



VC Operating Model

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What is an Operating Model?

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VC fund is investing in a **startup company**



Future profitability



Cash flow generation

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Operating model

Summarize **future earnings potential**



Forecast revenues and expenses

Usage or generation of the company's cash balances



Key risks for early startup companies is running out of cash

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B2B (Business to Business) SaaS (Software as a Service) company



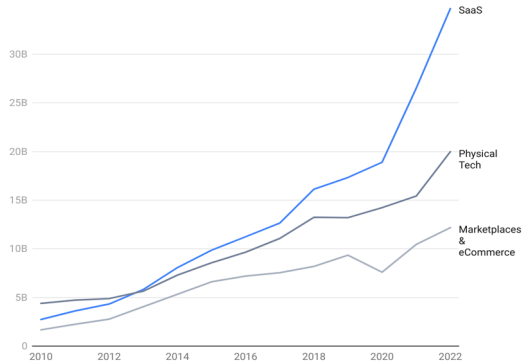
Operating model for SaaS
companies have specific:

Drivers

Metrics

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Early-stage SaaS venture capital investment \$ in billions (\$0-15M rounds)



Source: Dealroom.co • Created with Datawrapper

B2B (Business to Business) SaaS (Software as a Service) company



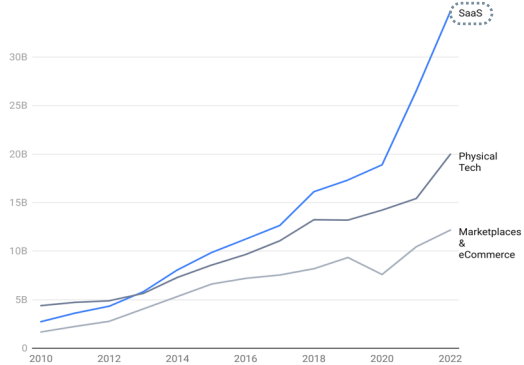
Significant portion of
the **VC landscape**

Biggest **early-stage venture capital investment type**

Grown significantly between 2010 and early 2020s

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Early-stage SaaS venture capital investment \$ in billions (\$0-15M rounds)



Source: Dealroom.co • Created with Datawrapper

What is a SaaS Business?

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The diagram illustrates the components of a SaaS business. At the top, a document icon with a bar chart and pie chart is connected by a dotted line to a dark blue rounded rectangle labeled 'Operating model'. Below this, a circular icon containing three interlocking gears is connected by a bracket to a green icon of three buildings. At the bottom, two green rounded rectangles are positioned on either side of the building icon: 'Understand the business' on the left and 'How it operates' on the right.

Operating model

Understand the business

How it operates

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A “**Software as a Service**” business which is based entirely on the **internet**


