The Capchase SaaS Benchmark Report

Increase your chances of raising funds in 2022 by understanding the metrics lenders and investors care about.

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"The next era of SaaS is very exciting indeed, and the data in The Capchase SaaS Benchmark Report should help guide SaaS platforms looking to grow."

Ed Moore,
Head of EMEA SaaS Platforms, Stripe

Foreword

SaaS companies underpin the way we live and work today, whether it be catching up with family, conducting a work meeting, or booking to see a doctor. Software has become an *essential* service.

And it will be essential to economic recovery. The special nature of software products is that they can be built once and sold many times over, spreading the fixed cost of the original development. This lowers the cost of bringing new ideas to market, acting as a force multiplier in the economy. Entrepreneurs don't need to invest in the building of all the different tools required to run a business, they can buy pre-built tools off the shelf.

As infrastructure and tooling platforms build horizontal capabilities made available to a huge variety of companies, other businesses take domain expertise in bundling up this software for specific verticals. This model of vertical specific SaaS platform is primed to grow exponentially in the coming years. At a time when everyone is going to be focused on cost-optimisation, services that reduce fixed costs should find lots of users.

But that same cost-optimisation will squeeze margins pretty tight. So vertical SaaS companies must find ways to grow and diversify their revenue. Payments can be the linchpin for this. By powering payments for their users, SaaS platforms can increase customer retention and drive a new revenue stream. This is a gateway to SaaS platforms becoming the business operating system for their users. Consider Shopify. Shopify Merchant Services, is now larger than Shopify's core subscriptions business, offering payments, loans, financial accounts and more to users.

The next era of SaaS is very exciting indeed, and the data in this report should help guide SaaS platforms looking to grow and diversify their revenue.

Ed Moore, Head of EMEA SaaS Platforms, Stripe

Introduction

Worldwide, 99% of businesses use at least one SaaS solution. It underpins the workings of every industry, powers the products we love, and is now an integral part of our working lives. In 2021, spend on SaaS reached $152 billion, and is predicted to top $176 billion by the end of 2022—an annual growth rate of 16%.*

Until recently, this momentum seemed unstoppable. But rising interest rates, the war in Ukraine, and the disruption of global supply chains are finally impacting the market—with many industry commentators predicting long-term economic turmoil.

Y Combinator encouraged founders at the end of May 2022 to plan for the worst and advised that "*the best way to prepare is to cut costs and extend your runway*".

The drop in public tech stocks is already starting to reduce the availability of venture capital and other types of financing. Even bootstrapped companies will feel the pinch as customers seek to cut costs. You can expect more customers to churn, or to request greater flexibility on pricing and payment terms.

Whether you're planning to raise funding in 2022, or preparing your worst-case scenario, it's more important than ever to have a razor-sharp understanding of what good performance looks like and which metrics are the markers of a healthy SaaS business.

That's why we've put together this report. It's the first time B2B SaaS benchmark data of this breadth and quality has been made public: it's sourced from the financial data of the recurring revenue SaaS companies we work with.

**Forecast: Public Cloud Services, Worldwide, 2020-2026, 1Q22 Update.*

While the near-term might be uncertain, the future of SaaS is still bright. At Capchase, we focus on financing to fuel the SaaS boom through good times and bad.

Together, we can help accelerate the growth of SaaS – let's go!

Executive Summary

Here are 5 key trends in SaaS performance you need to know in 2022:

1. **Forget R40. Successful SaaS businesses are hitting R80 in the early and growth stages.**

   The Rule of 40 (ARR Growth % + Net Margin %) is used to measure sustainable growth versus burn in SaaS companies.

   To be considered attractive, companies should achieve at least 40% ARR Growth % + Net Margin %—hence “Rule of 40”.

   But our analysis shows that **top companies achieve at least 80% (R80),** skyrocketing to >110% at stages. Even once they go public, the best performers are achieving 60%.

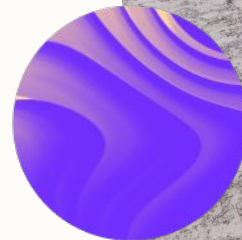
2. **The fastest-growing private SaaS companies are growing at twice the rate of their peers.**

   Top early and growth stage businesses are achieving **ARR Growth between 100% and 160%**—more than double the median.

3. **Top early- and growth stage SaaS companies achieve Gross Margins of at least 80%.**

   In the current climate, investors are talking about the shift from growth to unit economics. Our analysis shows that the top SaaS companies have known this all along.

   They’re consistently achieving Gross Margins of 80%+.



Executive Summary

4. **The fastest growing EU companies still lag behind the US.**

   Europe's top performers are still not seeing the same growth as their US counterparts. Our analysis shows that past $3m ARR, **top US businesses are growing at double the rate of the best European companies.**

5. **Diverse teams grow faster.**

   Our analysis also showed that companies in **the top quartile for ARR Growth had 10% more female executives** (30% of all executives) than companies in the bottom quartile (20%).

