



SaaS METRICS PALOOZA

Public Company Enterprise Valuation Trends



Alex Clayton
General Partner
Meritech Capital

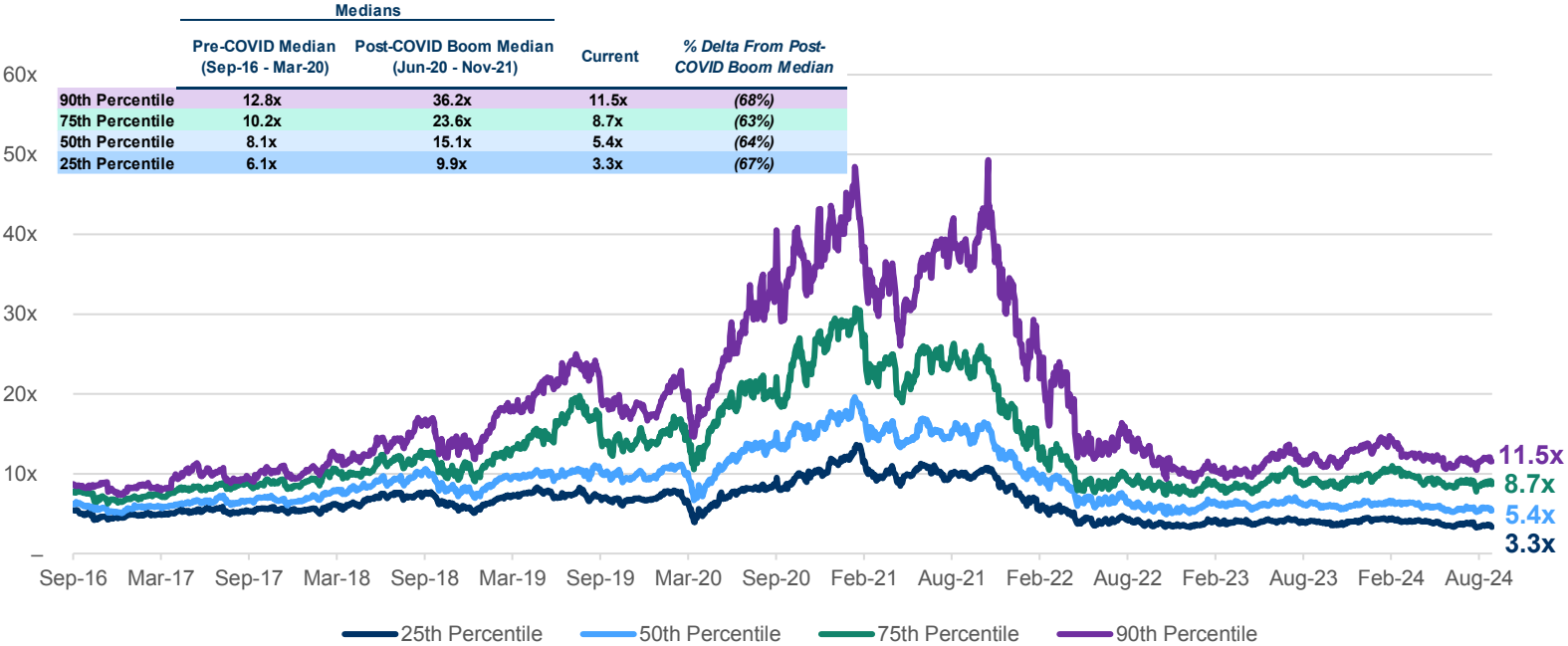
What is the Meritech Software Pulse?

- As an investor in later-stage technology companies for over 20 years – and predominantly software companies – we closely follow and monitor the public markets.
- Moreover, we host Meritech Benchmarking, a free easy-to-use application that tracks and analyzes the public SaaS market.
- Behind this application are millions of data points and with that we decided to launch the Meritech Software Pulse: a recurring update on the state of the almost \$2 trillion dollar public SaaS industry.
- The following dives into the state of valuations, operating metrics and KPIs, profitability and scale, and what it means to be a best-in-class public SaaS company. For more information or to sign up, [click here](#) for recurring updates.



NTM Revenue Multiples by Multiple Quartile | All SaaS

The below chart shows the 25th, 50th, 75th, and 90th percentile NTM revenue multiples. 90th percentile companies have seen the most multiple compression, down 77% from a 2021 high of 49.3x to 11.5x today. The current median multiple is 5.4x, still below the pre-COVID median of 8.1x but down 72% from the 2021 high of 19.6x.





NTM Revenue Multiples for the Top 10 Multiple Companies

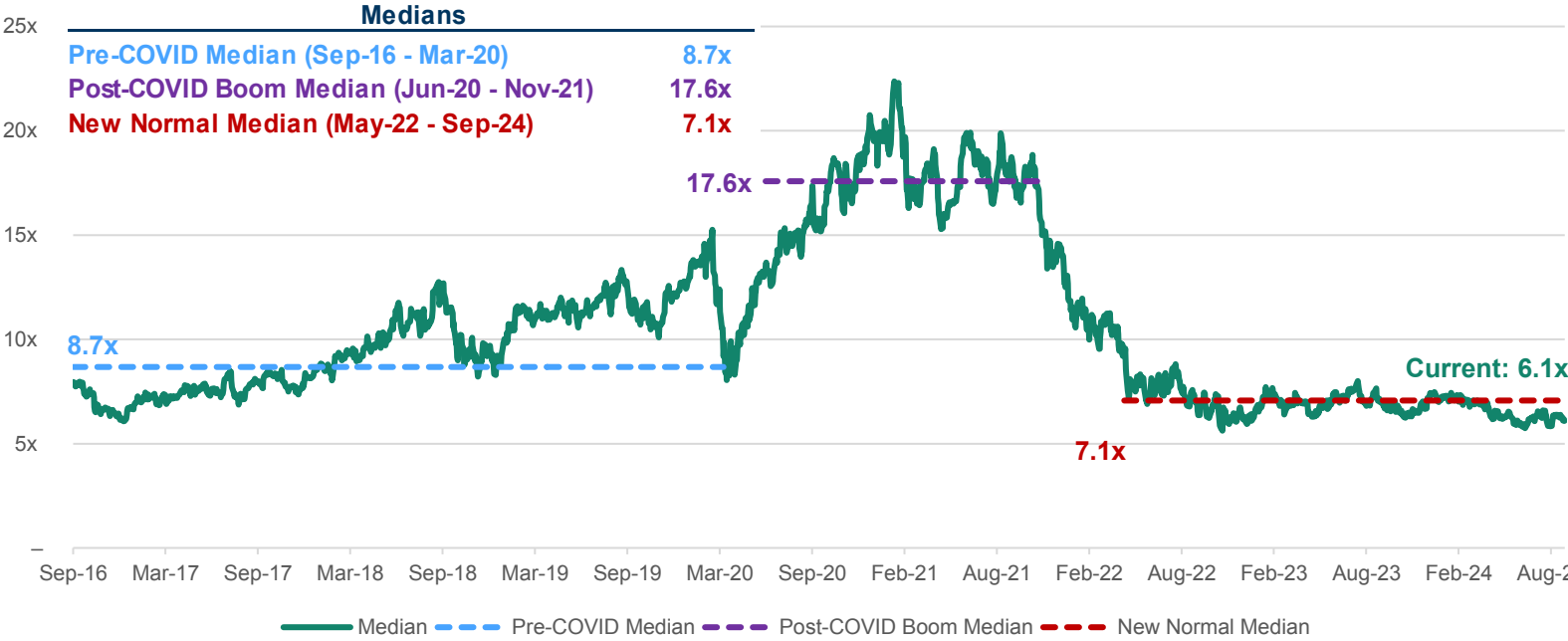
The following chart shows the same view but only for the 10 companies with the highest multiple on each day. The current top 10 company median is 13.0x, 12% above the pre-COVID median of 11.5x but down 81% from the 2021 high of 69.0x.





