

Flavors of SaaS

Q4, 2020

Executive Summary



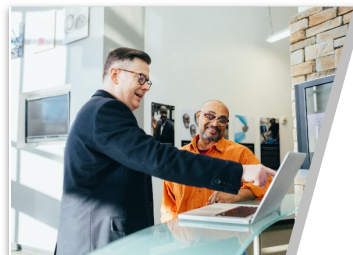
Vertical SaaS has been gaining increasing traction across industries, with companies offering customized solutions built on in-depth sector expertise.



Vertical SaaS is seeing growing number of companies with somewhat smaller but more focused TAM (as compared with horizontal SaaS) and more capital efficient business models.



In Vertical SaaS, we saw sector exposure get amplified during Covid-19; sectors like FinTech, healthcare and education benefited while sectors like travel, hospitality etc. were impacted.



We see strong middle-market investor interest due to high growth prospects supported by capital efficient business models. Middle-market investors are also drawn to the “niceness” of players in space and less competition

	Vertical SaaS*	Horizontal SaaS*
Sales & Marketing (S&M) To Revenue (LTM, Median)	19.1%	41.1%
R&D to Revenue (LTM, Median)	13.5%	22.6%
EBITDA Margins (LTM, Median)	13.3%	(1.0)%
Capital	Less capital needed to get to liquidity event (IPO)	More capital needed to get to liquidity event (IPO)
Valuation	Slightly higher valuation in selected companies	Marginally lower valuation in selected companies
Additional Highlights	Operational efficiencies due to industry-specific focus	Benefit from larger TAM

*Note: Median values have been calculated from the public comps for select companies in vertical and horizontal space



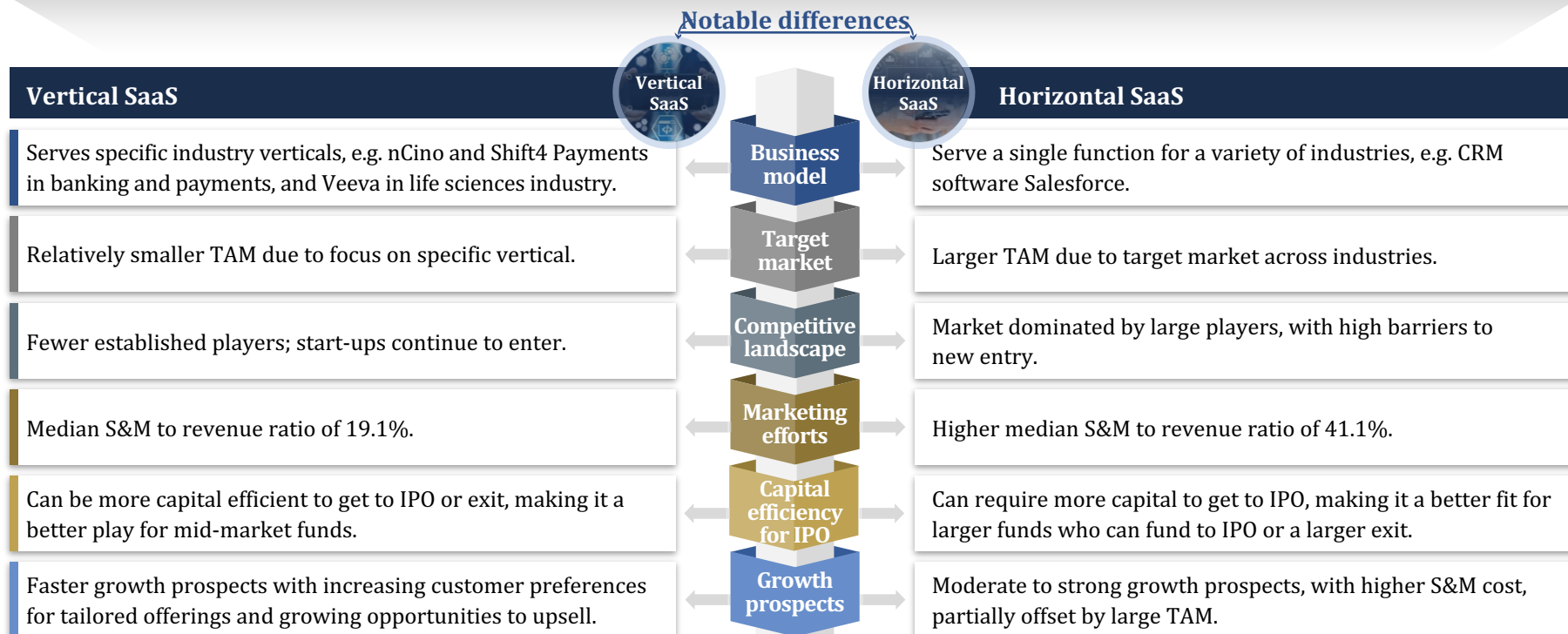
A Deeper Dive into Vertical and Horizontal SaaS Businesses

► Vertical SaaS is touted as one of the transformation changes overall SaaS market has been witnessing.

“ *Mass customization by vertical software or functional slice with a purpose-built solution that meets your customer’s unique needs is becoming the new key to success in the software industry.* ”
 – *Gordon Ritter, Emergence Capital* ”

Vertical SaaS - A next generation SaaS solution

- Vertical SaaS is hyper-specific SaaS solutions targeted to a particular industry.
- The market is characterized by generally lower competition than horizontal SaaS and high potential for growth.
- Companies in the industry build competitive advantage by offering customized solutions generally developed by in-house sector experts.