Performance at a Glance

To make sure that our dataset is useful whichever stage you're at, we split businesses into 5 brackets, determined by **Annual Recurring Revenue.**

Annual Recurring Revenues (ARR) = $1-3m

Metric	Top Quartile	Median
ARR Growth YoY %	154.4%	59.2%
Gross Margin %	83.4%	69.5%
Rule of 40 %	109%	29%
LTV/CAC Ratio	4.2x	4.2x
Debt/Revenues	38%	29%

Annual Recurring Revenues (ARR) = $3-5m

Metric	Top Quartile	Median
ARR Growth YoY %	102.1%	52.4%
Gross Margin %	83%	72%
Rule of 40 %	81%	26%
LTV/CAC Ratio	3.4x	3.4x
Debt/Revenues	40%	28%

Annual Recurring Revenues (ARR) = $5-10m

Metric	Top Quartile	Median
ARR Growth YoY %	130.6%	55.3%
Gross Margin %	85%	76%
Rule of 40 %	113.7%	40.3%
LTV/CAC Ratio	4.6x	4.6x
Debt/Revenues	45%	35%

Annual Recurring Revenues (ARR) = $10-15m

Metric	Top Quartile	Median
ARR Growth YoY %	100.6%	45.9%
Gross Margin %	83%	69%
Rule of 40 %	87.1%	24.2%
LTV/CAC Ratio	6.2x	6.2x
Debt/Revenues	50%	31%

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Analysis of All Companies by Revenue Level

ARR Growth YoY %

Recurring revenue sets SaaS businesses apart from traditional software providers.

Happy customers stick around, generating more revenue. Unhappy customers churn quickly, and businesses spend more on acquiring them than they generate in revenue.

ARR Growth YoY is therefore an important indicator of overall company health, and allows businesses to forecast future revenues and plan accordingly.*

ARR = Annualized Recurring Revenue *or* Monthly Recurring Revenue x 12

$$\text{ARR Growth YoY \%} = \frac{\text{Current ARR} - \text{ARR 12 months prior}}{\text{ARR 12 months prior}} \times 100$$

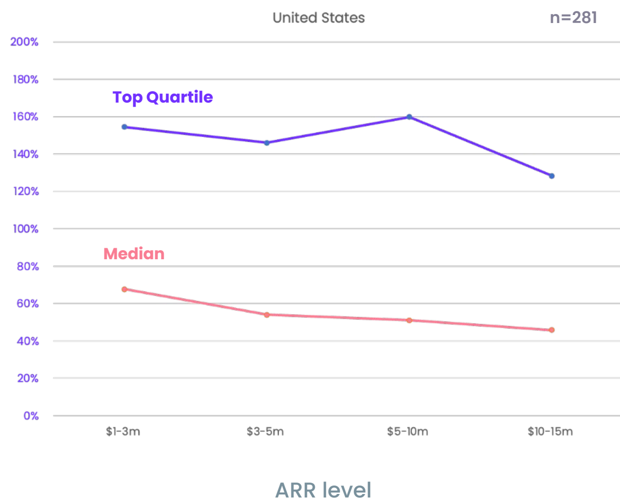
*https://www.forentrepreneurs.com/saas-metrics-2/

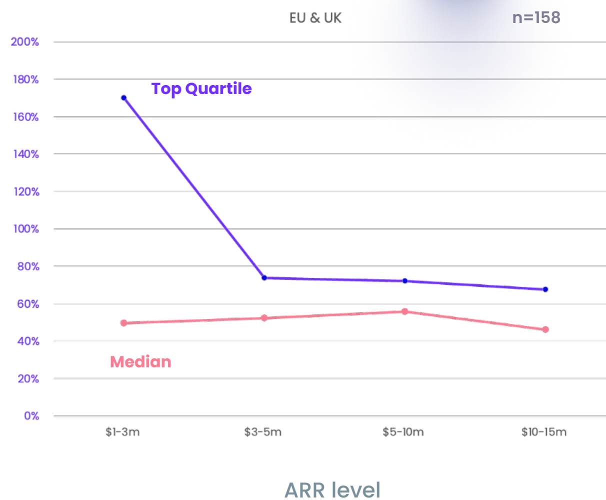
ARR Growth YoY %

Early stage companies grow faster—since they're starting from a low base. As total ARR increases, it's expected to see a dip in year-on-year growth %.

However, as companies grow from $5-10m, top businesses grow faster as they upsell to existing customers and increase net dollar retention.

ARR Growth - Geographic Comparison





Despite the growth of the European SaaS sector over the last two years, European companies still lag behind their US peers when they grow to >$3m revenue.

Two realities impact this in particular:

1) US businesses have access to a larger initial market. This allows them to expand faster, earlier. The European market is more fragmented, and founders need to cater to different legislative requirements and cultural norms.

