GROWTH INDEX

2016

MAY 2017

THANK YOU!

CEOs, CFOs, Sales Leaders & Marketing Leaders,

Welcome to the first annual Growth Index where we have combined financial, sales and marketing dynamics -- all in one study. With a particular focus on fast-grower characteristics and growth factors associated with business and go-to-market models, our hope is this will spark new opportunities for alignment between finance and revenue executives in driving and managing growth that builds strong enterprise value.

Thank you to those who participated. With the closing of our eighth fund last year, we had many new entrants to the portfolio, so you will find that dynamics associated with companies at or below $10M are evident in the report As with prior Sales & Marketing and Finance indices, the data and advice provided will help you gauge how your company stacks up against not only Edison peers, but also industry guidance.

We look forward to your questions and feedback, and our continued work together to drive and measure best-in-class financial, sales and marketing performance.

Best,

Kelly, Jon & Doba

Kelly Ford Buckley

Partner, Sales & Marketing Acceleration

Jonathan Reynolds

Associate, Financial Planning & Analysis

Doba Parushev

Associate

PORTFOLIO ENGAGEMENT WITH EDISON EDGE

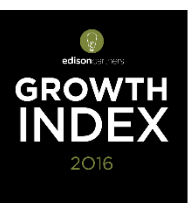
*The **Edison Edge** value-added services platform is all about helping you navigate, accelerate and scale growth. Through executive education, a network that goes deep and broad, and operating leverage, we've got you covered with the advice and resources that matter at each stage of your company's growth journey.*

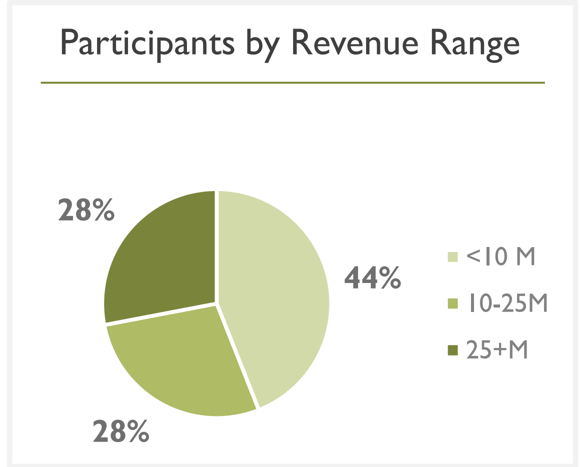
Here is a look at 2016 data relative to Index participants' engagement with Edison Edge programs in the year.

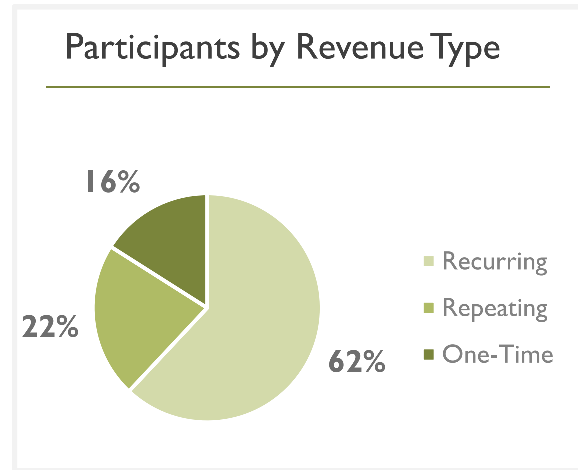
- 100% of Index participants were **engaged in the Edge in general**
- 79% of Index participants' CEOs attended the **2016 CEO Summit**
- 45% of Index participants attended **CFO Roundtables**
- 70% of Index participants attended **Sales & Marketing Roundtables**
- 45% of Index participants sought **Financial Planning & Analysis advice**
- 75% of Index participants sought **Sales & Marketing advice**

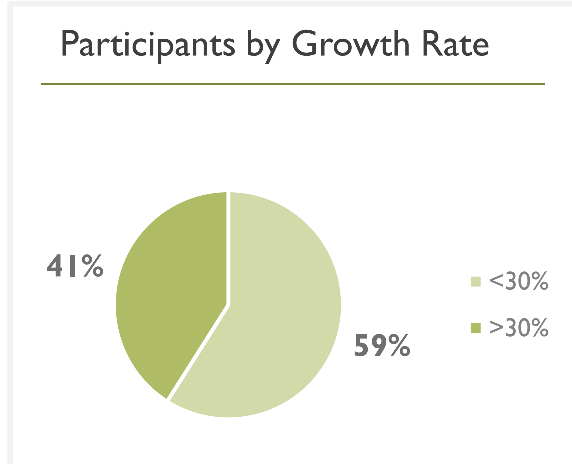
Roundtable participation is highly encouraged based on the operating results of and learnings applied by Edison's top-performing companies.

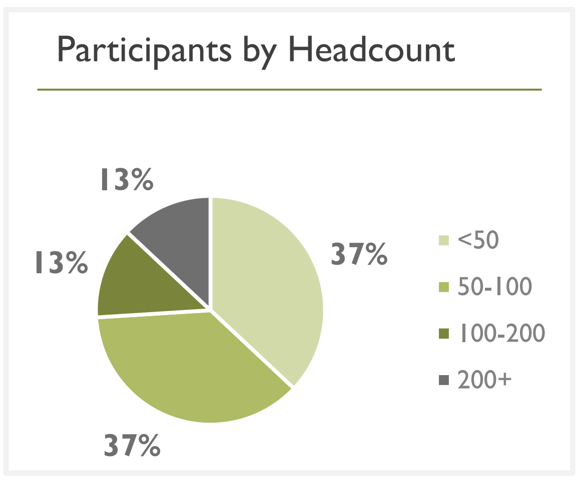
2016 PARTICIPANT DEMOGRAPHICS

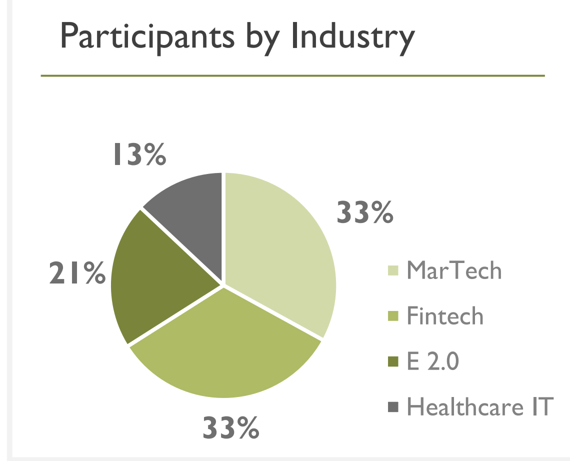


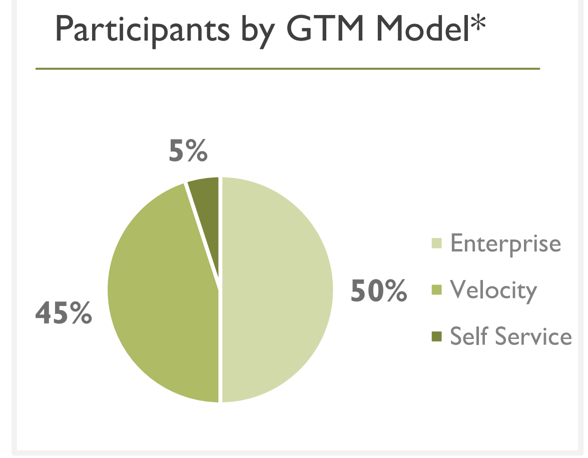


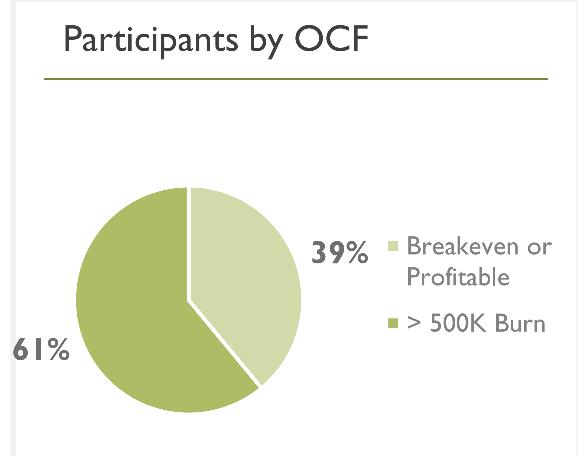


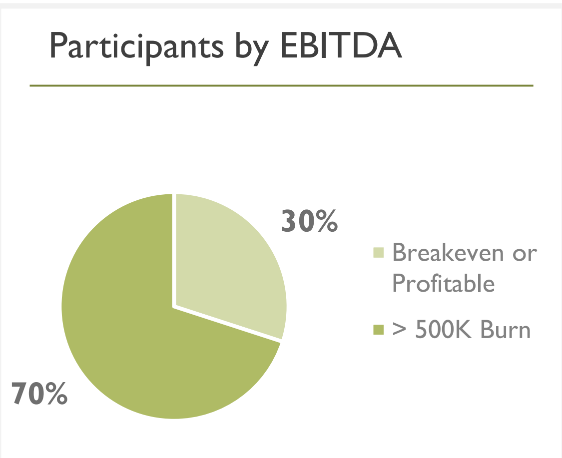












*See Go-to-Market (GTM) model definitions on page 35

DIFFERENT PERSPECTIVES WITH SHARED GOAL

Sales & Marketing Perspective

- Primarily focused on the **top line**
- Targeting **growth**
- Seeking **revenue**

SHARED GOAL

GROWTH!

Finance Perspective

- Tracking **many financial metrics**
- Targeting **profitable growth**
- Allocating & accumulating **cash**

MANAGING TO GROWTH

EDISON FAST GROWERS* HAVE THESE CHARACTERISTICS IN COMMON….

1 Investment in Sales and Product

Spend >2X more in Sales & Product than rest of portfolio.

2 Higher ASP

Enjoy an average selling price (ASP) that is more than 2X higher than rest of portfolio.

3 Fast CAC Recovery

*Recover CAC at best-in-class rates (9-18 months). Rest of portfolio takes twice as long to recover CAC.***

4 Better Capital Management

Strong negative working capital.

5 Talent Expansion & Productivity

Derive their growth both from expanding their workforce and driving productivity.

6 Higher Quota Attainment

Better at setting sales quotas and achieving them.

7 Higher Gross Margin

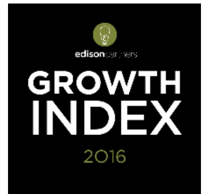
Maintain healthier gross margins.

8 Higher Retention

Retain dollars better, and in a net-positive way.

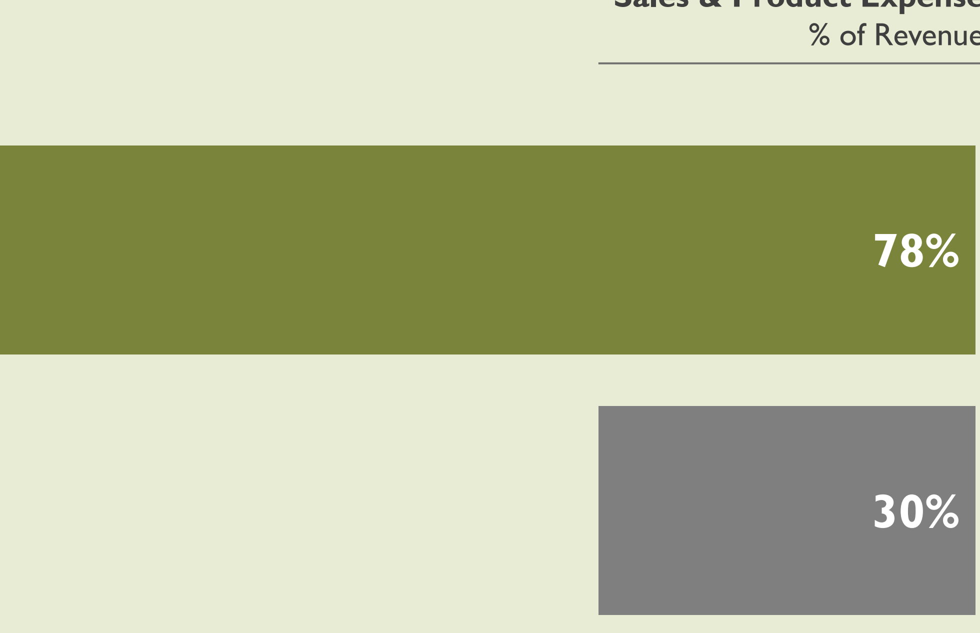
*Fast growers are companies that grew 30+% in 2016 over 2015
**Non-recurring revenue models excluded

