2022 SaaS Industry Report

Research Compiled By

RIVER SaaS CAPITAL

CONTENTS

Executive Summary 3

Survey Findings 4

Afterword: A Year of Renewed Focus 26

Own Your Success with Venture Debt Financing 27

EXECUTIVE SUMMARY

In our fourth annual report, River SaaS Capital is pleased to present a new direction for SaaS companies versus that of the past year. Whereas last year's report revealed that companies had to pivot on their original goals in order to adapt to and withstand the COVID-19 pandemic, survey results for 2021 indicate that SaaS companies leaned heavily on their own resources and focused their efforts on growth and valuation increase.

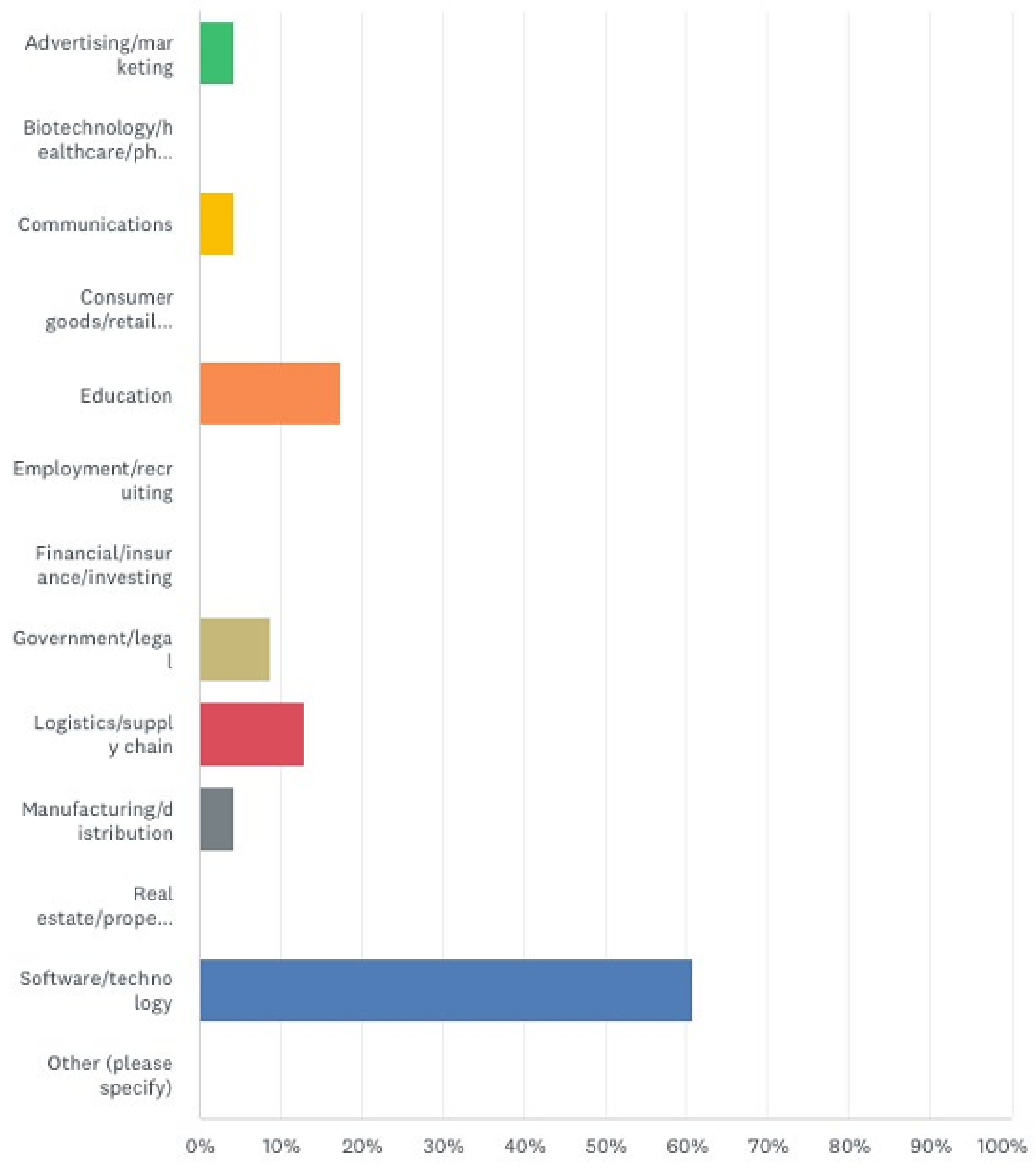
We surveyed a number of SaaS companies across the nation and are grateful for their participation and insights. While the worst of the pandemic has seemingly subsided, the industry struggled with the well-known talent shortages that hit the country for much of 2021. Despite that, companies reported increases in their subscriber bases and modest team growth. Below are additional findings from this year's survey.

- Of those that used it, venture debt financing was reported as a more useful funding source despite SaaS companies' increased reliance on angel investors in 2021 and reporting of receiving less benefit from that specific funding method. (Interestingly, 2020 respondents reported the exact opposite — citing this source as the most used, the most beneficial, and the most likely to be used again in the future.)
- SaaS companies emerged from the challenges of the past year and reported that they expect to use venture capital as a funding source. Debt financing, angel investors, and self-funding were expected to be used by less than half as many SaaS companies (on the angel investor side, a lack of expected usage correlates with companies reporting that avenue as less useful to achieving their goals).
- SaaS founders and leaders that used debt reported more reasons for choosing the platform than those that used equity. Reasons for choosing the latter were centered on specific financial benefits versus partnership and industry connections.
- Across all funding sources, SaaS companies saw modest shifts pre-and post-funding. Monthly recurring revenue saw a more diverse spread after companies received and used capital, customer bases grew modestly, and churn rates remained comparable pre- and post-funding.
- Customer success teams played a greater role in retention and upselling efforts compared to their use in 2020.

SURVEY FINDINGS

1. Please select the option that best describes your SaaS company.

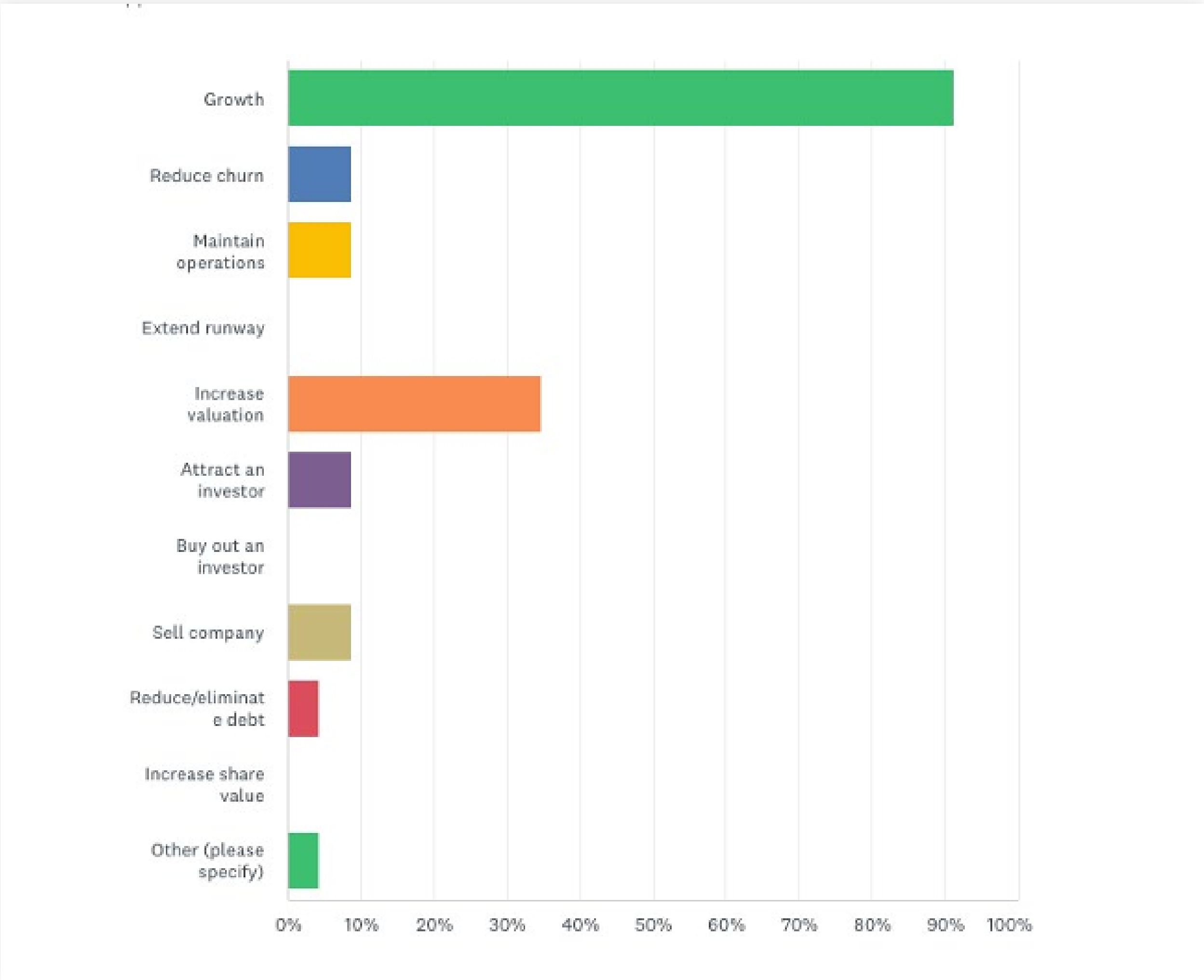
As in previous years, most respondents' were focused on supporting various technology and software needs. This year saw participation in new sectors, including communications, education, and manufacturing, as well as more participation from the logistics and government/legal sectors. There were fewer respondents from advertising/marketing, finance and insurance, and real estate/ property management.



2. What were your financial goals for 2021?

In keeping with prior years' surveys, growth remained the primary focus for nearly all survey respondents. Unsurprisingly, the second leading contender was increasing valuation, which follows the well-documented higher levels of M&A activity we saw in the market over the past year. Additionally, whereas the 2020 industry report saw more SaaS founders and leaders looking to reduce churn, extend their runways, maintain operations, and attract additional investors, respondents rated these as lower focuses for 2021.

