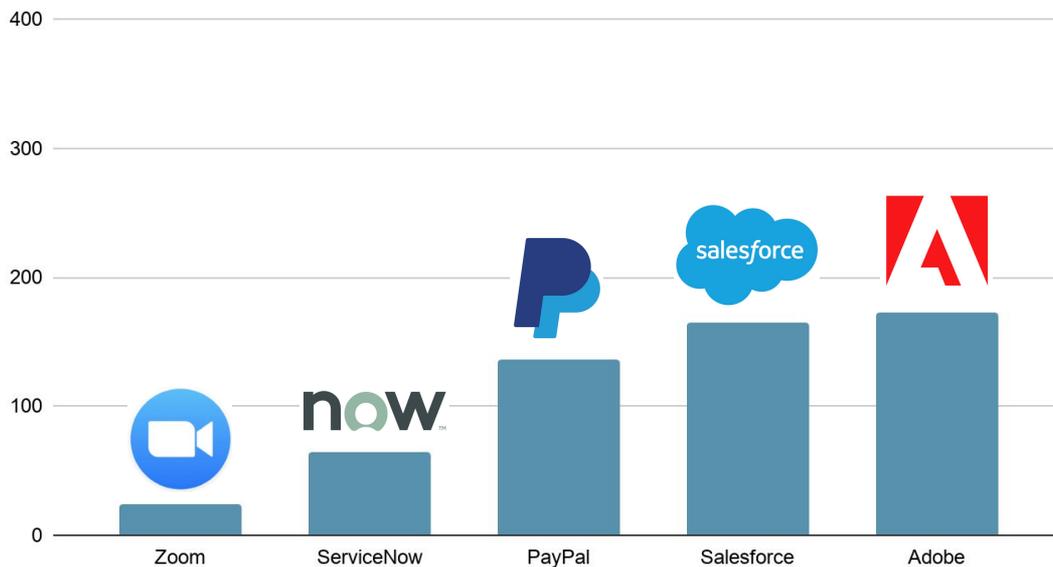
- Software Landscape
- Investing Landscape
- Profitability (Cash Flow) vs Growth (Revenue)



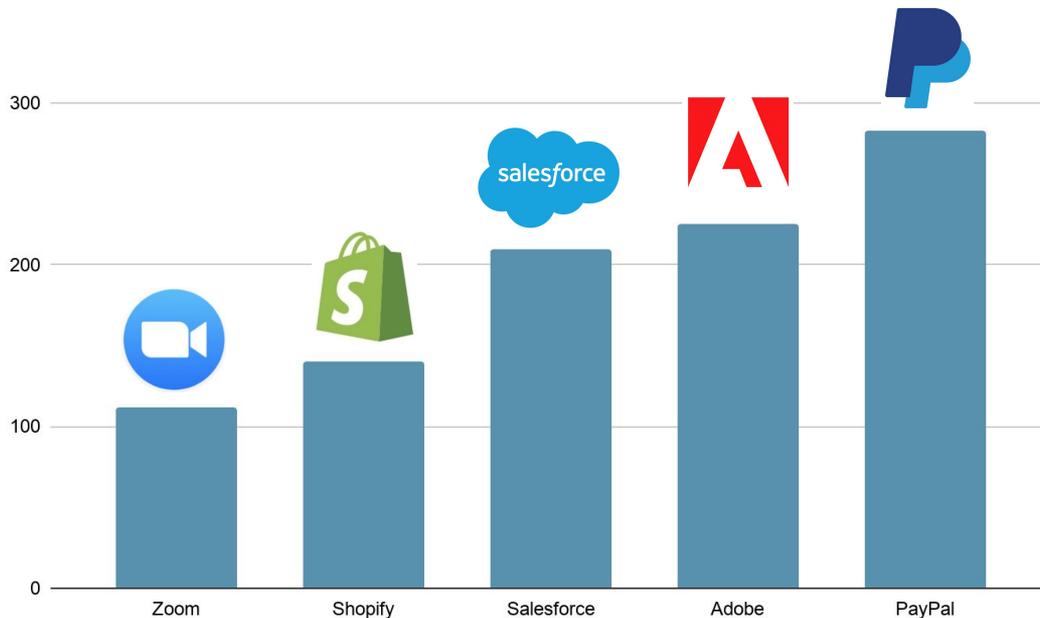
# Software Landscape

What has happened in recent years  
and where are we today?

