

Street Wise

Software as a Service

Technical Review

Winter 2014

Another of our Services

Street Wise

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[Street Wise]

SaaS Subsectors Overview

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This volume of Street Wise presents an overview of the M&A trends in seven subsectors of the SaaS industry that our firm serves. In the pages that follow we present trends:

- **Business Intelligence**
- **Customer Resource Management**
- **Enterprise Resource Planning**
- **Hosted Storage**
- **Human Resource Management**
- **Web Collaboration**
- **Web Content Management**

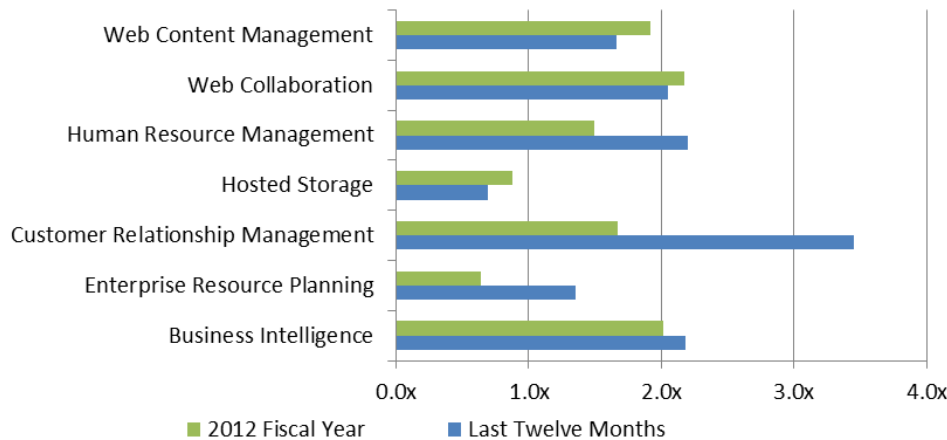
Tobin Point

In this issue of our newsletter, we review seven subsectors within the SaaS industry that we serve at our firm. These subsectors are active segments where both large established companies and smaller entrepreneurial players are making an impact.

Revenue and EBITDA Multiples by Subsector

- Business Intelligence
- Enterprise Resource Planning
- Customer Relationship Management
- Hosted Storage
- Human Resource Management
- Web Collaboration
- Web Content Management

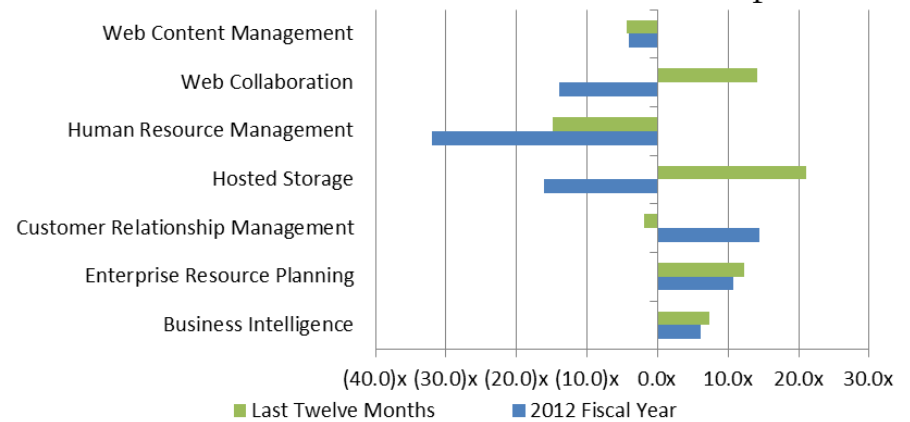
FY 2012/LTM 2013 Revenue Multiples



The graph to the left illustrates the fiscal year “FY” 2012 and the last twelve months “LTM” as of Q3 2013 revenue multiples for the seven SaaS subsectors covered in this edition of StreetWise. The graph shows that revenue multiples have decreased slightly for three of the subsectors and increased for four since the FY 2012. Overall, the LTM revenue multiple has increased by 0.4 times revenue, from 1.7x to 2.1x, since FY 2012. This is largely due to the customer relationship management subsector which increased by 1.8 times revenue as well as enterprise resource planning and human resource management which both increased by 0.7 times revenue. The remaining four subsectors saw little change, fluctuating a third of a turn in revenue or less in either direction.

