SaaS Capital Insights

In Q1 of each year, SaaS Capital conducts a survey of B2B SaaS company metrics. This year's study marked our 10th annual survey, and it continues to grow with more than 1,500 private B2B SaaS companies responding, making it the largest survey of its kind. Below are our findings on growth.

2021 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 does not reveal actionable insights.

To solve for this information gap, we started conducting this survey a decade ago to help small, private companies better understand how their performance compared to that of their peers. 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 the median valuation of your peers.

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 30% for a $5 million SaaS business is below the median, while growth of 30% for a $20 million SaaS business is above the median (averages are even more skewed). The smaller company might be worth 5 times revenue, while the latter might be worth closer to 10 times revenue.

Figure 1

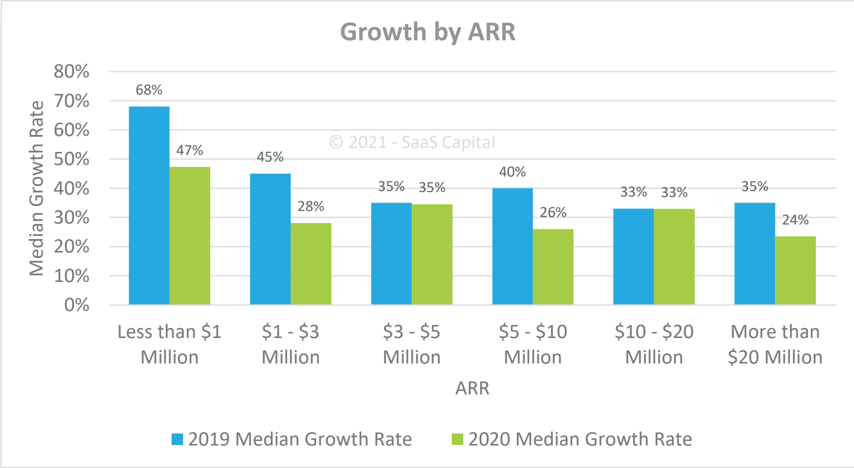
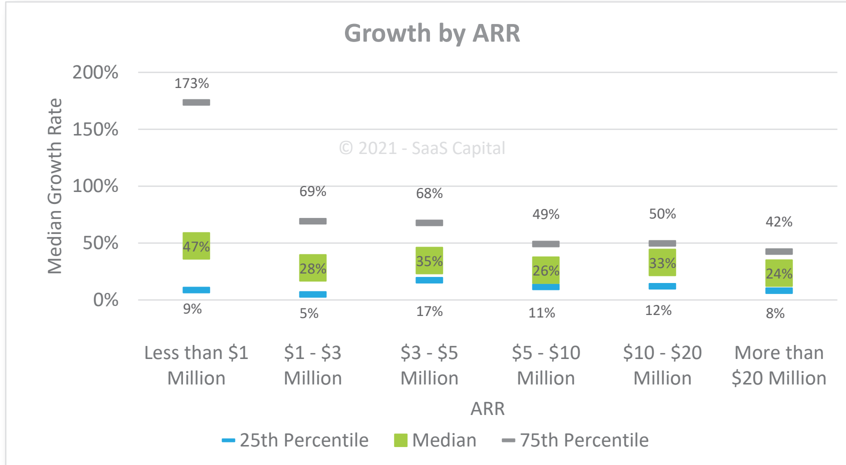


Figure 1 shows median year-over-year (YoY) growth broken down by Annual Recurring Revenue (ARR) for both 2019 and 2020. On the whole, the median growth rate decreased by 10.4 percentage points from 40.0% in 2019 to 29.6% in 2020. While two company groupings performed the same as 2019, the graph shows the clear impact of the global pandemic and economic shock in Q2 of last year.

Further, more companies shrank in 2020 than in 2019, as well. Overall, 13% of the companies reported flat or negative growth in 2020, compared to just 2% in 2019. As a general rule, growth rates decline as revenue levels increase due to simple math: as the denominator increases, it becomes increasingly hard to maintain the same result. To this end, we have historically seen a direct, inverse relationship between growth rate and ARR – as ARR increases, growth rates decreased. In 2020, this relationship did not exist for the company medians.