# Top 5 public cloud companies by market cap, Feb 3, 2020.

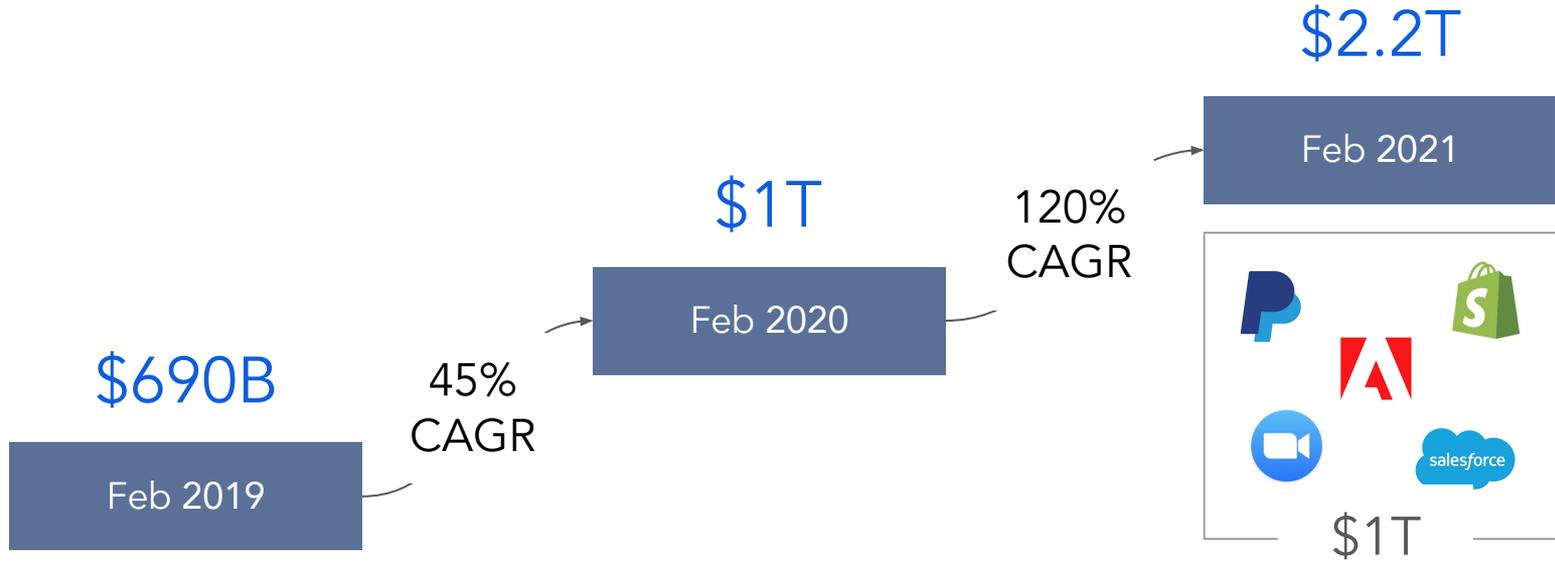


# Top 5 public cloud companies by market cap, Feb 1, 2021.

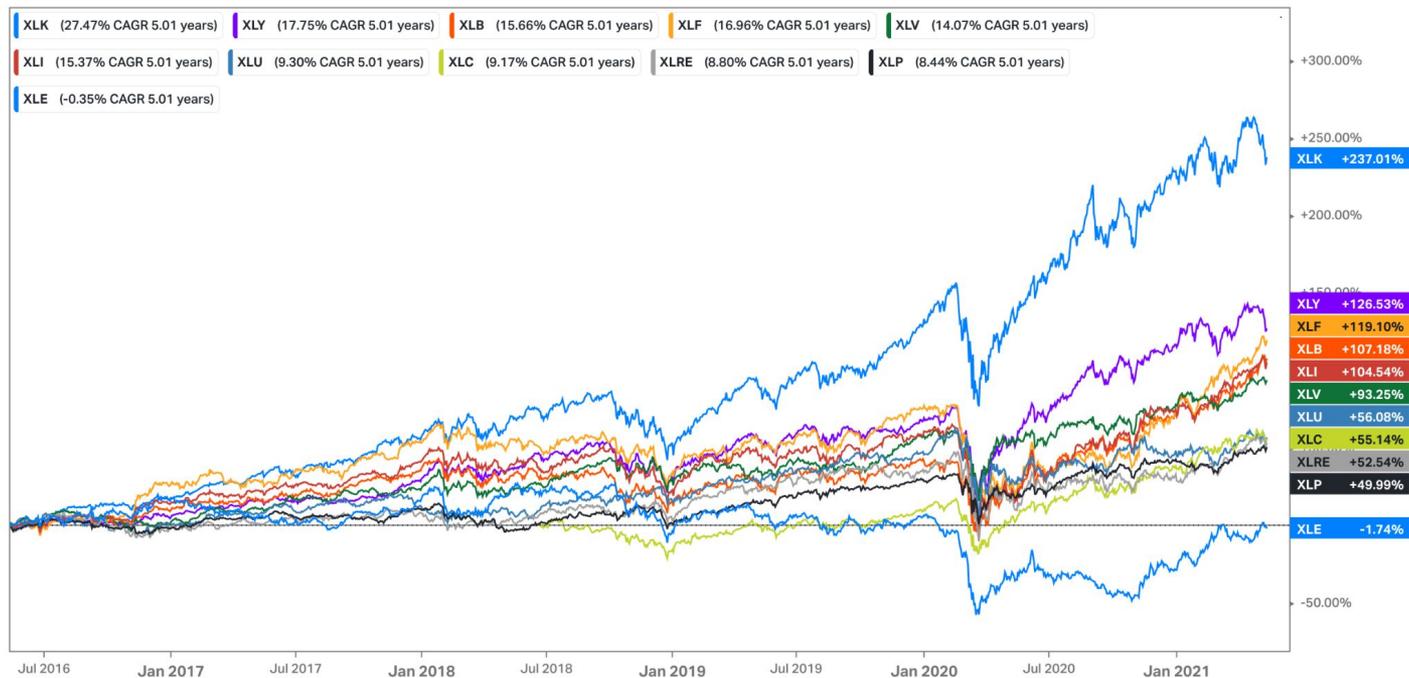


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Data Source: Bessemer Venture Partners

