Pacific Crest
SECURITIES

2014 Pacific Crest Private SaaS Company Survey Results

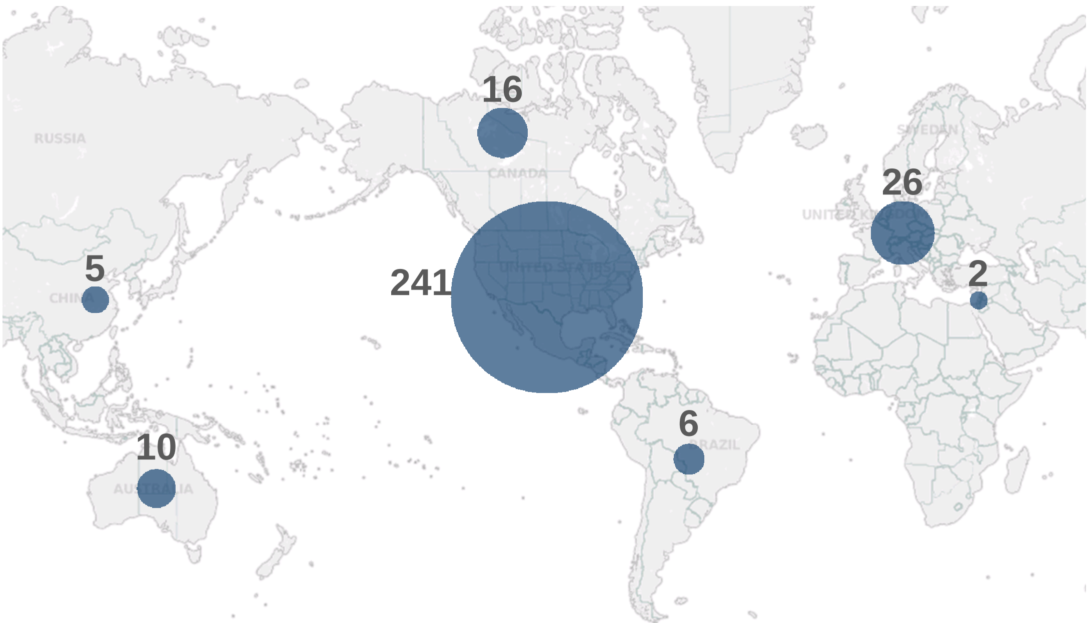
September 9, 2014

Pacific Crest 2014 Private SaaS Company Survey: Summary of Results

- **This presentation provides a summary and analysis of the results of a survey which Pacific Crest's software investment banking team conducted from June-July 2014**
  - **Represents the fifth such survey Pacific Crest has completed**
  - **The survey results include responses from senior executives of 306 private SaaS companies – 2x 2013 – thanks to our partners at *Matrix Partners* and *OpenView Venture Partners*, who helped solicit participants**
- **Broad diversity of SaaS companies participated:**
  - **Companies of all sizes:**
    - **$4MM median revenues, but nearly 50 companies with >$25MM and 80 with <$1MM**
    - **46 median full-time employees**
    - **284 median customer count; ≈ 25% of respondents have >1,000 customers**
  - **U.S.-dominated participant base, accounting for ≈ 80%:**
  - **Wide range of end markets and selling dynamics:**
    - **$21K median annual contract value (ACV), with 30% of participants below $5K and 20% above $100K**
    - **Good mix of field sales, inside sales and mixed distribution models**

Our goal is to provide useful operational and financial benchmarking data to executives and investors in SaaS companies

Survey Participant Geography (HQ)



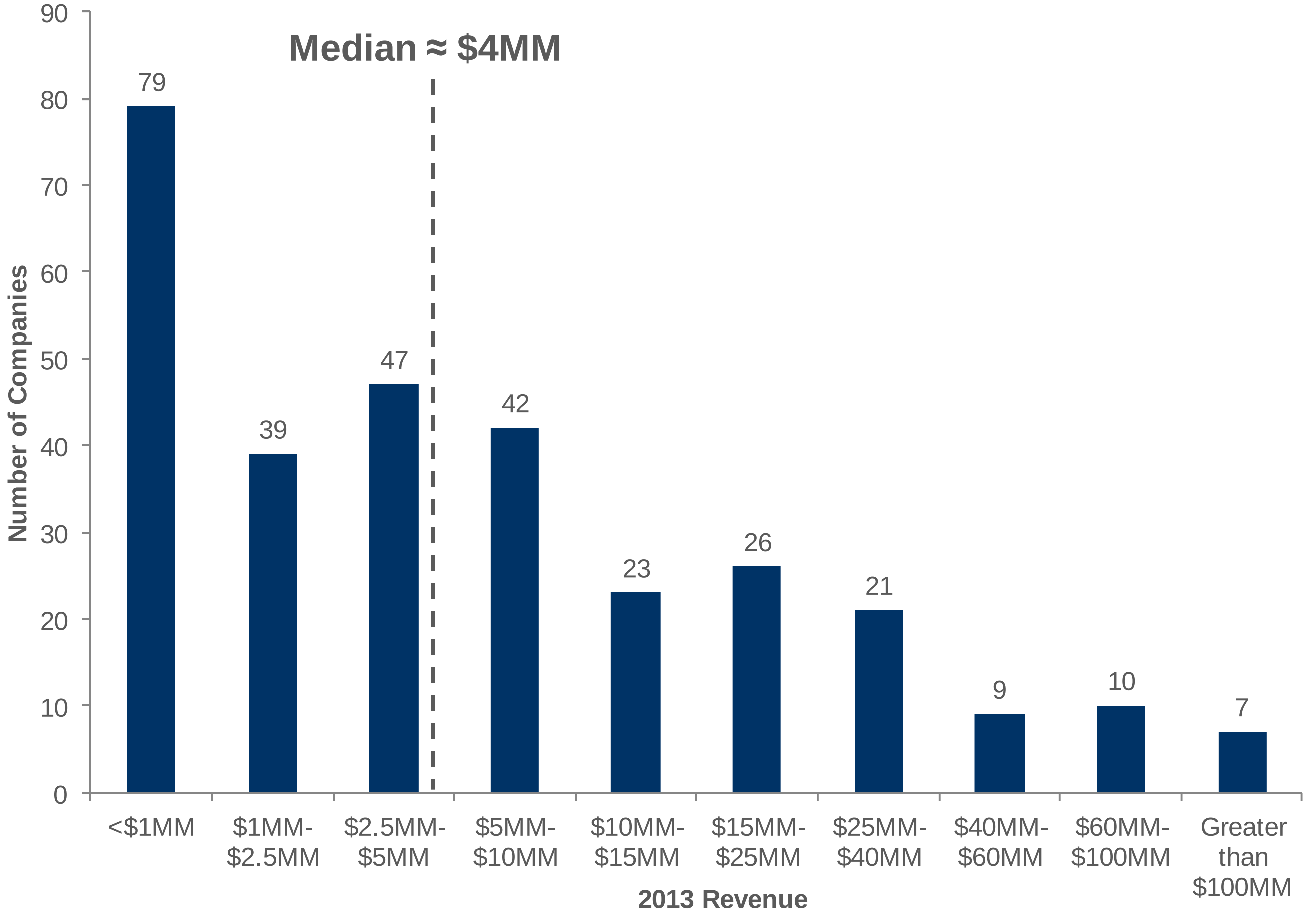
US Regions	
North California – Silicon Valley	63
Southern California	15
Boston / New England	32
Pacific Northwest	12
New York Metropolitan Area	16
Washington DC	6
Southeast U.S.	22
Midwest / Chicago	18
Colorado / Utah	19
Texas	15
Other U.S.	23
TOTAL U.S. :	**241**

Other Locations	
Canada	16
Europe	26
Middle East / Africa	2
Latin America	6
Australia / New Zealand	10
Asia	5
TOTAL Non-U.S. :	**65**

306 respondents

Survey Participant Revenue Distribution

While the number of respondents nearly doubled from last year's survey, the overall distribution of participating companies by revenue size was very similar.



303 respondents

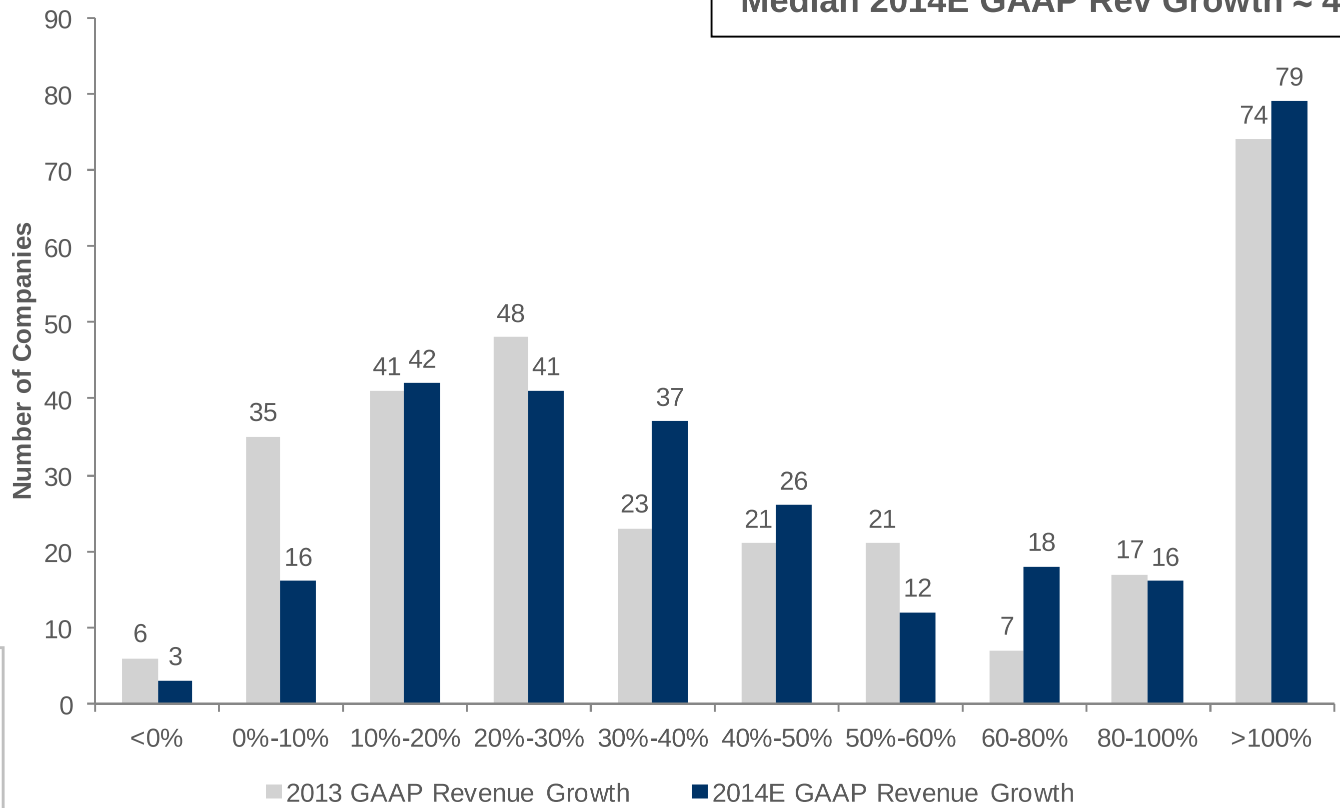
Growth Rates

How Fast Did / Will You Grow GAAP Revenues?

Median 2013 GAAP Rev Growth ≈ 37%

Median 2014E GAAP Rev Growth ≈ 42%

The median revenue growth achieved by survey respondents in 2013 was 37%, while the median projected growth for 2014 is 42%.



Comparison with Previous Surveys

Median historical and projected revenue growth remain very healthy, though incrementally lower than the 2013 survey's results of 41% and 47% for 2012 and 2013E growth, respectively.

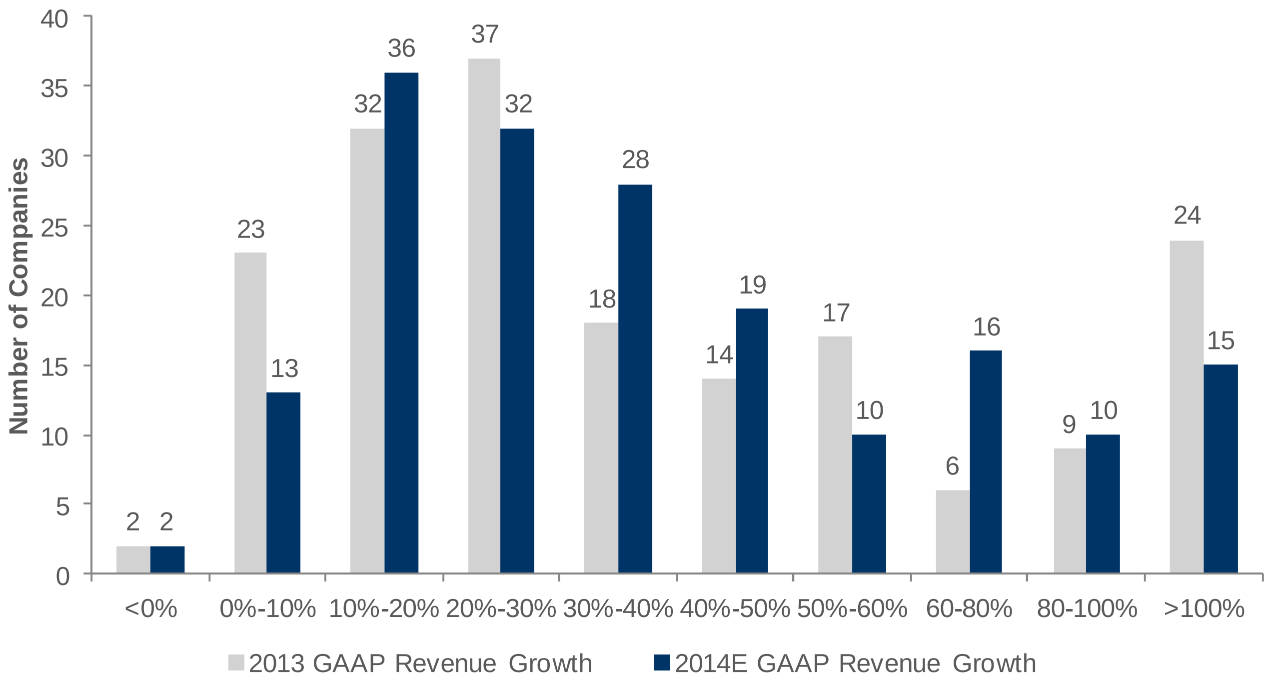
293 and 290 respondents, respectively

How Fast Did / Will You Grow GAAP Revenues?
(Excluding Companies <$2.5MM in Revenue)

A high concentration of participants with >100% growth comes from the large number of small companies. Excluding companies with <$2.5MM in revenue, we found a distribution closer to “normal”, with median 2013 and 2014E top-line growth of 29% and 33%, respectively.

Median 2013 GAAP Rev Growth ≈ 29%

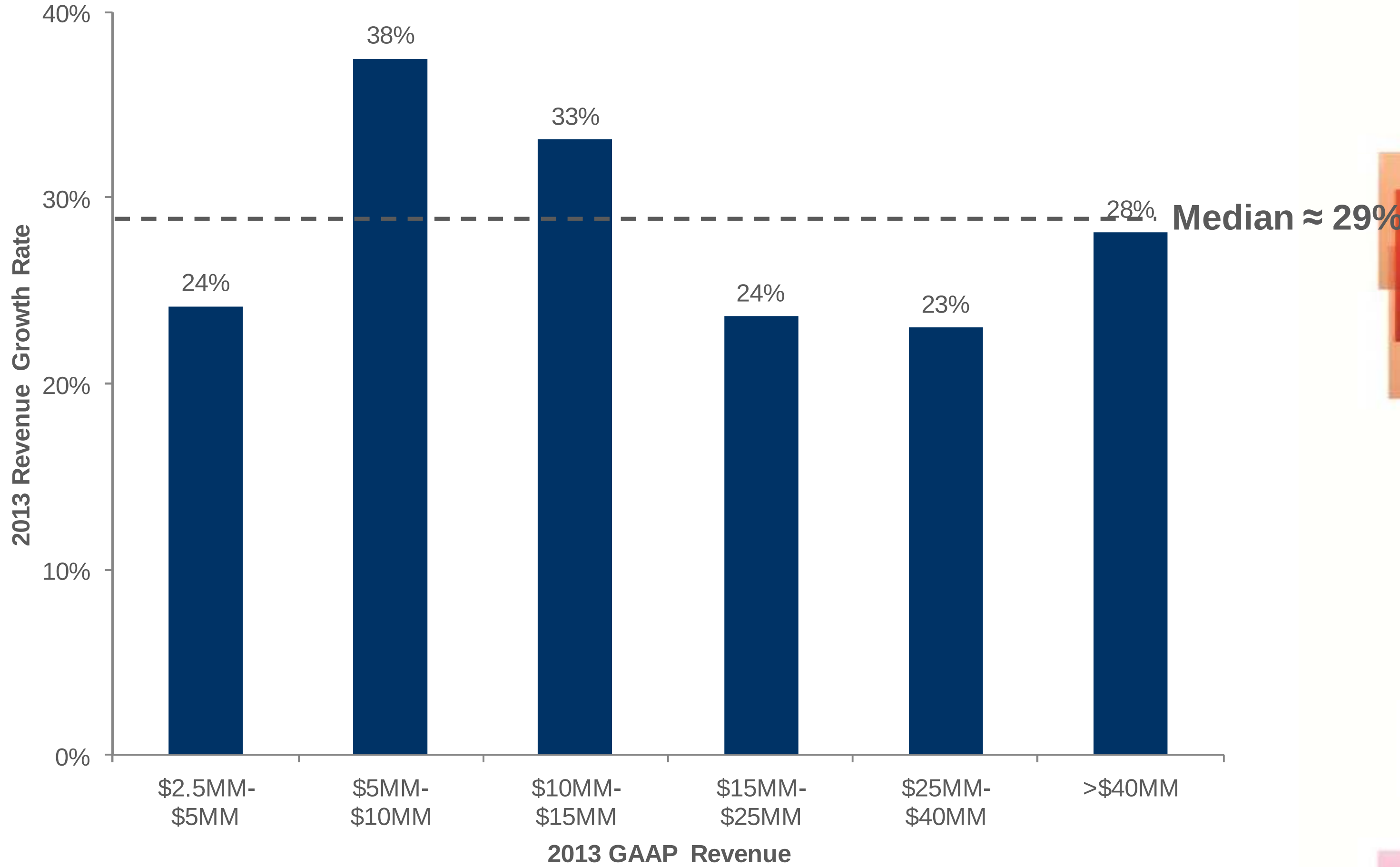
Median 2014E GAAP Rev Growth ≈ 33%



182 and 181 respondents, respectively

Median Growth Rate as a Function of Size of Company
(Excluding Companies <$2.5MM in Revenue)

Surprisingly, for the companies above $2.5MM in revenues, there does not appear to be an obvious pattern between company size and growth rates. While it's tempting to assess that companies tend to hit a certain plateau in growth in the range of $15M-$40M in revenues, where growth is more challenging, before reaccelerating above $40M, the data may be too sparse to be conclusive.



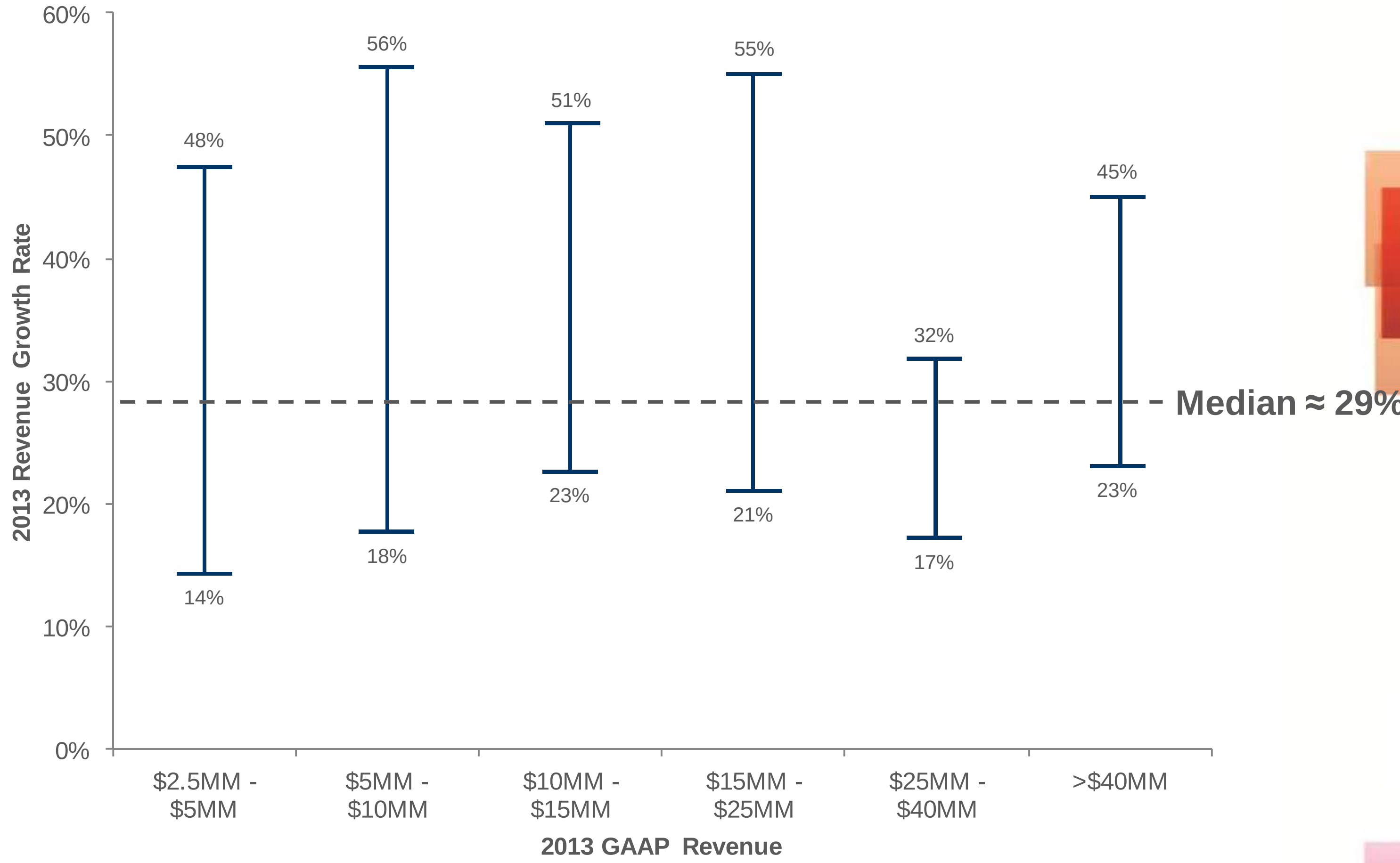
Comparison with Previous Surveys

In our 2013 survey, we had the more expected result of larger companies experiencing lower growth.

Respondents: $2.5MM-$5MM: 47, $5MM-$10MM: 40, $10MM-$15MM: 22, $15MM-25MM: 26, $25MM-$40MM: 21, >$40MM: 26

Median Growth Rate as a Function of Size of Company – Middle Third Group
(Excluding Companies <$2.5MM in Revenue)

Since the growth benchmark is such an important one, we thought it would be useful to provide more color on the distributions of companies for each size tier. The ranges depicted in the chart show the middle third group, as measured by 2013 GAAP revenue growth.