Figure 2 shows growth rate percentiles by ARR and gives us a better understanding of the ranges of growth rates that exist at each revenue stage. The immediate takeaway is that 'top quartile performance' means different things for different-sized companies. For example, a $2 million SaaS company needs to be growing at more than 69% year-over-year to be in the top 25% of its peers, whereas that bar is 42% for a company with $20 million of ARR.

Figure 2



The chart also highlights the variability seen in earlier-stage companies. Part of this is just math: dividing by a small number can return very growth rates. But the other part is truly the variability of early-stage performance. Some companies take longer to develop a product and find their market, while others find terrific product-market-fit early and grow very quickly. As companies grow, they stabilize and grow more consistently and growth rate variance compresses.

The variability of very early (sub $1 million ARR) companies was even more pronounced in 2020. The 75th percentile jumped from 120% in 2019 to 173% in 2020 while the 25th percentile dropped from 30% in 2019 to just 9% in 2020.

Figure 3 shows the best performers, the 90th percentile growth rates for each ARR group for 2020 and 2019.

Figure 3

ARR	90th Percentile in 2019	90th Percentile in 2020
Less than $1 Million	242%	444%
$1 - $3 Million	252%	153%
$3 - $5 Million	160%	126%
$5 - $10 Million	100%	92%
$10 - $20 Million	99%	85%
More than $20 Million	90%	65%

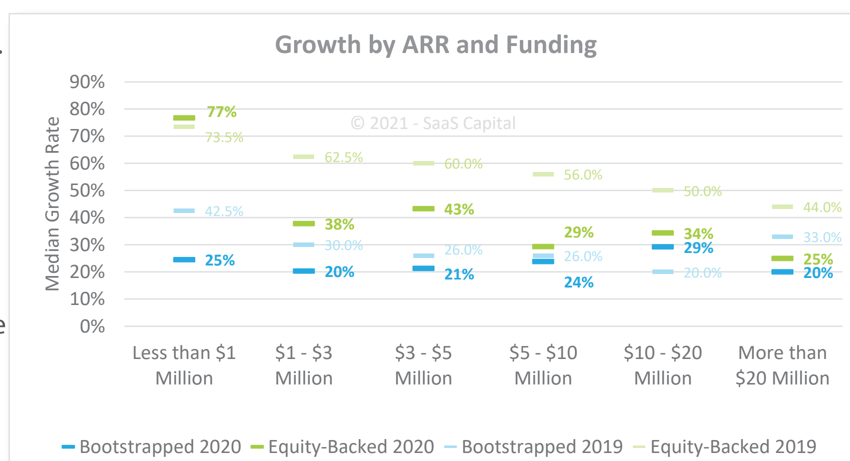
With the exception of companies with less than $1 million in ARR, growth rates for top performers decreased in 2020 compared with 2019. Our theory for what drove the very high growth among the smallest company category is again related to dividing by a small number.

Some companies benefitted enormously from the COVID-19 pandemic as they were positioned to support the unprecedented push to work from home and fill the need for new systems to facilitate touchless contact and everything related to the "new normal." This effect was likely experienced across all company sizes, but because of the small denominator of the very small companies, the impact was over-sized among that group.

Growth Rate by Funding Type

Historically, we have seen that equity-backed companies report higher growth rates than bootstrapped companies. And while it's not clear which is the cause and which the result, as investors look to back companies that already show signs of being high performers, understanding the difference is important for benchmarking.

Figure 4



Overall, bootstrapped companies reported growing at a median of 22% in 2020 versus 28% in 2019, whereas companies that have raised venture capital financing were growing at a median of 33% in 2020 versus 55% in 2019. Figure 4 shows the median growth for equity-backed and bootstrapped companies in 2020 versus 2019, broken down by ARR.

This year's survey showed equity-backed companies reported higher growth rates than bootstrapped companies, but the difference narrowed considerably, and with most of the change coming from the equity-backed companies.

The ARR categories for bootstrapped companies with more than $5 million in ARR show median growth rates that are only five percentage points less than their equity-backed peers. Their growth, between 20% and 30%, is generally in line with 2019. Meanwhile, equity-backed companies with ARR above $5 million report medians in a range of 25% to 34%, which is down twenty percentage points from the 2019 range of 44% to 56% in 2019.

