

BOIS CAPITAL

Cloud Computing Market Size and Valuations

May 16, 2013

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Introduction

- ✧ **As public cloud computing gains greater adoption across enterprises, there's an increased level of spending occurring on infrastructure-related services including Infrastructure-as-a-Service(IaaS).**
- ✧ **Enterprises are prioritizing how to get cloud platforms integrated with legacy systems to make use of the years of data they have accumulated.**
- ✧ **From legacy Enterprise Resource Planning (ERP) to Customer Relationship Management (CRM) systems, integrating legacy systems of record to cloud-based platforms will accelerate through 2016.⁽¹⁾**

(1) Gartner's latest report on public cloud computing adoption, Forecast Overview: Public Cloud Services, Worldwide, 2011-2016, 4Q12 Update Published: 8 February 2013.

Global Spending

- ✧ Global spending on public cloud services is expected to grow 18.6% in 2012 to \$110.3B, achieving a CAGR of 17.7% from 2011 through 2016. The total market is expected to grow from \$76.9B in 2010 to \$210B in 2016.
- ✧ The following is an analysis of the public cloud services market size and annual growth rate.

Public Cloud Services Market and Annual Growth Rate, 2010-2016

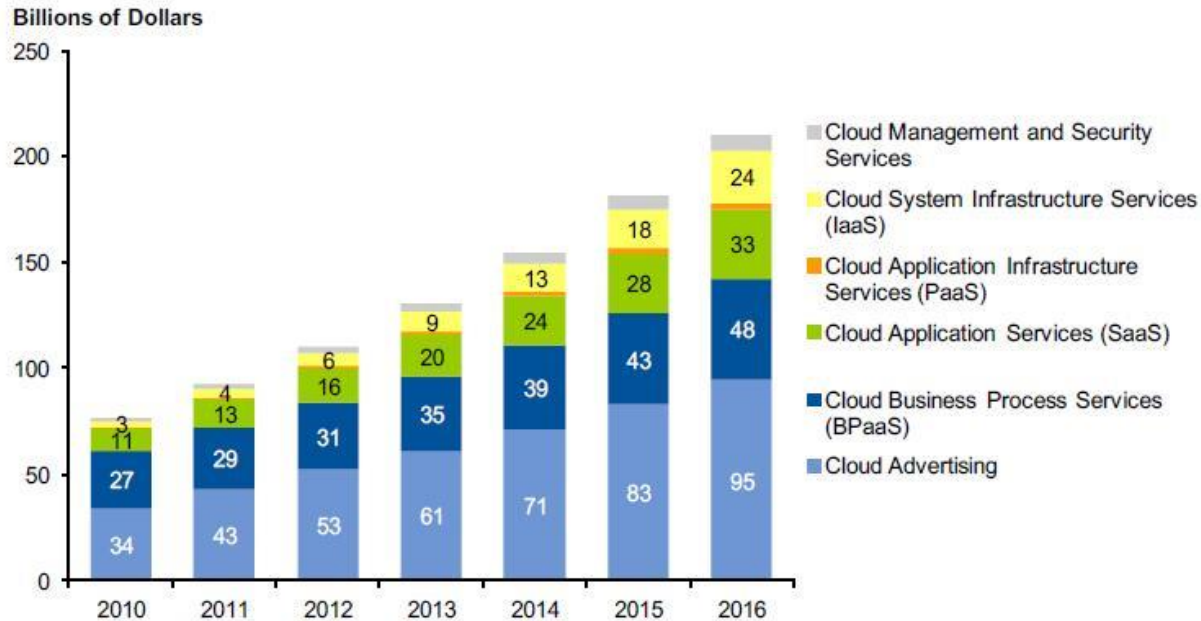


Source: Gartner (February 2013)

Infrastructure-as-a-Service (IaaS)

✧ IaaS will achieve a compound annual growth rate (CAGR) of 41.3% through 2016, the fastest growing area of public cloud computing the research firm tracks. The following graphic provides insights into relative market size by each public cloud services market segment:

