



2011 SaaS Operating Metrics & Valuation Benchmarking Study

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Overview

Founded in 1994, River Cities Capital Funds (“RCCF”) is a venture capital fund that invests \$3 MM - \$10 MM in minority preferred equity positions in expansion-stage IT and Healthcare companies. We seek to partner with exceptional management teams to build great companies that offer significant potential for growth and superior returns for investors and entrepreneurs. The firm has raised \$400 MM and made 85 investments since forming its first fund in 1994.

River Cities first encountered the SaaS model with its EVault investment in 2001. Since then, we’ve invested \$45 MM in nine portfolio companies and have had four successful exits in our SaaS portfolio. The focus of our investment consideration in this segment is finding single instance, multi-tenant SaaS companies with a critical mass of customers in a large market. Investment candidates will demonstrate attractive gross margins, strong customer renewals, efficient customer acquisition models and an experienced management team.

Select River Cities SaaS Exits



Select River Cities Investments



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Introduction

Summary of Key Findings

Below is a summary of the key findings from the following benchmarking report:

- Analysts estimate the size of the SaaS market to be \$17 billion in 2010 growing to over \$40 billion by 2014, which still represents less than 20% of the overall software market.
- To date only 25 SaaS companies have tapped the public market, out of which a couple, Omniture and Salary.com were acquired in the last couple of years. Thus, currently there are 23 public pure-play SaaS providers across a myriad of industries. However, traditional software vendors continue to expand their SaaS offerings.
- As market adoption for SaaS businesses accelerates, so too does the appetite from public equity investors. In the 11.5 years ending July 2009, 17 SaaS companies had been taken public. An additional 8 have gone public since July 2009, including two River Cities' portfolio companies, SciQuest and SPS Commerce.
- Public SaaS companies are still relatively small with only one company achieving revenue in excess of \$1 billion and the majority less than \$250 MM in revenue.
- The average public, pure-play SaaS Company generated \$67 MM in trailing twelve months (TTM) revenue when it went public. To achieve this scale, those same public companies raised on average \$57 MM of pre-IPO equity funding.
- Most industry estimates suggest that SaaS companies require approximately 50% - 70% more capital to achieve cash flow breakeven than their traditional licensed software company counterparts. Additionally, the average number of years for those SaaS companies to become public increased to just less than 10 years from 8.5 a couple years ago.
- The primary SaaS valuation metrics include multiples of both recurring revenue and free cash flow, especially at maturity. Also important are contracted monthly recurring revenue growth, capital efficiency and churn rates. Other qualitative considerations consist of intellectual property, pricing power (e.g. switching costs, ability to up-sell additional applications, etc.) and market size.
- Public SaaS company valuations have returned to nearly six times TTM revenue, a level last seen in early 2008. The comparable average multiple of free cash flow at the date of this study approximates 40 times TTM EBITDA.
- Best-of-breed SaaS companies achieve gross margins in the 70%+ range and manage annual churn rates below 15%. SaaS vendors who have reached scale (\$75+ MM in TTM revenue for purposes of this report) generate EBITDA margins in the high teens to low 20% range. Not surprisingly, given the attractive industry growth, most companies aggressively reinvest cash into product development and sales and marketing to fuel top-line growth, at the expense of near-term profitability. As a result, only 11 out of 25 public SaaS companies reached EBITDA positive operations when they were sub \$50 MM in revenue. In 2010, all the public comparables, except Cornerstone OnDemand (-21%) and DemandTec (4%), generated EBITDA margins greater than 10% reflecting the maturity of the public comparables.

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- Ultimately, valuation is driven by confidence in a company's ability to generate healthy free cash flow margins. Out of the 23 public comparables, Concur (24%), LogMeIn (22%), NetSuite (18%) and Salesforce.com (17%) generated the highest free cash flow margins in 2010 and it appears that the market is rewarding these companies by valuing them at an average of 9.3 times revenue as of May, 2011.
 - Particular attention in this study is devoted to sales and marketing efficiency and effectiveness. Well-performing SaaS companies achieve payback on sales and marketing investments in less than 24 months, with the better performing SaaS companies achieving payback in less than 15 months. Simply translated, 24 month payback equates to a 50% ROI on sales and marketing investment and 12 month payback represents 100% ROI.
 - SaaS companies demonstrating payback below 15 months should consider further investment in sales and marketing. Those experiencing longer than 2 year payback should probably consider alternate spend initiatives to drive more efficient growth.
 - Every public SaaS company that we reported on in 2009 except Ultimate Software showed measurable deterioration in their return on sales and marketing investments with the average payback increasing to 38 months in 2010 from 27 in 2008. Among the several new public SaaS companies, only Responsys and SPS Commerce demonstrated improved ROI on sales and marketing initiatives.
 - Public SaaS companies spent an average 22% of revenue on research and development between \$15 MM and \$50 MM in TTM revenue. Influencing the percentage spend is price point, number of customers served and level of a specificity/technicality associated with the service offering. Between \$5 MM - \$15 MM in TTM revenue, these same companies spent approximately 39%.
 - An analysis of general and administrative expenses demonstrates that SaaS companies spend approximately \$2 MM at \$10 MM in TTM revenue. Above \$15 MM in revenue, companies tend to invest about 20% of their revenue in general and administrative expenses.
 - Not surprisingly, capital expenses for SaaS companies are higher than on-premise software companies, given the required infrastructure to host their customers' data. Capital expenditure percentage of revenue for public SaaS companies last year (2010) ranges from 5% to 12%.

SaaS Introduction

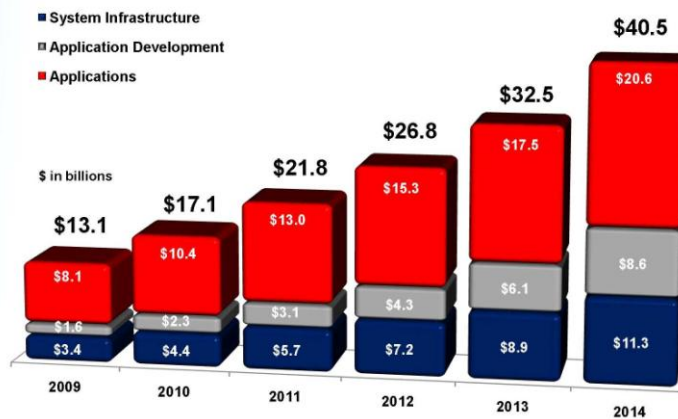
SaaS represents a transformational delivery model for business software and associated data, both of which are hosted in the cloud and accessed via a web browser. As compared to on-premise software vendors that maintain multiple versions of their software, pure SaaS vendors need only deploy and support a single instance of the software codebase across all of their customers. This multi-tenancy approach extends significant economies of scale to customers by way of shared infrastructure and operational support for the software.

Demand for SaaS is driven by the need for customers to reduce IT-related costs, decrease deployment times and foster innovation. Another popular benefit is that most customers pay a subscription along the way, eliminating hefty upfront software license fees. All in all, the SaaS model extends more flexibility to customers, which is critical in an environment with economic uncertainty, changing workplaces and escalating expectations.

As a result of the above benefits, SaaS growth rates are forecasted to be greater than five times that of their on-premise rivals over the next five years. Still under-penetrated, analysts estimate the SaaS market achieved approximately \$17 billion in 2010 revenue. IDC Group estimates that the size of the SaaS market will reach \$40.5 billion by 2014, which still represents less than 20% of the overall software market.

Estimated size of SaaS market

Forecasted 5-Yr CAGR of 25%; >5x that of On-Premise Software



Source: IDC, Worldwide Software as a Service 2010 – 2014 Forecast, June 2010

Study Overview

Given the recurring nature of the revenue model, SaaS businesses provide wonderful predictability. Considering River Cities' nine SaaS portfolio company investments and metrics from public companies during their developmental period, we have established a best of breed analysis of key operating metrics, which supports fact-based recommendations to River Cities' portfolio companies. Additionally, the perspective and experience allows us to more critically assess new SaaS investment opportunities.

Key operating metrics for the subject companies were collected for the years ending 2001-2010. In addition, data was collected from public companies' S-1 filings to compare relative operating metrics at a comparable stage of development as our portfolio companies (e.g. pre-\$50 MM revenue). For example, Salesforce.com, a \$1.7 billion company was analyzed in the 2001 to 2003 time frame when it had revenues between \$5.4 MM and \$96 MM. Key metrics considered in this study include capital efficiency, revenue growth, gross margins, sales and marketing expenditure, research and development expenditure, general and administrative expenditure, capital expenditures and EBITDA margins.

