A to Z

SaaS Dictionary

A complete guide to understanding SaaS terminology.

KPIsense

A

Accrual Basis Accounting

- A type of accounting that recognizes income and expenses at the time it is earned or when liabilities are incurred regardless of when payment is sent or received.
- **Learn More**

All-Cash Offer

- An offer to buy a business with all cash, meaning no financing or other exchange of other capital like stock.

All-Stock Offer

- An offer to buy a business where the shareholders receive shares instead of cash.

Amortization

- The practice of spreading an intangible asset's cost over that asset's life span. Think cost of patents, trademarks, copyrights, etc.

Annual Contract Value (ACV)

- Recurring revenue from each contract normalized to a single year, not including one-time fees.
- **Formula**: contract total ARR ÷ contract length in years

Annual Recurring Revenue (ARR)

- The recurring amount of money a customer has agreed to spend with your subscription business for a one year period.
- **Formula**: beginning annual recurring revenue recurring revenue from add-ons or upsells - recurring revenue lost from cancellations downsells
- **Learn More**

Anti-Dilution

- A protective clause that preserves a shareholder’s ownership percentage in later rounds of financing.

A

A/R Collections

- Accounts Receivables (A/R) are the amount of money owed to your company from customers who made transactions for your product or service through credit. In other words, A/R is the amount of outstanding invoices you have and A/R collections is the internal process of collecting those invoices from your clients.
- **Learn More**

Attach Rate

- Represents the % of the contract that accounts for implementation services or add-ons sold with each contract.

Attrition

- A deliberate reduction in staff members. Usually happens after someone is fired, laid off, or retires and is not replaced.

Average Revenue per Account (User) (ARPA/ARPU)

- This metric tracks the average revenue (usually recurring revenue) generated from an individual account (or user/seat).
- **Formula**: total revenue ÷ number of clients or users

B

Blank Check Company

- A blank check company is a company that has no specific business plan or purpose for their acquisition.

Bolt-On Acquisition

- When a private equity purchases or adds on a company to one of its platform companies.

B

Bookings

- Amount of money a customer agrees to spend with you, usually reported on an annual basis.
- **How to Find**: This information lives within your source of truth, hopefully a CRM but possibly an excel sheet or google doc.

Breakup Fee

- Some M&A deals require massive amounts of time and resources, a break-up fee usually compensates the acquirer in case the seller backs out of the deal.

Bridge Financing

- Short term financing used by founders in between funding rounds to help stay afloat.

Burn Rate / Cash Burn Rate

- This metric tracks how much money a company loses in a specific time frame, usually by month and normalized to a year. Burn rate usually does not include any one-time or unusual non-recurring revenue/expenses.
- **Formula**: cash inflow - cash outflow
- If this number is negative, that's your burn rate. If it's positive, congrats! You have cash flow.

C

Cap Table

- It's a complete list of a company's securities and who owns them. It will have all percentages, share types, and owners. The full term is Capitalization Table.

Capital Expenditure (CapEx)

- CapEx Money spent on improving the business' long term assets. This includes land, building maintenance, office equipment, furniture, etc.

C

Carried Interest (Carry)

- A performance fee that pays the investment manager or partner of a venture capital fund a share of the profits once a set hurdle rate is achieved.

Cash Basis Accounting

- It is a type of accounting that recognizes revenues and expenses at the time cash is received or paid out. It means you count revenue only when a customer pays.
- **Learn More**

Cash Burn Rate

- Tracks how much money a company loses in a specific time frame (usually monthly or normalized to a year). Measures the rate at which a company uses up its cash flow and includes all expenses incurred in that time frame.
- **Learn More**

Cash Flow Forecasting

- A cash flow forecast makes predictions on what your cash flow will look like in the future given your business operations and expenditures. It helps you make present-day business decisions such as hiring new employees, buying new equipment, raising product prices, and adding to your product based on future cash roll outs.
- **Learn More**

Cash-Stock Offer

- An offer to buy a business with a mix of cash and equity.