Whereas bootstrapped companies grew only slightly slower in 2020 than they did in 2019, equity-backed companies grew almost half as fast as they did the year prior.

The change in equity-backed company growth rates is most significant in the "growth stage" of $1 million ARR to $20 million in ARR. The difference in growth rates in very small companies remains large, in part due to selection bias, and the difference in growth rates of the very large companies remains very small, in part due to denominator effects. But the middle categories in the chart, the growth stage, is where we see significant declines in equity-backed growth rates last year and relative stability in growth from bootstrapped companies. As a group, bootstrapped companies with ARR above $5 million report overall median growth of 25%, which is the same as in 2019. Meanwhile, equity-backed companies with ARR above $5 million report overall median growth of 29%, down from 42% in 2019.

> ***"Bootstrapped companies operate at a 'steady state' growth rate – the rate that they can grow while remaining cash flow breakeven. Companies that have raised outside equity artificially 'juice' their growth rate with operational leverage – they increase spending to increase growth, and presumably, if they decrease spending, growth rates will slow. In our annual survey, we have a question on departmental spending amounts, and data from that question corroborates this."***

The data highlights a point about the relative stability of bootstrapped companies versus equity-backed companies. Bootstrapped companies operate at a "steady state" growth rate – the rate that they can grow while remaining cash flow breakeven. Companies that have raised outside equity artificially "juice" their growth rate with operational leverage – they increase spending to increase growth, and presumably, if they decrease spending, growth rates will slow. In our annual survey, we have a question on departmental spending amounts, and data from that question corroborates this.

Equity-backed companies started 2020 by spending significantly more on sales and marketing than their bootstrapped peers, 100% more on sales and 57% more on marketing. By the end of the year, the growth spending gap had narrowed to 82% for sales and 43% for marketing. We will explore SaaS spending data and impacts in more detail in a dedicated Research Brief later this year.

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 as much lost revenue. The impact of retention is also cumulative as it repeats and expands on itself year after year.

Figure 5 highlights the relationship between growth and retention. The median gross retention for all companies with at least $1 million in ARR is 91%. Now, looking at the relationship between growth and gross retention, companies

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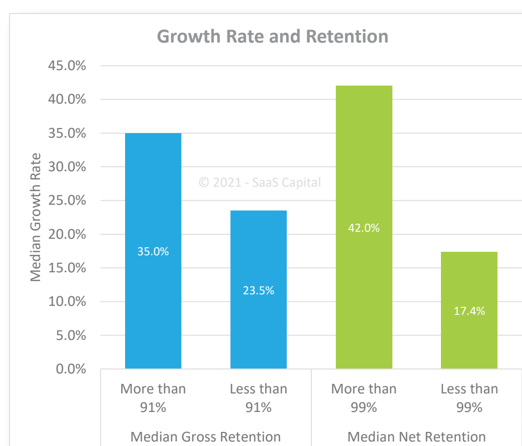

reporting less than the median gross retention showed median growth of 23.5% while the companies reporting more than the median showed growth of 35.0%.

The median net retention for all companies in our survey was 99%. Companies reporting net retention below the median show growth of 17.4% while companies reporting net retention above the median posted 42.0%.

These are significant differences and also a significant departure from the same analysis last year, where the difference in growth rate between the top 50% companies for retention and the bottom 50% was around five percentage points.

We think this shows the disparity in the impact of the COVID pandemic on companies. In the uncertainties of a global pandemic, companies with strong retention benefitted more than in normal years from their relationships and the critical nature of their applications.

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Companies with weaker retention had a worse year compared to their peers than in normal years. Mission-critical products became even more so to existing and new customers while ancillary products and less critical tools were easily canceled and less likely to be adopted by new customers.

Growth Rate by Company Age

Historically, company age and revenue have been directly correlated, while company age and growth rates were inversely correlated. As with many things, 2020 appears to have broken the norms.

As seen in Figure 6, there are essentially 3 phases as companies age. Startups show very high growth, in part due to small base revenue, as noted throughout the findings above.