The graph to the right illustrates EBITDA multiples for last twelve months “LTM 2013” as of Q3 2013 and fiscal year “FY” 2012 of the SaaS subsectors covered in this publication. The EBITDA multiples have a much higher degree of dispersion compared to the revenue multiples, shown above. This is largely due to the inconsistency of EBITDA figures amongst varying quarters and years. Much of these inconsistencies can be accounted for by negative EBITDA margins present in the SaaS industry. SaaS companies require large R&D and sales & marketing expenses to both grow and avoid becoming obsolete. However, the multiples are not purely speculative as many of the companies “straddle” a positive/negative EBITDA causing large swings in multiples both positive and negative. For this reason we believe that revenue multiples are the more appropriate multiples for this analysis.

FY 2012/LTM 2013 EBITDA Multiples



Tobin Point

- EV/Revenue Multiples for the SaaS industry range from 0.7x to as much as 2.5x revenue for the LTM 2013.
- EV/EBITDA Multiples are much more sporadic, ranging from (14.8)x to 21.1x EBITDA for the LTM 2013.
- The median EV/Revenue multiple is 2.0x revenue for the LTM 2013. Compared to the (14.8)x EBITDA multiple for LTM 2013. Companies are clearly being valued based on revenue and potential future profits, ignoring negative EBITDA numbers.

Revenue and EBITDA Multiples by Subsector

Below we have illustrated the EBITDA and revenue multiples by subsector. Each subsector falls between a revenue range of 0.7x to 2.5x for the LTM as of Q3 2013. Each subsector's EBITDA multiples are more spread out, as discussed in an earlier section. Customer Relationship Management posted the highest revenue multiple at 2.5x revenue. Hosted Storage posted the lowest revenue multiple at 0.7x revenue. Both Business Intelligence and Human Resource Management posted multiples of 2.2x revenue.

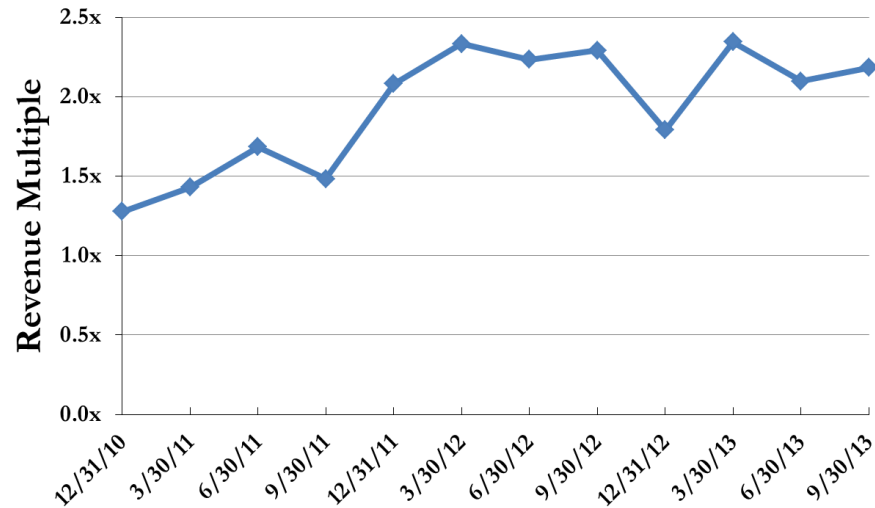
Sector Valuation Comparison Summary (medians for each sector)

Industry	Market Value (\$ mm)	Enterprise Value (\$ mm)	Revenue (\$ mm)	Multiples			
				EV/Revenue		EV/EBITDA	
				FY 2012	LTM 2013	FY 2012	LTM 2013
Business Intelligence	253.3	247.0	30.3	2.0x	2.2x	6.1x	7.4x
Enterprise Resource Planning	308.8	310.1	183.0	0.6x	1.4x	10.8x	12.3x
Customer Relationship Management	290.6	254.4	94.7	1.5x	2.5x	6.3x	5.9x
Hosted Storage	241.2	184.1	146.9	0.9x	0.7x	(16.0)x	21.1x
Human Resource Management	361.6	318.5	130.1	1.5x	2.2x	(32.1)x	(14.8)x
Web Collaboration	474.0	470.1	54.7	2.2x	2.1x	(14.0)x	14.1x
Web Content Management	328.2	270.6	139.5	1.9x	1.7x	(4.1)x	(4.4)x

Tobin Point

- Enterprise Resource Planning is one of the more steady sectors for multiples over the past 12 quarters.
- At 1.4x revenue, ERP has proven to be less attractive to potential acquirers.
- This is interesting, however, considering that ERP is one of the few sectors that is seeing some positive EBITDA numbers for investors to interpret.
- The majority of the SaaS sectors that we cover are not seeing positive EBITDA numbers, because they are fairly new and have immense competition from large players. Hence, it will take some time for the companies to make a profit.