2) The US benefits from a more experienced tech talent pool. In Atomico's State of European Tech 2021 report, 21% of European tech leaders said talent is the single biggest challenge facing the sector.

Gross Margin

Unlike other companies, which include product cost as COGS, SaaS COGS is typically limited to hosting costs and sometimes customer support.

This means SaaS margins are usually much higher, and it's one of the features of SaaS businesses—alongside recurring revenues—that make them so valuable.

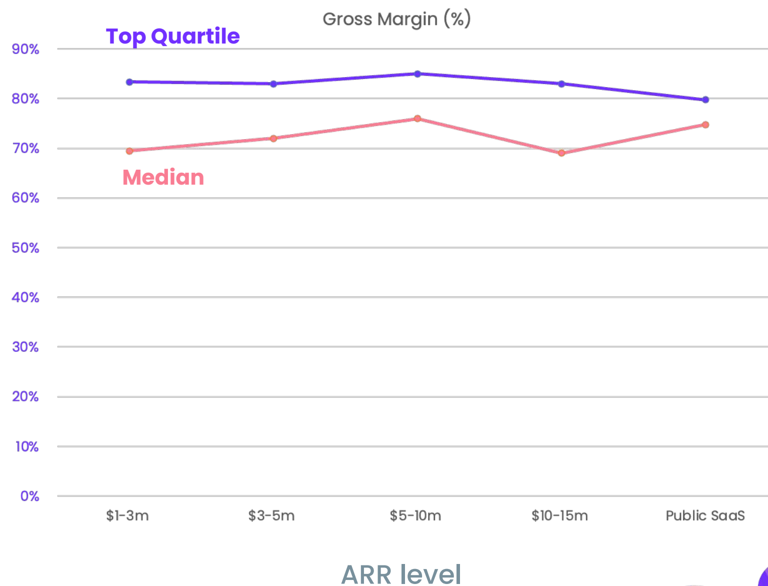
Gross Margin shows you how much cash you have available for operating expenses and new investments. It's a reliable indicator of scalability, and is commonly referred to by investors when evaluating a SaaS company.

Gross Margin = (Revenue - COGS)/Revenue
COGS = Cost of Goods Sold

Gross Margin

Companies in the top quartile consistently achieve Gross Margins of >80%.

As SaaS companies grow, many start selling implementation services alongside their products. Since this requires more human resources, these services have lower margins compared to pure SaaS. As a result there's a slight dip in the total Gross Margin around the $10-15m mark.



Rule of 40

R40 is a measure of growth vs burn for both VC-backed and bootstrapped SaaS businesses.

VC-backed companies typically have very good ARR growth, but are cash burning, and consequently have negative net margin.

Bootstrapped businesses by nature have positive net margin, but more moderate growth.

Because it balances growth against burn, it’s a useful metric to determine the health of a business at a glance.

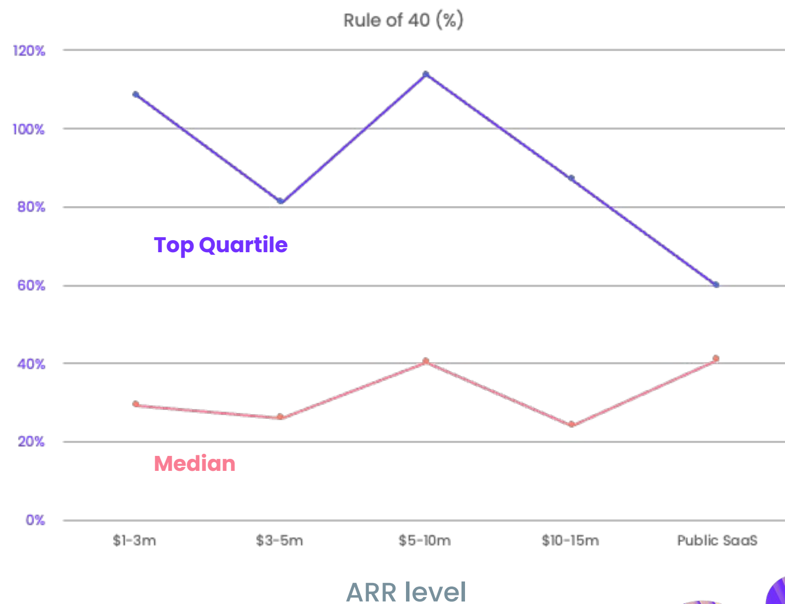
It’s generally believed that to be attractive to investors, you need to achieve at least 40% ARR Growth YoY + Net Margin—hence the “Rule of 40”.

Rule of 40 = ARR YoY Growth % + Net Margin %

Rule of 40

Best-in-class companies consistently achieve 80%, suggesting they pay just as much attention to unit economics as they do to top-line growth.

Even after going public, by which point ARR Growth YoY % will have slowed down significantly, top performers still achieve an R40 of 60%.



LTV/CAC Ratio

LTV/CAC Ratio answers the question "Do I make more profit from my customers than it costs me to acquire them?". As such, it's a key measure of whether your SaaS business is viable or not.

