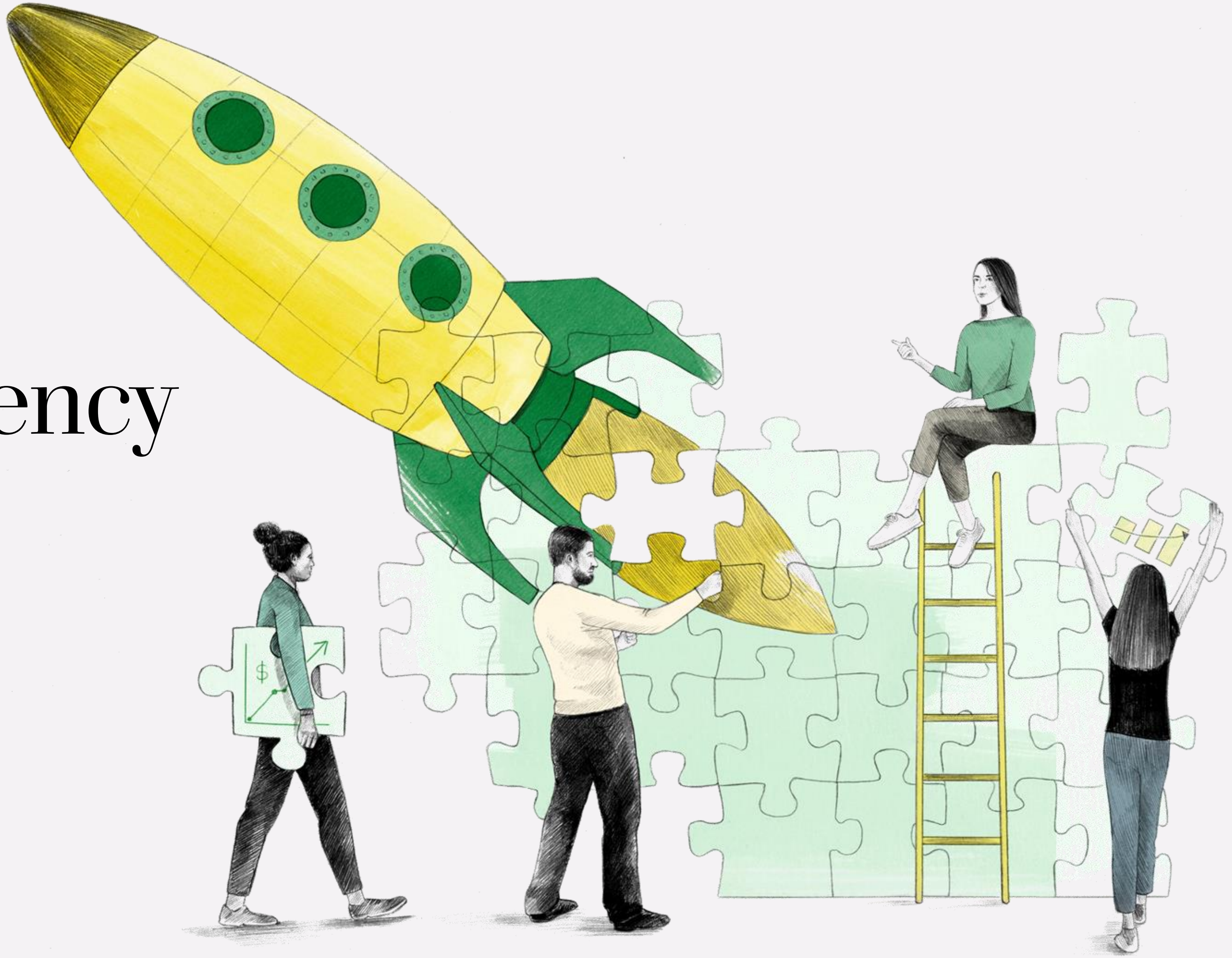
ICONIQ | Growth

Topline Growth & Operational Efficiency

The data behind scaling a B2B SaaS business

September 2022



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Topline Growth & Operational Efficiency

About the Research

ICONIQ Growth has been proud to partner with more than 90 leading B2B software companies, 43 of which have been named the world's best cloud companies in the Forbes Cloud 100.[1]

Working closely with these exceptional leaders has given us a **deep understanding of what strength looks like at all stages of growth** – from first-revenue to IPO and beyond.

In our annual research on Topline Growth and Operational Efficiency, we use a proprietary dataset of financial and operating metrics from ICONIQ Growth's SaaS partnerships and select public companies to explore **how leaders balance topline growth with operational efficiency as they scale**.

For insight into how the SaaS metrics included in this analysis should be calculated – including guides to revenue recognition and cost classifications – we invite you to explore the ICONIQ Growth SaaS Glossary.

We hope these reports illuminate **what it means to be a top performing SaaS company and provide useful guidance for scaling your business.**

1 Includes current or former ICONIQ Growth portfolio companies that have been included in the Forbes Cloud 100 list from 2016-2022. This includes SurveyMonkey, which ICONIQ advised funds invested in prior to the existence of ICONIQ Strategic Partner Funds. Had ICONIQ Strategic Partners funds existed at the time of investment, this investment would have been offered and allocated to ICONIQ Strategic Partners funds.

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- *Data Sources*
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THE Companies Included

This study summarizes quarterly operating and financial data from **92 B2B SaaS companies.**

All ICONIQ Growth portfolio companies were included where data was available, and select public companies were included based on our IPO performance criteria.[1]

ICONIQ Growth Portfolio Companies[3]

Private

1Password, conexiom, HIGHSPOT, ninjaOne, shopmonkey, Airtable, cyberGRX, hightouch, notable, side, APTTUS, dataiku, INTERCOM, orca security, skuid, articulate, dbt, invision, panther, SMARTLING, aurora, dialpad, komodo health, people.ai, SQUIRE, AXONIUS, DRATA, loom, QGenda, truckstop.com, bambooHR, Fireblocks, Lucid, recharge, turbonomic, Relativity, Benchling, Fivetran, miro, Twistlock, Re/prise, BetterUp, FREEWILL, MONTE CARLO, Unit21, Restaurant365, UNITE US, Calendly, Gem, Moveworks, SANITY, vic.ai, CaptivateIQ, GUILD, Nayya, sendbird, Collibra, highradius, netskope, ServiceTitan, virtru

Public or Acquired[2]

adyen, enfusion, alteryx, fastly, braze, GitLab, Bill.com, HashiCorp, BLACKLINE, MARQETA, coupa, PLURALSIGHT, CROWDSTRIKE, PROCORE, DATADOG, snowflake, DocuSign, sprinklr

Select Public Companies[1]

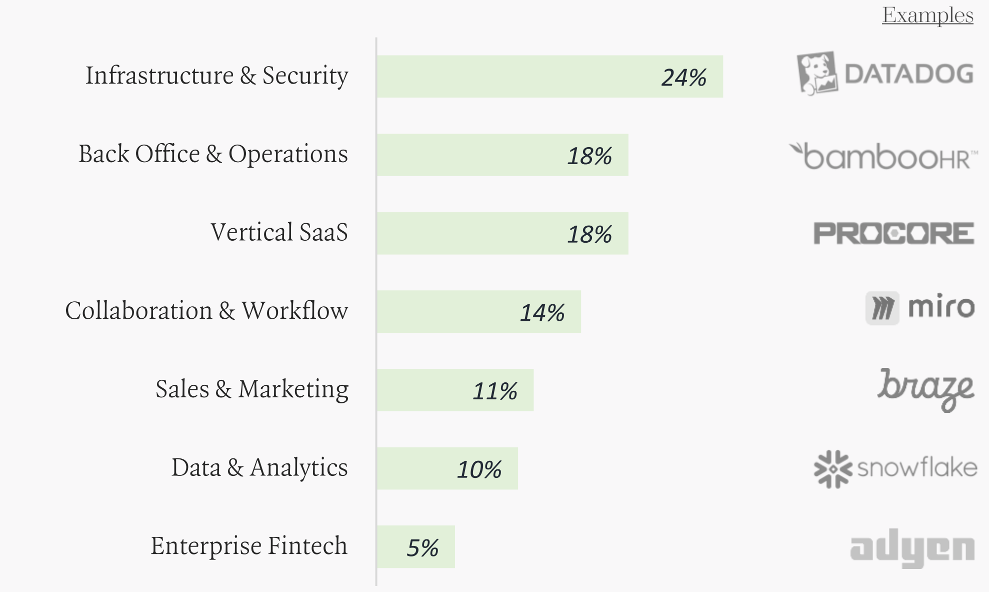
ATLASSIAN, CLOUDFLARE, CONFLUENT, HubSpot, monday.com, okta, paycom, samsara, SentinelOne, shopify, UiPath, Veeva, zscaler

1 See our IPO performance criteria in The Methodology section
2 Pluralsight went public in 2018 and has since been purchased
3 Select ICONIQ Growth companies included in the analysis are not shown here due to privacy of investment. See a full list of portfolio companies in the Appendix.

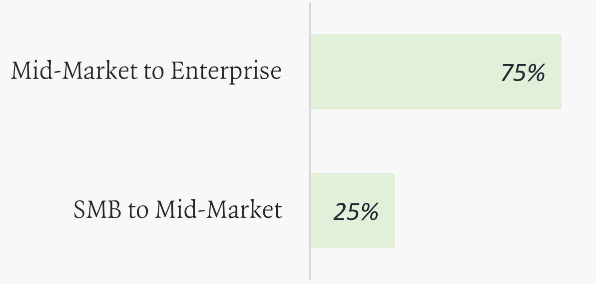
THE
Firmographics

The companies included represent a mix of sectors and business models that are highly representative of the overall B2B SaaS market:

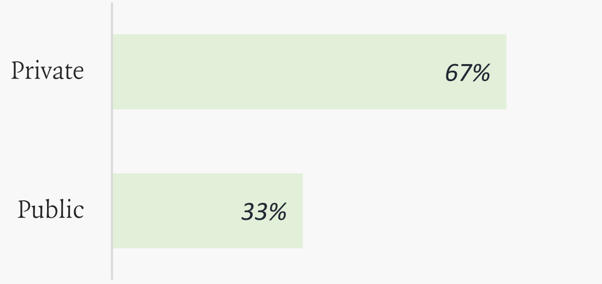
Companies included By Sector



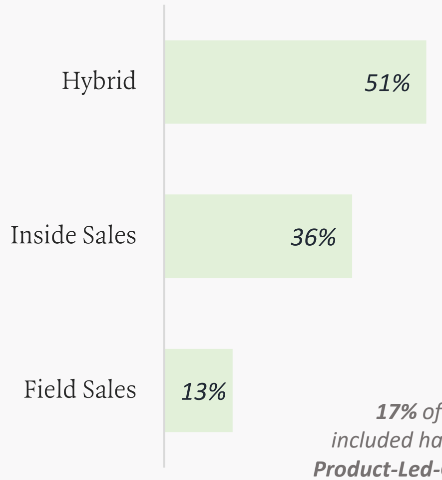
By Target Customer



By Current[1] Ownership

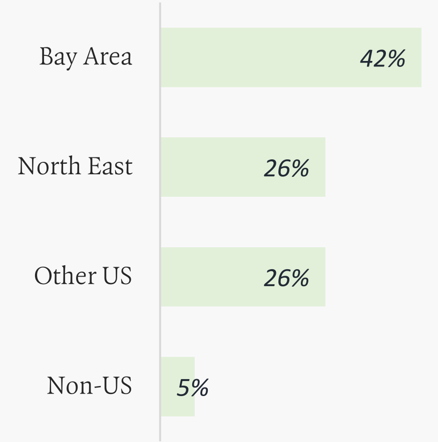


By Sales Motion



***17%** of the companies included have a significant **Product-Led-Growth** motion*

By Location[2]



1 As of August 2022; Pluralsight went public in 2018 and was purchased in 2020
2 Location of Company Headquarters; many companies included have operations internationally

METHODOLOGY

Overview & Data Sources

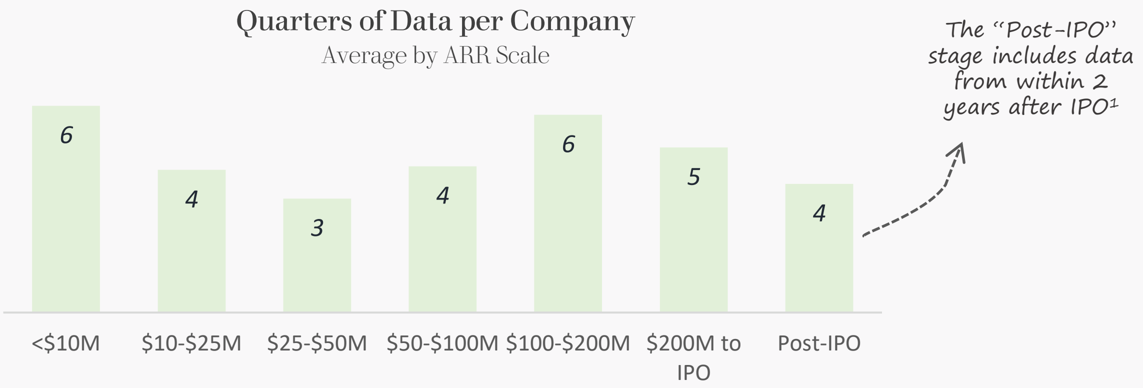
This analysis summarizes quarterly operating and financial data from the SaaS companies included. All views are aggregated or anonymized to protect the data privacy of individual companies.

Using this proprietary dataset, we answer key questions on how these companies scale quickly and efficiently and explore what we believe to be early indicators and drivers of long-term success.

Unless otherwise indicated, references to "SaaS companies" only reflect trends observed with the companies included in the dataset.

N-sizes

Each datapoint (n) represents a single fiscal quarter of data per company. A given company's quarterly datapoints can be included multiple times in aggregated views (for example, by ARR Scale) where we have more historical data:



Public Companies

Data is included from 13 public companies that do not represent ICONIQ Growth portfolio companies. These companies were selected based on the "top performers" framework from our IPO Performance Analysis, and all data was collected from public filings information. Top IPO performers are top quartile in two or more of the following:

1. Indication of Success of IPO: *Forward Revenue Multiple at IPO*
2. Indication of Success Post-IPO: *Current Forward Revenue Multiple*
3. Indication of Value Creation: *Ratio of Change in Stock Price Since Day 1 Close vs. Market (S&P)*

1 Select public companies included do not publicize ARR data, so we have grouped all company data from within 2 years after IPO into a "Post-IPO" stage

METHODOLOGY

The Analysis

Company performance against growth and efficiency metrics is highly dependent on scale. To compare performance across all companies in the dataset, we correct for company scale by visualizing data in the following ways:

By Quarter after reaching a certain scale

Many views in this study show average, median, and/or top quartile performance against a KPI by the fiscal quarter after each company hit a certain scale, often $10M ARR:

0	1	2
"The quarter the company hit $10M ARR"		"2 quarters after the company hit $10M ARR"

By ARR Scale

<$10M	$10-$25M	$25-$50M
"Quarters in which the company had <$10M ARR"		"Quarters in which the company had $25-$50M ARR"

By Year Surrounding IPO

FY-1	FY-0	FY+1
"1 Fiscal year before IPO"	"Fiscal year of IPO"	"1 Fiscal year after IPO"

The map on the top-right of each page indicates what's included in the view:

Top Performance	Top Quartile for a given metric[1]
Scaling to $50M	Trends from $1M to $50M ARR
Pre- and Post-IPO	Trends from the years surrounding IPO
Metric to Watch	View includes one of our "Metrics to Watch"

1 Top Performance against some metrics may be calculated as Bottom Quartile where applicable (e.g., "Negative metrics" like Churn or Burn Multiple)

METHODOLOGY

Our Resilience Framework

For context on how companies have performed against key metrics through recent market turbulence, we've identified a subset of B2B SaaS companies included[1] as particularly "resilient" based on an overall health score.

