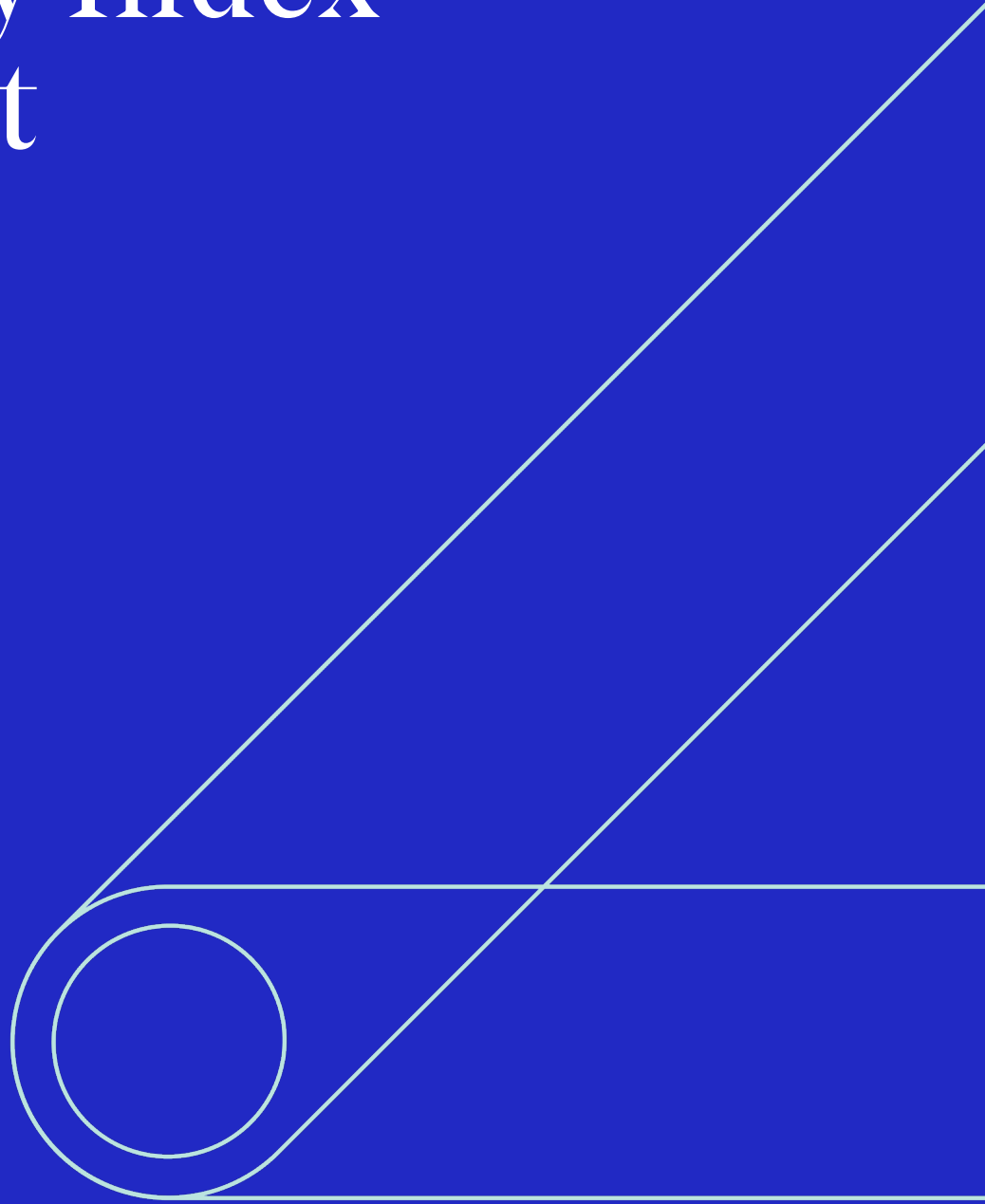




The Subscription Economy Index™ Snapshot

October 2022



Recurring Revenue: Stability Amid Uncertainty

Businesses and consumers alike have faced economic uncertainty in 2022¹ with the world encountering new conflicts, markets becoming increasingly volatile and bearish, and inflation skyrocketing. Initial public offerings have dramatically slowed, and the days of abundant capital and affordable financing have stalled². But historically, even as budgets tighten, and traditional, product-based revenues become more erratic, recurring revenue business models, such as subscriptions, usage-based, and other digital services, continue to provide growth and stability, even during unpredictable times.