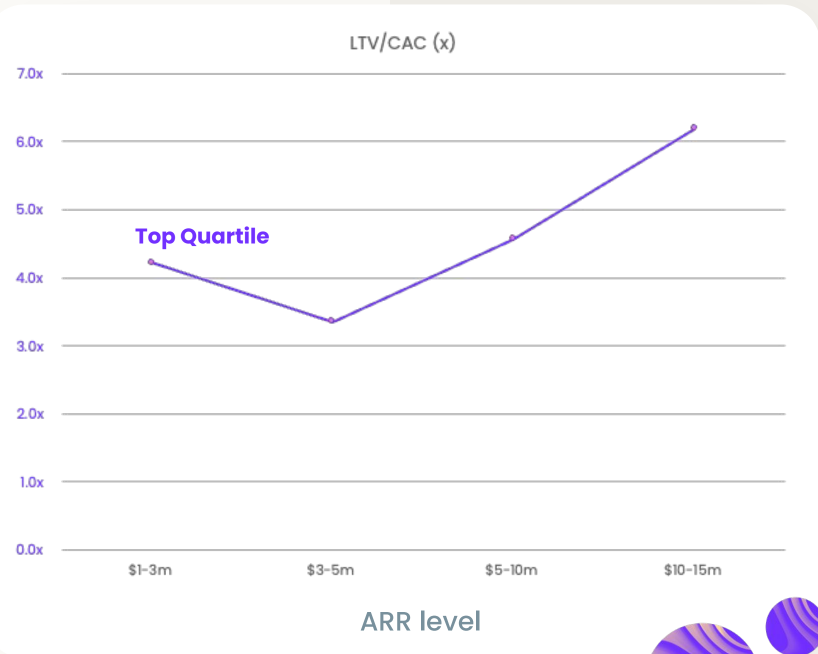
At a minimum, a SaaS business needs to have an LTV of at least 3x CAC.*

Lifetime Value (LTV) = (Gross Margin x Average Revenue Per User)/ Customers that churned that month
Cost per Acquisition (CAC) = Total Monthly User Acquisition Spend/Number of Users Acquired That Month
LTV is calculated over 5 years

*David Skok, 'SaaS Metrics 2.0—A guide to measuring and improving what matters'.

LTV/CAC Ratio

LTV/CAC is highest at the growth stage ($10-15m).



As there was no meaningful difference between the top quartile and median performance for LTV/CAC ratio, we have included only the top quartile results here.

Debt/Revenue Ratio

Debt-to-revenue ratio measures your company's liability against revenue.

It shows you how leveraged your business is: The higher your debt-to-revenue ratio, the greater your leverage.

Debt/Revenue = Long-term Debt/ARR

Debt/Revenue

Public SaaS companies are borrowing up to 75% of revenue, as large cash balances enable leverage.

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Additional Analysis for 200 VC-backed Businesses

Burn Multiple

Burn Multiple tells you how much your business is spending to generate each new dollar of ARR, and evaluates burn as a multiple of revenue growth. This is important for any business, but especially so for venture-backed companies that are concerned with cash runway.

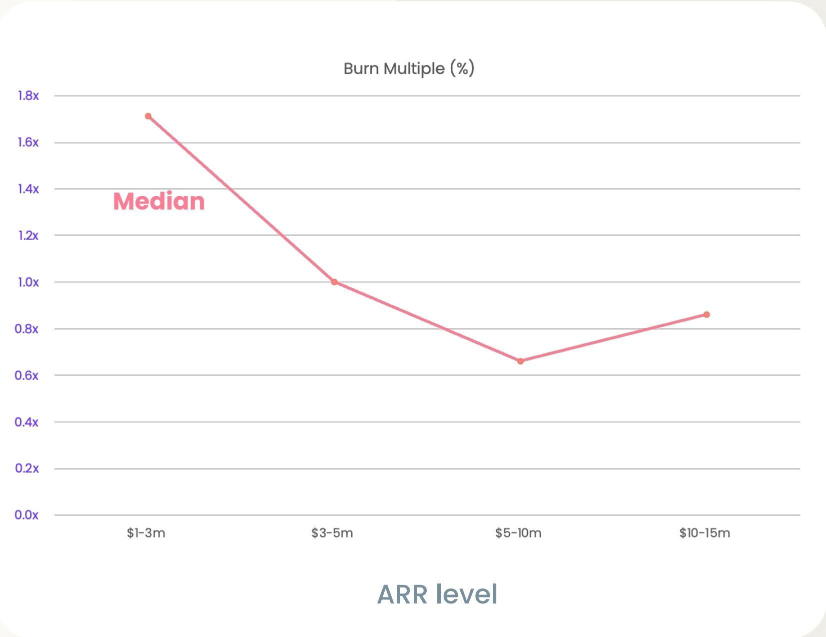
The higher the Burn Multiple, the more a company is spending to achieve each incremental dollar of ARR. The lower the Burn Multiple, the more efficiently your business is growing.

