



Helping Founders Realize Their Vision

Flexible, Readily Available Growth Capital

Purpose

We exist to help innovative tech-enabled companies accelerate growth while preserving ownership for Founders, Management and Investors.

How we do it

By providing customized debt solutions, timely access to capital, and advice along the way to help Founders reach a successful exit.

Why us?

We are founded and led by experienced entrepreneurs who have started businesses and achieved successful exits. We understand what it takes to cross the finish line.

Bottom Line

We have helped Founders realize more than \$400MM incremental exit value.

Target

- Tech-Enabled
- Recurring Revenue
- Scalable Model

Parameters

- \$3MM+ ARR
- 50%+ Gross Margin
- Low Fixed Costs

Structure

- \$2MM to \$20MM+
- Interest-Only Periods
- Deferred Amortization

Working with RevTek Capital

RevTek Capital was founded by a team of experienced entrepreneurs and banking experts who believed there was a better way to fund growing companies. Our funding is structured so we win when you win. Our return depends on your company's performance, meaning it's in our best interest to work with you to help you grow. We can be involved as much or as little as you like. Together with our community of entrepreneurs and experts, we help as needed.

We succeed when you succeed.

Contact us at: funding@revtekcapital.com

www.revtekcapital.com

Scaling Valuation Secrets for SaaS Companies:

Which Type of Debt
**Will Grow Your
Valuation**



REVTEK
CAPITAL

► "Scaling Valuation Secrets for SaaS Companies: Which Type of Debt Will Grow Your Valuation"

Whether you are a new, established, or a startup company, getting financing from outside sources is necessary to start a business. This is especially true for software as a service (SaaS) companies. Reliance on monthly recurring revenue and a lack of large upfront payments mean that profitability doesn't come quickly.

But debt isn't just necessary. It can help grow your company's valuation and preserve equity. That statement may seem very counterintuitive, but it's true.

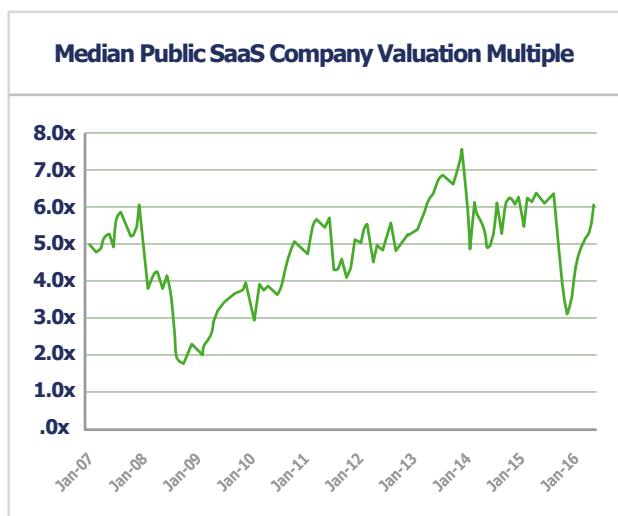
But how can debt be beneficial for my business?
How does it grow the value of my business?

In this White Paper, we'll explain what factors affect valuation, the benefits of debt for SaaS companies, examine a few of the different types of debt available, and explain which ones can increase your company's valuation.

► How can debt increase the value of your SaaS company?

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Before we get any further, we must discuss how your SaaS company's value is determined in the first place. The general formula is: Annualized recurring revenue (ARR) x Multiple = Company Value. But what exactly is the multiple, and how is it determined? "Anything that will impact the size, timing, and predictability of future cash flows will be incorporated into the revenue multiple."



Sources: NASDAQ Pacific Crest Securities, Bessemer Venture Partners, CapitalIQ Saphire Ventures, and Redpoint Ventures.

Another critical factor that affects valuation is revenue retention. A recent study finding that “for every one percentage point increase in revenue retention, a SaaS company’s value increases by 12% after five years.” Conversely, churn, which is the loss of expected ARR, can lead to negative valuation. Retaining revenue is particularly important to your company’s valuation because it impacts many other factors, such as your actual revenue, addressable market, and growth rate.

Thus, your company’s valuation is based on its recurring revenue and various other factors. As a SaaS owner, your goal should be to grow your ARR, increase your growth rate, and extend your addressable market so your company’s value continues growing. To achieve all of this, you will need outside capital.

This is especially true for young SaaS companies. Their business model depends heavily on monthly subscription payments for most of their income and requires significant outside capital.

Even a mature SaaS company can increase its effectiveness and value by getting debt. Whether it be to enter a new market, develop a new service, or make a massive sales and marketing push, a shot of capital can give a mature company the resources it needs to improve from decent to exceptional. Whether it be to get your feet off the ground or move from established to excellent, debt can be empowering for SaaS companies.

So, the short answer to how debt can increase your SaaS company’s valuation is this: it gives you the resources to focus on growing your ARR, addressable market, retention rate, marketing tactics, and many other things that lead to company growth.

