

The SaaS Exit Valuation Guide - Fundamentals, Metrics, and Drivers

Presented By:



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Forward

Welcome to *SaaS Exit Valuation Fundamentals and Drivers Guide* — your trusted resource for understanding how SaaS companies are valued and what actually drives those valuations.

Whether you're planning an exit, preparing for investor conversations, or just want to better understand what your business is worth, this guide is designed to give you clarity. But we're not starting with metrics. We're starting with fundamentals — because before you can improve your valuation, you need to understand how valuation works in the first place.

SaaS businesses are uniquely valued. Unlike traditional businesses, they're assessed not just by what they earn today, but by how predictably and efficiently they can grow in the future. That's why buyers and investors often rely on a mix of valuation methods — including revenue, EBITDA, or SDE multiples — depending on the company's size, growth rate, profitability, and operational structure.

Once we've laid that foundation, we'll walk through the drivers that influence those valuations — metrics and attributes that can either unlock a premium exit or quietly erode enterprise value. From retention rates to customer concentration to your go-to-market motion, these drivers shape how your company is perceived and priced in a transaction.

At Livmo, we created this guide because we believe founders should go to market with confidence — not confusion. Understanding what drives SaaS valuation isn't just about getting a higher multiple. It's about making smarter decisions now that compound into better outcomes later.



Introduction

SaaS valuations are not one-size-fits-all. The same company could be valued using revenue, EBITDA, or SDE multiples — depending on its size, growth stage, profitability, and how involved the owner is in day-to-day operations. Before you can increase your valuation, you need to understand how buyers think about value in the first place.

This guide is designed to do exactly that. We'll start by breaking down the **fundamentals of SaaS valuation** — including which valuation models apply to which types of businesses, and why those models matter. From there, we'll explore the **drivers that influence those valuations** — the operational, financial, and strategic levers that make a SaaS company more attractive (or more risky) in the eyes of a buyer.

Along the way, you'll gain practical clarity on how to benchmark your performance, where most companies lose value, and how to position your business for a premium exit — whether that's in 6 months or 3 years.

What You'll Learn in This Guide

- ◆ **When to Use Revenue, EBITDA, or SDE Multiples**

Understand how buyers choose valuation methods based on company size, growth, and owner involvement — and how to position your business accordingly.

- ◆ **The Most Influential SaaS Value Drivers**

Learn the specific metrics and business attributes that drive higher valuations, including retention, margins, CAC efficiency, and more.

- ◆ **How to Assess and Benchmark Your Business**

Use our scoring model to evaluate where your business stands today and identify gaps that may reduce exit value.

- ◆ **Tactical Moves to Improve Valuation**

Get practical strategies for optimizing your operations, reducing risk, and becoming a more attractive acquisition target — even if you're not selling yet.

- ◆ **Common Valuation Pitfalls to Avoid**

See where most founders go wrong — from inflated metrics to unscalable operations — and how to sidestep them before going to market.

Pair this guide with our free value assessment and scorecard: together we can simply select your performance level for each factor, assign a weight based on its importance to your business, and let our formulas do the math. At the end, you'll see where you stand—and you'll be one step closer to a confident, high-value exit.

Video example available at the end of this document or book your free value assessment session here: <https://livmo.com/value-assessment/>



SaaS Valuation Fundamentals

Before diving into metrics and multiples, it's critical to understand how SaaS companies are evaluated by buyers and how they are valued — and why not all companies are evaluated the same way.

Valuation is about estimating future cash flow and the risk of achieving it. For SaaS businesses, that cash flow may not be visible yet — especially if you're reinvesting heavily in growth. That's why buyers use different valuation models depending on how mature your company is, how stable your earnings are, and how involved you are in operations.

The Three Common Valuation Methods

1. Seller's Discretionary Earnings (SDE)

Best for: Smaller SaaS businesses with <\$2M in revenue, owner-operated, limited team.

SDE represents the total financial benefit the owner receives — including profit, salary, and add-backs like personal expenses run through the business. It's used when the business is heavily dependent on the owner, and there's limited infrastructure or team in place.

Example: A bootstrapped SaaS with \$1.2M in revenue, 35% profit margins, and no management team will likely be valued on an SDE multiple.

2. EBITDA

Best for: Lower middle market SaaS companies with >\$5–\$150M in revenue, defined leadership team, and some operational maturity.

EBITDA shows the operating profitability of a business, removing non-operational variables. It's used when the company is not overly reliant on the owner, has a team in place, and is closer to being a financial asset than a personal job.

Example: A \$5M SaaS business with a COO, CTO, and positive EBITDA margin will typically be valued on an EBITDA multiple.

3. Revenue Multiples

Best for: High-growth SaaS companies with large TAMs, reinvestment in growth, or low current profitability.

Buyers may use a revenue multiple if EBITDA doesn't reflect the long-term value of the company (e.g., due to heavy reinvestment). This is common when growth is strong, gross margins are healthy, and there's a clear path to profitability.

Example: A \$12M ARR company growing 60% YoY, operating near break-even, may command a revenue multiple depending on retention, CAC, and market positioning.

How Buyers Choose the Right Valuation Model

Question	If “Yes” → Use:
Is the business heavily dependent on the owner?	SDE
Is the company generating consistent operating profits with a team in place?	EBITDA
Is the company growing rapidly but not yet profitable?	Revenue

Keep in mind: many buyers will calculate all three and compare the results. What matters most is how **scalable**, **sustainable**, and **transferable** your business is.

Key Insight: Valuation isn’t just about numbers — it’s about risk. Buyers will apply lower multiples to businesses that feel unpredictable, owner-reliant, or operationally immature, and higher multiples to those with momentum, clarity, and scale.

SaaS Revenue and EBITDA Multiples

Below is a summary of current market multiples for private SaaS companies, segmented by company size based on annual revenue. The focus is on EV/Revenue and EV/EBITDA multiples, which are the standard benchmarks for SaaS valuations.

