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Siemer SaaS Report

Q2 2011

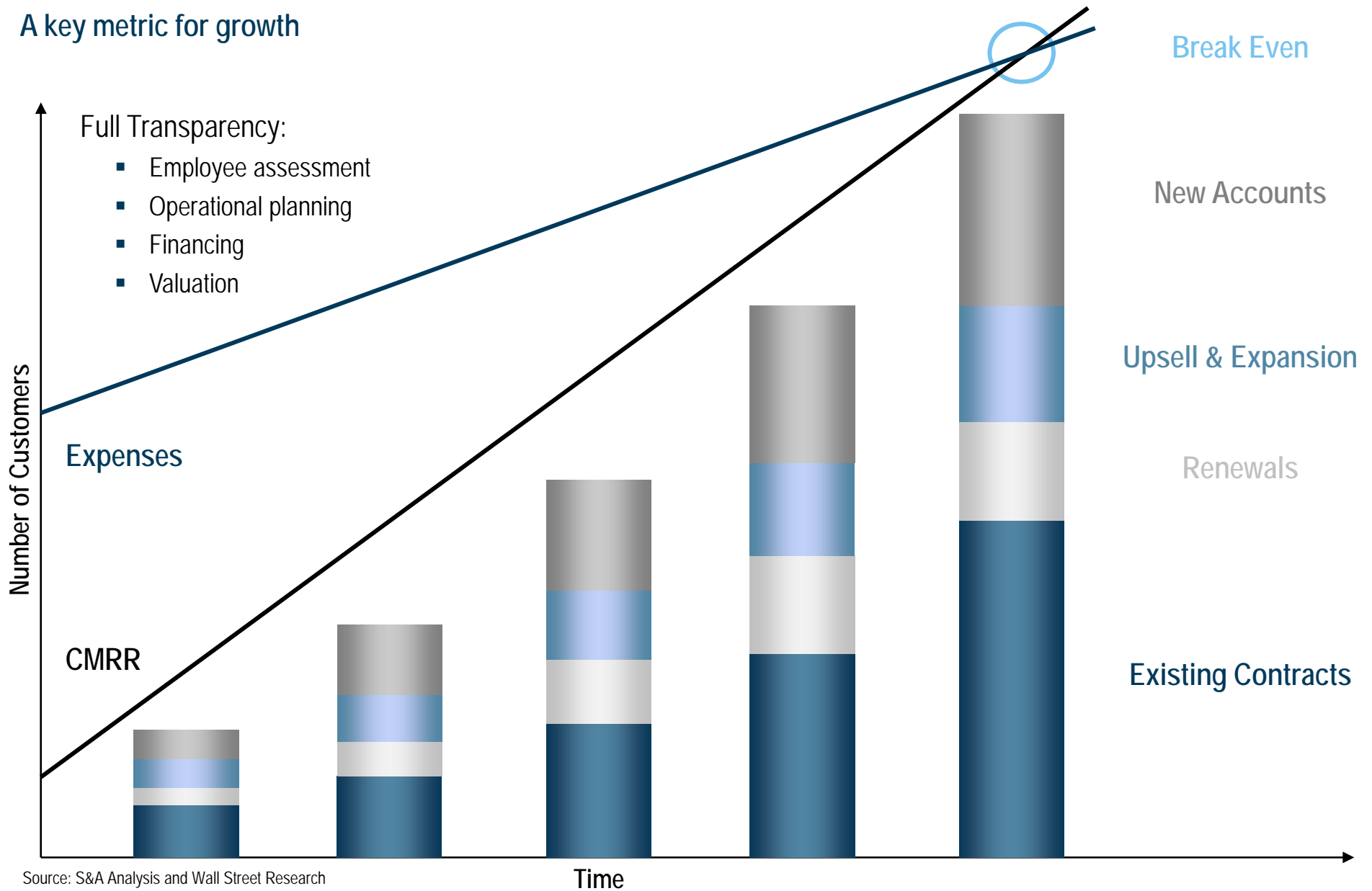
SaaS MARKET OBSERVATIONS

The SaaS Opportunity

- The SaaS business model continues to be an industry darling, but growth needs to be managed appropriately
 - Revenue from multiple sources (existing base, upsells, new accounts)
 - Sales & Marketing must find the right mix of an internal sales force and various distribution channels
 - “Right Size” G&A according to customer profitability and lifetime value
- SaaS business models tend to require significant amounts of capital to get to cash flow breakeven
 - Good managers will recognize this and plan appropriately
 - Cash needs can be partially addressed through discounted customer “up-front” payments
- Today’s market is a shifting landscape
 - Valuations are down significantly for lesser opportunities, with less impact to quality players
 - Almost no license software companies are being funded