# The significant growth of public cloud companies illustrates the massive opportunity set.

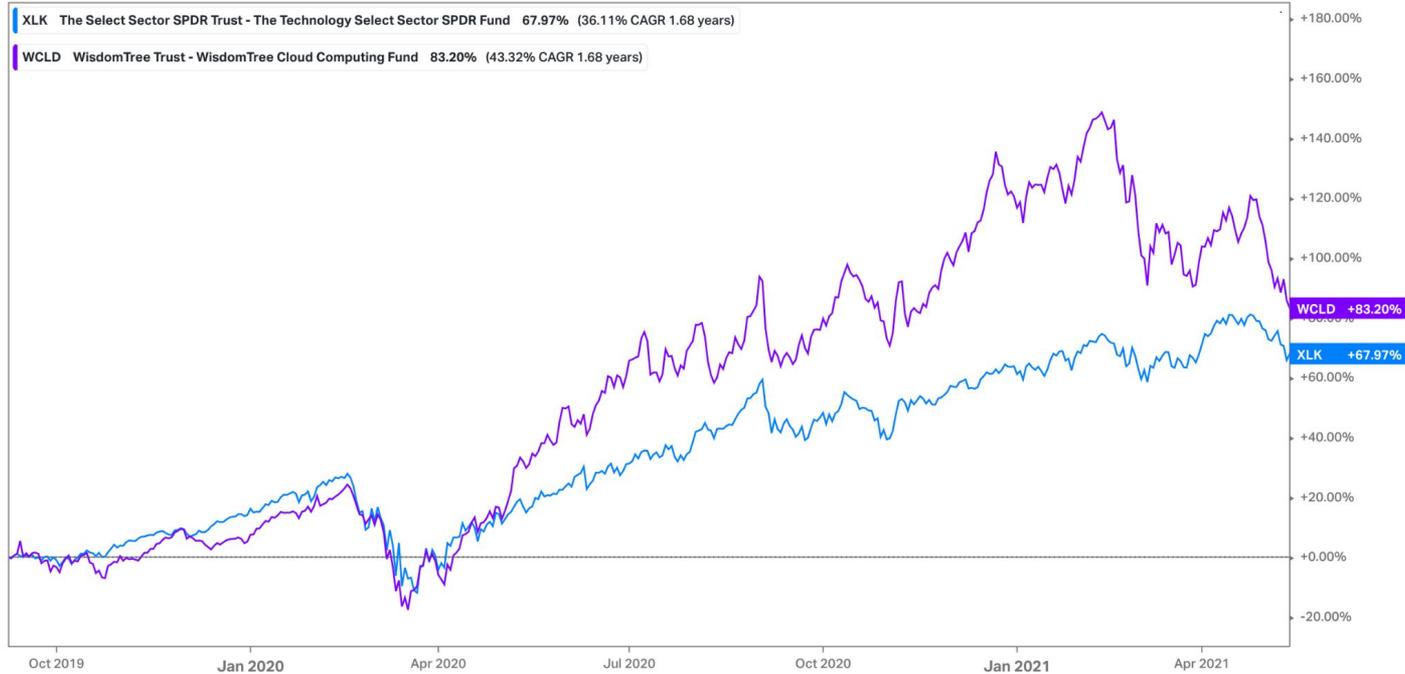


# Sector Performance, Last 5 Years.



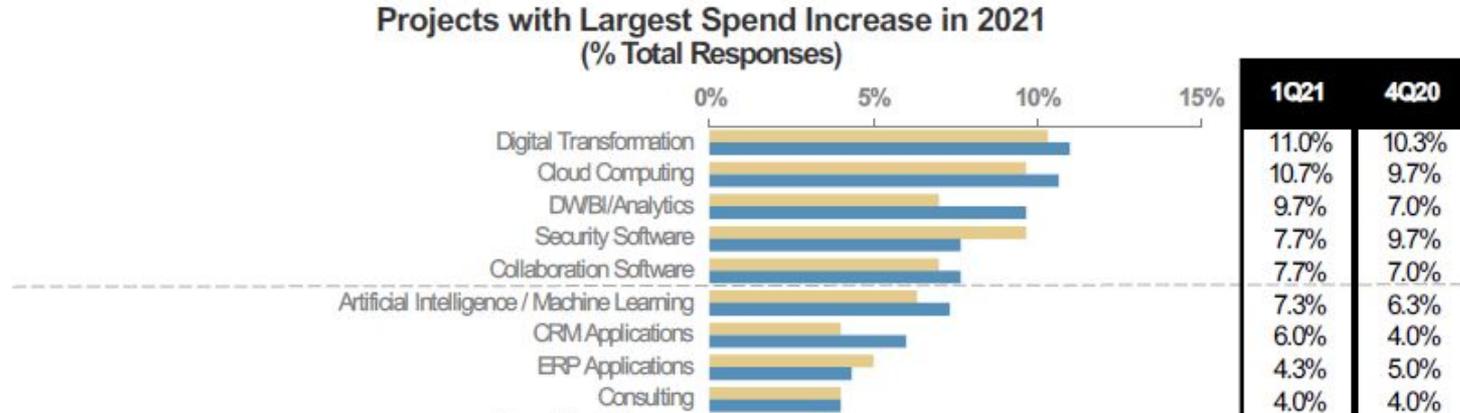

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Data Source: Koyfin

# Separate Cloud (WCLD) from Technology (XLK).



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Data Source: Koyfin

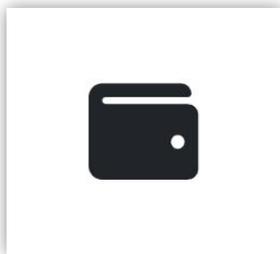