Implied ARR Multiples | All SaaS

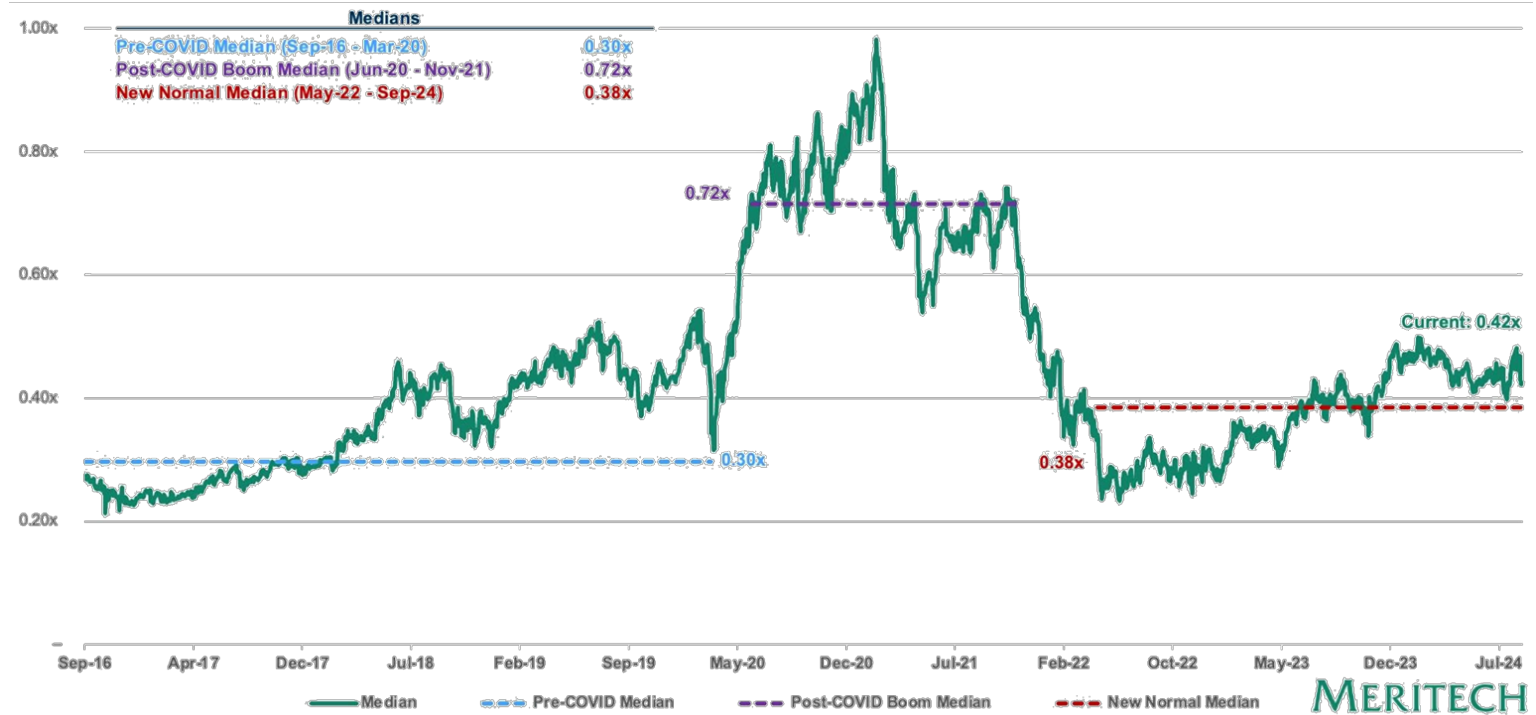
The following chart looks at Implied ARR multiples for the SaaS market for the last 8 years. The current median multiple is 6.1x, below the pre-COVID median of 8.7x but down 73% from the 2021 high of 22.4x.





Growth-Adjusted Revenue Multiples | All SaaS

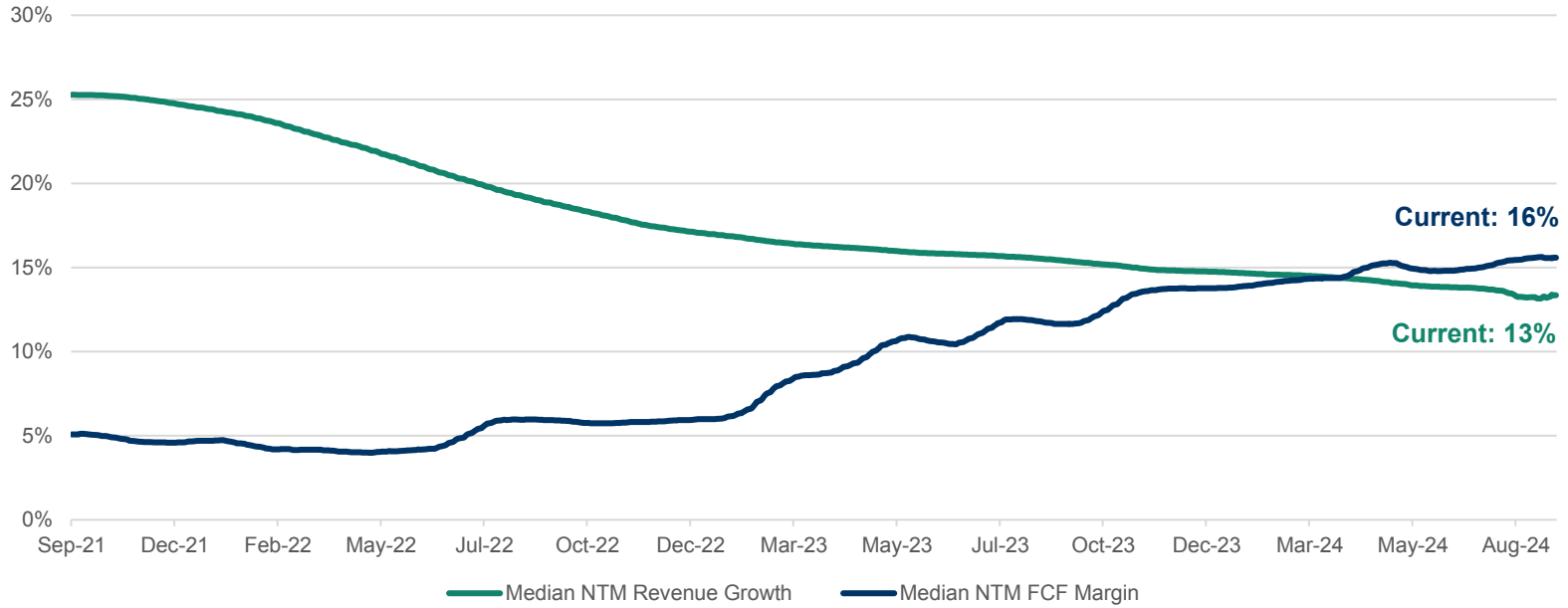
The following chart looks at Growth-Adjusted Revenue multiples for the SaaS market for the last 8 years. The current median multiple is 0.42x, above the pre-COVID median of 0.30x but down 57% from the 2021 high of 0.98x.





