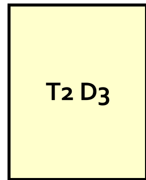
Overview

Clare Capital Tech Insights 36 - How fast is fast? T2D3 - 20170505

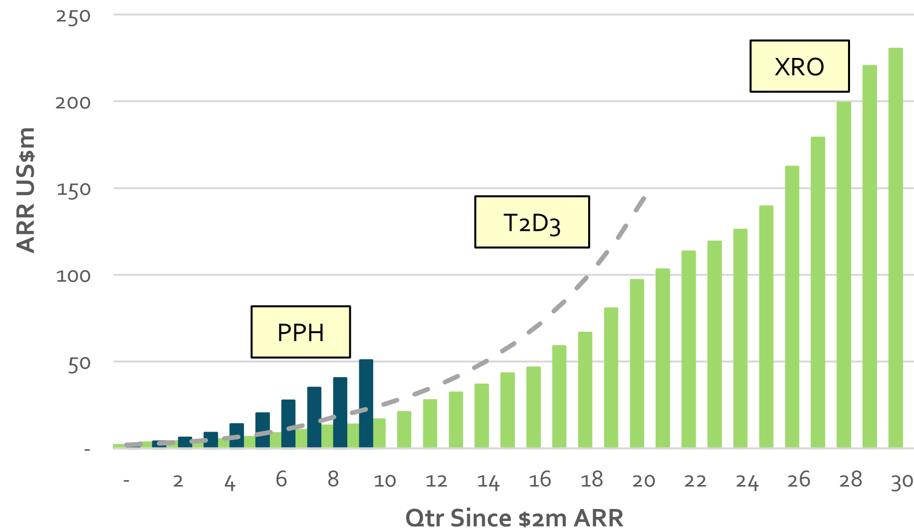
How fast is considered fast growth for a high-growth technology/SaaS company? - Triple, Triple, Double, Double, Double or T2D3. T2D3 as proposed by Battery Ventures, evolved out of the question "What does it take to build a billion-dollar SaaS company?" It proposes a seven phase approach.

Seven Phase Approach

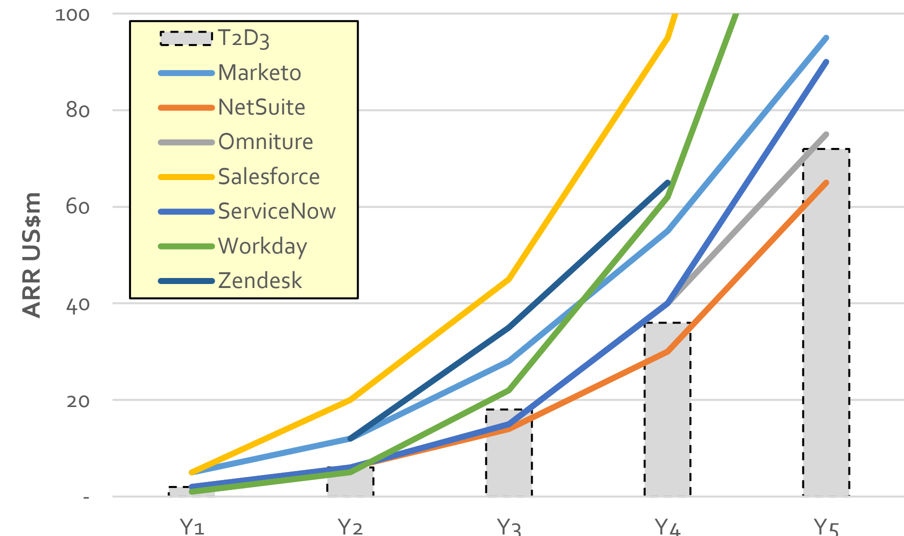
1. Establish product-market fit;
2. Get to US$2m ARR in 1-2 years;
3. **Triple** ARR to US$6m in 12 months;
4. **Triple** ARR to US$18m in 12 months;
5. **Double** ARR to US$36m in 12 months;
6. **Double** ARR to US$72m in 12 months;
7. **Double** ARR to US$144m in 12 months.



