

Enterprise SaaS – predictability wins in times of uncertainty

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INTRODUCTION TO OAKLINS TMT

Rapid advancements in technology, dramatic globalization and sector convergence are creating abundant M&A opportunities within the TMT industry. Oaklins' TMT industry specialists across the world understand the underlying trends and rationales that are driving this consolidation and have developed an impressive track record of achieving extraordinary outcomes for its clients.

The economic uncertainty in the wake of Covid-19 initially caused the world's stock markets to plunge and most sectors have been hit hard by the pandemic, where many companies still fight for survival. An industry rather than fighting to survive is that of SaaS (Software-as-a-Service). Many public SaaS companies have surpassed the pre-Covid highs and are trading at record high levels, outperforming the biggest indices as YTD performance is up 25% on average, with Communication & Collaboration solution providers being the most prominent Covid-19 winners. This resilience could mainly be described by the attractive attributes the SaaS business model comprises. The combination of a high percentage contractually recurring revenue, high retention rates and strong gross margin, as well as the inherent operational flexibility, make SaaS companies comparatively stronger than most other industries in times of uncertainty and economic slowdown, consequently increasing the appetite to invest in the sector.

OPERATIONAL FLEXIBILITY CREATES NECESSARY ADAPTABILITY

Contrary to a transaction driven revenue model, where revenue rapidly can go to zero in a short time upon losing prospective customers, the subscription-based SaaS-model is based on relationships, meaning you could take a slight hit today by offering your customers free trials or discount for a period of time, knowing that the future recurring revenue is just around the corner. This ongoing relationship with customers creates a high level of operational flexibility, further spurred by the fact that labor constitutes some 70% of the typical SaaS company's operating expenses, thus providing flexibility to bring costs in line with declining revenue growth by reducing headcount.

The SaaS model also creates huge quantities of data, which enables companies to adapt quickly to changing market conditions. This rich amount of data also creates an understanding of your customers by continuous updates about their behavior, adding to the agility and responsiveness of SaaS companies.

Given the current market uncertainty, many SaaS companies have adapted a more cautious approach by spending less money on the currently more difficult customer acquisition process but putting more effort on customer retention to achieve growth. Thus, cross-selling and upselling have increased in priority and some companies also find this a great time to acquire smaller players to enhance their offering.

“The operational flexibility in the SaaS business model, stemming from the recurring revenue streams, a favorable cost structure and the adaptability by leveraging customer data and long-term customer relationships, enables SaaS companies to thrive in volatile market conditions. The high predictability of future cash flow and the fact that the recurring revenue of many SaaS companies are stable enough to leverage, open a new avenue for investments that generates attractive risk-adjusted returns”

JAKOB MÅRTENSSON
TMT SPECIALIST
OAKLINS SWEDEN



850 
professionals

70 
offices

45 
countries

5,500+ 
transactions

15 
sectors

THE ALL-TIME HIGH INDUSTRY

M&A activity in the SaaS market, like any other industry, was heavily impacted by the market downturn following the Covid-19 outbreak. However, not only did public SaaS companies demonstrate an impressive rebound in Q3, but SaaS M&A volume made a new quarterly record with 374 transactions, corresponding to a 15% increase compared to the previous record in Q3 2019.

The number of vertical deals continue to close the gap with the historically dominated horizontal deals and comprised 46% of SaaS M&A transactions in Q3 2020, with Healthcare and Financial Services companies remaining the most active verticals of the quarter. The attractiveness of vertical SaaS companies is mirrored in certain recession resistant verticals with mission critical products including Communication & Collaboration, Development Operations & IT Management and ERP & Supply Chain Management solution providers, which have seen nothing but positive effects to their revenue growth and valuation multiples this year.

SaaS M&A transactions posted a record high median EV/Sales multiple of 5.1x in Q3 2020. Those businesses demonstrating strong unit economics, high amounts of contractual recurring revenue and high net revenue retention are likely to be in heightened acquisition demand and enjoy attractive valuation levels. In today's market conditions, there is an increased focus on attractive risk-adjusted returns among buyers, favoring the SaaS industry as the revenue model allows for more precise forecasts of future cash flow, which consequently lowers the business risk and increases valuations.



NICHENESS BEING THE NEW NORMAL

Strategic buyers stayed almost equally active as financial investors during Q3 2020 with an increased focus on vertical focused SaaS companies providing mission critical solutions. In parallel to Covid-19, looking back at M&A during the global financial crisis in 2008/09, a similar pattern occurred where strategic buyer's demand for bolt-on acquisitions was clear and smaller SaaS companies were acquired to fill out holes in their portfolio.

An increasing share of companies are operating in vertical SaaS segments, which is a result of the accelerated rise of niche players. The almost oligopolistic nature of the SaaS market, where larger players take out smaller competitors, makes it very difficult for smaller companies to scale a business with a broad offering. This has forced smaller players to become niched in order to achieve scalability while sustaining competitiveness.