"Resilient companies" are companies that achieved a top quartile health score based on performance against the following metrics between FY 2021 and year-to-date FY 2022:

	Health Scale: Less Healthy	Health Scale: Healthy	Weight in Health Score
Topline attainment *Net new ARR[2]*	<80%	>90%	30%
Rule of 40	<20%	>40%	30%
YoY ARR growth	<30%	>75%	15%
Runway	<1 year	>2 years	12.5%
Bottomline attainment *Operating income[3]*	<80%	>90%	12.5%

1 See companies included in The Companies Included section
2 Revenue was utilized where net new ARR data was not available
3 FCF or EBITDA was utilized where operating income data was not available

2

Executive Summary

The ICONIQ Growth Enterprise Five

What to Expect in 2022 & Beyond

Metrics to Watch

Learnings from Resilient Companies

Key Insights

THE ICONIQ GROWTH

Enterprise Five

The ICONIQ SaaS Glossary

See our SaaS Glossary for a complete guide to the key metrics included in this report, plus:

- ✓ Cost classification
- ✓ Revenue recognition
- ✓ Cohort analysis
- ✓ Unit economics

ICONIQ Growth standards across five key metrics we believe are highly representative of a B2B SaaS company's overall growth and efficiency:

Top Quartile Performance by ARR Scale[1]

	$1-$10M	$10-$25M	$25-$50M	$50-$100M	$100-$200M	$200M to IPO	Post-IPO[4]
1 YoY ARR Growth *(EOP ARR – prior year EOP ARR) /prior year EOP ARR*	430%	170%	135%	105%	80%	75%	60%
2 Net $ Retention *(BOP ARR + expansion ARR - gross churn ARR) / BOP ARR*	130%	130%	125%	130%	125%	130%	130%
3 Rule of 40 *YoY ARR growth + FCF margin[2]*	*Less Relevant*	*Less Relevant*	95%	75%	70%	70%	65%
4 Net Magic Number *Current Q net new ARR / prior Q S&M OpEx[3]*	2.3x	1.5x	1.5x	1.5x	1.2x	1.1x	1.0x
5 ARR per FTE *EOP ARR / EOP FTEs*	$100K	$165K	$195K	$220K	$265K	$285K	$335K

1 Quarterly operating and financial data from the companies included
2 Alternative Rule of 40 calculations include YoY Revenue Growth and EBITDA Margin
3 Quarter of S&M OpEx utilized in magic number calculations should depend your company's sales cycle
4 Within 2 fiscal years after IPO

What to expect

IN 2022 & BEYOND

Macro trends of the last few years have changed how markets, entrepreneurs, and investors think about the balance of growth & efficiency as SaaS companies scale.

In the coming years, we predict renewed focus on four key categories of business health:

Growth & Path to Profitability

This year has brought path to profitability back into focus in the public markets, with the correlation between growth + profitability and SaaS valuations surpassing the correlation between growth and valuation alone.[1] The metrics that drive valuation in public markets tend to hold true for private markets, and **we expect the shift towards the importance of profitability, in addition to growth, to endure in the coming years**.

Spend & Burn

Renewed focus on efficiency and path to profitability will require additional efforts to **streamline spend, control burn, and extend runway.** In the current market, entrepreneurs are thinking holistically about efficiency and cost management in various forms, with many reconsidering discretionary spend and decelerating headcount growth in order to ensure 2+ years of runway.[2]

GTM Efficiency

While the need for digital transformation remains high and many CIOs across the ICONIQ Growth network believe software will be relatively resilient, **increasing spend across discretionary software tools is likely to be further scrutinized in the short-term**. With diminished appetite to buy, **we have observed some impact to GTM efficiency** – with more companies missing topline attainment goals in Q2 2022 while observing longer sales cycles and slower inbound demand.[3]

Customer Health

As the macro environment impacts GTM efficiency, **B2B SaaS companies may rely more on existing customers to drive topline growth**, and customer health will remain critical. Executives are closely tracking leading indicators of customer health such as product usage, late payments, and customer satisfaction scores, as well as lagging indicators such as contract expansion, discounts, and churn.

1 Based on Market data and consensus estimates as of 07/29/2022
2 ICONIQ Analytics + Insights: Cost Management in a Turbulent Environment
3 ICONIQ Analytics + Insights: Demand and GTM Impact in a Turbulent Environment

Key Insights

ON THESE TOPICS

Metrics to watch, lessons from resilient companies, and takeaways from our research:

Growth & Path to Profitability

This year has brought profitability back into focus in the public markets, and we expect the shift towards the importance of profitability, in addition to growth, to endure in the coming years.

Metric to Watch

Rule of 40

YoY ARR growth + FCF margin[3]

***With added focus on profitability**, rule of 40 helps measure growth and profitability in tandem. The rule of thumb is that a SaaS company growing at 40% should target at least breaking even (0% FCF margin).*

Lessons from Resilient Companies[1]

While average performance against rule of 40 suffered in the turbulent markets of 2020 and 2022 YTD, resilient companies have been able to maintain 75%+ rule of 40 through these periods primarily by maintaining strong ARR growth.

	Average Rule of 40	YoY ARR Growth	FCF Margin
2022 YTD[2]	91%	142%	-51%
2021	161%	192%	-31%
2020	75%	104%	-29%

Key Insights to Follow

- After reaching $10M ARR, SaaS companies with top performance in ARR growth typically grow **2.0x-2.5x year over year until ~$100M ARR**, followed by 1.3-1.5x until IPO. [*Page 20*]
- On average, SaaS companies take **5+ years to breakeven** after hitting $10M ARR, with public companies achieving **profitability within 1-2 years of IPO.** [*Page 33*]
- Though rule of 40 (YoY ARR growth + FCF margin) tends to decline as companies scale and growth slows, **top performers exceed 40% regardless of scale**, and achieve 50%+ in the years surrounding IPO. [*Page 35*]

1 Quarterly operating and financial data from "Resilient Companies"; See our resilience framework in the Methodology section
2 2022 YTD annualized where applicable; includes Q2 2022 for select companies if data available
3 Alternative Rule of 40 calculations include YoY Revenue Growth and EBITDA Margin

Key Insights

ON THESE TOPICS

Metrics to watch, lessons from resilient companies, and takeaways from our research:

Spend & Burn

Renewed focus on efficiency and path to profitability will require additional efforts to streamline spend, control burn, and extend runway. Entrepreneurs are thinking holistically about efficiency and cost management in various forms.

Metric to Watch

Burn Multiple

FCF / net new ARR

With added focus on spend, burn multiple is a great way to measure capital efficiency. It allows us to understand how much cash a company is burning to generate each incremental dollar of ARR.

Lessons from Resilient Companies[1]

Like rule of 40, we've also seen impact to performance against burn multiple over the last few years. However, while on average burn has increased relative to net new topline, non-profitable resilient companies have been able to maintain burn multiple less than 2.0x.

	Median Burn Multiple[3]
2022 YTD[2]	1.6x
2021	1.1x
2020	1.3x

Key Insights to Follow

- Net new ARR outpaces burn around ~$20M ARR for top-performing companies, and we typically recommend companies maintain a **burn multiple under 2.0x** regardless of scale. [*Page 34*]
- **SaaS companies targeting SMB customers tend to get more leverage from operating costs,** with revenue outpacing spend around $150M ARR versus $250M+ ARR for those targeting enterprise customers. [*Page 48*]
- Though gross margins (GM) can vary significantly by sector and operating model, GM should increase as companies scale and operationalize services and support. Companies with top performance achieve **80-85% GM**. [*Page 32*]
- **R&D makes up an increasingly smaller proportion** of operational spend as products mature and focus shifts towards go-to-market, with **S&M spend increasing to more than 50% of total OpEx -** mostly driven by Sales. [*Page 41*]

1 Quarterly operating and financial data from the non-profitable "Resilient Companies"; See our resilience framework in the Methodology section
2 2022 YTD annualized where applicable; includes Q2 2022 for select companies if data available
3 Only non-profitable companies included in the burn multiple calculation

Key Insights

ON THESE TOPICS

Metrics to watch, lessons from resilient companies, and takeaways from our research:

GTM Efficiency

With diminished appetite to buy, we have observed some impact to GTM efficiency - with more companies missing topline attainment goals in Q2 while observing longer sales cycles and slower inbound demand.

Metric to Watch

Net Magic Number

Current Q net new ARR / prior Q S&M OpEx[3]

With added focus on GTM efficiency, net magic number (NMN) provides insight into how much net new ARR is created for every sales & marketing dollar spent, while accounting for the lag of your sales cycle.

Lessons from Resilient Companies[1]

Though net magic number is expected to decline as companies scale, we've seen myriad headwinds to GTM efficiency in the last few years that have further impacted performance. While average performance against net magic number has declined, resilient companies have maintained 0.9x+ NMN through the turbulent macro environment.

	Median NMN
2022 YTD[2]	0.9x
2021	1.8x
2020	1.5x

Key Insights to Follow

- While go-to-market efficiency generally trends down as companies scale due to competitive dynamics and shrinking headroom, a **gross magic number > 1.0x** is a good long-term goal for companies with sales-led growth. [*Page 36*]
- Driven primarily by lower S&M OpEx during growth stages (<$200M ARR), companies with **product-led-growth tend to have higher go-to-market efficiency** with top performance gross magic number 2.5x-4.5x. [*Page 37*]
- Incremental FTE efficiency is driven mostly by G&A and R&D orgs: S&M FTE efficiency tends to decrease until stabilizing once companies reach ~$150M+ ARR. [*Page 39*]

1 Quarterly operating and financial data from "Resilient Companies"; See our resilience framework in the Methodology section
2 2022 YTD annualized where applicable; includes Q2 2022 for select companies if data available
3 Quarter of S&M OpEx utilized in magic number calculations should depend your company's sales cycle

Key Insights

ON THESE TOPICS

Metrics to watch, lessons from resilient companies, and takeaways from our research:

Customer Health

As the macro environment impacts GTM efficiency, SaaS companies may rely more on existing customers to drive topline growth, and customer health will remain critical.

Metric to Watch

Net $ Retention

(BOP ARR + expansion ARR - gross churn ARR) / BOP ARR[3]

Net dollar retention (NDR) measures both the efficiency and predictability of a company's revenue generation by accounting for customer expansion, contraction, and churn, rendering it a robust measure of customer health.

Lessons from Resilient Companies[1]

Resilient companies have been able to achieve ~125% net dollar retention through fluctuating demand over the past few years, suggesting strong customer health and product market fit. While these companies saw higher-than-normal churn rates during these periods, they were able to meaningfully upsell healthy customers.

	Median NDR
2022 YTD[2]	125%
2021	126%
2020	124%

Key Insights to Follow

- Top-performing companies achieve **130-150% NDR** from $1M to $10M ARR and maintain **120-130% NDR** as they scale towards IPO. [Page 25-26]
- New logos are the primary driver of ARR growth until SaaS companies reach ~$200M ARR, when ARR from **customer expansion** begins to make up >50% of new ARR. [Page 22-23]
- As existing customers make up an increasing proportion of new ARR, **customer downsell also makes up a larger share of churn.** However, SaaS companies maintain average annual **churn rate below 15%** regardless of scale. [Page 24]

1 Quarterly operating and financial data from "Resilient Companies"; See our resilience framework in the Methodology section
2 2022 YTD annualized where applicable; includes Q2 2022 for select companies if data available
3 Net retention can be calculated as annual net retention, annualized quarterly retention, or customer cohort retention

3

Topline Growth & Operational Efficiency

A detailed look at the data:

- *Topline Health*
- *Growth Efficiency*
- *Spend Profile*

The data behind scaling a B2B SaaS business

The key metrics we look at to understand the top- and bottom-line health of a B2B SaaS business:

Topline Health

Growth Efficiency

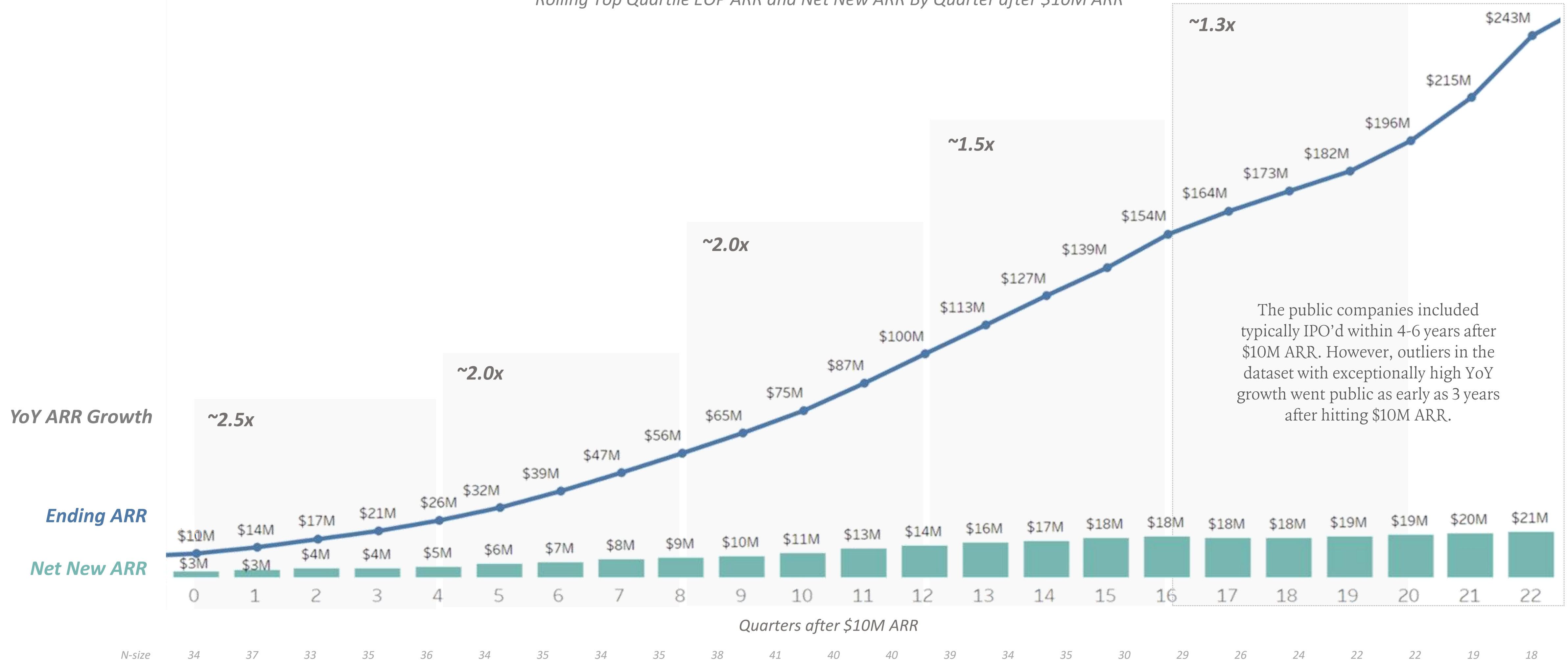
Spend Profile

Topline Health | ARR Growth from $10M to IPO

After reaching $10M ARR, top-performing SaaS companies grow 2.0x-2.5x year over year until ~$100M ARR, followed by 1.3x-1.5x until IPO. The public companies in this dataset IPO'd within 4-6 years after hitting $10M ARR.