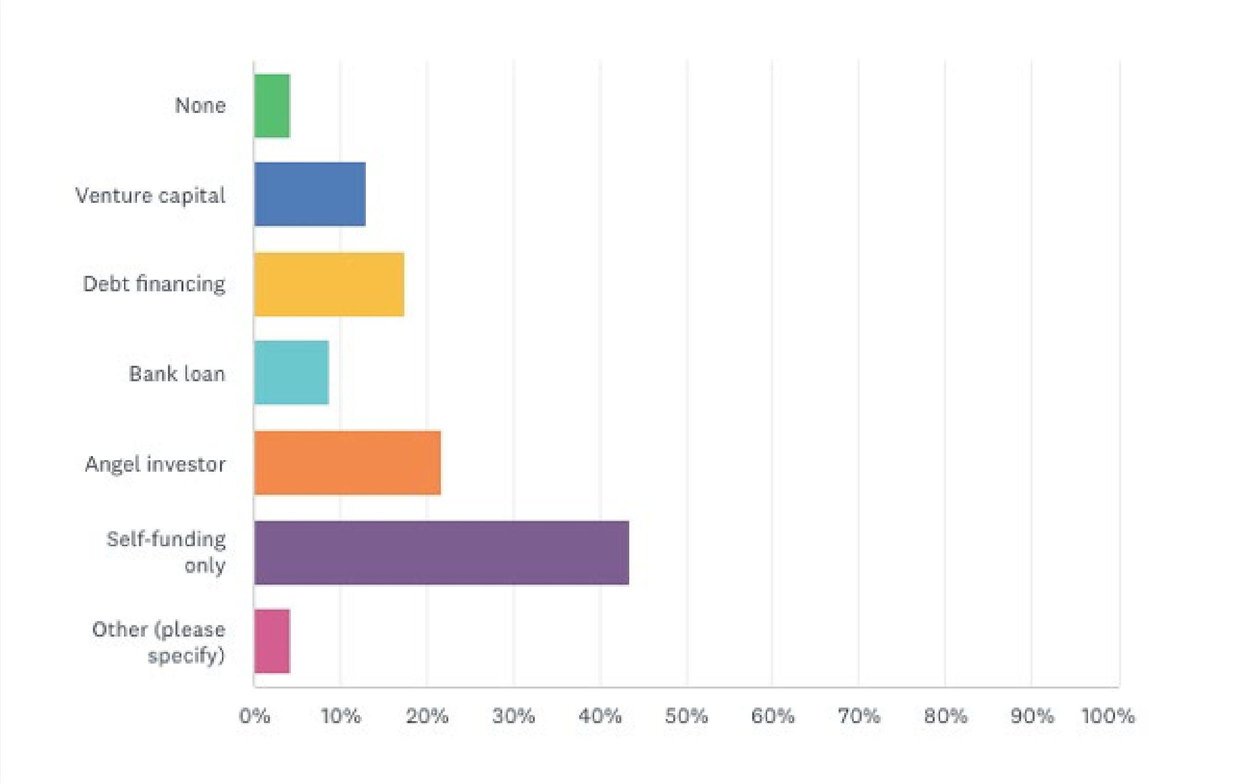
Key takeaway: *SaaS companies have emerged from the pandemic struggles and resumed — and even accelerated — their growth efforts for strategic aims.*



3. What funding avenues did you utilize in 2021?

Last year, more SaaS companies funded their growth (43% in 2021 vs. 30% in 2020). Use of funding from venture capital sources (up 3%) and debt financing (up 2%) both increased slightly while bank loans (down 7%) and investments from angel investors (down 8%) dropped year-over-year. Use of Paycheck Protection Program loans and Economic Injury Disaster Loans also dropped dramatically following those programs coming to a conclusion in May and December of last year, respectively.

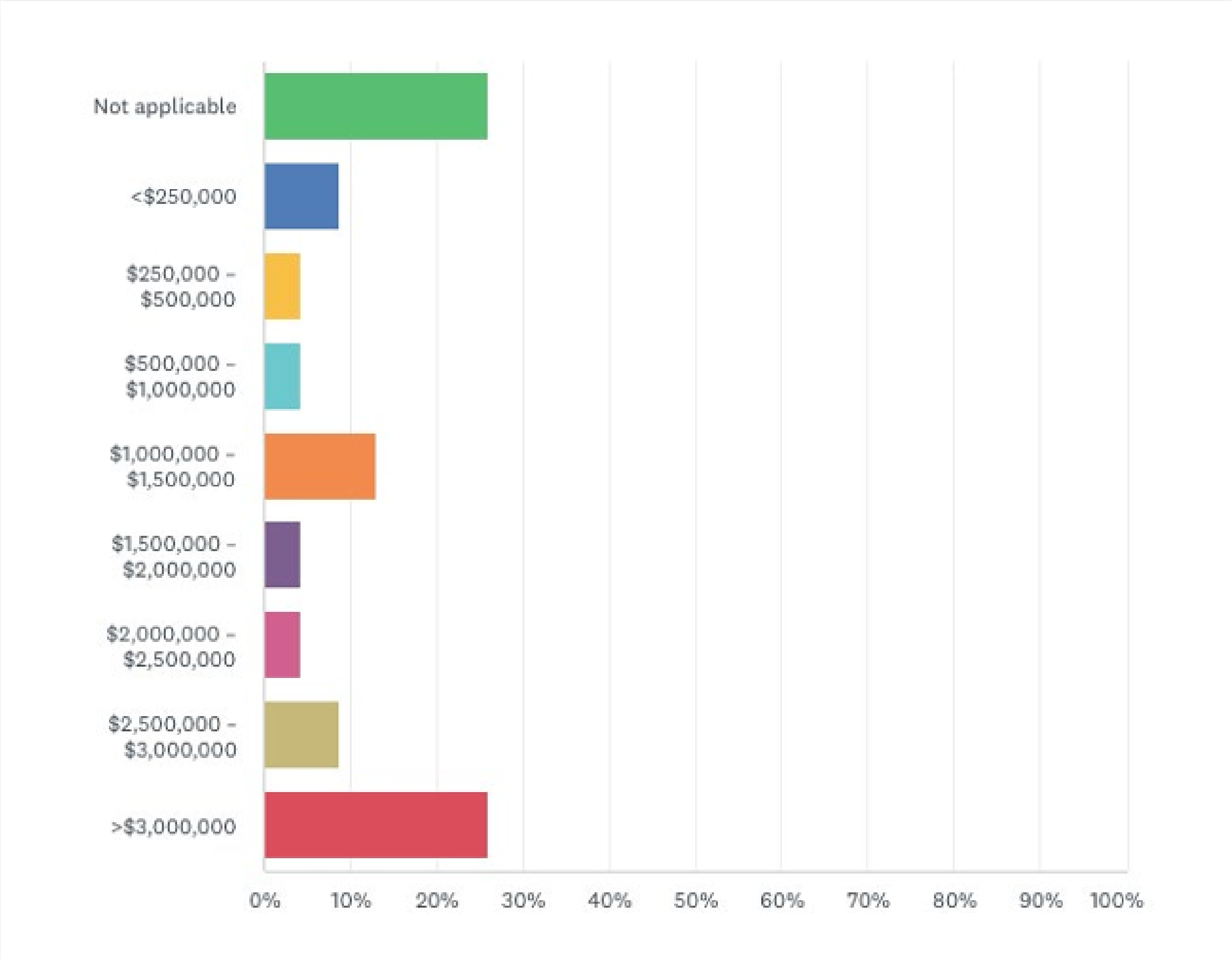
Key takeaway: *While the choice of funding sources generally remained the same year-over-year with only minor variations, more SaaS companies looked inward for accelerating growth and managing their operations.*



4. What amount of capital were you looking to receive?

Compared to the previous year's report, SaaS companies that did seek outside investment sought far more in funding, with a 21% increase in the >$3,000,000 category and nearly twice as many in the $2,500,000–3,000,000 category. Lower levels of investment decreased, with a 10% drop in the $250,000–500,000 and $500,000–1,000,000 categories. The remaining categories saw minor changes at or below 5%.

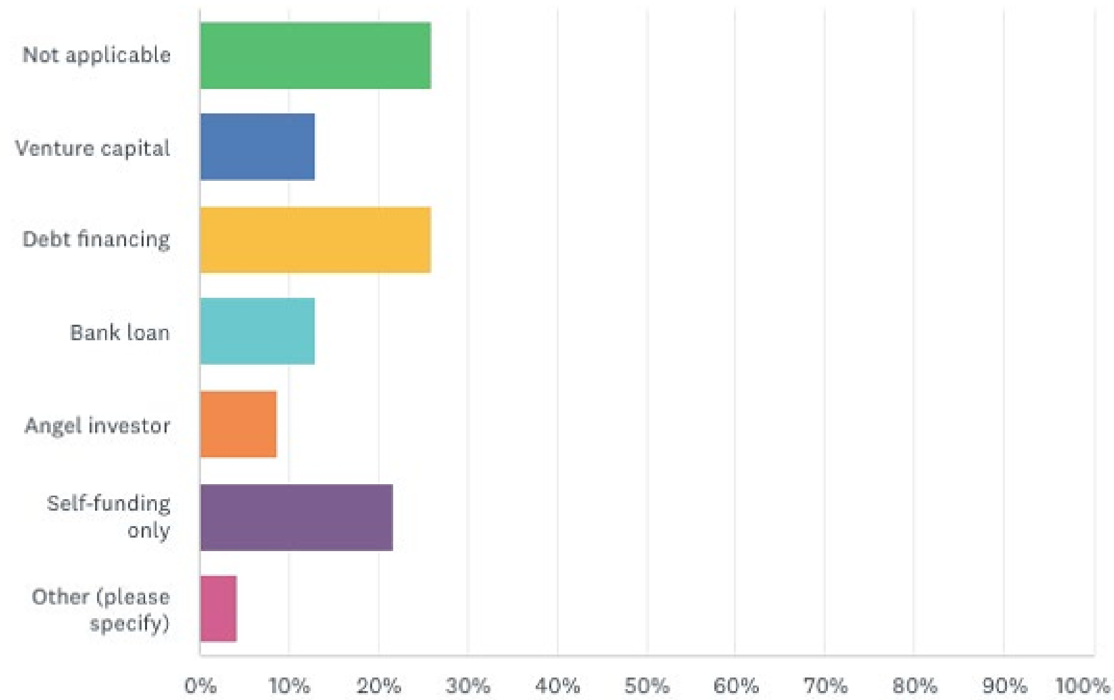
Key takeaway: *Of the SaaS companies that sought investment from various partners last year, a larger number aimed for heftier investments to achieve their goals (reminder: the two leading goals were straightforward growth and increasing valuation, so SaaS companies may have been looking to strengthen future raise rounds or make themselves more appealing acquisition targets).*



5. If you used more than one, which proved the *most* beneficial?

Of the SaaS companies that relied on outside funding in 2021, year-over-year comparisons reveal greater benefits in venture capital (up 8%), debt financing (up 10%), self-funding (up 11%), and bank loans (up 13%). While more SaaS companies leaned on angel investors, respondents reported seeing less benefit from that source (down 26%).

