Driving Growth and Cash Flow

GROWTH PARTNERS

REVENUE APEX

Jordan Hill

Founder of Growth Partners

GROWTH PARTNERS

LEADERS IN FINANCE FOR HIGH GROWTH VENTURES

We're here to handle the numbers.

Real people with years of experience helping startups like yours to take the stress out of financial management.

Your numbers are in the right hands to help you make the decisions needed to grow your business.

Philip Kaszuba

Founder of Revenue Apex

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Boosting SaaS Success: Double the Speed, Half the Investment!

Our Rev Ops as a services provide CEOs/founders with valuable insights into their sales and marketing investments, enabling optimization for growth and efficiency.

Go-to-Market Excellence: Bridging Strategies, Systems, and Growth

Agenda

SaaS Fundraising

Utilizing RevOps and Finance in your Growth

Mastering the Revenue & Cashflow KPIs

Lead to Cash Model

5 Next Steps to Action Today

What Drives SaaS Fundraising?

ARR is the North Star

THE ANNUAL RECURRING REVENUE FORMULA

Monthly Recurring Revenue (MRR)

-

Monthly Recurring Revenue Churn (MRR Churn)

x

12 months

=

Annual Recurring Revenue (ARR)

01 It drives valuation

Valuation is driven by cashflows from profits. Current and future

02 Profit does not work for high growth SaaS companies

Nature of a SaaS business model is back-ended. You spend money to acquire a customer upfront, with the margin be recouped over the life-time of the customer.
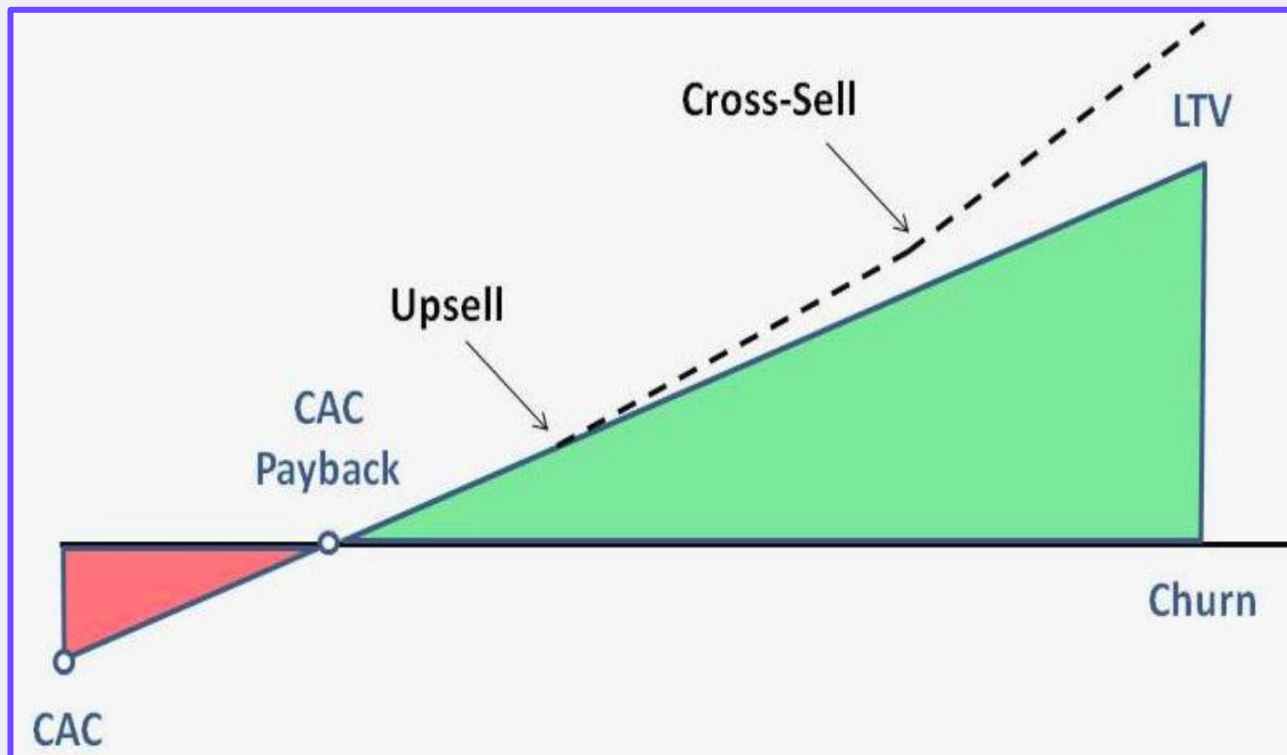
03 CAC Payback kills short-term profit

As a growing start up, you are acquiring customers at a rapid pace, resulting in a consistent loss with future cashflows to be recouped.

04 Proxy for "Future Profits"

ARR is a strong (and more stable) proxy for future profits and thus valuation.

Key Supporting Metrics

01
CAC
Cheaper acquisition provides more immediate profit
Ideal: CAC < ACV (don't use LTV!)

02
LTV
Longer lifecycle increase future profit given minimal re-acquisition costs
Ideal: >36 months (or 3x CAC), at least 1x renewal is key

03
NRR
Upselling existing customers is the most profitable activity
Ideal: 120%

04
Gross Profit Margin
Indicates that current and future customers will yield a high future cashflow/profits.
Benchmark: >70% (if below, consider if you're "SaaS")

SaaS Valuation as an Art and Science

Science

✓ Growth Rate

✓ Churn/Retention

✓ Gross Margin

✓ Burn Rate

Art

✔ Market Position

✔ Size of Market Opportunity

✔ Depth of IP/Defensibility

✔ Strength of Leadership Team

Maturity

Stages	Pre-Seed/Angel	Seed	Series A	Series B
ARR Multiple	N/A	6–10 X	8–12 X	10–12 X
Strategic elements				
ARR Range	$0–500K	$0.5–2M	$3.5–7M	$10–20M
Average Deal Size	$ 300–500K	$3–5M	$10–20M	$25M
Pre-Money Evaluation	$ TBD	$ 12–15M	$40–80M	$100M
Investor Focus	Working product	Paying customers	Many similar customers	New Product/ market growth
Context	These rounds are typically unpriced. Focus is on MVP development.	Heavily impacted by subjective factors	Your customer data should be usable/clean and informing valuation.	These rounds are Higher objectivity on valuation reduces the variability in funding range.