Under \$2 Million Revenue

- **EV/Revenue Multiple:** Based on a dataset of 82 transactions with a coefficient variation of 4.39, the revenue multiples for private SaaS businesses valued under \$2 million range from **1.54x (25th percentile) to 13.28x (75th percentile), with a median of 2.76x**. This wide range indicates significant variability, reflecting factors like strong growth potential or owner reliance.
- **EV/EBITDA Multiple:** From a dataset of 26 transactions with a coefficient variation of 1.4, the EBITDA multiples for profitable businesses in this segment range from **4.7x (25th percentile) to 14.6x (75th percentile), with a median of 7.4x**. While less commonly used at this size, these multiples apply to companies with emerging profitability.

\$2–5 Million Revenue

- **EV/Revenue Multiple:** Based on 51 transactions with a coefficient variation of 1.48, revenue multiples for SaaS companies in the \$2–5 million range typically fall between **1.63x (25th percentile) and 7.32x (75th percentile), with a median of 3.26x**. Higher multiples are possible for companies demonstrating strong growth and retention.
- **EV/EBITDA Multiple:** From a dataset of 29 transactions with a coefficient variation of 1.5, EV/EBITDA multiples in this segment range from **5.3x (25th percentile) to 29.5x (75th percentile), with a median of 9.7x**. The use of EBITDA multiples becomes more prevalent as companies achieve greater scale and profitability.

\$5–20+ Million Revenue

- **EV/Revenue Multiple:** For larger private SaaS companies (\$5–20 million in revenue), based on 69 transactions with a coefficient variation of 1.68, the EV/Revenue multiple ranges from **1.52x (25th percentile) to 6.86x (75th percentile), with a median of 2.9x**. Top-quartile deals can reach above 9x, depending on growth rate, market position, and profitability.
- **EV/EBITDA Multiple:** EBITDA multiples become the primary valuation method for companies in this size bracket. Based on 25 transactions with a coefficient variation of

2.1, median EV/EBITDA multiples are in the **16.9x range (median)**, with a **25th percentile of 8.7x and a 75th percentile of 28.3x**. Best-in-class companies (high growth, strong retention, efficient operations) can achieve even higher multiples in competitive M&A processes.

Valuation Range Summary Table

(Based on BVR Data)

Revenue Range	Type	25th Percentile	Median	75th Percentile	Coefficient Variation	# of Transactions
Under \$2M	Revenue	1.54x	2.76x	13.28x	4.39	82
Under \$2M	EBITDA	4.7x	7.4x	14.6x	1.4	26
\$2M – \$5M	Revenue	1.63x	3.26x	7.32x	1.48	51
\$2M – \$5M	EBITDA	5.3x	9.7x	29.5x	1.5	29
\$5M – \$20M	Revenue	1.52x	2.9x	6.86x	1.68	69
\$5M – \$20M	EBITDA	8.7x	16.9x	28.3x	2.1	25

These multiples are based on BVR exit transaction data, with some upward movement in revenue multiples due to improved profitability and positive sentiment around AI integration in SaaS products. However, multiples can vary significantly based on company-specific factors and market conditions.

SaaS Revenue and EBITDA Multiples

The Value Drivers and Metrics

Company Age and Track Record

Definition

The number of years a SaaS business has been in operation, along with the consistency and stability of its performance over time.

Why Buyers Care

A longer operating history often signals lower risk. It shows the company has weathered market shifts, reduced technical and product risk, and likely achieved some degree of product-market fit. Buyers view multi-year revenue consistency and sustained growth as proof of execution ability and business resilience.

Performance Tiers

Company Age	Interpretation
< 2 years	Early-stage; unproven and higher risk
2–3 years	Viable, but still maturing
3–5 years	Established with early track record
5+ years	Seasoned; more data, less risk

Common Mistakes

- Treating age as irrelevant when approaching exit.
- Failing to provide reconciled historical financials for at least 3 years that validate the company's growth over time.

How to Improve

- Maintain clean records and clearly communicate year-over-year growth trends.
- If early-stage, emphasize quality of traction and short-term milestones achieved.
- For older businesses, focus on showing consistency, reduced volatility, and compounding improvements.

Financial Accuracy and Proper Accounting

Definition

The quality, accuracy, and audit-readiness of your financial records — including how revenue, expenses, and key metrics are tracked, recognized, and reported.

Why Buyers Care

Buyers need confidence that your numbers are accurate, consistent, and verifiable. Sloppy or incorrect accounting adds risk, prolongs due diligence, and can derail deals. Proper financial hygiene is foundational to valuation: even strong businesses get discounted if the numbers can't be trusted.

What Buyers Look For

- Clear revenue recognition policies (especially for prepaid annual contracts)
- Accurate allocation of COGS, including support, hosting, and third-party tools
- GAAP-compliant (or close to GAAP) income statements when above \$5M in revenue
- Consistency across time periods — no unexplained fluctuations
- Proper tracking of deferred revenue and accruals

Performance Tiers

Financial Quality	Interpretation
Unreliable	Cash-basis, internally reviewed only, DIY books, unverified COGS or CAC
Basic but consistent	Accrual-based, accountant generated, consistent formatting
Reviewed	CPA-reviewed yearly, with clear categorizations and fully reconciled statements
Audit-ready or audited	Formal controls, full accrual-based, potentially audited (or CPA-reviewed quarterly)

Common Mistakes

- Booking annual deals as upfront revenue instead of spreading over contract term
- Ignoring true COGS (e.g., not including cloud infrastructure or support)
- Not reconciling CRM data (e.g., ARR, churn) with financial systems
- Waiting until an exit is near to “clean up” books

How to Improve

- Transition to accrual accounting and monthly closes if not already in place
- Create a SaaS-specific chart of accounts with clear revenue, COGS, and operating categories
- Reconcile ARR and churn data with financial statements
- Get annual financial reviews or audits from a SaaS-experienced CPA
- Start preparing a Quality of Earnings (QoE)-style financial package — even if you’re not selling yet



Total Revenue

Definition

Total revenue is the full amount of income a SaaS company generates across all streams — including subscriptions, one-time setup or onboarding fees, professional services, and licensing revenue.

Why Buyers Care

Revenue size matters. It impacts who your potential buyers are, what multiples they're willing to pay, and whether your business clears the minimum bar for institutional acquirers. All else equal, higher total revenue signals greater market traction, more predictable operating leverage, and the potential for acquisition synergies.

