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## Public SaaS Company Benchmarking:

### Are you on track for a successful IPO?

*The following document presents a benchmarking of the key value drivers for a SaaS company: Sales & Marketing Effectiveness, revenue growth rate and cash burn rate. It is based on a set of 13 SaaS companies listed in the US public markets: Salesforce, NetSuite, SuccessFactors, Concur, Vocus, Ultimate Software, Taleo, Salary, Constant Contact, DemandTec, LivePerson, SumTotal and Kenexa.*

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#### Executive summary

- To benchmark the Sales & Marketing effectiveness of these public SaaS companies, we looked at the Customer Acquisition Cost or CAC ratio<sup>1</sup>. The median CAC ratio of the sample of public companies analyzed is coming at 0.54, equivalent to a gross margin payback on S&M costs of slightly less than 2 years
- To benchmark the growth rate, we looked at the average growth rate of these companies during the three years preceding their IPO. The analysis shows two distinct groups of companies in the public sample set: companies with an average growth rate of 80%+ and enjoying premium valuation multiples (avg. of 5.8x EV/2008 rev.) and companies with an average growth rate of 50% or less with much lower valuation multiples (avg. of 2.7x EV/2008 rev.)
- From a burn rate perspective, we looked at the operating cash flows and the capex of these public companies while they were in their \$30-35m revenue year and found out a median of -\$3.2m and an average of -\$7.6m. However, it is interesting to note that the data shows a negative correlation between the cash burn and the EV/2008 revenue multiple of these public SaaS companies, illustrating that a higher burn at this stage could be justified if it generates additional growth.

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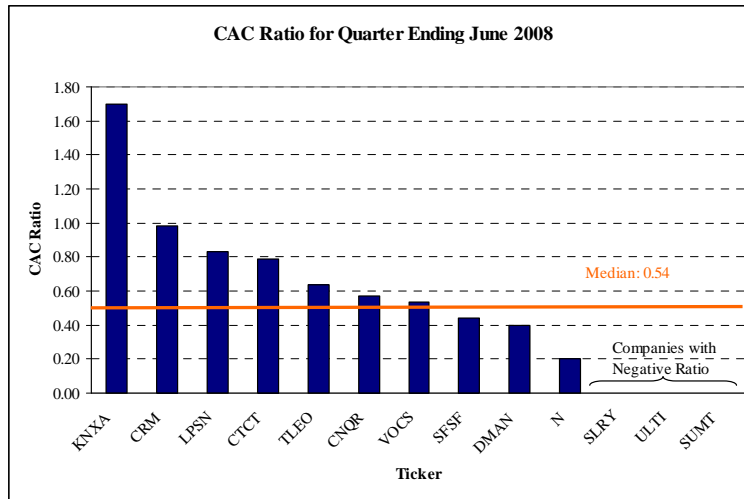
<sup>1</sup> For more on the CAC ratio, see <http://cracking-the-code.blogspot.com/2008/03/measuring-sales-and-marketing.html>

## 1. CAC ratio

For this analysis, we have used a very simple version of the CAC ratio that can be calculated with any GAAP P&L (i.e. not using the Monthly Recurring Revenue or Contracted Monthly Recurring Revenue metrics<sup>2</sup>). For Q208, the CAC ratio formula is the following:

$$\text{CAC Ratio (Q208)} = \frac{[\text{GM(Q208)} - \text{GM(Q108)}] * 4}{\text{Sales \& Marketing Costs (Q108)}}$$

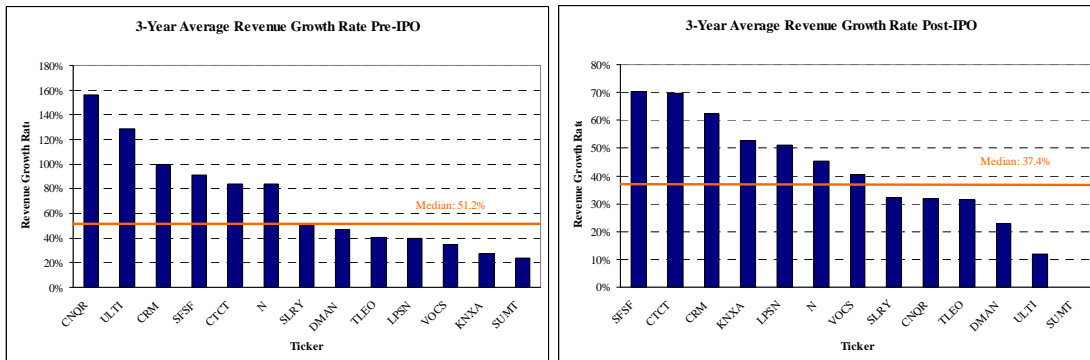
The following exhibit shows the Q208 CAC ratios for the samples of 13 public SaaS companies we have selected:



We observe the median at 0.54 for these public companies, corresponding to a 2-year gross margin payback on the Sales&Marketing costs

## 2. Growth rate

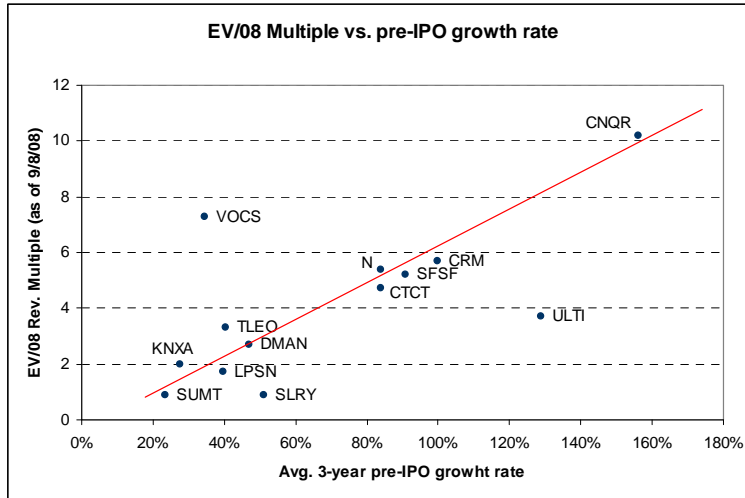
The second element we benchmarked is the GAAP revenue growth rate. We looked at this growth rate for the same set of public companies and calculated the average growth rate both 3-year pre and 3-year post IPO. The results are shown in following exhibits:



<sup>2</sup> More on the MRR and CMRR at <http://cracking-the-code.blogspot.com/2007/07/saas-business-metrics-why-do-they-need.html>

The most relevant comparable for a private company is probably the 3-year pre IPO average. While the *median* growth rate for this sample is 51.2%, it is interesting to note that the chart shows a clear differentiation between two groups of companies: the ones growing 50% or less valued at an average of 2.7x EV/2008 revenues and the one growing 80% or more valued at 5.8x EV/2008 revenues.

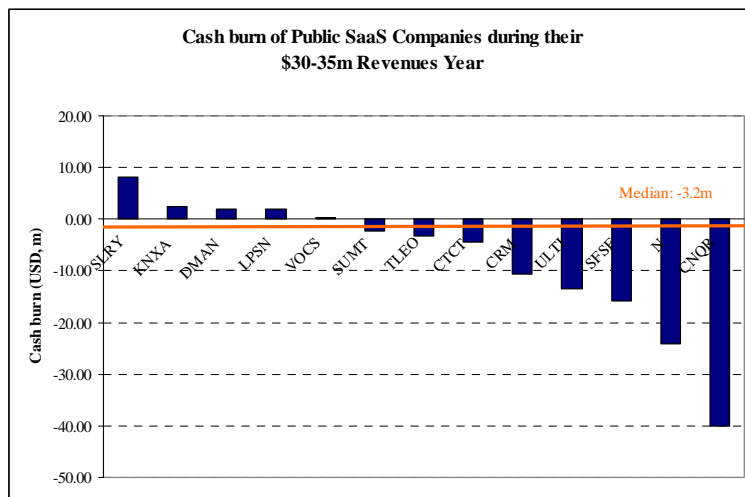
In addition, further analysis shows a very strong correlation between the growth rate pre-IPO and the current valuation multiple of the companies. The correlation coefficient is 0.69 and become 0.93 if you take out VOCS and ULTI.



### 3. Cash Burn

The last element we benchmarked is the cash burn rate. To make things comparable, we looked at the cash burn rate of public companies the year they reached \$30-35m in revenues. The cash burn rate is defined as the cash flows from Operations plus the Capex.

The following chart presents the results for the same sample of public companies:



The Median value came at -\$3.2m and the average at -\$7.6m. However, it is interesting to note that there is a *negative* correlation between the current valuation multiple of these public companies and the burn rate at that stage (the correlation coefficient comes at -0.78). Companies like Netsuite, Concur, SuccessFactors or even Salesforce.com had higher than average burn rate and are today enjoying above average multiples for having invested successfully in growth.