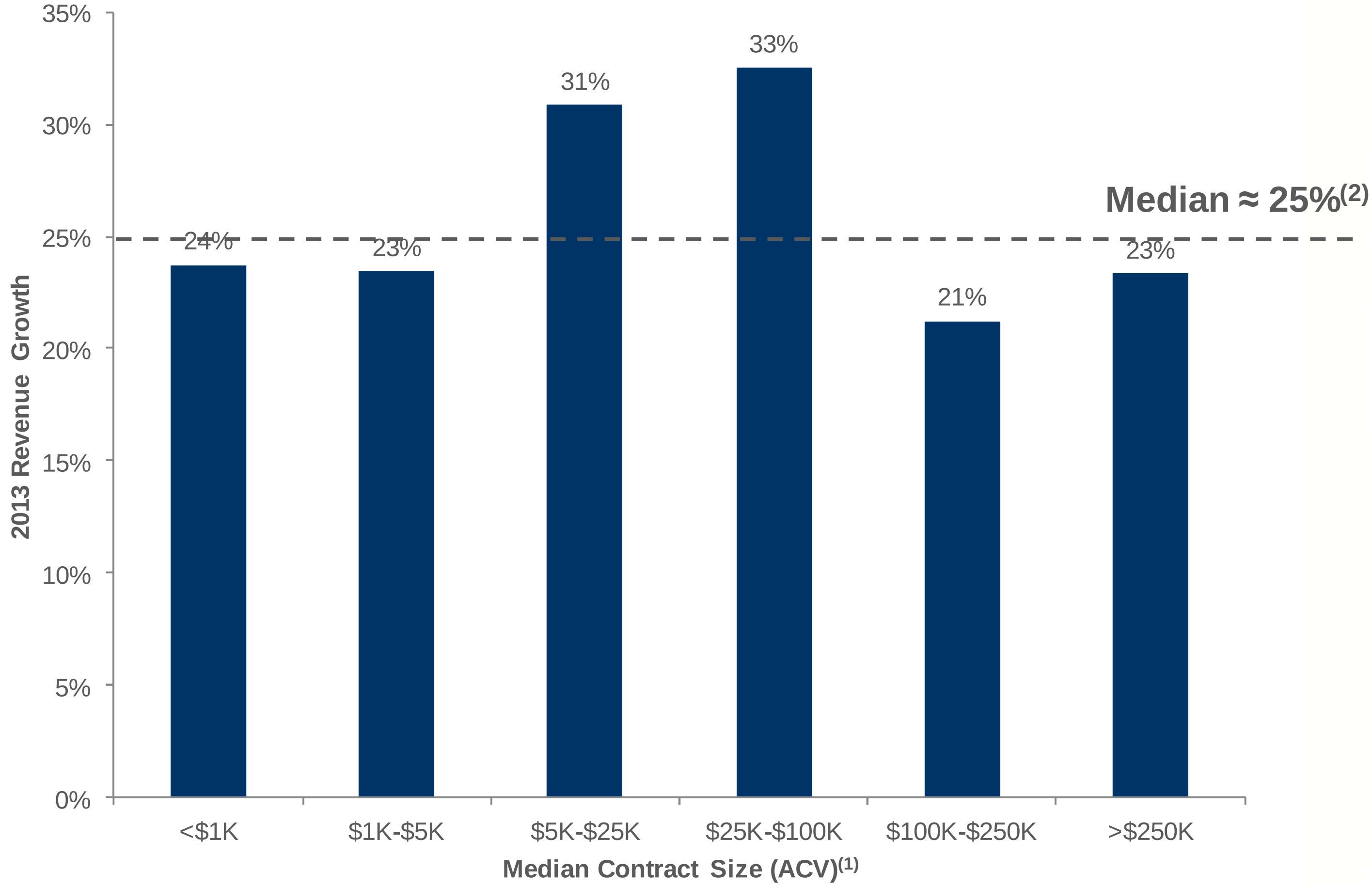
Highlighted range represents the 33rd-67th percentile of data
Respondents: $2.5MM-$5MM: 47, $5MM-$10MM: 40, $10MM-$15MM: 22, $15MM-25MM: 26, $25MM-$40MM: 21, >$40MM: 26

Median Growth Rate as a Function of Contract Size
(Excluding Companies <$2.5MM in Revenue)

When analyzing the relationship between median annual contract size and growth (excluding companies <$2.5MM in revenue), the fastest growers appear to have median ACV between $5K and $100K; those with median ACVs below or above are growing ≈10 percentage points slower.

Comparison with Previous Surveys

We've consistently seen the $5K-$25K group being among the strongest, but last year we saw more strength in the $1K-$5K group (not seen here) and less strength in the $25K-$100K group than we see here.



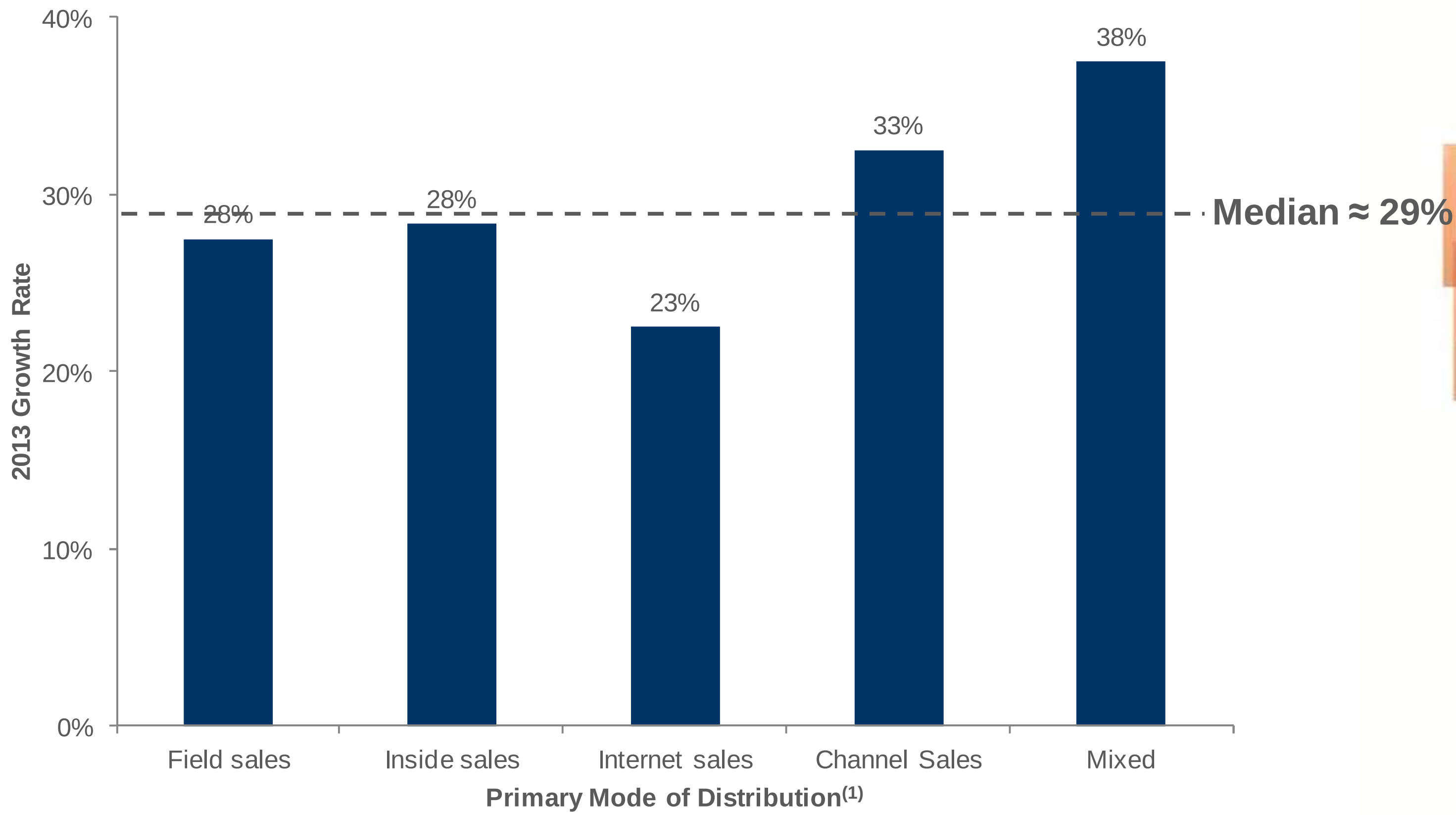
(1): Annual Contract Value (ACV) is defined as annualized monthly run rate in recurring SaaS revenues, excluding professional services, perpetual licenses and related maintenance

(2): Discrepancy from 29% median on slide 7; smaller set of respondents who answered both questions

Respondents: <$1K: 11, $1K-$5K: 20, $5K-$25K: 31, $25K-$100K: 51, $100K-$250K: 25, >$250K: 17

Median Growth Rate as a Function of Sales Strategy
(Excluding Companies <$2.5MM in Revenue)

When we eliminate the smallest companies from the distribution, we find growth rates for companies using mainly Internet distribution lagged. Companies with mixed (more agile) distribution strategies reported the highest growth. There was no distinguishable difference between growth rates for field sales vs. inside sales dominated companies.



Comparison with Previous Surveys

Excluding the smallest companies, this year's results were largely in-line with last year's survey, with the notable exception of very low reported channel sales growth in the 2013 survey (which had a very small sample size).

(1): Primary Mode of Distribution – At least 50% of new ACV bookings from new customers in 2014E come from designated distribution channel; "Mixed" defined as respondents who didn't select at least 50% for any designated distribution channel

Respondents: Field: 92, Inside: 49, Internet: 14, Channel: 12, Mixed: 13

Median Growth Rate as a Function of Target Customer(1)

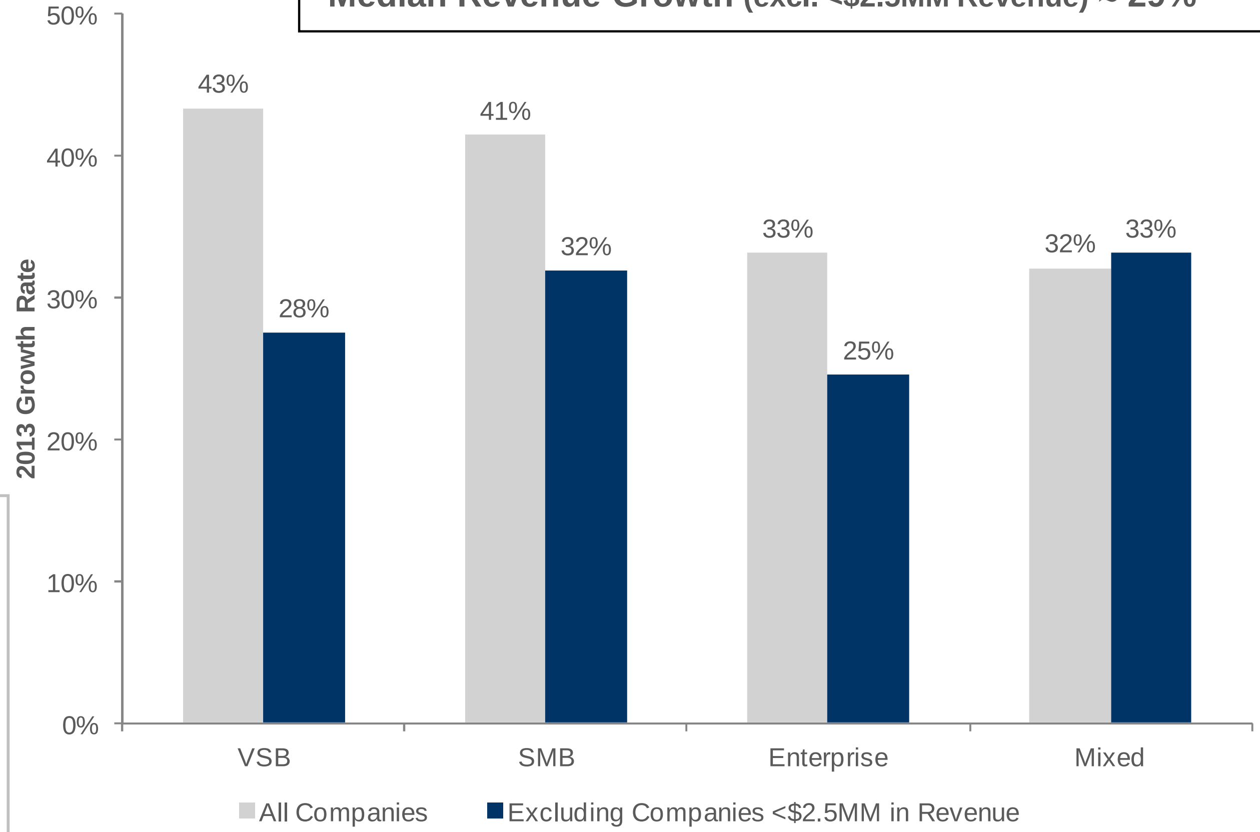
Companies focused on enterprise customers experienced somewhat lower growth rates. However, most, if not all, of the difference can be attributed to the fact that these respondents tend to be larger.

Comparison with Previous Surveys

While VSB-focused vendors remain the fastest growers in our 2014 survey, their advantage was significantly greater in the 2013 results. Meanwhile, enterprise-focused vendors have lost ground (from 38% in 2013 to 33%).

Median Revenue Growth ≈ 37%

Median Revenue Growth (excl. <$2.5MM Revenue) ≈ 29%



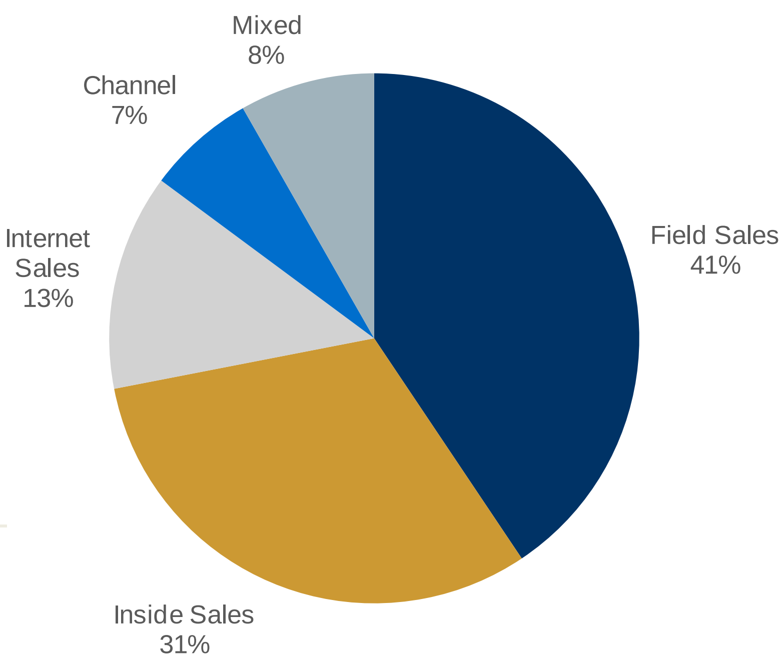
(1): Target Customer – At least 50% of revenues come from designated customer base; "Mixed" defined as respondents who didn't select at least 50% for any designated customer base
VSB customers defined as <20 employees, SMB as ~100-1,000 employees, and enterprise as >1,000
Respondents: VSB: 35 and 17, SMB: 77 and 46, Enterprise: 128 and 92, Mixed: 28 and 16, respondents, respectively

Go-to-Market

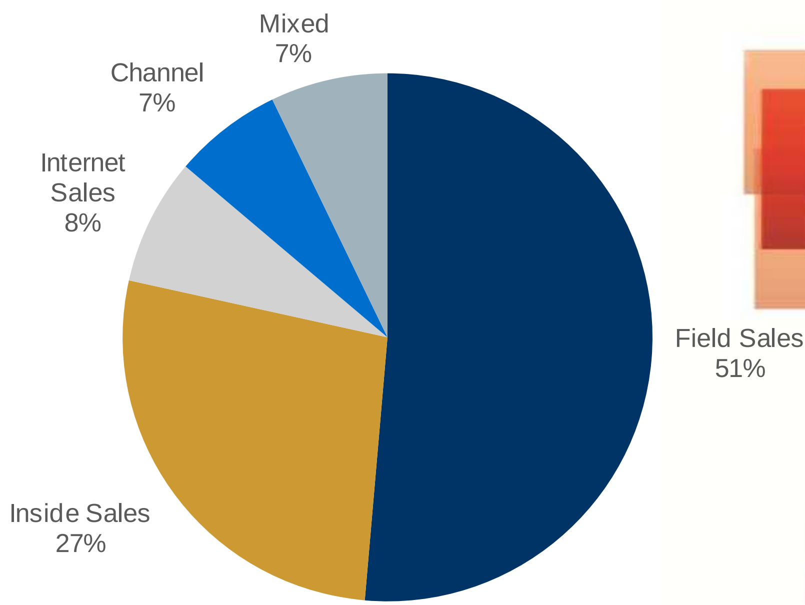
Primary Mode of Distribution

Field sales remains the most popular way to sell, with 41% of participants employing it as their primary mode of distribution (51% if we exclude companies with <$2.5MM in revenues). Inside sales is 10% points behind at 31% (27% if we exclude the smallest companies).

All Companies



Excluding Companies <$2.5MM in Revenue



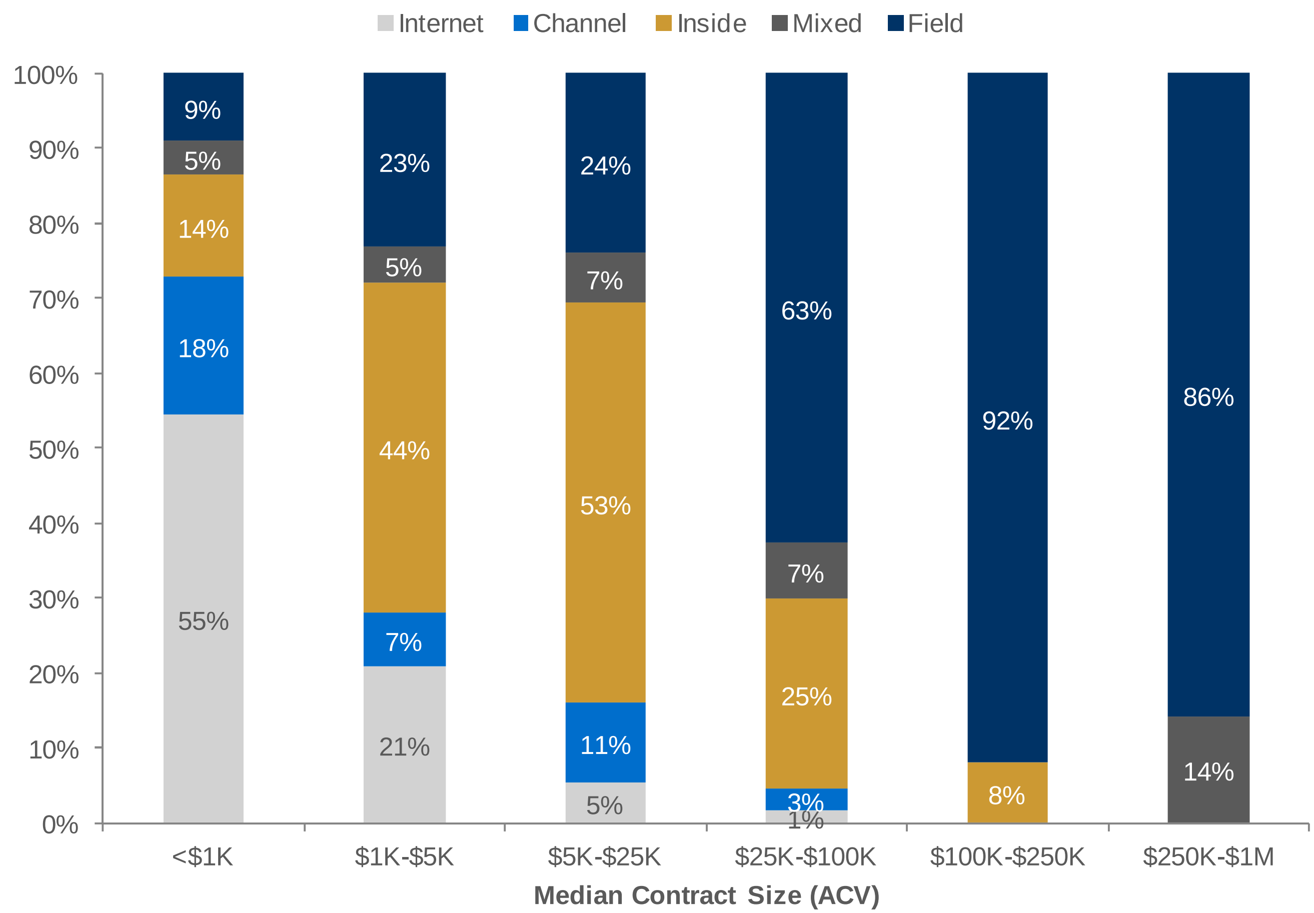
Comparison with Previous Surveys

Results were nearly identical to last year.

Primary Mode of Distribution – At least 50% of new ACV bookings from new customers in 2014E come from designated distribution channel; "Mixed" defined as respondents who didn't select at least 50% for any designated distribution channel
303 and 181 respondents, respectively

Primary Mode of Distribution as a Function of Median Initial Contract Size

Over half of the companies with median ACVs below $1K relied primarily on Internet distribution, but once over $1K median ACV, companies shifted heavily towards inside sales. At the $25K ACV breakpoint, companies tended to shift to field sales.



Comparison with Previous Surveys

Relatively consistent with prior year results, though we do see an increase in the usage of channel sales for smaller companies.

Note: Initial ACV of a contract

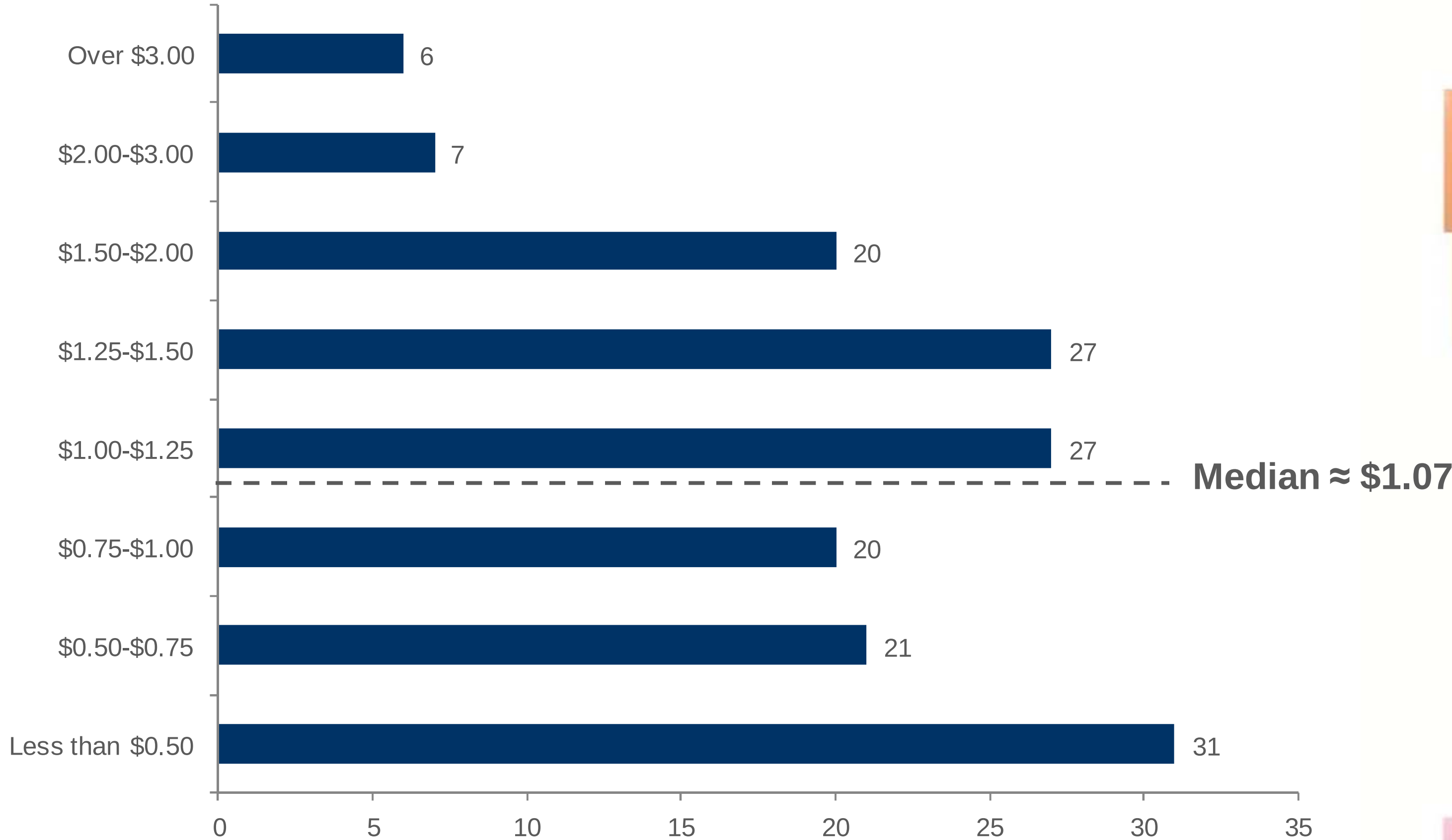
Respondents: <$1K: 22, <$5K: 43, $5K-$25K: 75, $25K-$100K: 67, $100K-$250K: 25, >$250K: 14

CAC(1): How Much Do You Spend for $1 of New ACV from a New Customer?

(Excluding Companies <$2.5MM in Revenues)

"How much do you spend on a fully-loaded sales & marketing cost basis to acquire $1 of new ACV from a new customer?"

Respondents (excluding the smallest companies) spent a median of $1.07 to acquire each dollar of new ACV from a new customer. The result drops to $0.90 if we include companies with <$2.5MM in revenues.



