

SaaS Capital Insights

In Q1 of each year, SaaS Capital conducts a survey of B2B SaaS company metrics. This year marked our 11th 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.

2022 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 of limited usefulness. The sheer scale of public companies makes for an apples-to-oranges comparison to smaller, private companies that may prove misleading or distracting.

To solve for this information gap, we started conducting our annual survey a decade ago to help small, private companies better understand how their performance compares to that of their peers. The most important metric we track in the survey is revenue growth. This is because your company's growth rate is the single largest determinant of your valuation multiple, and how you compare with companies of similar size and stage determines whether you might see a valuation premium (or discount) to the median valuation of your peers.

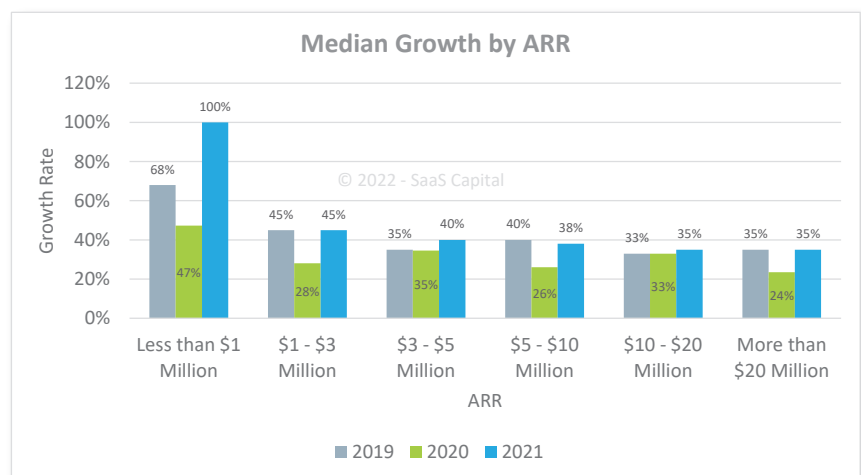
GROWTH RATE BY COMPANY SIZE

A comparison of how fast your SaaS business is growing versus others' growth rate is only relevant when you are comparing 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. Despite identical growth rates, the smaller company might be worth 5 times revenue (as a relative laggard), while the larger might be worth closer to 10 times revenue (as a champion among its peers).

We were pleased to see 2021 growth rates return to pre-pandemic levels. We had heard from many portfolio companies and prospective borrowers that new sales were essentially zero in Q2 2020 as customers focused internally, retooling to work-from-home, or altering operations to keep employees safe. In Q3 2020, sales returned somewhat, but sales cycles were lengthened significantly as software buyers remained hesitant, not knowing how long the pandemic would last. By Q4, most companies had stabilized and resumed business-as-new-normal into 2021.

The overall median growth rate for all companies in the survey registered 40%. This is up from an overall median of just under 30% in 2020 and puts growth at the same pre-pandemic levels seen in 2019. *Figure 1* shows median year-over-year (YoY) growth broken down by Annual Recurring Revenue (ARR) for 2019, 2020, and 2021. Like so many other charts of data over the last three years (airline travel, stock market performance, etc.), there was a significant ten to fifteen percentage point decline in growth rates in 2020.

Figure 1



Median growth rates at each company size category are higher than 2020 and, for the most part, match or exceed 2019 levels. Further, fewer companies shrank in 2021 than in 2020. Overall, only 2.7% of the companies reported flat or negative growth in 2021, compared to 13% in 2020.

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 more than 100% year-over-year to be in the top 25% of its peers, whereas that bar is 55% growth for a company with \$20 million of ARR.

The chart also highlights the variability seen in earlier-stage companies. Part of this is just math, or the “denominator effect:” dividing by a small number can produce very high growth rates. But the other part is the true variance 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, however, they eventually all find their way to product-market fit (or don’t survive), and so do their competitors and substitutes. Accordingly, as larger-scale companies stabilize and grow more consistently, it becomes harder and harder with larger and larger denominators to have those gigantic variances to the upside, and growth rate variance compresses.

The variability of very early (sub-\$1 million ARR) companies was even more pronounced in 2021 from previous years, even as those smaller companies posted almost uniformly higher growth. The 75th percentile jumped from 173% in 2020 to 267% in 2021 while the 25th percentile rose from 9% in 2020 to 37% in 2021.

What about the very top performers – the benchmark growth rate for the fastest-growing SaaS company at each ARR level? Figure 3 shows the 90th percentile -- the top performers’-- growth rates for each ARR group for 2019, 2020, and 2021.

Here we see a divergence between smaller and larger companies. Top-performing companies with less than \$3M in ARR posted higher growth rates than in 2020 and met or exceeded what was seen in 2019. Meanwhile, top-performing companies with more than \$3M in ARR reported growth rates roughly equal to those of 2020 and mostly below the levels seen in 2019.

