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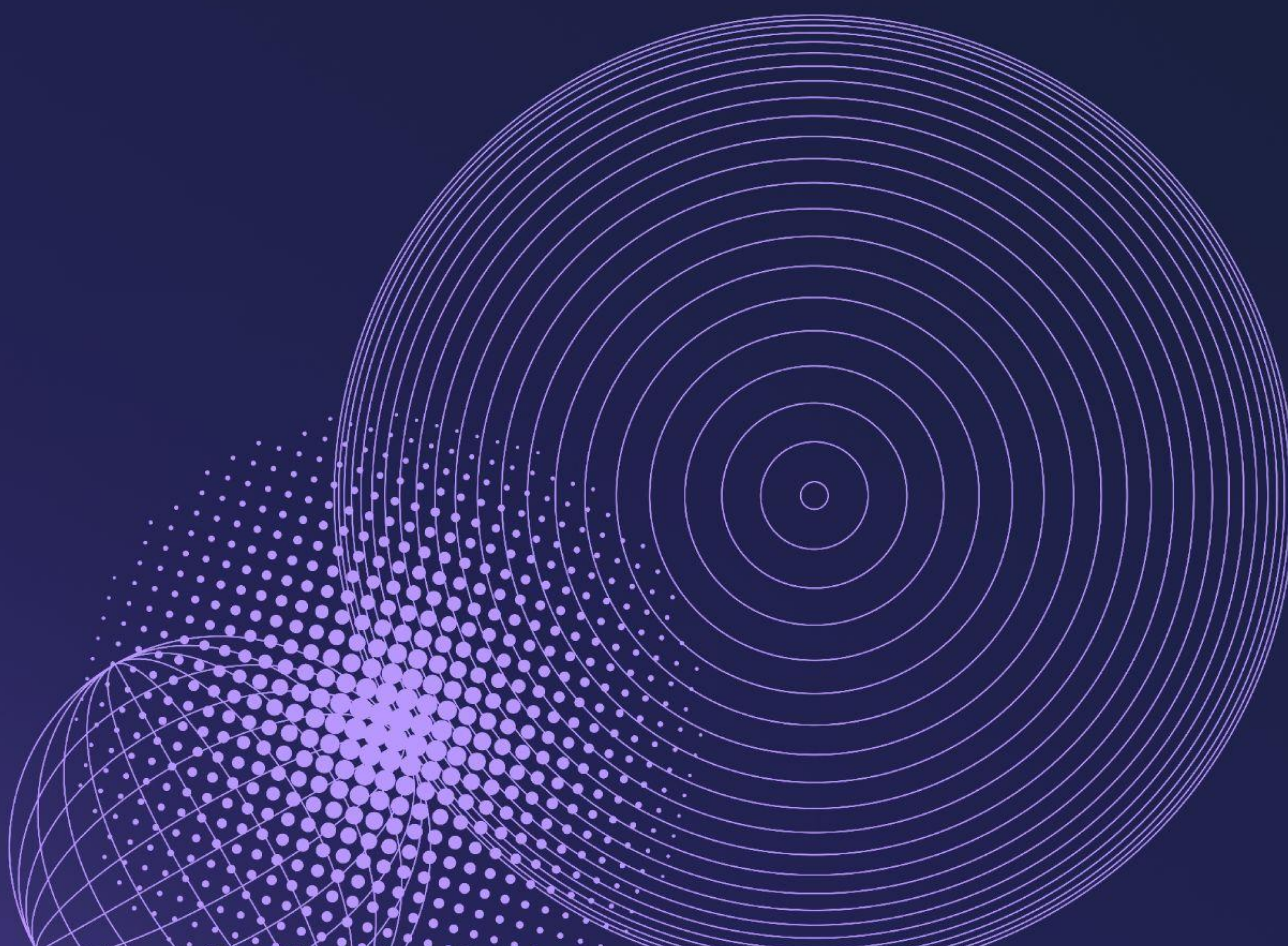
SaaS Benchmark Report 2024



MOVING AWAY FROM CAC SPIKES AND GTM BUDGET CUTS
TO STABILIZING PERFORMANCE TRENDS

Introduction

B2B SaaS companies have been growing but at a slower pace as they shifted focus from rapid growth to sustained profitability and runway preservation. Much of this change is due to the fact that YoY growth has consistently declined since 2022 across all ARR sizes, sectors, and regions. However, in recent months, there have been notable improvements in specific areas in terms of growth, margins, and liquidity.

Since interest rates started to climb, less growth financing has been available for SaaS companies, especially for early-stage companies. This causes layoffs, budget reviews, and delays in renewal and new purchases, all leading to higher Customer Acquisition Costs (CAC). Higher CAC causes a ripple effect that tightens marketing and sales budgets and forces companies to focus on runway and economic sustainability. There are some early signs of VC money and external financing returning to the market, which gives us hope that the trend of stabilizing performance will continue.

Our data, pulled from over 2,000 B2B SaaS companies, shows that spending has decreased in an effort to improve margins. With the proper funding partner, companies do not have to pursue profitability at the cost of developing new business, instead they could increase spend while lowering CAC.

This year's Benchmark Report shows where companies can invest to strategically improve margins and sustainable growth, as well as areas to leverage non-dilutive funding from partners such as Capchase.

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Executive Summary

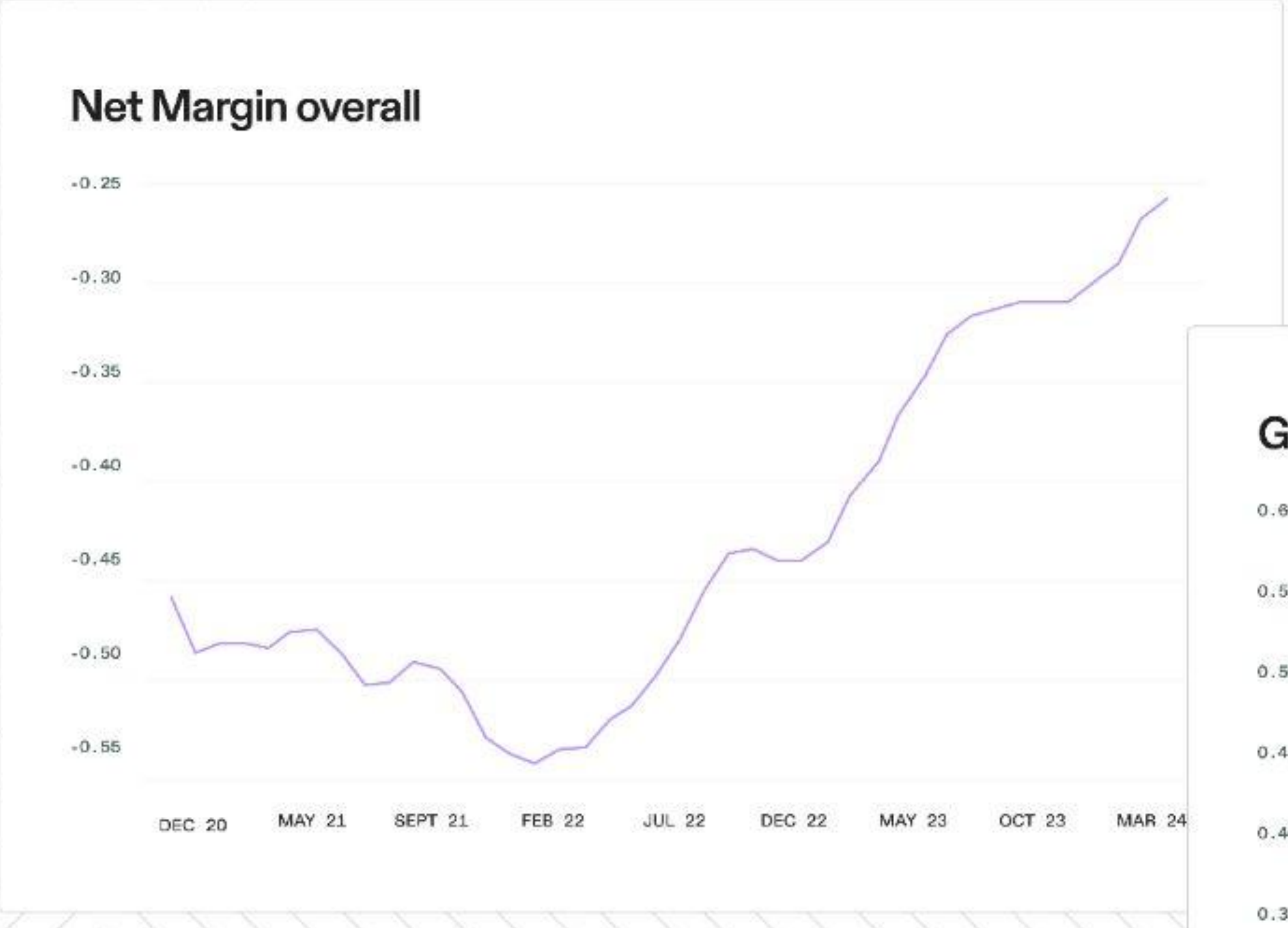
1. **Year-over-Year growth has consistently declined** since 2022 across all ARR sizes, industry sectors, and regions as the macroeconomic environment has continued to adapt to the ripples caused by the downturn. The rate of decline has slowed, even reversing slightly in the EU, which leaves us feeling optimistic.

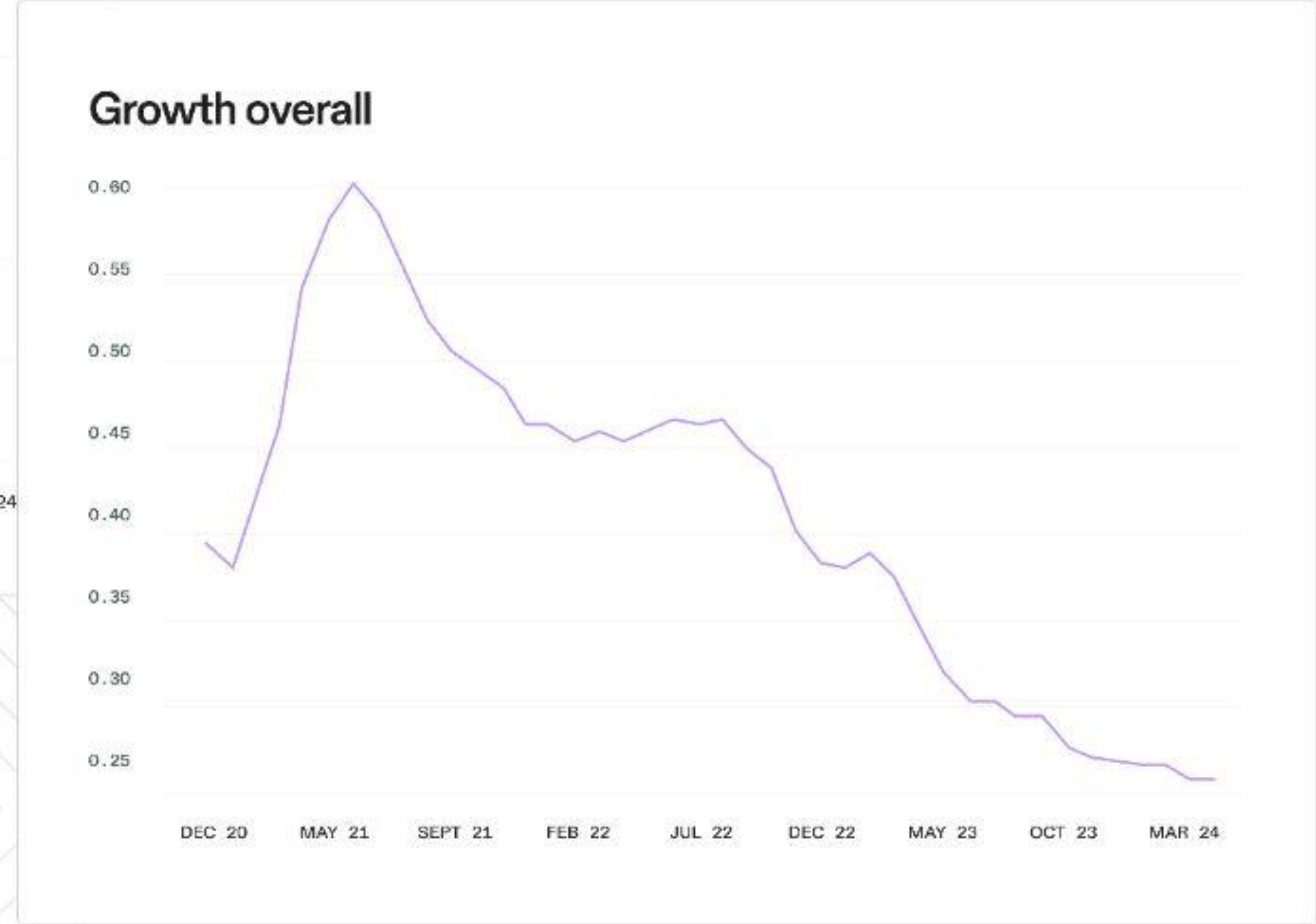
2. **Profitability has improved across all groups**, which means that companies of all sizes are better positioned for unexpected challenges and future fundraising rounds.

3. Despite the contracting YoY growth, **R40 has remained stable or even improved** across ARR sizes and funding profiles, which is a hopeful sign for future sustainable growth and financial health. Companies with larger ARR remained R40 positive.