Top Performance YoY ARR Growth from $10M ARR[1]

Rolling Top Quartile EOP ARR and Net New ARR By Quarter after $10M ARR



1 Quarterly operating and financial data from the companies included

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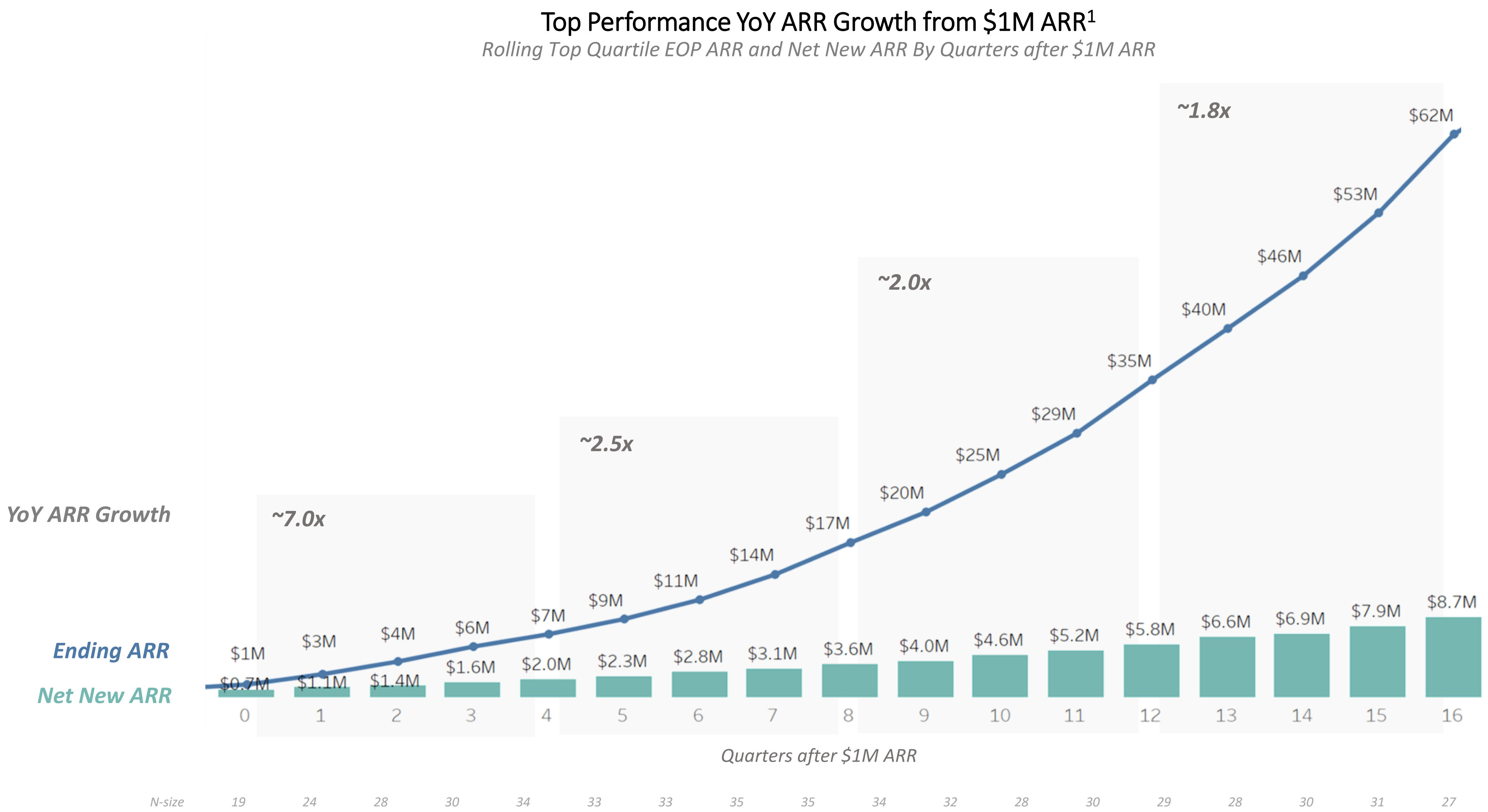
Topline Health | ARR Growth from $1M to $50M

On average, top-performing early stage SaaS companies achieve 7.0x YoY ARR growth within the first year after reaching $1M ARR, and typically scale to $50M ARR in less than four years.



1 Quarterly operating and financial data from the companies included

Topline Health | Drivers of ARR Growth

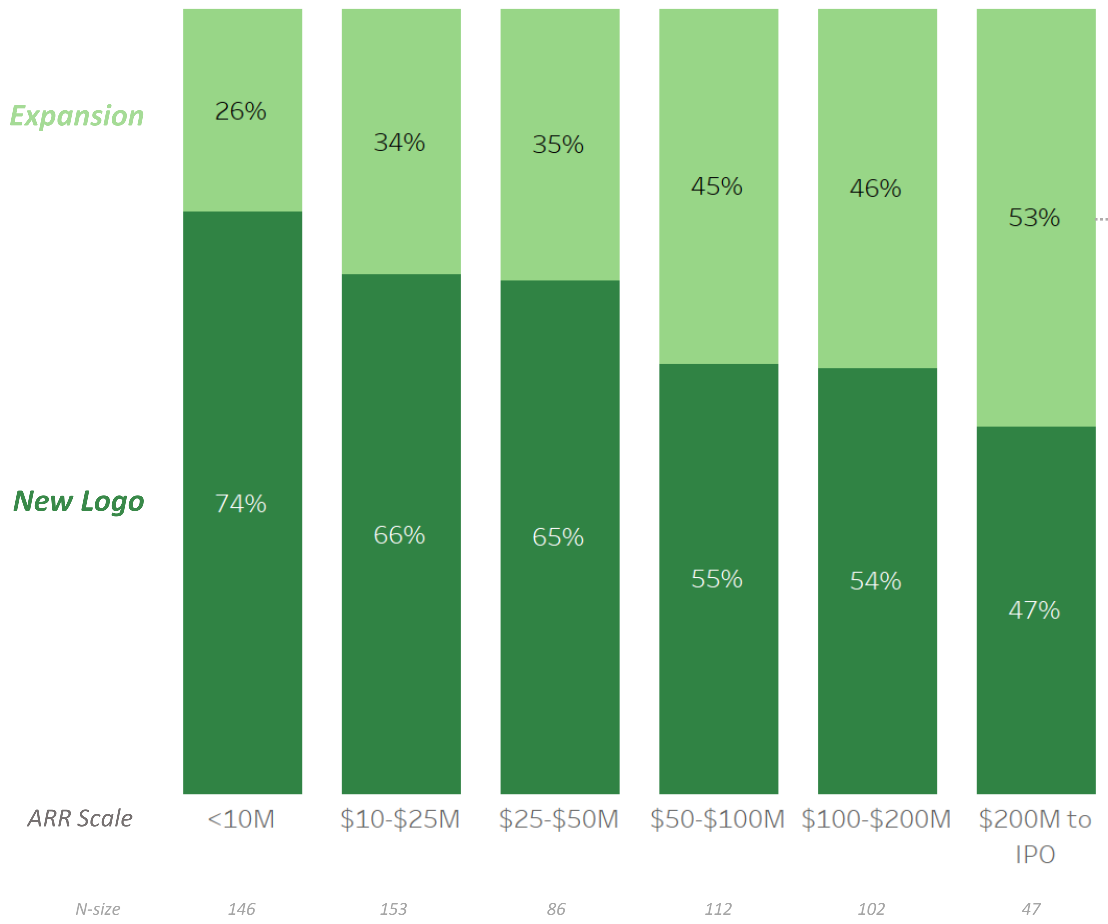
New logos are the primary driver of ARR growth until SaaS companies reach ~$200M ARR, when upsell and cross-sell motions scale and ARR from customer expansion begins to make up more than 50% of gross new ARR.

For more context on these metrics, reference the full ARR funnel in the Appendix.

see next page

Gross New ARR Distribution[1]

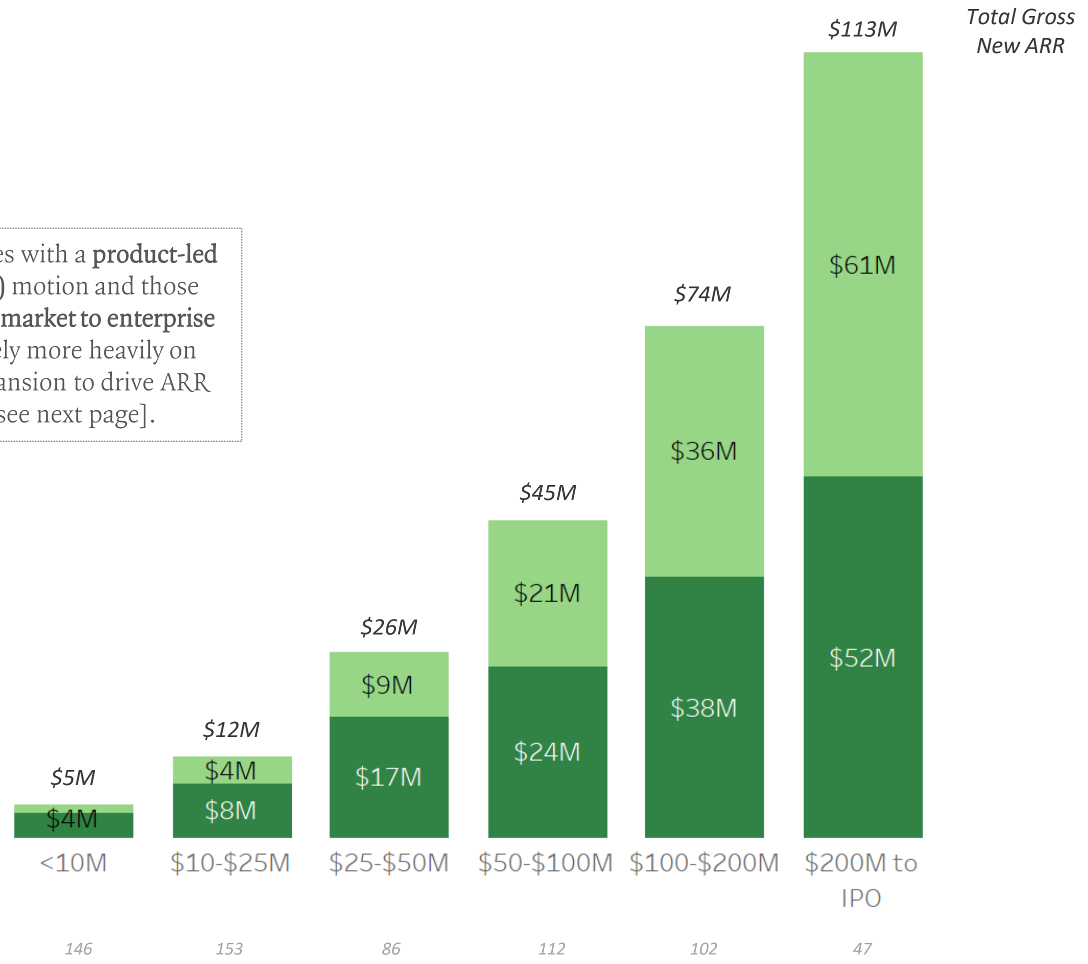
Average % of Gross New ARR by Type and ARR Scale



SaaS companies with a **product-led growth (PLG)** motion and those targeting **mid-market to enterprise** customers rely more heavily on customer expansion to drive ARR growth [see next page].

Annualized Gross New ARR[1]

Average Annual Gross New ARR by Type and ARR Scale



1 Quarterly operating and financial data from the companies included

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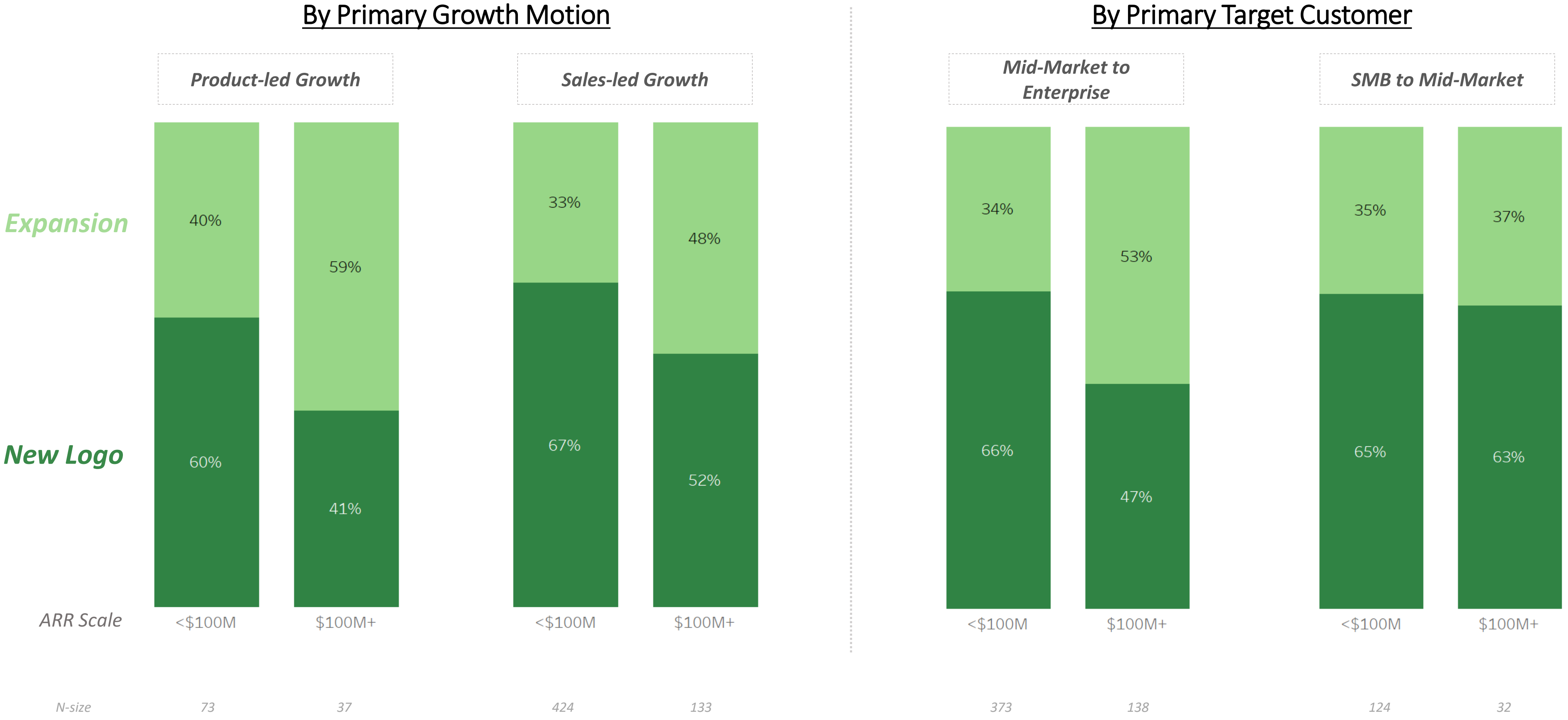
Topline Health | Drivers of ARR Growth by GTM Motion

The primary drivers of topline growth can vary - especially based on go-to-market strategy. Typically, companies with more of a "land and expand" sales motion (product-led growth companies and those targeting enterprise customers) rely more on customer expansion to drive growth.

