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State of SaaS

Inside views on the health and productivity of the innovation economy and SaaS sector

H2 2022

Introduction

Preparing for a Different Environment

In the US, supply chain pressure drags on, inflation is at a 41-year high and interest rates are expected to continue rising. These macroeconomic pressures have an observable effect on the enterprise software companies we serve — namely in terms of the liquidity environment from which they fundraise, the markets into which they sell and ultimately how they operate their businesses. Likewise, we've heard anecdotally of slower sales cycles and certain technology spend getting pushed to future budget periods.

With this backdrop, founders need to quickly adapt by making decisive course adjustments, or they will risk missing milestones that could make future capital raises more difficult. Investors throughout the year have echoed the importance of building durable and scalable businesses, largely counseling prudence throughout 2022.

Despite the headwinds startups are facing, we are incredibly optimistic about the future of the SaaS market. Enterprise startups are better capitalized than ever before and are arguably better prepared to weather (or even take advantage of) a tighter liquidity market. More importantly, even as some enterprises are taking a pause to prioritize their IT spend, the demand for game-changing SaaS products remains high as these enterprises continue to move to the cloud and continue their digital transformation journeys.

Ted Wilson

Senior Market Manager

State of SaaS H2 2022

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Macro Trends

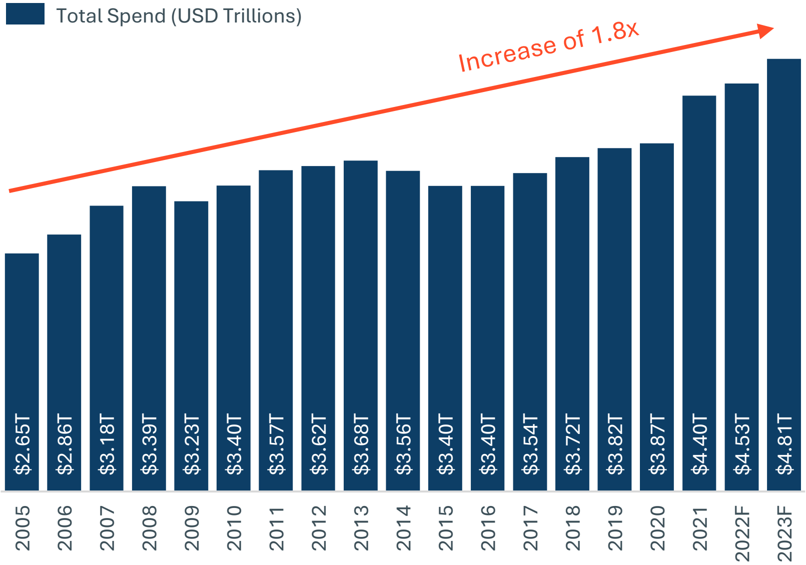
Tech Companies Still Have the "IT" Factor

Digitation across the enterprise — such as increased focus on productivity tools, cloud migration and next-generation analytics — highlights the strategic importance of a reliable, secure infrastructure (cloud infrastructure and security) and the competitive advantages that come with machine learning (ML) and data science expertise. Even during past downturns like the global financial crisis (GFC), pullback on IT spend was limited.

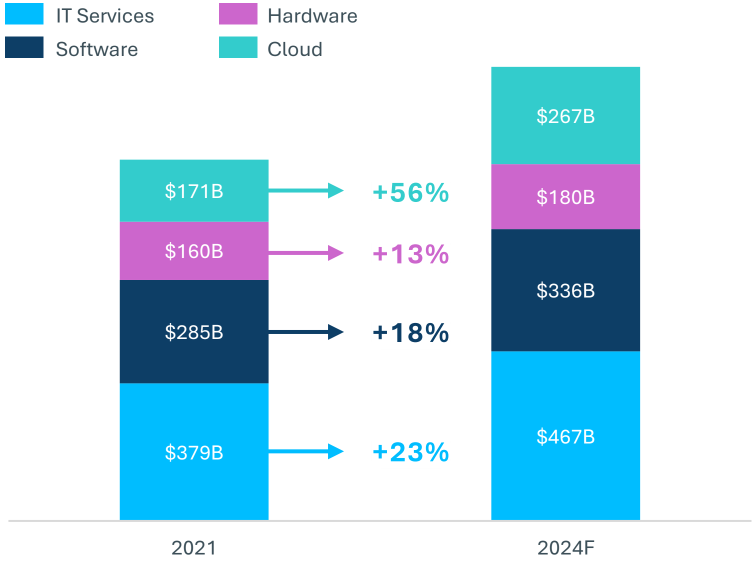
As we peer into 2024 and beyond, cloud spend — projected to outpace all other IT spending categories — will grow dramatically, enabling organizations to upgrade their software stacks for greater flexibility and agility. Practitioners in the enterprise echo this in survey results, suggesting that IT spend forecasts are accurate. This presents opportunities for startups, especially as enterprise buyers increase their willingness to purchase from (or in the case of corporate venture capital firms, invest in) early-stage software providers.

Based on SVB proprietary spend data, cloud investment has similarly been a priority for startups, with 2022 proving to be a massive uptick.

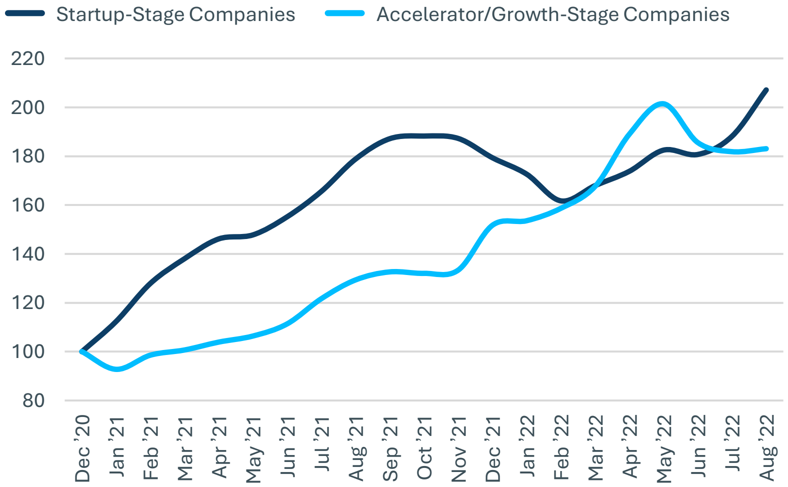
Global IT Spending, by Year[1]



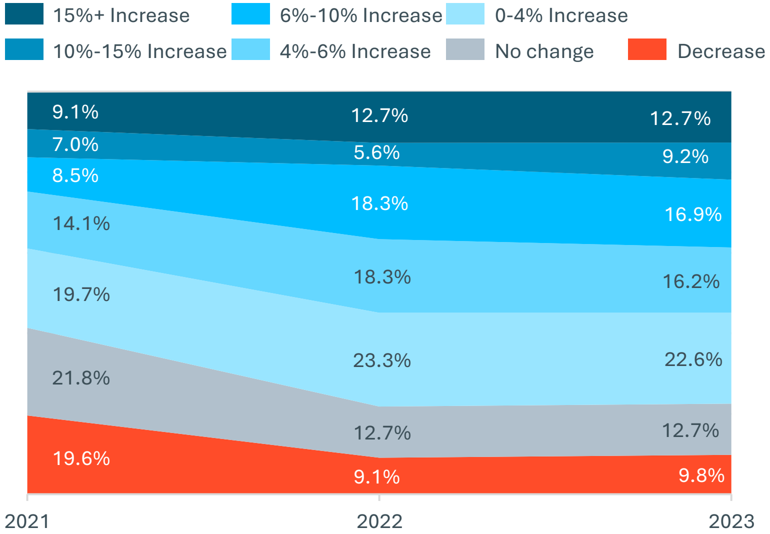
US Corporate IT Spend, by Category[2]



Trailing 3 Month Aggregate Computing Spend by Tech Companies, Indexed to 100[3]



Survey: Expected Change in IT Budget, by Year[4]



Notes: 1) Data for 2022 and 2023 are forecasted. This is indicated by the "F" following the year. 2) Data for 2024 is forecasted. This is indicated by the "F" following the year. 3) Trailing 3 month aggregate computing spend indexed to 100 on 12/31/2020. Data based on computing spend for tech companies as classified by SVB, who are headquartered in the US, designate SVB as their primary bank the entire time period and have computing spend data for the entire time period. 4) Expected change in IT budget from previous year.

Source: Gartner, Statista DossierPlus' "Corporate Spending on IT Infrastructure and Solutions" report, J.P. Morgan CIO Survey 2022, SVB proprietary data and SVB analysis.

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US SaaS Venture Trends

War Chests Remain Full Despite Slower Fundraising

Against a backdrop of public market declines and slower fundraising, private markets are sitting on historic amounts of dry powder, and the “age” of this dry powder is increasing. Nearly 30% of global VC dry powder was raised by funds with vintages more than three years old. With funds generally aiming for deployment of capital within the first four years, this suggests there is still a significant amount of capital that funds will need to deploy in the short term. If not, they will face the prospect of returning funds to limited partners (LPs). This need to deploy capital will encourage activity, placing upward pressure on dealmaking regardless of market headwinds.

At face value, global VC fundraising is on pace to have a historic year. Yet, when delving into the data, 2022 trends look a bit more mixed. Based on fund close date, fundraising dollars is on track to match last year’s record. Leading the charge are veteran firms that have seen a similar market landscape before. However, when looking at the number of funds closed by year and fundraising by vintage year, 2022 trends closer to 2019 and 2020. This reflects the uncertain status of the current environment. Data by vintage year could be more indicative, as it removes funds that may have been mostly already raised and even partially deployed in prior periods.