ARR to value calculations

Simplified

ARR x Multiple

Introduces more Subjectivity (i.e. the Art):

- Potential of market
- quality of IP
- strength of leadership
- industry potential

Nuanced

ARR x Growth Rate x NRR x YoY Growth % x 10

Introduces more Objectivity (i.e. the Science):

- 10 is the fixed benchmark
- Inherent data points drive valuation more than subjective points

Funding trends for 2023 and beyond

Valuation Trends

• Of all stages of VC funding, the Seed Stage has been the most resilient.

• Deal flow has reduced, but the valuation has not materially decreased.

Why?

• Valuations are focused on the art vs. science. The idea and potential are still the main driver of valuation.

Valuations have not fallen alongside volume in early stages

Percent difference in median pre-money valuation and total rounds completed vs Q1 2021
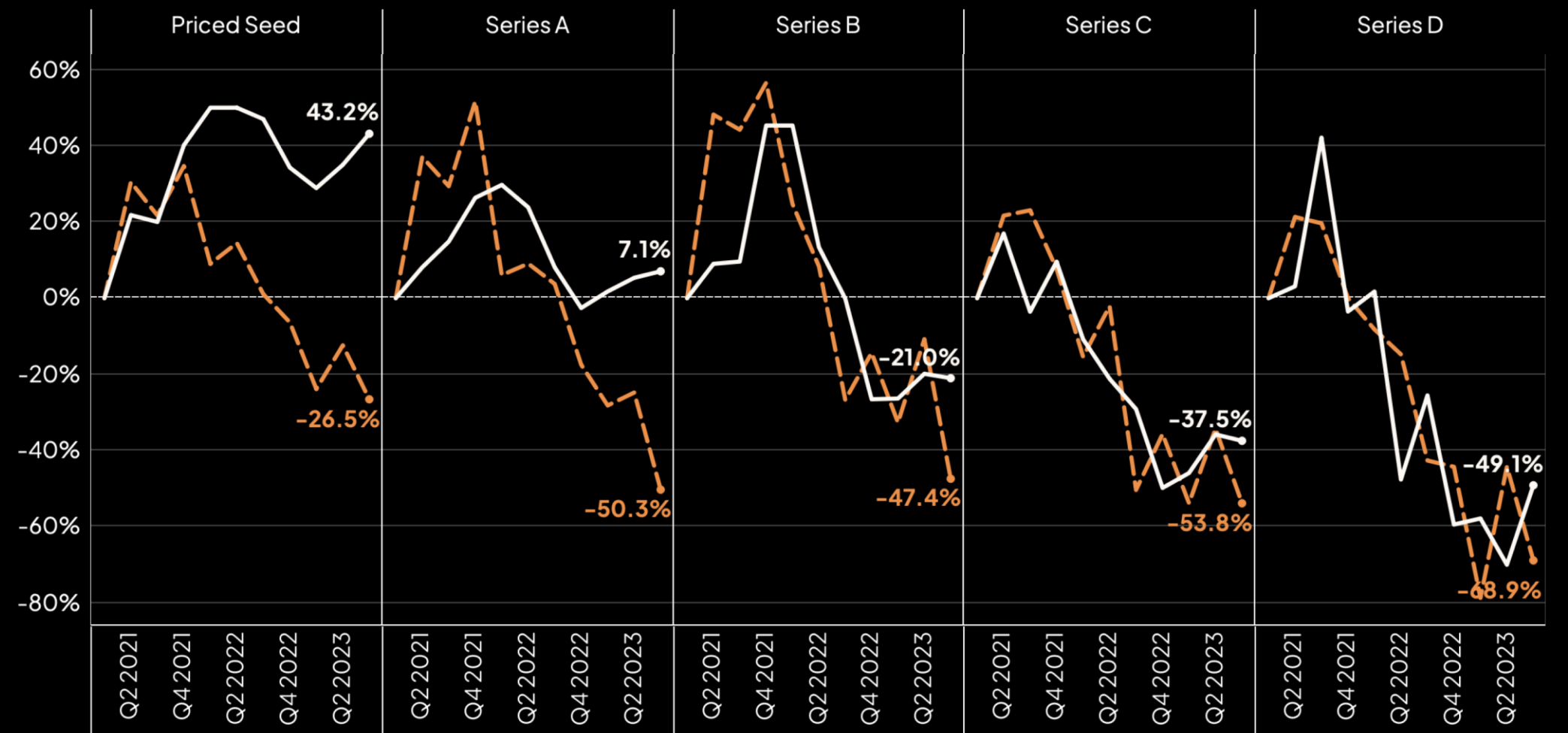
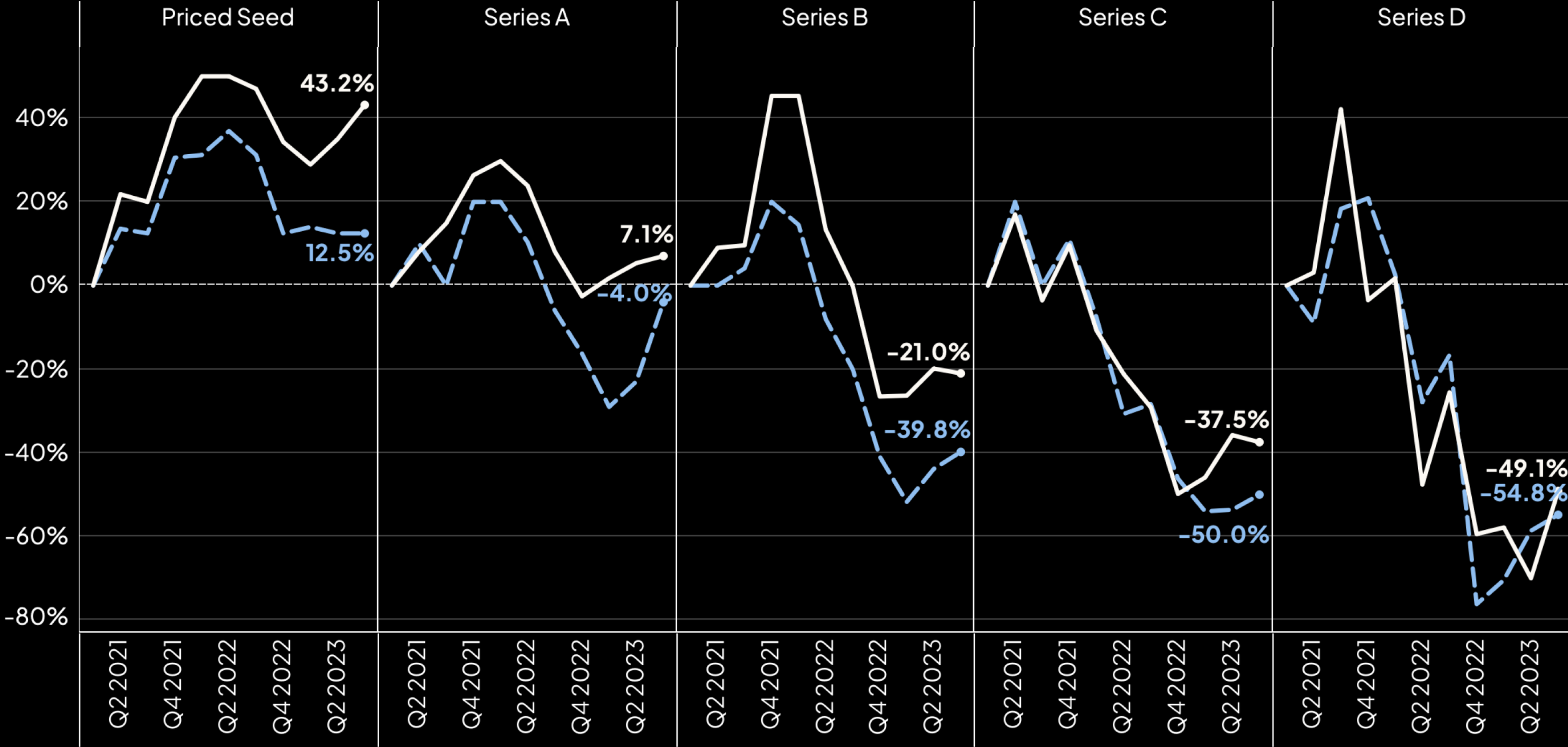©2023 eShares Inc., d/b/a Carta Inc. ("Carta"). All rights reserved.