What Buyers Look For

- Clear breakdown of revenue by stream (recurring vs. one-time)
- Year-over-year growth trends
- Consistency (or acceleration) in new bookings and renewals
- Whether revenue is concentrated in a few customers or diversified

Performance Tiers

Annual Revenue	Implication
<\$1M	Micro SaaS; Individuals, entrepreneurs, but generally a limited buyer pool
\$1M–\$5M	Early traction; Individuals, entrepreneurs, search funds, small strategic or PE bolt-on buyers
\$5M–\$10M	Mid-market entry; access to broader PE and strategic interest
\$10M–\$20M+	Institutional scale; eligible for higher-tier buyers and stronger multiples

Common Mistakes

- Inflating revenue by including unearned or non-recurring income
- Failing to distinguish between revenue streams (e.g., services vs. SaaS)

- Not tracking recurring revenue and non-recurring revenue separately (monthly fees vs set-up fees)
- Ignoring the timing of recognized vs. collected revenue (accrual vs. cash basis)

How to Improve

- Separate your recurring and non-recurring revenue in your P&L
- Avoid overreliance on professional services unless they are productized
- Monitor year-over-year growth by segment
- Use consistent formatting and presentation when sharing revenue data with advisors or buyers



Percentage of Recurring Revenue

Definition

The share of total revenue that comes from contractually recurring sources — typically subscriptions or long-term service agreements — as opposed to one-time or transactional revenue.

Why Buyers Care

Recurring revenue is the gold standard for predictability. It reduces forecasting risk, smooths cash flow, and strengthens the buyer's confidence in future performance. The higher the recurring revenue percentage, the more valuable and durable the business model.

What Buyers Look For

- High percentage of MRR or ARR vs. one-time or usage-based revenue
- Long-term contracts or auto-renewing agreements
- Low churn in the recurring base
- Revenue expansion within existing contracts (e.g., seat-based pricing, usage tiers)

Performance Tiers

Recurring Revenue %	Interpretation
< 50%	Transactional model; high risk
50–70%	Mixed model; room to improve
70–90%	Strong SaaS foundation; good predictability
90%+	Best-in-class; premium multiple range

Common Mistakes

- Counting one-time setup fees or project-based revenue as recurring
- Not clearly separating revenue streams in financial reports
- Relying on service-heavy contracts that aren't renewals or subscriptions
- Ignoring term lengths and cancellation clauses when calculating recurring revenue

How to Improve

- Productize services into recurring packages when possible
- Offer annual or multi-year contracts with incentives for longer terms
- Build renewals and expansions into the sales motion
- Re-structure non-recurring revenue into tiered, usage-based subscriptions where appropriate



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Annual Recurring Revenue (ARR) Growth

Definition

ARR Growth measures the year-over-year increase in your subscription-based revenue. It reflects how well you're acquiring, retaining, and expanding recurring customers — and is one of the clearest indicators of business momentum.

Why Buyers Care

High ARR growth signals market demand, product-market fit, and go-to-market execution. It also justifies forward-looking multiples, especially when combined with strong retention and margin structure. Buyers don't just want a stable business — they want one that's compounding.

What Buyers Look For

- Accurate year-over-year ARR comparisons (excluding one-time revenue)
- Growth driven by both new customers and expansion within existing accounts
- Predictability (e.g., predictable revenue, expansion revenue such as positive NRR, segmented and consistent reporting, and deterrents for predictability include boom-bust cycles and one-off spikes)
- Correlation with CAC efficiency (i.e., growth is not overly expensive)

Performance Tiers

ARR Growth YoY	Interpretation
< 10%	Low growth; likely stagnating or churn-heavy
10–20%	Moderate growth; not compelling alone
20–40%	Solid, scalable growth
40%+	High-performance SaaS; supports premium multiples

Common Mistakes

- Chasing growth at the expense of retention or profitability
- Including churned/recovered revenue in “net new” ARR

- Not breaking out ARR by cohort or segment which bundles high churn customers with your ideal low-churn ICP.
- Reporting total revenue growth instead of ARR growth

How to Improve

- Invest in targeted acquisition and expansion plays with defined CAC payback windows
- Track cohort-based ARR to understand what drives retention and expansion
- Layer in usage-based or variable-pricing mechanisms to grow ARR per customer
- Focus marketing/sales alignment around predictable, ICP-fit growth



Gross Margin

Definition

Gross Margin is the percentage of revenue left after subtracting the direct costs of delivering your SaaS product — including cloud infrastructure, customer support, onboarding, and any third-party software embedded in delivery.

Formula: (Revenue – Cost of Goods Sold) ÷ Revenue

Why Buyers Care

Gross margin reflects your business's scalability and efficiency. High-margin SaaS companies are more capital-efficient and able to generate more profit as they grow. Margins also impact the buyer's ability to model future earnings — so inflated or inconsistent margins can quickly raise red flags.

What Buyers Look For

- Accurate inclusion of all direct costs (not just hosting)
- Margin trends over time (expanding is ideal)
- Benchmark alignment (70–85% is standard for SaaS)
- Whether service-heavy revenue is dragging down blended margins

Performance Tiers

Gross Margin	Interpretation
< 60%	Operationally heavy or underpriced delivery
60–70%	Needs refinement; borderline for SaaS
70–80%	Healthy and scalable
80%+	Best-in-class economics

Common Mistakes

- Omitting support, onboarding, or integrations from COGS
- Grouping services and SaaS delivery together
- Ignoring vendor rate hikes or underpricing infrastructure usage

- Treating margin as a fixed number rather than improving it or confirming its accuracy

How to Improve

- Break down COGS by delivery type (infrastructure, support, onboarding, etc.)
- Eliminate unprofitable service tiers or automate where possible
- Negotiate better infrastructure and vendor rates
- Improve self-service capabilities to reduce support load



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EBITDA Margin

Definition

EBITDA Margin is your earnings before interest, taxes, depreciation, and amortization — expressed as a percentage of revenue. It reflects your operating profitability and overall financial ability to build a healthy and scalable business.

Formula:

$$\text{EBITDA} \div \text{Total Revenue}$$

Why Buyers Care

EBITDA margin shows how efficiently you convert revenue into operating profit. While many SaaS companies reinvest heavily in growth, buyers still want to see a path to profitability — especially in mid-market deals. Strong EBITDA margins can support higher valuations, reduce perceived risk, and expand your buyer pool to include more traditional financial acquirers.

