

Preparing Your SaaS Business for Funding



About SaaSOptics

500+
Customers and
Growing

\$4.1B
Customer Revenue
& Invoicing

\$9B
Aggregate
Invested Capital



Tim McCormick
CEO

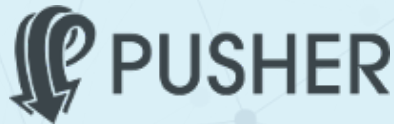


About SaaS Capital

52
Companies Funded

\$595M
of Equity Value Created

100%
Success Rate



Todd Gardner
Founder and Managing Director

Agenda

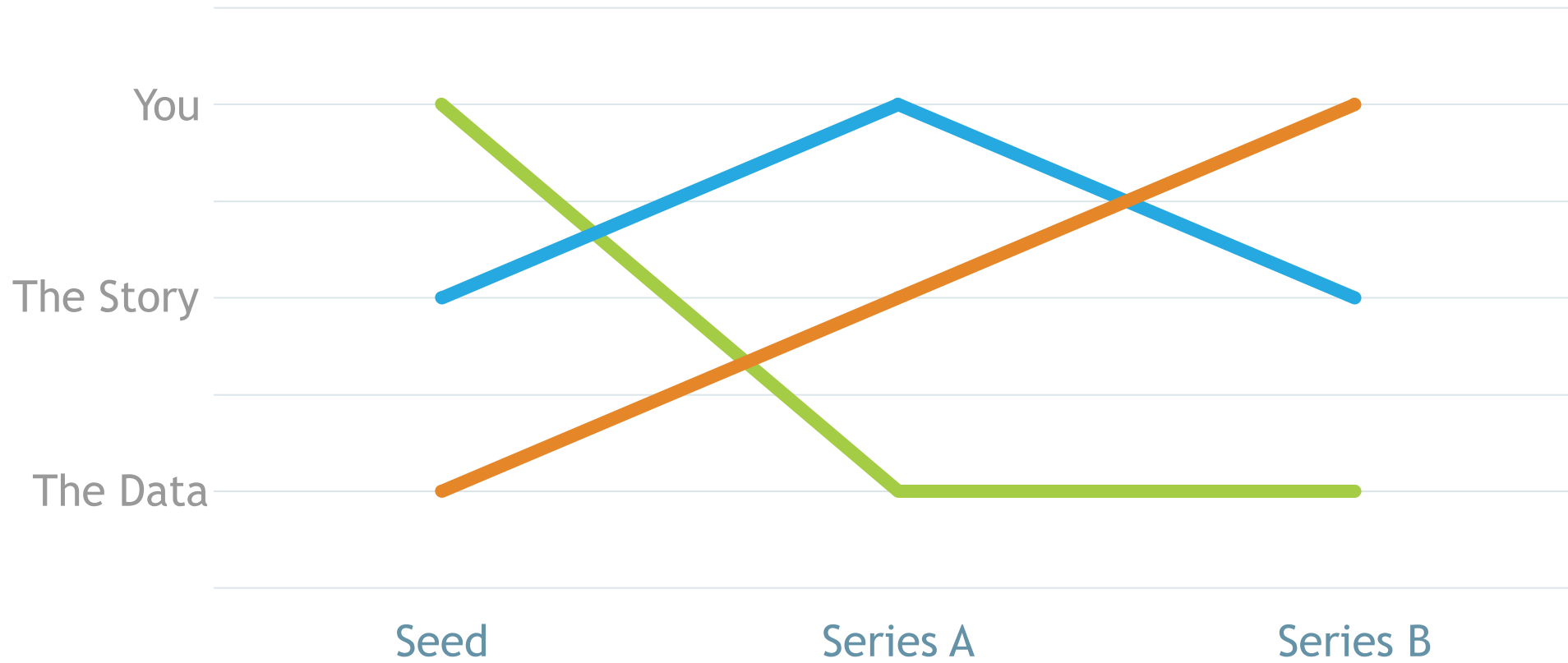
- 1. Setting the stage: Seed, vs. Series A/B/C and debt.*
- 2. Financial Data and Benchmarks*
- 3. Important Metrics and Benchmarks*
- 4. Q & A*

Survey Question

What type of funding will you be preparing for next?

- *Seed*
- *Series A*
- *Series B or beyond*
- *Debt*

Setting the Stage: What's Important



The Story

An investor needs to understand what the business actually does very early in the process.

- *What problem do you solve and for whom?*
- *What's the "use case"*
- *Use plain English, not marketing gibberish*

The Story

What not to say:

"We are a global technology company transforming the way large corporations and their thousands of suppliers process payments. We unlock hundreds of millions of dollars in value while improving efficiency and delivering total visibility through WAS."

What to say:

"We provide workflow software that streamlines invoicing and payment processing for large companies."

Financial Presentation

Historical financials do matter. Whether GAAP or cash, they provide a consistent set of rules by which to measure the company.

