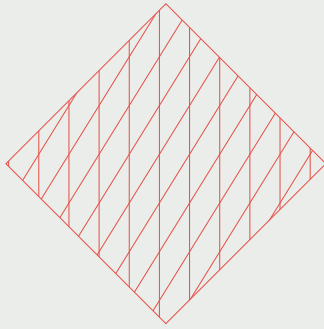


SaaS

**UB Ventures
Annual
Report 2021**

UB VENTURES



Perspectives on Japan's Evolving SaaS Ecosystem

SaaS business is in a period of transition.

There are several companies with ARR (annual subscription sales) exceeding JPY 10bn, being invested in or acquired by listed SaaS companies. The amount of funds raised by unlisted SaaS companies has also reached a record high of JPY 146.5bn.

2021 will be remembered as a year where the trend fully manifested itself across markets.



Osamu Iwasawa

UB Ventures
Managing Partner & CEO

OSAMU IWASAWA is a Managing Partner and CEO of UB Ventures. Prior to founding UB Ventures, Osamu worked as an equity research at Lehman Brothers and Barclays Capital. He was later a management consultant at Nomura Research Institute and joined Uzabase in 2011. As an executive officer, Osamu was in charge of business development at SPEEDA, before moving to Hong Kong in 2013 to help establish SPEEDA's Asia business. After serving as Head of the Asia business, he returned to Tokyo and founded UB Ventures in 2018. He has a M.E. in Civil Engineering from Keio University.

Meanwhile, in public markets, it appears that excessive valuations are coming to an end, and we are entering a phase in which the true strength of each company's business is being tested, and competition between SaaS companies is intensifying.

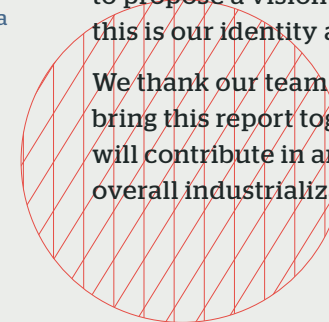
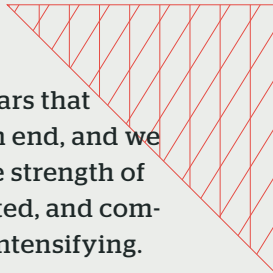
As new trends such as Vertical SaaS and Product-Led Growth begin to emerge in the market, how will SaaS evolve next? Will this just be a transient trend or will it have an indelible, permanent impact on industries in Japan?

We believe that the turning point of SaaS is happening right now.

This report is comprised of 4 segments: 'Overview', which summarizes the latest data on the SaaS market; 'Playbook', which describes the key points in SaaS so far; 'Trends', which looks ahead to what is in store for SaaS in 2022; and 'China SaaS', which analyzes the SaaS market of China, where SaaS adoption is greatly accelerating.

By identifying the key trends and deriving our hypothesis from the market data available, we seek to propose a vision of the future we hope to build - this is our identity and our vision at UB Ventures.

We thank our team who have worked tirelessly to bring this report together, and we hope that this will contribute in any and every manner to the overall industrialization of SaaS in Japan.





Overview

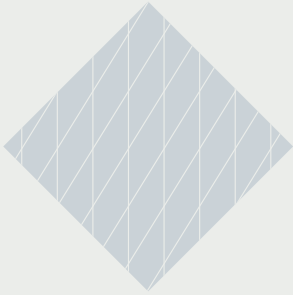
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UB Ventures SaaS Playbook

10

3 Key Metrics for Post-PMF
SaaS Startups

- ▶ MRR Velocity
 - ▶ NRR
 - ▶ Mendoza Line
- 



Year 2022 Trend

16

- ▶ Product-Led Growth
 - ▶ Vertical SaaS
- 



China SaaS

23

The Advent of the Golden Age
for China SaaS



- Horizontal SaaS
- ▼ Vertical SaaS

ARR
JPY 10bn

The State of SaaS in Japan

Top SaaS reaching
ARR of JPY 20bn

More diverse SaaS startups are going public following the maturity of horizontal SaaS
Vertical SaaS, AI, Hardware

* If ARR is not disclosed, it is calculated by quarterly non-consolidated sales x 4 (CloudSign includes metered amount).

* Although stock sales are prioritized and recorded, they are not necessarily of the same standard. Data is mainly for BtoB SaaS.

* Group ARR including Home Premium disclosed by Money Forward is JPY 10.25bn.

* Group ARR including NewsPicks business as announced by Uzabase is JPY 11.64bn.

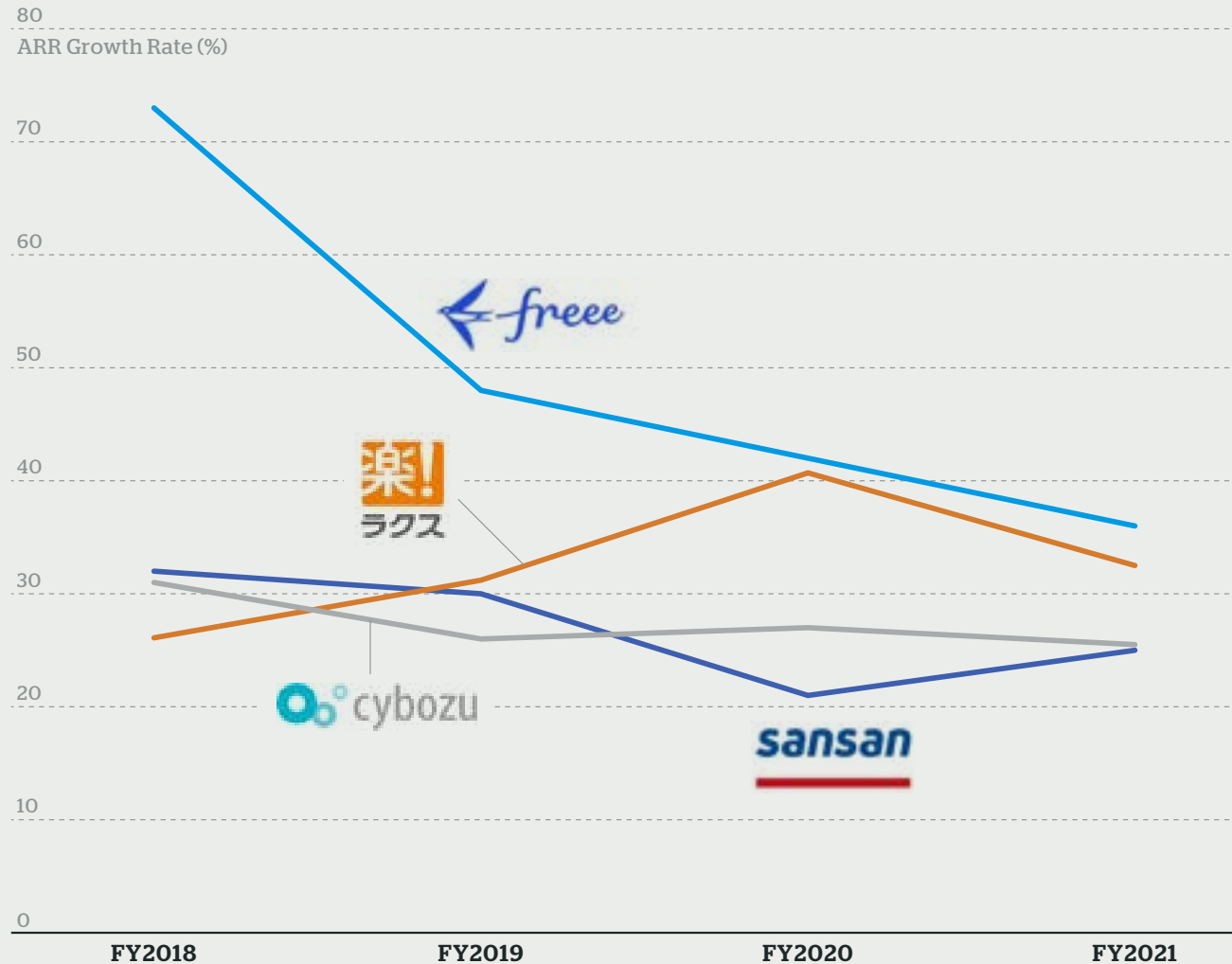
* Aggregated from data available as of the end-November 2021.