Median NTM Revenue Growth and FCF Margins | All SaaS

Public SaaS companies have rapidly shifted towards efficiency. Forward growth rates have come down dramatically, and free cash flow margins have risen across the board. Put simply, companies are trading growth for profitability in today's market.





Rule of 40 Buckets | All SaaS

The below chart has a similar layout to the prior chart but is segmented instead based on Rule of 40. Note that CrowdStrike is the only company currently in the Rule of 60 bucket.

	NTM Revenue Multiple			Median Market Capitalization			% Δ in Multiple		% Δ in Market Capitalization	
	2017 Median	2021 Median	Today's Median	2017 Median	2021 Median	Today's Median	'17 to Today	'21 to Today	'17 to Today	'21 to Today
60%+ Rule of 40	6.3x	24.8x	18.8x	\$5,877	\$47,294	\$76,056	201 %	(24)%	1194 %	61 %
40-60% Rule of 40	8.5x	20.9x	11.5x	\$10,942	\$28,549	\$110,758	36 %	(45)%	912 %	288 %
20-40% Rule of 40	6.5x	14.7x	8.5x	\$2,215	\$8,275	\$5,072	31 %	(42)%	129 %	(39)%
<20% Rule of 40	3.8x	11.6x	3.8x	\$848	\$4,908	\$1,675	1 %	(67)%	97 %	(66)%

MERITECH



Rule of 40 Composition Analysis

Rule of 40 Composition Analysis: Median Rule of 40

		NTM Revenue Growth			
		<10%	10-20%	20-30%	>30%
NTM Free Cash Margin	<10%	10%	20%	31%	-
	10-20%	23%	30%	36%	-
	20-30%	32%	39%	49%	-
	>30%	40%	51%	52%	-