Company Profiles

Given the emerging nature of the Software as a Service business model, currently there are only 23 public pure play SaaS vendors. Salesforce.com is the largest, generating approximately \$1.7¹ billion in 2010 revenue. Revenue achievement drops substantially when considering the rest of the universe, most of whom are generating less than \$250 MM in trailing twelve months revenue. The public SaaS universe spans a variety of services including E-commerce, Human Capital Management (HCM), IT security, marketing, supply chain / procurement and other back office applications. The go-to-market strategies vary by company with some employing a broad base approach and most others through vertical market specialization (including higher-education, legal, life sciences, retail and manufacturing). The following table profiles twenty five best-of-breed public SaaS companies and nine River Cities' portfolio companies that were considered in the study:

Exhibit 1: Public Comps. and Portfolio Companies Profile

Public Comps.	Ticker	Application	Vertical / Function Focus
AthenaHealth	ATHN	Business services for physician practices	Healthcare
BlackBoard	BBBB	Online teaching and learning system	Education
Concur	CNQR	Employee spend management solutions	Human Resources
Constant Contact	CTCT	E-mail marketing and online survey solutions	Marketing
Convio	CNVO	On-demand software services for Non Profit Organizations	CRM
Cornerstone OnDemand	CSOD	Enterprise training and development	Human Resources
DealerTrack	TRAK	Data solutions	Automotive - Retail
Demandtec	DMAN	Consumer demand management solutions	Retailers
Intralinks	IL	Collaboration and Workflow solutions	General
Kenexa	KNXA	Recruitment software & services	Human Resources
Liveperson	LPSN	Online ecommerce interaction	Marketing
LogMeIn	LOGM	Remote connectivity solutions	Information Technology
NetSuite	N	Integrated business mgmt. application suites	General
Omniture (ACQ.)	OMTR	Business optimization software	Marketing
RealPage	RP	Multifamily property management	Housing
Responsys	MKTG	Automate marketing campaigns	Marketing
RightNow	RNOW	Customer relationship management	CRM
Salary.com (ACQ.)	SLRY	Compensation management solutions	Human Resources
Salesforce	CRM	Customer relationship management	CRM
SciQuest*	SQI	Supplier management and procurement automation	Life Science & Higher Education
SPS Commerce*	SPSC	Supply chain integration platform	Retail
Success Factors	SFSF	Performance and talent mgmt. software solutions	Human Resources
Taleo	TLEO	Talent management software solutions	Human Resources
Ultimate Software	ULTI	Human resources, payroll and talent mgmt	Human Resources
Vocus	VOCS	Software for public relations management	Contact Management
RCCF Companies	Ticker	Application	Vertical / Function Focus
CST	Private	Online construction information	Construction
EVault	Private	Online data backup and disaster recovery	Disaster Recovery
Ifbyphone	Private	Voice-based marketing automation	Marketing
MX Logic	Private	Email and web defense solutions	Email Security
PerfectServe	Private	Physician contact and comm. Mgmt. services	Healthcare
ProFind	Private	Hiring optimization solutions	Human Resources
Talent Technology	Private	Talent sourcing and management	Human Resources

*RCCF Investments

¹ Revenue for salesforce.com is for the 12 month period ending January 2011.

Capital Efficiency

Public Comps. IPO Statistics & Funding

As market adoption for SaaS businesses accelerates, so too does the appetite from public equity investors. In the 11.5 years ending July 2009, 17 SaaS companies had been taken public. An additional 8 have gone public since July 2009, including two River Cities' portfolio companies, SciQuest and SPS Commerce. Two companies, Omniture and Salary.com were acquired, leaving 23 public pure play SaaS companies as of May 2011.

To access the public markets, the following 25 SaaS companies achieved average trailing twelve months revenue of \$67 MM with nine below \$50 MM. The following chart highlights key IPO-related metrics of the public SaaS vendors before they went public:

Exhibit 2: Public Comps. and IPO Statistics (\$s in MM)

Public Comps.	IPO Date	Date founded	Funding to IPO	IPO Proceeds	Years to IPO	Revenue ₁	EBITDA ₁
Responsys	Apr-11	Mar-98	\$62	\$79	13.1	\$94	\$22
Cornerstone OnDemand	Mar-11	Jan-99	49	137	12.2	44	(9)
SciQuest*	Sep-10	Nov-95	154	57	14.8	39	9
RealPage	Aug-10	Nov-98	101	66	11.8	141	13
Intralinks	Aug-10	Jun-96	93	143	14.2	141	10
Convio	Apr-10	Oct-99	55	34	10.6	63	7
SPS Commerce*	Apr-10	Jan-87	73	49	23.3	39	4
LogMeIn	Jul-09	Feb-03	25	107	6.4	52	0
NetSuite	Dec-07	Oct-98	85	161	9.2	109	18
Success Factors	Nov-07	Jan-93	55	108	14.9	63	(59)
ConstantContact	Oct-07	Aug-95	37	107	12.2	50	(2)
AthenaHealth	Sep-07	Aug-97	49	113	10.1	76	11
Demandtec	Aug-07	Nov-99	42	66	7.8	43	1
Salary.com (ACQ.)	Feb-07	Apr-99	6	60	7.9	23	(3)
Omniture (ACQ.)	Jun-06	Jan-96	67	70	10.5	80	8
Dealertrack	Dec-05	Jan-01	48	170	4.9	121	34
Vocus	Dec-05	Jul-99	26	45	6.4	28	(1)
Taleo	Sep-05	Jul-99	37	94	6.2	78	6
Kenexa	Jun-05	Jan-87	55	60	18.5	66	12
RightNow Tech.	Aug-04	Jan-97	32	44	7.6	62	6
Salesforce	Jun-04	Feb-99	65	110	5.4	96	19
BlackBoard	Jun-04	Jun-97	101	77	7.1	92	9
LivePerson	Apr-00	Oct-98	42	32	1.5	1	NA
Concur	Dec-98	Aug-93	30	39	5.3	20	(25)
Ultimate Software	Jun-98	Jan-90	25	33	8.4	43	(2)
Average			\$57	\$82	10.0	\$67	\$4

*Both companies represent RCCF investments and coincidentally both were recapitalizations when RCCF invested.

¹Approximate Revenue and EBITDA at the time of IPO

Source: SEC Filings and Wachovia Securities - May 2008 report on the state of the SaaS market

Growing a SaaS business is capital intensive because revenue and cash flow are typically spread out over the life of the contract concurrent with the monthly delivery of the software services. Not surprisingly, the faster the company's growth, the more capital that is required. By comparison, perpetual software license vendors typically collect the respective license fees upfront. Industry experts estimate that SaaS

companies typically take longer to achieve cash flow breakeven than their license software company counterparts. As noted above, the average pre-IPO equity raised for all twenty five companies was \$57 MM. 17 out of the 25 public SaaS companies had positive EBITDA margins at the time of their IPO.

Cumulative Capital Efficiency

Exhibit 3 highlights a simplistic efficiency ratio, which demonstrates the capital efficiency of a business by measuring a company's TTM revenue relative to the total amount of capital raised pre-IPO within certain revenue ranges up to \$50 MM in revenue. The ratio divides trailing twelve months (TTM) revenue by the cumulative debt and equity raised. A 200% ratio suggests that a company generated in TTM revenue twice the total debt and equity that it raised.

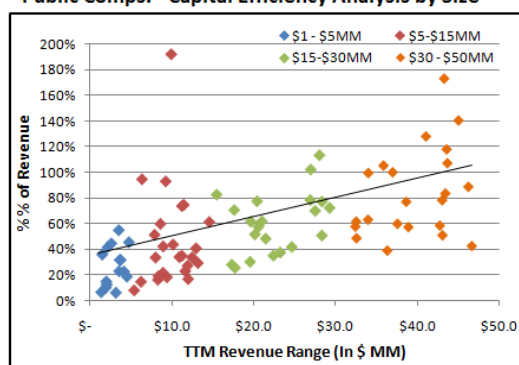
Exhibit 3: Cumulative Capital Efficiency (%)

Public Comps.	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM	At IPO
AthenaHealth	-	28%	42%	58%	98%
BlackBoard	10%	17%	-	43%	106%
Concur	28%	43%	51%	117%	35%
Constant Contact	19%	48%	70%	130%	130%
Convio	-	26%	48%	79%	127%
Cornerstone OnDemand	-	34%	67%	107%	107%
DealerTrack	7%	23%	-	77%	240%
Demandtec	-	19%	30%	73%	115%
Intralink	-	-	-	-	96%
Kenexa	-	-	51%	76%	126%
Livperson	-	15%	-	-	15%
LogMeIn	34%	74%	102%	-	102%
NetSuites	6%	17%	25%	39%	128%
Omnicore (ACQ.)	32%	60%	57%	59%	123%
RealPage	-	-	-	51%	186%
Responsys	-	-	32%	60%	151%
RightNow	13%	35%	82%	106%	192%
Salary.com (ACQ.)	45%	143%	437%	-	562%
Salesforce	8%	-	35%	79%	149%
SciQuest*	-	31%	79%	158%	185%
SPS Commerce*	-	59%	73%	111%	122%
Success Factors	23%	43%	-	49%	112%
Taleo	-	34%	77%	118%	207%
Ultimate Software	-	93%	70%	173%	173%
Vocus	45%	63%	91%	-	113%
Average	22%	45%	80%	88%	148%
RCCF Companies	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM	2010
Average	25%	41%	66%	84%	81%
Range	15% - 54%	28% - 65%	49% - 79%	33% - 158%	26% - 185%

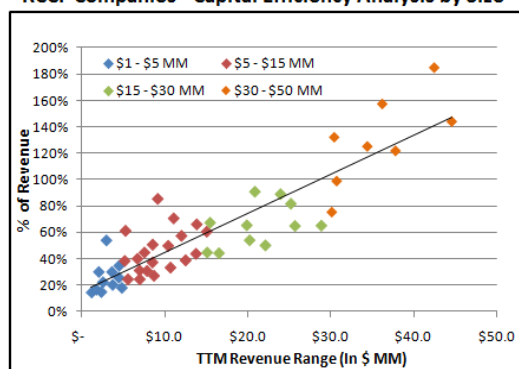
*RCCF Investments

Note: Livperson, Salary.com and Vocus went public in the \$15 - \$50 MM range and hence datapoints in that revenue range are not considered. If more than one datapoint was available in a revenue range average no. are used. Blanks indicate not available or not applicable.

Public Comps. - Capital Efficiency Analysis by Size



RCCF Companies - Capital Efficiency Analysis by Size



Two datapoints over 200% of Revenue excluded in the \$15-\$30 MM revenue range.

(Note: As with all of the exhibits in this report, the graphs to the right of the chart include all available data points from the associated companies. A company might have multiple data points within the considered revenue range as it grows through the ranges over time.)

To the extent stock or equity consideration for acquisitions was not publicly disclosed, their respective capital efficiency metrics are exaggerated since acquisition price is excluded from the denominator (total debt and equity raised.) Salary.com is such an example that attempted to grow through small acquisitions, hit the wall during the recession and was forced to sell to Kenexa in September 2010. As a result, their capital efficiency shown above is artificially high. Excluding Salary.com, Public SaaS

companies posting revenue below \$50 MM produced capital efficiency ratios between 6% and 173%. River Cities' portfolio companies generated efficiency ratios between 15% and 158% in that same range.