Round sizes have fallen faster than valuations

Percent difference in <u>median pre-money valuation</u> and median cash raised vs Q1 2021

carta

Down rounds above 18% for three straight quarters

Percent of all rounds that were down rounds in a given quarter, Q1 2018—Q3 2023

	2018				2019				2020				2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	11.2%	12.1%	10.7%	10.0%	11.6%	10.8%	11.0%	10.7%	11.1%	14.8%	12.2%	8.8%	9.0%	7.1%	6.5%	6.3%	5.2%	8.9%	13.7%	14.6%	19.6%	19.5%	18.5%

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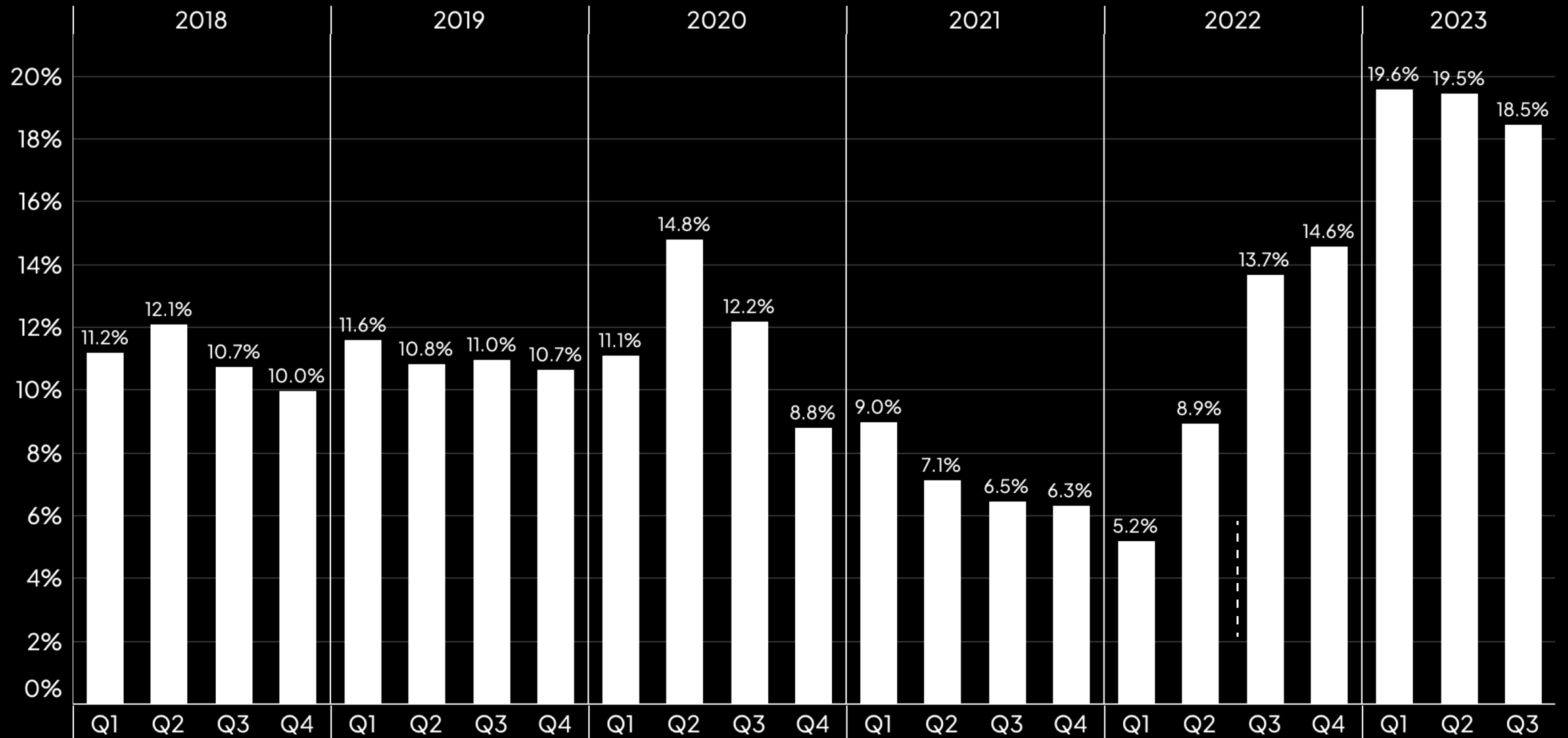
Burn (capital efficiency) is still in focus.