A burn multiple <2 is good, anything >4 is concerning.

Burn Multiple = Net Monthly Burn/Net New MRR

Burn Multiple

Early stage companies that have only just started selling their products typically have higher costs, and higher burn multiples than more mature businesses.



As there was no meaningful difference between the top quartile and median performance for Burn Multiple, we have included only the median results here.

Cash Runway

Cash runway shows how long a VC-backed business can stay in business for, given its current monthly expenditures.

Monitoring cash runway is important to understand when to invest in opportunities needed to reach a higher valuation at your next round.

Cash Runway = Current Cash Balance/Net Monthly Burn
Net Monthly Burn = Operating Expenses - Gross Margin

Cash Runway

At the $5-$10m point many companies raise another funding round—either venture capital or debt—increasing runway.

Around the $10-$15m ARR mark, many companies increase their burn rate by hiring, developing new products and expanding geographically to accelerate growth. However, sales and marketing efficiency often falls as the company grows—new hires take time to get up to speed, while new products and geographies take time to start generating revenue.

Debt/Equity Ratio

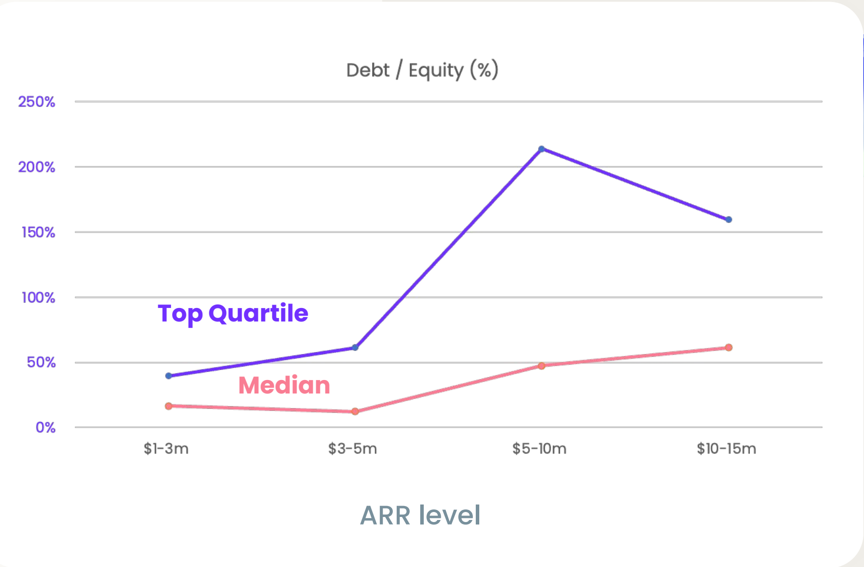
Debt-to-equity is used to assess a company's financial leverage.

It tells you whether a business is able to cover outstanding debts with shareholder equity in case of a business downturn.

Debt/Equity Ratio = Long-term Debt/Last Equity Round

Debt/Equity Ratio

At the $5-10m mark there's a jump in D/E Ratio as the companies in our dataset took low millions in equity and received 2x larger debt facilities secured against receivables or cash flow.



Recommendations

While it's unclear how long the economic downturn will last, the businesses that take the time to plan and adapt to the new reality, will be the ones that make it out the other side.

As accessing cash—whether through funding rounds or revenue—becomes harder throughout the remainder of 2022, here are some steps you can take to survive now, and thrive in 2023 and beyond.

Cash Runway is crucial for venture-backed businesses to monitor in the current climate.

Strong SaaS companies are aiming for 18+ months Cash Runway to maximize their chances of getting through the current market downturn. Companies should seek to raise new cash injections when they have > 6 months of cash runway available.

If you already have investors on your cap table that are willing to give you more cash, you should strongly consider taking it, even if it's not on ideal terms.

Do also investigate alternative financing options. Many non-dilutive and alternative lenders exist that can help extend your runway and delay your next equity round. It helps diversify your capital stack, as it protects against unfavorable dilution and burdensome debt service requirements.

If you absolutely have to raise venture capital, preparation is vital

Turmoil in public markets will have a big impact on the availability of venture capital. VCs will invest with more discipline, and will reserve capital for the best performing businesses in their portfolios.

As such, fundraising will take longer, as greater analysis and due diligence is required to close a round. And whether you're approaching new or existing investors, you can expect lower valuations and capital invested, on less favorable terms.

Realistically, only businesses in the top quartile of the growth metrics that we share in this report are likely to fundraise successfully in the current environment. Make sure you understand where you're positioned before approaching investors. If you're not performing above the median, it'll be wise to optimize those areas where you're falling short first.