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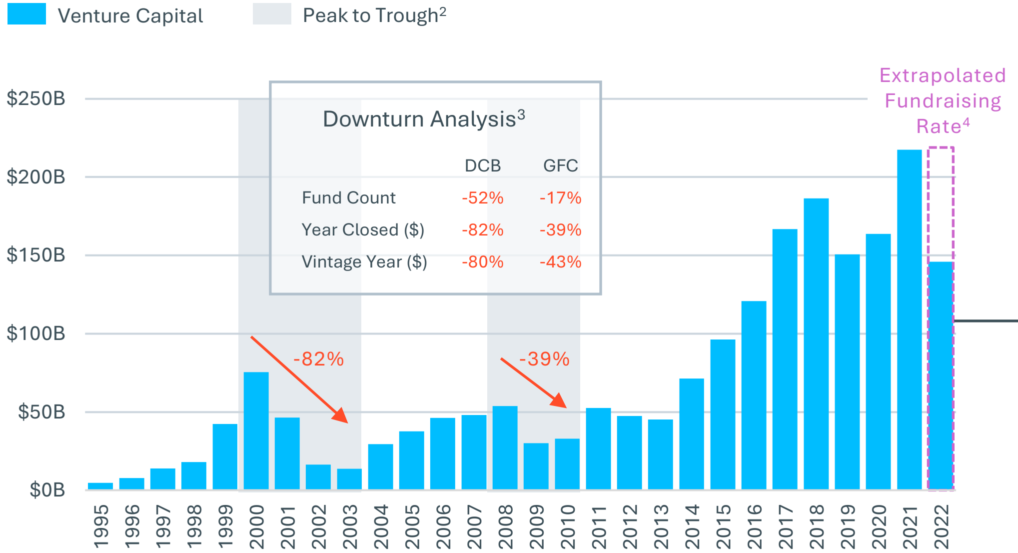
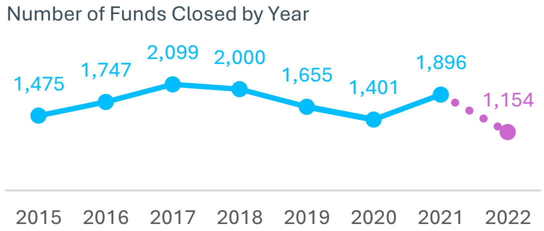
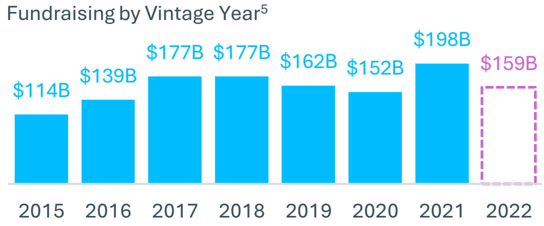
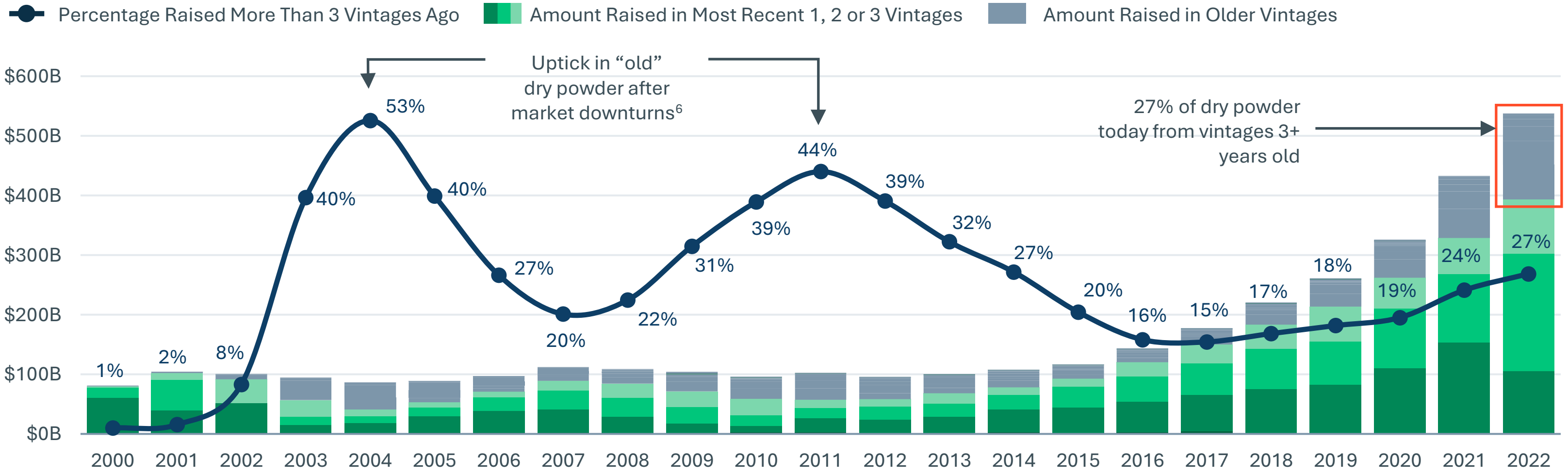
Global VC Fundraising, by Year Fund Closed[1]







Global VC Dry Powder Over Time, by Vintage[5]



Notes: 1) As of 8/31/2022. VC includes early-stage, late-stage/expansion and general subcategories. 2) Shaded areas represent peak to trough fundraising periods (both in terms of funds closed and dollars raised) that occurred around recessions. Shaded areas do not represent actual periods of the respective recession as defined by the National Bureau of Economic Research (NBER). 3) DCB = dot-com bubble; GFC = global financial crisis. 4) Extrapolated based on current trends as of 8/31/2022. 5) In some cases, fund vintages are reclassified by the data provider later in the fund’s life. This chart assumes the original fund vintage remains constant throughout the time frame. Data for 2022 is as of 6/30/2022; all other years are as of year end. 6) Market downturns are determined by SVB analysis of past peaks and troughs of the S&P 500 and business cycle dates provided by NBER.
Source: Preqin, NBER and SVB analysis.

US SaaS Venture Investment Down but Not Out

Last year proved to be an outsized year both in terms of deals and dollars — a high-water mark unlikely to be met in successive years. Nearly three-quarters through 2022, both metrics are lower than the same time last year. Extrapolated data puts deals and dollars on pace to fall 18% and 27% in 2022, respectively.

Investors have slowed down as they continue to assess the impact from sky-high inflation, rising interest rates, depressed public markets and weaker economic data. Despite this, deal pace is continuing at a healthy clip with some of the most notable investors still averaging 20 to 30 global VC deals per month.[1] Meanwhile, US SaaS investment dollars have already surpassed pre-pandemic full-year totals, though the allocation of this capital has shifted with firms looking downstream. For example, the share of US SaaS capital invested from Series C+ deals has fallen from 51% in 2021 to 41% in 2022.

Deal sizes and valuation step-ups have also started to plateau — especially at the late stage — as investors become more stringent and the balance of power has shifted in their favor. The best companies will still be able to raise ample capital at a comfortable valuation. However, less-proven companies will have a tougher time.

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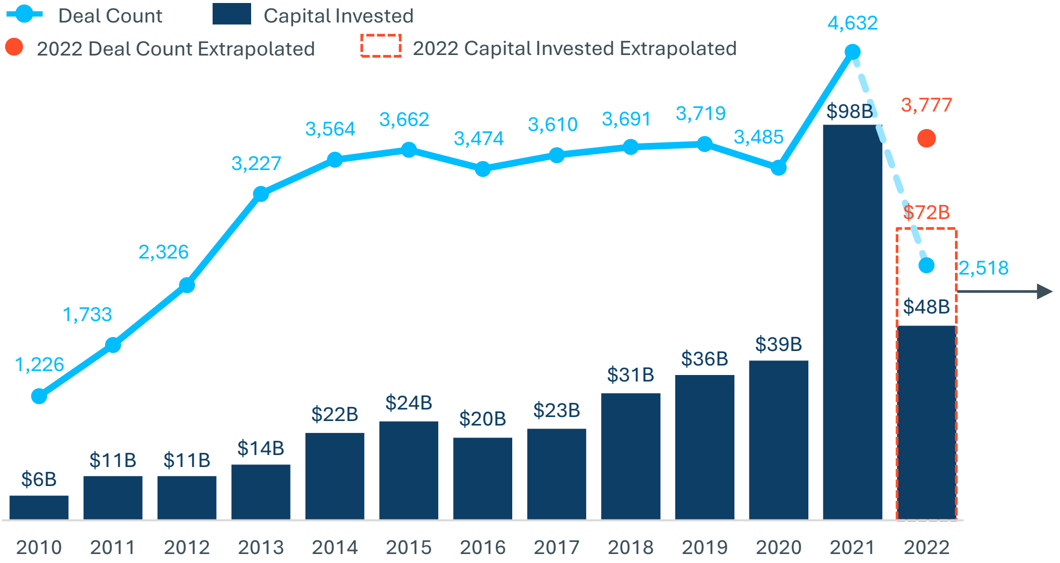
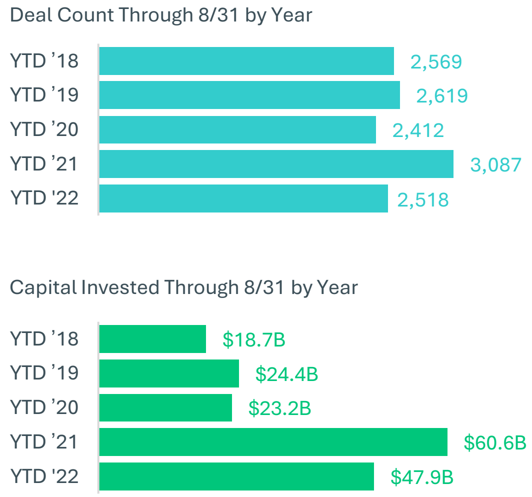
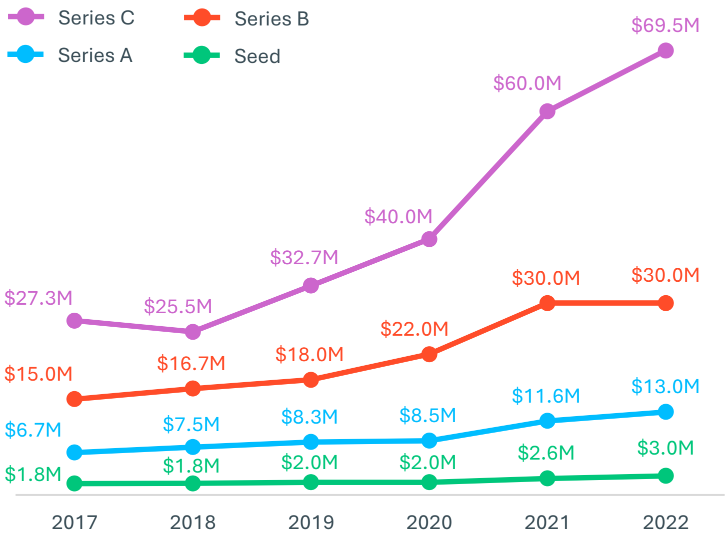
US VC SaaS Deal Count and Capital Invested by Year[2]