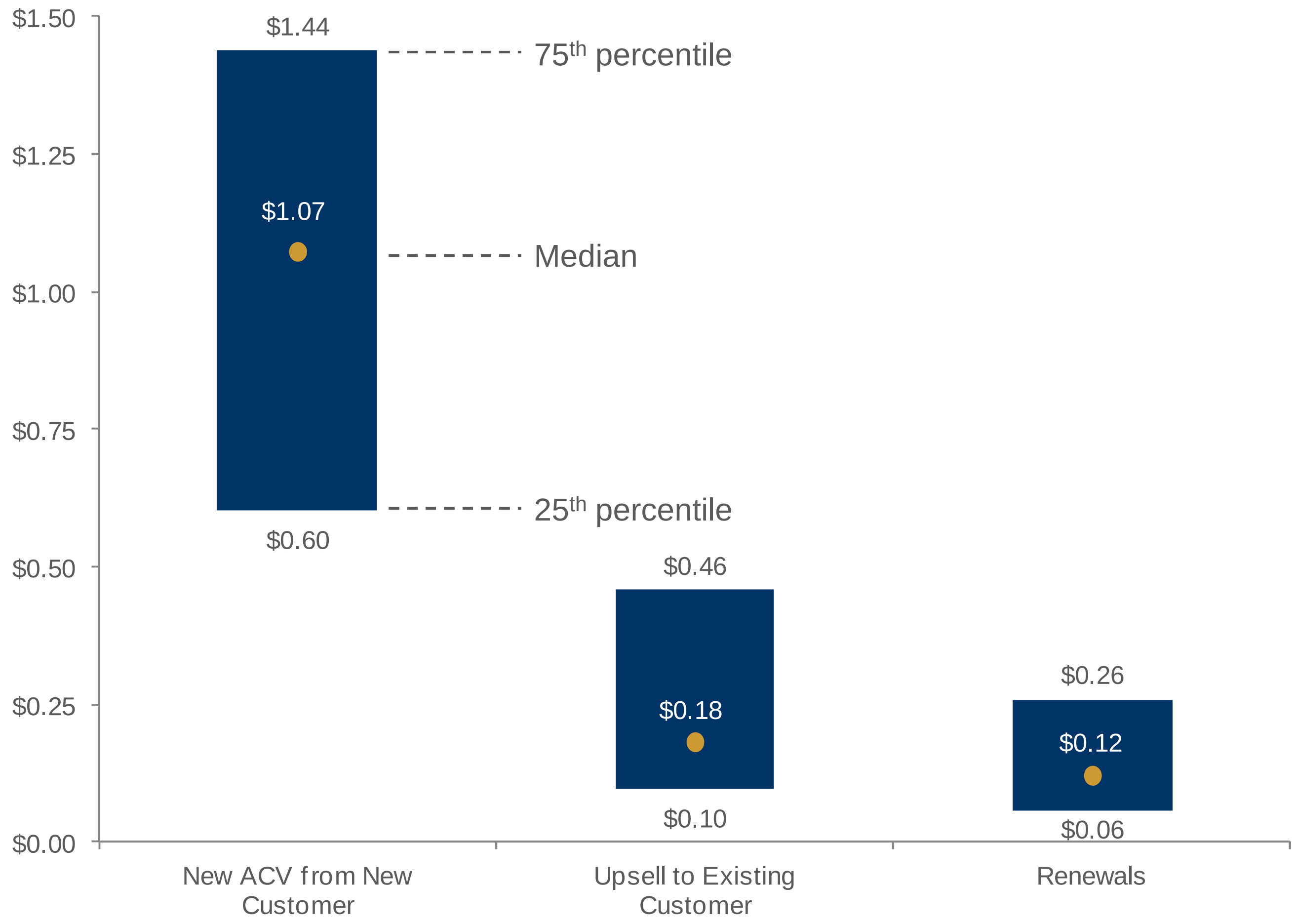
Comparison with Previous Surveys

The median result is noticeably higher than the $0.92 and $0.90 we derived in the 2013 and 2012 surveys, respectively.

(1): Includes the fully-loaded amount spent on sales & marketing for the win, over multiple periods, if necessary.
159 respondents

CAC on New Customers vs. Upsells vs. Renewals
(Excluding Companies <$2.5MM in Revenues)

The median CAC per $1 of upsells is $0.18, or about 17% of CAC to acquire each new customer dollar. The CAC for renewals is $0.12, or 11% of the CAC to acquire each new customer dollar.



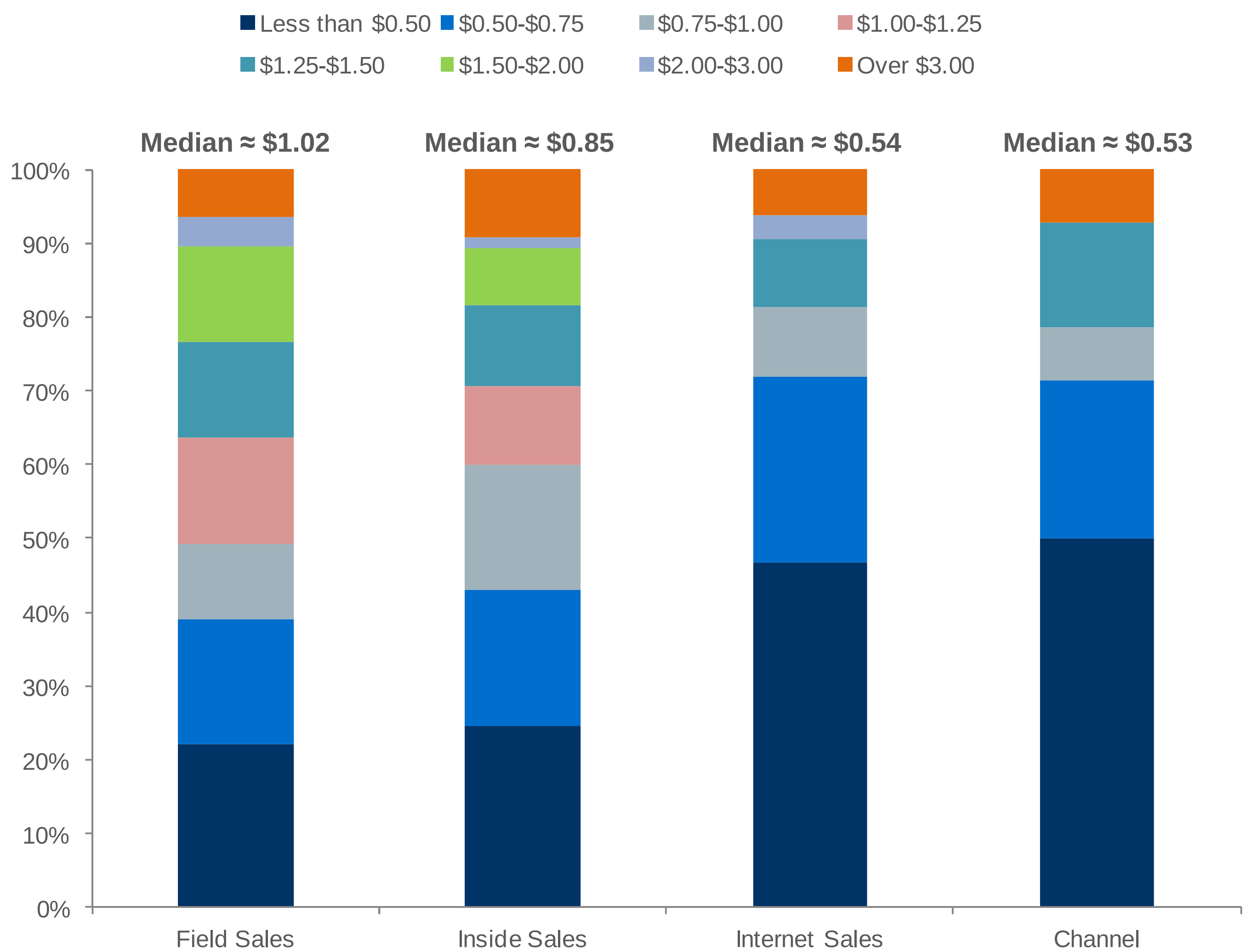
Comparison with Previous Surveys

The relative costs – upsells at 17% and renewals at 11% of new customer CAC – are quite similar to last year's results.

Respondents: New ACV from New Customer: 159, Upsell to Existing Customer: 151, Renewals: 153

CAC Spend by Primary Mode of Distribution

As expected, field sales has the most expensive CAC at $1.02, followed by inside sales at $0.85. Online and channel distribution maintain lower CACs at $0.54 and $0.53, respectively.



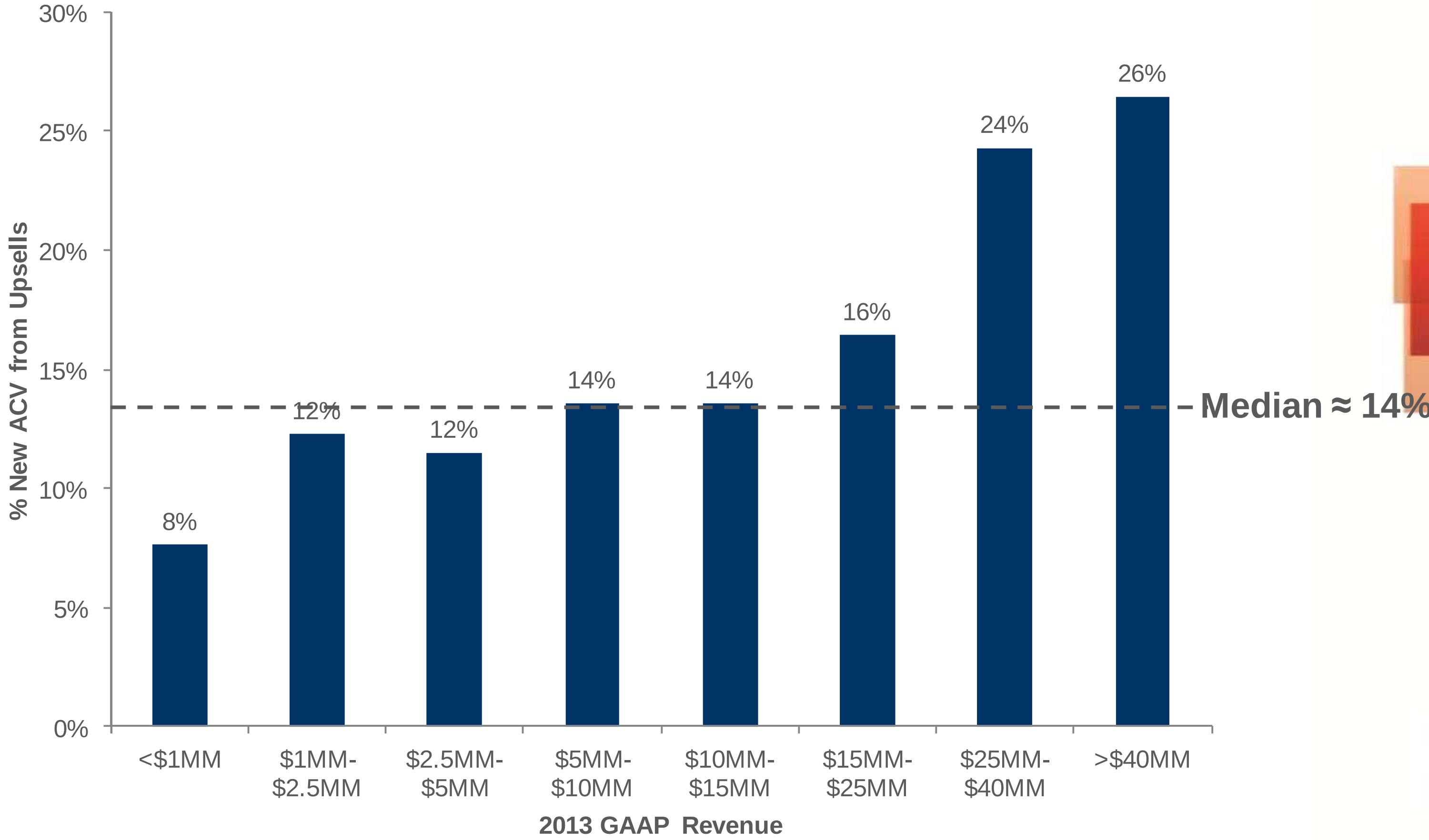
Comparison with Previous Surveys

These trends were consistent with our 2013 results, though we did not have enough respondents to include channel sales statistics last year.

Respondents: Field sales: 77, Inside sales: 65, Internet sales: 32, Channel sales: 14

What Percentage of New ACV is from Upsells to Existing Customers?

The median respondent gets 14% of new ACV sales from upsells; larger companies rely more heavily on upsells.



Comparison with Previous Surveys

The $10MM - $15MM and $15MM - $25MM cohorts have a noticeably lower median % of new ACV from upsells compared to the 25% and 22% in the 2013 survey, respectively.

Respondents: <$1MM: 56, $1.0MM-$2.5MM: 30 $2.5MM-$5MM: 36, $5MM-$10MM: 36, $10MM-$15MM: 20, $15MM-25MM: 24, $25MM-$40M: 19, >$40MM: 24

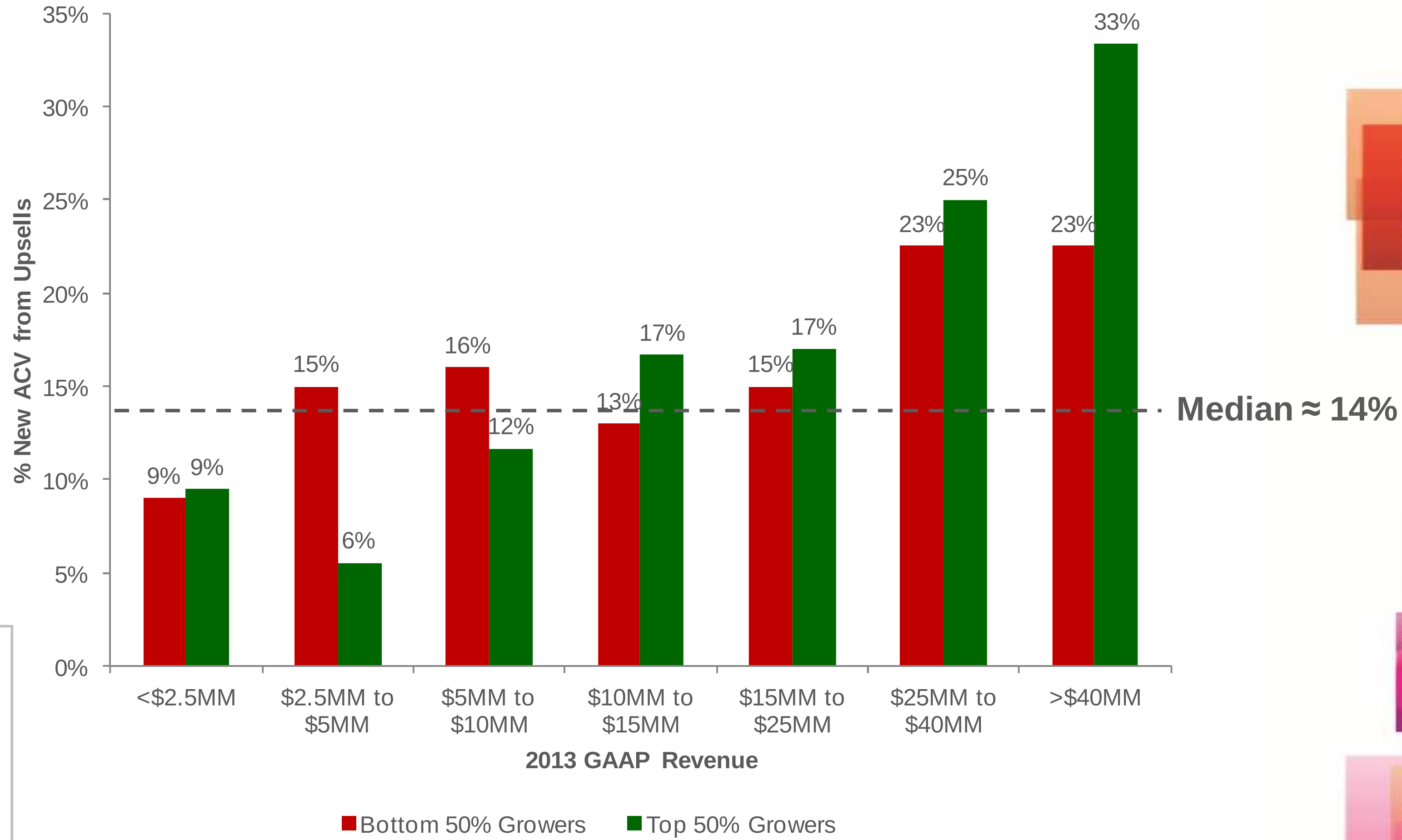
Are the Fastest Growing Companies Relying More on Upsells?

In this chart, we looked within each size category and split each group between the fastest growers and the slowest growers, to see if they had different patterns of reliance on upsells. We found that, beyond $10MM in revenues, the fastest growers tend to have noticeably more reliance on upsells.

Comparison with Previous Surveys

2013 results had much wider gaps between the bottom and top 50% growers, with the faster growers relying more on upsells.

What Percentage of New ACV is from Upsells to Existing Customers?



Respondents: <$2.5MM: 84, $2.5MM-$5MM: 36, $5MM-$10MM: 35, $10MM-$15MM: 19, $15MM-25MM: 24, $25MM-$40M: 19, >$40MM: 24

Professional Services Impact on Go-to-Market

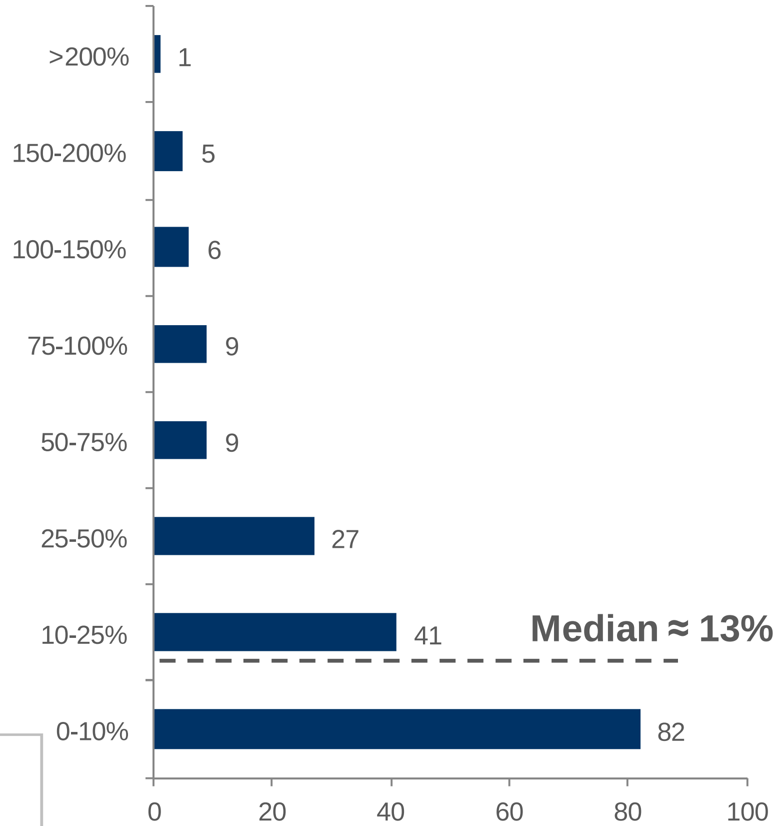
(Excluding Companies <$2.5MM in Revenue)

Professional services play a minor role for most of the group, with the median company booking P.S. revenues equivalent to 13% of first year contract value. P.S. margins are in the low 20%'s. (Note that we excluded companies with <$2.5MM in revenues, as many do not have significant P.S. revenues).

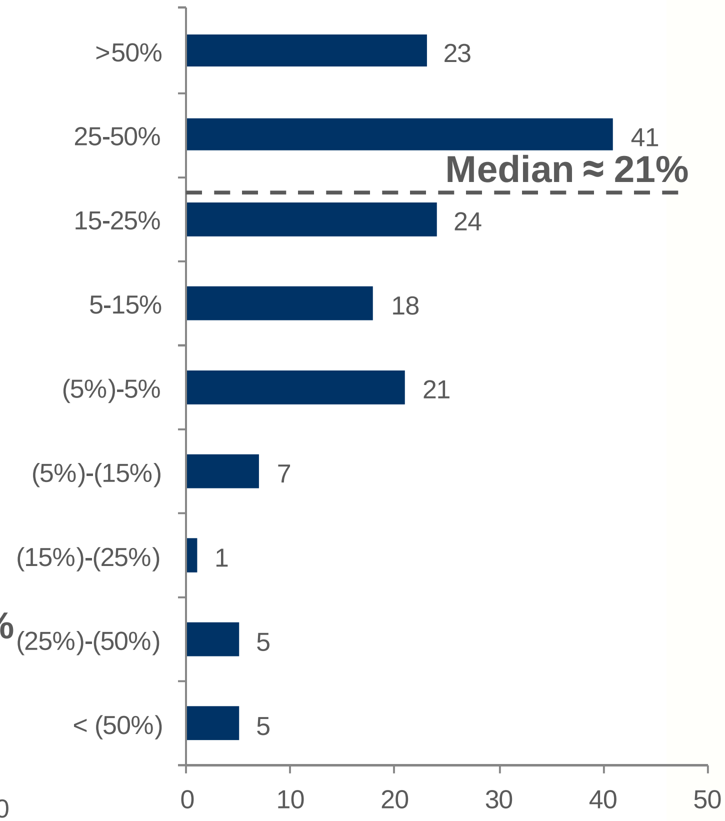
Comparison with Previous Surveys

Relatively similar results to 2013 and 2012 results, though last year's median professional services margin was 29%.

Professional Services (as % of 1st year ACV)



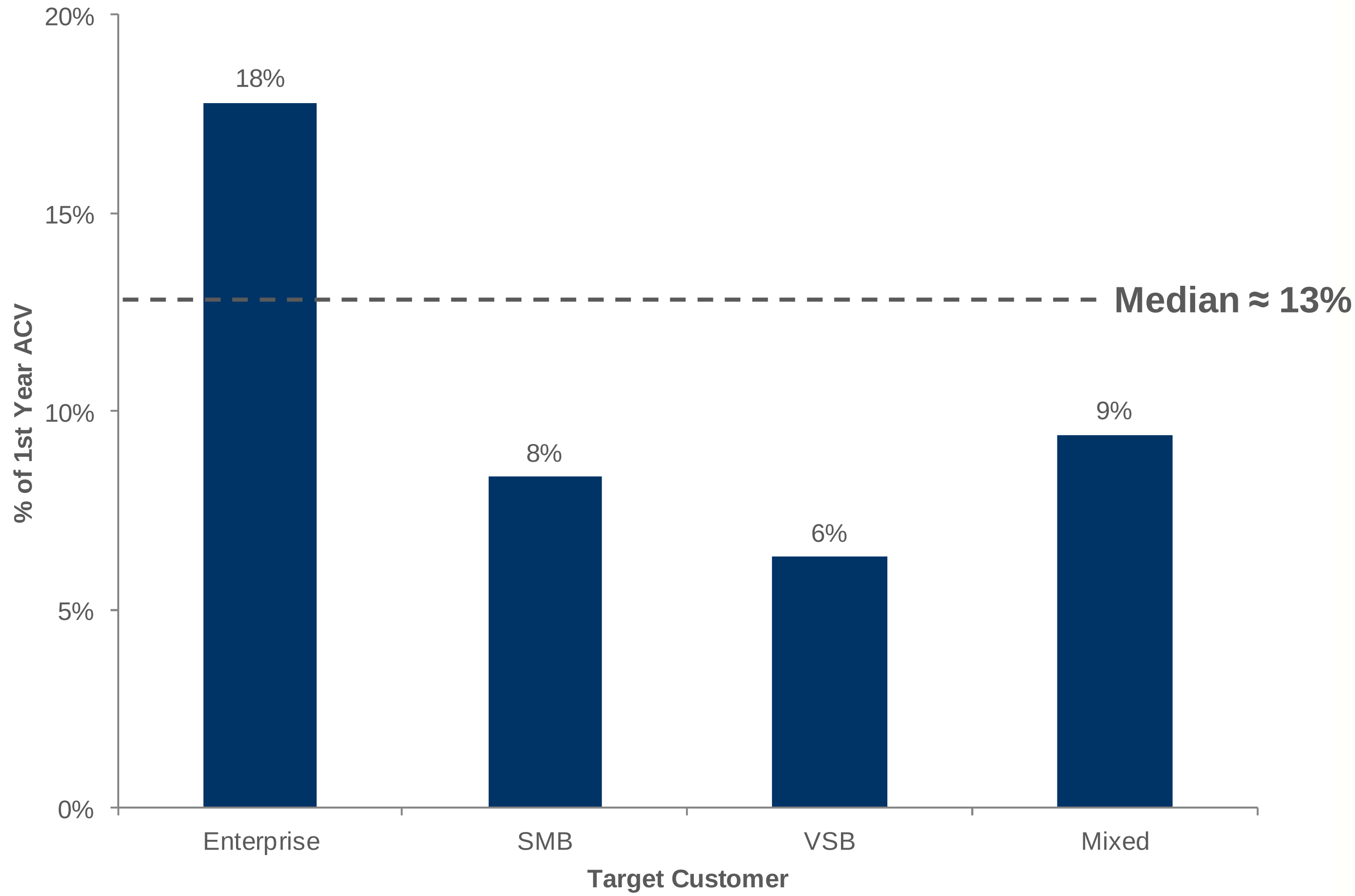
Professional Services Margin



180 and 145 respondents, respectively

Professional Services (% of 1st Year ACV) as a Function of Target Customer
(Excluding Companies <$2.5MM in Revenue)

As expected, companies which are focused mainly on enterprise sales have higher levels of services. However, at just 18% of first year ACV, we were surprised the number wasn't higher.