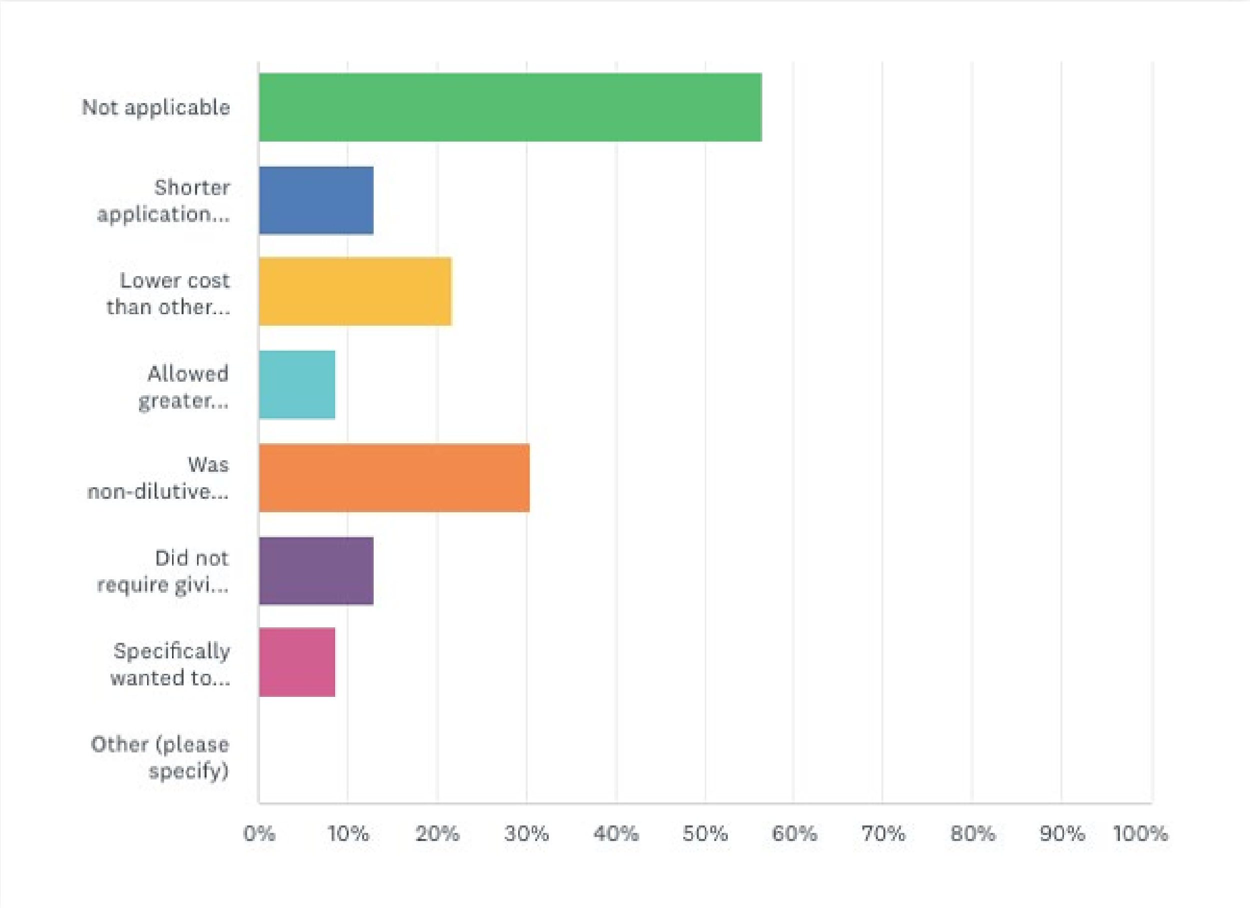
Key takeaway: *Institutional methods of funding proved more beneficial for the SaaS founders and leaders that sought outside investment for growth and valuation increases.*



6. If applicable, what were some of the reasons you chose *debt* funding?

A new question for this year's report, more than 40% of respondents utilized debt funding in some capacity. Of those that did, the driving factor in doing so was the fact that it was non-dilutive (30%) followed by its lower cost versus other sources (22%). Other benefits such as its shorter application and due diligence cycles and lack of a board seat requirement were noted.

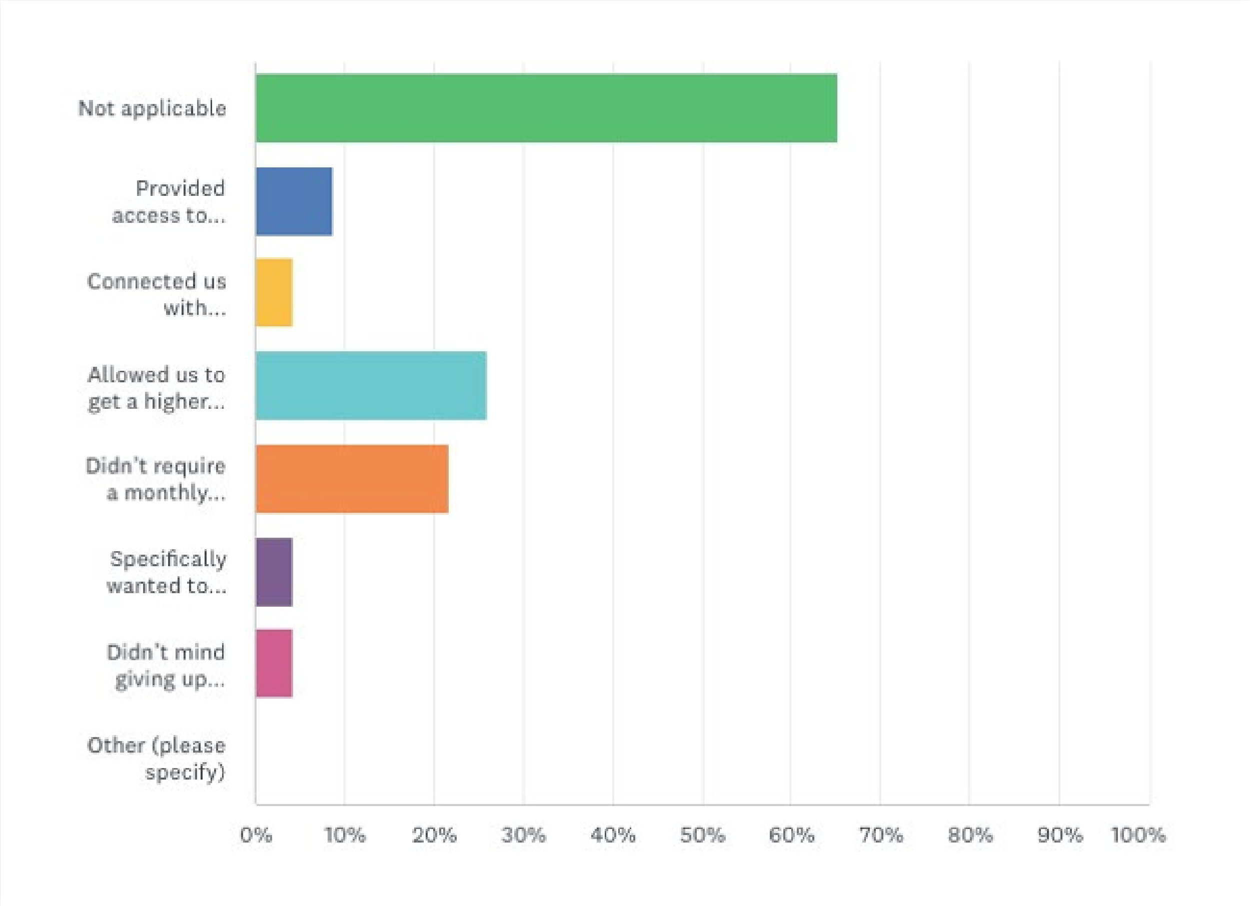
Key takeaway: *SaaS founders and leaders that used venture debt in 2021 did so due to its greater flexibility and speed over other funding sources.*



7. If applicable, what were some of the reasons you chose *equity* funding?

In 2021, the ability to obtain higher levels of investment (26%) and no need for a monthly payment (22%) were the leading drivers in SaaS companies' decisions to use equity-based funding solutions. Other advantages of equity funding — such as access to industry contacts and experts — were noted but were not significant factors in leaders' decisions.

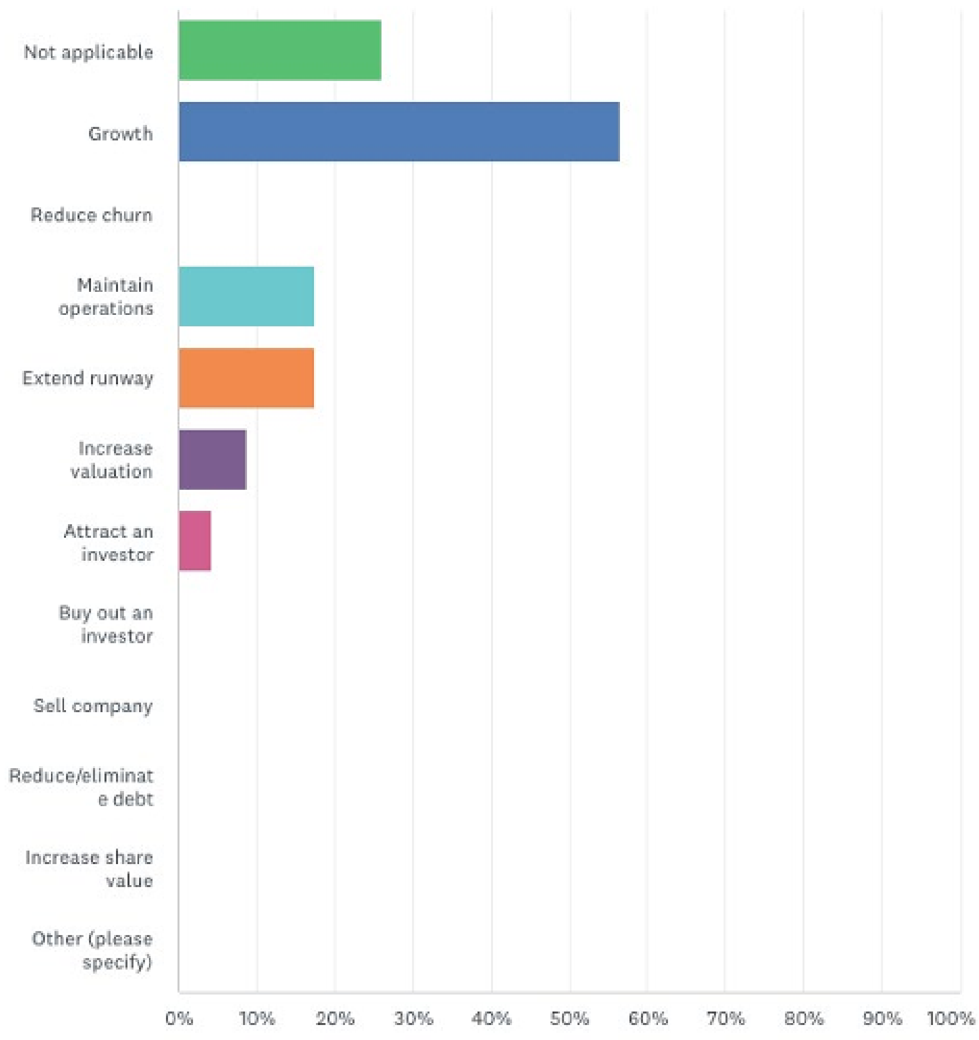
> **Key takeaway:** *Equity-based funding was put to work in 2021 with key financial objectives in mind versus other common reasons.*



8. What goals did you apply your funding toward once received?

In 2021, SaaS companies honed in on fewer specific goals for their funding. While growth continued to lead year-over-year, 14% fewer companies dedicated their efforts there. Maintaining operations, extending runways, increasing valuations, and attracting investors all made an appearance, but absent from this year is the need to reduce churn, eliminate debt, and increase share value.