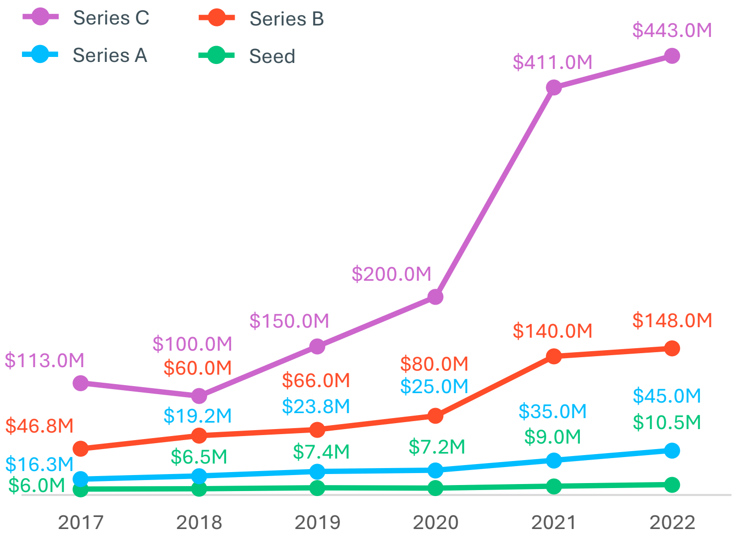




US VC SaaS Deal Size by Year[3]



US VC SaaS Pre-Money Valuation by Year[3]



Notes: 1) Data as of 8/31/2022. Notable investors determined by SVB discretion. VC deals excludes private equity (PE) growth and corporate deals without a series attached to the deal. 2) Data as of 8/31/2022 and subject to change due to data updates or methodology changes; deal count and capital invested excludes private equity (PE) growth and corporate deals without a series attached to the deal. SaaS vertical defined using PitchBook's methodology for industry verticals. 3) Median pre-money valuation and deal size by series.

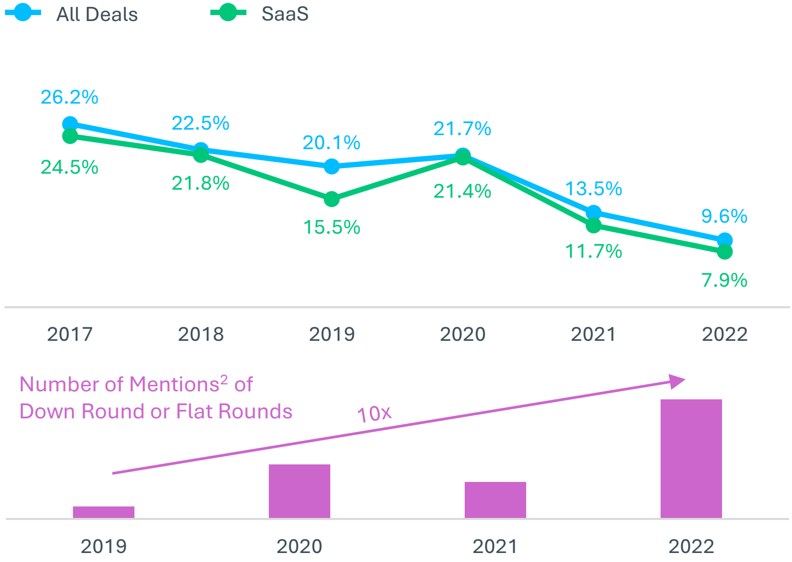
Source: PitchBook and SVB analysis.

Extensions and Down Rounds Flat Despite Slowdown

While signals of a slowdown are evident, we have yet to see a meaningful uptick in down rounds. However, these tend to be lagging indicators, and it is clear from market chatter that down rounds are top of mind for startups. That said, not all down rounds are created equal. They should be considered alongside internal and external mechanisms at a startup's disposal, such as expense management and debt facilities. Cash is king, and raising enough to survive and continue building enterprise value is paramount.

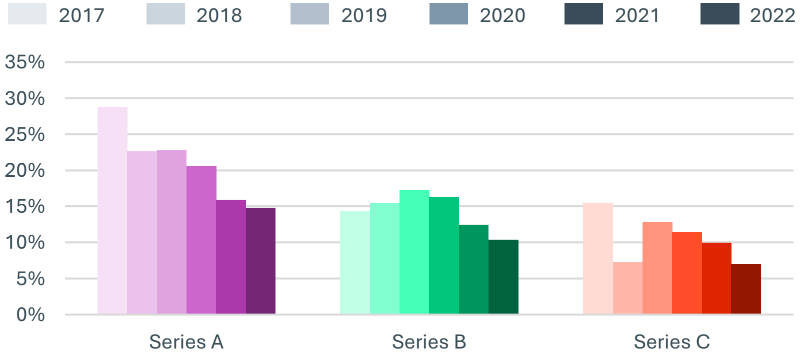
Another fascinating but counterintuitive lagging indicator is the volume of extension rounds. Over the last six years, extensions as a percent of total deals have trended down. Even in the uncertainty of 2020, extensions did not meaningfully "pop" as one might expect. An undercurrent to this may be median deal size ballooning over that same period — meaning, extensions may be less popular when startups raise plenty of capital from the onset. The relative cash "richness" of startups today makes some of these considerations to avoid a down round less immediately relevant. However, many are beginning to understand that hedging against a tight liquidity market in 2023 or beyond via raising debt is another way to protect their businesses. Already, we have seen debt requests skyrocket during this uncertain market.

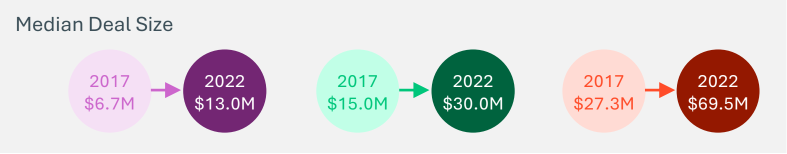
Down Rounds as a Percent of Total Deals[1]



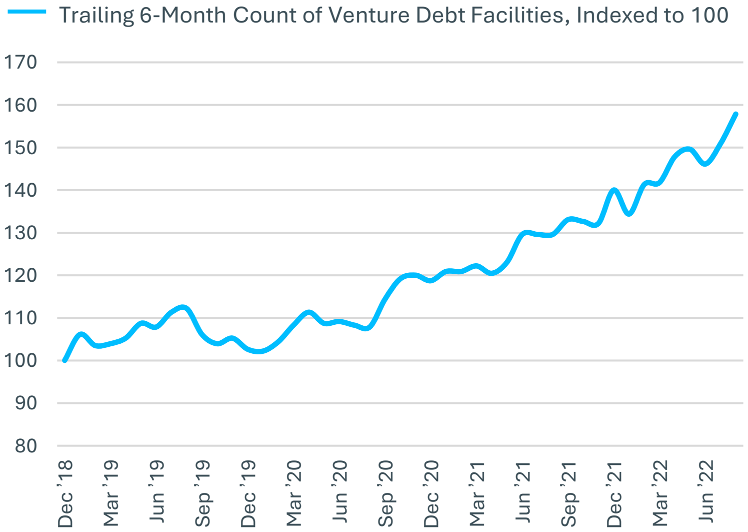
How to and Should You Avoid Down Rounds?

Extensions by Series and Year for US SaaS





SVB SaaS Venture Debt Index[3]



Notes: 1) Deals analyzed excludes PE growth and corporate deals without a series attached to the deal. SaaS vertical defined using PitchBook's methodology for industry verticals. 2) Number of mentions calculated by analyzing proprietary internal call reports that included discussions around flat or down rounds. 3) Index created using proprietary data on growth capital term loans for companies designated as Enterprise Software using SVB's proprietary methodology.

Source: PitchBook, SVB proprietary data and SVB analysis.

SaaS Valuation Step-Ups Plateau Across Stages

Deals are still getting done, but it is clear that the lofty valuation step-ups of 2021 have tapered in 2022. As expected, we have seen the most significant drop-off at the latest stages, while the earlier stage has proven to be a bit more resilient. Consider as well that the middle 50% of Series A to B steps-ups in 2022 still shows a wide range. This means we have still seen some of the outsized early-stage valuations of 2021 persist in 2022.

Not all subsectors follow the same pattern. Cybersecurity has led the pack in terms of most insulated subsectors from the softening in valuations, which comes as no surprise given the persistent spend from large enterprises.

Despite a move to a remote first environment across much of the technology sector, New York City and the Bay Area continue to command a premium, with median valuation step-ups still well above the other regions.

Overall, no matter the life stage, sector or geography, it is clear that valuations are leveling off.

