UpScaling!
Umsatz(vor)finanzierung
für Scale-Ups

UpScaling! Reverse Pitch

Intro
SaaS-Finance
30.1.2024

BUSINESS
ANGELS
FRANKFURT
RHEIN-MAIN

Business Angels FrankfurtRheinMain e.V.

- → Vertritt das Thema Business Angels am Finanzplatz Frankfurt
- → Eines der aktivsten BA-Netzwerke in Deutschland
- → 2000 gegründet von Privatpersonen und öffentlichen Einrichtungen.
- → Mehr als 150 Mitglieder, zu über 90% BA und Investoren.
- → Monatlich bringt unser Matching-Event Frühphasen-Startups und BA zusammen.

Beispielhafte Beteiligungen

Lieferando.de

Lylu

famPLUS.de

sigo

BidX

DECORAMI
celebrate happy times

KptnCook

BIOVOX

on apply

CODE-No.com
back to me

fashionette

TEILeHABER.de

APPVENTURES

meet5

comuny
Empowering Personal Data

roastmarket

raumvonwert

LIMBIC Entertainment

viMUM

flinc

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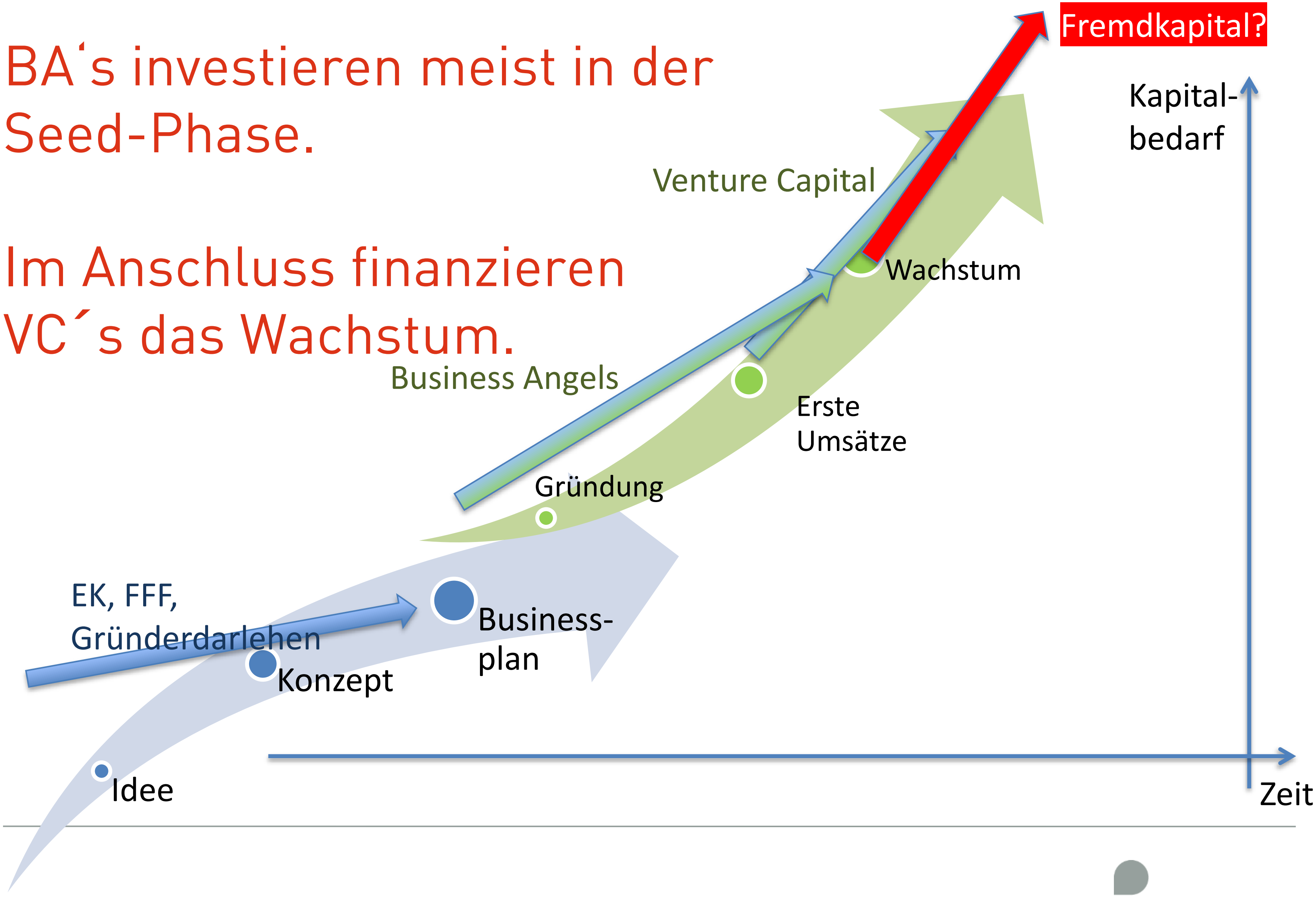
BA´s investieren meist in der Seed-Phase.