At the time of their IPO, SaaS companies gained significant leverage as the average capital efficiency rose to approximately 150%. Only Concur (35%) and Liveperson (15%) posted efficiency ratios significantly less than 100% at the time of their IPO.

Within River Cities' portfolio, three efficient performers (including SciQuest and SPS Commerce) demonstrated capital efficiency ratios greater than 120%. SciQuest was the most efficient RCCF performer generating \$42.5 MM in TTM revenue on \$23 MM in total capital raised. To gain better insight to the above ratios, we explore the sales and marketing effectiveness of each of these companies in further detail later in this study.

Note that Capital efficiency ratios for River Cities' portfolio companies (including SciQuest and SPS Commerce) were calculated starting with the financing round in which RCCF first invested. As an example, SPS raised a reported \$73 MM, however, \$43 MM was recapitalized in the 2002 financing in which River Cities first participated. Similarly, SciQuest raised a reported \$154 MM, which includes equity required to take the Company public in 1999. River Cities participated in a take-private transaction in 2004 that effectively cleared \$131 MM of prior equity from a failed dot com B-2-B marketplace strategy.

Valuation Metrics

Public SaaS Company Valuation Metrics

While all companies are ultimately valued on the present value of their discounted future cash flows, industry analysts tend to rely more on comparable multiples of revenue and free cash flow (EBITDA used as a proxy for cash flow) for valuing SaaS businesses. As of May 2011, public SaaS companies' traded at approximately 5.8 times TTM revenue and approximately 40 times EBITDA:

Exhibit 4: Public SaaS Company Valuation (\$s in MMs)

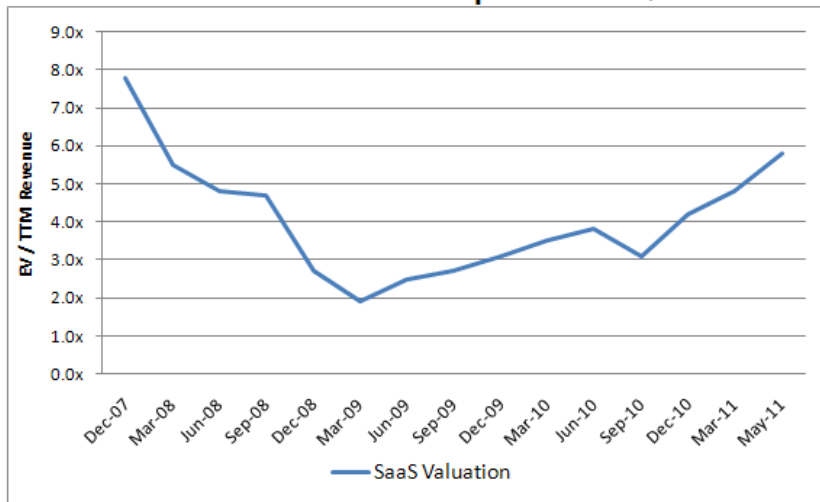
Company	Ticker	Market Cap.	Enterprise Value (EV)	TTM Revenue	2010 Revenue	Qtrly. y.o.y Growth	TTM EBITDA	EV / TTM Revenue	EV / 2010 Revenue	EV / EBITDA
Athena Health	ATHN	\$1,610	\$1,510	\$261	\$246	28%	\$39	5.8x	6.1x	39.0x
Blackboard	BBBB	1,550	1,660	465	447	18%	86	3.6	3.7	19.3
Concur	CNQR	2,670	2,360	317	293	16%	53	7.4	8.1	44.5
Constant Contact	CTCT	775	686	185	174	27%	12	3.7	3.9	56.3
Convio	CNVO	202	160	71	70	9%	6	2.2	2.3	26.5
Cornerstone OnDemand	CSOD	941	1,000	44	44	38%	(11)	22.9	22.9	nm
DealerTrack	TRAK	981	833	264	244	16%	30	3.2	3.4	28.1
DemandTec	DMAN	334	278	82	79	14%	(7)	3.4	3.5	nm
Intralink	IL	1,170	1,200	197	184	33%	33	6.1	6.5	36.9
Kenexa	KNXA	699	740	217	196	51%	17	3.4	3.8	43.1
Liveperson	LPSN	580	516	115	110	20%	24	4.5	4.7	21.8
LogMeIn	LOGM	1,010	840	107	101	27%	20	7.9	8.3	41.6
NetSuite	N	2,310	2,220	202	193	21%	(14)	11.0	11.5	nm
RealPage	RP	2,050	1,950	204	188	39%	27	9.5	10.4	72.9
Responsys	MKTG	662	656	105	94	54%	19	6.3	7.0	35.0
RightNow	RNOW	1,050	987	196	186	24%	21	5.0	5.3	46.4
Salesforce	CRM	17,930	17,990	1,660	1,657	29%	160	10.8	10.9	112.3
SciQuest*	SQI	309	273	45	42	24%	8	6.1	6.4	34.0
SPS Commerce*	SPSC	199	159	47	45	24%	5	3.4	3.6	29.8
Success Factors	SFSF	2,590	2,210	229	206	54%	(20)	9.7	10.7	nm
Taleo	TLEO	1,500	1,390	254	237	30%	29	5.5	5.9	48.0
Ultimate Software	ULTI	1,430	1,400	237	228	16%	19	5.9	6.1	73.5
Vocus	VOCS	488	403	101	98	21%	(1)	4.0	4.1	nm
Median						24%		5.8x	6.1x	40.3x

*RCCF Investments

Source: Yahoo Finance as of 5/13/2011; TTM data as of 3/31/2011 except for DemandTec (2/28/2011)

Current public SaaS valuations represent a nice recovery from the downturn of late 2008 / early 2009 and have recovered to median valuations of six times TTM revenue last seen in early 2008, although still below the peak valuations in late 2007.

Exhibit 5: Median Revenue Multiples since Q4'07



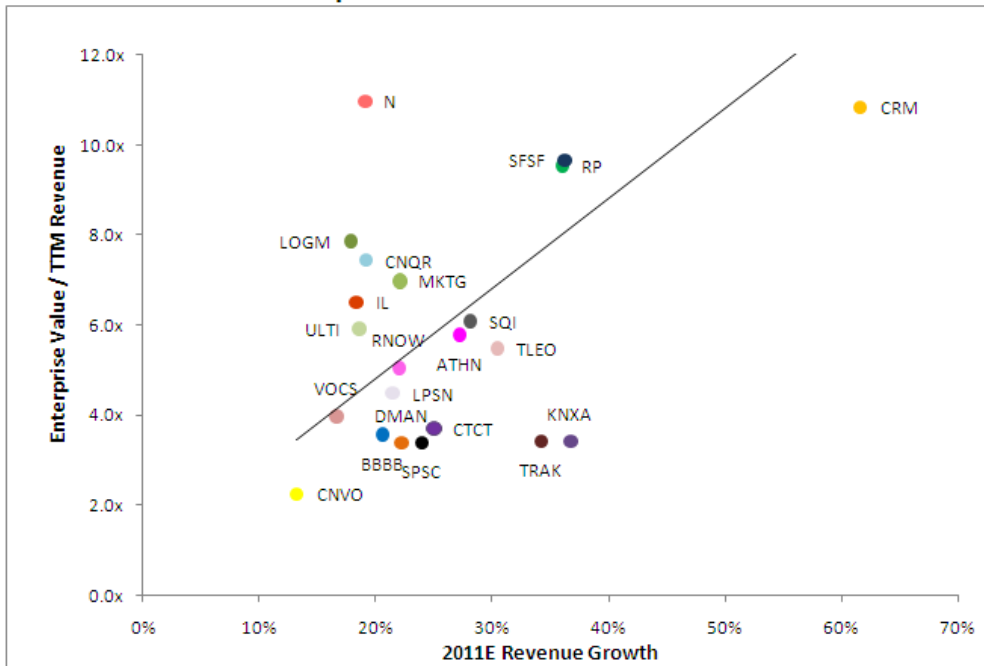
Source: SEG Software Equity Group and Yahoo Finance

Exhibit 5 highlights that SaaS market valuations started plummeting in 2008 and bottomed out in early 2009, down by about 75% from levels achieved in late 2007. Given SaaS growth rates are close to five times those of traditional public software companies, SaaS multiples trade at a premium over traditional public software companies, which tend to be valued in the two to three times TTM revenue range.

However, we will see later in this report that the sales and marketing effectiveness of these companies has declined significantly, implying that more capital is required to maintain revenue growth rates. As companies require more cash to sustain revenue growth (relative to historic norms), one might question the ability to sustain valuations that are on median 5.8 times ttm revenue.

Regardless of the economic environment, several other factors impact SaaS company valuations, the dominant consideration being revenue growth. Exhibit 6 shows that public companies delivering stronger revenue growth are generally rewarded with higher valuation multiples. 9 of the 23 public SaaS vendors who achieved year over year growth of greater than 25% in Q1'11 averaged an EV / Revenue multiple of 9.3x. Other important considerations include gross margin percentage, churn rates, pricing power (e.g. switching costs, up-sell opportunities) and free cash flow margins.

Exhibit 6: Revenue Multiples versus Growth



Source: Yahoo Finance - Average Analyst Estimates

Note: Excludes Cornerstone Ondemand which has EV / Revenue Multiple of 22.9x and Revenue Growth of 38%

While relative revenue growth rates are important across the sector, so too is the cost to sustain those growth rates, which is not considered in Exhibit 6 above. Take NetSuite as an example. In 2008, the company demonstrated annual revenue growth of 39% with payback on sales and marketing² investment of 32 months at which point in time investors valued the company at approximately 3.8 times revenue. As of May 31, 2011, NetSuite's annual revenue growth declined to 21%, their payback on sales and marketing investment increased to 53 months, yet the company is now valued around 11.5 times revenue. While these metrics may represent a lagging effect of the recession, we think it's important to monitor them closely as it is questionable whether the rise in valuations can be sustained without further efficiency lift.