Comparison with Previous Surveys

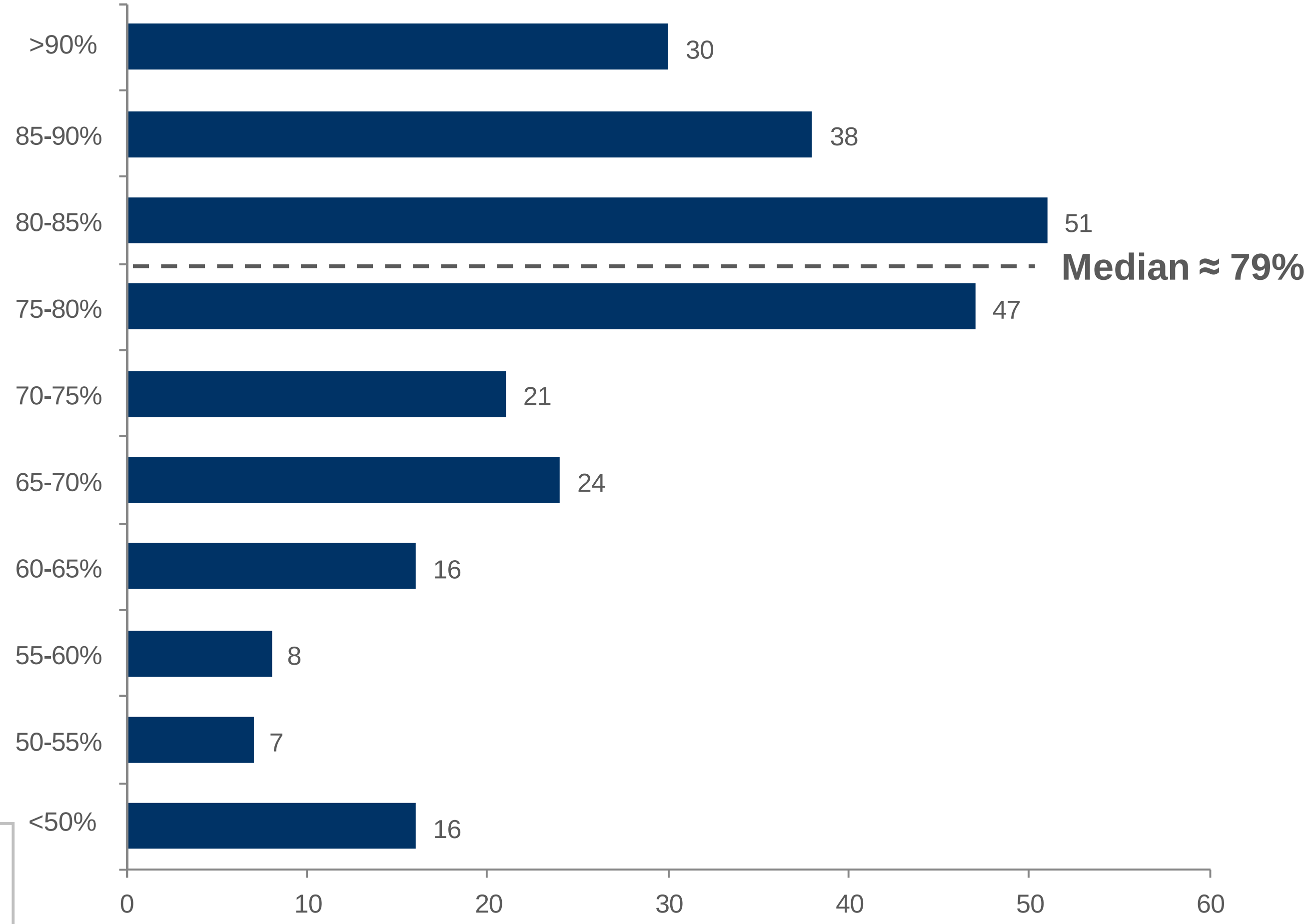
Consistent with 2013 survey results, with enterprise-focused companies having the highest professional services attach rates.

Respondents: Enterprise: 90, SMB: 64, VSB: 23, Mixed: 31

Subscription Gross Margins

"What is your gross profit margin on just subscription/SaaS revenues?"

Median subscription gross margins are 79% for the group (78% when removing the smallest companies from the group).



Comparison with Previous Surveys

Very similar results to 2013 and 2012 results.

258 respondents

Freemium / "Try Before You Buy"

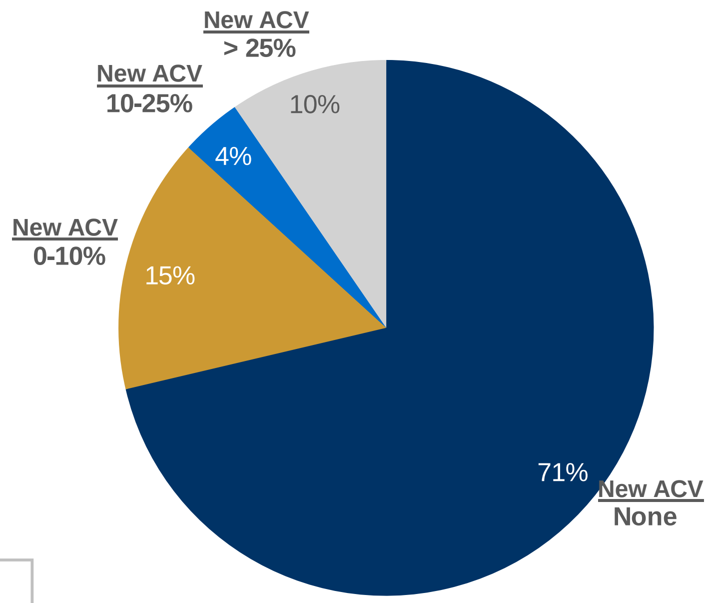
Approximately 30% of companies derive some amount of new ACV from "freemium" strategies, though virtually no one drives their business on it. "Try Before You Buy" is much more commonly used: 60% derive revenues through this strategy, and one-third derive the majority of their new ACV through "Try Before You Buy".

Comparison with Previous Surveys

Very consistent results with previous years.

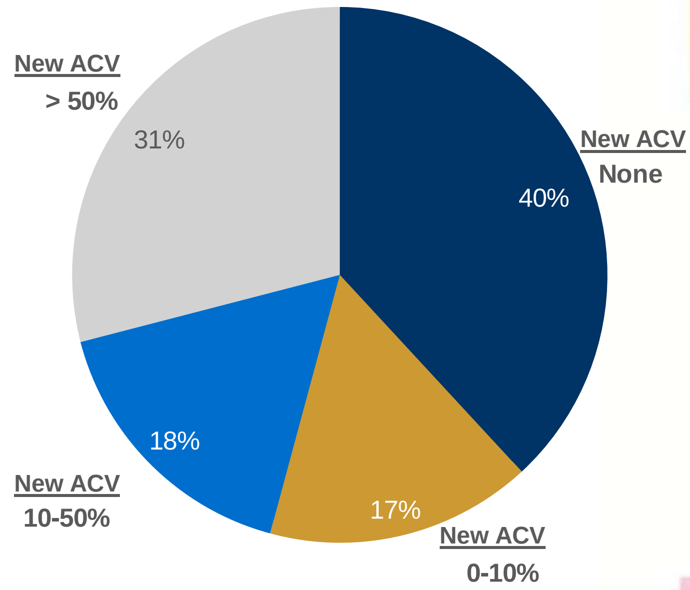
"Freemium"

Expected New ACV in 2014 from "Freemium" Leads



"Try Before You Buy"

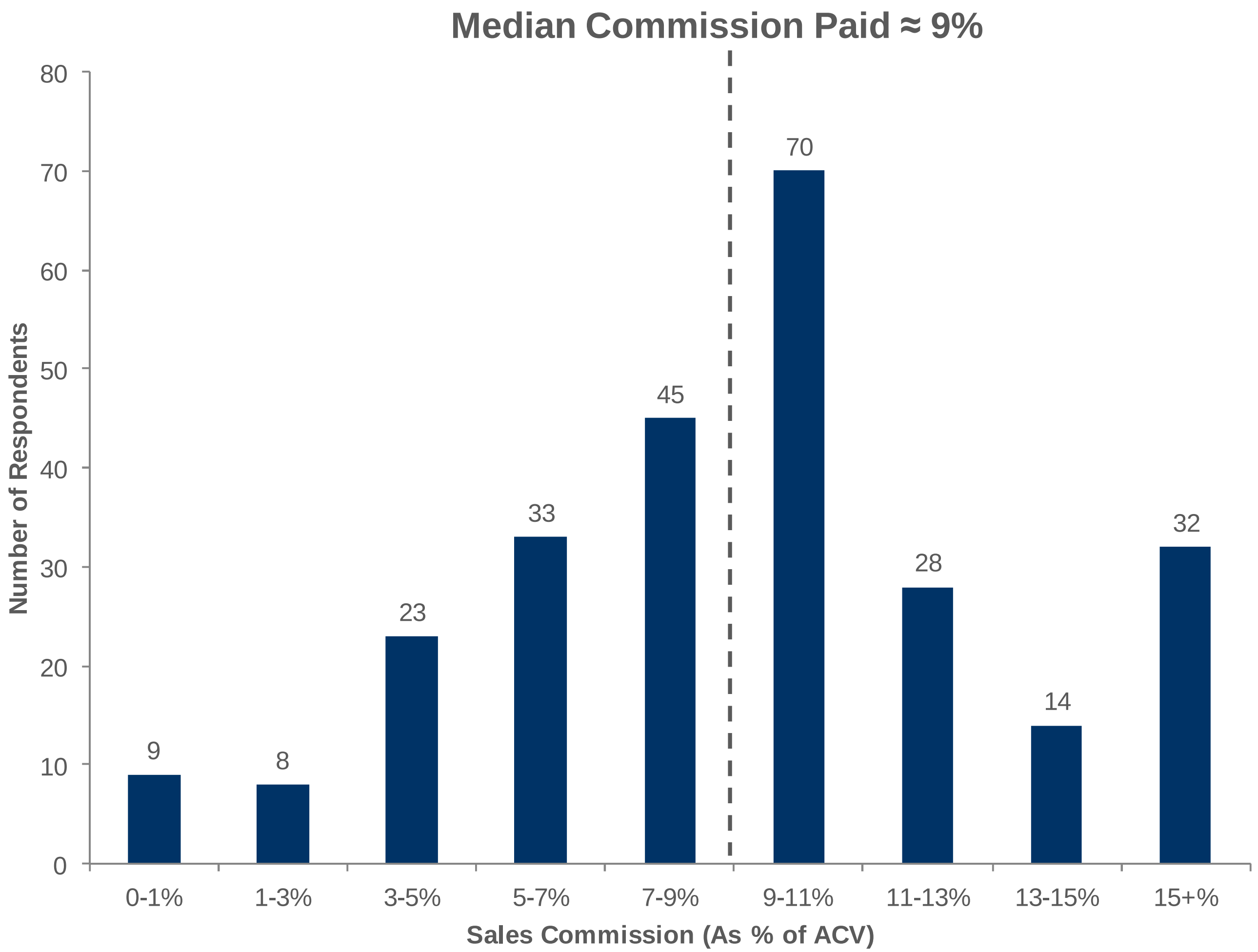
Expected New ACV in 2014 from "Try Before You Buy" Leads



272 and 286 respondents, respectively

Sales Commissions

The median reported sales commission rate for the group is 9% of ACV.



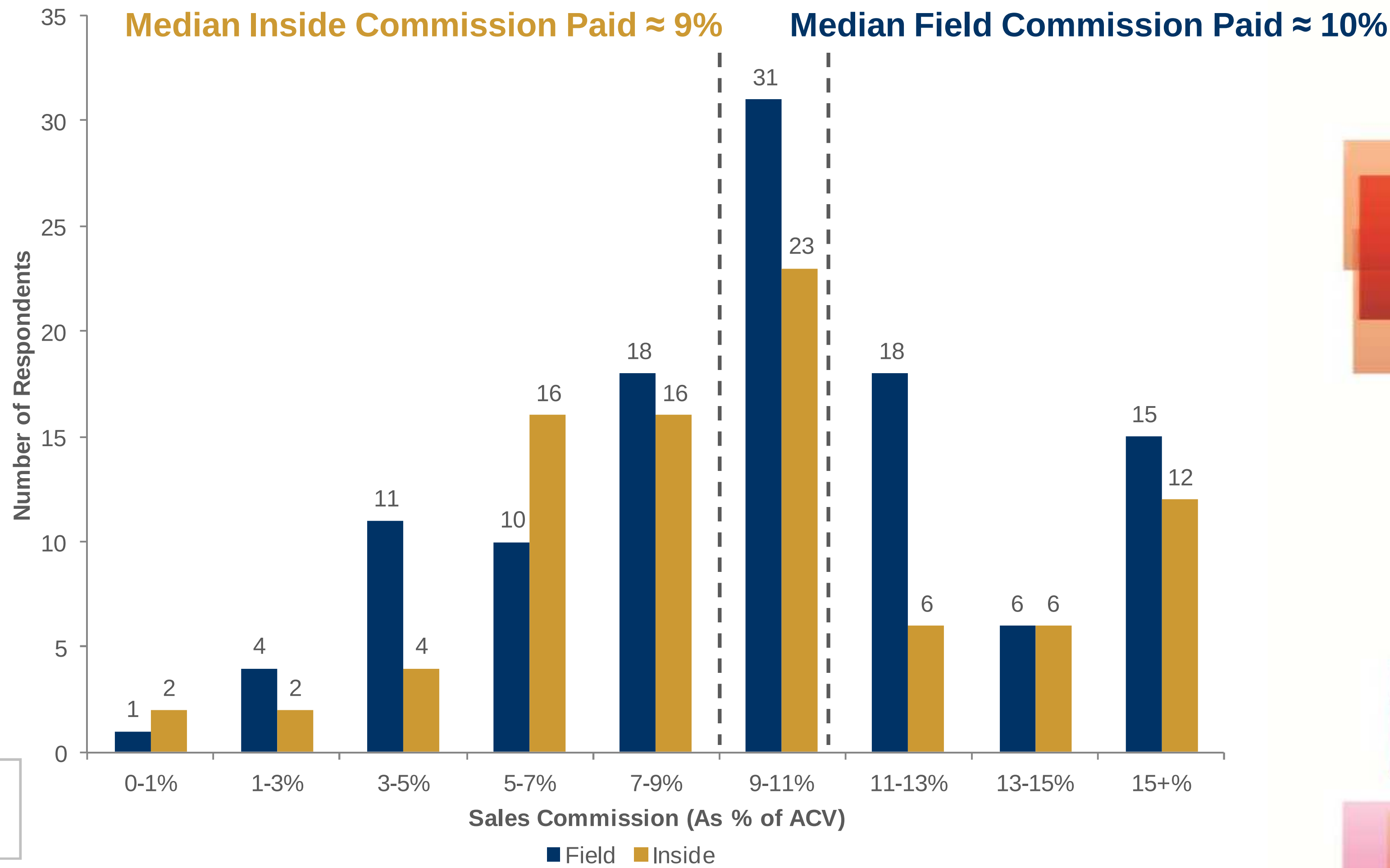
Comparison with Previous Surveys

Consistent with 2013 and 2012 results.

262 Respondents

Sales Commissions by Sales Strategy

The survey results indicate that median sales commission rates are only slightly higher for Field Sales versus Inside Sales.



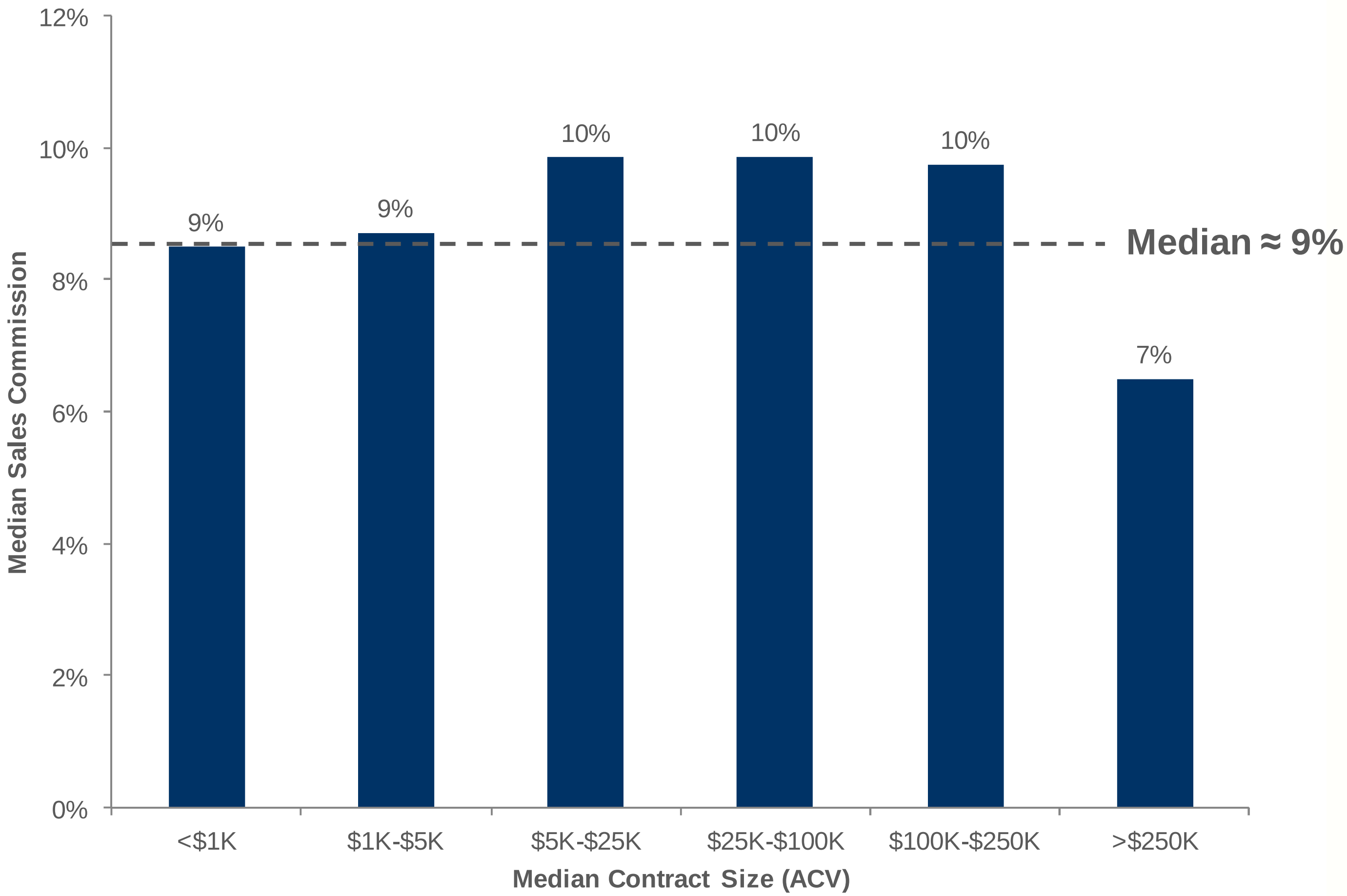
Comparison with Previous Surveys

Similar to 2013 results.

Respondents: Field : 114, Inside: 87

Sales Commissions as a Function of Median Contract Size

As seen in previous surveys, there was relatively little correlation between sales commission rates and average contract sizes up to ACV of $250K. "Elephant hunters" selling above $250K report a drop in commission rates.



Comparison with Previous Surveys

"Elephant hunters" experienced the lowest commission rates in 2014, which was not the case in 2013, but consistent with results from prior years.

Respondents: <$1K: 11, $1K-$5K: 35, $5K-$25K: 67, $25K-$100K: 63, $100K-$250K: 25, >$250K: 12

Commissions for Renewals, Upsells and Multi-Year Deals

Not surprisingly, commissions on renewals are typically deeply discounted, with a median rate of 2%. Upsells command a median rate of 7%, although more than half of the companies pay full commissions on upsells.

Comparison with Previous Surveys

Similar results to 2013. The biggest change is in the third column above, analyzing commissions on multi-year deals. In the 2013 survey, only 24% of respondents paid no additional commissions on the additional years; this year, that number was notably higher at 42%.

Renewals	
Median Commission Rate on Renewals	2%
% of Respondents Paying 0-1% on Renewals	35%

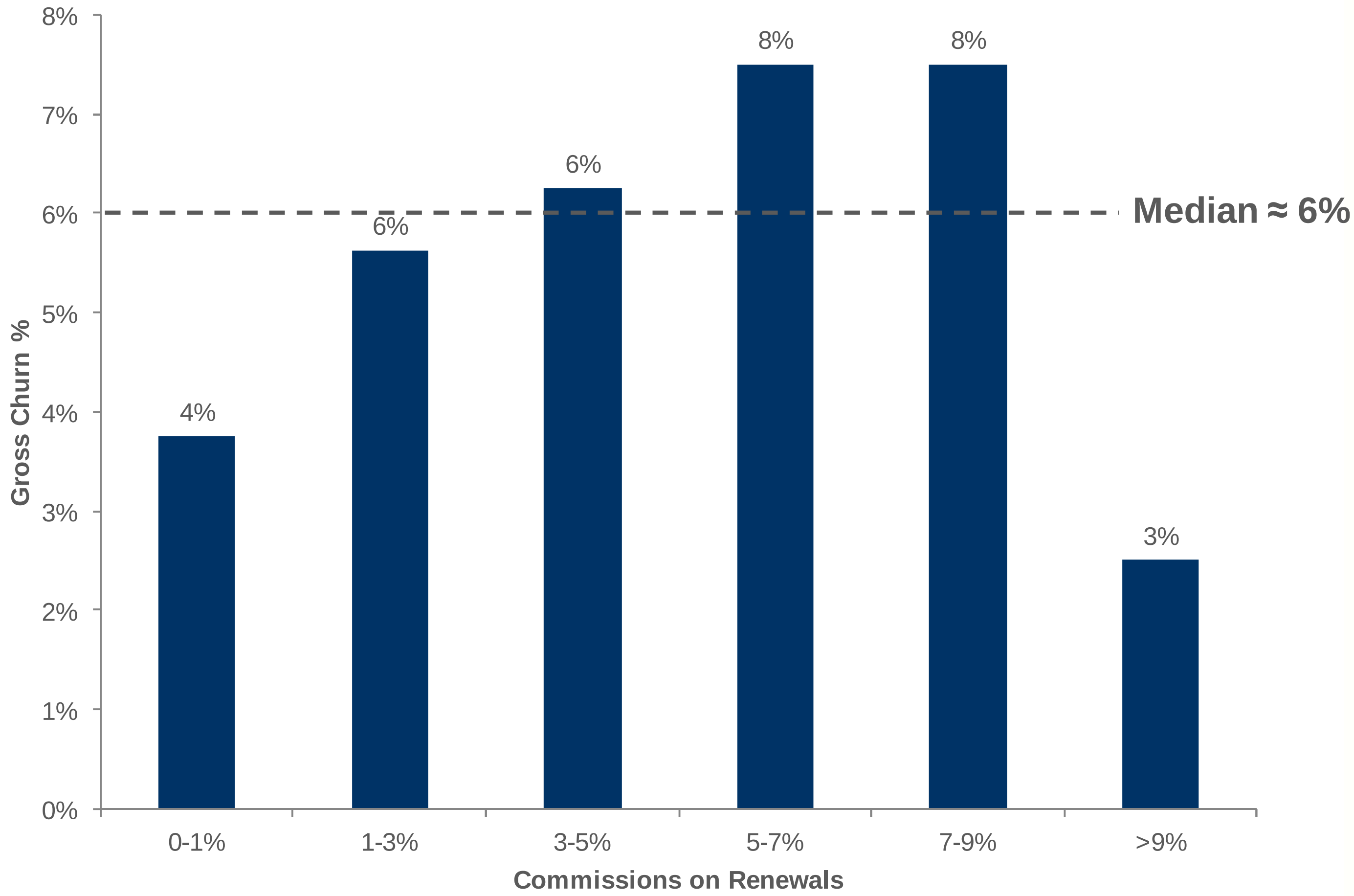
Upsells	
Median Commission Rate on Upsells	7%
% of Respondents Paying Full Commission[1]	58%

Additional Commission for Extra Years on Initial Contract	
% of Respondents Paying:	
▪ No Additional Commission	42%
▪ Nominal Kicker	22%
▪ Full Commission	17%

(1) Same rate (or higher) than new sales commissions
Respondents: Renewals: 223, Upsells: 238, Extra Years on Initial Contract: 214

Effect of Renewal Commission Rates on Churn
(Excluding Companies <$2.5MM in Revenue)