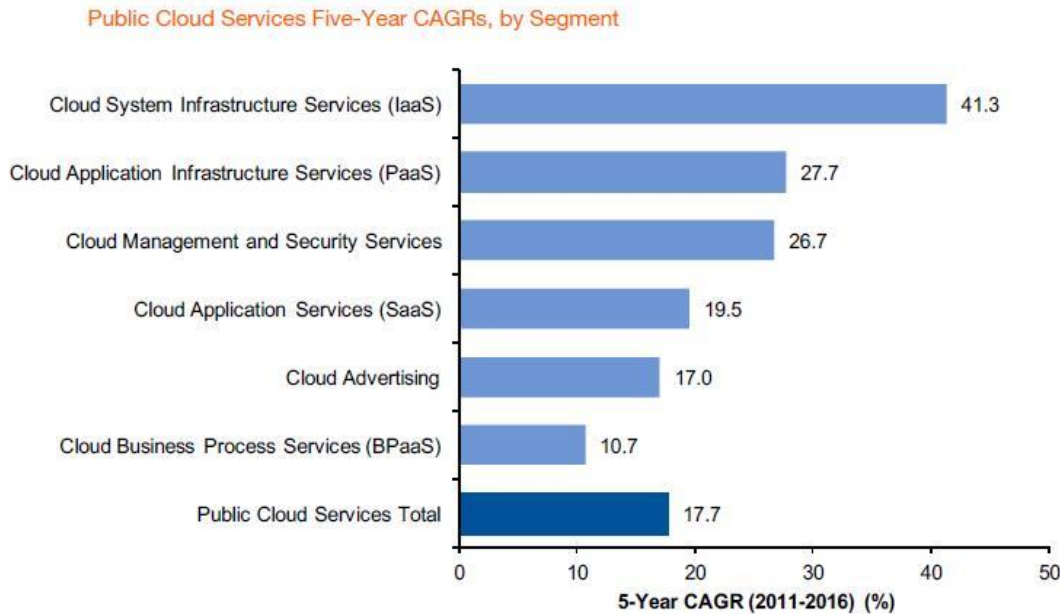
Public Cloud Services Market by Segment, 2010-2016



Source: Gartner (February 2013)

Platform-as-a-Service (PaaS)

✧ PaaS will achieve a 27.7% CAGR through 2016, with Cloud Management and Security Services attaining 26.7% in the same forecast period. Software-as-a-Service’s CAGR through 2016 is projected to be 19.5%. The following graphic illustrates the differences in CAGR in the forecast period of 2011 – 2016:



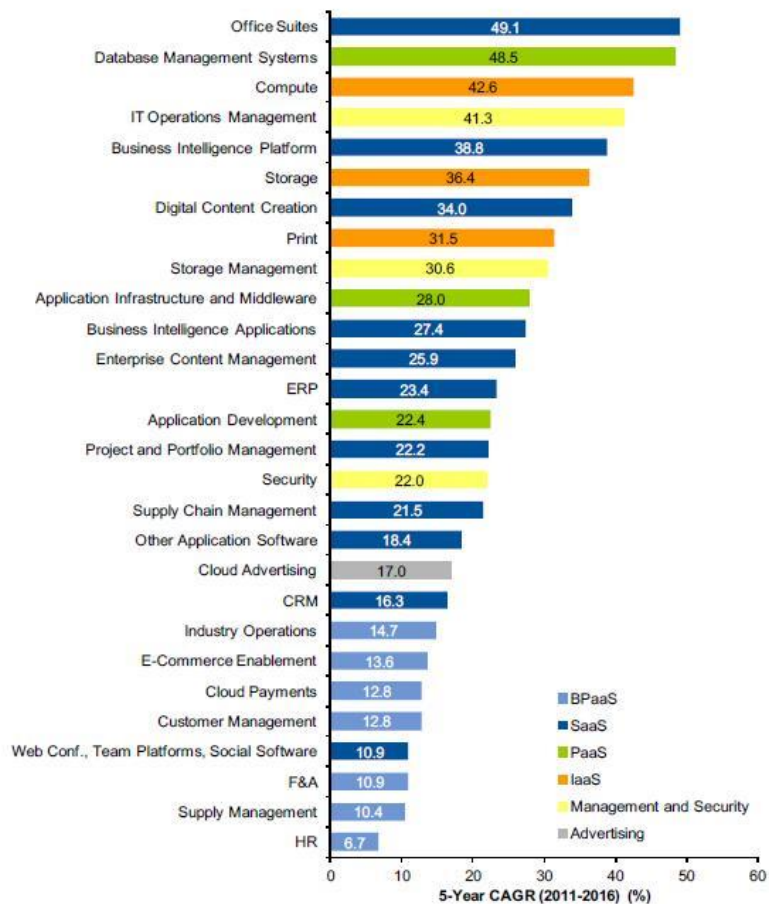
Source: Gartner (February 2013)

Software-as-a-Service (SaaS)

- ✧ **Gartner is projecting the SaaS market will grow at a steady CAGR of 19.5% through 2016, having increased the forecast slightly (.4%) since its latest published report. Global SaaS spending is projected to grow from \$13.5B in 2011 to \$32.8B in 2016.**
- ✧ **CRM will continue to be the largest global market within SaaS, forecast to grow beyond \$5B in 2012 to \$9B in 2016, achieving a 16.3% CAGR through 2016.**
- ✧ **The highest growth segments of the SaaS market continue to be office suites (49.1%), followed by digital content creation (34.0%).**
- ✧ **The following graphic rank orders CAGRs across all public cloud services segments from the forecast period:**

Public Cloud Services Segmented CAGRs

Public Cloud Services Subsegment CAGRs, 2011-2016



Source: Gartner (February 2013)

Public Cloud Services Forecast, 2010 – 2016 (\$B)