► Multiple factors combinedly pushing growth for Vertical SaaS market.

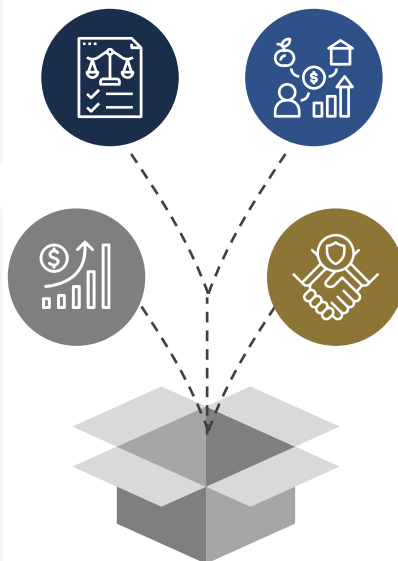
Focus on Vertical raises demand

- More robust and focused solutions for industry-specific compliance.
 - Products and solutions are constantly updated in response to changing regulatory needs.

Lower S&M cost drives capital efficient growth

- Focused and cost-effective approach to marketing due to narrowly defined customer requirements.
 - Fewer marketing resources required and faster customer acquisition achieved.
- Blossom Street Ventures estimate that Vertical companies can achieve up to 8X cheaper CAC vs Horizontal peers.

DRIVERS



Higher upsell opportunities help growth

- Immediate and significant value to companies looking for focused solutions; increased upsell opportunities due to the demonstrated value.
 - As per studies, upsell costs only ~24% of the cost of acquiring a new customer.

Increased customer trust drives demand

- Greater customer trust due to faster and better results.
 - Solutions developed by experts with vast industry experience, leading to greater reliability, higher customization and better performance at industry-specific metrics and KPIs.

CHALLENGES



- Companies can get severely impacted due to any adverse event impacting their target sector.
- E.g., COVID-19 has impacted vertical companies in sectors like hospitality and travel. Though some sectors like Edtech, healthcare and fintech saw a boost from Covid-19.



- Lower TAM can be a key challenge with limited options to diversify; companies overcome this by providing additional offerings to existing customer base; e.g. Veeva expanded their product offerings to the healthcare sector rapidly increasing their growth and available TAM

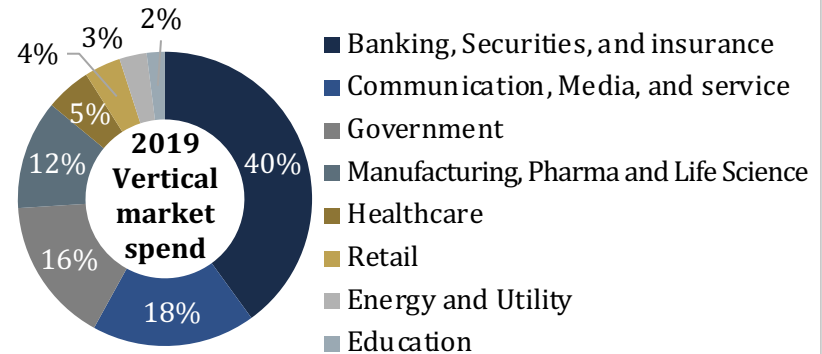
- Increasing adoption among customers and cost advantages, drive strong investor interest for Vertical SaaS.



Increasing investor focus

- Investors are attracted towards Vertical SaaS companies' potential to capture early stage growth opportunities.
- While SaaS solutions aimed at sectors like banking, securities & insurance have been growing, certain sectors like education and energy have significant potential. We have seen recent growth in funding in Edtech and Fintech sector in particular.
- Largely untapped industries, such as energy and utility, and education, will likely see new solutions for their focused needs and garner increased investor interest.

2019 Vertical SaaS Spend Breakdown



Source: Global X ETFs



Fintech opening up new opportunities for Vertical SaaS companies

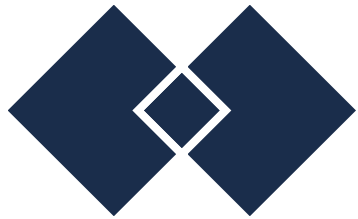
- Fintech infrastructure companies are equipping SaaS providers with capabilities to offer financial services along with their core offerings.
- Growing customer preference for full stack purpose-build software meeting focused industry needs will make Vertical SaaS companies as strong candidates for SaaS+fintech business solutions.
- Vertical companies like Mindbody and Shopify are increasingly integrating enhanced financial products from loans to card insurance directly into their solutions.