Committed Monthly Recurring Revenue (CMRR)

A key metric for growth



Customer Acquisition Cost (CAC) Ratio

A key metric for growth

CAC ratio: Defining your S&M spend

CAC < 1/3 (3 years to payback or more)

- Refine business model
- Require pullback of sales model
- Reduce sales & marketing expense

CAC > 1 (payback in less than 1 year)

- Sign of healthy SaaS model in operation
- Investment of more money is accretive to operational income

$$\text{CAC Ratio} = \frac{[\text{GP}_Q - \text{GP}_{Q-1}] \times 4}{\text{Sales \& Marketing}_{Q-1}}$$

The cost to acquire customers has increased due to the current macroeconomic environment

Sources: S&A, Bessemer Venture Partners

Customer Lifetime Value (CLTV) Measures Profitability

This analysis can help management adjust both budgeted R&D and G&A expenses

- Example: 1 customer generating \$1 of Annual Recurring Revenue (ARR)
- Profits are being generated with CLTV > 0

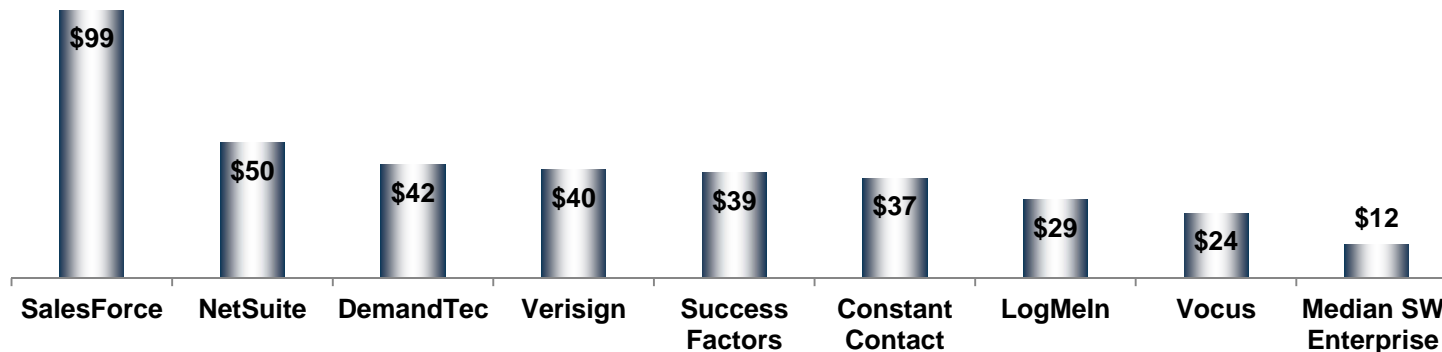
	Year 1	Year 2	Year 3	Year 4	Year 5
Period Length	0.5	1.5	2.5	3.5	4.5
Revenue	1.0	1.0	1.0	1.0	1.0
COGS	0.3	0.3	0.3	0.3	0.3
Gross Profit	0.7	0.7	0.7	0.7	0.7
CAC	(0.7)	-	-	-	-
Account Management	-	(0.1)	(0.1)	(0.1)	(0.1)
R&D	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
G&A	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Operating Profit	(0.2)	0.4	0.4	0.4	0.4
Discount Rate (12.5%)	0.94	0.84	0.74	0.66	0.59
Cash Flows From Customer	(0.19)	0.34	0.30	0.26	0.24
CLTV	0.9				

SaaS is a Capital Intensive Business Model

Several successful SaaS companies have required heavy upfront financing

- SaaS companies have historically raised an average of \$24mm - \$99mm pre-IPO
- Capital requirements are expected to decline due to:
 - Lower CAC (SaaS becoming mainstream, new channels, etc.)
 - Lower IT costs (PaaS, LAMP stack, etc.)
- Heavy financing costs are offset by future growth, margins and licensing cash flow reliability

Capital Raised Pre-IPO for Select Public SaaS Companies (in millions)



