State of SaaS

Inside Views on the Health and Productivity of the Innovation Economy and SaaS Sector

March 2022

Executive Summary

Opportunity Amid Uncertainty

The enterprise sector led the charge in what was a record year for venture in 2021. Enterprise software-as-a-service (SaaS) companies raised nearly double the amount of capital in 2021 as investors flocked to late-stage companies, hoping to get in before they went public. Heightened competition for the best deals drove deal sizes and valuations to new heights. Enterprise software companies hit the public markets at a blistering pace, commanding record multiples while also showing a consideration for profitability versus growth at all costs. Meanwhile, M&A activity (finally) saw an uptick as corporations faced pressures to innovate and keep pace with the rate of digital transformation.

Barely three months into 2022, the landscape has changed drastically. Escalating geopolitical tensions, continued inflationary pressures and falling public markets have led investors to pause and reassess. Late-stage valuations have started to soften, absent hybrid investors who are pivoting back to public stocks and toward early-stage startups. The IPO window is barely ajar, as many companies postpone exit plans and turn to non-equity financing alternatives.

The start to 2022 has been tempered, but it is worth remembering investors sit on record amounts of dry powder waiting to be deployed. The last two years have brought changes to how businesses operate and their strategic needs. SaaS startups are in a strong position to capitalize. Whether the current environment proves to be the start of a prolonged downturn or just an overdue pullback remains to be seen. However, we remain optimistic about the enterprise space and expect it to prove resilient in the current landscape.

Ted Wilson
Senior Market Manager
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State of SaaS

Macro Trends

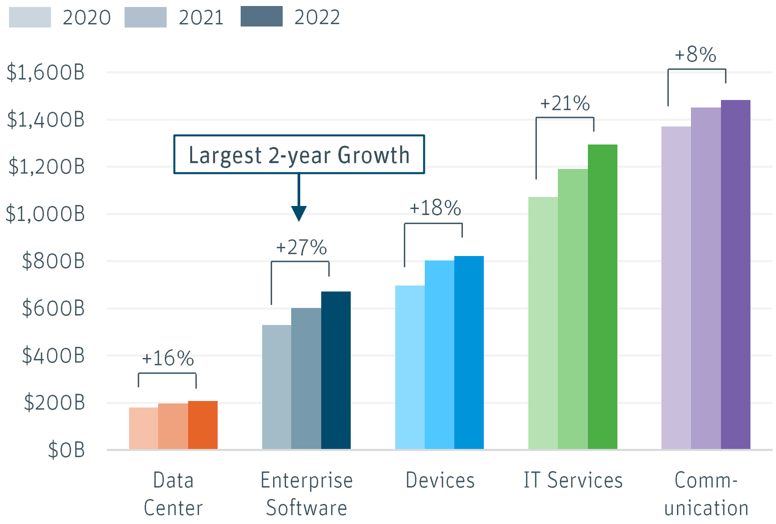
The Great Migration (to the Cloud)

The pandemic underscored the importance of digitization for companies in every sector. This digitization — such as increased focus on enterprise collaboration tools, cloud migration and virtual experiences — has allowed companies to continue operating despite their workforces being spread across geographies.

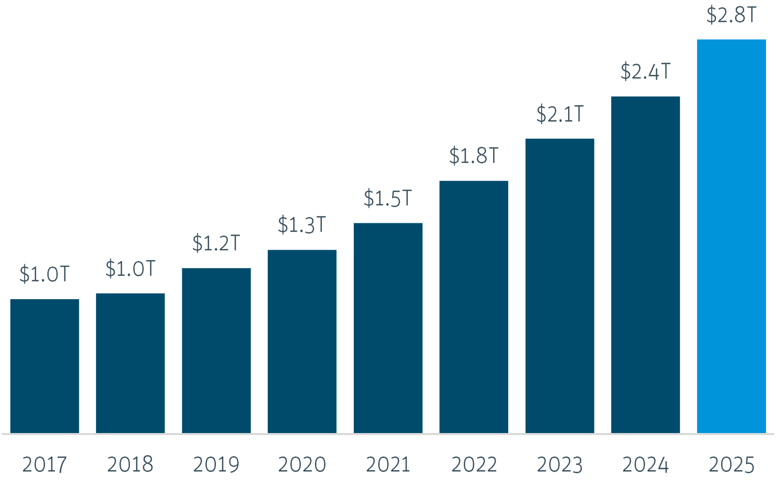
To enable this shift, spending on IT and digital transformation soared as companies made critical investments in their tech infrastructure. A growing part of this budget is allocated to enterprise software — projected to outpace all other IT spending categories next year — specifically investment in the cloud, as organizations upgrade their software stacks for greater flexibility and agility. This presents opportunities for startups, especially as enterprise buyers increase their willingness to purchase from (or in the case of corporate VCs, invest in) early-stage software providers.

Established cloud providers are reaping benefits from the digital push, as companies accelerate their migration to the cloud. While AWS holds the largest market share today, Azure may catch up as large enterprises that use Microsoft address their technical debt (95% of Fortune 500 companies use Azure). Based on SVB proprietary spend data, cloud investment has similarly been a priority for startups. Increases were particularly high at the onset of the pandemic, as companies shifted to remote work. While growth rates have stabilized, spending continues at a healthy clip.

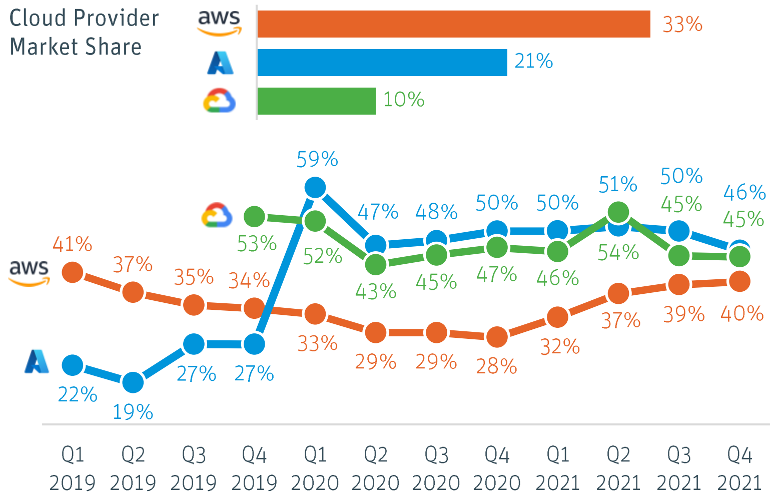
Projected Worldwide IT Spending[1]



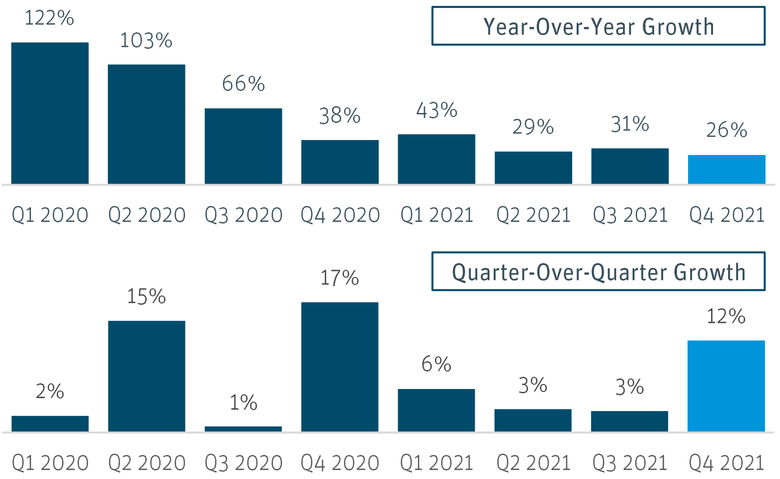
Spending on Digital Transformation[2]



Revenue Growth YoY: Top Cloud Providers[3]



SVB Cloud Computing Spend Index[4]



Notes: 1) Gartner estimates. 2) Projections for spending on digital transformation technologies and services worldwide from 2017 through 2025. 3) Year-over-year growth; SVB analysis of company earnings reports. Data pre-Q4 2019 is unavailable for Google Cloud. 4) SVB Cloud Computing Spend Index based on the median computing spend for all US SVB clients defined as Technology companies within our mid-stage and late-stage groups that have designated SVB as their primary bank.
Source: Gartner, Statista, Synergy Research Group, Microsoft, Statista, SEC company filings, SVB Proprietary Data and SVB Analysis.

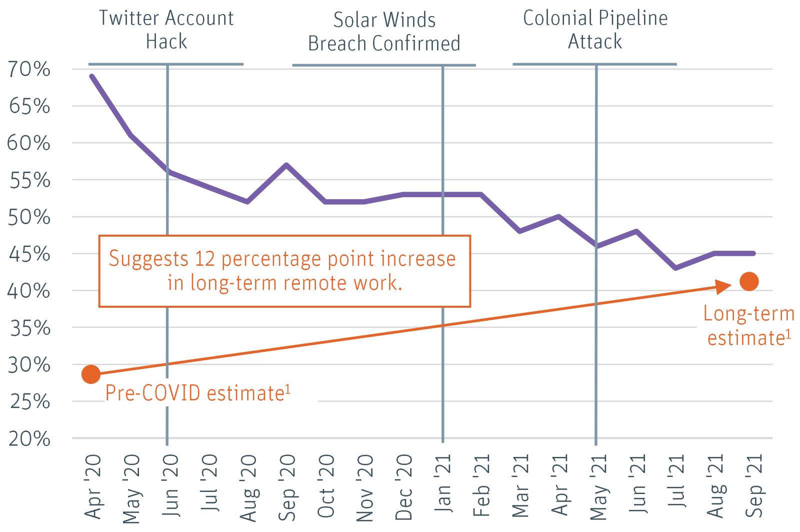
Cybersecurity in the Spotlight

With the acceleration of cloud migration and digital transformation, plus the rise in activity and number of bad actors, cyberattacks have grown dramatically. The number of data compromises jumped nearly 70% in 2021 compared to the previous year. Meanwhile, the average cost of a data breach ticked up 10% and reached its highest level in five years — highlighting the potential cost to organizations and also the market opportunity for startups. At SVB's CISO Cyber Roundtable in March 2022, executives noted that 1 in 5 companies indicated they had a ransomware attack in 2021, with an estimated $80 billion in ransoms paid.