**Enhances TAM
for Vertical SaaS
companies.**



**Also helps increase
revenue per user by
2-5X,
as per few estimates.**



Vertical SaaS versus Horizontal SaaS – Key Metrics

Key Metrics – Vertical And Horizontal SaaS Companies



Vertical SaaS Companies



Company	EV (m)	Revenue LTM (m)	Revenue Growth YoY	EBITDA Margin	S&M Expenses/ Revenue LTM	R&D Expenses/ Revenue LTM	EV/ Revenue LTM
Average	\$7,754	\$1,025	18.6%	8.2%	21.5%	15.2%	10.9x
Median	\$5,160	\$740	11.7%	13.3%	19.1%	13.5%	6.3x

Horizontal SaaS Companies



Company	EV (m)	Revenue LTM (m)	Revenue Growth YoY	EBITDA Margin	S&M Expenses/ Revenue LTM	R&D Expenses/ Revenue LTM	EV/ Revenue LTM
Average	\$20,737	\$1,630	21.2%	0.4%	36.8%	23.5%	10.0x
Median	\$3,773	\$591	21.2%	(1.0%)	41.1%	22.6%	6.5x

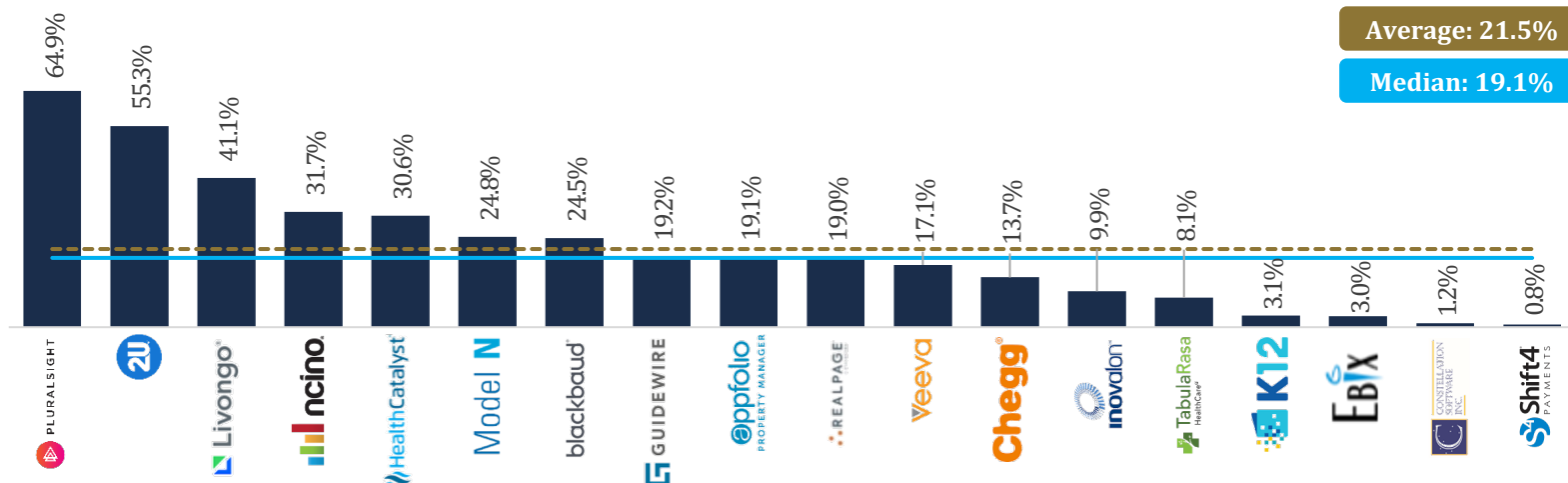
Note: Data is as of October 22, 2020

Sales & Marketing Expenses/ Revenue (LTM)

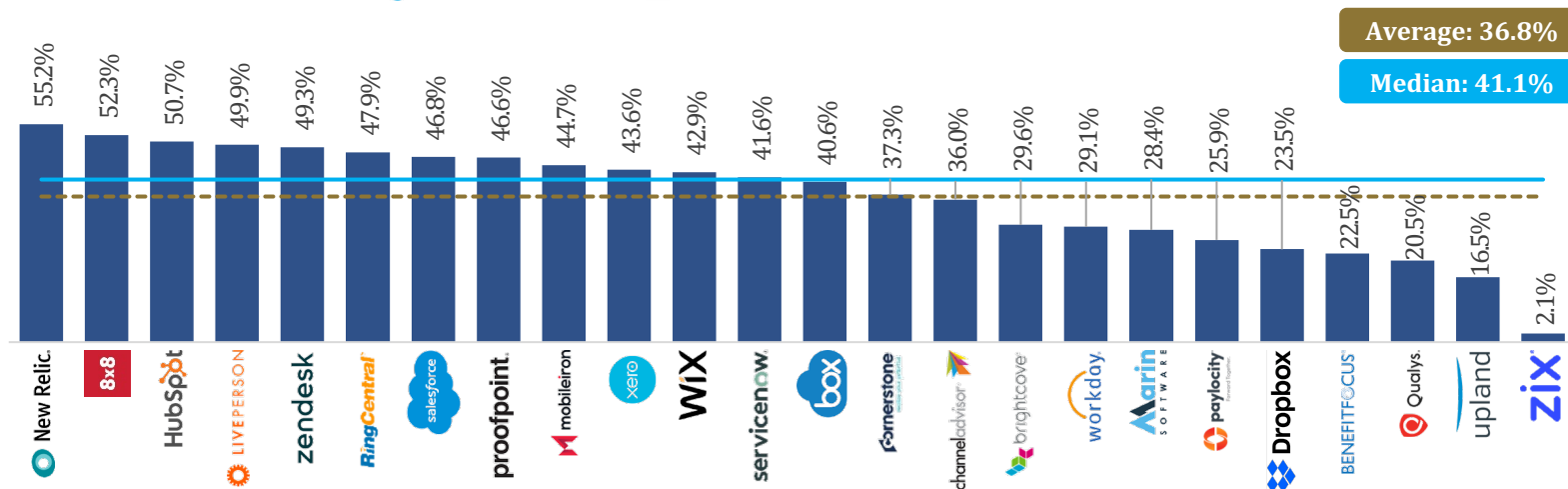
Much Lower S&M Expenses/ Revenue ratio for Vertical SaaS

Industry-focused business model and brand built by selling exclusively in a sector allows Vertical SaaS companies to have lower S&M expense to Revenue ratio.