² Referenced later in the report under the "Key Operating Metrics" section

SaaS Merger and Acquisitions Valuation Metrics

Exhibit 7: Select SaaS Merger & Acquisition Transactions (\$\$ in MM)

Date	Acquirer	Target	Enterprise Value (MM)	TTM Revenue	LTM Revenue Multiple
2007					
Jan-07	Allscripts Healthcare	Extended Care	\$90.0	\$19.0	4.7x
Jan-07	Seagate	EVault	185.0	41.5	4.5
Mar-07	Cisco	Webex	3,200.0	380.0	8.4
Apr-07	Websense	SurfControl	400.0	135.6	2.9
Jun-07	IBM	Watchfire	85.0	30.4	2.8
Jul-07	Autonomy	Zantaz	375.0	100.0	3.8
Jul-07	Google	Postini	625.0	75.0	8.3
Sep-07	Omniure	Offermatica	65.0	8.7	7.5
Sep-07	Ariba	Procuri	93.0	20.7	4.5
Oct-07	McAfee	Safeboot	350.0	60.0	5.8
Oct-07	Omniure	Visual Sciences	394.0	80.0	4.9
Oct-07	Iron Mountain	Stratify	158.0	30.0	5.3
2007 Average			\$501.7	\$81.7	5.3x
2008					
Jan-08	Blackboard	NTI Group	\$182.0	\$30.0	6.1x
Feb-09	Yahoo!	Maven Networks	160.0	14.5	11.0
Apr-08	Nuance Comm.	eScription	400.0	40.0	10.0
Apr-08	Apax	TriZetto	1,258.7	449.5	2.8
May-08	Taleo	Vurv Technology	128.8	49.0	2.6
May-08	Blackbaud	Kintera	46.0	44.9	1.0
Jun-08	Symantec	SwapDrive	123.0	22.0	5.6
Jun-08	US Investigation Services	HireRight	195.0	84.6	2.3
Sep-08	Bedford	Authoria	63.1	16.5	3.8
Oct-08	Symantec	MessageLabs	695.0	144.8	4.8
Dec-08	Intuit	Entellium	7.7	1.7	4.5
Dec-08	CSG Systems	Quaero Corp.	15.0	13.0	1.2
Dec-08	Salary.com	Genesys	6.8	8.0	0.9
Dec-08	Experian Group	SearchAmerica	90.0	14.0	6.4
2008 Average			\$240.8	\$66.6	4.5x
2009					
Feb-09	Descartes Systems	Oceanwide	\$8.4	\$6.0	1.4x
Apr-09	Vista Equity Partners	SumTotal Systems	108.0	114.4	0.9
May-09	EMC Corporation	Configuresoft	95.0	29.7	3.2
Jun-09	Intuit	PayCycle	170.0	29.8	5.7
Jul-09	F-Secure	Steek	42.0	3.5	12.0
Jul-09	NetSuite	QuickArrow	20.0	10.0	2.0
Jul-09	United Business Media	The Fuel Team	7.0	3.5	2.0
Aug-09	Concur	Etap-On-Line	39.9	12.0	3.3
Sep-09	Adobe Systems	Omniure	1,800.0	350.1	5.1
Oct-09	KIT Digital	FeedRoom	9.8	6.0	1.6
Oct-09	Compuware Corp.	Gomez	295.0	47.0	6.3
Oct-09	Cisco Systems	ScanSafe	183.0	30.0	6.1
2009 Average			\$231.5	\$53.5	4.1x
2010					
Feb-10	SuccessFactors	Inform Business Impact	\$40.5	\$15.0	2.7x
Feb-10	Bain Capital	SkillSoft	1,200.0	316.2	3.8
Apr-10	Oracle Corp.	Phase Forward	785.0	213.3	3.7
Apr-10	Vocus	Data Presse SAS	10.7	15.0	0.7
Apr-10	Salesforce.com	Jigsaw	142.0	12.5	11.4
Jun-10	Unify Corp.	Daegis	37.5	23.0	1.6
Jul-10	SDL Plc	Language Weaver	42.5	12.2	3.5
Jul-10	Roper Industries	iTradeNetwork	525.0	80.0	6.6
Sep-10	Taleo Corp.	Learn.com	125.0	29.8	4.2
Sep-10	Kenexa Corporation	Salary.com	80.0	42.0	1.9
Dec-10	Lawson Software	Enwisen	70.0	8.0	8.8
Dec-10	Teradata Corporation	Aprimo	525.0	80.0	6.6
2010 Average			\$298.6	\$70.6	4.6x
2011					
Jan-11	Sum Total Systems	GeoLearning	\$150.0	\$39.5	3.8x
Jan-11	CoreLogic	RP Data	194.0	67.8	2.9
Jan-11	RightNow Technologies	Q-go.com	34.0	8.0	4.3
Feb-11	Taleo Corp.	Cytiva Software	11.0	5.0	2.2
Mar-11	Davis + Henderson Corp.	Mortgagebot	231.8	37.7	6.1
2011 Average			\$124.2	\$31.6	3.9x
Overall Average			\$297.7	\$64.7	4.6x

Source: RCCF Estimates

The number of SaaS M&A transactions almost tripled in 2010 to 112 from 39 transactions in 2009¹. Exhibit 7 profiles valuation multiples for selected transactions since the beginning of 2007.

The transactions profiled below show a decline of average M&A valuation metrics from 5.3x times TTM revenue in 2007 to 4.1x times TTM revenue in 2009. Since 2009 the M&A valuations have averaged about 4.0x to 4.5x times TTM Revenue.

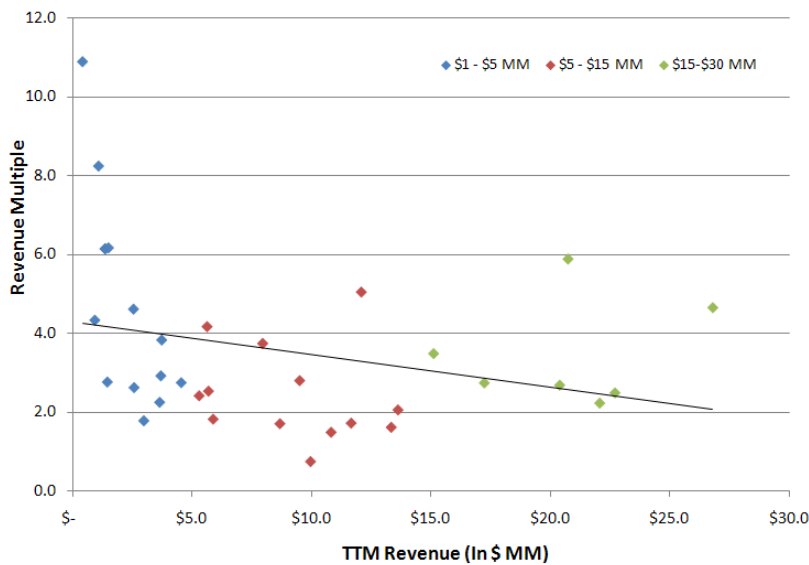
River Cities' SaaS portfolio companies have acquired seven small companies at or under \$5 MM in revenue. The respective valuation metrics paid range from 1.5 times TTM revenue to 5.5 times TTM revenue.

Additionally, two River Cities' portfolio companies were sold to strategic acquirers. Seagate acquired EVault in 2007 for \$185 MM and McAfee acquired MXLogic in September 2009 for \$170 MM.

River Cities' Portfolio Company Valuation Metrics

While numerous factors and methods are considered when valuing a company, most River Cities' SaaS investments occurred at a valuation between 2 to 3 times TTM revenue. Exhibit 8 depicts the valuation multiple relative to the company's stage of development and demonstrates a range between .7 times to as high as 6 times TTM revenue. Not unlike public companies, other factors such as revenue growth, capital efficiency, gross margins, churn rates, intellectual property and pricing power are also important considerations. While not evident from the multiples shown below, institutional investors almost always require certain terms that further impact the valuation including preferences, participation and dividend features. In any case, consistent adherence to pricing discipline will enhance long-term investment returns.

Exhibit 8: Portfolio Company Valuations - Revenue Multiple vs TTM Revenue



Key Operating Metrics

This section benchmarks key operating metrics, including revenue growth, gross margins, sales & marketing investment, research & development spend, general & administrative expenses, capital expenditure and EBITDA margins. To make meaningful comparisons between the public vendors and River Cities' portfolio companies, the following analysis considers the above metrics for public vendors when they were generating less than \$50 MM in revenue. Financial details were gathered from their respective S-1 filings.

Revenue Growth

As noted earlier, revenue growth is one of the more important considerations when valuing SaaS companies. Because RCCF's investment strategy focuses on investing in expansion stage companies, we assembled the following chart that tracks the four year CAGR starting from the year in which the Public

Exhibit 9: Select four year CAGR for SaaS companies (\$s in '000s)

Public Comps.	Year 0	Year 4	CAGR
AthenaHealth	\$11,984	\$75,813	59%
BlackBoard	1,903	92,478	164%
Concur	9,003	41,099	46%
Constant Contact	4,465	50,495	83%
Convio	8,988	56,980	59%
Cornerstone OnDemand	4,953	29,322	56%
DealerTrack	1,340	120,219	208%
Demandtec	8,423	43,485	51%
Intralinks	54,961	140,699	26%
Kenexa	28,371	65,641	23%
LivePerson	12,023	52,228	44%
LogMeIn	2,574	51,723	112%
NetSuite	8,345	67,202	68%
Omniture (ACQ.)	3,595	42,804	86%
RealPage	43,131	140,902	34%
Responsys	17,288	66,643	40%
RightNow	2,025	35,879	105%
Salary.com (ACQ.)	3,484	23,034	60%
Salesforce	5,435	176,375	139%
SciQuest*	5,630	28,400	50%
SPS Commerce*	10,425	25,198	25%
Success Factors	4,122	63,350	98%
Taleo	12,547	78,410	58%
Ultimate Software	3,731	55,757	97%
Vocus	4,720	20,393	44%
Average	\$10,939	\$65,781	73%
RCCF Companies	Year 0	Year 4	CAGR
Range	\$2,367 - \$10,425	\$6,988 - \$34,402	25% - 95%

*RCCF Investments

Comps and portfolio companies were generating approximately \$10 MM in TTM revenue, barring few exceptions for Public Comps., where that information was not available. As an example, we looked at Salesforce.com for the four years following the year they posted \$5.4 MM in TTM revenue. The Company generated an impressive 139% CAGR to achieve TTM revenue of \$176 MM four years later.