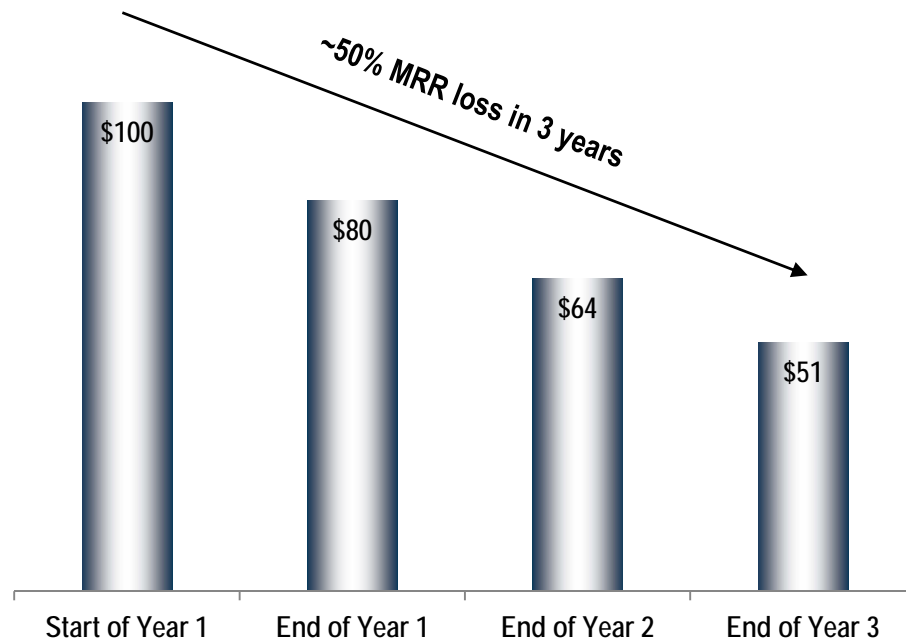
Source: S&A Research and Wall Street Research

Churn Defines the Viability of the Business Model

Benchmark

- MRR churn (<12% p.a. and < Upsell)
- Customer churn

Effect of 20% Churn on MRR Base



Source: S&A Research and Wall Street Research

- Root Causes
 - Pricing / Value
 - UI and workflow complexity
 - Downtime
- Monitoring
 - Overall application usage (login frequency and time)
 - Application usage (most frequent use, function used, etc.)
- Acting
 - Competitive analysis / Sales tools
 - Usage monitoring and follow-up
 - GUI / workflow redesign
 - Platform stability
 - Increased discount for early payment