Vertical SaaS



Horizontal SaaS

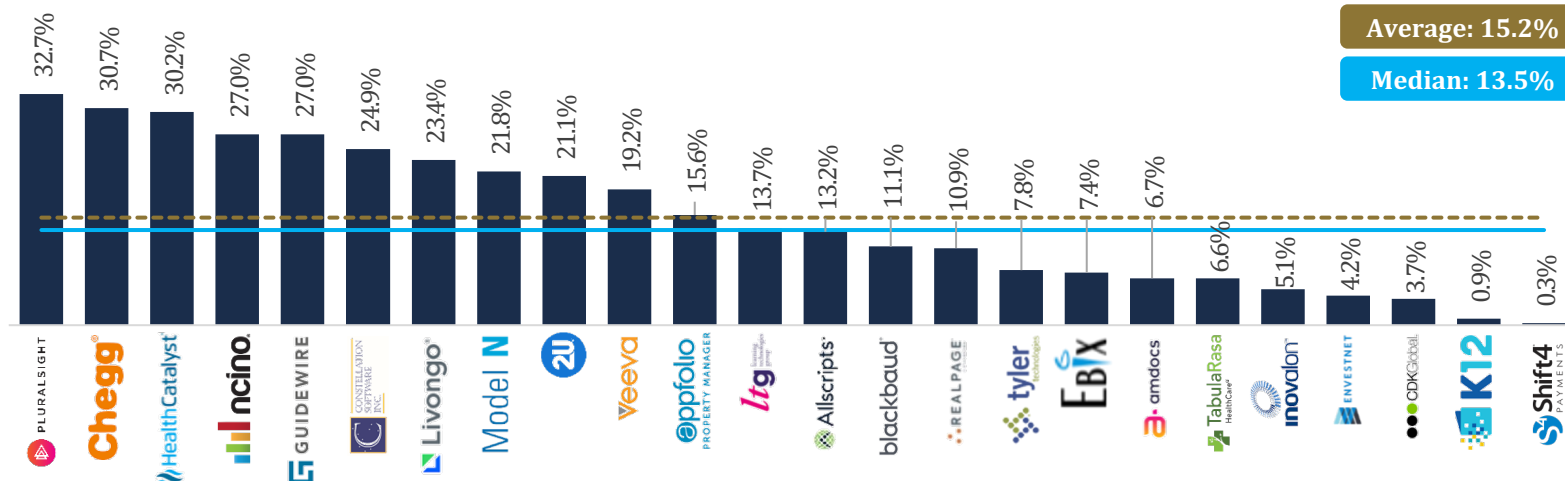


R&D Expenses/Revenue (LTM)

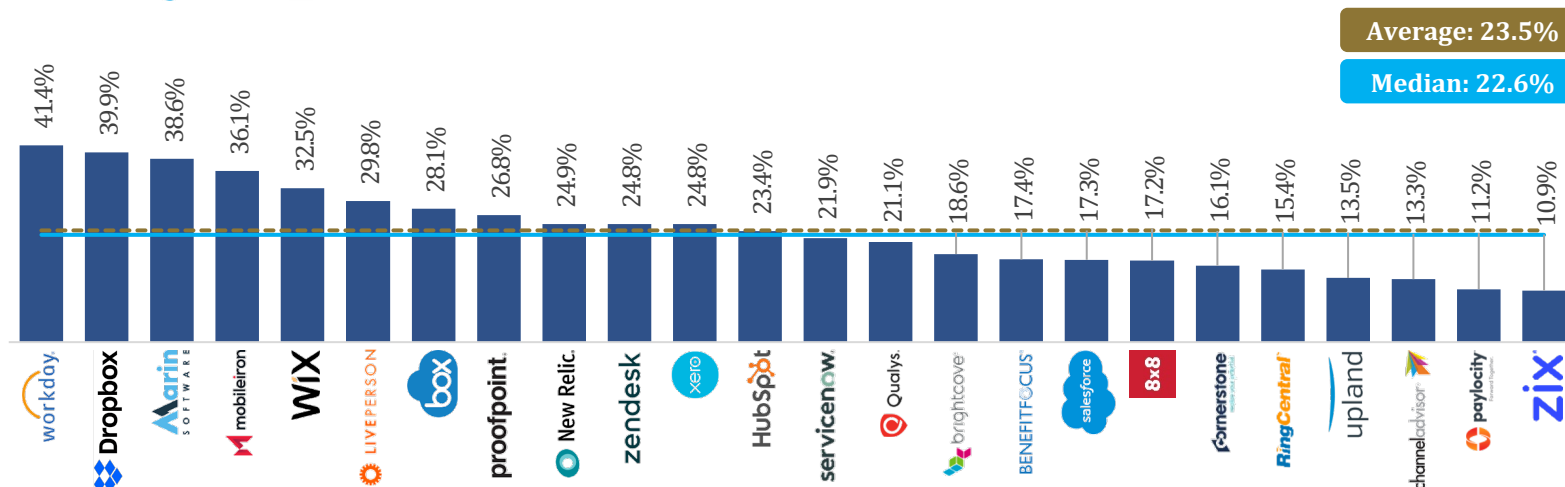
Much Lower R&D efforts for Vertical SaaS

Focused business model, along with in-depth industry knowledge and expertise result in lower R&D costs for Vertical SaaS companies compared to Horizontal SaaS companies, which need a more platform like approach leading to higher R&D spend.