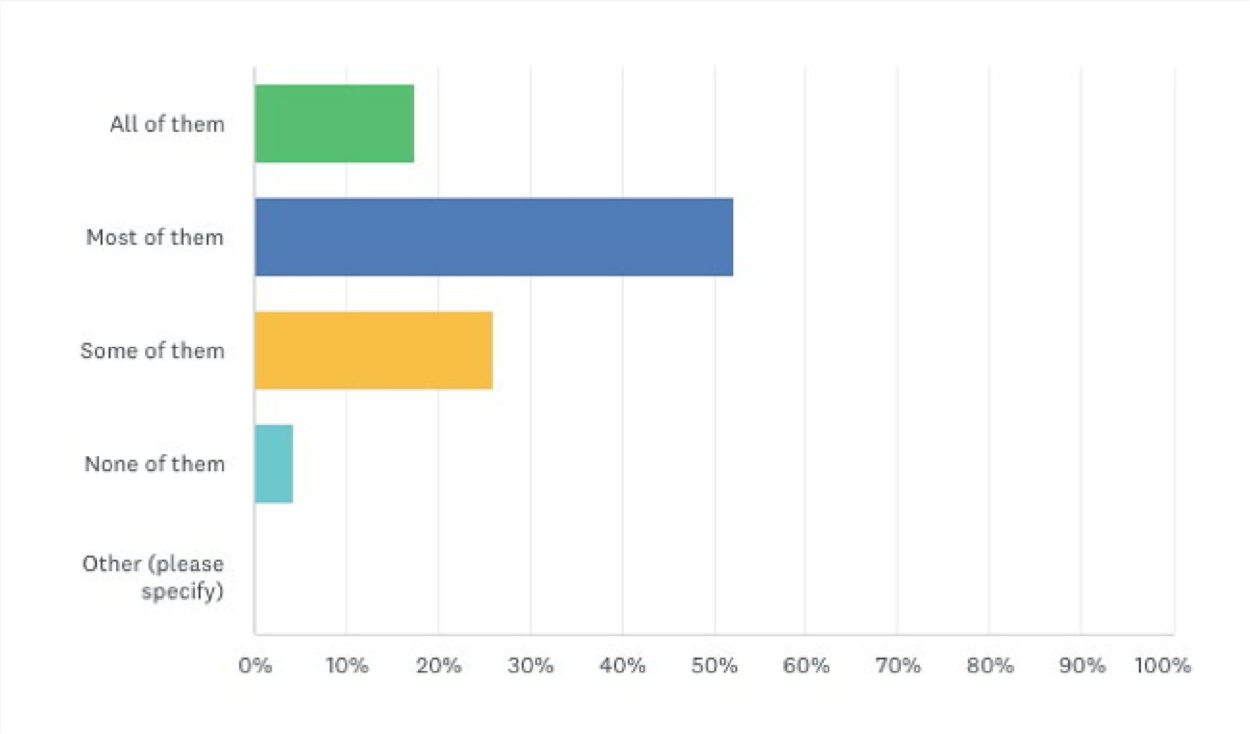
Key takeaway: *While SaaS companies largely continued to use their funding for growth purposes, the focus narrowed in 2021 versus the broader variety of needs that were reported in 2020.*



9. Did you achieve your financial goals in 2021?

Compared to 2020, fewer SaaS companies reported achieving their financial goals (down 15%), about the same reported achieving most of them (down just 3%), more reported achieving some of them (up 16%), and 4% reported achieving none of them. In 2020, 90% of respondents reported achieving all or most of their financial goals, whereas 70% of 2021 respondents reported similarly.

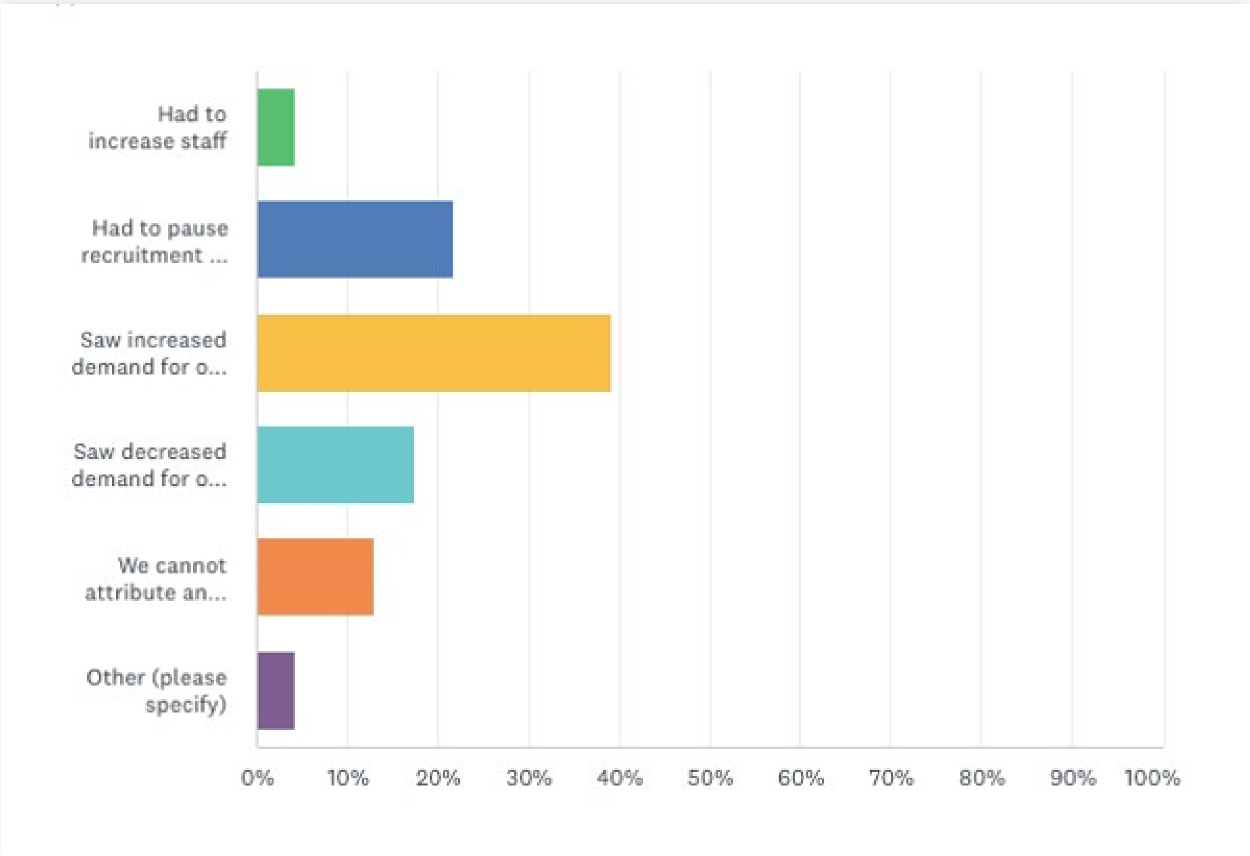
Key takeaway: *While many respondents achieved their aims, fewer made as much progress as they wanted. Given that the needs and goals of 2020 differed from those of 2021, this is not surprising.*



10. How has the ongoing pandemic affected your business?

In 2020, this report considered the impact of the pandemic on SaaS companies' businesses in terms of their funding efforts. This year, we considered how the pandemic has had a lasting effect on their platforms and staffing. On the staffing side, 17% more companies reported having to pause recruitment efforts or reduce their workforces versus increasing employee headcount. On the platform side, companies that experienced an increase in demand for their solution came in at twice the number that saw a decrease in demand. More than 17% of respondents noted that they could not attribute any change to the pandemic or that the changes they made were in other areas, such as cutting back on marketing spending.