Chart of Accounts

- A good SaaS chart of accounts organizes your financial data in your accounting system so you can easily track costs by function (e.g. sales, marketing, product, engineering, support, customer successes, operations).
- **Learn More**

C

Churn

- Churn is when something of value leaves. Revenue churn - money lost, Client churn - clients lost and so on.
- **Learn More**

Churned Revenue

- The amount of recurring revenue lost from a current client who has terminated service (or been determined as being delinquent) within a given period.
- **How to Find:** When calculating churned revenue for a specific time frame, add up all recurring revenue that was lost from client cancellations. This info can be found in whichever system you use for tracking (CRM, accounting software, excel, etc) and will not include one-time fees. Most systems will not have this number for you, but they will have a report you can use to find your churned clients and then you'll add up revenue lost.

Cohort Analysis

- A cohort is a set of people with a common characteristic. In SaaS, a cohort could be made up of customers who share a common denominator such as acquisition date, pricing plan, or geographic location. Cohorts are then tracked over a set time period and compared against SaaS benchmarks to gauge performance of your business. Analyzing your cohorts will put your data into context and make you aware of what is and is not working for your business.
- **Learn More**

Committed Monthly Recurring Revenue (CMRR)

- The amount of predictable revenue your company expects on a monthly basis including the contracts that start at a future date.
- **Formula**: existing MRR known new revenue bookings known new upsell bookings - known downgrade bookings - known cancellations
- Known here means there is a signed contract for a future start date.

C

Committed Annual Recurring Revenue (CARR)

- The amount of predictable revenue your company expects on an annual basis including the contracts that start at a future date.
- **Formula**: existing ARR known new revenue bookings known new upsell bookings - known downgrade bookings - known cancellations. "Known" here means there is a signed contract for a future start date

Conditions Precedent

- Conditions found on a term sheet that would allow an investor to back out of a deal.

Contraction Revenue

- A decrease to recurring revenue within an existing customer account (as long as recurring revenue remains above 0).
- **How to Find**: When calculating contraction revenue for a specific time frame, add up all recurring revenue that was lost from clients downgrading. This info can be found in whichever system you use for tracking (CRM, accounting software, excel, etc) and will not include one-time fees.

Convertible Debt

- When an investor loans money to a startup with the intention of the return to be converted into stock or equity shares in the company. It's a common early stage financing mechanism.

Cost of Goods Sold (COGS)

- How much money is spent on the delivery of your product or service. Includes: 1) Third-party Hosting Costs 2) Customer Success costs 3) Professional Services costs 4) Managed Services costs.
- **Learn More**

Current Assets

- Things the company owns that could be converted (sold, consumed, exhausted, or utilized) into cash within a year. This includes cash, accounts receivable, stocks, pre-paid liabilities and so on.

C

Current Liabilities

- These are a company's financial obligations that are due within one year or operating cycle. This includes accounts payable, interest payments on debts, prepayments for future work, etc.

Customer Acquisition Cost (CAC)

- The amount of sales and marketing dollars spent to acquire a new customer.
- **Formula**: (sales spend marketing spend) ÷ number of new clients
- **Learn More**

Customer Cohort Analysis

- Tracks the retention and performance of a given set of customers, usually in comparison to another set time frame or benchmark.

Customer Success (CS)

- Responsible for maintaining relationships and providing support to clients. They often handle upsells, expansions, and renewals as well.
- If this number is negative, that's your burn rate. If it's positive, congrats! You have cash flow.

D

Days Sales Outstanding (DSO also known as Days Receivables Ratio)

- It is how many days on average does it take for a sale to convert to cash. Said another way, how long does it take for a company to collect it's accounts receivables.
- **Formula**: ((month-end AR balance ÷ (monthly revenue X 12)) X 365
- **Learn More**

D

Deferred Revenue

- Revenue you have received payment for but has not been earned. It will be recognized at a future date or represents services that are owed to a customer.

Depreciation

- An accounting rule that makes you expense tangible asset's cost over its lifespan. Think office buildings, furniture, etc.

Dilution

- When a company issues new stock which in turn decreases any previous shareholder's ownership percentage.

Dividends

- A set portion of profits that are distributed annually to shareholders as cash or equity.