Vertical SaaS



Horizontal SaaS



EBITDA Margins (LTM)

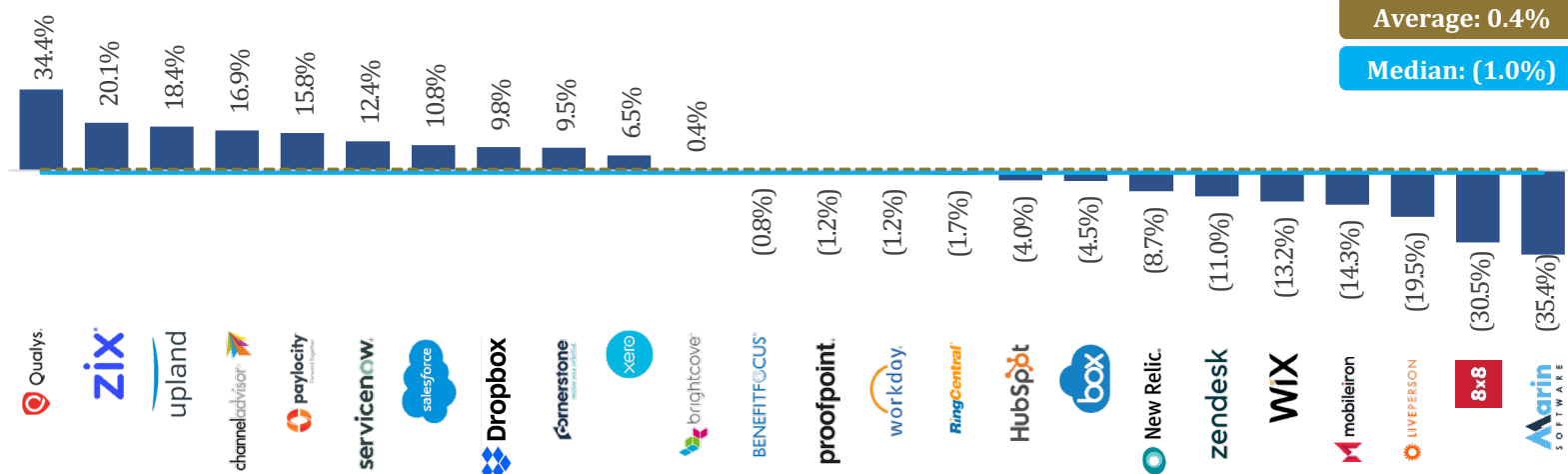
Much higher EBITDA Margins for Vertical SaaS

Operational efficiencies from reduced spend allows Vertical SaaS companies to have higher EBITDA margins compared to Horizontal SaaS companies.

Vertical SaaS



Horizontal SaaS

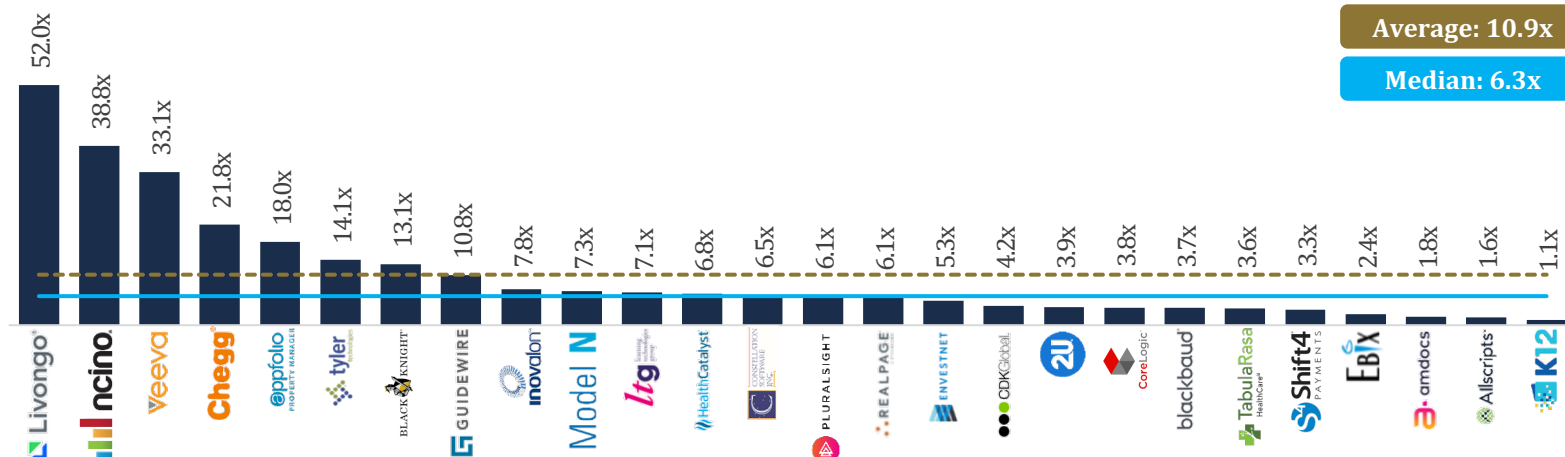


EV/Revenue (LTM)