Business Intelligence companies are trading at 2.2x Revenue and 7.4x EBITDA



Sector Valuation Comparison

<i>Business Intelligence</i>		*Share Price (\$)	Market Value (\$ mm)	Enterprise Value (\$ mm)	Revenues (\$mm)		EBITDA Margin		Multiples			
Company Name	Ticker				FY	LTM	FY	LTM	EV/Revenue		EV/EBITDA	
									FY	LTM	FY	LTM
Passur Aerospace, Inc.	PSSR	2.9	24.2	23.2	12.5	10.6	30.7%	29.5%	1.9x	2.2x	6.1x	7.4x
Asure Software, Inc.	ASUR	5.6	26.8	40.3	19.96	24.7	8.9%	13.1%	2.0x	1.6x	22.6x	12.5x
Datawatch Corporation	DWCH	32.5	253.3	247.0	30.3	30.3	(4.9%)	(4.9%)	8.2x	8.2x	(165.8)x	(165.8)x
Actuate Corporation	BIRT	7.92	354.2	329.9	138.8	137.7	16.7%	10.7%	2.0x	2.4x	14.3x	22.4x
Calix, Inc.	CALX	8.36	643.1	564.0	330.2	380.0	(6.1%)	(2.1%)	1.7x	1.5x	(27.8)x	(70.6)x

*Share price is 10 day average share price as of January 24, 2014

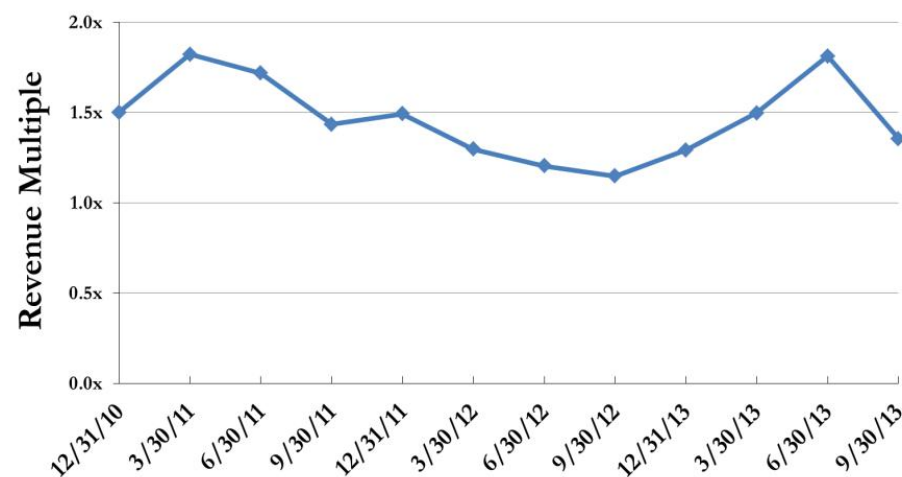
Source: Securities and Exchange Commission (SEC)

Mean	9.0%	9.2%	3.2x	3.2x	(30.1)x	(38.8)x
Median	8.9%	10.7%	2.0x	2.2x	6.1x	7.4x

Tobin Point

- Take notice of the huge growth in EBITDA multiples in Q3 of 2012. This growth is due to the upfront costs contact centers are incurring while incorporating social media into the services offered to clients.
- These upfront costs are shrinking EBITDA but the market has continued to invest in these companies, upholding their enterprise value. The market sees the

Enterprise Resource Planning companies are trading at 1.4x Revenue and 12.3x EBITDA