	Company	Detail [SaaS Business Line]	ARR (JPY bn)	ARR Growth Rate (%/YoY)
1st	Sansan	Business Card Management ● Company-Wide	17.1	23.9
2nd	Cybozu	Groupware ● Cloud-Related Business	15.7	26.3
3rd	Rakus	Expense Reimbursement, Invoice ● Cloud Business Sales	14.6	38.0
4th	freee	Accounting / ERP ● Company-Wide	12.0	42.7
5th	Infomart	Ordering ▼ Company-Wide	9.4	11.7
6th	Money Forward	Accounting / ERP ● Business (Sole Proprietors + Corporations) + X	8.5	35.3
7th	UZABASE	Company / Industry Analysis ● SPEEDA + Other B2B	8.5	28.0
8th	SMS	Long-Term Care Management ▼ Long-Term Care Business (Kaipoke)	7.0	25.0
9th	Plus Alpha Consulting	Human Resources Management ● Company-Wide	5.9	32.1
10th	PLAID	Customer Analysis ● SaaS Business	5.8	32.3
11th	Safie	Cloud Recording ● Company-Wide	5.2	72.1
12th	HENNGE	ID Management ● HENNGE ONE Business	4.7	21.2
13th	kaonavi	Human Resources Management ● Stock Earnings	4.2	36.0
14th	Wantedly	Recruitment ● Stock Earnings	3.1	32.7
15th	Chatwork	Collaboration ● ChatWork Business	3.0	29.2

	Company	Detail [SaaS Business Line]	ARR (JPY bn)	ARR Growth Rate (%/YoY)
16th	Link and Motivation	Employee Engagement ● Motivation Cloud Series	2.8	19.2
17th	Yappli	App Development ● App Management Platform Business	2.7	29.2
18th	Bengo4.com	Electronic Contract ● CloudSign	2.6	91.3
19th	AI inside	Cloud Recording OCR ● Recurring	2.6	-41.6
20th	TeamSpirit	ERP ● Company-Wide	2.5	13.8
21th	MEDLEY	Online Medical Care ▼ Medical Platform	2.5	134.0
22th	User Local	Site Analysis ● Company-Wide	2.4	30.9
23th	Smaregi	POS Cash Register ▼ Cloud Service Monthly Usage Fee	2.2	25.9
24th	SPIDERPLUS	Cloud Service Monthly Usage Fee ▼ ICT Division	2.0	31.0
25th	Startia Holdings	Marketing Automation ● Digital Marketing Business	1.9	34.6
26th	Cyber Security Cloud	Web Security ● Company-Wide	1.8	45.9
27th	oRo	ERP ● Cloud Solution Business	1.8	16.9
28th	Photosynth	Entry / Exit Management ● Company-Wide	1.5	36.6
29th	Logizard	Inventory Control ● Cloud Service	1.3	8.1
30th	rakumo	Workflow ● SaaS Service Sales	0.9	21.7

Top SaaS companies continue to maintain growth rate of over 20% after achieving JPY 10bn ARR

Growth of 4 Companies exceeding JPY 10bn ARR



Growth after achieving JPY 10bn ARR

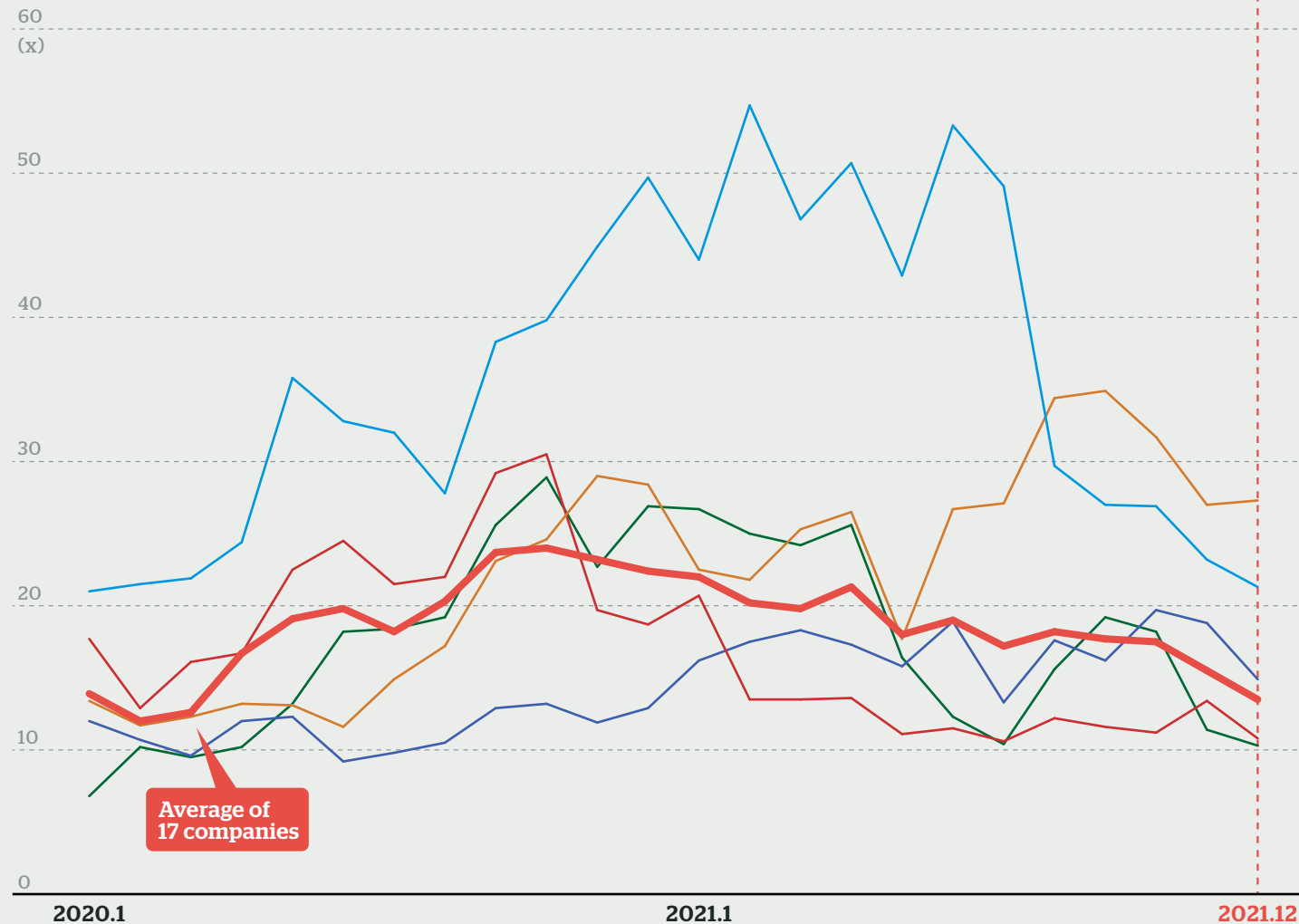
Top SaaS companies with over JPY 10bn ARR are still growing at a rate of at least 20%. This is not based on a one-off single product growth, but a sustained growth across a series of products, such as RAKUS' Raku Raku series and free's ERP service integrations - all of which have scaled via increasing the no. of accounts as well as unit price.

What are the key factors driving these growth rates?

-  Sansan's Unit Price Increase
-  Bill ONE's Invoice System Rapid Growth
-  Migration of Group's Services to the Cloud
- Kintone's Rapid Growth
-  Product Group Growth of over JPY 1bn ARR
-  Rakuraku Meisai's Rapid Growth after Rakuraku Seisan's Success
-  40% Growth by Customer Acquisition
-  Growth from higher ARPU accounts via expansion of ERP offerings

Source: UB Ventures materials referring each company's financial statements; Sansan data is based on their sales figures, Cybozu and Rakus are based on their monthly cloud sales figures; FY2021 data are based on each company's full-year forecasts.

EV / Revenue based on forecasts of top SaaS companies



SaaS valuations are becoming polarized

With aggressive capital raising to the structural shift to remote work due to the pandemic, multiples rose to a new high in 2020. In 2021, the market recalibrated itself and re-evaluated such multiples, leading to a possible polarization of multiples. Companies that are expected to continue growing rapidly within a large TAM are likely to maintain their valuation, while those with lower growth appear to be significantly declining.

EV/ Revenue (x) As of 31 December 2021

—		27.3x
—		21.3x
—		14.9x
—		10.3x
—		10.8x

Source: UB Ventures materials aggregating corporate and financial data from the Tokyo Stock Exchange and each company's published materials

The IPO of large SaaS companies and emergence of more JPY 10bn SaaS companies staying private

New Listings



Private companies with est. valuation of over JPY 10bn at time of last financing



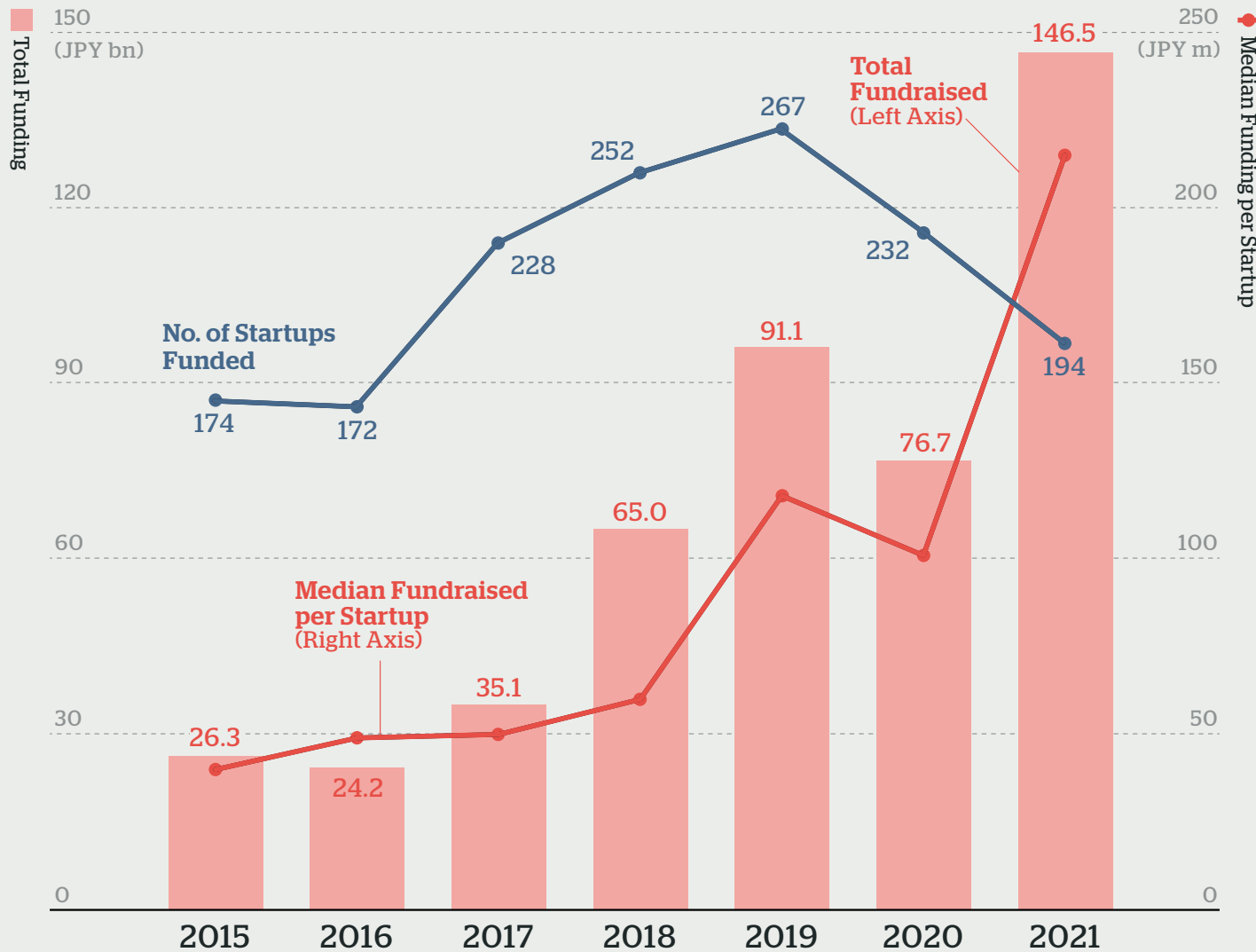
IPOs of SaaS companies will continue even after 2022

