

Cloud Insights

Q1 2017

Investment Banking

SaaS IPO Window Reopens as Public Equity Valuations Rebound

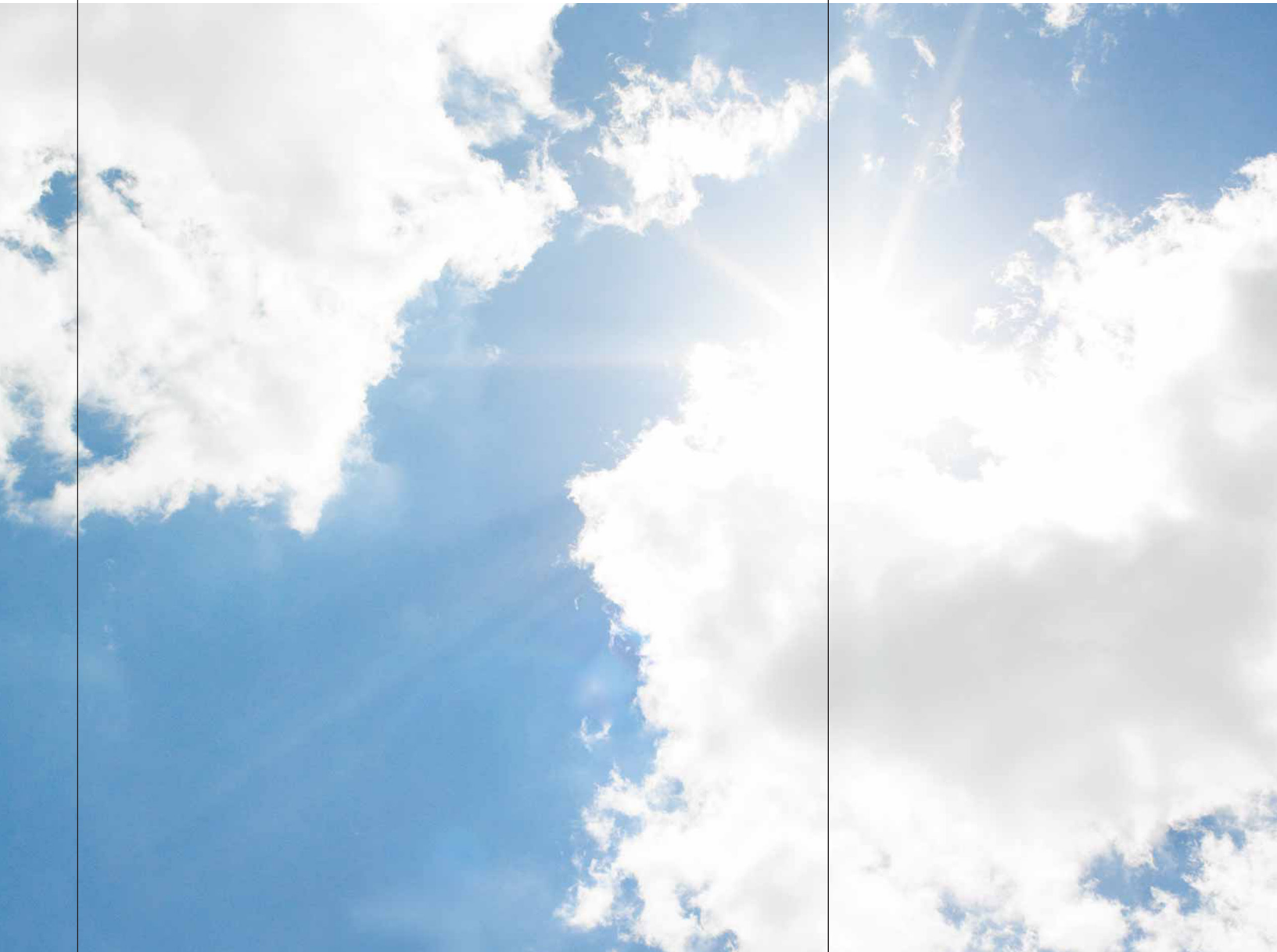
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Late-March IPOs signal reopening of SaaS IPO window

M&A values normalize as public acquisitions subside

Large private placements become increasingly rare

NetDocuments acquired by Clearlake Capital through an accelerated process



SaaS IPO Window Reopens as Public Equity Valuations Rebound

With public equity valuations rebounding and continued low volatility, the IPO window is open with 4 SaaS companies going public in March and April.