What Buyers Look For

- Consistent EBITDA margins over multiple periods
- Consistency between EBITDA and net income margin patterns and how these numbers track against each other, and why they are or aren't moving in the same direction
- Margin improvement trends (or at least stability)
- Whether growth is masking underlying cost inefficiencies

Performance Tiers

EBITDA Margin	Interpretation
Negative (< 0%)	Acceptable in early-stage/high-growth, but risky if persistent
0–10%	Break-even zone; requires improvement
10–20%	Healthy operating leverage emerging
20%+	High-efficiency SaaS; supports premium multiples

Common Mistakes

- Treating one-time expenses as ongoing or vice versa

- Ignoring overhiring or underpricing that erodes real margin
- Not tracking margin at a departmental level (e.g., sales efficiency vs. admin bloat)

How to Improve

- Conduct a detailed expense audit to eliminate waste
- Shift CAC-heavy channels toward more efficient acquisition sources
- Reforecast budgets quarterly, aligning with growth targets and customer LTV
- Build a clear narrative around "path to profitability" if currently break-even or negative



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Rule of 40 (Growth + Profitability)

Definition

The Rule of 40 is a composite metric that combines a company's ARR growth rate and EBITDA margin. It's used to assess the balance between growth and profitability in SaaS businesses.

Formula:

ARR Growth Rate (%) + EBITDA Margin (%)

Why Buyers Care

The Rule of 40 provides a quick way to evaluate whether a SaaS company is growing sustainably. A company can burn cash if it's growing fast — but if growth slows and profitability isn't present, that's a red flag. The Rule of 40 helps investors weigh trade-offs between growth and earnings potential.

What Buyers Look For

- A combined score of 40% or higher
- High growth rates (ARR) and profitability rates
- Clear trade-off rationale (e.g., fast growth at temporary margin loss)
- Maintaining a healthy gross profit and profit margins, if the company has lower growth rates
- Signs of improving the balance between growth and profitability over time

Performance Tiers

Rule of 40 Score	Interpretation
< 20%	Underperforming; concerns on growth or costs
20–30%	Acceptable in some cases, but not optimal
30–40%	Solid performance; mid-market buyers interested
40%+	Excellent balance; supports premium valuations

Common Mistakes

- Misstating growth by using bookings or cash vs. true ARR growth

- Ignoring CAC when spending to grow
- Assuming buyers will tolerate low efficiency without a profitability plan

How to Improve

- Audit all cost centers and cut non-core overhead
- Reallocate spend from underperforming channels to efficient growth levers
- Prioritize customer retention to reduce pressure on new acquisition
- Build dashboards that track Rule of 40 quarterly and guide operational decisions



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Churn and Retention Rates

Definition

Churn measures how much customer or revenue value your company loses over time. Retention is the inverse — how much you keep. Both are core indicators of customer satisfaction, product stickiness, and long-term viability.

There are two types of churn:

- **Customer Churn:** Percentage of customers lost in a period.
- **Revenue Churn:** Percentage of recurring revenue lost (downgrades + cancellations).

Why Buyers Care

SaaS buyers care deeply about churn because acquiring customers is expensive — if they don't stick, growth becomes a treadmill. High churn creates instability in forecasts, limits LTV, and lowers overall valuation. Retention, on the other hand, compounds value and signals a strong product-market fit.

What Buyers Look For

- Low and stable churn over multiple periods
- Churn by customer segment or cohort (not just blended)
- Voluntary vs. involuntary churn (e.g., failed payments vs. poor fit)
- Expansion potential (covered in NRR)

Performance Tiers (Customer or Revenue Churn)

Monthly Churn Rate	Annualized Churn	Interpretation
> 5%	> 46%	High churn; serious issue
3–5%	31–46%	At-risk; needs addressing
1–3%	12–30%	Good retention
< 1%	< 12%	Excellent; sticky product

Note: Different segments (SMB vs. enterprise or different industries) will have different acceptable churn thresholds.

Common Mistakes

- Reporting gross churn without considering expansions
- Hiding churn in customer migration or consolidation
- Measuring churn inconsistently (e.g., quarterly vs. monthly)
- Not segmenting churn by customer cohort or channel

How to Improve

- Implement churn reason tracking and analyze patterns
- Strengthen onboarding and success programs
- Offer flexible plans or pause options
- Automate failed payment recovery (involuntary churn)
- Focus on ideal customer profile (ICP) alignment in acquisition



Gross Revenue Retention (GRR)

Definition

Gross Revenue Retention measures the percentage of recurring revenue retained from existing customers over a period — *excluding* any upsells, expansions, or new revenue. It reflects churn and contraction only.

Formula: (Starting MRR – Downgrades – Churned MRR) ÷ Starting MRR

Why Buyers Care

GRR isolates the stability of your existing customer base. A high GRR means minimal revenue leakage, strong customer satisfaction, and predictable cash flow. Buyers often treat GRR as a core risk metric — if it's weak, expansion won't mask the underlying problem for long.

What Buyers Look For

- GRR stability across time and cohorts
- Minimal revenue contraction or downgrade volume
- GRR by customer type or plan tier (e.g., SMB vs. enterprise)
- Leading indicators like NPS, usage, or support volume

Performance Tiers

GRR Rate	Interpretation
< 70%	High churn/contraction; major red flag
70–80%	Weak retention; buyer concern likely
80–90%	Acceptable, but room to improve
90%+	Strong retention; good foundation
95%+	World-class; signals high customer value

Common Mistakes

- Confusing GRR with NRR by including expansions
- Reporting blended GRR without segmenting by customer tier
- Not tracking or separating downgrades from churn
- Ignoring cohort-based GRR, masking deterioration in newer customers

How to Improve

- Strengthen customer success playbooks and renewal outreach
- Identify and reduce downgrade-prone features or pricing gaps
- Monitor at-risk accounts with health scoring and early intervention
- Improve onboarding for better time-to-value



Net Revenue Retention (NRR)

Definition

Net Revenue Retention (also called Net Dollar Retention) measures the percentage of recurring revenue retained from existing customers over a given period, *including* upgrades, cross-sells, and expansion — net of any churn or downgrades.