**Company “hosts”
software application:**

Network

Servers

Codes


Enterprise customers **access
applications through web browser**

 Cell phone

 Tablet

 PC

SaaS

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Monthly fee

Access software

HOSTING

 Eliminates need for end user license

Activate software and infrastructure

 Hosts end user membership

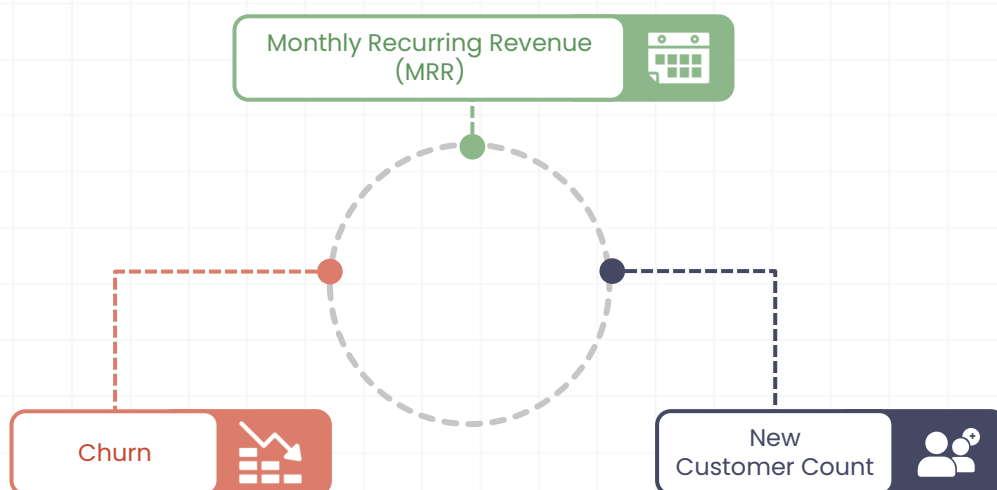
Access via logging into the account

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SaaS Revenue Model

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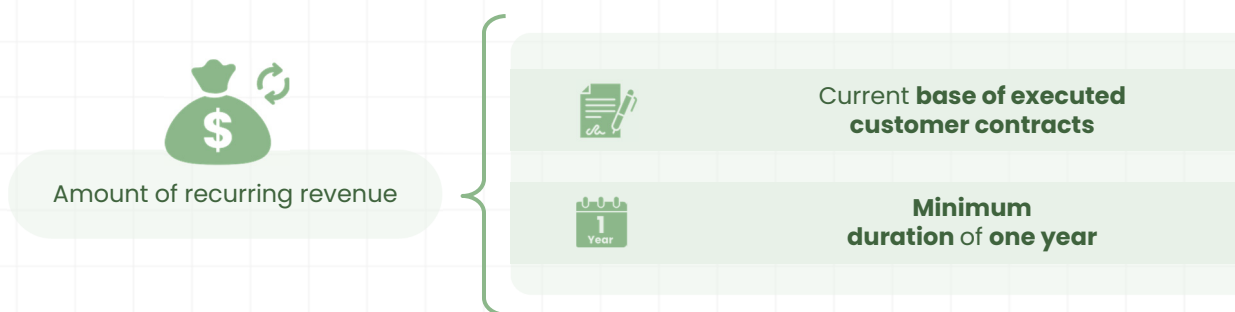
The **revenue model** for a SaaS company is **primarily “subscription revenues”**

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(MRR) Monthly Recurring Revenue



ARR (Annual
Recurring Revenues)