	2010	2011	2012	2013	2014	2015	2016	CAGR (%) 2011-2016
Cloud Business Process Services (BPaaS)								
Cloud Payments	4.41	4.86	5.22	5.84	6.70	7.75	8.88	12.8
Customer Management	2.16	2.33	2.60	3.01	3.40	3.81	4.25	12.8
E-Commerce Enablement	4.33	4.80	5.49	6.52	7.33	8.24	9.07	13.6
Finance and Accounting	1.19	1.29	1.39	1.54	1.72	1.93	2.16	10.9
HR	10.20	10.66	10.87	11.79	12.82	13.77	14.71	6.7
Industry Operations	2.05	2.21	2.50	3.02	3.51	3.90	4.39	14.7
Supply Management	2.45	2.70	2.85	3.25	3.68	4.06	4.42	10.4
Cloud Business Process Services (BPaaS) Total	26.79	28.84	30.93	34.97	39.17	43.47	47.89	10.7
Cloud Application Services (SaaS)								
Business Intelligence Applications	0.14	0.22	0.29	0.37	0.48	0.59	0.73	27.4
CRM	3.39	4.21	5.03	5.92	6.87	7.88	8.96	16.3
Digital Content Creation	0.10	0.22	0.27	0.37	0.48	0.71	0.93	34.0
Enterprise Content Management	0.20	0.26	0.37	0.51	0.62	0.72	0.82	25.9
ERP	1.50	1.97	2.51	3.18	3.95	4.74	5.65	23.4
Office Suites	0.11	0.23	0.41	0.73	1.11	1.39	1.72	49.1

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Security	1.12	1.32	1.69	2.17	2.71	3.18	3.56	22.0
Storage Management	0.61	0.84	1.18	1.67	2.21	2.76	3.20	30.6
Cloud Management and Security Services Total	1.78	2.28	3.04	4.10	5.30	6.45	7.45	26.7
Cloud Advertising								
Cloud Advertising	34.14	43.18	52.75	61.20	71.46	82.79	94.56	17.0
Cloud Advertising Total	34.14	43.18	52.75	61.20	71.46	82.79	94.56	17.0
Public Cloud Services Total	76.94	92.97	110.27	130.70	154.69	181.30	209.98	17.7

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Companies

Cloud Types	Companies
IaaS	Amazon Web Services, Verizon/Terremark, Rackspace, AT&T, Century Link/Savvis
PaaS	Microsoft Azure, Force.com, CloudFoundry, Google App Engine, Amazon, RDS
SaaS	Google Apps, Salesforce.com, Cloud Service Brokers, HR & Benefits, Online Retail ⁽²⁾

(2) Cloud in Context – Gartner, Aneel Lakhani, Research Director, May 2013

Valuation – Comparable Public Companies

Cloud Type	Companies	Revenue X	EBITDA X
IaaS	Amazon	1.76x	41.56x
	Verizon/Terremark	1.69x	6.26x
	Rackspace	3.83x	11.84x
	AT&T	2.14x	9.44x
	Century Link/Savvis	2.38x	5.78x
	Average		2.36x
PaaS	Microsoft Azure	2.81x	7.01x
	Google App Engine	4.61x	14.66x
	Average	3.71x	10.84x
SaaS	Salesforce.com	8.41x	305.38x
	WorkDay	35.90x	N.A.
	ServiceNow	17.63	N.A.
	NetSuite	19.74x	N.A.
	Average	20.42x	N.A.

Valuation – Precedent Transactions

Cloud Type	Date	Acquirer	Target	Price	Revenue X
IaaS					
	04/28/11	Century Link	Savvis	\$3.2B	3.40x
Average					3.40x
PaaS	04/17/13	Intel	Mashery	\$180M	3.00x
Average					3.00x
SaaS	12/20/12	Oracle	Eloqua	956M	9.70x
	10/01/12	SAP	Ariba	\$4.6B	8.80x
	08/03/12	Salesforce	BuddyMedia	\$745M	26.00x
	07/09/12	Salesforce	GoInstant Inc	\$70M	15.00x
	06/30/12	Oracle	Virtrue	\$325M	16.30x
	02/23/12	SAP	SuccessFactors	\$3.6B	12.00x
Average					14.60x

Sector Growth and Multiples

- ✧ The public cloud sector has a CAGR of 17.7% from 2011-2016.
- ✧ IaaS has the fastest growth followed by PaaS and then SaaS.
- ✧ The public comparable companies and precedent transactions are much higher for SaaS, which has the slowest projected growth.

Type	CAGR 2011-2016	Comparable Companies Revenue X	Precedent Transaction Revenue X
IaaS	41.3%	2.36x	3.40x
PaaS	26.7%	3.71x	3.00x
SaaS	19.5%	20.42x	14.60x

- ✧ This contradictory result can be explained by the increasingly commoditized nature of IaaS with AWS dominating and lowering its pricing intentionally on a monthly basis and moving rapidly into PaaS.