Why do you need debt?

We have already touched on this in the previous section, showing that it gives you the resources to increase your revenue and valuation. While that is an important aspect, it also helps in the following ways:

1. Helps you establish yourself.

As a startup, you need significant funding to develop and promote your product before you begin receiving revenue. That’s where outside capital comes in. Additionally, once you develop and promote your product, you will not be instantaneously profitable. Even if you are succeeding and growing, it will probably take a few years before you are consistently profitable. This is particularly true as a SaaS company, where you almost exclusively depend on small, subscription-style payments to fund your operations. To make it through those first years, outside capital allows you to establish yourself and position your company for future growth and success.

2. Allows you to maintain ownership and control.

While some forms of debt require giving away some equity or control, debt also allows you to own your company. Starting a successful company in which you maintain majority ownership is very difficult without outside investments and growth capital. As we will discuss in more detail in the next section, it is essential you consider your options carefully. Not all types of debt will allow you to maintain exclusive ownership of your company. Without exclusive (or at least majority) ownership, you will not be able to make the decisions that you deem best for your business.

3. Gives you the tools to focus on what's important.

Regardless of what stage your SaaS company is in, growth capital allows you to focus on essential growth initiatives and operations without wondering how you are supposed to pay for them. One particularly crucial area for SaaS companies is marketing and sales. The average SaaS business invests 30% of its revenue in marketing and sales. The larger your business becomes and the more consistent your clientele, this will probably shift so that you are financially focusing more on scaling all dimensions of the needed infrastructure.

Why do you need debt?

Of course, not all types of debt are created equal. Some offer instantaneous growth capital, stipulating that you give up some equity or control. Some have low-interest rates but also require significant collateral. Some are messy and complicated, while others are simple. Here is a brief synopsis of a few of the most common types of debt you could receive as a SaaS company.

1. Bank Loans.

For small SaaS businesses, obtaining a bank loan can be next to impossible. Banks only care to loan money to companies that have already become profitable, so they scrutinize every business that requests capital to ensure they are profitable. This disqualifies most SaaS startups and small businesses, leaving only the growing, firmly established, and consistently profitable SaaS companies eligible.

Additionally, most bank loans are small compared to other types of debt. Even if you have the profitability to earn a bank's trust, don't expect them to shell out a significant multiple of your ARR. They will also require that you provide significant collateral in the case that you are not able to meet your payments.

On the bright side, bank loans have exceptionally cheap interest rates if you qualify for one. Generally, these interest rates will be even less than what you would have to pay for other forms of debt, such as credit cards. Another positive is that banks don't have stipulations about how you use the money.

If you are already an established, successful SaaS company, a bank loan is worth looking into. For startups, however, convincing a bank to invest significant capital into your business likely won't yield the results you're hoping for.

2. Venture Capital.

Venture capital financing involves venture capitalists, who are often part of a venture capital firm, investing their money in a startup company. VC firms focus almost exclusively on the technology field, which is why some of the most prominent venture capitalists are in Silicon Valley.

Venture capitalists invest in startups that are nowhere close to achieving profitability so long as they have demonstrated the potential to be profitable. There are inherent risks involved for VC firms, as many startups they invest in fail, resulting in a loss. With their risky investments, the huge growth of some companies financially outweighs the loss of money in others. This is great for young SaaS companies who have yet to demonstrate profitability but have the plan and potential to achieve profitability in the future.

Because of this risk that they undertake, venture capitalists usually need a seat on your board, some equity, or both. Depending on the particular agreement, a VC firm can require either an actual board member with decision-making power in your company or a board observer with open access to all meetings and internal operations. As for equity, it's not uncommon for a firm to take as much as 45%. For both of these, the more capital the firm invests, the more extensive control and ownership they will need.

3. Alternative lenders.

Of course, these aren't your only options for obtaining the capital you need to maintain operations and grow your SaaS company. For instance, an early-stage company could turn to crowdfunding, allowing the company to simultaneously market itself and gain capital it would not have to repay. However, the competition and the lack of assurances regarding quantity make this option very difficult to execute successfully.

A SaaS company with a brilliant business plan could also bring on an angel investor, who will likely provide mentorship and a relatively small amount of capital. While most angel investors don't require repayment, they will receive a significant portion of the profits if you decide to sell your business. Additionally, finding an angel investor can prove very difficult.

The bottom line is this: the most feasible options for young SaaS companies to gain capital involve giving up some combination of ownership or say-so in your company. Obtaining those that don't involve giving up some control or ownership is next to impossible.