There are a couple of points here. First, again, smaller companies inherently have higher performance variance, so we caution against reading too much into the top performers among sub-\$1M ARR companies.

However, for the larger companies, yes, we are returning to normal, and most metrics are returning to pre-pandemic levels, but clearly, the top performers in 2021 grew slower than the top performers in 2019.

We are not completely back to normal. Plus, there are other challenges now facing companies like supply chain issues, hiring constraints, lower valuations, frozen private and public capital markets, and higher interest rates – a more uncertain macroeconomic environment than existed in 2019. Many of those issues did not arise until the very end of 2021 or early 2022, but despite a vast improvement from the prior year, 2021 was not a complete reversion to the essentially full-throttle bullish environment of 2019.

Figure 2

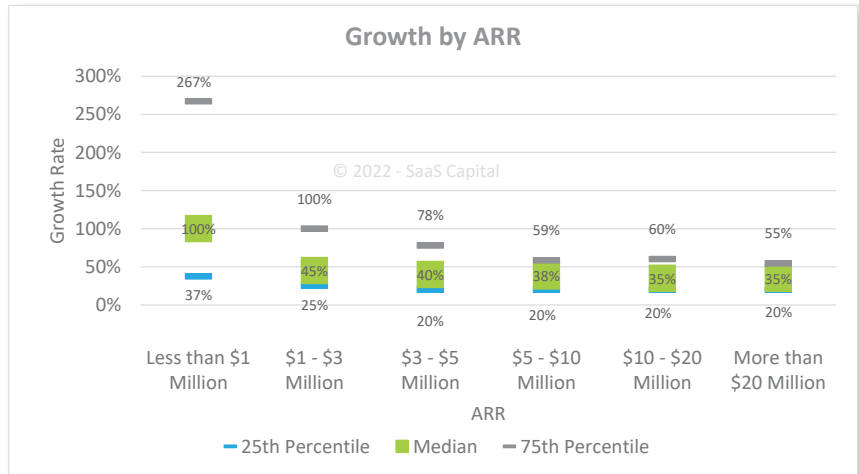


Figure 3

ARR	90th Percentile in 2019	90th Percentile in 2020	90th Percentile in 2021
Less than \$1 Million	242%	444%	500%
\$1 - \$3 Million	252%	153%	259%
\$3 - \$5 Million	160%	126%	121%
\$5 - \$10 Million	100%	92%	84%
\$10 - \$20 Million	99%	85%	88%
More than \$20 Million	90%	65%	73%

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 is the result since investors look to back companies that *already* show signs of being high performers, understanding the difference is important for benchmarking.

Figure 4 shows the median growth rates for equity-backed and bootstrapped companies in 2021 versus 2020, broken down by ARR.

In 2021, equity-backed companies with \$1M to \$3M in ARR reported median growth of 70%, which is nearly twice what was reported in 2020, and nearly twice what bootstrapped companies showed in 2021.

At each company size category, equity-backed companies reported higher median growth rates than bootstrapped companies. But, it's worth pointing out that they are paying for this growth – literally -- with the cash they raised from selling their equity to VCs: equity-backed companies reported spending 66% more on Sales and Marketing than did bootstrapped companies. Furthermore, total median spend levels across all departments showed equity-backed companies were operating at a loss while bootstrapped companies were operating at a profit.

THE VENTURE CAPITAL GAMBLE

The venture capital gamble is that selling some of your equity for cash for you to spend on growth will allow you to achieve a certain ARR level and growth rate faster than a bootstrapped version of yourself. SaaS valuations are calculated as [multiples of ARR](#), and the single biggest driver of the multiple is growth rate.

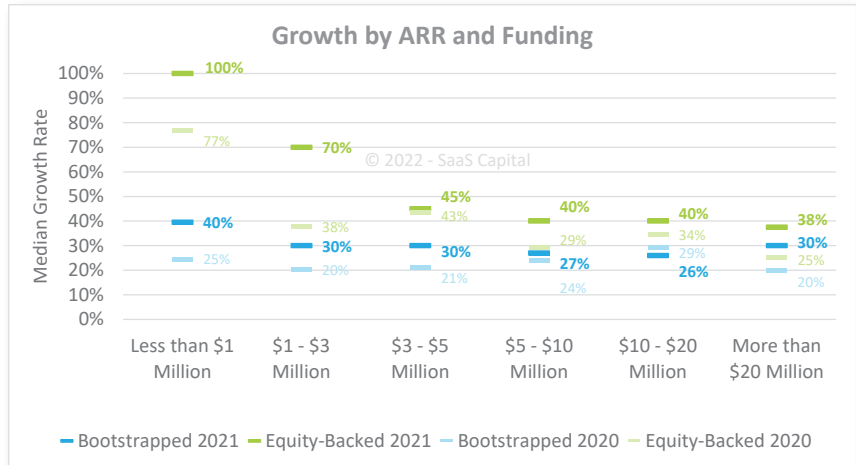
So, a higher growth rate should result in a higher valuation multiple, sooner in the company's timeline than you would have otherwise achieved by staying bootstrapped. In raising venture, you hope this increased valuation multiple more than offsets the dilutive percentage sold off to investors (AKA, a smaller slice of a bigger pie).