After a small pullback in SaaS public equity valuations in the fourth quarter 2016, the SaaS index recovered during the first three months of 2017. As a result, the SaaS IPO market sprang to life in late March after a five-month hiatus, with four companies making their public debuts from March 17 to April 13.

Meanwhile, M&A and private-placement markets saw a continuation of the trend toward increased activity in terms of the number of transactions but lower overall deal values. We examine these and other trends that are shaping dealmaking and capital-raising activity in the SaaS sector.

Late-March IPOs Signal Reopening of SaaS IPO Window

In fourth quarter 2016, the SaaS index fell 10.5%, and LTM revenue multiples for large-cap public SaaS companies fell from 9.5x to 7.6x. This pullback in valuations led to a closing of the IPO window, and the ensuing IPO drought lasted five months following BlackLine's October 28 debut.

Starting in the new year, however, the SaaS market rallied. From January 1 to May 19, the SaaS index rose 26.1%, outpacing the Nasdaq, which was up

13.0% over that same span. Large-cap SaaS revenue multiples rose to 9.3x and mid-cap and small-cap multiples increased to 6.6x and 3.8x, respectively.

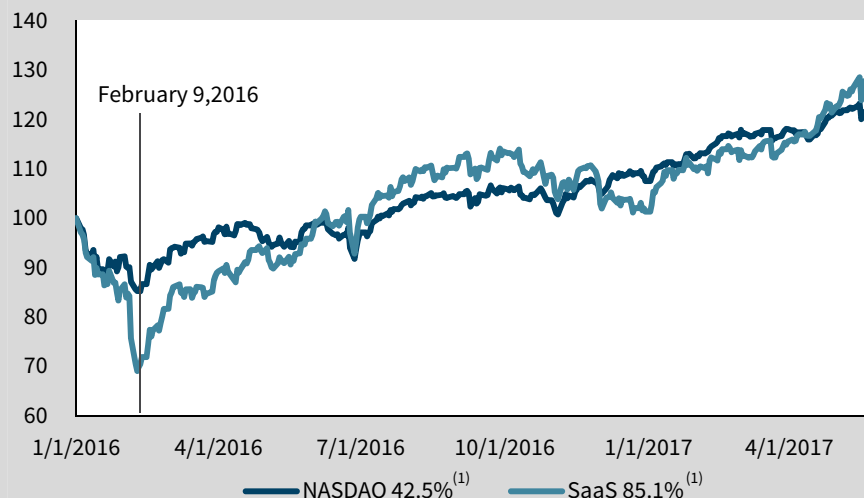
Because of this rally, the IPO window reopened for SaaS companies in mid-March. MuleSoft, which went public on March 17, saw its share price rise more than 45% on the first day of trading, surpassing Snap for the largest first-day pop of the first quarter. Following MuleSoft's IPO, Alteryx went public on March 24, Okta on April 7, and Yext on April 13. As of May 19, in the aftermarket Okta was up 43%, Alteryx, up 28%, MuleSoft, up

40%, and Yext, up 21% from their issue prices.

The strong performance of these four IPOs, along with continued low volatility, should lead to increased SaaS IPO activity over the next several months. On May 8, the CBOE Volatility Index, or VIX, fell to 9.77, the lowest level since 1993. Unicorns that raised pre-IPO rounds at robust valuations may continue to eschew going public, citing fears of taking a down round, but the environment appears to be favorable for promising companies with more sustained growth trajectories.

SaaS Index vs. Nasdaq

After falling 10.5% in fourth quarter 2016, the SaaS index has rebounded in the first four-and-a-half months of 2017. Between January 1 and May 19, the SaaS index's return (+26.1%) doubled the Nasdaq's return (+13.0%).