Sector Valuation Comparison

Enterprise Resource Planning

Company Name	Ticker	*Share Price (\$)	Market Value (\$ mm)	Enterprise Value (\$ mm)	Revenues (\$ mm)		EBITDA Margin		Multiples			
					FY	LTM	FY	LTM	EV/Revenue		EV/EBITDA	
									FY	LTM	FY	LTM
American Software Inc.	AMSWA	9.88	250.5	201.3	100.5	98.5	17.9%	17.4%	2.0x	2.0x	11.2x	11.7x
QAD, Inc.	QAD	17.37	223.3	173.1	252.2	258.6	6.7%	4.9%	0.7x	0.7x	10.3x	13.7x
Callidus Software, Inc.	CALD	14.39	367.2	418.9	95.0	107.4	(21.9)%	(13.0)%	0.6x	3.9x	(20.1)x	(29.9)x
Echo Global Logistics, Inc.	ECHO	21.09	501.8	448.5	757.7	873.7	3.9%	4.0%	0.6x	0.5x	15.1x	12.9x

*Share price is 10 day average share price as of January 24, 2014

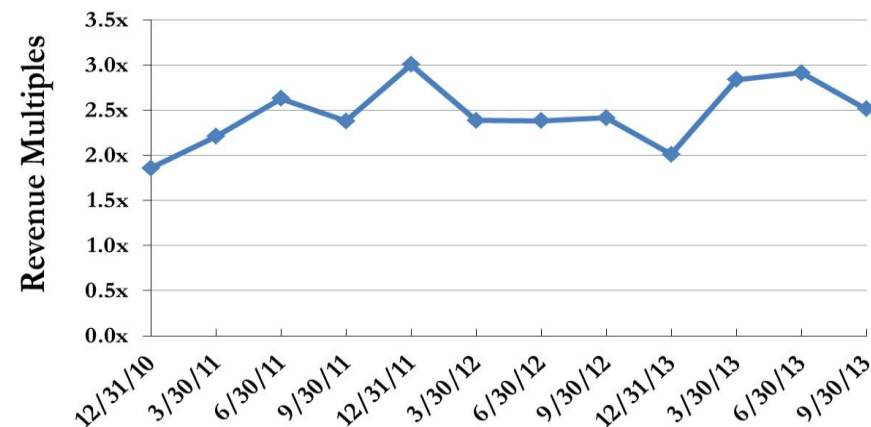
Source: Securities and Exchange Commission (SEC)

Mean	1.6%	3.3%	1.0x	1.8x	4.1x	2.1x
Median	5.3%	4.4%	0.6x	1.4x	10.8x	12.3x

Tobin Point

- The Customer Relationship Management sector posted the highest revenue multiple of all at 2.5x revenue.
- These companies are currently the “hot sector” in the SaaS market, seeing high revenue growth as a whole.
- These companies are also one of the few sectors to produce positive EBITDA, promising sooner than later profits for investors.

Customer Relationship Management companies are trading at 2.5x Revenue and 5.9x EBITDA



Sector Valuation Comparison

<i>Customer Relationship Management</i>		*Share Price (\$)	Market Value (\$ mm)	Enterprise Value (\$ mm)	Revenues (\$ mm)		EBITDA Margin		Multiples			
Company Name	Ticker				FY	LTM	FY	LTM	EV/Revenue		EV/EBITDA	
									FY	LTM	FY	LTM
Cicero, Inc.	CICN	0.02	2.6	8.3	6.0	2.4	9.6%	(100.5)%	1.4x	3.5x	14.5x	(3.5)x
Alteva, Inc.	ALTV	8.24	45.7	46.7	27.9	29.6	(86.8)%	(79.5)%	1.7x	1.6x	(1.9)x	(2.0)x
Vocus, Inc.	VOCS	12.27	224.1	189.7	170.8	186.6	(8.6)%	(6.3)%	1.1x	1.0x	(12.9)x	(16.2)x
eGain	EGAN	10.17	357.2	342.9	58.9	63.8	4.2%	5.9%	5.8x	5.4x	137.3x	91.3x
ShorTel, Inc.	SHOR	9.14	368.8	319.0	313.5	322.8	4.3%	25.2%	3.9x	3.5x	90.5x	13.7x
inContact, Inc.	SAAS	8.26	475.2	433.6	110.3	125.6	(2.2)%	0.2%	1.0x	1.0x	(45.3)x	484.0x

