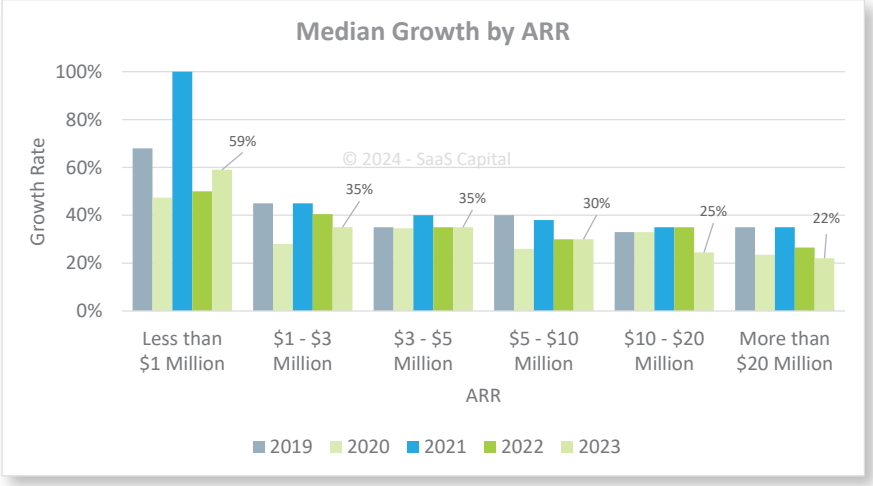
SaaS Capital Insights

*In Q1 of each year, SaaS Capital conducts a survey of B2B SaaS company metrics. This year marked our 13th 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.*

# 2024 BENCHMARKING PRIVATE SAAS COMPANY GROWTH RATES

*Figure 1*




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 more than 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 3 times revenue (as a relative laggard), while the larger might be worth closer to 10 times revenue (as a champion among its peers).

The overall median growth rate for all companies in the survey registered 30%, which is down from an overall median of 35% in 2022. *Figure 1* shows median year-over-year (YoY) growth broken down by Annual Recurring Revenue (ARR) for 2019, 2020, 2021, 2022, and 2023.

The data confirms trends we've been observing in the market. In mid-2021, public company valuations reached a peak, with a median of nearly 17 times their current run rate ARR. However, by the first half of 2022, valuations dropped

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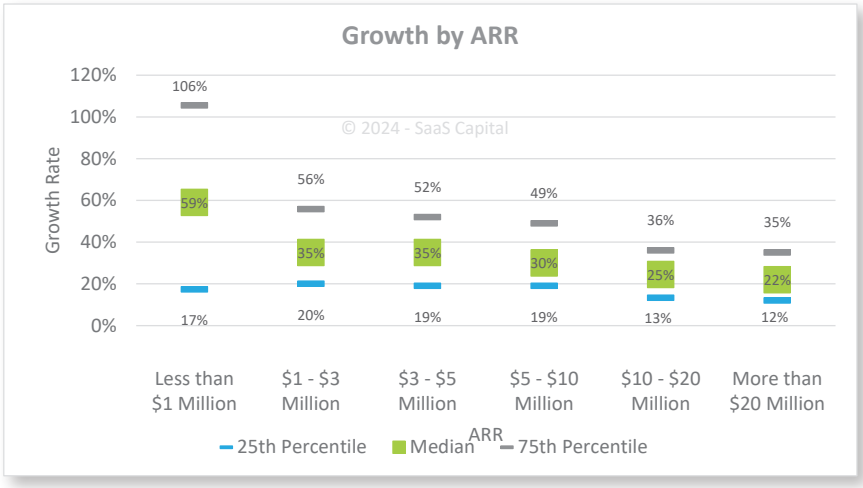
significantly and stabilized in the current range of 6.0 to 7.0 times ARR. Private capital markets also slowed down, and with funding becoming scarce, SaaS companies have been forced to prioritize profitability over growth. This shift, along with ongoing economic concerns and reports of longer sales cycles, has led to slower growth overall.

However, it is worth noting that while growth slowed, the overwhelming majority of respondents still posted positive growth. Overall, 5.3% of the companies reported flat or negative growth in 2023, which is up from 3.1% last year but well below the 13% reported 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.

*Figure 2*




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 56% year-over-year to be in the top 25% of its peers, whereas that bar is 35% 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.

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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, 2021, 2022, and 2023.

Here we see a divergence between smaller and larger companies but also an overall compression in the top end of growth rates.

For all but the Less than $1 million category, 90th percentile growth is the lowest it has been in the last four years.