Over the last few years, the equity market has seen IPOs of large SaaS companies with market capitalizations over JPY 100bn.

Additionally, there has been an underlying emergence of SaaS start-ups valued over JPY 10bn, largely due to the increased deployments of venture capital.

Large-scale IPOs are expected to continue after 2022, in part due to a rise in private equity available from growth and crossover investors.

Source: UB Ventures materials aggregated from JPX and INITIAL.



30% of all venture capital went into SaaS startups

Total funding of the SaaS ecosystem reached a record high of JPY 146.5bn. This comprised 30% of total fundraising of the startup ecosystem at JPY 500bn.

Median funding had doubled from the previous year to JPY 200m.

The number of startups funded dropped from the peak in 2019 for the second consecutive year, signaling limited new entrants as well as greater concentration of funds in existing SaaS startups.

[Note 1] Yearly figures are true as of the date the historical data is consolidated.

[Note 2] Due to the characteristics of the data, figures may fluctuate depending on survey methodology. The smaller the figure, the greater the possibility for a change in figures.

[Note 3] 2021 figures are true as of reference date.

With acquisitions by 9 major SaaS companies, M&A activity is on the rise

Major M&A by SaaS Companies

Announcement Date	Acquirer	Target	Target Business	Share Ownership (%)	Amt (JPY m)
2021.11.30	Money Forward	HiTTO	In-House AI Chatbot	100	1,999
2021.11.9	Infomart	Deepwork	Invoice Receipt	N/A	N/A
2021.8.27	PLAID	Emotion Tech	Customer Experience Management	64	1,676
2021.6.22	Chatwork	Chatwork Storage Technologies	Cloud Storage	51	459
2021.5.19	Sansan	Fringe81	Peer Bonus	3.07	3,800
2021.3.23	KAKEHASHI	Pharmarket	Secondary Drug Distribution	100	N/A
2021.3.10	freee	SiGHTViSiT	E-Contracts	70	2,788
2021.2.4	Infomart	TANOMU	F&B Wholesale	N/A	N/A
2020.9.18	Money Forward	R&AC	Payment Management	100	450
2020.8.26	Sansan	logmi	Transcriptions	70.1	N/A
2020.4.17	UZABASE	MIMIR	Expert Network	100	N/A
2020.4.3	Sansan	SATORI	Marketing Automation	27.4	N/A
2019.11.11	Money Forward	SMARTCAMP	SaaS Marketing Platform	72.3	1,998
2019.11.1	Sansan	WingArc1st	Form Management	11.4	4,998
2018.7.5	Money Forward	Knowledge Labo	Business Analysis	51.4	198
2018.1.18	Rakus	blayn mail	Mail Delivery System	100	1,575
2017.11.2	Money Forward	KLAVIS	Automatic Bookkeeping	100	800
2016.12.16	UZABASE	Japan Venture Research	Startup Database	100	122

Source: Data is aggregated from each company's public information

Domestic M&A trends



TAM Expansion with Wider Product Offerings

e.g. freee's Acquisition of SiGHTViSiT (E-Contracts)



Business Expansion via Synergies with Existing Businesses

e.g. KAKEHASHI's Acquisition of Pharmarket (secondary drug distribution)



Startup Investments into Related Businesses

ex. Infomart's investments into TANOMU and Deepwork

With the entry of PE funds and other large-scale deployments, M&A activity is set to accelerate as competition increases in the capital markets.

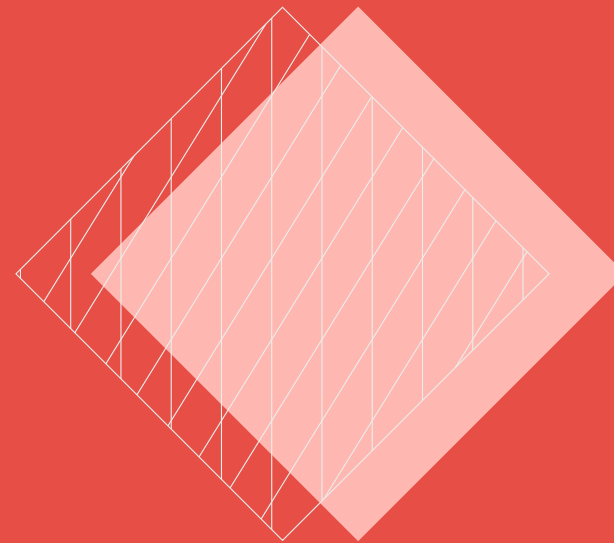
UB Ventures SaaS Playbook

3 Key Metrics UB Ventures Use
for Post-PMF SaaS Startups

MRR Velocity

NRR

Mendoza Line



MRR Velocity



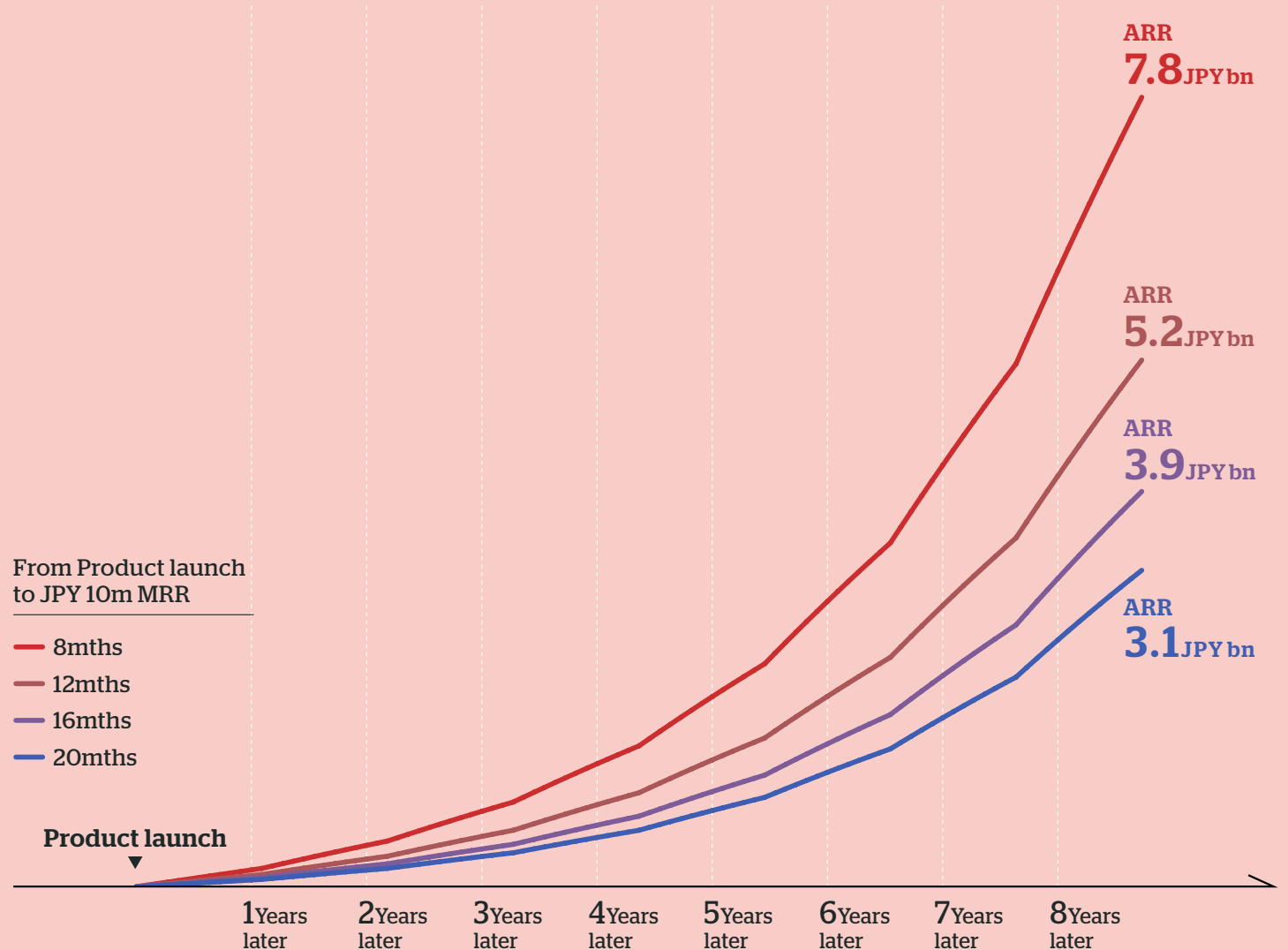
Velocity from Product Launch to achieving JPY 10m MRR

The initial speed upon product launch strongly influences the sustained rate of growth until IPO. Benchmark would be exceeding JPY 10m MRR after product launch

Future growth can be calculated by the no. of months taken to achieve JPY 10m MRR. A difference of 4 months will mean a difference of JPY 1bn ARR 8 years later.