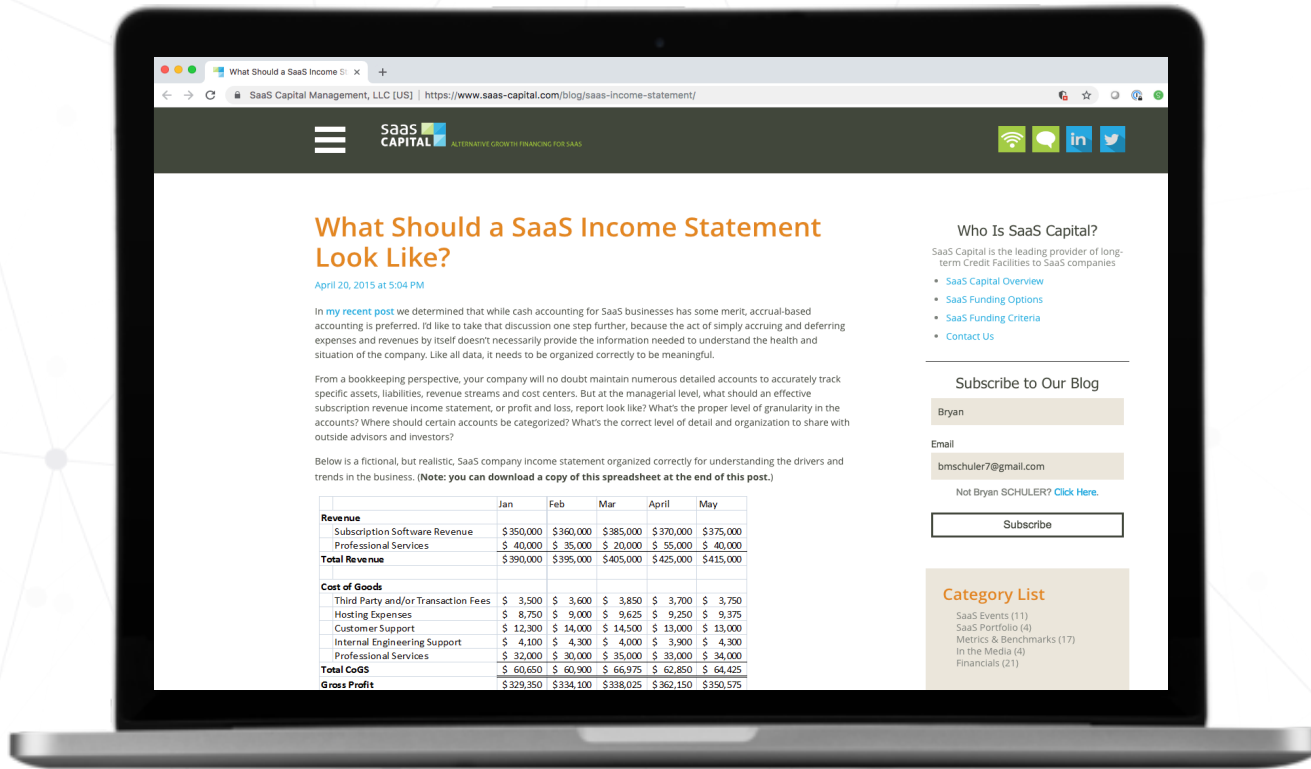
Historical Financial Data (What a SaaS P&L should look like)

	Jan	Feb	Mar
Revenue			
Subscription Software Revenue	\$ 350,000	\$ 360,000	\$ 385,000
Professional Services	\$ 40,000	\$ 35,000	\$ 20,000
Total Revenue	\$ 390,000	\$ 395,000	\$ 405,000
Cost of Goods			
Third Party and/or Transaction Fees	\$ 3,500	\$ 3,600	\$ 3,850
Hosting Expenses	\$ 8,750	\$ 9,000	\$ 9,625
Customer Support	\$ 12,300	\$ 14,000	\$ 14,500
Internal Engineering Support	\$ 4,100	\$ 4,300	\$ 4,000
Professional Services	\$ 32,000	\$ 30,000	\$ 35,000
Total CoGS	\$ 60,650	\$ 60,900	\$ 66,975
Gross Profit	\$ 329,350	\$ 334,100	\$ 338,025
Gross Margin	84%	85%	83%
Operating Expenses			
Sales	\$ 145,000	\$ 125,000	\$ 122,000
Marketing	\$ 87,000	\$ 62,000	\$ 89,000
Product Development	\$ 135,000	\$ 130,000	\$ 128,000
General and Administrative	\$ 56,000	\$ 71,000	\$ 73,000
Total Operating Expenses	\$ 423,000	\$ 388,000	\$ 412,000
Net Income	\$ (93,650)	\$ (53,900)	\$ (73,975)

Tips

- Break out *recurring vs non-recurring* revenue
- Break out services from licensing revenue and COGS
- Avoid one simple expense line called “salaries”
- Customer Success may need to be split between COGS and Sales
- Do not capitalize software development expenses (fight auditor on this one)
- Move to GAAP at a minimum when over \$3 million in revenue and/or billing in advance