FAST GROWERS INVEST 2X MORE IN SALES & PRODUCT



Investment in Sales and Product

*Fast growers spend >**2X more in Sales & Product** than rest of portfolio.*



NOTE: All data represents the median of the subset

FUNCTIONAL SPENDING AS A % OF REVENUE

Guidance | Portfolio Median | Fast Growers | Rest of Portfolio

% OF REVENUE

50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%

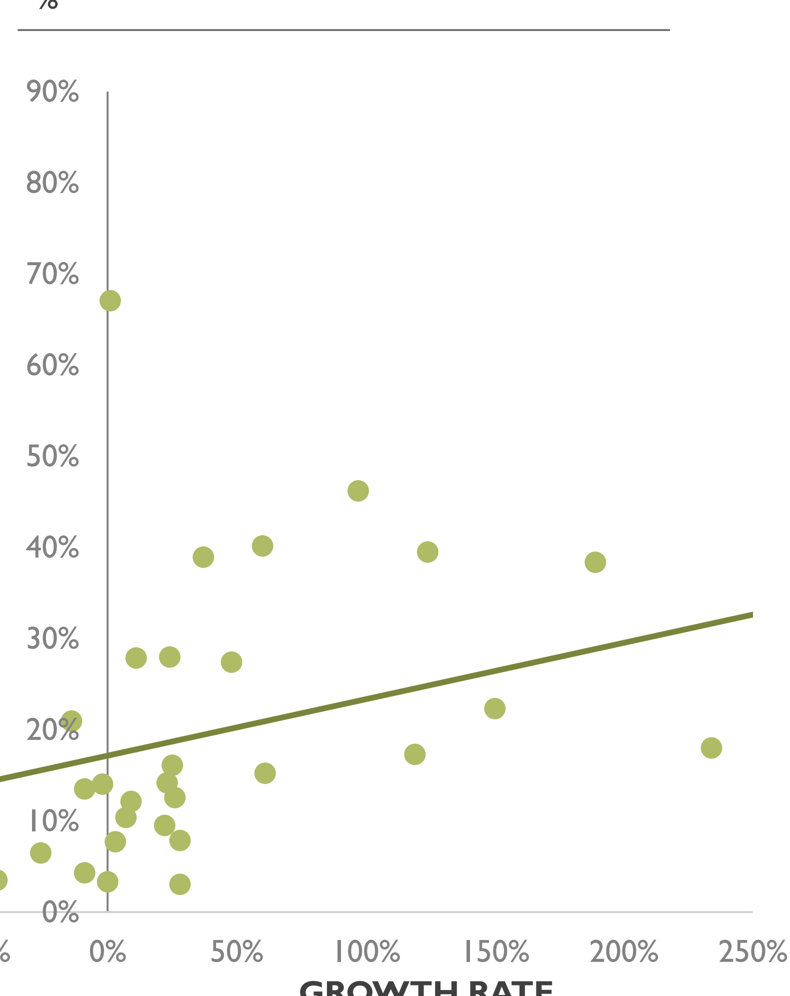
COGS Spend | Product Spend | Sales Spend | Marketing Spend | G&A Spend

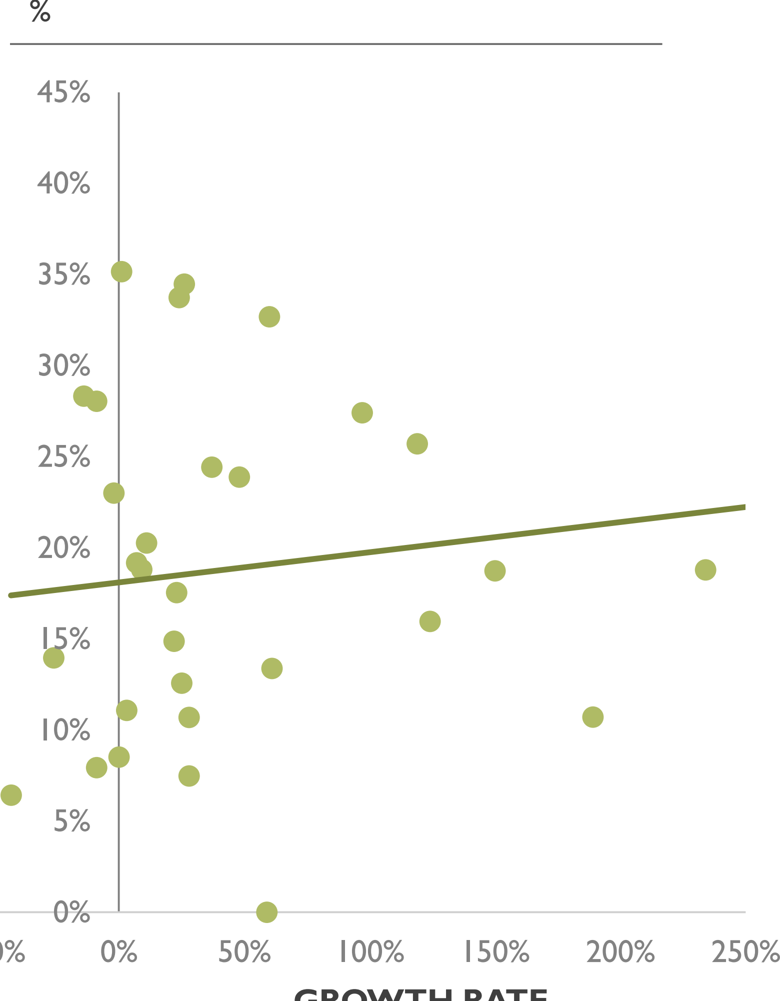
Perspective

Fast growers incur greater losses, but how they allocate budget differentiates them from the rest of the portfolio.

Product and Sales are the top expense categories. Fast growers are also able to control their COGS, creating more opportunity to flex spend in the areas that drive revenue. For example, driving Marketing performance and alignment with Product and Sales are important levers to accelerate a path to $30M+ revenue.

SALES SPEND SCALES WITH OPEX





*Two sub-$5M outliers have been removed from the population, as growth rates are >450%

Perspective

Logically, companies with strong growth tend to spend more in Sales – a trend that is explained partially by spending more *overall*, and partially by being a higher percentage of total *operating expenses*.

On the previous slide, we shared how fast growers are spending more than the rest of the portfolio in every OPEX category. Because fast growers simply spend more overall, the Sales Spend as a % of OPEX proves that even within a fixed budget, Sales spend is higher for fast growers.

FAST GROWERS HAVE 2X HIGHER ASPs

Fast-growing Companies

Rest of Portfolio

② Higher ASP

*Fast growers enjoy an average selling price (ASP) that is >**2X higher** than rest of the portfolio.*

Average Selling Price
$USD

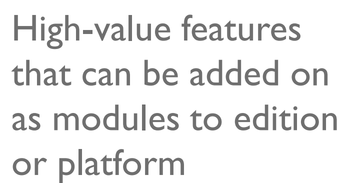
	Average Selling Price ($USD)
Fast-growing Companies	$84,879
Rest of Portfolio	$37,124

NOTE: All data represents the median of the subset

DRIVING UP ASPs THROUGH PACKAGING & PRICING

Named user/ seat based

Edition based or platform fee



High-value features that can be added on as modules to edition or platform

USAGE

Tiered based on some depth of usage volume metric, e.g., contacts, campaigns, storage, integrations/connections to other systems, support level

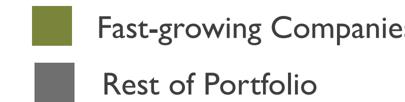
High-value education and customization service offerings

Perspective

Use of multiple pricing levers is critical for organic and expansion growth. The majority of Edison SaaS businesses follow this practice, but those who have not yet evolved beyond simple edition or seat based pricing are missing an opportunity to capture more value per customer.

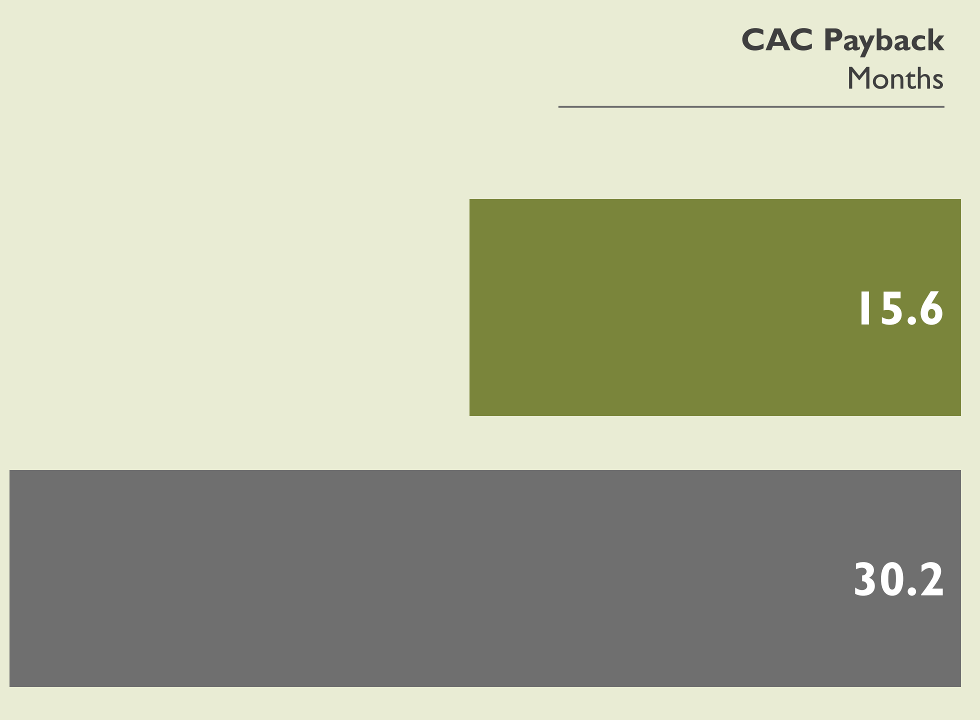
Likewise, add-on services offerings beyond standard implementation, such as high-value training and customizations, are an opportunity to drive up ASP.

FAST GROWERS RECOVER CAC IN HALF THE TIME



③ Fast CAC Recovery

Fast growers ***recover CAC*** *at best-in-class rates* ***(9-18 months****). Rest of the portfolio takes twice as long.**



**Non-Recurring Revenue models excluded*
NOTE: All data represents the median of the subset

REDUCING CAC AND TIME TO RECOVERY

1 LOWER COST PER LEAD

- ✓ Define Ideal Customer Profile (ICP*)
- ✓ Focus marketing and selling only on that ICP
- ✓ Increase focus on upsell/cross-sell
- ✓ Institute a customer referral program

2 GIVE MARKETING A NUMBER

- ✓ Hold marketing programs accountable for pipeline creation, acceleration and customer expansion goals
- ✓ Ensure programs leverage a mix of content types and channels for maximum impact

3 INCREASE FUNNEL CONVERSION RATES

- ✓ Establish Sales Development function
- ✓ Refine qualification & discovery criteria based in ICP
- ✓ Coordinated account-based plays between Marketing, SDRs and Sales at critical stages in buyer cycle

4 INCREASE SALES REP PRODUCTIVITY

- ✓ Organize territories by segment and/or sector
- ✓ Establish Sales Development function
- ✓ Deploy sales productivity tools, e.g., Connect & Sell

**ICP encompasses the characteristics and business dynamics associated with your target customer at an account level that drive the entire go-to-market strategy from program development, territory design and qualification disciplines to what is sold and how. Personas take ICP to the individual level.*

Perspective

The median CAC payback period across fast growers is 15 months, in line with guidance of 9-18 months.

For the balance of the portfolio, to the left are four primary ways to reduce CAC and some example supporting initiatives, which together require a keen focus on:

- **Attribution** (best sources of demand for volume, velocity and value)
- **Repeatability** (segments, sectors, selling disciplines, price points)
- **Alignment** (between marketing, sales development, sales & product)

Engagement with Edison's Sales & Marketing Acceleration program can help with all of the above.

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CAC RECOVERY ALSO SIGNIFICANTLY AFFECTS CASH

Net cash flow per customer
Multiple of CAC

Time to recover CAC
months

2.0x
1.5x
1.0x
0.5x
0.0x
-0.5x
-1.0x
-1.5x

1Q1Y 2Q1Y 3Q1Y 4Q1Y 1Q2Y 2Q2Y 3Q2Y 4Q2Y 1Q3Y 2Q3Y 3Q3Y 4Q3Y

13 months
18 months
30 months

Perspective

The longer it takes to recover CAC, the worse it is for cash flow – as illustrated by the chart on the left showing three example Edison companies.

The number one thing you can do to combat CAC's impact on cash flow is collect payment upfront, and incent advance payment for multi-year contracts. This will enable the receipt of more cash than recognized as revenue, and provide a realistic view of cash flow runway.

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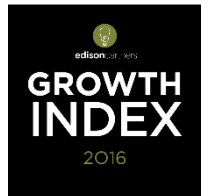
FAST GROWERS ARE BETTER AT MANAGING CAPITAL



④ Better Capital Management

Fast-growing companies tend to have a strong ***negative working capital*** *component.*

Negative Working Capital
%; (EBITDA-OCF)/Revenues

	Negative Working Capital
Fast-growing Companies	22%
Rest of Portfolio	1%

NOTE: All data represents the median of the subset

FAST GROWTH CARRIES COMMENSURATE REQUIREMENTS ON CAPITAL

Passes Rule of 40*

-50% 50% 150% 250% 350% 450% 550% 650%

0% 50% 100% 150% 200% 250% 300% 350% 400% 450%

OPEX/REVENUE

ANNUAL GROWTH RATE

*Rule of 40: Growth Rate + EBITDA Margin should be > 40%. See page 49 for more detail.

