

Flavors of SaaS

Fall 2022

Confidential

Executive Summary



Many emerging SaaS firms are contemplating a Vertical SaaS model to target a specific niche, allowing them to focus better on client demands and making them easier to market.



Vertical SaaS is witnessing growing emergence of start-ups with smaller but more focused TAM (as compared with Horizontal SaaS) and more capital efficient business models.



COVID-19 severely impacted some Vertical SaaS niche markets but accelerated overall digital transformation across industries, followed by the realization that standardized solutions will not suffice.



We see continued investor interest in Vertical SaaS due to high growth prospects supported by strong business fundamentals, along with better performance on multiple metrics than peer Horizontal SaaS companies.

	Vertical SaaS (VSaaS)	Horizontal SaaS (HSaaS)
Sales & Marketing (S&M) To Revenue (LTM, Median)	22.0%	39.5%
R&D to Revenue (LTM, Median)	20.3%	24.4%
EBITDA Margins (LTM, Median)	7.3%	2.8%
Capital	Less capital to get to a liquidity event (IPO) - \$219M	More capital to get to an IPO - \$398M
Valuation	Higher valuation in most markets but are susceptible to sector downturns	Marginally lower valuation but are more resilient due to sector diversification

Better operational metrics and lower capital requirement for Vertical SaaS companies in comparison to Horizontal SaaS companies.



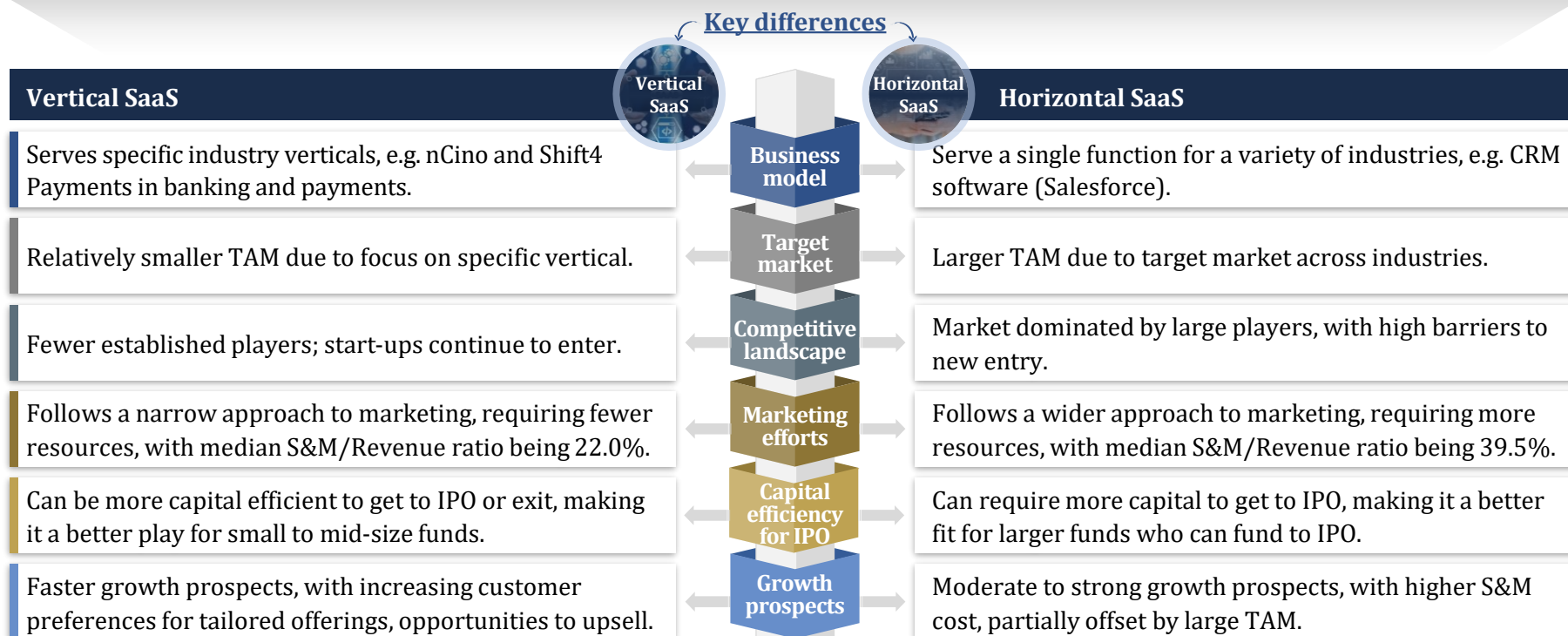
A Deeper Dive into Vertical and Horizontal SaaS Businesses

► Vertical SaaS is touted as one of the transformation changes that the 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.
- Vertical SaaS Companies build competitive advantage by offering customized solutions generally developed by in-house sector experts.



► Multiple factors combinedly pushing growth for Vertical SaaS market

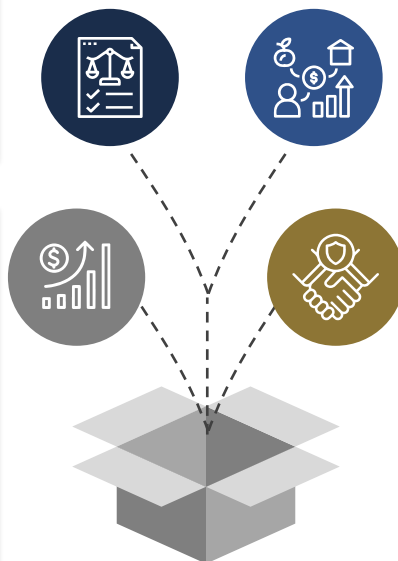
Industry-specific solutions promotes growth

- More robust and focused solutions that appeal to the client's and the specific industry's needs.
 - 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 estimates 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

- Having knowledge of the market and networking with key players acts as a distinct advantage and builds customer confidence.
 - Working closely with experts allows them to keep up with industry requirements and technical issues, leading to greater reliability, higher customization and better performance at industry-specific metrics and KPIs.