Zuora's Subscription Economy Index™ (SEI) has served as a benchmark for these businesses, comprised of a subset of more than 500 Zuora Billing customers across industries around the world.

Times of economic uncertainty can favor recurring revenue businesses³, which appears to be playing out today, based on an analysis of SEI companies in the first half of 2022. Subscription Economy™ businesses continued to show resilience, growing at faster rates compared to the S&P 500 and U.S. retail sales. Churn also remained lower than pre-pandemic levels, demonstrating that these companies are retaining subscriber relationships at higher rates compared to before the pandemic.

Both during economic uncertainty and growth, companies continue to recognize the power of creating, nurturing, and monetizing ongoing digital relationships with their customers through subscription-based business models that generate predictable, recurring revenue.

¹"Economic conditions outlook," McKinsey & Company, June 2022

²"YTD 2022 saw dramatic slowdown in global IPO activity from a record year in 2021," Ernst & Young, June 2022

³"The Subscription Economy Index Report," Zuora, February 2022

Key Findings

Business models based on recurring revenue have provided resilience at critical moments of uncertainty, and enthusiasm for subscription-based services continues to grow, as seen by the companies that comprise the SEI. From 2012 through 2021, the Subscription Economy Index rose 4.6x faster than the S&P 500, representing more traditional, product-based businesses⁴. The 10-year compound annual growth rates (CAGR) for SEI and S&P 500 revenue growth were 17.5% vs. 3.8%, respectively.

In the first half of 2022, even as S&P 500 companies performed well, revenue growth for companies in the SEI still outperformed both that of S&P 500 companies and U.S. retail, with 6.74% SEI revenue growth compared to the S&P 500's 6.16% (revenue growth for companies in the SEI was 9% greater than companies in the S&P 500) and U.S. retail's 4.98% (Table 1).

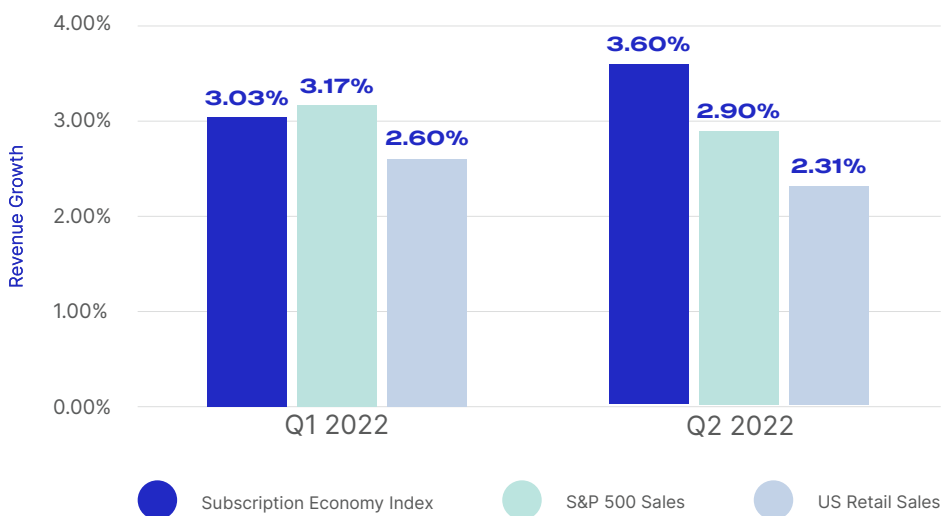
Zooming in on Q1, revenue growth of S&P 500 companies, SEI companies, and U.S. retail were 3.17%, 3.03%, and 2.60%, respectively. But in Q2, revenue growth of S&P 500 companies and U.S. retail sales decreased, while SEI revenue growth increased. Companies in the SEI outgrew those in the S&P 500 by 24% and U.S. retail sales by 56% in Q2 of 2022 (revenue growth of 3.60% compared to 2.90% and 2.31%, respectively) (Table 2).

