

Zenith SaaS Inc. - Case Background Notes

Company Overview

Business Model

- **Industry:** SaaS (Software-as-a-Service)
- **Sector:** Mid-market workflow automation
- **Product:** Cloud-based workflow automation platform
- **Revenue Model:** Recurring subscription revenue (70% core SaaS, 15% professional services)

Market Position

- **Total Addressable Market (TAM):** \$15B+ workflow automation market
- **Market Share:** ~2%
- **Competitive Position:** Solid mid-market player
- **Key Differentiator:** Strong customer retention and sticky product

Financial Snapshot (Year 1)

Income Statement Metrics

- **Revenue:** \$280M
- **Gross Margin:** 72%
- **OpEx (% of Revenue):** 54%
- **D&A:** 3% of revenue = \$8.4M
- **EBITDA:** \$45.4M (18% margin)
- **Tax Rate:** 25%

Balance Sheet

- **Debt:** \$0 (currently unlevered)
- **Book Equity:** ~\$500M (estimated)
- **Cash Position:** Sufficient for operations

Investment Metrics

- **CapEx:** 2% of revenue
- **Working Capital:** 2% of revenue change

Growth Profile

Revenue Growth (Years 1-5)

- Year 1→2: **12%** growth
- Year 2→3: **11%** growth
- Year 3→4: **10%** growth
- Year 4→5: **9%** growth
- Year 5→6: **8%** growth

Observation: Growth is **slowing** from 12% → 8% (characteristic of maturing SaaS business)

Operating Leverage Improvement

- **OpEx declining as % of revenue:**
 - Year 1: 54%
 - Year 2: 52%
 - Year 3: 50%
 - Year 4: 49%
 - Year 5: 48%

Result: EBITDA margin improves from **18%** → **24%** over 5 years

Customer Metrics

- **Net Revenue Retention (NRR):** 105% (strong retention, indicates low churn + expansion)
- **Customer Concentration:** Top 3 customers = 22% of revenue (not over-concentrated)
- **Customer Base:** Mid-market enterprises (sticky, recurring relationships)

Founder Situation

Current Ownership Structure

- **Founders:** 60% ownership
- **Employees:** 10% (stock options/equity)
- **Other investors:** 30% (likely early investors/VCs)

Founder Objectives

- **Primary Goal:** Achieve liquidity event
- **Motivation:** Company at inflection point; growth slowing but profitable
- **Timing:** Want to monetize now while market conditions favorable
- **Consideration:** Balance between immediate cash-out vs. retaining upside potential

Strategic Context

Why Now?

1. **Company maturity:** Reached scale (\$280M revenue), margins improving
2. **Growth trajectory:** Slowing growth (12%→8%) makes it harder to command premium multiples in future
3. **Market timing:** SaaS M&A market active; strategic buyers seeking bolt-on acquisitions
4. **Founder lifecycle:** Natural exit point after building to this scale

Two Paths Forward

1. **Strategic Sale:** Sell to larger SaaS company (Salesforce, ServiceNow, Workday, etc.)
2. **Leveraged Recap:** Partner with PE firm, founders take partial liquidity + retain equity upside

Risk Factors to Consider

Business Risks

- Slowing growth could concern buyers

- Customer concentration (top 3 = 22%)
- Competitive pressure in workflow automation space

Market Risks

- SaaS multiples compressed from 2021 highs (10-15x → 7-10x revenue)
- Rising interest rates make debt financing more expensive
- Potential recession could compress multiples further (to 6-7x)

Execution Risks

- Strategic sale: Integration risk, culture fit, employee retention
- Recap: High leverage (4x+ debt/EBITDA), growth execution under pressure

Key Takeaway: Zenith is a solid, profitable SaaS business at an inflection point. Founders want liquidity. The main question is: **Strategic sale for certainty, or recap for upside?** Our job is to model both paths and recommend the best option.