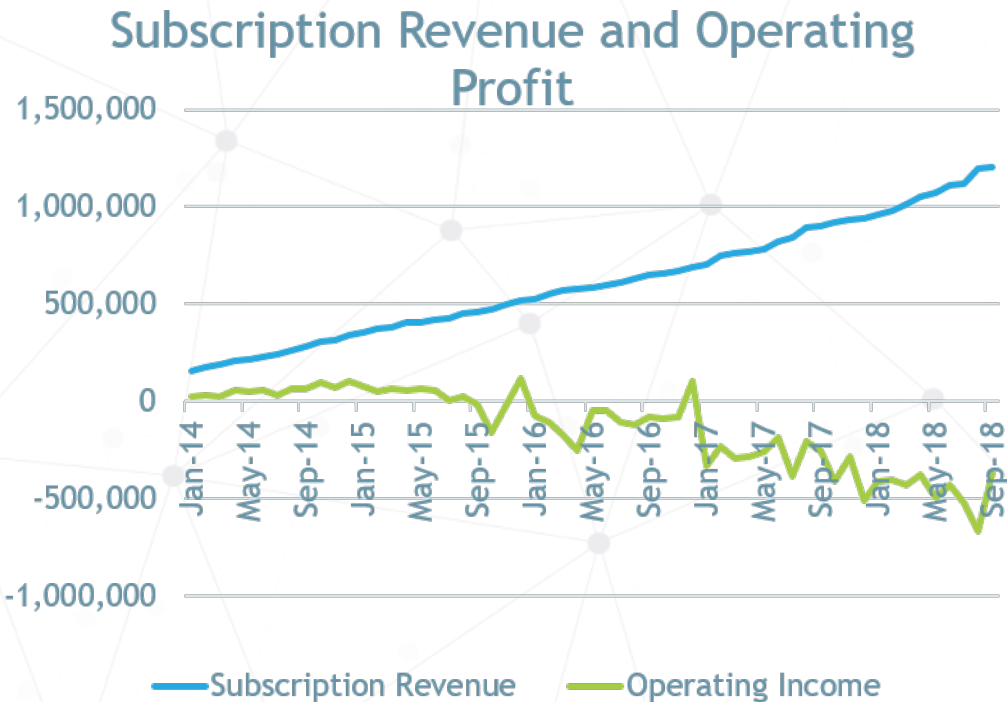
Historical Financial Data (What a SaaS P&L should look like)



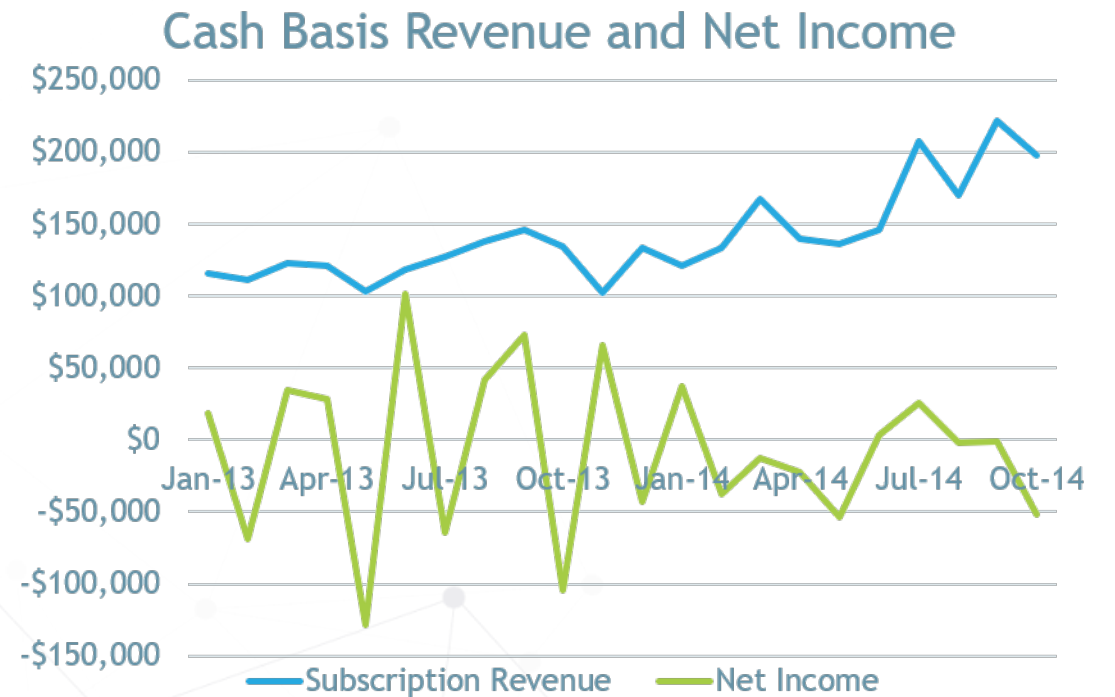
Blog Post: What Should a SaaS Income Statement Look Like?