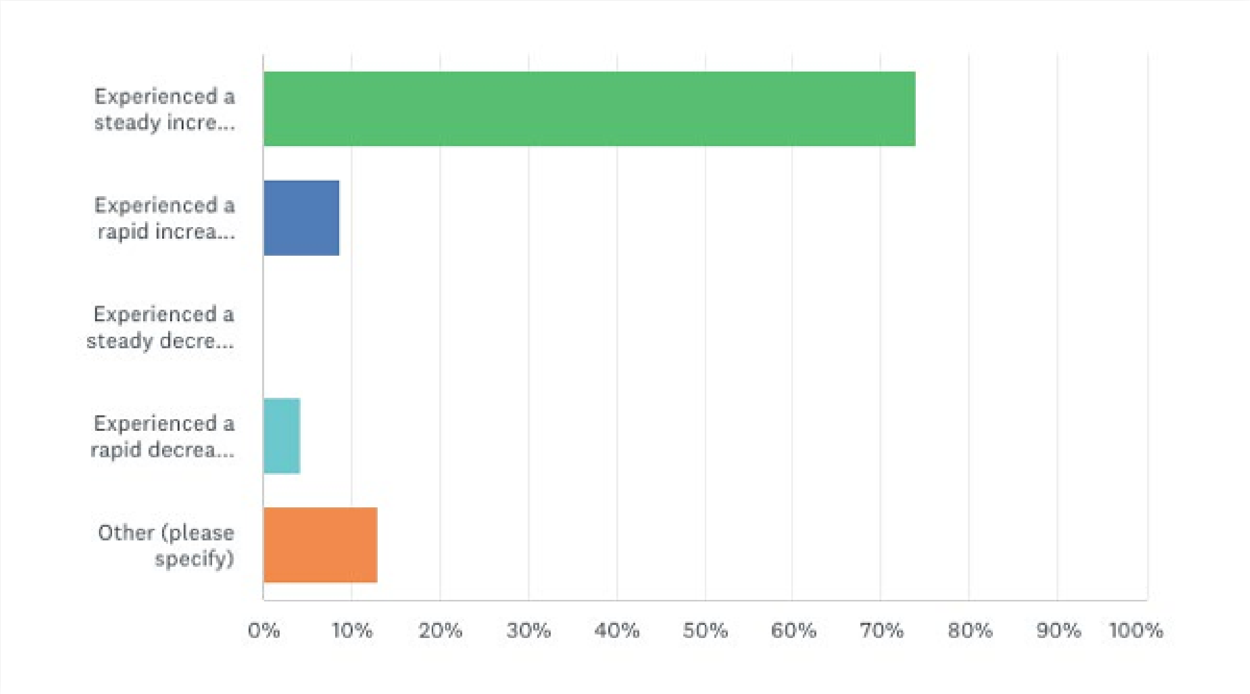
> **Key takeaway:** *Despite more companies seeing increased demand, staffing did not move significantly — likely due to the impact of the nationwide labor issues that hindered many industries throughout much of 2021.*



11. How did the ongoing pandemic affect your customer base in 2021?

Compared with 2020 survey findings, far more SaaS companies reported a steady increase in subscribers (74% in 2021 vs. 45% in 2020). Companies reported far less impact in other areas, with only half of those reporting a rapid increase in subscribers doing so in 2021. More than 13% reported other impacts on their customer base outside of subscriber growth or decline.

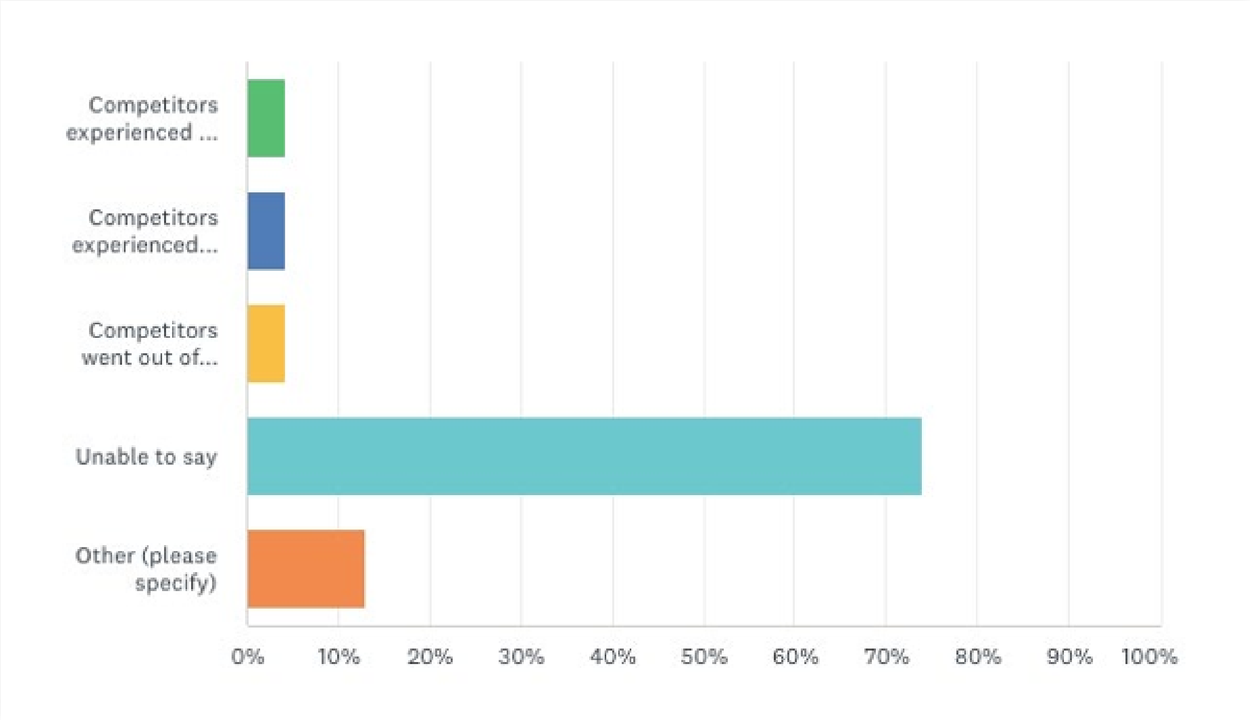
Key takeaway: *Growth was the name of the game in 2021, with more SaaS companies reporting steady increases in their subscriber bases over a volatile 2020.*



12. What impact has the ongoing pandemic had on your competition?

SaaS companies emerged from the uncertainty of 2020 into a new kind of uncertainty when it came to their competitors. More than 70% of respondents were unable to report any noticeable impact of the ongoing pandemic on their competition. While some reported noticing growth-related impacts, others reported a mix of all response options across their competitors.

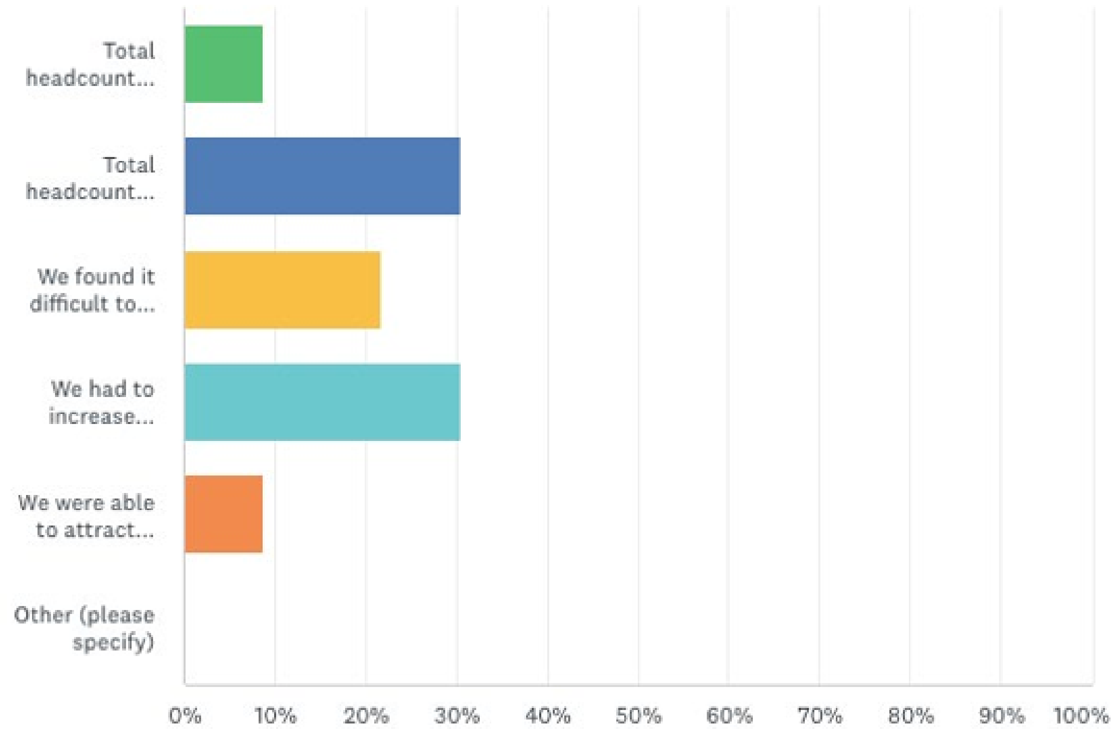
Key takeaway: *With the more noticeable impacts of the pandemic now in the rear-view mirror, SaaS companies reported having less insight into how their competition is performing.*



13. What impact, if any, did the Great Resignation trend have on your business in 2021?

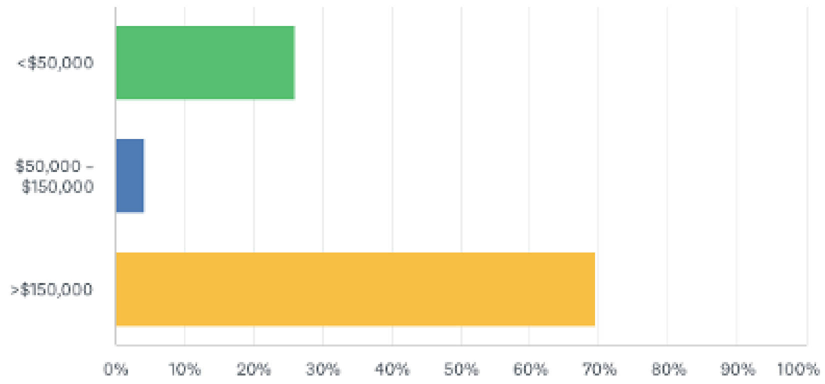
A new topic for this year's report, the Great Resignation trend saw companies in multiple industries dropping in employee headcount as employee preferences shifted during the pandemic, leading them to seek other opportunities. In 2021, SaaS founders and leaders reported being impacted on multiple fronts, with 9% saying they lost employees, 30% seeing an increase in headcount, nearly 22% reporting difficulty in competing for talent, and 30% saying they had to increase salaries and benefits to compete. Close to 9% reported being able to attract talent without difficulty.

Key takeaway: *While the Great Resignation impacted SaaS companies just like many others, the majority reported growth in headcounts but at the cost of having to do more to compete for their talent.*



14. What was your monthly recurring revenue *before* obtaining funding?

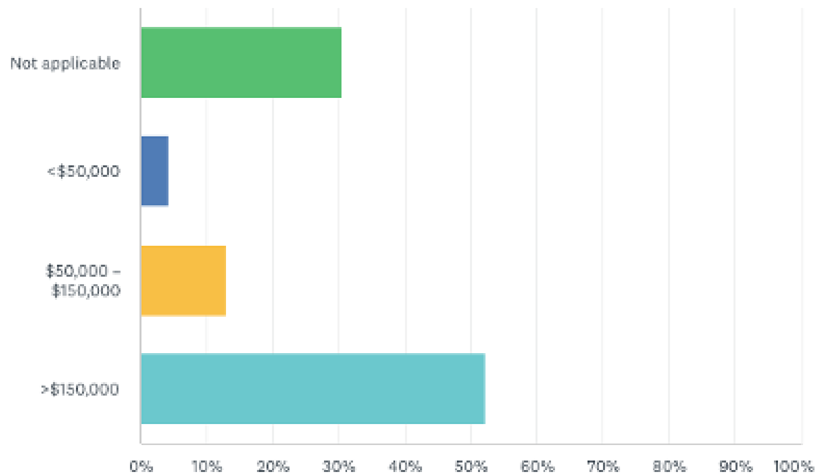
Pre-funding recurring revenue from this year's survey respondents was 40% higher than last year's report. SaaS companies with pre-funding revenues of less than $50,000 were 25% less and 15% less in the $50,000–100,000 category.