# Digital Transformation and Cloud Computing are the top 2 priorities for CIOs.





# Investing Landscape

What's our 'North Star'?



**Value**  
(Profits & Dividends)

Most public companies  
are value companies.

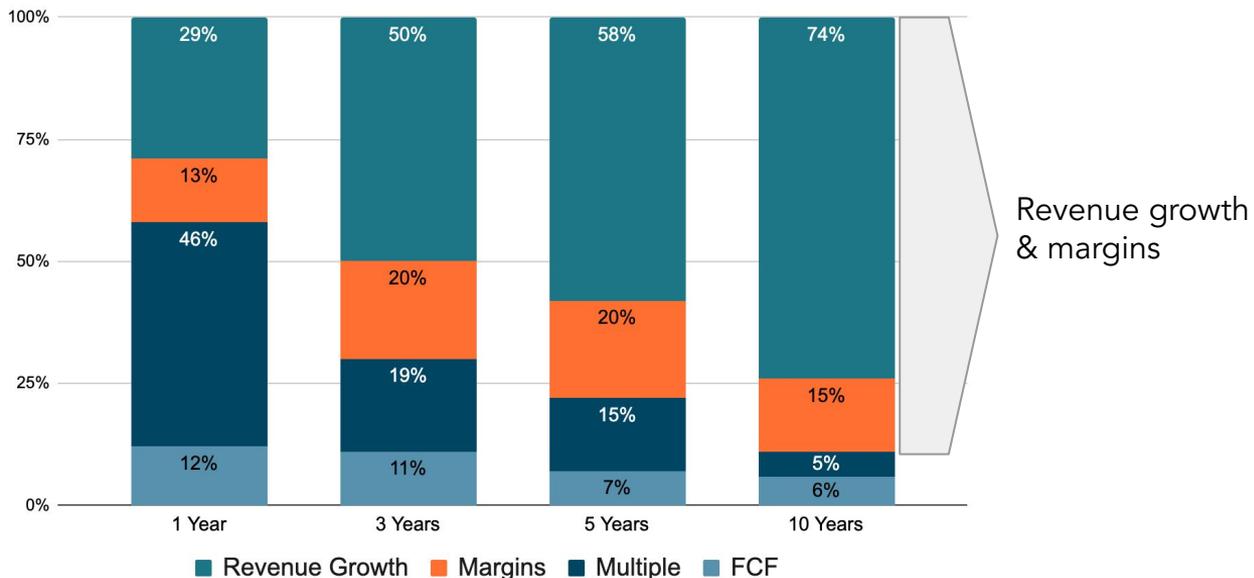


**Growth**  
(Revenue)

Most software companies  
are growth companies.

# Revenue growth & margins drive long-term stock performance.

Sources of total shareholder returns for top-quartile performers in the S&P 500, 1990-2009.