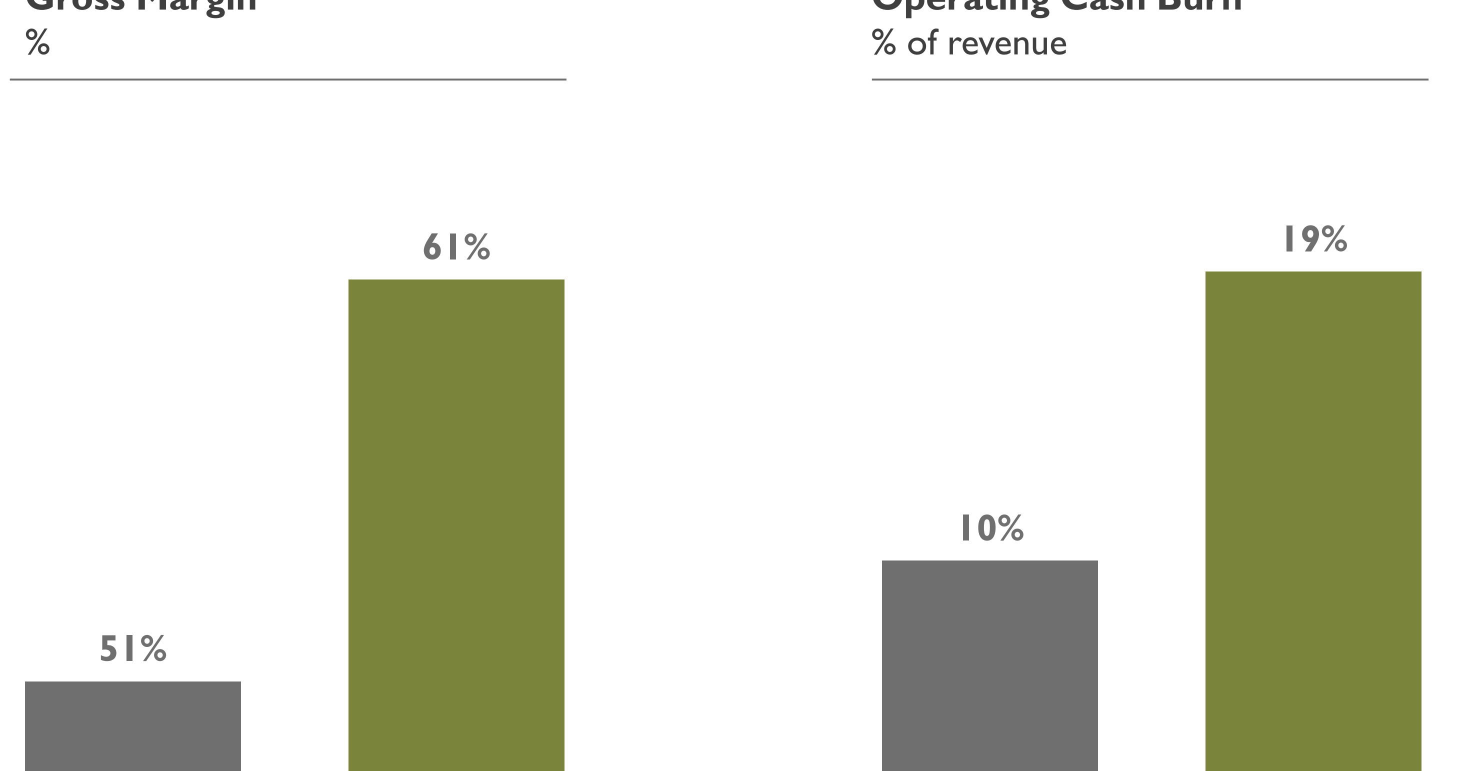
Even when fast growers invest in the right areas, they can expect to incur significant losses. The old adage applies: You have to spend money to make money. However, not all losses are viewed the same – there's a difference between GAAP losses and cash burn.

There are also certain tactics that companies can employ in order to combat such significant losses. We already touched on the importance of recovering CAC in a timely manner. Properly managing working capital can further combat losses by:

1. Focus on accelerating the billing and collection cycle, including **billing upfront**
2. Deploying the appropriate **accounting software** to empower the finance team

THE SAAS TRADEOFF

HIGHER PERFORMANCE AT HIGHER COST



Perspective

The major advantage for SaaS businesses is higher quality revenue, as witnessed in higher gross margins.

The tradeoff lies in the need for greater expense, and hence, higher cash burn.

Worth noting that in the Edison portfolio, non-SaaS companies averaged 2X the revenue of SaaS companies in 2016, but logically, grew at lower rates.

HIGH-GROWTH COMPANIES OFFSET HIGHER LOSSES BY MANAGING WORKING CAPITAL

EBITDA Losses and Cash Burn as Share of Revenue
%

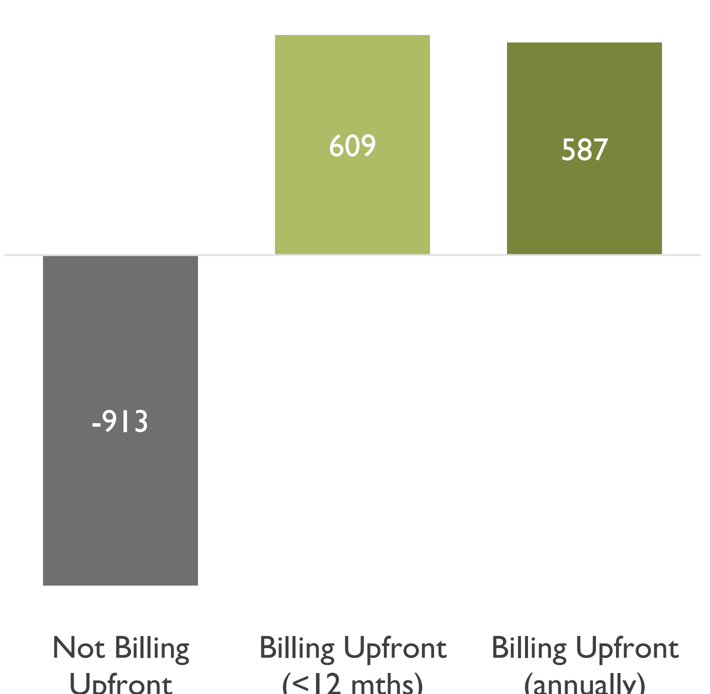
	EBITDA Loss	Operating Cash Burn
Fast Growers	61%	39%
Rest of Portfolio	12%	11%

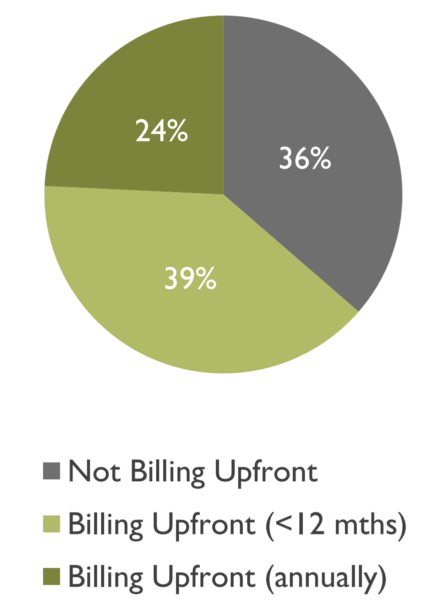
Perspective

While fast-growers have a higher EBITDA loss ratio than the rest of the portfolio (61% vs. 12%), they control it by targeting a negative working capital position.

This involves using the excess cash, e.g., from prepaid contracts, to fund expenditures that the company would not otherwise be liquid enough to fund. It works well when the company is growing, but if growth slows and less cash is coming in the door, there can be risk to the company's ability to meet its financial obligations.

BILLING CLIENTS UPFRONT IS A POWERFUL TOOL FOR MANAGING WORKING CAPITAL





NOTE: Time to Recover CAC was calculated here using New Bookings rather than New ARR in order to incorporate Non-Recurring Revenue models

Perspective

Collecting payment *upfront* has a significant impact on cash flow. Breaking it down:

- Company signs 12-month contract
- On day 1, company issues invoice for full contract. Receivable is generated and liability created (deferred revenue)
- Company collects receivable in a timely manner to enable spending
- Revenue is recognized ratably over 12-month period (thus, deferred revenue liability is not satisfied until year end)
- Assuming company spent money collected, the liability associated with customer is not offset by any asset, creating a negative working capital position

FINANCIAL MANAGEMENT DISCIPLINE REQUIRES BETTER TOOLS AS COMPANIES SCALE

Median Company Revenue by Accounting Software Used
Million $USD

Software	Revenue
QuickBooks	9
Great Plains	34
NetSuite	40
Other	22

Median Company OPEX by Accounting Software Used
Million $USD

Software	OPEX
QuickBooks	8
Great Plains	22
NetSuite	24
Other	16

Perspective

While sufficient in the early stages of company growth, QuickBooks should be phased out as companies cross the $10M revenue threshold.

Unfortunately, implementation of new accounting software does not happen overnight. It is highly recommended that the company run a double-entry system across old and newly implemented systems, before retiring the old system. Some factors to consider when selecting a new accounting solution:

- Ability to integrate with other systems
- Revenue model
- Frequency of invoicing
- Company needs in 2 years

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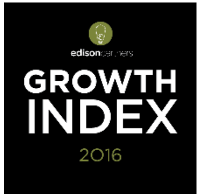
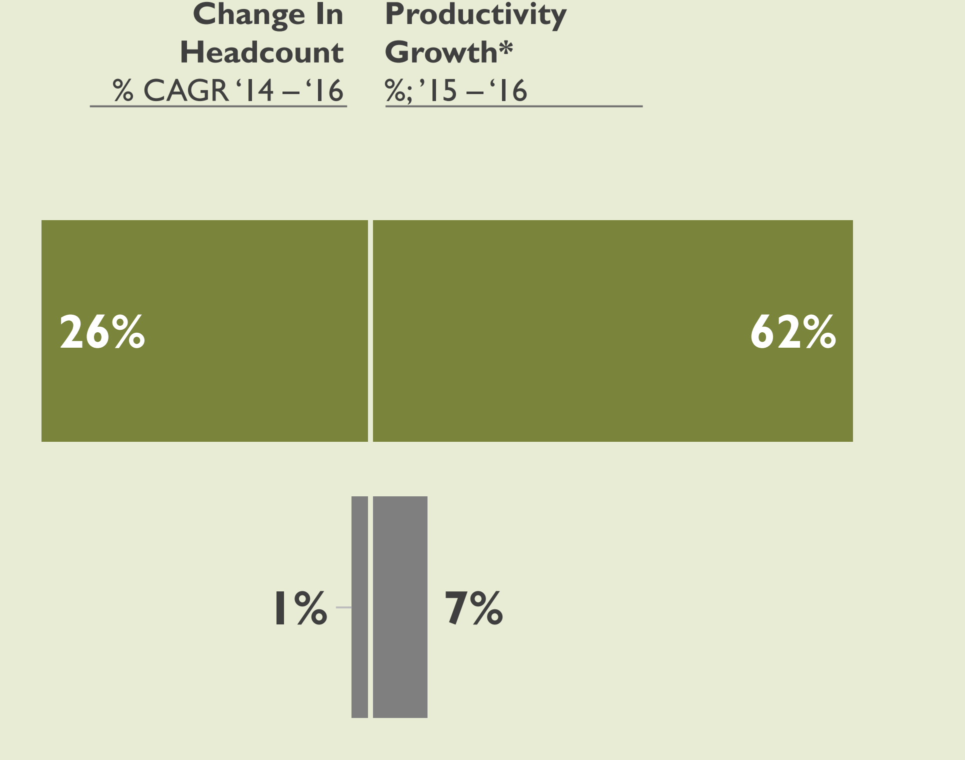
FAST GROWERS ARE BETTER AT HIRING & RAMPING STAFF



5

Talent Expansion & Productivity

Fast growers derive their growth both from expanding their workforce and driving productivity.



*Productivity is defined as (Revenue divided by Number of Employees)
NOTE: All data represents the median of the subset

GROWTH CAN NECESSITATE HIRING, BUT HIRING DOES NOT GUARANTEE GROWTH

Growth Rate vs Change in Headcount
%, # of employees

**2 outliers have been removed from the population. The companies' growth rates were <5% and headcount significantly decreased.*

Perspective

It seems logical that a correlation would exist between growth rate and change in headcount, but which drives which?

When looking for a pattern between 2015 hiring and 2016 growth, the correlation was weak. When looking at 2016 hiring and 2016 growth, the correlation is strong.

Given that growth rate is derived from GAAP Revenue (a trailing metric), it can be concluded that hiring is following visibility into growth, i.e., bookings.