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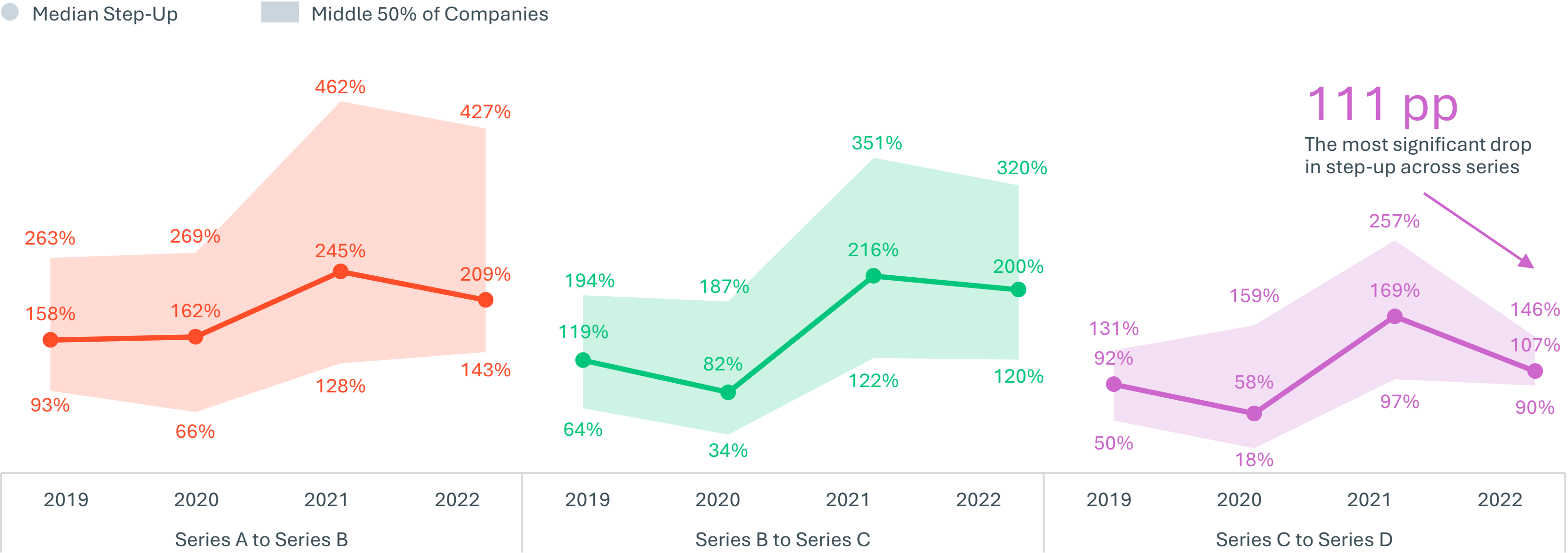
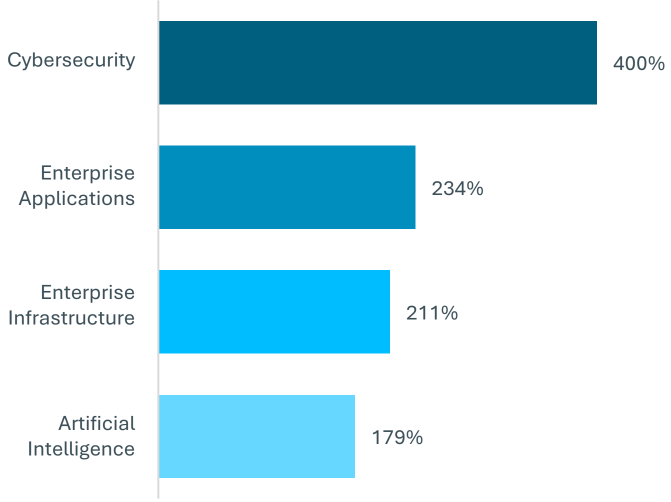
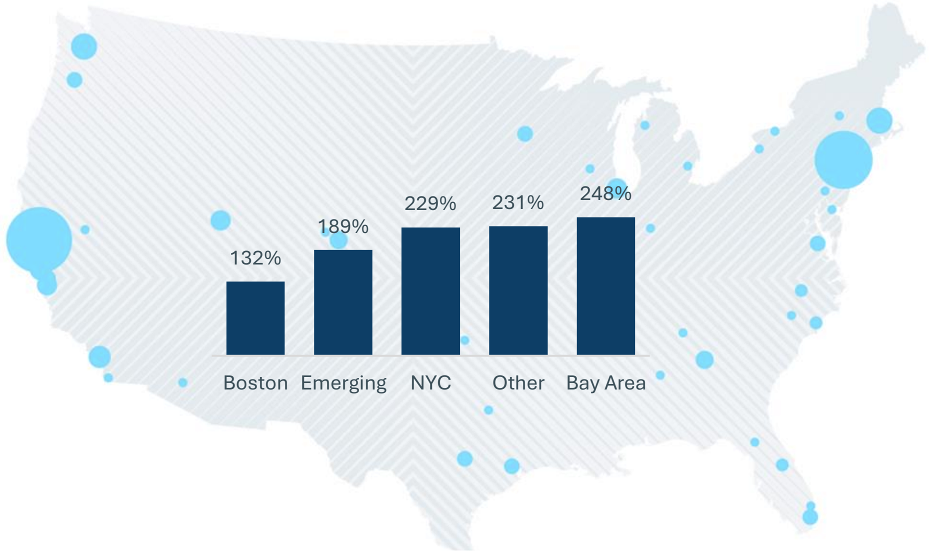
US SaaS: Valuation Step-Up by Series[1,2]



Median 2022 Series B Valuation Step-Up by Subsector[3] and Geography[4]





Notes: 1) US SaaS defined using PitchBook's classification methodology. 2) The median percentage step-up is calculated by analyzing the change from the most recent post-money valuation of the prior equity round to the pre-money round of the next round. 3) Based on SVB proprietary taxonomy. 4) Emerging geographies determined using SVB discretion.

Source: PitchBook and SVB analysis.

Multiples Start to Reset as Balance of Power Shifts

Private and public multiples diverge and converge on a regular basis. When there is a divergence, one can generally expect a reversion back to the median. Case in point, while tracking the BVP Emerging Cloud Index late last year, we expected a softening in private multiples to match public comps as we headed into 2022. This was proven out with private multiples falling in line with public multiples from July last year through this year as markets shifted.

Looking beyond the median, private multiples have a smaller variance than during the upswing of 2021, when the top quartile multiple for private enterprise software companies exceeded 50x in Q2 2021. Today, the upper quartile in private markets taps out around 30x, while private and public medians have otherwise converged. Within enterprise software, developer tools, cybersecurity and operations software subsectors had the highest multiples.

As the year has progressed, public markets have been on the decline, bouncing between bear market and correction territory. While we expect in aggregate private multiples to remain tempered, the market leaders will still command top-tier valuations (and multiples), provided they maintain their "best of breed" status. This means continuing to show strong revenue growth, as it is still a major determinant of the multiple received.

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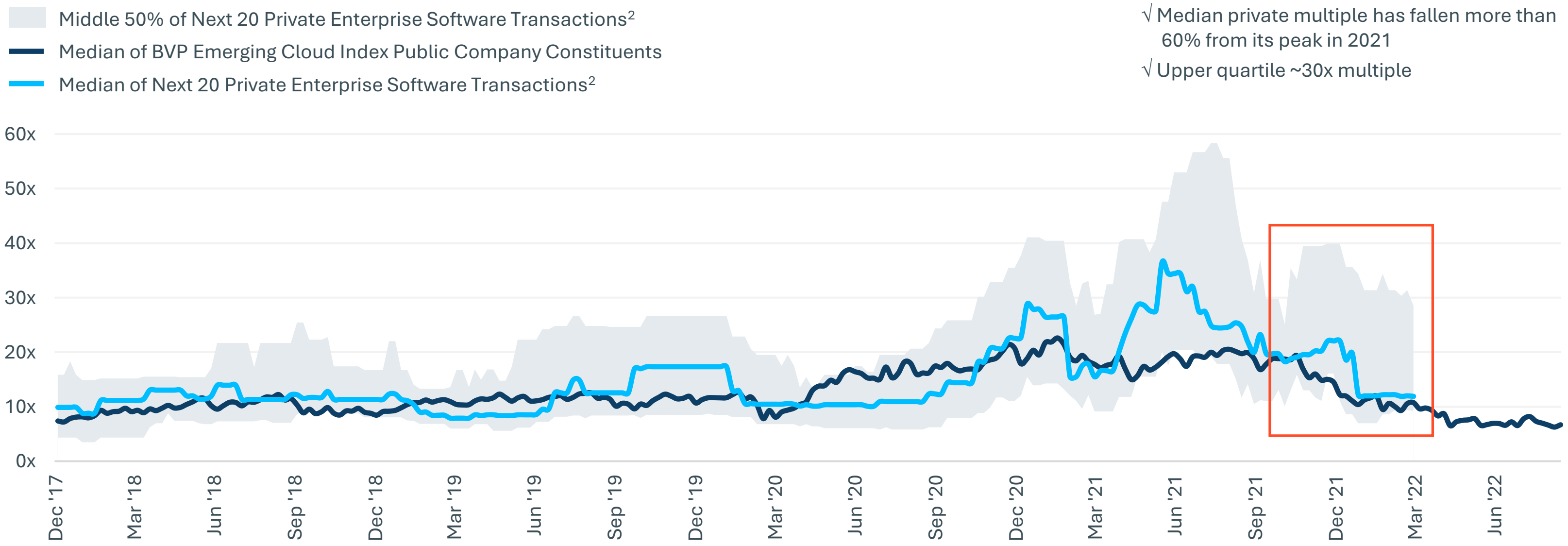
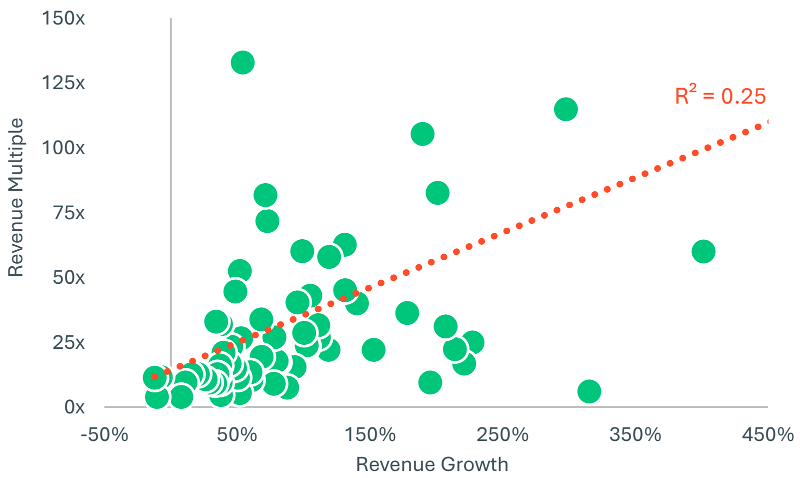
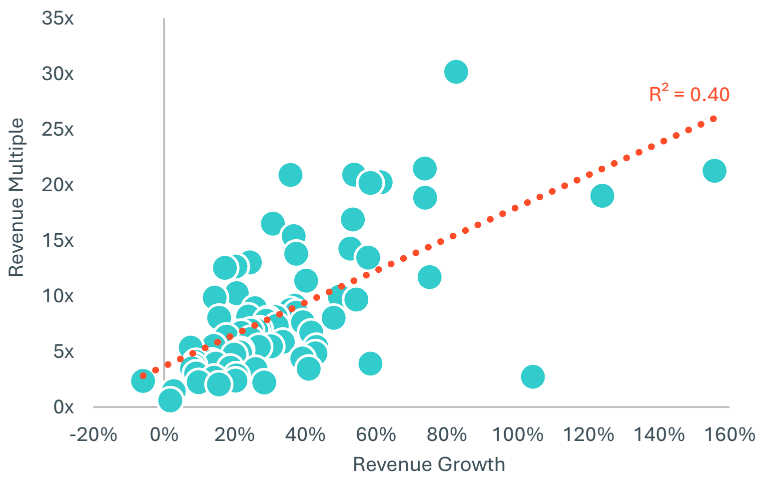
Private vs. Public Median Revenue Run Rate[1] Multiple



