SWEDISH SAAS REPORT 2018

PUTTING THE SPOTLIGHT ON THE SWEDISH SAAS INDUSTRY

PURPOSE, BACKGROUND AND METHODOLOGY

The purpose of this report is to increase the understanding of the SaaS industry and its dynamics – with a focus on SaaS companies in Sweden.

The final sample of this first study consisted of eleven SaaS companies. Participants were given the same set of questions and have been able to provide data anonymously. For comparability reasons, firms were grouped based on modes of distribution and size, those with an annual recurring revenue, ARR, of less than 5 MSEK were excluded.

In order to compare our findings in a wider context we have made comparisons with international surveys; the KeyBanc Capital Markets, KBMC, SaaS survey of 2017 and the The SaaS Capital 2018 Industry Survey. These surveys included 400 and 900 participants respectively.

Our goal is for the Swedish SaaS community of companies to benefit from the aggregate insight that we aim to provide with this report. If your company wants to participate in the next SaaS Report, that we aim to conduct a follow-up report in the 2H of 2019, or if you have some other feedback you would like to share, don't hesitate to reach out!

Stockholm, December 2018
Johan Crona, founder and CEO, johan@cloudcapital.se

SUMMARY AND CONCLUSIONS

A majority of companies are using outbound field sales as primary mode of distribution. Only 3 out of 11 companies have an inbound internet sales model.

Firms adopting field sales have lower annual gross revenue churn rates and similar net revenue retention rate, compared to the firms with internet sales.

Most firms have a payback period of 12–18 months on their acquisition cost. It is rare to have a customer acquisition cost, CAC, payback period of more than two years.

Of the sample firms 9 out of 10 are above the 40% level which is above our expectations.

The participants showed a median revenue growth of 76% year-over-year compound annual growth rate, CAGR, showcasing the strength of the SaaS-model as soon as product-market-fit is achieved; fast and predictable growth.

OVERVIEW OF STUDY PARTICIPANTS

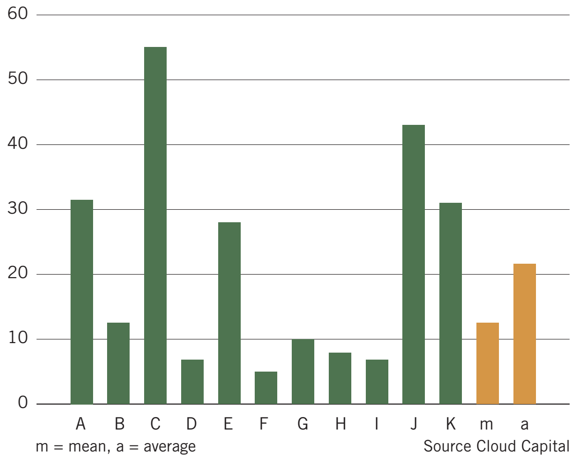
Annual recurring revenues, ARR, between 5 and 55 MSEK with a median of 12 MSEK.

Number of employees between 5–52 with mean of 21.

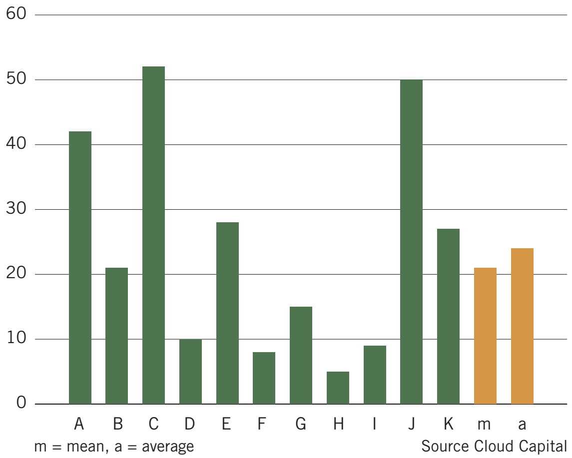
3–9 years of operation since inception.

8 out of 11 participants adopt outbound field sales and 3 adopt internet sales.