From Product launch to JPY 10m MRR

- 8mths
- 12mths
- 16mths
- 20mths

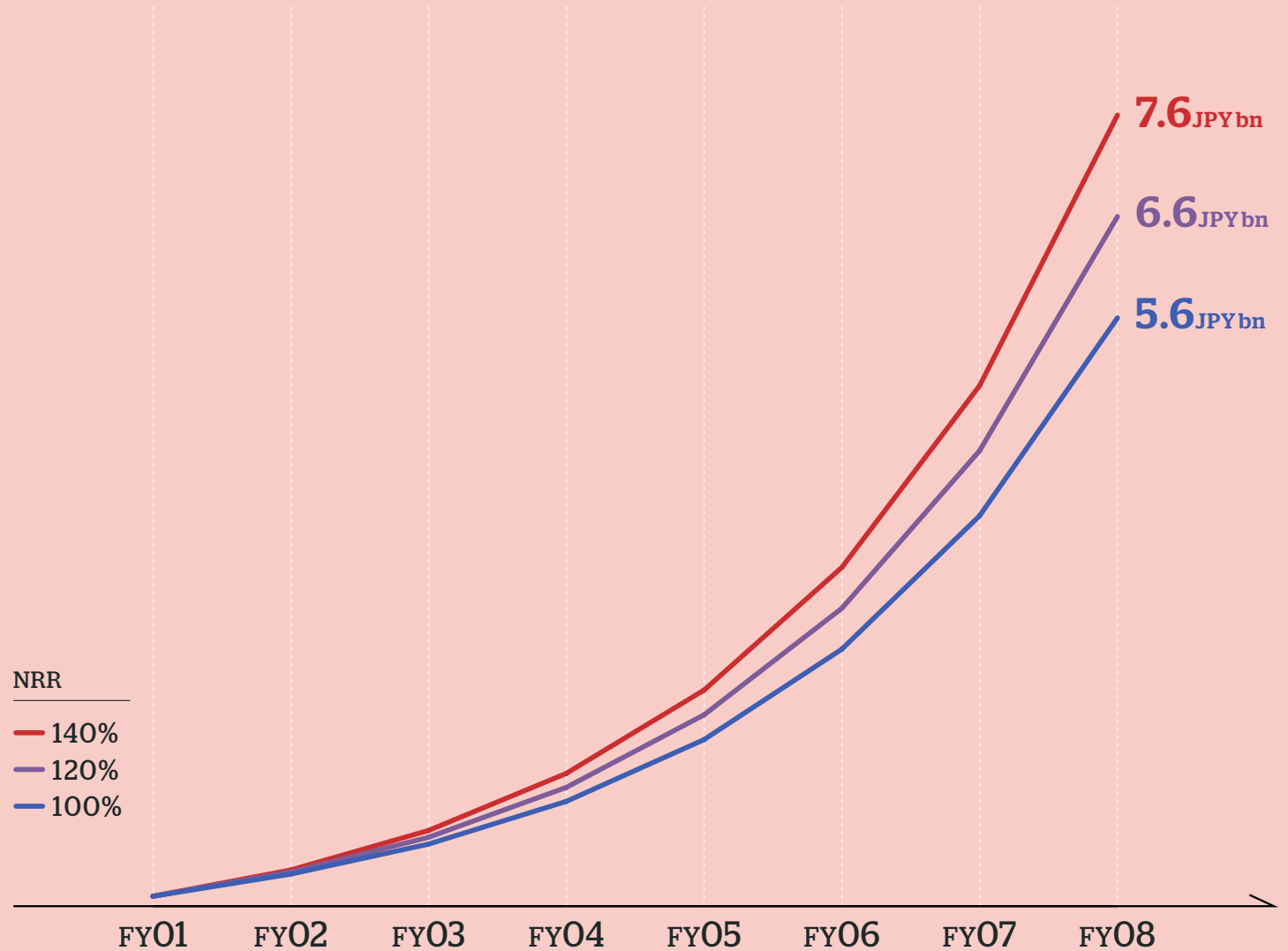


Assumptions	
ARPU	JPY 100k/mth
NRR	140%
Customer Growth Rate	150%
Churn Rate	1%/mth

A difference of 20% NRR means a difference of JPY 1bn after 8 years

For SaaS companies, after reaching a certain phase of growth, it is important to focus on not only new accounts but also to upsell existing accounts.

By increasing the no. of accounts, as well as unit price per account due to new additional features, cross-selling these one-stop solutions will allow for sustained, diversified growth.

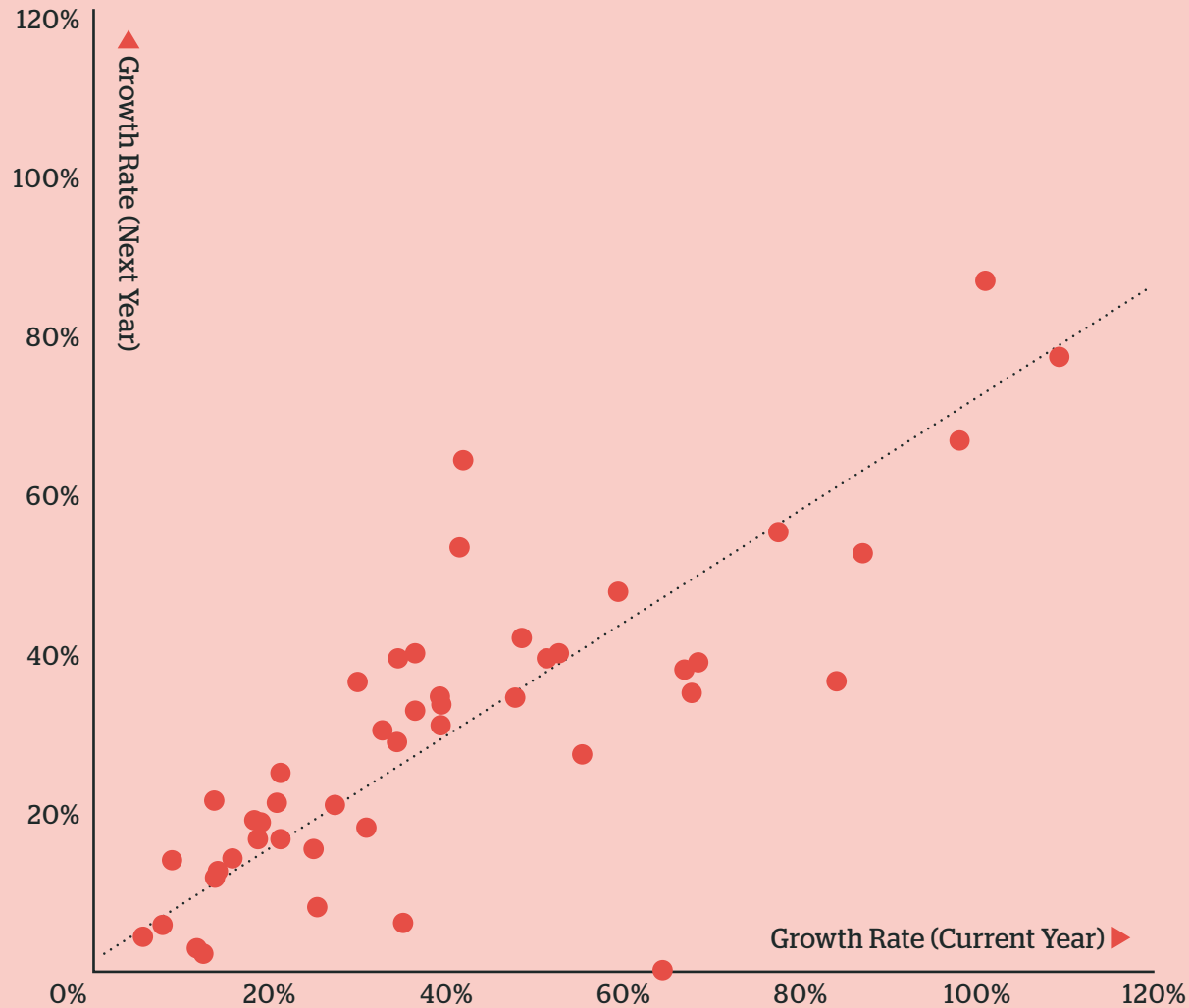


NRR
 — 140%
 — 120%
 — 100%

Assumptions	
ARPU	JPY 100k/mth
MRR Velocity	8mths
Customer Growth Rate	150%
Churn Rate	1%/mth

Revenue growth of Japan SaaS companies slow down to 80% in subsequent years

Revenue Growth Rate (Current Year vs Next Year)



How to deal with decreasing growth rates

Similar to US SaaS companies, the growth rate of Japan SaaS companies that have reached a certain scale tends to gradually decrease to 80% year on year.

