SaaS Capital Insights

In the first quarter of each year, SaaS Capital conducts a survey of B2B SaaS company metrics. This year's study marked our 9th annual survey, and with over 1,400 private B2B SaaS companies responding this year, it is the largest survey of its kind and continues to grow every year. Below are our findings on growth. It also needs to be explicitly stated that this data was collected in early 2020 and is based on 2019 performance metrics, before the impact of the COVID-19 pandemic. Benchmarking comparisons should be made to the same time period for your company.

2020 BENCHMARKING PRIVATE SAAS COMPANY GROWTH RATES

It's not difficult to benchmark your SaaS company's performance against that of public SaaS companies, but it's also only slightly useful. The sheer scale of public companies makes for an apples-to-oranges comparison to smaller, private companies that do not reveal actionable performance insights.

"Growth rate is the single largest determinant of your company's valuation multiple, and how you compare with companies of similar size and stage determines whether you might earn a valuation premium or discount."

To solve for this information gap, we started conducting this survey nearly a decade ago to help small, private companies better understand where their performance was exceptional, and where there were gaps. The most important metric we track in the survey of private companies is revenue growth. This is because your company's growth rate is the single largest determinant of your company's valuation multiple, and how you compare with companies of similar size and stage determines whether you might earn a valuation premium or discount to them.

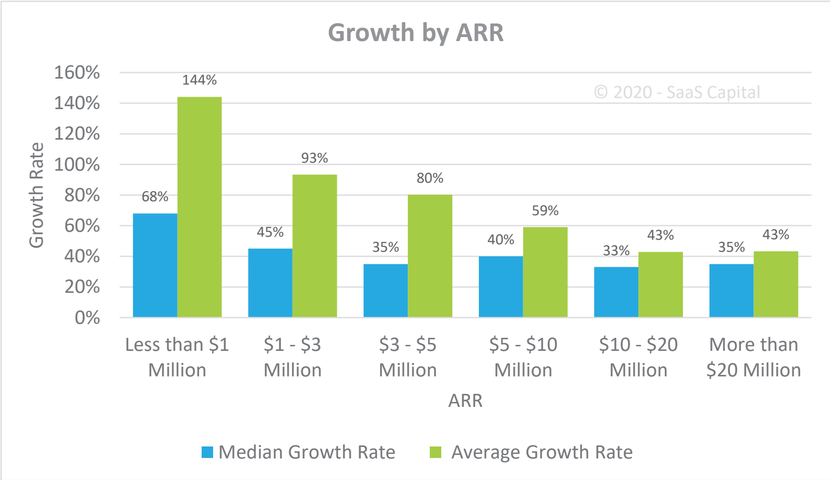
Growth Rate by Company Size

How fast your SaaS business is growing is only relevant when compared to a group of similarly sized businesses. A growth rate of 80% for a $3 million SaaS business is below average, while growth of 80% for a $20 million SaaS business is twice the average. The smaller company might be worth 5 times revenue, while the latter might be worth closer to 10 times revenue.

Figure 1 shows average and median growth broken down by Annual Recurring Revenue (ARR).

Overall, growth in the SaaS industry in 2019 was pervasive. Only 2% of the companies in the survey reported shrinking revenue compared with 2018, and 87% reported annual revenue growth of greater than 10%.

Figure 1



From conversations with our portfolio companies and prospective borrowers, growth rates remained relatively unchanged through Q1 2020, and the impact of the economic shutdowns due to the global pandemic wasn't fully felt until Q2. That said, the impact appears to be much milder than many, including us, were expecting, at least through the publication date of August 2020.

Growth certainly slowed but remained positive or flat for many companies, and even those that saw monthly recurring revenue (MRR) decline in April and May are already seeing bookings return.

"Boards and management teams need to use the data to set informed growth plans and not simply base assumptions on prior-year performance."