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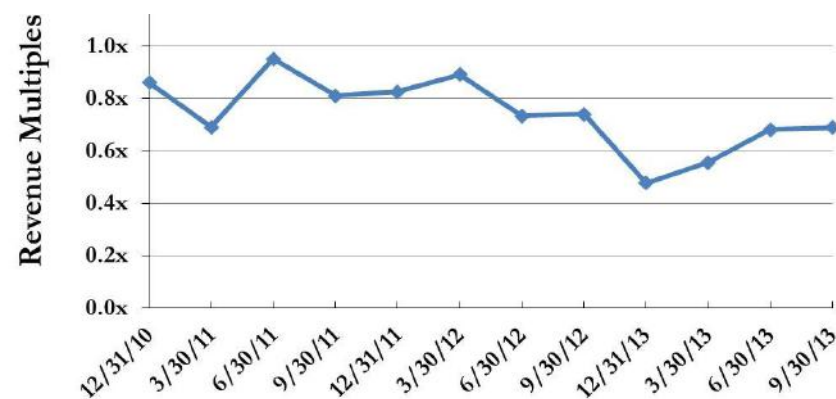
Source: Securities and Exchange Commission (SEC)

Mean	(13.3)%	(25.8)%	2.5x	2.7x	30.4x	94.6x
Median	1.0%	(3.0)%	1.5x	2.5x	6.3x	5.9x

Tobin Point

- The Hosted Storage sector has seen relatively low multiples for the past 12 quarters.
- This sector has the lowest revenue multiple of all our subject sectors at 0.7x revenue.
- A slight trend in the negative direction has been evident as multiples fell from 0.9x revenue to 0.7x revenue from Q4 2010 to Q3 2013. This can be attributed to the low revenue growth rates in this particular industry.

Hosted Storage companies are trading at 0.7x Revenue and 21.1x EBITDA



Sector Valuation Comparison

<i>Hosted Storage</i>		*Share Price (\$)	Market Value (\$ mm)	Enterprise Value (\$ mm)	Revenues (\$ mm)		EBITDA Margin		Multiples				
Company Name	Ticker				FY	LTM	FY	LTM	EV/Revenue		EV/EBITDA		
									FY	LTM	FY	LTM	
Overland Storage, Inc.	OVRL	1.03	31.0	41.9	48.0	46.9	(36.7)%	(36.3)%	0.9x	0.9x	(2.4)x	(2.5)x	
Dot Hill Systems Corp.	HILL	4.68	126.5	86.2	194.5	191.8	(3.2)%	1.0%	0.4x	0.4x	(14.1)x	44.7x	
Carbonite, Inc.	CARB	12.56	355.8	282.0	587.6	578.8	(2.7)%	0.9%	0.9x	0.5x	(18.0)x	56.0x	
Quantum Corporation	QTM	1.31	367.4	320.1	84.0	102.1	(9.7)%	(0.7)%	3.8x	3.1x	(39.3)x	(421.7)x	
							Mean		(13.0)%	(8.8)%	1.5x	1.2x	(18.5)x (80.9)x
							Median		(6.4)%	0.1%	0.9x	0.7x	(16.0)x 21.1x

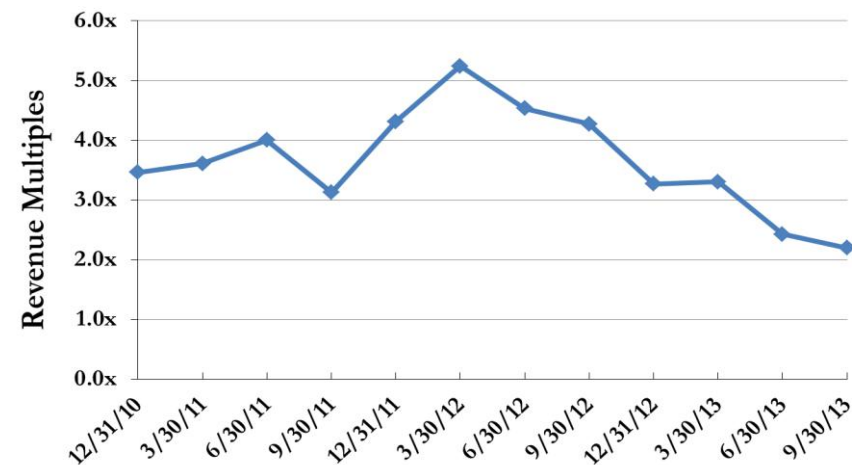
*Share price is 10 day average share price as of January 24, 2014

Source: Securities and Exchange Commission (SEC)

Tobin Point

- HRM revenue multiples have remained relatively consistent over the past 12 quarters.
- Although EBITDA is still negative for our four industry companies, revenue has increased for each firm.
- These growing revenues contribute to an average HRM revenue multiple of 2.9x, compared to 2.2x for the entire SaaS industry.
- Overall, margins have decreased from the FY 2012 to the LTM September 2013.