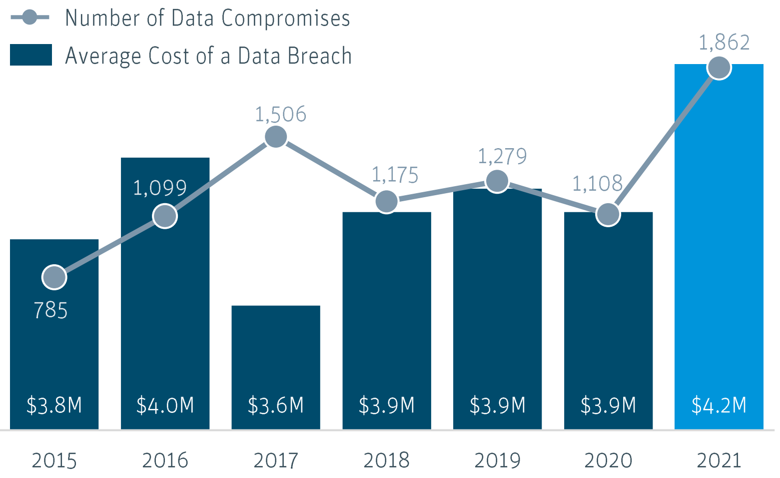
Companies are signaling an increased focus on cybersecurity, with more than two-thirds of those surveyed expecting an increase in spending this year. Part of the focus can be attributed to an ever-increasing surface area of attack, driven by a more remote and geographically dispersed workforce. From a recent survey, 21% of companies reported a ransomware attack in 2021; companies with 201-500 employees were the heaviest hit.[3]

The larger surface area of organizations plus more points of entry will be the biggest test for cybersecurity professionals. The return to offices will likely never return to pre-pandemic levels with nearly half of US workers still working remotely for at least part of the week. Over the longer term, pollsters estimate that just over one-third of workers will be remote on any given day, a number that will undoubtedly be higher for organizations that don't require a physical presence to get work done.

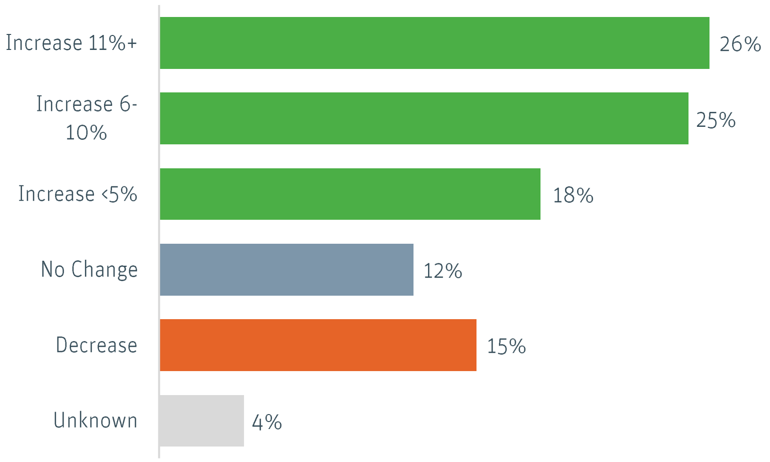
US Remote Work Rate During the Pandemic[1]



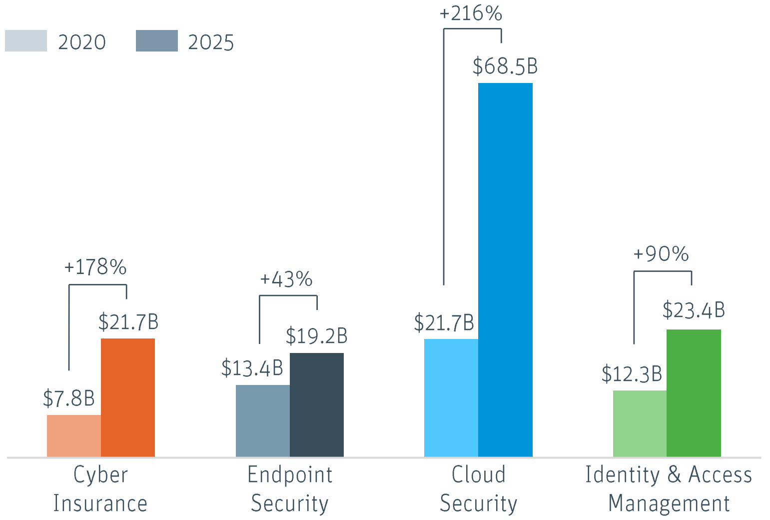
Extent and Impact of Data Breaches[2]



Expectations for Cyber Spending in 2022[4]



Cyber Market Size Estimates by Focus[5]



Notes: 1) Survey data from Gallup based on web surveys conducted in 2021. The Pre-COVID estimate is as of February 2020 from Federal Reserve Data and notes that approximately 25% of workers worked from home at least some days. The long-term estimate is sourced from Gallup respondents who estimated that 37% of workers will be remote on any given day in the long term, as of year end 2021. 2) Number of data breaches in the US by year; includes data breaches, exposures, and leaks. Average cost of a data breach based on analysis from IMB's 2021 Data Breach Report. 3) Hornetsecurity survey. 4) Based on PwC 2022 Global Digital Trust Insights survey from October 2021. Question: How is your cyber budget changing in 2022? 5) Median market size estimates gathered by PitchBook. Source: Federal Reserve Bank of Dallas, Gallup, Identity Theft Resource Center, PwC Global Digital Trust Insights, IBM, PitchBook, and SVB Analysis.

US SaaS Venture Trends

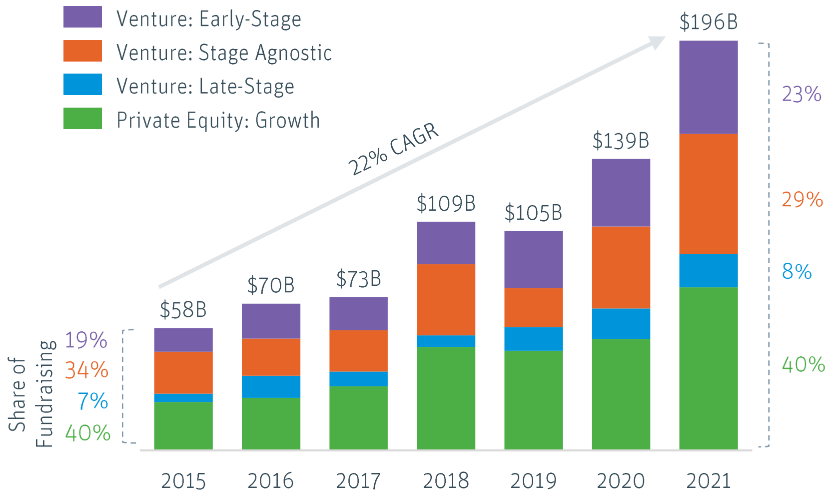
Capital Continues to Climb

Last year was a record year for venture and PE growth fundraising, closing $196 billion in funds, a 41% increase over 2020. Meanwhile, dry powder increased 46% in 2021 and topped $400 billion for the first time in February 2022. The massive amount of capital raised as well as plentiful dry powder speaks to the search for yield by limited partners (LPs) in the current low interest rate environment.

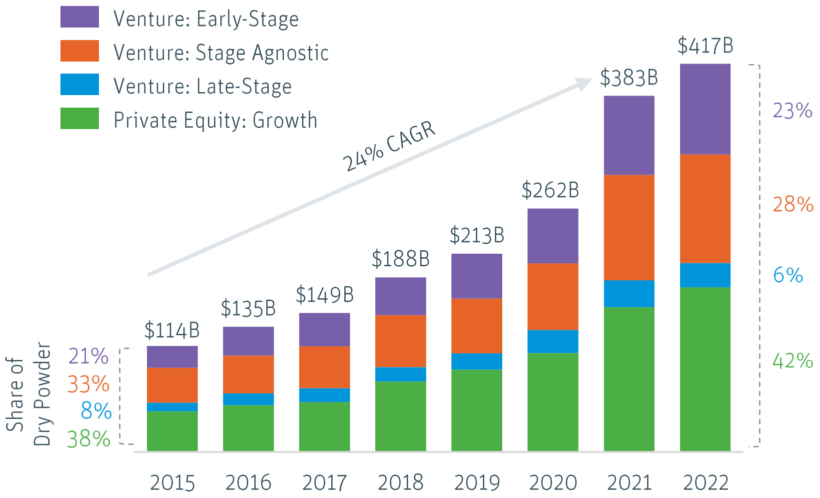
Firms are coming back to market quicker than ever before, as competition for deals drives an intense investment pace. The median time between funds closed for VC and PE growth firms is around two years. Some firms are coming back to market in less than a year. For example, standout dealmaker Tiger Global just raised $11.0 billion for its fund XV in January 2022 — this on the back of a $6.7 billion close for fund XIV just last March[1]. As investors continue to reevaluate their targets amid new opportunities, we expect the barbell shape of fund size distribution to become even more punctuated.

The start of 2022 has tempered investors' willingness to deploy capital, especially at the late-stage, as they wait to see the knock-on effects from the public market downturn amid a volatile economic and geopolitical backdrop. LPs have also voiced concerns about their ability to support 15-18 month fund cycles and may have to make difficult choices. Overall, the investment pace of 2021 seems unlikely to continue in 2022.

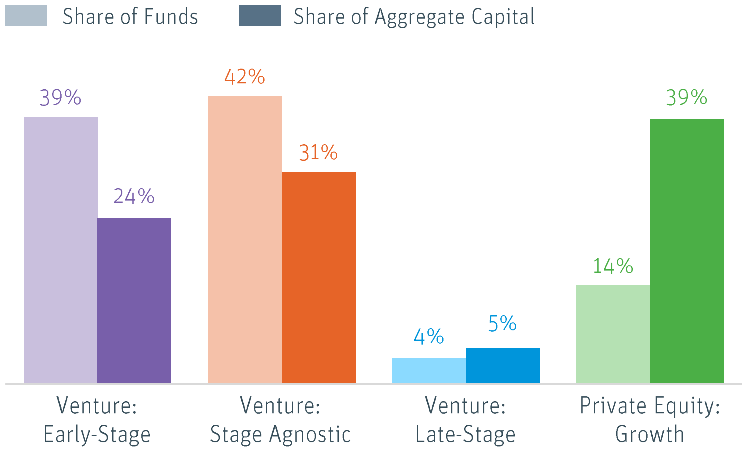
US VC and PE Growth Fundraising[2,3]



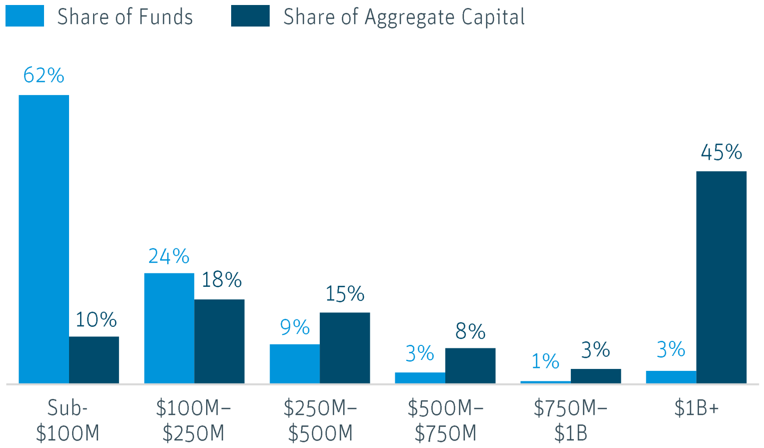
US VC and PE Growth Dry Powder[2,4]



US VC and PE Growth Funds Currently Raising[5] by Strategy



US VC and PE Growth Funds Currently Raising[5] by Fund Size



Note: 1) To learn more about our thoughts on the venture capital and private equity fundraising environment, see our latest Global Fund Banking Report here. 2) Data as of 2/28/22.
3) Based on the year the fund closed. 4) 2022 dry powder figure as of 2/28/22. 4) Firm defined as "Raising" if a fund status on Preqin's platform is not designated as "Closed" or "Liquidated".
Source: Preqin and SVB Analysis.