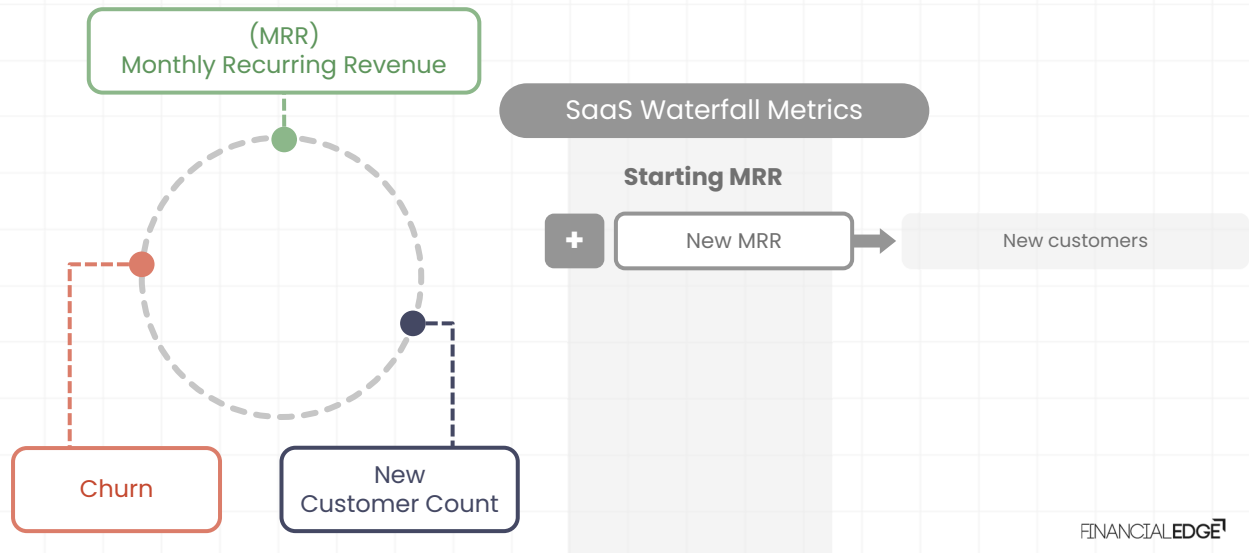


$$\text{ARR} = \text{MRR} \times 12$$

= Sum of **12 consecutive months in forecast**

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The **revenue model** for a SaaS company is primarily “**subscription revenues**”



Churn

Also referred to as “**Lost MRR**”