4. **Liquidity continues to decline** as most companies still haven't reached profitability, and therefore, are burning cash. With less funding available after VC funding peaked in 2021, the liquidity decline continues, especially those in the largest and smallest ARR bands we analyzed. Slight improvements in liquidity, particularly in mid-sized and VC-backed companies, indicate that funding, especially long-term debt, is returning to the market.

5. **Debt/ARR is steadily decreasing as companies continue growing. In addition, high interest rates make debt** less attractive, and given the slow VC market and lack of funding in the past few years, companies needed to find other ways to extend their runway. This is typically done by cost-cutting and reducing debt to free up cash from high interest expenses.





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Analysis

Annual Recurring Revenue Growth YoY

HOW WE CALCULATE IT

ARR = (CURRENT ARR - ARR 12 MONTHS PRIOR) / ARR 12 MONTHS PRIOR

WHY IT MATTERS

Recurring revenue shows the amount of revenue a business generates from subscriptions. ARR Growth is useful for helping you forecast future revenue, and can help investors come up with accurate valuations for businesses they're interested in.

PERCENTILE *	25TH	50TH	75TH
GROWTH YOY	0%	30%	80%

* The ranges are based on our dataset of 2,000 SaaS companies, regardless of size, age, date measured, funding type, and geo, therefore these numbers should be viewed as directional guidance of where your business is, compared to others, and what to work towards.

WHAT WE'RE SEEING

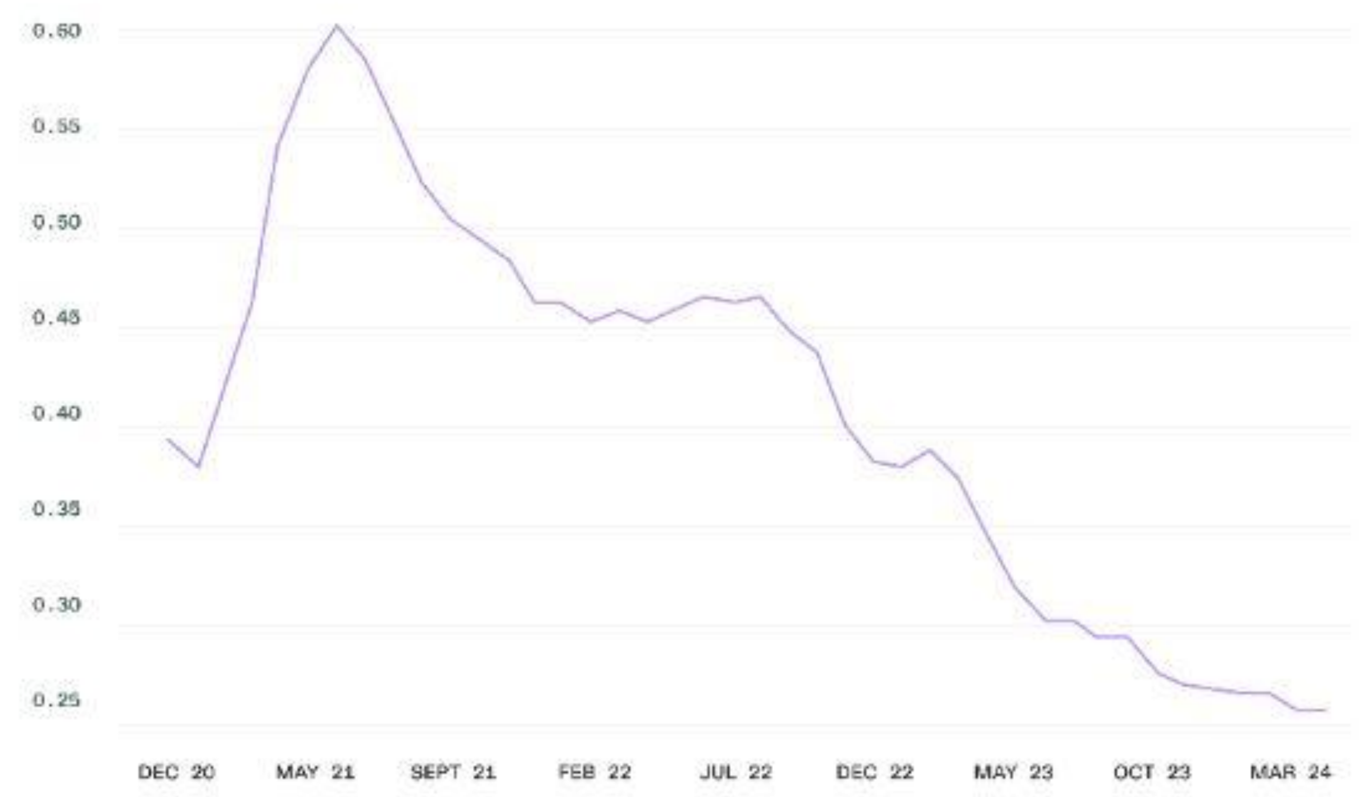
Overall, YoY growth has declined since 2022 as companies have started to shift their focus to runway preservation.

In recent months, however, some notable improvements have arisen. The growth rate of bootstrapped companies has steadily increased since March 2024 which we attribute to their focus on sustainable growth. Whereas, VC-backed companies continue to see that decline, likely due to being accustomed to easier access to capital in the past and higher spending.

YoY growth has declined across all ARR sizes, although mid-sized companies are declining at a slower rate – companies in the $1-2.5M ARR group have even improved their growth rates since January 2024. This is likely due to the fact that mid-sized companies tend to be well-established but still small enough to remain nimble.

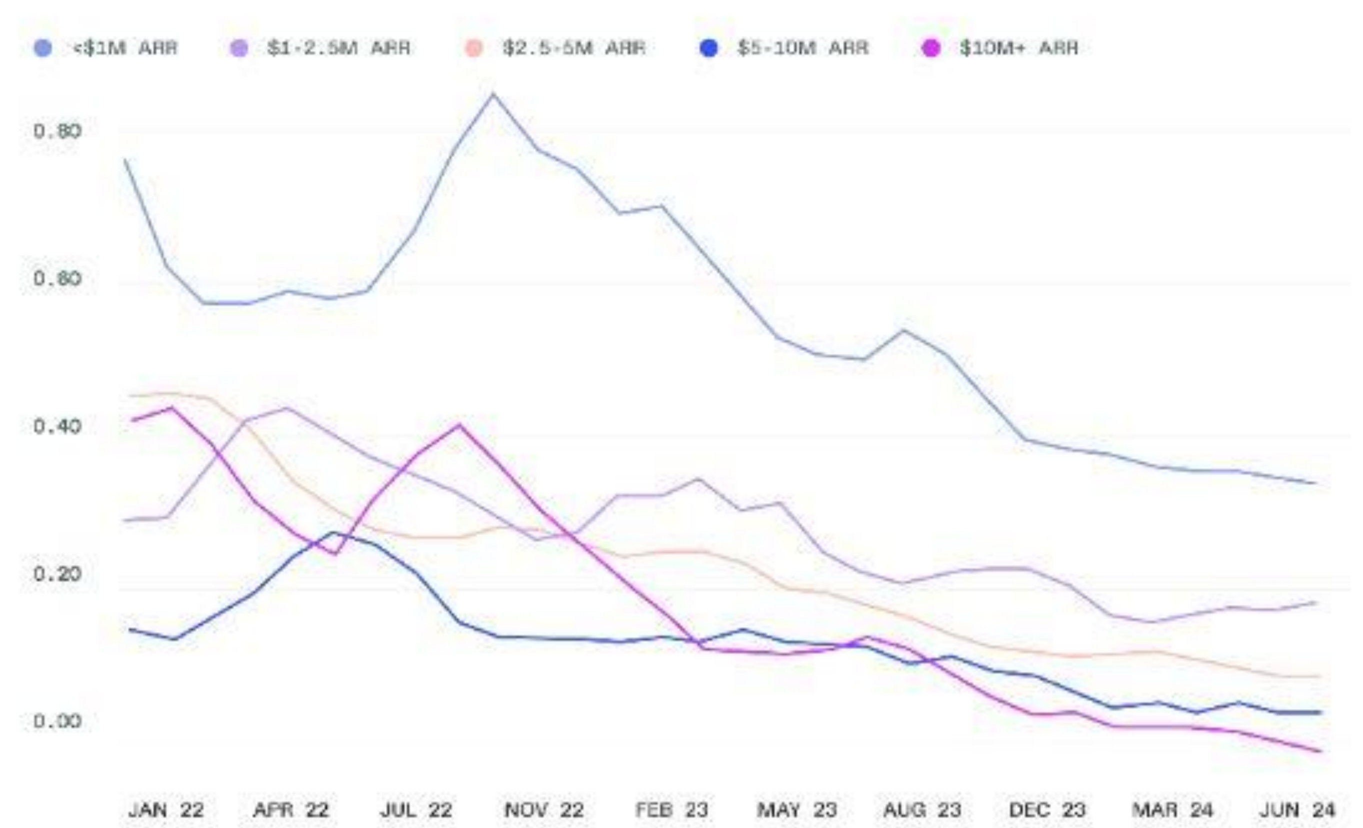
Growth in the US has historically been higher than in Europe, but in recent months, European growth has picked up while US growth continues to decline. As non-dilutive funding partners [such as Capchase Grow which is available across 7 countries in EMEA] expand their reach in Europe, more European companies are able to invest in key growth levers and out-perform their US counterparts.

Growth overall

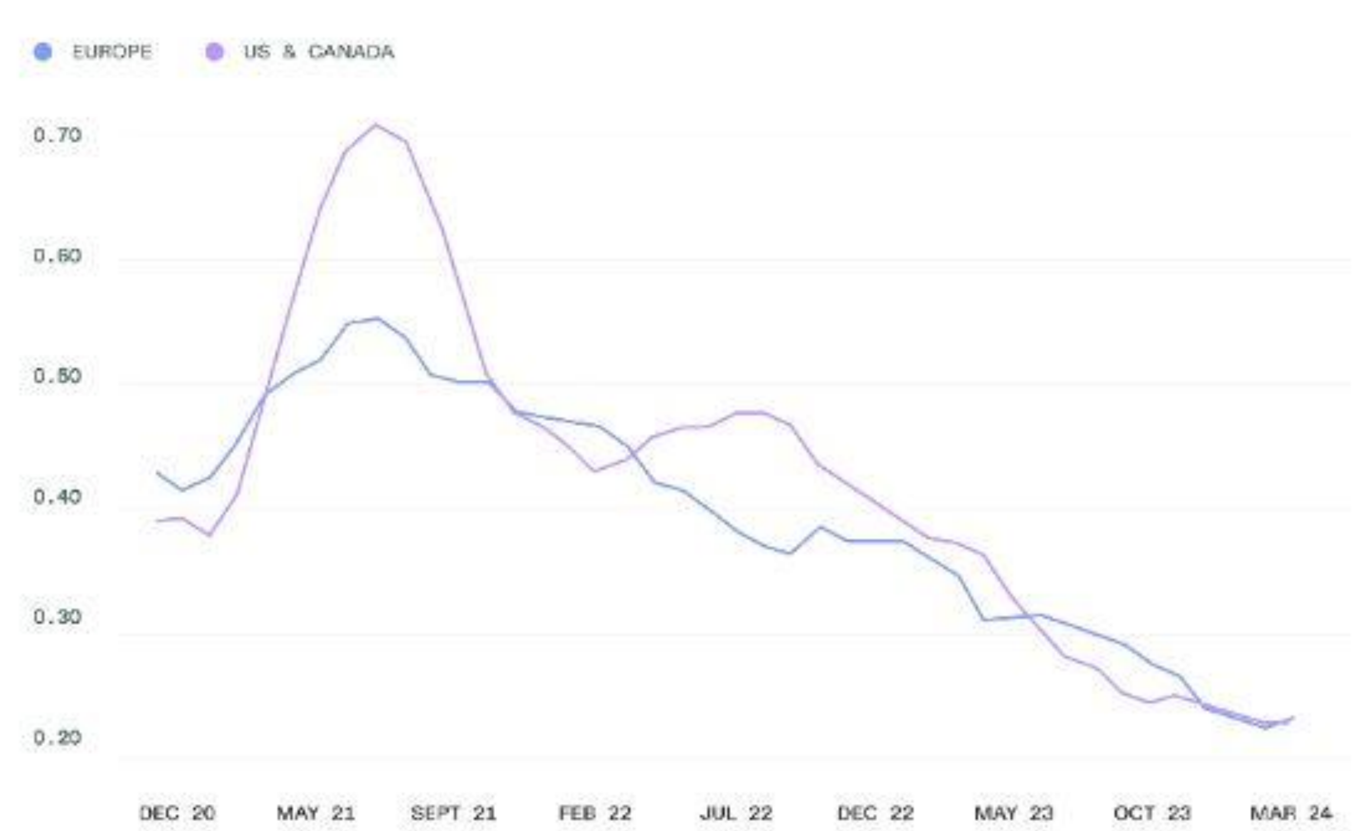


Growth by funding type

Growth by size



Growth by region



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Net Margin

HOW WE CALCULATE IT

NET MARGIN = NET INCOME / TOTAL INCOME

WHY IT MATTERS

Net Margin is one of the most important metrics to track for overall business health. At the most basic level, it shows whether your business is generating more revenue than you spend. Unlike Gross Margin, it takes all of your business costs into account.

