Step 17: Estimate the Lifetime Value (LTV) of an Acquired Customer

Worksheet

Inputs to the Worksheet

One-Time Charge(s)

What will your one-time charges be for each customer? (e.g. initial purchase price of product)

None. The business model is subscription-based, no one-time initial fee

What is your estimated profit margin on your one-time charges? ((One-Time Charge – Marginal Production Cost) / One-Time Charge = Profit Margin -- e.g. if your one-time charge is $100 and the cost to make that one unit of product is $20, your profit margin is (100-20)/100 = 80%) (General estimate is fine and don't add more precision that is appropriate at this point – it can be misleading)

Not applicable.

What is the life of the product before a customer has to repurchase the product? Subscription renews yearly, so effective lifetime is based on retention.

What % of customers will repurchase? Assume 80% retention after Year 1, based on SaaS norms

What will your recurring revenue streams be?

Monthly/yearly subscriptions: €100/month (€1,200/year)

What is your profit margin on your recurring revenue streams?

Estimated 50–70%

What is your retention rate for your recurring revenue streams?

After 1st year: 80%

After 2nd year: 70%

After 3rd year: 65%

After 4th year: 60%

After 5th year: 50%

What other revenue sources will you have? What will your profit margin be, and is there a yearly retention rate applicable to them?

- Potential upsells (team plans, compliance modules), minor early on.
- Assume upsell profit margin ~70% but not substantial in the first 5 years.

What will your cost of capital be? (If you don't know, assume 50%. If you do know, explain below why you think your cost of capital will be different.)

- Assume 50% (per instruction)

Calculations to Estimate the LTV

Input	t = 0 (Today)	t = 1 (1 year)	t = 2 (2 years)	t = 3 (3 years)	t = 4 (4 years)	t =5 (5 years)
A. One-time Revenue Amount	€0	€0	€0	€0	€0	€0
B. - One-time Revenue Profit Margin (%)	-	-	-	-	-	-
C. - One-time Revenue Profit (row A * B)	€0	€0	€0	€0	€0	€0
D. Recurring Revenue Amount	€1,200	€960	€840	€780	€720	€600
E. - Recurring Revenue Profit Margin (%)	60% (average of 50–70%)	60%	60%	60%	60%	60%
F. - Recurring Revenue Profit (row D * E)	€720	€576	€504	€468	€432	€360
G. Other Revenue Amount	~	~	~	~	~	~
H. - Other Revenue Profit Margin (%)	~	~	~	~	~	~
I. - Other Revenue Profit (row G * H)	€0	€0	€0	€0	€0	€0
J. Sum of Profit for time period	€720	€576	€504	€468	€432	€360
K. Default cost of capital factor: Discount factor to NPV (@50%/year and assuming units of time = years)[1]	1.0	.67	.44	.30	.20	.13
L. NPV of each item (row J * K)	€720	€385.92	€221.76	€140.4	€86.4	€46.8
M. Sum of All NPVs (sum of all cells in row L)	**€1,601.28**					

Interpretation of Estimation

a. What would you round your LTV estimation to? What range do you feel comfortable with?
€1,600 per acquired lawyer.

b. Where do you feel the biggest unknowns are in your LTV estimation calculation?
- Retention rates after year 3–5.
- How quickly upsells and upgrades might kick in.

c. Does the number seem reasonable?
Yes. Consistent with €1,200/year pricing and realistic churn assumptions for SaaS in niche legal markets.

d. What are the key drivers of the LTV if you want to increase it?
- Improve Year 2+ retention.
- Upsell more compliance modules or team licenses.
- Reduce churn with better onboarding and user support.

e. Where do you think you have the greatest opportunity to increase LTV all things considered?
- Early upgrades from individual to firm-wide licenses.
- Adding premium modules (e.g., compliance dashboards for law firms).

[1] To calculate the present value (PV) of a future value of cash (FV) where i = the interest rate and t = units of time past, the formula is $PV = FV * (1 / (1+i)^t)$