Exhibit 9 highlights that 16 out of 25 public comparables demonstrated greater than 50% CAGR. The best of these companies grew revenues around 208% CAGR with very good performers generating around 100% CAGR. At these growth rates, companies are able to grow from less than \$10 MM in TTM revenue to more than \$40 MM in four years. By comparison, four of River Cities' portfolio companies achieved comparable growth rates.

Exhibit 10 provides a good perspective into recent compounded annual growth rates for each of the public and River Cities' portfolio companies. The Public SaaS vendors grew at an average of 27% compounded annual growth over the last three years vis-à-vis an average CAGR of 53% over the three year period ending 2008. While the current growth rates are slower than historical growth rates, the Public comparables have demonstrated healthy growth considering the challenging recessionary environment. In addition, as these companies mature and become larger it is difficult to sustain high growth rates.

Revenue per Employee:

While revenue per employee is not widely published, the industry targets \$150,000 in revenue per employee as a proxy for the point at which SaaS companies reach EBITDA positive operations.

Exhibit 10: TTM Revenue Performance (\$s in MM\$)

Public Comps.	2007	2008	2009	2010	CAGR
AthenaHealth	\$101	\$140	\$189	\$246	35%
BlackBoard	239	312	377	447	23%
Concur	129	216	248	293	31%
Constant Contact	50	87	129	174	51%
Convio	43	57	63	70	17%
Cornerstone OnDemand	11	20	29	44	59%
DealerTrack	234	243	226	244	1%
Demandtec	43	86	75	79	22%
Intralinks	123	143	141	184	15%
Kenexa	182	204	158	196	3%
Liveperson	52	75	87	110	28%
LogMeIn	27	52	74	101	55%
NetSuite	109	152	167	193	21%
Omniture (ACQ.)	143	296	-	-	-
RealPage	84	113	141	188	31%
Responsys	38	50	67	94	36%
RightNow	112	140	153	186	18%
Salary.com (ACQ.)	23	35	42	-	-
Salesforce	749	1,077	1,306	1,657	30%
SciQuest*	21	30	36	42	27%
SPS Commerce*	25	31	38	45	21%
Success Factors	63	112	153	206	48%
Taleo	128	168	198	237	23%
Ultimate Software	151	179	197	228	15%
Vocus	58	78	85	98	19%
Average	\$118	\$164	\$182	\$233	27%
RCCF Companies	2007	2008	2009	2010	CAGR
Average	\$14	\$18	\$20	\$22	31%
Range	\$1 - \$25	\$0 - \$31	\$2 - \$38	\$3 - \$45	21% - 70%

*RCCF Investments

Gross Margins

SaaS vendors deploy a multi-tenant architecture, which means they manage one code base across an entire installed customer base. Cost savings include shared hardware and software. Additionally, maintenance costs, are significantly lower due to the ease of deployment. Software upgrades or bug fixes are deployed against one instance for thousands of customers as opposed to supporting thousands of instances.

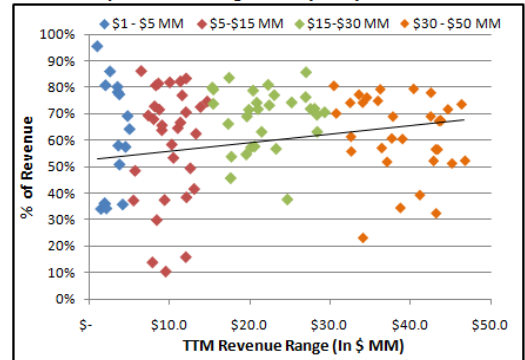
Exhibit 11: Gross Margins

Public Comps.	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM	2010
AthenaHealth	-	16%	38%	60%	61%
BlackBoard	36%	38%	-	52%	70%
Concur	35%	65%	57%	41%	72%
Constant Contact	57%	74%	72%	74%	71%
Convio	-	63%	63%	57%	63%
Cornerstone OnDemand	64%	67%	70%	67%	67%
DealerTrack	-	-50%	-	34%	49%
Demandtec	-	2%	55%	64%	65%
Intralinks	-	-	-	-	74%
Kenexa	-	-	69%	74%	65%
Liveperson	-	38%	82%	76%	73%
LogMeIn	87%	82%	85%	-	91%
NetSuite	-68%	30%	54%	57%	68%
Omniiture (ACQ.)	68%	71%	58%	52%	-
RealPage	-	-	-	32%	58%
ResponSys	-	-	61%	61%	57%
RightNow	81%	66%	74%	75%	70%
Salary.com (ACQ.)	57%	84%	78%	73%	-
Salesforce	37%	-	73%	80%	80%
SciQuest*	-	65%	74%	79%	78%
SPS Commerce*	-	65%	73%	70%	72%
Success Factors	36%	50%	-	56%	73%
Taleo	-	49%	63%	68%	67%
Ultimate Software	51%	37%	46%	56%	56%
Vocus	69%	72%	76%	79%	80%
Average	47%	49%	66%	63%	69%
RCCF Companies	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM	2010
Average	42%	60%	73%	71%	63%
Range	2% - 77%	48% - 65%	68% - 74%	62% - 77%	48% - 78%

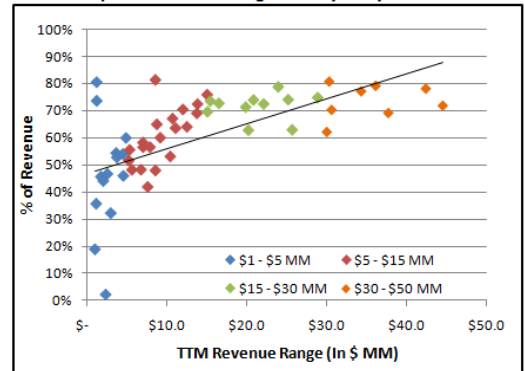
*RCCF Investments

Note: If more than one datapoint was present in a revenue range average no. are used. Blanks indicate data was not available or not applicable.

Public Comps. - Gross Margins Analysis by Size



RCCF Companies - Gross Margins Analysis by Size



Given the shared-cost approach, SaaS companies target gross margins above 70%. Obviously, as the installed base grows, so does the ability to share fixed infrastructure costs such as data centers, hosting, etc. over more clients. The above exhibits demonstrate that sub-\$5 MM SaaS companies generally generate gross margins in the 40%-60% range and those consistently grow to the 70% range once companies exceed \$20 MM in TTM revenue, barring few exceptions with Concur, DealerTrack and RealPage. Both Concur and DealerTrack were more services-intensive when they were sub \$50 MM in revenue, with about 60% of Concur's revenue and 80% of DealerTrack's revenue derived from services resulting in less than 40% gross margins in the \$30 MM - \$50 MM revenue range. Excluding these three companies, the gross margins of the Public Vendors averaged 67% in the \$30 MM - \$50 MM revenue range. The gross margins of River Cities' portfolio stack up closely to those of the public comparables. Typically, margins below 70% imply a model that requires sizable hardware and capital expenses or significant services / customization.

Sales & Marketing Effectiveness

Since sales momentum represents an important part of River Cities' investment consideration, particular attention is given in this study to identifying important sales and marketing operating metrics that help assess a company's efficiency and effectiveness. While visibility into these metrics isn't always obvious from the financial statements, the predictability associated with the recurring revenue model provides a unique opportunity to uncover and benchmark relevant metrics. These findings not only guide decision-making at our existing companies, but also help assess new investment opportunities.

As seen below, sales and marketing is typically the largest and most widely variable expense component of a SaaS company's cost structure, ranging from 17%-500% of revenue below \$50 MM in revenue. As with all cost components, the relative percentages are dependent on multiple factors. First of these is the stage of a company's development. As one would expect, the sales and marketing percentage declines as businesses grow their top line. Second is the average selling price ("ASP"). Higher ASPs tend to be highly correlated with fewer customers, which results in lower relative sales and marketing percentages at given revenue levels. Third, the accounting treatment employed by a company will also impact sales and marketing percentages. Most companies amortize commissions over the life of a contract, however, several companies expense their commissions upfront. Lastly, a direct sales model will demonstrate higher sales and marketing percentages than indirect channels

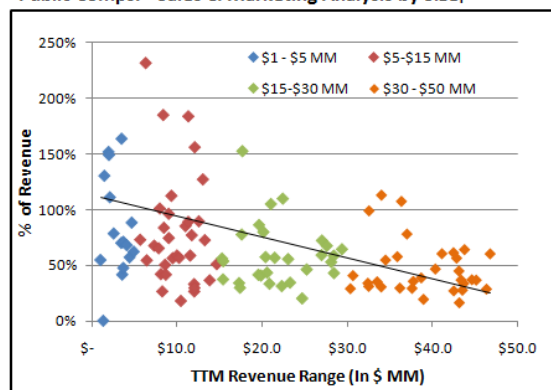
Exhibit 12: Sales & Marketing as a % of Revenue

Public Comps.	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM
AthenaHealth	-	33%	20%	20%
BlackBoard	509%	156%	-	61%
Concur	131%	74%	80%	72%
Constant Contact	57%	46%	67%	54%
Convio	-	84%	57%	45%
Cornerstone OnDemand	62%	76%	75%	64%
DealerTrack	-	77%	-	39%
Demandtec	-	70%	41%	30%
Intralinks	-	-	-	-
Kenexa	-	-	59%	30%
Livestorm	-	88%	31%	33%
LogMeIn	99%	89%	72%	-
NetSuite	315%	185%	152%	108%
Omniiture (ACQ.)	44%	41%	43%	57%
RealPage	-	-	-	17%
Responsys	-	-	34%	30%
RightNow	149%	184%	82%	58%
Salary.com (ACQ.)	100%	57%	56%	58%
Salesforce	467%	-	110%	66%
SciQuest*	-	62%	35%	29%
SPS Commerce*	-	27%	43%	38%
Success Factors	68%	92%	-	99%
Taleo	-	89%	43%	34%
Ultimate Software	71%	112%	78%	37%
Vocus	88%	80%	55%	47%
Average	166%	86%	62%	49%
RCCF Companies	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM
Average	108%	61%	39%	32%
Range	63% - 260%	27% - 111%	33% - 45%	28% - 38%

