# CFO Insights for Cloud Computing Companies

By Roman Z. Matatov, CPA, Senior Manager and Bruce Blasnik, CPA, Partner

Cloud computing is one of the fastest-growing technology sectors, both domestically and abroad. In the U.S., spending on cloud services has been growing at rates near or exceeding 20% annually and these growth rates are projected to continue through 2029 and beyond. With valuation multiples that can exceed 10x revenue, the opportunity for emerging cloud companies is quite large. The CFO plays a significant role in leveraging this opportunity and their keen insights can help add value.

## What is Cloud Computing

Cloud computing companies help their customers access and use some combination of computer software and hardware, typically on a subscription basis. The National Institute of Standards and Technology (NIST) offers a technical definition of cloud computing as "a model for enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction."

Cloud computing businesses can bring to their customers any one of "X" technologies in an "as-a-service" model (XaaS). Some examples are cloud computing businesses focused on infrastructure (IaaS), platform (PaaS), software (SaaS) and data (DaaS).

## Focusing on the Finance Function

As cloud computing companies solidify their product-market fit and prepare to scale, they focus on maturing their finance function and begin to seek financial leadership. These finance leaders help XaaS businesses reach several significant milestones through their value creation journeys. Key among these milestones are:

- Achieving a path to profitability
- More robust financial reporting
- Data-driven decision-making by focusing on strategic, critical success factors (CSFs) and related key performance indicators (KPIs)
- Acquisition support

***Achieving a path to profitability*** typically begins with a strategic planning exercise, led by the CEO in collaboration with the company board of directors, the CFO and other leaders. This exercise results in both a long-term strategic plan and an annual operating plan, intended to demonstrate operational and financial feasibility of the strategy. The focus of this exercise is to develop a line of sight to a profitable business growing at the desired cadence. While earlier on in a XaaS company's lifecycle, strategy may focus on research and development, proving product-market fit and growing sales velocity, achieving profitability requires a shift in this focus. Capital must be allocated to selling and supporting profitable products, optimizing customer acquisition costs (CAC), balancing sales velocity with sales and marketing efficiency, maximizing customer lifetime value (LTV) and profitability, addressing at-risk customers and tempering operating expenses to a level necessary to support ongoing growth.

At this stage of an XaaS company's lifecycle, it may have already raised one or several rounds of angel or venture capital and may be contemplating additional growth capital from private equity investors. These larger-than-ever capital infusions and more demanding investors require ***more robust financial reporting*** financial statements prepared in accordance with generally accepted accounting principles (GAAP), aligning reporting with other portfolio companies of this new investor and expanding reporting to include needs of middle management and debt holders. Audit-readiness will require documenting the existence and effectiveness of financial policies and other internal controls, implementing or upgrading financial systems to meet the recording and reporting needs of the business and establishing an audit committee.

Along with the changes to strategy, investor base and control environment is the need for an enhanced, ***data-driven decision-making*** model that relies on financial and non-financial data to instill discipline and accountability throughout the organization, while encouraging team cohesion and transparency.

Metrics, such as ARR (annual recurring revenue), ARPA and ARPU (average revenue per account and user), CAC, LTV, “Rule of 40,” and the SaaS “Magic Number” are observed as meaningful metrics throughout the cloud computing industry. Benchmarking your cloud company’s traditional and XaaS-specific metrics may be performed by referencing several readily available resources. For example, privately held cloud companies and their performance may be researched by utilizing Bessemer Ventures Cloud 100, while some publicly held cloud companies are indexed in Bessemer Ventures Partners (BVP) NASDAQ Emerging Cloud Index. Similarly, KeyBanc Capital Markets Technology Group publishes a Private SaaS Company Survey and Public SaaS Company Disclosure Metrics. Industry-specific information may also be available depending on your industry, for example the Healthcare Growth Partners Semi-Annual Health IT Market Review.

In addition to the cost containment and operational excellence priorities described above, CFOs and other financial leaders can help a XaaS business identify, complete and integrate ***accretive acquisitions***; sensitize financial and operating plans for anticipated business upsides, cyber breaches and natural disasters; and act as key participant in change management initiatives necessary to respond to external trends.

## Contact Us

PKF O’Connor Davies provides a full range of outsourced accounting and CFO services on an interim and/or fractional basis. For help in building out your financial team to support the evolving needs of your growing cloud computing company, please reach out to: .

Roman Z. Matatov, CPA, FPAC, CGMA, CITP, CVA, CFE, CFF
Senior Manager
914.341.7643 | rmatatov@pkfod.com

Bruce Blasnik, CPA, CGMA
Partner
203.705.4120 | bblasnik@pkfod.com