Im Anschluss finanzieren VC´s das Wachstum.



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Warum kommt UpScaling! von uns?

Business Angels stehen oft am Anfang der Finanzierungskette von Scale-Ups

→ Interesse an einem möglichst ungebremsten Wachstum

→ Dieses setzt Fremdkapital für die erfolgreichsten Scale-Ups voraus

→ Verbesserung der Exit-Chancen

→ Weniger Verwässerung

Als Thema für den Finanzplatz Frankfurt

→ Wir erkennen Trends

→ Einer muss das Thema anpacken

RECURRING REVENUE FINANCING (RRF) UND REVENUE BASED FINANCING (RFB)

The following pitch deck is held in English because the influence of the anglo-american roots of RRF and RFB is strong.

Disclaimer:

→ RRF & RFB are difficult to describe because for both of them there is a continous spectrum of implementations

→ There is a lack of widely agreed definitions

→ The following desciption should help you to get a better understanding but there will mistakes in it

→ **Ask your lender about discrepancies to this text. Let him explain his model in detail**

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RECCURING REVENUE FINANCING (RRF)

RECURRING REVENUE FINANCING (RRF)

Construct: **RRF can be a perpetual loan** or fixed term

- → Debt is usually only allocated up to a financing limit, which depends on the annual recurring revenue of a company
- → As a perpetual loan it can change based on a company's annual recurring revenue -> if the Scale-up grows the limit grows
- → Companies can draw capital precisely when they need it within a predefined financing limit. They don't have to fund the amount all at once
- → The terms for financing costs may change depending on the startup's risk profile
- → RRF leaves you in control: You don't have to give up any of your ownership stakes in the company and stay in full control where your company is headed
- → RRF is based on your predictable cash flow from ARR, which makes it much faster to access since you don't have to negotiate things like company valuation. The investment decision is based on bare KPIs

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RECURRING REVENUE FINANCING (RRF)

RRF is debt capital (loan) suitable for:

→ Software-as-a-Service (SaaS) and subscription-based companies

→ It is offered to scale-ups and growth companies

→ In difference to classical loans RRF is based on **continuous financial and customer analysis** instead of securities or warrants.

→ Loans are typically sized in relation to Annual Recurring Revenue (ARR)

Some Types:

→ Fixed term loans – debt is fix

  → Fixed revenue based (you pay back the same amount each month)

  → Revenue share based (you pay back a share of MRR each month up to cap)

→ Perpetual loans – debt can varry (you pay a share of MRR each month)

RECURRING REVENUE FINANCING (RRF)

Advantages:

→ Non-dilutive - alternative or complementary option to equity financing

→ Conditions can adopt to performance

→ Suitable for short-term projects or more long-term measures as marketing

→ No personal security as loan guaranty needed

Requirements:

→ Substantial reccuring revenues (minimum is defined by the lender)

→ The company's financials are open to a data-based analysis by the lender

→ Different financial KPIs are analyzed. The basis are revenues, customer base, cash flow, and bank data.

→ These KPIs are pivotal in determining the investment decision, the amount of financing, and its percentage share of revenue.

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RECURRING REVENUE FINANCING (RRF)

The base of it all: What impacts the ARR and is Modelling your Business?

- → **Customer acquisition and ist cost**
- → **Churn rates** (High churn rates can hurt ARR).
- → **Expansion and upselling revenue** (upgrades, add-ons, or increased usage of services - e.g., additional users)
- → **Contract length** (encurage customers to commit to longer contracts)
- → **Customer Lifetime Value**

Types of reccuring revenues:

- Subscription services, Membership fees, Licenses renewals, Maintenance and support contracts, Retainers, Automatic reordering

RECURRING REVENUE FINANCING (RRF)

Risk is expensiv!