15. What was your monthly recurring revenue *after* obtaining funding?

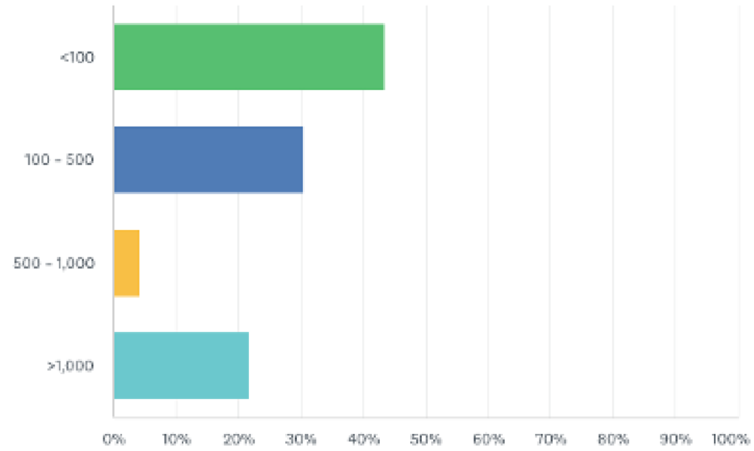
Post-funding, this year's respondents saw greater results with their growth with an increase of 22% over 2020 in the >$150,000 category and a lower blend in the lower categories. This year, more respondents moved from the <$50,000 category to the $50,000–150,000 category.

Key takeaway: *In 2020, SaaS companies moved up in recurring revenue to a mix of different higher revenue categories. In 2021, SaaS companies saw more fluctuation.*



16. How many customers did you have *before* obtaining capital?

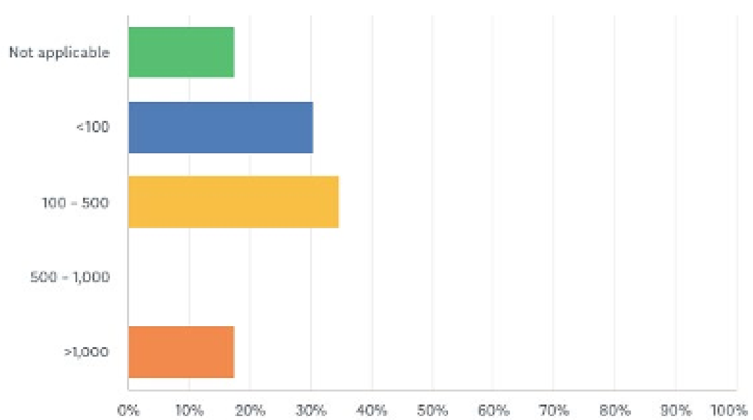
Compared to 2020, this year's survey participants had a broader mix of customer bases pre-funding. The <100 category was 20% lower (43%), the 100–500 category was 5% higher (at 30%), the 500–1,000 category was up 4%, and the >1,000 category was up 12% (22%).



17. How many customers did you have *after* obtaining capital?

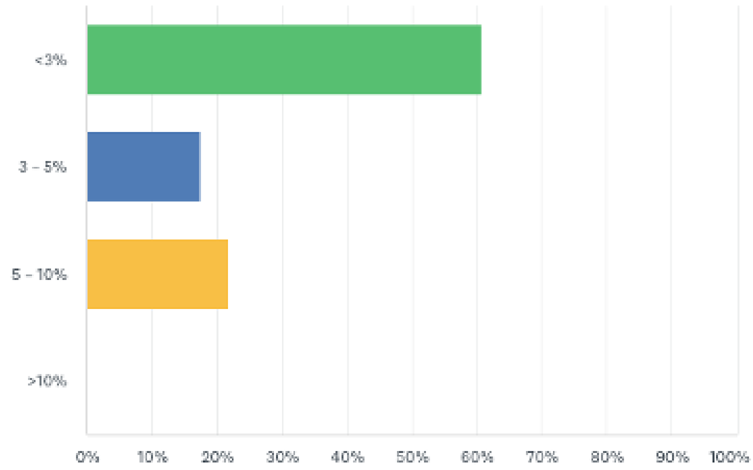
Year-over-year, SaaS companies reported fairly comparable changes to their customer bases post-funding. The 2020 figures for the 100–500 and >1,000 categories increased by 5% and 7% respectively. Comparing pre- and post-funding, respondents saw gains in the lower echelons with the <100 category dropping 13% and the 100–500 category increasing 5%. The upper tiers saw a 4% decrease, and no companies reported customers in the 500–1,000 category post-funding.

Key takeaway: *While funding may have helped SaaS companies build from <100 into the mid-level categories, it may not have helped to accelerate them into the upper tiers.*



18. What was your churn rate *before* obtaining funding?

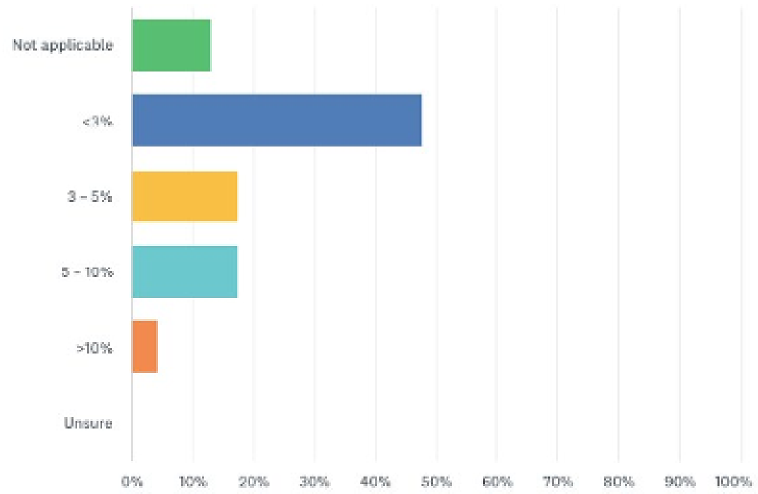
Compared to the 2020 report, there were more SaaS companies in 2021 with a <3% churn rate pre-funding. The 3–5% churn rate category was lower in 2021 than in 2020, but more SaaS companies had a 5–10% churn rate last year than the year before. Around 10% of respondents in 2020 reported having a churn rate greater than 10%, but no companies reported that rate in 2021.



19. What was your churn rate *after* obtaining funding?

Post-funding, SaaS companies reported fairly comparable churn rates, with only a slight increase in the >10% category and about a 10% decrease in the <3% category.

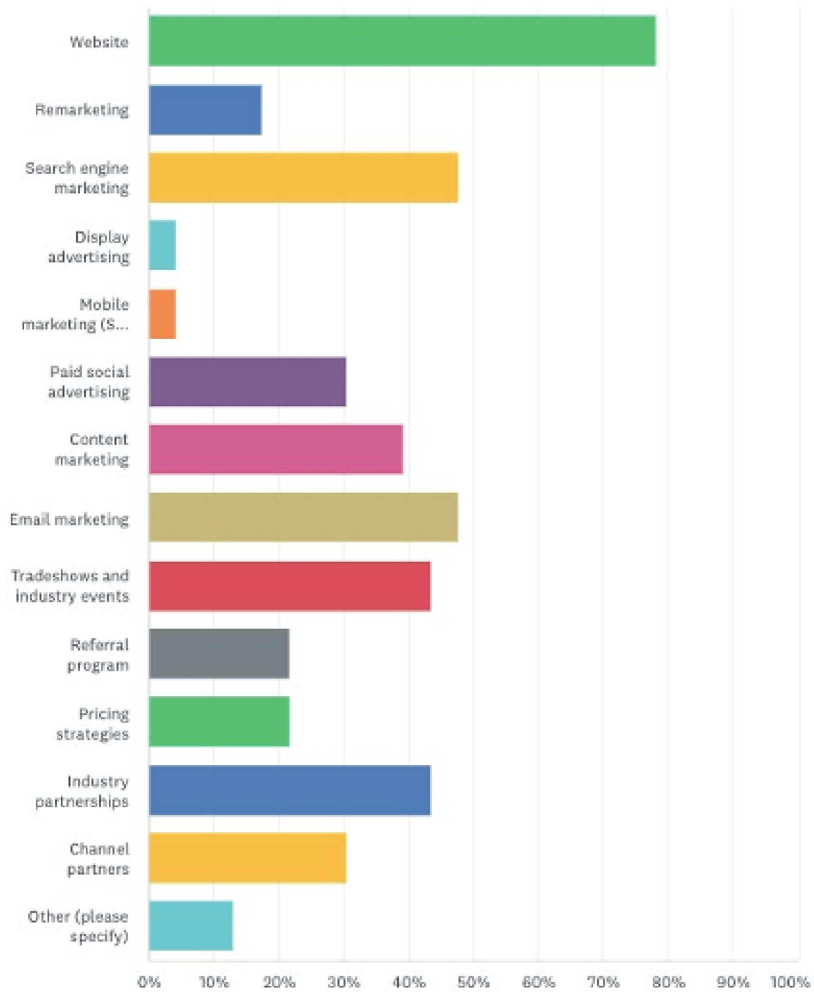
Key takeaway: *Despite some growth, respondents largely maintained their churn rates.*



20. What avenues did you use in 2021 to *acquire* customers?

Compared with 2020 survey data, SaaS companies maintained their reliance on their online presence but invested less into solutions connected to it such as remarketing, search engine marketing, digital advertising, and email marketing. Companies reported increasing investment in trade shows and events, which made a steady comeback last year. Partnerships also remained strong between industry arrangements and channel partners.