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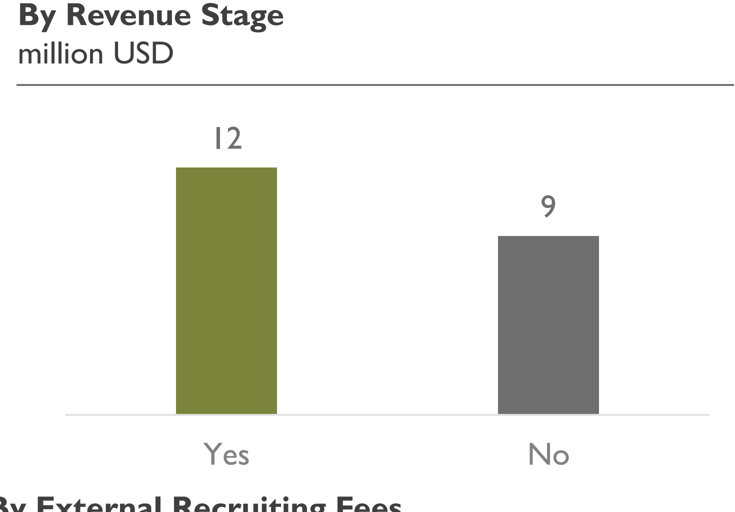
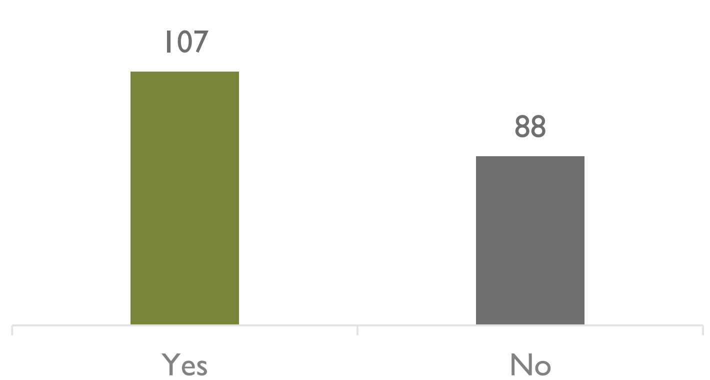
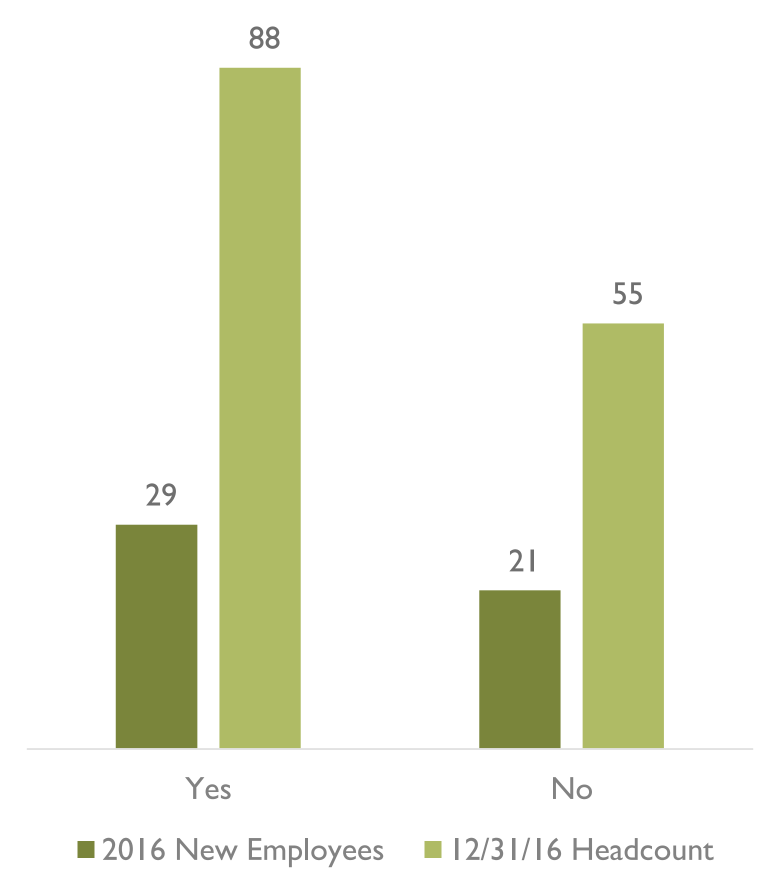
IN-HOUSE RECRUITERS ACCELERATE HEADCOUNT EXPANSION



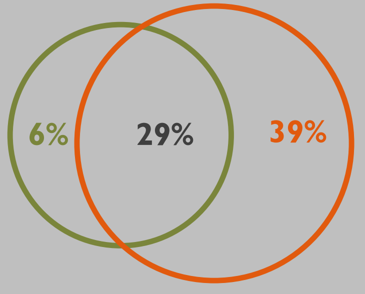
By External Recruiting Fees
'000 USD





Perspective

Companies with in-house recruiters hired 41% more employees, but they also **spent *more*** on external recruiting fees. A surprising finding, as in-house recruiters are expected to not only speed hiring, but also reduce the cost of hiring.



- Companies that hired 20+ employees
- Companies with an in-house recruiter

It is recommended that companies hiring 20+ employees annually bring recruiting in-house and handle the bulk of recruiting in-house. In the event outsourcing is needed, the recommendation is to leverage for only two of every five hires, and to pay no more than 20% in fees for non-exec hires.

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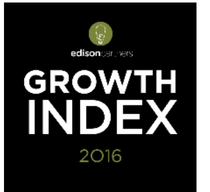
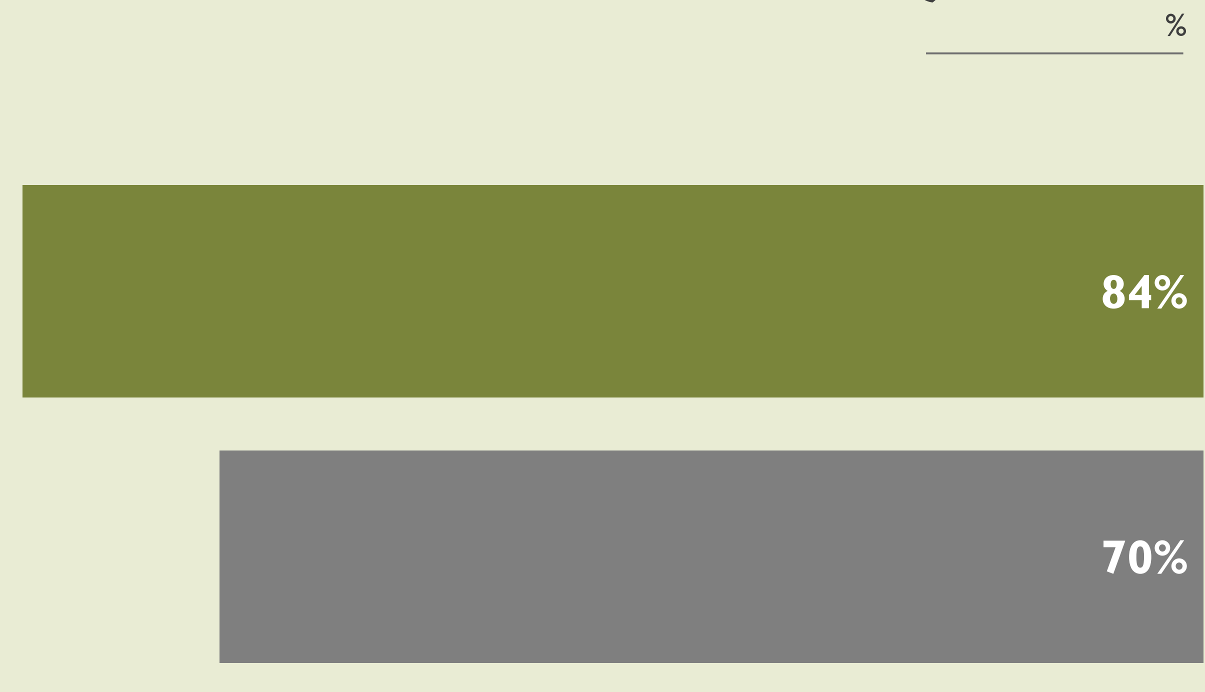
NOTE: All bars represent the median of the subset

FAST GROWERS ATTAIN QUOTA AT HIGHER RATES



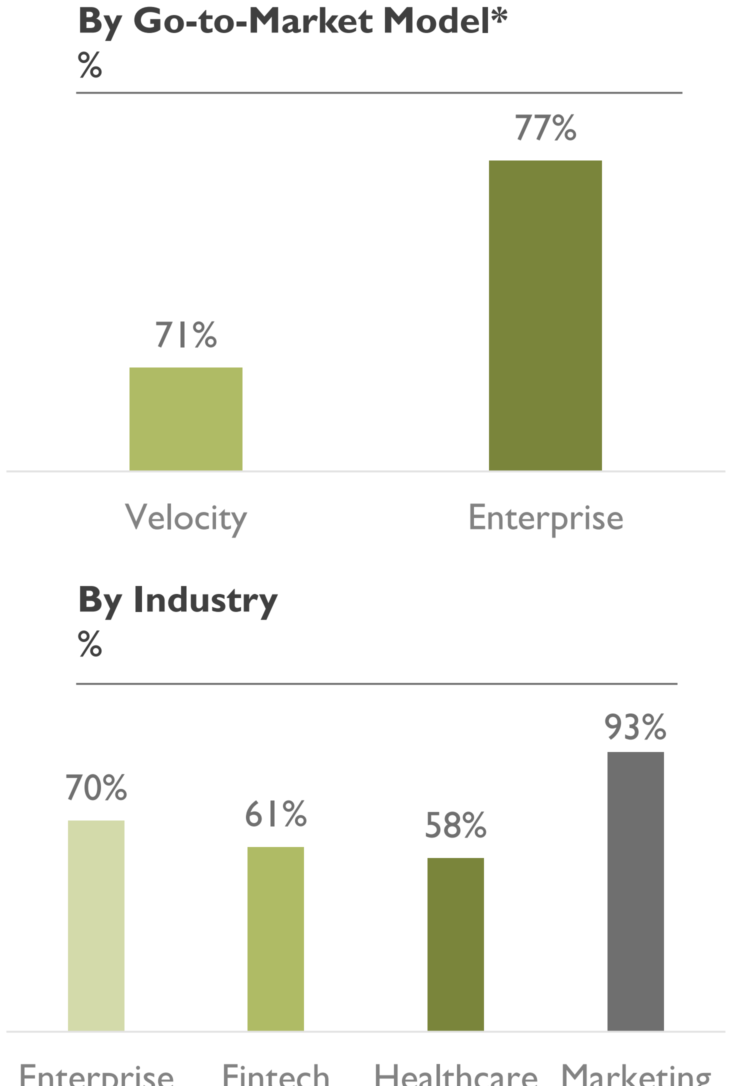
6 Higher Quota Attainment

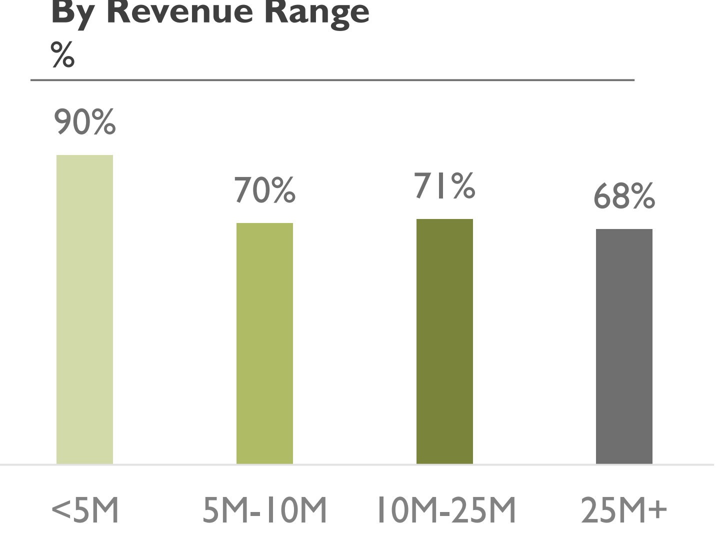
Fast growers are better at setting sales quotas and achieving them.

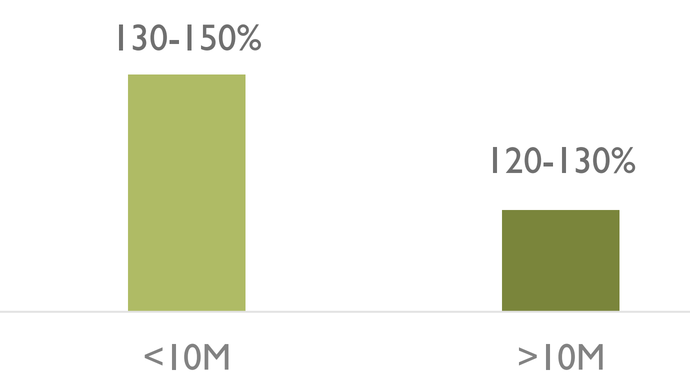


NOTE: All data represents the median of the subset

QUOTA ATTAINMENT & COVERAGE







*See Go-to-Market (GTM) model definitions on page 35

Perspective

Enterprise models outpaced Velocity models on quota attainment, and Martech companies come closer to hitting quota than companies in other sectors.

To mitigate risk, the sum of all sales reps' quota should be a minimum of 120%. Recommended guidance is to manage to 130-140%.

If/when there's insufficient quota coverage, companies often jump to hiring more sales reps. At times, that can be the right answer, but the following should also be considered:

- **Marketing contribution** – Are programs delivering the required pipeline volume and value?
- **Sales Development coverage** – What is hindering SDR production? Are better productivity tools needed? Do more SDRs need to be hired?
- **Individual rep goals** – If quotas were higher, would they still be attainable, particularly with greater Marketing and SDR contribution?

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IMPROVE QUOTA ATTAINMENT THROUGH SALES CYCLE REDUCTION

1 IMMEDIATE & TIGHTER QUALIFICATION

Instituting a **lead response** and **qualification discipline** with Sales Development Reps ensures sales reps' time is spent on "ready" prospects. Responding to inbound inquiries within 10-30 minutes of receipt is recommended to increase likelihood of successful contact. Implementation of live chat on the website is also a great up-funnel accelerator.

2 NURTURING & COORDINATED PLAYS

Multi-touch nurture campaigns and **coordinated plays** between Marketing, Sales Development and Sales are effective in support of pipeline creation and acceleration. On average, touching prospects **11-17 times via multiple channels** readies them for a purchase decision.

3 ALIGN WITH BUYER IMPERATIVES

Identify your buyer's **strategic imperatives and initiatives** through research and/or direct discovery, and position your product and its value points in a way that supports and furthers those objectives.

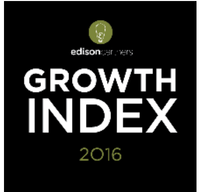
4 EXPAND FOCUS FROM BUYER TO BUYING COMMITTEE

Most velocity and enterprise deals rely on **decisions by committee or consensus**. Focus marketing programs on buyers and influencers. Involve the buying committee as early as possible in the sales cycle, and guide the process with not only the champion, but also key influencers.

