SaaS companies Caselets

Caselet 1: Baseline SaaS Growth & MRR Forecasting

Learning Point

This caselet introduces the core mechanics of SaaS financial modeling by linking customer growth, churn, pricing, and plan mix to Monthly Recurring Revenue (MRR) and Annual Recurring Revenue (ARR). The objective is to understand how small changes in operating assumptions scale over time in a subscription business.

Background

CloudTrack is a B2B SaaS company offering workflow automation software to mid-sized enterprises in India. The firm operates on a monthly subscription model and is preparing a five-year revenue forecast to support internal planning and investor discussions. As of the end of the previous year, CloudTrack has **250 paid customers**.

Inputs for Model Building

CloudTrack adds **new paid customers on a steady basis each month**. It expected that newly added customers in Y1, Y2, Y3, Y4 and Y5 are expecte to be 220,320,430,560,720. The business experiences a **monthly churn rate of 2.5%**. Customers can subscribe to either a Basic plan, priced at ₹2,500 per month, or a Pro plan, **priced at ₹6,000 per month**. The current plan mix is **70% Basic customers and 30% Pro customers**. The company operates at a **gross margin of 80%**. All prices and assumptions are expected to remain constant over the forecast horizon.

Student Task

Using the above information, students must forecast total paid customers for five years, compute MRR and ARR for each year, and identify the key drivers of revenue growth. The output from this caselet forms the base input for all subsequent models in the workbook.

Caselet 2: Cohort Analysis & Churn Sensitivity

Learning Point

This caselet develops an investor-oriented understanding of customer retention by modeling revenue on a cohort basis and examining how churn differentials affect long-term value creation.

Background

Although CloudTrack's top-line revenue is growing, management is concerned that newly acquired customers churn faster than mature users. Investors want to assess whether early growth is sustainable or eroded by retention weaknesses.

Inputs for Model Building

Each month, CloudTrack acquires **30 new customers**, forming a new cohort. Newly acquired customers experience a **monthly churn rate of 4% during their first 12 months**, after which they transition into a mature cohort with a **monthly churn rate of 1.5%**. ARPU remains unchanged at the weighted average derived from Caselet 1, and pricing does not vary across cohorts.

Student Task

Students must build a cohort-wise MRR model over time, compare total revenue under high-churn and low-churn scenarios, and identify the point at which churn materially destroys enterprise value. This caselet corresponds directly to the cohort decay tables in the workbook.

Caselet 3: CAC, LTV & Payback Period Analysis

Learning Point

This caselet focuses on unit economics by linking customer acquisition costs to customer lifetime value and capital recovery timelines, enabling students to evaluate growth sustainability.

Background

CloudTrack has increased its marketing efforts to accelerate growth, but the CFO is concerned about whether the firm is creating value with each additional customer acquired.

Inputs for Model Building

Monthly marketing spend is **₹9,00,000**. The average **Customer Acquisition Cost (CAC)** works out to **₹30,000 per customer**. Average Revenue per User (ARPU) is **₹3,550 per month**, derived from the plan mix. Gross margin remains **80%**, and the steady-state monthly churn rate is **2.5%**.

Student Task

Students must calculate CAC, LTV, the LTV/CAC ratio, and the customer payback period in months. Based on these metrics, they must recommend whether CloudTrack should continue scaling its marketing spend. This caselet feeds directly into the unit-economics section of the workbook.

Caselet 4: SaaS Valuation Using Forward ARR Multiple

Learning Point

This caselet introduces market-based valuation of SaaS firms using forward ARR multiples, emphasizing how growth and churn affect valuation outcomes in acquisition settings.

Background

A large enterprise software company is evaluating the acquisition of CloudTrack. Recent industry transactions suggest valuations are based on forward-looking ARR multiples.

Inputs for Model Building

Projected **Forward ARR (Year 3)** from prior caselets is used as the valuation base. Comparable SaaS companies trade at **ARR multiples ranging from 6× to 10×**, with **8×** considered the base case. CloudTrack's growth rate is above industry average, while churn is slightly higher than best-in-class peers.

Student Task

Students must estimate Enterprise Value using the base ARR multiple, perform sensitivity analysis across the valuation range, and assess whether CloudTrack deserves a premium or discount. This caselet maps exactly to the ARR-multiple valuation sheet in the workbook.

Caselet 5: Integrated SaaS Valuation Using Simplified DCF

Learning Point

This capstone caselet integrates operating forecasts with intrinsic valuation, highlighting the strengths and limitations of DCF analysis for early-stage SaaS businesses.

Background

Before finalizing acquisition negotiations, CloudTrack's Board wants to compare market-based valuation with an intrinsic DCF-based estimate.

Inputs for Model Building

Starting MRR is taken from Caselet 1 forecasts. Gross margin is **80%**, operating costs are assumed at **45% of revenue**, and free cash flows are forecast for **five years**. The **discount rate (WACC) is 14%**, and the **terminal growth rate is 4%**.

Student Task

Students must convert MRR into annual free cash flows, compute Enterprise Value using a simplified DCF model, compare the DCF valuation with the ARR-multiple valuation, and critically discuss why DCF may understate or overstate value for high-growth SaaS firms.