*Figure 3*

| ARR | 90th Percentile in 2019 | 90th Percentile in 2020 | 90th Percentile in 2021 | 90th Percentile in 2022 | 90th Percentile in 2023 |
|---|---|---|---|---|---|
| Less than $1 Million | 242% | 444% | 500% | 181% | 263% |
| $1 - $3 Million | 252% | 153% | 259% | 144% | 103% |
| $3 - $5 Million | 160% | 126% | 121% | 93% | 85% |
| $5 - $10 Million | 100% | 92% | 84% | 87% | 75% |
| $10 - $20 Million | 99% | 85% | 88% | 78% | 60% |
| More than $20 Million | 90% | 65% | 73% | 56% | 50% |

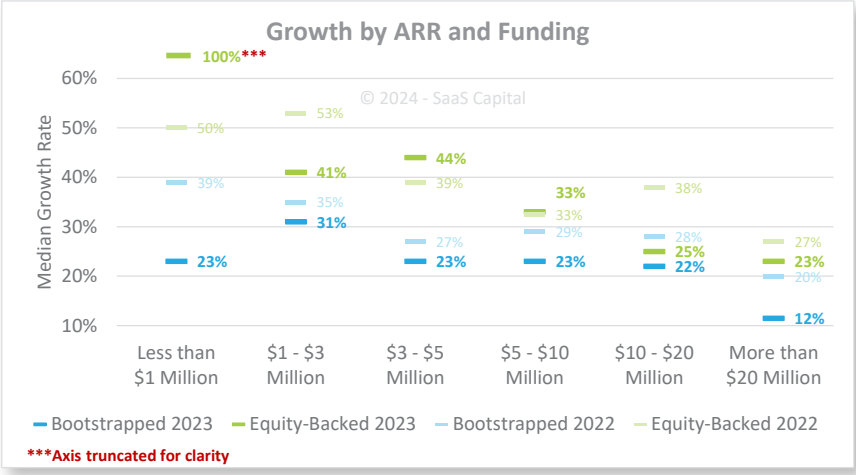
## Growth Rate by Funding Type

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 2023 versus 2022, broken down by ARR.

*Figure 4*




Bootstrapped companies report a consistent year-over-year decline across all company-size categories. On the other hand, equity-backed experienced mixed results, with substantial growth among the smallest companies, but significant declines in others, particularly in the $1-$3 million and $10-$20 million ranges.

A point that has been made in the past is that equity-backed companies are paying for their higher growth – literally -- with the cash they raised from selling their equity to VCs. And while there has been a lot of discussion about moving toward profitability, total median spend levels across all departments still show equity-backed companies operating at a loss while bootstrapped companies are operating at a profit. As an example, equity-backed companies report spending 40% more on Sales and Marketing than bootstrapped companies.

## 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.

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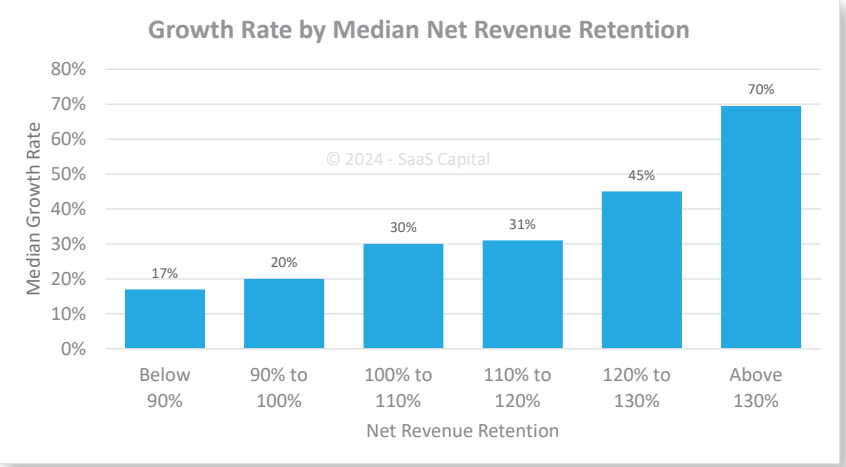
## Growth Rate and Retention

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* highlights the relationship between growth and retention. This relationship is a rare example of increasing returns from investment in upsells and cross-sells.

Increasing Net Revenue Retention (NRR) from the 90% to 100% range to the 100% to 110% range improves growth rate by 10 percentage points.

*Figure 5*




*Excludes Companies with less than $1M ARR*

Companies with the highest NRR report median growth that is more than double the population median. This is a rare example of increasing returns from investment in upsells and cross-sells.

The relationship between gross revenue retention and growth is not as direct and is more binary. Companies with the highest gross retention (above 95%) reported above-average growth while companies with gross retention below 90% reported growth below the population median.