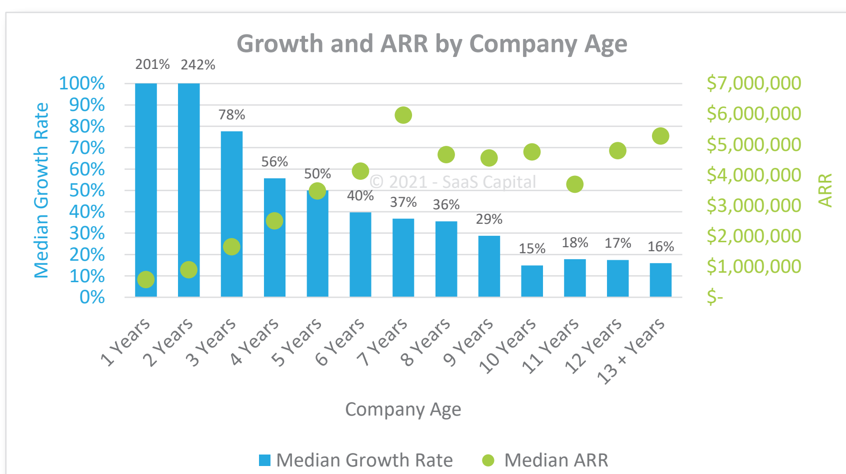
From year 3 until year 9, growth rates gradually decline as revenue steadily grows. At year 10, growth drops significantly and then remains stable in the mid-teens. Interestingly, total revenue is highest for companies that are 7 years old. This could indicate a SaaS life expectancy of seven years – founders looking to grow the business and then sell, particularly for venture-backed companies.

The median age for bootstrapped companies was 10 years old, while the median age for equity-backed companies was 7 years old.

Our data also show that 41.1% of bootstrapped companies were older than 12 years, while only 19.5% of equity-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.

Figure 6



Other Findings and Summary

- Growth during the pandemic slowed from 40% in 2019 to 29.6% in 2020. Thirteen percent of companies were flat or shrank, versus only 2% in 2019. Anecdotally, at the start of the pandemic most companies rebudgeted for a significant pandemic impact that didn't fully materialize. Growth was not as strong as 2019, but still strong by other industry standards.
- Equity-backed companies continue to show higher growth than bootstrapped companies but the gap narrowed considerably, driven by far larger decreases in growth from equity-backed companies than their bootstrapped peers. Equity-backed companies with ARR greater than $5 million grew at 29% in 2020 while their bootstrapped peers grew at 25%. The differences in growth rates were wider between smaller companies, but still far narrower than in previous years. Our thought is that bootstrapped companies are more stable and consistent regardless of the macroeconomic environment, whereas equity-backed companies are by their nature more operationally levered, which will provide a higher variance in results, to both the upside and downside.
- Higher growth is generally associated with higher retention. Companies with gross retention above the median reported growing nearly 50% faster than companies with gross retention below the median. Net retention is even more powerful. Companies with net retention above the median reported growing 141% faster than companies with gross retention below the median.
- Growth rates slow as companies grow and age. Revenue topped out at year 7 in the survey, likely due to larger companies eventually being acquired. Related, the median age of a venture-backed company is 7 years, and few are older than 12 years, whereas the median age of bootstrapped companies was 10 years.

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- Continuing a pattern we have observed over the years, average contract value (ACV) does not appear to have a significant impact on growth rate. We have seen in a previous analysis, however, that increasing ACVs over time is an important component of scaling a SaaS company. This relates back to the bullet above on higher net retention rates driving significantly higher growth rates.
- SaaS companies targeting a horizontal market are growing slightly faster than companies attacking a vertical industry: 29.4% growth versus 26.1%, respectively.
- Marking a reversion back to a historical norm, SaaS companies that bill annually in advance grow faster than their peers that bill monthly. The median growth rate for companies billing annually upfront was 31.7% versus 25.3% for those billing month-to-month. Cause and effect are difficult to determine, but there is no doubt the annual billing companies enjoy a meaningful cash flow advantage over monthly billers.

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 $234 million in growth debt to deliver better outcomes for 70+ clients, resulting in $983 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:

- Sell a SaaS-based solution
- Seeking $2M to $10M in growth capital
- $250,000, or above, in MRR
- Have a minimum of 85% retention
- 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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