01   **Burn Efficiency**
Managing Burn ≠ reducing spend.

02   **Data Driven**
It's being smart and data-driven with your investments.

03   **Assesses Future Performance**
Historical burn is a proxy to the efficiency of your investments, hence the focus.

04   **Make it a Monthly Habit**
Regardless of your traction, managing burn and runway should be a key practice in your monthly discussions.

05   **Burn Management is straightforward**
You don't need to be a CPA or CFA to figure it out.

Assessing your burn rate

Determine quality/efficiency of growth

Rule of 40

Growth Rate – burn rate ≥ 40%

40% growth must mean break-even.

Ex. Growth of 90%, burn must be less than 50%

Burn can be EBITDA as % of Revenue

Magic Ratio

Growth of revenue vs. Growth of S&M spend – should exceed 1.

Same as Rule of 40, but helps determine quality of sales growth.

If below 1, this should be due to non-recurring activities (e.g. added new market or sales staff

Rule of 40

Valuations driven by Capital
Efficiency (Rule of 40) have
been empirically rewarded.

Higher valuation is correlated
with better Capital Efficiency.
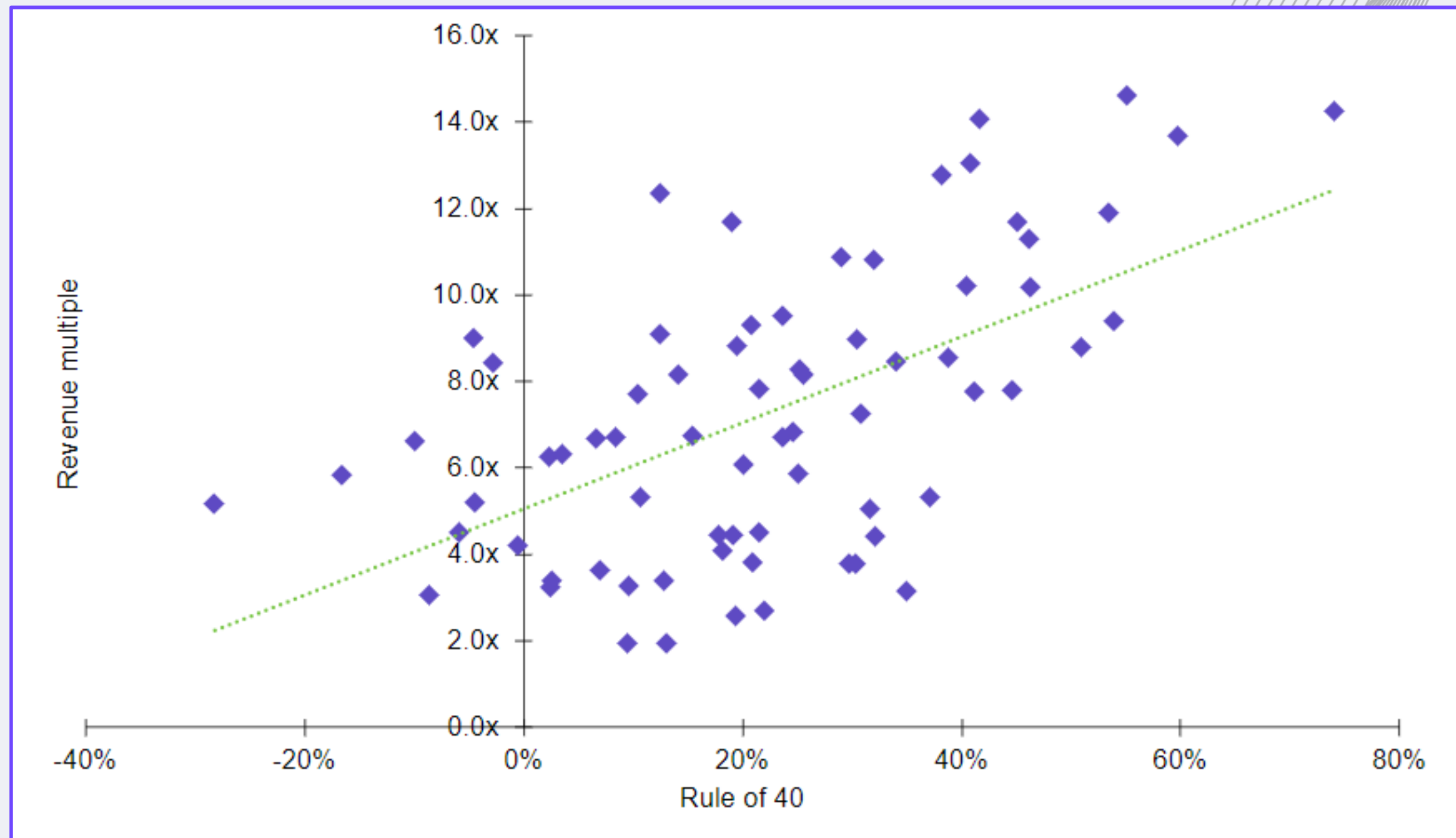
Revenue and GTM also in focus