PERCENTILE *	25TH	50TH	75TH
NET MARGIN	-130%	-40%	0%

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WHAT WE'RE SEEING

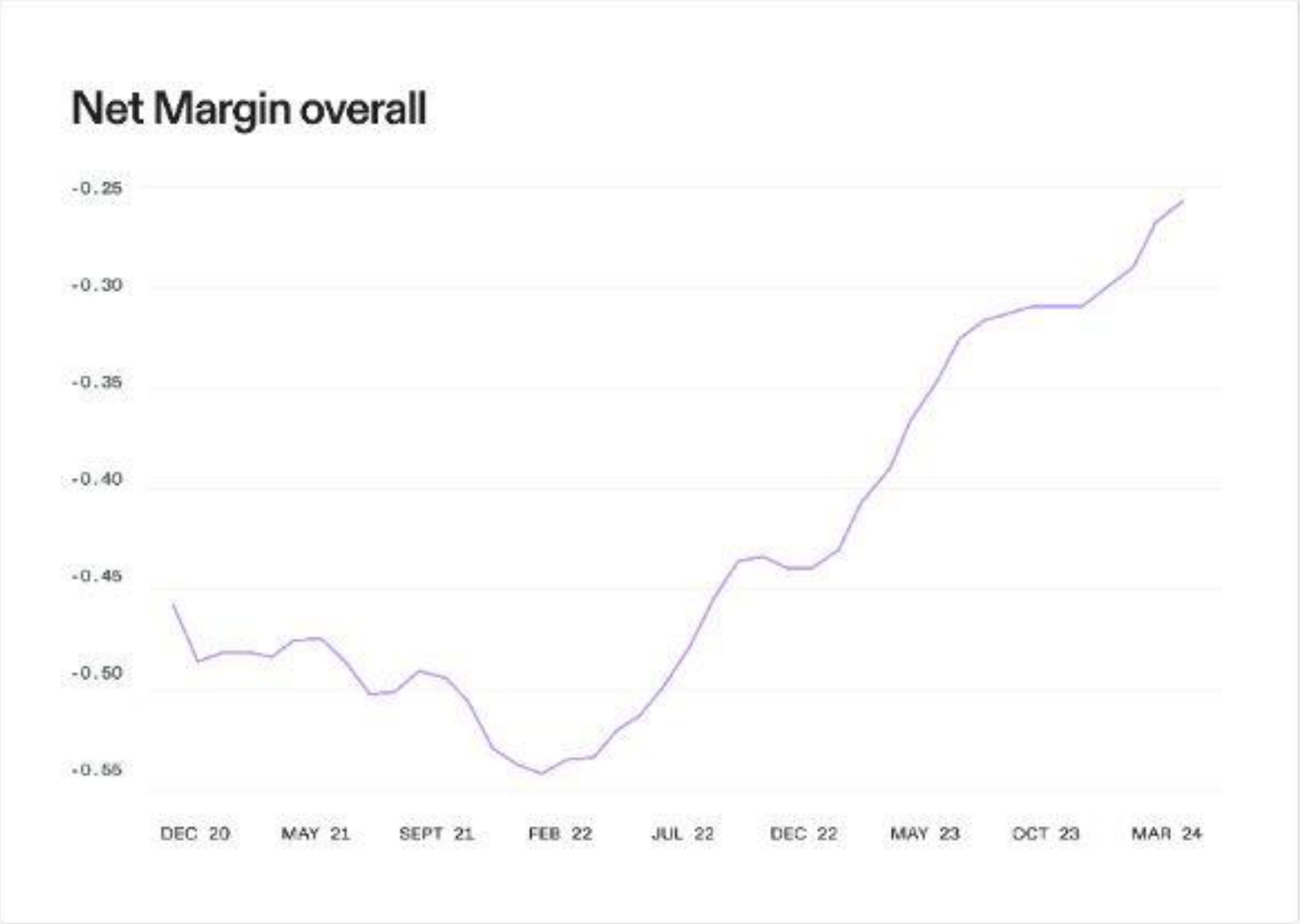
Our data shows that companies are achieving better profitability in recent months, across locations and sectors.

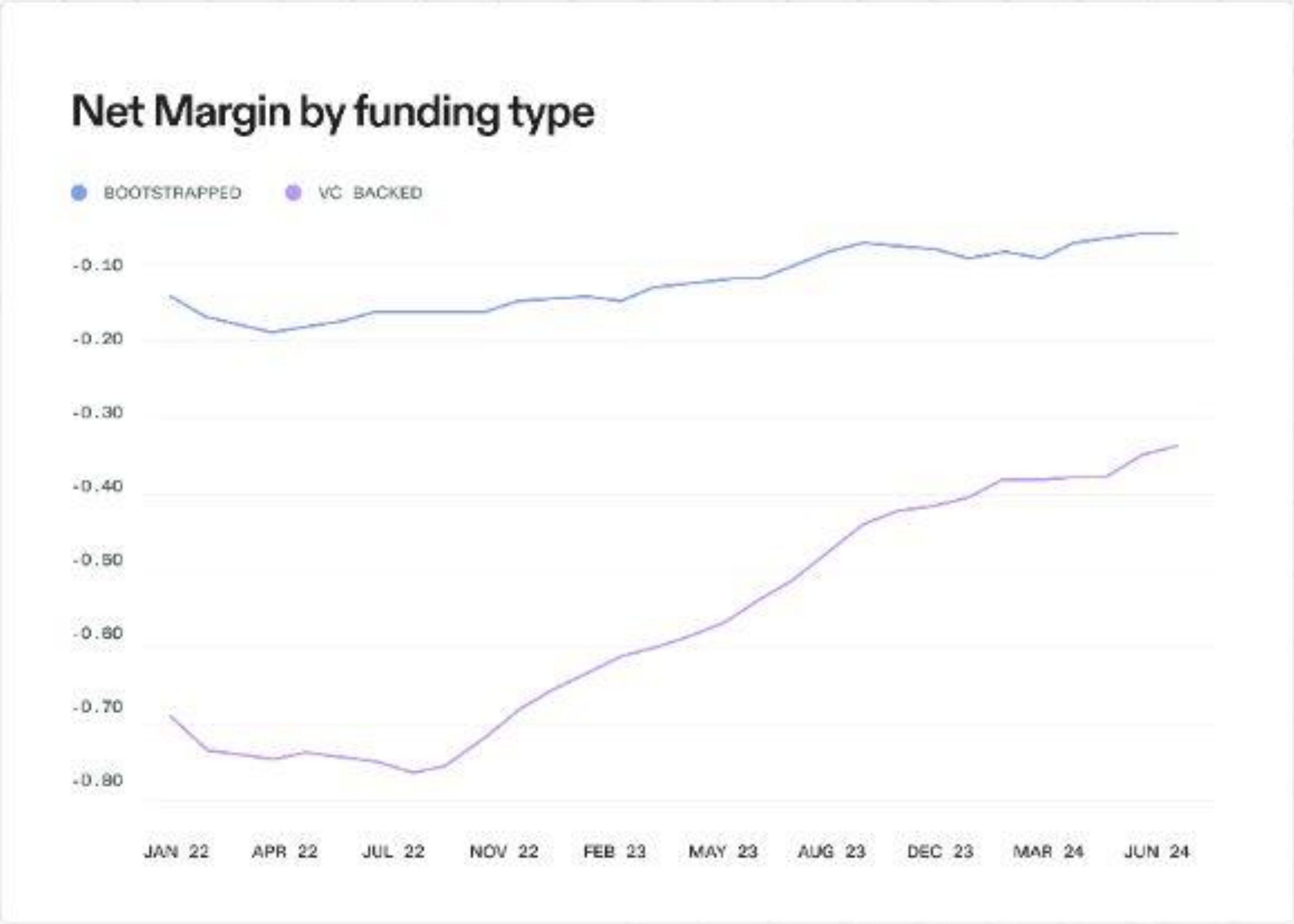
The tighter financial conditions of 2022 and 2023 forced companies to go into survival mode and optimize spending to maintain the runway needed to reach another potential raise.

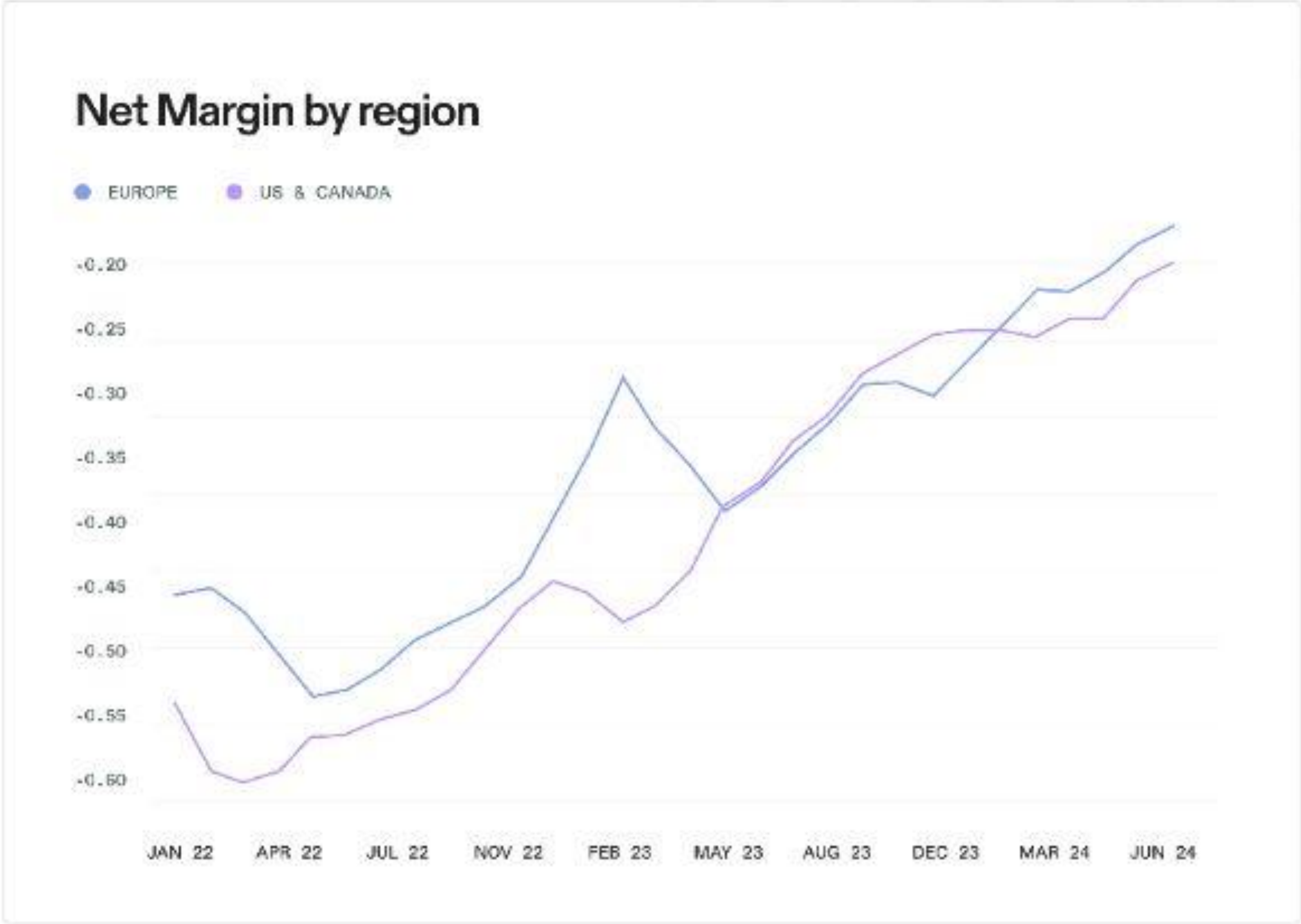
In 2024, SaaS companies are closer to net margin neutrality than before the downturn, meaning that companies have improved their profitability and are better-positioned for future challenges, funding rounds, and growth plans.