Human Resource Management companies are trading at 2.2x Revenue and (14.8)x EBITDA



Sector Valuation Comparison

<i>Human Resource Management</i>		*Share Price (\$)	Market Value (\$ mm)	Enterprise Value (\$ mm)	Revenues (\$ mm)		EBITDA Margin		Multiples			
Company Name	Ticker				FY	LTM	FY	LTM	FY	LTM	EV/Revenue FY	EV/Revenue LTM
Saba Software, Inc.	SABA	13.28	195.0	146.2	116.7	121.3	(3.3)%	(10.6)%	1.3x	1.2x	(37.5)x	(11.4)x
Clicksoft Software	CKSW	8.96	198.8	175.0	100.9	100.9	(1.1)%	(1.1)%	1.7x	1.7x	(161.3)x	(161.3)x
LivePerson, Inc.	LPSN	14.64	524.3	462.0	157.4	173.4	(11.0)%	(18.9)%	1.3x	2.7x	(26.7)x	(14.1)x
Jive Software, Inc.	JIVE	9.92	889.5	855.9	113.7	139.0	(32.6)%	(39.5)%	7.5x	6.2x	(23.1)x	(15.6)x

*Share price is 10 day average share price as of January 24, 2014

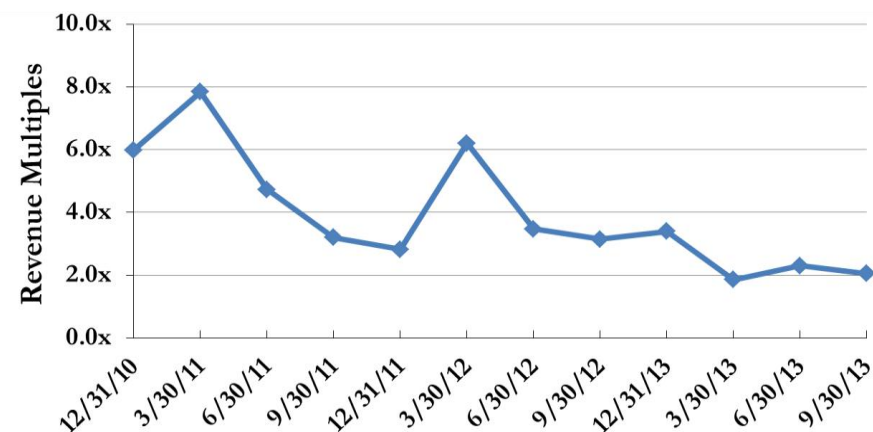
Source: Securities and Exchange Commission (SEC)

Mean	(12.0)%	(17.5)%	2.9x	2.9x	(62.1)x	(50.6)x
Median	(7.2)%	(14.8)%	1.5x	2.2x	(32.1)x	(14.8)x

Tobin Point

- Web Collaboration multiples, although falling for the most recent 12 quarters, still come in at 2.1x revenue.
- Textura Corporation stands out in this data set with a EV/Revenue multiple of 25.4x. This is due largely to the fact that Textura Corporation's current share price of \$31.42 is over two times the amount in its IPO filing.
- As shown by Textura Corporation, these companies are highly speculative and can receive large multiples based on the chance of positive future performance. Several research and hedge fund analysts see Textura products as disruptive technology.

Web Collaboration companies are trading at 2.1x Revenue and 14.1x EBITDA



Sector Valuation Comparison

<i>Web Collaboration</i>		*Share Price (\$)	Market Value (\$ mm)	Enterprise Value (\$ mm)	Revenues (\$ mm)		EBITDA Margin		Multiples			
Company Name	Ticker				FY	LTM	FY	LTM	EV/Revenue		EV/EBITDA	
									FY	LTM	FY	LTM
Mavenir, Inc.	MVNR	12.14	2.0	27.3	3.3	20.4	(60.0)%	9.5%	8.4x	1.3x	(14.0)x	14.1x
Rally Software Development	RALY	20.67	109.0	14.1	41.3	54.7	(22.7)%	(29.3)%	0.3x	0.3x	(1.5)x	(0.9)x
IntraLink Holdings, Inc.	IL	11.62	474.0	470.1	216.7	229.2	(1.7)%	(3.2)%	2.2x	2.1x	(125.9)x	63.7x
LogMein, Inc.	LOGM	33.67	751.3	554.2	138.8	158.1	8.7%	2.4%	0.3x	3.5x	45.8x	146.8x
Textura Corporation	TXTR	31.42	1017.2	901.3	35.5	35.5	(119.1)%	(119.1)%	25.4x	25.4x	(21.3)x	(21.3)x