Investors want to see that there's a well-thought out strategy to grow. Both subjective and objective.

The better the strategy, the less capital (money) you will need to grow.

Crafting a Compelling Story for investors with GTM Metrics

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Pair this with your current and forecasted CAC.

Showcase traction - start early and measure often
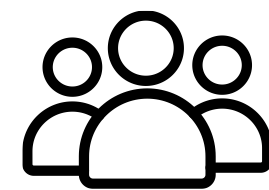
Target Market & I (Initial) CP

Create a vision of size, value and how you plan to leverage your ICP to pursue the broader Target Market

Conversion & Velocity

Layout your sales engagement playbook together with conversion & velocity metrics, especially for ICP
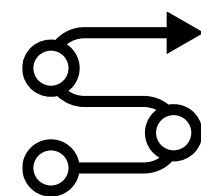
Align ICP to Market penetration

Map your ARR plans to Market Penetration in 1–3–5 year expectations

How Investors Assess Revenue Quality

The less well defined, the more resources (burn) your start-up will need to achieve this and scale further.

01 Concentration
Balanced revenue across all customers and no one client represents 20%.

02 Similarity of customers
Illustrating a strong alignment with your ICP and target market.

03 Predictability
Not just recurring, but stable and stays.

04 Scalability
Land and Expand with ease. Where are your examples of upsell?

Leveraging Finance & Rev Ops in your growth strategy

CEO/Founder

???
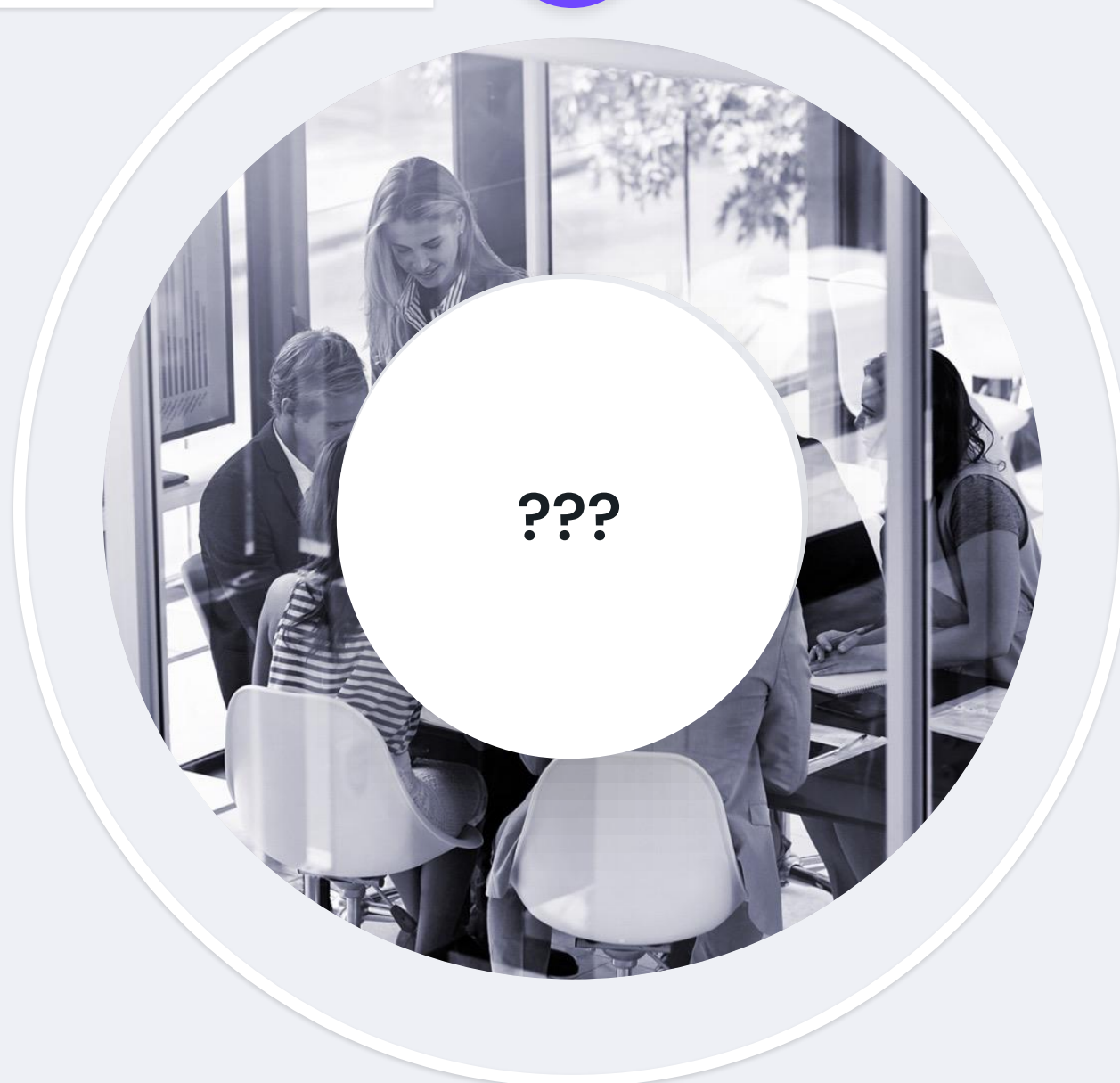
Why invest time and/or Money Now:

1. Indepth understanding of your growth strategy together with cash management enables you to make faster, more effective decisions

2. Once the foundation is established (L2C) your ability to prioritize yours and your teams time on the real drivers of growth increase 10X

3. Accountability, accountability, accountability

4. Data Driven go-to-market vs last deal closed

5. With focus, you can have model, KPIs and reporting in place in weeks not months.

Tell the story for the priority of managing thru KPIs. As a new CEO, this can look daunting what efforts & cost of not doing it!
Practical reality test!

Leveraging Finance & Rev Ops in your growth strategy

CEO/Founder

CFO

???

CRO
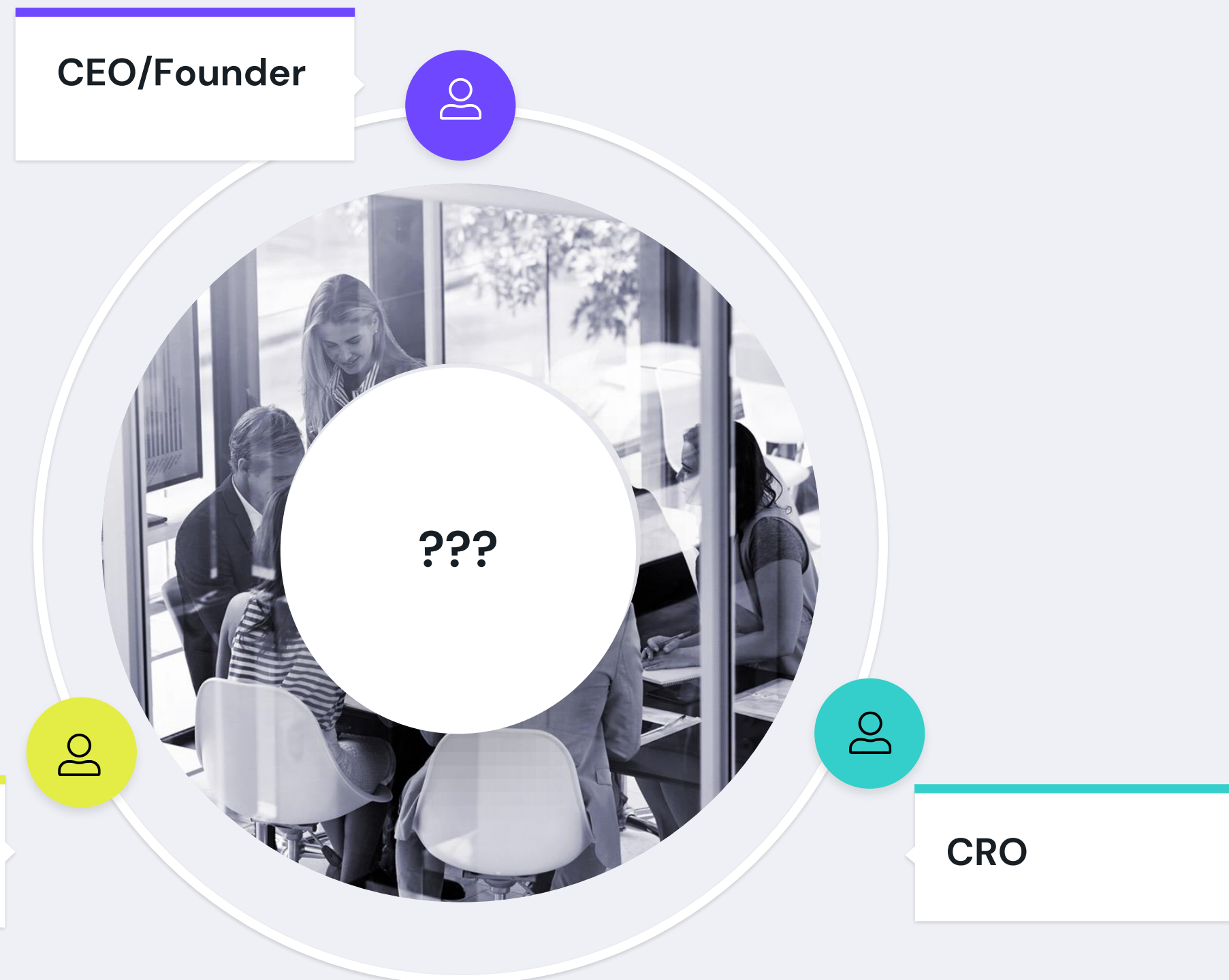
Creating Alignment & Cadence

1. Create alignment and weekly/monthly cadences to measure and manage the critical indicators

2. Shift your focus to the metrics that are predictive of future success, rather than those that only report on past performance.

3. By balancing defense (retention and renewals) with offense (new client bookings), you can create a winning GTM strategy that delivers sustained growth and profitability.