Gross New ARR Distribution[1]

Average % of Gross New ARR by Type and ARR Scale



1 Quarterly operating and financial data from the companies included

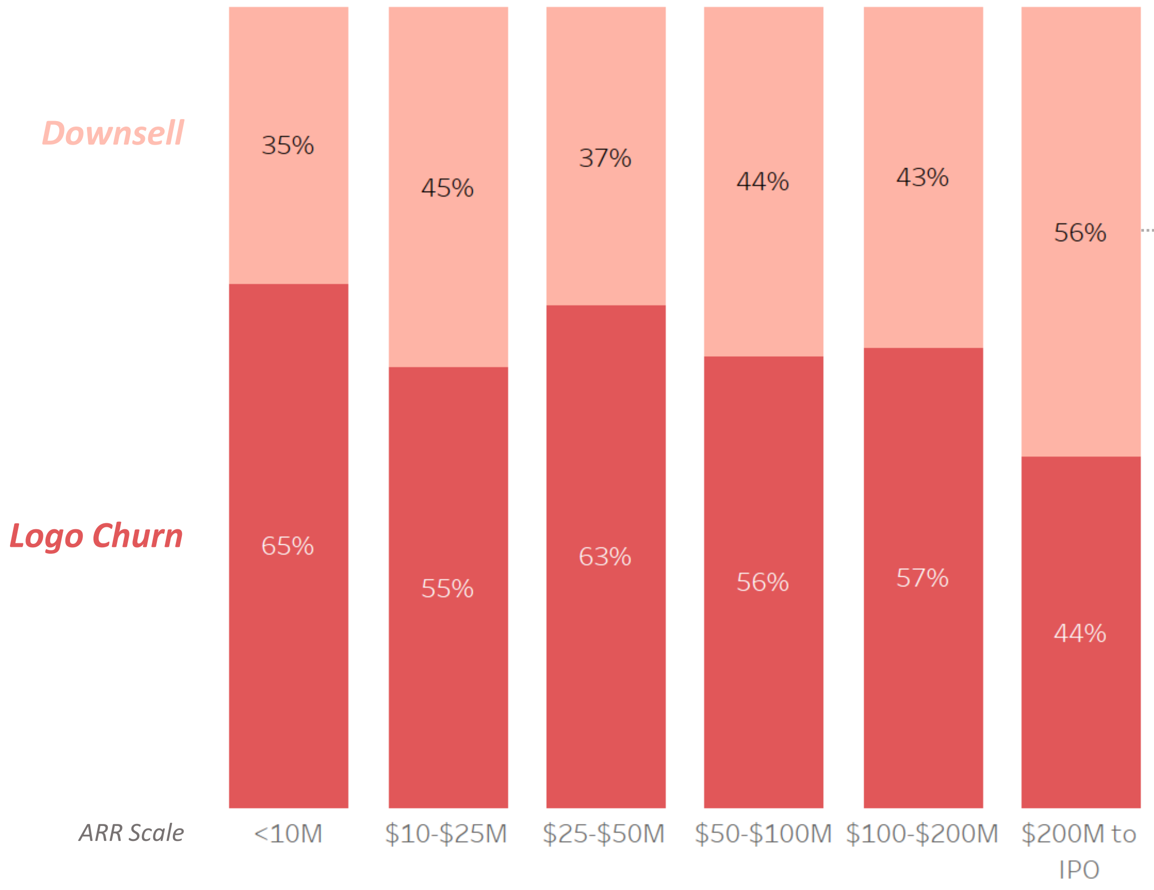
Topline Health | Drivers of Churned ARR

As existing customers make up an increasing proportion of new ARR, their contribution to churn increases. Customer downsell makes up a larger share of churn as companies scale – especially for companies with consumption or user-based pricing models.

For more context on these metrics, reference the full ARR funnel in the Appendix.

Gross Churn Distribution[1]

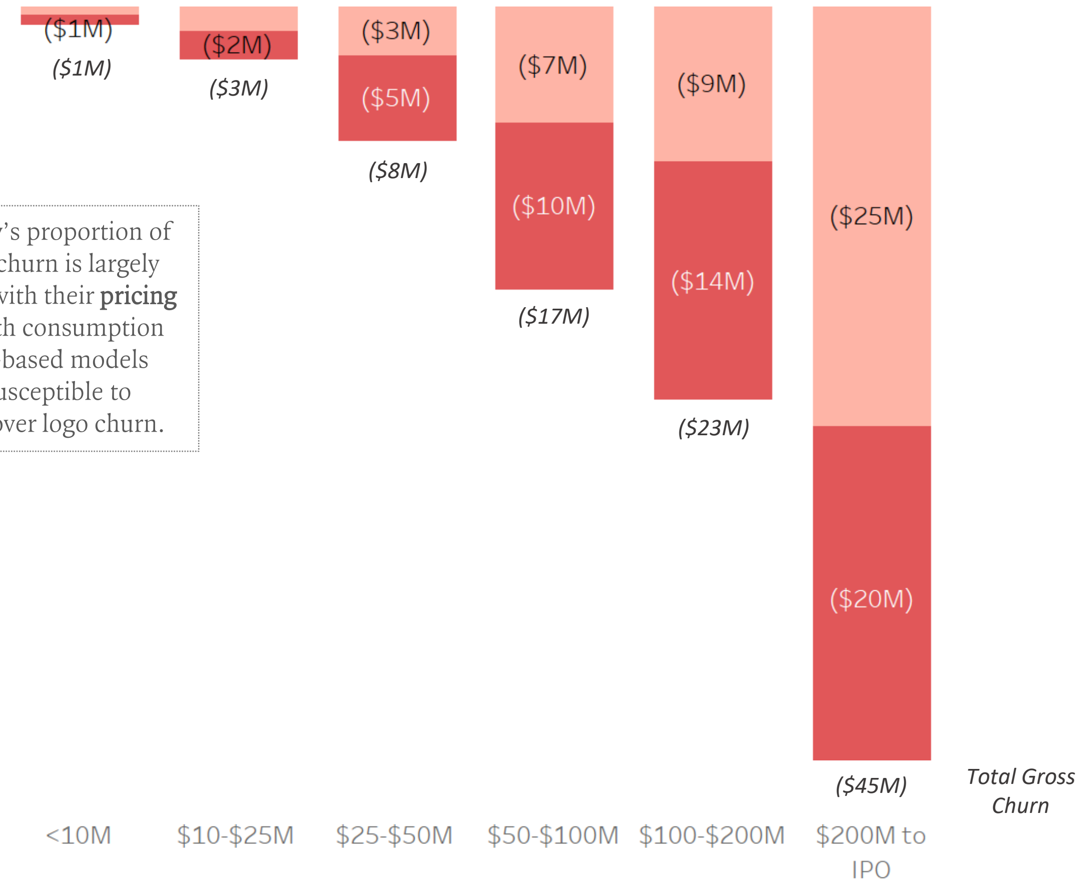
Average % of Gross Churn by Type and ARR Scale



A company's proportion of downsell churn is largely correlated with their **pricing model**, with consumption and seat-based models more susceptible to downsell over logo churn.

Annualized Gross Churn[1]

Average Annual Gross Churn by Type and ARR Scale



	<10M	$10-$25M	$25-$50M	$50-$100M	$100-$200M	$200M to IPO
Median Annual Churn Rate[2]	8%	10%	9%	11%	9%	10%
N-size	53	85	39	55	42	10

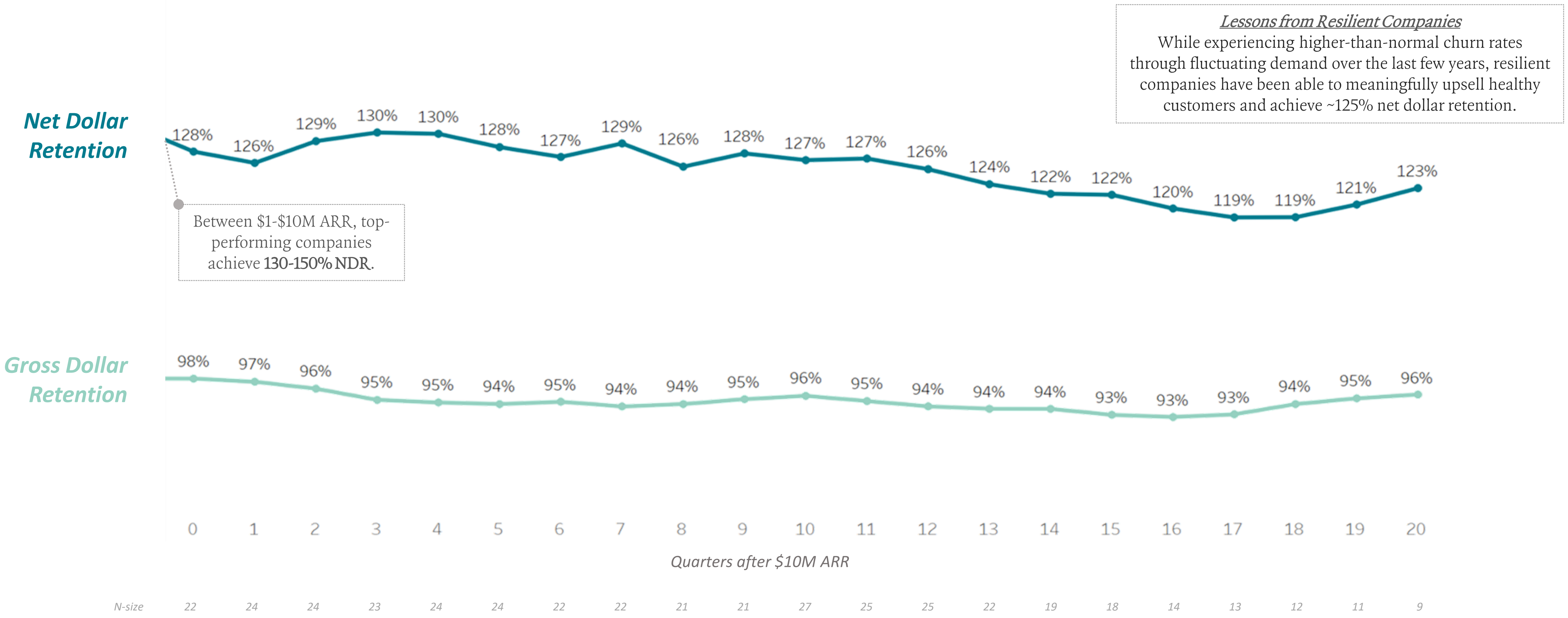
1 Quarterly operating and financial data from the companies included
2 Churn Rate = Gross Churned ARR / BOP ARR

Topline Health | ARR Retention

We've found net dollar retention (NDR) to be one of the strongest indicators of long-term success for B2B SaaS companies. After reaching $10M ARR, top-performing companies maintain 120-130% NDR and ~95% gross dollar retention.

Top Performance ARR Retention[1]

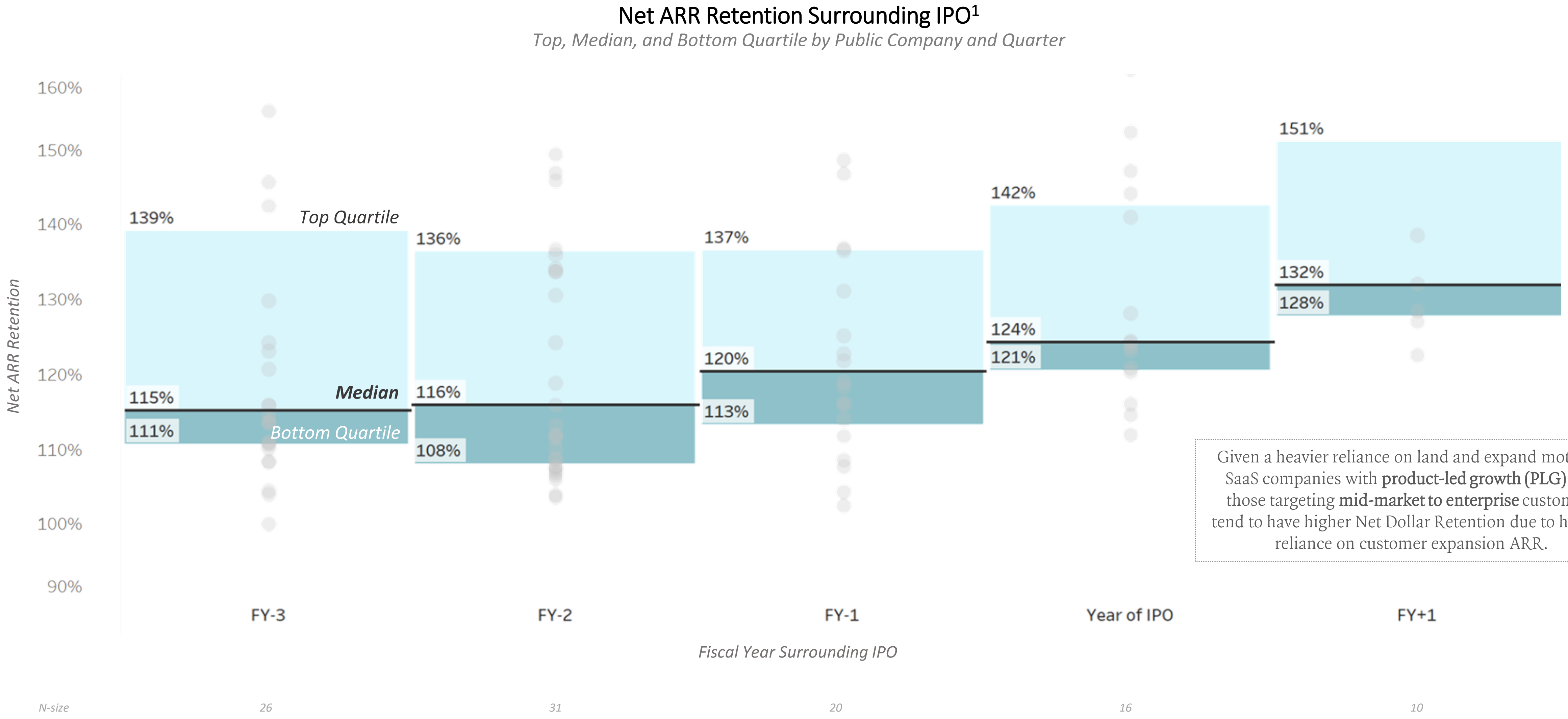
Rolling Top Quartile Annualized Net and Gross ARR Retention by Quarters after $10M ARR



1 Quarterly operating and financial data from the companies included

Topline Health | Net Dollar Retention Surrounding IPO

The public SaaS companies in this dataset are able to maintain strong net dollar retention as they scale to IPO, with top-performing companies achieving 130-150% NDR in the periods surrounding IPO.



Given a heavier reliance on land and expand motions, SaaS companies with **product-led growth (PLG)** and those targeting **mid-market to enterprise** customers tend to have higher Net Dollar Retention due to heavier reliance on customer expansion ARR.