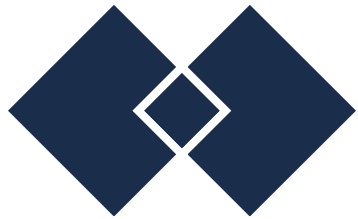
CHALLENGES



- Companies are typically focused on a smaller niche market, making it challenging to find new leads, and are exposed to adverse events impacting their target sector; e.g. COVID-19 had severely impacted VSaaS companies in sectors like hospitality and travel, helped companies in collaboration.



- 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.



Vertical SaaS versus Horizontal SaaS – Key Metrics

Key Metrics – Vertical And Horizontal SaaS Companies

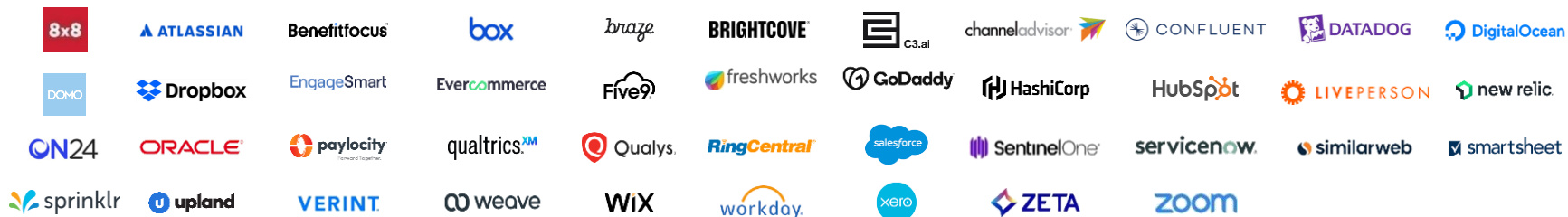


Vertical SaaS Companies



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	\$4,939.7	\$1,193.0	31.2%	2.2%	26.9%	20.2%	5.2x
Median	\$2,640.5	\$609.8	24.9%	7.3%	22.0%	20.3%	4.3x

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	\$19,113.3	\$2,815.6	30.0%	(3.2%)	43.2%	27.1%	7.9x
Median	\$4,215.1	\$611.0	28.0%	2.8%	39.5%	24.4%	5.4x

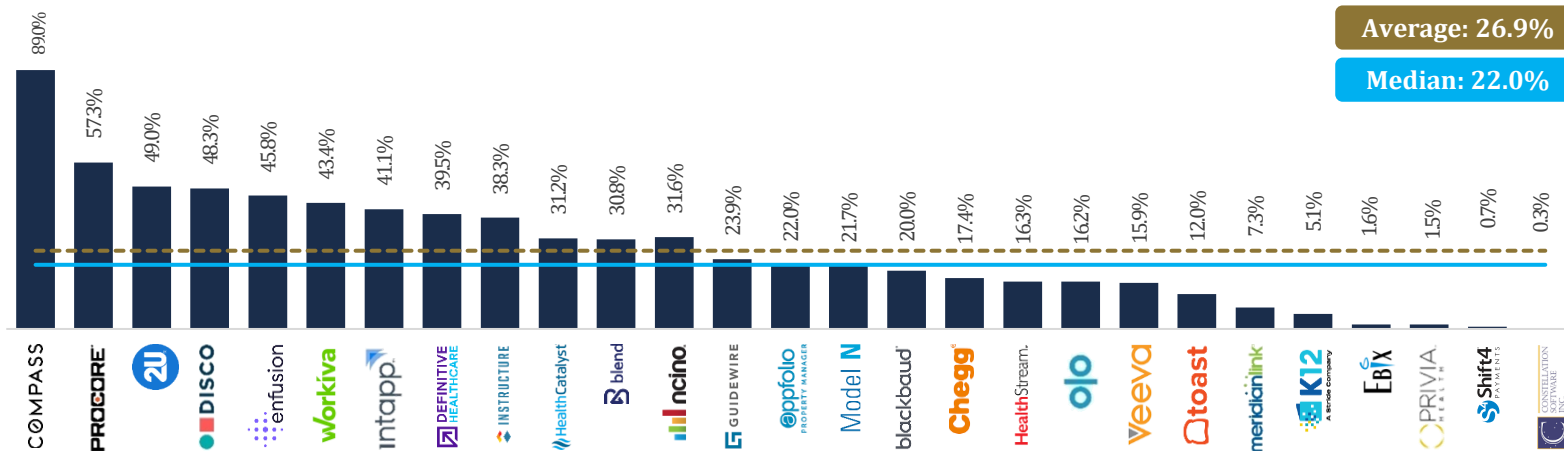
Sales & Marketing Expenses/ Revenue (LTM)