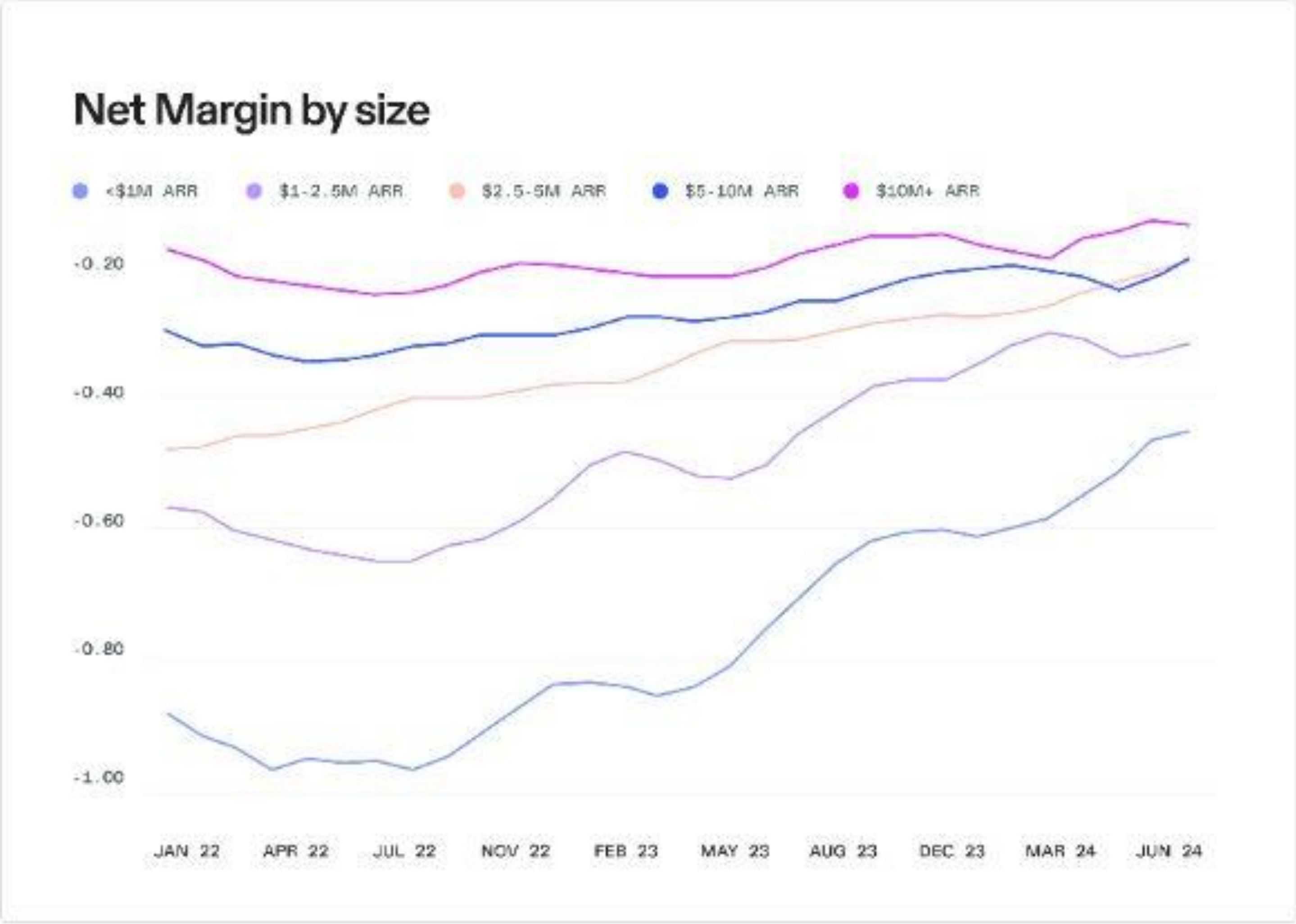
This could be attributed to the focus shift to financial discipline and cost-cutting, particularly in the regions with declining liquidity.

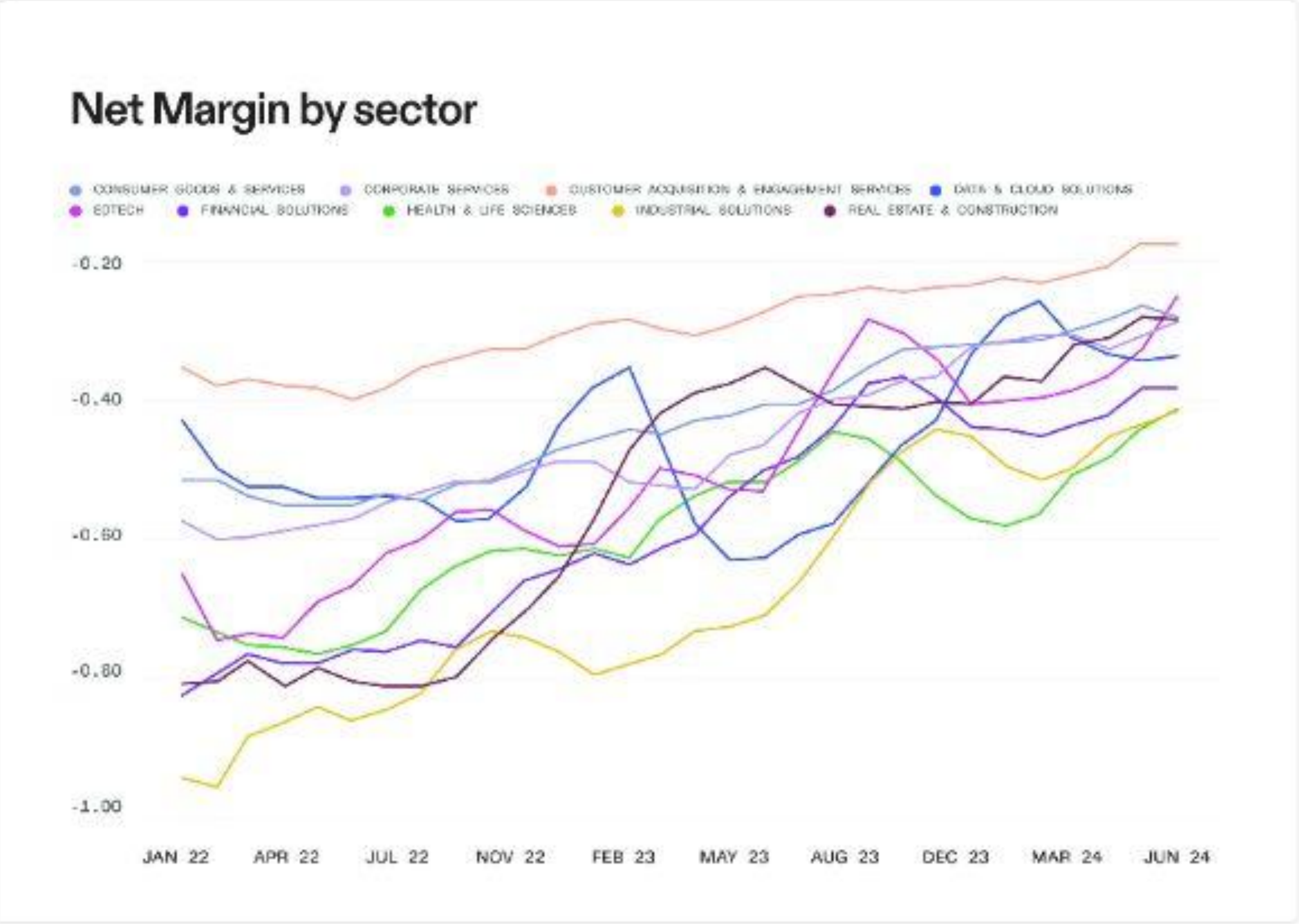
While companies across all sectors are seeing net margin improvements, the biggest positive changes were seen in capital and labor-intensive industries. These industries are the most likely to offer custom solutions and/or hardware in addition to their software, incurring significantly higher variable costs to scale, so pulling back on those led to rapid margin improvements.











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Rule of 40 (R40)

HOW WE CALCULATE IT

RULE OF 40 = ARR YOY GROWTH % + NET MARGIN %

WHY IT MATTERS

R40 is a strong measure of sustainable growth vs. burn for SaaS companies. VC-backed companies typically have very good ARR growth, but are cash burning, consequently have negative net margin. Bootstrapped businesses by nature have higher 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.

PERCENTILE *	25TH	50TH	75TH
R40	-65%	0%	55%

* The ranges are based on our dataset of 2,000 SaaS companies, regardless of size, age, date measured, funding type, and geo, therefore these numbers should be viewed as directional guidance of where your business is, compared to others, and what to work towards.

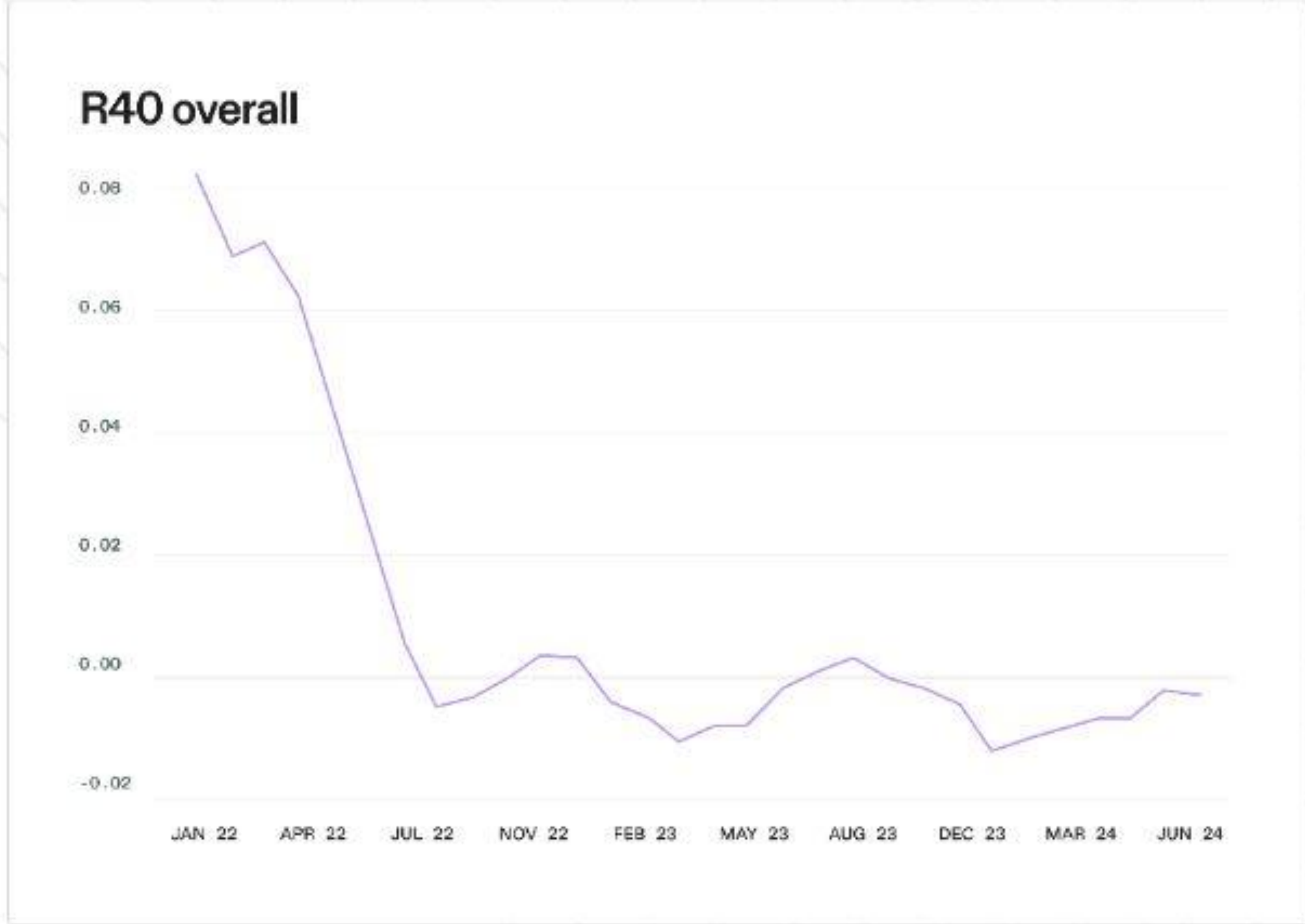
WHAT WE'RE SEEING

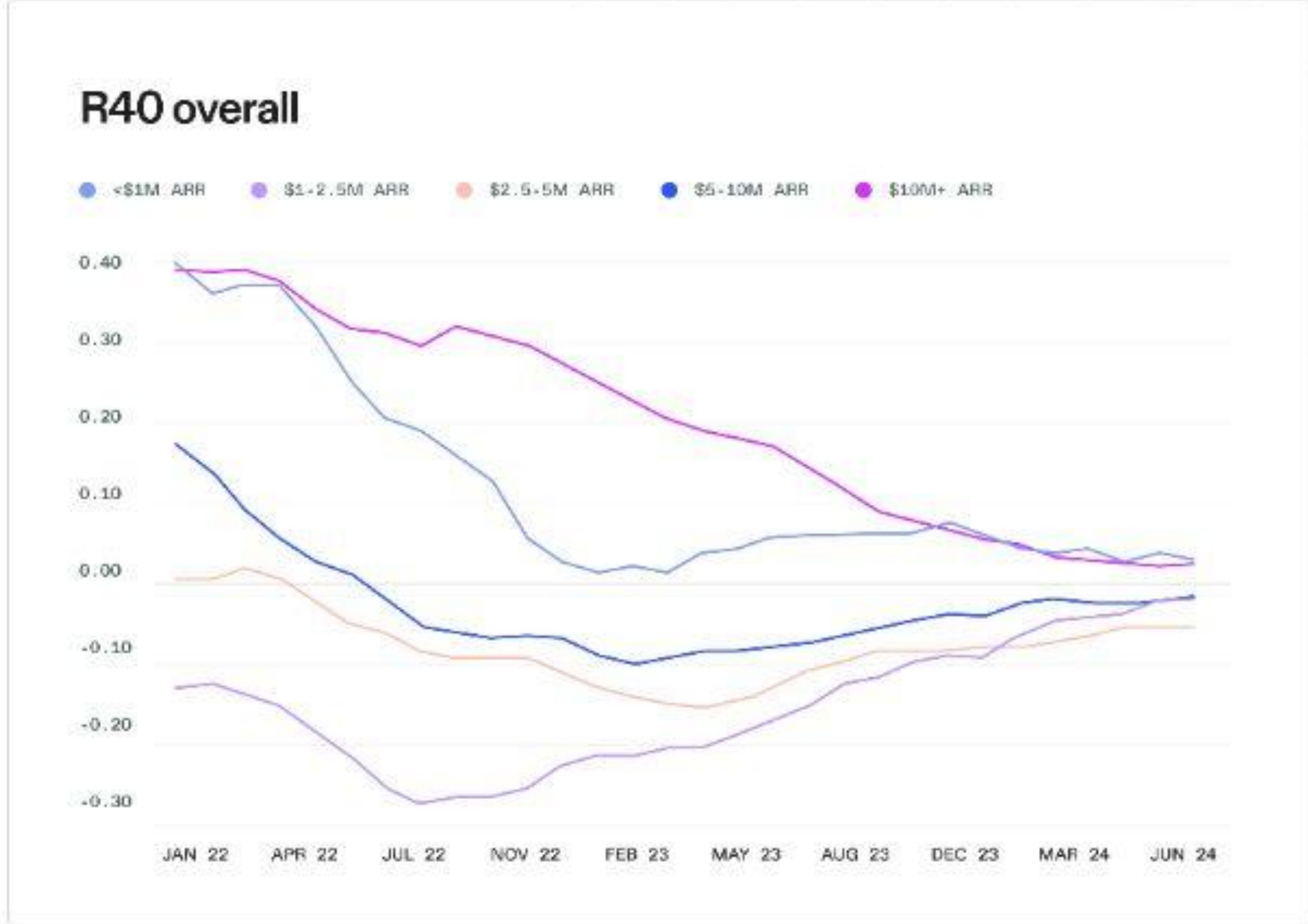
Given the sharp decline in growth in 2022, R40 declined across the board that year. As a reaction to that decline, companies improved net margins, which stabilized R40, or even improved it in some cases.