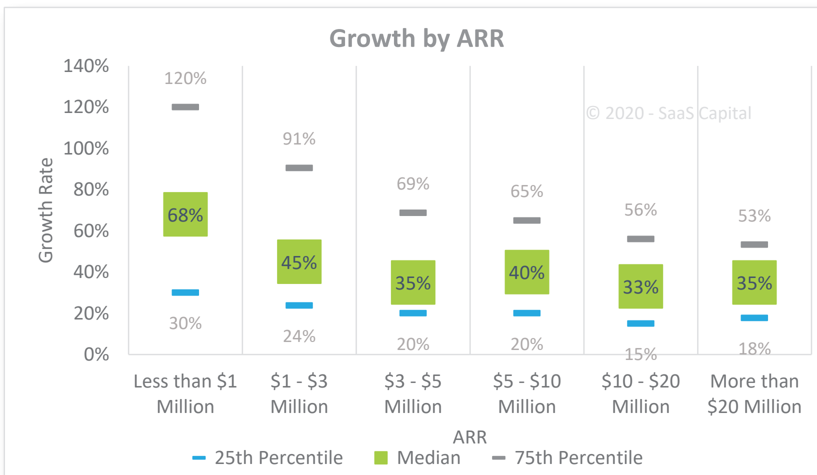
As one portfolio company described it, and many have since corroborated:

> *"Deals in the pipeline pre-COVID slowed significantly or died altogether. Opportunities that have entered the pipeline since the shelter-in-place orders are moving through the funnel as fast, or faster than normal."*

The anecdotal data gathered from those conversations mirrors the conclusions found in more formal research we conducted in 2018 on how public SaaS companies performed during the Great Recession. You can find that analysis here.

Returning to the survey data, the most obvious takeaway is that growth rates decline as revenue levels increase. This is simply due to math: as the denominator increases, it becomes increasingly hard to maintain.

Figure 2



It is not enough for new ***bookings*** to remain constant; new bookings must also grow year-over-year to maintain the same growth rate. This phenomenon is most pronounced in the difference between the average and median values of smaller companies.

Boards and management teams need to use the data above to set informed growth plans and not simply base assumptions on prior-year performance.

Figure 2 shows more detailed growth rate percentiles for the same ARR groupings.

As indicated by the difference shown between the average and median values in Figure 1, here we get a better understanding of the range that exists at each revenue stage.

- A $2 million SaaS company needs to be growing at more than 90% year-over-year to be in the top 25% of its peers.
- A $10 million SaaS company needs to be growing by more than 55% to be in the top quartile.
- Companies up to $10 million in ARR need to be growing by at least 20% annually to avoid being in the bottom quartile.

For companies looking to benchmark against the top performers, Figure 3 shows the 90th percentile values for each ARR group.

Figure 3

ARR	90th Percentile
Less than $1 Million	242%
$1 - $3 Million	252%
$3 - $5 Million	160%
$5 - $10 Million	100%
$10 - $20 Million	99%
More than $20 Million	90%

Growth Rate by Funding Type

Overall, bootstrapped companies report growing at 28% per year, whereas companies that have raised venture capital financing were growing at 55% annually. And while it's not clear which is the cause and which the result, as investors are looking to back companies that already show signs of being high performers, understanding the difference is important for benchmarking.