Source: Capital IQ as of May 19, 2017

(1) Since February 9, 2016

M&A Values Normalize as Public Acquisitions Subside

The recent rebound in SaaS public equity valuations is contributing to the trend of fewer acquisitions of publicly traded companies. The pullback in public equity valuations in early 2016 led to a surge in acquisitions of publicly traded SaaS companies during the summer, headlined by Microsoft's \$26.2 billion acquisition of LinkedIn in June and Oracle's \$9.3 billion acquisition of NetSuite in July.

Since then, however, the flow of megadeals has virtually stopped. There has been only one acquisition of a public SaaS company over the past 10 months, Wave Systems' \$462 million acquisition of Jive Software, which was announced on May 1. This transaction bears little resemblance to the blockbuster deals that were occurring in mid-2016. Jive was acquired at a 1.7x forward revenue multiple, a price that was largely a function of Jive's near-zero projected growth.

During the first quarter of 2017, there were 50 completed SaaS acquisitions comprising \$3.5 billion of transaction value. These 50 transactions represent the highest volume since early 2015. The dollar amount, while down drastically from the huge numbers posted during the second and third quarters of 2016, is in line with what the sector typically sees when public megadeals aren't driving up values. Since the beginning of 2014, the

median quarterly M&A value in the sector is \$4.0 billion.

Large Private Placements Become Increasingly Rare

In the first quarter, there were 133 SaaS private placements totaling \$902 million of capital from transactions with disclosed deal values. Interestingly, these figures represent both the highest number of completed transactions and the lowest amount of capital raised since the beginning of 2014. This divergence is driven by the fact that large pre-IPO rounds are becoming increasingly rare.

The number of \$50 million-plus rounds by SaaS companies has fallen precipitously since peaking at a staggering 14 in third quarter 2015. There was only one such transaction during first quarter 2017, Meltwater's \$60 million raise from Vector Capital and Silicon Valley Bank. Domo, however, bucked this trend, raising \$100 million in a Series D2 extension financing announced on April 27.

NetDocuments Acquired by Clearlake Through an Accelerated Process

One of the most significant trends shaping the SaaS M&A landscape is the desire for sellers to complete sale processes under accelerated timelines. With leveraged finance markets becoming increasingly favorable for borrowers and valuations on the rise, owners of tier-1 assets are looking to capitalize on the current market conditions.

William Blair recently represented NetDocuments, a leading provider of cloud-based document and email management solutions for the legal industry, on its sale to Clearlake Capital. The sale process kicked off on January 4 and culminated in a March 1 signing, trimming a process that traditionally has taken about six months down to 56 days. This accelerated timeframe required William Blair to conduct extensive pre-process diligence and finalize marketing materials ahead of buyer outreach.

Ultimately, Clearlake outbid a strategic buyer, thanks in part to Clearlake's conviction that NetDocuments could continue its impressive growth, which is expected to reach 48% in 2017, and maintain healthy EBITDA margins. Clearlake also was able to obtain unique financing terms that provided nearly twice the leverage levels that a buyer typically would be able to secure for a company with NetDocuments' financial profile.

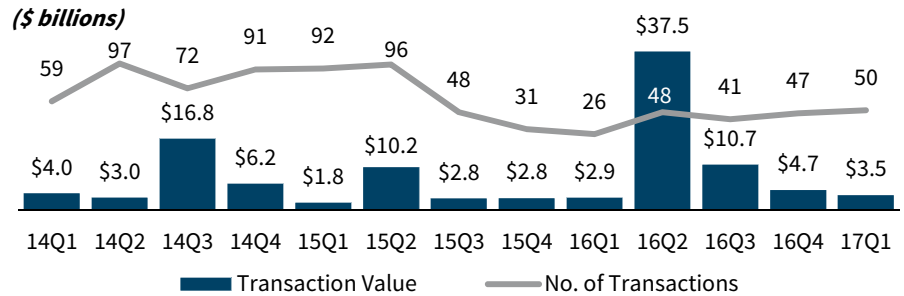
To learn more about these and other trends that are shaping the dealmaking and capital-raising landscape in the SaaS sector, please do not hesitate to contact us.