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SUBSCRIPTION ECONOMY INDEX VS. S&P 500 SALES AND US RETAIL SALES QUARTERLY REVENUE GROWTH (Q1-Q2 2022) (TABLE 1)



⁴"The Subscription Economy Index Report," Zuora, February 2022

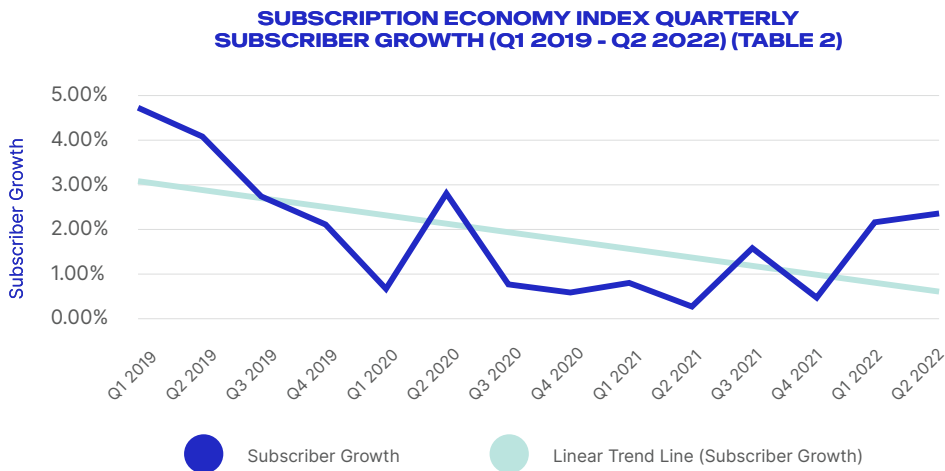
Three Levers of Growth

Zuora's Subscribed Institute analyzed how companies in the SEI performed in the first half of 2022 with a focus on three key growth levers for recurring revenue businesses: subscriber acquisition, retention (churn), and expansion.

ACQUISITION

While subscriber growth trended downward from the beginning of 2019 through 2020 and appeared to bottom out in 2021, the rate increased in the first two quarters of 2022. Companies in the SEI experienced subscriber growth rates through the first half of 2022 that were, on average, more than double that of those in 2021 (2021 quarterly average of 0.86% compared to 2.35% for the first half of 2022) (Table 2).

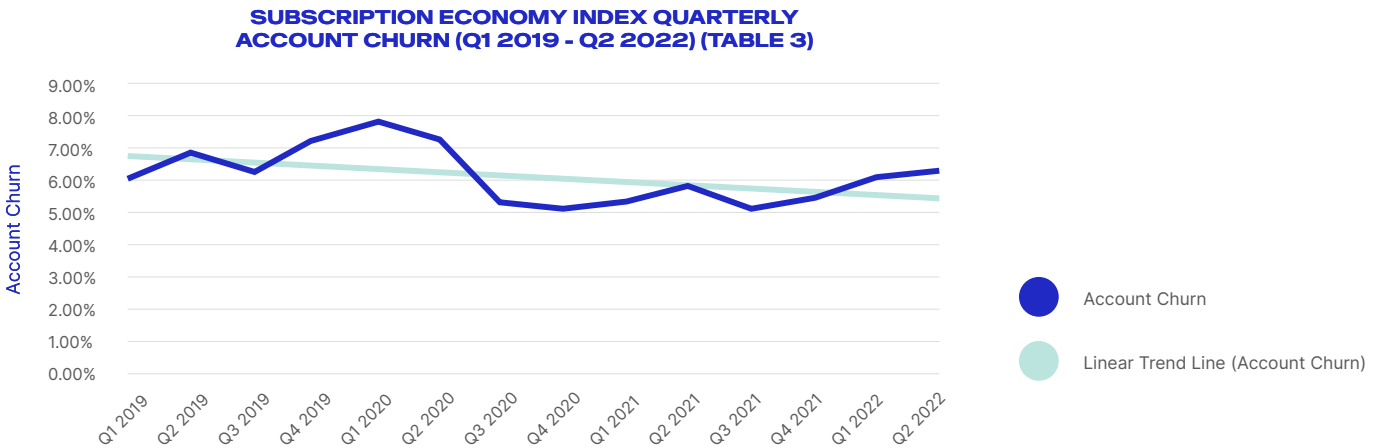
Despite macroeconomic headwinds, companies in the SEI increased their subscriber acquisition in the first half of 2022 (Table 2).