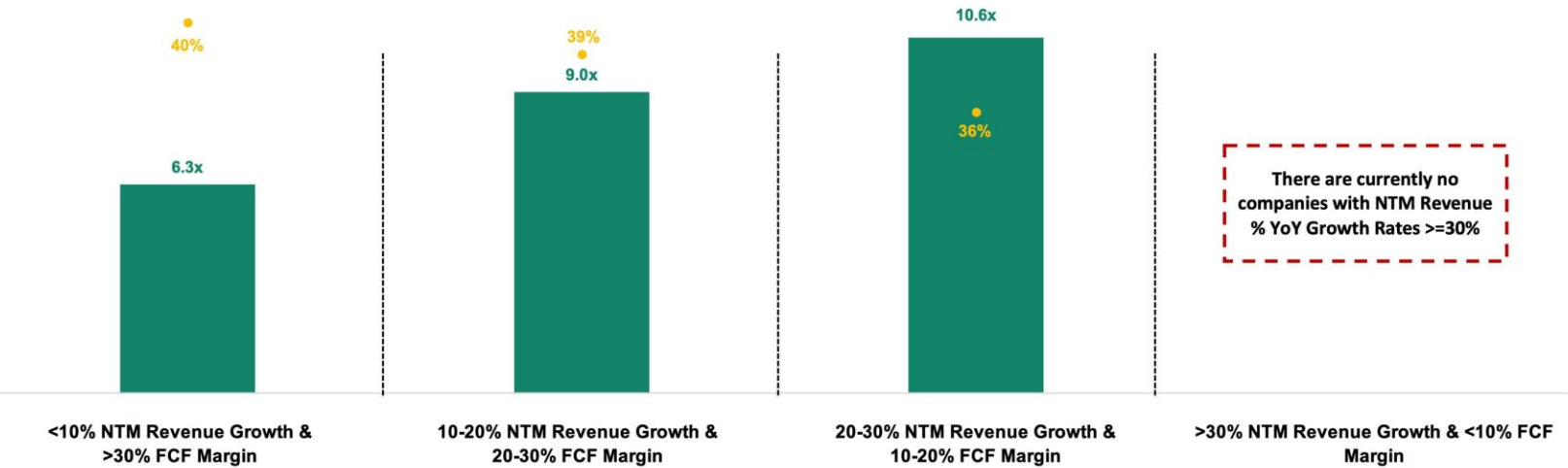
MERITECH



Rule of 40 Composition Analysis

Rule of 40 Composition Analysis: Median Multiple and Rule of 40 Combinations

■ Median Multiple ● Median Rule of 40



There are currently no companies with NTM Revenue % YoY Growth Rates >=30%

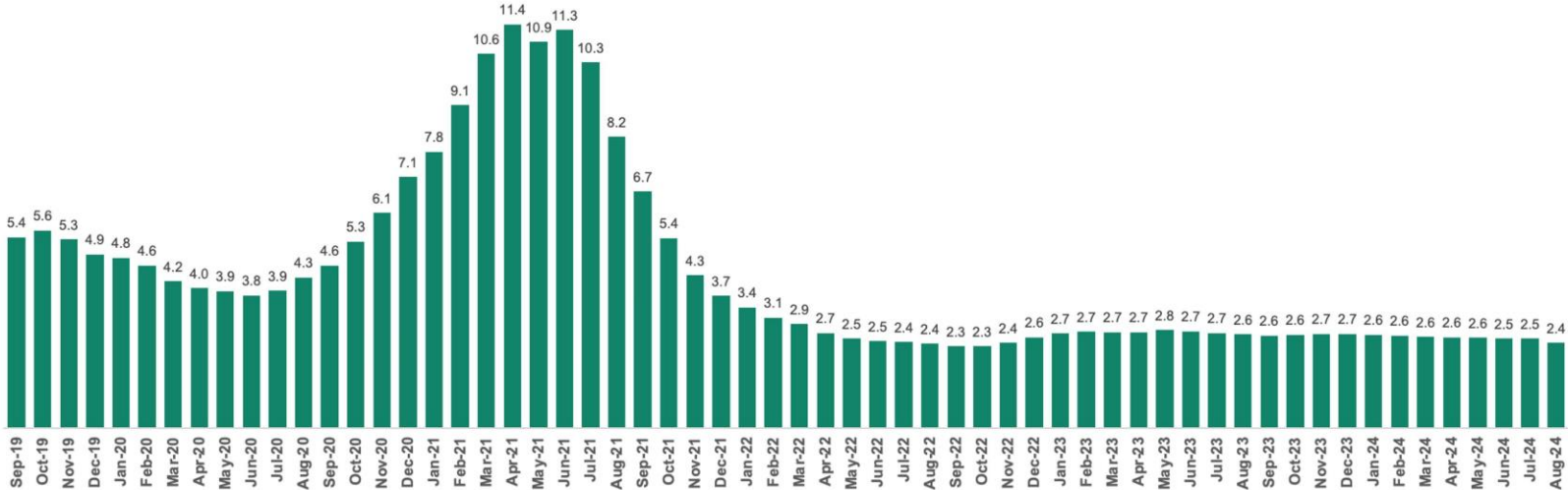
MERITECH



Relative Importance of Revenue Growth vs. FCF Margin

The chart below is based on a two-factor regression of NTM revenue growth and NTM FCF margin to ARR multiple. It shows that growth is 2.4x as correlated with multiple vs. FCF margin. Said another way, a 1% increase in growth would have the same impact on multiple as a 2.4% increase in FCF margin.

Relative Importance of Revenue Growth vs. FCF Margin

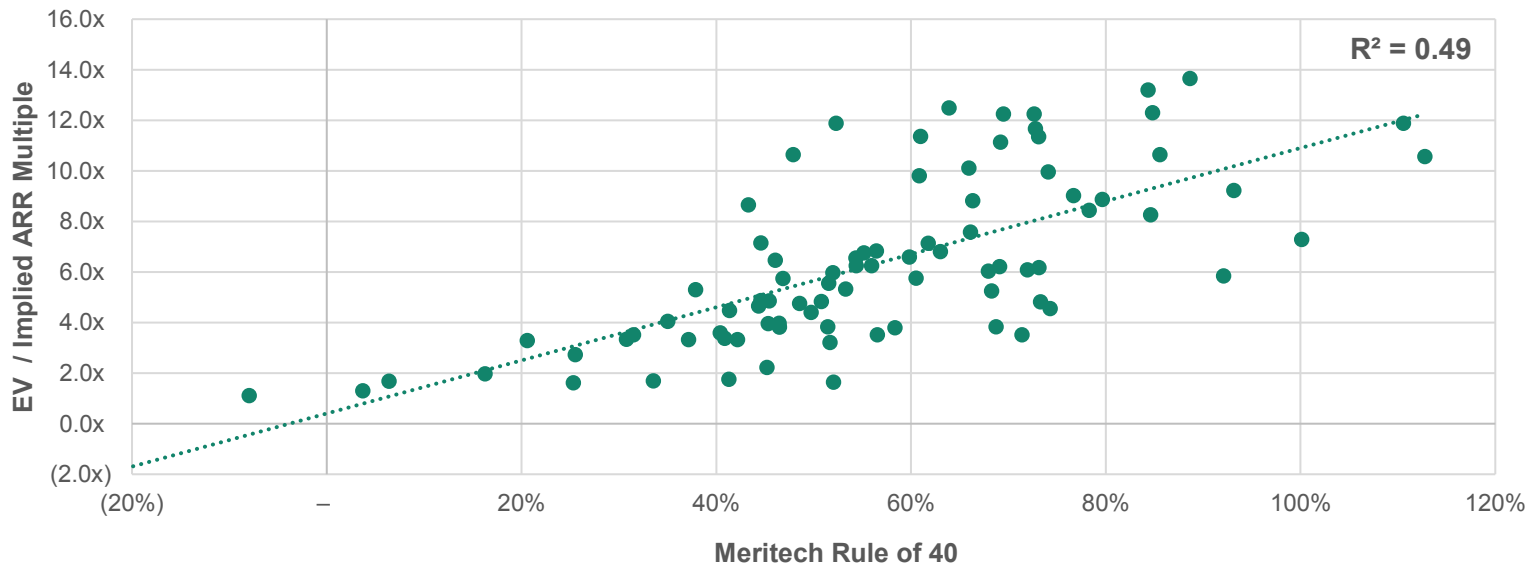


MERITECH



Regression Analysis | EV / Implied ARR Multiple vs. Meritech Rule of 40

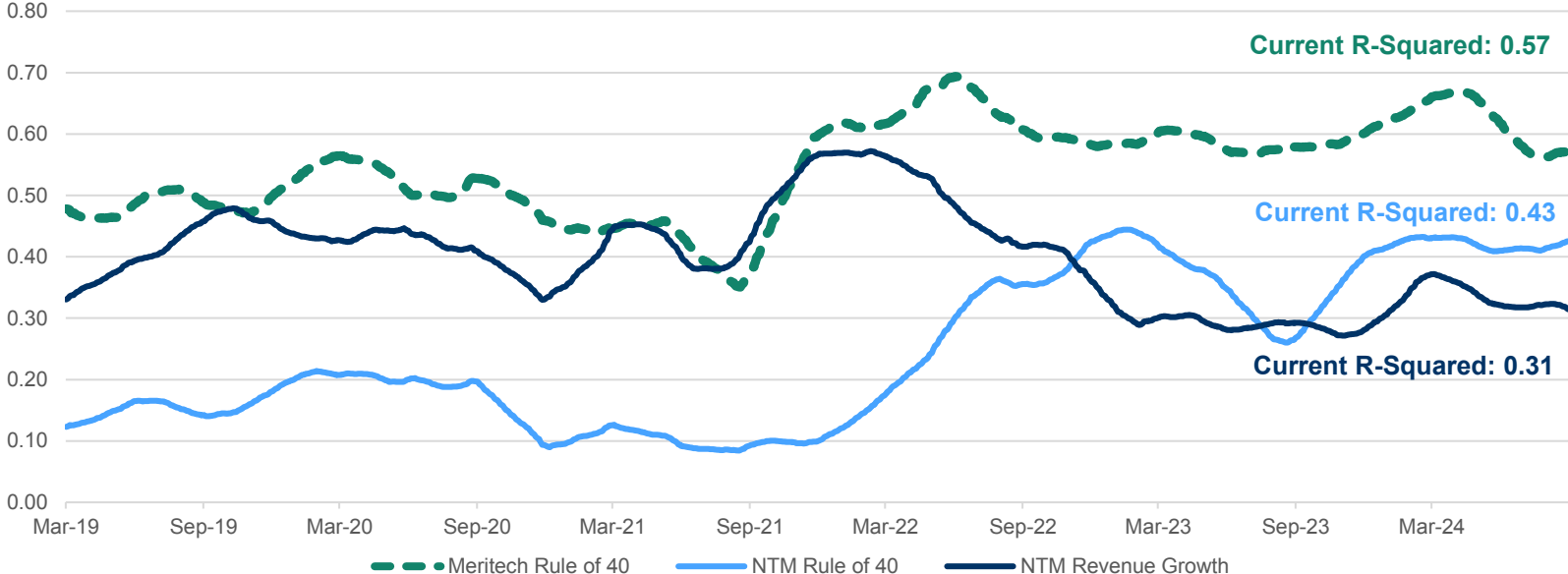
We've established that growth has (today and historically) an outsized influence on software company valuations relative to FCF margins. So, rather than plot regressions of growth and Rule of 40 separately, we at Meritech plot multiples against an adjusted Rule of 40 score, where growth receives a disproportionate weighting (in this case, 3x) relative to FCF margins – the Meritech Rule of 40. This metric more accurately reflects the valuation environment as shown in the prior chart and results in a higher correlation.