The "One Chart" and GAAP vs. Cash

GAAP Financials



Cash Financials



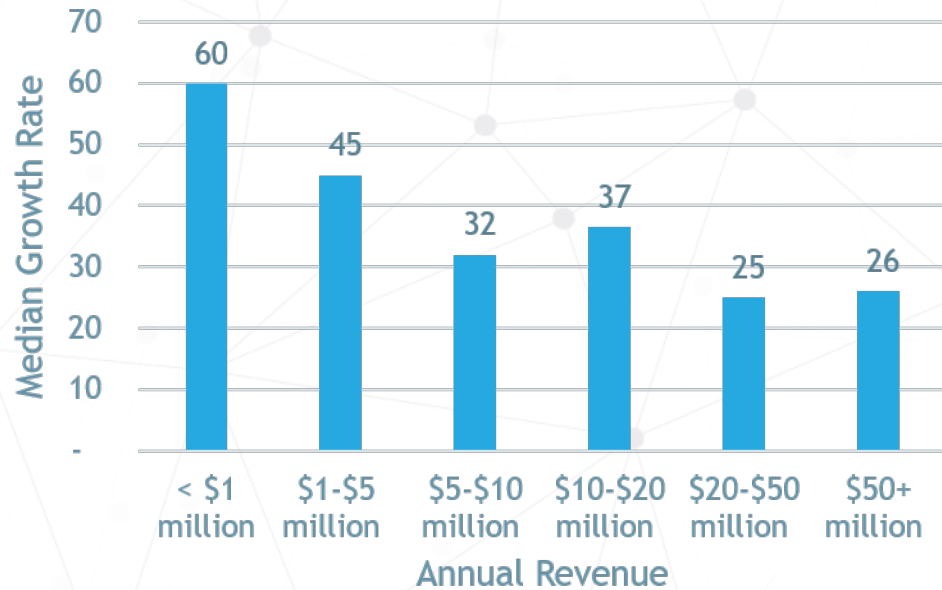
The SaaS Perspective (the other key chart)

Key SaaS Metrics - Momentum ?			
Customer: Name	Jul 18	Aug 18	Sep 18
⊕ Opening	14,725,510	15,117,258	16,854,568
⊕ New	601,986	1,759,291	1,489,243
⊕ Lost	-135,044	-118,603	-79,348
⊕ Expansion	6,451	230,203	117,334
⊕ Contraction	-81,645	-142,866	-35,389
⊕ End of Period	15,117,258	16,854,568	18,346,409

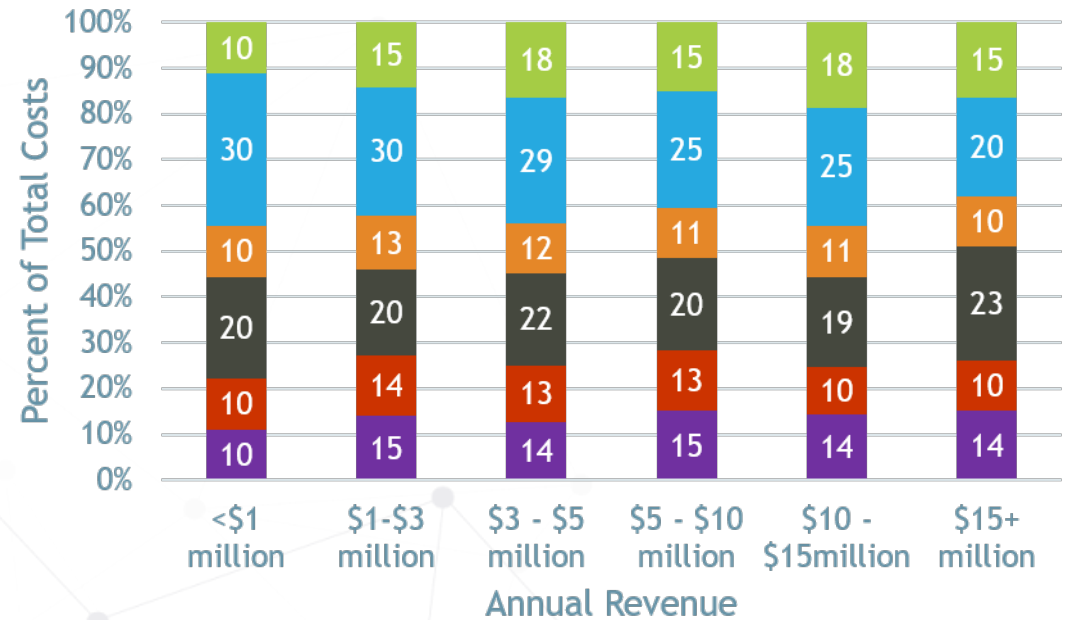
Key SaaS Metrics - Customer Count ?			
Customer: Name	Jul 18	Aug 18	Sep 18
⊕ Opening	882	907	993
⊕ New	36	92	96
⊕ Lost	8	7	1
Expansion	1	10	10
Contraction	5	7	5
⊕ End of Period	907	993	1,089

Growth and Margin Benchmarks

Is your company growing faster than others its size?