"T2D3" - The best-of-the-best NZ Companies; PPH vs XRO



"T2D3" - International Companies



Source: https://techcrunch.com/2015/02/01/the-saas-travel-adventure/

"T2D3" - PPH vs XRO; The Numbers

ARR	Start	T1	T2	D1	D2	D3
T2D3	2	6	18	36	72	144
MoM%	0	*9.2%*	*9.2%*	*5.8%*	*5.8%*	*5.8%*
XRO	2	5	13	28	47	97
PPH	2	14	40	na	na	na

Note: ARR is in US$m

Disclaimer

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Not all revenues are created equal

ARR (Annualised Recurring Revenue) is a metric employed by high-growth technology/SaaS companies - unlike financial statements there is no General Accepted Accounting Principles (GAAP) for the measure. There are often sutble differences in how companies calculate ARR. A lot of tech commentators, including ourselves consider:

ARR = Actual Monthly Recurring Revenue (MRR) recorded in-month (as per what would show in monthly finanical statements) x 12.

[A complicating factor is annual subscriptions needing to be spread across monthly periods or normalised].

Some commentators go as far as to exclude any variable revenues, the result being that ARR is solely based on subscription revenues - we don't subscribe to this.

Another important consideration is gross margins...

According to Jason Lemkin: "**...It's only SaaS and software if your gross margins are >65%...**" - https://www.saastr.com/is-it-saas-is-it-arr/ - again we don't completely subscribe to this, but...

We agree that higher gross margins are important, and very important to consider when exploring headline growth numbers. PPH and XRO have different gross margins (and gross margins change through time).

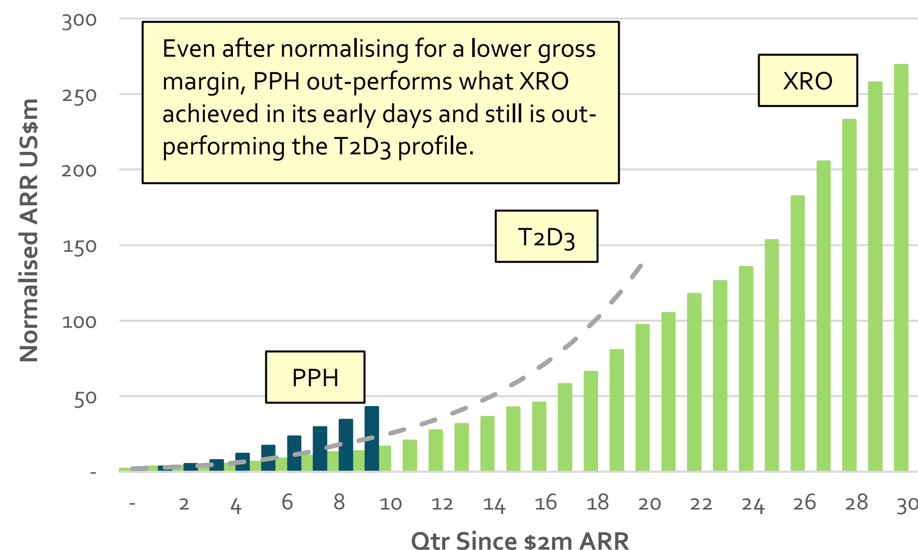
Assuming the concept of T2D3 is based on a profile with a 65% gross margin, PPH and XRO's performance can be normalised against this 65% gross margin.

"T2D3" - PPH vs XRO; The Numbers - Gross Margin Adjusted

ARR	Start	T1	T2	D1	D2	D3
T2D3	2	6	18	36	72	144
MoM%	0	*9.2%*	*9.2%*	*5.8%*	*5.8%*	*5.8%*
XRO*	2	5	13	27	46	97
PPH*	2	12	34	na	na	na

Note: ARR is in US$m **Normalised ARR - Against a GM% of 65%*

"T2D3" Path to US$100m - PPH and XRO Gross Margin Adjusted (relative to 65%)



Indexed Share Price Change [January 2016 is the base]