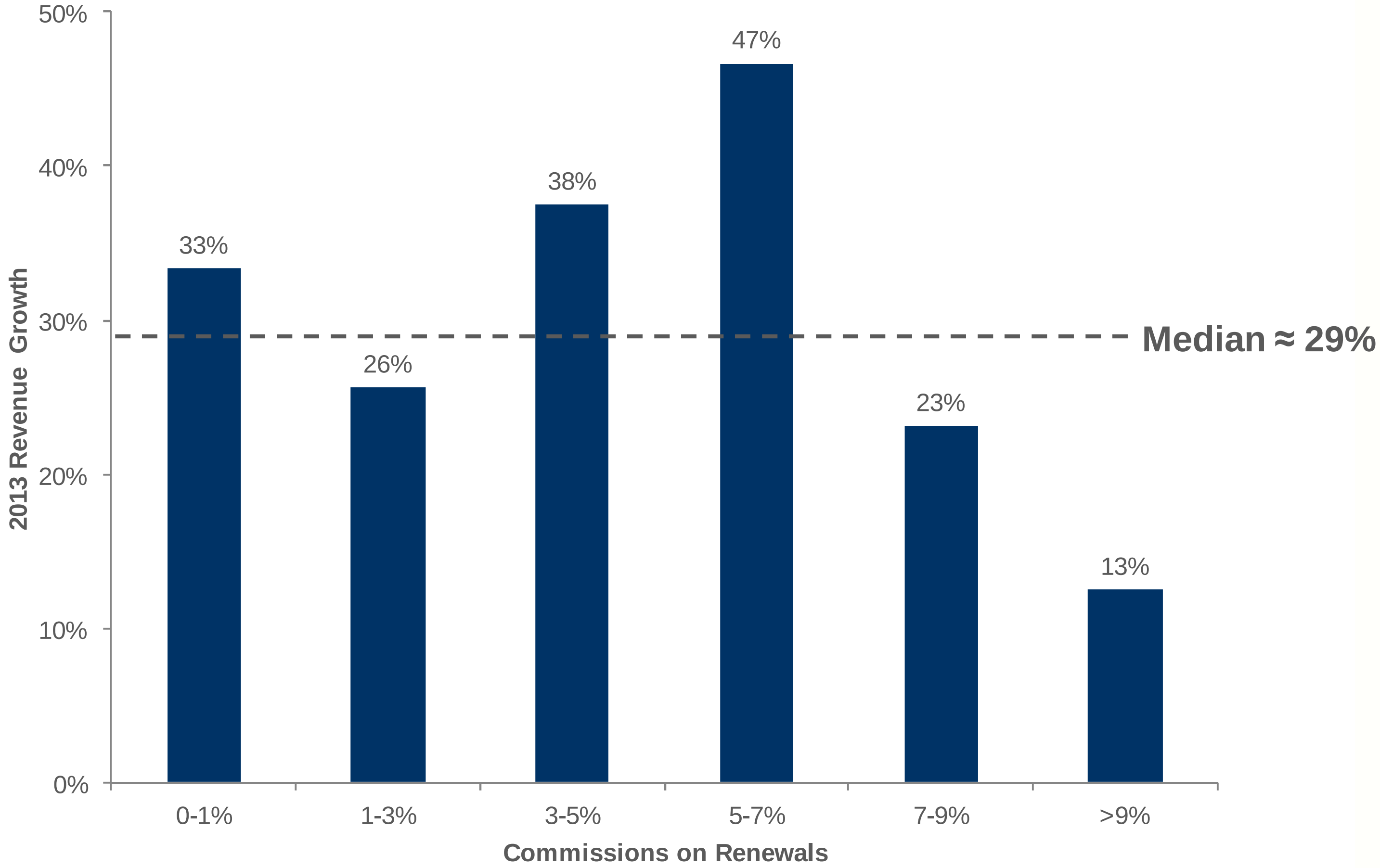
One natural question to ask is whether companies who pay higher commissions on renewals experience lower churn. The answer is a qualified “yes”, at the very high end of renewal commission rates (>9%). However, churn rates among the lowest payers (and companies who don’t pay any commissions at all on renewals), are lower than churn rates for middle-of-the-pack payers.



Respondents: 0-1%: 42, 1-3%: 33, 3-5%: 29, 5-7%: 7, 7-9%: 5, >9%: 5

Median Growth Rate as a Function of Commissions on Renewals
(Excluding Companies <$2.5MM in Revenue)

Although it's difficult to draw too many conclusions from this chart comparing renewal commission rates and growth rates, clearly among the very high end of renewal commission payers, growth rates actually appear lower.

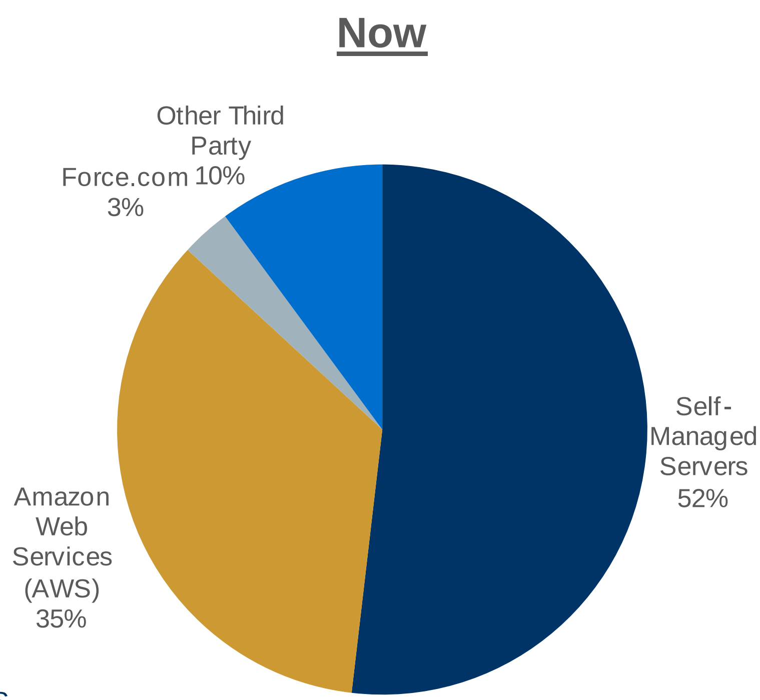


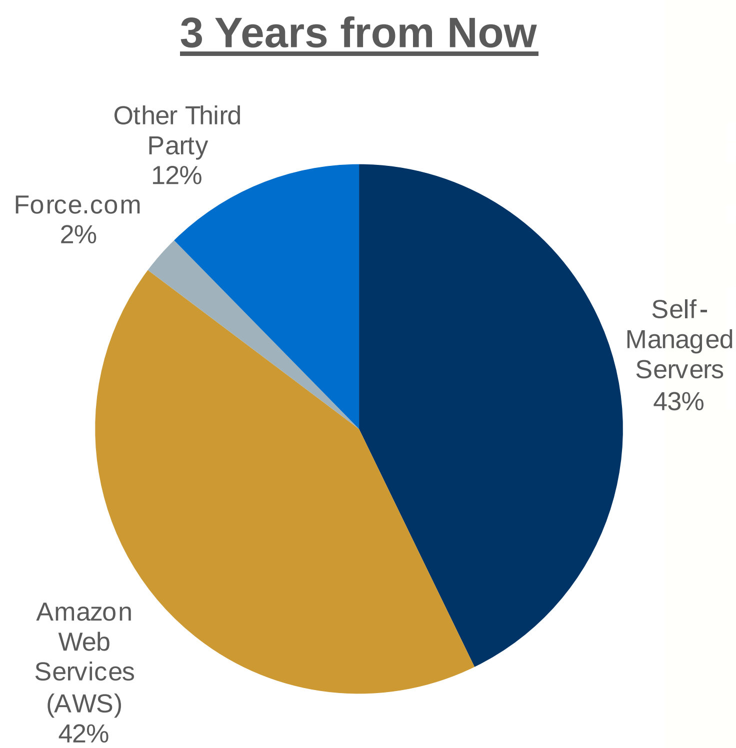
Respondents: 0-1%: 49, 1-3%: 38, 3-5%: 33, 5-7%: 7, 7-9%: 8, >9%: 5

Operational Aspects

How is Your SaaS Application Delivered?

For the first time, we asked participants to provide information on their primary application delivery method (in-house or third-party) and how they expect that to change over the next three years. While more than half of the respondents indicated that they primarily rely upon self-managed servers today, future expectations revealed a marked trend toward third-party delivery solutions, with AWS being the primary beneficiary.

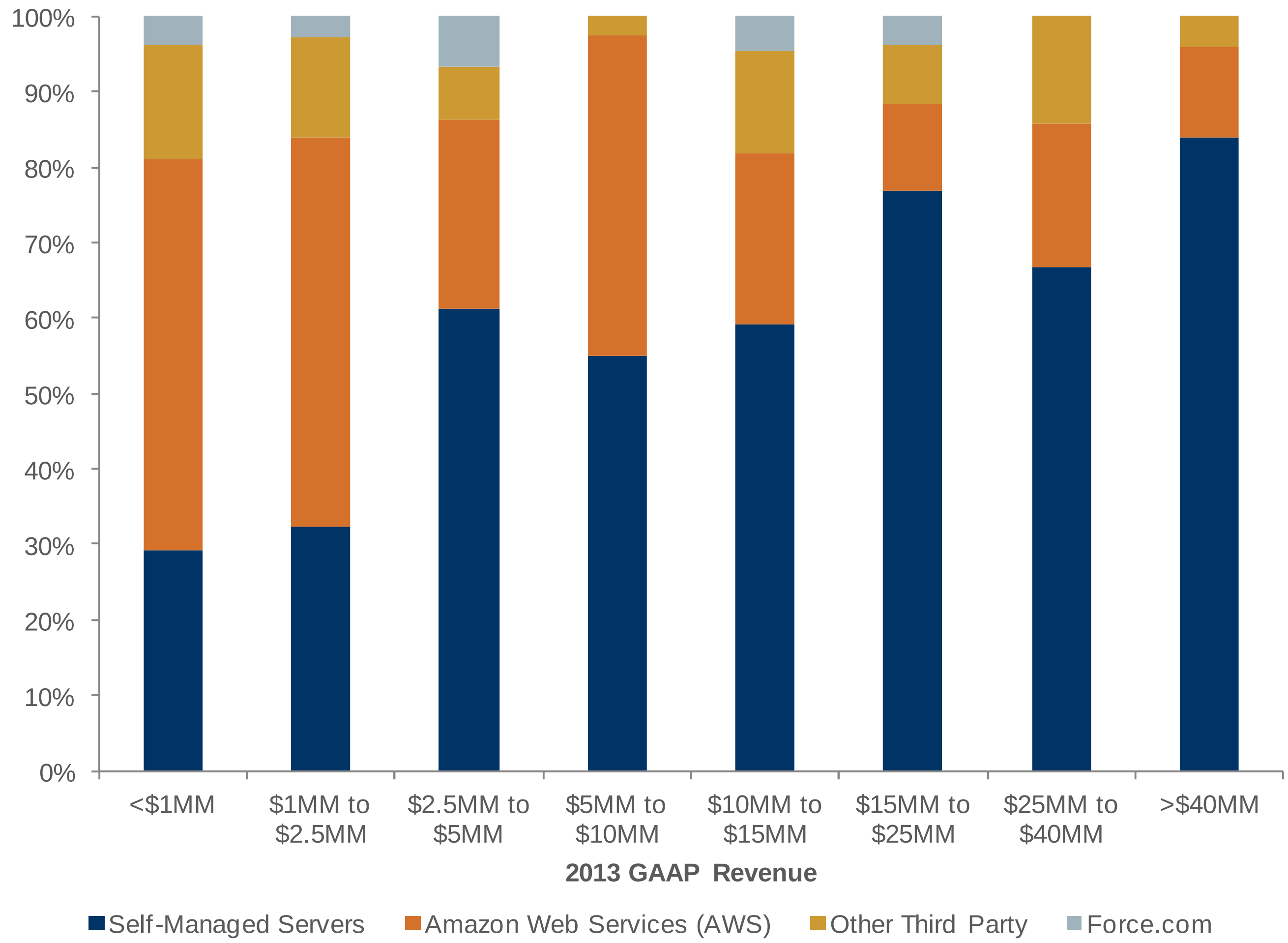




Respondents: Now: 297 respondents, 3 Years from Now: 292 respondents

SaaS Application Delivery Method[1] as a Function of Size of Company

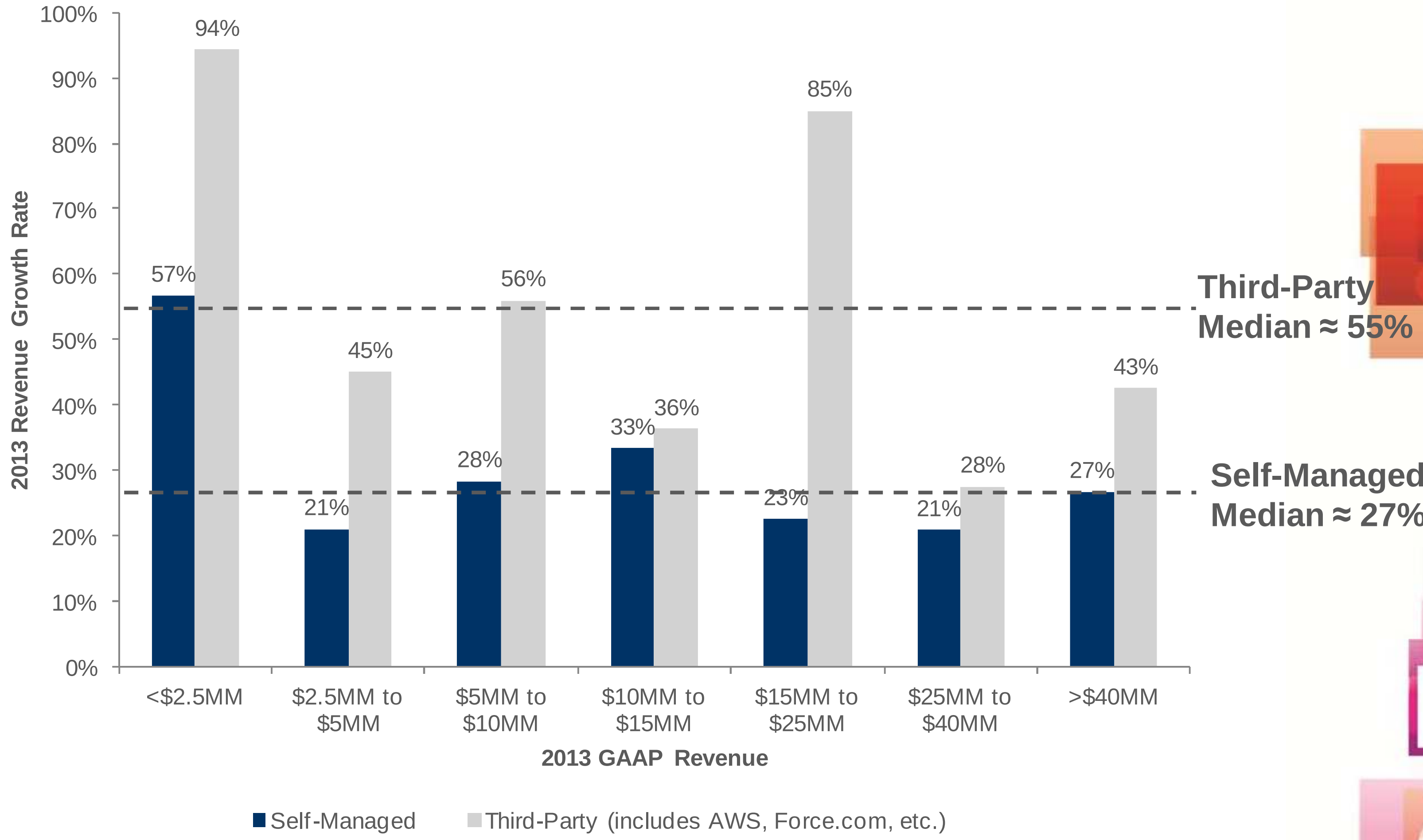
When filtered by company size, smaller respondents reported more frequent use of third-party providers as their primary application delivery method, while the largest companies were more likely to use self-managed servers.



(1): Defined as "predominant" mode of delivery
Respondents: Self-Managed: 152, AWS: 103, Force.com: 9, Others: 30

Comparison of Growth Rates for Companies Managing Their Own Servers vs. Using 3rd Parties

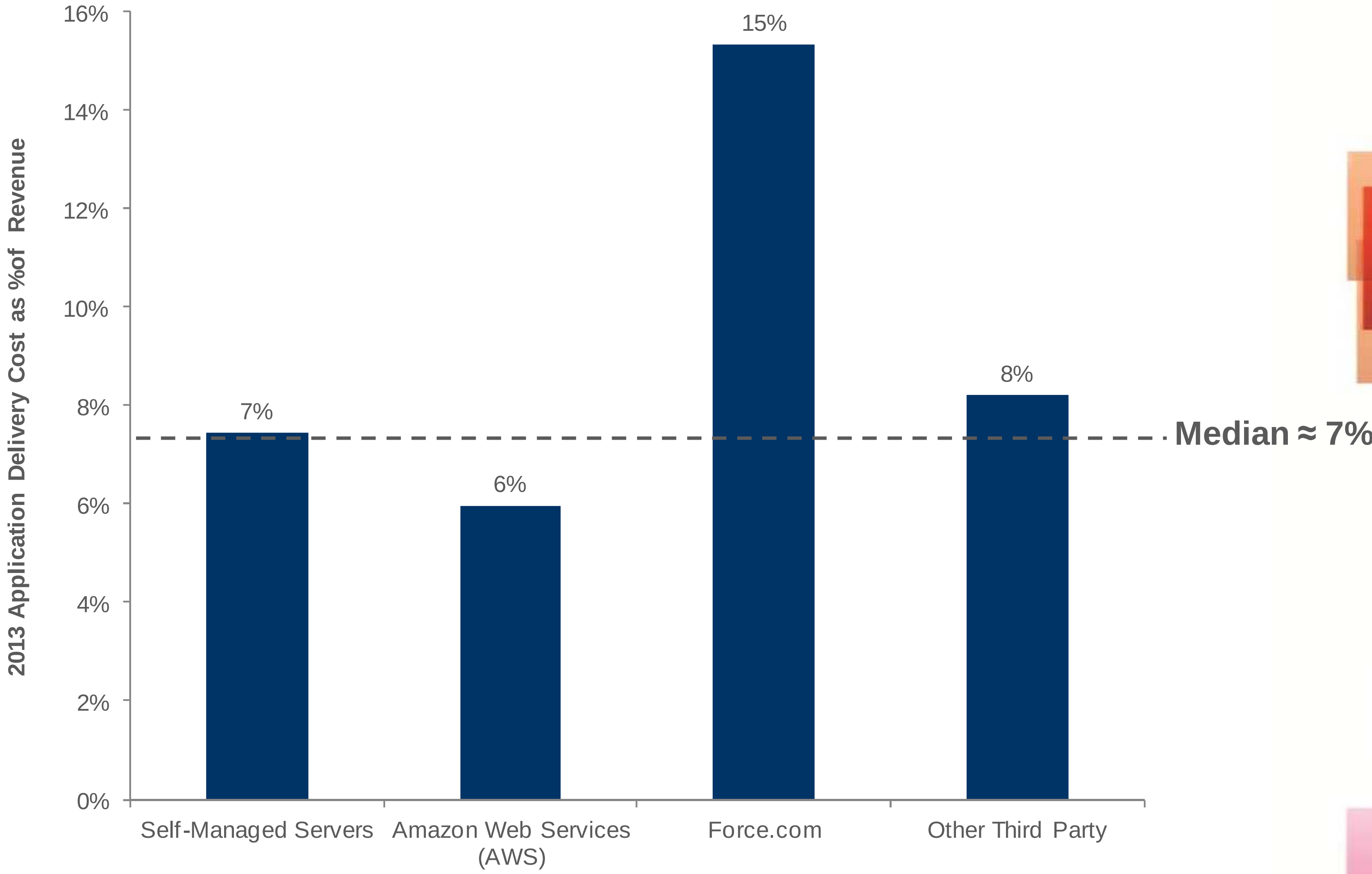
Interestingly, companies that delivered their applications through third - party managed servers generally experienced faster growth rates (in some cases considerably faster) – and this trend was true across companies of all sizes.



Respondents: <$2.5MM: 33 and 75, $2.5MM-$5MM: 27 and 17, $5MM-$10MM: 21 and 17, $10MM-$15MM: 13 and 8, $15MM-$25MM: 20 and 6, $25MM-$40MM: 14 and 7, >$40MM: 21 and 4, respectively

What Are Your Operational Costs to Deliver the SaaS Application?

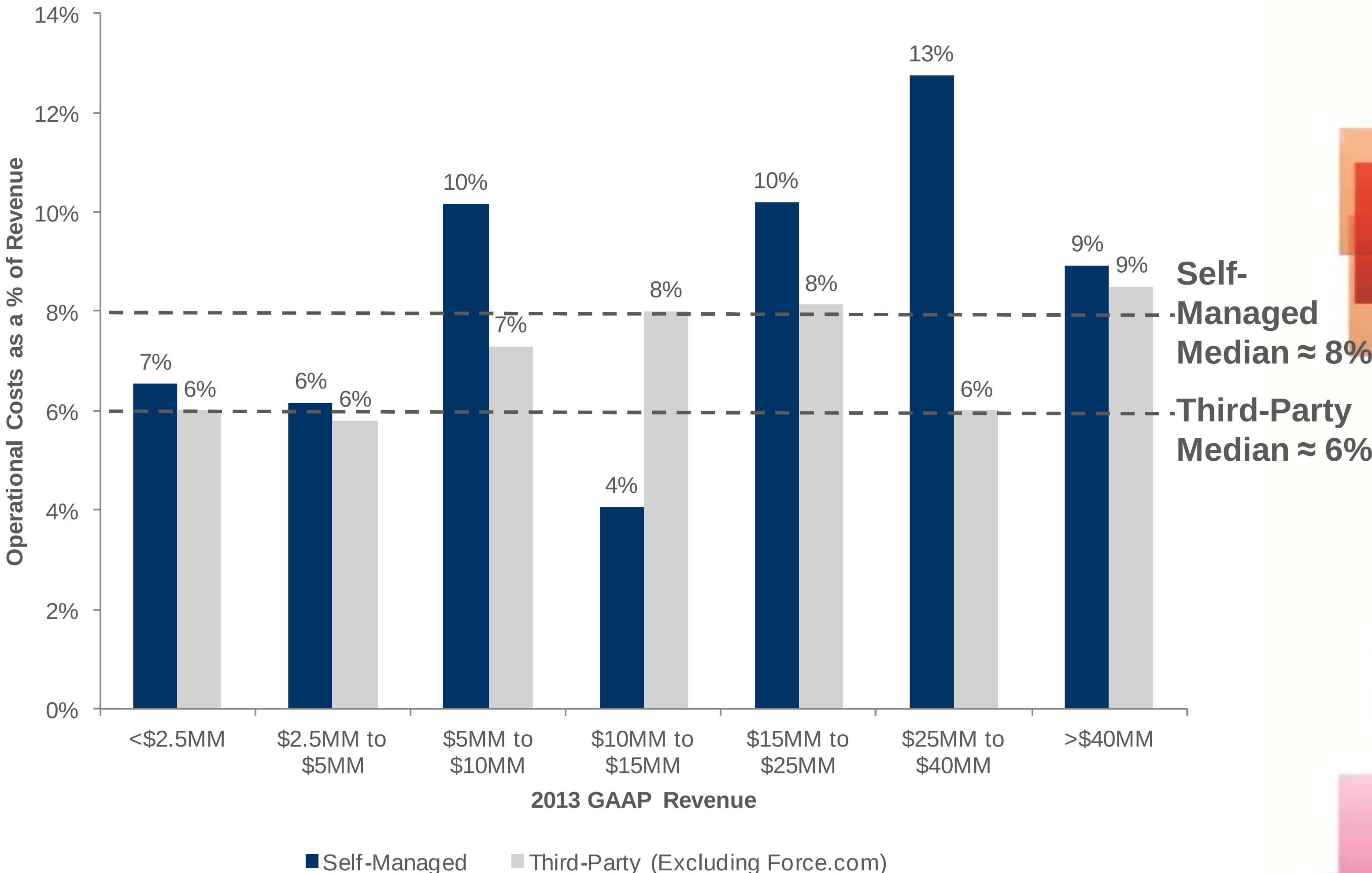
Respondents relying primarily on self-managed servers reported a median delivery cost of 7% of sales, while those primarily using AWS reported a slightly lower median of 6%. The median cost of delivery for respondents on Force.com was considerably higher at 15%.