RETENTION (CHURN)

Companies in the SEI have improved their ability to retain subscribers over the past 14 quarters. Although there has been a slight increase in churn since Q2 2021, the average quarterly churn rate remains lower than pre-pandemic rates (2019 average churn rate of 6.50% compared to 6.13% for the first half of 2022) (Table 3).

Although quarterly churn increased 10% in the first half of 2022 compared to 2021, it was still 4% lower than the first half of 2019 and 17% lower than the first half of 2020 (Table 3).

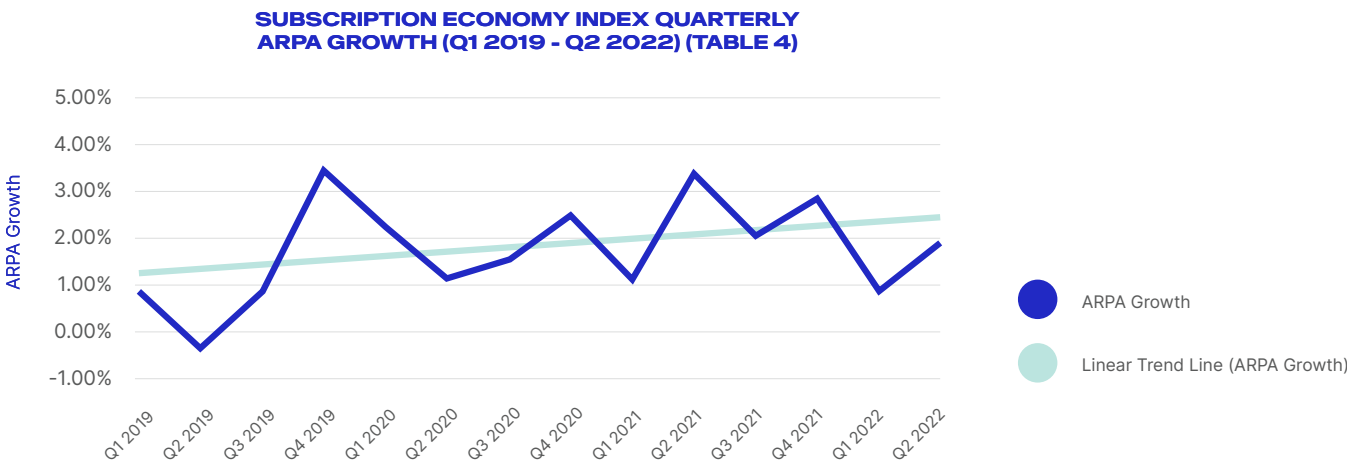


EXPANSION

The third subscription growth lever is expansion. Over the past 14 quarters, SEI companies' average revenue per account (ARPA) growth trended upward. Overall, SEI companies are doing an increasingly better job monetizing existing customer relationships (Table 4).

More recently, ARPA growth in the SEI decreased from 2.78% in Q4 2021 to 0.94% in Q1 of this year, before rebounding in Q2 to 1.89%, which is higher than the 3-year average of 1.81% (2019-2021) (Table 4).

Companies are doing an increasingly better job monetizing existing customer relationships.



SaaS Continues to Lead

While the SEI comprises companies across industries, the Software-as-a-Service (SaaS) Index is consistently the fastest-growing segment, and this trend continued through the first half of 2022. This segment includes providers whose software is accessed via the cloud and monetized via subscriptions, and this includes SMB SaaS, B2Every SaaS and Enterprise SaaS companies. B2Every SaaS represents companies that market and sell software or platforms as a service to both consumers and businesses, SMB SaaS represents companies that market and sell software or platforms as a service to small and medium-sized businesses, and Enterprise SaaS represents companies that market or sell software or platforms as a service to large businesses.

SaaS companies in the SEI experienced continued revenue growth through the first half of 2022, with revenue growing 2.63% in Q1 and then accelerating to 4.08% growth in Q2. Additionally, subscriber growth was high and steady through the first half of 2022 for SaaS companies in the SEI, with 2.16% for Q1 and 2.03% for Q2, the highest subscriber growth rates observed for this sector since Q2 2019 (Table 5).