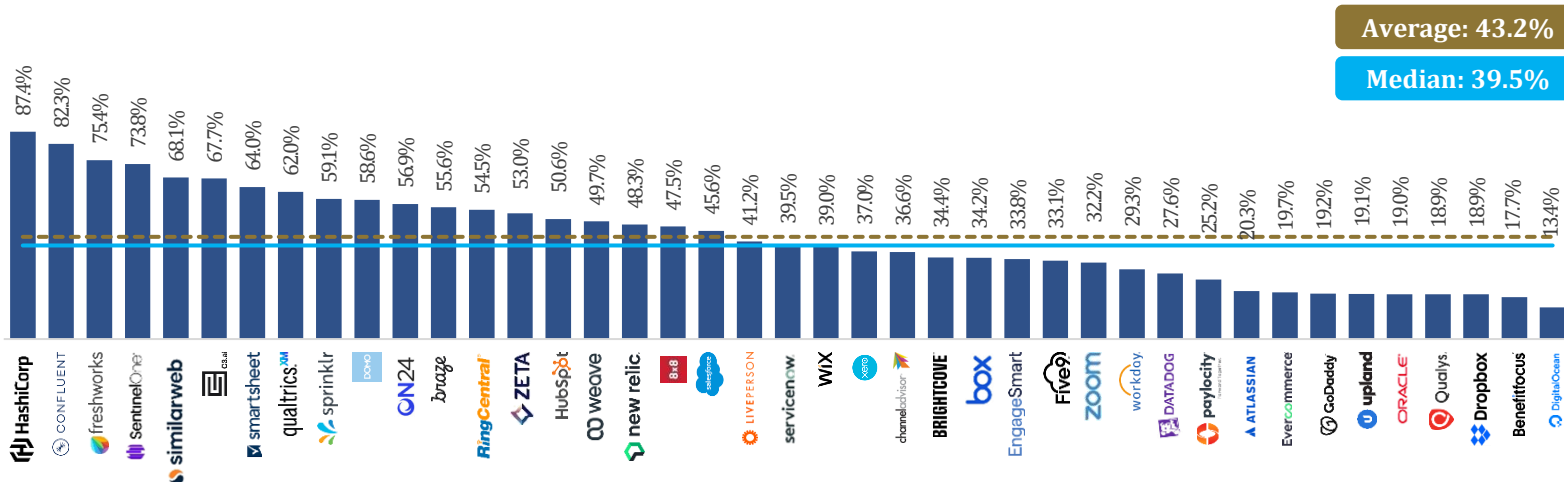
Much Lower S&M Expenses/ Revenue ratio for Vertical SaaS

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

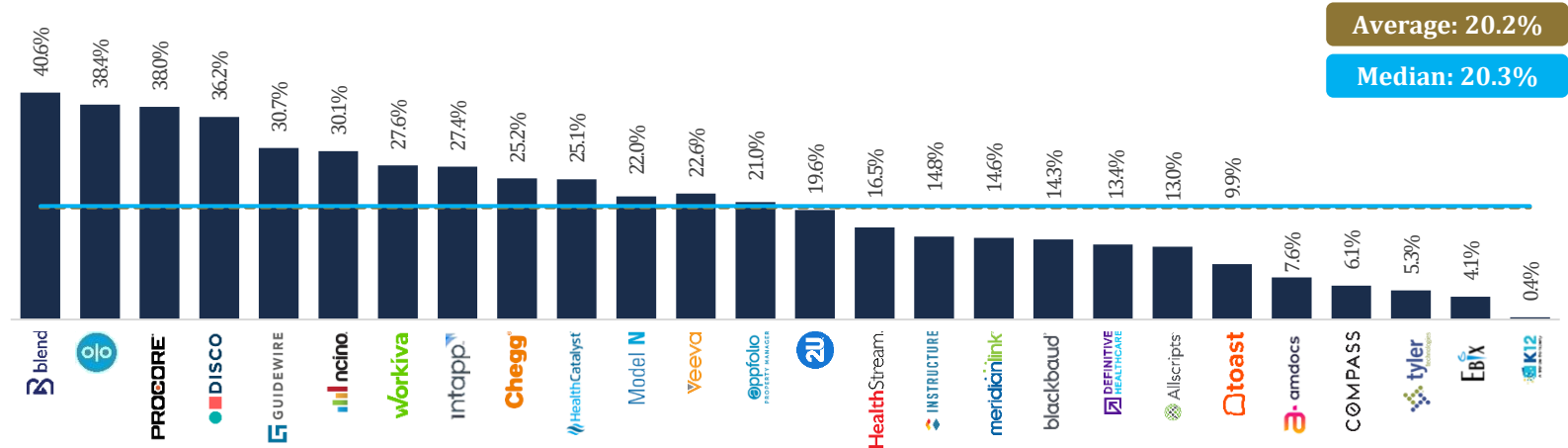


R&D Expenses/Revenue (LTM)

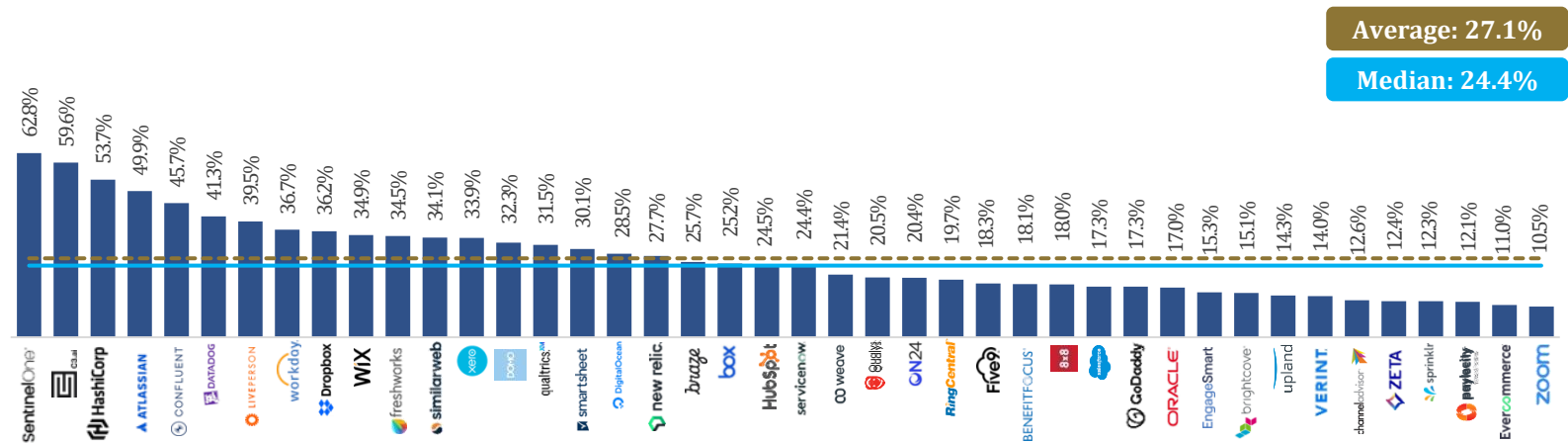
Much Lower R&D Ratios for Vertical SaaS

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)