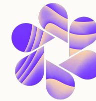
Recommendations

Forecast more frequently and plan for different scenarios

Over the next 6 - 12 months, you'll need to take a more proactive approach to financial planning. At Capchase, we recommend our customers switch from point-in-time financial planning (once a year/quarter), to continuous planning (monthly re-calibration), around multiple scenarios and contingencies.

Right now, it's important that you understand how rising interest rates and inflation are likely to impact your growth, cash and financing needs over the next 12 months. Make sure you understand what your cash runway looks like under your best and worst case scenarios.

Unable to raise enough venture capital, many companies will need to become profitable in order to survive until 2023. Understand what that plan would look like, and what the implications for top-line growth and operating expenses would be.



Pay closer attention to unit economics

Our analysis has shown that those early-stage businesses that are most likely to go on to become unicorns are paying close attention to unit economics such as Gross Margin. During an economic downturn, this becomes even more important, as the mantra of 'growth at all costs' is abandoned in favor of profitability and sustainable growth.

Before making further investments in additional sales and marketing capacity—whether in the form of new hires or additional campaigns—make sure that there's an immediate return on investment, and that payback periods are short enough to supplement your company's cash balance.

Similarly, with expansion into new markets (geographically or new market segments), it's worth considering whether it would be wiser to first improve efficiency in existing markets instead.

How Capchase Can Help

Capchase is a growth partner for ambitious, fast-growing SaaS companies. We exist to help founders and CFOs grow their businesses faster: through non-dilutive capital, market insights and community support.

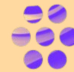
Here's how we can help you thrive throughout 2022 and beyond:

Drive cash flow neutral growth with CAC financing

Capchase CAC financing gives you a flexible, non-dilutive working capital solution. When you're not worried about CAC impact on your cash flow, you can free up your equity funds for strategic projects to further fuel your growth.

Find out more

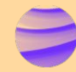
Optimize your next raise



We offer a layer of financing to complement your equity raise strategy. We help you accelerate in growth areas, whilst preserving your expensive equity money. So you can invest in the performance you need to reach a higher valuation at your next round, avoiding a down round while the market corrects, with much less dilution.

Find out more

Grow with maximum ROI



We accelerate SaaS success with non-dilutive financing. We have helped customers triple their revenue within a year, grow their valuation 7x and see 700% growth. Use Capchase to fund the areas that will grow your business to the next level: from headcount to marketing campaigns, sales hires to new market expansion. All without dilution.

Find out more

What Other Businesses Say About Capchase

zinklar

"With Capchase, we have been able to invest in growth while taking our time with the next dilutive equity infusion, in order to be in the best possible position when we do decide to raise a round".

Jordi Ferrer, Founder & CEO, Zinklar

Lawtrades.

"Capchase has given us the confidence that we don't have to fear growing because we've got a working capital solution".

Raad Ahmed, Co-Founder & CEO, Lawtrades

Blackthorn

"I lose zero control. We've now doubled headcount ahead of revenue … instead of losing control and exit value".

Chris Federspiel, Co-Founder & CEO, Blackthorn

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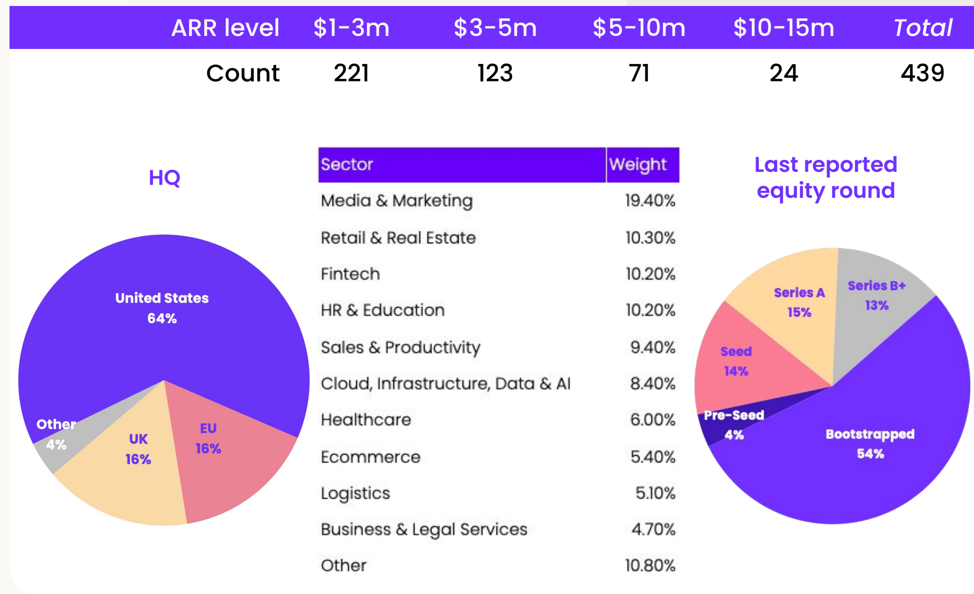
Appendix

Private SaaS Companies

For this report we analyzed 439 private SaaS companies with $1 - 15m Annual Recurring Revenue.