*Share price is 10 day average share price as of January 24, 2014

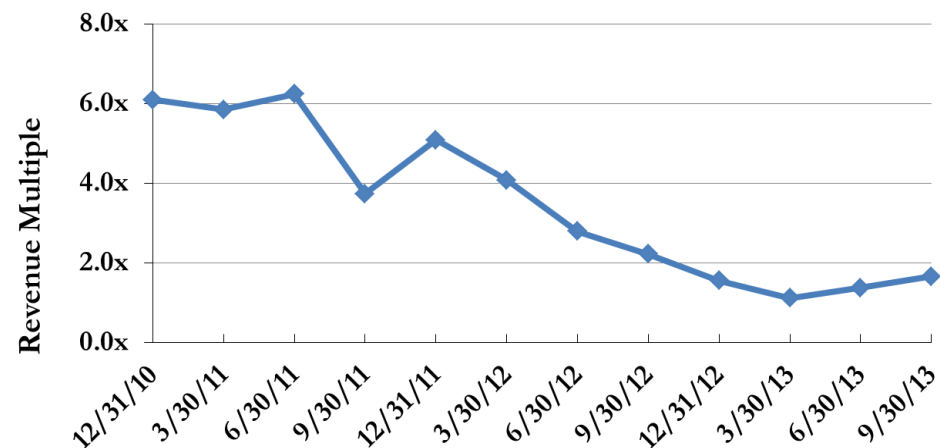
Source: Securities and Exchange Commission (SEC)

Mean	(39.0)%	(26.6)%	7.3x	6.5x	(23.4)x	40.5x
Median	(22.7)%	2.4%	2.2x	2.1x	(14.0)x	14.1x

Tobin Point

- The Web Content Management sector has seen a sharp decline in multiple valuations in the past 12 quarters.
- At the end of Q3 2010, Web Content Management companies were being valued at 6.0x revenue.
- In Q3 2013, these same companies are being valued at 1.7x revenue.
- This decreasing trend is one of the more dramatic trends amongst the seven SaaS subsectors.

Web Content Management companies are trading at 1.7x Revenue and (4.4)x EBITDA



Sector Valuation Comparison

<i>Web Content Management</i>		*Share Price (\$)	Market Value (\$ mm)	Enterprise Value (\$ mm)	Revenues (\$ mm)		EBITDA Margin		Multiples			
Company Name	Ticker				FY	LTM	FY	LTM	EV/Revenue		EV/EBITDA	
									FY	LTM	FY	LTM
Lyris, Inc.	LYRI	1.09	15.7	15.0	36.2	35.4	9.6%	11.2%	0.4x	0.4x	4.3x	3.8x
Brightcove, Inc.	BCOV	11.66	319.6	289.5	88.0	102.8	(12.3)%	(8.4)%	3.3x	2.8x	(26.9)x	(33.4)x
ReachLocal, Inc.	RLOC	13.71	336.7	251.7	455.4	502.3	3.1%	3.3%	0.6x	0.5x	17.9x	15.1x
E2Open, Inc.	EOPN	22.77	606.0	598.7	74.9	69.5	2.1%	(26.3)%	8.0x	8.6x	372.3x	(32.7)x
Bazaarvoice, Inc.	BV	7.53	739.7	664.9	160.3	176.1	(33.2)%	(29.8)%	4.1x	3.8x	(12.5)x	(12.7)x

*Share price is 10 day average share price as of January 24, 2014

Source: Securities and Exchange Commission (SEC)

Mean	(8.2)%	(5.9)%	2.1x	1.9x	(4.3)x	(6.8)x
Median	(4.6)%	(2.5)%	1.9x	1.7x	(4.1)x	(4.4)x

SaaS Industry Overview

Introduction

In 2013, SaaS companies outperformed the market as a whole. By the end of Q3 (September 30) 2013 the SaaS group as a whole increased by 45.5% for the year while the NASDAQ and S&P 500 indices returned 21.9 and 19.1 percent during the same period, respectively. Furthermore, small-cap SaaS companies, which is the focus of this edition of Street Wise, increased by 63.1% in the first three quarters of 2013.