Respondents: Self-Managed: 142, AWS: 94, Force.com: 8, Others: 27

Operational Costs as a Function of SaaS Application Delivery, Grouped by Size Tiers

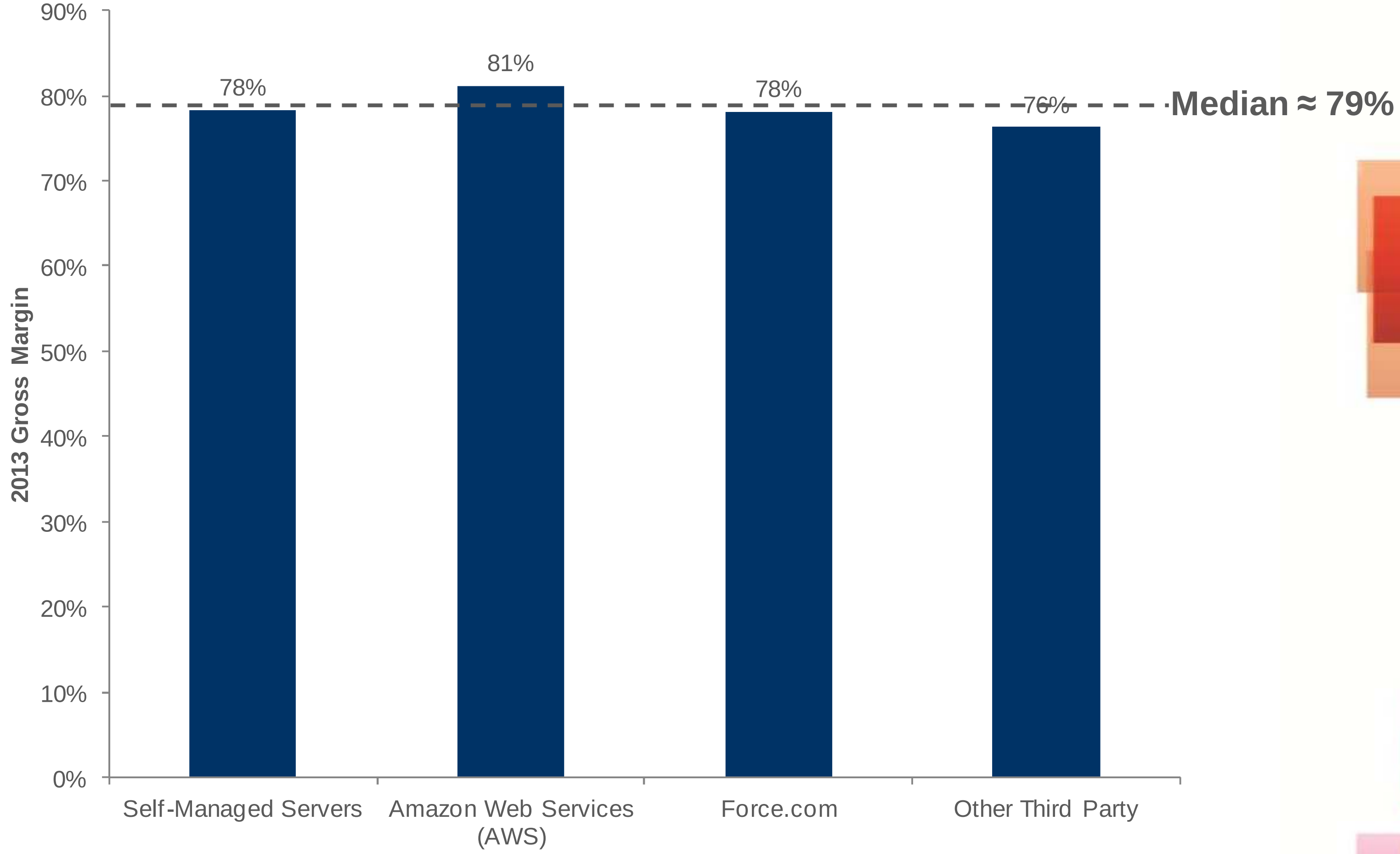
Aside from the $10MM-$15MM group, companies generally faced increased operational costs when they managed their own servers. It's also surprising that we don't see more economies of scale in each data set.



Respondents: <$2.5MM: 34 and 73, $2.5MM-$5MM: 24 and 13, $5MM-$10MM: 20 and 14, $10MM-$15MM: 12 and 7, $15MM-$25MM: 20 and 4, $25MM-$40MM: 12 and 7, >$40MM: 18 and 3, respectively

Subscription Gross Margin as a Function of SaaS Application Delivery Method

Interestingly, despite the aforementioned differences in estimated operational costs, median subscription gross margins did not meaningfully vary when filtered by SaaS application delivery method.



Respondents: Self-Managed: 134, AWS: 87, Force.com: 8, Others: 25

Pacific Crest SECURITIES 16th Annual Global Technology Leadership Forum

Cost Structure

Cost Structure and Future Expected Operating Leverage

(Excluding Companies <$2.5MM in Revenue)

The median numbers reflect respondents' beliefs that the most operating leverage will come from improvements in gross margin, S&M and R&D (note that results from companies <$2.5MM in revenues have been excluded, and can be viewed in the breakout on the following page).

	2014E Median	"At Scale"[(1)] Median
Gross Margin	73%	79%
Operating Expense Margins:		
Sales & Marketing	28%	23%
R&D	23%	18%
G&A	15%	13%
EBITDA	(1%)	17%
FCF	(3%)	17%
YoY Growth Rate	30%	23%

Comparison with Previous Surveys

Very similar results to last year's survey. Note that in the survey question we adjusted our definition of "at scale" upward from $50M+ in revenue referenced in the 2013 survey, to $100M+ in revenue in the 2014 survey. The only significant change in response was lower anticipated "at scale" growth rate of 23% vs. 28% last year.

(1): Note – Survey describes scale as "$100 million in revenues or higher."
Respondents: 2014E Median: 160, "At Scale" Median: 158

Median Cost Structure by Size

(Includes Only Companies Audited by Top 5 Accountant with >$2MM in ACV)

	All Respondents	Size of Company (ACV)[1]					
		$2-$5M	$5-$10M	$10-$15M	$15-$25M	$25-$40M	>$40M
Total Gross Margin	**71%**	**84%**	**78%**	**66%**	**68%**	**64%**	**71%**
Subscription	78%	81%	78%	78%	78%	77%	77%
Professional Services	19%	33%	10%	20%	18%	16%	12%
Operating Expense Margins:							
Sales & Marketing	34%	**41%**	**28%**	**34%**	**24%**	**50%**	**42%**
R&D	26%	**36%**	**23%**	**28%**	**32%**	**25%**	**22%**
G&A	17%	**26%**	**18%**	**21%**	**18%**	**14%**	**14%**
EBITDA Margin	(12%)	(30%)	(8%)	(30%)	(24%)	(11%)	3%

Note that numbers do not add due to the fact that medians were calculated for each metric separately and independently

(1): Annual Contract Value (ACV) is defined as total annualized recurring SaaS revenues, excluding professional services, perpetual licenses and related maintenance

Respondents: $2MM-$5MM: 4, $5MM-$10MM: 11, $10MM-$15MM: 9, $15MM-25MM: 9, $25MM-$40MM: 14, >$40MM: 19

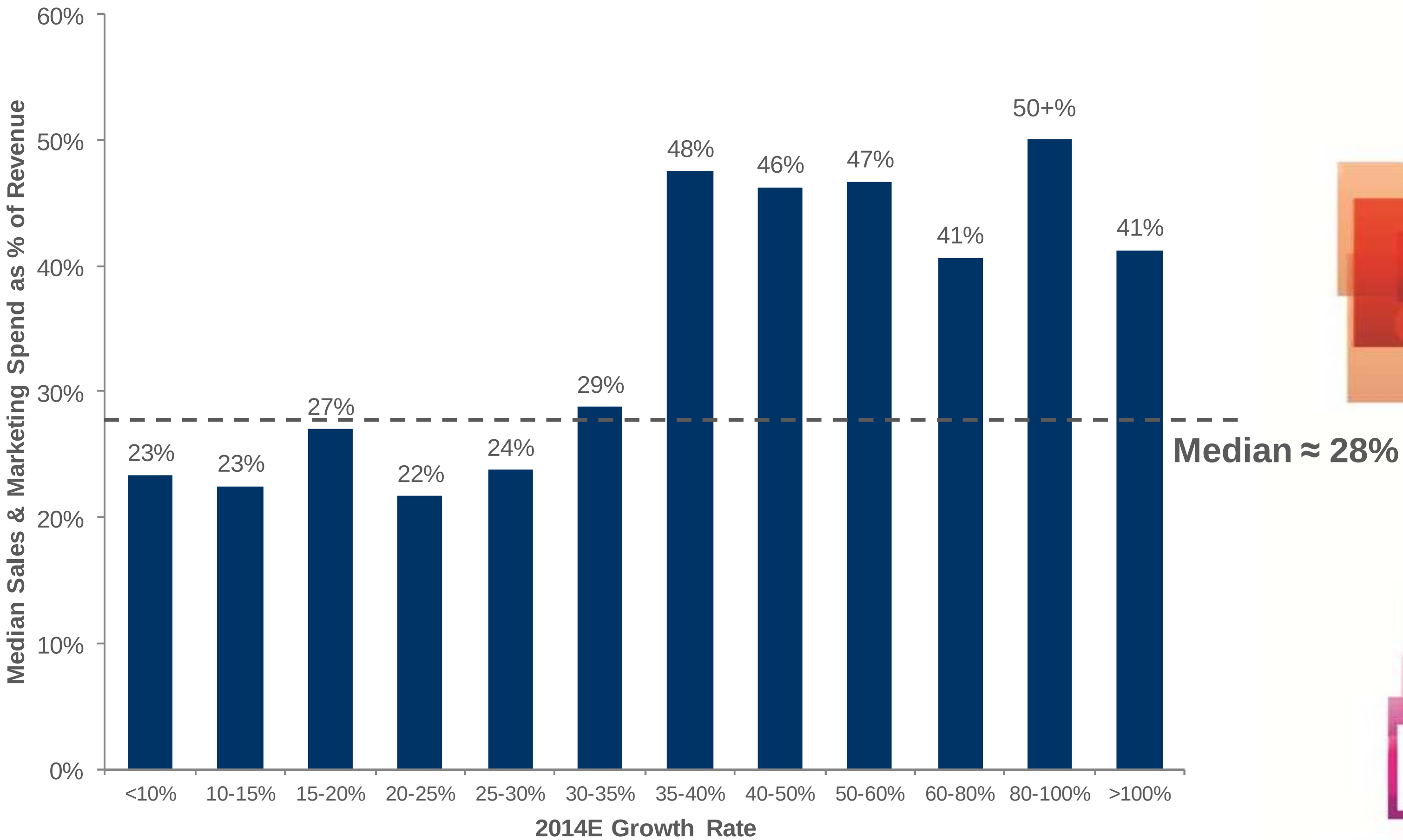
For Comparison: Historical Results of Selected Public SaaS Companies

	Total Revenue Run-Rate		
	~$25MM	~$50MM	~$100MM
	Median Values		
Gross Margin	63%	64%	67%
Sales & Marketing	47%	44%	43%
Research & Development	23%	17%	17%
G & A	18%	16%	15%
EBIT Margin	(28%)	(8%)	(3%)
FCF Margin	(8%)	(3%)	(1%)
YoY Revenue Growth Rate [(1)]	113%	65%	41%

(1): YoY Revenue Growth compares against previous year's revenue of the companies at the time
Median includes AMBR, ATHN, BCOV, BNFT, BV, CNVO, COVS, CRM, CSOD, CTCT, CVT, DMAN, DWRE, ECOM, EOPN, ET, FLTX, LOGM, MKTG, MKTO, MRIN, N, NOW, OPWR, PAYC, PCTY, PFPT, QLYS, RNG, RNOW, RP, SFSF, SPSC, SQI, TLEO, TXTR, VEEV, VOCS, WDAY and ZEN
~$25M median excludes BNFT, COVS, CVT, FLTX, PAYC, PCTY, QLYS, RNG, RP, VEEV and WDAY
~$50M median excludes RP and TXTR
~$100M median excludes AMBR, BCOV, DMAN, DWRE, ECOM, EOPN, MKTO, MRIN, PCTY, QLYS, SPSC, SQI and TXTR

Sales & Marketing Spend vs. Projected Growth Rate
(Excluding Companies <$2.5MM in Revenue)

Not surprisingly, companies which spend more on sales & marketing (as a % of revenue) expect to grow at a faster rate than those which spend less. It is interesting to see a step function at 35% growth, and not much increase in sales & marketing spend % thereafter.



Comparison with Previous Surveys

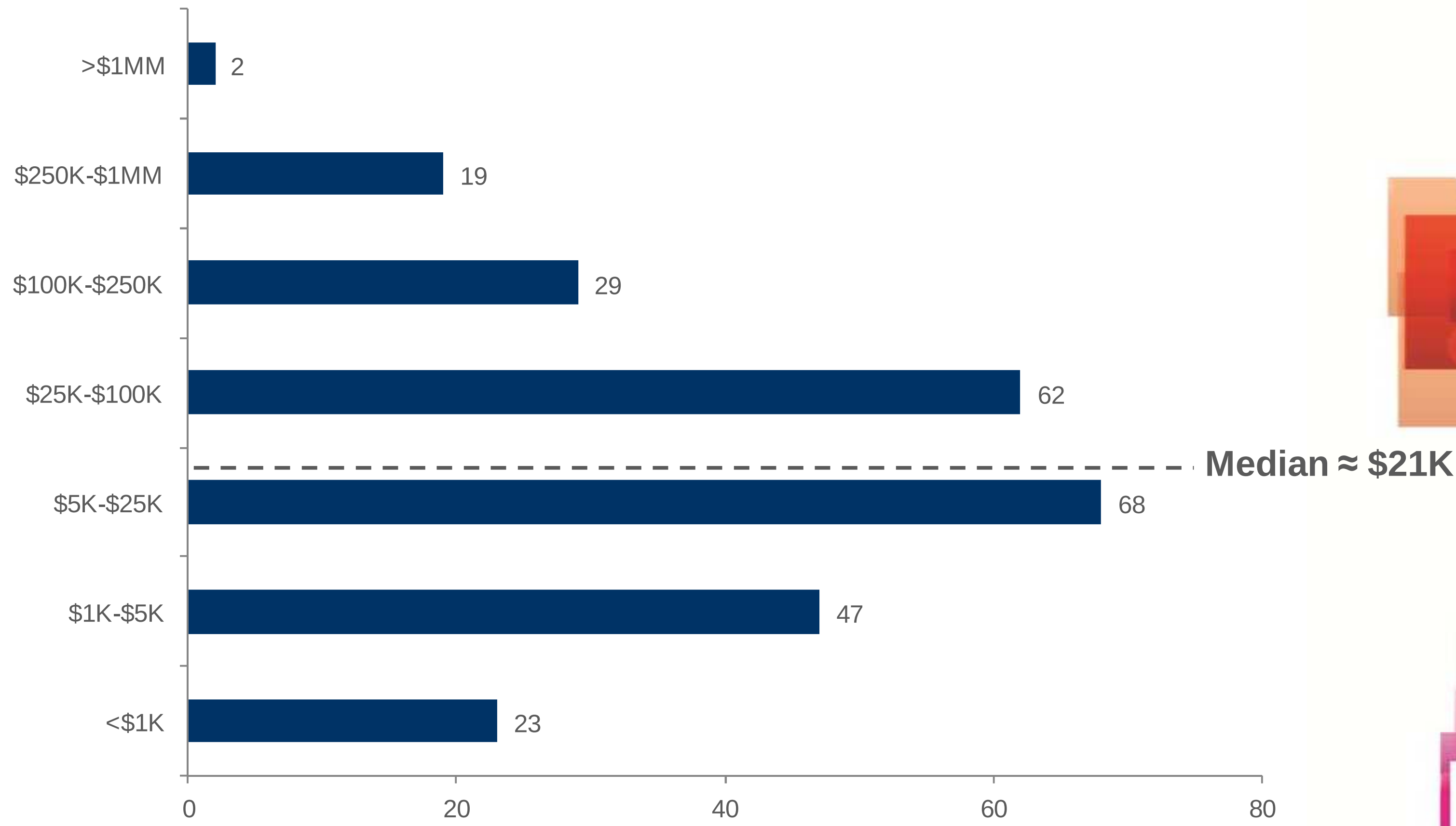
Our 2013 results showed no correlation. However, in the 2012 and 2011 surveys, we saw a similar correlation of higher S&M spend leading to higher expected growth rates.

Respondents: <10%: 13, 10-15%: 13, 15-20% : 21, 20-25%: 19, 25-30%: 11, 30-35%: 15, 35-40%: 8, 40-50%: 16, 50-60%: 9, 60-80%: 12, 80-100%: 6, >100%: 12

Contracting & Pricing

Median Annual Contract Size (ACV) per Customer

The median annual contract size (subscription component only) for the group was $21K per year.



Comparison with Previous Surveys

These results are in-line with previous survey medians of $20K and $24K in 2013 and 2012, respectively.

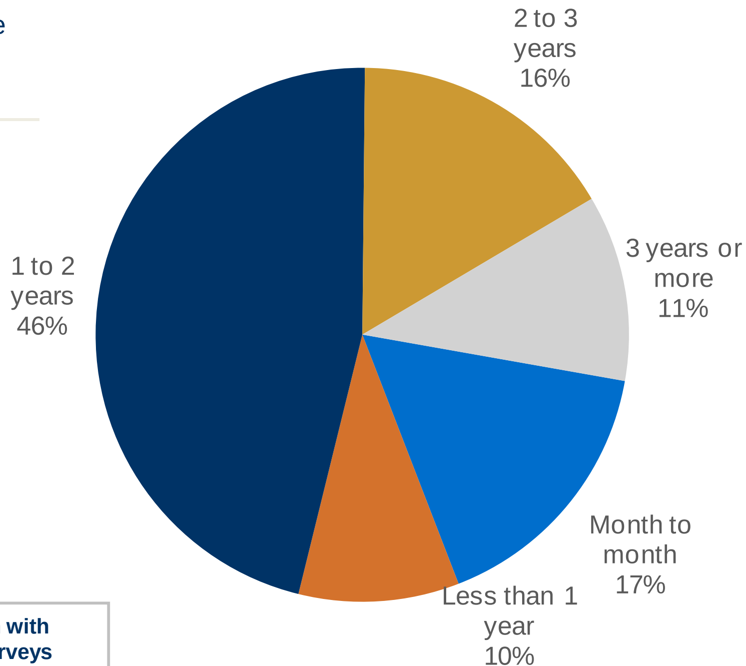
250 respondents

Median / Typical Contract Terms for the Group

The median average contract length is 1.5 years; and the median billing terms are quarterly (three months in advance).

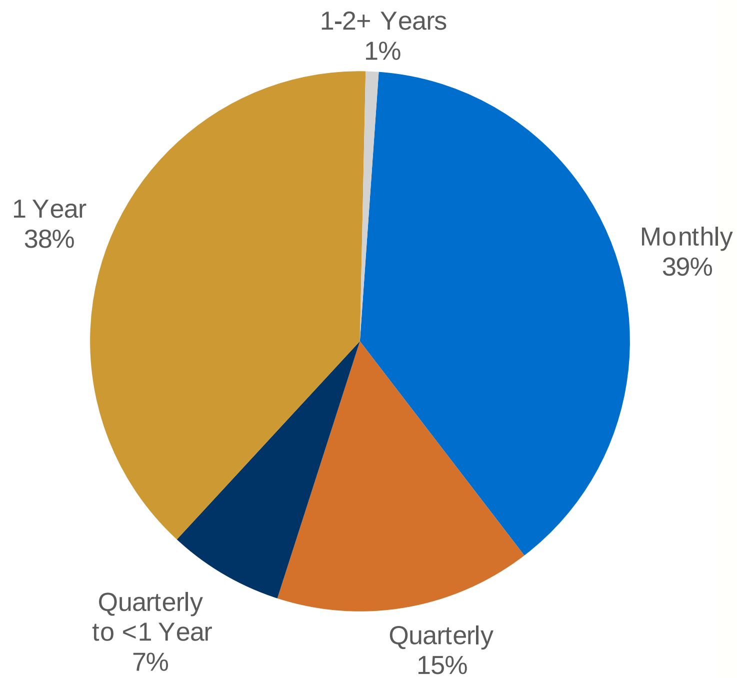
Average Contract Length

Median ≈ 1.5 years



Average Billing Period

Median ≈ 3 months



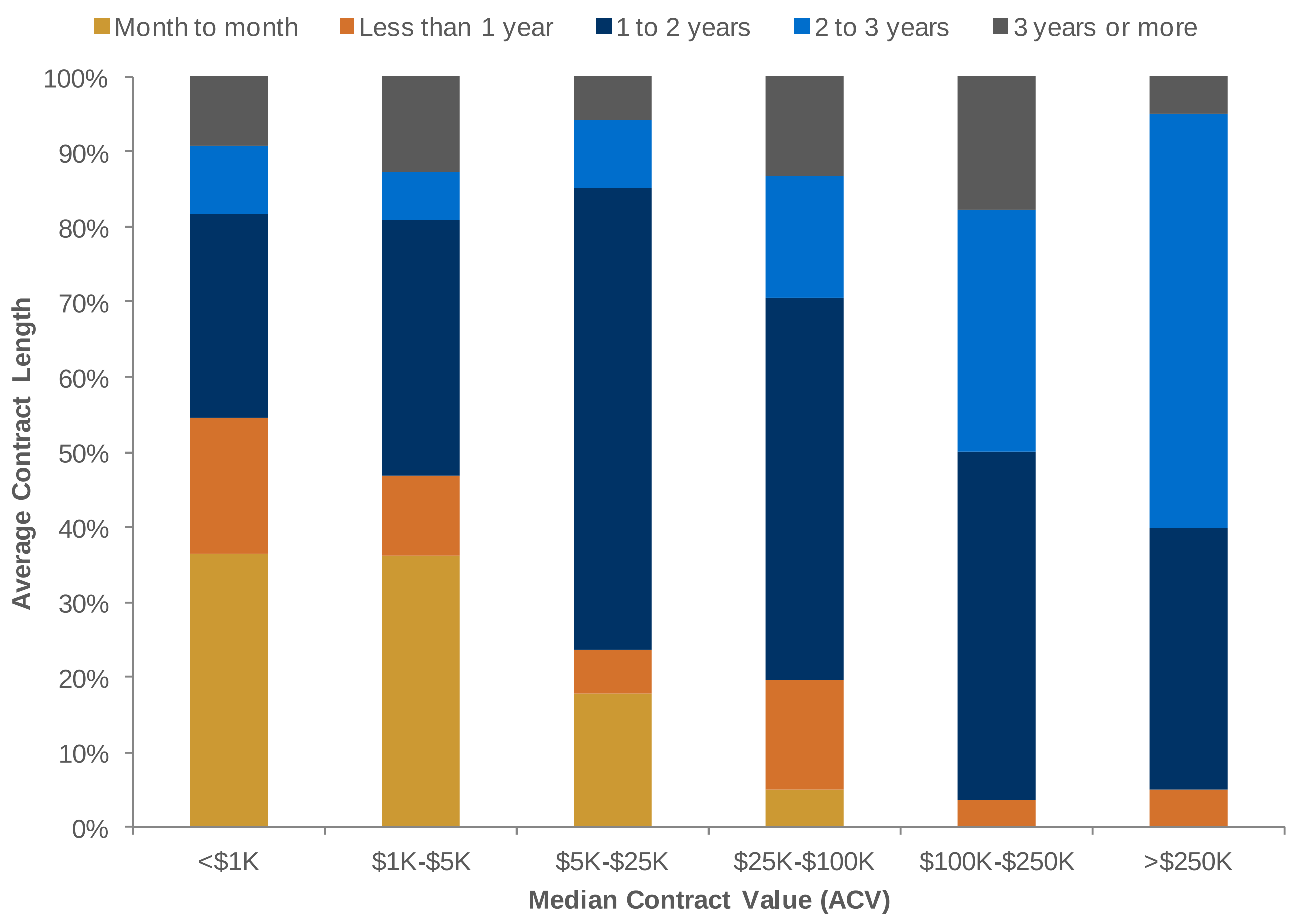
Comparison with Previous Surveys

Essentially the same median contract length and median billing period as in the 2013 survey.

Respondents: Average Contract Length: 257, Average Billing Period: 260

Contract Length as a Function of Contract Size

The phenomenon of longer contract terms for larger contracts is pretty clear.