Revenue Run Rate Multiple and YoY Growth Correlation: Private[3,4]



Revenue Run Rate Multiple and YoY Growth Correlation: Public (BVP Emerging Cloud Index)[4]



Notes: 1) BVP Emerging Cloud Index revenue run rate is the most recent quarter's revenue multiplied by 4. Private Enterprise Software revenue run rate estimated using proprietary data based on tracked cash inflows over the trailing 4 quarters of US SVB clients designated as Enterprise Software. Multiples based on pre-money valuations for private transactions and enterprise value for public transactions. 2) Data from SVB's observations of transaction multiples of venture-backed companies with a $25M+ revenue run rate. 3) Revenue run rate data estimated using proprietary data from financial statements of SVB clients designated as Enterprise Software. 4) Data for 2022 as of 8/31/2022.

Source: PitchBook, S&P Capital IQ, Bessemer Venture Partners, SVB proprietary data and SVB analysis.

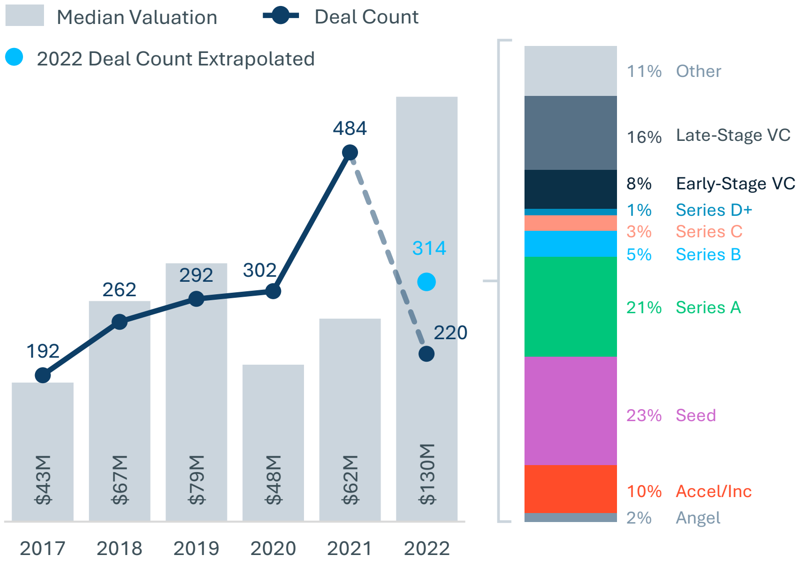
More Enterprise Acquisitions on the Horizon?

While the IPO window remains mostly shut, this market will likely reflect one of the strongest years for acquisition activity in the last decade. Although we predict a steep decline from the highs of 2021 in terms of deal volume, 2022 will still match or exceed the years preceding 2021. This year will also dramatically exceed previous years in terms of median announced valuations.

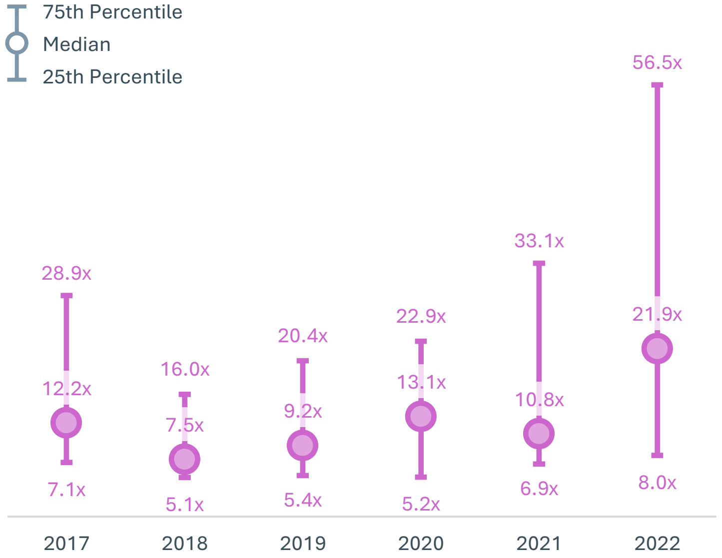
Larger median acquisition prices make sense for now; as later-stage companies find it harder to raise capital, acquisitions will continue to be a desirable alternative. However, this same logic may apply to early-stage companies in the near future, given a growing proportion of US SaaS companies have less than 12 months of cash runway. Ultimately, the median acquisition price may decrease as we gather the full-year picture.

Separately, it is important to note Adobe's $20 billion acquisition of Figma, announced in September. Major transformative transactions of this scale have slightly tapered in 2022, so either Figma is an outlier in this market, or it is a signal that large enterprises are not wavering on their strategic vision due to softer public markets.

Enterprise Software M&A[1,2]



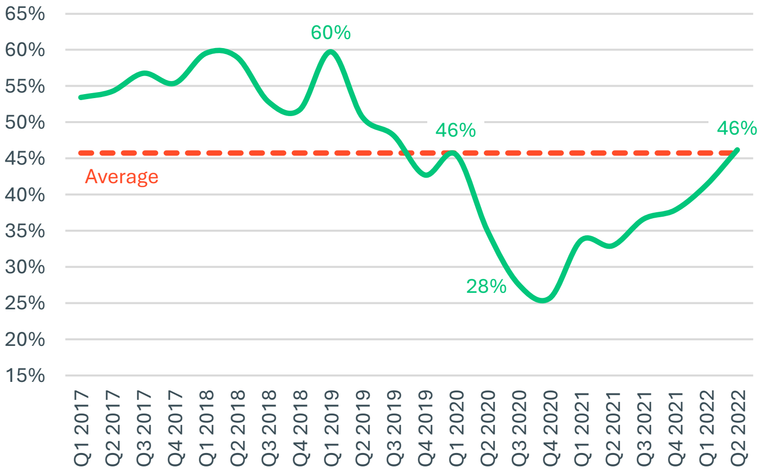
Enterprise Software M&A Multiples[3]



Notable Enterprise Software M&A in 2022

Target	Acquirer	Valuation	Rationale
Streamlit	snowflake	$800M	Provide a visualization platform to allow non-technical users to interact with data and build apps
Attivo Networks	SentinelOne	$616M	Extend AI-powered prevention, detection and response abilities to identity-based threats
StreamSets	software	$584M	Add hybrid data integration capabilities
FLOW	GlobalE	$500M	Expand its API-based technology and the scope of its relationship with Shopify
Siemplify	Alphabet	$500M	Bolster its own cloud security initiative

Proportion of US SaaS Companies with Less Than 12 Months of Cash Runway[1]



Notes: 1) Data as of 8/31/2022 and subject to change due to data updates and methodology changes. 2) Deal count includes deals with undisclosed valuations, and median valuation is subject to change as not all deals have disclosed valuations and data is backfilled. 3) Revenue multiple determined using acquisition valuation divided by revenue run rate. Revenue multiple N size is limited (<50) for each year. Revenue estimated using proprietary data based on tracked cash inflows over the trailing 4 quarters for SVB clients designated as Enterprise Software and use SVB as their primary bank at the time of the respective deal.

Source: PitchBook, S&P Capital IQ, SEC company filings and SVB analysis.

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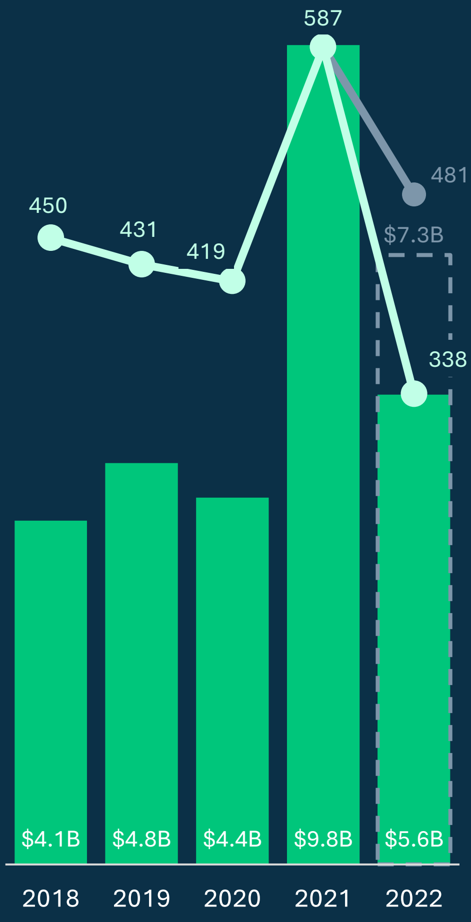
US SaaS Benchmarking

US SaaS Venture Trends: Series A

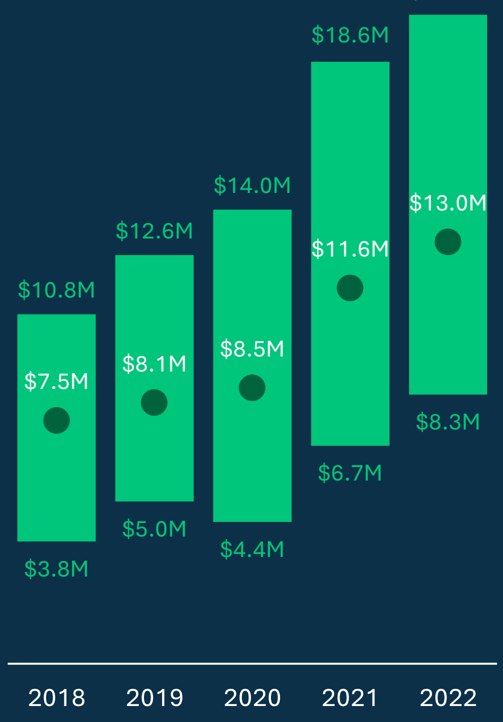
Number of Deals and Capital Invested[1]