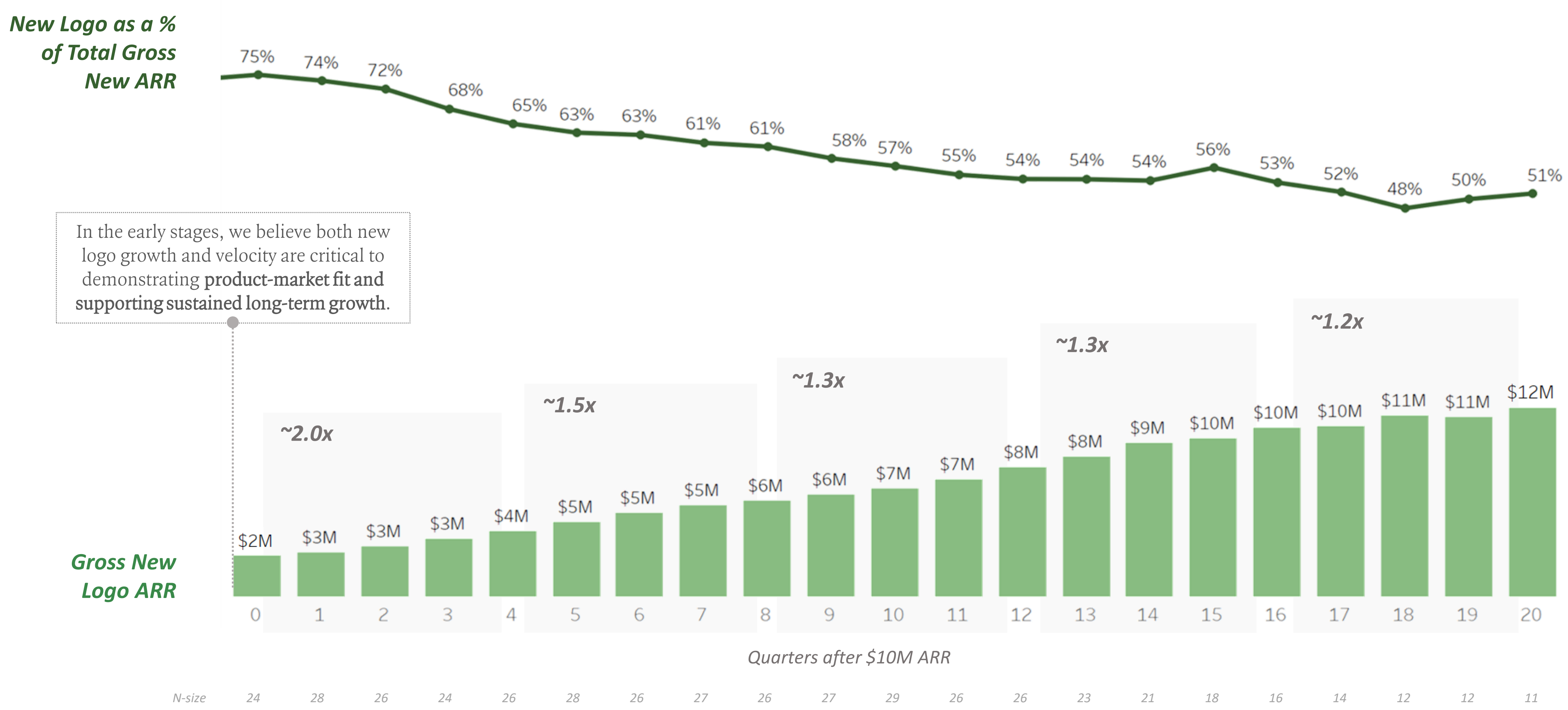
1 Quarterly operating and financial data from the companies included

Topline Health | New Logo Growth

As the primary driver of topline growth as companies scale to IPO, new logo growth is a strong measure of product market fit and GTM scalability. Top-performing companies double new logo ARR in the first year after reaching $10M and continue to grow it by 1.2-1.5x as they approach IPO.

Top Performance New Logo Growth[1]

Rolling Top Quartile Gross New Logo ARR and YoY New Logo ARR Growth by Quarters after $10M ARR



1 Quarterly operating and financial data from the companies included

ICONIQ | Growth

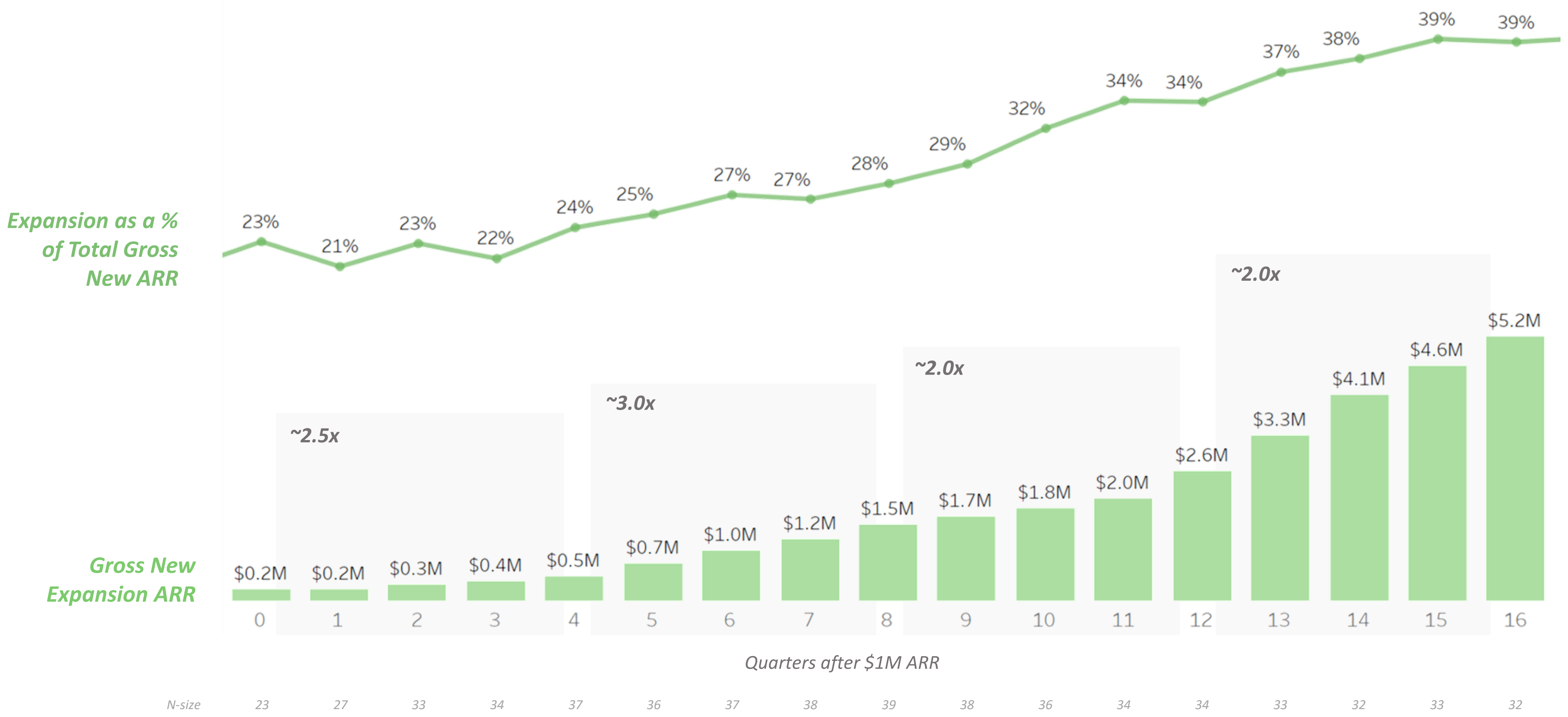
Topline Health | Customer Expansion Growth

During early stages, ARR from customer expansion starts to increasingly drive growth, and a company's new logo and upsell motions should be built in parallel. SaaS companies typically see the highest expansion growth within the first two years after reaching $1M ARR.

Top Performance
Scaling to $50M
Pre- and Post-IPO
Metric to Watch

Customer Expansion Growth after $1M ARR[1]

Rolling Average Gross Expansion ARR and Expansion % of Total by Quarters after $1M ARR



1 Quarterly operating and financial data from the companies included

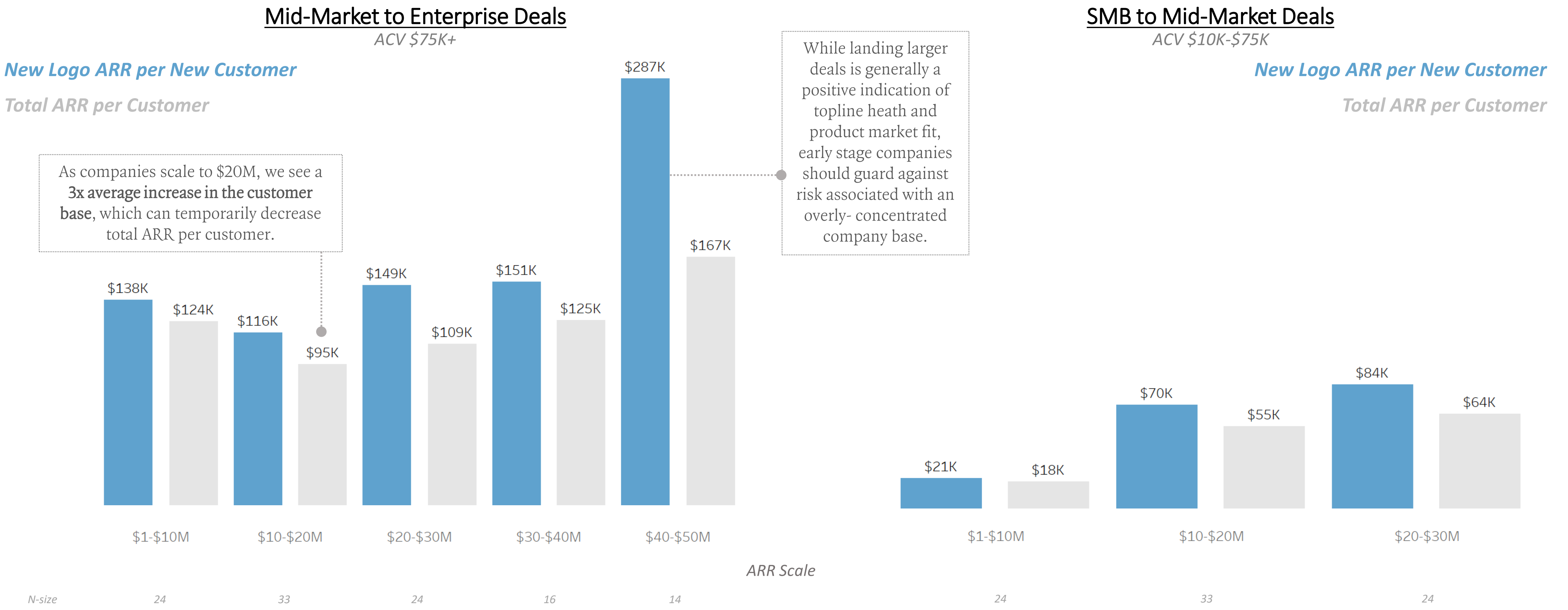
ICONIQ | Growth

Topline Health | Moving Up-Market

Another strong indicator of topline health is a company's ability to move up-market when closing new logo deals. As SaaS companies prove themselves to be market leaders, they're able to land larger deals with higher ACV, in turn increasing total ARR per customer.

New Logo ARR per New Customer vs. Total ARR per Customer by ACV[1]

Median by Early Stage ARR Scale



1 Quarterly operating and financial data from the companies included

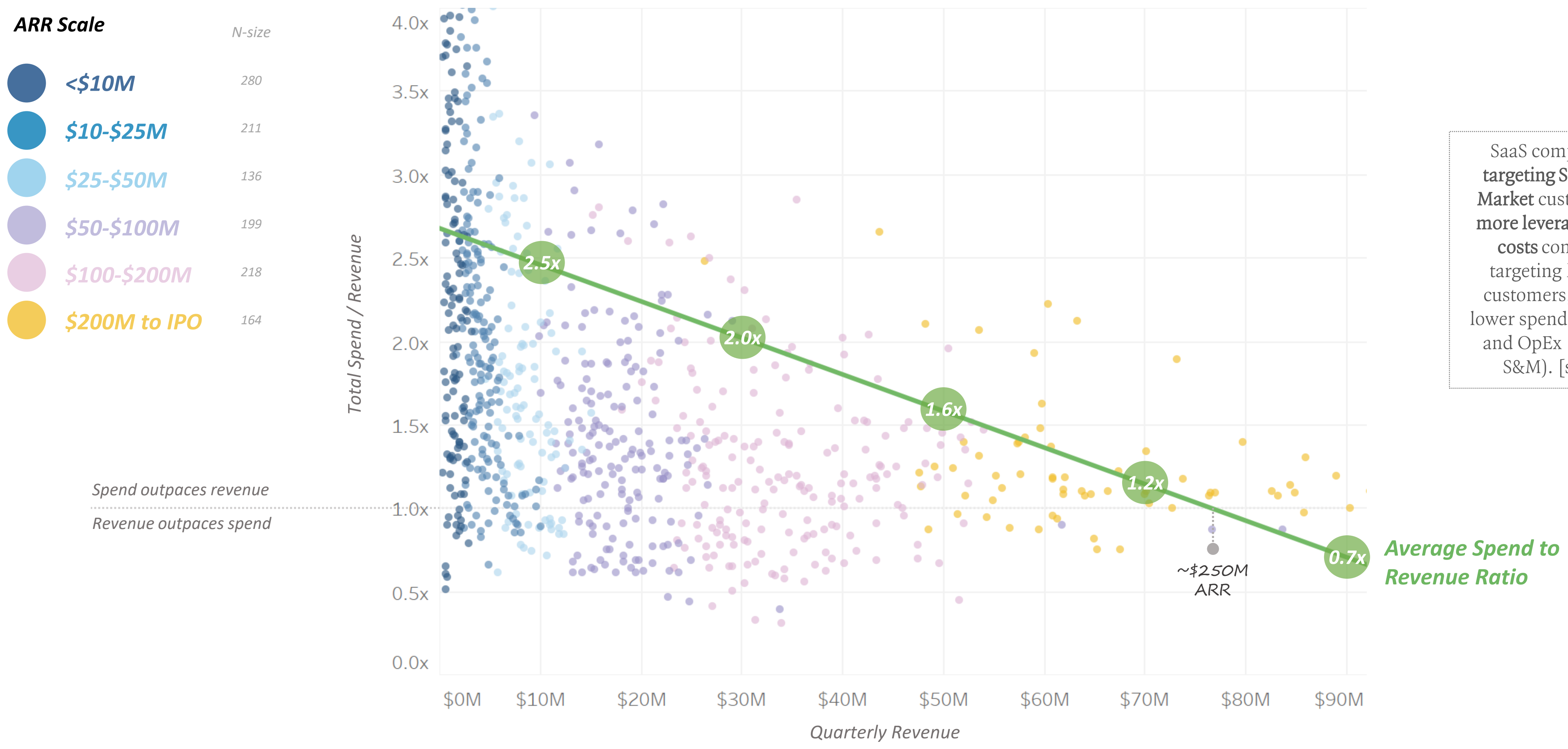
ICONIQ | Growth

Growth Efficiency | Spend vs. Revenue

Long-term success is driven by the combination of topline growth and strong operational efficiency. As incremental efficiencies are achieved, operating costs should decrease until revenue outpaces total spend – usually as B2B SaaS companies exceed $250M ARR.

Spend to Revenue Ratio[1]

Total Spend (COGS + OpEx) / Revenue by Company and ARR Scale



SaaS companies primarily **targeting SMB to lower Mid-Market** customers tend to **get more leverage from operating costs** compared to those targeting larger enterprise customers, primarily due to lower spend across both COGS and OpEx (mostly R&D and S&M). [see Appendix].