The amount of **monthly recurring revenues lost in that month**

The **monthly churn rate**



Amount of customers lost in the current month

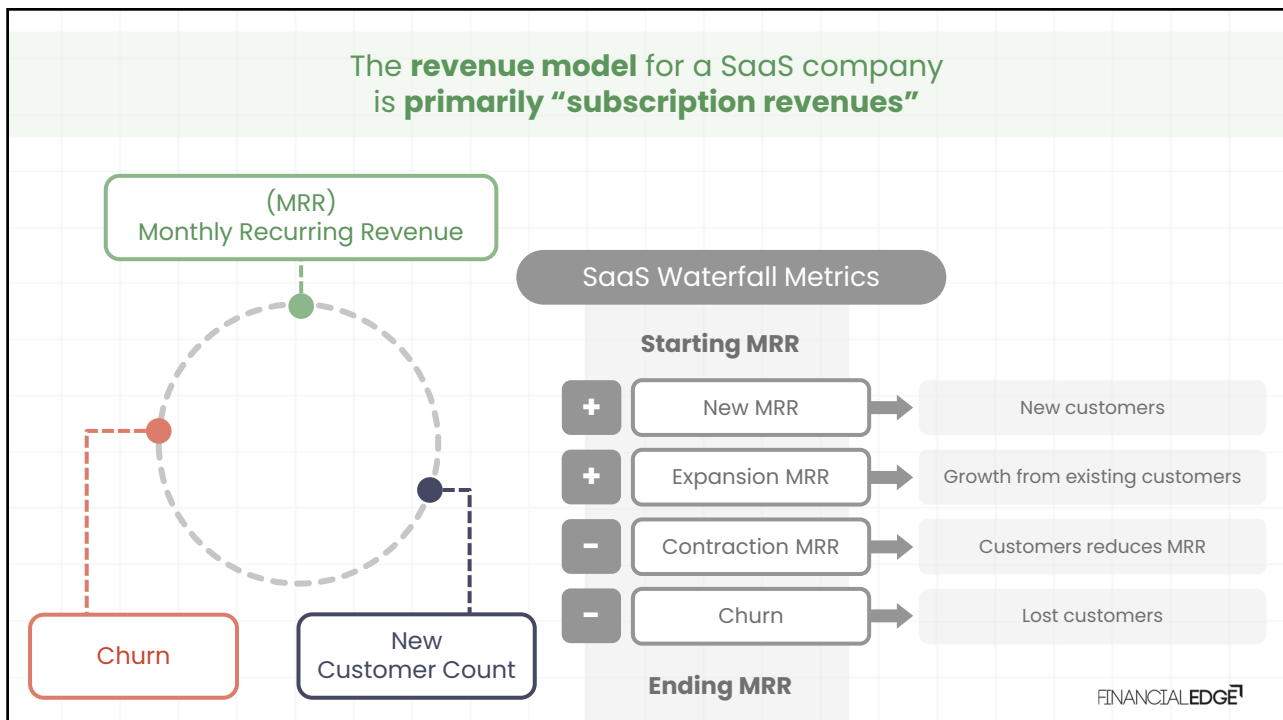
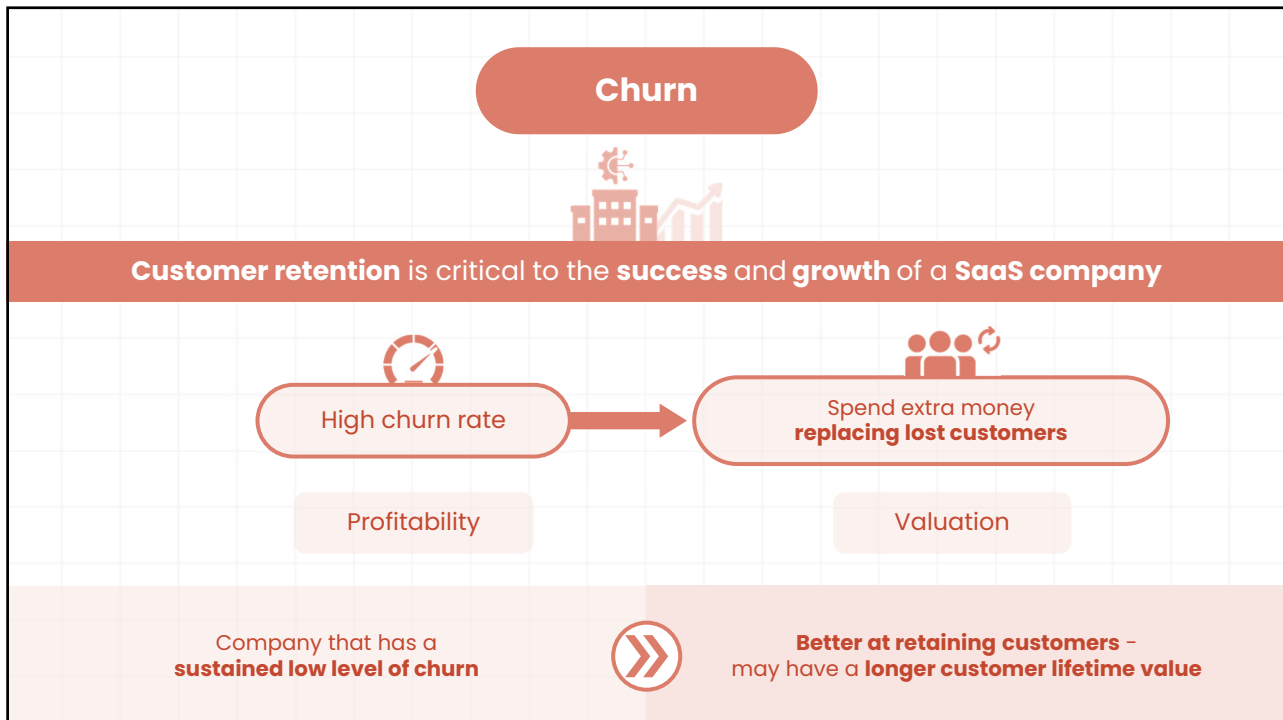