On the other hand, there are cases where growth is accelerated through strategies such as creating new products, diversifying sales through partnerships, and M&A activities.

In the future, it is possible that the sustainability of growth rates would become a factor that influences valuation.

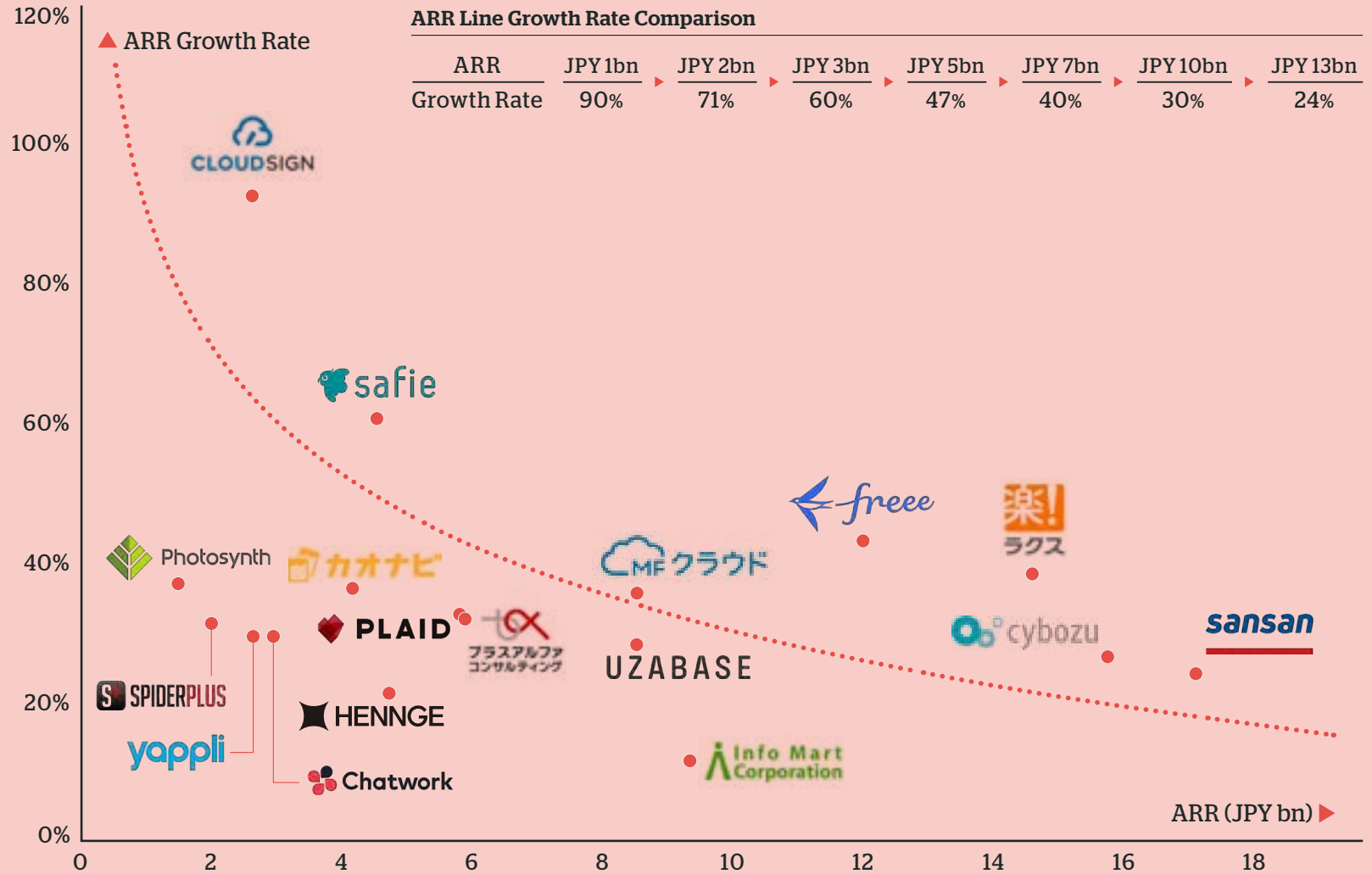
Source: FY2017-2020 Growth Rates of 18 public Japan SaaS companies referenced from public materials

What is the growth rate to aim for in order to achieve JPY 10bn ARR?

Is your growth on track to outperform the Mendoza Line?

This Mendoza Line - based on 30% growth at JPY 10bn ARR - is derived by applying the annual decrease in sales growth of Japan SaaS companies.

Whether strong MRR velocity is achieved at an early stage and exceeds the Mendoza Line determines how fast they can reach JPY 10bn ARR and scale beyond.



70%+ Gross Profit Margin is a Pre-requisite for SaaS

Costs to be included in COGS for SaaS

<h3>Hosting Cost</h3> <p>Server Costs for Product Delivery</p> <p>E.g. AWS/GCP/Azure Usage Fees, Company Server Costs</p>	<h3>Engineer Cost</h3> <p>Labor expenses involved in product delivery</p> <p>Engineers involved in the main product and infrastructure. Engineers involved in the development of new products are not included.</p>	<h3>Account Management Cost</h3> <p>HR expenses for the opening and maintenance of accounts.</p> <p>E.g. Sales Support Team etc.</p>
<h3>Customer Success Cost</h3> <p>HR expenses involved in product onboarding and inquiries</p> <p>E.g. Customer Success Team, Etc. Upsell / Cross-sell Sales Team are not included.</p>	<h3>Software Cost</h3> <p>3rd-Party expenses involved in product delivery</p> <p>E.g. Salesforce, Zendesk, Gainsight</p>	<h3>Licensing Cost</h3> <p>API and other data licenses required for product delivery.</p> <p>E.g. Twilio, Square, Shopify. Includes license and content usage fees.</p>

- Product-Led Growth
- Vertical SaaS



Year 2022 Trend

Trend until Now

Shift to Cloud-Based Software



On-Premise → Cloud

Development Cost → Subscription

Establishment of a Direct Sales Team
within the Organization

Collaborative Software Utilization
(CRM, Accounting etc.)

2022 Onwards

Business Model Transformation



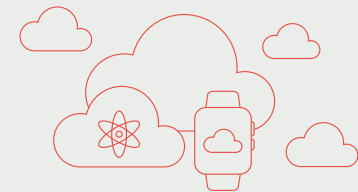
Diversification and
Optimization of Billing Plans

Adjacent Expansion to
Fintech and Marketplaces

Partnership Strategy Development

Digitalization of Legacy SMBs

Industry- Focused SaaS



Expansion Across Industries
(Construction, Healthcare etc.)

Hardware X SaaS

AI Adoption in SaaS

	PLG	SaaS
Revenue Growth Rate	27.5%	21.2%
Gross Profit Margin	76.7%	71.9%
Valuation (USD M)	14,420	6,079

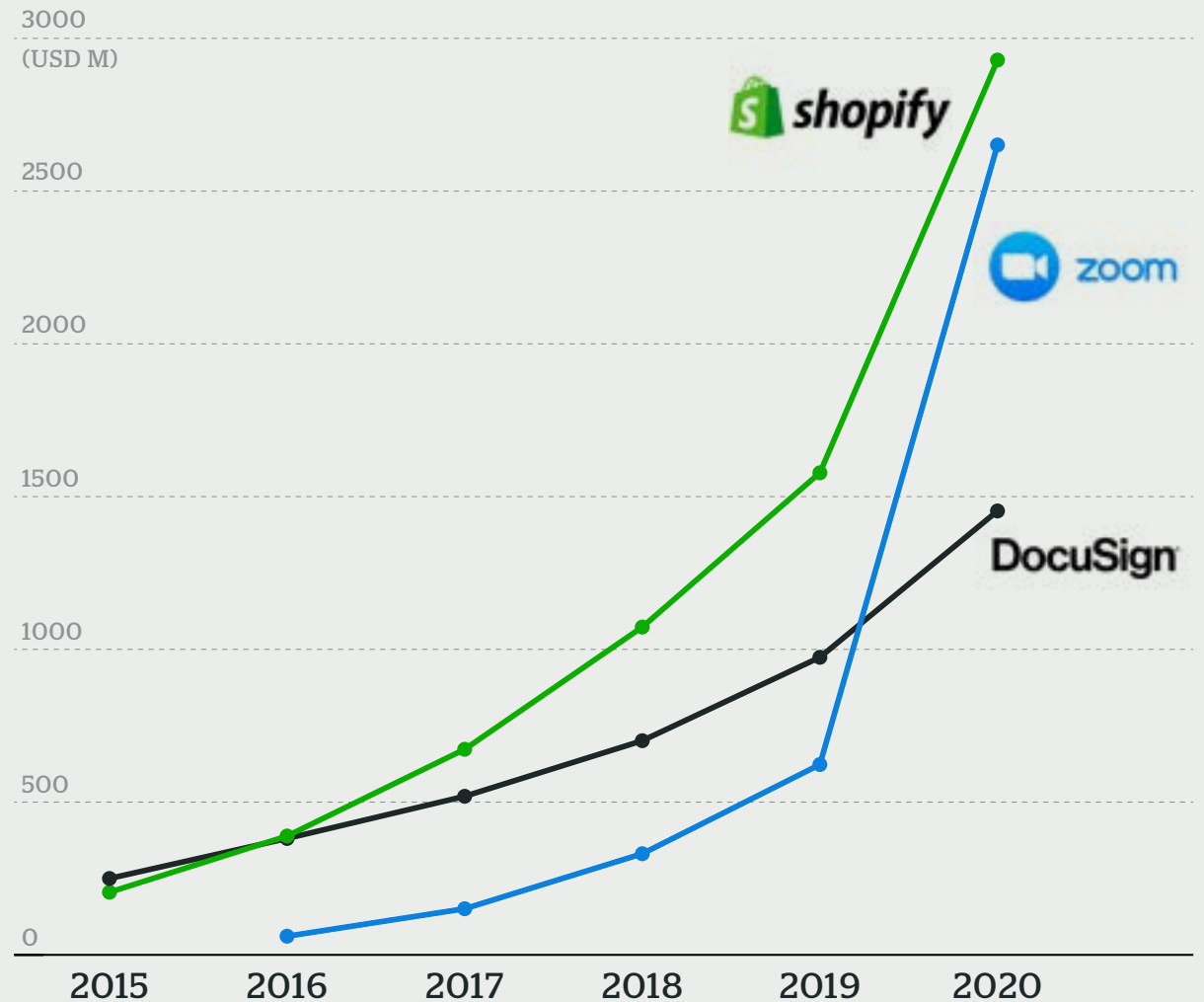
Source: PRODUCT-LED GROWTH INDEX, OpenView Venture Partners (As of 1 September 2021)