# How do you value companies that aren't profitable?

EV/ Revenue

Enterprise Value (EV) = Market Cap - Cash + Debt

Market Cap	-	Cash	+	Debt	=	EV
\$1B		\$1B		\$0		\$0
\$1B		\$0		\$0		\$1B
\$1B		\$0		\$1B		\$2B

# EV/ NTM Revenue

Low, Mid, and High-Growth Companies, Last 12 months



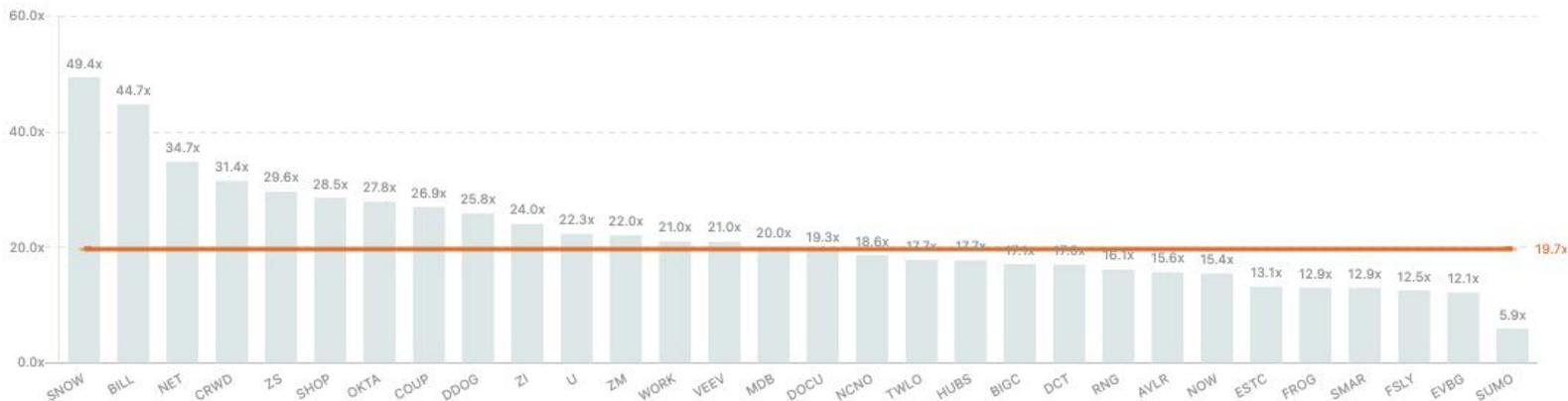
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NTM = Next 12 Months.

Source: Public Comps, accessed 5/11/2021.

# EV/ NTM Revenue Multiples

Leading software companies, May 2021.



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NTM = Next 12 Months.

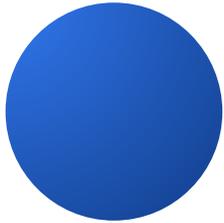
Source: Public Comps, accessed 5/11/2021.

# SaaS Valuations

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- Revenue is the primary contributor to growth
- Predictability and sustainability of revenue is valuable
- How much money can a \$1 investment generate?
- 12 Key SaaS Metrics