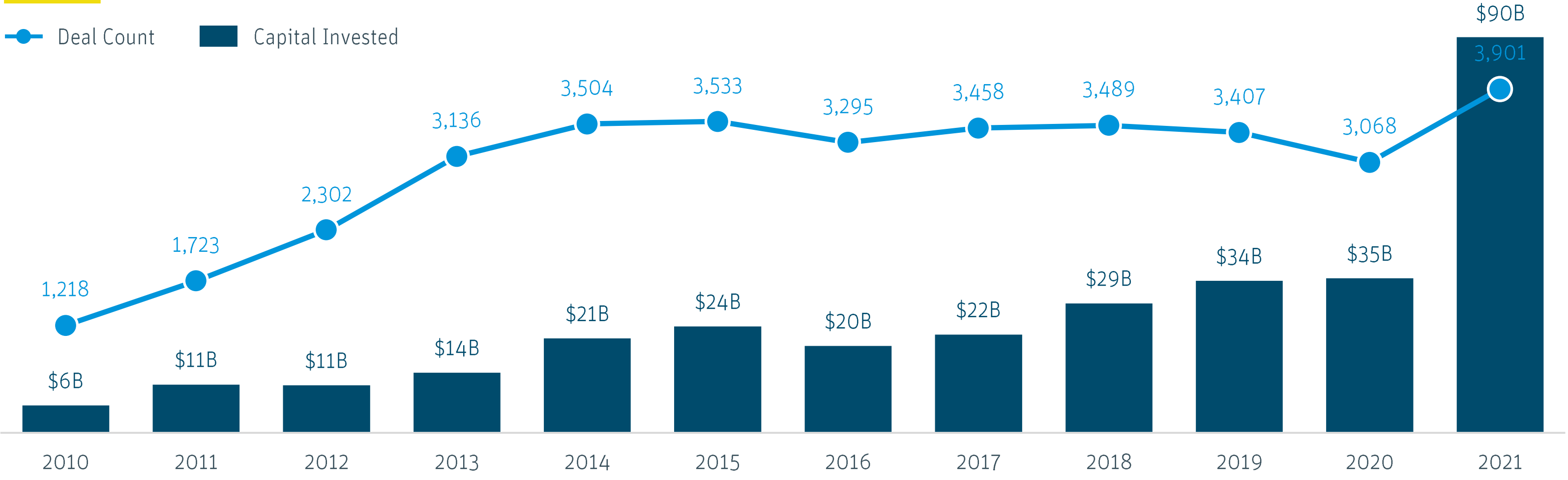
Strong Investment in SaaS Startups

Investment in US SaaS startups has been growing at a consistent clip over the past decade. However, 2021 proved to be a monstrous year both in terms of deals and dollars. Last year was the highest deal count since 2015 as we saw an unprecedented pace of deals driven by factors ranging from reduced friction as investors became comfortable with remote due diligence to heightened competition leading to faster decision making. This was punctuated by notable firms like Insight Partners and a16z completing roughly 20 deals a month in 2021.

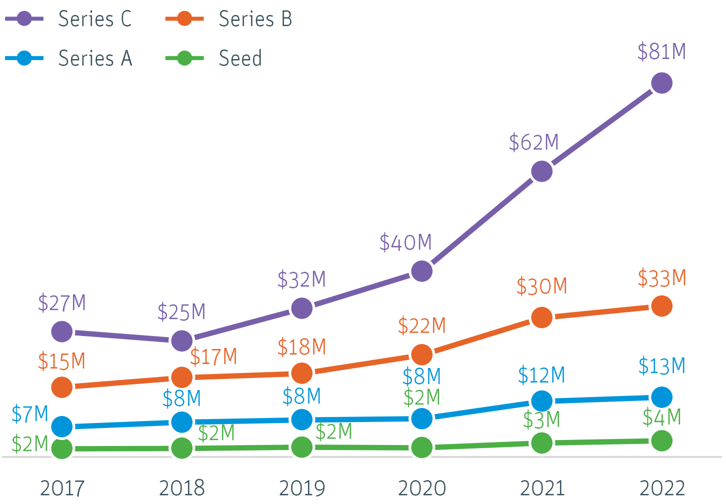
Meanwhile, capital invested skyrocketed, jumping over 150% year-over-year and roughly equating to the past three years of capital invested combined. This was driven by growth in the number of Series C and late-stage VC deals, increasing 64% and 73% year-over-year, respectively.

Deal sizes also continued to climb with 2021 recording over 260 US SaaS VC deals greater than $100M — 3x the total last year and 7x the total in 2015. This was highlighted by firms like Databricks which raised over a billion dollars twice last year alone. Competition for the best deals has been fierce, driving valuations to an all-time high last year. However, 2022 has brought the pace of deal making and heightened valuations into focus. Already, we are seeing a plateau. If the public markets continue to slide and companies struggle to grow into their valuations, pressure on private valuations to rebase will mount.

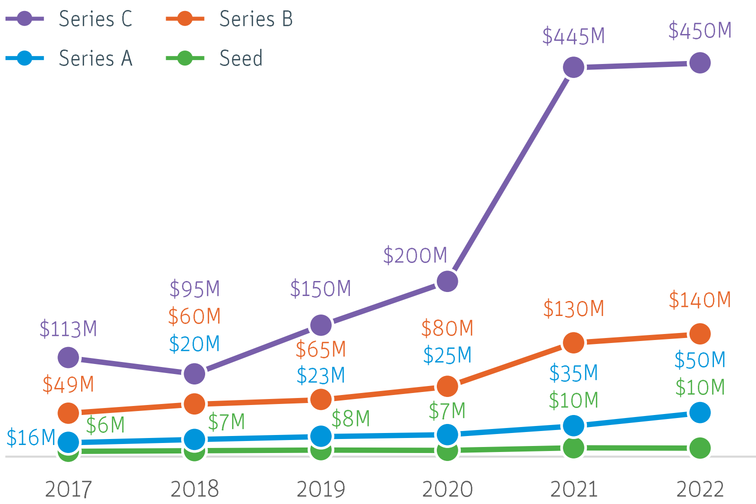
US SaaS VC Deals and Investment[1]



US SaaS Deal Size by Series[1,2]



US SaaS Pre-Money Valuation by Series[1,2]



Note: 1) Data as of 2/28/22 and subject to change due to data updates or methodology changes by PitchBook; deal count and capital invested excludes PE Growth and Corporate deals. SaaS vertical defined using PitchBook's methodology for industry verticals. 2) Median pre-money valuation and median deal size by series.
Source: PitchBook and SVB Analysis.

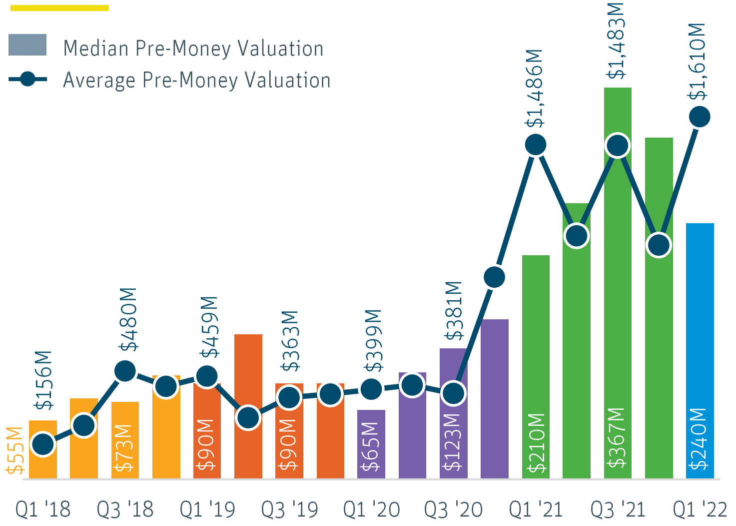
Late-Stage Valuations Primed for a Pullback?

Public markets have seen a steep sell-off so far in 2022 — leading many investors to wonder what the knock-on effects will be for the venture ecosystem, particularly at the late-stage. While it's too early to draw a definitive conclusion, initial data suggests a rebasing. US SaaS Series C valuations have plateaued this year and later-stage valuations[2] have seen a modest dip.

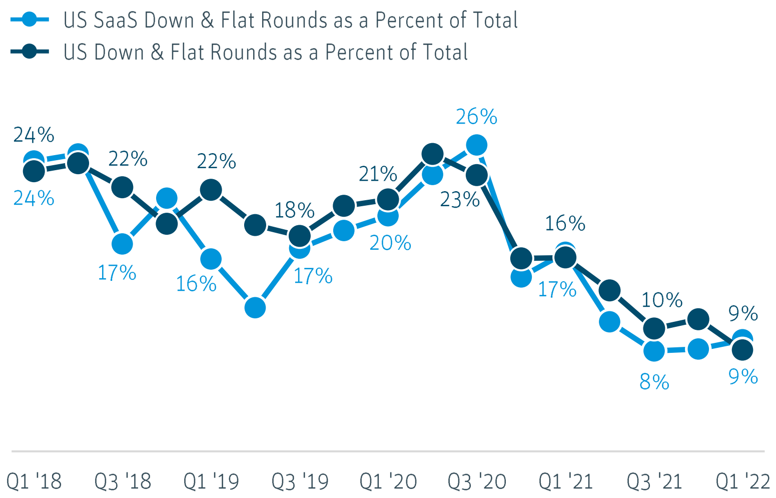
Early reports suggest so-called hybrid firms are pivoting back to public markets where beaten-down tech stocks have opened up buying opportunities and toward the early-stage where valuations are less sensitive to public market drops. Non-traditional investors like Tiger Global have already stated their pull back from the late-stage with concerns over whether growth companies can deliver on the high valuations they garnered, especially as IPO plans get pushed out amid market uncertainty.

The share of Series D+ deals for hybrid investors[5] has fallen more than 10 percentage points in 2022. However, hybrids' investment in SaaS companies has remained steady across stages, due to strong enterprise demand and multi-year contracted revenues insulating companies from volatility. A shift in mindset is also starting to take hold, with leaders evaluating all-out growth versus a blend of growth with profitability. Early stage investing will likely continue at a record pace with the increased focus from hybrids and their sizeable capital reserves eyeing more manageable check sizes and healthy ownership allocations.