Covid-19 has already and will further continue to change customer behavior and product demand, which consequently spurs strategic buyers' appetite for acquiring smaller niche players in order to maintain their market positions while adapting to these changing customer preferences. It has also been a trend for private equity investors to participate in vertical focused SaaS; given the lower barriers to entry, ability to scale quickly, network effects and geographic expansion opportunities.



INVESTORS FLY TO QUALITY

The attractiveness of the SaaS business model becomes particular apparent in lean times, where the high share of contractual recurring revenue functions as financial breathing space when new subscriptions are scarce. Also, given that the typical SaaS company is low in capital intensity and usually has a strong retention rate, it substantially reduces the risk of investing in B2B SaaS.

There has been a heightened focus on risk allocation among buyers during these uncertain times, with the vast majority of transactions in Q3 2020 being lower and mid-market deals in order to plug product gaps. Many strategic buyers and financial investors are in a very strong cash position and M&A is likely to continue being an important tool going forward as many companies face declining growth during this recessionary period.

Among private equity firms, one key difference in software investment today is the innovation around debt structure. Traditionally hard assets have been used as collateral for debts, effectively eliminating software firms as buyout targets. In recent years though, it has become apparent that the recurring revenue of many SaaS companies are stable enough to leverage. This, combined with the high precision in forecasting future cash flow, significantly lowers the investment risk. Thus, many SaaS companies distinguish from most other sector companies by offering the most sought after among today's investors – predictability.

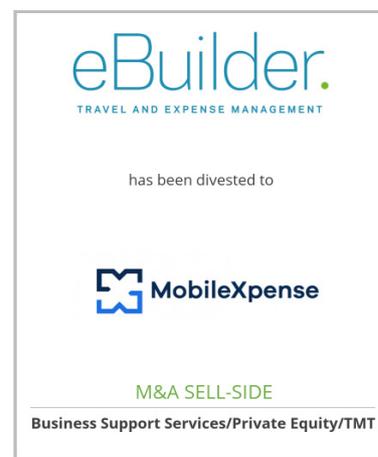


Case 1 – eBuilder Travel has been divested to MobileXpense

eBuilder Travel is a Sweden-based company providing cloud solutions for automation of travel and expense management. The offering addresses all key elements of the travel and expense management process end-to-end, providing an efficient solution for B2B-customers to reduce travel cost and ensure compliance.

MobileXpense is a cloud-native industry peer, offering a Travel & Expense SaaS solution, combining compliance with simplicity, mainly serving customers in Western Europe. MobileXpense is more than ever accelerating its European expansion efforts, where eBuilder Travel's dominating presence in the Nordics, and the very similar customer profiles were both factors contributing to the acquisition, creating a pan-European independent travel and expense management software provider.

Oaklins Sweden worked closely with colleagues globally to create a fast-paced divestment process, involving many of the world's largest software vendors.

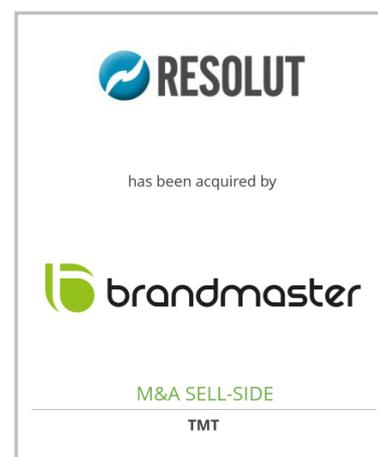


Case 2 – Resolut Marketing Systems has been acquired by Brandmaster

Resolut Marketing Systems is a Sweden-based developer and provider of a SaaS-based platform for Marketing Resource Management (MRM) to global brands with a focus on the Nordic region and North America. The company's modular software platform serves to streamline the local execution of marketing initiatives across multiple geographies and channels.

Brandmaster is a Norway-based developer and provider of a similar solution with significant overlap in customer portfolio characteristics. Combined, the two companies form the clear dominant among niched MRM-providers in the Nordics, enabling accelerated international expansion and competition with global software giants.

Oaklins Sweden worked in close collaboration with colleagues around the world to ensure an internationally competitive and efficient auction process.



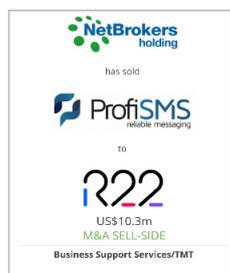
SELECTION OF FACTORS DRIVING SAAS VALUATIONS

- Market characteristics, e.g. market size, underlying market growth rate and market concentration
- Growth rate and underlying profitability
- Share of recurring revenue
- Standard contract duration
- Customer metrics, e.g. LTV, CAC, ARPU and churn
- Level of platform automation
- Platform flexibility
- Revenue concentration (by customer, industry sector etc.)
- Internationalization potential
- "Niche" and density of competing platforms



Selection of Oaklins ESaaS deals 2019/2020

Click the tombstones to read more



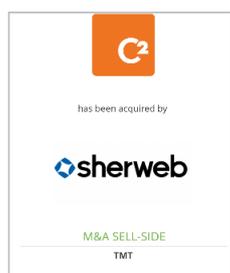
NetBrokers Holding has sold ProfiSMS, s.r.o. to R22 Group

Oaklins' team in Czech Republic acted as financial advisor to NetBrokers Holding in the process of divesting its subsidiary ProfiSMS, s.r.o., a leading provider of SMS marketing services, to R22 Group.