Total number of customers at the end of the prior month

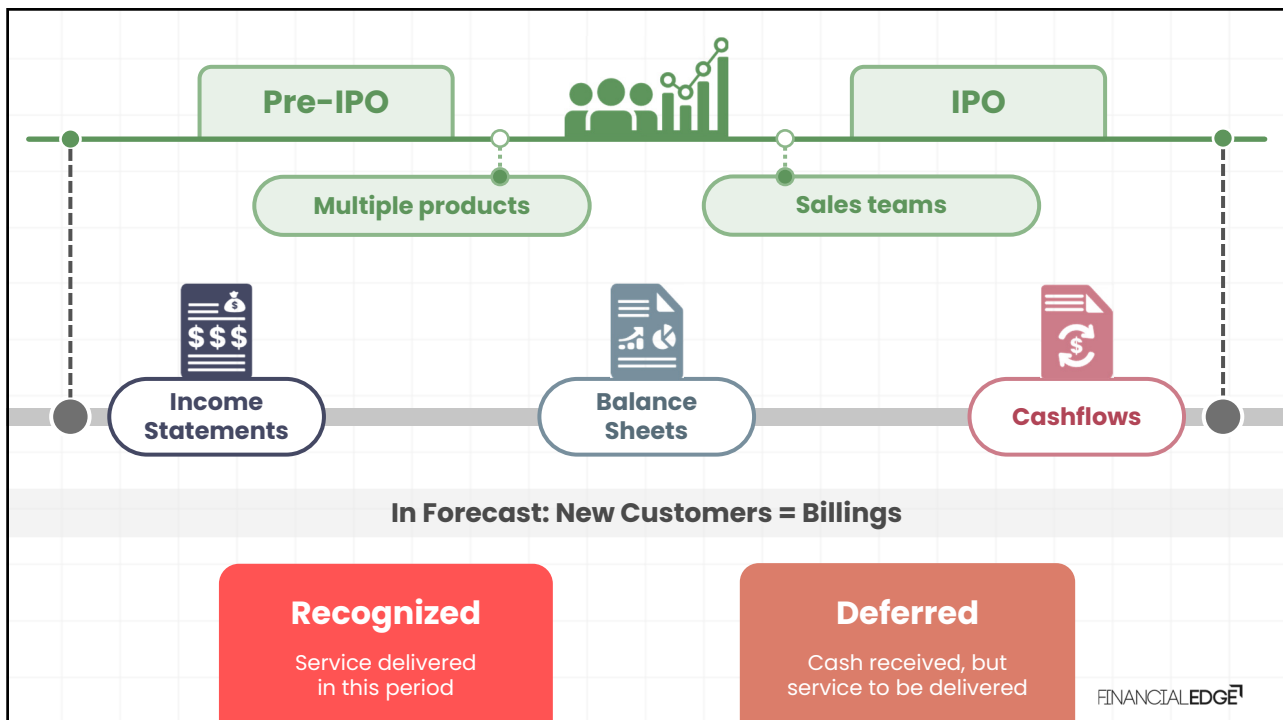