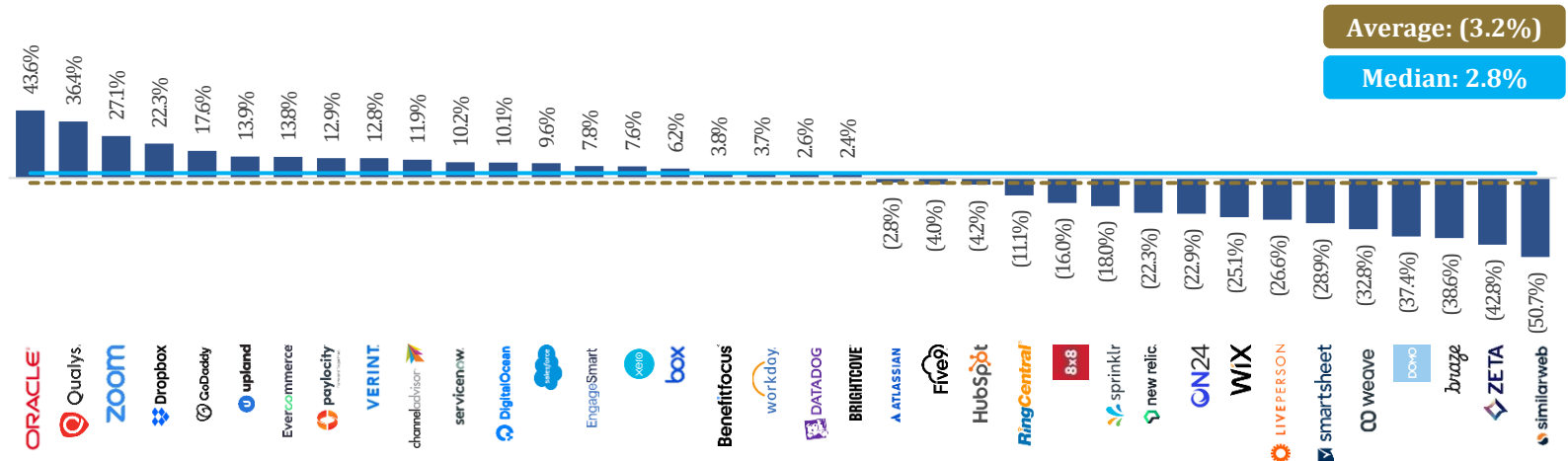
Much Higher EBITDA Margins for Vertical SaaS