Cloud Insights Market Analysis

We look behind the numbers to examine the market dynamics that are driving trends in the dealmaking and capital-raising landscape in the SaaS sector.

SaaS M&A Activity

After a surge in blockbuster SaaS acquisitions in mid-2016, M&A values have returned to normalized levels.

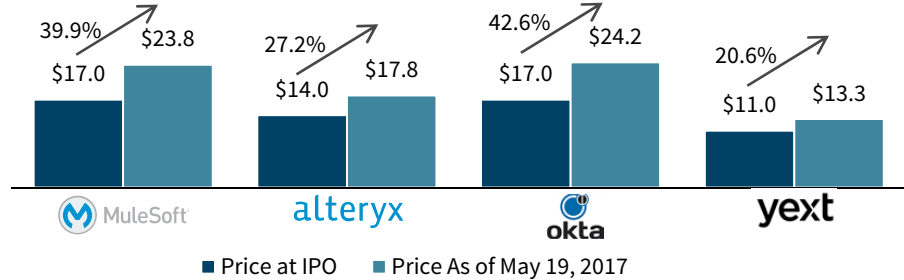


Source: Capital IQ and 451 Research

Recent SaaS IPO Aftermarket Performance

Strong aftermarket performance by the four SaaS IPOs that priced between March 17 and April 13 and continued low volatility suggest that the IPO window for SaaS companies should remain open over the next several months.

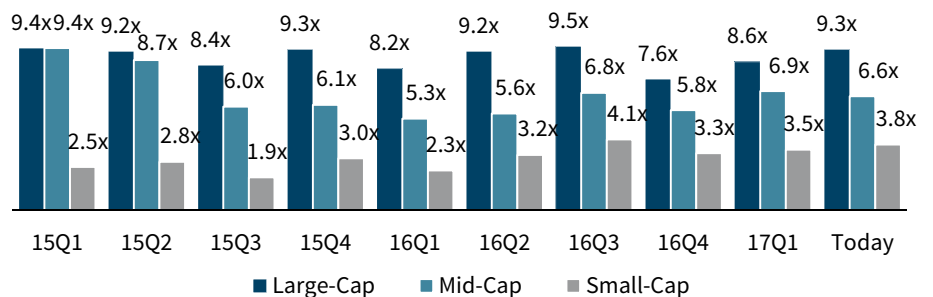
Q1 2017 IPO Performance



Source: Capital IQ as of May 19, 2017

SaaS Publicly Traded Revenue Multiples

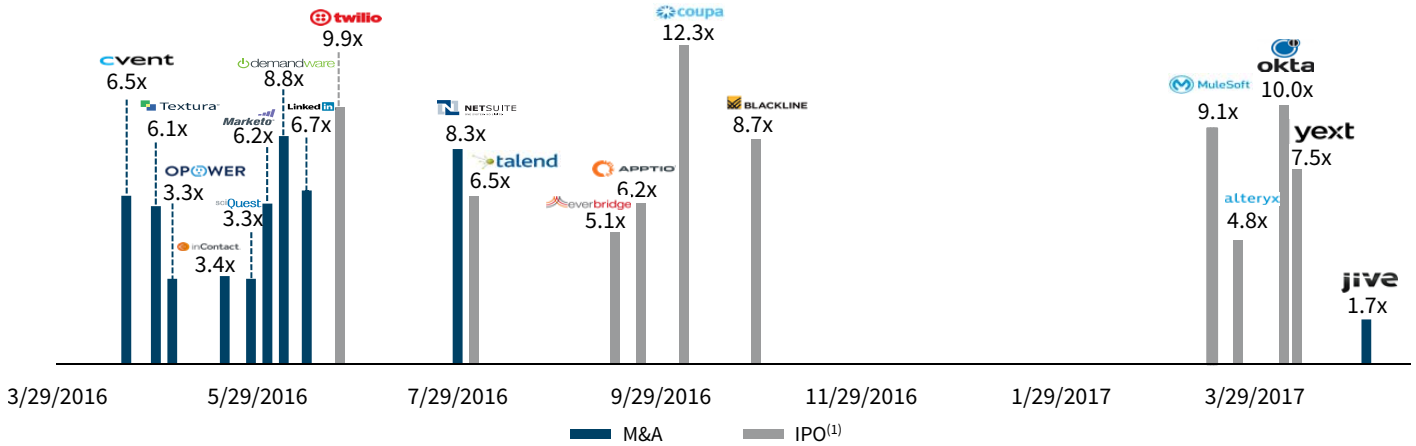
Valuations for publicly traded SaaS companies have rebounded from their fourth-quarter lows. LTM revenue multiples across all market capitalizations now exceed the averages since second quarter 2015.