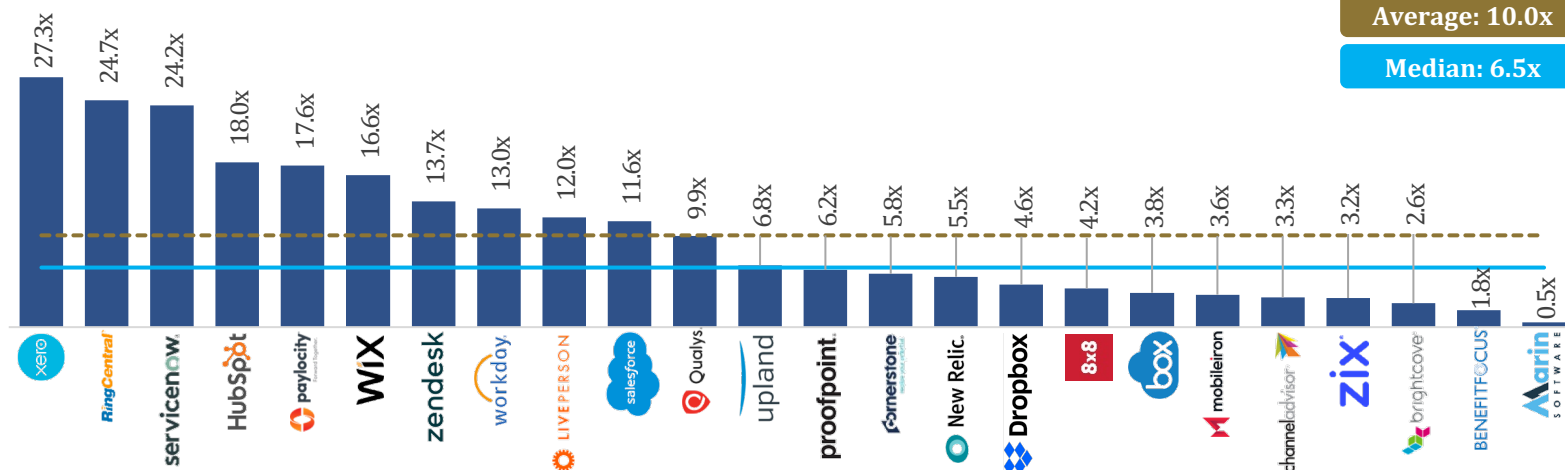
Vertical SaaS companies operate at slightly higher valuations

Vertical SaaS is slightly higher than Horizontal SaaS on valuation. While Vertical companies gain from their operational efficiencies in sales, marketing, R&D and higher EBITDA by focusing on industry specific domain, Horizontal peers benefit from larger TAM.