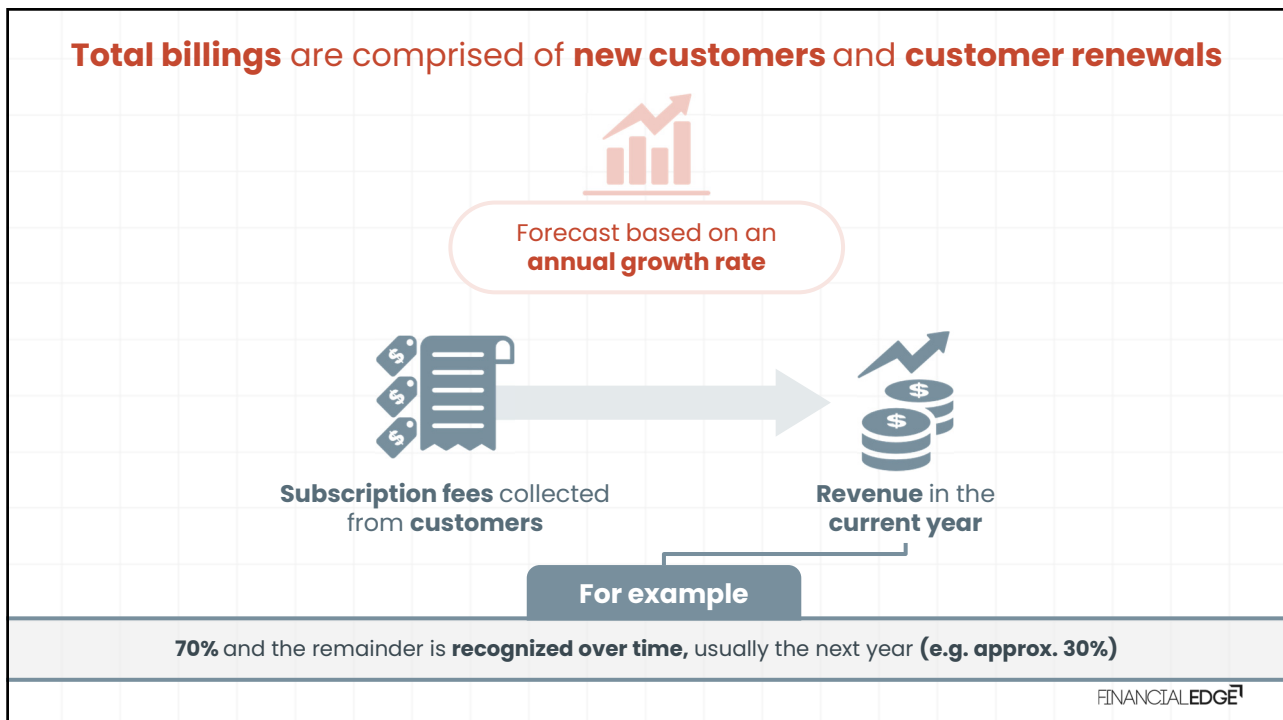
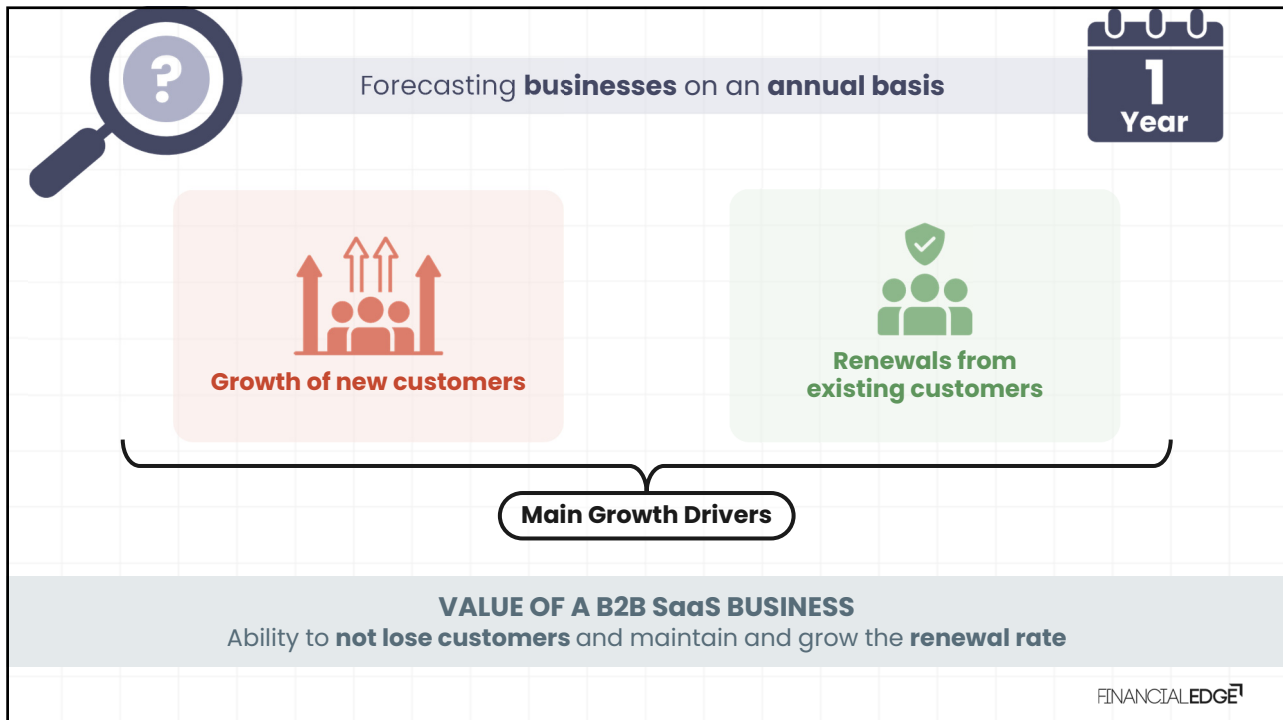
Churn rate is 1%