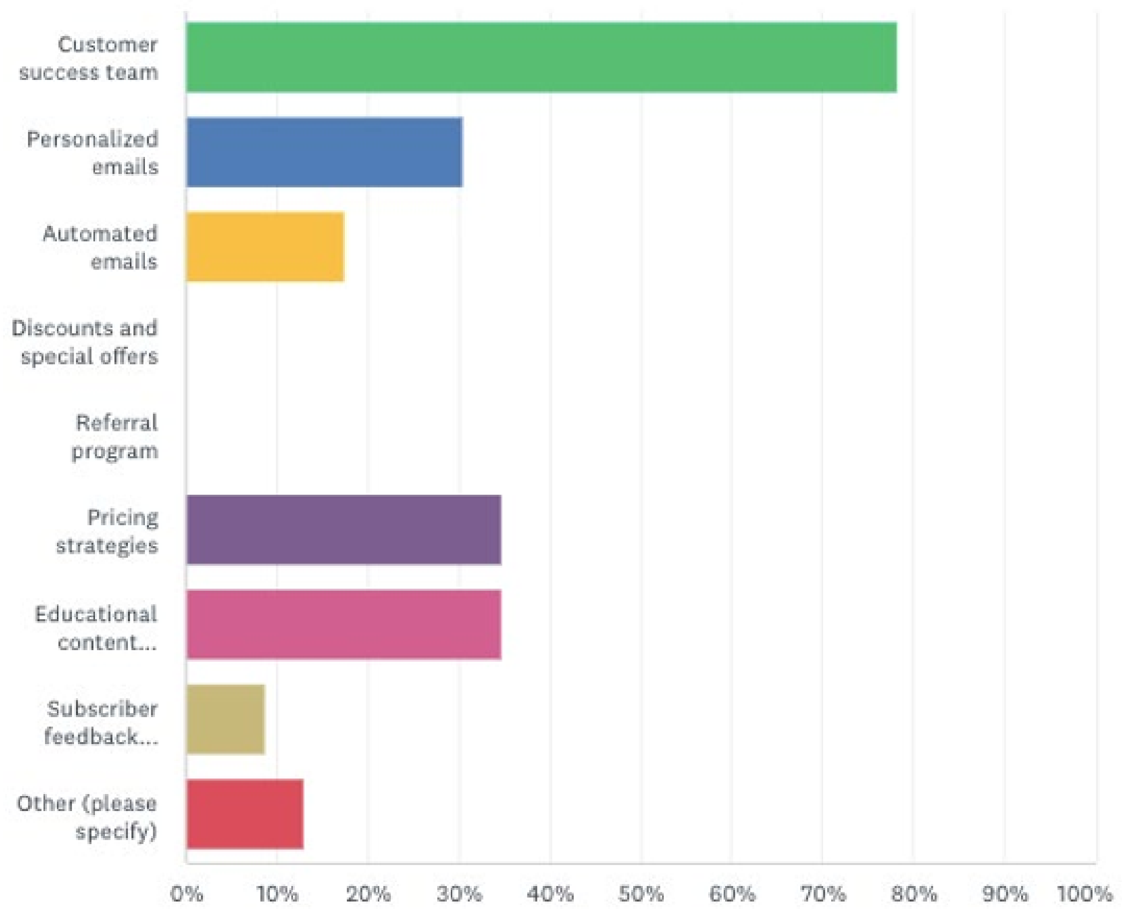
Key takeaway: *While growth was a prominent goal for SaaS companies in 2021, investment in digital solutions reduced in favor of greater investment in more traditional avenues like tradeshows, events, and partnerships.*



21. What avenues did you use in 2021 to *retain* customers?

SaaS companies relied heavily on their customer success teams in 2021 just as they did the year prior. That said, the use of automated and personalized email outreach dropped significantly, with automated emails dropping 25% and personalized emails dropping 17% year-over-year. Discounts and special offers weren't reported, and the use of subscriber feedback solicitations dropped more than 20% compared to 2020. Pricing strategies and educational content remained fairly consistent compared to 2020.

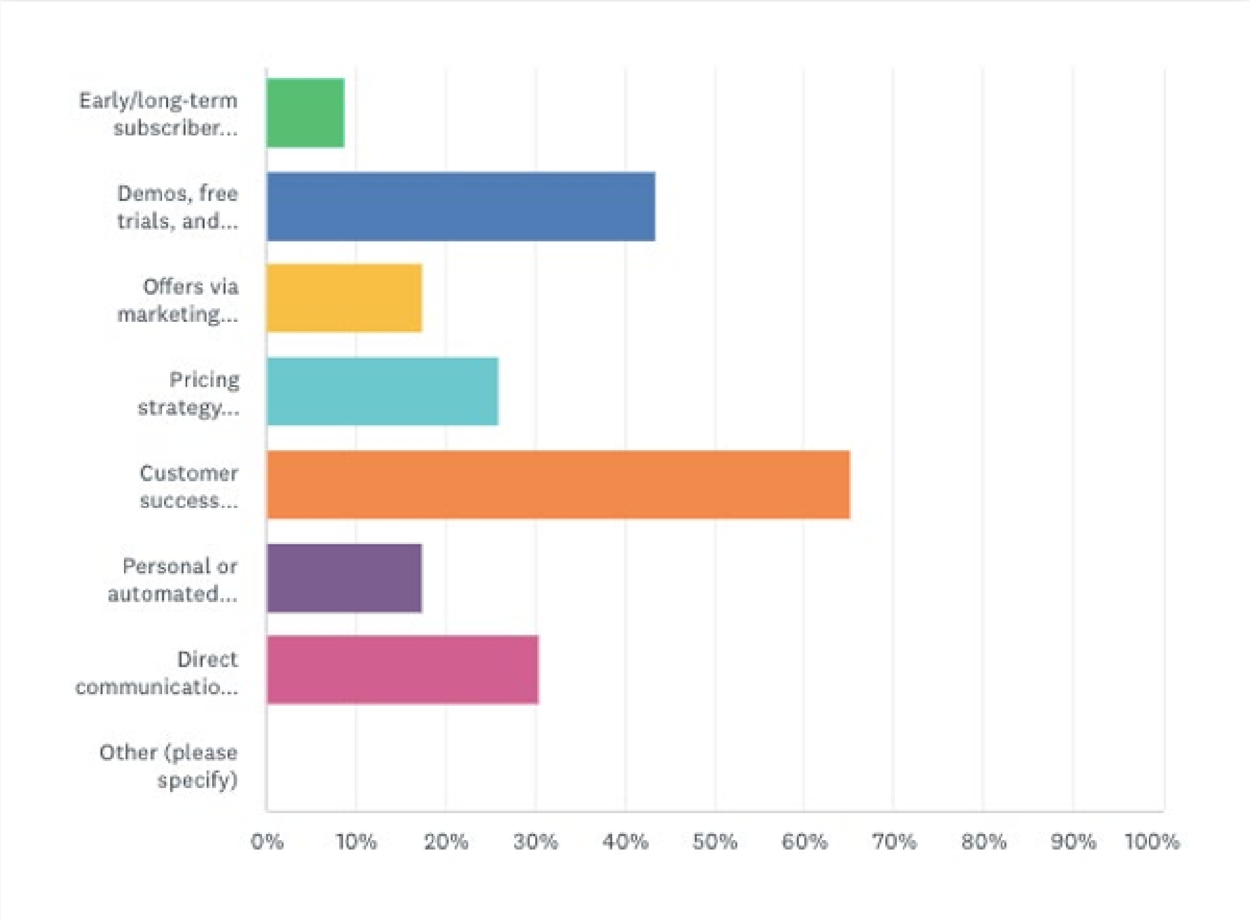
Key takeaway: *The focus on customer success in the SaaS industry has been growing, and 2021 demonstrates this loud and clear. Content and pricing remained valuable tools in retaining subscribers, however.*



22. What avenues did you use in 2021 to *upsell* customers?

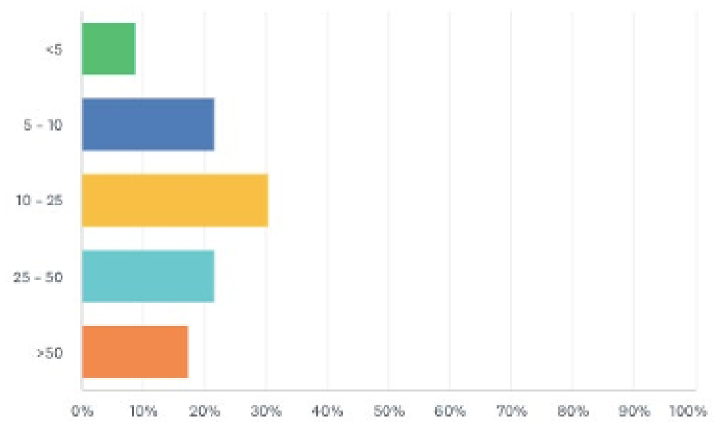
Comparing this year's upsell findings with those of 2020 shows a similar line of thinking for growing customer relationships: customer success led the way (65% in 2021 vs. 50% in 2020, which tied with direct communication methods last year). Other areas saw movement but largely remained the same. Demos, trials, and open tests increased by 10%. Pricing strategies decreased by about 15%. Similar to retention efforts, the use of emails dropped (about 12%). Direct communication, a top contender in 2020, took third place behind demos at 30%.

Key takeaway: *SaaS companies once again leaned on their customer success team in 2021 for upsell opportunities in addition to retention. Other upselling avenues were used and were fairly comparable year-over-year.*



23. What was the size of your team *before* obtaining capital?

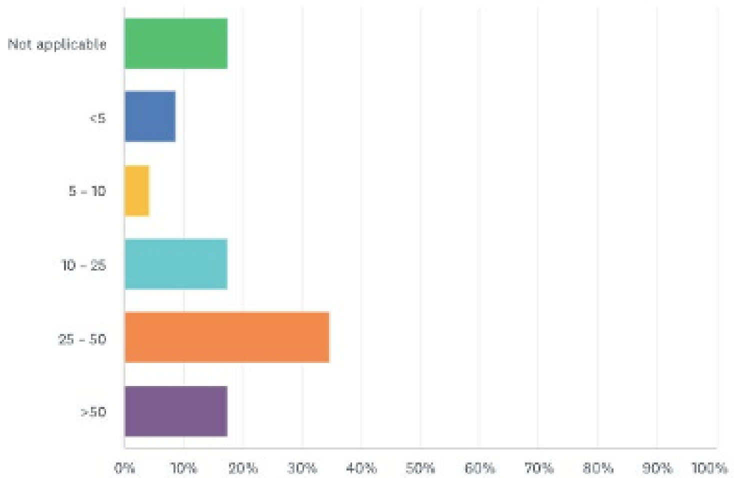
In 2021, respondents were more heavily concentrated in the 10-25 range but were once again fairly distributed amongst the employee headcount categories available. Overall, 70% of this year's respondents were from companies with more than 10 employees versus 50% in 2020.



24. What was the size of your team *after* obtaining capital?

Of the SaaS companies that reported seeing growth in their teams, the greatest gain was in the 25–50 category, which increased from 22% of respondents pre-funding to about 35%.