Rapid Growth based on User Experience

Global SaaS players such as Zoom and Shopify have continued to rapidly grow even after achieving scale by incorporating PLG (Product-Led Growth) into their growth strategy.

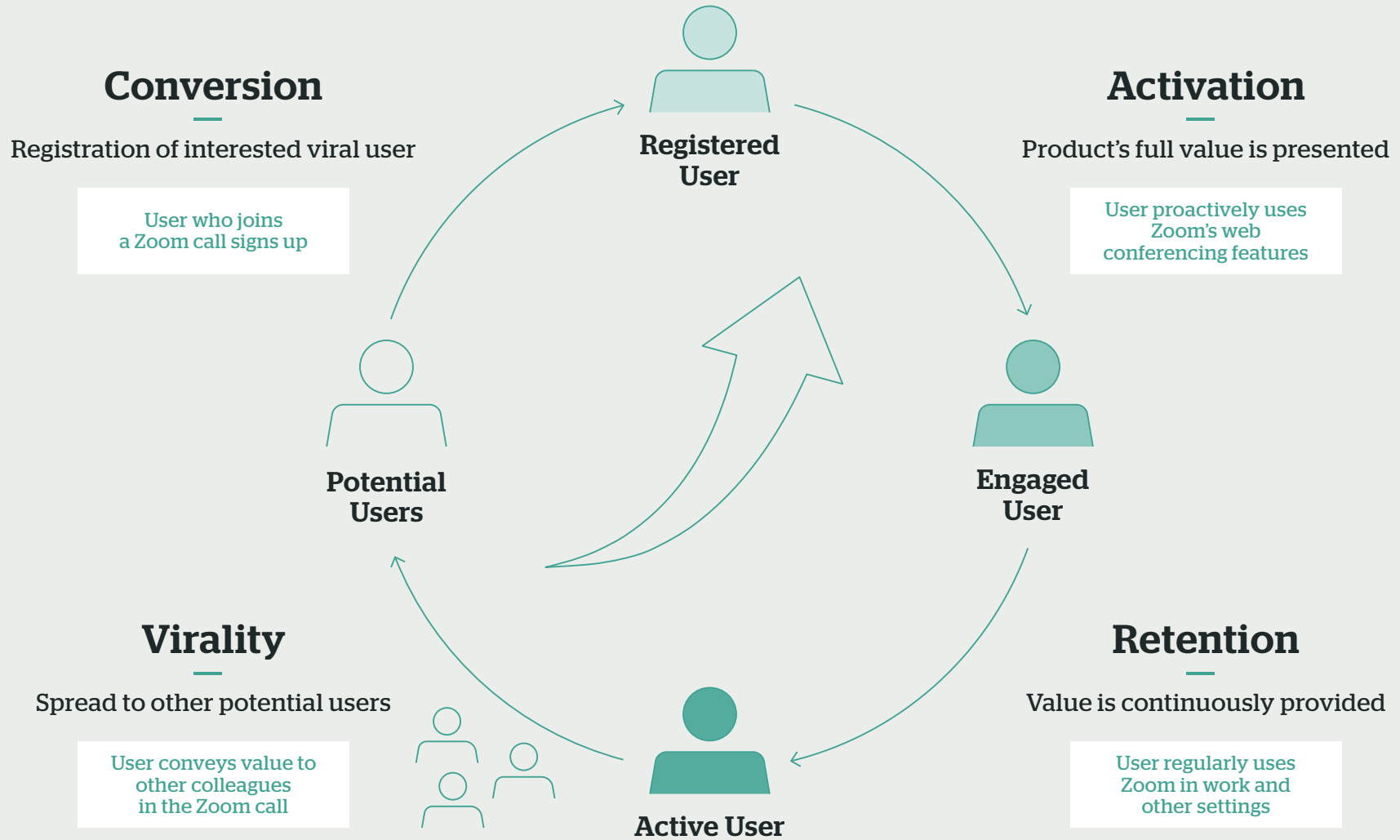
In PLG, the users themselves decide to pay for the subscription by experiencing the product first-hand. In fact, companies that adopt PLG have outperformed the average SaaS in terms of growth potential, profitability, and corporate value.

Revenue Trend of 3 Companies with PLG Strategies



Source: IR materials from each company

The PLG Growth Cycle: Active users bring new users to the product



Product-Led Growth (PLG) and Sales-Led Growth (SLG) are adopted in tandem by many companies

Many companies adopt PLG + SLG



Source: Andreessen Horowitz, "Growth+Sales: The New Era of Enterprise Go-to-Market"

The appropriate strategy depends on various factors, such as the ease of understanding the product, or the target customer base.

Ultimately, the decision of whether PLG or SLG is optimal depends on the environment that the startup is operating within.

Globally, even companies that have adopted PLG often adopt a PLG+SLG hybrid model, such as when the sales team holds business negotiations when acquiring a corporate contract.



The market of vertical SaaS is 1/3 that of horizontal SaaS in Japan

Horizontal / Vertical SaaS by Total Market Capitalization

Horizontal:
22 companies

JPY 2.5tn

Vertical:
10 companies

JPY 921bn

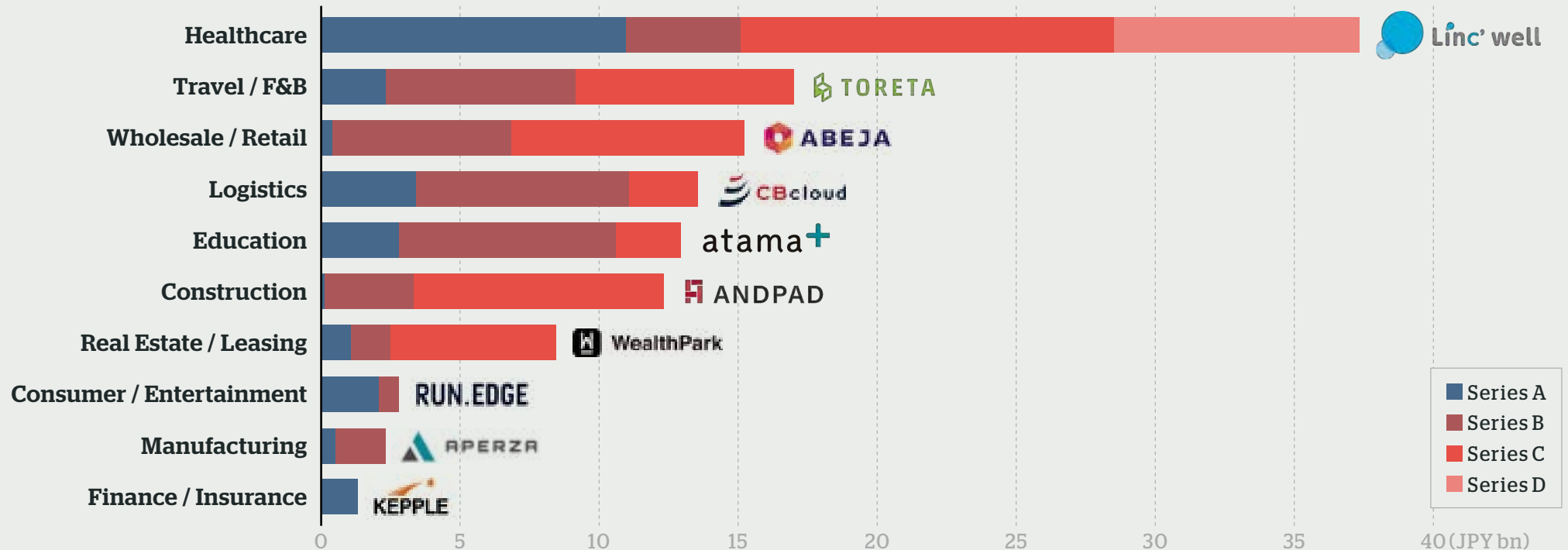
Rapid Growth of Vertical SaaS

Amongst the 10 major vertical SaaS in Japan, the total market capitalization has exceeded JPY 900bn.

Following in the footsteps of Infomart, we are beginning to see other industry-focused startups like SpiderPlus and ENECHANGE also starting to go public.