SEI SAAS QUARTERLY REVENUE AND SUBSCRIBER GROWTH (Q1 2019 - Q2 2022) (TABLE 5)



Terminology

CHURN RATE

The percentage of lost subscribers over a set period of time.

SUBSCRIBER GROWTH RATE

The percentage of gained subscribers over a set period of time.

ARPA GROWTH RATE

The growth rate of average revenue per account (ARPA).

COMPOUND ANNUAL GROWTH RATE (CAGR)

The mean annual growth rate over a specified period of time longer than one year.



Methodology

The Subscription Economy Index™ (SEI™) is a subset of 500+ Zuora Billing customers (tenants) across various industries and maturities. The index is based on anonymized, aggregated, system-generated activity on the Zuora billing service. It measures the organic growth in the volume of business for subscription-based products and services, along with additional metrics such as account (subscriber) growth, average revenue per account (subscriber), and account (subscriber) churn.

The SEI reflects three key themes: 1. what happens to a “typical” company in the index, 2. the amount of growth in the overall Subscription Economy, and 3. the opportunities available to creators of and investors in Subscription Economy businesses.

Remember, the SEI measures the organic growth of the included tenants by a weighted average of their growth rates, not the increase in the number of tenants (i.e., the addition of tenants to the SEI does not make it go up, in and of itself). The SEI also removes the impact of non-organic growth in the system activity, such as an increase in billing activity that does not reflect the changes in the underlying fundamentals of the company owning the tenant in question. The most common non-organic changes are account migration from another billing system to the Zuora service and voluntary decommissioning of a tenant by a company using the billing service. In contrast, declines in activity resulting from business failure remain part of the index calculation. Other considerations include removing seasonality and ignoring high activity growth rates from nominal base values.

To remove the effect of account migration from other billing systems, a minimum burn-in period of two years is applied to every tenant on the Zuora billing system (i.e., the first two years of system activity for a tenant are ignored and not included.) This burn-in period also removes whatever growth comes immediately after a new company launch, when Zuora is the original billing system for a new product, such as to avoid high growth rates measuring growth from an insignificant base level that is usually not sustainable in the long run. The burn-in period for a tenant may be longer than two years whenever it is known or suspected to be, significant account migration from other systems even after this time. However, Zuora does not have perfect information about these events, and some migration of accounts from another billing platform may not be excluded (however, any extreme outliers will be removed as an outlier, as described below.)

An essential step in calculating the average is removing outliers, or those tenants in the SEI having the most significant increases or decreases in activity for each quarter. Outliers are defined as the top and bottom 10% of companies in the SEI. The actual number to remove is rounded up to the nearest whole number; so, for example, if there were 100 tenants in the index, the top and bottom ten tenants are removed, but if there are 101 in the index, the top and bottom 11 tenants would be removed. Removing outliers serves two purposes: first, averages can be unduly influenced by the presence of substantial values, and the movement of the SEI is meant to represent what happens to typical tenants in the SEI; and second, the SEI calculation does not contain perfect information about non-organic changes in activity (e.g., conversions, decommissioning of tenants, etc.), and removing outliers helps to ensure that even if such tenants' system activities remain in the SEI and do have extreme changes in their activities, then those changes will not influence the index.

For additional information on the methodology of the Subscription Economy Index, please see the Methodology section of the [most recent SEI report](#).

Forward-Looking Statements

This report contains forward-looking statements that involve a number of risks, uncertainties, and assumptions, including but not limited to statements regarding the expected growth and trends of subscription-based companies (including companies in the SEI report) and non-subscription based companies. Any statements that are not statements of historical fact may be deemed to be forward-looking statements, and actual results could differ materially from those stated or implied in forward-looking statements. This report also includes market data and certain other statistical information and estimates from industry analysts and/or market research firms. Zuora believes these third party reports to be reputable, but has not independently verified the underlying data sources, methodologies, or assumptions. Information that is based on estimates, forecasts, projections, market research, or similar methodologies is inherently subject to uncertainties and may differ materially from actual events or circumstances.

Subscribed Institute ●

The Subscribed Institute

Zuora's Subscribed Institute is a dedicated think tank focused on the Subscription Economy. The Institute supports its 1500+ business executives across 600+ global companies with critical research, ideas, events, and connections. Research provided by the Institute helps business leaders and their organizations maximize the opportunities of the Subscription Economy.

More at www.subscribedinstitute.com