However, as stated above, *Figure 4* does not necessarily show causation! Through our decade-plus of lending to SaaS companies, we have empirically seen that raising venture capital does not *change* growth rates in a meaningful way.

It is far more likely that the VC-backed companies in the survey were *already* growing quickly before they raised outside capital. This is important to understand as you contemplate the "VC gamble." Now, venture capital can have real, positive impacts like an accelerated product roadmap, external validation and network effects, and a war chest for acquisitions. But it is important to be honest about how hard it is to [bend the growth curve](#).

Acknowledging our bias as a lender, we consider the engine (the company's business model and product-market fit) as far more important than the type of fuel (the capital). Pouring VC "rocket fuel" into a rocket may work fine – but it won't transform a Ferrari (or a Honda) into a spaceship.

Figure 4



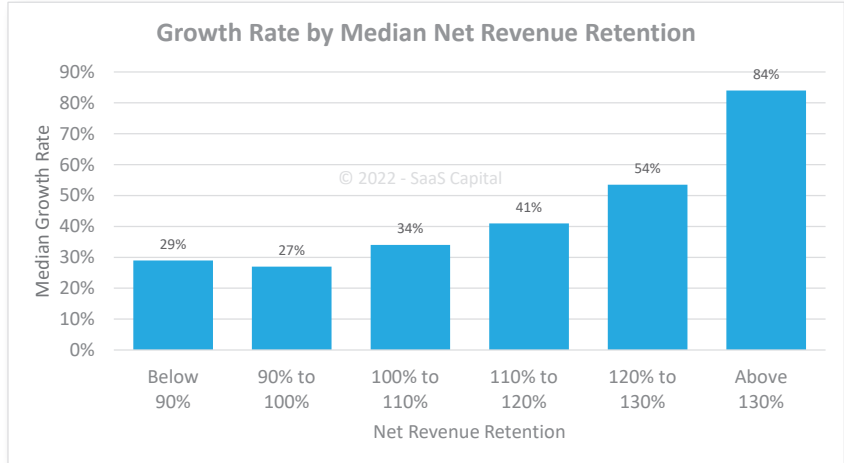
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GROWTH RATE AND RETENTION

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 comes from our [2022 SaaS Retention Benchmarks for Private B2B Companies](#) and highlights the relationship between growth and retention. This relationship is a rare example of increasing returns from investment in upsells and cross-sells.

Figure 5



Increasing Net Revenue Retention (NRR) to up above 100% improves growth rate by 5%, increasing NRR from 110% to 120% improves growth by 7%, increasing NRR by another 10% improves growth by 13%, and finally, surpassing the rare and almost mythical level of 130% NRR is associated with a whopping 30% higher growth than the next tier down.

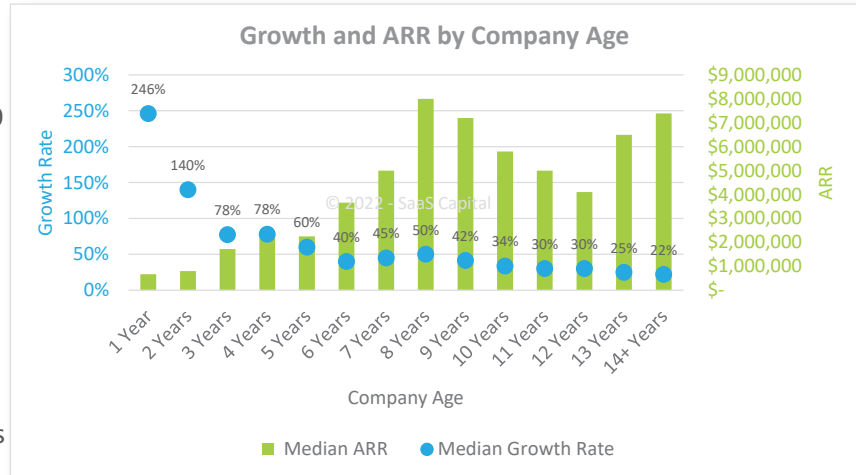
The relationship between Gross Revenue Retention (GRR) and growth is not as direct and is more binary. Overall performance appears to inflect around a GRR of 80%, but no further correlation exists between growth rate and GRR. A rate over 80% can be sufficient to build a great growth foundation, whereas GRR under 80% will almost certainly prove a challenge. Specifically, companies with 80% to 100% GRR all report median growth of around 40%, the same as the total sample of companies. But companies with gross retention below 80% reported growth below the population median of 40%.