After 2022, the number of vertical SaaS IPOs may even exceed those of horizontal SaaS, as we are now witnessing a rapid acceleration of digitalization processes happening within each industry across Japan.

Amount fundraised by vertical SaaS (by Industry)



* Total fundraised since Series A in the last 5 years by industry.
* Company logo represents the top fundraiser in each industry category.

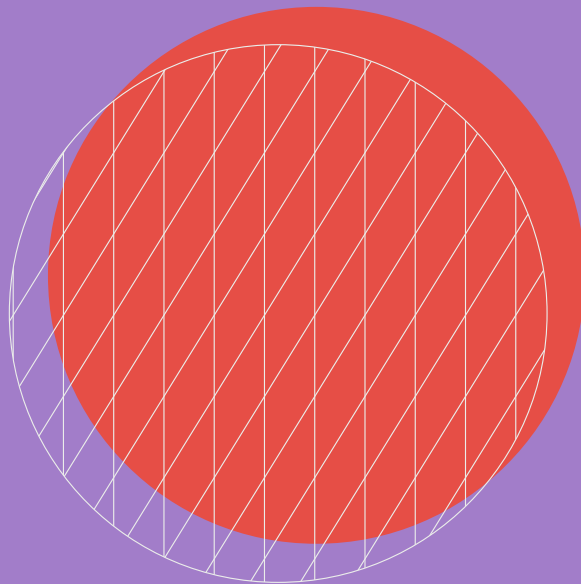
Startup Funding differs largely by Industry

By aggregate funding amount after Series A, we see that healthcare is the leading sector of choice for investments. This is led by late-stage startups like Linc'well, Allm, and UniFa who have raised billions of yen so far.

Large-scale investments is also seen in Travel / F&B, Wholesale / Retail, which are industries facing labor shortages. On the other hand, we are seeing relatively fewer investments in sectors such as Manufacturing where digitalization is more complex.

China SaaS

The Advent of the Golden Age for China SaaS



Chiamin Lai

Managing Partner

Prior to joining UB Ventures, Chiamin worked on corporate digitization and operational transformation projects across Japan and Europe at Intenia. She then worked for Monitor Group, overseeing business strategy planning and Asian expansion projects, before joining DCM Ventures as a venture capitalist, where she was in charge of investments into startups such as freee and Coubic, etc. In 2014, she joined Happy Elements, a Chinese startup, serving as Representative Director of Japan as well as board member of the group company, overseeing Metaverse/XR businesses in Japan and China. Chiamin has an MBA from IE Business School.

1 Policy-Driven by the 5-Year Plan

In the 13th Five-Year Plan announced in 2016, “The proliferation of 4G”, “Cloud-based technology”, “AI” were clearly mentioned, and real-world implementation is expected to rapidly progress in the coming years.

2 Maturity of Cloud-based Technology

Chinese cloud technology continues to rapidly grow. Alibaba Cloud, the 3rd largest global IaaS provider in 2020, provides extensive cloud computing services to many companies worldwide. Technologies such as artificial intelligence, IoT, and 5G are making great strides, with low cost digital solutions also becoming widely accessible to the general public.

3 Active Incentivization to Switch to Domestic Technologies

The Chinese government is trying to transform itself into a manufacturing powerhouse that emphasizes the quality and technology of domestic products under the “Made in China 2025” policy. In its priority sectors, there is a target for domestic production ratio, as well as measures such as financial support for adjacent industries and support for improving basic technological adoption. Within ERP, foreign capital took top share in 2008, but Yonyou, a domestic SaaS company, has since taken 31% share as of 2018.

4 Changes in Management due to Economic Slowdown and Rising Labor Cost

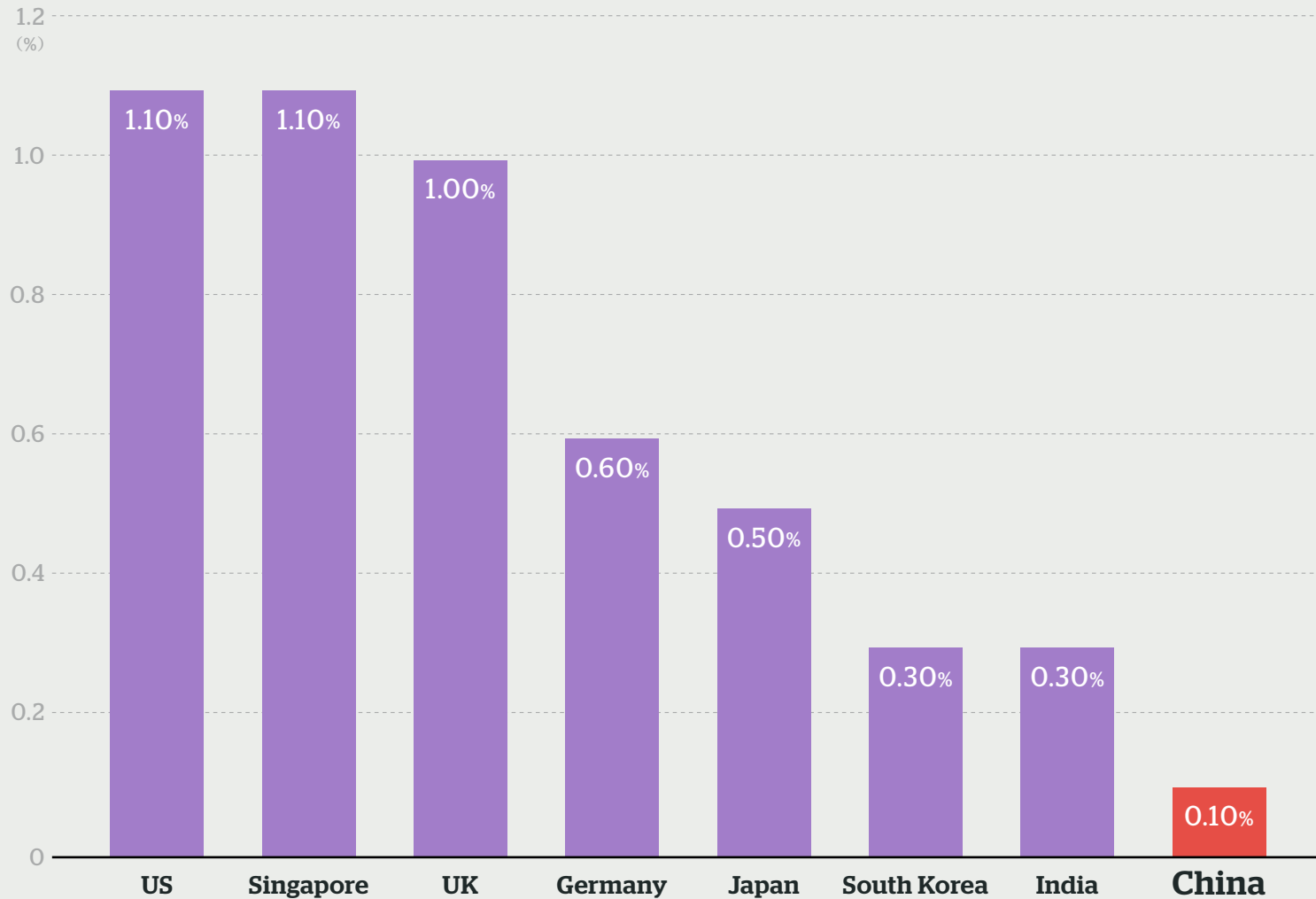
China’s average annual income has risen by 1.6x over 10 years from 2010. Due to the slowdown in growth and rising labor costs, companies have been required to shift from labor-intensive management to a more efficient productivity-driven model based on technological improvements.

5 Changes in Payment Awareness

Historically, software licensing had faced low adoption in China, where companies were not incentivized to invest in software. However, with the proliferation of 4G and the change in mindset towards software copyright ownership amongst the younger generation, paying for software usage fees has gradually progressed. The number of paying users of SaaS companies was estimated to have grown from 13,000 in 2013 to 550,000 in 2019.

Investment into Chinese software could rise by 10x compared to the US

Software Investment as % of GDP (2020)