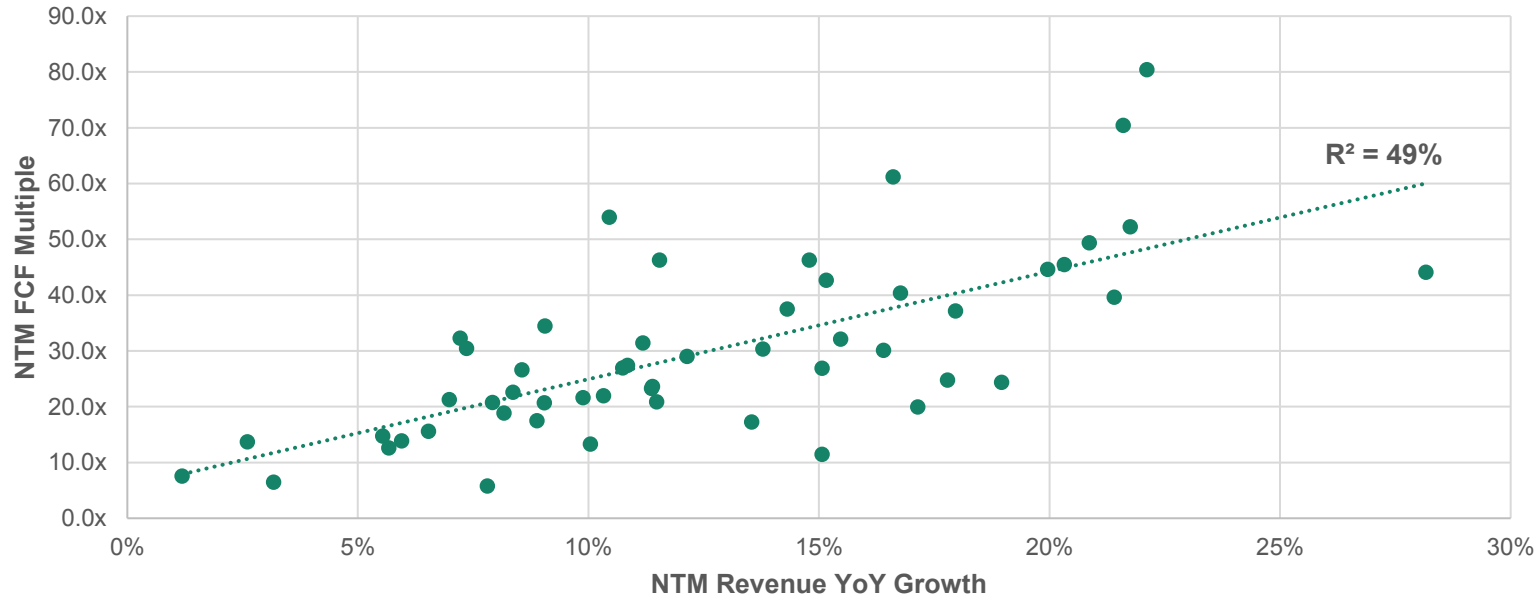
Trended Regression Analysis | Growth vs. Rule of 40 vs. Meritech Rule of 40

The chart below shows the Meritech Rule of 40 correlation plotted over time alongside standard growth rate and Rule of 40 correlations. Following the market sell-off and multiple compression in early 2022, growth and Rule of 40 correlations converged. The Meritech Rule of 40 shows a consistently higher correlation than growth or traditional Rule of 40.



Regression Analysis | NTM FCF Multiple vs. NTM Revenue YoY Growth

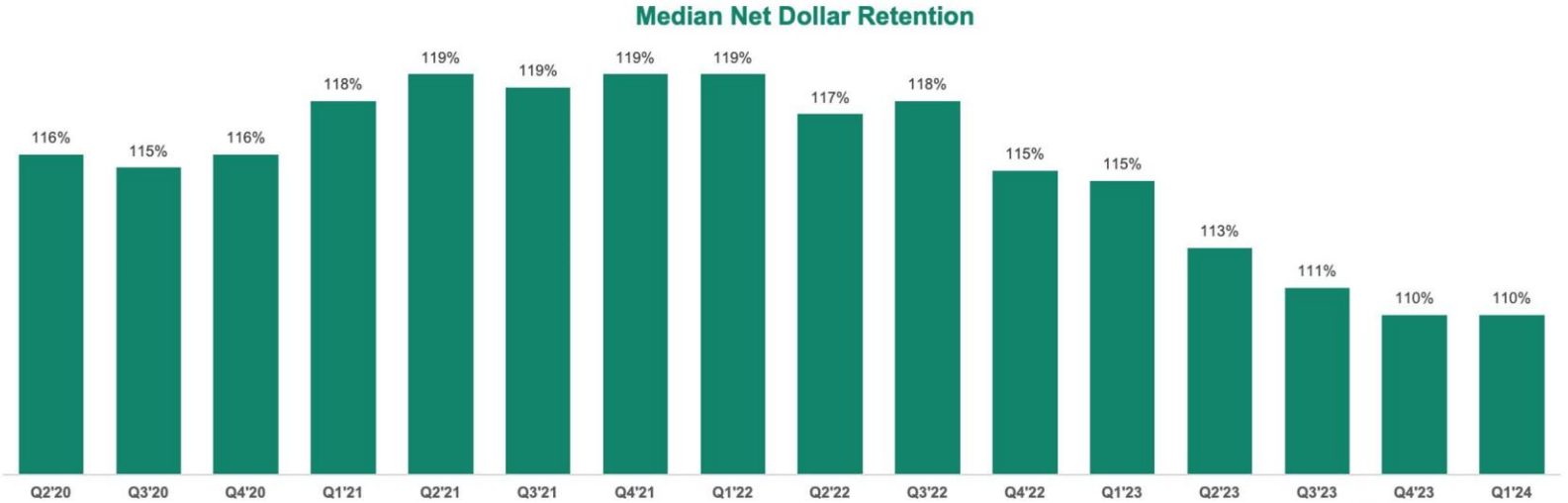
The chart below shows a regression analysis comparing NTM revenue growth vs. NTM free cash flow multiples. In this analysis, we include only those public SaaS companies with an NTM FCF margin greater than 15%. For this set of comps, the correlation between revenue growth and free cash flow multiples is 0.49.