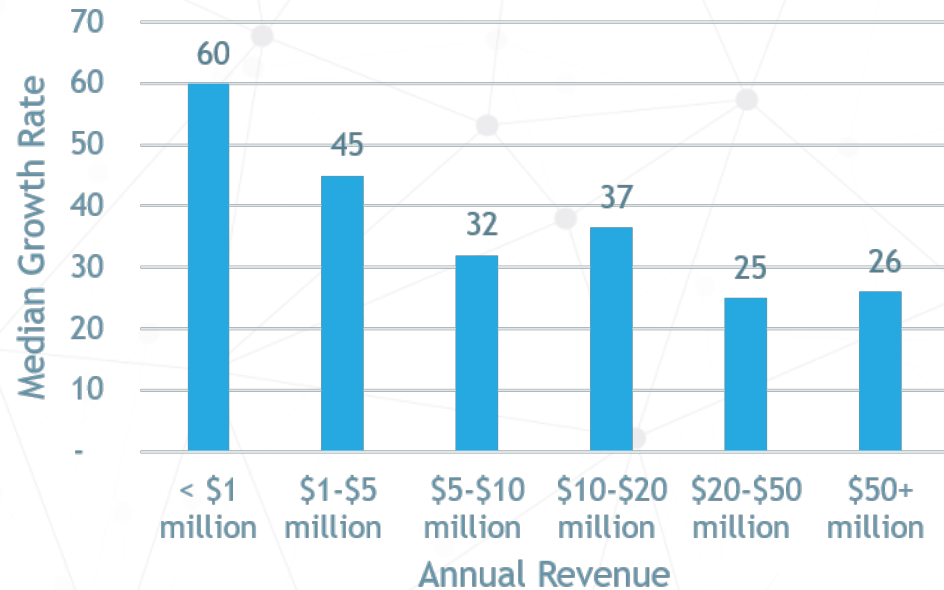
How does your company spend its money compared to others?



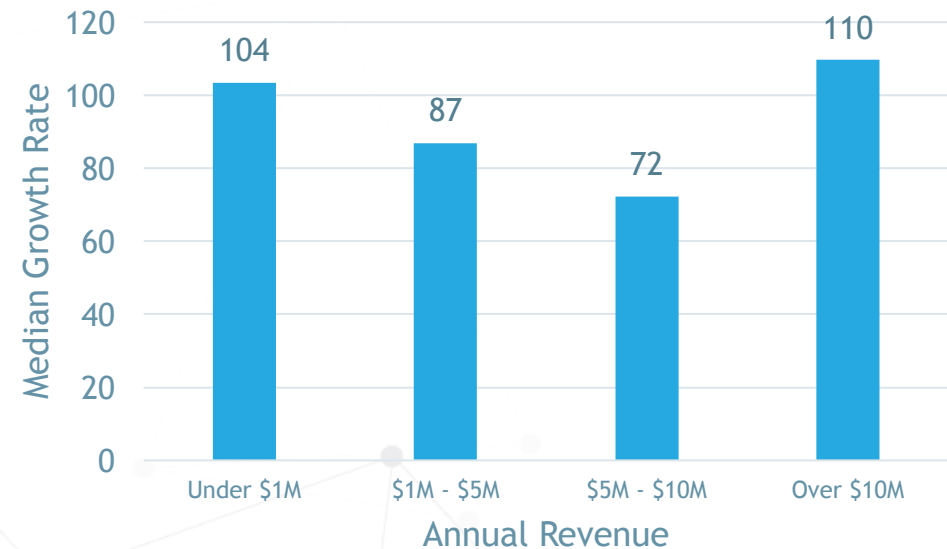
■ CoGS ■ CS ■ Sales ■ Mktg ■ R&D ■ G&A

Growth and Margin Benchmarks

Is your company growing faster than others its size?