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

Vertical SaaS



Horizontal SaaS

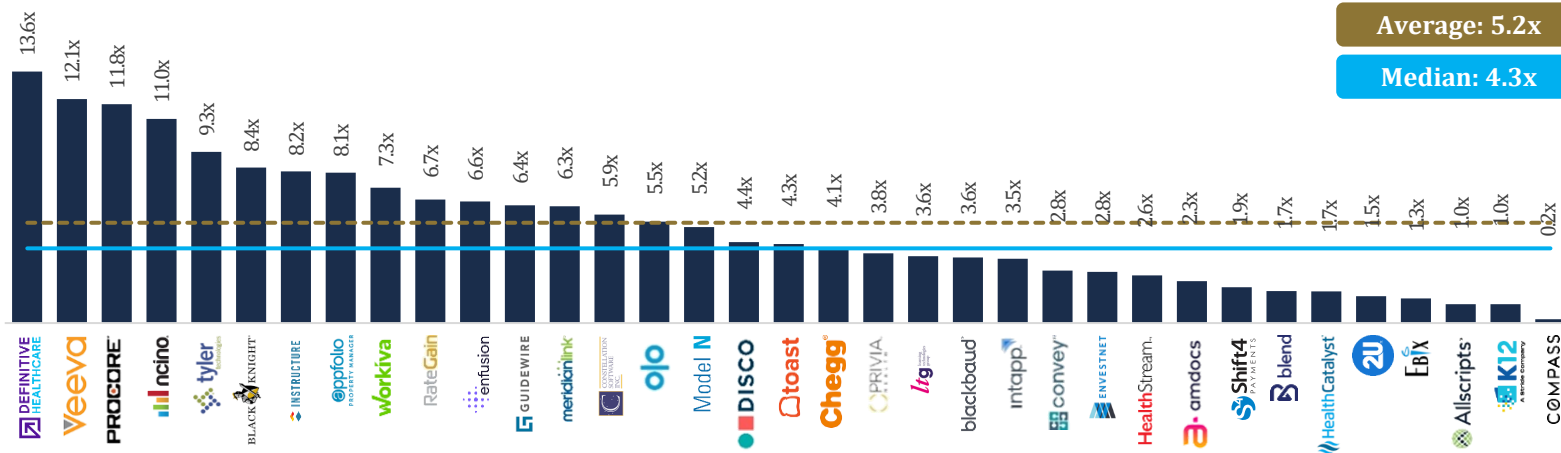


EV/Revenue (LTM) Multiples

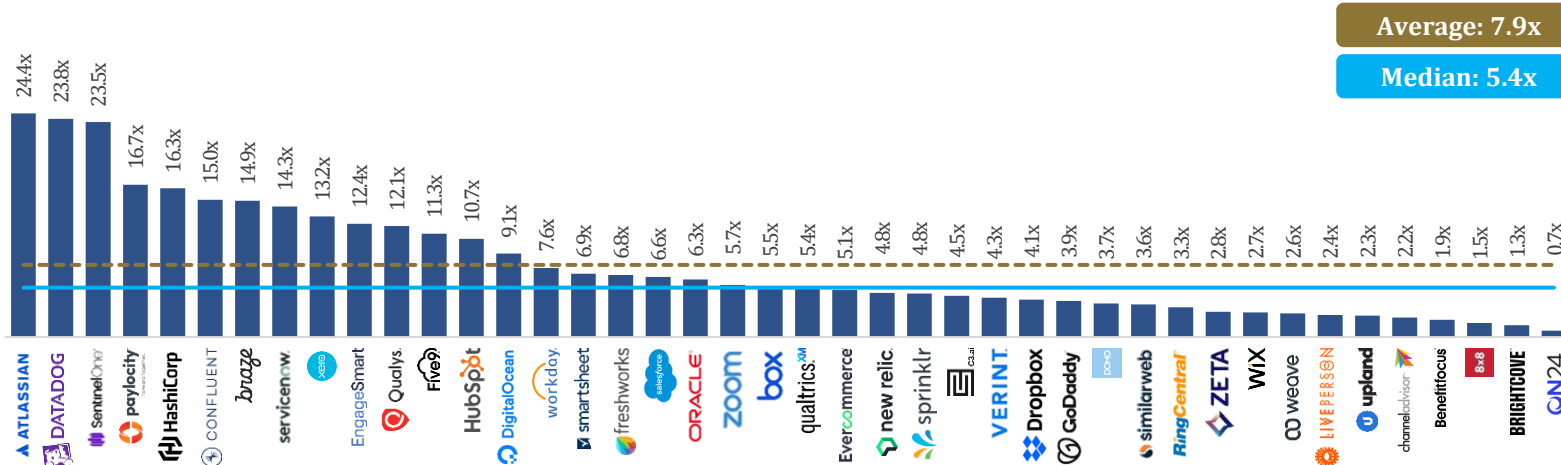
VSaaS Companies
Currently Have Slightly
Lower Multiples Due to
Sectoral Impacts

Vertical SaaS companies are impacted by the business fundamentals of the sectors they operate in, increasing their risk factor and impacting their valuation, whereas Horizontal SaaS companies benefit from being diversified across different sectors.

Vertical SaaS



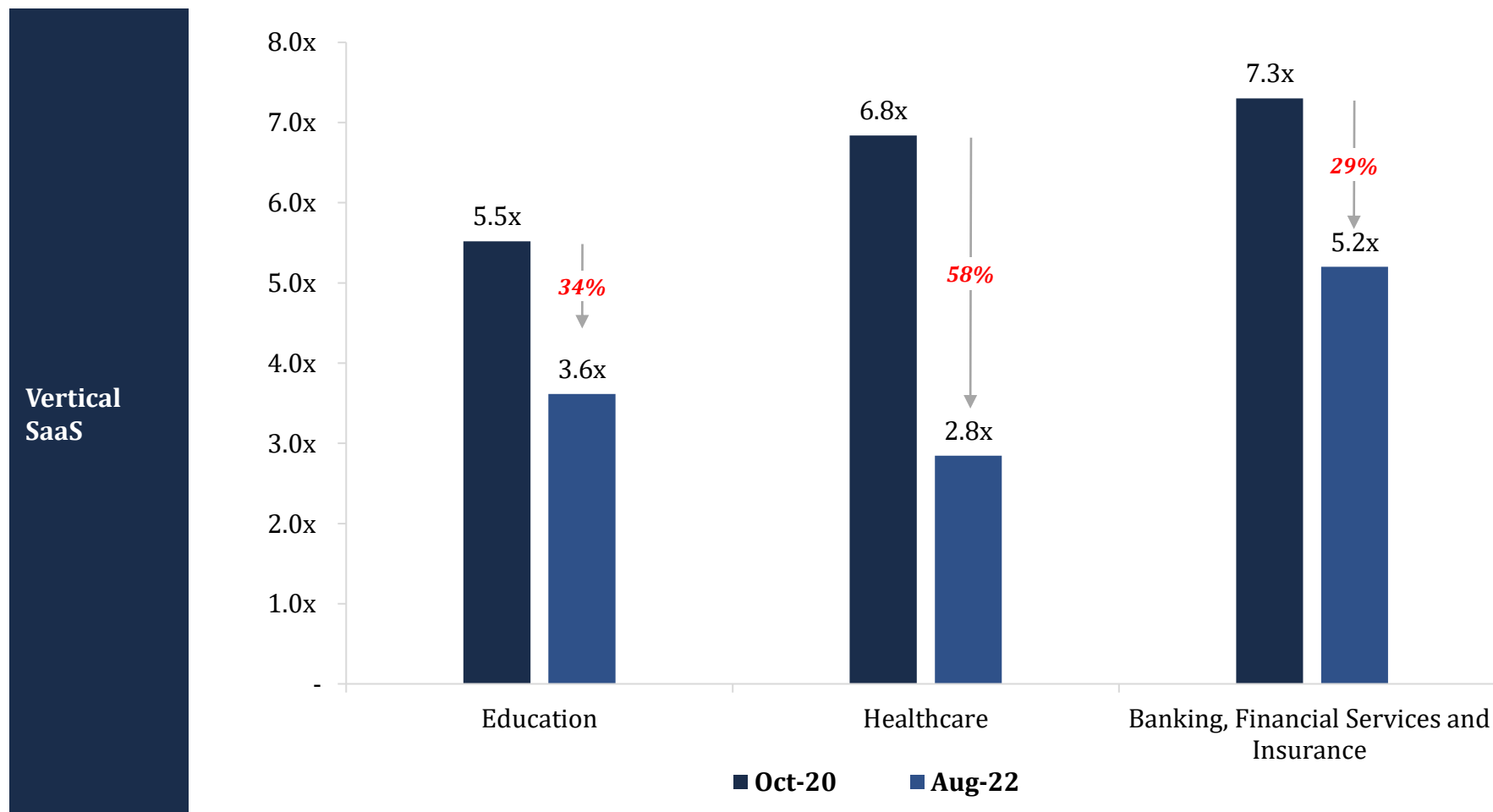
Horizontal SaaS



Lower Vertical SaaS Valuations in 2022

Significant drop in Median EV/ Revenue LTM for VSaaS Companies in some sectors

Various sectors have witnessed significant declines, impacting the valuation of VSaaS companies due to sector concentration risk. HSaaS companies with diversified sector exposure will have less sector specific market downturns. VSaaS companies experience valuation compression risk if a sector slows further than overall markets.