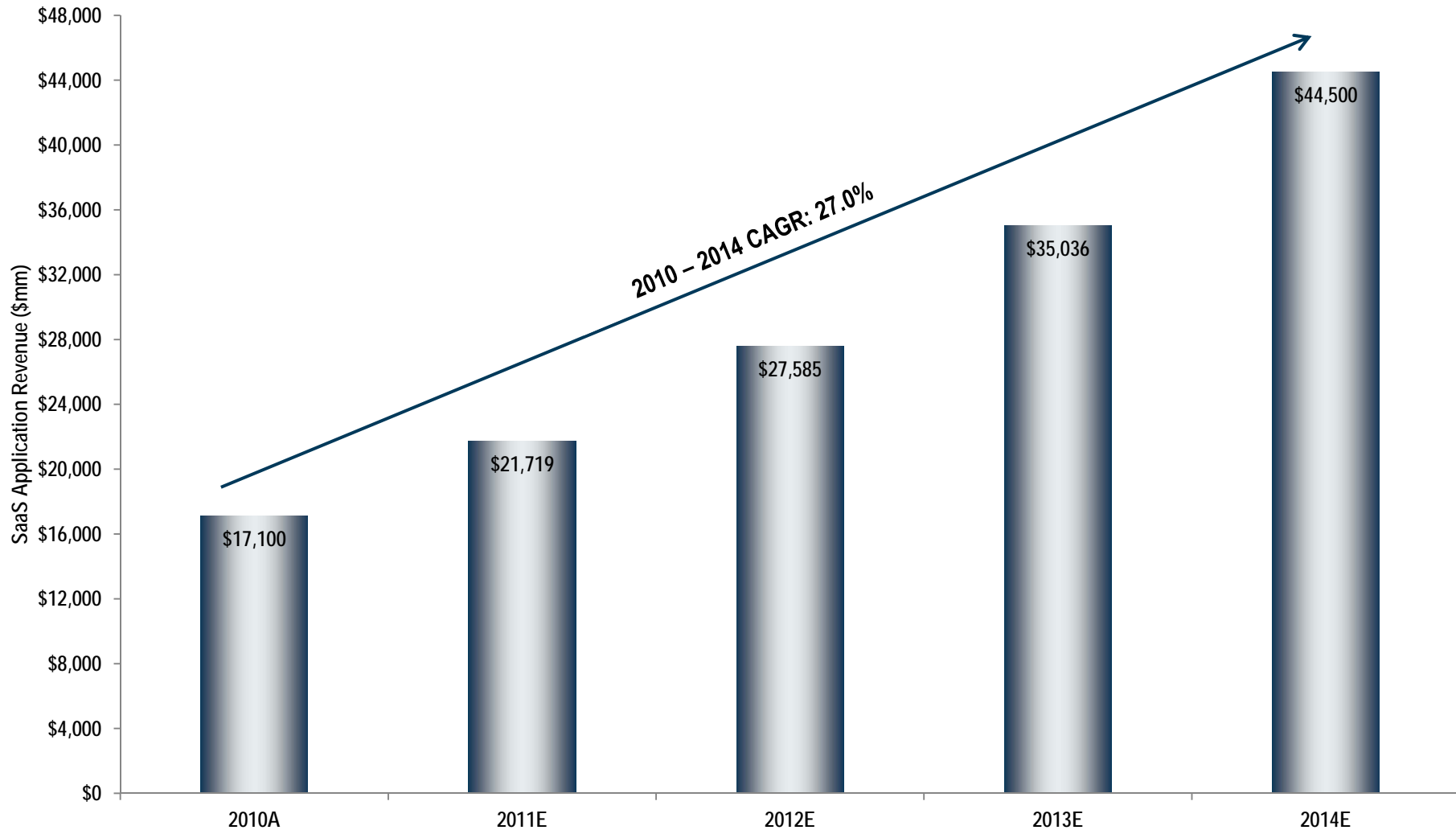
Summary of Key Metrics

The following metrics represent key ratios demonstrated by several successful SaaS companies

Metric	Measurement	Target
CMRR	<ul style="list-style-type: none"> Growth Rate Upsell vs. New Customers 	<ul style="list-style-type: none"> 50% + Upsells >= Churn
CAC	<ul style="list-style-type: none"> New CMRR CMRR Renewal Cost 	<ul style="list-style-type: none"> CAC > 1 <30% of Annualized GM
CLTV	<ul style="list-style-type: none"> G&A as a % of Sales R&D as a % of Sales 	<ul style="list-style-type: none"> CLTV > 0 G&A ~ 15% at Scale R&D ~ 10% at Scale
Cash	<ul style="list-style-type: none"> FCF Payment Terms Professional Services GM 	<ul style="list-style-type: none"> Breakeven at 50% Growth Rate 1-Year Upfront Mix > 50% > 0 on Project Basis
Churn	<ul style="list-style-type: none"> Churn Rate 	<ul style="list-style-type: none"> Churn <12%

SaaS Revenue Trends

SaaS companies expected to see higher revenues as the business model rises in popularity and scope