Median Net Dollar Retention | All SaaS

Net dollar retention rates across public SaaS have continued to decline and are at their lowest point in years at a median of 110% but shows signs of stabilizing. Upsells have decreased and churn and contraction have increased.



MERITECH



Median Implied ARR per FTE | All SaaS

While companies are raising free cash flow margins, they're being forced to do more with less given layoffs and slower hiring.

Median ARR per FTE (\$ in 000's)



MERITECH



Median Payback Period in Months | All SaaS

No surprise, payback periods are increasing as new business is slower, expansion is harder to come by, and churn and contraction are increasing but there are signs of stabilization.

Median Payback Period in Months



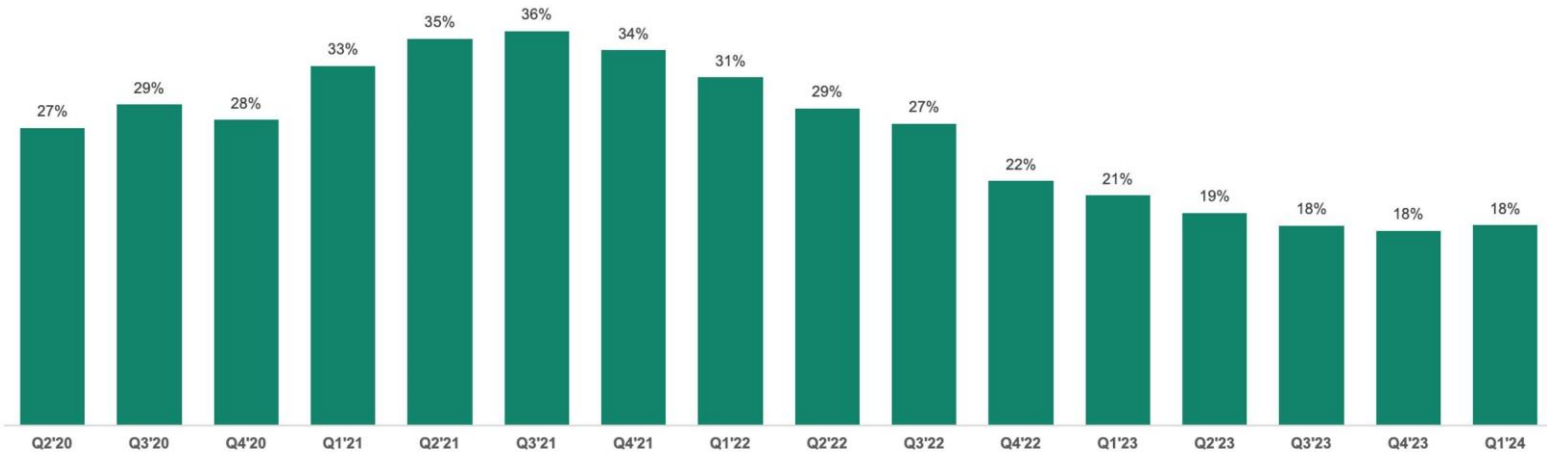
MERITECH



Median % YoY Implied ARR Growth | All SaaS

ARR growth has stopped decelerating and shows signs of stabilization.

Median % YoY Implied ARR Growth

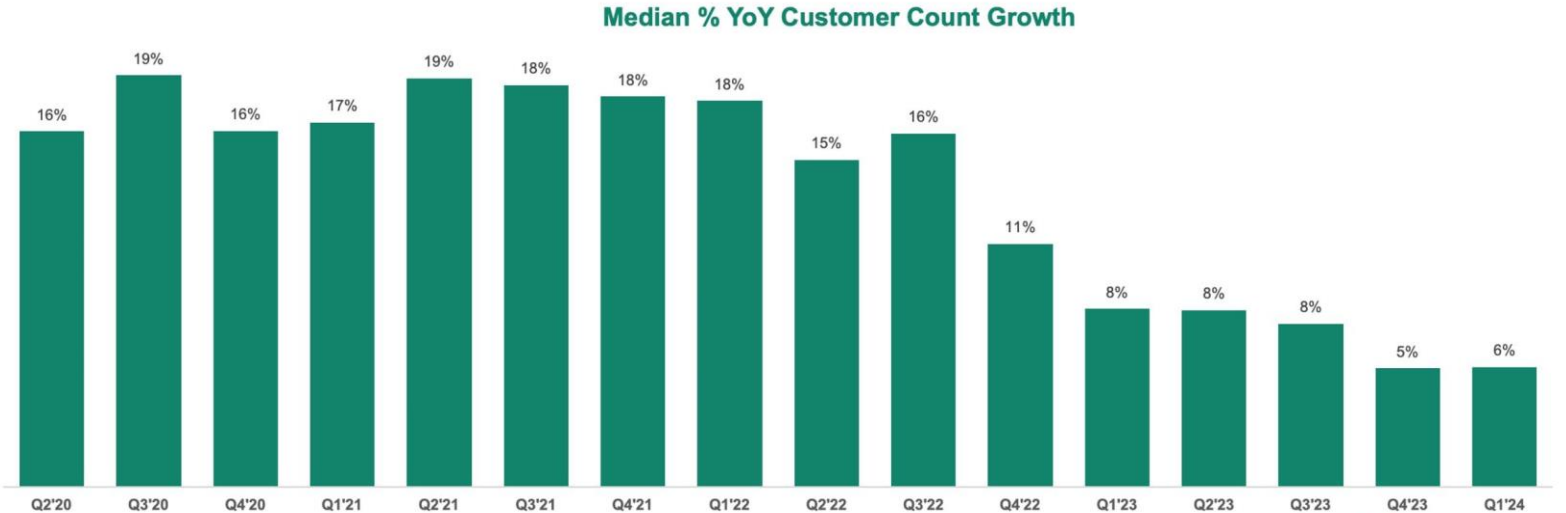


MERITECH



Median % YoY Customer Count Growth | All SaaS

Customer Growth shows signs of stabilization as well.