*RCCF Investments

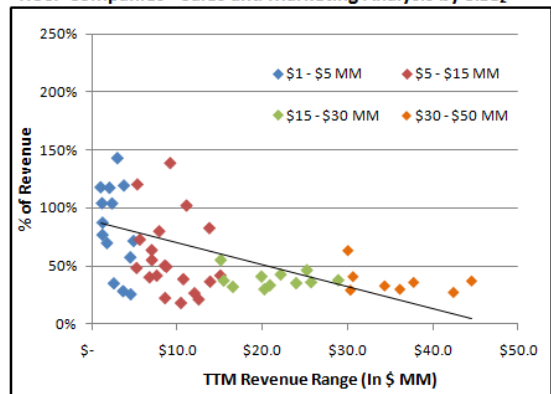
Note: If more than one datapoint was present in a revenue range average numbers are used. Blanks indicate data was not available or not applicable.

Public Comps. - Sales & Marketing Analysis by Size₁



Three data points (sub \$6 MM in revenue) over 250% of revenue excluded

RCCF Companies - Sales and Marketing Analysis by Size₂



One data point over 250% in the \$1-\$5MM revenue range excluded

The above graphs depict a relatively consistent sales and marketing percentage trend between the public companies and River Cities' portfolio companies. Public companies spend on average 30% more on sales and marketing above \$5 MM in revenue and 68% more on sales and marketing below \$5 MM in revenue, than did our portfolio companies. We can only hypothesize as to why this is the case.

It is possible that Management at the above public companies recognized leadership in their respective markets very early and they determined that spending ahead of the curve was warranted to maintain such position. Alternatively, the investors supporting those same investments could have had much larger venture funds and significantly more capital to invest in their respective portfolio companies relative to River Cities. Without data from those less successful SaaS companies who did not reach the public capital markets, it is difficult to make a fair comparison and pinpoint exactly why these companies invested so much more early in the companies' life cycle relative to River cities' SaaS portfolio companies.

Pricing, contract terms: Deal sizes per customer per year of the public comparables ranges from \$400 (Constant Contact) to \$235,000 (Demandtec). River Cities' portfolio companies deal sizes per customer per year ranges from \$900 to \$300,000. Generally speaking, solutions with an ASP less than \$10,000 per year target the SMB market. Moving up market, solutions with an ASP between \$10,000 - \$50,000 are focused on the mid-market and solutions priced higher than \$50,000 per year are most appropriately offered to the fortune 1000 corporate market.

As noted in Exhibit 13 by the customer count and ASP, the low cost of ownership relative to traditional software solutions helps drive adoption in the SMB market.

To date, adoption by the enterprise market has been slower, since these organizations typically have a much larger user base, over which they can spread their costs, making it more affordable for them to manage their own solutions. Additionally, enterprises are traditionally more reluctant to allow their data to leave their network due to security concerns. However, this trend is rapidly changing and we expect further enterprise adoption as the market matures.

Exhibit 13: Special Sales and Marketing Metrics

Public Comps.	# of Customers	Renewal Rates	Annual Deal Size ¹ (\$s in '000)
AthenaHealth	2,002	95% dollar basis	\$130.4
BlackBoard	959	91% dollar basis	36.7
Concur	~10,000	90% + customer basis	31.7
Constant Contact	~445,000	75% customer basis	0.4
Convio	1,400	90% + dollar basis	50.9
Cornerstone OnDemand	560	95% +	-
DealerTrack	14,239	-	9.6
Demandtec	350	100% dollar basis	235.4
Intralinks	1,461	122% dollar basis	69.0
Kenexa	~7,000	90% customer basis	31.8
Liveperson	8,500+	93%+	13.5
LogMeIn	687,000	80% dollar basis	0.2
NetSuite	~10,000	> 100% dollar basis	20.2
RealPage	6,900+	96 - 98%	29.6
Responsys	266+	-	-
RightNow	1,900	100% dollar basis	103.0
Salesforce	97,700	> 88%	18.3
SciQuest*	313	100% + dollar basis	143.4
SPS Commerce*	13,000	88% customer basis	3.3
Success Factors	3,200	90%+ customer basis	65.3
Taleo	5,100	95% dollar basis	51.1
Ultimate Software	> 2,200	> 96% customer basis	107.6
Vocus	9,250	80% - 90% customer basis	10.0

*RCCF Investments

¹ Average revenue per customer per year

Source: Company Filings, Investor Relations and William Blair Cloud 3.0 Report - June 2011

Blanks indicate data was not available

Renewal rates: Public SaaS companies and RCCF’s portfolio companies achieve comparable renewal rates that are generally north of 85%. The recent recession saw a decline in the renewal rate for a number of public companies, most of them have since recovered. ⁱⁱ Currently, five public companies have renewal rates approximately 100% or greater, including one River Cities’ portfolio company, SciQuest.

Renewal rates are driven by two elements. First is the vendor’s ability to become entrenched within the business processes and other of their customers’ applications. Second is the company’s ability to expand their service offerings within a customer. Among the public vendors Intralinks has the best dollar renewal rate of 122% suggesting its cross selling success. Increasingly, IT departments are consolidating relationships with third party vendors and so a providers’ ability to act as a unified platform for multiple services will significantly help companies achieve attractive renewal rates.

Return on Sales and Marketing investment: Well-performing SaaS companies should achieve payback on sales and marketing investments in less than 24 months with the better performing SaaS companies achieving payback in 15 months. Simply translated, 24 month payback equates to a 50% ROI on sales and marketing investment and 12 month payback represents 100% ROI. Payback is simply calculated by taking sales and marketing spend for a defined period and dividing it by that period’s incremental gross margin. Because incremental gross profit is considered, this calculation takes into consideration a company’s churn rates. Payback metrics essentially tell us how many months are required for a company to achieve break even on their sales and marketing investment.

Exhibit 14: Payback on Sales and Marketing Inv. (Months)

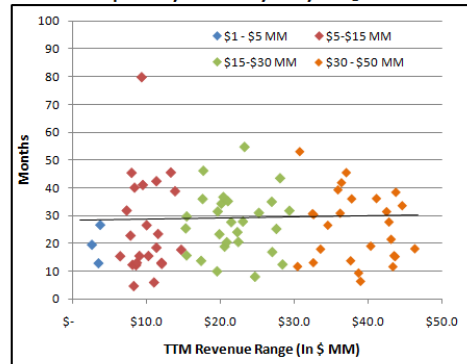
Public Comps.	< \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM	2010	Cost to acquire \$1M in Rev. (\$ in MMs)	Cost to acquire \$1M in GP. (\$ in MMs)
AthenaHealth	-	-	8	6	16	\$0.92	\$1.34
BlackBoard	-	-	-	-	30	1.72	2.50
Concur	-	16	34	9	30	2.12	2.46
Constant Contact	-	15	25	19	30	1.75	2.48
Convio	-	45	28	22	46	3.37	3.81
Cornerstone OnDemand	-	19	32	38	38	1.95	3.20
DealerTracking	-	-	-	9	158	5.81	13.21
Demandtec	-	41	10	14	-	7.02	-
Intralinks	-	-	-	-	21	1.82	1.77
Kenexa	-	-	-	62	24	1.25	2.04
Livperson	-	13	19	17	29	1.47	2.38
LogMeIn	74	18	17	-	22	1.72	1.83
NetSuite	-	40	46	42	53	3.49	4.41
Omniure (ACQ.)	27	13	19	28	-	-	-
RealPage	-	-	-	-	17	0.80	1.40
Responsys	-	-	55	14	18	0.76	1.48
RightNow	-	42	36	39	38	2.42	3.13
Salary.com (ACQ.)	13	21	27	65	-	-	-
Salesforce	-	-	21	17	33	2.25	2.77
SciQuest*	-	12	18	25	31	1.84	2.62
SPS Commerce*	-	26	27	41	34	2.42	2.79
Success Factors	-	16	-	30	37	1.87	3.12
Taleo	-	-	12	15	35	2.00	2.93
Ultimate Software	-	80	36	12	35	1.87	2.92
Vocus	-	34	37	19	68	3.76	5.70
Average	38	28	27	26	38	\$2.37	\$3.19
RCCF Companies	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM	2010	Cost to acquire \$1M in Rev. (\$ in MMs)	Cost to acquire \$1M in GP. (\$ in MMs)
Average	41	33	24	31	36	\$1.82	\$2.48
Range	27 - 58	12 - 61	12 - 45	25 - 41	20 - 59	\$1.05 - \$2.42	\$1.69 - \$3.30

*RCCF Investments

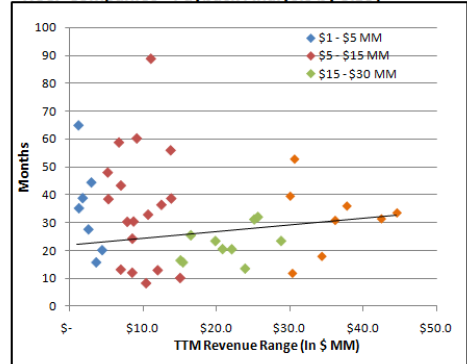
Based on 2010 data

Note: If more than one datapoint was present in a revenue range average numbers are used. Blanks indicate data was not available, not applicable or not meaningful.