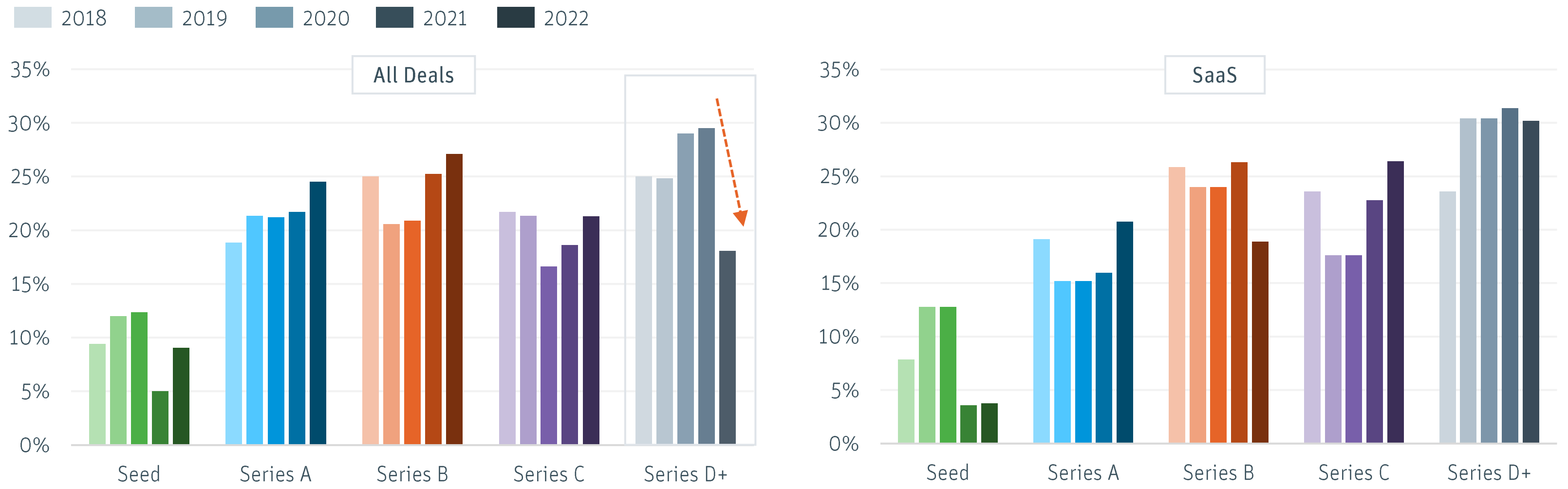
US SaaS[1] Late-Stage[2] Valuation[3]



US SaaS Down and Flat Rounds[4]



Hybrid Investors Share of Deals by Series[5]



Note: 1) SaaS vertical defined using PitchBook's methodology for industry verticals. 2) Late-stage defined as Series D+, Rounds 4+ and Series that were undisclosed but defined as Late-Stage by PitchBook. 3) Data as of 2/28/22 and subject to change due to data backfill and updates by PitchBook. 4) Total deals based solely on deals where an up, flat or down round could be determined. 5) Investors include Accel, Coatue Management, D1 Capital Partners, Insight Partners and Tiger Global Management; share based on global deals.
Source: PitchBook and SVB Analysis.

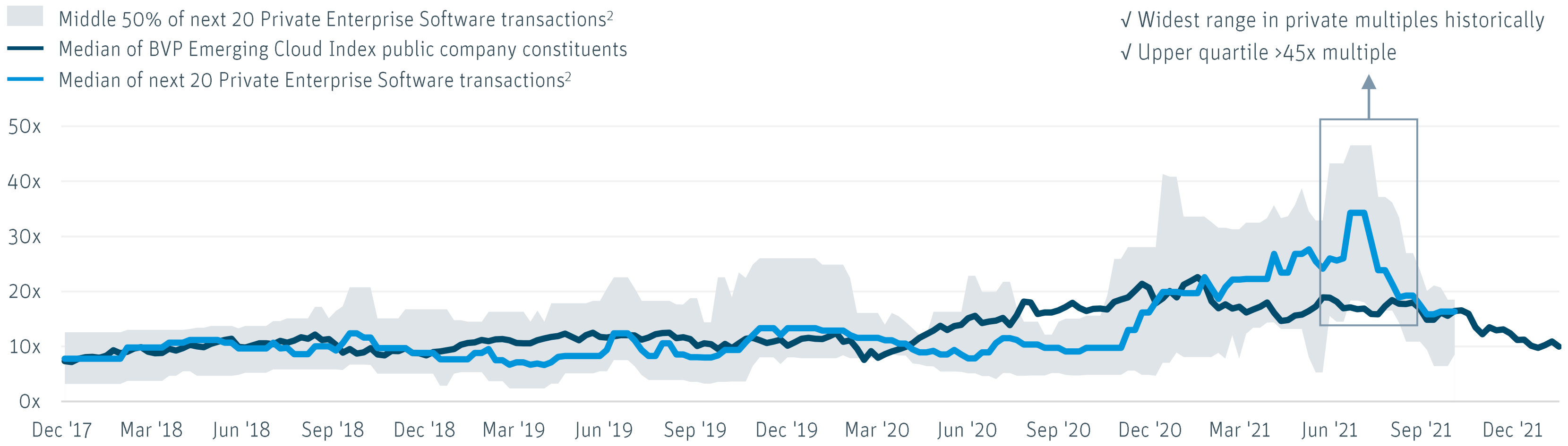
What Goes Up Must Come Down?

Private and public multiples diverge and converge on a regular basis. When there is a divergence, you can generally expect a reversion back to the mean. Case in point, while tracking the BVP Emerging Cloud Index last year, we expected a material increase in private multiples to match public comps going into 2021. This was proven out with private multiples actually exceeding public multiples from March through September last year.

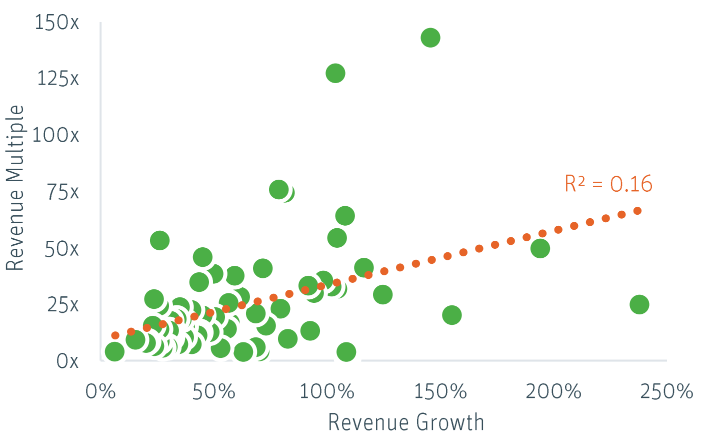
Looking beyond the median, private multiples have a wider variance, with the top quartile multiple for private enterprise software companies exceeding 45x in Q3 2021. This epitomizes the competition among investors to get into the best deals, pushing prices higher. Within enterprise software, developer tools, cybersecurity and operations software subsectors had the highest multiples.

Since the end of last year, public markets have been on the decline. Albeit somewhat lagged, private multiples have started to return to “normal”. While we expect in aggregate private multiples to temper, the perceived market leaders will still command top tier valuations (and multiples), providing they maintain their “best of breed” status. This means continuing to demonstrate strong revenue growth as it is still a major determinant of the multiple received, especially at the late-stage.

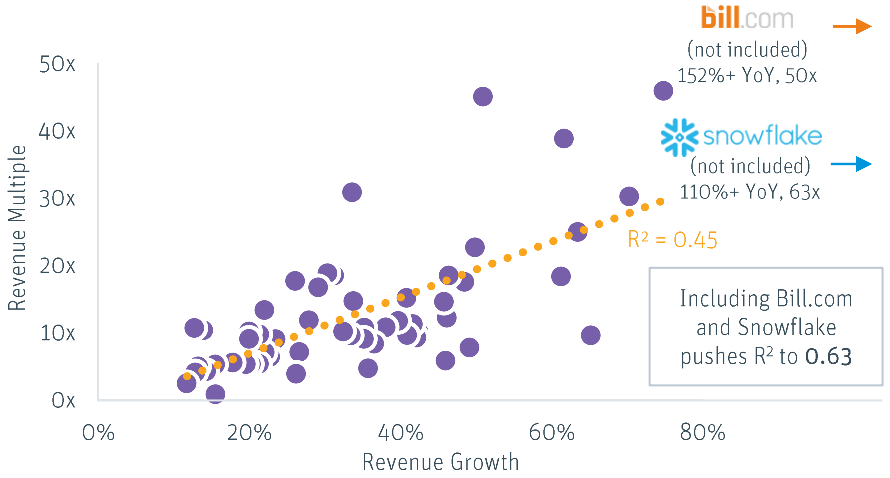
Private vs. Public Median Revenue Run Rate[1] Multiple



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



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



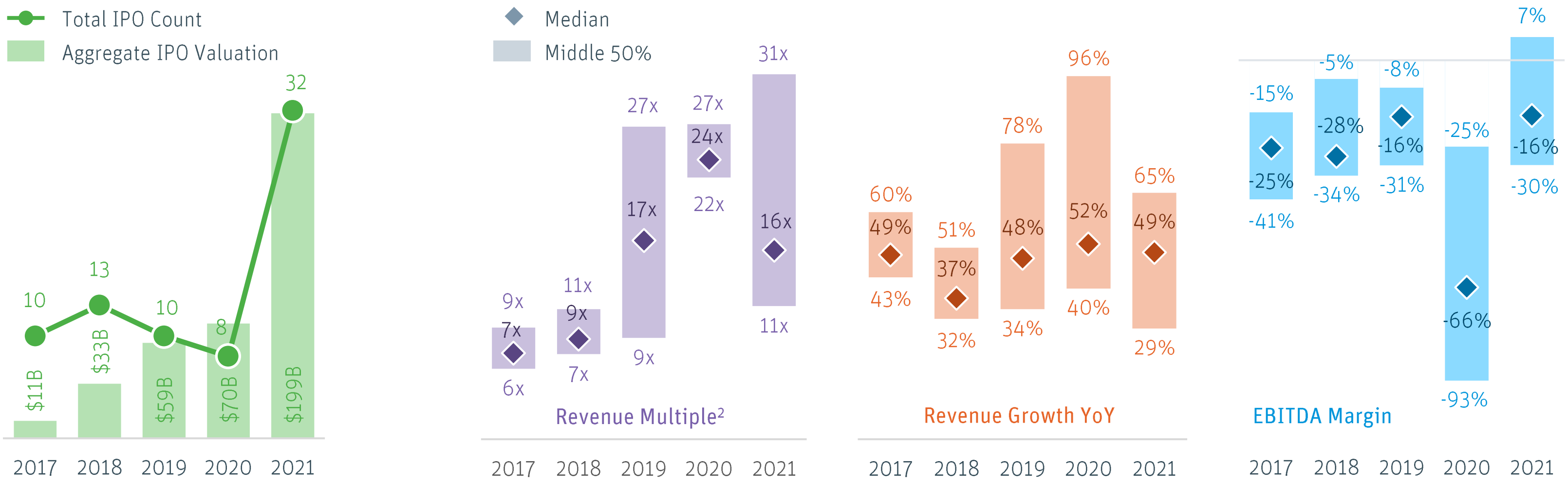
Notes: 1) BVP Emerging Cloud Index revenue run rate is most recent quarter’s revenue x 4. Private Enterprise Software revenue run rate estimated using proprietary data based on tracked cash inflows over the trailing 4 quarters of US SVB clients designated as Enterprise Software. Multiples based on pre-money 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+ run rate. 3) Revenue run rate data estimated using proprietary data from financial statements of SVB clients designated as Enterprise Software.
Source: PitchBook, S&P Capital IQ, Bessemer Venture Partners, SVB Proprietary Data and SVB Analysis.