1 Quarterly operating and financial data from the companies included

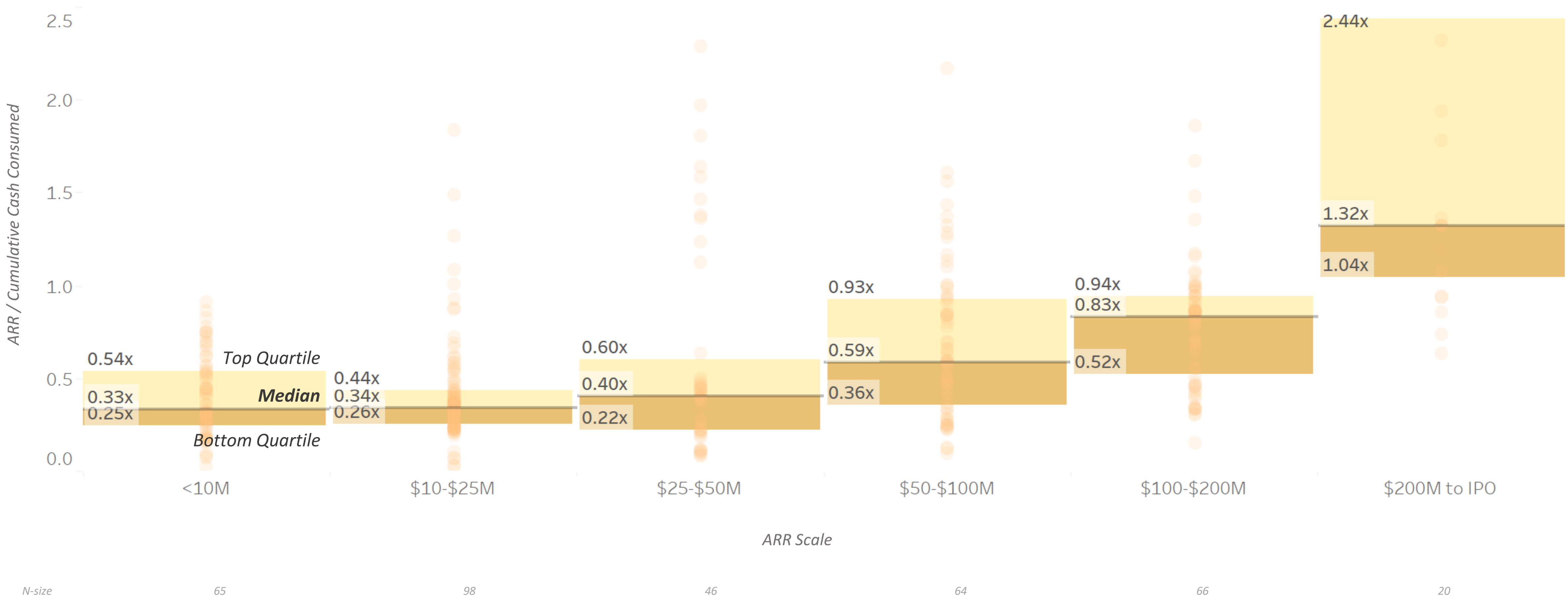
ICONIQ | Growth

Growth Efficiency | Capital Consumption Ratio

Capital consumption ratio measures ARR achieved for every cumulative dollar of cash consumed, making it a robust measure of overall growth efficiency. Capital consumption ratio improves as companies scale, with top performers achieving 0.9x+ after ~$50M ARR.

Capital Consumption Ratio[1]

ARR / Cumulative Cash Consumed[2] Top, Median, and Bottom Quartile by Quarters after $10M ARR



1 Quarterly operating and financial data from the companies included
2 Primary Capital only

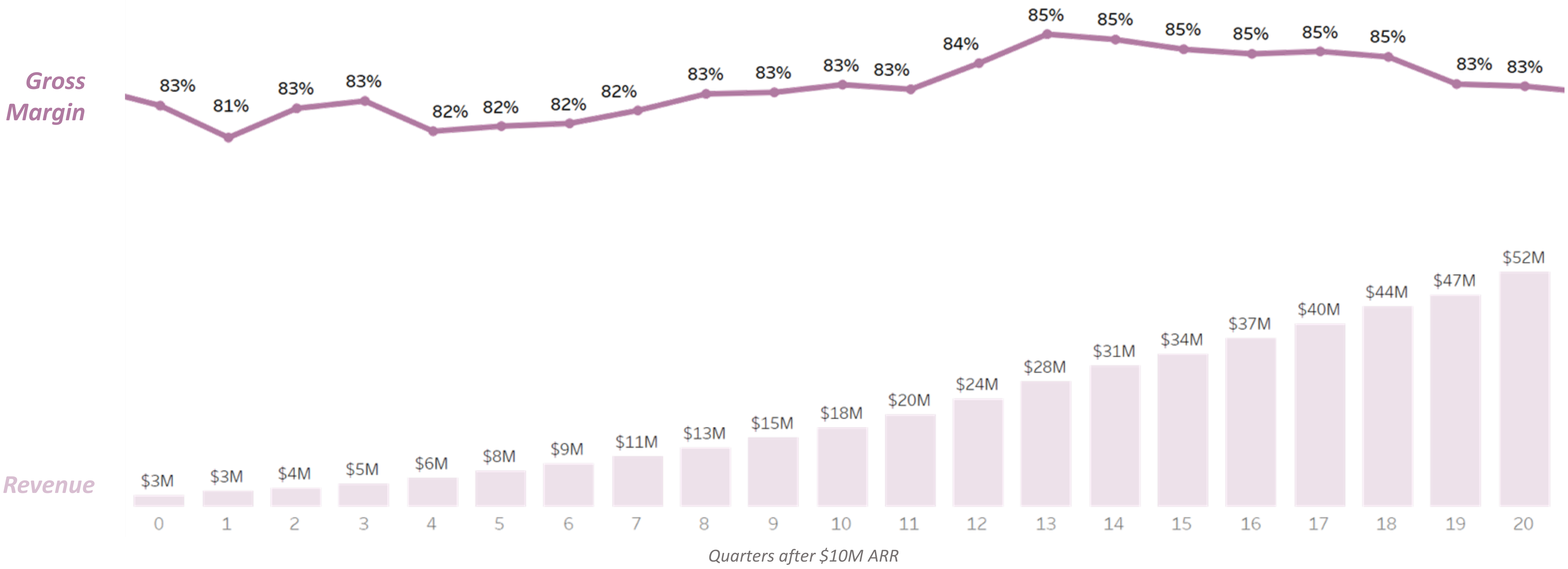
ICONIQ | Growth

Growth Efficiency | Gross Margin

As SaaS companies operationalize services and support, COGS should also decrease relative to revenue, leading to increasing gross margins (GM). Though GM can vary significantly by sector and operating model, companies should aim for 70%+ during early stages, and 80%+ at scale.

Top Performance Gross Margin[1]

Rolling Top Quartile Gross Margin and Revenue by Quarters after $10M ARR



Implied COGS ($M)	*0.5*	*0.6*	*0.7*	*0.9*	*1.1*	*1.4*	*1.6*	*1.9*	*2.2*	*2.6*	*3.1*	*3.4*	*3.8*	*4.2*	*4.7*	*5.1*	*5.6*	*6.0*	*6.6*	*8.0*	*8.8*
N-size	*35*	*37*	*35*	*36*	*37*	*38*	*37*	*36*	*38*	*37*	*41*	*41*	*42*	*41*	*38*	*37*	*32*	*32*	*29*	*27*	*26*

1 Quarterly operating and financial data from the companies included

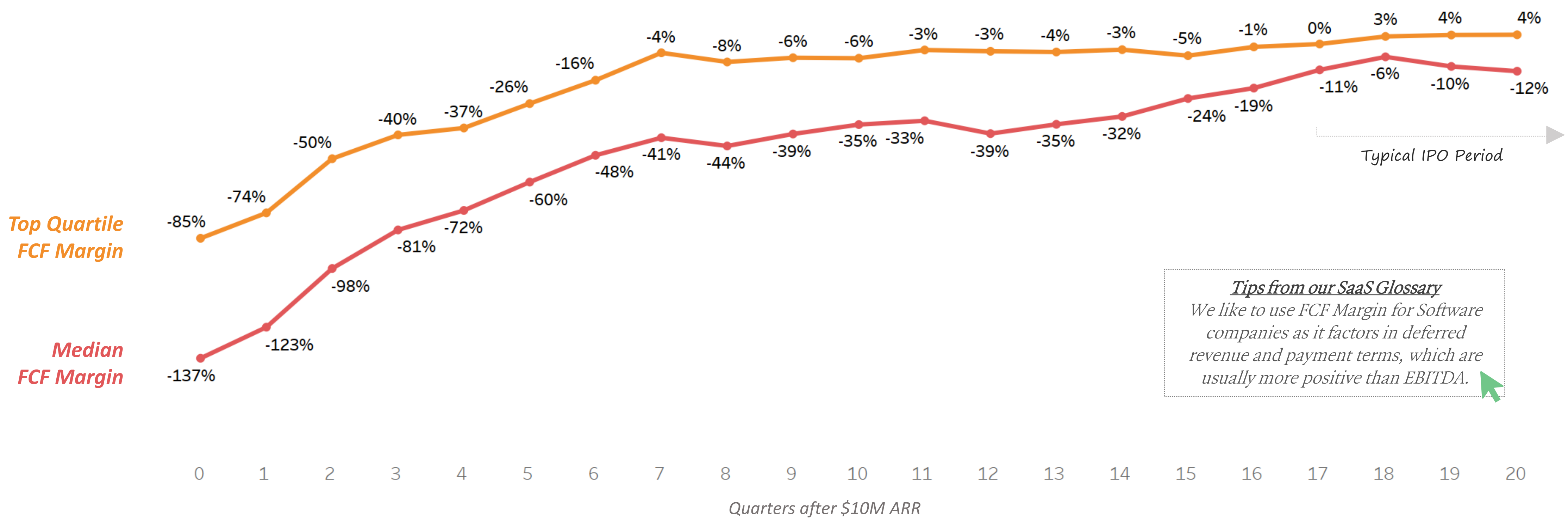
ICONIQ | Growth

Growth Efficiency | Path to Profitability

On average, SaaS companies approach profitability 6-7 years after reaching $10M ARR (usually within 1-2 years after IPO), with top-performers achieving profitability within 4-5 years.

FCF Margins[1]

Rolling Top Quartile and Median FCF as a % of Revenue by Quarters after $10M; Profitable and Non-Profitable Companies Included



	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Median FCF ($M)	(4)	(4)	(4)	(4)	(4)	(4)	(3)	(3)	(5)	(5)	(5)	(6)	(8)	(9)	(9)	(7)	(6)	(4)	(2)	(4)	(5)
N-size	28	32	30	31	30	33	31	30	31	31	32	34	35	34	32	29	28	28	25	23	21

1 Quarterly operating and financial data from the companies included

Growth Efficiency | Burn vs. Net New ARR

During unprofitable periods, it's important to keep an eye on cash burned vs. growth achieved. For top-performing companies, net new ARR outpaces burn around ~$20M ARR, and we typically recommend companies maintain a burn multiple under 2.0x.

Top Performance

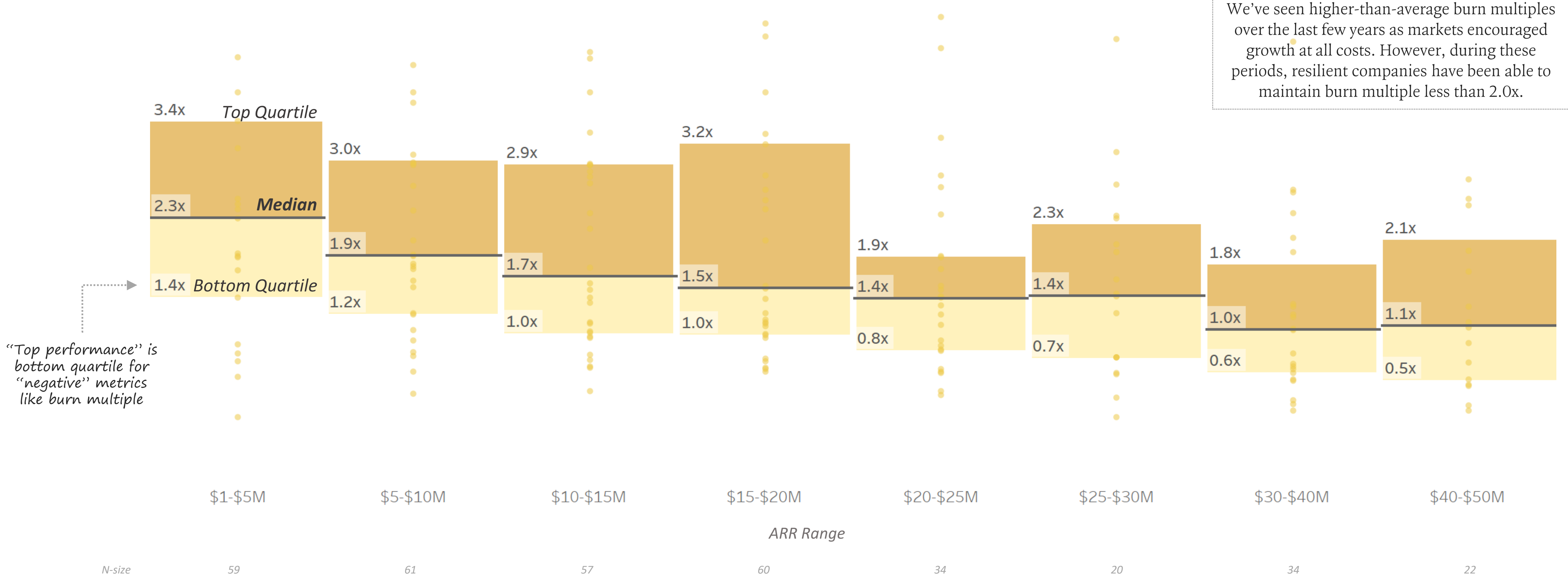
Scaling to $50M

Pre and Post-IPO

Metric to Watch

Burn Multiple (FCF / Net New ARR) Scaling to $50M ARR[1]

Top, Median, and Bottom Quartile by ARR Range; Non-profitable Companies only



Lessons from Resilient Companies

We've seen higher-than-average burn multiples over the last few years as markets encouraged growth at all costs. However, during these periods, resilient companies have been able to maintain burn multiple less than 2.0x.