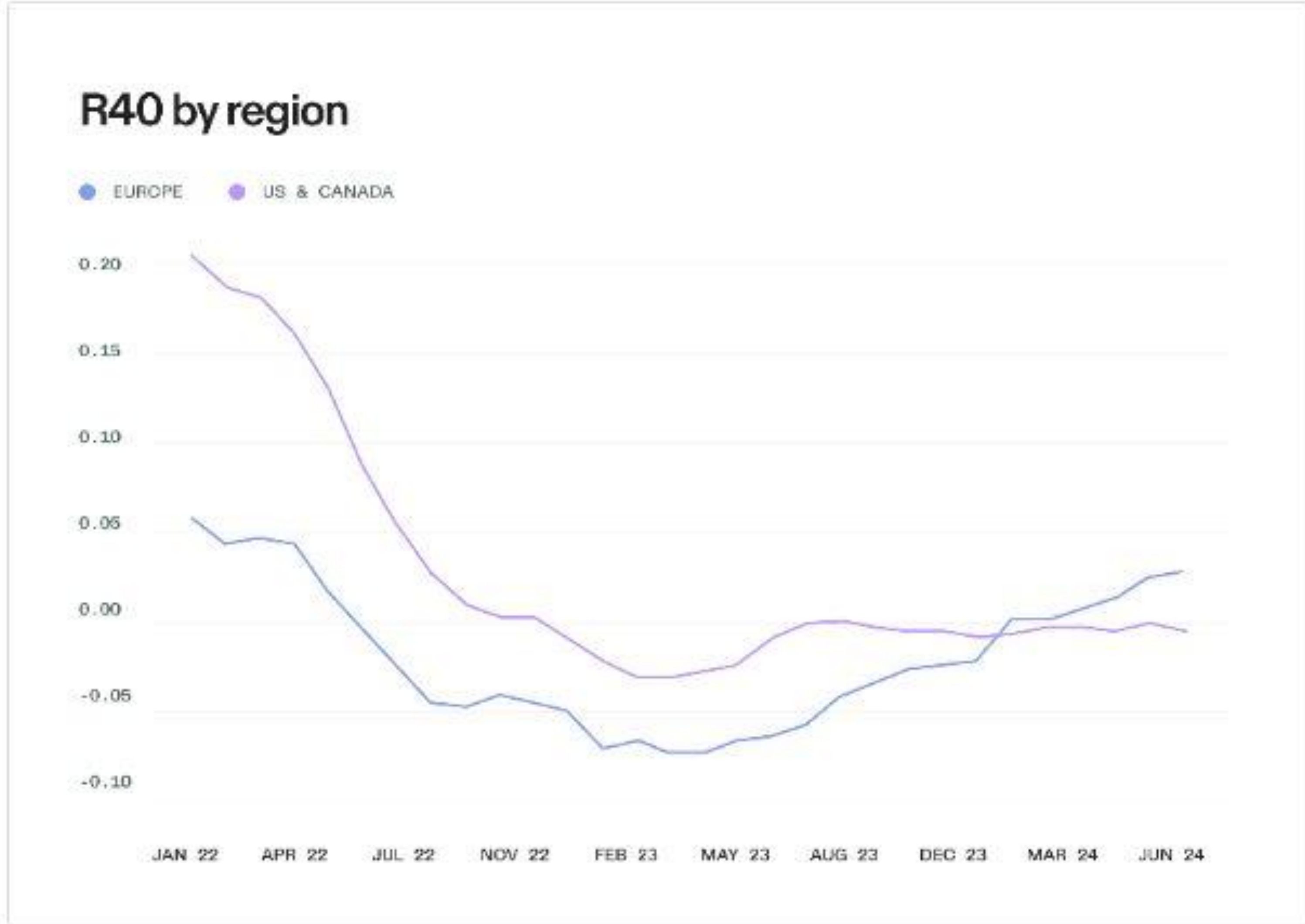
The only exception was seen in companies at the high end of the ARR spectrum, which has consistently maintained higher R40 compared to companies with smaller ARR.

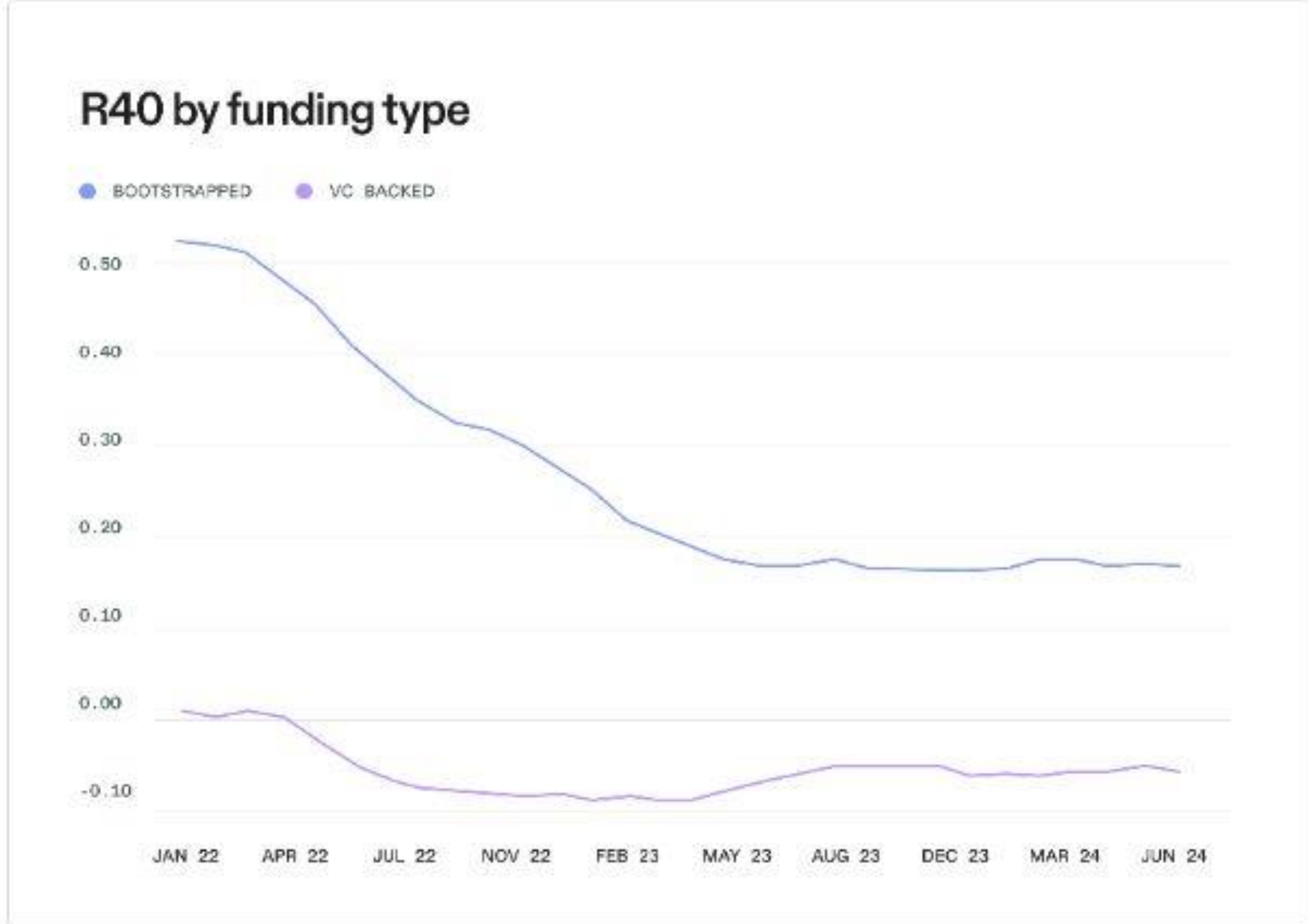
Historically, US companies have had higher R40 as compared to their European counterparts, mainly due to higher growth. But with growth and net margins currently stronger in Europe, the trend has turned around and R40 in Europe has surpassed US R40. Dig deeper into funding trends and differences between the US and Europe, here.

Bootstrapped companies remained R40 positive despite their sharp decline which can be explained by their switching to runway extension faster than VC-backed companies. VC-backed companies fell into the negative R40 likely due to high cash burn.









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Quick Ratio

HOW WE CALCULATE IT

QUICK RATIO = CURRENT ASSETS * / CURRENT LIABILITIES

*Given we are focusing on SaaS companies, inventory is irrelevant

WHY IT MATTERS

The quick ratio is an indicator of a company's short-term liquidity position and measures a company's ability to meet its short-term obligations with its most liquid assets. The higher the ratio result, the better a company's liquidity and financial health; the lower the ratio, the more likely the company will struggle with paying obligations.

PERCENTILE *	25TH	50TH	75TH
QUICK RATIO	0.85	2.00	5.50

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WHAT WE'RE SEEING

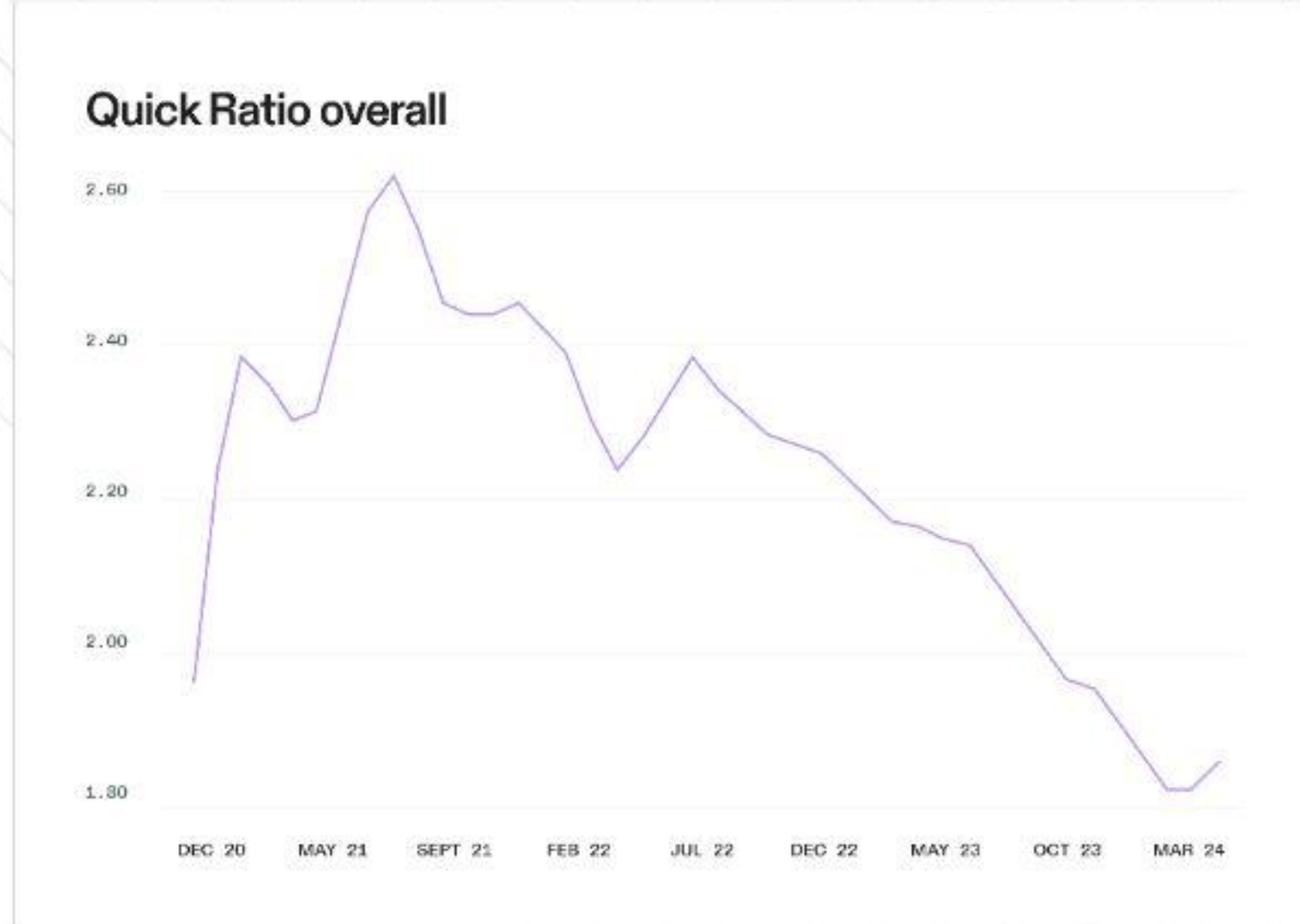
Most companies are still burning through cash as part of business operations, therefore liquidity naturally tends to decline as they deplete their cash reserves. This reflects the decline of available cash after the major VC raises of 2021.