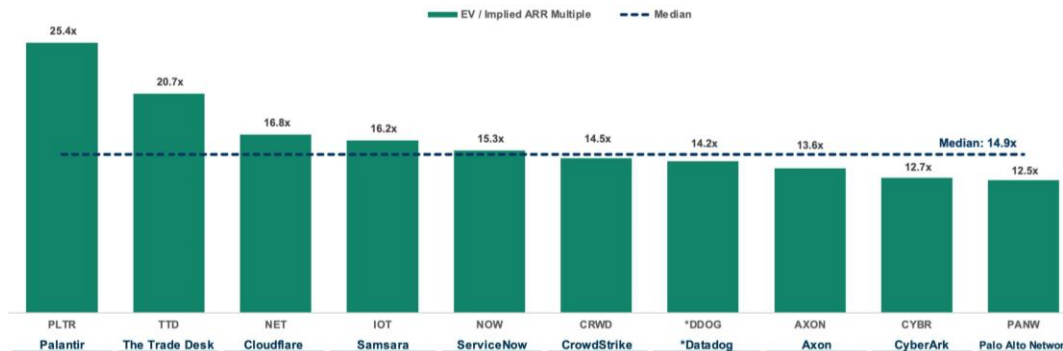


MERITECH

Performance by Implied ARR Buckets

	<\$400M	\$400-\$700M	\$700-\$1,000M	\$1,000-\$1,500M	\$1,500-\$3,000M	>\$3,000M
Operating Metrics						
Company Count	14	19	14	14	15	10
Company Age	15.8	18.0	15.4	19.2	17.9	19.7
Company Age Since IPO	3.3	4.0	3.3	5.1	6.9	9.0
Trading Metrics						
12-Month % Share Price Change	(14%)	(7%)	(1%)	(15%)	(1%)	1%
Market Capitalization (\$M)	\$978	\$3,434	\$5,714	\$6,477	\$21,386	\$63,977
Implied ARR Multiple	3.6x	5.8x	6.5x	4.8x	9.5x	9.6x
NTM Revenue Multiple	3.3x	5.3x	6.3x	4.4x	8.6x	8.4x
Annualized Gross Profit Multiple	4.3x	6.5x	9.1x	6.2x	10.6x	10.9x
NTM FCF Multiple	47.7x	37.2x	42.2x	23.7x	37.5x	30.1x
Multiple of Money Return from IPO	0.5x	0.9x	1.1x	1.9x	5.1x	7.7x
IRR from IPO Price	(19%)	(2%)	3%	11%	25%	24%
Financial Metrics						
Implied ARR (\$M)	\$303	\$582	\$793	\$1,177	\$2,372	\$6,415
% YoY Implied ARR Growth	20%	15%	19%	17%	16%	19%
% YoY NTM Revenue Growth	16%	11%	13%	12%	14%	15%
Net Dollar Retention	109%	110%	110%	110%	112%	119%
Implied Average ACV (\$K)	\$147	\$140	\$48	\$35	\$69	\$339
Implied ARR / FTE (\$K)	\$264	\$283	\$349	\$370	\$410	\$483
Implied Payback Period (Months)	22.9	25.2	23.0	27.1	25.1	29.1
Gross Margin	76%	79%	78%	77%	79%	79%
Sales & Marketing % of Revenue	40%	30%	42%	30%	32%	25%
Research & Development % of Revenue	20%	18%	20%	17%	16%	16%
General & Administrative % of Revenue	17%	12%	12%	9%	8%	6%
Operating Income / (Loss) Margin	1%	14%	12%	15%	20%	23%
FCF Margin	(1%)	14%	14%	16%	25%	31%
NTM Rule of 40	21%	26%	33%	29%	36%	42%

Top 10 Implied ARR Multiple Companies



Trading Metrics

	Palantir	The Trade Desk	Cloudflare	Samsara	ServiceNow	CrowdStrike	*Datadog	Axon	CyberArk	Palo Alto Networks	Median
Share Price (\$)	\$30.01	\$99.30	\$77.71	\$38.23	\$811.08	\$240.90	\$112.28	\$365.00	\$273.72	\$325.36	-
12-Month % Share Price Change	97%	23%	22%	61%	47%	66%	29%	82%	91%	52%	57%
Market Capitalization (\$M)	\$72,620	\$49,536	\$27,264	\$21,251	\$167,201	\$59,012	\$38,748	\$27,753	\$12,282	\$110,758	\$44,142
Implied ARR Multiple	25.4x	20.7x	16.8x	16.2x	15.3x	14.5x	14.2x	13.6x	12.7x	12.5x	14.9x
NTM Revenue Multiple	22.8x	18.3x	14.5x	15.9x	13.4x	13.3x	12.7x	12.2x	11.1x	12.5x	13.4x
Annualized Gross Profit Multiple	30.7x	25.1x	21.3x	22.2x	18.5x	18.6x	20.0x	21.9x	15.3x	16.3x	20.7x
NTM FCF Multiple	75.5x	66.8x	-	-	43.0x	41.3x	48.7x	-	82.6x	34.0x	48.7x
Multiple of Money Return from IPO	4.1x	5.5x	5.2x	1.7x	45.1x	7.1x	4.2x	28.1x	17.1x	7.7x	6.3x
IRR From IPO Price	44%	24%	40%	21%	37%	46%	34%	15%	33%	18%	34%

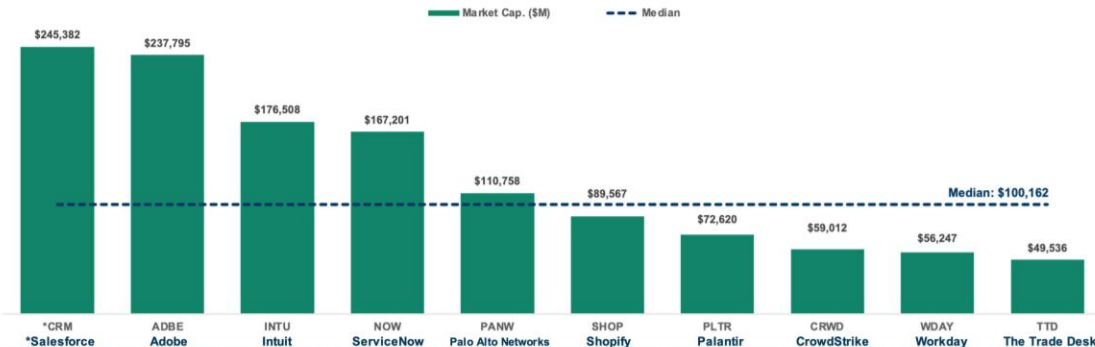
Financial Metrics

	Palantir	The Trade Desk	Cloudflare	Samsara	ServiceNow	CrowdStrike	*Datadog	Axon	CyberArk	Palo Alto Networks	Median
Implied ARR (\$M)	\$2,713	\$2,338	\$1,604	\$1,264	\$10,508	\$3,865	\$2,581	\$2,016	\$899	\$8,758	\$2,460
% YoY Implied ARR Growth	27%	26%	30%	36%	22%	32%	27%	35%	28%	12%	27%
Net Dollar Retention	114%	-	112%	115%	-	119%	110%	122%	-	-	115%
Implied Average ACV (\$K)	\$4,574	\$2,203	\$8	\$20	\$1,203	\$111	\$90	-	\$102	\$49	\$102
Implied ARR / FTE (\$K)	\$741	\$778	\$41	\$381	\$429	\$419	\$454	\$519	\$296	\$573	\$442
Implied Payback Period (Months)	12.5	4.0	26.6	22.5	119.4	20.9	17.8	-	103.0	12.0	20.9
LTM Gross Margin	83%	82%	79%	76%	83%	78%	72%	62%	84%	78%	79%
LTM Operating Income / (Loss) Margin	34%	37%	12%	5%	29%	23%	15%	15%	12%	27%	19%
LTM FCF Margin	28%	22%	11%	(0%)	31%	32%	28%	11%	20%	39%	25%
LTM Rule of 40	55%	48%	41%	36%	53%	64%	55%	46%	47%	51%	49%