Formula: (Starting MRR – Churn + Expansions) ÷ Starting MRR

Why Buyers Care

NRR shows whether your customer base is growing in value over time. A high NRR means existing customers are expanding their usage or upgrading their plans — which is a strong indicator of product value, customer success, and scalable revenue. Many of the most valuable SaaS companies have NRR > 120%.

What Buyers Look For

- NRR above 100% and trending upward
- Contribution of expansion revenue vs. retention
- Cohort-based NRR consistency
- Expansion driven by usage, pricing model, or upselling strategy

Performance Tiers

NRR Rate	Interpretation
< 85%	Revenue base shrinking; red flag
85–100%	Neutral to moderate; growth reliant on new sales
100–115%	Healthy SaaS; stable base with some expansion
115–130%	Strong expansion; valuable customer relationships
130%+	Elite NRR; signals pricing power and deep value

Common Mistakes

- Treating NRR as "nice to have" instead of core growth driver
- Failing to track expansion and churn by cohort
- Not separating usage-based expansion from upsells
- Relying too heavily on one or two accounts for expansion revenue

How to Improve

- Add usage-based pricing or tiered feature access
- Empower Customer Success to own expansion goals
- Identify expansion-ready segments and accounts via product usage data
- Incentivize account managers on NRR, not just renewals



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LTV:CAC Ratio

Definition

The LTV:CAC ratio compares the **lifetime value (LTV)** of a customer — the total gross profit you expect to earn from them — to the **customer acquisition cost (CAC)** — how much you spend to acquire them.

Formula:

LTV ÷ CAC, where:

- **LTV = (Average Revenue Per User × Gross Margin %) ÷ Churn Rate**
- **CAC = Total Sales & Marketing Cost ÷ New Customers Acquired**

Why Buyers Care

This ratio measures how efficiently you acquire profitable customers. A high LTV:CAC means strong unit economics, scalable growth, and a solid return on marketing investment. A low ratio, even with high growth, often signals unsustainable spend or poor retention.

What Buyers Look For

- Ratios above 3.0x (preferably 4–5x for mature SaaS)
- CAC payback periods under 12 months
- Alignment between CAC efficiency and growth
- Cohort-based LTV that justifies continued investment

Performance Tiers

LTV:CAC Ratio	Interpretation
< 2.0x	High spend, poor return; red flag
2.0–3.0x	Borderline; often tolerated in early growth
3.0–5.0x	Efficient, sustainable growth
5.0x+	Exceptional unit economics; very attractive

Common Mistakes

- Underestimating CAC by excluding onboarding, support, or commissions
- Overstating LTV by using revenue instead of gross profit
- Failing to update churn assumptions regularly
- Ignoring how CAC varies by customer segment or acquisition channel

How to Improve

- Reduce CAC by optimizing acquisition channels and conversion rates
- Increase LTV through better retention, pricing expansion, and upsells
- Reevaluate discounting strategies and freemium models
- Track LTV:CAC monthly and by channel to refine growth strategy



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Customer Concentration (Top 10)

Definition

Customer concentration measures how much of your revenue is dependent on your largest customers — typically looking at what percentage of total revenue comes from your top 1, 5, or 10 accounts.

Why Buyers Care

High concentration = high risk. If a large customer churns, revenue and margin can drop sharply. Even if your metrics look strong, buyers discount value if a few accounts hold too much weight. They prefer diversified revenue where the loss of any single customer won't materially harm the business.

What Buyers Look For

- Percentage of revenue from top 1, 5, and 10 customers
- Whether top customers are locked in with long-term contracts
- The nature of relationships — sticky integrations vs. transactional use
- Concentration trends: improving or getting worse over time

Performance Tiers (Top 10 Customers Combined)

% of Revenue	Interpretation
> 70%	Extremely concentrated; high buyer risk
50–70%	Risky; mitigatable with strong contracts
30–50%	Moderate; acceptable in B2B verticals
< 30%	Low concentration; healthy customer spread

Note: For enterprise SaaS, moderate concentration may be tolerated if relationships are long-term, strategic, and deeply integrated.

Common Mistakes

- Hiding concentration behind channel partners or resellers
- Ignoring usage concentration (e.g., 80% of logins come from 2 clients)

- Assuming stickiness without contract validation
- Not tracking concentration trends over time

How to Improve

- Broaden go-to-market to attract a more diverse customer base
- Lock key accounts into multi-year agreements with clear renewal terms
- Productize offerings to attract mid-market segments
- Identify and mitigate dependencies (e.g., one point of contact, custom builds)



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Owner Dependence

Definition

Owner dependence refers to how critical the founder or owner is to the day-to-day operations, decision-making, customer relationships, or technical execution of the business.

Why Buyers Care

If the business can't run without the owner, it's not really a business — it's a job. Buyers heavily discount businesses that rely on the founder to function. The more you've delegated or systematized, the more transferable — and valuable — your company becomes.

What Buyers Look For

- Whether the owner is involved in sales, product, or client delivery
- Existence of SOPs, documentation, and defined roles
- Strength and independence of the leadership team
- Clear succession or transition plan post-acquisition

Performance Tiers

Owner Dependence	Interpretation
High	Owner is the key operator or decision-maker
Moderate	Some delegation, but owner still deeply involved
Low	Owner is strategic only; team runs the business

Common Mistakes

- Overstating team autonomy while still being the bottleneck
- Failing to document knowledge, processes, or client handoffs
- Being the only person managing key customer or technical issues

How to Improve

- Hire or elevate operational and technical leads
- Create SOPs and cross-train your team on core functions
- Start taking intentional “owner-free” days to test business resilience

- Plan a gradual transition timeline to remove founder risk



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Management Team

Definition

The management team is the group of leaders responsible for overseeing day-to-day execution across operations, product, sales, customer success, and finance.

Why Buyers Care

Buyers don't just evaluate the business — they evaluate the people running it. A strong management team reduces transition risk, ensures continuity post-sale, and demonstrates that the company has grown beyond its founder. Buyers pay more for businesses they believe can scale or integrate without disruption.