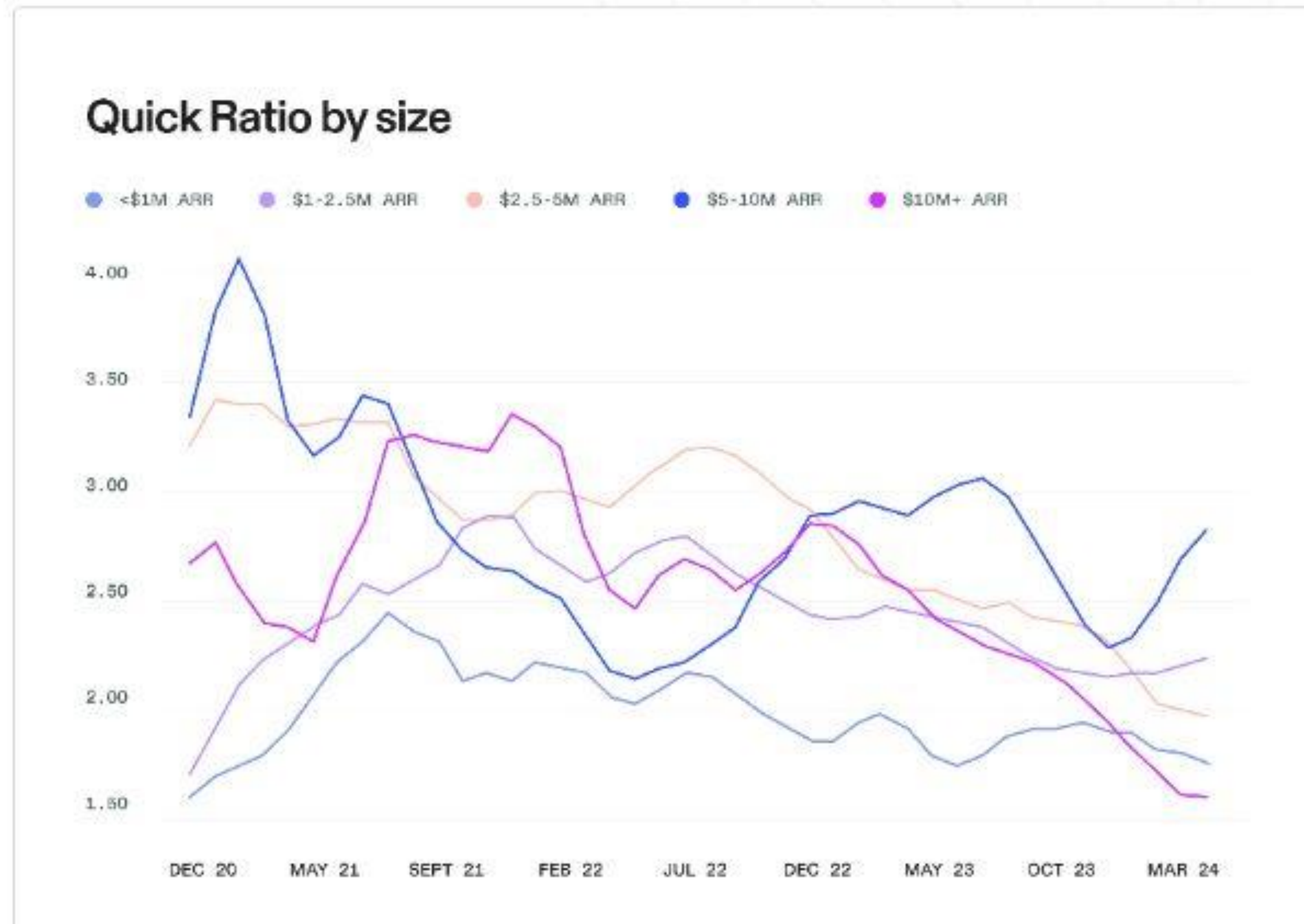
Over the last few months, we've seen an increase in liquidity for the first time in two years, likely related to the increase in the share of companies reaching profitability and external long-term capital raises that are providing short-term liquidity.

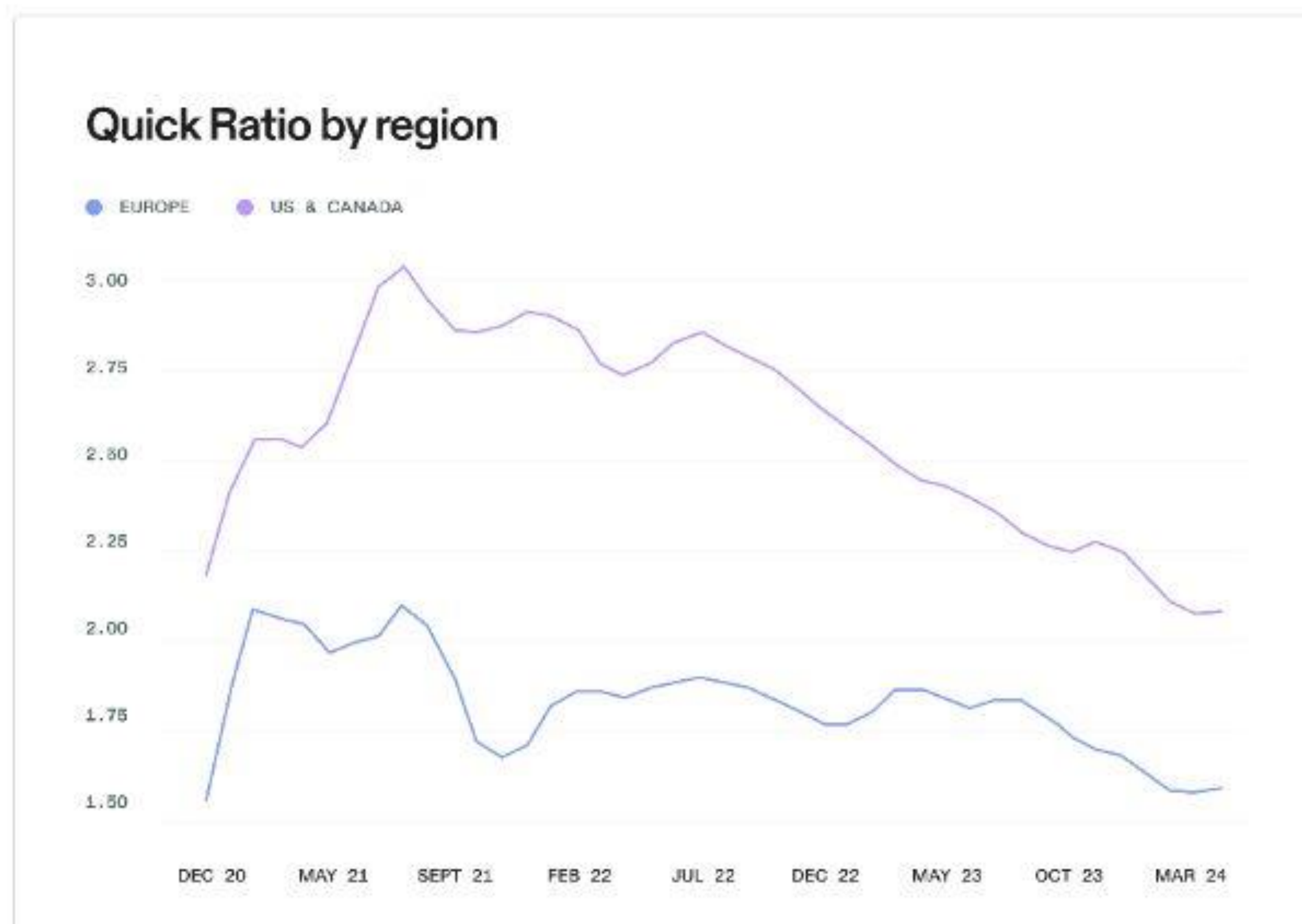
Mid-sized companies with 5-10M ARR saw the biggest improvement in liquidity compared to smaller and larger companies, likely due to solid cost control, healthy working capital, and financing.

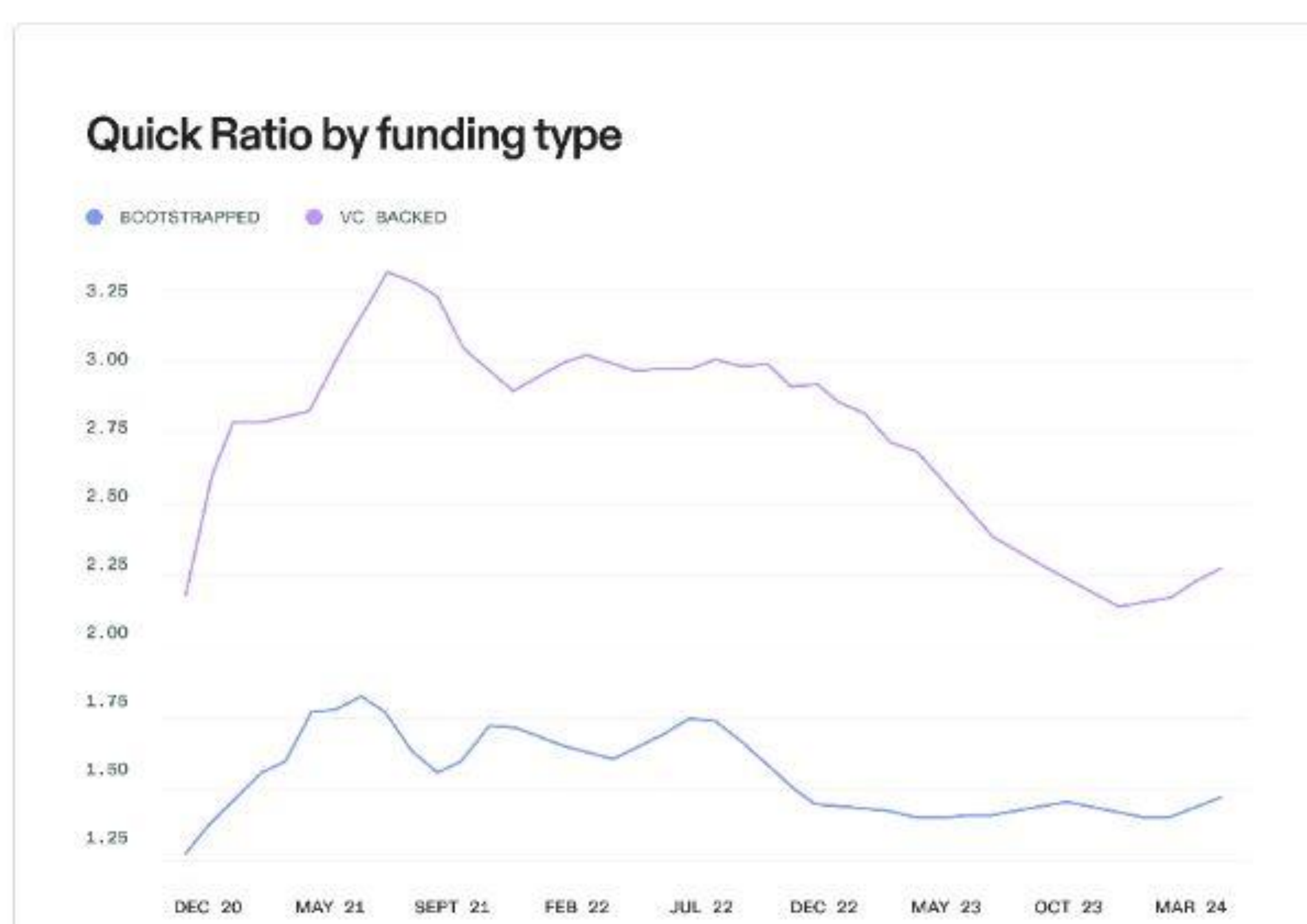
On average, European companies were less liquid than their US counterparts, which could be attributed to the higher availability of long-term financing in North America.

Longer-term financing availability is also demonstrated by VC-backed companies having a much stronger liquidity position than bootstrapped, most likely due to a higher cash balance and lower short-term liabilities, given long-term financing. However, even bootstrapped companies have a strong Quick Ratio at ~1.5x, and both groups are trending upward in the last few months.









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Debt to ARR

HOW WE CALCULATE IT

DEBT TO ARR = DEBT* / ANNUAL RECURRING REVENUE

*Short term debt + long term debt

WHY IT MATTERS

Debt to ARR is a leverage measure that shows how indebted a company is, as compared to their ARR.

PERCENTILE *	75TH	50TH	25TH
DEBT TO ARR	0.75	0.30	0.10

* The ranges are based on our dataset of 2,000 SaaS companies, regardless of size, age, date measured, funding type, and geo, therefore these numbers should be viewed as directional guidance of where your business is, compared to others, and what to work towards.