An Abrupt Closing of the IPO Window

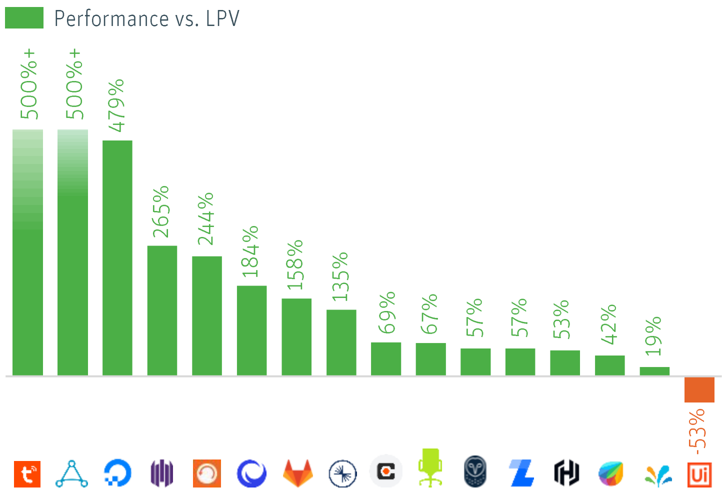
Capitalizing on upward trending public markets, efficiencies from virtual road shows and prior cohorts performing strongly, venture-backed enterprise software companies went public in record numbers last year. After a subdued 2020, the number of enterprise software IPOs spiked in 2021, mirroring the broader venture-backed IPO activity. However, the majority of this activity happened in the first three quarters of the year. As the year drew to a close, activity softened as tech ("growth") stocks suffered from the switch to "risk-off" brought on by fears over escalating geopolitical tensions, rising (or expected rises) in interest rates and heightened inflation. So far in 2022, activity has been very light with a number of IPOs withdrawn amid spikes in volatility — the VIX passed the 30 mark at the end of February (below 20 is seen as reasonable for an IPO) — and downward pressure on valuations.

Down from their highs, enterprise software IPOs are still performing well relative to their last private valuation (LPV) with 80% of the 2021 IPO cohort trading above their LPV with a median outperformance of 68%. The 2022 IPO cohort needs to balance growth with profitability to ease concerns around longevity of high growth/high cash burn companies. Based on SVB proprietary data, the next pool of IPO candidates are concentrated in the cybersecurity and business analytics sectors.

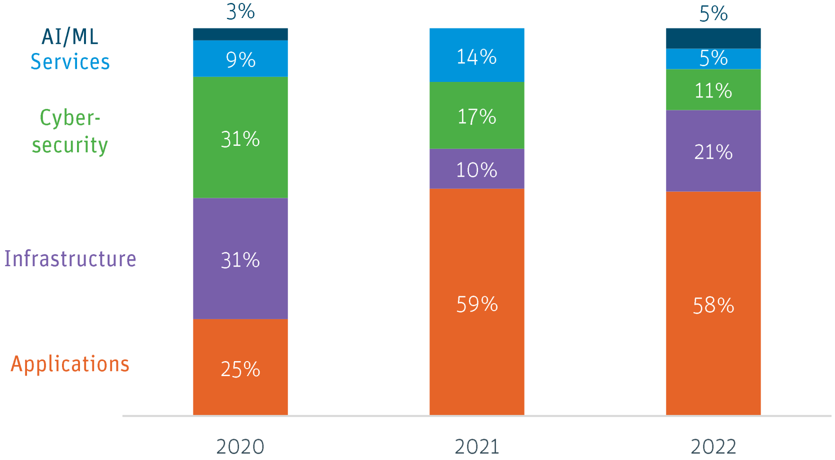
US VC-Backed Enterprise Software IPO[1] Metrics



Notable 2021 IPO Cohort Performance[1]



Mid-Stage Firms Scaling to Late-Stage Firms by Subsector[1,3]



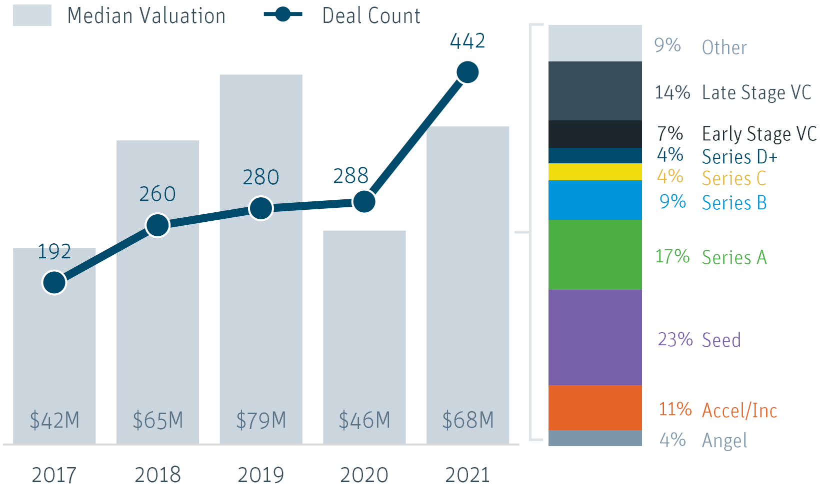
M&A Back in Business

Companies flush with cash turned to inorganic growth in 2021 as they sought to not get left behind amid the flurry of digital transformation. Additionally, CVCs continued to emerge as part of a balanced approach to engagement with startups — both through M&A and targeting early-stage startups where there is a meaningful partnership opportunity or long-term financial upside.

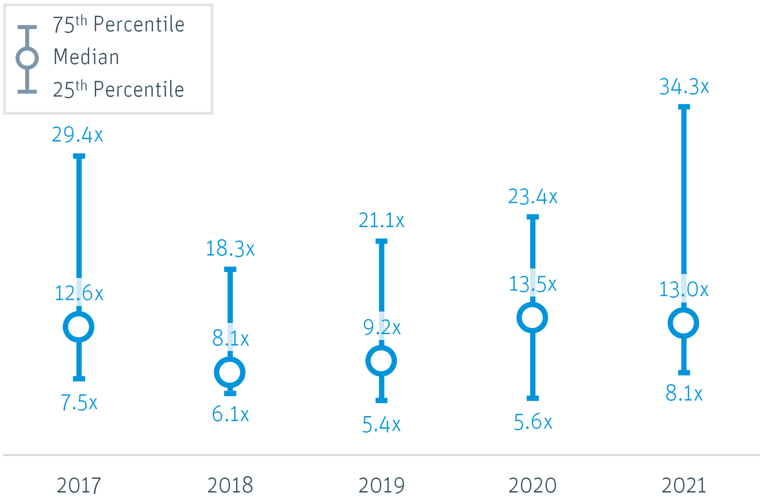
In 2021, acquirers came further down stream to scoop up SaaS startups, with 23% of enterprise companies being acquired at the seed stage, up 10 percentage points from 2020. And while the median multiple remained flat, the middle 50% band of transaction multiples was the widest since 2017. Startups within sales software and cybersecurity commanded the highest multiples.

In the face of pressures to innovate and drive digital transformation, corporations will continue to turn to acquisitions. According to Bain, 80% of executives state M&A is part of their business strategy and 89% expect the same or more activity in 2022. However, the current economic and geopolitical climate does cast doubt on those expectations, further adding to potential headwinds like rising rates, supply chain and labor challenges and increasing regulatory scrutiny. However, demand for new technologies continues to grow and emerging strategic priorities like Web3, the metaverse and ESG will prompt companies to act, most likely through acquisitions. As previously mentioned, with IPO plans being pushed out or cancelled, financial buyers will play an important role for startups that get caught in a fundraising crunch.

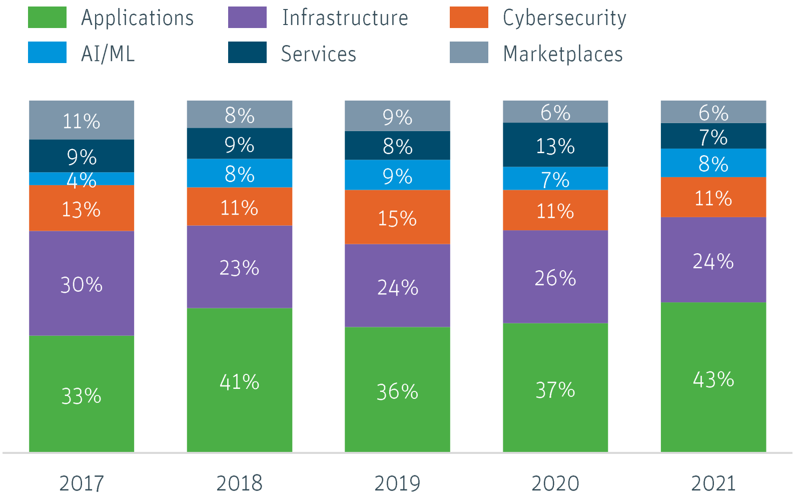
Enterprise Software M&A[1,2]



Enterprise Software M&A Multiples[3]



Enterprise Software M&A by Subsector



Notable Enterprise Software M&A in 2021

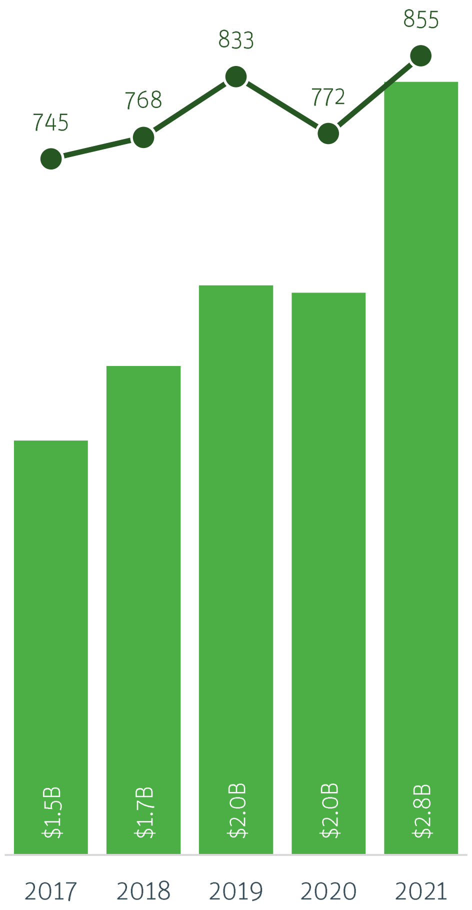
Target	Acquirer	Valuation	Rationale
auth0	okta	$5.7B	Benefit from Auth0's unparalleled developer centric model in identity management
turbonomic	IBM	$1.8B	Provide customers with AI-powered automation of IT, accelerating their journey to hybrid cloud and AI
stackoverflow	prosus	$1.8B	Invest in the future of workplace learning, while also complementing its current EdTech products
Frame.io		$1.3B	Improve capabilities for collaborative, real-time video content editing in the cloud
Kustomer	Meta	$1.1B	Empower omni-channel communication and messaging between businesses and customers

Notes: 1) Data as of 2/28/22 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.
Source: PitchBook, S&P Capital IQ, SEC company filings and SVB Analysis.