4. New ARR waterfall model provides visibility into your revenue stream at all stages.

5. Renewal waterfall model provides visibility into your customer renewals more efficiently.

New ARR Waterfall Model Example

Pipeline to MRR Waterfall

Core MRR Drivers

ACV	$ 14,250.00	MQL to QSL	73.4%
Avg MRR	$ 1,187.50	QSL to QSO conversion	60.2%
Days to Close	56	QSO to Close Won	22.5%
Activity to DISCO	0.22%	Start MRR	$ 35,083

MRR Targets

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
New **MRR** Goal	$ 3,000	$ 3,000	$ 4,000	$ 5,000	$ 6,000	$ 7,000	$ 8,000	$ 9,000	$ 10,000
Deals/Month	2.5	2.5	3.4	4.2	5.1	5.9	6.7	7.6	8.4
QSO 1st of month	11.2	11.2	15.0	18.7	22.5	26.2	29.9	33.7	37.4

In order to support the goal of closing 4.2 NEW deals in Apr, you need to generate by the end of Jan, 31.1 new QSL into your pipeline assuming you have a **three months sales cycle.**

Top of Funnel Targets

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
QSL for Month	31.1	37.3	43.5	49.7	56.0	62.2	68.4	74.6	80.8
DISCO OCCURRED	42.4	50.8	59.3	67.8	76.3	84.7	93.2	101.7	110.2
Activity during month	19,260	23,112	26,964	30,816	34,668	38,520	42,371	46,223	50,075

Use your current conversion and velocity metrics to create a baseline to determine when, what type (QSL/QSO) and how much pipeline you need across all pipeline stages.

Existing ARR Waterfall Model Example

Track all contractual renewals using a time dimension together with engagement/usage insights. Score the renewals on basic model and begin renewal conversations 90+ days in advance.

Bookings

Model Assumptions

Customer	Billing	Term	Date	TCV	ACV
Customer A	Annually	4 Years	01/01/22	$24,000	$6,000
Customer B	Monthly	2 Years	02/01/22	$6,000	$3,000

Fiscal Year 2022 ($000s)

Total Bookings	$30,000
Total Billings	$8,750
Total Revenue	$8,750

Bookings

($000s)	01/01/22	02/01/22	03/01/22	04/01/22	05/01/22	06/01/22	07/01/22	08/01/22	09/01/22	10/01/22	11/01/22	12/01/22
Customer A	$24,000	--	--	--	--	--	--	--	--	--	--	--
Customer B	--	$6,000	--	--	--	--	--	--	--	--	--	--
Bookings	**$24,000**	**$6,000**	--	--	--	--	--	--	--	--	--	--

Billings

($000s)	01/31/22	02/28/22	03/31/22	04/30/22	05/31/22	06/30/22	07/31/22	08/31/22	09/30/22	10/31/22	11/30/22	12/31/22
Customer A	$6,000	--	--	--	--	--	--	--	--	--	--	--
Customer B	--	$250	$250	$250	$250	$250	$250	$250	$250	$250	$250	$250
Billings	**$6,000**	**$250**	**$250**	**$250**	**$250**	**$250**	**$250**	**$250**	**$250**	**$250**	**$250**	**$250**

GAAP Revenue

| ($000s)	01/31/22	02/28/22	03/31/22	04/30/22	05/31/22	06/30/22	07/31/22	08/31/22	09/30/22	10/31/22	11/30/22	12/31/22
Customer A	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500
Customer B	--	$250	$250	$250	$250	$250	$250	$250	$250	$250	$250	$250
Revenue	**$500**	**$750**	**$750**	**$750**	**$750**	**$750**	**$750**	**$750**	**$750**	**$750**	**$750**	**$750**

Mastering Revenue and Cash–flow KPIs

Kick Investor Expectations to the Curb

Daily KPIs are the Real Measure of Business Success and Growth
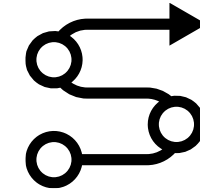
Leading the Way

Leading indicators drive effective business management, not just meeting investor expectations based on past performance.
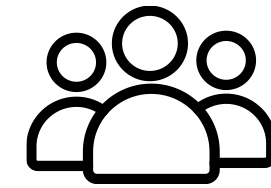
Less is More

By identifying a few key KPIs you can provide your team with clear priorities and direction, and encourage them to take ownership of achieving these goals.

Leadership Alignment

Leading indicators allow you overall leadership team to establish the right accountability daily to drive results.

These KPIs = financial incentives for team

Revenue KPIs

01 **Pipeline Coverage**
Align pipeline coverage to historical conversion percentages for TOF, MOF, and WON deal stages (see New ARR waterfall example)

02 **Conversion metrics**
Measure conversion rates at core stage of the funnel, including MQL, Qualified Sales Lead (QSL), and QSO.

03 **Pipeline Velocity**
Track deal maturity overall, and by stage. This will help you identify bottlenecks in your sales process and improve your sales cycle.

04 **AE/BDR Yields**
Are 80% of your AEs/BDR on track to hit at least 80% of their targets? If not, your new headcount productivity will significantly impact your burn.

05 **Time to Value**
An early indicator of client success (renewal) is time to value or time to the **"WOW MOMENT"** with our product.
Less = more

Cash-Flow KPIs

01
ARO
how long is it taking us to collect cash? If the trend is taking longer, our future cash use will be higher.

02
NRR
are we keeping and growing customers? If so, this is a cash-efficient method of growth.

03
Pipeline Velocity
How long is it taking prospects to convert to paying customers. The longer the cycle, the more expensive growth will be.

04
GPM
Is it costing us more or less on a per-product basis to service our customers?

05
Burn and/or CAC
How much is it costing us to acquire customers, are there more efficient sales channels?

Strategies for Building a KPI Centered Organization

01 **Identify 5–10 KPIs:** when in doubt, look at key business objectives)

02 **Identify Data Sources of these KPIs:** sources can be CRM, Accounting System, Google Analytics.

03 **Establish a Reporting Framework**: when in doubt, start monthly and keep it simple.

04 **Set KPI Tracking Ownership:** Who 'owns' this data? Only one owner allowed.