MERITECH



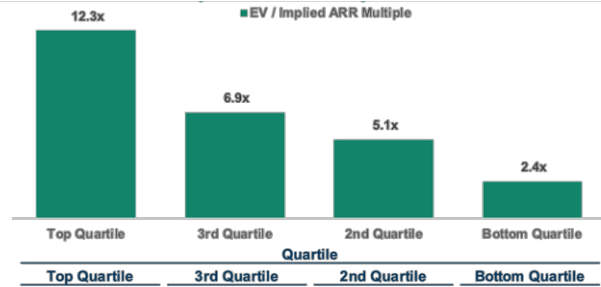
Top 10 Market Capitalization Companies



	*CRM Salesforce	ADBE Adobe	INTU Intuit	NOW ServiceNow	PANW Palo Alto Networks	SHOP Shopify	PLTR Palantir	CRWD CrowdStrike	WDAY Workday	TTD The Trade Desk	Median
Trading Metrics											
Share Price (\$)	\$252.53	\$536.30	\$630.20	\$811.08	\$325.36	\$69.30	\$30.01	\$240.90	\$211.95	\$99.30	-
12-Month % Share Price Change	23%	4%	27%	47%	52%	26%	97%	66%	(6%)	23%	26%
Market Capitalization (\$M)	\$245,382	\$237,795	\$176,508	\$167,201	\$110,758	\$89,567	\$72,620	\$59,012	\$56,247	\$49,536	\$100,162
Implied ARR Multiple	6.5x	11.1x	14.0x	15.3x	12.5x	10.5x	25.4x	14.5x	6.3x	20.7x	13.2x
NTM Revenue Multiple	6.2x	10.4x	10.0x	13.4x	12.5x	9.1x	22.8x	13.3x	6.1x	18.3x	11.5x
Annualized Gross Profit Multiple	8.3x	12.4x	17.5x	18.5x	16.3x	20.4x	30.7x	18.6x	8.0x	25.1x	18.0x
NTM FCF Multiple	20.8x	25.9x	29.7x	43.0x	34.0x	56.4x	75.5x	41.3x	24.0x	66.8x	37.7x
Multiple of Money Return from IPO	91.8x	3154.7x	237.8x	45.1x	7.7x	40.8x	4.1x	7.1x	7.6x	5.5x	24.3x
IRR From IPO Price	25%	24%	19%	37%	18%	49%	44%	46%	19%	24%	25%
Financial Metrics											
Implied ARR (\$M)	\$37,300	\$21,236	\$12,736	\$10,508	\$8,758	\$8,180	\$2,713	\$3,865	\$8,340	\$2,338	\$8,549
% YoY Implied ARR Growth	8%	10%	17%	22%	12%	21%	27%	32%	17%	26%	19%
Net Dollar Retention	-	-	-	-	-	-	114%	119%	-	-	117%
Implied Average ACV (\$K)	\$35	-	\$0	\$1,203	\$49	\$3	\$4,574	\$111	\$758	\$2,203	\$111
Implied ARR / FTE (\$K)	\$511	\$685	\$677	\$429	\$573	\$1,033	\$741	\$419	\$430	\$778	\$625
Implied Payback Period (Months)	58.9	32.3	-	119.4	12.0	11.1	12.5	20.9	20.2	4.0	20.2
LTM Gross Margin	78%	89%	82%	83%	78%	51%	83%	78%	79%	82%	81%
LTM Operating Income / (Loss) Margin	27%	39%	39%	29%	27%	17%	34%	23%	23%	37%	28%
LTM FCF Margin	31%	31%	28%	31%	39%	17%	28%	32%	27%	22%	30%
LTM Rule of 40	40%	41%	46%	53%	51%	37%	55%	64%	44%	48%	47%

MERITECH

EV/Implied ARR Multiple Quartiles



Trading Metrics

	Top Quartile	3rd Quartile	2nd Quartile	Bottom Quartile
12-Month % Share Price Change	29%	2%	(3%)	(26%)
Market Capitalization (\$M)	\$26,607	\$6,315	\$3,216	\$2,187
Implied ARR Multiple	12.3x	6.9x	5.1x	2.4x
NTM Revenue Multiple	11.2x	6.4x	4.7x	2.4x
Annualized Gross Profit Multiple	16.3x	9.4x	6.5x	3.8x
NTM FCF Multiple	43.7x	34.6x	25.6x	17.5x
Multiple of Money Return from IPO	6.3x	1.2x	1.2x	0.6x
IRR From IPO Price	23%	5%	7%	(14%)

Financial Metrics

	Top Quartile	3rd Quartile	2nd Quartile	Bottom Quartile
Implied ARR (\$M)	\$2,016	\$826	\$706	\$710
% YoY Implied ARR Growth	26%	20%	16%	9%
Net Dollar Retention	113%	113%	108%	102%
Implied Avg. ACV (\$K)	\$90	\$67	\$34	\$22
Implied ARR / FTE (\$K)	\$448	\$319	\$294	\$419
Implied Payback Period (Months)	15.1	25.3	25.8	29.1
LTM Gross Margin	78%	78%	79%	76%
LTM Operating Income / (Loss) Margin	23%	12%	16%	14%
LTM FCF Margin	26%	13%	16%	10%
LTM Rule of 40	48%	35%	31%	23%

Rule of 40 Composition Analysis (1 / 3)

Simple regressions comparing multiples against growth or Rule of 40 are valuable, but this analysis shows that the composition of your Rule of 40 can meaningfully impact your valuation. This is highlighted in the red boxes in the tables which, show that companies with similar Rule of 40 but growing faster can trade at a significant premium (10.6x) to companies with lower growth and higher free cash flow margins (6.3x). The bar chart below plots those red boxes and visualizes the inverse correlation between Rule of 40 and multiple for this very reason, a dynamic you could not pick up from looking at a simple regression. Investors pay the highest prices for companies that are growing quickly and have some free cash flow. This implies the company has a great market structure, and if growth was slowed, theoretically, free cash flow margins would rise even further. Note blank cell(s) indicate no companies are currently in that bucket.

Rule of 40 Composition Analysis: Median EV / Implied ARR Multiple

		NTM Revenue Growth			
		<10%	10-20%	20-30%	>30%
NTM Free Cash Margin	<10%	2.0x	3.9x	8.3x	-
	10-20%	3.3x	5.9x	10.6x	-
	20-30%	4.5x	9.0x	11.2x	-
	>30%	6.3x	11.7x	20.6x	-

MERITECH

Speaker Contact Slide



Alex Clayton

<https://www.linkedin.com/in/aclayton/>
<https://x.com/afc>