THE WALL STREET JOURNAL.
THURSDAY, APRIL 13, 2017

NORTH AMERICA TECHNOLOGY BUSINESS CONSUMER SERVICES TOP NEWS

Software as a Service: Gap Between Public and Private Revenue Multiples

By Laura Cooper

The revenue gap for multiples between public and private software-as-a-service companies narrowed last year compared with 2015 results, according to a report compiled by Golub Capital highlighting trends in the space.

In 2015, valuations for a weighted average index of public software-as-a-service companies topped seven-times revenue, compared with a median valuation of slightly more than four-times revenue for private software-as-a-service companies, according to data compiled by Golub and S&P Capital IQ. In 2016, valuations for the weighted average index of public software-as-a-service companies fell to about six-times revenue.

Peter Fair, a managing director in Golub's late-stage lending group, said differences in the valuations for individual companies when they are private versus when they are public has helped narrow the gap. Some software-as-a-service companies that have gone public may not have had their private valuations scrutinized until they entered the public domain. Once they are public, institutional investors may apply a different set of metrics to setting valuations. That can result in valuations that represent a discount to their last private round, despite any revenue growth from that round, he said.

Mr. Fair added the "valuation gap" in the report may be beneficial to more take-private activity.

"Many [private equity] firms have approached later-stage software companies but have been turned off by valuation expectations," said Mr. Fair. "Now that these companies are public, the valuations may be more in line with what PE firms are willing to pay."

Private-equity and venture-capital investors have been interested in software-as-a-service providers, largely due to their recurring revenue models. According to the report, in the fourth quarter of 2016, Series A funding rounds from venture-capital firms comprised 36.4% of overall funding for software-as-a-service companies, followed by seed funding rounds, which accounted for 33.6% of total software-as-a-service funding in the quarter.