In the last twelve months “LTM” September 2013 there have been 242 M&A transactions within the SaaS industry. FY 2012 had 183 M&A transactions within the SaaS industry and LTM September 2012 contained 167. This shows a strong increase from 2010, during which only 112 transactions took place in the SaaS industry.

However, transactions in which financial figures were disclosed painted a different picture. For LTM September 2013 the total transaction value for the SaaS industry was \$8.6 billion. This number is derived from 37 disclosed transactions (out of the 242 mentioned above) signaling an average transaction value of \$232.8 million. Total transaction value for FY 2012 and LTM September 2012 were \$13.8 and \$18.8 billion, respectively. The total disclosed transactions were 48 for both periods leading to an average transaction value of \$287.8 million for FY 2012 and \$390.7 million for LTM September 2012.

Why is the average transaction value decreasing?

The decrease in average transaction value is a result of two things: smaller deals and contracting multiples.

Although SaaS companies have been increasing in value (much greater than the market), their multiples have been contracting. The 33 SaaS companies we covered in the subsectors above ranged in enterprise value “EV” between \$9.3 and \$901.3 million, with the median being \$282.0 million. Due to the small size of these companies the median EV/Revenue multiple is currently at 2.0x. For LTM September 2013 EV/Revenue was 2.2x, far from the median small and mid-cap SaaS multiples which were between 5.5x and 6.0x. Large-cap SaaS companies had a median EV/Revenue multiple of 10.9x.

This large variance is not atypical, as it represents size premiums, where investors are willing to pay more for companies that are larger due to their increased stability, lack of risk and in the case of SaaS companies, profitability. An observable trend in the SaaS industry is: the smaller the size of the company the less profitable, on average, it is. As mentioned earlier in the publication, this can be traced to the large R&D (capex) and sales & marketing costs which SaaS companies must incur to stay relevant and gain customers.

The larger companies can act as a cash cow, collecting recurring revenue from customers because of their position in the industry. If a new company begins to gain prominence in the industry the larger company can buy a smaller company that provides the increased functionality in its service. Ultimately, this is what accounts for the smaller transaction values as companies are creating economies of scales or forgoing R&D expenses by means of M&A earlier within the lifecycle of a potential acquisition target.

Source: William Blair & Company



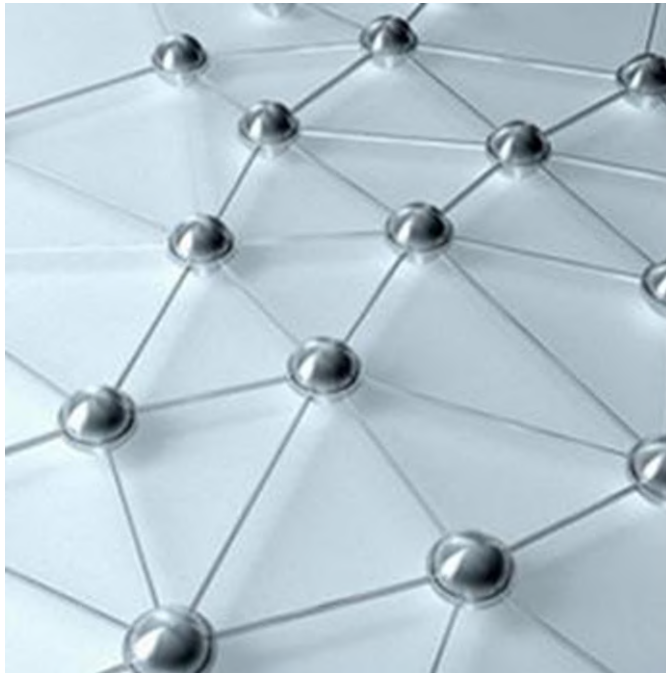
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Investment Banking Group**

*We welcome your inquiries about our services.
Please contact us.*

**201 SOUTH COLLEGE STREET
SUITE 1610
CHARLOTTE, NC 28244**

P: 704-334-2772

E: justine@tobinandco.com