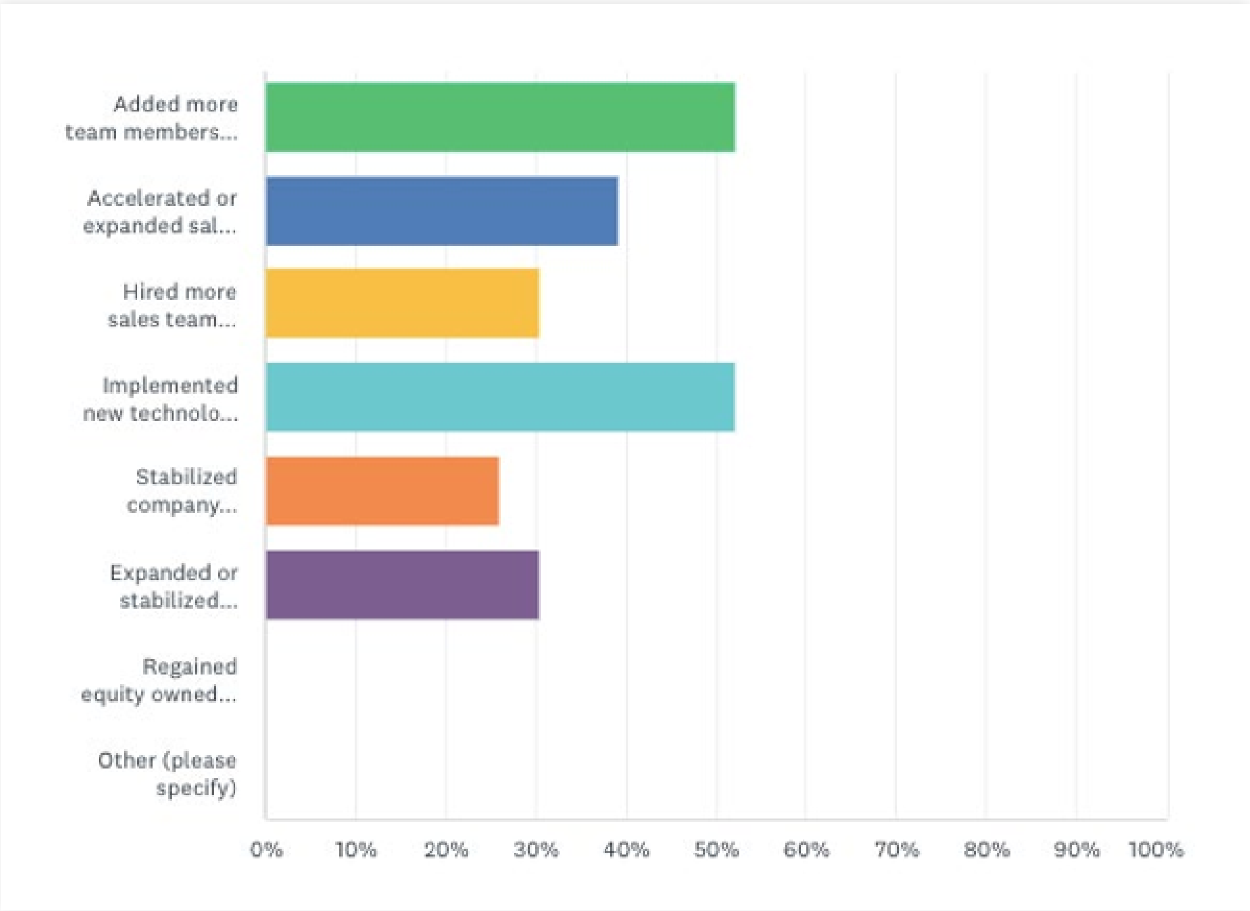
Key takeaway: *As growth was the primary factor for pursuing capital in 2021, it stands that companies used those resources to build out their teams. This also follows findings regarding the Great Resignation, where SaaS companies still reported team growth.*



25. What did you achieve with the funding you obtained in 2021?

Comparing results of using funding from 2020 with those of 2021, and in keeping with previous findings in this report, SaaS companies reported achieving team growth, sales acceleration, and new technology implementation goals. Ten percent more companies reported stabilizing operations over 2020, and about the same reported stabilizing financials.

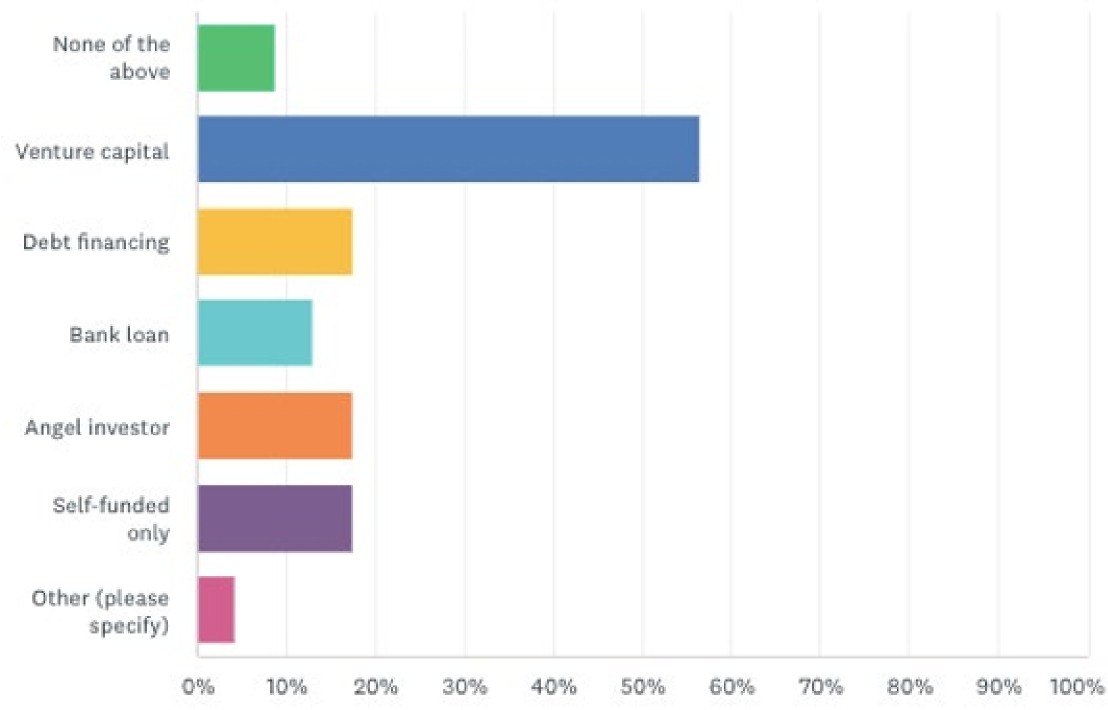
Key takeaway: *With SaaS companies focused on growth and team expansion despite more challenges with talent, it follows that the results of using their capital were in alignment with those efforts.*



26. What future funding avenues are you most likely to consider if any?

Following last year's results, SaaS companies reported that they expect to use primarily venture capital resources for future funding needs. Debt financing dropped from 50% expected usage in last year's report to 17% expected usage for 2021 findings. Twice as many SaaS companies anticipate using bank loans as reported last year, and the expected usage of angel investors dropped from 45% last year to 18% this year.

Key takeaway: *As reported earlier, SaaS companies in 2021 relied heavily on self-funding. With companies emerging from the challenges of 2021, and perhaps with a mind to greater merger and acquisition activity, venture capital is expected to be used more heavily in the year ahead.*



AFTERWORD: A YEAR OF RENEWED FOCUS

As SaaS companies emerged from the difficulties of 2020, they were met with new challenges — but nevertheless made meaningful progress toward achieving goals.

As this year's report reveals, two of the greatest reasons and focuses for SaaS companies in obtaining and using capital were growth and valuation increase. This is not surprising given the record-breaking merger and acquisition activity of last year.

By Q3, the industry had already surpassed the number of transactions of the previous leading year of 2019 — and with record-breaking volume. SaaS was not the only industry to see increased M&A activity, but for our survey respondents, the results paint a clear and focused picture of why SaaS leaders and founders chose to pursue funding.

While the data reveals other interesting details, as well as reflects other known trends such as the rapid increase in the use of customer success functions, it reveals another interesting point. With companies self-funding throughout much of 2021, they have emerged with a stronger readiness to use venture capital for their funding needs in the road ahead.

In the previous report, a large number of respondents noted that they would consider using venture debt financing and angel investors. While debt and angel investors were runners-up in the ranking of what funding types were used in 2021, debt was reported as being the most useful — twice that of venture capital and angel investors.

SaaS companies that do seek growth acceleration (without an aim to acquire other companies or become a target themselves) should consider the advantages of debt for exactly this purpose. No other solution empowers founders and leaders to accelerate momentum as much as debt. But perhaps its greatest benefit — and one that respondents recognized — is that it keeps you fully in control. No stock dilution. No need to give up a board seat. Just your vision for growth.

Remember: It's your company. You know how to grow it best. Use a funding solution that empowers you to do exactly that.

Wendy Jarchow
Chief Investment Officer
WJarchow@rivercapital.com

OWN YOUR SUCCESS WITH VENTURE DEBT FINANCING

River SaaS Capital is a venture debt and equity financing provider specifically for SaaS companies. We offer convenient terms, scalable funding and repayment options, and a long-term partnership approach. Whether you're looking to secure your first investment, supplement a previous investment, extend your runway, or secure a higher valuation, we serve as the strategic partner your SaaS company needs to achieve its goals.

Why Work with Our Team for Venture Debt Financing?

NO OWNERSHIP
We don't take an ownership stake in your company or a seat on your board, ever.

RELAXED MRR
If you're not yet within our MRR range, we'll keep in touch until you are.

FLEXIBILITY
Previous investment and even profitability aren't required to qualify.

LOAN OPTIONS
Borrow anywhere from $500k to $5 million based on your funding goals.

FUNDING SPEED
Our application process concludes faster than other available funding options.

LIMITED RISK
The repayment terms on your loan scale alongside your financial growth.

TRANCHE USAGE
Borrow only a portion of the loan amount to avoid paying more interest.

NO WARRANTS
Most debt lenders require warrants to invest, but River SaaS Capital doesn't.

EXIT EASE
An exit strategy isn't required to qualify for our venture debt financing.

BORROW AGAIN
You can re-borrow any repaid principal, extending the life of your capital.

TRUE PARTNERSHIP
We'll be here to help your company grow from the very beginning.

EQUITY OPTIONS
Our equity financing serves as a strategic complement to venture debt financing.

LEARN MORE OR APPLY NOW

Apply: riversaascapital.com
Call: 440-348-9695 | **Email:** info@riversaascapital.com