Public Comps. - Payback Analysis by Size₂



RCCF Companies - Payback Analysis by Size₃



₂ Three datapoints over 100 months have been excluded; one in the \$1-\$5 MM and the other two in the \$30 - \$50 MM revenue range. ₃ Two datapoints over 100 months have been excluded; one in the \$1-\$5 MM and the other two in the \$15 - \$30 MM revenue range

SaaS venture investors believe that a one to two year breakeven period on sales and marketing investment is reasonable. If companies deliver payback below 12-15 months, companies should consider further investment in sales and marketing. Above two years, companies should probably consider alternate spend initiatives to drive more efficient growth.

Under \$50 MM in TTM revenue, sales and marketing payback for public companies ranges from sixty five months (Salary.com) for the least efficient to six months (Athena) being the most efficient. Generally, River Cities' portfolio companies generated a comparable payback to the public companies with a couple of portfolio companies generating an impressive one year payback or 100% ROI on their sales and marketing investment at this stage of their development.

In all but a couple of companies, the payback on sales and marketing has slowed since River Cities last published this report in 2009, which implies that the ultimate return on equity will be lower. At an average of 38 month payback, SaaS companies are generating approximately 30% ROI, which is down from an average of nearly 50% a couple years ago.

Research & Development

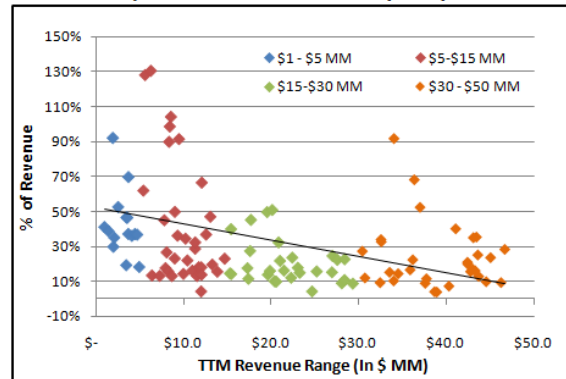
To reinvigorate revenue growth while sales and marketing ROI levels off may require accelerating R&D efforts. Effective Research and development provides long-term leverage and sustainability for companies. In particular, R&D enables a company to differentiate its offerings from competition and sustain organic growth. Since SaaS companies host software for their customers, they obtain better visibility into customer usage patterns and feedback, which enables rapid development cycles. These benefits support improved service offerings at lower costs and quicker turnaround times. As a result SaaS firms typically enjoy lower product development costs compared to traditional software firms.

Exhibit 15: Research & Development as a % of Revenue

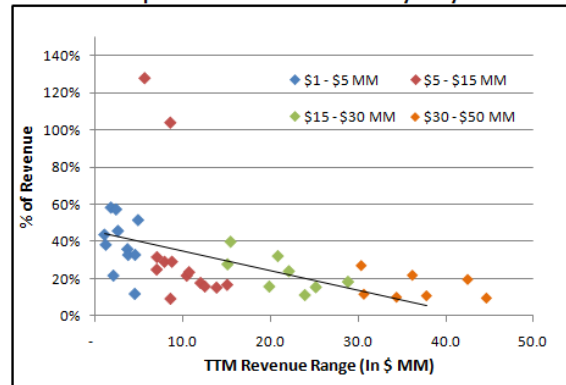
Public Comps.	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM
	MM	MM	MM	MM
AthenaHealth	-	4%	4%	4%
BlackBoard	208%	67%	-	28%
Concur	63%	50%	51%	52%
Constant Contact	37%	25%	22%	20%
Convio	-	21%	16%	17%
Cornerstone OnDemand	18%	14%	11%	13%
DealerTrack	-	18%	-	4%
Demandtec	-	95%	50%	35%
Intralink	-	-	-	-
Kenexa	-	-	11%	10%
Livestorm	-	51%	12%	16%
LogMeIn	47%	29%	25%	-
NetSuite	205%	90%	45%	68%
Omniure (ACQ.)	42%	13%	10%	16%
RealPage	-	-	-	35%
Responsys	-	-	16%	9%
RightNow	30%	32%	19%	16%
Salary.com (ACQ.)	29%	14%	16%	18%
Salesforce	62%	-	24%	9%
SciQuest*	-	116%	36%	23%
SPS Commerce*	-	18%	16%	11%
Success Factors	36%	41%	-	33%
Taleo	-	37%	23%	25%
Ultimate Software	70%	36%	27%	16%
Vocus	37%	15%	11%	7%
Average	68%	39%	22%	21%
RCCF Companies	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM
	MM	MM	MM	MM
Average	32%	43%	23%	16%
Range	0% - 57%	18% - 116%	14% - 36%	10% - 25%

*RCCF Investments

Public Comps. - Research & Dev. Analysis by Size₁



Portfolio Companies - Research & Dev. Analysis by Size



Two data points (sub \$5 MM in revenue) over 150% of revenue excluded

Several factors influence a company's commitment to R&D including stage of development, level of technical complexity of a Company's offering and management's technical competency. Highly-technical and high-priced solutions to fewer customers on average require relatively higher research and development expenses (e.g. Demandtec). As with all operating metrics, early-stage companies tend to spend more as a percentage of revenue than they do later in their development.

Successful SaaS companies who eventually accessed the public markets spent an average of 68% of their revenue on R&D when they were less than \$5 MM in sales. This percentage trended down to 20% of revenue once they exceeded \$20 MM in TTM sales.

General & Administrative

Public SaaS companies considered in this study spend approximately \$2 - \$3 MM on G&A expenses under \$10 MM in revenue. As one might expect, companies generate the most leverage on G&A relative to other expense items as they achieve scale. Except for two River Cities' portfolio companies, G&A spending fairly aligns with that of the public SaaS companies. In one case, the company carried the extra burden associated with being a public company before it was taken private. The revenue base of the other was immaterial, thereby skewing the average upward.

Exhibit 16: General & Administrative as a % of Revenue

Public Comps.	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM
AthenaHealth	-	37%	21%	22%
BlackBoard	113%	58%	-	29%
Concur	38%	26%	29%	28%
Constant Contact	14%	10%	10%	11%
Convio	-	14%	11%	10%
Cornerstone OnDemand	20%	22%	14%	20%
DealerTrack	-	-	-	-
Demandtec	-	16%	9%	7%
Intalinks	-	-	-	-
Kenexa	-	-	39%	22%
Liveperson	-	62%	23%	19%
LogMeIn	45%	26%	13%	-
NetSuite	111%	26%	17%	38%
Omniure (ACQ.)	33%	14%	16%	15%
RealPage	-	-	-	13%
Responsys	-	-	9%	8%
RightNow	24%	30%	15%	10%
Salary.com (ACQ.)	80%	30%	34%	38%
Salesforce	126%	-	37%	25%
SciQuest*	-	86%	19%	14%
SPS Commerce*	-	25%	19%	19%
Success Factors	38%	23%	-	23%
Taleo	-	12%	12%	11%
Ultimate Software	34%	32%	24%	11%
Vocus	46%	42%	23%	24%
Average	55%	31%	20%	19%
RCCF Companies	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM
Average	78%	45%	24%	21%
Range	24% - 147%	25% - 86%	19% - 35%	14% - 30%

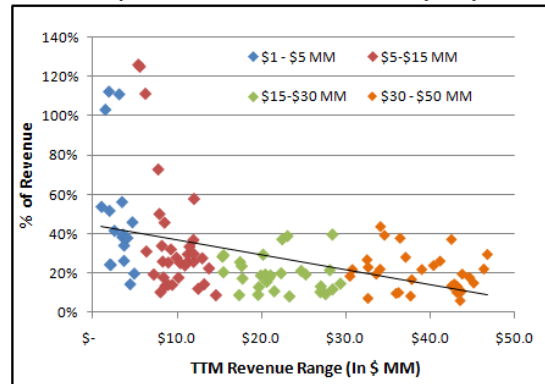
* RCCF Investments

† Included in Sales & Marketing Exp.

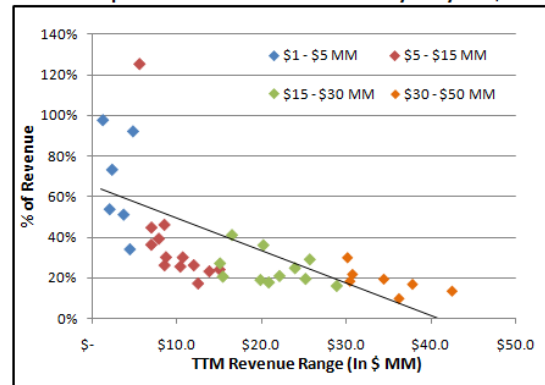
Note: If more than one datapoint was present in a revenue range average no. are used.

Blanks indicate data was not available or not applicable.

Public Comps. - General & Administrative Analysis by Size



RCCF Companies - General and Admin. Analysis by Size



one data point in the \$1 - \$5 MM revenue range over 150% excluded

Between \$15 MM - \$50 MM in TTM revenue, both public companies and portfolio companies commit approximately 10% -30% of their revenue to general and administrative resources. At scale, G&A expenses should trend down to 8-12%, which is demonstrated by the more mature public SaaS companies.

Capital Expenditure

Capital expenditure percentage of revenue across the universe of both public and portfolio companies is varied. As the amount of data managed by the service offerings increases, so too do the infrastructure requirements for that company. River Cities more capital intensive portfolio companies are investing close to 13% in capital expenditures between \$15 MM - \$30 MM in revenue, which is aligned with the public company average.