5 SALES ENABLEMENT DISCIPLINE

Ensure alignment on **productivity metrics**. Managers and reps alike must be using the same message and process reinforced regularly through **role-plays and practice**. Celebrate and **share wins** and other successes.

FAST GROWERS RETAIN GREATER PORTION OF REVENUE



Higher Gross Margin

Fast growers have lower COGs, and as such, maintain healthier gross margins.

NOTE: All data represents the median of the subset

GROSS MARGIN EXPANSION

Labor* and Hosting Costs
% of Revenue

	Labor Related	Hosting Costs
GM > 70%	10%	37%
GM < 70%	14%	12%

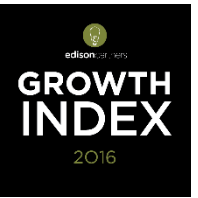
**Labor refers to both employees and external consultants*
NOTE: All data represents the average of the subset

Perspective

Companies maintaining high gross margins are *true* software companies, primarily SaaS companies emphasizing software product revenue over lower-quality service revenue.

Companies with SaaS-level margins (>70%) are also those incurring more hosting costs than COGS-related labor costs, i.e., customers are paying for product, not people.

METHODS FOR DRIVING UP GROSS MARGIN



1 SIMPLIFY PRODUCT

- ✓ Build services tasks into product whenever possible
- ✓ Automate migrations and integrations
- ✓ Focus product development on usability
- ✓ Instrument product to understand usage & aid support

2 LIMIT SERVICE DEPENDENCIES

- ✓ Streamline onboarding and implementation
- ✓ Automate tactical, human-assisted tasks
- ✓ Offer tech support via live chat
- ✓ Ensure robust, self-serve training offerings

3 REDUCE HOSTING COSTS

- ✓ Continually assess customer data storage requirements, and modify data retention policy
- ✓ Ensure close working relationship between R&D and hosting operations to continually improve efficiency

And perhaps the best indirect method for driving up gross margin: **CUSTOMER RETENTION**. New customers require substantially more support than longer-term customers. Programs that focus on customer success and improve customer retention lowers the cost of support.

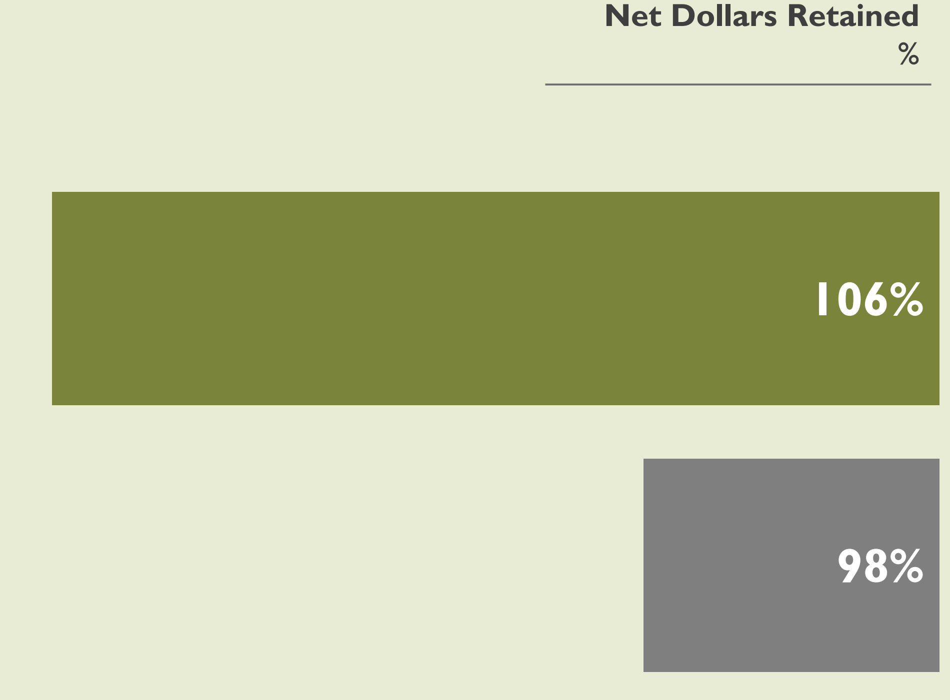
FAST GROWERS BETTER AT RETAINING & UPSELLING CUSTOMERS

Fast-growing Companies
Rest of Portfolio

8

Higher Retention

Fast-growing companies retain revenue at higher rates and ***in a net-positive way****.*



NOTE: All data represents the median of the subset

IMPACT OF NEGATIVE CHURN

ARR Growth over time
$ USD; Years

13,000,000
12,500,000
12,000,000
11,500,000
11,000,000
10,500,000
10,000,000
9,500,000
9,000,000
8,500,000
8,000,000

Year 1 | Year 2 | Year 3 | Year 4 | Year 5

106% Retention | 98% Retention

Perspective

While an 8% delta in retention rate (between fast growers and rest of the portfolio) may not seem significant on the surface, it can have a meaningful impact over time.

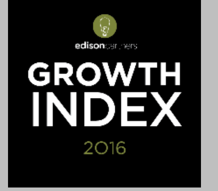
Consider two companies with $10M ARR and retention rates of 106% and 98%. After one year, the ARR bases grow/shrink to $10.6M and $9.8M, respectively. Three years later, those ARR bases turn into $12.6M and $9.2M. This doesn't take into account new business that will increase that gap further.

Now, consider your customer's lifetime. If you intend to keep your customers for 4+ years, you can expect a 37% lift with only an 8% increase to net retention.

INCREASING RETENTION & LIFETIME VALUE

	Method	Actions
1	IMPROVE PRODUCT STICKINESS	✓ Improve usability of the product ✓ Prioritize Customer Success on health before upsell ✓ Form and enlist the help of a user group
2	SELL TO IDEAL CUSTOMER PROFILE	✓ Focus the entire company on the right buying organizations – the ones that derive the most value from your product and are willing to pay for it
3	PERFECT ONBOARDING & CUSTOMER SUCCESS PRACTICES	✓ Segment & prioritize based on ICP ✓ $2M ARR per CSM:100 $20k ARR accounts; 5-20 $100k accounts ✓ Be prescriptive; speed time to value realization ✓ Be KPI driven at every stage of customer journey
4	OPTIMIZE PRICING MODEL	✓ Ensure your pricing model leverages a minimum of two of these four levers, per *page 12*: users (seats), usage (volume), features (edition or platform value), add-ons (incremental value to platform)
5	CREATE UPSELL OPPORTUNITY	✓ Force limits on product usage to create demand from customers bumping into them ✓ Package and sell high-value feature sets/modules as add-ons ✓ Establish "farmer" account management function
6	INCREASE AVERAGE SELLING PRICE	✓ Evolve go-to-market strategy to move upmarket ✓ Prioritize product roadmap to drive more value per customer

Perspective



The median customer lifetime (CLT) across Edison SaaS companies is seven years with a customer lifetime value (CLTV) of $230k.

33% of companies have <3-year CLT with a median CLTV of $30k. These companies could benefit from a focus on one or more of these six primary methods for boosting both customer retention and lifetime value.

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GO-TO-MARKET DYNAMICS

PORTFOLIO GO-TO-MARKET MODEL COMPOSITION

ECONOMIC VALUE

Velocity

- Inside reps to SMB or consumer
- High-velocity Marketing
- <4 month cycles
- Low to mid ASPs
- Mid to high deal volume
- Automation important
- Low-medium touch support

Enterprise

- Field reps upmarket
- High-end Marketing
- 6+ month cycles
- High ASPs
- Low deal volume
- Relationships important
- High-touch support

Self-Service

- Marketing = Sales
- SMB or consumer buyer
- Low price points
- High deal volume
- Fully automated, frictionless
- No-touch support

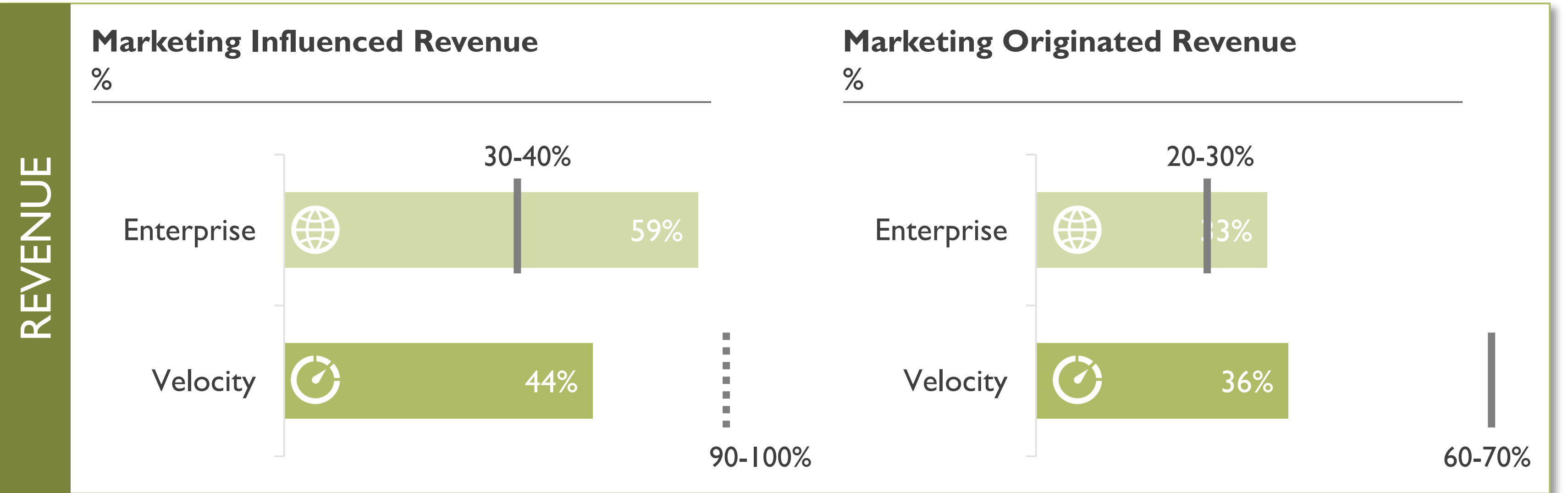
High Risk,

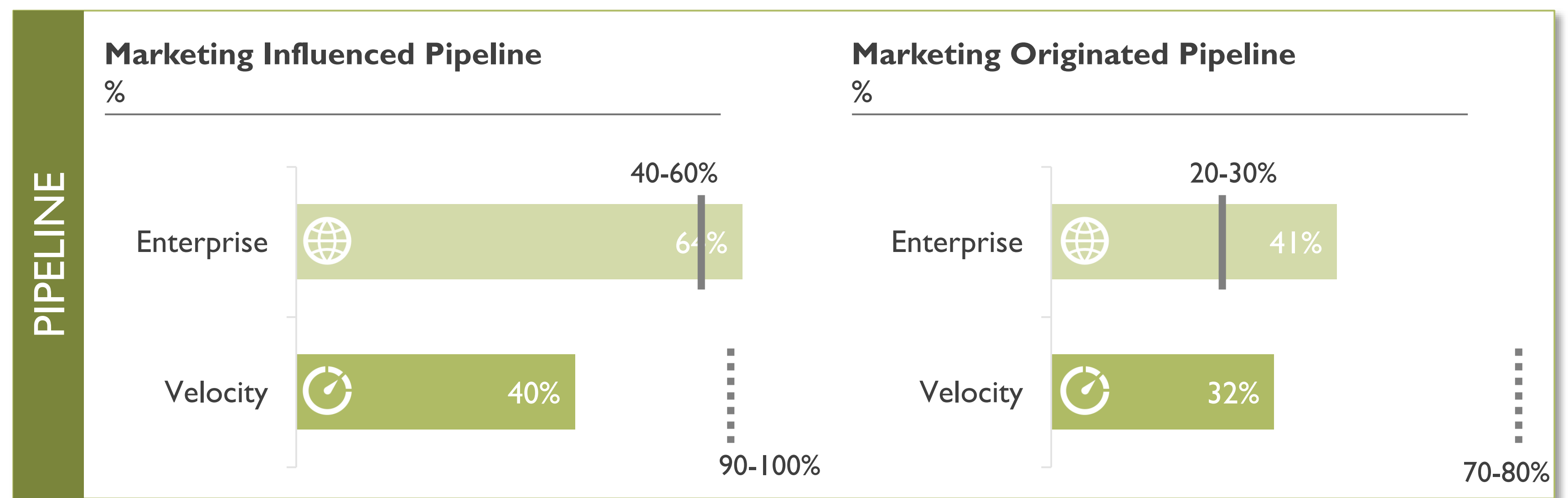
High Cost

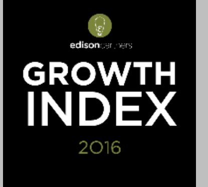
COMPLEXITY

The Edison portfolio is comprised primarily of businesses with Velocity and Enterprise direct go-to-market models, with 6% of companies having a Self-Service component, and 16% also selling through indirect channels. As such, you will see that much of this Index analysis prioritizes Enterprise and Velocity dynamics.

MARKETING CONTRIBUTION







Perspective

Knowing what stimulates buyer interest and where your demand is coming from is critical to growth acceleration.

39% of participants and 50% of fast growers understand this because they are measuring marketing program contribution to pipeline and new deals. This is down from 56% and 71%, respectively, in the prior two years, and influenced by new, less mature entrants to the portfolio.

Marketing teams with Enterprise models are contributing to pipeline and revenue in line with guidance, while those with Velocity models are under-performing. This is commonly the result of Marketing lagging behind significant, predated investment in Sales Development. In these cases, Marketing needs to catch up to establish a more efficient, more scalable demand generation machine.