Figure 4

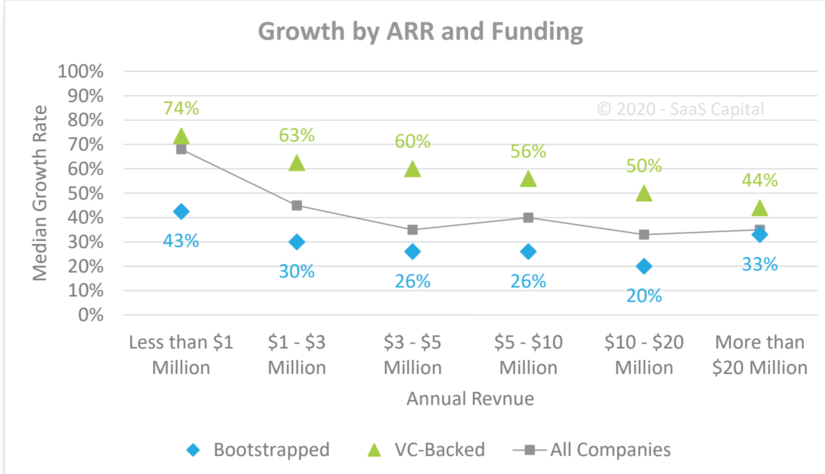


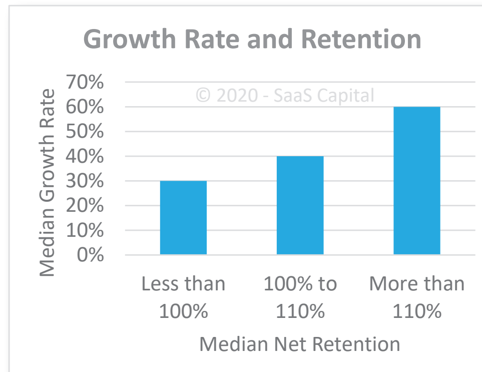
Figure 4 breaks down the median growth by ARR for VC-backed and bootstrapped companies.

As noted above, the goal of this chart isn't to establish cause and effect but to understand the underlying dynamics of benchmarking growth. The median growth rate for VC-backed companies with $1 - $3 million in ARR is double that of similarly sized bootstrapped companies. For companies between $3 and $20 million in ARR, the average median growth for VC-backed companies is even more than double, at 108% the growth rate of bootstrapped companies.

Growth Rate and Retention

Higher growth is generally associated with higher retention and vice versa. The higher a company's retention, the easier it is to grow as the company doesn't have to replace lost revenue. The impact of retention is also cumulative as it repeats and expands on itself year after year as Figure 5 highlights.

Figure 5

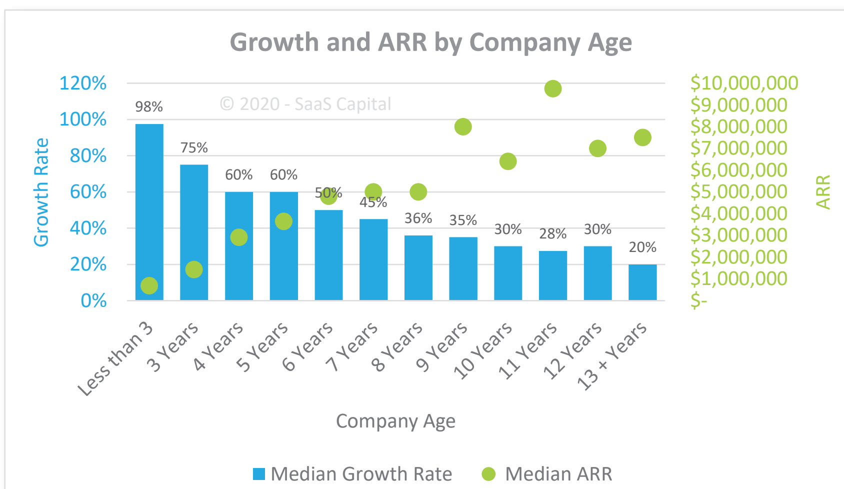


The median net retention for all companies in our survey was 100%. Companies with retention between 100% to 110% reported median growth of 40%. Companies with lower retention reported median growth of 30%, while companies with retention above 110% reported median growth of 60%.

Growth Rate by Company Age

Company age and revenue level are directly correlated, as seen in Figure 6, and correspondingly, company age and growth rates are inversely correlated up until about 12 years of age.

Figure 6



For companies 13 years old and older, the growth rate stabilizes at about 20%.

The median age for bootstrapped companies was 10 years old, while the median age for VC-backed companies was 6 years old.