GROWTH RATE BY COMPANY AGE

Historically, company age and revenue have been directly correlated, while company age and growth rates were inversely correlated. That pattern began to change in 2020 and continued to evolve in 2021.

As seen in Figure 6, there are essentially 3 phases as companies age. Startups show very high growth rates, in part due to small base revenue, as noted throughout the findings above. As revenue grows, growth rates begin to slow and stabilize in a range of 40% to 50% with year 8 marking an inflection point of both growth rate and ARR level. We have noted in previous research that there seems to be an implied SaaS "life expectancy" of 6 to 8 years due to founders looking to grow the business and then sell, particularly for venture-backed companies.

Figure 6



After year 8, we see at this point median revenue and growth rates decline gradually as companies age. Also, at this point, we see the number of companies in each age group decline, before popping back up significantly again after 12 years of age.

These trends corroborate the "life expectancy" theory – a lot of companies grow towards \$10 million ARR and a healthy growth rate of 40% to 50% and exit, leaving smaller and slower-growing companies who have not yet reached their exit milestone. We do not have a good explanation for the jump in median ARR size at year 13.

The median age for bootstrapped companies is 10 years old, while the median age for equity-backed companies is 7 years old. Our data also show that 36.7% of bootstrapped companies were older than 12 years, while only 22.6% of equity-backed companies were older than 12 years.

This is likely due to pressure from VC fund horizons with the data suggesting that 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. This external exit pressure is a key component of a SaaS company's life expectancy.

SUMMARY AND OTHER FINDINGS

- The overall median growth rate for all companies in the survey registered 40.0%. This is up from an overall median of 29.6% in 2020 and puts growth at the same pre-pandemic levels seen in 2019. Overall, only 2.7% of the companies reported flat or negative growth in 2021, compared to 13% in 2020.
- Overall, bootstrapped companies reported growing at a median of 30% in 2021 versus 22% in 2020, whereas companies that have raised venture capital financing were growing at a median of 45% in 2021 versus 33% in 2020. 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.
- Growth rate is positively and exponentially correlated with net revenue retention. Increasing Net Revenue Retention (NRR) from 100% to 110% improves growth rate by 5%, increasing NRR from 110% to 120% improves growth by 7%, increasing NRR by another 10% improves growth by 13% and another 10+% improves growth by an amazing 30%.
- The relationship between Gross Revenue Retention (GRR) and growth is not as direct and is more binary. There is no correlation between GRR and growth rate for companies with gross retention of at least 80%.
- Growth rates slow as companies grow and age. Revenue topped out at year 8 and close to \$10 million ARR in the survey, marking an interesting life cycle and exit size benchmark. 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.
- Continuing a pattern we have observed over the years, average annual 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 faster than companies attacking a vertical industry: 45% growth versus 38%, respectively.
- Interestingly, this year's survey revealed that billing frequency had no impact on median growth rates. Previous surveys had shown that companies billing annually upfront reported higher growth than those billing month-to-month. However, it is still worth noting that annual billing companies enjoy a meaningful cash flow advantage over monthly billers.
- Research [published earlier this year](#) revealed that growth was the biggest factor driving employee retention, with a strong linear correlation.
- Looking ahead, there is a lot of concern about a recession. Previous research – [How Do SaaS Companies Perform in a Recession?](#) – explored the impact that the 2008 recession had on SaaS companies. The research found that the growth of public SaaS companies at the time fell from 40% to 10%. While the SaaS business model insulates companies from wild swings in revenue and profits, it does not make them immune, and cyclicity will negatively impact those SaaS companies with natural ties to cyclical industries or cyclical business functions. From an operator and investor perspective, it will be important for companies to anticipate the likely impact a recession will have on their specific business and to be in a position to move quickly and intentionally when one occurs. As was shown in the data, the SaaS business model is resilient, but not bulletproof.

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.

1311 VINE STREET | CINCINNATI, OH, 45202
7900 E GREENLAKE DRIVE NE, SUITE 206 | SEATTLE, WA 98103
WWW.SAAS-CAPITAL.COM

ROB BELCHER | MANAGING DIRECTOR | RBELCHER@SAAS-CAPITAL.COM | 303-870-9529
STEVE JAFFEE | MANAGING DIRECTOR | SJAFFEE@SAAS-CAPITAL.COM | 614-506-2770