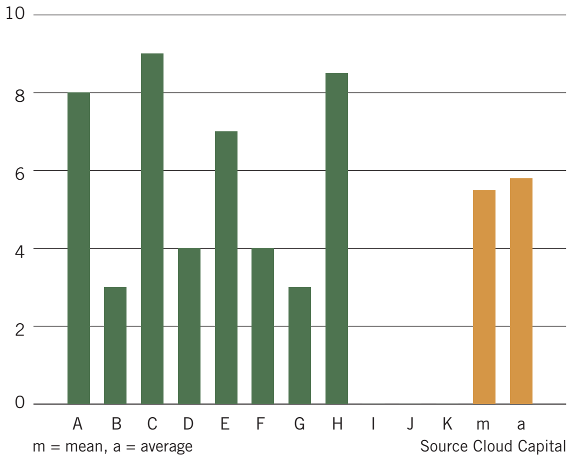
ARR in millions per 2018.06.30.



Full Time Employees



Years in Operation



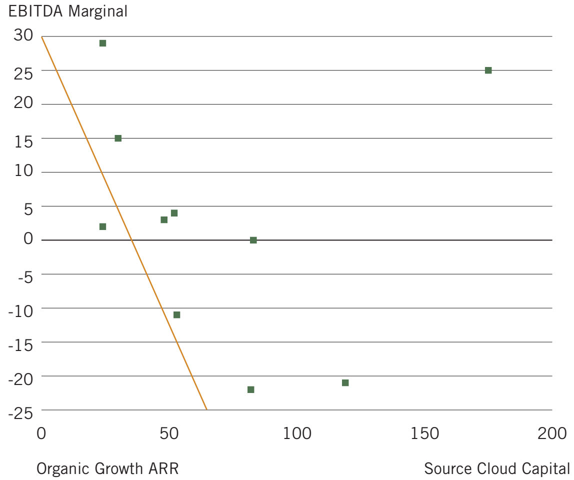
BALANCING GROWTH AND PROFIT – THE RULE OF 40%

Rule of 40% is a rule of thumb for analysing the health of a SaaS business. It takes into account two important metrics: growth and profit. A healthy business should have a combined growth rate and profit margin (EBITDA) of at least 40%.

Of the sample firms 9 out of 10 are above the 40% level which is above our expectations. That tells us the companies in the study are growing fast while at the same time maintaining solid underlying profitability.

The key driver for successful companies is that they manage to accomplish high growth rates without having to burn too much cash to achieve their growth.

Rule of 40



INTERNATIONAL COMPARISON

These numbers are strong when comparing to other international studies such as the KBMC report.

GROWTH AND ANNUAL CONTRACT VALUE (ACV)

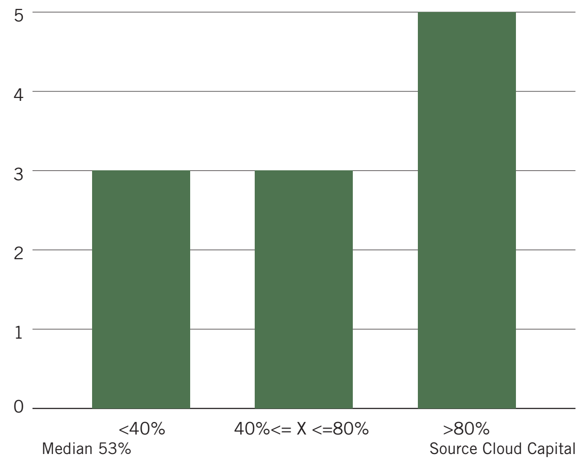
RECURRING REVENUE GROWTH

In total, all the respondents in the survey are showing strong or very strong growth in recurring revenue.

72% of the respondents are growing more than 40% year-over-year.

The distribution of ARR growth is between 20 to 180% (year-over-year) with a median ARR growth around 50%.

Organic ARR Growth Distribution



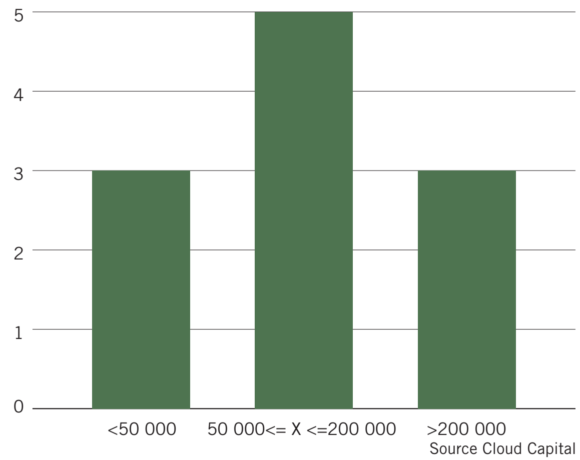
ANNUAL CONTRACT VALUE (ACV)

8 out of 11 companies have ACV's above 50 000 SEK with 3 out of 11 have ACV's below this level.