Our data also show that 39% of bootstrapped companies were older than 12 years, while only 10% of VC-backed companies were older than 12 years. This is likely due to pressure from VC fund horizons with the data suggesting 10 to 12 years is the implicit ceiling that entrepreneurs, boards, and investors give themselves to get as big as they can before an exit, regardless of the size and value achieved by that point.

Other Data

- A related interesting insight from the data is that it takes approximately 5 years for companies to reach $1 million in ARR. Venture capital-backed companies reach the milestone in 4 years, while bootstrapped companies get there in 7.5 years.
- Average contract value (ACV) does not appear to have a significant impact on growth rate. The median growth rate for companies with ACVs of less than $1,000 did show the highest growth, at 50%, while growth rates across all other ACVs range between 34% and 43%. We have seen in a previous analysis, however, that increasing ACVs over time is an important driver of growth.
- SaaS companies targeting a horizontal market are growing slightly faster than companies attacking a vertical industry: 40% growth versus 36%, respectively.
- The data shows virtually no difference in growth between SaaS companies that bill annually in advance and their peers that bill monthly. This marks an interesting change from previous findings in 2018, which showed faster growth in SaaS companies that bill annually in advance. It's worth noting that our recent research on retention showed no difference in retention rates between companies that receive customer payments primarily on a monthly basis versus annual up-front payments. However, annual billing companies still enjoy a meaningful cash flow advantage over monthly billers during periods of high growth.

"It takes approximately 5 years for companies to reach $1 million in ARR. Venture capital-backed companies reach the milestone in 4 years, while bootstrapped companies get there in 7.5 years."

In conclusion, it is worth repeating what we published in our last Research Brief: the data was reported before the impact of the COVID-19 pandemic.

Empirically from conversations with our portfolio and prospective borrowers, horizontally positioned companies are somewhat more insulated from the impact of the crisis, as their customers span across different industries.

Vertically oriented products are more impacted, for better or worse. Companies focused on health, digital remote communication, telemedicine, logistics, and food supply chain/grocery verticals are all benefitting from the situation, while companies focused on restaurants, non-essential shopping, travel, and retail are all struggling.

In the former case, new bookings are outpacing the original 2020 plans. In the latter case, new bookings have slowed, sometimes substantially, and increased churn is just starting to materialize. The ultimate level is still unknown and will vary by company.

Best of luck to all operators as you navigate this unprecedented economic time.

About SaaS Capital

SaaS Capital is the leading provider of growth debt designed explicitly for B2B SaaS companies. SaaS Capital's growth debt is structured to provide a significant source of committed funding, deployment flexibility, and lower overall cost of capital, all while avoiding the loss of control and dilution associated with selling equity. SaaS Capital was the first to offer lending alternatives to SaaS businesses based on their future recurring revenue. Since 2007, SaaS Capital has deployed $209.5 million in growth debt to deliver better outcomes for 65+ clients, resulting in $753 million in total enterprise value created.

Benefits of SaaS Capital's unique, SaaS-focused approach:

- **Higher advance rates** - Capital availability is based on a multiple of your monthly recurring revenue (MRR) – typically 4x to 7x MRR
- **Capital availability that grows with your business** - The amount of capital that you can draw increases automatically as your revenue grows
- **Long-term source of capital** - The capital is drawn down over 2 years under the committed line of credit, and then either renewed, or repaid over the following 3 to 4 years
- **Efficient use of capital** - Capital is drawn down only as your business needs it, thereby reducing your interest expense
- **Flexibility -** No balance sheet covenants or cash reserve requirements

SaaS Capital is best able to assist companies with the following attributes:

- Sells a SaaS-based solution
- Seeking $2M to $10M in growth capital
- $250,000, or above, in MRR
- History of renewals greater than 80%
- Registered and principally banked in the U.S., Canada, or UK
- Revenue growth above 15% per year

Your business does *NOT* need to be:

- Venture Backed
- Profitable
- Billing your customers monthly

Visit www.saas-capital.com to learn more.

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