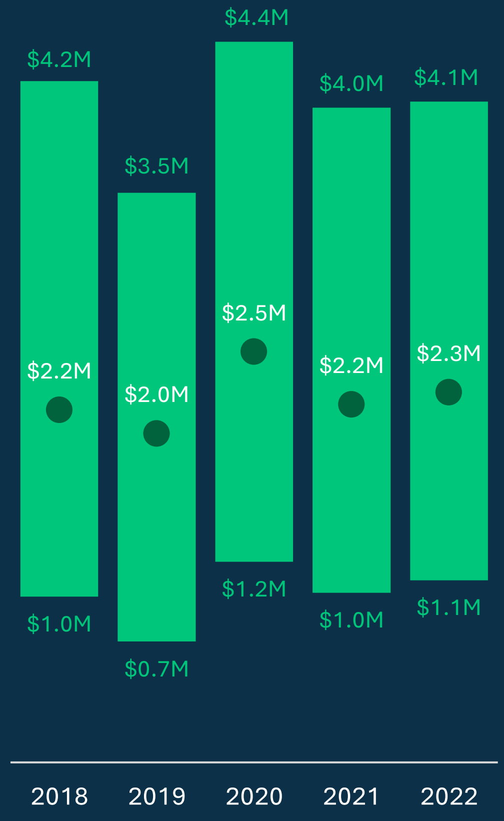
Pre-Money Valuations[1]: 25th to 75th Percentile

Capital Invested[1]: 25th to 75th Percentile

- √ While it appears 2022 continues to trend upward, much of the data is front loaded (>45% occurred in Q1) and follows the coattails of 2021.
- √ The earlier-stage deal market tends to be more insulated and is slower to react to public market corrections.



Revenue[2] at Financing[1]: 25th to 75th Percentile



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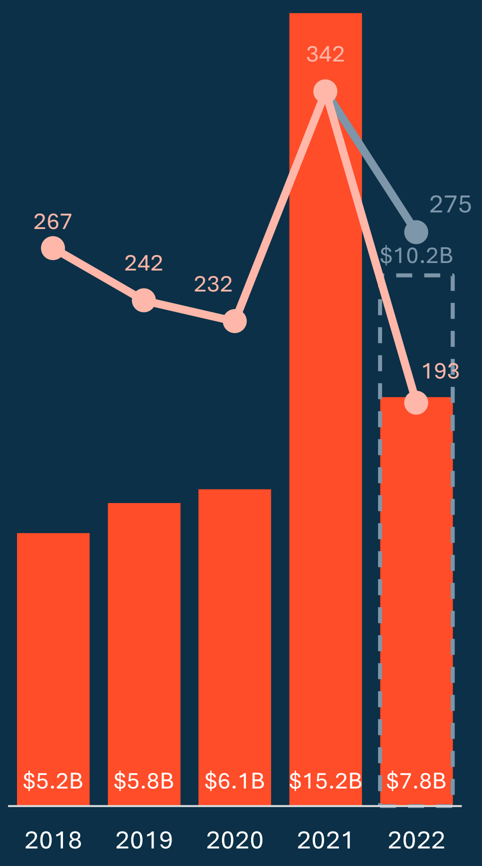
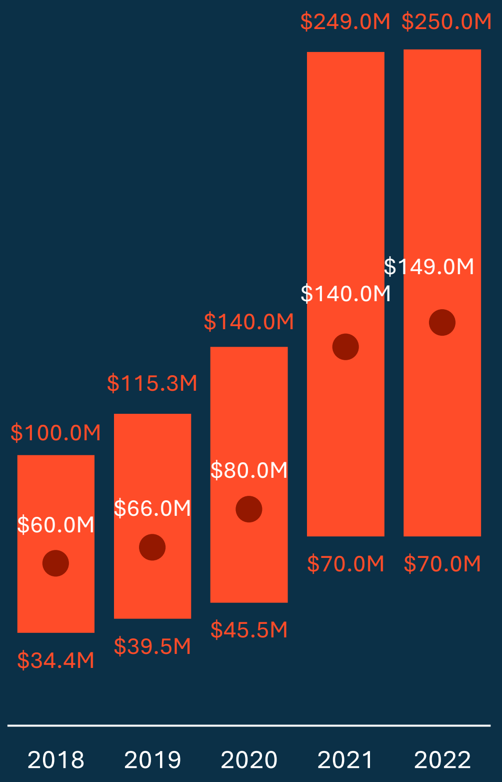
Notes: 1) Data as of 8/31/2022 and subject to change in future analyses and reports due to data updates or methodology changes. 2) Revenue estimated using proprietary data based on tracked cash inflows over the trailing four quarters for SVB clients designated as Enterprise Software, headquartered in the US and who use SVB as their primary bank at the time of the respective deal.
Source: PitchBook, SVB proprietary data and SVB analysis.

US SaaS Venture Trends: Series B

Number of Deals and Capital Invested[1]

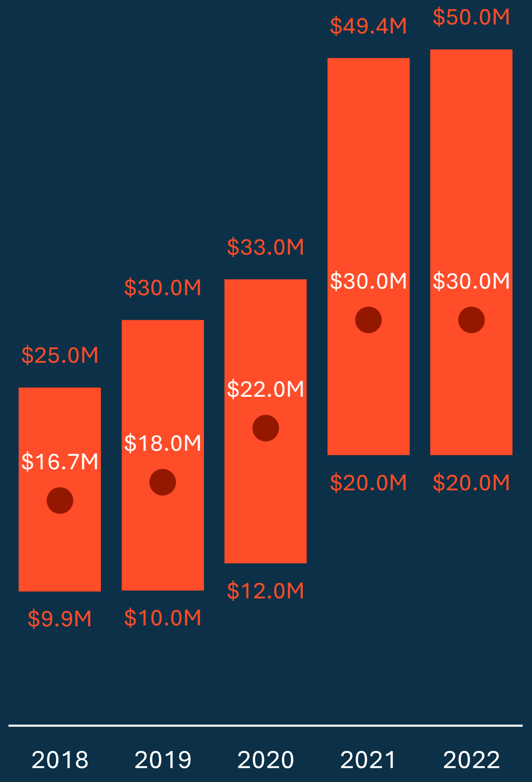


Pre-Money Valuations[1]: 25th to 75th Percentile

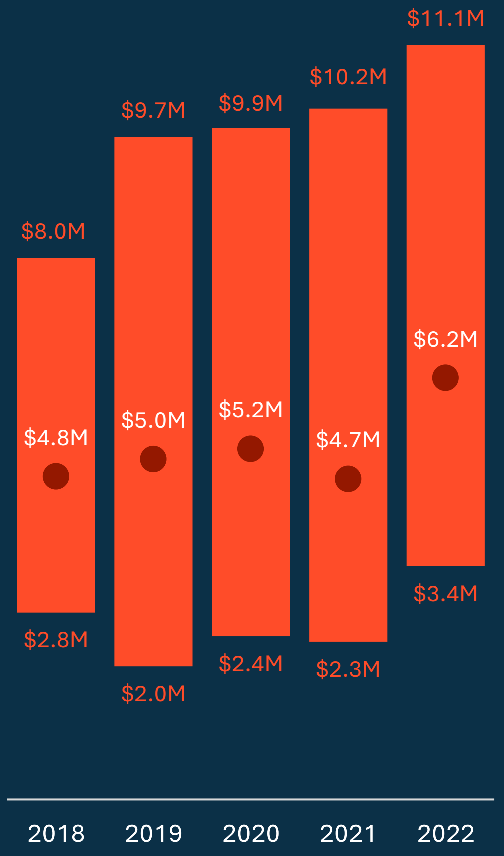


Capital Invested[1]: 25th to 75th Percentile

√ The median size of Series B US SaaS deals remained flat, while the bar for revenue ticked up.



Revenue[2] at Financing[1]: 25th to 75th Percentile



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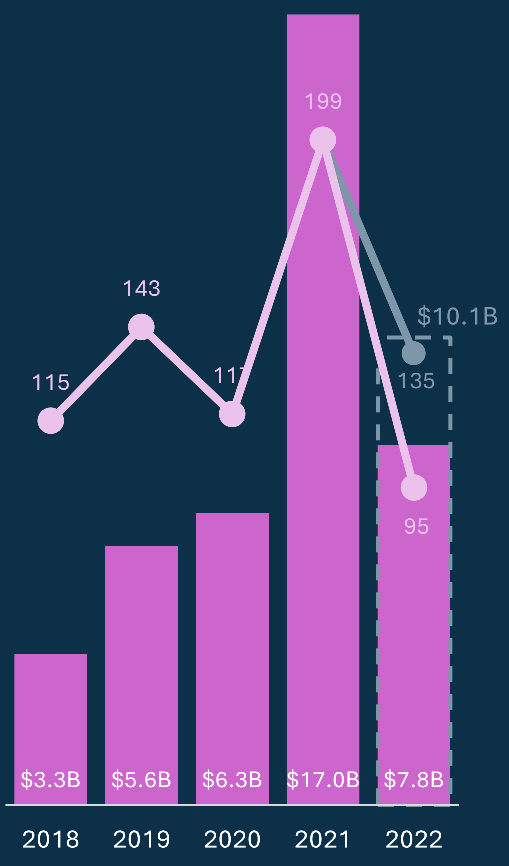
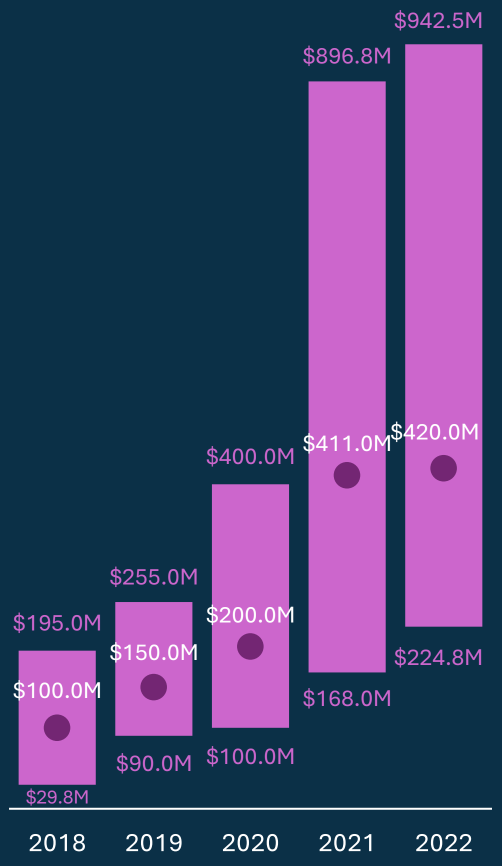
Notes: 1) Data as of 8/31/2022 and subject to change in future analyses and reports due to data updates or methodology changes. 2) Revenue estimated using proprietary data based on tracked cash inflows over the trailing four quarters for SVB clients designated as Enterprise Software, headquartered in the US and who use SVB as their primary bank at the time of the respective deal.
Source: PitchBook, SVB proprietary data and SVB analysis.