1 Quarterly operating and financial data from the companies included

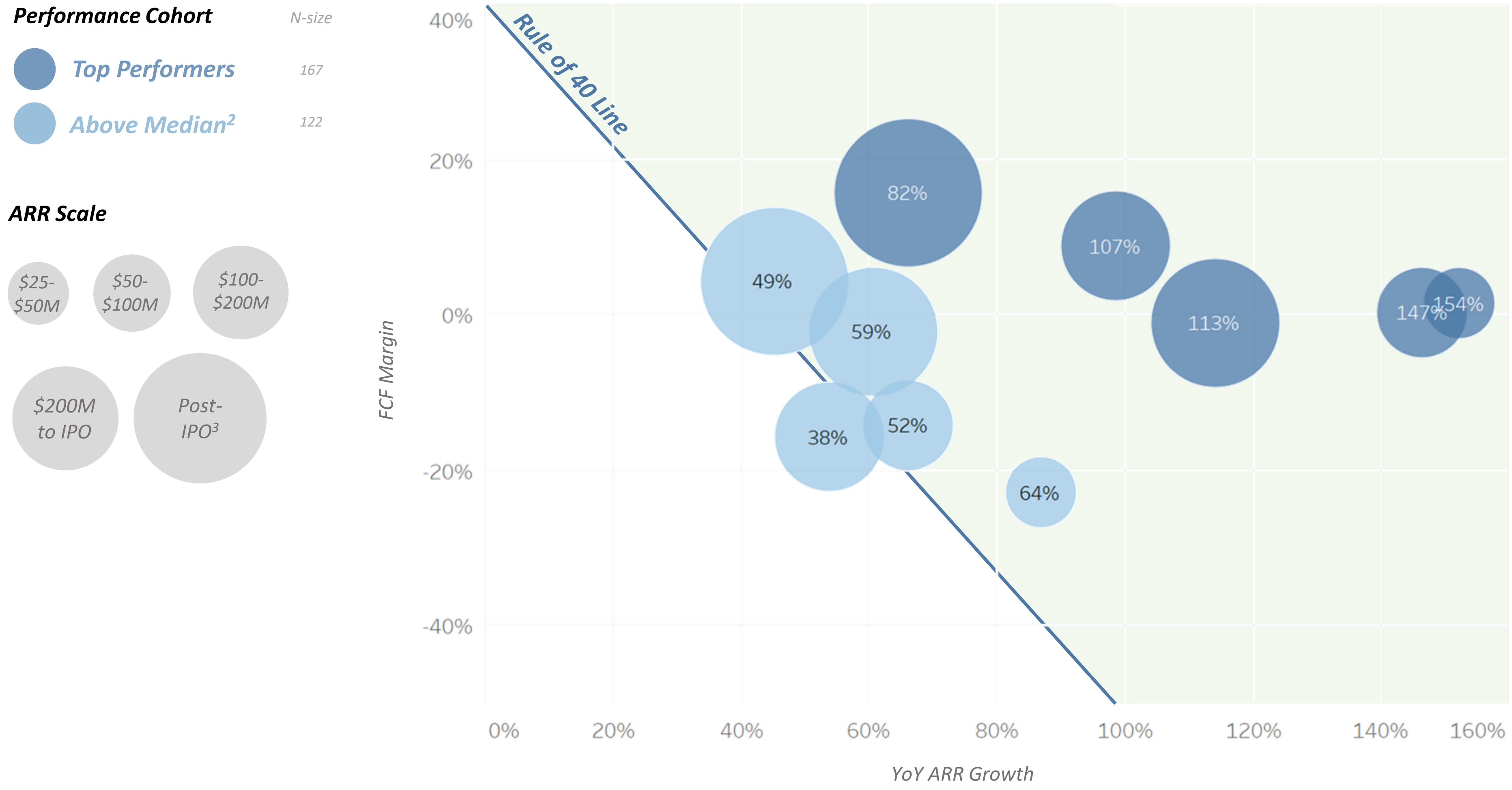
ICONIQ | Growth

Growth Efficiency | Growth vs. Profitability

With renewed focus on growth and profitability in tandem, a company's performance against rule of 40 is likely to gain importance in the coming years. Though rule of 40 is expected to decline as companies scale and growth slows, top performers exceed 40% regardless of scale.

Rule of 40: YoY ARR Growth + FCF Margin[1]

Average Rule of 40 by Performance Cohort and ARR Scale



Lessons from Resilient Companies
While average performance against rule of 40 suffered in the turbulent markets of 2020 and 2022 YTD, resilient companies have been able to maintain 75%+ rule of 40 through these periods primarily by maintaining strong ARR growth.

Tips from our SaaS Glossary
We recommend later stage (~$100M+ ARR) SaaS companies use YoY Revenue Growth rather than YoY ARR growth to calculate rule of 40.

1 Quarterly operating and financial data from the companies included
2 "Above Median" is greater than or equal to median, less than top quartile
3 Within 2 fiscal years of IPO

Growth Efficiency | Go-to-market Efficiency

Magic number measures go-to-market efficiency, a critical driver of overall efficiency. While magic number generally trends down as companies scale due to competitive dynamics and shrinking headroom, a gross magic number > 1.0x is a good long-term goal for companies with sales-led growth.

Gross and Net Magic Number[1]

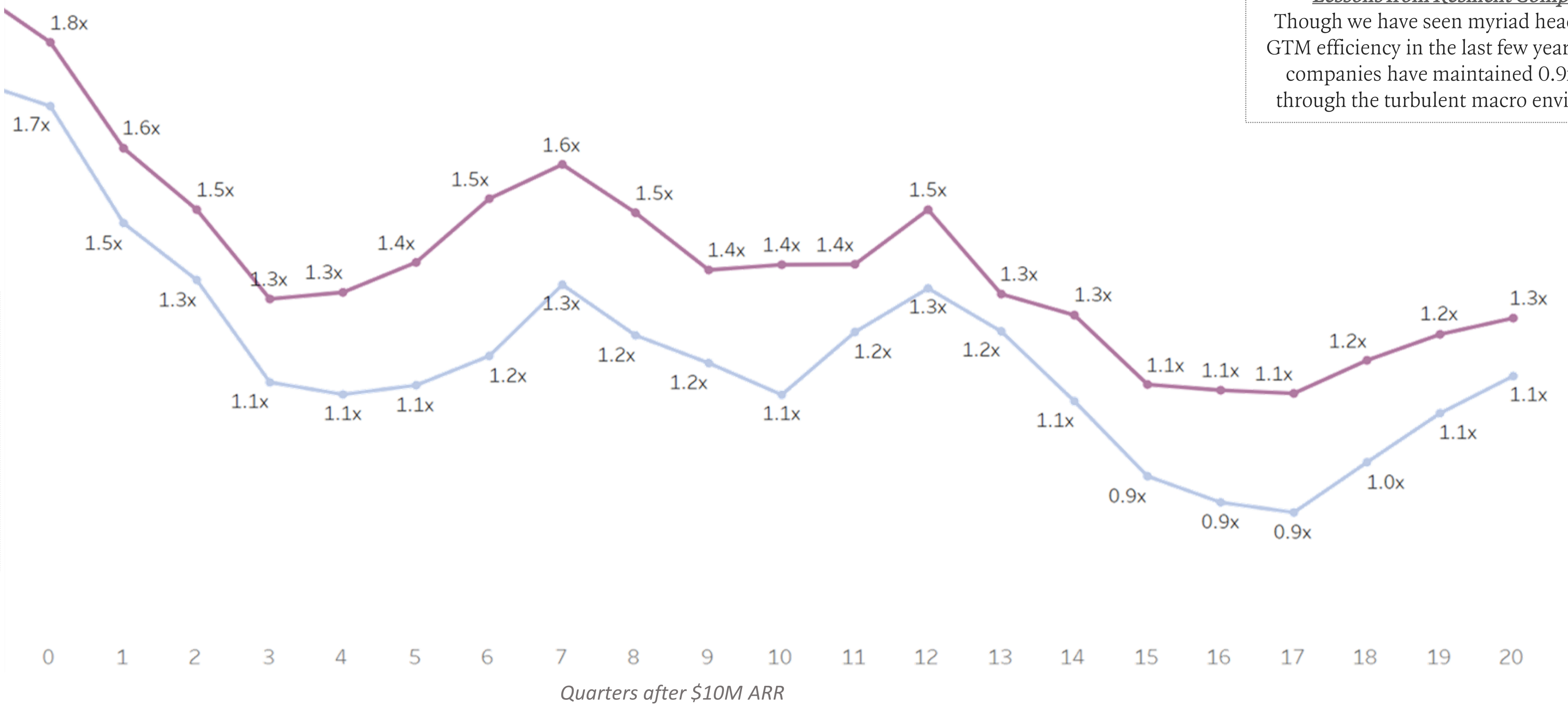
Rolling Top Quartile by Quarters after $10M ARR Threshold; Sales-led Growth Companies

Gross Magic Number

Current quarter gross new ARR / prior quarter S&M OpEx[2]

Net Magic Number

Current quarter net new ARR / prior quarter S&M OpEx[2]



	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Avg S&M OpEx ($M)	2.7	3.4	3.8	3.9	4.9	5.3	6.1	6.7	8.1	10	11	12	14	16	18	18	18	19	19	22	23
N-size	40	42	39	39	40	40	41	40	44	45	47	46	46	46	40	40	34	34	31	30	27

Lessons from Resilient Companies

Though we have seen myriad headwinds to GTM efficiency in the last few years, resilient companies have maintained 0.9x+ NMN through the turbulent macro environment.

Tips from our SaaS Glossary

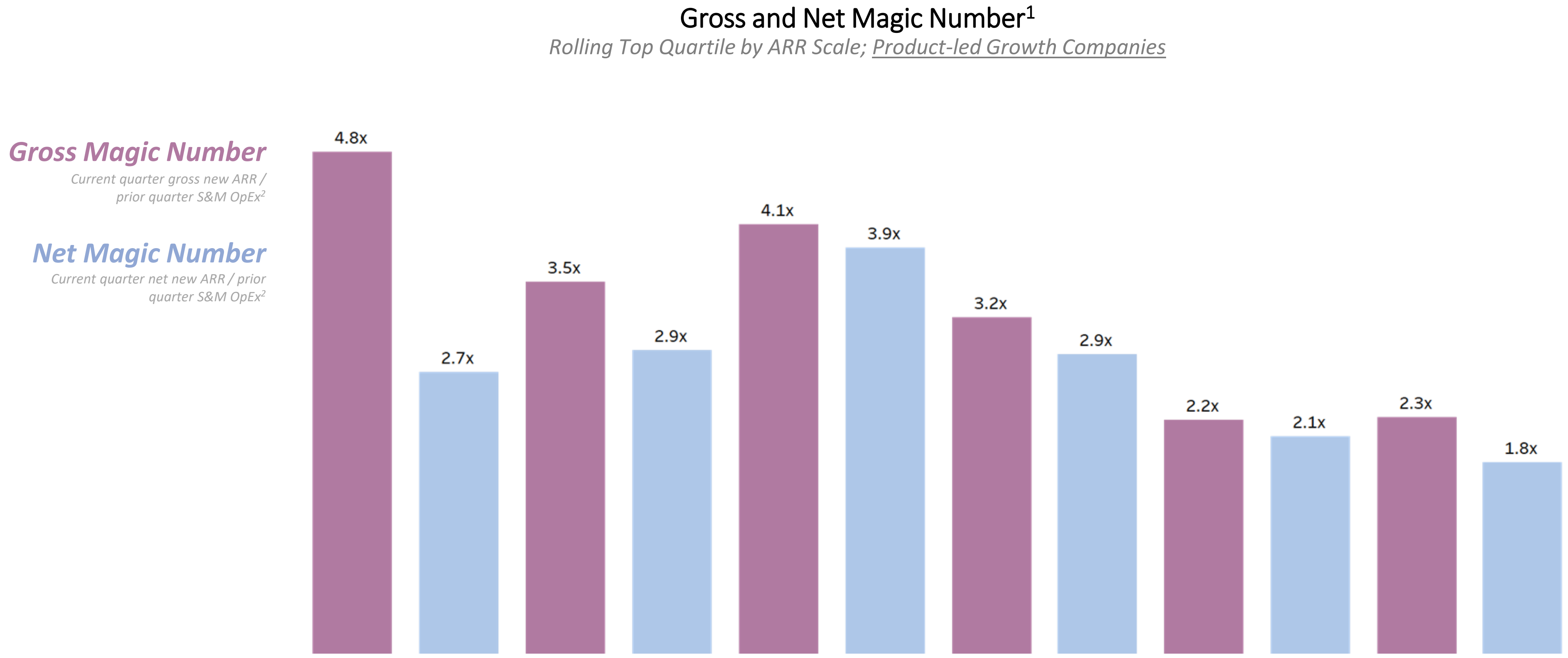
There are four primary ways to calculate magic number: both net and gross magic number can also be adjusted for gross margins. The specific magic number calculation you use should depend on your GTM motion, sales cycles, gross margins, and more.

1 Quarterly operating and financial data from the companies included
2 Quarter of S&M OpEx utilized in magic number calculations should depend on a given company's sales cycle

Growth Efficiency | Go-to-market Efficiency for PLG Companies

Top Performance
Scaling to $50M
Pre- and Post-IPO
Metric to Watch

Driven primarily by lower S&M OpEx during growth stages (<$200M ARR), companies with product-led-growth tend to have higher go-to-market efficiency with top performance gross magic number 2.5x-4.5x.



ARR Scale	<$10M	$10-$25M	$25-$50M	$50-$100M	$100-$200M	$200M to IPO
Avg S&M OpEx ($M)	0.9	2.5	5.6	8.6	16	30
N-size	9	15	15	23	23	11

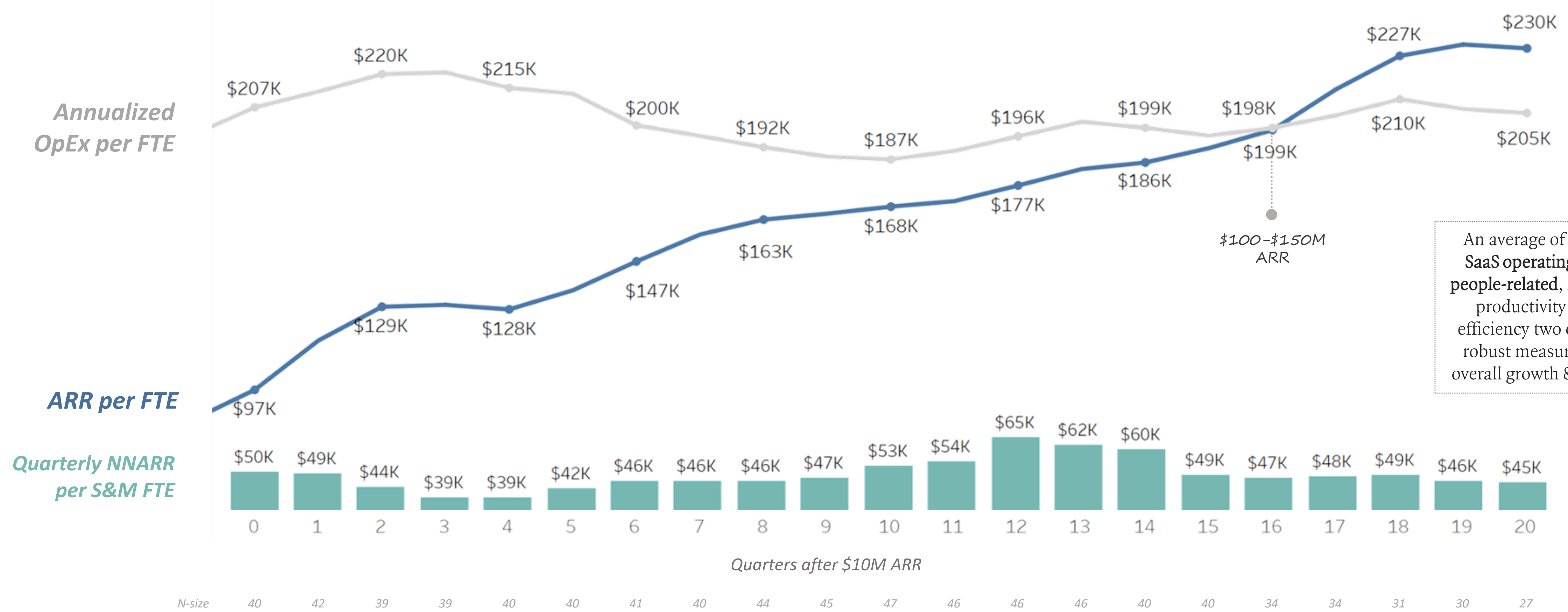
1 Quarterly operating and financial data from the companies included
2 Quarter of S&M OpEx utilized in magic number calculations should depend on a given company's sales cycle

Growth Efficiency | Headcount Productivity vs. Headcount Efficiency

FTE productivity is an especially meaningful KPI when compared to FTE efficiency (OpEx per FTE). As SaaS companies scale, they are able to increase both FTE productivity and FTE efficiency, and FTE productivity tends to surpass FTE efficiency around the $100-$150M ARR scale.