Source: IDC

SaaS COMPARABLES and TRADING RANGE

Selected Publicly Traded Companies – SaaS

<i>(figures in millions of \$USD, except per share)</i>	Price as of: 7/26/2011	Enterprise Value (EV)	EV / FYE		EV / LTM		EV / NFY		LTM Annual Revenue Growth
			Revenue	EBITDA	Revenue	EBITDA	Revenue	EBITDA	
Concur Technologies, Inc.	\$47.56	\$2,232.6	7.6x	34.3x	7.0x	42.1x	6.4x	23.6x	18.4%
Constant Contact, Inc.	22.48	548.1	3.1x	43.8x	3.0x	45.0x	2.5x	15.7x	31.6%
DealerTrack Holdings, Inc.	23.14	893.9	3.7x	30.2x	3.4x	24.8x	2.7x	14.3x	16.6%
DemandTec, Inc.	7.20	168.9	2.0x	NM	1.9x	NM	1.8x	33.6x	12.0%
Kenexa Corp.	26.72	727.5	3.7x	43.1x	3.4x	42.3x	2.7x	16.6x	36.7%
LogMeIn, Inc.	34.85	662.0	6.6x	30.2x	6.2x	32.8x	5.5x	22.4x	33.7%
NetSuite Inc.	36.87	2,328.6	12.1x	NM	11.5x	NM	10.1x	NM	19.6%
Rightnow Technologies Inc.	30.01	917.1	4.9x	46.8x	4.7x	43.1x	4.1x	27.3x	24.9%
Salesforce.com	151.75	20,082.9	12.1x	NM	11.3x	NM	9.2x	57.9x	29.6%
SuccessFactors, Inc.	28.55	1,888.6	9.2x	NM	8.3x	NM	6.7x	NM	40.7%
Taleo Corp.	33.96	1,248.9	5.3x	42.5x	4.9x	43.2x	4.0x	19.4x	23.5%
Ultimate Software Group, Inc.	56.49	1,412.2	6.2x	75.0x	5.7x	66.7x	5.2x	33.8x	16.8%
Vocus Inc.	28.67	447.1	4.6x	NM	4.2x	NM	3.9x	25.0x	19.1%
Mean		\$2,581.4	6.2x	43.2x	5.8x	42.5x	5.0x	26.3x	24.9%
Median		\$917.1	5.3x	42.8x	4.9x	42.7x	4.1x	23.6x	23.5%

<i>(figures in millions of \$USD, except per share)</i>	Price as of: 7/26/2011	Enterprise Value (EV)	EV / FYE		EV / LTM		EV / NFY		LTM Annual Revenue Growth
			Revenue	EBITDA	Revenue	EBITDA	Revenue	EBITDA	
BMC Software Inc.	\$51.02	\$7,646.8	3.7x	11.6x	3.7x	11.6x	3.4x	7.4x	9.6%
CA Technologies	22.73	9,922.7	2.2x	6.5x	2.2x	6.2x	2.0x	5.3x	6.4%
International Business Machines Corp.	182.93	235,779.7	2.4x	9.5x	2.3x	9.1x	2.2x	9.0x	7.4%
Microsoft Corporation	28.08	196,736.1	2.8x	6.6x	2.8x	6.6x	2.6x	6.0x	11.9%
Oracle Corporation	32.15	150,374.0	4.2x	10.3x	4.2x	10.3x	3.8x	7.7x	32.8%
Red Hat, Inc.	44.22	7,625.0	8.4x	39.4x	7.9x	37.0x	7.0x	23.7x	23.2%
SAP AG	64.54	76,035.8	4.2x	11.9x	3.9x	11.2x	3.7x	10.7x	20.6%
Mean		\$97,731.4	4.0x	13.7x	3.9x	13.1x	3.5x	10.0x	16.0%
Median		\$76,035.8	3.7x	10.3x	3.7x	10.3x	3.4x	7.7x	11.9%

Source: Capital IQ and Industry Estimates

Selected Publicly Traded Companies – SaaS (cont'd)

(figures in millions of \$USD, except per share)

System Software Comps	Price as of: 7/26/2011	Enterprise Value (EV)	EV / FYE		EV / LTM		EV / NFY		LTM Annual Revenue Growth
			Revenue	EBITDA	Revenue	EBITDA	Revenue	EBITDA	
Check Point Software Technologies Ltd.	\$58.71	\$11,037.0	10.1x	18.6x	9.4x	17.1x	8.9x	14.8x	16.0%
F-Secure Oyj	3.42	485.8	2.6x	14.9x	2.5x	14.9x	NA	NA	5.5%
Sourcefire, Inc.	26.50	609.4	4.7x	34.2x	4.5x	39.7x	4.0x	23.4x	22.4%
Symantec Corporation	19.07	14,110.2	2.3x	8.7x	2.3x	8.7x	2.1x	6.5x	7.1%
Websense, Inc.	25.90	1,021.6	3.1x	14.9x	2.9x	14.7x	2.8x	10.6x	9.5%
Mean		\$5,452.8	4.5x	18.2x	4.3x	19.0x	4.4x	13.8x	12.1%
Median		\$1,021.6	3.1x	14.9x	2.9x	14.9x	3.4x	12.7x	9.5%

Source: Capital IQ and Industry Estimates

Selected M&A Transactions – SaaS (cont'd)