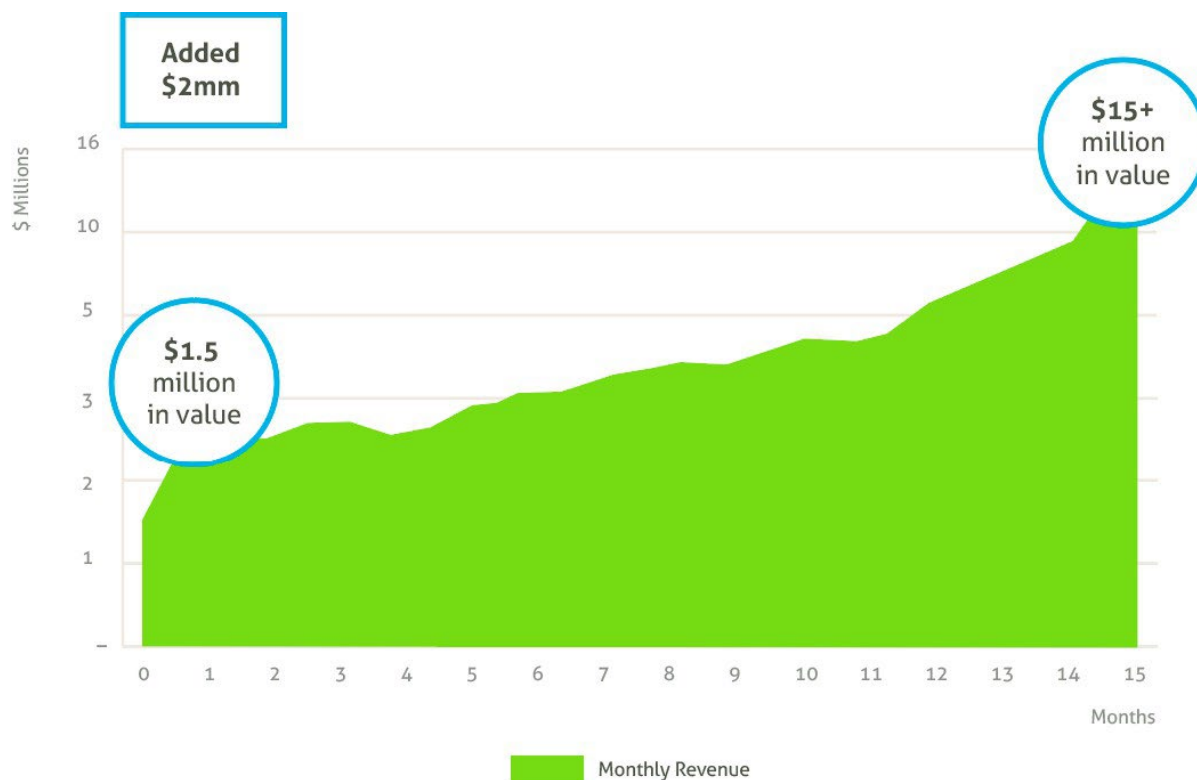
And then there's RevTek.

► How can RevTek Capital's financing model improve the valuation of your SaaS business?

Here at RevTek, our goal is to give you the best possible financing model to increase your business's valuation. We combine the best of the benefits from other lending options so that you can truly increase the value of your SaaS business without the significant downsides.

Our financing model is tried and true. We have provided capital to several SaaS and tech-enabled companies with predictable recurring revenue and watched their valuation grow.

For instance, we invested \$2 million in a SaaS company valued at about \$1.5 million. Over about 15 months, with the help of the growth capital we provided them, their value increased to \$15 million, and they have since secured a substantial government contract valued at more than \$75 million.



Additional secured a Government contract valued and more than \$75MM

Another company we invested in had an ARR of \$5 million and was valued at about 25 million. After two years, during which we provided them with \$5 million of growth capital, their ARR has skied to \$15 million, meaning their valuation now sits at \$75 million.

Our model is simple: we provide you with the growth capital that you need to expand your operations (and, therefore, the value) of your business in exchange for manageable monthly payments based on your monthly recurring revenue. You needn't be profitable to be eligible, but you should have a predictable recurring revenue of at least \$500,000 a month. Below are a few highlights of our revenue-based financing model that has helped numerous tech companies grow and increase their value.

1. A few warrants.

In the best interest of companies like yours, we receive warrants to ensure our interests and engagement align with the company. When you succeed, we succeed. The amount of the warrants varies with each company and is always significantly less than a Venture Capitalist would require.

2. We don't need a seat on your board.

While we will get involved if that is what you want, we will never impose our will on your business. Providing your business with capital means that we believe in your model and your leadership to yield positive results — and we don't need to get in the way of that.

3. From \$2MM up to \$20MM+ in growth capital.

Depending on your needs and qualifications, you could obtain \$2MM up to \$20MM+ in growth capital. We start with as much as \$2MM or more, and once we have a working relationship and experience the projected progress, we can provide additional rounds with just a few day's notice.

4. Simple terms. Simple documentation. Simple execution.

Obtaining growth capital can be a hassle, both in terms of understanding the requirements and actually qualifying. That is not the case when you partner with us. We pride ourselves on the simplicity of our offerings.