US SaaS Venture Trends: Series C

Number of Deals and Capital Invested[1]

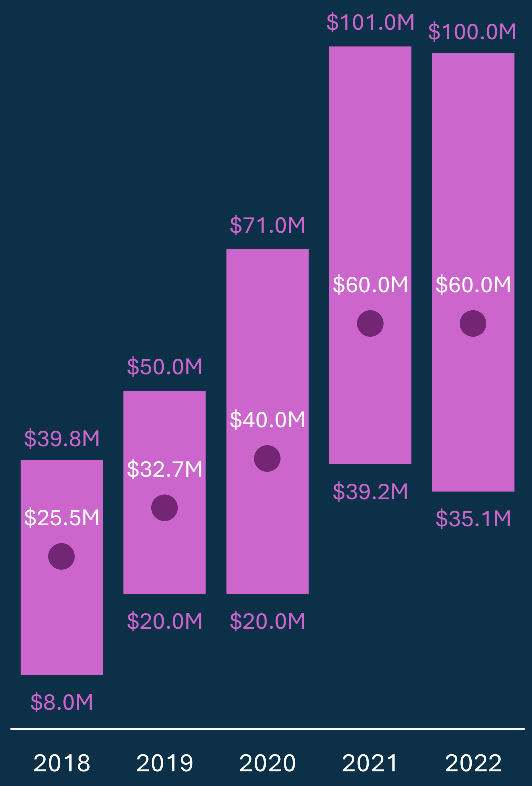


Pre-Money Valuations[1]: 25th to 75th Percentile

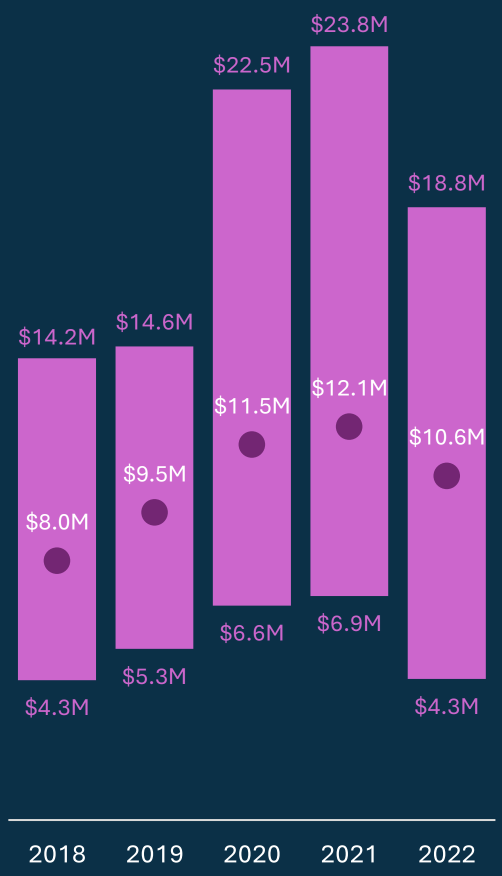


Capital Invested[1]: 25th to 75th Percentile

√ Capital invested at the later stages has started to soften as investors look downstream and public comps weigh on exit potential in the near term.



Revenue[2] at Financing[1]: 25th to 75th Percentile



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Notes: 1) Data as of 8/31/2022 and subject to change in future analyses and reports due to data updates or methodology changes. 2) Revenue estimated using proprietary data based on tracked cash inflows over the trailing four quarters for SVB clients designated as Enterprise Software, headquartered in the US and who use SVB as their primary bank at the time of the respective deal.
Source: PitchBook, SVB proprietary data and SVB analysis.

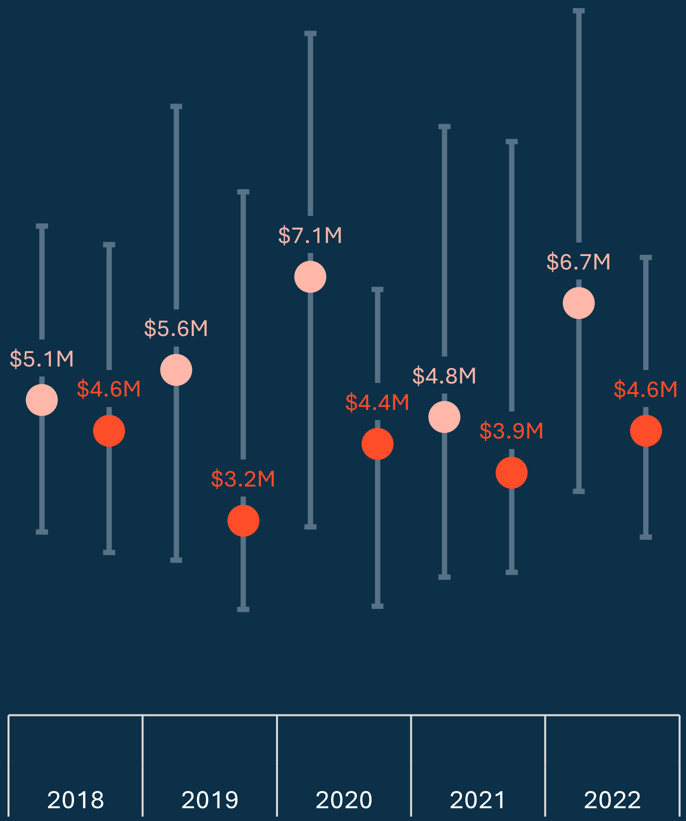
US SaaS Venture Trends: Revenue[1] by Series & Subsector[2]

Revenue by Year[3] for Series A

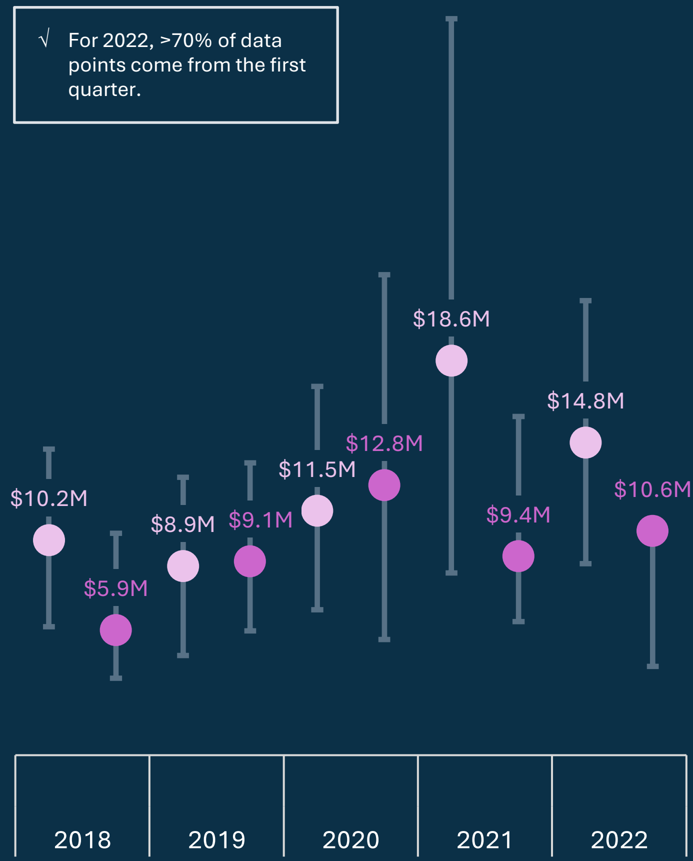
- Enterprise Applications[2]
- Enterprise Infrastructure[2]