Drag Along Rights

- Term that allows a majority shareholder to force a minority shareholder to agree to a transaction with equal conditions and prices.

Due Diligence (DD)

- A process where the purchasing company learns more about the target business before finalizing a purchase.

E

Earn-Out

- A deal clause that entitles the Acquiree/Target Business to receive extra pay if the business meets certain performance metrics, retention or other operational goals as laid out in the LOI. Common with offers from financial and private equity buyers.

E

EBITDA

- Earnings before interest, tax, depreciation and amortization. Its a measure of a company's operating performance. You can measure performance without having to consider financing decisions, accounting decisions or tax environments.

Expansion Revenue

- An increase to recurring revenue within an existing customer account.
- **How to Find:** When calculating expansion revenue for a specific time frame, add up all recurring revenue that came from an upsell or adding new seats. This info can be found in whichever system you use for tracking (CRM, accounting software, excel, etc) and will not include one-time fees.

F

Family Office

- Family offices manage funds for families and ultra high net worth individuals, they'll often handle all financials and investments.

Financial Buyer

- A financial buyer is a buyer who is interested in the return from their purchase over everything else. These buyers include Private Equity firms, Family Offices, Blank Check & Holding Companies, and Private Equity Platform companies.

Financial Planning & Analysis (FP&A)

- The segment within a finance department responsible for forecasting, budgeting and proformance. This team or person provides the leadership team with analysis of trends and potential obstacles to drive decisions.

Full Ratchet

- A provision that protects the dilution of equity investments that could be confounded in future investments.

F

Functional P&L

- Profit and loss / income statement that breaks out costs by business groups. (Sales, Marketing, Research and Development, and General and Admin.

G

General & Administrative (G&A)

- A group on your P&L and it's spend includes payroll, office expenses, professional services, and meals & entertainment.

Gross Customer Churn / Logo Churn

- How many clients were lost within a given period.
- **Formula:** # of lost customers ÷ beginning # of customers

Gross Margin

- How much money is left over from revenue after deducting the Cost of Goods Sold (COGS). Put another way, it's the revenue left for you to pay operating expenses to keep your doors open and money to reinvest back into the business.
- **Formula:** Gross Margin (%) = (Revenue - COGS) ÷ Revenue
- **Learn More**

Gross Revenue Churn

- How much money was lost within a given period from clients leaving.
- **Formula:** recurring revenue from churned clients ÷ beginning recurring revenue

I

Indication of Interest (IOI)

- A non-binding expression of interest in buying a business.

Interest Income / Expense

- Interest is added money earned back from the delayed repayment of debt. Income / Expense would be the money that is either gained or spent on interest payments.

J

JOBS Act (Jumpstart our Business Startups) of 2012

- U.S. Legislation signed in 2012 to help startups raise capital by loosening SEC regulations.

L

L6M Average

- The L6M average is used when you calculate a specific metric each month but you want to smooth out the results (by taking a last 6 months average of the metrics) so you don't see any big swing related to one-off events that might have impacted a specific month.

Lead Investor

- An investor who typically funds first in the round and serves as an advocate for the company to help close off the round.

L

Letter of Intent (LOI)

- It's the initial document between two parties expressing commitment to do business with each other and the understanding that a formal legally binding doc will follow.

Lifetime Value or Customer Lifetime Value (CLTV, LTV)

- It's the revenue a customer will generate over the course of your relationship.
- **Formula:** annual revenue x average customer lifespan
- **Learn More**

Lifetime Value : Customer Acquisition Cost (LTV : CAC)

- This ratio represents the long-term value of a customer of its life versus the cost to acquire a new customer. This ratio measures the effectiveness of sales & marketing spend versus the impact of churn.
- **Formula:**
  - LTV = annual revenue x average customer lifespan
  - CAC = (sales spend marketing spend) ÷ number of new clients
  - LTV : CAC
- **Learn More**

Liquidation Preference

- It prioritizes specific investors and stakeholders to be paid back over others in case of liquidation.