The data reflects actual financial performance, sourced directly from companies' own records.

We believe it is the largest dataset of its kind that is based on financial actuals, rather than survey data.



ARR level	$1-3m	$3-5m	$5-10m	$10-15m	*Total*
Count	221	123	71	24	439

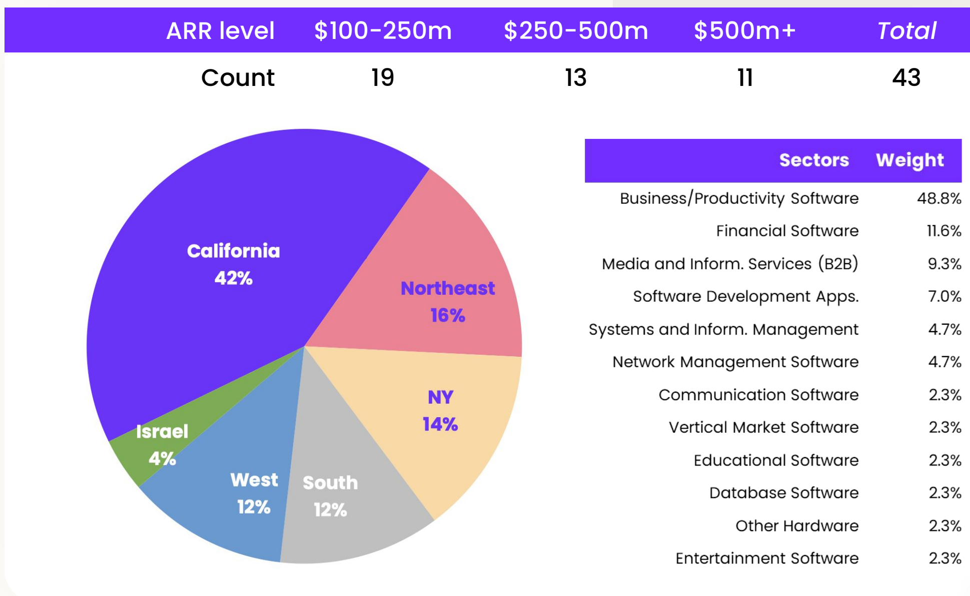
Sector	Weight
Media & Marketing	19.40%
Retail & Real Estate	10.30%
Fintech	10.20%
HR & Education	10.20%
Sales & Productivity	9.40%
Cloud, Infrastructure, Data & AI	8.40%
Healthcare	6.00%
Ecommerce	5.40%
Logistics	5.10%
Business & Legal Services	4.70%
Other	10.80%

Public SaaS Companies

We then compared the performance of these private companies against 43 SaaS businesses that went public in 2020 and 2021.

Data on public SaaS performance was sourced from their S-1 filings.

On the next two pages you can see exactly which public companies we analyzed.

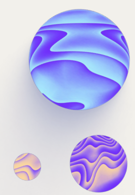


ARR level	$100-250m	$250-500m	$500m+	*Total*
Count	19	13	11	43

Sectors	Weight
Business/Productivity Software	48.8%
Financial Software	11.6%
Media and Inform. Services (B2B)	9.3%
Software Development Apps.	7.0%
Systems and Inform. Management	4.7%
Network Management Software	4.7%
Communication Software	2.3%
Vertical Market Software	2.3%
Educational Software	2.3%
Database Software	2.3%
Other Hardware	2.3%
Entertainment Software	2.3%