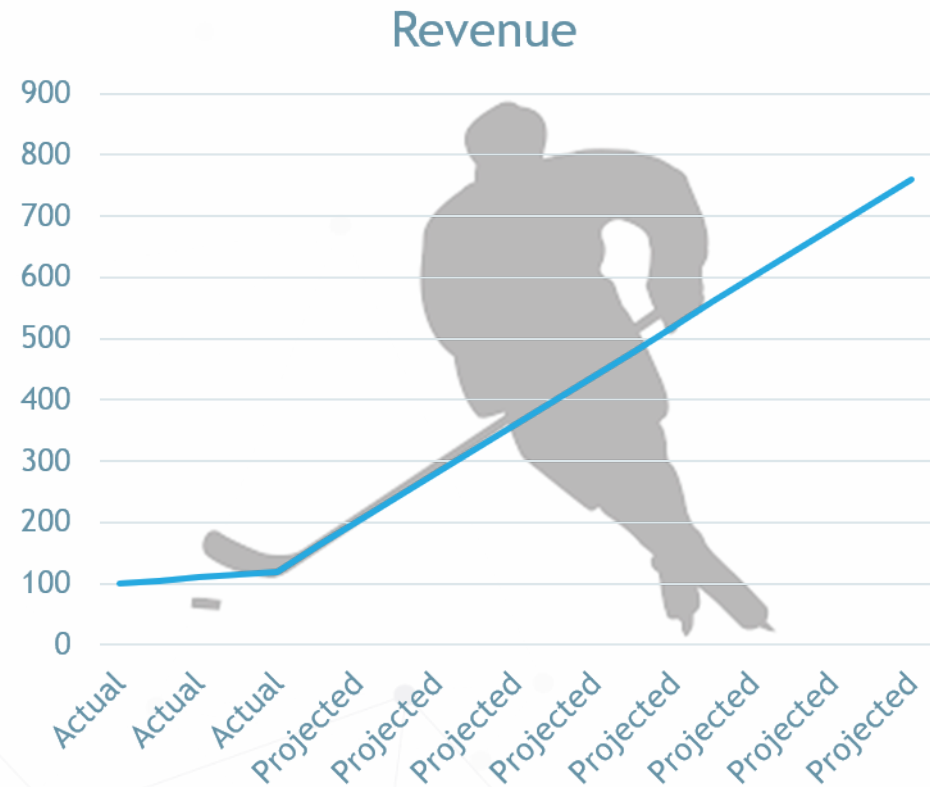


Compared to SaaSOptics' customer base

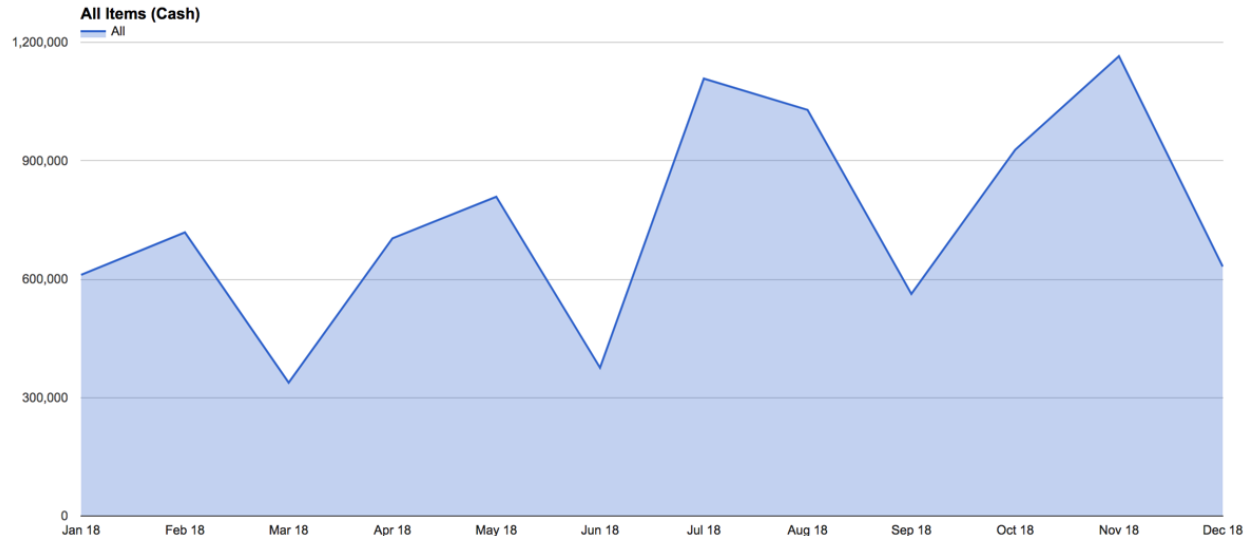


Long-term Fundraising Projections

- Avoid the obvious “Hockey Stick” where growth suddenly accelerates
- Not that important at Series A or earlier
- Relevant mostly from a near term cash usage perspective



Cash Forecasting



Cash Projections by Customer

Customer: Name	Computation	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Full Range
6connect Projection Example - billing	Cash	300	300	300	300	300	525	525	525	525	525	525	525	5,175
6connect1	Cash	8,120	1,000	4,000	8,009	1,000	6,250	9,125	1,000	6,250	11,938	1,750	7,000	65,442
7Park	Cash		28,750			28,750			28,750			50,313		136,563
A Milestone Customer	Cash	4,000	4,366	1,000	4,000	2,902	1,000	11,500	1,000	1,750	12,250	1,750	1,750	47,268
ABD Logistics	Cash	3,000			3,000			3,000			5,250			14,250
AC James	Cash	2,500			2,500			4,375			4,375			13,750
Accretive	Cash	3,000			3,000			3,000			26,250			35,250

Metrics

The SaaS business model has dozens of different metrics to track performance. Understand how the metrics work, and track the ones that fit your business.

Polling Question

Which SaaS performance metrics are you currently tracking?

- *MRR/ARR*
- *Churn & Retention*
- *CLV/CAC*
- *Cohorts*
- *ACV*

What Metrics are Important

Product/Market Fit

- ✓ Cash Burn & Runway
- ✓ # of Customers
- ✓ New and Total ARR

Repeatable Sales Process

- ✓ Net New ARR ↑
- ✓ Pipeline Metrics
- ✓ Churn & Retention Rates
- ✓ LTV/CAC
- ✓ Cash Projections

Scaling the Business

- ✓ MQL → SQL → Closed/Won
- ✓ Rep Win Rates
- ✓ New ARR by Rep
- ✓ ACV Growth
- ✓ Expansion & Contraction ARR

The SaaS Metrics that Matter

SaaS Key Performance Indicators you should start tracking

Annual Recurring Revenue (ARR)

Annual Contract Value (ACV)

Customer Lifetime Value (CLV)

Customer Acquisition Cost (CAC)

Churn

Expansion Revenue

Cohort Analysis



Retention Metrics (“static pool” approach)

Net Revenue Retention:

Focusing just on customers who were active this time last year, how much revenue did they generate this month compared to the revenue they generated one year ago?

Gross Revenue Retention:

Same as above, but this month’s revenue per customer cannot exceed that from the same month prior year. (Eliminates up-sell, price increases, and organic growth.)