# What Matters



## Size

Total Addressable Market  
Enterprise Value  
Market Share



## Growth

Revenue Growth  
User Growth  
Margin Growth



## Conversion

Leads → Customers  
Marketing → Revenues  
Costs & Capital → ROIC



# 12 Key SaaS Metrics

## Core Metrics

Revenue Growth Rate

Gross Margins

Contribution Margin

Net Dollar Retention

Sales Efficiency

Growth Endurance

Cash Conversion

EV/ Revenue

Cash Flow Margin

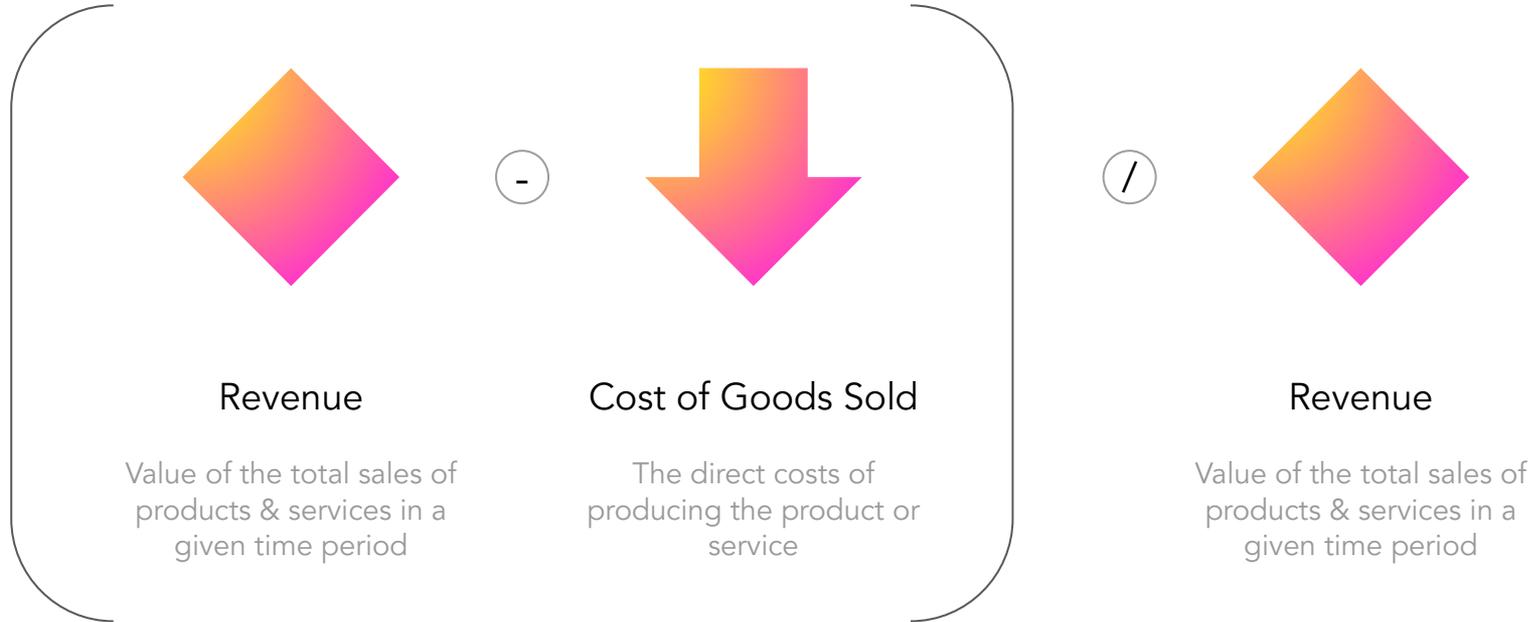
Rule of 40

Net Promoter Score

Payback Period

## Supporting Metrics

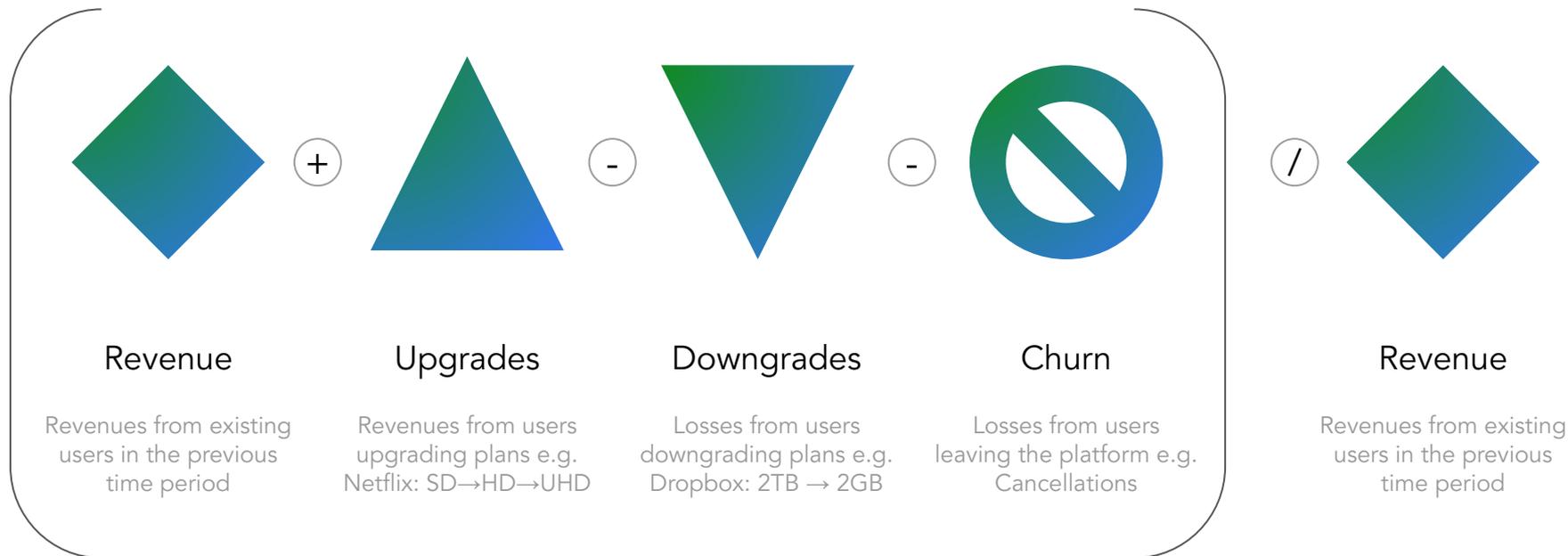
# Gross Margin



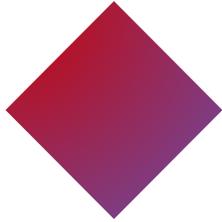
# Contribution Margin



# Net Dollar Retention



# Sales Efficiency



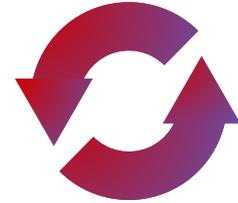
Revenue

Revenues from the current time period (T)