→ Lending money to Scale-ups implies a higher risk of a complete failure than loans for more mature companies

→ RBF/RRF does not use warrants or personal guarantees

Thats why it is usualy much more expensive than loans to profitable companies.

Compared to VC:

- It is cheaper than venture capital which has no cap.
- But VCs already invested want to see what exactly startups want to achieve with the funding of RRF or RBF

RECURRING REVENUE FINANCING (RRF)

The procedure

- **Defining the amount:** The lender analyses the financial data and some customer data of the borrower. The amount is often a multiple (3 – 12) of the MRR. Important are aswell growth rates, profitability, customer life time value and market conditions
- **Increase of the amount**: Terms to increase the principal amount can be defined.
- **Defining the Monthly Royalty Payments:** There can be different terms to define flexible conditions.

REVENUE BASED FINANCING (RFB)

REVENUE BASED FINANCING (RBF)

Difference to RRF: Your revenues don´t have to be recurring.

Construct: RBF is mostly payed back in a defined repayment period.

→ No interest or repayment, but a share of the revenue: Investors get a fixed monthly percentage of a company's revenue in return for their investment instead of interest (traditional bank loans)

→ The amount usually is capped and ranges from 1.5 to 3 times the initial investment

→ The monthly repayment varies as the revenues do

→ The faster revenue increases, the quicker the agreed repayment amount (cap) is reached

→ The repayment period is usually limited: short-term (less than 12 months) and long-term (up to 60 months)

RBF Market

→ Known in the US and Great Britain but Germany and Europe catch up

REVENUE BASED FINANCING (RBF)

Typical Investment Structure

→ **Principal Amount:** Once the deal terms have been negotiated and a term sheet is signed, the borrower receives the principal amount in 1 or 2 installments.

→ **Monthly Royalty Payments:** Each month the borrower has to pay the lender a pre-determined percentage of its top-line revenue. Lenders offer a fixed term loan or payments are perpetual

→ **Investment Buyout:** With a no-fixed-term agreement, buying out the investment is dictated entirely the borrowers schedule and can happen at any point in time. He will pay the principal and a premium. The principal is the same initial amount given by the investor. The premium is the cost associated with the investment given its high-risk nature and added flexibility. The premium ranges often from 0X-1X. After this is received, monthly payments stop.

→ **Cost**: The royalty rate and return multiple are pre-determined based on the status, nature, and risk-level of your company

REVENUE BASED FINANCING -EXAMPLE

Example

→ 500.000 € MRR

→ 1.000.000 € RBF

→ 10% revenue share

→ agreed repayment amount (cap) is 2.000.000 €

→ monthly company revenue 600.000 € -> monthly repaiment 60.000 €

→ monthly company revenue 900.000 € -> monthly repaiment 90.000 €

→ monthly company revenue 730.000 € -> monthly repaiment 73.000 €

up to a total repayment of 2.000.000 €

REVENUE BASED FINANCING - EXAMPLE

Short-term revenue-based financing

- → Period up to 12 months
- → Financing amount up to €100,000 or 2-4 monthly revenues
- → Refinance seasonal actions, events, hardware, or office equipment
- → Investors are usually fintech, which provides a fully automated handling of all processes and can finance smaller funding sizes

Mid-term revenue-based financing

- → Period up to 60 months
- → Financing amounts up to several million euros
- → Refinance of all company's expenses, such as operations, or large one-time expenses like M&A
- → Investors are usually funds that are committed to long-term partnerships, including consulting, networking, and follow-up financing

REVENUE BASED FINANCING

Advantages in detail:

- Mid-term RBF: A runway extension to postpone the next VC funding round to a more convenient time
- Build up liquidity and thus an improvement in cash balance
- Besides revenue no other securities, warrants, or personal guarantees are necessary
- Due to its non-dilutive nature, founders stay in control of their company
- A fast financing solution available in days
- A flexible financing solution because the repayment amount is tied to their performance. If the company doesn't develop as expected, the amount of repayment adapts
- Lower cost of capital than venture capital or venture debt

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