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# Appendix: Public SaaS Companies Benchmarking

Revenue and gross margin benchmark

Company	IPO year	Revenues (USD, m)										Avg. 3-year pre-IPO	Median 3-year pre-IPO	Avg. 3-year post IPO	Median 3-year post IPO	Delta	Delta	Delta		
		IP0-2	IP0-1	IP0	IP0+1	IP0+2	IP0+3	IP0+4	IP0+5	IP0+6	IP0+7								IP0+8	IP0+9
View	2007	11.5	15.4	20.4	28.1	40.3	49.7	60.9	77.7	101.9										
DemandTec	2007	19.5	32.5	43.5	61.3	75.3														
NetSuite	2007	17.7	36.4	67.2	108.5	157.5														
SuccessFactors	2007	10.2	13.0	32.6	63.4	103.0														
Workday	2005	2.4	4.4	10.4	18.4	28.4	39.4	52.4	67.4	84.4	103.4	124.4	147.4	172.4	200.4	230.4	263.4	300.4	341.4	387.4
LivePerson	2000	28.2	12.0	37.4	22.3	33.5	52.2	76.6												
Constant Contact	2007	8.1	14.7	27.6	50.5	85.7														
Ultimate Software	1998	3.7	9.3	17.6	43.3	55.8	62.0	59.5	55.1	60.4	72.0	88.6	114.8	151.5	180.6					
Sum total	1998	18.2	18.5	25.7	33.4	34.7	25.5	31.2	30.5	29.5	55.2	75.0	106.0	121.9	134.3					
Workday.com	2005	9.0	34.0	44.0	64.0	85.0	109.0	139.0	181.0	236.5										
NetScout	2006	3.0	34.0	44.0	64.0	85.0	109.0	139.0	181.0	236.5										
Concur	1998	2.1	2.0	9.0	20.1	37.0	55.7	41.1	45.1	56.7	56.6	71.8	97.1	129.1	213.8					
Avg. 3-year pre-IPO		69.9%																		
Median 3-year pre-IPO		51.2%																		
Avg. 3-year post IPO		35.2%																		
Median 3-year post IPO		37.4%																		
Delta																				
Delta																				
Delta																				
Delta																				

Note: the results for LivePerson have been adjusted to reflect more realistic IPO criteria: the company went public in 2000 with less than \$7m in revenues and we have considered for this analysis that the "IPO year" was 2005 with \$22.3m in revenues

Company	IPO year	Gross Margin (%)										Avg. 3-year pre-IPO	Median 3-year pre-IPO	Avg. 3-year post IPO	Median 3-year post IPO	Delta	Delta	Delta			
		IP0-2	IP0-1	IP0	IP0+1	IP0+2	IP0+3	IP0+4	IP0+5	IP0+6	IP0+7								IP0+8	IP0+9	IP0+10
View	2007	73.2%	79.2%	83.1%	81.0%	71.7%	79.4%	81.2%	81.4%	81.4%	78.6%	81.7%	81.7%	81.7%	81.7%	81.7%	81.7%	81.7%	81.7%	81.7%	81.7%
DemandTec	2007	64.9%	61.5%	67.4%	66.5%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%
NetSuite	2007	53.7%	56.9%	68.8%	68.9%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%	68.5%
SuccessFactors	2007	57.8%	41.5%	55.8%	59.5%	63.1%	69.7%	69.7%	69.7%	69.7%	69.7%	69.7%	69.7%	69.7%	69.7%	69.7%	69.7%	69.7%	69.7%	69.7%	69.7%
Workday	2005	80.2%	83.3%	83.3%	80.7%	77.3%	74.1%	72.8%	72.8%	72.8%	72.8%	72.8%	72.8%	72.8%	72.8%	72.8%	72.8%	72.8%	72.8%	72.8%	72.8%
Constant Contact	2007	72.8%	74.1%	71.7%	74.3%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%	74.2%
Ultimate Software	1998	51.4%	37.6%	45.5%	56.6%	62.4%	56.0%	54.1%	50.1%	54.3%	56.4%	58.5%	56.9%	57.2%	57.5%	57.5%	57.5%	57.5%	57.5%	57.5%	57.5%
Sum total	1998	74.7%	69.2%	71.2%	56.6%	53.9%	70.2%	74.0%	70.2%	64.4%	65.6%	67.7%	64.2%	63.3%	62.6%	62.6%	62.6%	62.6%	62.6%	62.6%	62.6%
Workday.com	2005	74.1%	74.1%	73.7%	71.5%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%	71.7%
NetScout	2006	33.3%	35.0%	65.6%	57.2%	51.9%	51.9%	51.2%	51.2%	51.2%	51.2%	51.2%	51.2%	51.2%	51.2%	51.2%	51.2%	51.2%	51.2%	51.2%	51.2%
Concur	1998	65.2%	64.6%	69.1%	69.4%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%	68.6%
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