M

Magic Number

- Comparing the previous quarter to the current quarter its a ratio that measures how many dollars of revenue are gained from every sales and marketing dollar spent.
- **Formula:** ((current quarter's revenue - previous quarter's revenue) x 4) ÷ previous quarter's sales and marketing expense
- **Learn More**

Marketing Spend

- Marketing spend includes payroll, subcontractors, advertising, events, ads, etc.

Mergers and Acquisitions (M&A)

- Is the process of buying/selling a company or combining companies to form one entity.

Mezzanine Debt

- Is when a hybrid debt is subordinated to another debt from the same issuer. Most commonly used to protect new owners ahead of current owners in case of bankruptcy.

Monthly Recurring Revenue (MRR)

- The amount of predictable revenue your company expects on a monthly basis.
- **Formula:** beginning monthly recurring revenue recurring revenue from add-ons or upsells - recurring revenue lost from cancellations downsells
- **Learn More**

Months to Recover CAC

- The number of months it takes to recover the cost of acquiring a new customer, its your break even marker for a specific client or a group of clients.
- **Formula for single client:** customer acquisition cost ÷ (gross margin)
- **Formula for all clients:** customer acquisition cost ÷ (average revenue per account x gross margin %)
    - Gross Margin = revenue from the sale(s) - cost of goods sold
    - Gross Margin % = (revenue from the sale(s) - cost of goods sold) ÷ revenue from sale(s)

N

Net Income

- How much money is generated from sales after all expenses have been deducted.

Net New Customers

- How many customers are new after deducting churned clients.

Net Revenue Churn

- How much money was lost from clients leaving including any expansion or contraction from existing customers.
- **Formula**: (lost revenue from churned clients expansion and contraction revenue) ÷ beginning recurring revenue

Net Working Capital

- Is a measure of a company's liquidity (cash).
- **Formula**: current assets - current liabilities

New Revenue

- An increase to recurring revenue from signing a new customer.
- **How to Find**: When calculating new revenue for a specific time frame, add up all recurring revenue that came from signing new clients. This info can be found in whichever system you use for tracking (CRM, accounting software, excel, etc) and will not include one-time fees. Most systems will not have this number for you, but they will have a report you can use to find your new clients and then you'll add them up.

No Shop Provision

- A legally-binding clause that prevents the Acquiree/Target Business from reaching out to other potential buyers to "shop" the Acquirer's offer, usually included in the Letter of Intent.

O

Opening Customers

- How many active customers you have at the beginning of a period (will be used when calculating customer churn).

Operating Expense (OpEx)

- Money spent to keep the business up and running. Includes rent, payroll, insurance, etc.

Option Pool

- The percentage of common shares set aside for employees.

Original Issue Discount (OID)

- The amount between the face value of the bond and the actual price paid for the bond by the investor.
- **Example**: The face value of a bond = $1,500, but the investor buys it for $1,400 with a $100 OID.

Other Income / Expense

- Any other income and expenses generated or lost from sources not directly related to a business' core operations (e.g. sale of an asset, rental income, lawsuit settlements, restructuring / severance expense).

Oversubscribed

- Occurs when investor demand for shares in a company exceeds the shares available in that round. This can also occur if more funding is being offered than the initial amount that was planned to be raised.

P

Paid-in-Kind Interest

- A bond that pays interest in the form of bonds instead of cash during the initial period. They are usually issued by cash strapped companies and have a lower rating and high interest rates. They tend to provide some initial financial relief but can contribute to liquidity issues since they'll eventually need to be paid off.

Pari Passu

- Condition in a term sheet that ensures equal treatment of all parties and their equity in a deal.
- **Example**: All shareholders share the same rights if the company is liquidated.

Participating Preferred Stock

- Stock that gives a specific dividend that is paid back before dividends to common stockholders are paid back and takes priority in case of liquidation. Common with venture capital and private equity investors.

Pay to Play

- Technique used to incentivize investors to participate in financing the company pro rata rate or else they risk losing certain rights like preferred stock converting to common stock.

Payback Period

- Length of time it takes for an investment to recover the initial sum of money.

Perpetual License

- A perpetual license is a seat to access a software that does not expire, you own it. Technical support and upgrades are often purchased along the way when needed.