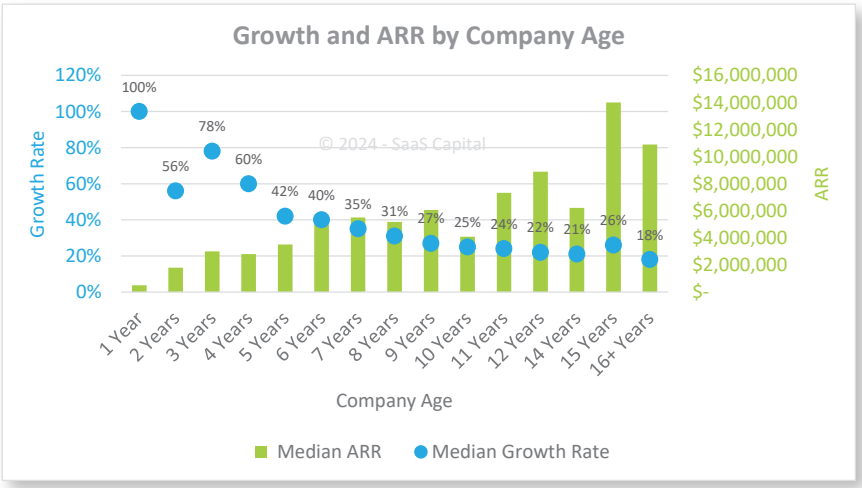
## Growth Rate by Company Age

As illustrated in Figure 6, company age and revenue are directly correlated, while company age and growth rates are inversely correlated.

Startups show very high growth rates in the first few years, in part due to small base revenue, as noted throughout the findings above. By year 10, growth rates generally stabilize but marks an inflection point in the relationship between age and ARR.

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 to a sufficient scale and then sell. This is particularly true for venture-backed companies with outside investors who have their own schedules to adhere to.

*Figure 6*




Also, at this point, we see the number of companies in each age group decline. This group consists of the slowest growth companies that may be growing slowly because they have grown steadily for over a decade and now have a very large base of ARR.

Our data also show that 44% of bootstrapped companies were older than 12 years, while only 31% 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 median growth rate for all companies in the survey registered 30%. This is down from a population median of 35% in 2022 and puts growth closer to the pandemic levels seen in 2020. Overall, 5.3% of the companies reported flat or negative growth in 2023, which is up from 3.1% last year but well below the 13% reported in 2020.
- Bootstrapped companies report median growth of 25%, down from 32% in 2022. Equity-backed companies reported median growth of 30%, down from 35% in 2022.

***"Growth rate is positively and exponentially correlated with net revenue retention. This is a rare example of increasing returns from investment in upsells and cross-sells."***

- Growth rate is positively and exponentially correlated with net revenue retention. Increasing Net Revenue Retention (NRR) from the 90% to 100% range to the 100% to 110% range improves growth rate by 10 percentage points. Companies with the highest NRR report median growth that is more than double the population median. This is a rare example of increasing returns from investment in upsells and cross-sells.
- The relationship between gross revenue retention and growth is not as direct and is more binary. Companies with the highest gross retention (above 95%) reported above-average growth while companies with gross retention below 90% reported growth below the population median.
- Growth rates slow as companies grow and age. Startups show very high growth rates in the first few years, in part due to small base revenue, as noted throughout the findings above. At year 10, revenue and growth rates stabilize and mark an inflection point for ARR.
- The data suggests 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 as 44% of bootstrapped companies were older than 12 years, while only 31% of equity-backed companies were older than 12 years.
- Continuing a pattern we have observed over the years, overall average annual contract value (ACV) levels do not appear to have an overall correlation with growth rate. However, a recent analysis - Changing ACVs: The Hidden Control Lever of SaaS Company Value - revealed that companies that were showing higher ACV ***growth*** tend to grow faster, and those with flat to shrinking ACVs grow the least. In other words, increasing ACVs over time is an important component of scaling a SaaS company.
- SaaS companies targeting a vertical industry are growing slightly faster than companies selling to a horizontal market: 31% growth versus 28%, respectively.
- For a third year in a row, 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.
- Additional research on growth can be found in *Comparing Revenue Growth Trends in the Public and Private SaaS Sectors* and *Why Long-Term SaaS Revenue Growth Rates are Slowing; and What it Means for Your Private B2B SaaS Company.*

# 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 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 committed more than $375 million in growth debt facilities to deliver better outcomes for our 110+ clients, resulting in more than $2 billion 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 5x to 8x 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
- **Cost is simple and transparent** - Interest rate of 13% to 16%, a 1.0% to 1.5% commitment fee, and a nominal penny warrant
- **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 $20M 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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