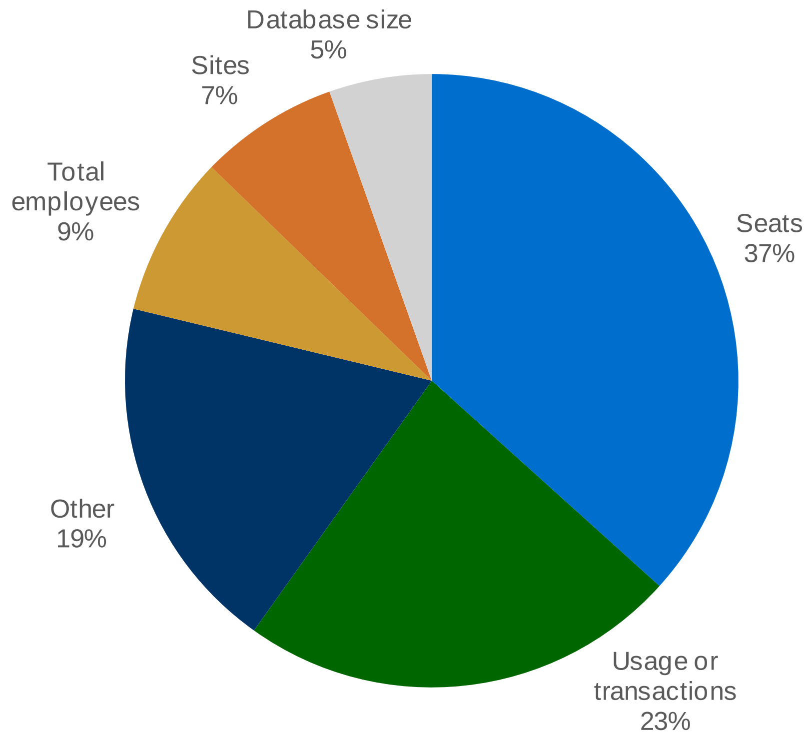


Comparison with Previous Surveys

For companies in the "elephant hunter" group, we see a continued shift each year we conduct the survey towards shorter contract lengths. Compared to survey results from 2013, respondents with >$250K ACV appear to be shying away from contracts longer than 3 years, which comprise only 5% of total contracts (compared to 45% in 2013 and even higher in 2012).

Respondents: <$1K: 22, $1K-$5K: 47, $5K-$25K: 68, $25K-$100K: 61, $100K-$250K: 28, >$250K: 20

What is Your Primary Pricing Metric?



Comparison with Previous Surveys

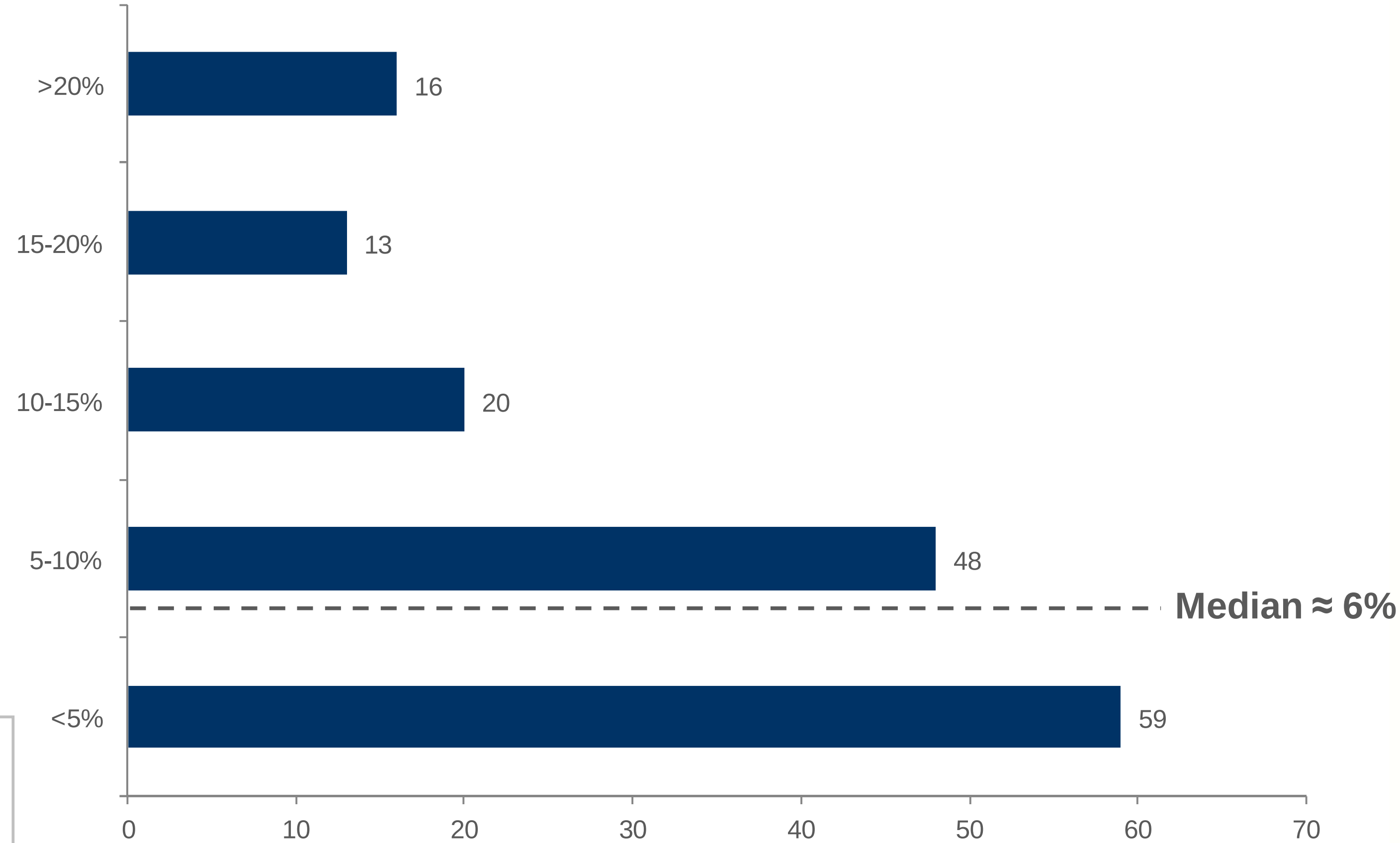
These results are largely in-line with 2013 and 2012 results.

"Other" includes: Data usage, number of apps being tested, email volume, customer devices and amount of content
259 respondents

Annual Gross Dollar Churn
(Excluding Companies <$2.5MM in Revenue)

"What percentage of total ACV on a dollar basis churns in a given year?"(1)

Annual gross dollar churn (without the benefit of upsells) is 6%. The results were virtually the same when including companies <$2.5MM in revenues.



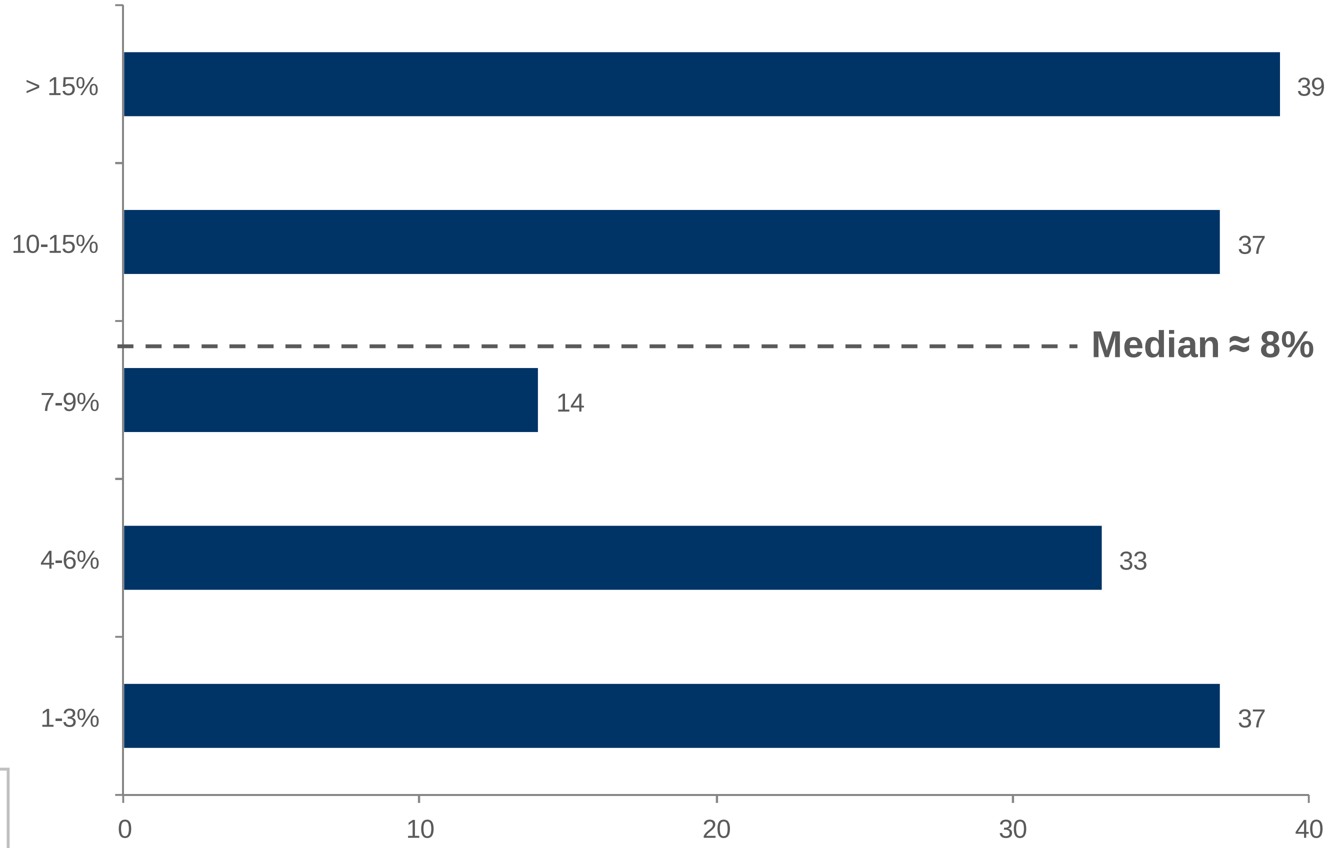
Comparison with Previous Surveys

This result is lower than the 2013 result of 8%, but higher than the 5% we found in 2012.

(1): Excluding the benefit of upsells
156 respondents

Annual Unit Churn[1]
(Excluding Companies <$2.5MM in Revenue)

Reported median annual unit churn (by customer count) is 8%. This follows conventional wisdom that unit churn is generally higher than gross dollar churn, as smaller customers tend to churn more often.



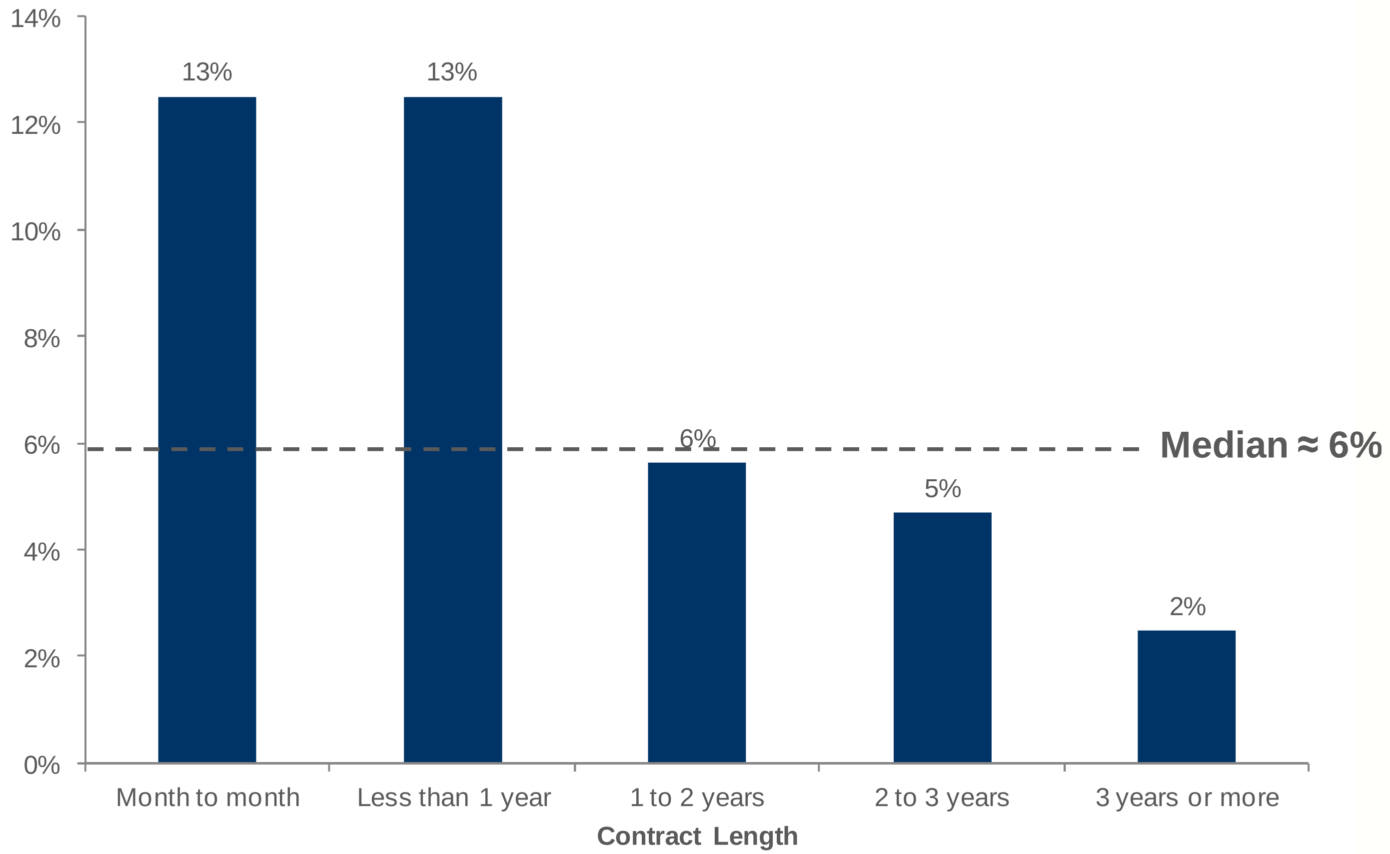
Comparison with Previous Surveys

Essentially the same result as 2013.

(1): Percentage churn of # of paid customers at year-end 2012 that were still customers at year-end 2013
160 respondents

Annual Gross Dollar Churn as a Function of Contract Length
(Excluding Companies <$2.5MM in Revenue)

Not surprisingly, companies with very long-term contracts (2+ years) have the lowest annual dollar churn. As expected, companies with short-term contracts (<1 year) tend to experience higher churn.



Comparison with Previous Surveys

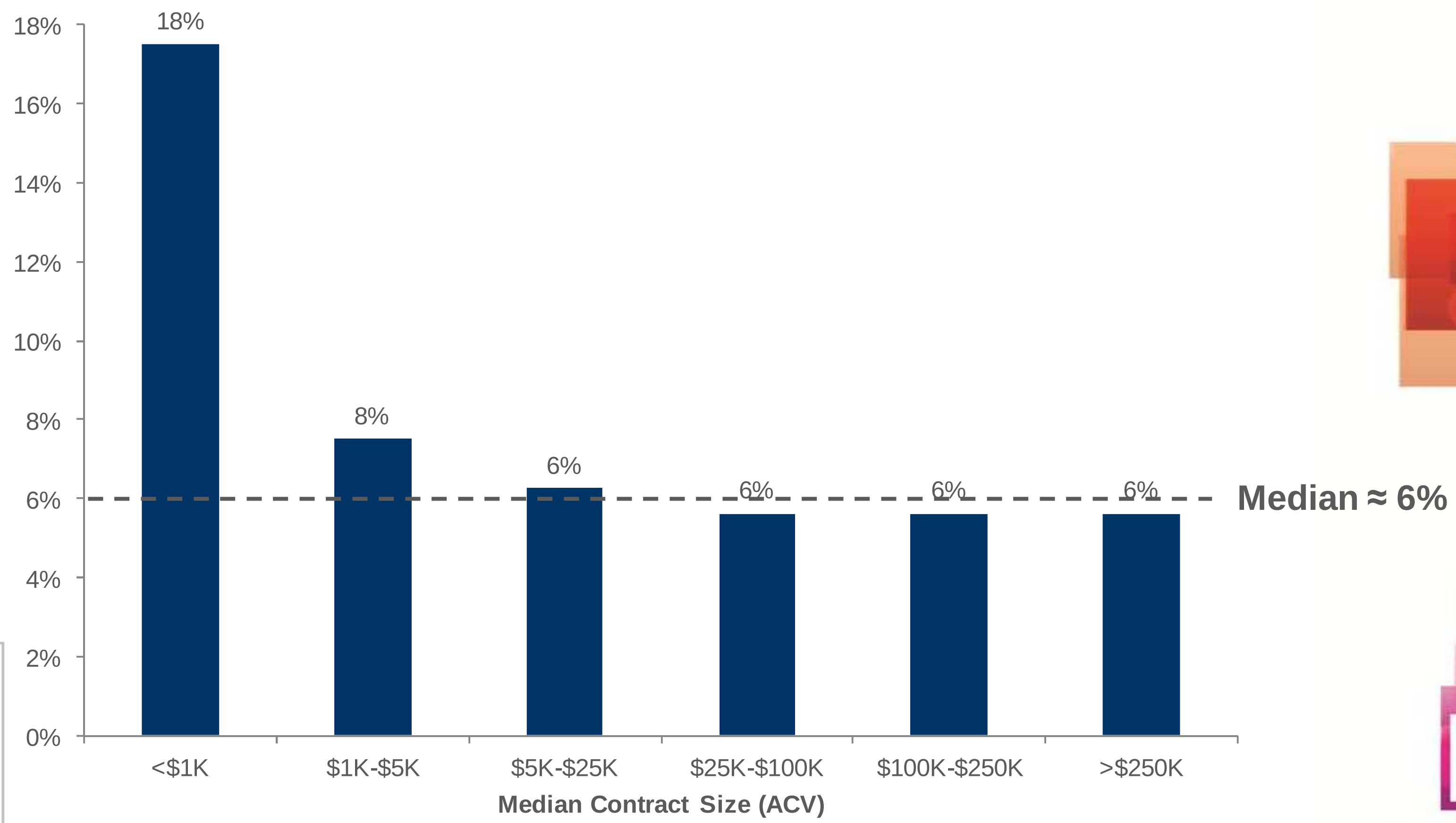
This year's respondents with shorter average contract lengths reported notably higher churn than in previous years. We believe that this year's increased sample size improves the accuracy of our results.

Respondents: Month to Month: 19, <1yr: 14, 1-2yrs: 75, 2-3yrs: 28, >3yrs: 19

Annual Gross Dollar Churn as a Function of Contract Size

(Excluding Companies <$2.5MM in Revenue)

Interestingly, once median ACV is over $1K, churn rates for the group do not vary substantially by contract size. Below $1K median ACV, churn goes up significantly.



Comparison with Previous Surveys

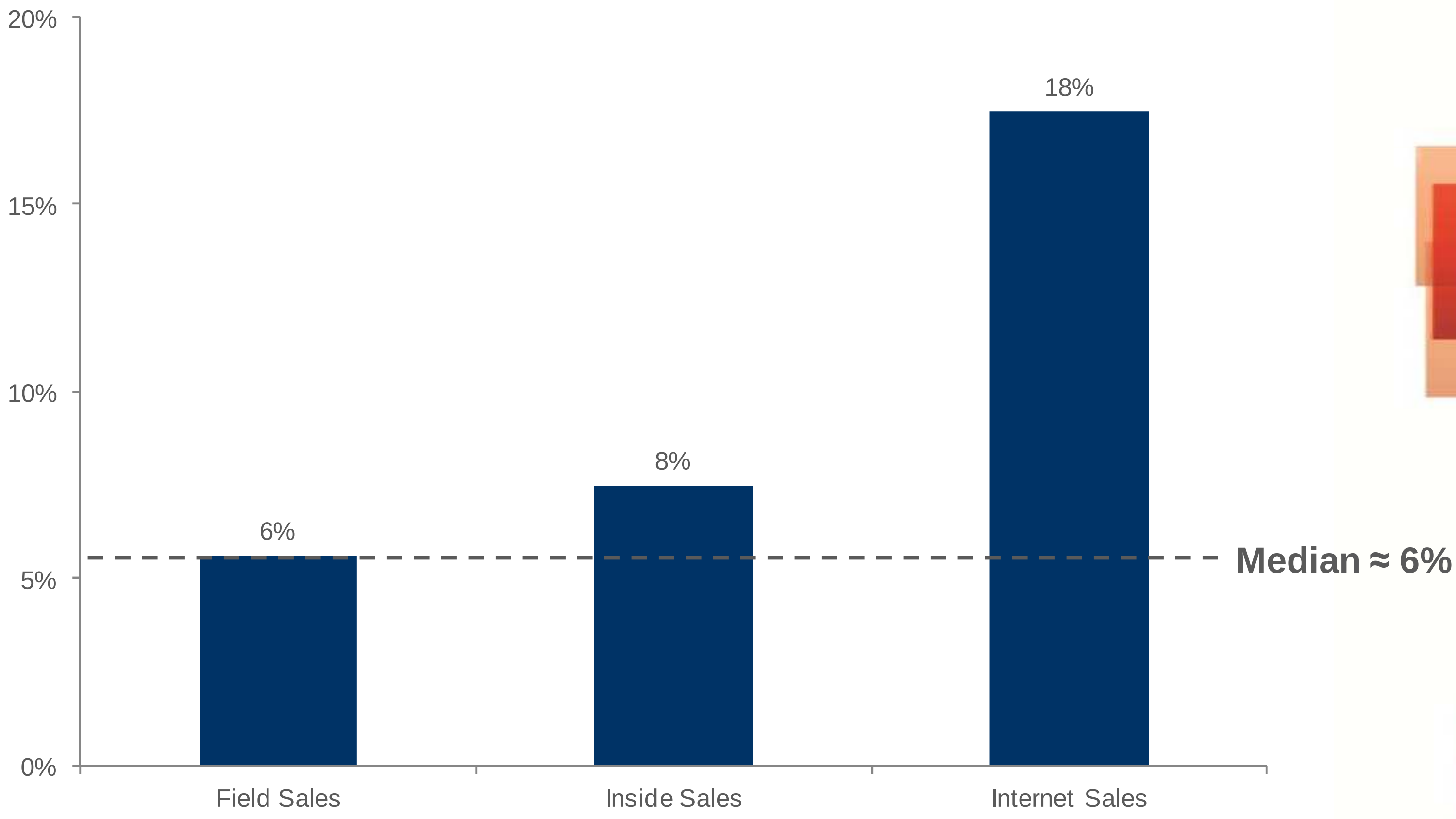
2013 results showed no patterns in the broad middle ranges ($1K-$250K) while 2012 and 2011 results showed a more representative churn curve (with larger contract sizes correlating to lower gross dollar churn).

Respondents: <$1K: 11, $1K-$5K: 19, $5K-$25K: 31, $25K-$100K: 50, $100K-$250K: 24, >$250K: 17

Annual Gross Dollar Churn as a Function of Primary Distribution Mode

(Excluding Companies <$2.5MM in Revenue)

Those companies employing primarily field sales had slightly lower churn rates than those employing primarily inside sales. Online distribution had substantially higher churn.



Comparison with Previous Surveys

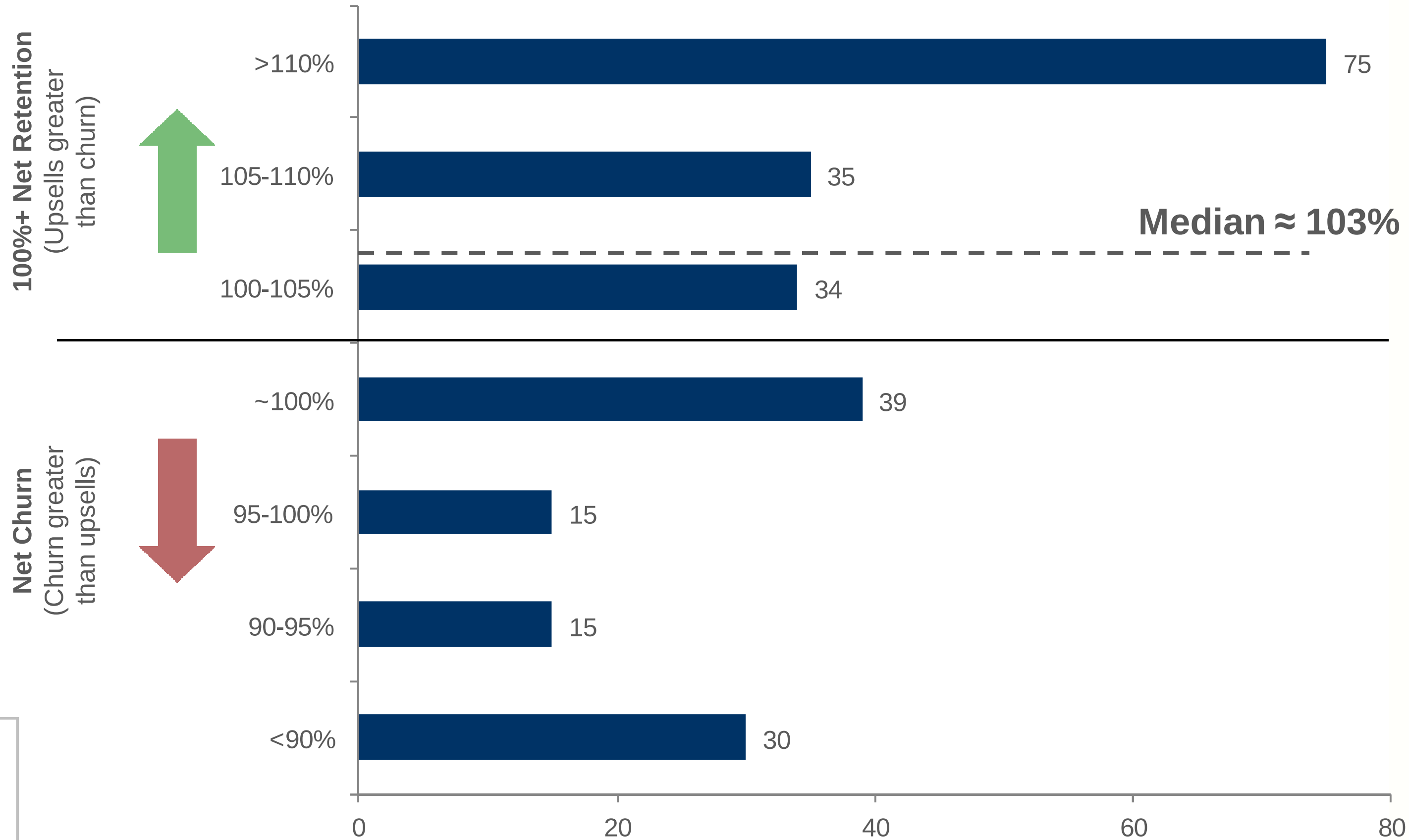
Consistent with 2013 and 2012 survey results.