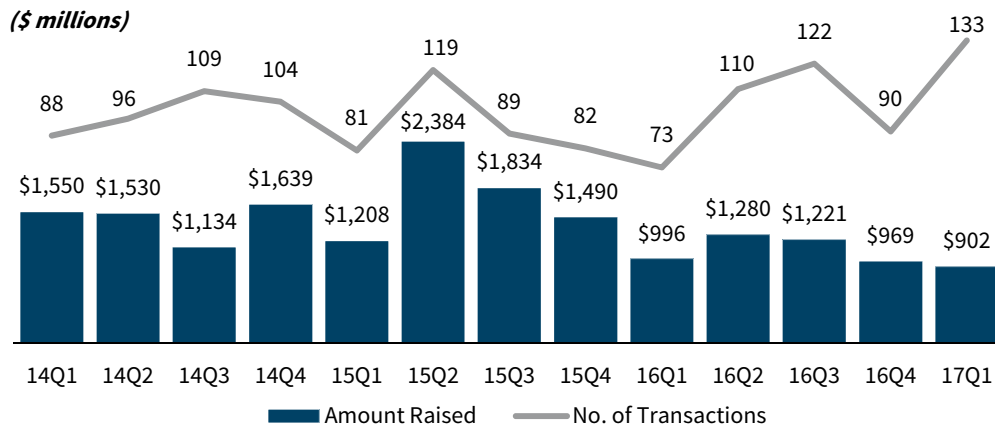
Source: Capital IQ as of May 19, 2017

SaaS IPOs and Acquisitions of Public Companies

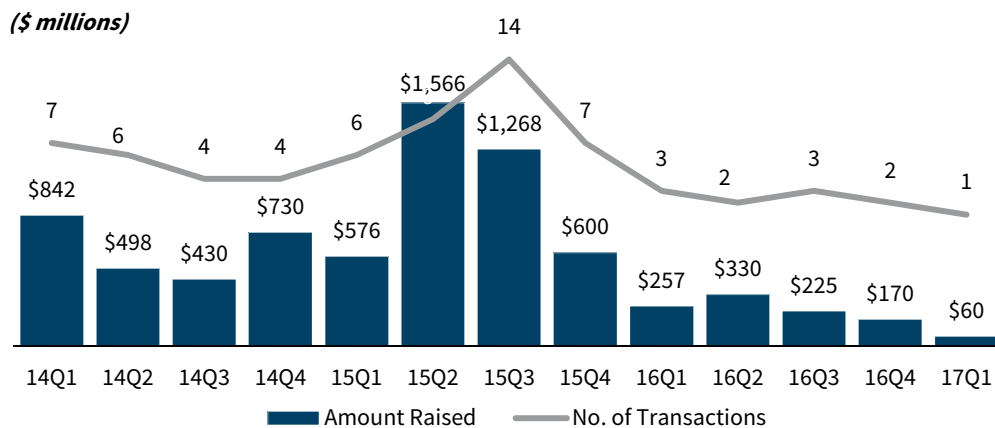
The fourth-quarter pullback in public SaaS valuations resulted in a five-month gap in IPO activity. The window reopened in March, as MuleSoft's March 17 IPO was the first of four over a four-week period.