The median ACV is 67 000 SEK.

The spread is from 1 000 SEK to 450 000 SEK in average ACV per customer.

Distribution of Average ACV per customer



SUBSCRIPTION GROSS MARGIN

Gross margin is one of the cornerstones that make SaaS-businesses the highly valued companies that they are. Over time economies of scale kick in and most SaaS-companies are able to achieve gross margins in the 70–80% range.

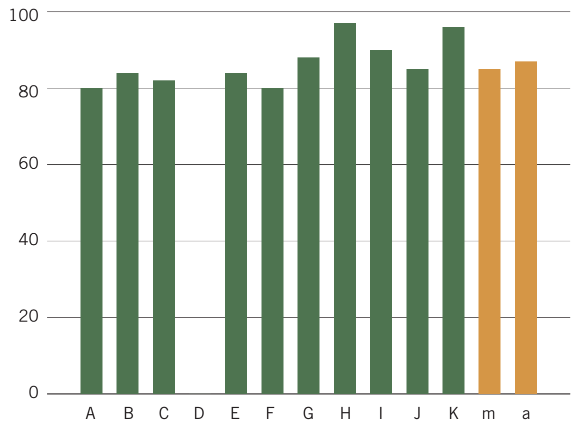
All respondents in the report have subscription gross margins around 85%.

There are no notable differences between online and field sales.

INTERNATIONAL COMPARISON

The KBMC survey participants show both a wider distribution of subscription gross margin than our study but also a slightly lower median of 78% compared to 85% shown in our study.

Subscription Gross Margin



m = mean, a = average

Source Cloud Capital

CHURN RATES – BASED ON DISTRIBUTION MODEL

Churn is perhaps the most discussed metric among SaaS-businesses. Churn is the percentage rate at which customers cancel their recurring revenue subscription. Churn is important because in the long run it will be the biggest obstacle to growth.

The respondents are all showing healthy low churn rates which is really good.

The field sales group have lower churn rates and higher revenue retention rates than the group adopting internet sales.

INTERNATIONAL COMPARISON

The field sales group also demonstrate lower churn rates than the median in the KBMC study.

MEDIAN	Field Sales	Internet Sales
Net Revenue Retention Rate	102%	100%
Annual Gross Chum	4%	10%
Median ACV per Customer	69 000	75 700

NET REVENUE RETENTION

Net Revenue Retention is a key indicator that most companies track and public SaaS companies report. It measures the total change in recurring revenue from a pool of customers over time.

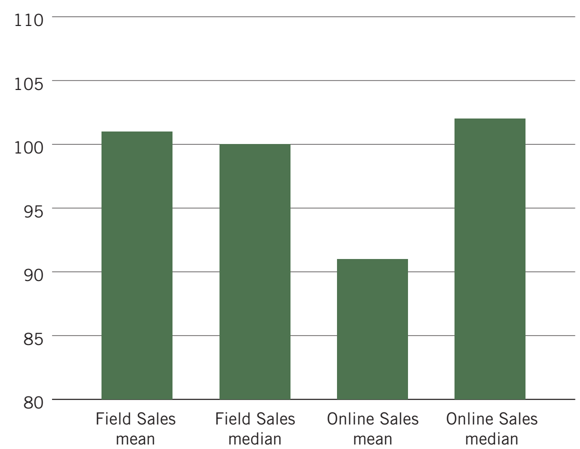
The respondents are showing healthy Net Retention rates for both the field and online sales groups.

It's notable that the internet sales group has a higher churn rate while maintaining a similar retention rate with the field sales group. This demonstrates that the firms adopting online sales are very successful in offsetting churn by up-selling existing clients online.

INTERNATIONAL COMPARISON (SAAS CAPITAL)

Net revenue retention rates are centered around 100%, and are fairly similar with the mean retention rates from the online and field sales groups in Cloud Capital's survey.