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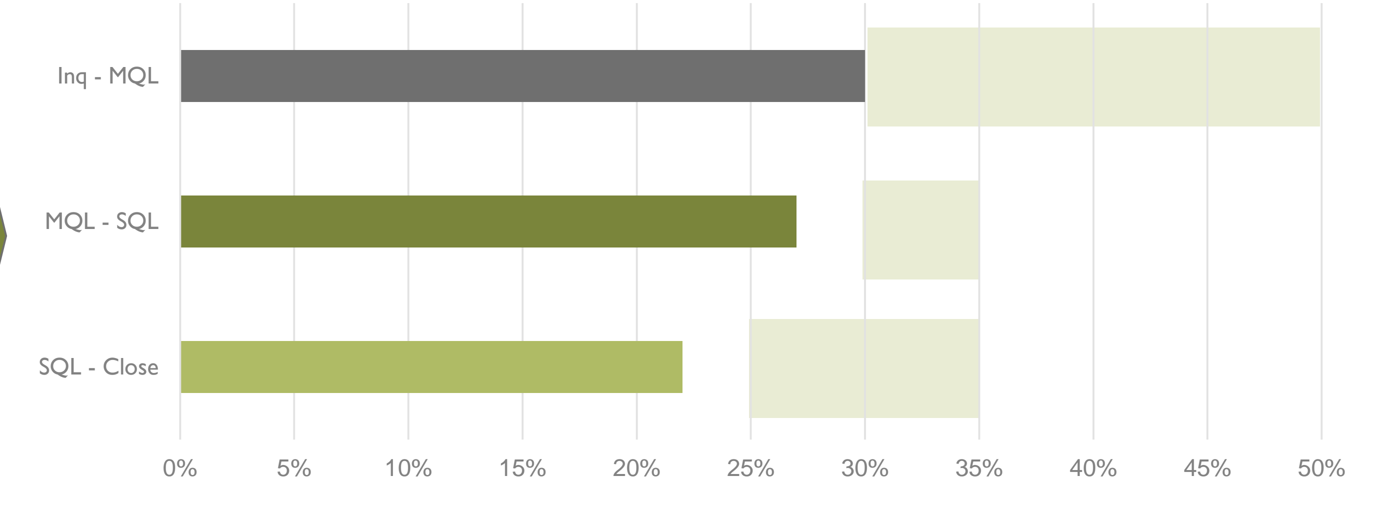
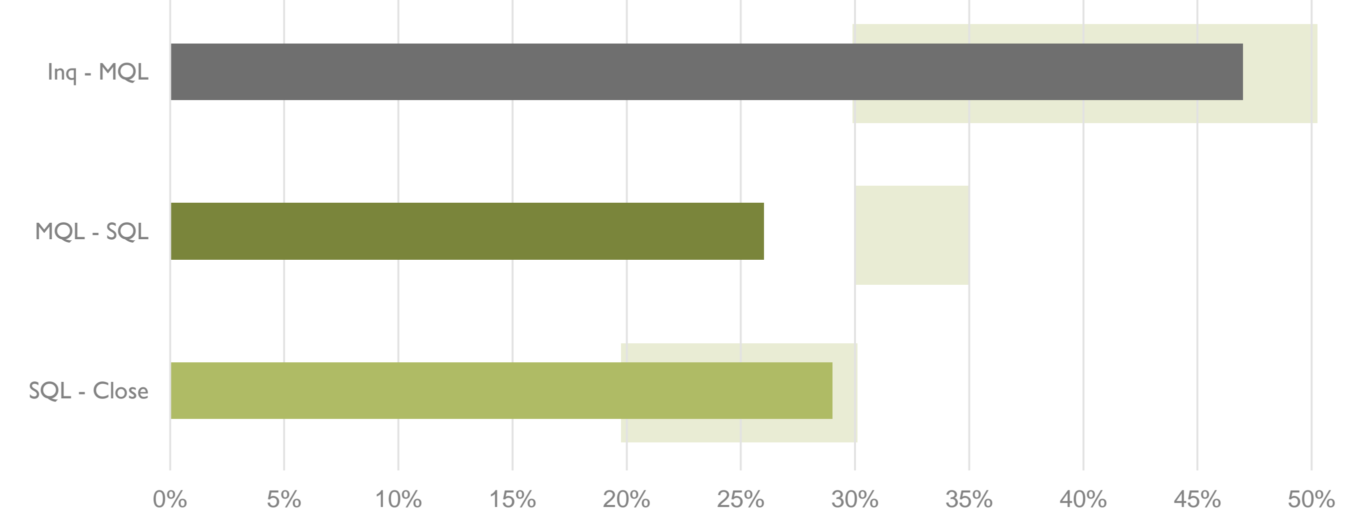
*All bars represent the average of the subset

MARKETING & SALES FUNNEL DYNAMICS

Guidance

Conversion Rates by Stage
%





Perspective

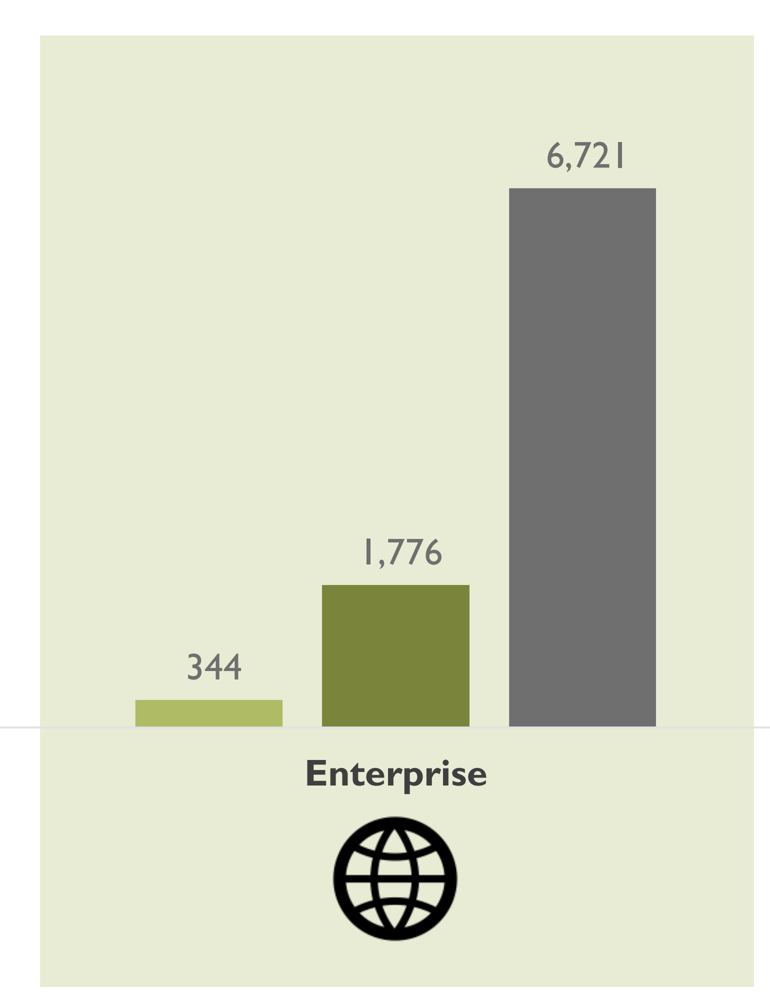
Both Enterprise and Velocity companies are converting the top of the funnel in line with guidance, which suggests strong focus on Ideal Customer Profile, i.e., reaching and generating interest with best possible buyers. In other cases, specifically <$10M businesses, lighter qualification and discovery practices are in place, giving SDRs and sales reps more at bats. This requires close monitoring as it can impact downstream sales productivity and slow sales cycles.

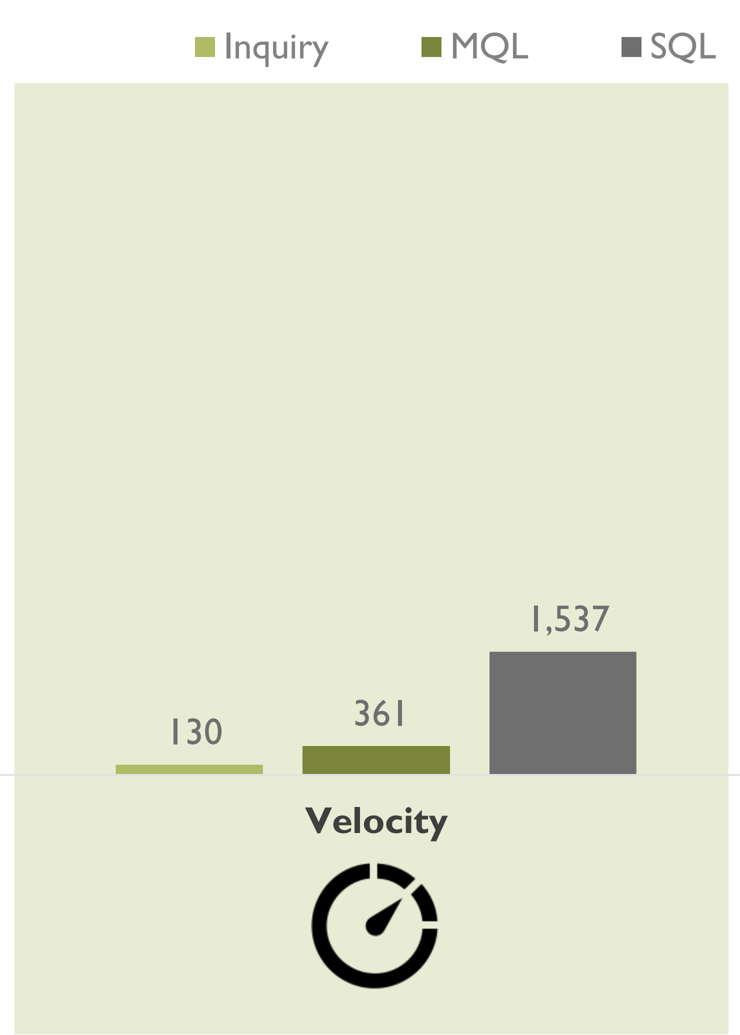
When mid-funnel prospects are not converting at 30-35%, there is typically a readiness issue -- possibly budget related, but more commonly, education related. Mid-funnel readiness issues are best addressed through nurturing with educational, value-oriented content – on and offline.

Lower in the funnel, Edison companies are converting pipeline at or close to best-in-class rates, which means they are likely also maintaining the recommended 3-4X pipeline coverage.

COST OF FILLING THE FUNNEL

Average cost per lead
$USD





Perspective

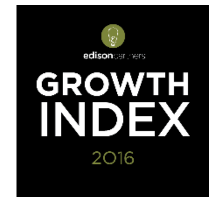
With only 39% of participants measuring marketing contribution (*see page 35*), we can assume that 61% of participants rely on SDRs and/or sales reps to fill the funnel. Top-of-funnel outbound efforts max out at 150-200 possible contacts worked per rep per month. With marketing program support, rep productivity can double, and ultimately, lower the cost per lead.

In both Enterprise and Velocity models, we see a steep increase from Cost per MQL to Cost per SQL. Related to the previous page, this suggests a need for stronger qualification and/or education, and possibly even a tightening of ICP.

Enterprise models logically pay highest rates to acquire sales-ready leads. As the cost to close a deal is also high with Enterprise models, it is critically important for only the most qualified, ready MQLs to become SQLs. Aligning Marketing and Sales around a account-based strategy is an effective way to drive up ROI and sales productivity.

BUILDING QUALITY PIPELINE

LEAD VS. ACCOUNT BASED STRATEGY CONSIDERATIONS



Lead Focused		Account Focused
Generate leads	vs.	Engage multiple people per account
Quantity		Quality
Days and weeks		Months to a year
Build pipeline		Build, influence, accelerate pipeline
New business		Land & expand (LTV)
General messaging		Tailored, research, insight-based
Inbound channels		Inbound + Outbound channels
Marketing hand-off to Sales		Marketing / SDR / Sales coordination

Account Based Methodology

1. Set goals aligned with desired outcomes at each stage of the buyer journey
2. Identify target accounts based on Ideal Customer Profile
3. Evaluate and cleanse account and contact data
4. Create content that is relevant and personalized
5. Devise coordinated plays that drive engagement via marketing and sales touch points
6. Measure and analyze results

ACCOUNT-BASED PLAYS BY GTM MODEL

Account segmentation is critical for companies considering an account-based marketing and sales approach. Treating top-tier accounts like mid-tier limits impact, and treating mid-tier like top-tier is too costly. Enterprise go-to-market models are ideally suited for account-based messaging that is personalized in nature (1:1 or 1:few). Velocity models can embrace the same methodology (*as described on page 42*), yet with content and messaging that is more segmented in nature (1:many).