What Buyers Look For

- Leadership team with SaaS-specific experience
- Clearly defined roles and accountability across departments
- Independence from the founder or owner
- Alignment and retention plans that survive acquisition

Performance Tiers

Team Experience Level	Interpretation
Inexperienced	Limited SaaS track record; team lacks relevant domain or scaling experience
Somewhat Experienced	Competent operators with success in adjacent industries, but few SaaS exits
Competent	Team has grown SaaS companies before; functional leadership is in place
Strong & Deep	SaaS exit experience; domain experts across departments

Common Mistakes

- Relying on generalists without SaaS or recurring revenue experience
- Under-delegating, even when leaders are in place
- Failing to retain or incentivize key team members through a transaction

How to Improve

- Upgrade leadership in product, sales, or operations where experience is thin
- Clarify roles and remove decision bottlenecks at the founder level
- Create retention or equity plans for essential team members pre-exit
- Highlight team wins and metrics when positioning the business for sale



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Delivery Model

Definition

The delivery model describes how your product is deployed, accessed, and maintained — including whether it's on-premise, hybrid, or fully cloud-native. It also encompasses how scalable and automated your onboarding, provisioning, and support processes are.

Why Buyers Care

Buyers want businesses that scale efficiently. Delivery models that rely on custom setup, client IT involvement, or heavy services reduce margin, limit scalability, and add technical debt. The closer your product is to a pure cloud-native, self-service model, the more attractive it is — both financially and operationally.

What Buyers Look For

- Fully cloud-hosted, multi-tenant architecture
- Automated onboarding, provisioning, billing, and support
- Minimal infrastructure complexity and human touchpoints
- No dependency on client-side setup or legacy systems

Performance Tiers

Delivery Model	Interpretation
On-Premise	Low appeal; buyer concern around heavy maintenance, client-side complexity
Mixed/Hybrid	In transition; still burdened by legacy support or custom implementations
Cloud-Enabled	Delivered via the cloud, but may lack elasticity, automation, or true multi-tenancy
Fully Cloud-Native	Highly scalable, self-serve infrastructure; minimal client IT burden

Common Mistakes

- Labeling a product “SaaS” when it still requires manual setup or VPNs

- Failing to invest in infrastructure upgrades due to cost concerns
- Building custom instances or features that reduce margin over time
- Underestimating the tech debt from hybrid deployments

How to Improve

- Prioritize full migration to cloud-native, multi-tenant infrastructure
- Build automation into provisioning, setup, and customer support
- Sunset legacy offerings and guide customers to scalable solutions
- Document and productize delivery to reduce engineering dependency



Product Differentiation

Definition

Product differentiation is the degree to which your SaaS product stands out from competitors — based on features, performance, integrations, use case depth, user experience, or defensibility.

Why Buyers Care

Buyers pay a premium for products that clearly solve a unique problem, serve a niche deeply, or are hard to replicate. Differentiation protects pricing power, supports long-term retention, and reduces the risk of commoditization. If your product looks like everyone else's, it becomes a race to the bottom — on both price and valuation.

What Buyers Look For

- Unique features or workflows that solve a specific pain better than alternatives
- Evidence of customer preference vs. competitors (e.g., win rates, case studies)
- Deep vertical focus or purpose-built design
- Defensible moat (data, integrations, network effects, IP)

Performance Tiers

Differentiation	Interpretation
Generic	Undifferentiated; overlaps heavily with competitors
Moderately Differentiated	A few standout features, but easily replicable
Well-Positioned	Clear ICP alignment and product strengths that resonate in target verticals
Deeply Differentiated	Unique value proposition, strong customer pull, hard to replicate or displace

Common Mistakes

- Claiming differentiation without backing it with customer data or use cases
- Relying only on feature parity instead of unique problem solving

- Chasing new features instead of deepening core value
- Ignoring UX, which is increasingly a source of differentiation

How to Improve

- Double down on ICP-specific needs and build features competitors won't prioritize
- Analyze churn and win/loss data to uncover true differentiation points
- Highlight unique features or workflows in demos, decks, and sales scripts
- Protect IP where relevant (e.g., proprietary algorithms, patented methods)



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Technology Platform

Definition

The technology platform refers to the underlying architecture, codebase, infrastructure, and development practices that power your SaaS product — including how modern, scalable, secure, and extensible it is.

Why Buyers Care

Even if the product works well today, buyers want to know it will still perform — and scale — tomorrow. A clean, modern tech stack reduces maintenance costs, speeds up development, and makes post-acquisition integration or expansion easier. Legacy or poorly documented code can create technical debt that buyers must price in.

What Buyers Look For

- Modern frameworks and scalable infrastructure (e.g., microservices, serverless)
- Clean, well-documented codebase with version control and test coverage
- CI/CD pipelines and development best practices
- Security, compliance (SOC 2, GDPR), and role-based access controls
- Extensibility via APIs, integrations, or developer ecosystems

Performance Tiers

Technology Maturity	Interpretation
Outdated / Fragile	Legacy codebase, patchwork fixes, scalability issues
Functional but Clunky	Works today, but with visible tech debt or scaling limitations
Modern & Stable	Well-architected platform with good documentation and process hygiene
Scalable & Extensible	Future-proof infrastructure, efficient dev cycle, robust APIs, and security posture

Common Mistakes

- Underinvesting in refactors or ignoring tech debt for short-term speed
- Relying on a single developer or undocumented tribal knowledge
- Overlooking security or compliance until late in the sale process
- Building monoliths that resist modularity or integration

How to Improve

- Conduct an internal or third-party tech audit to surface risk
- Prioritize documentation, refactoring, and test coverage
- Build or modernize APIs for partner, buyer, or internal extensibility
- Implement scalable infrastructure (cloud-native, containerization, CI/CD)
- Address basic compliance (SOC 2, GDPR, SSO) before going to market



Market Growth

Definition

Market growth refers to the expansion rate of the industry or vertical your SaaS business serves. It reflects the size of the opportunity — not just for your company, but for any acquirer looking to scale within that space.

Why Buyers Care

A business in a growing market has tailwinds that reduce risk and increase upside. Buyers favor industries where demand is rising, adoption is accelerating, and long-term growth is likely. Market momentum can justify higher multiples, faster scaling plans, and a more compelling post-acquisition thesis.

