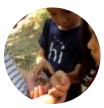
The
View From Initialized

The Metrics You Need To Raise A Series A



Alda Dennis
June 29, 2021 Fundraising Marketplaces SaaS

With thanks to Alejandra Calvo and Daniel Tovbin

While there is a wealth of information around both publicly-traded companies and what you might need to close a first round of funding, there's not a lot of transparent data for in-between rounds. We at Initialized decided to open source what we've seen internally with our own companies that have been able to raise follow-on rounds successfully.

For every company we on-board into the Initialized portfolio at the seed level, we work backwards from the next milestones needed to successfully prove out what's needed to raise growth capital. Internally, we have an entire internal bootcamp for founders where we run through multiple practices around how they should position their deck and story before going out to raise. Once we have the narrative, operating model, metrics and presentation nailed, we connect Initialized founders with the right investors at the right firms across the whole ecosystem – those who will most deeply understand the company's market opportunity.

For this post, we analyzed both external data and internal milestones for Initialized companies in three categories – SAAS, D2C and marketplaces – to see what enabled them to close Series A rounds.

While raising financing isn't the end goal for a company, some key metrics can serve as a proxy for traction and product-market fit, which is important to demonstrate at the Series A stage.

D2C Scorecard: Series A

	OK	Good	Outstanding
Run-Rate Total Revenue	$500K-2M	$2-15M	> $15M
Run-Rate Total Revenue Growth	2-3X	3-4X	> 4X
Average Order Size*	$100-150	$150-300	> $300
Gross Margin (%)	25-40%	40-50%	> 50%
LTV: CAC	1-2X	2-3X	> 3X
Engagement in Community	Medium	Medium-High	High

(*)Highly dependent on business model and type of product sold.

initialized()

Direct-to-Consumer (D2C)

Over the last nine years, Initialized has made many successful investments in direct-to-consumer products, from *Soylent* meal replacements to *Eclipse* dairy-free ice cream to *Atoms* shoes. Most recently, we invested in *A-Frame Brands*, which is developing personal care brands that emphasize sustainability and are designed for underrepresented communities, whose needs are less often addressed by the CPG industry. They have partnered with current U.S. Open tennis champion Naomi Osaka with *Kinlo* for sun and skincare and actress Gabrielle Union and her husband, former NBA professional, Dwanye Wade to launch a baby-care brand, *Proudly*.

We looked at the metrics of more than 20 companies — half in the Initialized portfolio when they raised their Series A, and half with publicly available data from venture-backed consumer brands like *Harry's*, *Casper*, and *All-Birds*.

Revenue: Not all revenue is created equal. The multiples for transactional revenue typical for DTCs are lower than for SAAS or any other recurring revenue structure. There are lots of variables that make finding benchmarks harder for DTC companies, but in general, direct-to-consumer companies should aim for at least $500K to $2M in revenue before they raise their Series A. Some outstanding companies, like *Away*, notched revenues of more than $15M before raising their Series A round.

Growth: Quickly growing revenue gets higher valuation multiples than slower growth. We found that a minimum of 2 to 3X growth was necessary for getting to a Series A. But in order to really stand out, 4X or more is the target.

Average order size: This varies by product, but $150-$300+ was a good range. For consumer packaged goods, a bigger basket-size is better than a smaller basket-size; however cheaper items make up for that by being something that you constantly need to replenish like dog food or diapers. Better yet, get consumers to sign up for a subscription.

Margins: Another key component of revenue quality is margins. We are already in a different world from software companies here, because these companies have costs for producing goods to consider. The amount a CPG company can charge above the production cost is often a factor of how much of a premium a brand they are able to build. While it may be more expensive to source organic ingredients or cruelty-free components, the real mark-up comes with building a desired brand and the gross margins increase as a result of effective marketing. A very minimum gross margin is around 25 percent, but anything above 50 percent is considered good for D2C or hardware. Industry-wide margins at scale can be 70%, but at a Series A stage, the targets are significantly more modest, however, investors will want to know that you can achieve much better margins over time.

LTV/CAC: Marketing and advertising are what make up customer acquisition costs (CAC). The ratio of the lifetime value (LTV) of the customer to the costs of acquiring that customer is a metric that companies should track to measure the efficiency of their advertising and marketing spend. Customers that purchase the product more frequently, whether it be due to the utility of the product or because they feel a sense of allegiance to the brand are worth more. This is a hard metric to calculate because there is not a lot of public information, but generally, anything above 3X tends to be very good. If the number is too high it may signal that a company needs to invest more in sales, marketing and growth. Before raising an A a company might be growing so quickly that the long term value isn't clear. The amount of new customers might far out shadow the older ones, or, there just simply hasn't been enough time to produce strong numbers for this.