Sample Calculation

	Revenue in:	Revenue in:	Adjusted Revenue in:
<u>Customers in July 2017</u>	<u>Jul-17</u>	<u>Jul-18</u>	<u>Jul-18</u>
Customer A	\$ 1,000	\$ 1,000	\$ 1,000
Customer B	\$ 2,000	\$ 2,250	\$ 2,000
Customer C	\$ 3,000	\$ 2,500	\$ 2,500
Customer D	\$ 4,000	\$ 4,750	\$ 4,000
Customer E	\$ 5,000	\$ -	\$ -
Customer F	\$ 2,000	\$ 7,250	\$ 2,000
Customer G	\$ 7,000	\$ 7,000	\$ 7,000
Customer H	\$ 8,000	\$ 9,750	\$ 8,000
Customer I	\$ 9,000	\$ -	\$ -
Customer J	\$ 3,000	\$ 5,000	\$ 3,000
Customer K	\$ 11,000	\$ 11,000	\$ 11,000
Customer L	\$ 12,000	\$ 14,750	\$ 12,000
	\$ 67,000	\$ 65,250	\$ 52,500
		<u>Net Retention Rate</u>	<u>Gross Retention Rate</u>
		97.4%	78.4%

Monthly Retention Tracking

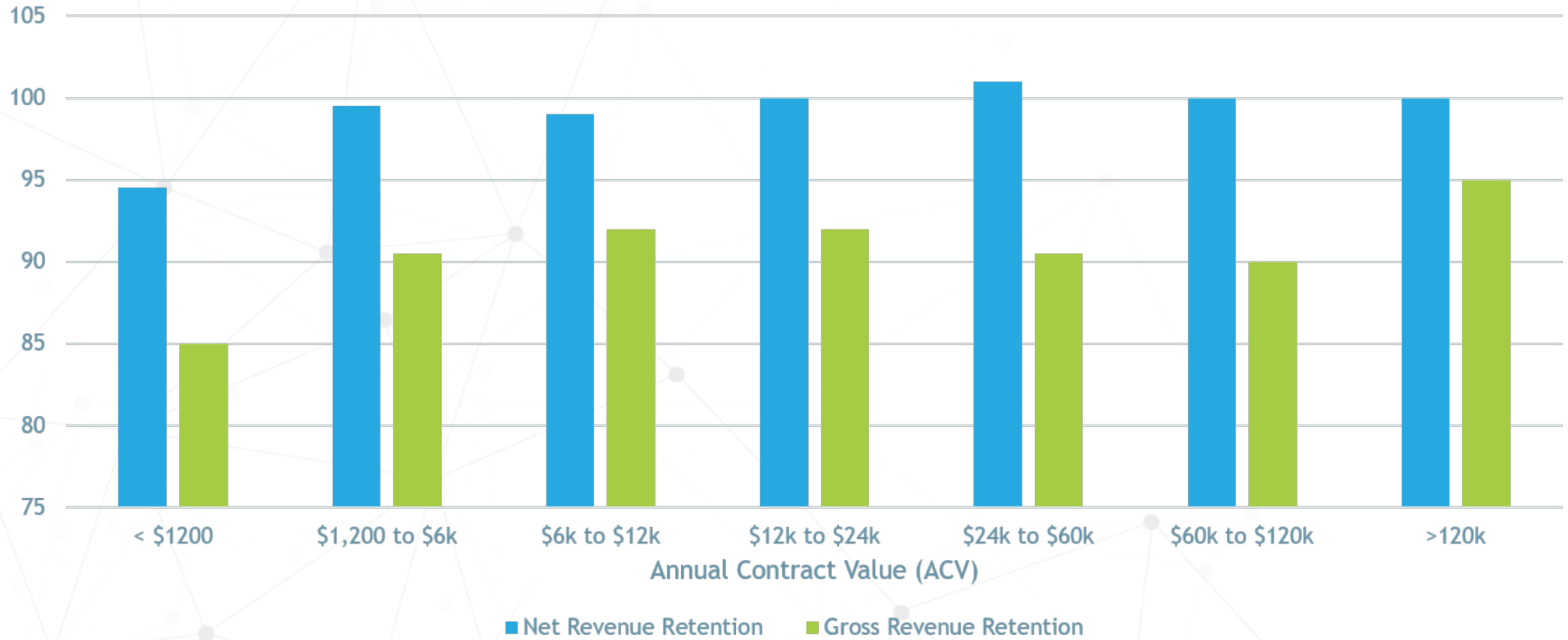
Key SaaS Metrics - Revenue Metrics ?

	Jul 18	Aug 18	Sep 18
Churn Rate	1.47%	1.73%	0.68%
Renewal Rate	98.53%	98.27%	99.32%
Effective Retention Rate	98.57%	99.79%	100.02%
Average Opening	16,696	16,667	16,973
Average New	16,722	19,123	15,513
Average Expansion	6,451	23,020	11,733
Average Ending	16,667	16,973	16,847

Key SaaS Metrics - Customer Metrics ?