Vertical SaaS



Horizontal SaaS

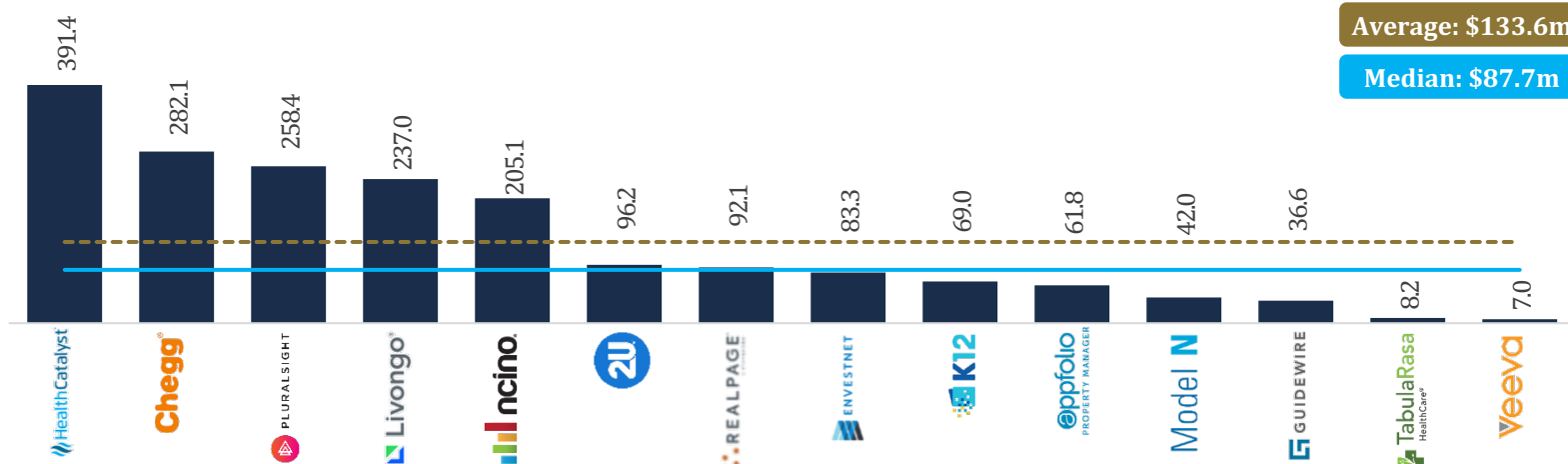


Amount of Funding to get to IPO

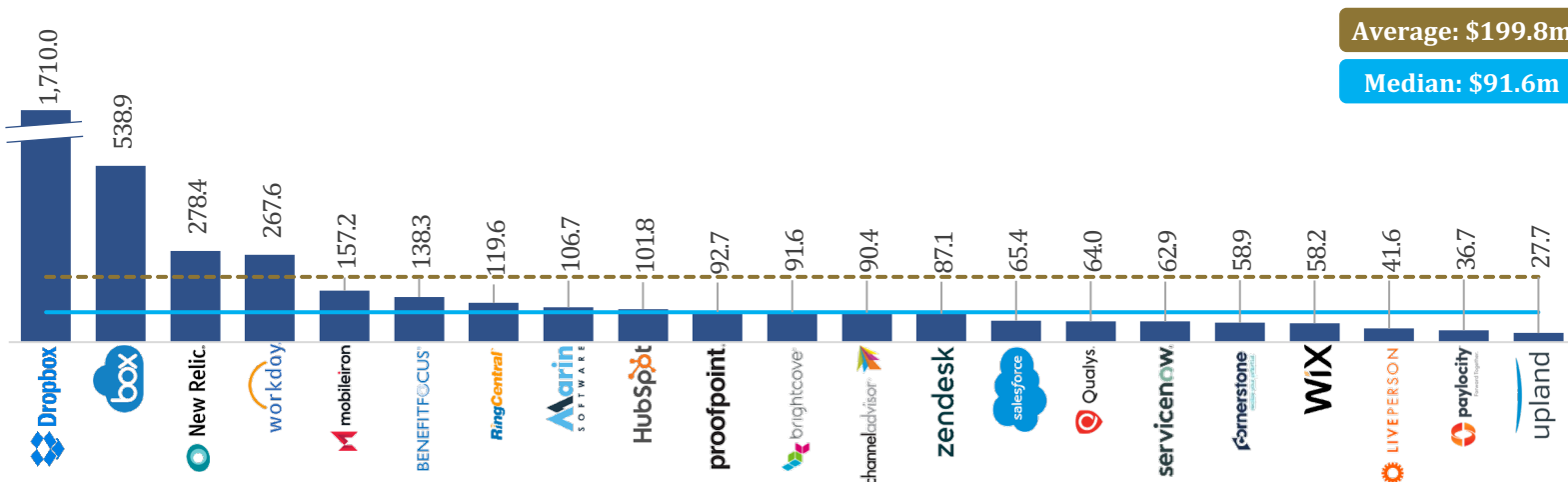
Lower Capital needed to get to IPO for Vertical SaaS Companies

Due to higher capital efficiencies in Vertical SaaS models, the average amount of capital raised before IPO was \$134m vs. \$200m for Horizontal SaaS companies.

Vertical SaaS



Horizontal SaaS





Appendix

Appendix – Vertical SaaS Public Comps (1/2)

Company	Share Price 10/22/20	Market Cap (m)	EV (m)	Revenue LTM (m)	Revenue Growth YoY	EBITDA Margin	S&M Expenses/ Revenue LTM	R&D Expenses/ Revenue LTM	EV/ Revenue LTM
2U	\$35.30	\$2,513	\$2,664	\$675	40.7%	(14.9%)	55.3%	21.1%	3.9x
Allscripts	11.23	1,830	2,794	1,718	(1.9%)	4.1%	–	13.2%	1.6x
Amdocs	57.29	7,621	7,509	4,146	2.2%	19.0%	–	6.7%	1.8x
Appfolio	150.19	5,151	5,210	289	30.6%	7.6%	19.1%	15.6%	18.0x
Black Knight	93.34	14,504	15,520	1,183	3.3%	33.7%	–	–	13.1x
Blackbaud	58.53	2,826	3,395	915	4.9%	12.9%	24.5%	11.1%	3.7x
CDK Global	46.31	5,629	8,165	1,960	2.4%	34.2%	–	3.7%	4.2x
Chegg	86.55	10,759	11,002	504	39.6%	16.2%	13.7%	30.7%	21.8x
Constellation Software	1,121.43	23,765	23,907	3,700	13.7%	17.4%	1.2%	24.9%	6.5x
CoreLogic	68.46	5,442	6,973	1,849	6.3%	24.9%	–	–	3.8x
Ebix	20.07	620	1,290	543	(1.7%)	25.4%	3.0%	7.4%	2.4x
Envestnet	84.12	4,523	5,111	958	14.4%	13.7%	–	4.2%	5.3x
Guidewire	103.98	8,680	7,996	742	3.2%	2.3%	19.2%	27.0%	10.8x
HealthCatalyst	33.87	1,345	1,171	171	21.5%	(34.0%)	30.6%	30.2%	6.8x

Note: Share Price, Market Cap, Enterprise Value is as of October 22, 2020

Appendix – Vertical SaaS Public Comps (2/2)