75th Percentile
Median
25th Percentile

Revenue by Year[3] for Series B



Revenue by Year[3] for Series C



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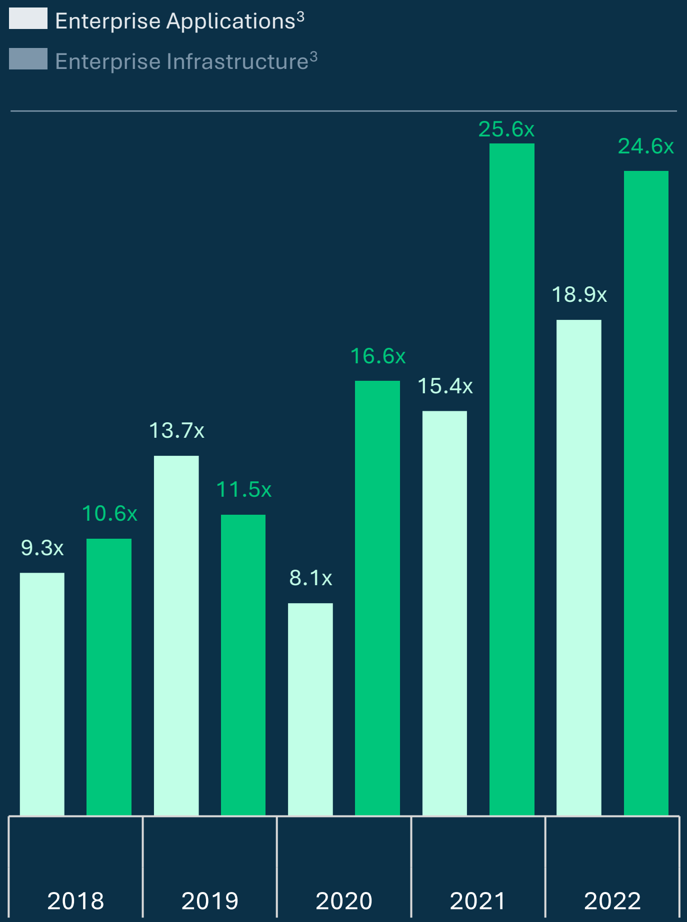
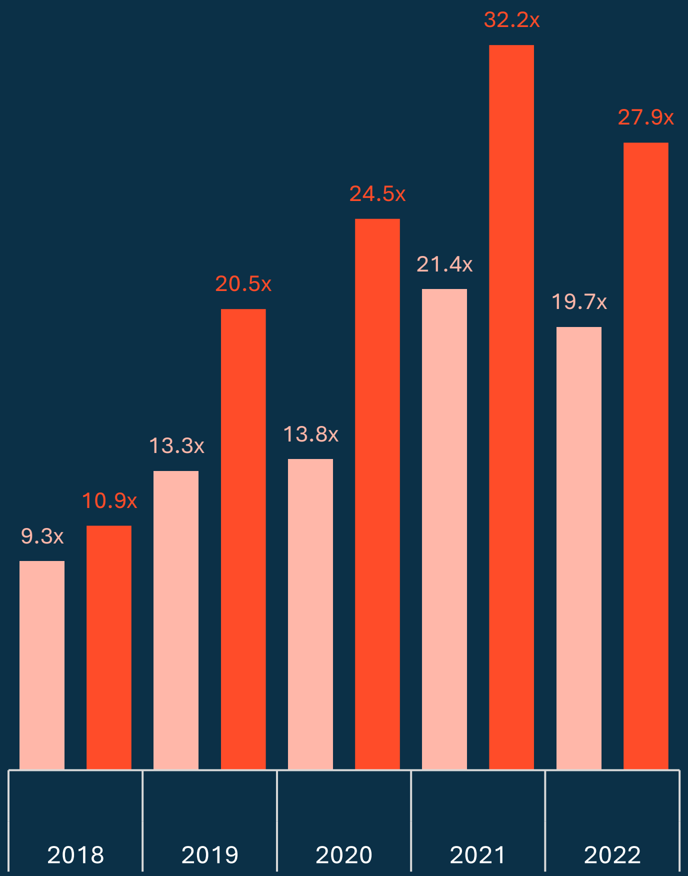
Notes: 1) Annualized revenue estimated using proprietary data based on tracked cash inflows over the trailing 4 quarters for SVB clients designated as Enterprise Software, headquartered in the US and who use SVB as their primary bank at the time of the respective deal. 2) Excludes Marketplaces and Services subsectors. Enterprise Applications defined as companies categorized as Sales Software, Operations Software, Marketing Software, HR Tech, Communication & Collaboration Software and Vertical Specific Software. Enterprise Infrastructure defined as companies categorized as AI/ML, Cybersecurity, Business Intelligence/Analytics, Developer Tools & Microservices and Data Infrastructure. 3) Data as of 8/31/2022 and subject to change in future analyses and reports due to data updates or methodology changes.
Source: PitchBook, SVB proprietary data and SVB analysis.

US SaaS Venture Trends: Revenue[1] Multiple[2] by Series & Subsector[3]

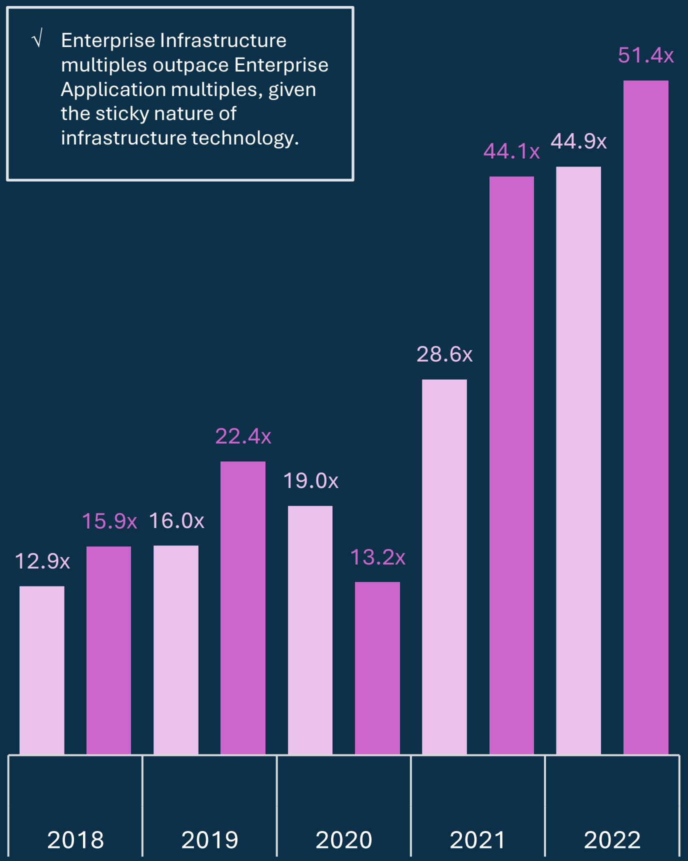
Median Revenue Multiple by Year[4] for Series A



Median Revenue Multiple by Year[4] for Series B



Median Revenue Multiple by Year[4] for Series C



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Notes: 1) Annualized revenue estimated using proprietary data based on tracked cash inflows over the trailing four quarters for SVB clients designated as Enterprise Software, headquartered in the US and who use SVB as their primary bank at the time of the respective deal. 2) Revenue multiple calculated by dividing the company's pre-money valuation by its estimated annualized revenue. 3) Excludes Marketplaces and Services subsectors. Enterprise Applications defined as companies categorized as Sales Software, Operations Software, Marketing Software, HR Tech, Communication & Collaboration Software and Vertical Specific Software. Enterprise Infrastructure defined as companies categorized as AI/ML, Cybersecurity, Business Intelligence/Analytics, Developer Tools & Microservices and Data Infrastructure. 4) Data as of 8/31/2022 and subject to change in future analyses and reports due to data updates or methodology changes.
Source: PitchBook, SVB proprietary data and SVB analysis.

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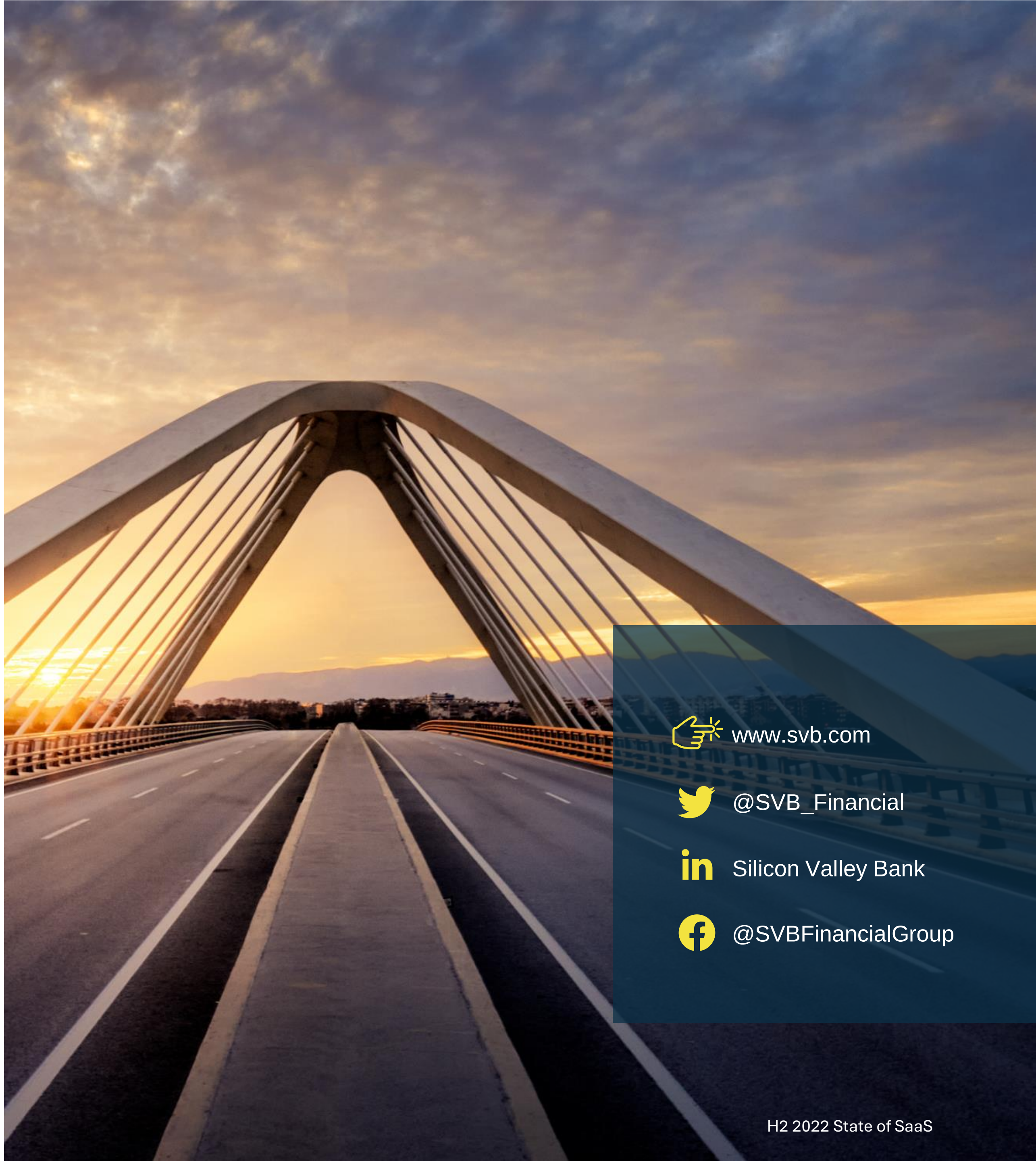

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