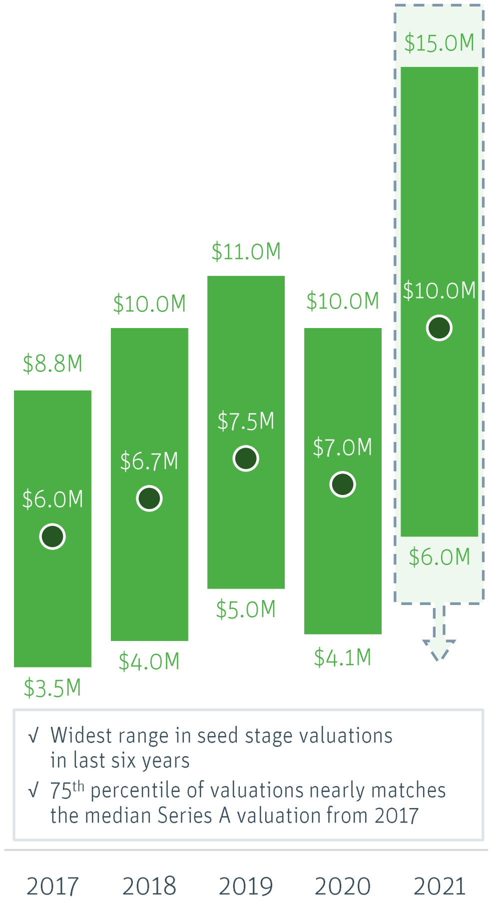
US SaaS Benchmarking

US SaaS Venture Trends: Seed

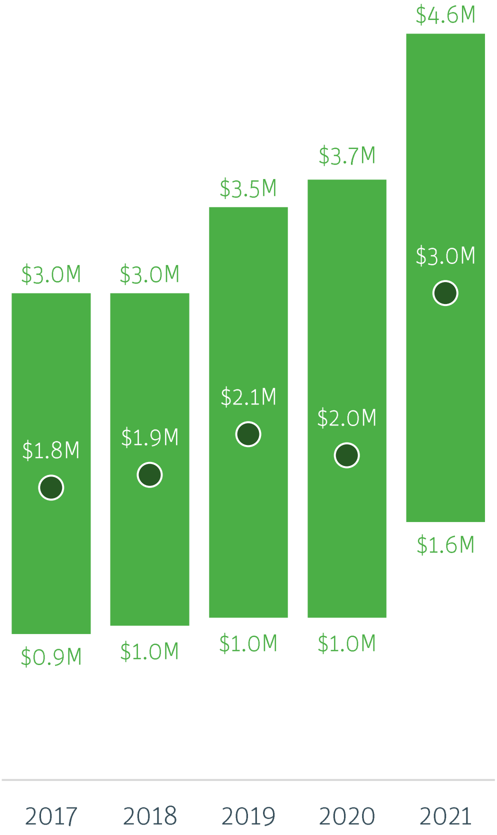
Number of Deals and Capital Invested[1]



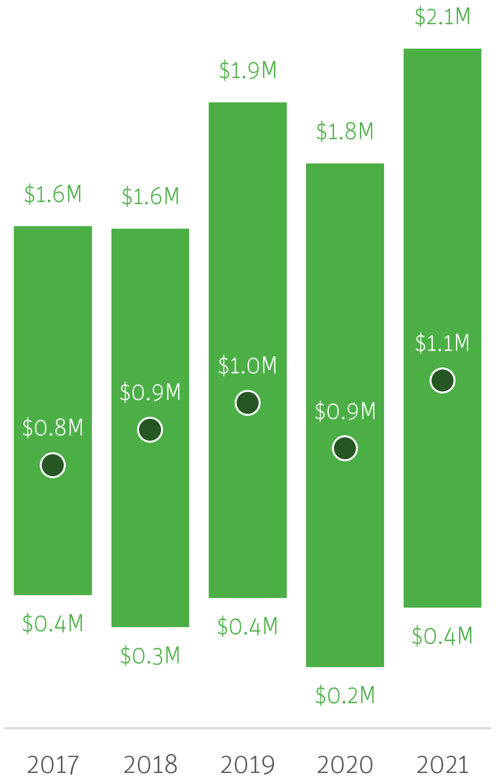
Pre-Money Valuations[1]: 25th to 75th Percentile



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



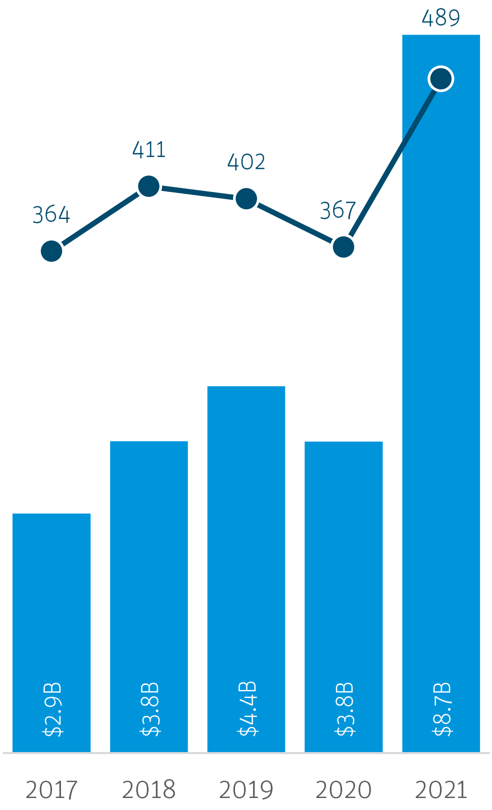
Revenue[2] at Financing[1]: 25th to 75th Percentile



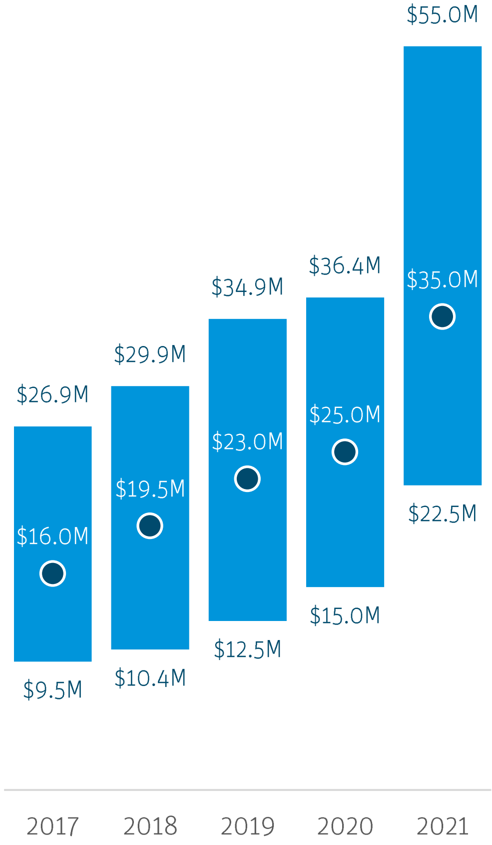
Notes: 1) Data as of 12/31/2021 and subject to change in future analyses and reports due to data updates or methodology changes. 2) Revenue estimated using proprietary data based on tracked cash inflows over the trailing 4 quarters for SVB clients designated as Enterprise Software and use SVB as their primary bank at the time of the respective deal.
Source: PitchBook, SVB Proprietary Data and SVB Analysis.

US SaaS Venture Trends: Series A

Number of Deals and Capital Invested[1]

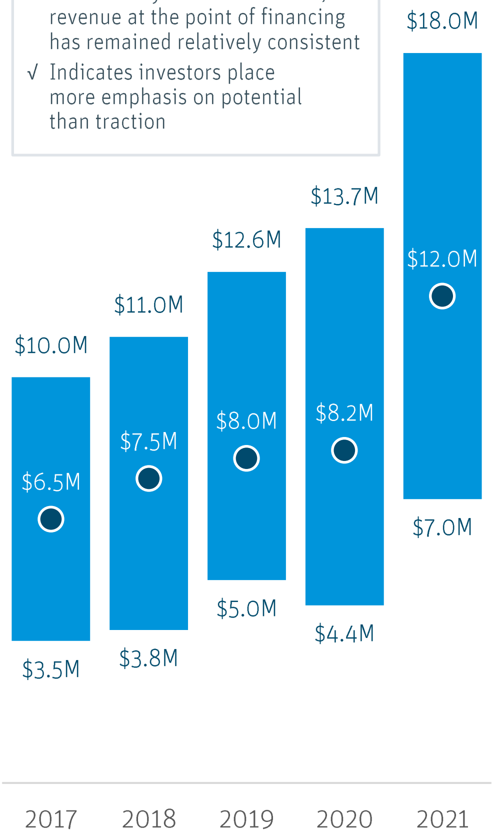


Pre-Money Valuations[1]: 25th to 75th Percentile

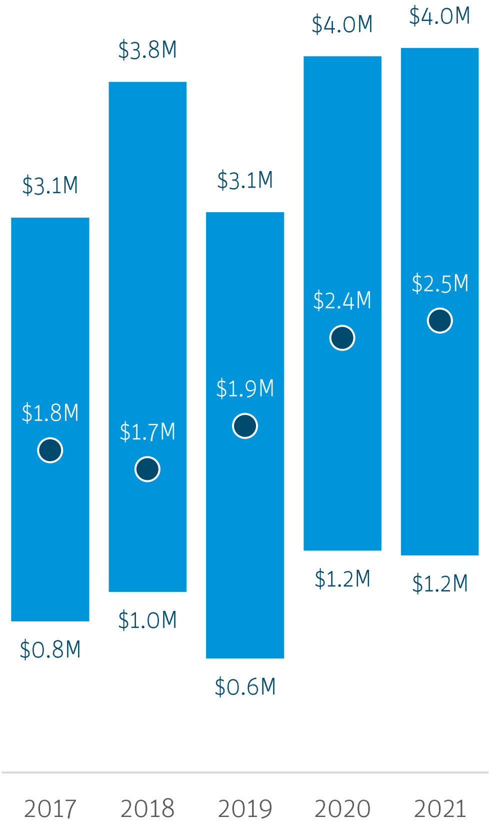


Capital Invested[1]: 25th to 75th Percentile

- √ While valuations and capital invested sky-rocketed in 2021, revenue at the point of financing has remained relatively consistent
- √ Indicates investors place more emphasis on potential than traction