Source: Capital IQ; represents forward revenue multiple one day after pricing; Tangoe acquisition has been excluded because the company was delisted from the Nasdaq



Source: Capital IQ



Source: Capital IQ

SaaS Private Placement Activity

With large pre-IPO rounds becoming increasingly rare, the amount of private capital raised by SaaS companies has fallen precipitously since mid-2015. The number of completed private placements, however, has increased, showing that the regular-way, non-unicorn market remains quite healthy.

SaaS \$50 Million+ Private Placements

The surge in large pre-IPO rounds by unicorns and other late-stage SaaS companies proved to be short-lived. Since the beginning of 2016, there have been only 12 \$50 million+ SaaS private placements, including Domo's \$100 million round that was announced on April 27.

William Blair's Cloud Expertise

Drawing on our deep sector knowledge and the strength of our relationships, William Blair has built a leading SaaS and cloud investment banking franchise. Business owners turn to us for outstanding execution for their M&A and capital raising objectives.

Recent transactions include:

Not Disclosed

netdocuments[®]

has been acquired by



MARCH 2017

\$144,900,000

alteryx

Initial Public Offering

MARCH 2017

\$254,150,000



Initial Public Offering

MARCH 2017

\$107,818,663



Follow-on Offering

MARCH 2017

Not Disclosed



has been acquired by



JANUARY 2017

Not Disclosed



has been acquired by



NOVEMBER 2016

William Blair By the Numbers

250+

William Blair technology team completed transactions since 2012

70+

SaaS transactions since 2010

30+

SaaS companies under coverage

SaaS Equity Research Coverage:

Company	Ticker	Analyst
Alarm.com Holdings, Inc.	ALRM	Bhavan Suri
Alteryx, Inc.	AYX	Bhavan Suri
AppFolio, Inc.	APPF	Bhavan Suri
athenahealth	ATHN	Jeffrey Garro
Benefitfocus	BNFT	Adam Klauber
BlackLine, Inc.	BL	Bhavan Suri
Carbonite, Inc.	CARB	Bhavan Suri
ChannelAdvisor Corporation	ECOM	Justin Furby
Cornerstone OnDemand, Inc.	CSOD	Matthew Pfau
The Descartes Systems Group	DSGX	Matthew Pfau
Ellie Mae	ELLI	Brandon Dobell
Everbridge, Inc.	EVBG	Dmitry Netis
HealthStream	HSTM	Ryan Daniels
MiX Telematics Limited	MIXT	Bhavan Suri
MuleSoft, Inc.	MULE	Bhavan Suri
Ooma, Inc.	OOMA	Bhavan Suri
Paylocity Holding Corporation	PCTY	Justin Furby
QAD Inc.	QADA	Bhavan Suri
RealPage	RP	Brandon Dobell
RingCentral, Inc.	RNG	Bhavan Suri
salesforce.com, Inc.	CRM	Bhavan Suri
ServiceNow, Inc.	NOW	Justin Furby
SPS Commerce, Inc.	SPSC	Matthew Pfau
Talend SA	TLND	Bhavan Suri
Twilio, Inc.	TWLO	Bhavan Suri
The Ultimate Software Group, Inc.	ULTI	Justin Furby
Upland Software, Inc.	UPLD	Bhavan Suri
Veeva Systems Inc.	VEEV	Amanda Murphy
WageWorks	WAGE	Robert Napoli
Workday, Inc.	WDAY	Justin Furby
Zendesk, Inc.	ZEN	Bhavan Suri

With more than 300 senior bankers around the world, William Blair has completed more than 950 advisory and financing transactions totaling more than \$250 billion in value for our clients*.

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*Since 2012 as of May 22, 2017

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Drawing on the collective intellectual capital and deep sector expertise of a global team that reaches across more than 20 cities on five continents, the investment banking group brings a rigorous and innovative approach to corporate board advisory projects, mergers and acquisitions, and equity and debt financing. From 2012 to 2016, the team advised on more than \$230 billion in completed transaction volume.