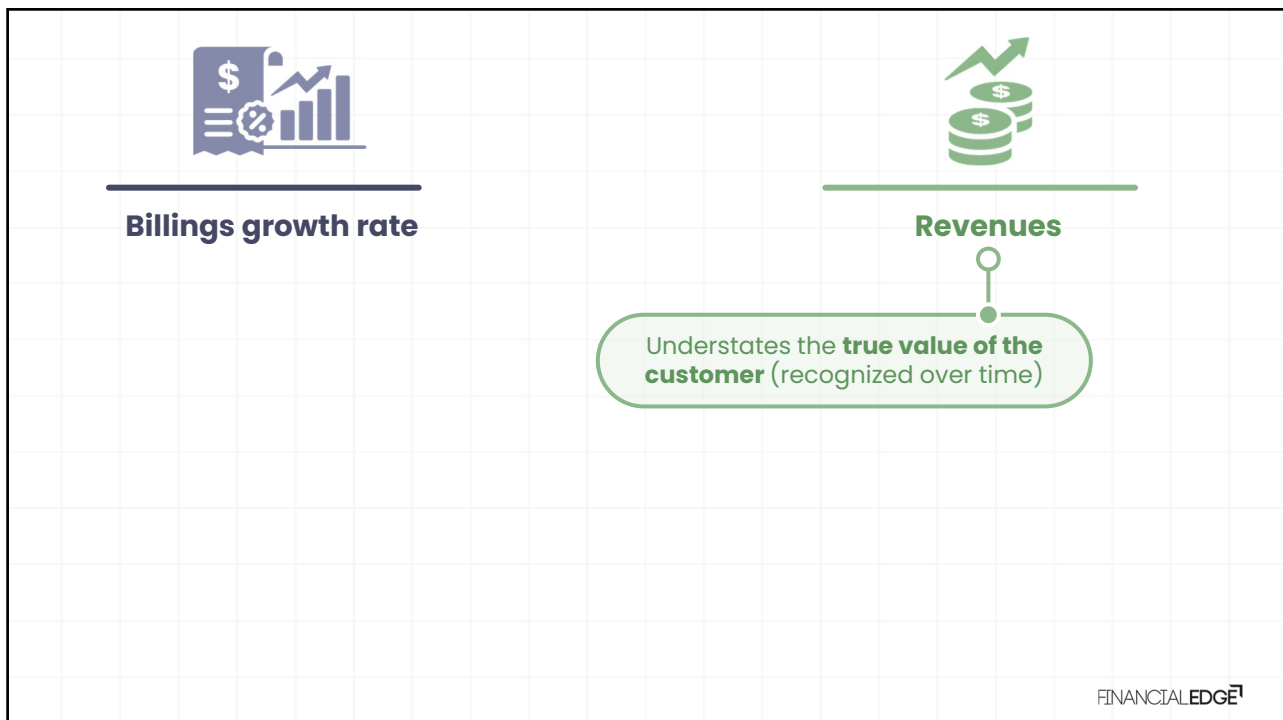
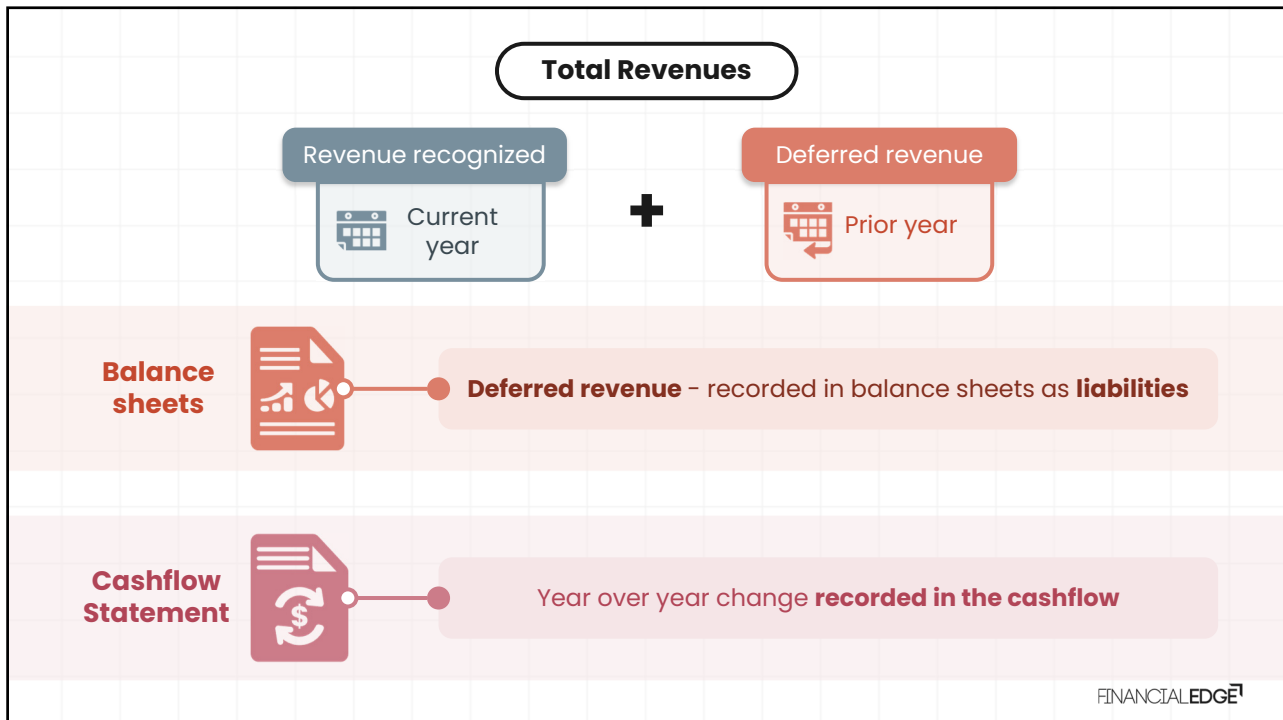
1% of a company's existing customers at the start of each month will be **lost by the end of the month**



Mature SaaS Revenues

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Billings growth rate



Revenues

Show stable revenue by working off the **billings backlog**



Delivering the service
where **cash** has
already been **received**



Business seem
healthier than it truly is

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Billings growth rate



Revenues

Other revenues may be **fees associated with:**



Onboarding new customers



Maintenance fees



License fees

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Modeling Expenses

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Expenses of a **B2B SaaS forecast model**

Cost of sales

1



**Hosting
applications**

2



**Customer service
& support**

3



**Payment
processing fees**

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Expenses of a B2B SaaS forecast model

Core operating expenses



All typically **forecast** as a % of total revenues

Top-notch sales team to drive **new MRR generation**, is a key driver in raising capital

Subscription revenues

	Cost of Sales
Less:	Gross Margin
Less:	R&D expenses
Less:	Sales & Marketing expenses
Less:	General & Administrative expenses

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Cash Burn

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