What Buyers Look For

- Consistent, third-party-verified CAGR (compound annual growth rate)
- Alignment with larger trends (e.g., AI adoption, shift to cloud, regulatory pressure)
- Signs of customer demand outpacing competitors' ability to serve it
- Whether your business is positioned to capitalize on that growth

Performance Tiers

Market Growth	Interpretation
Stagnant / Declining	Little to no growth; headwinds for expansion or buyer interest
Modest (5–10%)	Predictable but limited opportunity
Healthy (10–15%)	Attractive market dynamics; supports premium buyers
Strong (>15%)	High-growth industry; strategic acquirers and investors competing for exposure

Common Mistakes

- Overgeneralizing TAM without segmenting by actual addressable market
- Relying on outdated stats or founder anecdotes instead of data

- Ignoring whether growth is new-adoption driven or churn-replacement driven
- Assuming buyers will “know the space” without showing trends and context

How to Improve

- Cite credible research (Gartner, Forrester, Pitchbook, etc.) to support growth claims
- Position your company within the fastest-growing segments of your market
- Align product and marketing language with macro tailwinds
- Frame your opportunity using clear numbers, not just vision



Market Attractiveness

Definition

Market attractiveness assesses how appealing your industry or niche is to investors and acquirers — beyond just growth rate. It includes factors like fragmentation, buyer activity, competitive intensity, customer budgets, and the ease of winning and retaining customers.

Why Buyers Care

A fast-growing market isn't always an attractive one. Buyers look for industries that are not only expanding, but also structurally favorable — meaning they offer strong margins, room for consolidation, low regulatory friction, and accessible customers. An attractive market reduces go-to-market cost and complexity while offering multiple exit paths down the road.

What Buyers Look For

- Fragmentation (many small players = acquisition opportunity)
- High average contract values (ACVs) and generous customer budgets
- Favorable buyer behavior (e.g., sticky contracts, low churn industries)
- Low to moderate competitive saturation
- Signs of inbound buyer activity in your space

Performance Tiers

Market Attractiveness	Interpretation
Low / Challenging	Crowded, price-sensitive, or highly regulated; tough customer acquisition
Moderate	Room for growth, but some buyer friction or competition limits margin
Attractive	Healthy customer economics, multiple acquirer types, repeatable sales motion
Highly Attractive	High Average Contract Values (ACV), strong consolidation play, active M&A, customers easy to retain

Common Mistakes

- Confusing high growth with high attractiveness
- Ignoring how customer budgets or procurement processes affect expansion
- Not researching how many buyers are actively investing in the space
- Failing to highlight competitive gaps your company exploits

How to Improve

- Focus on sub-markets or use cases where your solution is sticky and margins are strong
- Map out the buyer universe and which buyer types are more likely to buy your business
- Show how your CAC and LTV outperform benchmarks in your space
- Highlight trends like industry digitization, regulation-driven buying, or aging incumbents



Total Addressable Market (TAM)

Definition

TAM is the total revenue potential available if your business captured 100% of your ideal customer base. It reflects the scale of opportunity for your product, guiding both growth strategy and buyer appetite.

Why Buyers Care

Buyers don't just acquire what exists — they buy into the upside. A clearly defined and sizable TAM tells buyers your business has long-term headroom. Conversely, a small or saturated TAM can cap future growth and justify a lower multiple, even for strong-performing companies.

What Buyers Look For

- Realistic, data-backed TAM estimates
- TAM segmentation: serviceable (SAM) and obtainable (SOM)
- Clear Ideal Customer Profile (ICP) and ACV assumptions
- Room to expand without changing the product too drastically
- Adjacency logic: Can this company grow into other verticals or geographies?

Performance Tiers

TAM Size	Quantitative Range	Interpretation
Narrow or Saturated	< \$100M	Very limited scale; attractive only to niche or strategic buyers
Modest but Focused	\$100–200M	Focused opportunity; appealing to vertical-specific acquirers or bolt-on plays
Well-Defined & Expansive	\$200–500M	Mid-market scale; supports multiple buyer types and continued growth
Large & Untapped	> \$500M	Big, exciting market with room to grow and command premium multiples

Common Mistakes

- Assuming every potential user is part of your TAM
- Using inflated top-down numbers from unrelated market categories
- Not defining the difference between TAM, SAM, and SOM
- Ignoring actual buyer behavior and willingness to pay

How to Improve

- Build a bottom-up TAM model based on $ICP \times ACV \times \text{market size}$
- Clearly define adjacent segments you plan to target post-exit
- Use third-party research to validate TAM assumptions
- Present TAM visually alongside your current market share to highlight opportunity



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Market Position

Definition

Market position reflects how your business is perceived relative to competitors — including your brand strength, share of voice, product adoption, customer loyalty, and ability to win deals consistently.

Why Buyers Care

Strong market positioning means you're not just surviving — you're leading. Buyers look for companies with clear differentiation, brand recognition, and momentum within their niche. A company that owns its segment commands pricing power, attracts inbound interest, and fends off competitors more effectively. Poor positioning, even in a growing market, creates drag on growth and valuation.

What Buyers Look For

- Win rates in competitive deals
- Share of voice in marketing or thought leadership
- Brand recognition or customer evangelism
- Net Promoter Score (NPS), reviews, and referral activity
- Competitive displacement (proof that customers leave others for you)

Performance Tiers

Market Position	Interpretation
Weak / Unclear	Undifferentiated; often overlooked in competitive scenarios
Emerging	Gaining recognition; starting to win vs. incumbents
Established	Known player with strong traction and buyer preference in niche or segment
Dominant / Preferred	Go-to solution in category; brand equity, loyalty, and defensibility

Common Mistakes

- Assuming product quality equals market leadership

- Relying on word-of-mouth with no brand-building strategy
- Not tracking or reporting win/loss data in sales cycles
- Treating positioning as a static attribute instead of a strategic lever

How to Improve

- Invest in brand clarity and consistent messaging to your ICP
- Publish case studies, reviews, and competitive win stories
- Create a positioning map that shows how you compare on value drivers
- Use NPS, G2, and customer interviews to support your leadership narrative



Scoring & Interpretation

A holistic view of your company's health emerges only when you look across all value drivers metrics in concert. Rather than fixating on a single "winning" KPI, buyers want to see balanced strength: consistent growth, solid margins, low churn and a capable team. Your overall readiness falls into one of three zones, each with clear implications for how a buyer will value and structure an offer.