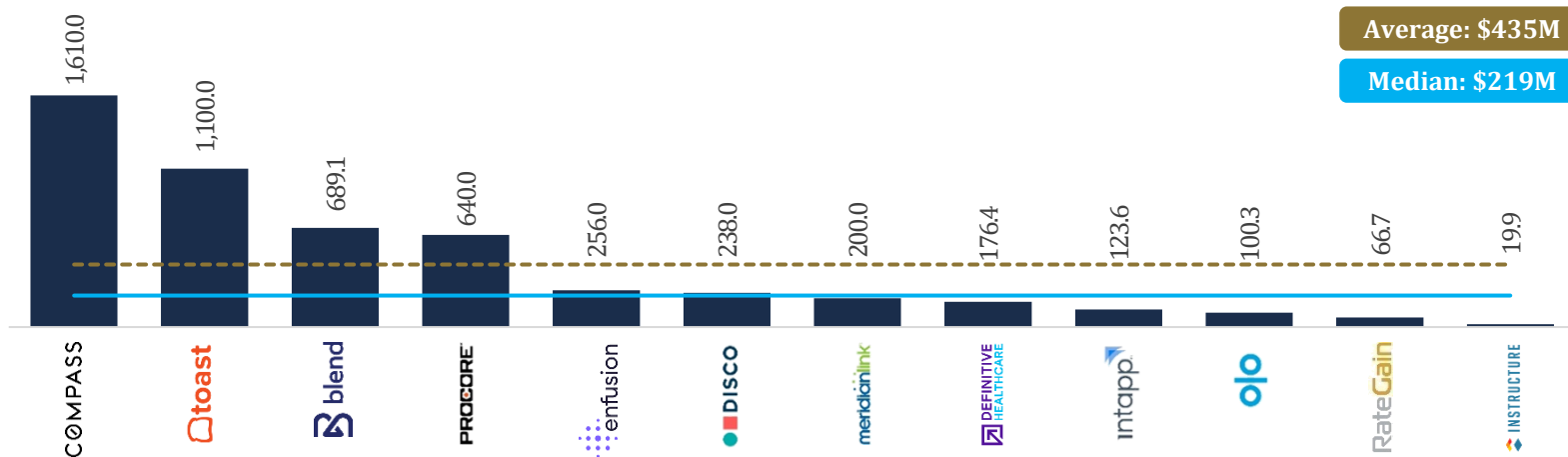


Amount of Funding to get to IPO

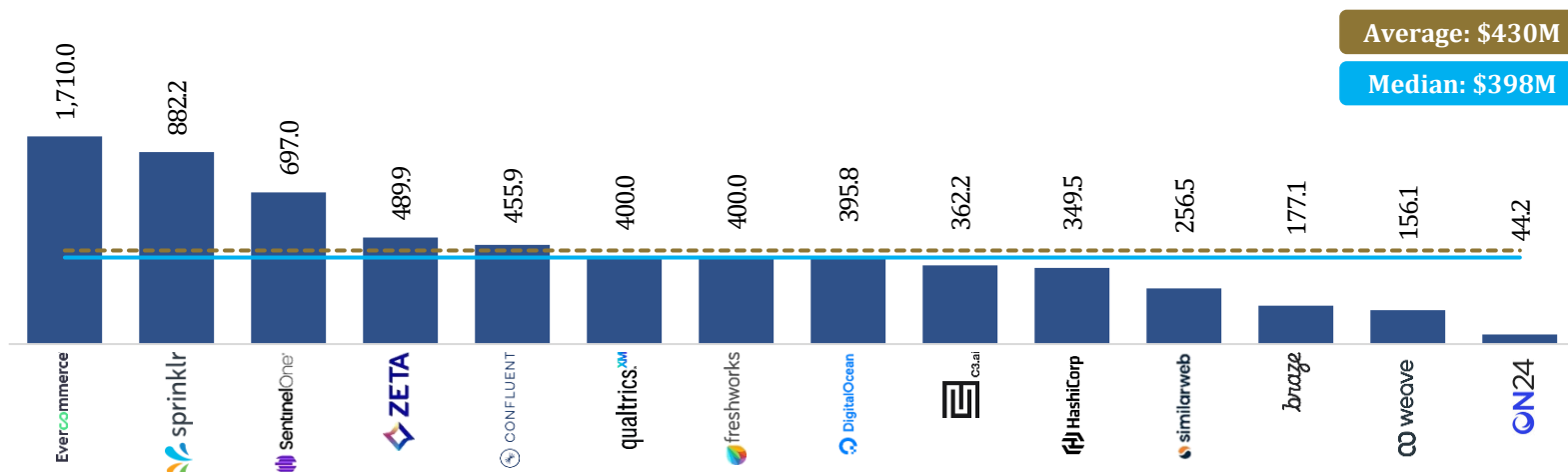
Lower Capital needed to get to IPO for Vertical SaaS Companies

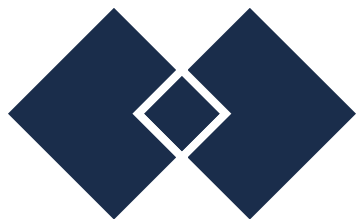
Due to higher capital efficiencies in Vertical SaaS models, the median amount of capital raised before IPO was \$219M vs. \$398M for Horizontal SaaS companies.