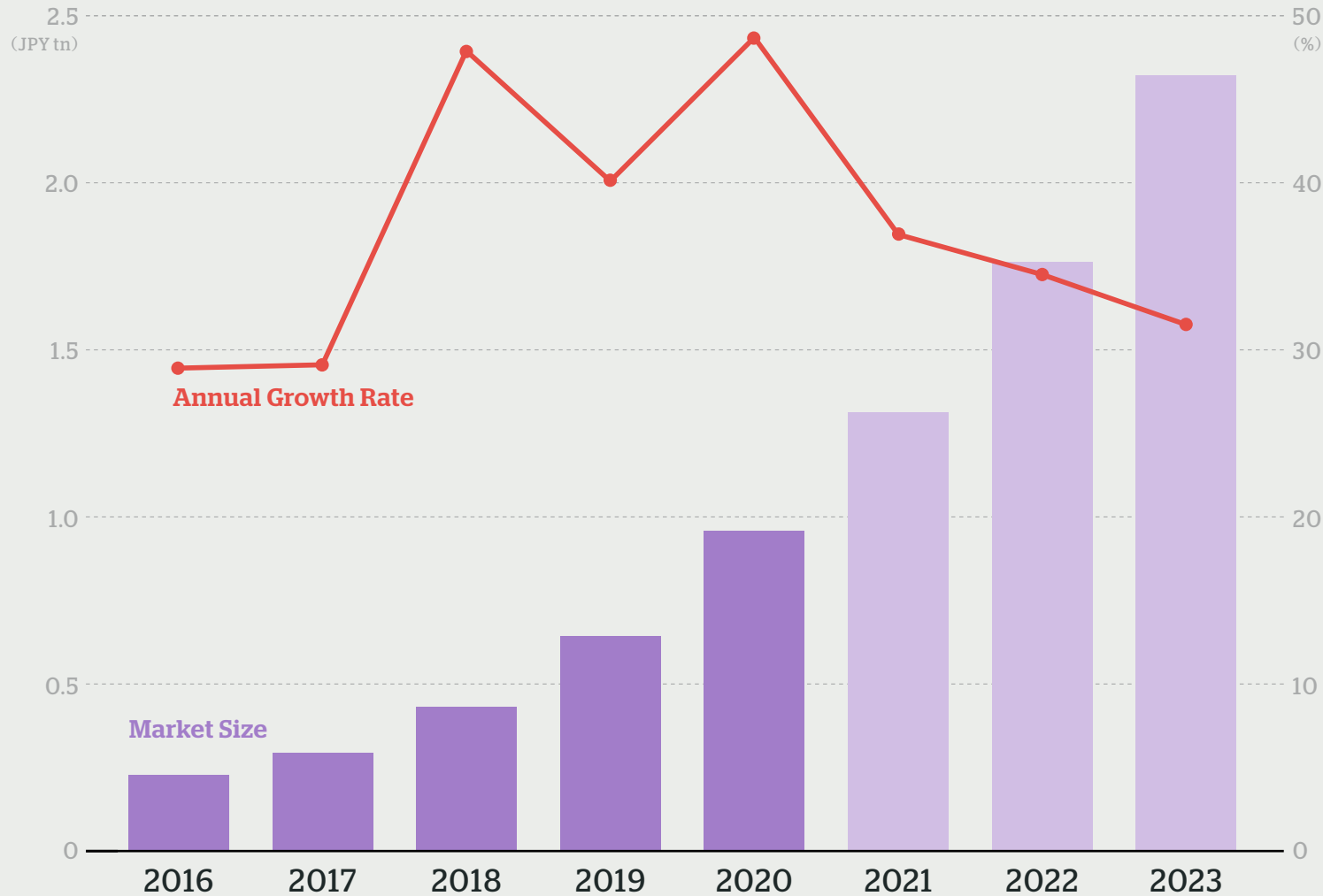


In 2020, software investment accounts for 0.1% of GDP in China, but 1.1% in the US and 0.5% in Japan. If China, the world's second-largest economy, invests in software at the same level as the United States, we can expect the SaaS market in China to rapidly scale further.

Source: Gartner and J.P. Morgan

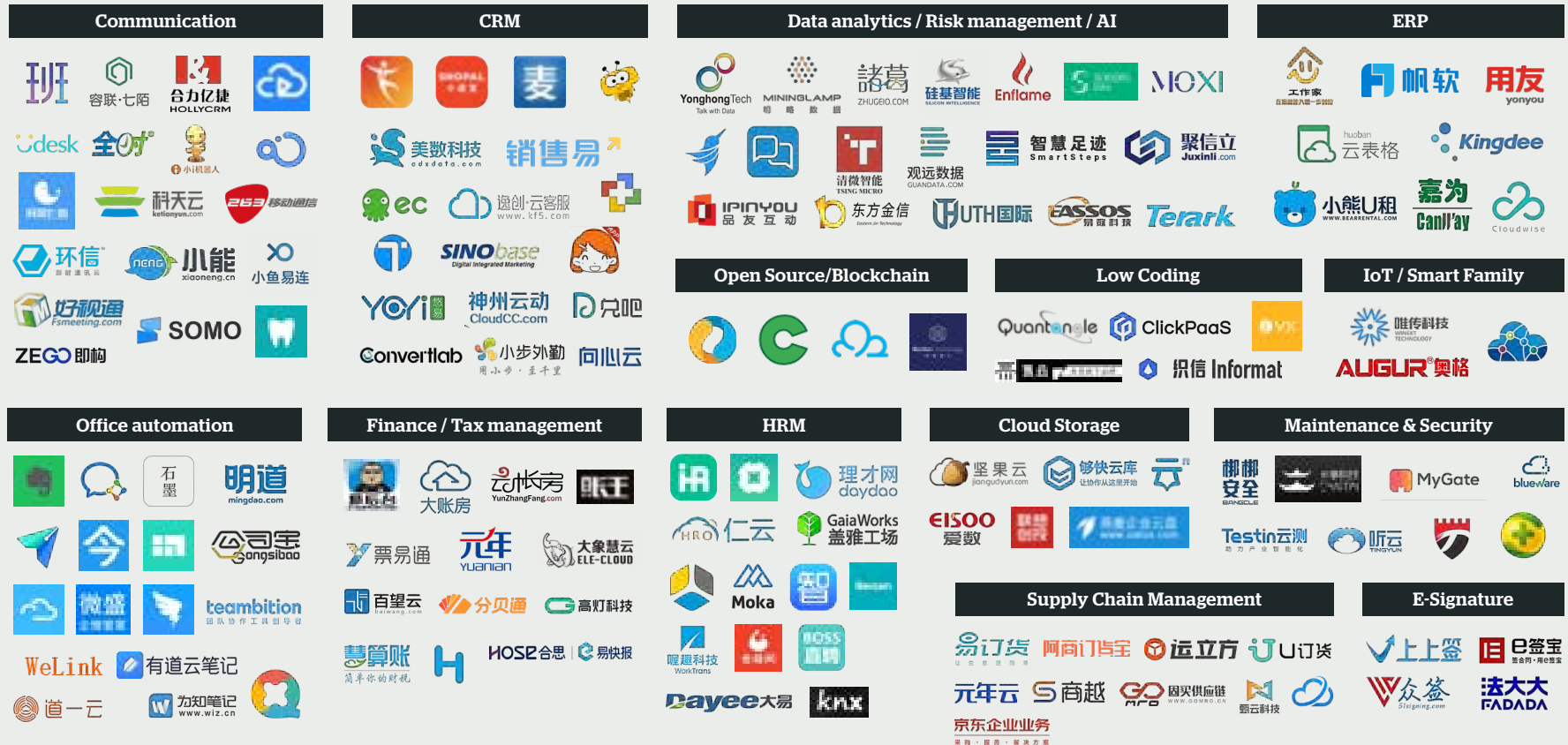
By 2023, the China SaaS Market is set to grow by 34% yearly to JPY 2.3tn, triple that of Japan

China SaaS Market Size



The China SaaS market reached JPY 957.6bn in 2020, with forecasts of JPY 1.3tn for 2021, and JPY 2.3tn for 2023 - a 34% CAGR. This is equivalent to about 3x of the Japan SaaS market, which has been forecast to reach JPY 817.4bn in 2023.

Source: I-Research, Fuji Chimera Research Institute



In China, the penetration rates of CRM and ERP products are highest amongst SaaS, with several companies listed on the Chinese and Hong Kong stock markets. Under ERP, Yonyou and Kingdee at valued at JPY 1.6tn and JPY 1.1tn respectively.

Recently, HRM SaaS has also demonstrated growth due to an increase in demand for talent acquisition and retention. In fact, Boss Zhipin was listed on NASDAQ in June 2021 valued at JPY 1.6tn. Privately, we also see companies such as Beisen, which raised

a JPY 28bn Series F in May 2021, rapidly achieving scale and sustaining growth.

UB VENTURES

SAIL BEYOND



Company Name

UB Ventures, Inc.

Fund Strategy

Venture Capital

Themes

SaaS, Media, Metaverse, AIoT

No. of Portfolio Companies

21

Investment Region

Japan & Asia

Address

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Shibuya-ku, Tokyo
Futaba Building 1F GUILD
Dogenzaka

Date of Establishment

16 Feb 2018

Canly @commune Concierge U conocer DENTA LIGHT

DIGGLE 予実管理クラウド EVENTX flyle HARMONIA Quick Get

MONOXER ONE CAREER picco PRTable QUANDO

REALM Remotehour RESTAR Spready unilabo

Experiences × Contents × Community

To build a new startup ecosystem model that integrates growth support, community, and contents.

Experiences

We are venture capitalists with extensive experience in building startups and managing teams, and we are always excited to support new founders.

◆ Our Team at UB Ventures



Managing Partner
Osamu Iwasawa

SPEEDA

Executive Officer /
Managing Director of Asia Office



Managing Partner
Chiamin Lai



Representative Director (Japan) and
Board Member /
Head of Metaverse Division



Venture Partner
Yoichi Aso

AlphaDrive

Founder and CEO

NEWS PICKS

Executive Officer

Contents

We produce research on the latest and emerging trends, providing deep analysis on the macro landscape through our proprietary access to data assets, together with unique insights from our own business experience.

◆ Insights from our experience with startups



◆ Bringing Global Trends to Japan



Launched the Japanese translation of "Product-Led Growth: How to Build a Product that Sells Itself" by Wes Bush

UB Ventures was primarily involved in the project planning, negotiations of bringing the contents over, as well as editorial and proofreading for specialized SaaS terminologies.

Translation of 'Product-Led Growth'
(Original English by Wes Bush)

Community

We organize regular meetups through Thinka, our very own exclusive community, for founders to come together, share their startup stories, and learn from each other's experiences.



Brought together a community of 40 founders over the last 3 batches



UB Ventures SaaS Annual Report 2021

Overall Direction Representative Director Managing Partner
Osamu Iwasawa

Chief Analyst
Akio Hayafune

Content Direction Representative Director Managing Partner
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