(figures in millions of \$USD)

Date Announced	Target	Acquirer	Implied Enterprise Value	EV/LTM	
				Revenue	EBITDA
07/11/2011	Radiant Systems	NCR Corp.	\$1,154.1	3.3x	22.4x
06/30/2011	Blackboard	Providence Equity Partners	1751.9	3.8x	20.2x
05/17/2011	Direct EDI	SPS Commerce	9.8	2.2x	11.5x
04/26/2011	SAVVIS	CenturyLink	2962.7	3.0x	12.9x
4/6/2011	MKS Inc.	Parametric Technology Corporation	278.1	4.1x	20.8x
4/4/2011	Epicor Software Corporation	Apax Partners LLP	951.5	2.1x	17.5x
3/29/2011	Escrow Associates LLC	NCC Group plc.	9.5	4.3x	NA
1/18/2011	Q-go.com b.v.	Rightnow Technologies Inc.	34.0	4.3x	NA
1/18/2011	Peresys (Pty) Ltd.	IRESS Market Technology Limited	54.2	3.7x	9.5x
12/7/2010	Focus Solutions Group plc	Standard Life plc	67.0	3.7x	12.4x
12/3/2010	Protus IP Solutions, Inc. (nka:j2 Global Canada, Inc. j2 Global Communications, Inc.		190.2	2.6x	9.3x
12/9/2010	Formula Telecom Solutions, Inc.	Paetec Software Corp.	13.0	1.6x	NA
12/7/2010	Focus Solutions Group plc	Standard Life plc	67.0	3.7x	12.4x
11/29/2010	Voltaire, Ltd.	Mellanox Technologies, Ltd.	157.8	2.3x	NM
11/21/2010	Novell, Inc.	Attachmate Corporation	1,013.2	1.3x	9.7x
11/12/2010	Sophis	Misys plc	607.4	NA	NA
11/10/2010	Micro Application, SAS	Avanquest Software	10.8	NA	NA
11/8/2010	Bakbone Software Incorporated	Quest Software Inc.	44.4	0.8x	7.0x
11/2/2010	The American Education Corporation	K12, Inc.	34.1	1.9x	9.7x
10/15/2010	Pobis Network Co., Ltd.	Pobis TNC Co., Ltd.	27.2	NA	NA
10/5/2010	Global Software Services, Inc.	Interactive Intelligence, Inc.	14.0	1.8x	NA
10/4/2010	Technology Associates, Incorporated	Raytheon Co.	42.0	2.0x	NA
10/1/2010	Jupiter eSources LLC	EPIQ Systems, Inc.	80.0	6.1x	NA
9/25/2010	Visma ASA	Kohlberg Kravis Roberts & Co.	1,961.6	2.2x	12.3x

Source: Capital IQ and Industry Estimates

Selected M&A Transactions – SaaS

(figures in millions of \$USD)