		Plays	Specificity	Example Messaging
FOR ENTERPRISE MODELS	**Strategic** Tier AA accounts	Bespoke	You	Your talent management threats & opportunities
	Enterprise Tier A accounts	1:few	Your peers	Winning the war for tech talent as a leader in your industry
FOR VELOCITY MODELS	**Upper MM** Tier B accounts	1:many	Your segment	How companies like yours leverage their brand to hire A-players
	Lower MM Tier C accounts	1:masses	Your role	A better way to hire A-players

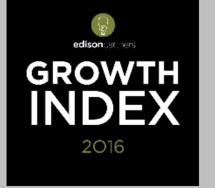
Three account-based play types for both Enterprise and Velocity models:

1. Top-down, **strategic plays** related to new products, new pricing or competitive replacement
2. **Process plays** related to specific stages and dynamics in the funnel
3. **Market driven plays** related to industry or customer trends

CAC GUIDELINES BASED ON GTM MODEL

Customer Acquisition Cost by GTM Model
$USD; SaaS companies

	FREEMIUM	SELF-SERVICE	VELOCITY		ENTERPRISE	
			low-touch	*high-touch*	*w/o Sales Engineer*	*w/ Sales Engineer*
GUIDANCE		**$30 to $200**	**$300 to $800**	**$3k to $8k**	**$25k to $75k**	**$75k to $100k**
EDISON PORTFOLIO		**All B2B & B2C companies within range**	**27% of companies within range**		**43% of companies within range**	



Perspective

To the left are guidelines for CAC by go-to-market model. Index participants are generally spending well above the recommended ranges for scalable growth. That said, the data is heavily influenced by newentrants to the portfolio with $10M revenue or less .

Three of the most common drivers of high CAC for earlier stage growth businesses:

- New sales reps are still ramping
- Marketing investments are not contributing enough pipeline
- Over-investment in Sales Development (SDRs)*

Please refer to page 14 for more on ways to reduce CAC.

**1 SDR to 2-3 AEs is the recommended ratio at scale. However, the SDR:AE ratio must be a function of the number of opportunities each SDR is able to produce per month and factor marketing contribution to SDR production.*

ANNUAL RETENTION TRENDS BY GTM MODEL

Guidance

	Logo Retention Rate %	Gross Dollars Retained %	Net Dollars Retained %
Enterprise	83% (Guidance: 95 - 100%)	90% (Guidance: 95 - 100%)	120 % (Guidance: 100%+)
Velocity	83% (Guidance: 80 - 90%)	84% (Guidance: 80 - 90%)	90% (Guidance: 100%+)

*All figures shown are median

Perspective

Despite lower logo retention, companies with Enterprise models retained a greater percentage of dollars on a higher-paying customer base.

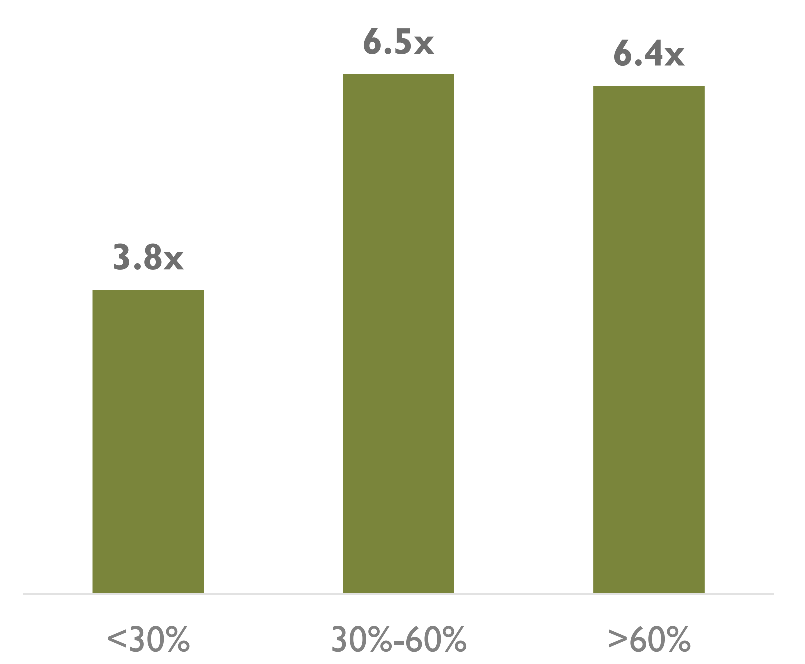
They also expanded revenue within existing accounts at a greater rate. The delta between net and gross dollars retained for Enterprise models was 30%, vs. 6% for Velocity models.

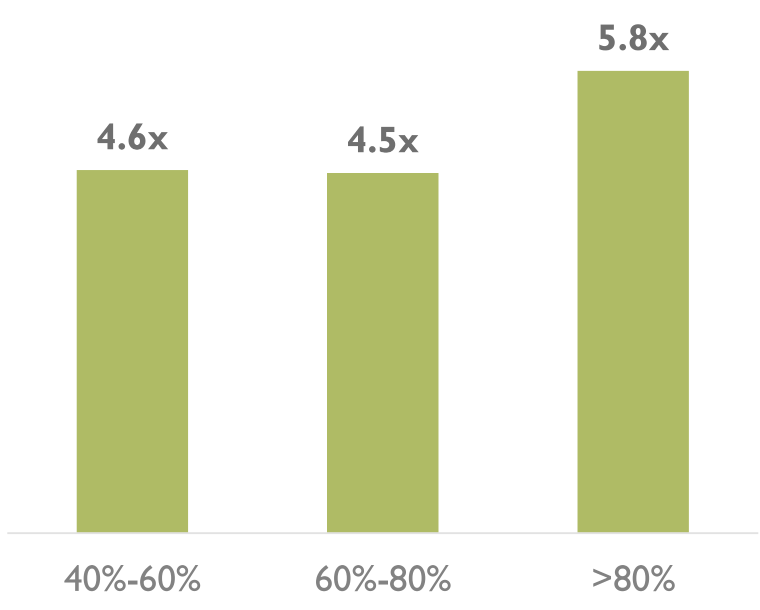
See page 33 for measures that can be taken to drive up retention.

CLOSING THOUGHTS

FAST GROWTH – THE DRIVER OF ENTERPRISE VALUE

Company Valuation Revenue Multiple
EV/Revenue; Publically-traded SaaS Companies; 2016





Perspective

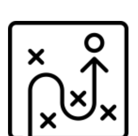
So, why does all of this matter?

In public SaaS companies, valuation multiples depend on the company's growth and profitability. A sustained increase in growth rate can lead to a significant appreciation in enterprise value.

The ability to lay the foundation for scalable growth early on is critical to driving a successful exit.

FACTORS AFFECTING VALUATION

		<2x	2x-3x	3x-5x	>5x	
NTM REVENUE		<2x	2x-3x	3x-5x	>5x	
NTM EBITDA		<10x	10x-12x	12x-15x	>15x	
Quantitative Factors						
Revenue Growth	*<15%*					*>30%*
Revenue Scale	*<$10 million*					*>$25 million*
Revenue Composition	*Non-recurring*					*Recurring*
Gross Margin	*<40%*					*>70%*
EBITDA Margin	*<10%*					*>30%*
Number of Clients	*<25*					*>100*
Client Revenue Diversification	*Top 3 > 20%*					*Top 3 <10%*
Total Addressable Market	*< $1 billion*					*>$5 billion*
Qualitative Factors						
Market Position	*Limited Market Differentiation*					*Market Leader*
Market Growth	*Low-Growth*					*High-Growth*
Technology Capabilities	*Commoditized*					*Differentiated*
Process Factors						
Management Team	*Weak, Thin*					*Strong, Deep*
Buyer Universe	*Limited*					*Strategic and Financial*
The Right Advisor	*Limited Buyer Coverage*					*Broad Coverage*
The Right Buyer	*Weaker Fit / Ability to Pay*					*Stronger Fit / Ability to Pay*
Process Performance	*Miss Budget*					*Meet or Beat Budget*



NOTE: Adapted from Raymond James – Presentation to Edison Strategic Growth Summit

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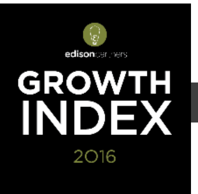

APPENDIX

GROWTH BECOMES MORE DIFFICULT WITH SCALE

Growth rate vs Revenue (GAAP)
%, million USD

**2 sub-5M outliers have been removed from the population, as growth rates are > 450%*

Perspective

Below $5M revenue, companies are able to grow exceptionally fast. Above $10M, growth logically decelerates. To keep companies on the same playing field, we apply the *Rule of 40*: Growth Rate + EBITDA Margin should be >40%. ~25% of Edison companies passed this test in 2016.

At any stage, companies that sustain growth typically do this through:

- **"Over"-spending in the right areas:** willing to incur losses in order to drive performance
- **Minimizing losses**: exercising financial discipline by billing upfront and recovering CAC in a timely manner
- **Hiring the right people at the right time**

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HIGHER CASH BURN NECESSITATES CAPITAL INFUSIONS

Operating Cash Flow vs Total Equity Raised
million $USD; 2016

OPERATING CASH FLOW

4
2
-
(2)
(4)
(6)
(8)
(10)
(12)
(14)

- 10 20 30 40 50 60

TOAL EQUITY RAISED

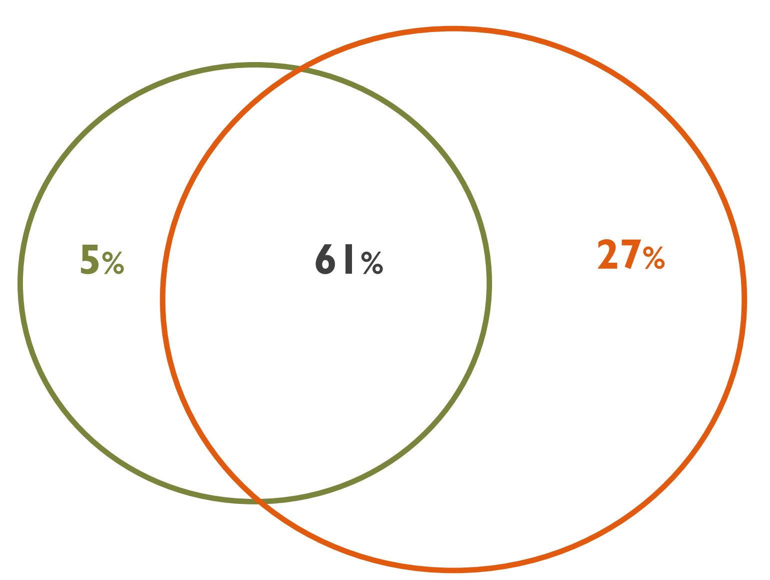
 *Four outliers have been removed from the population. Such outliers have been in the portfolio for 7-12 years, raised >75M and hover around profitability

There is a distinct correlation between the cumulative equity raised by a given company, and its operating cash flow. While it's unclear whether losses are driving the need for additional capital, or a recent infusion is driving overspending behavior, the trend is too strong to ignore.

At Edison, we believe it starts with a cultural attitude. Is the company focused on growing the top line? Or are they committed to reaching a point of self-sufficiency through efficient spending?

IMPACT OF USING BASIC SALES & MARKETING TECH

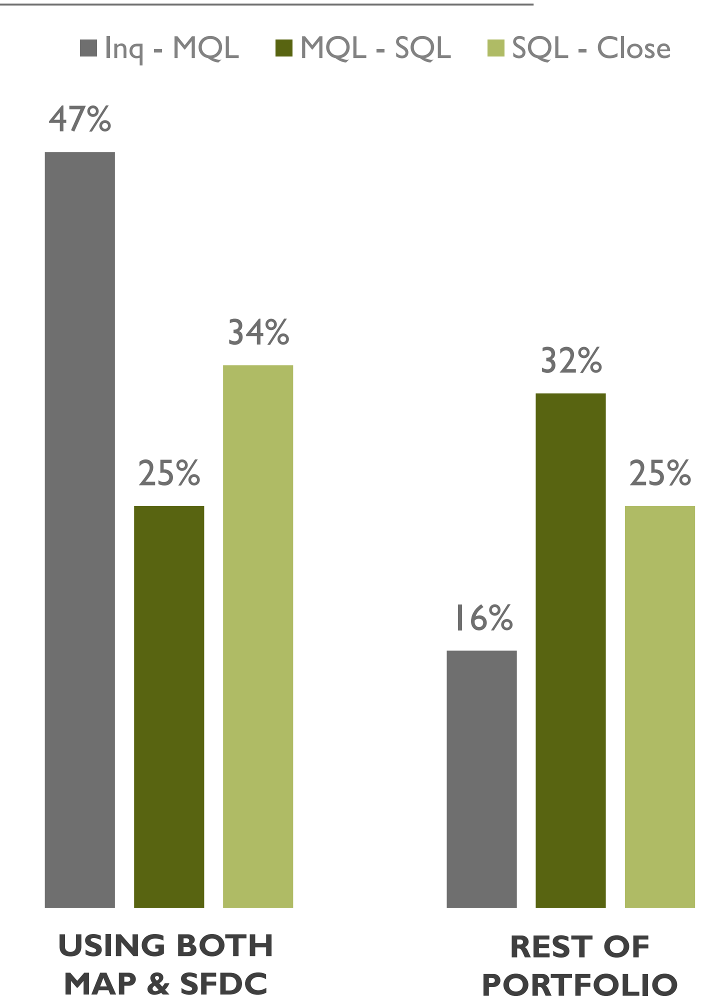
MAPs & Salesforce Usage
% of portfolio

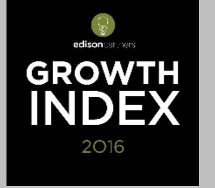


Companies that use a Marketing Automation Platform

Companies that use Salesforce

Conversion Rates & MAP / SFDC Usage
% of portfolio





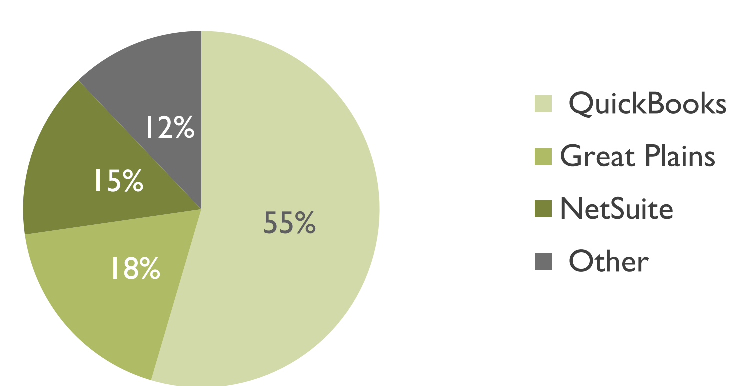
Perspective

There is a correlation between companies using Salesforce and measuring funnel effectiveness. In addition, companies using both a Marketing Automation Platform (MAP) and Salesforce are delivering higher conversion performance at the top and bottom of funnel than those companies that are not.