	Jul 18	Aug 18	Sep 18
Annual Churn Rate	87.50%	50.52%	26.09%
Monthly Churn Rate	7.29%	4.21%	2.17%
Monthly Renewal Rate	92.71%	95.79%	97.83%
Period to Period Net Growth Rate		2.83%	9.48%

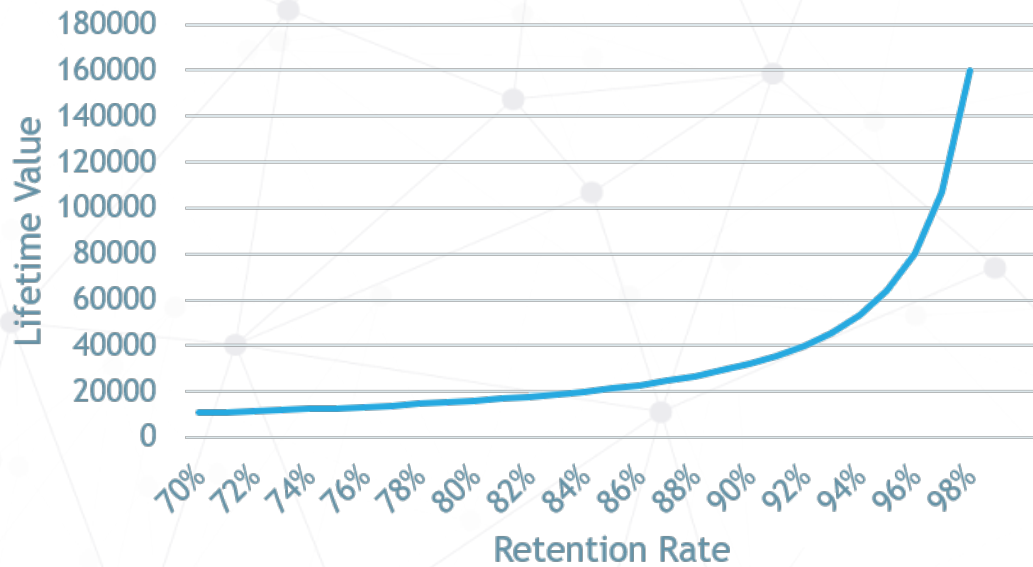
Retention Benchmarks



CAC to LTV

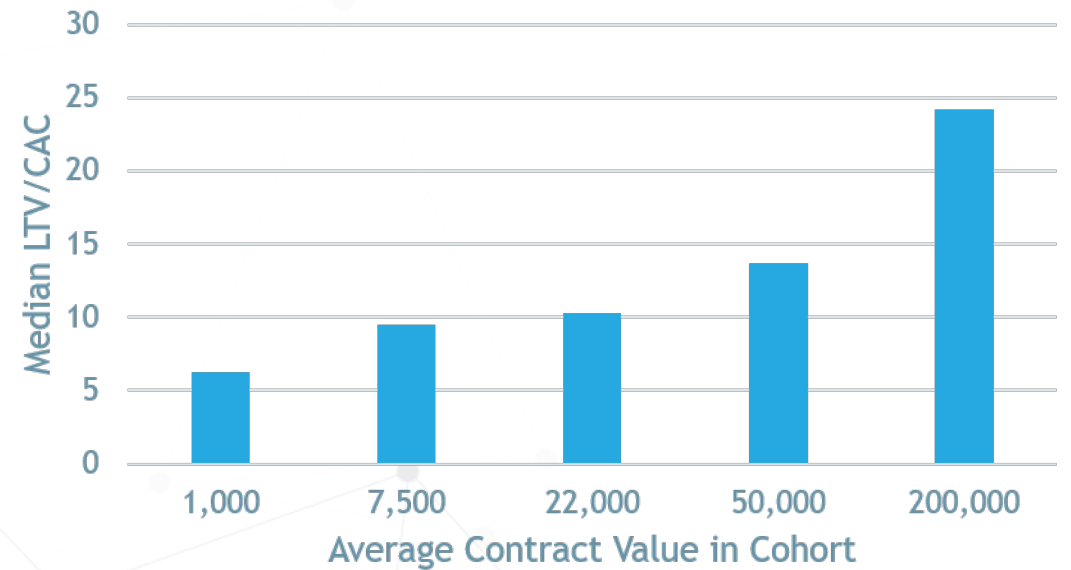
Be careful calculating LTV if you have high retention rates.

LTV by Retention Rate



What is a Good CAC to LTV?

LTV/CAC by ACV



Summary

- 1. Make it easy for investors to understand what your business does*
- 2. Provide clean historical financial statements:*
 - Conform to “typical” SaaS financial reporting*
 - Transition to GAAP sooner rather than later*
- 3. Know a lot about your retention: gross, net, monthly, annually, etc.*
- 4. Explore and track other SaaS operating metrics that work for you*

Polling Question

Would you like more information from us?

- I'd like to hear more about SaaS Capital*
- I'd like to hear more about SaaS Optics*

Questions?



Tim McCormick
CEO



Todd Gardner
Founder and Managing Director



Subscription Management Made for Growing SaaS Businesses



Order Management &
Renewals



Subscription Billing &
Payments



Revenue Recognition &
Reporting



Subscription Metrics &
Analytics

The Leading Provider of Long-Term Committed Credit Facilities to SaaS Companies



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

- Sell a SaaS-based solution
- \$250,000, or above, in MRR
- History of gross renewals greater than 85%
- Headquarters in U.S., Canada, or the United Kingdom
- Revenue growth above 15% per year