Date Announced	Target	Acquirer	Implied Enterprise Value	EV/LTM	
				Revenue	EBITDA
9/24/2010	Intec Telecom Systems plc	CSG Systems International Inc. (nka:CSG International, Inc.)	\$249.0	1.0x	6.3x
9/21/2010	Trintech Group PLC	Spectrum Equity Investors	61.7	1.8x	11.8x
9/13/2010	ArcSight, Inc.	Hewlett-Packard Company	1,503.4	7.7x	59.4x
9/9/2010	OmniBus Systems Limited	Miranda Technologies Inc.	47.2	2.0x	12.2x
8/18/2010	McAfee, Inc.	Intel Corporation	6,626.4	3.2x	14.7x
8/17/2010	Phoenix Technologies Ltd.	Marlin Equity Partners, LLC	109.9	1.8x	NM
8/12/2010	Unica Corporation	International Business Machines Corp.	446.8	4.1x	44.3x
7/30/2010	ITD A.S	Asseco South Eastern Europe SA	10.9	1.1x	NA
7/20/2010	iseemedia Inc	Synchronica PLC	83.7	36.1x	NM
7/15/2010	Language Weaver, Inc.	SDL plc	42.5	3.5x	NA
7/6/2010	Intergraph Corporation	Hexagon AB	2,125.0	2.8x	11.2x
7/6/2010	FusionOne, Inc.	Synchronoss Technologies, Inc.	75.0	5.0x	NM
7/1/2010	Evolution Robotics Retail, Inc.	Datalogic Scanning Holdings, Inc.	25.5	5.0x	NM
6/10/2010	Portrait Software Plc	Pitney Bowes MapInfo UK Limited	65.4	2.7x	23.1x
6/8/2010	Redflex Holdings Ltd.	The Carlyle Group; Macquarie Investment Management Limited	375.7	2.4x	8.1x
6/8/2010	Exalead S.A.	Dassault Systemes SA	163.5	8.5x	NA
6/8/2010	TTI Team Telecom International Ltd.	TEOCO Corporation	31.9	0.8x	7.4x
6/3/2010	Maconomy A/S (nka:Deltek Danmark A/S)	Deltek, Inc	65.8	1.7x	17.3x
6/3/2010	Proginet Corporation	TIBCO Software Inc.	19.7	2.1x	14.7x
6/2/2010	SonicWALL, Inc.	Teachers' Private Capital; Thoma Bravo, LLC	507.2	2.4x	16.6x
5/31/2010	Teta S.A.	Unit 4 N.V.	57.7	1.7x	8.5x
5/26/2010	Ulligroup Limited	B Global Plc	17.8	2.0x	NA
5/17/2010	Double-Take Software, Inc.	Vision Solutions, Inc.	153.5	1.8x	11.1x
5/17/2010	Global IP Solutions, Inc.	Google Inc.	57.3	4.7x	NA
5/17/2010	Vero Software Plc	Battery Ventures	13.7	0.7x	6.1x
5/14/2010	Elluminate, Inc.	Blackboard Inc.	54.4	2.2x	NM

Source: Capital IQ and Industry Estimates

Selected M&A Transactions – SaaS (cont'd)

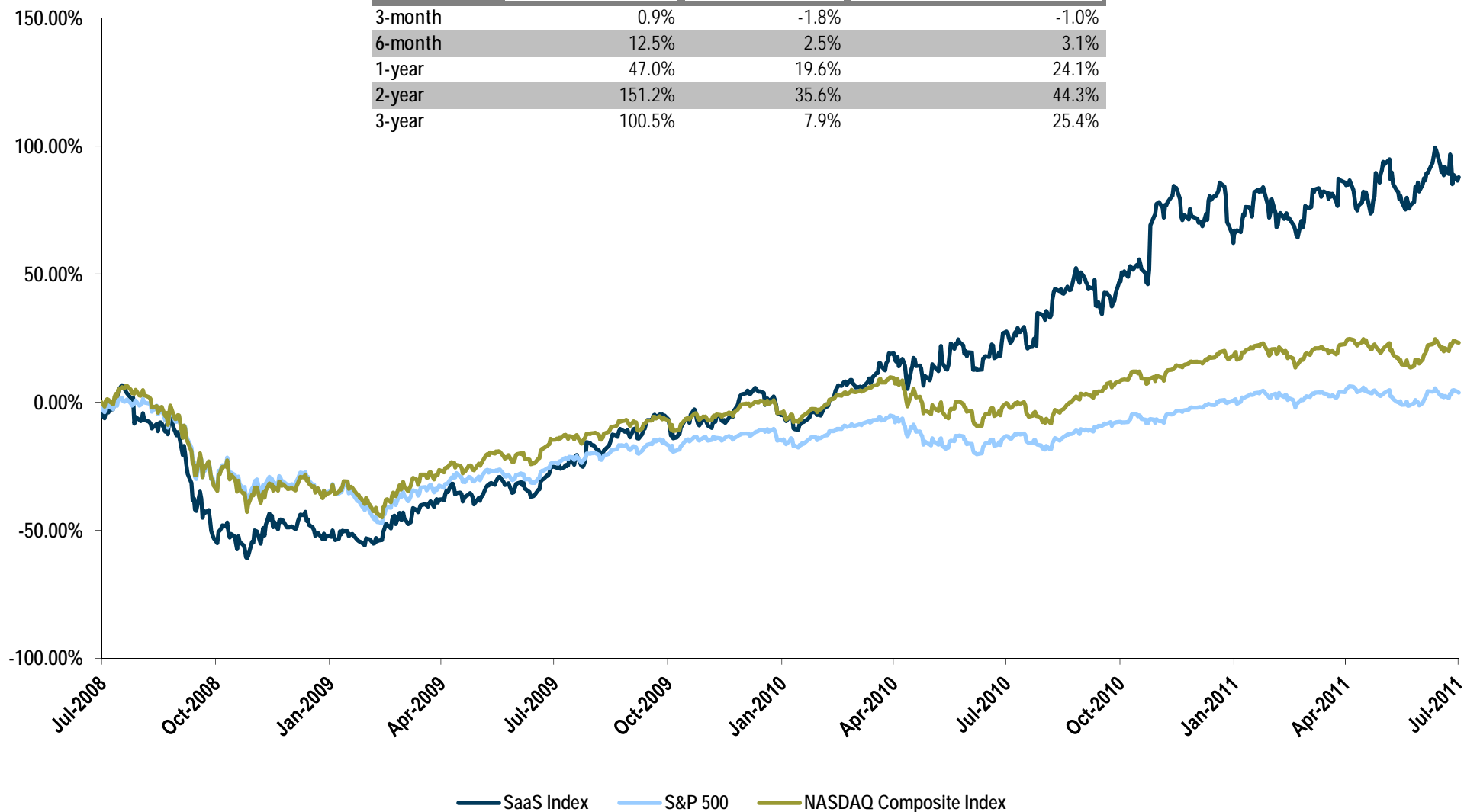
(figures in millions of \$USD)