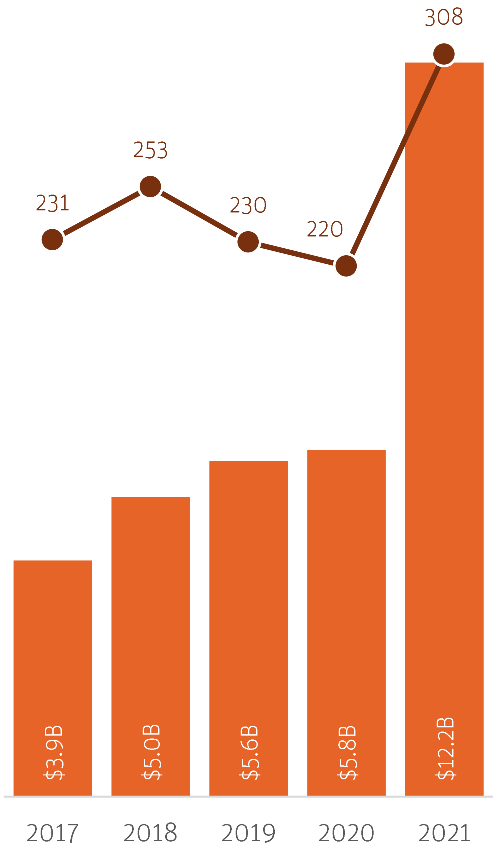
Revenue[2] at Financing[1]: 25th to 75th Percentile



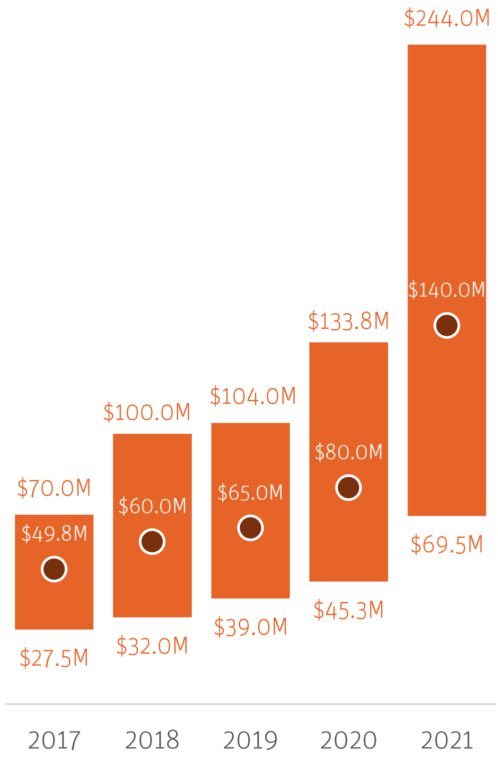
Notes: 1) Data as of 12/31/2021 and subject to change in future analyses and reports due to data updates or methodology changes. 2) Revenue estimated using proprietary data based on tracked cash inflows over the trailing 4 quarters for SVB clients designated as Enterprise Software and use SVB as their primary bank at the time of the respective deal.
Source: PitchBook, SVB Proprietary Data and SVB Analysis.

US SaaS Venture Trends: Series B

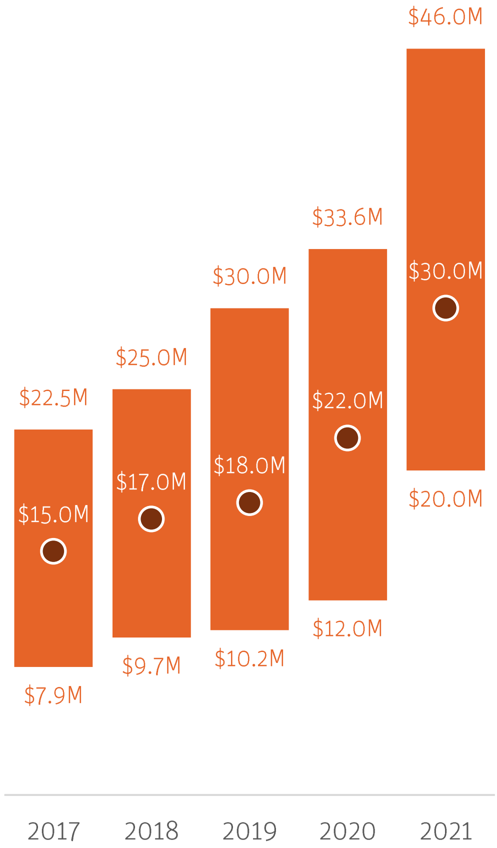
Number of Deals and Capital Invested[1]



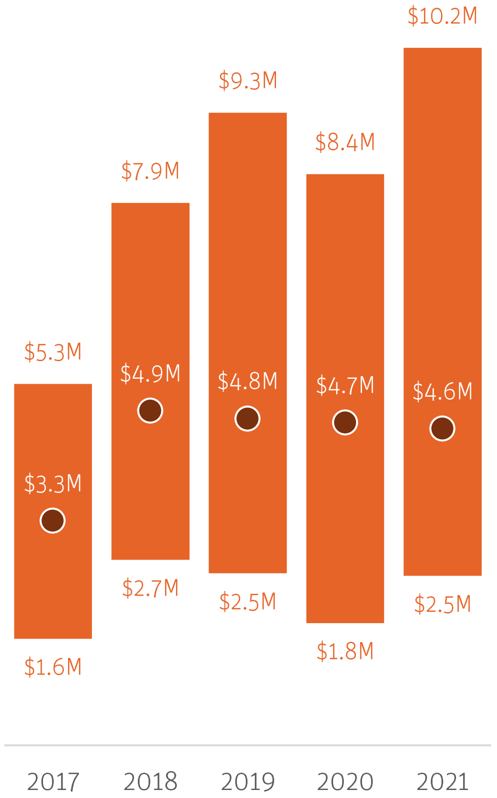
Pre-Money Valuations[1]: 25th to 75th Percentile



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



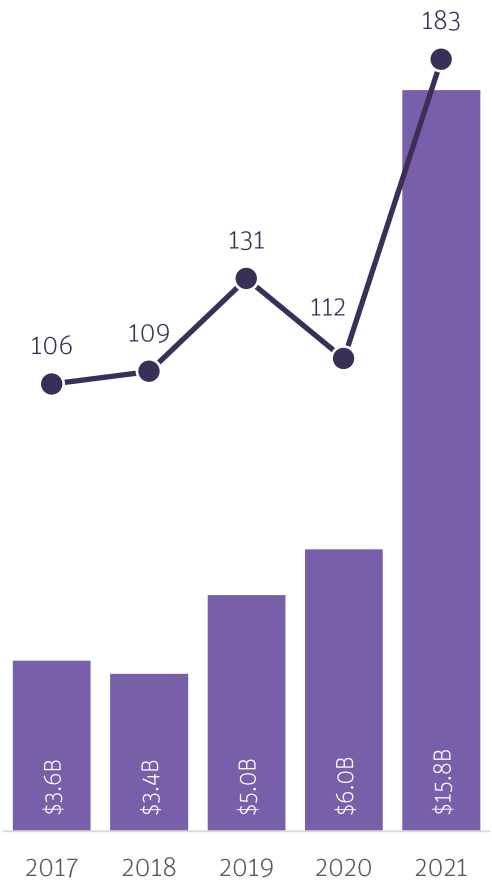
Revenue[2] at Financing[1]: 25th to 75th Percentile



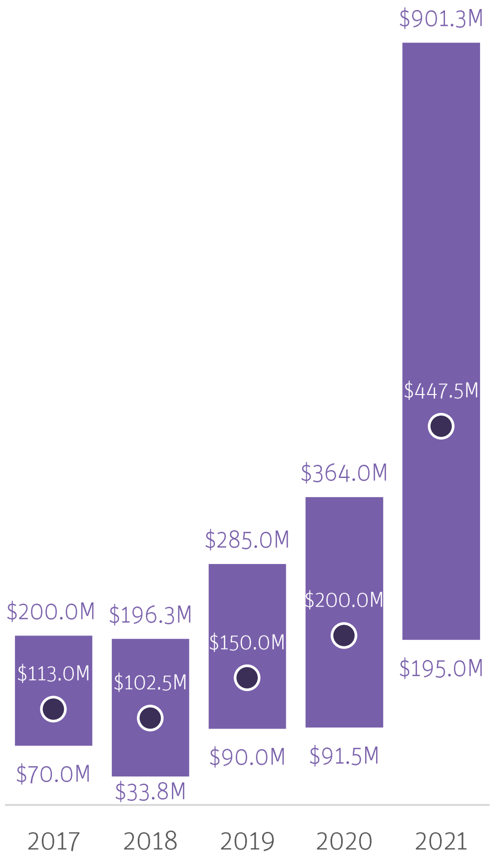
Notes: 1) Data as of 12/31/2021 and subject to change in future analyses and reports due to data updates or methodology changes. 2) Revenue estimated using proprietary data based on tracked cash inflows over the trailing 4 quarters for SVB clients designated as Enterprise Software and use SVB as their primary bank at the time of the respective deal.
Source: PitchBook, SVB Proprietary Data and SVB Analysis.

US SaaS Venture Trends: Series C

Number of Deals and Capital Invested[1]

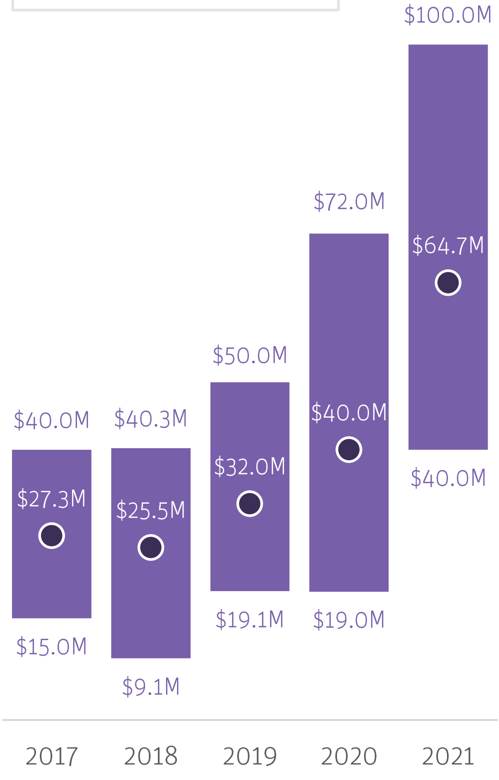


Pre-Money Valuations[1]: 25th to 75th Percentile

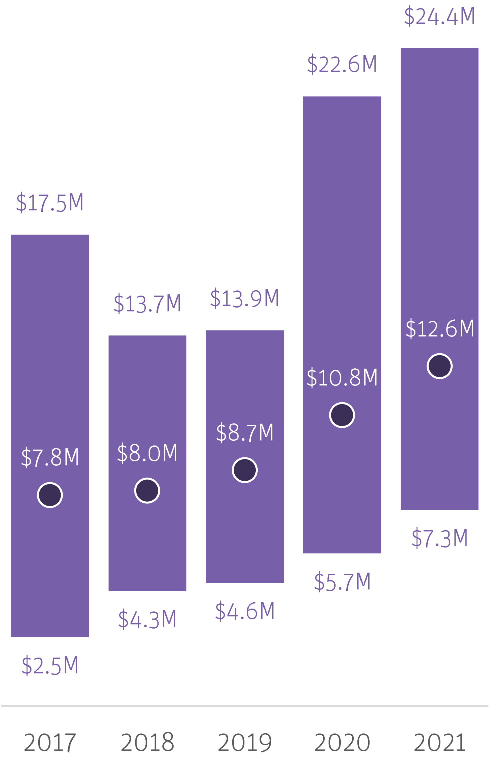


Capital Invested[1]: 25th to 75th Percentile

√ There were over 50 US SaaS Series C deals with a deal size over $100M in 2021, 3x the number in 2020