WHAT WE'RE SEEING

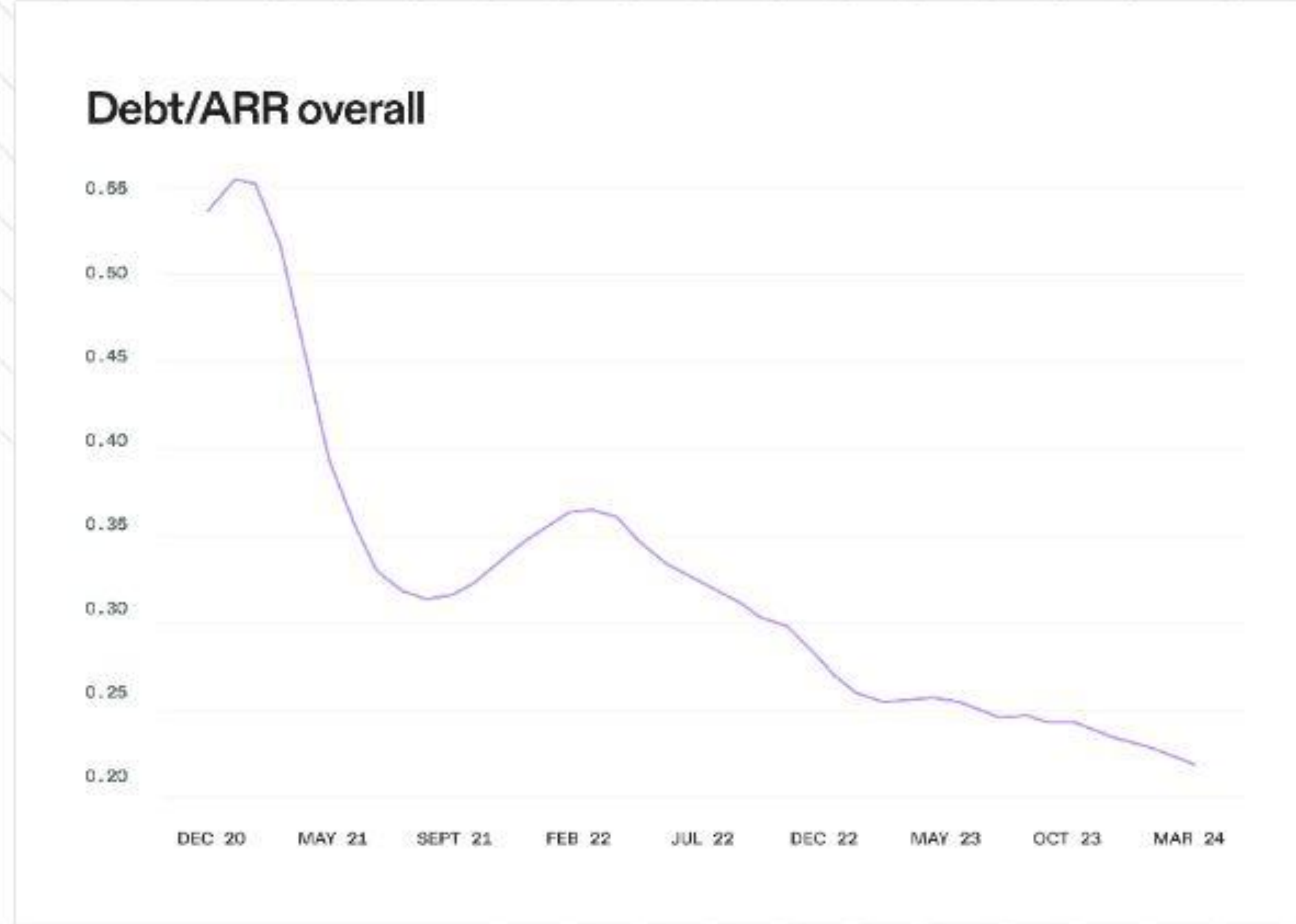
Debt to ARR is steadily decreasing as companies have been deleveraging for the last 3 years. The decline comes from an increase in ARR and a steady reduction in debt, as high interest rates make debt less attractive, which encouraged a lot of companies to cut burn and move toward profitability.

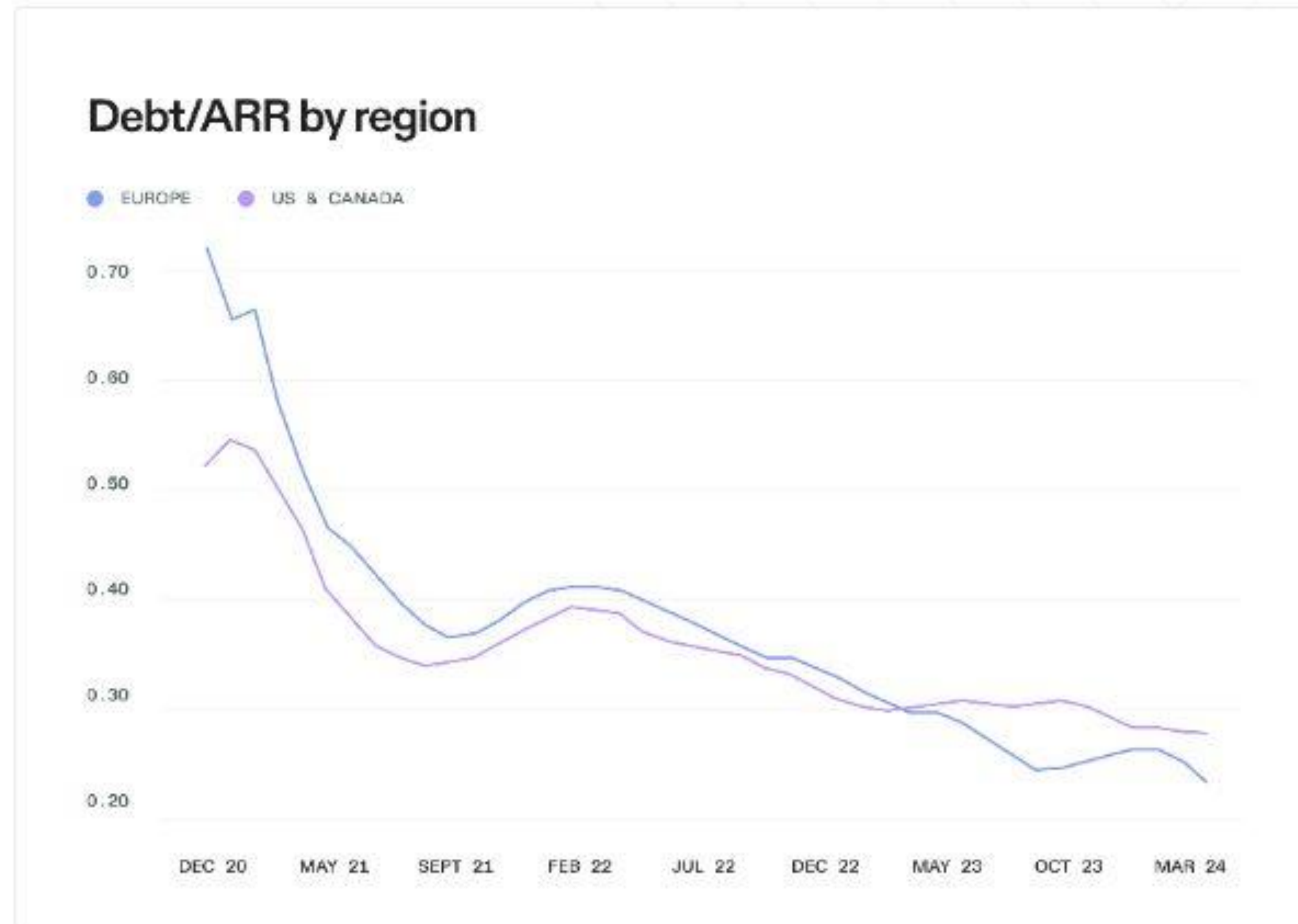
Deleveraging trends in the US and Europe diverged in 2023, with the rate of decline slowing significantly in the US while the steeper decline continued in Europe. This could be attributed to the higher availability of external capital in the US, allowing American companies to continue self-funding or refinancing debt. In contrast, European companies chose a more rapid pace towards achieving profitability and debt reduction.

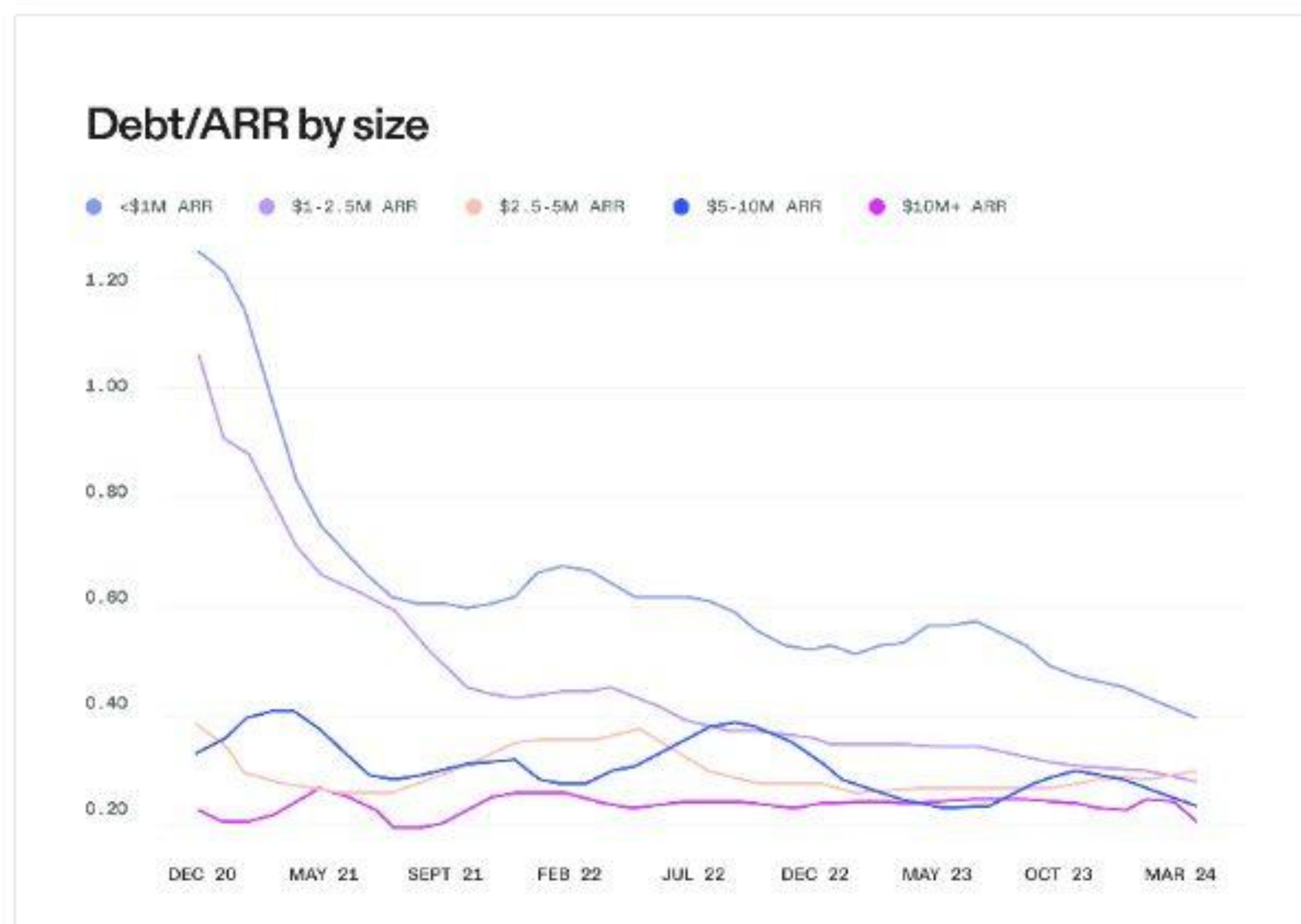
The lower leverage of European companies positions them well to size up on leverage [with the help of flexible funding partners such as Capchase] driving growth and further exceeding the US.