Vertical SaaS



Horizontal SaaS





Appendix

Select Vertical SaaS Public Companies (1/3)



Company	Share Price 08/19/22	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	\$7.8	\$602.1	\$1,422.3	\$970.8	9.6%	(3.1%)	49.0%	19.6%	1.5x
Allscripts	\$16.6	\$1,834.7	\$1,554.4	\$1,521.7	48.2%	7.3%	NM	13.0%	1.0x
Amdocs	\$83.7	\$10,208.1	\$10,260.3	\$4,497.5	5.7%	19.4%	NM	7.6%	2.3x
AppFolio	\$98.0	\$3,429.7	\$3,369.2	\$414.2	27.6%	(6.5%)	22.0%	21.0%	8.1x
Black Knight	\$66.0	\$10,196.5	\$13,008.0	\$1,545.9	13.2%	34.6%	NM	NM	8.4x
Blackbaud	\$50.1	\$2,596.5	\$3,564.4	\$1,001.2	10.5%	5.7%	20.0%	14.3%	3.6x
Blend	\$3.0	\$714.1	\$534.0	\$307.6	151.2%	NM	30.8%	40.6%	1.7x
Chegg	\$22.7	\$2,871.8	\$3,180.6	\$776.4	2.6%	16.7%	17.4%	25.2%	4.1x
Compass	\$3.0	\$1,279.2	\$1,465.9	\$6,772.8	23.5%	(6.2%)	8.1%	6.1%	0.2x
Constellation Software	\$1,515.6	\$32,118.7	\$33,708.7	\$5,732.0	26.9%	17.8%	0.3%	NM	5.9x
Convey Health Solutions	\$10.5	\$770.3	\$1,042.2	\$366.2	16.4%	15.3%	NM	NM	2.8x
Definitive Healthcare	\$21.1	\$2,119.8	\$2,640.5	\$194.1	38.1%	15.1%	39.5%	13.4%	13.6x
DISCO	\$13.5	\$794.7	\$577.7	\$131.8	50.3%	(36.7%)	48.3%	36.2%	4.4x

Select Vertical SaaS Public Companies (2/3)



Company	Share Price 08/19/22	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
Ebix	\$23.7	\$730.9	\$1,337.2	\$995.6	9.1%	13.8%	1.6%	4.1%	1.3x
Enfusion	\$13.2	\$881.1	\$865.2	\$131.6	41.1%	NM	45.8%	NM	6.6x
Envestnet	\$52.0	\$2,871.3	\$3,506.9	\$1,262.9	16.9%	7.8%	NM	NM	2.8x
Guidewire	\$67.9	\$5,689.5	\$5,176.6	\$812.6	9.3%	(20.4%)	23.9%	30.7%	6.4x
HealthCatalyst	\$11.1	\$609.6	\$454.7	\$265.2	22.8%	(31.6%)	31.2%	25.1%	1.7x
HealthStream	\$22.5	\$686.6	\$672.2	\$259.4	3.4%	11.6%	16.3%	16.5%	2.6x
Instructure	\$22.7	\$3,221.5	\$3,657.6	\$445.9	24.9%	28.4%	38.3%	14.8%	8.2x
IntApp	\$16.0	\$1,000.7	\$949.9	\$272.1	26.8%	(29.9%)	41.1%	27.4%	3.5x
K12	\$39.2	\$1,630.2	\$1,721.8	\$1,686.7	9.8%	12.3%	5.1%	0.4%	1.0x
Learning Technologies	\$1.4	\$1,077.1	\$1,264.8	\$349.7	93.5%	17.5%	NM	NM	3.6x
MeridianLink	\$17.6	\$1,420.3	\$1,750.9	\$277.1	14.3%	27.7%	7.3%	14.6%	6.3x
Model N	\$30.8	\$1,139.0	\$1,105.1	\$212.5	15.8%	(0.7%)	21.7%	22.0%	5.2x
Ncino Inc	\$34.1	\$3,778.9	\$3,743.0	\$338.8	41.4%	(17.8%)	31.6%	30.1%	11.0x

Select Vertical SaaS Public Companies (3/3)



Company	Share Price 08/19/22	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
Olo	\$8.4	\$1,349.9	\$909.3	\$165.7	27.4%	(20.8%)	16.2%	38.4%	5.5x
Privia Health	\$42.2	\$4,698.0	\$4,440.4	\$1,176.2	36.7%	(3.8%)	1.5%	NM	3.8x
Procore	\$56.3	\$7,698.3	\$7,224.2	\$609.8	36.1%	(36.3%)	57.3%	38.0%	11.8x
RateGain Technology	\$3.6	\$394.2	\$347.9	\$52.0	(2.1%)	10.6%	NM	NM	6.7x
Shift4 Payments	\$44.9	\$2,459.6	\$3,283.2	\$1,685.8	65.9%	6.4%	0.7%	NM	1.9x
Toast	\$20.4	\$10,528.0	\$9,441.0	\$2,208.0	86.1%	(16.0%)	12.0%	9.9%	4.3x
Tyler Technologies	\$380.2	\$15,810.9	\$16,832.9	\$1,818.2	43.4%	18.8%	NM	5.3%	9.3x
Veeva	\$174.6	\$27,107.5	\$24,251.8	\$2,000.9	20.3%	25.5%	15.9%	22.6%	12.1x
Workiva	\$70.3	\$3,677.9	\$3,623.6	\$494.7	26.3%	(11.1%)	43.4%	27.6%	7.3x
Average	\$87.6	\$4,799.9	\$4,939.7	\$1,193.0	31.2%	2.2%	26.9%	20.2%	5.2x
Median	\$22.7	\$2,119.8	\$2,640.5	\$609.8	24.9%	7.3%	22.0%	20.3%	4.3x

Select Horizontal SaaS Public Companies (1/4)