Date Announced	Target	Acquirer	Implied Enterprise Value	EV/LTM	
				Revenue	EBITDA
5/12/2010	Denali Software, Inc.	Cadence Design Systems Inc.	\$315.0	7.5x	NA
5/5/2010	Dynamic Change Limited	Allocate Software plc.	13.6	2.8x	18.0x
5/3/2010	Sophos Plc	Apax Partners Worldwide LLP	828.6	3.2x	NA
4/29/2010	PGP Corporation	Symantec Corporation	306.0	4.1x	NA
4/29/2010	GuardianEdge Technologies, Inc.	Symantec Corporation	73.0	4.1x	NA
4/20/2010	Sybase, Inc.	SAP America, Inc.	5,422.8	4.4x	14.2x
4/5/2010	Symyx Technologies Inc.	Accelrys Inc.	99.1	0.7x	6.3x
4/1/2010	Mettoni Limited	Enghouse Systems Ltd.	22.8	0.9x	NA
3/26/2010	Laverock von Schoultz Limited	La Francaise Des Jeux	22.9	4.2x	NA
3/25/2010	Gilon Business Insight Ltd.	Ness Technologies Inc.	19.9	0.9x	NA
3/22/2010	Personal & Informatik AG (P&I)	Argon GmbH & Co. KG	127.4	1.6x	5.3x
3/14/2010	Chordiant Software, Inc.	Pegasystems Inc.	104.2	1.4x	NM
3/12/2010	NetHawk Oyj	EXFO Inc	49.9	1.3x	8.6x
2/22/2010	IBS Nederland B.V.	Unit 4 Agresso N.V. (nka:Unit 4 N.V.)	21.5	1.1x	NA
2/11/2010	COA Solutions Ltd.	Advanced Computer Software plc	156.5	1.7x	8.1x
2/10/2010	Intelligent Wave Inc.	Dai Nippon Printing Co. Ltd.	57.5	1.1x	9.9x
1/31/2010	Global Med Technologies, Inc.	Haemonetics Corp.	57.2	1.8x	21.6x
1/28/2010	Siperian, Inc.	Informatica Corporation	130.0	5.3x	NM
1/27/2010	Nstein Technologies Inc.	Open Text Corp.	28.6	1.2x	NM
1/26/2010	Tek-Tools, Inc.	SolarWinds, Inc.	45.9	7.4x	NM
1/4/2010	Cloverleaf Communications Inc.	Dot Hill Systems Corp.	12.5	10.1x	NM
Mean			\$456.9	3.5x	14.5x
Median			\$65.8	2.4x	12.0x

Source: Capital IQ and Industry Estimates

SaaS Subsector Performance

Subsector Relative Performance as of 7/27/2011			
	SaaS Index	S&P 500	NASDAQ Composite Index
3-month	0.9%	-1.8%	-1.0%
6-month	12.5%	2.5%	3.1%
1-year	47.0%	19.6%	24.1%
2-year	151.2%	35.6%	44.3%
3-year	100.5%	7.9%	25.4%



Source: Capital IQ

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