Company	Share Price 10/22/20	Market Cap (m)	EV (m)	Revenue LTM (m)	Revenue Growth YoY	EBITDA Margin	S&M Expenses/ Revenue LTM	R&D Expenses/ Revenue LTM	EV/ Revenue LTM
Inovalon holdings	\$26.71	\$4,149	\$5,096	\$656	12.3%	27.4%	9.9%	5.1%	7.8x
K12	28.93	1,148	1,171	1,041	2.5%	5.7%	3.1%	0.9%	1.1x
Learning Technologies	1.68	1,241	1,155	163	4.5%	28.2%	–	13.7%	7.1x
Livongo	137.97	13,839	13,418	258	128.3%	(13.6%)	41.1%	23.4%	52.0x
Model N	35.21	1,216	1,141	156	10.5%	(4.0%)	24.8%	21.8%	7.3x
Ncino Inc	76.57	6,979	6,596	170	–	(17.9%)	31.7%	27.0%	38.8x
Pluralsight	17.70	1,981	2,191	359	30.8%	(38.9%)	64.9%	32.7%	6.1x
Realpage	58.90	5,823	6,515	1,072	15.3%	16.8%	19.0%	10.9%	6.1x
Shift4 Payments	56.06	2,045	2,451	737	–	0.5%	0.8%	0.3%	3.3x
Tabula Rasa	39.25	849	1,069	297	19.4%	(0.6%)	8.1%	6.6%	3.6x
Tyler Technologies	399.01	16,056	15,673	1,112	11.2%	18.8%	–	7.8%	14.1x
Veeva	290.75	43,853	42,415	1,283	32.5%	27.1%	17.1%	19.2%	33.1x
Average	\$120.75	\$7,477	\$7,754	\$1,025	18.6%	8.2%	21.5%	15.2%	10.9x
Median	\$57.91	\$4,837	\$5,160	\$740	11.7%	13.3%	19.1%	13.5%	6.3x

Note: Share Price, Market Cap, Enterprise Value is as of October 22, 2020

Appendix – Horizontal SaaS Public Comps (1/2)

Company	Share Price 10/22/20	Market Cap (m)	EV (m)	Revenue LTM (m)	Revenue Growth YoY	EBITDA Margin	S&M Expenses/ Revenue LTM	R&D Expenses/ Revenue LTM	EV/ Revenue LTM
8*8	\$16.82	\$1,753	\$1,989	\$471	28.8%	(30.5%)	52.3%	17.2%	4.2x
BenefitFocus	10.89	351	530	287	5.3%	(0.8%)	22.5%	17.4%	1.8x
Box	16.54	2,589	2,772	737	12.4%	(4.5%)	40.6%	28.1%	3.8x
BrightCove	12.95	510	498	191	7.6%	0.4%	29.6%	18.6%	2.6x
ChallenAdvisor	17.20	493	442	136	4.1%	16.9%	36.0%	13.3%	3.3x
Cornoerstone OnDemand	38.54	2,480	3,663	629	13.5%	9.5%	37.3%	16.1%	5.8x
Dropbox	20.20	8,350	8,322	1,797	17.9%	9.8%	23.5%	39.9%	4.6x
HubSpot	309.24	14,090	13,727	762	29.0%	(4.0%)	50.7%	23.4%	18.0x
LivPerson	58.24	3,854	3,882	324	21.2%	(19.5%)	49.9%	29.8%	12.0x
Marin Software	2.12	15	19	39	(28.9%)	(35.4%)	28.4%	38.6%	0.5x
MobileIrons	7.07	838	763	215	6.2%	(14.3%)	44.7%	36.1%	3.6x
New Relic	62.18	3,746	3,418	621	21.3%	(8.7%)	55.2%	24.9%	5.5x
Paylocity Holding	185.94	10,006	9,902	561	20.0%	15.8%	25.9%	11.2%	17.6x

Note: Share Price, Market Cap. Enterprise Value is as of October 22, 2020

Appendix – Horizontal SaaS Public Comps (2/2)



Company	Share Price 10/22/20	Market Cap (m)	EV (m)	Revenue LTM (m)	Revenue Growth YoY	EBITDA Margin	S&M Expenses/ Revenue LTM	R&D Expenses/ Revenue LTM	EV/ Revenue LTM
Proofpoint	\$108.45	\$6,251	\$6,114	\$979	22.4%	(1.2%)	46.6%	26.8%	6.2x
Qualys	96.73	3,796	3,405	342	14.1%	34.4%	20.5%	21.1%	9.9x
RingCentral	283.42	25,213	25,533	1,032	32.4%	(1.7%)	47.9%	15.4%	24.7x
Sales Force	249.67	227,200	224,105	19,380	31.6%	10.8%	46.8%	17.3%	11.6x
ServiceNow	505.96	97,044	95,899	3,955	31.3%	12.4%	41.6%	21.9%	24.2x
Upland Software	43.60	1,282	1,765	260	41.7%	18.4%	16.5%	13.5%	6.8x
WIX	264.16	14,698	14,155	853	25.6%	(13.2%)	42.9%	32.5%	16.6x
Workday	220.85	52,377	51,760	3,995	23.1%	(1.2%)	29.1%	41.4%	13.0x
XERO	82.01	11,687	11,660	427	13.3%	6.5%	43.6%	24.8%	27.3x
ZenDesk	108.76	12,554	12,707	924	31.5%	(11.0%)	49.3%	24.8%	13.7x
ZIX Corp	6.46	355	650	204	82.9%	20.1%	2.1%	10.9%	3.2x
Average	\$113.67	\$20,897	\$20,737	\$1,630	21.2%	0.4%	36.8%	23.5%	10.0x
Median	\$60.21	\$3,825	\$3,773	\$591	21.2%	(1.0%)	41.1%	22.6%	6.5x

Note: Share Price, Market Cap. Enterprise Value is as of October 22, 2020