Community: While you may not be able to have definitive LTV/CAC metrics before your Series A, building a rabid following with even a small group of customers can demonstrate to VCs that the long term value is there. Customers learning about the product through "organic" channels and posting on social media are positive signals. A strong community of fans and customers is a channel for lower acquisition costs in a world where paid marketing is priced in. Metrics that mimic typical social media engagement metrics can be tracked — such as how often customers click through on emails, or how long they spend on the brand's ecommerce website. Series A and seed investors will be looking for long waiting lists with a strong indication of willingness to pay.

Enterprise SaaS Scorecard: Series A

	OK	Good	Outstanding
Run-Rate Total ARR	$1-2M	$2-2.5M	> $2.5M
YoY Rev. Growth	2-3X	3-4X	> 4X
Gross Margin (%)	60-70%	70-80%	> 80%
Monthly Gross Churn (%)	2-3%	1-2%	< 1%
MRR Net Retention	92-97%	97-99%	> 100%
LTV:CAC	1-2X	2-4X	4-6X
New Logo ARR	$50-100K	$100-200K	> $200K

Source: Internal Initialized Portfolio Company data and publicly available information

initialized()

Enterprise SAAS

As Initialized Capital's managing partner and founder Garry Tan has said, software revolutionizing "file cabinet" industries have become larger than anyone could have originally anticipated because of the sheer scale of the web as a more unified, single marketplace. We surveyed 28 SaaS companies, both within the Initialized portfolio and outside of it — and here is what we found:

Run-Rate Total ARR: The most basic metrics are annualized revenue run-rates and their year-over-year growth, but there are also several important sub-categories in SAAS. Investors will look at your ARR waterfall, new ARR relative to total or old ARR, churned ARR and upsold ARR representing customers either expanding business or being sold other offerings.

1. **Total Bookings ARR:** This topline number covers new business sales, cross sells, account expansion and contraction, and churn expressed in year-over-year growth rate as a percentage.
2. **Monthly Net New ARR**: This can be broken out into a couple of ways:
    1. By Bookings: You'll need to incorporate any gross churn, both by product line and customer logos, account expansion and contraction, new business (both by logos and cross sales and minus any deals lost).
    2. By product line.

YOY revenue growth: This should be at least 2 to 3X year-over-year if not higher – think 4 to 10X+. For enterprise SAAS businesses, it's relatively easy to build a projection model for a SAAS business because of the abundance of public data.

Gross margin: It's expected that SAAS companies will have higher gross margins because these models lack the COGS or Cost of Goods Sold that other types of venture-backed businesses do. Once costs for hosting, data centers, integration and other professional costs are accounted for, gross margins should be at least 70 percent or higher, and that margin should improve over time as the initial fixed costs spread over larger and larger amounts of revenue.

Net dollar retention: This is a metric that factors in churn and expansion in measuring the value of a cohort of customers over time. To calculate it, take your starting MRR, add expansion MRR while subtracting churn and contraction MRR and divide that total over your starting MRR. Founders [with a goal of leading public companies should aim to have their net dollar retention top 121 percent].

LTV-CAC: Similar to DTC above, this measures the lifetime value of a customer divided by the business' cost of acquiring them. Because these are typically subscription businesses versus DTC businesses (which are sometimes subscription and sometimes not), we'd expect to see a higher LTV-CAC. A great company in this category will be hitting at least a 4 to 6X ratio of a customer's lifetime value against the cost of acquiring them.

New Logo ARR: This measures the annual contract size of any new customers. In contrast, net dollar retention focuses on the existing customer base but doesn't include new customer ARR.

Marketplace Scorecard: Series A

	OK	Good	Outstanding
Run-Rate Total Revenue	$500K-1M	$2-5M	> $5M
YoY Rev. Growth	2X	3X	> 3X
GMV (Assuming 15% Take Rate)[1]	$2-5M	$5-7M	> $7M
YoY GMV Growth	2X	3-5X	> 5X
Gross Margin (%)	40-50%	50-60%	60-80%

Source: Internal Initialized Portfolio Company data and publicy available information
[1] Assumes 15% take rate; the lower your GMV, the higher your take rate should be and vice versa.

initialized()

Marketplaces

I love marketplaces because they are inherently businesses that get better as the flywheel gets going. I invested in e-commerce marketplaces like Wish and Coupang in a prior life and at Initialized work with and invested in business-to-business marketplaces like SkySelect, Reibus, and Tundra as well as other service and labor-based marketplaces like The Mom Project, Kinside, Curri and Papa.

