

Acquiring a SaaS Business: The Buyer's Perspective

By BVC Research Team | March 2026 | 13 min read

SaaS (Software as a Service) businesses command the highest multiples in the small business acquisition market — and for good reason. The combination of recurring revenue, high margins, and scalability creates economics that are fundamentally superior to most other business models. But buying a SaaS business also comes with unique technical risks that require specialized due diligence.

Why SaaS Economics Are Special

- **Recurring revenue:** Monthly or annual subscriptions create predictable, compounding revenue streams
- **High gross margins:** Typically 70-85%, compared to 30-50% for most service businesses
- **Scalability:** Revenue can grow significantly without proportional cost increases
- **Low churn = compounding:** A SaaS business with 95% annual retention grows even without new customers

The Metrics That Drive SaaS Valuations

Metric	What It Tells You
Monthly Recurring Revenue (MRR)	The predictable monthly income baseline
Annual Recurring Revenue (ARR)	MRR x 12 — the primary valuation metric
Net Revenue Retention (NRR)	Do existing customers spend more over time? >100% is excellent
Monthly Churn Rate	% of customers lost per month. <2% is good, <1% is excellent
LTV:CAC Ratio	Customer lifetime value vs. acquisition cost. 3:1+ is healthy
Rule of 40	Growth rate + profit margin. >40% signals a high-quality SaaS

KEY INSIGHT: Net Revenue Retention above 100% is the single strongest indicator of product-market fit. It means existing customers are expanding their usage faster than others are churning. A SaaS with 110%+ NRR is essentially a growth machine.

SaaS Valuation Multiples

Small SaaS businesses (under \$5M ARR) typically sell for 3x-8x ARR or 4x-7x SDE. The wide range reflects enormous variation in growth rate, churn, margins, and code quality. A bootstrapped SaaS with flat growth and 5% monthly churn might sell for 3x ARR, while a product-led growth SaaS with 110% NRR and 30% annual growth could command 7-8x.

Technical Due Diligence: The Critical Differentiator

Unlike buying an HVAC company, buying SaaS requires a technical assessment of the product itself. This should be conducted by an independent technical advisor, not the seller's team.

- **Code quality:** Is the codebase well-structured, documented, and maintainable? Technical debt can cost hundreds of thousands to address.
- **Architecture:** Is the system built on modern, scalable architecture? Or will you need a costly rebuild at a certain growth threshold?
- **Security:** Has the application been penetration tested? Are there known vulnerabilities?
- **Dependencies:** Does the product rely on third-party APIs or services that could be discontinued or repriced?
- **Documentation:** Can a new development team understand and maintain the code without the original developers?

The Founder Dependency Challenge

Many small SaaS businesses are built around a technical founder who handles product development, customer support, and strategic direction. This creates significant key-person risk. Your transition plan must address knowledge transfer, customer relationship handoff, and technical documentation before the founder departs.

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