05 **Set Process of Updating Data:** again, start simple! Key is looking at trends, not accuracy.

06 **Create Targets:** when in doubt, use a benchmark and see where you land against it. Goal is predictability – a cause and effect.
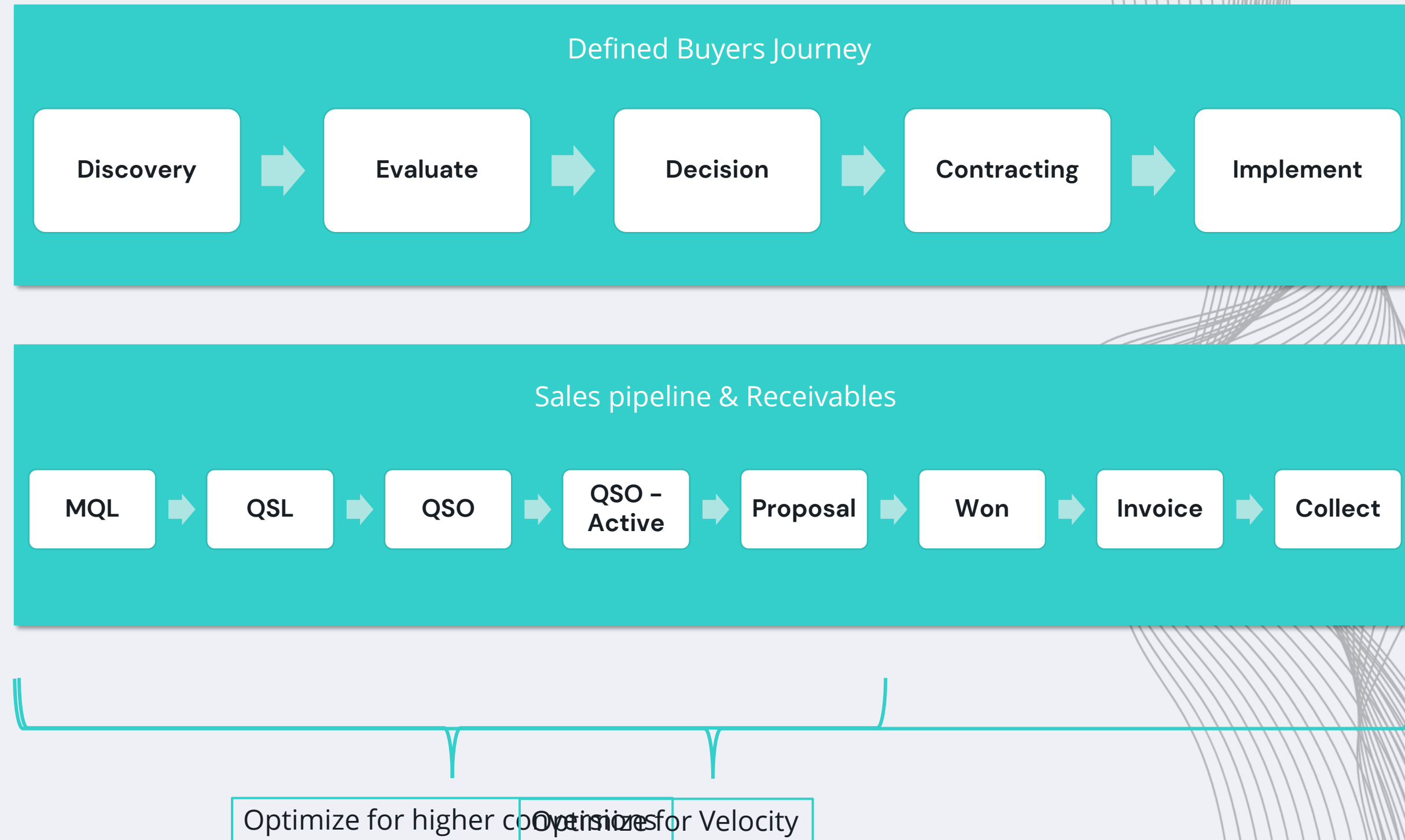
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Developing a Lead-2-Cash Model to Optimize Your Sales Process and Cash Management.

Map buyer journey to sales & collections pipeline

1. Defined your Buyers Journey (ICP)
2. Map to sales pipeline with gating for sales stages & velocity
3. Add core A/R elements to CRM to streamline reporting

Defined Buyers Journey

Discovery → Evaluate → Decision → Contracting → Implement

Sales pipeline & Receivables

MQL → QSL → QSO → QSO – Active → Proposal → Won → Invoice → Collect

Optimize for higher conversions   Optimize for Velocity

Lead2Cash Imperatives

01
Map Buyer Journey to Pipeline within system

Ensure you can track both conversion and velocity, with common gates for each stage.

02
Align ownership for goals & data Quality

Ensure there is an owner for each stage of the pipeline and data quality shared with others

03
Establish a cadence to review results

Weekly/monthly reviews on results with an ongoing focus on improvement in conversion and velocity.

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5 Steps you can take Today

Five things you can do today to supercharge your revenue generation and cash management

Five Steps

01

Build your first L2C Model

A clear definition of the target customer segments including demographic information, pain points, and buying behavior.

02

Align on Leading KPIs for Revenue & Cash

An ideal customer profile provides a clear and detailed understanding of the characteristics and needs of a business's target customer and buyers.

03

Play Defence on retention

A unique and compelling value proposition that positions the product or service in the market, including features, benefits, and differentiators.

04

Cheat Sheet to set up systems to manage KPIs

A buyer journey is the process that a potential customer goes through in order to make a purchasing decision from initial interested to closed contract and ongoing renewal.

05

Establish your CEO/CFO/CRO cadence (monthly/weekly)

A buyer journey is the process that a potential customer goes through in order to make a purchasing decision from initial interested to closed contract and ongoing renewal.

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