Readiness Categories

- **Red Zone: Needs Significant Improvement**
 - Multiple metrics in the "Poor" tier
 - High execution risk; likely to face steep discounts or lengthy due diligence
- **Yellow Zone: Moderate Readiness**
 - Mix of "Underperforming" and "Solid" scores
 - Deal likely, but buyers will push hard on earn-outs or price adjustments
- **Green Zone: Strong Readiness**
 - Majority of metrics in "Solid" or "Excellent" tiers
 - Minimal valuation drag; positioned for premium multiples

Common Pitfalls & Next Steps

Many founders pour energy into one headline metric (like growth) and overlook foundational weaknesses (for example, retention or margins).

- *Pitfall:* Chasing short-term spikes in ARR while customer success and cost structure lag behind.
- *Improve by:* Conducting a quick gap analysis to flag all "Poor" metrics, then dedicating your next 90-day plan to the two highest-risk areas.

Quick Value Assessment Tool

We've built a streamlined interface that translates your key performance metrics into an instant value assessment. Below is a video preview of the tool you'll see when you book a session with us.

What You'll See in the Video

- **Input Fields** for your top value drivers (e.g., ARR Growth, GRR, NRR, Gross Margin)
- **Tier Selection** based on your annual revenue range
- **Output Panel** showing your valuation based on your score
- **Value Enhancement** which levers can be pushed to improve your value

Video Example

<https://www.loom.com/share/df735f374dbb4f54a846898e178d2e16>

Want your own interactive valuation? **Book a 30-minute session** with our team—simply share your metrics, and we'll run the tool live on camera. Book your session here:

<https://livmo.com/value-assessment/>



Next Steps & Recommendations

Understanding your valuation drivers is only half the equation — the other half is knowing what to do with that insight. Whether you're 6 months from exit or still exploring the idea, taking proactive steps now can significantly increase your valuation later.

Here's how to turn your scorecard into a value-building roadmap:

1. Prioritize Your Weakest Links

Review your scoring results and circle every driver in the “Poor” or Red Zone tier. These are the biggest risks to your exit — and the areas where buyers will either negotiate you down or walk away entirely.

Focus on just 2–3 drivers first. Trying to fix everything at once slows momentum.

2. Build a 90-Day Improvement Plan

For each weak driver, define one tactical step you can take this quarter.

Examples:

- **Churn too high?** Implement a retention workflow and launch cancellation surveys.
- **Financials disorganized?** Hire a SaaS-experienced accountant and move to accrual.
- **Owner-dependent?** Delegate one core function and create a backup system.

3. Start Thinking Like a Buyer

Ask yourself:

- Would I pay a premium for this business?
- What would make me hesitate to buy it today?
- Can I defend my valuation with clean, consistent data?

The more objectively you answer these, the stronger your positioning becomes.

4. Gather Exit-Ready Materials

Start compiling what buyers will eventually need — even if you're not selling yet:

- 2–3 years of clean financials
- Revenue by product/segment
- Retention and churn reports
- Customer concentration breakdown
- Basic org chart and responsibilities
- High-level product roadmap

Think of it as building your "exit data room" early. It makes future diligence faster and dramatically improves your credibility.

5. Talk to an M&A Advisor (Early)

A good advisor won't just find buyers — they'll help you **build value before you go to market**. Engaging early allows you to:

- Shape your narrative
- Time the market correctly
- Eliminate landmines before buyers spot them

Even a 3–6 month head start can mean millions more at exit.



Appendix

Below you'll find key definitions to reinforce your understanding and recommended resources for deeper dives.

Glossary of Terms

- **ARR (Annual Recurring Revenue):**
The predictable, subscription-based revenue you expect each year. Calculated as $MRR \times 12$.
- **CAC (Customer Acquisition Cost):**
The total cost of sales and marketing divided by the number of new customers acquired in that period.
- **CAC Payback Period:**
The number of months it takes to recover your customer acquisition cost, typically using gross margin-adjusted revenue.
- **Churn Rate:**
The percentage of customers or revenue lost over a defined period. High churn signals low retention and higher risk.
- **EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization):**
A measure of operating profitability used in business valuations, especially in mid-market SaaS.
- **EBITDA Margin:**
EBITDA divided by total revenue; reflects core operating profitability.
- **GRR (Gross Revenue Retention):**
The percentage of recurring revenue retained from existing customers, excluding any expansions or upsells.
- **Gross Margin:**
 $(\text{Revenue} - \text{Direct Costs}) \div \text{Revenue}$. A measure of product delivery efficiency and cost structure.
- **ICP (Ideal Customer Profile):**
The specific type of customer who benefits most from your product and is most likely to buy and stay long term.

- **LTV:CAC Ratio:**
Lifetime Value of a customer divided by the Customer Acquisition Cost. Indicates marketing and sales efficiency.
- **MRR (Monthly Recurring Revenue):**
Recurring subscription revenue earned monthly. The building block of ARR.
- **NRR (Net Revenue Retention):**
The change in recurring revenue from existing customers, including expansions, upsells, downgrades, and churn.
- **Payback Period (CAC Payback):**
The number of months required to recoup CAC, typically benchmarked against gross margin-adjusted revenue.
- **Rule of 40:**
A benchmark where the sum of ARR growth rate and EBITDA margin equals or exceeds 40%. Balances growth and profitability.
- **SAM (Serviceable Available Market):**
The portion of TAM your current solution and GTM strategy can realistically serve.
- **SDE (Seller's Discretionary Earnings):**
Total financial benefit to a single owner/operator, including profit, salary, and personal expenses run through the business. Used in small business valuations.
- **SOM (Serviceable Obtainable Market):**
The segment of the SAM that you can realistically capture, considering your resources and reach.
- **TAM (Total Addressable Market):**
The total revenue opportunity available if your product achieved 100% market penetration across all ideal customers.

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Contact & Support

If you have questions or would like a personalized walkthrough of any metric, reach out:

- **Email:** go@livmo.com
- **Phone:** 1-619-639-1414
- **Book a Session:** <https://livmo.com/value-assessment/>

Thank you for using this guide—here's to achieving your highest valuation yet!