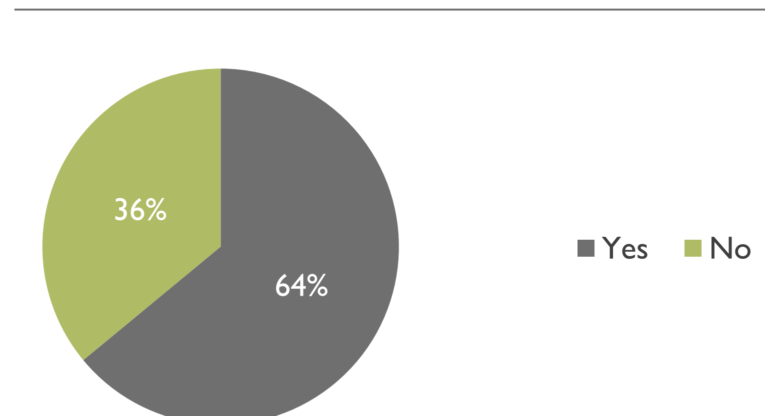
Hubspot, Marketo and Pardot are the most widely adopted MAPs across the portfolio. Hubspot is recommended for <$10M revenue, as it does not require a dedicated marketing operations resource like Marketo and Pardot. That said, it is advised for companies embracing account-based strategies and serving multiple segments to upgrade from Hubspot to Marketo or Pardot.

FINANCIAL SOFTWARE USAGE

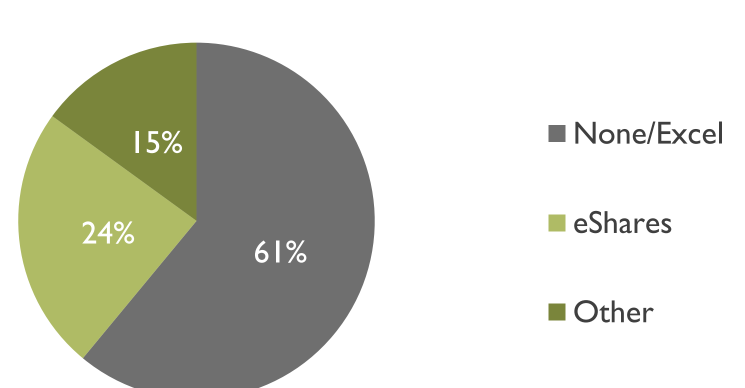
Accounting Software Used
% of Companies



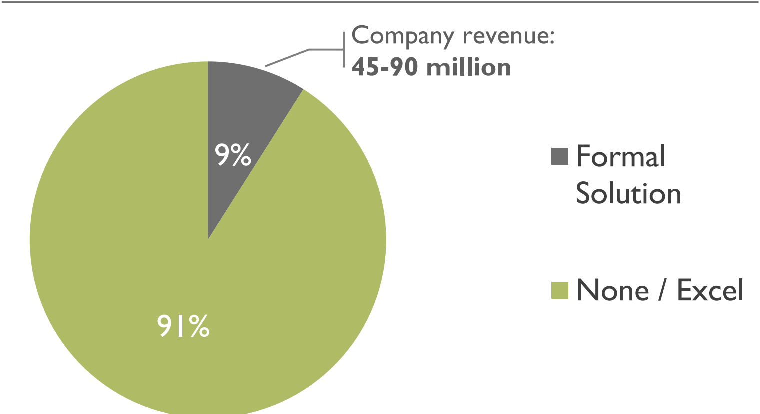
Use of Accounting Software as Billing Engine
% of Companies



Use of Cap Table Management Software
% of Companies



Use of Forecasting Solution
% of Companies



Perspective

QuickBooks remains the prevalent accounting solution across the portfolio, and is often used as a billing engine. As stated on *page 21*, migration to a more robust platform is recommended >$10M revenue.

It is also recommend that companies build their own forecasting model as opposed to using a commercial solution. This way, the model is well understood by the company and does not function like a "black box."

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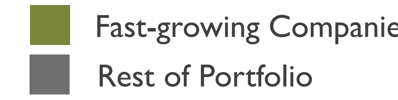
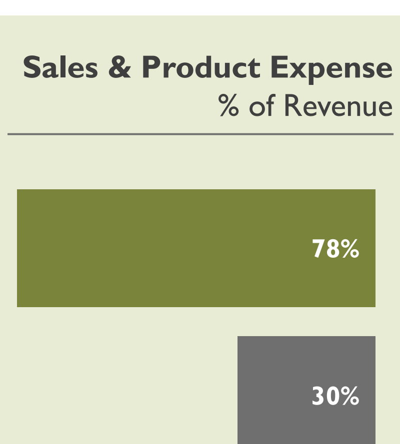
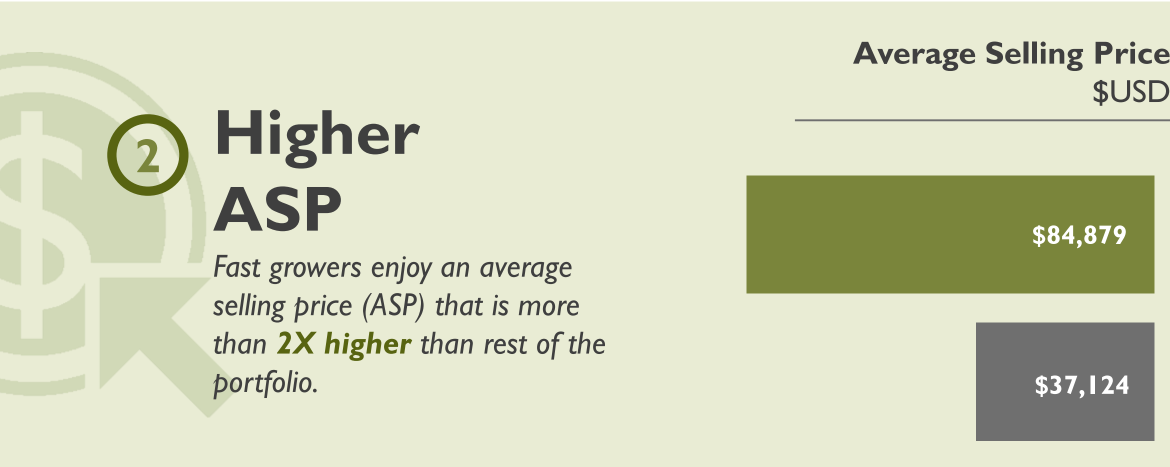
CHARACTERISTICS OF FAST GROWERS*



① Investment in Sales and Product

*Fast growers spend >**2X more in Sales & Product** than rest of portfolio.*



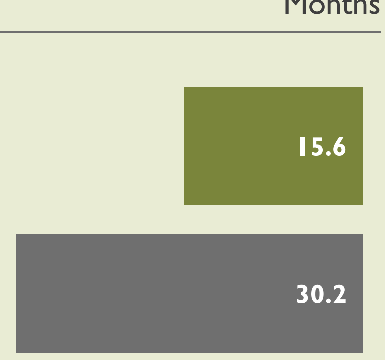


② Higher ASP

*Fast growers enjoy an average selling price (ASP) that is more than **2X higher** than rest of the portfolio.*

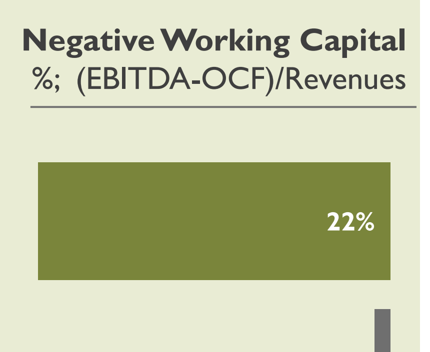
③ Fast CAC Recovery

*Fast growers **recover CAC** at best-in-class rates **(9-18 months)**. Rest of portfolio takes twice as long to recover CAC.***



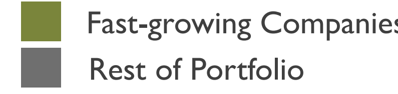
④ Better Capital Management

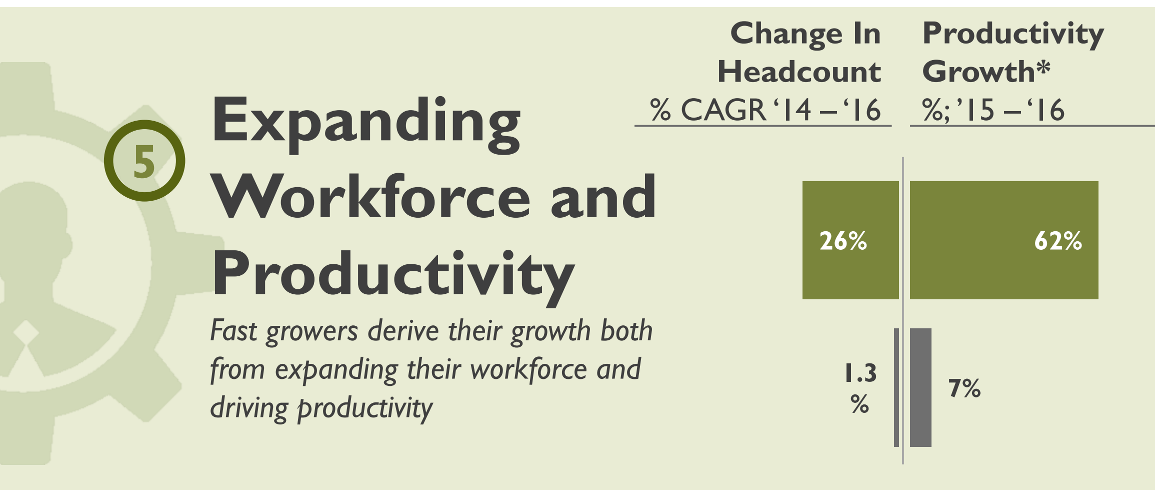
*Fast-growing companies tend to have a strong **negative working capital** component*



*Fast growers are companies that grew 30+% in 2016 over 2015
**Non-Recurring Revenue models excluded.
NOTE: All data represents the median of the subset

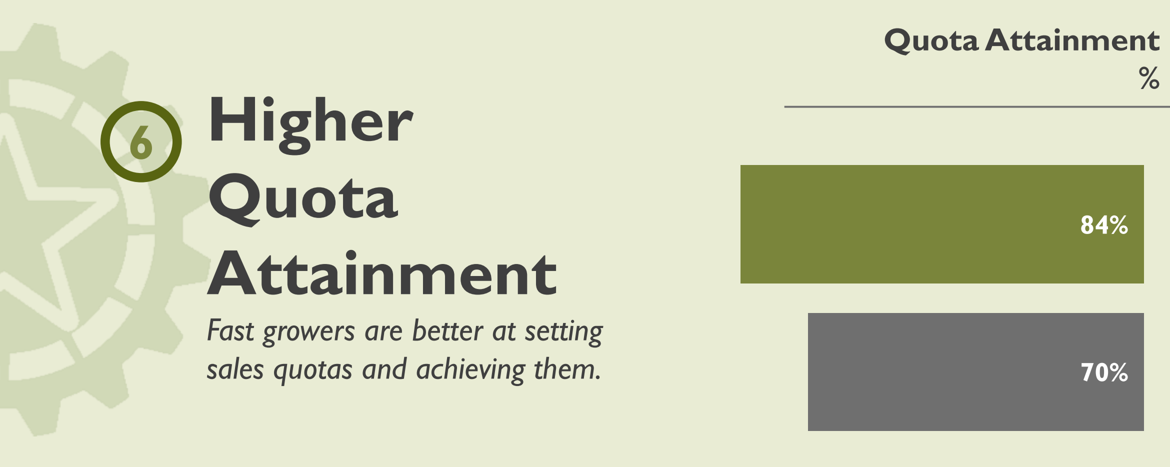
MORE CHARACTERISTICS OF FAST GROWERS





5 Expanding Workforce and Productivity

Fast growers derive their growth both from expanding their workforce and driving productivity

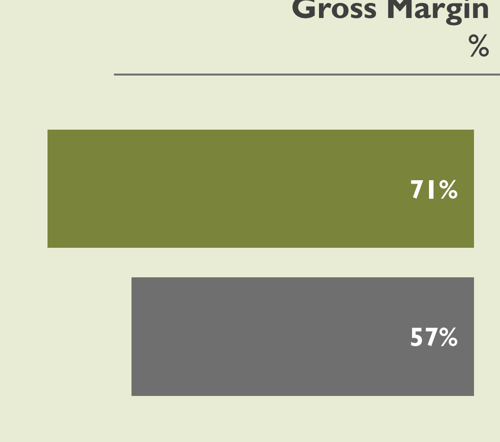


6 Higher Quota Attainment

Fast growers are better at setting sales quotas and achieving them.

7 Higher Gross Margin

Fast growers maintain healthier Gross Margins



8 Higher Retention

Fast growing companies tend to retain dollars better, and in a net-positive way.

**Productivity is defined as (Revenue divided by Number of Employees)*
NOTE: All data represents the median of the subset