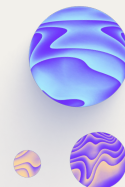
Named SaaS Companies That IPO'd 2020-21

Companies	Ticker	Subsector	Revenue LTM ($m)	Revenue Growth (%)	Gross Margin (%)	R.40 (%)	S&M Expense / Gross Margin (%)	Debt / Revenues (%)
Toast	TOST	Other Hardware	1,705.0	107.2%	18.4%	104.5%	15%	6%
Palantir	PLTR	Business/Productivity Software	1,541.9	41.1%	78.0%	38.1%	11%	17%
Snowflake	SNOW	Database Software	1,219.3	106.0%	62.4%	100.5%	17%	17%
Unity	U	Entertainment Software	1,110.5	43.8%	77.2%	39.6%	3%	164%
Qualtrics	XM	Business/Productivity Software	1,075.7	40.9%	73.5%	31.6%	13%	26%
Bentley	BSY	Vertical Market Software	965.0	20.4%	77.6%	22.0%	86%	154%
UIPath	Path	Business/Productivity Software	810.4	80.8%	81.8%	75.5%	13%	7%
Squarespace	SQSP	Media and Information Services (B2B)	784.0	26.2%	83.9%	23.6%	11%	67%
Zoominfo	ZI	Media and Information Services (B2B)	747.2	56.9%	81.7%	59.8%	8%	174%
Datto	MSP	Systems and Information Management	618.7	19.3%	71.5%	21.2%	70%	7%
Procore	PCOR	Business/Productivity Software	514.8	28.6%	80.9%	23.7%	38%	17%
Sprinklr	CXM	Business/Productivity Software	460.8	19.3%	69.4%	17.7%	25%	n.a.
DigitalOcean	DOCN	Systems and Information Management	428.6	34.6%	60.2%	36.3%	100%	341%
Samsara	IOT	Business/Productivity Software	428.3	71.4%	70.9%	63.4%	34%	34%
Vertex	VERX	Financial Software	425.5	13.6%	62.0%	14.6%	35%	7%
Confluent	CFLT	Business/Productivity Software	387.9	64.0%	64.6%	55.2%	56%	289%
Asana	ASAN	Business/Productivity Software	378.4	66.7%	89.7%	59.9%	102%	68%
Freshworks	FRSH	Business/Productivity Software	371.0	48.6%	79.0%	44.0%	97%	n.a.
Jamf	JAMF	Network Management Software	366.4	36.1%	75.3%	35.3%	98%	99%
HashiCorp	HCP	Business/Productivity Software	320.8	51.4%	80.2%	42.5%	58%	6%
Monday.com	MNDY	Software Development Applications	308.2	91.3%	87.3%	87.2%	28%	n.a.
Duck Creek	DCT	Business/Productivity Software	274.9	22.7%	57.8%	22.7%	183%	9%
Ncino	NCNO	Financial Software	255.5	37.2%	59.2%	35.4%	126%	18%
Gitlab	GTLB	Software Development Applications	252.7	66.0%	88.1%	59.8%	117%	n.a.



Named SaaS Companies That IPO'd 2020-21

Companies	Ticker	Subsector	Revenue LTM ($m)	Revenue Growth (%)	Gross Margin (%)	R.40 (%)	S&M Expense / Gross Margin (%)	Debt / Revenues (%)
KnowBe4	KNBE	Educational Software	246.3	40.8%	85.7%	41.1%	26%	5%
Sumo Logic	SUMO	Business/Productivity Software	242.1	19.5%	67.7%	15.1%	54%	3%
C3.ai	AI	Business/Productivity Software	232.7	34.9%	75.1%	28.3%	138%	1%
BigCommerce	BIGC	Business/Productivity Software	219.9	44.3%	78.0%	41.1%	95%	158%
Braze	BRZE	Business/Productivity Software	210.5	55.9%	67.2%	53.7%	240%	n.a.
Jfrog	FROG	Software Development Applications	206.7	37.0%	79.8%	34.1%	163%	13%
SentinelOne	S	Network Management Software	204.8	120.1%	60.1%	107.3%	130%	14%
Walkme	WKME	Business/Productivity Software	193.3	30.3%	75.9%	26.6%	11%	n.a.
Semrush	SEMR	Media and Information Services (B2B)	188.0	50.6%	77.7%	50.6%	66%	n.a.
Blend	BLND	Financial Software	184.1	89.5%	55.9%	81.5%	605%	125%
Forgerock	FORG	Business/Productivity Software	176.9	38.6%	81.4%	36.3%	222%	30%
Agora	API	Communication Software	168.0	25.8%	61.9%	21.8%	183%	4%
Amplitude	AMPL	Business/Productivity Software	167.3	63.2%	69.1%	58.8%	644%	n.a.
Alkami	ALKT	Financial Software	152.2	35.7%	55.1%	32.9%	733%	16%
Olo	OLO	Business/Productivity Software	149.4	51.8%	79.4%	48.7%	91%	n.a.
UserTesting	User	Media and Information Services (B2B)	147.4	44.2%	74.8%	41.0%	16%	12%
Expensify	EXFY	Financial Software	128.2	9.5%	67.0%	11.0%	115%	55%
Weave	WEAV	Business/Productivity Software	115.9	45.0%	57.4%	41.7%	88%	22%
Disco	LAW	Business/Productivity Software	114.3	67.1%	72.8%	65.1%	61%	1%



About Capchase

Capchase is a growth partner for ambitious, fast-growing SaaS companies. We exist to help founders and CFOs grow their businesses faster: through non-dilutive capital, market insights and community support.

Founded in 2020 and headquartered in New York City, we provide financing by bringing future expected cash flows to the present day – thereby extending an immediate line of credit. Companies that work with Capchase are able to secure funding that is fast, flexible, and doesn't dilute their ownership.

We've achieved SOC 2 Type II compliance in accordance with the American Institute of Certified Public Accountants (AICPA) standards for SOC for Service Organizations also known as SSAE 18. Achieving this standard with an unqualified opinion serves as third-party industry validation that we provide enterprise-level security for customers' data secured in the Capchase Inc. System.

To date, we've made **$2b+** available to over **3,000 businesses** and partners, and added **5,000+ months of runway** to the SaaS industry.

Learn more: www.capchase.com

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