Sales & Marketing

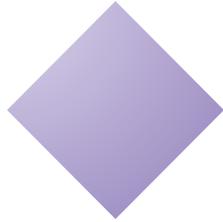
Sales & marketing costs for generating revenues from the last time period (T-1)



Sales Efficiency

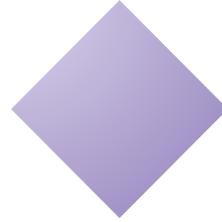
How much revenue \$1 of Sales & Marketing generates in a time period.

# Growth Endurance



Current Revenue

Revenues from the current  
time period (T)



Last Revenue

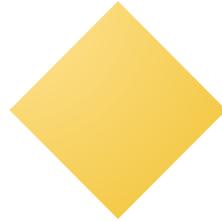
Revenues from the last  
time period (T-1)

# Payback Period



## Sales & Marketing

Sales & marketing costs for generating revenues from the last time period (T-1)



## Revenue

Revenues from the current time period (T)



## Payback Period

How many time periods it takes to regain the sales & marketing costs.

## IV

# Case Studies

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- Capital Efficient vs Capital Intensive
- Recurring Revenue vs Consumption Based Revenue

# Capital Efficient vs Capital Intensive

	Snowflake	Atlassian
Enterprise Value	\$76.25B	\$58.8B
Revenue (LTM)	\$592M	\$1.96B
LTM Revenue Growth	124%	29%
NTM Revenue Growth	84%	16%
EV / NTM Rev	69.9x	25.9x
Gross Margin	65%	85%
Sales Efficiency	1.3	2.5
Net Dollar Retention	168%	130%
FCF Margin	-14%	38%
*2020 LTM Stock Returns	-24.63%	30.79%

\*Snowflake IPO took place in Sept. 2020, and thus LTM returns are since IPO.

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Data Sources: Meritech Capital, Apr 30, 2021. Koyfin. Public Comps.

# Capital Efficient vs Capital Intensive

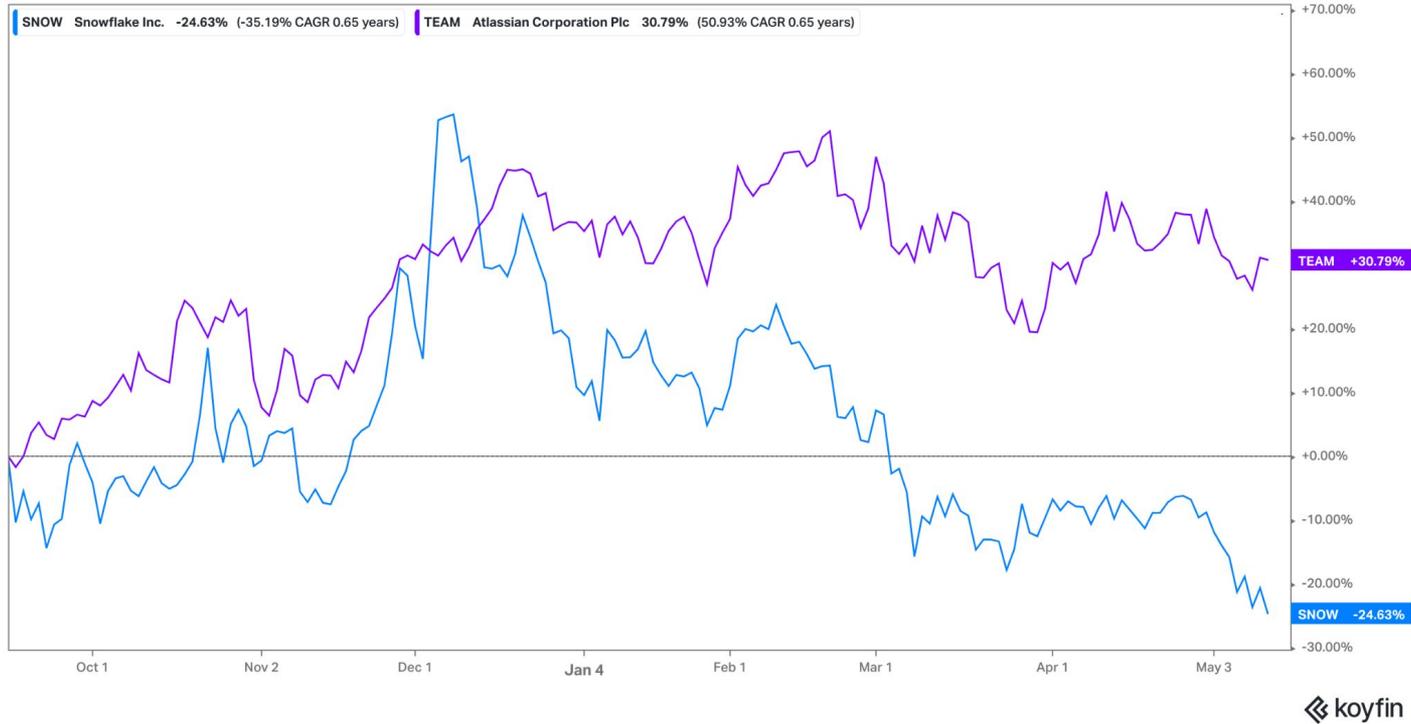
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# Capital Efficient vs Capital Intensive