Platform Company

- A platform company is the initial company purchased by a private equity group that acts as the starting point to acquiring more companies in the same market.

P

Private Placement Memorandum (PPM)

- A legal document that has your company overview, risk factors, and investing terms for prospective investors so they can make informed decisions.

Pro Rata Rights

- A right that gives investors the opportunity to invest in future funding rounds to maintain their equity/shares in the company.

Pre-/Post-Money Valuation

- Determines the valuation of a company before and after a fundraising round - used to distinguish investor ownership percentage.
- **Formula:** Post Money Valuation = Pre Money Valuation Capital received in fundraising

R

Recurring Revenue

- Recurring Revenue is the amount of predictable revenue your company expects during a period of time as a result of a SaaS or subscription business model. You can measure your recurring revenue on a monthly, quarterly, or yearly basis. Monthly and annually are the most relevant in SaaS along with calculating the average amount of recurring revenue per customer.
- **Learn More**

Redemption Rights

- A right that allows investors to require the company to buy back its share in an attempt to protect investors.

Regulation CF (Crowdfunding)

- A regulation under the JOBS Act that allows startups to raise up to $1M worth of capital from American citizens with the ability to turn customers into investors.

R

Regulation D

- SEC regulation that allows startups to raise capital in private markets and the regulations on how to do so.

Renewal

- When a client extends services with you or adds seats for the upcoming contract dates.

Research & Development Spend

- R&D spend includes payroll, subcontractors, developer's tech stack.

Retention

- When a company keeps something. Employee retention, customer retention, revenue retention and so on.

Revenue

- Revenue is money generated from normal day-to-day business operations.

Revolving Line of Credit

- Line of credit where the individual pays a fee to borrow money and then can use it where needed.

Roll-Up / Tuck-In Acquisition

- Usually used by private equity firms where multiple small companies in the same market are acquired and merged.

Rule of 40

- A benchmark that states the sum of a company's growth rate and profit margins should exceed 40%.
- **Formula**: Growth Rate Profit %
- **Learn More**

Runway / Cash Runway

- The number of months a company has left before running out of cash.

S

SAFEs (Simple Agreements for Future Equity)

- An agreement between the investor and the company that allows investors to participate in future funding rounds and purchase stock.

Sales Cycle

- The process that occurs when a business sells its product/service to a potential customer. The cycle begins with the introduction of a new lead and ends once the lead is converted to a new client and the deal is finalized.
- **Learn More**

Sales Spend

- Sales spend includes payroll, subcontractors, commissions, travel and entertainment.

Senior Debt

- Debt that takes priority over other lower or "junior" debt.

Software as a Service (SaaS)

- Cloud based software that is accessed by individuals through the subscription to a license. This differs from software that is purchased and installed on one's computer indefinitely.

Strategic Buyer

- A strategic buyer is a buyer who is interested in how each company would contribute to their own long term business goals and how the acquired companies would integrate with their own.

Structured Offers

- An offer to purchase a business that includes multiple components like earnouts, claw-backs and other time-based payments that have the potential to alter how much the business ultimately receives from an acquirer.

Syndicate

- An investment vehicle backed up by many investors for one single deal. Investment is managed by one experienced leader.

S

Synergies

- Synergies are the effects of combining powers.

T

Taxes

- Taxes are compulsory charges imposed by governments to fund public projects.

Term Loan

- Where a bank loans money that is on a repayment schedule with either a fixed or floating interest rate.

Total Contract Value (TCV)

- Amount of money a contract is worth once executed. It includes all revenue for all years plus all one-time charges or fees. TCV will differ from annual contract value (ACV) if it is a deal shorter than 12 months.

V

Vesting

- The process of earning an asset. It encourages longevity at a company before you gain full ownership of the shares you received as a new employee.

W

Warrant

- An agreement that allows investors to buy equity in the future at a certain price for a certain length of time.

Working Capital Adjustment

- This adjustment impacts the price of a deal and requires the Acquiree/Target Business to leave a certain amount of cash within the business in order to maintain day to day operations.

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