SCS Computers has been acquired by MAPS Group

Oaklins' team in Italy acted as financial advisor to SCS Computers, an Italian software company providing support services such as help desk to the healthcare sector, on its sale to MAPS Group, the listed Italian producer and distributor of software to analyse big data.



C2 has been acquired by Sherweb

Oaklins' team in Canada acted as financial advisor to C2 Enterprise, a Canadian IT leader specializing in integrated ITSM software solutions, on its sale to Sherweb, a global cloud solution provider.



Zup has been acquired by Itaú Unibanco

Oaklins' team in Brazil acted as financial advisor to Zup, the provider of technology solutions through systems that facilitate the integration of new digital developments, in the divestment to Itaú Unibanco, the largest private sector bank in Brazil.



RVC Medical IT has been acquired by NEXUS AG

Oaklins' team in the Netherlands acted as financial advisor to RVC Medical IT, a software vendor offering a comprehensive healthcare enterprise imaging software suite, in the divestment to NEXUS, the leading European healthcare software company and provider of hospital and diagnostic information systems.



Dutch Star Companies ONE (DSCO) has executed a business combination with CM.com

Oaklins' team in the Netherlands acted as financial advisor to DSCO, the special purpose acquisition company, on its execution of a business combination with CM.com., a conversational commerce platform.



LeadDesk Oyj has acquired Capricode Systems Oy

Oaklins' team in Finland acted as financial advisor to LeadDesk Oyj, a provider of cloud-based software for high-volume sales and customer service, in the acquisition of Capricode Systems Oy, a provider of customized call and messaging solutions for demanding needs.

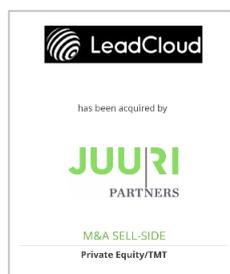


Liana Technologies has been acquired by Ilkka-Yhtymä Group

Oaklins' team in Finland acted as financial advisor to Liana Technologies, Finland's largest cloud-based marketing and communications software provider, on its sale to Ilkka-Yhtymä Group, a Finland-based media group.

Selection of Oaklins ESaaS deals 2019/2020

Click the tombstones to read more



Leadventure Ltd has been acquired by Juuri Partners Ltd

Oaklins' team in Finland acted as financial advisor to LeadDesk Plc in the process of divesting its subsidiary Leadventure Ltd., specializing in targeting sales contacts, to private equity firm Juuri Partners.



eBuilder Travel has been divested to MobileXpense

Oaklins Sweden acted as financial advisor to the owners of eBuilder Travel, a Swedish leader in travel and expense management, in the divestment to MobileXpense.



GARAIO AG has sold a minority stake in GARAIO REM AG to Schweizerische Mobilier

Oaklins' team in Switzerland acted as financial advisor to GARAIO AG in the sell of a minority stake in GARAIO REM AG, a real estate management software solution provider, to Schweizerische Mobilier.



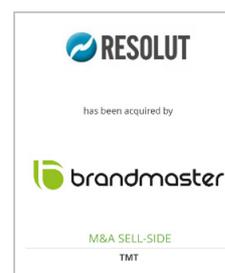
Eloquent SA has reorganized its capital with the entry of Ardian

Oaklins' team in France acted as financial advisor to Eloquent, a SaaS company dedicated to customer relationships optimization, in the sale of a minority stake to Ardian.



Datassential has received a significant growth investment from Spectrum Equity

Oaklins' team in Los Angeles acted as financial advisor to Datassential, the leading provider of data, intelligence and market research to the foodservice industry, in its growth investment from Spectrum Equity.



Resolut Marketing System has been acquired by Brandmaster

Oaklins Sweden acted as financial advisor to Resolut, a Swedish provider of a SaaS-based platform for Marketing Resource Management (MRM), in the divestment to Norwegian industry peer Brandmaster.



Semantix has received growth capital investment from CRESERA INV & Inovabra Ventures

Oaklins' team in Brazil acted as financial advisor to Semantix, the leading open-source enterprise solutions provider in Latin America, in its growth capital investment from CRESERA INVESTIMENTOS and Inovabra Ventures.



Visto has been acquired by Zeta Global

Oaklin's team in New York acted as financial advisor to Visto, the Enterprise Ad Hub for programmatic media, on its sale to Zeta Global, a data-driven marketing technology company.

Deep local roots, global commitment

OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy-side and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Enterprise SaaS is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the Enterprise SaaS sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for Enterprise companies.

If mergers, acquisitions or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

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