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Source: Koyfin

# Recurring Revenue vs Consumption Based Revenue

	Zoom	Twilio
Enterprise Value	\$92.49B	\$61.91B
Revenue (LTM)	\$2.65B	\$1.76B
LTM Revenue Growth	326%	55%
NTM Revenue Growth	44%	38%
EV / NTM Rev	24.3x	25.4x
Gross Margin	70%	52%
Sales Efficiency	2.9	3.5
Net Dollar Retention	130%	139%
FCF Margin	52%	0%
2020 LTM Stock Returns	79.89%	55.72%

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# Recurring Revenue vs Consumption Based Revenue

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Gross Margin	70%	52%
Sales Efficiency	2.9	3.5
Net Dollar Retention	130%	139%
FCF Margin	52%	0%
2020 LTM Stock Returns	79.89%	55.72%

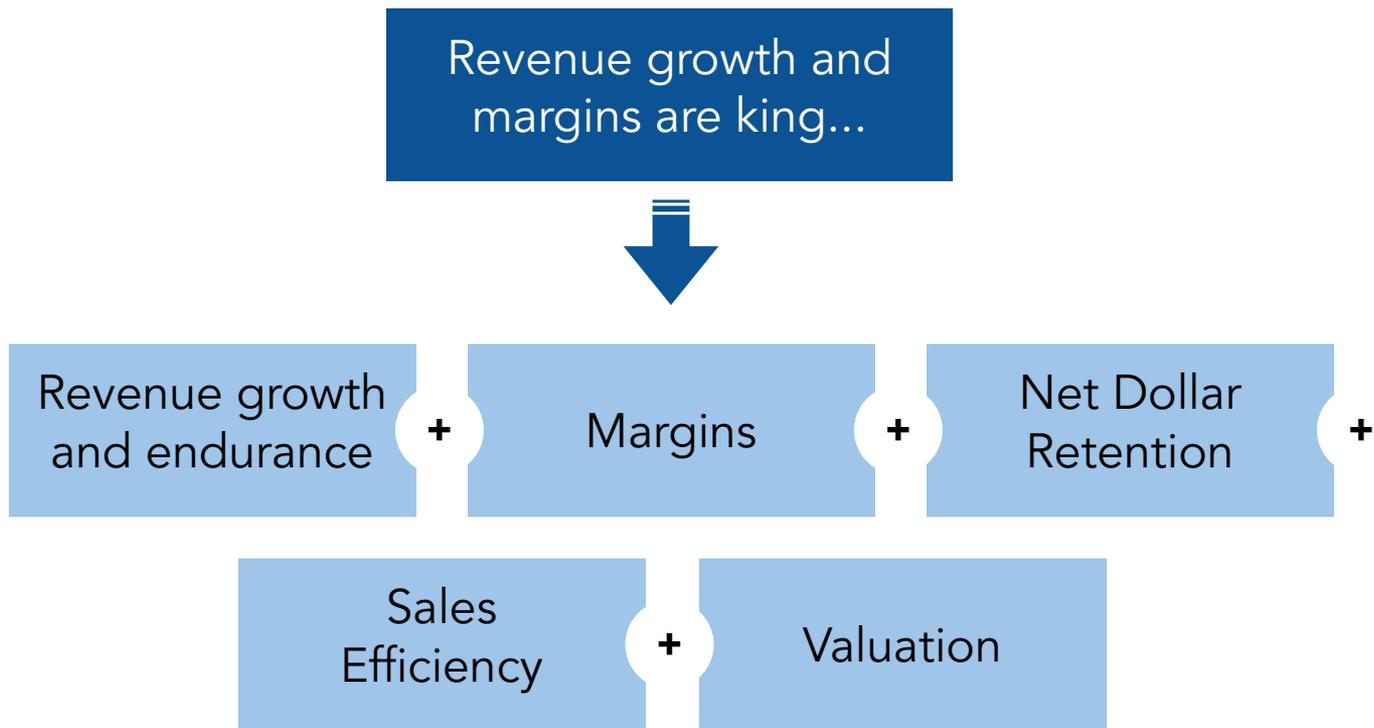
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# Recurring Revenue vs Consumption Based Revenue



# In Summary



# Resources



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