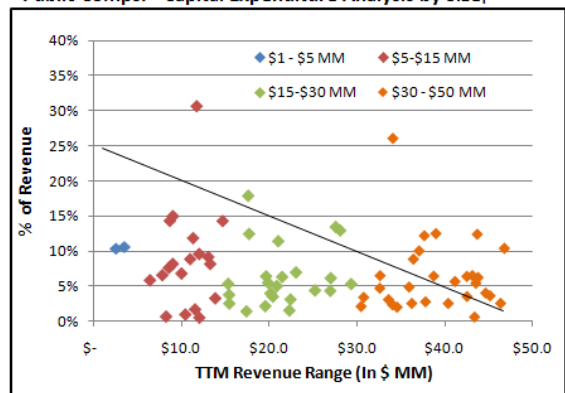
Exhibit 17: Capital Expenditure as a % of Revenue

Public Comps.	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM
AthenaHealth	-	-	-	12%
BlackBoard	-	-	-	10%
Concur	-	15%	4%	11%
Constant Contact	-	14%	13%	11%
Convio	-	8%	6%	6%
Cornerstone OnDemand	-	4%	6%	6%
DealerTrack	-	31%	-	6%
Demandtec	-	-	2%	5%
Intralinks	-	-	-	-
Kenexa	-	-	-	2%
Liveperson	-	61%	2%	3%
LogMeIn	10%	12%	6%	-
NetSuite	-	-	12%	9%
Omniture (ACQ.)	-	14%	72%	44%
RealPage	-	-	-	-
Responsys	-	-	-	12%
RightNow	-	-	8%	5%
Salary.com (ACQ.)	-	6%	6%	4%
Salesforce	108%	-	3%	5%
SciQuest*	-	4%	4%	3%
SPS Commerce*	-	5%	5%	3%
Success Factors	-	5%	-	6%
Taleo	-	-	-	12%
Ultimate Software	-	-	18%	1%
Vocus	-	2%	6%	2%
Average	59%	14%	11%	8%
RCCF Companies	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM
Average	13%	7%	8%	3%
Range	2% - 33%	2% - 14%	4% - 13%	3%

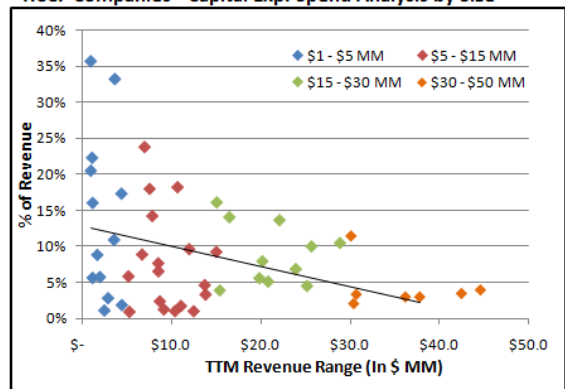
*RCCF Investments

Note: If more than one data point was present in a revenue range average numbers are used. Blanks indicate data was not available or not applicable.

Public Comps. - Capital Expenditure Analysis by Size₁



RCCF Companies - Capital Exp. Spend Analysis by Size



Three datapoints (two in the \$5-\$15 MM and one in the \$15-\$30 MM revenue range) over 50% of revenue excluded.

Profitability

SaaS vendors who have reached scale (\$75+ MM in TTM revenue for purposes of this report) generate EBITDA margins in the high teens to low 20% range. Not surprisingly, given the attractive industry growth, most companies aggressively reinvest cash into sales and marketing to fuel top-line growth, at the expense of near-term profitability. As a result, companies have not reached EBITDA positive operations on average until approximately \$60 MM in revenue. 11 out of 25 public comparables achieved positive EBITDA margins under \$50 MM in revenue. In contrast, all five of River Cities companies having greater than \$15 MM in revenue had achieved EBITDA positive operations. In 2010, all the public comparables, except Cornerstone OnDemand (-21%) and DemandTec (4%), generated EBITDA margins greater than 10% reflecting the maturity of the public comparables. All of the 23 public comparables generated an average of 16% EBITDA margins in 2010, with Concur generating the highest EBITDA margins at 30%.

Livperson was the fastest to reach EBITDA positive operations when it had just \$6.2 MM in revenue. Conversely, SuccessFactors reached EBITDA positive operations in 2009 when it had revenues of \$153 MM. Part of Livperson's achievement can be explained by its relatively slow, but by no means low, CAGR of 44% from \$12 MM to \$52 MM in four years, relative to the average CAGR for public SaaS companies at 84%. Considering Livperson's efficient payback on sales and marketing spend (<24 months), a case could be made that the company would have driven more value by increasing spend on sales and marketing at the expense of profitability, especially if the Company maintained valuation multiples in excess of two times TTM revenue.

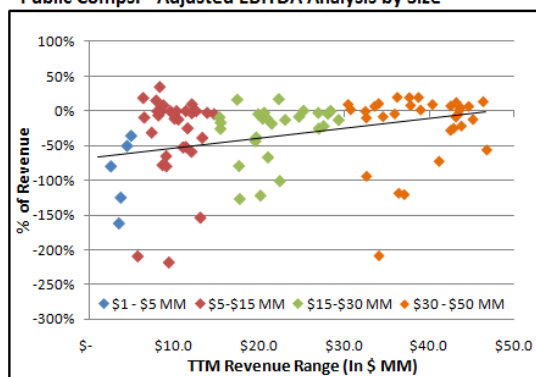
Exhibit 18: Adjusted EBITDA Margins

Public Comps.	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM
AthenaHealth	-	-59%	-8%	2%
BlackBoard	-	-	-	-56%
Concur	-	-79%	-122%	-103%
Constant Contact	-50%	-5%	-22%	-5%
Convio	-	-52%	-4%	-8%
Cornerstone OnDemand	-36%	-42%	-25%	-21%
DealerTrack	-	-	-	-
Demandtec	-	-	-44%	-4%
Intralinks	-	-	-	-
Kenexa	-	-	-	13%
LogMeIn	-121%	-52%	-25%	-
Livperson	-	20%	17%	-
NetSuite	-	-	-131%	-118%
Omniture (ACQ.)	-	8%	-2%	-25%
RealPage	-	-	-	13%
Responsys	-	-	-	20%
RightNow	-	-	-35%	-4%
Salary.com (ACQ.)	-	-10%	-11%	-18%
Salesforce	-539%	-	-101%	-2%
SciQuest*	-	-143%	-9%	13%
SPS Commerce*	-	-6%	-3%	8%
Success Factors	-	-153%	-	-94%
Taleo	-	-	-	5%
Ultimate Software	-125%	-218%	-79%	-4%
Vocus	-	-25%	-10%	10%
Average	-174%	-58%	-36%	-18%
RCCF Companies	\$1 - \$5 MM	\$5 - \$15 MM	\$15 - \$30 MM	\$30 - \$50 MM
Average	-140%	-51%	-10%	8%
Range	-244% to -56%	-143% to -6%	-15% to -1%	5% - 13%

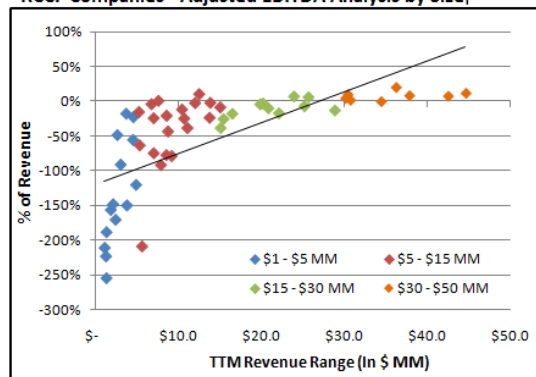
*RCCF Investments

Note: EBITDA is adjusted for stock based compensation and other non cash items. If more than one datapoint was present in a revenue range average numbers are used.

Public Comps. - Adjusted EBITDA Analysis by Size



RCCF Companies - Adjusted EBITDA Analysis by Size



,one data point below -300% excluded

A similar case could be made for two of River Cities' portfolio companies where more investment in sales and marketing programs should have been made to drive higher enterprise value even at the expense of near-term profitability. As comparison, Salesforce.com committed 110% of its revenue to sales and marketing when it was generating \$23 MM in sales. At a comparable stage of development two of River Cities' portfolio companies metered back their sales and marketing commitment to 38% and 35% of revenue, respectively.

Out of the 23 public comparables, Concur (24%), LogMeIn (22%), NetSuite (18%) and Salesforce.com (17%) generated the highest free cash flow margins in 2010. Among other factors, it appears that the market is rewarding the above four companies for their healthy free cash flow margins by valuing them at an average of 9.3 times revenue in May, 2011.

Conclusion

Looking Ahead

Estimates from the IDC group suggest that the SaaS industry is poised for approximately 25% CAGR through 2014. SaaS providers deliver a model that is more appealing, especially for SMB and mid-size customers, however, increasingly the SaaS industry is experiencing larger deployments in the enterprise market as wellⁱⁱⁱ. Emergence of the cloud platforms and maturation of virtualization is lowering and will continue to lower the cost of SaaS deployments, further fueling the growth. Integration is one of the key issues facing the SaaS industry and the continued advancement and acceptance of Service Oriented Architecture (SOA) is helping the industry streamline those issues and enable quick and low cost integration with other SaaS applications and business partners. By any measure, the SaaS business model is set to grow measurably for the foreseeable future. Furthermore, capital constraints created by the recent recession and the need for corporations to be more flexible should only serve to amplify the advantages of the subscription model relative to the traditional on premise model for customers.

Some analysts draw parallels between the current state of the SaaS market to the evolution of the client-server market in the 1990s in that a better delivery model than SaaS awaits us in the near future. Despite this, momentum behind the SaaS movement is significant. As large software companies strive to maintain their leadership position, they will undoubtedly enter the market with their own offerings or through acquisition. Already leading security vendors are marketing a one-stop delivery model for SaaS, software and appliances to their customers. A wave of consolidation from application specific vendors wanting to extend the form factor for their delivery model is likely.

River Cities' thought leadership, portfolio company experience and SaaS investment success provide the firm with a unique perspective around strategic issues faced by SaaS companies. Continued focus on the firm's knowledge base further supports River Cities' efforts to quickly assess prospective SaaS portfolio companies as well as make solid fact-based recommendations to existing portfolio companies.

ⁱ Capital IQ as of December 2010

ⁱⁱ William Blair, *Cloud 3.0 An update on Cloud Computing Platform and Technologies*. June 2011

ⁱⁱⁱ Gartner Webinar, *Software as a Service Grows Up: 2011 Market Impact*

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