Field Sales: 74, Inside Sales: 41, Internet Sales: 7

Annual Net Dollar Retention from Existing Customers

"How much do you expect your ACV from existing customers to change, including the effect of both churn and upsells?"(1)

The median annual net dollar retention rates, including churn, but also including the benefit of upsells, is 103%. The result does not change when removing the smallest companies (<$2.5MM in revenue) from the group.



Comparison with Previous Surveys

Slightly higher than 2013 (101%) and 3 percentage points lower than 2012 (106%).

(1): We define this as the "net dollar retention rate"
243 respondents

Comparison of Unit Economic Leaders to All Other Companies

(Excluding Companies <$5MM in Revenue)

Superior unit economics – high lifetime value of customer (LTV) and low CAC – are critical success factors. We compared companies with the strongest metrics used to derive LTV and CAC with everyone else, and found some interesting patterns.

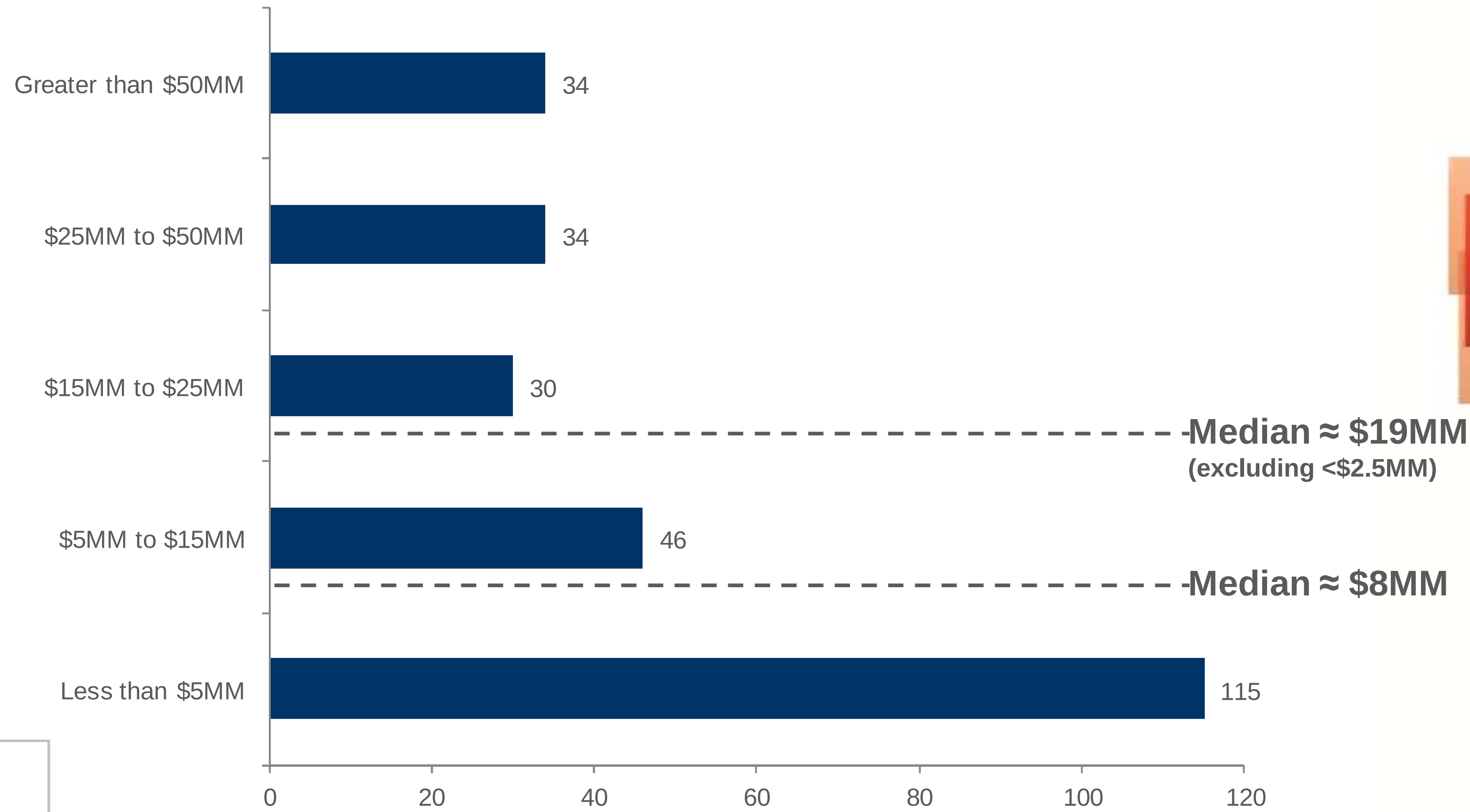
	Unit Economic Leaders (Subscription GM > 80%; CAC < $1.25; and Net $ Retention > 105%)	All Others
Business and HQ		
Vertical SaaS	27%	31%
Horizontal SaaS	27%	38%
End Customer	45% Enterprise	50% Enterprise
HQ in Northern California	18% in Nor. Cal.	28% in Nor. Cal.
Revenue		
Median 2013 Revenue	$12MM	$19MM
% of Companies >$25MM	9%	39%
Median Growth Rate	31%	29%
Revenue per FTE	$181K	$166K
Primary Distribution Mode		
- Field Sales Dominated	46%	56%
- Inside Sales Dominated	42%	25%
Application Delivery		
- 3rd Party Managed (e.g. AWS, Salesforce, etc.)	50%	30%
Median ACV Per Customer	$41K	$49K
Billing		
- % Companies Billing 1 Year or More in Advance	64%	37%
% New ACV from Upsells	17%	19%

Respondents: Unit Economic Leaders: 22, All Others: 116

Capital Requirements

Capital Raised So Far

Companies in the survey group have raised a median of roughly $8MM in capital so far. If we exclude companies <$2.5MM, the median jumps up to $19MM.



Comparison with Previous Surveys

In-line with 2013 results, but well below the $23MM in capital raised by participants in the 2012 and survey.

259 respondents

Analysis of Companies by Capital Raised

Amount Raised to Date	No. of Respondents	Median: 2013 GAAP Revenue	Median: 2014E Growth
Less than $5MM	109	$2MM	39%
$5MM to $15MM	43	$3MM	45%
$15MM to $25MM	29	$9MM	32%
$25MM to $50MM	33	$14MM	38%
Greater than $50MM	32	$33MM	42%

Comparison with Previous Surveys

The 2014 respondents had generally raised comparable amounts of capital to achieve similar levels of revenue as in our 2013 survey. The notable exception is last year's respondents which reported $15MM-$25MM capital raised had a higher median trailing year revenue of $20MM.

246 respondents

Capital Efficiency Expectations – Median Levels for the Group

- **Actual/expected time and investment required to reach:**

Target	All Participants		Excluding Companies <$2.5MM in Revenue	
	Years Required	Investment Required	Years Required	Investment Required
$1MM ACV	2	$3MM	2	$4MM
$5MM ACV	4	$7MM	4	$8MM
$15MM ACV	5	$11MM	6	$13MM
$40MM ACV	8	$16MM	9	$21MM

Comparison with Previous Surveys

Very similar to 2013 survey results.

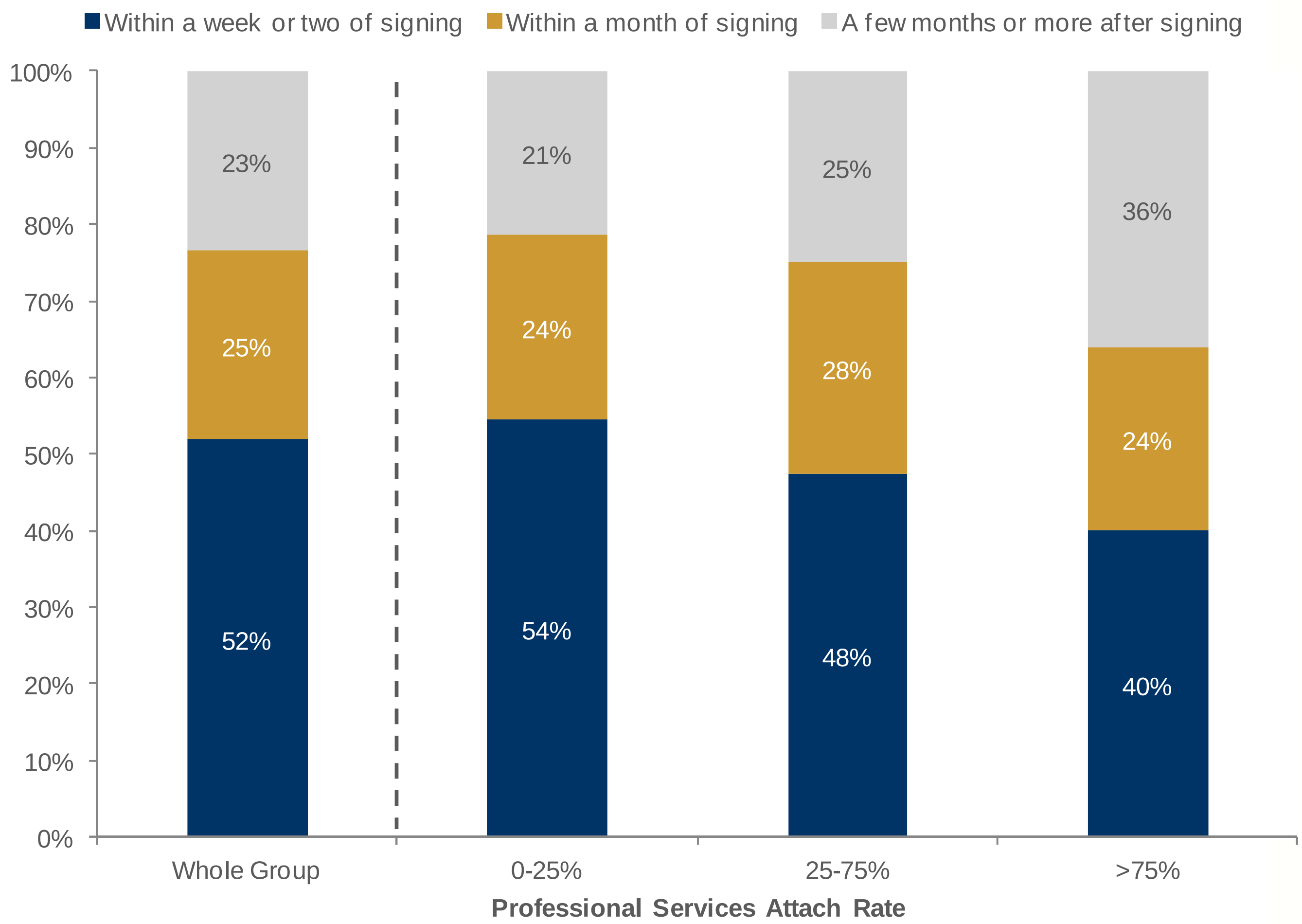
237 and 149 respondents, respectively

Accounting Policies

Subscription Revenue Recognition Policies

"When do you typically begin recognizing subscription revenues on a new contract with a new customer?"

While approximately 52% of the respondents indicated that they begin recognition very soon (within a week or two) after signing new contracts, we found an expected correlation between more delayed revenue recognition and a higher professional services attach rate. However, it's interesting to see that a meaningful number of companies with significant services were still able to start subscription revenue recognition quickly.

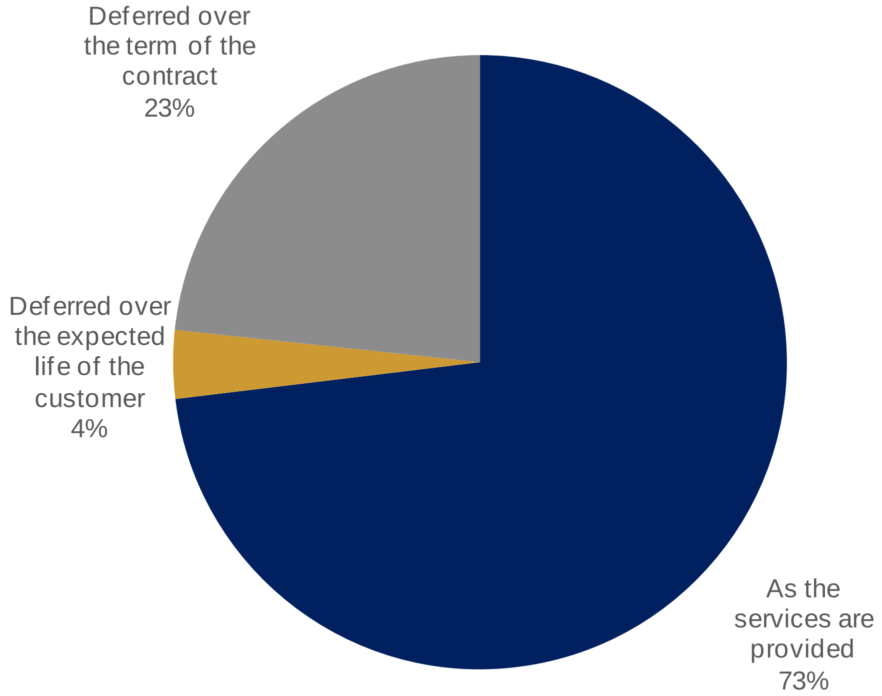


Respondents: 0-25%: 178, 25-75%: 40, >75%: 25

Professional Services Revenue Recognition Policies

"What is the predominant mode for recognizing professional services revenues?"

The clear majority of respondents offering professional services indicated that they recognize that revenue as the services are provided.

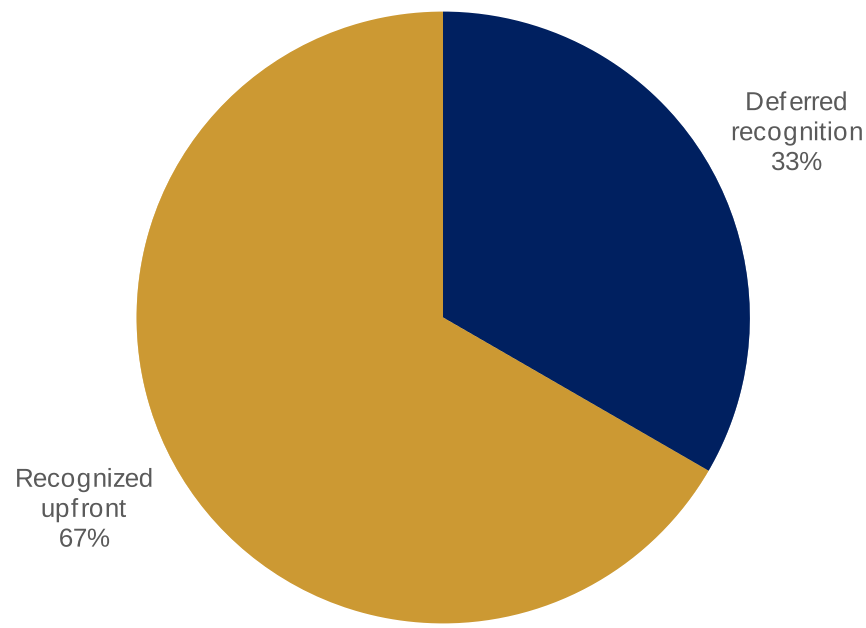


223 respondents

Sales Commission Costs Recognition Policies

"How do you recognize sales commission costs (deferred or recognized upfront)?"

We also inquired as to the recognition of sales commission costs. We found two-thirds of respondents indicating that they recognize commission costs up-front.

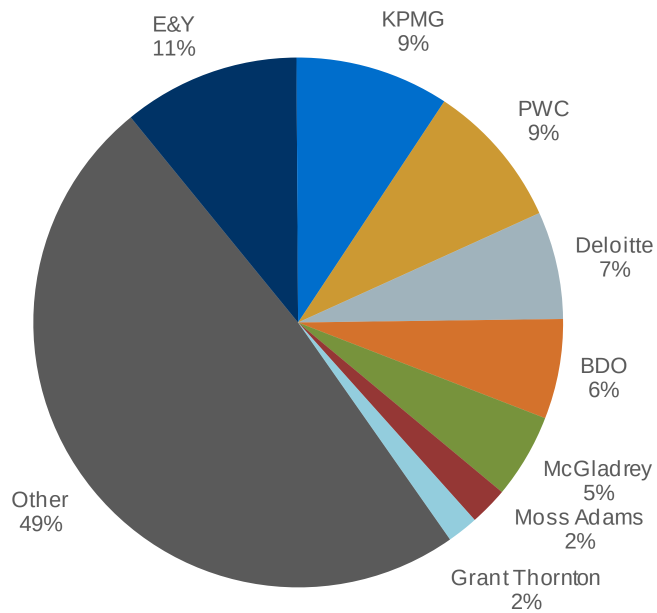


237 respondents

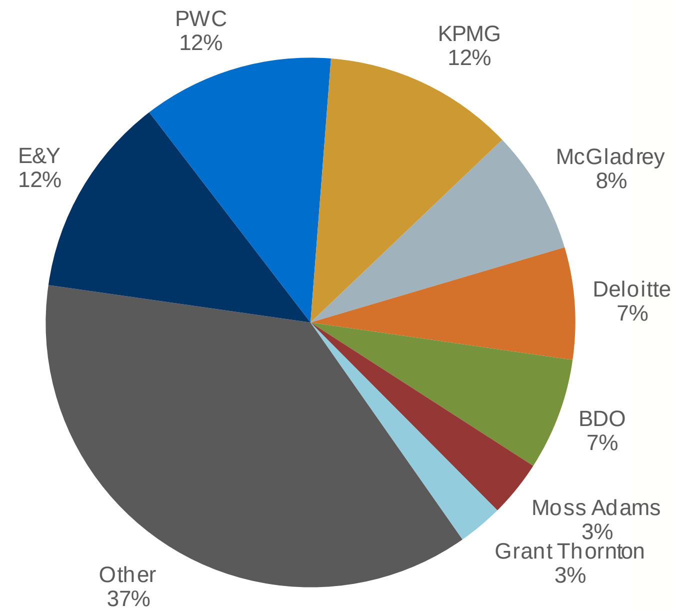
What Accounting Firm Do You Use?

To see if we could establish any patterns, we asked respondents to state their respective accounting firms. The Big 4 represented 36% of all respondents (43% when removing the small companies from the group).

All Companies



Excluding <$2.5MM Revenues



218 and 151 respondents, respectively

Accounting Policies Across Selected Accounting Firms

	Subscription Revenue Recognition			Professional Services Recognition			Sales Commission Recognition	
Auditor	Within a week or two of signing	Within a month of signing	A few months or more after signing	As the service is provided	Deferred over life of customer	Deferred over contract term	Deferred recognition	Recognized upfront
Deloitte	50%	21%	29%	62%	8%	31%	15%	85%
E&Y	52%	24%	24%	78%	6%	17%	29%	71%
KPMG	42%	32%	26%	79%	0%	21%	45%	55%
PWC	58%	21%	21%	65%	6%	29%	29%	71%
BDO	25%	42%	33%	82%	9%	9%	38%	62%
Other	51%	26%	23%	71%	4%	26%	34%	66%
Total	**52%**	**25%**	**23%**	**73%**	**4%**	**23%**	**33%**	**67%**

Respondents: Deloitte: 14, E&Y: 23, KPMG: 20, PWC: 19, BDO: 13, Other: 124

PCS Leadership in SaaS and Software – Selected Recent Transaction Experience

2011-2014YTD SaaS and Software IPOs			
Rank	**Firm**	**Deals**	**Value ($MM)**
1	**Pacific Crest Securities**	**28**	**$4,180.4**
2	Morgan Stanley	20	4,124.4
3	Goldman Sachs	19	3,631.3
4	J.P. Morgan	17	3,099.7
5	Cannaccord	16	2,639.7
6	Stifel Nicolaus Weisel	16	2,054.6
7	Deutsche Bank	15	2,104.9
8	JMP Securities	14	2,305.5
9	Credit Suisse	13	2,017.1
10	Raymond James	12	1,645.9
11	Needham & Co	12	1,183.4
12	William Blair & Co	11	1,108.8
13	UBS	9	1,941.7
14	Barclays	8	1,515.9
15	Bank of America	8	1,186.2
16	RBC Capital Markets	8	941.2
17	Piper Jaffray & Co	6	792.3
18	Wells Fargo	5	1,540.0
19	Allen & Co	5	1,310.2
20	Oppenheimer & Co	5	493.3
21	Cowen & Co	4	1,257.8
22	Citi	4	834.2
23	BMO	4	678.1
24	Lazard Capital Markets	4	446.2
25	First Analysis	3	299.7

Corporate Finance

$114,999,993 zendesk Zendesk (ZEN) Initial Public Offering	$133,285,000 OPOWER Opower (OPWR) Initial Public Offering	$110,503,887 Amber Road Amber Road (AMBR) Initial Public Offering
$357,000,000 tableau Tableau (DATA) Follow-on Offering	$1,148,000,000 FireEye FireEye (FEYE) Follow-on Offering	$558,900,000 splunk Splunk (SPLK) Follow-on Offering
$85,698,000 Barracuda Barracuda Networks (CUDA) Initial Public Offering	$300,035,000 Veeva Veeva Systems (VEEV) Initial Public Offering	$135,240,000 cvent Cvent (CVT) Initial Public Offering
$253,000,000 Cornerstone OnDemand Cornerstone OnDemand (CSOD) Convertible Debt Offering	$92,575,000 channeladvisor ChannelAdvisor (ECOM) Initial Public Offering	$450,800,000 servicenow ServiceNow (NOW) Follow-on Offering
$732,550,000 workday. Workday (WDAY) Initial Public Offering	$104,535,000 Qualys Qualys (QLYS) Initial Public Offering	$70,312,500 E2OPEN E2open (EOPN) Initial Public Offering

Advisory

WebPT has received an investment from BV Battery Ventures	PLEX has received an investment led by T.RowePrice INVEST WITH CONFIDENCE	StackDriver has been acquired by Google
Passkey has been acquired by Lanyon Vista Equity Partners	BoxTone has been acquired by Good	kXen has been acquired by SAP
dti digitaltechnology international has been acquired by Vista Equity Partners	PROGRESS software has divested the Progress Apama Solution to software AG	JAMF software has received an investment from SUMMIT PARTNERS
SevOne has been recapitalized by BainCapital	TPG has divested CustomerSat to Confirmit	emailvision has been recapitalized by FP FRANCISCO PARTNERS
AppAssure has been acquired by DELL	dynaTrace software has been acquired by Compuware	CORADIANT has been acquired by bmcsoftware

Disclosures

Important Disclosures:

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Survey respondents participated anonymously and confidentially. Responses were received through online surveys taken in June-July 2014. Pacific Crest cannot verify accuracy of responses. Observations and commentary contained herein relate solely to the survey results and cannot necessarily be applied elsewhere.

About Pacific Crest:

Pacific Crest is the premier investment bank for technology, operating at the leading edge, where global connectivity is fueling an unprecedented expansion cycle. We apply our knowledge of the drivers of value creation and global network of relationships to technology's high-growth sectors, such as Cloud and big data, SaaS, global internet, mobility, next-gen infrastructure and communications, and industrial and energy technology. As a result, our clients — technology's foremost institutional investors and market leading companies — rely on us to achieve superior returns and gain competitive advantages from the seismic shifts occurring in technology. Our sector bankers and transactional specialists collaborate to help clients identify and implement the right course of action, whether a financing, M&A or alternative event. Our clients include Amber Road, Cvent, JAMF Holdings, Opower, Plex Systems, Qunar, Ubiquisys, Veeva, WebPT and Zendesk, among others. We have 200 employees and are headquartered in the United States, with offices in Boston, New York, Portland, San Francisco and Stamford, along with our Representative Office in Beijing, Pacific Crest Securities UK, Ltd., in London and Pacific Epoch in Shanghai. We were founded in 1990.

If you have questions or comments, please contact David Spitz, Managing Director:

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