Net Revenue Retention Rate



Source Cloud Capital

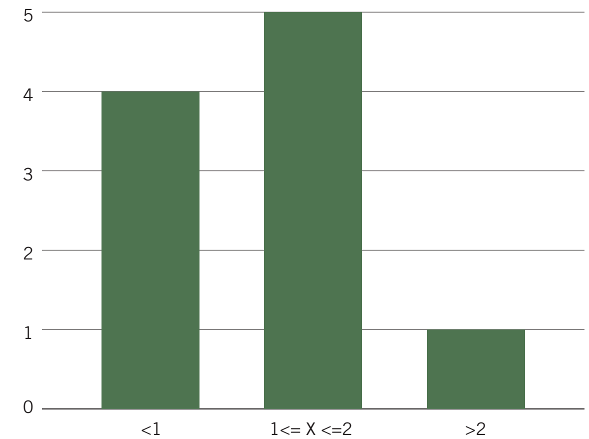
CAC PAYBACK PERIOD

CAC Payback is the number of months it takes to earn back the money invested in acquiring customers. CAC Payback period determines how much cash a company needs to grow.

CAC payback periods for most companies are between 12–18 months.

Only 1 of the 11 respondents has a payback period that exceeds 24 months.

CAC Payback Period, years



INTERNATIONAL COMPARISON

CAC payback periods does not seem to differ internationally as the majority of KBMC´s survey participants also have a CAC payback period of 12–24 months.

COST STRUCTURE

The cost structure of companies can provide insight on how much to spend on different aspects of the business.

There are some differences in cost structure depending on the distribution modes (field sales or online sales).

Firms adopting field sales spend more on sales and marketing and general and administrative and less on research and development than firms adopting internet sales.

INTERNATIONAL COMPARISON (KBMC)

Larger public SaaS firms as measured by ARR display higher spendings on sales and marketing but lower spending on research and development in comparison to this study.

GROUP, MEDIAN VALUES	Field Sales	Internet Sales
Firms	8	3
ARR per 2018.06.30, millions	28	8,4

COST STRUCTURE (REL TO TOTAL COSTS), %		
Sales & Marketing	37	30
Research & Development	29	40
General & Administrative	26	10

QUICK GLOSSARY

SaaS – Software as a Service is a business model that offers software licensing as a delivery model in which software is licensed on a subscription basis and is centrally hosted, often referred to as a cloud.

ARR – Annual Recurring Revenue. ARR is the value of the contracted recurring revenue components normalized to a one year period. In order to use the ARR metric subscriptions should be for 12 months or longer, if customers can cancel their subscription with for example 30 days notice the Monthly Recurring Revenue, MRR, can be used instead.

MRR – normalized measurement of recurring revenue.

CAC – Customer Acquisition Cost is a central performance indicator of SaaS-businesses. Along with the Life Time Value, LTV, of the client, the CAC measure is central in understanding the viability of the business.

CAC Payback – The number of months a company requires to payback its cost of customer acquisition.

Churn – is a metric that shows the percentage of customers that cancel their subscriptions.

Net Retention – measures the total change in recurring revenue including churn and expansions from up-sell or account expansions.

The Rule of 40% – is a rule of thumb to analyze the health of a SaaS business. It takes into consideration the growth and profit metrics and that these should add up to at least 40%.

FCF – Free Cash Flow is the cash a company produces through its operations, less the cost of expenditures on assets. In other words, free cash flow or FCF is the cash left over after a company pays for its operating expenses and capital expenditures or CAPEX (Investopedia).

ACV – Annual Contract Value (differs from ARR due to possible one time fees during the first year, e.g the ACV might be higher year one than year two, the ARR provides the average related to all recurring revenue)

EBITDA – A company's earnings before interest, taxes, depreciation, and amortisation is an accounting measure calculated using a company's net earnings, before interest expenses, taxes, depreciation, and amortization are subtracted, as a proxy for a company's current operating profitability.

CAGR – Compound Annual Growth Rate, measures growth over multiple time periods and provides a measure of how much an investment would have grown at the same rate each year.

ABOUT CLOUD CAPITAL

Cloud Capital was founded in 2017 with a mission to partner with and provide SaaS companies in Sweden with know-how and capital.

Given the unique characteristics of the SaaS business model it often makes more sense for founders to seek funding as a loan rather than to give up control and equity. Cloud Capital provides tailored funding solutions depending on the needs of its clients.

The company was founded by Johan Crona with a background as an IT-entrepreneur and investor with focus on B2B SaaS companies. Johan is a board member in several SaaS-companies such as Kundo, Scrive, Loop54 and Custellence.

Johan Crona is also the founder of the network Stockholm Saas and Online Business with 600 participants from the Swedish SaaS Community.

DO YOU WANT YOUR COMPANY TO BE A PART OF THE NEXT SAAS REPORT?

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