Company	Share Price 08/19/22	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	\$4.5	\$544.6	\$983.7	\$677.4	21.2%	(16.0%)	47.5%	18.0%	1.5x
Atlassian	\$240.3	\$61,267.6	\$61,079.5	\$2,802.9	34.2%	(2.8%)	20.3%	49.9%	24.4x
BenefitFocus	\$6.9	\$236.6	\$464.8	\$254.9	(4.1%)	3.8%	17.7%	18.1%	1.9x
Box	\$26.6	\$3,784.3	\$4,475.6	\$941.9	16.0%	7.0%	34.2%	25.3%	5.5x
Braze	\$40.4	\$3,794.5	\$3,324.6	\$267.7	63.1%	(38.6%)	55.6%	25.7%	14.9x
BrightCove	\$6.8	\$282.8	\$278.6	\$212.6	1.7%	2.4%	34.4%	15.1%	1.3x
C3.ai	\$14.6	\$1,581.7	\$672.7	\$265.7	36.1%	NM	67.7%	67.6%	4.5x
ChallenAdvisor	\$22.8	\$653.9	\$577.4	\$172.1	10.1%	11.9%	36.6%	12.6%	2.2x
Confluent	\$26.7	\$7,516.7	\$6,677.6	\$488.0	64.2%	NM	82.3%	45.7%	15.0x
Datadog	\$97.9	\$30,976.9	\$30,084.6	\$1,365.9	78.7%	2.6%	27.6%	41.3%	23.8x
DigitalOcean	\$41.8	\$4,050.7	\$4,351.1	\$492.3	34.5%	10.1%	13.4%	28.5%	9.1x
Domo	\$20.7	\$698.8	\$745.5	\$285.1	22.2%	(38.0%)	58.6%	33.0%	3.7x
Dropbox	\$22.1	\$7,909.3	\$8,779.1	\$2,250.8	10.7%	22.3%	18.9%	36.2%	4.1x

Select Horizontal SaaS Public Companies (2/4)



Company	Share Price 08/19/22	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
EngageSmart	\$20.7	\$3,388.1	\$3,148.2	\$258.3	41.0%	7.8%	33.8%	15.3%	12.4x
EverCommerce	\$12.0	\$2,342.7	\$2,781.7	\$565.0	38.8%	13.8%	19.7%	11.0%	5.1x
Five9	\$88.5	\$6,204.1	\$6,434.0	\$700.1	34.2%	(4.0%)	33.1%	18.3%	11.3x
Freshworks	\$13.9	\$3,970.9	\$2,828.1	\$438.2	42.2%	NM	75.4%	34.5%	6.8x
Godaddy	\$76.2	\$11,919.9	\$15,041.9	\$4,001.5	12.7%	17.6%	19.2%	17.3%	3.9x
HashiCorp	\$29.5	\$5,505.8	\$4,231.0	\$393.5	51.9%	NM	87.4%	54.2%	16.3x
HubSpot	\$303.6	\$14,576.7	\$14,076.9	\$1,525.9	42.3%	(4.2%)	50.6%	24.5%	10.7x
LivePerson	\$11.8	\$886.6	\$1,206.1	\$504.9	19.0%	(26.6%)	41.2%	39.5%	2.4x
New Relic	\$62.8	\$4,226.0	\$3,929.1	\$821.5	19.8%	(22.3%)	48.3%	27.7%	4.8x
ON24	\$9.4	\$447.8	\$114.0	\$198.1	0.0%	(22.9%)	56.9%	20.4%	0.7x
Oracle	\$74.7	\$198,936.7	\$256,972.7	\$42,440.0	4.8%	43.6%	19.0%	17.0%	6.3x
Paylocity Holding	\$249.9	\$13,813.9	\$13,751.6	\$852.7	34.1%	12.9%	25.2%	12.1%	16.7x

Select Horizontal SaaS Public Companies (3/4)



Company	Share Price 08/19/22	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
Qualtrics	\$11.9	\$6,944.9	\$6,444.8	\$1,279.7	43.1%	NM	62.0%	31.5%	5.4x
Qualys	\$154.2	\$5,915.7	\$5,459.3	\$448.0	16.6%	36.4%	18.9%	20.5%	12.1x
RingCentral	\$43.7	\$4,164.5	\$5,736.9	\$1,817.7	32.7%	(11.1%)	54.5%	19.7%	3.3x
SalesForce	\$156.9	\$156,743.1	\$157,529.1	\$29,320.0	24.6%	8.4%	45.6%	17.5%	6.6x
SentinelOne	\$26.6	\$7,480.8	\$6,290.7	\$302.4	119.8%	NM	73.8%	59.0%	23.5x
ServiceNow	\$450.8	\$90,881.5	\$89,191.5	\$6,601.0	27.7%	10.2%	39.5%	24.4%	14.3x
SimilarWeb	\$7.8	\$595.3	\$550.2	\$167.6	48.4%	(50.7%)	68.1%	34.1%	3.6x
SmartSheet	\$35.1	\$4,584.1	\$4,199.2	\$657.0	43.6%	(29.6%)	64.0%	29.9%	6.9x
Sprinklr	\$11.6	\$2,984.2	\$2,457.2	\$558.3	29.8%	(15.1%)	59.1%	12.5%	4.8x
Upland Software	\$9.9	\$312.2	\$700.9	\$310.7	2.7%	13.9%	19.1%	14.3%	2.3x
Verint Systems	\$41.8	\$2,725.0	\$3,354.2	\$899.8	5.1%	11.3%	NM	14.1%	4.3x
Weave	\$6.6	\$425.9	\$377.3	\$130.3	31.8%	(32.8%)	49.7%	21.4%	2.6x

Select Horizontal SaaS Public Companies (4/4)



Company	Share Price 08/19/22	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
WIX	\$66.0	\$3,757.0	\$3,444.8	\$1,340.1	15.8%	(25.1%)	39.0%	34.9%	2.7x
Workday	\$167.6	\$42,903.1	\$41,038.2	\$5,673.9	21.4%	3.1%	29.3%	36.7%	7.6x
XERO	\$59.0	\$8,845.7	\$8,898.8	\$761.9	28.4%	7.6%	37.0%	33.9%	13.2x
Zeta Global	\$7.4	\$1,532.9	\$1,619.1	\$513.5	22.8%	(42.8%)	53.0%	12.4%	2.8x
Zoom	\$80.2	\$23,880.1	\$18,457.9	\$4,295.4	18.1%	21.2%	32.2%	12.4%	5.7x
Average	\$68.1	\$17,957.0	\$19,113.3	\$2,815.6	30.0%	(3.2%)	43.2%	27.1%	7.9x
Median	\$28.1	\$4,107.6	\$4,215.1	\$611.0	28.0%	2.8%	39.5%	24.4%	5.4x