We surveyed 27 marketplace companies, both including Initialized portfolio companies and external examples — and here is what we found:

Run-Rate revenue: Overall run-rate revenue expectations are higher in marketplaces than they are in SAAS businesses because gross margins are generally lower. Net revenues are generally the rubric that investors look at and we advise our companies to outline both the gross and net revenue numbers. While the revenue is transactional in nature, there should be recurring business numbers to point to that demonstrate stickiness and loyalty that come from the convenience of using the platform. Depending on the nature of the business, aiming for $2M+ in net revenue on a run rate basis here would be the goal.

Gross merchandise value (GMV): This is the total value of all merchandise, labor, services sold through a marketplace before the business' take rate or the costs of goods or any expenses are accounted for. Depending on the take rate, described below, this would be a multiple of 2-5X typically of your net revenue. We've seen outperforming companies hit $5 to 7M or more here. Slower growing marketplaces might trade at something like 1X GMV while with fast growing marketplaces, in this funding environment, the sky's the limit.

Range of take rates: The take rate is the percentage of GMV collected by the marketplace. The take rate typically falls between 10 percent and 30 percent with higher take rates for more exclusivity. The business' overall run-rate and gross merchandise value can grow at different rates depending on the take rate. In the beginning, your business' take rate might be set lower in order to capture more market share and customers and then over time, you might increase the take rate, which can result in discrepancies between net revenue growth and GMV growth. There's huge variation in the range of take rates marketplace businesses can assume. For the companies we analyzed in both the Initialized portfolio and outside, we saw take rates ranging from 1 percent to even 35 percent. For larger markets or markets in which the average order value is much larger, take rates tend to be lower while if your business is targeting something more niche, you can have a higher take rate. We often see companies at this stage optimizing for transactions (GMV) rather than take rate. It is easy to understand how take rate can increase over time with ancillary services like factoring, insurance or simply economies of scale.

YOY GMV Growth: For an early-stage marketplace business, GMV needs to be expanding at a higher rate than revenue. The market you are trying to win needs to be expanding at a greater rate in order to generate more dollars and then over time as the flywheel of supply and demand gets set in place, the network effects of the marketplace can fuel an acceleration of growth. Aim for 5x or more here.

Gross margin: Gross margins here tend to be slightly lower than in the SaaS category at 50 to 60 percent, which can be the result of having a marketplace where physical goods or logistics might be involved. For marketplaces where this isn't the case, then margins of 80 percent might be possible.

There are other metrics that may come into play depending on the business, such as liquidity, time to fill, engagement, LTV, CAC and retention but the above metrics are solid starting points for a conversation on the strength of your marketplace business.

To tie this all up, we've looked at thousands of companies over the past 10 years of the firm and we help all of our companies go through follow-on raises so we see live data in the later-stage ecosystem for private venture-backed companies around what internal growth and financial metrics other investors are looking for. We hope this helps you figure out how to set intermediate milestones for your company and team as you go on to build a durable brand, employer and company.

Topics

AI Analytics API Applications Blockchain

Cloud Consumer Cryptocurrency Culture

DevTools Ecommerce EdTech Enterprise

Esports FamilyTech FamTech Fintech FoodTech

Fundraising Hardware Healthcare Hiring

Housing Human Resources Initialized Capital

Initialized News Machine Learning Marketplaces

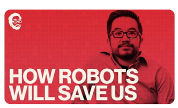
News From Us Proptech Real Estate Retail

Robotics SaaS Software Vlog

Garry's recent VLOGs

Inspiring a million creators with Van Neistat, "The Spirited Man"

How to Get Promoted: Lessons for smashing any ceiling in life and work



Building 10X more robots for American Factories:

See More

@initialized on Instagram

With diversity at the forefront, we're searching for candidates that may have been overlooked in the past🕵️‍♀️ 🔎 Our very own Jen Wolf spoke with Venture Capital Journal about our search for the next partner and principal through an open hiring process.

See More

FAQ

Twitter

Instagram

Merch

Sign up for our newsletter