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

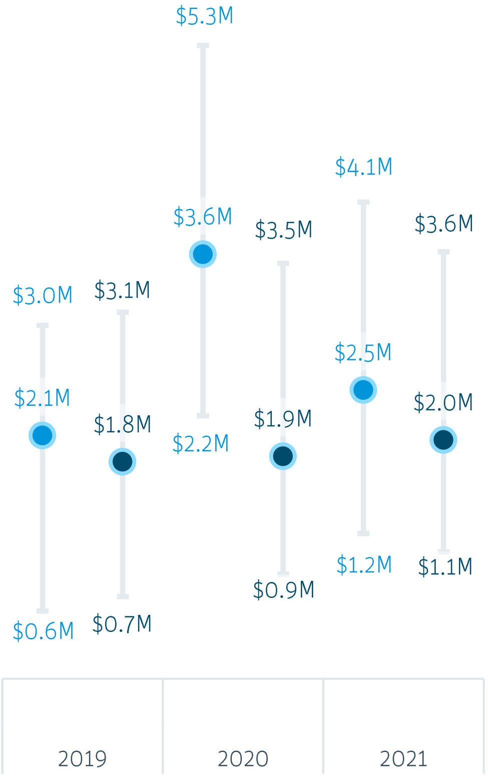


Notes: 1) Data as of 12/31/2021 and subject to change in future analyses and reports due to data updates or methodology changes. 2) Revenue estimated using proprietary data based on tracked cash inflows over the trailing 4 quarters for SVB clients designated as Enterprise Software and use SVB as their primary bank at the time of the respective deal.
Source: PitchBook, SVB Proprietary Data and SVB Analysis.

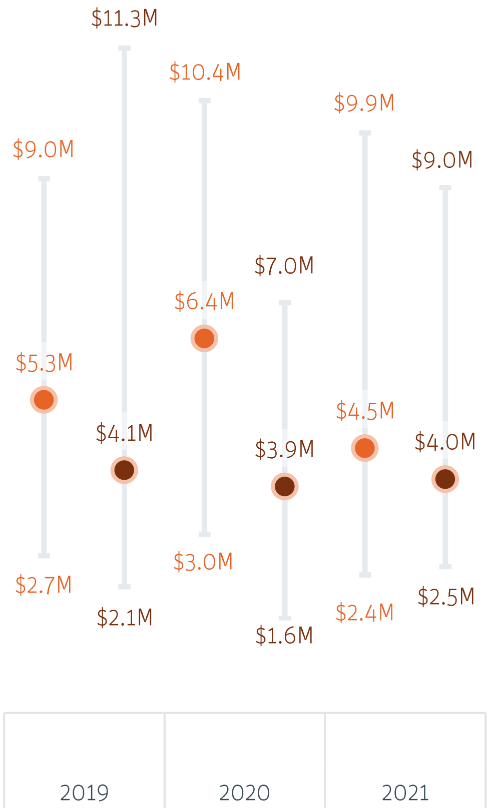
US SaaS Venture Trends: Revenue[1] by Series & Subsector[2]

Revenue by Year[3] for Seed Round

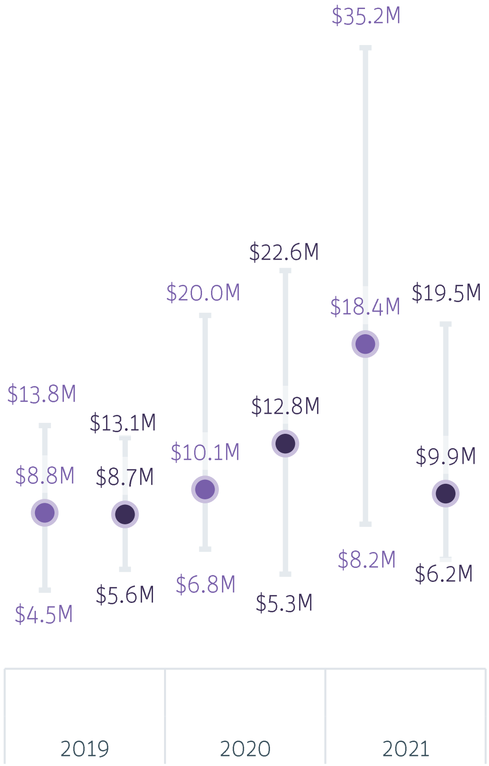
Revenue by Year[3] for Series A



Revenue by Year[3] for Series B



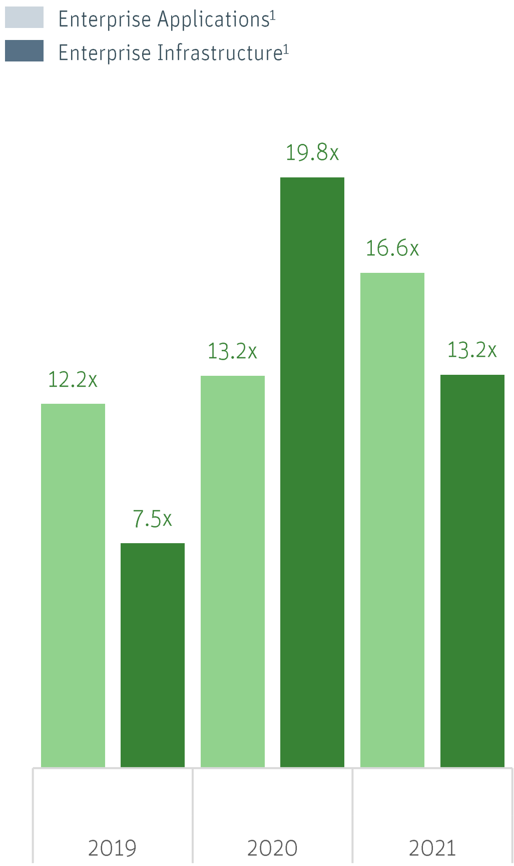
Revenue by Year[3] for Series C



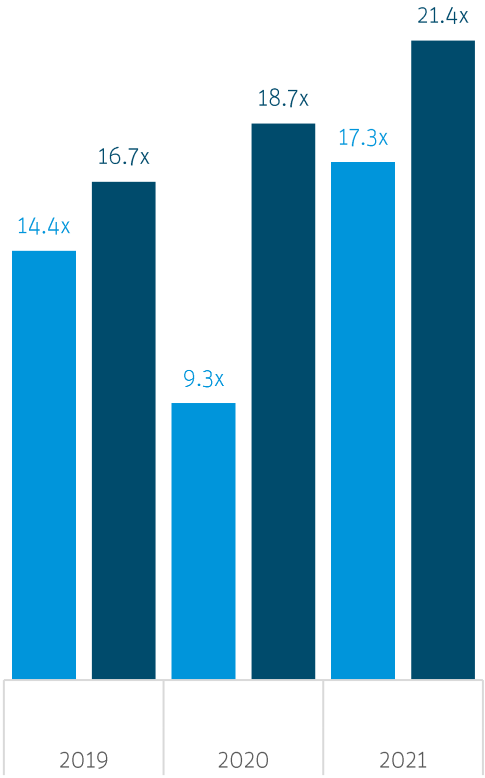
Notes: 1) Annualized revenue estimated using proprietary data based on tracked cash inflows over the trailing 4 quarters at the time of the venture deal for companies who designate SVB as their primary bank at the time of the deal. 2) Excludes Marketplaces and Services subsectors. Enterprise Applications 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 2/28/2022 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]

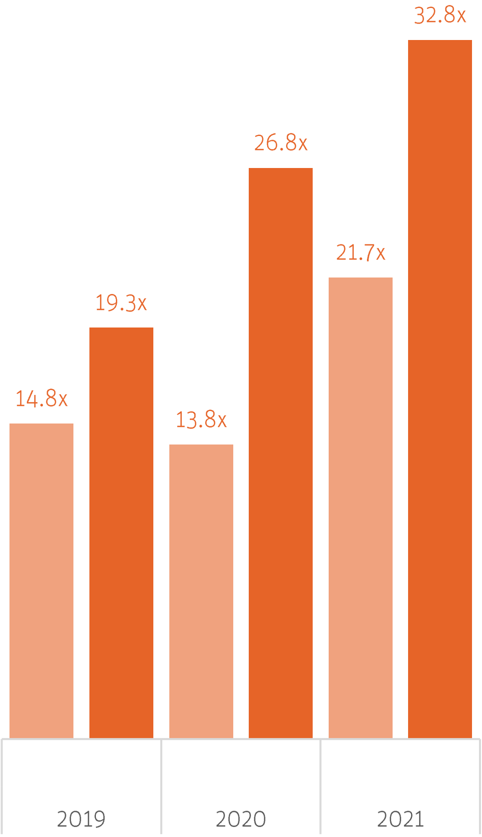
Revenue Multiple by Year[4] for Seed Round



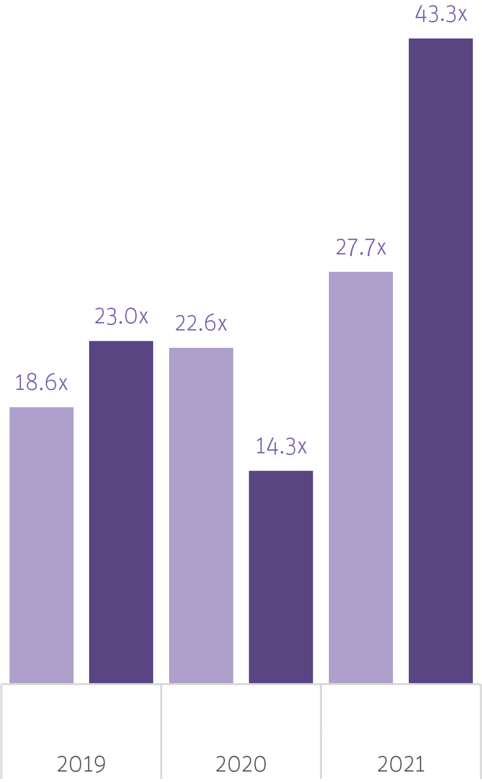
Revenue Multiple by Year[4] for Series A



Revenue Multiple by Year[4] for Series B



Revenue Multiple by Year[4] for Series C



Notes: 1) Annualized revenue estimated using proprietary data based on tracked cash inflows over the trailing 4 quarters at the time of the venture deal for companies who designate SVB as their primary bank at the time of the deal. 2) Revenue multiple calculated by dividing the company's pre-money valuation by it's estimated annualized revenue based on tracked cash inflows over the trailing 4 quarters. 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 2/28/2022 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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