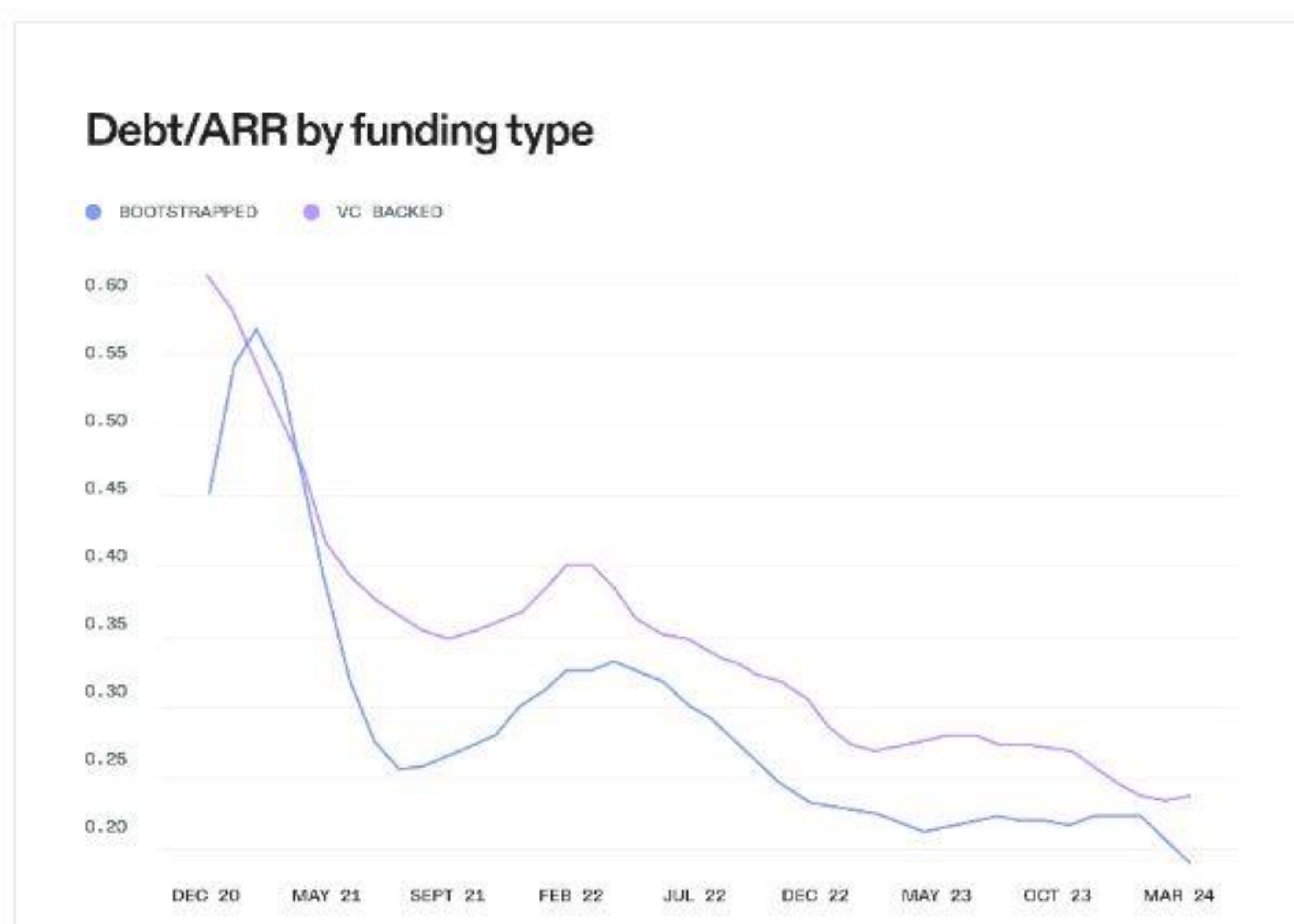
The decline came from the smallest ARR groups, while leverage ratios at larger companies stayed relatively stable. Typically smaller companies can benefit from government programs or credit cards, which provide large amounts of debt relative to their ARR size. Together with their ARR increase over the period, it seems that small companies that went into debt in 2020-21 have not extended their financing as rates increased, causing the fast decline in debt/ ARR.

Unsurprisingly, VC-backed companies show higher debt to ARR than bootstrapped companies, although both have trended lower over time. In the last few months, the decline in VC backed companies' leverage seems to have slowed down, as investments are reviving, while bootstrapped companies are at an all time low.









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Recommendations

1. **Focus on balancing growth with burn.**
   R40 is a good gauge for this, as it combines your business' growth with its margins.

   - Try to maintain, or ideally improve R40 over time by using your resources in the most efficient way possible to drive growth. Focus on which marketing and sales efforts bring the most value to the table, instead of just spending more money in general.
   - Importantly, if you improve R40, not only will the company be more efficient on its own, but it will also make it more attractive to external financing providers (should you seek external funding), as R40 is one of the most important metrics that funding providers look at.

   Find a funding partner to support your growth initiatives while working toward or achieving profitability.

   - The focus has shifted from “Growth at all costs” to “Efficient growth” to now “Strategic, efficient growth” meaning don’t sacrifice your big bets in the name of efficiency, leverage the financing options available to do both.
     Learn more about Capchase Grow.

2. **Don’t sleep on the innovative solutions now available to increase your cash flow and boost your sales at the same time.**

   - Buy now, pay later has made a new name for itself in B2B SaaS, and Capchase is on the forefront of it with Capchase Pay.
   - Capchase Pay brings convenience and flexibility to B2B transactions for both software sellers and buyers, allowing buyers to break their purchases into more digestible payments and sellers to close more deals faster while still receiving annual contract value (ACV) upfront. Learn more about Capchase Pay.

3. **Focus on customer retention as a key lever to:**

   - **Achieve positive growth:** If you lose X% of clients every year it's really hard to achieve growth only through net new sales.
   - **Demonstrate product-market-fit (PMF):** This will help you raise more funding from investors.
   - **Develop your product:** Evangelist clients are the ones who will help you build new features and also give you insights to understand the market where your product is a winner.

How Capchase Can Help

CAPCHASE GROW

Achieve growth and higher valuation with Capchase Grow to fund your initiatives.

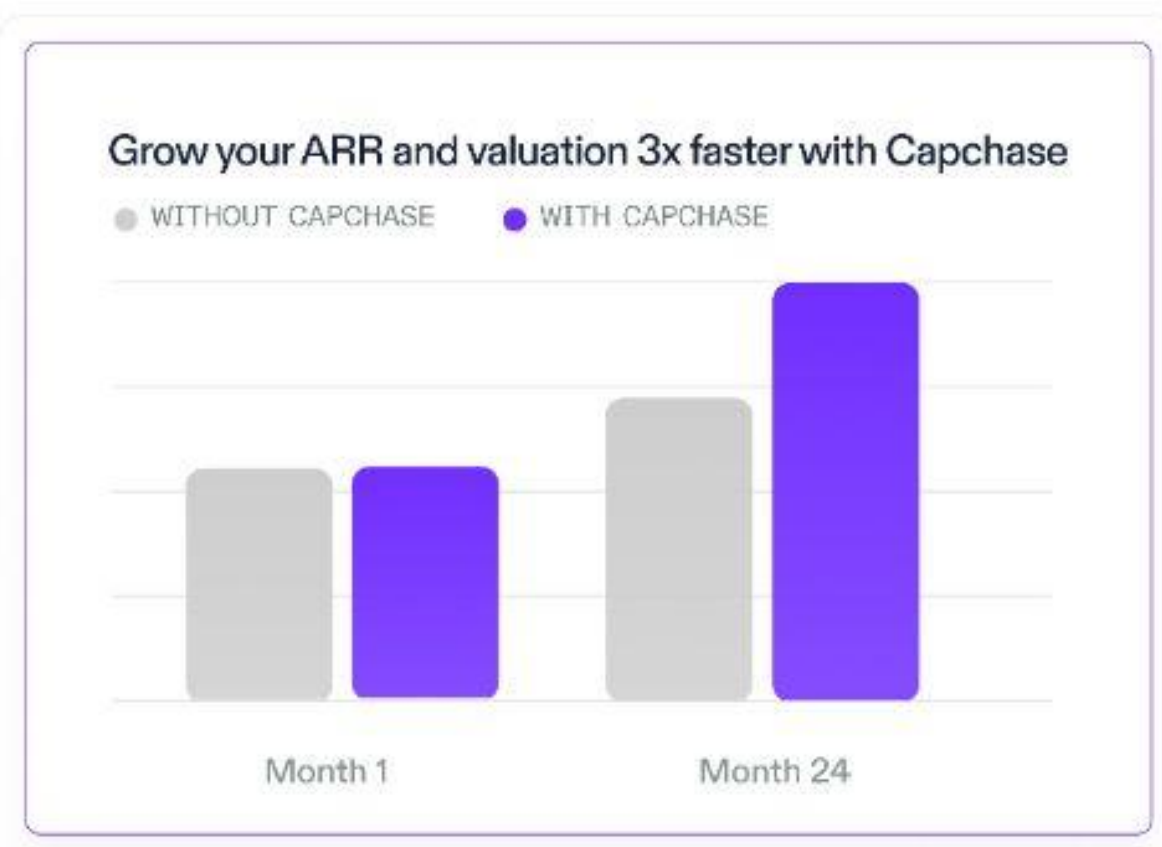
Don't compromise your growth by cutting GTM spending to reach profitability.

Capchase Grow is a non-dilutive funding option for companies with recurring revenue, providing access to future revenue today.

Our clients use Grow in lieu of and alongside other funding to:

- Keep cash position stable while investing in CAC and teams
- Bridge implementation costs without impacting cash flow
- Optimize metrics before a raise to achieve higher valuation
- Achieve profitability without sacrificing growth
- Top up a funding round with a non-dilutive debt option

Find out how much you can grow your revenue with Capchase Grow.



CAPCHASE PAY

Get paid upfront while giving payment flexibility to your customers

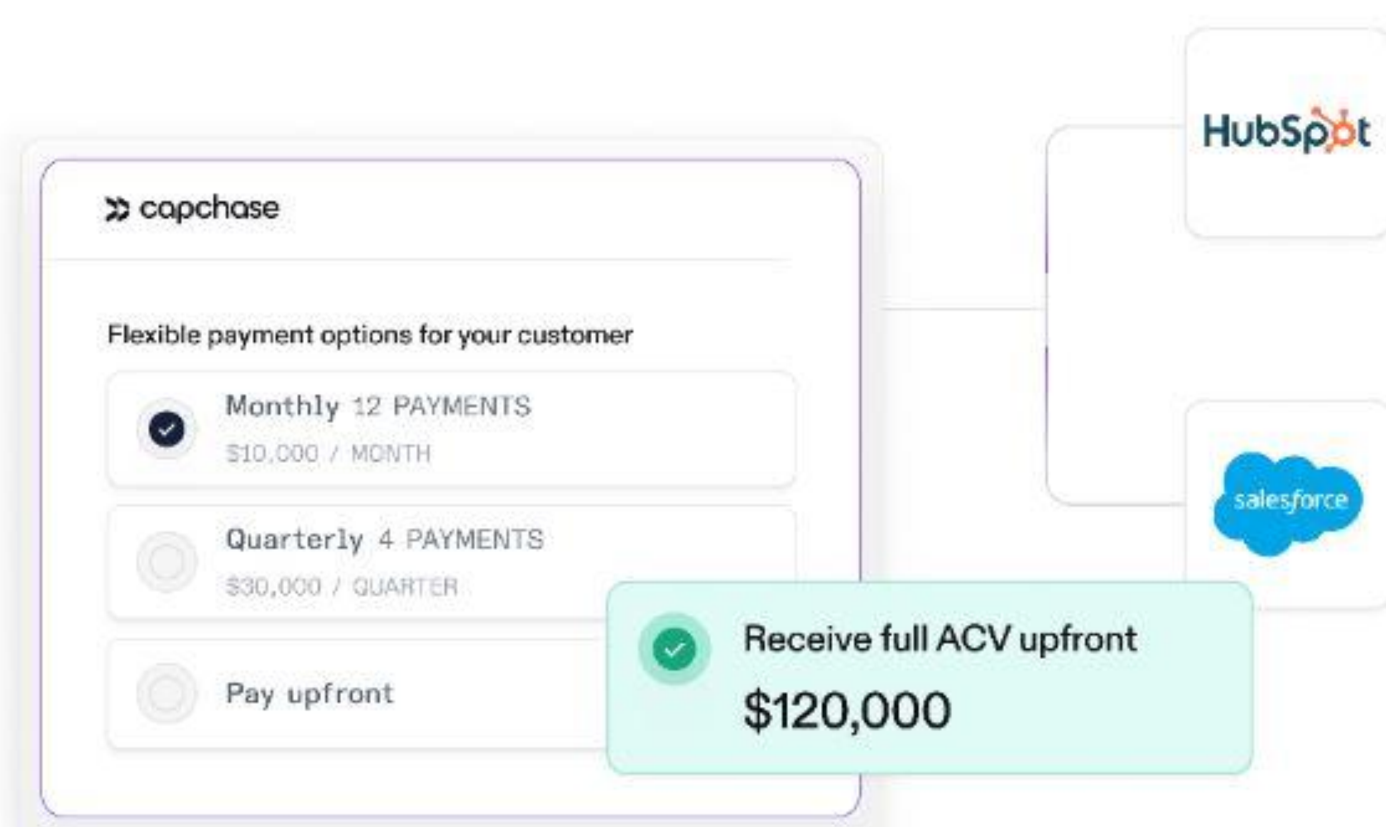
Use Capchase Pay to reduce buying friction and offer your customers payment flexibility.

Capchase has made buying and selling software easier for more than 1,000 SaaS companies to date.

- Close new deals and renewals faster
- Revisit stalled or lost deals with a compelling offer
- Offload the collections risk to Capchase
- Receive annual payment upfront every time

Companies that offer Capchase Pay at checkout see an average increase in ACV of 20-50%, and an increase in sales cycle velocity of 30%.

Get set up and close your first deal with Capchase Pay's flexible payment terms in less than 24 hours! Learn more.



About Capchase

Capchase empowers SaaS companies to grow faster through non-dilutive capital and payment solutions.

Our capital solution, Grow, has made more than $2.5B in funding available to the SaaS industry. Our revenue management tools, Pay and Collect, help SaaS vendors sell more and collect cash faster. Our lending infrastructure tool, Infra, helps banks and other financial institutions make credit available sooner to early-stage companies.

Founded in 2020 and headquartered in NYC, we've worked with over 5,000 companies and partners to date. Capchase operates in 9 countries in North America and Europe, and was recognized as one of Fast Company's Most Innovative Companies and Forbes' Next Billion Dollar Startups in 2023.

To learn more about Capchase, visit capchase.com.

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