ARR per FTE and Annualized OpEx per FTE[1]

Rolling Median by Quarters after $10M ARR Threshold



An average of **60-75% of SaaS operating costs are people-related**, making FTE productivity and FTE efficiency two of the most robust measurements of overall growth & efficiency.

1 Quarterly operating and financial data from the companies included

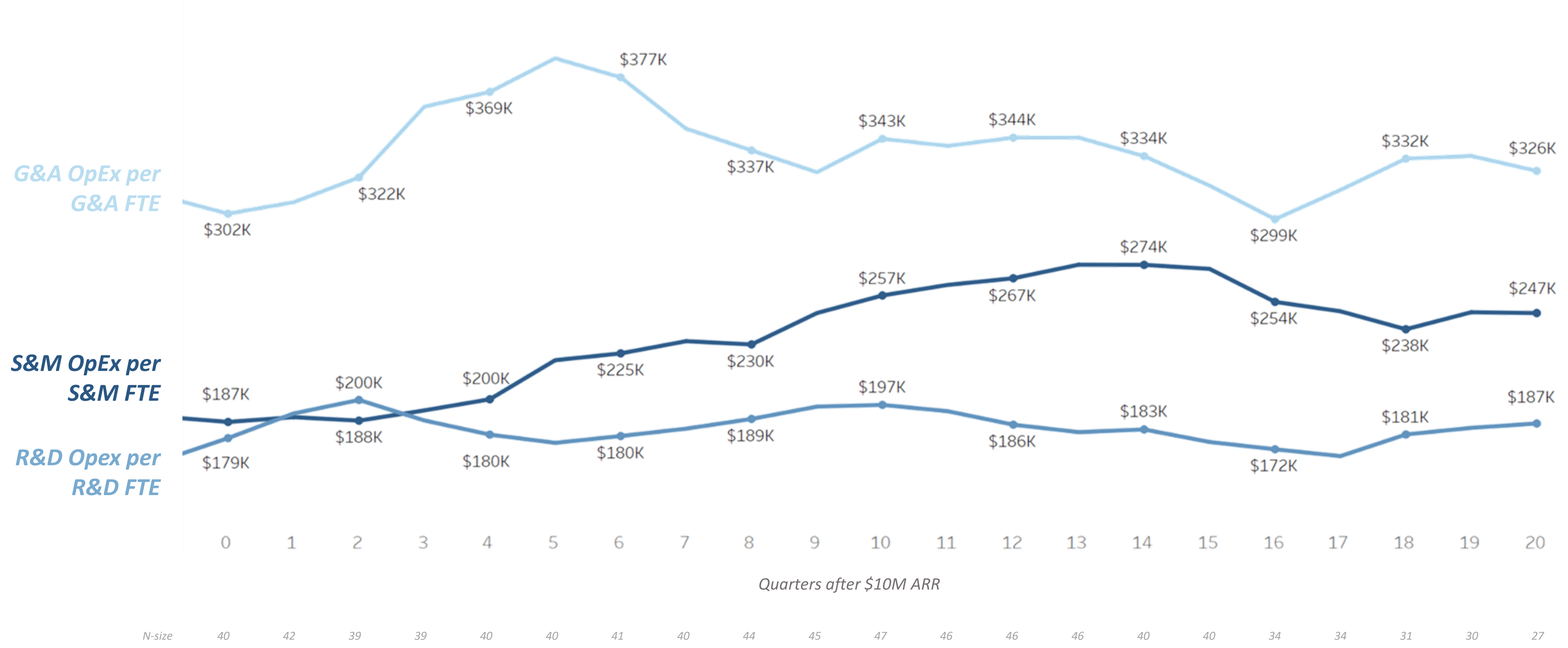
ICONIQ | Growth

Spend Profile | Headcount Efficiency

Like FTE productivity, overall FTE efficiency increases as SaaS companies scale driven mostly by G&A and R&D efficiency. S&M FTE efficiency tends to decrease (i.e., S&M OpEx per S&M FTE increases) until stabilizing once companies reach ~$150M+ ARR.

Annualized OpEx per FTE by Type[1]

Rolling Median by Quarters after $10M ARR Threshold



1 Quarterly operating and financial data from the companies included

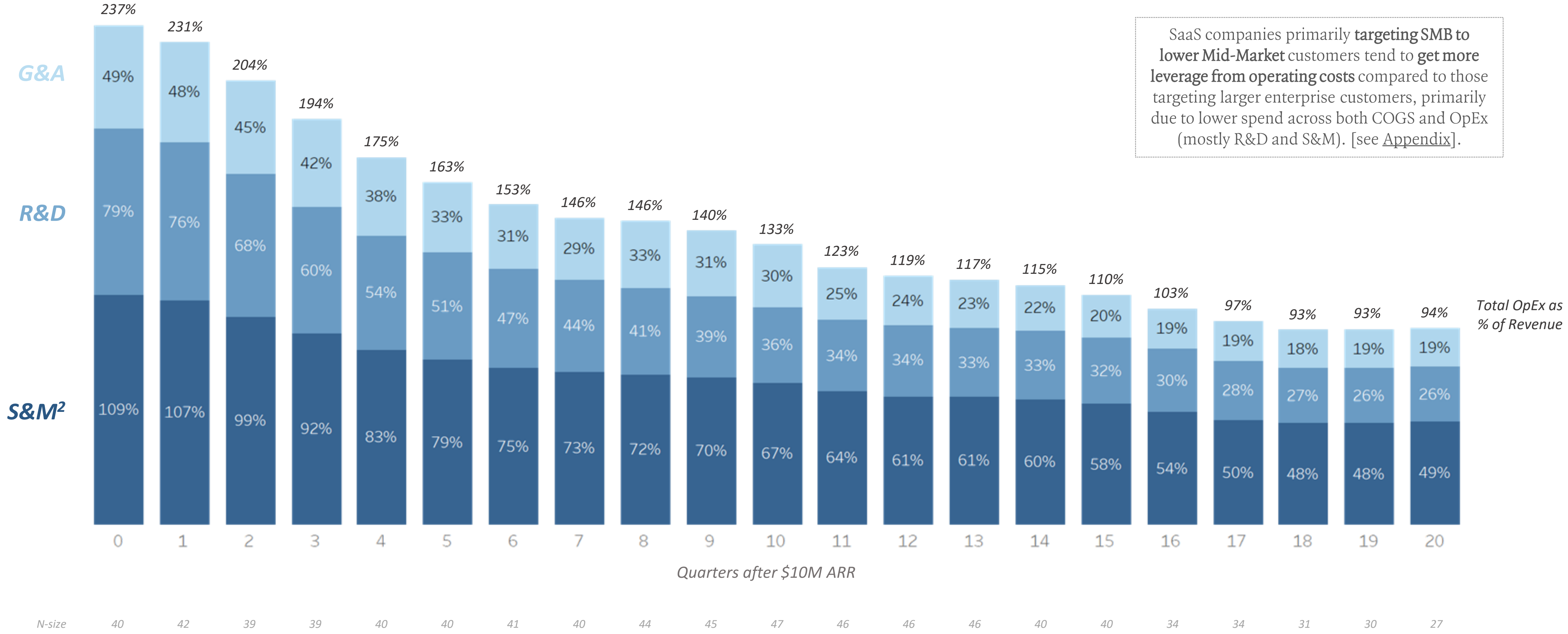
ICONIQ | Growth

Spend Profile | OpEx vs. Revenue

As SaaS companies scale and efficiencies are achieved across all aspects of operations, operational expenses decrease relative to revenue. Revenue should outpace OpEx around ~$100-$150M, primarily driven by increased R&D and G&A efficiency.

OpEx as a % of Revenue by Type[1]

Rolling Average by Quarters after $10M ARR Threshold



SaaS companies primarily **targeting SMB to lower Mid-Market** customers tend to **get more leverage from operating costs** compared to those targeting larger enterprise customers, primarily due to lower spend across both COGS and OpEx (mostly R&D and S&M). [see Appendix].

1 Quarterly operating and financial data from the companies included
2 Total Sales & Marketing OpEx includes Customer Success

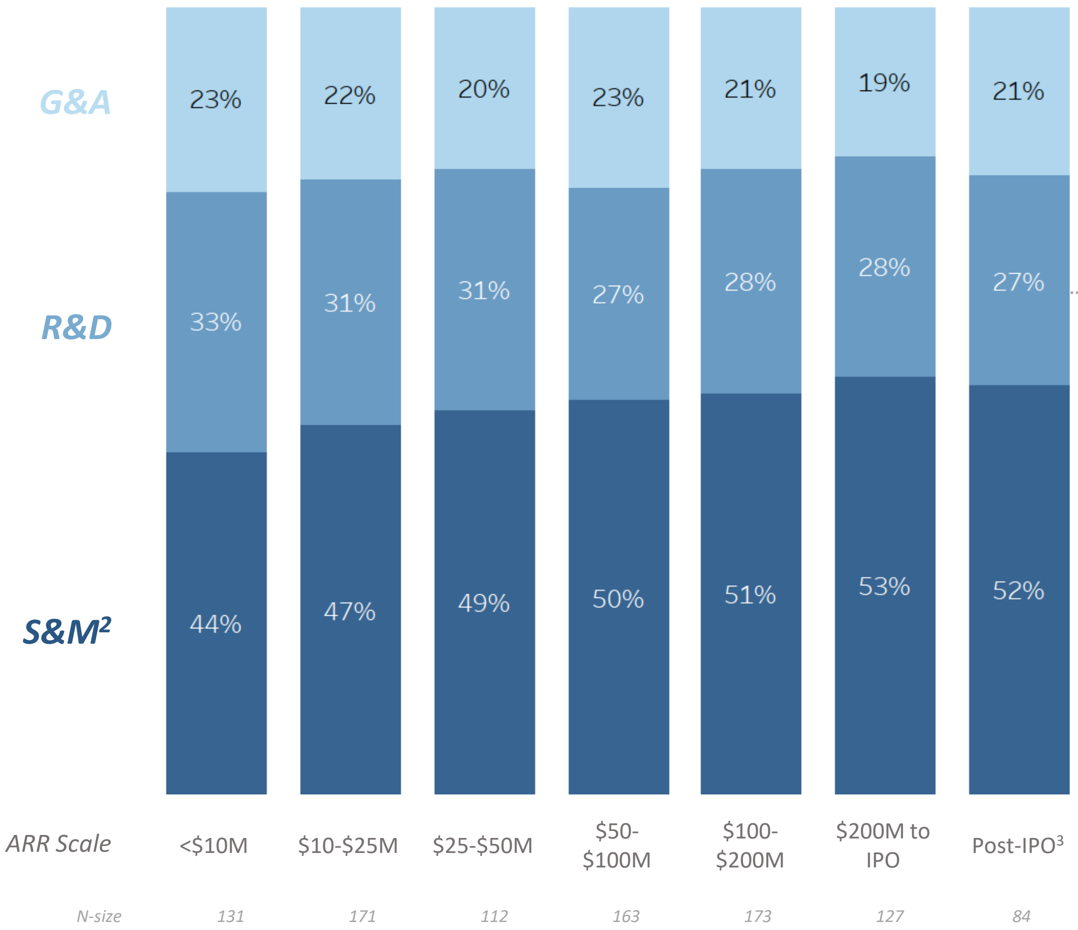
ICONIQ | Growth

Spend Profile | Operational Expenses

R&D makes up an increasingly smaller proportion of operational spend as products mature and focus shifts towards go-to-market. As companies approach ~$100M ARR, S&M spend increases to more than 50% of total OpEx.

OpEx Distribution[1]

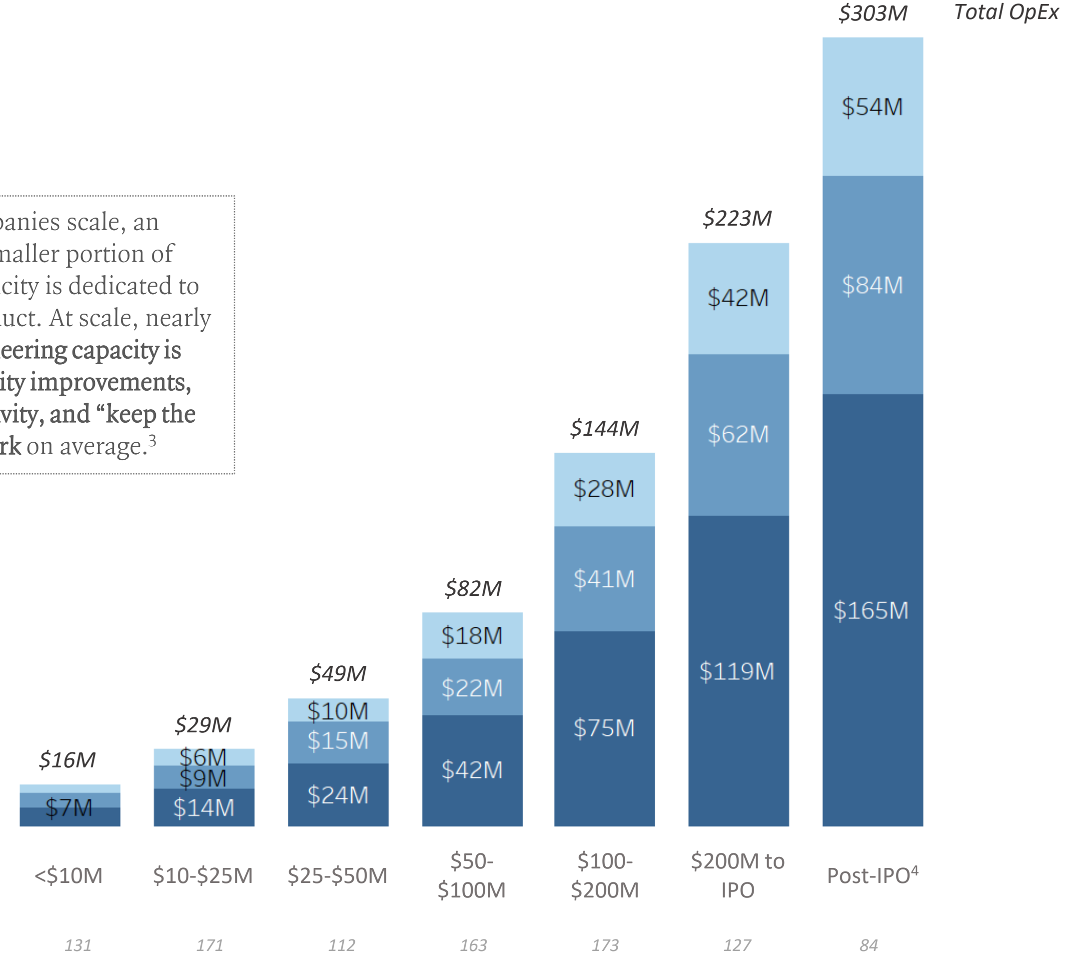
Average % of OpEx by Type and ARR Scale



As SaaS companies scale, an increasingly smaller portion of engineering capacity is dedicated to building new product. At scale, nearly half of all **engineering capacity is allocated to quality improvements, internal productivity, and "keep the lights on" work** on average.[3]

Annualized OpEx $[1]

Average OpEx by Type and ARR Scale



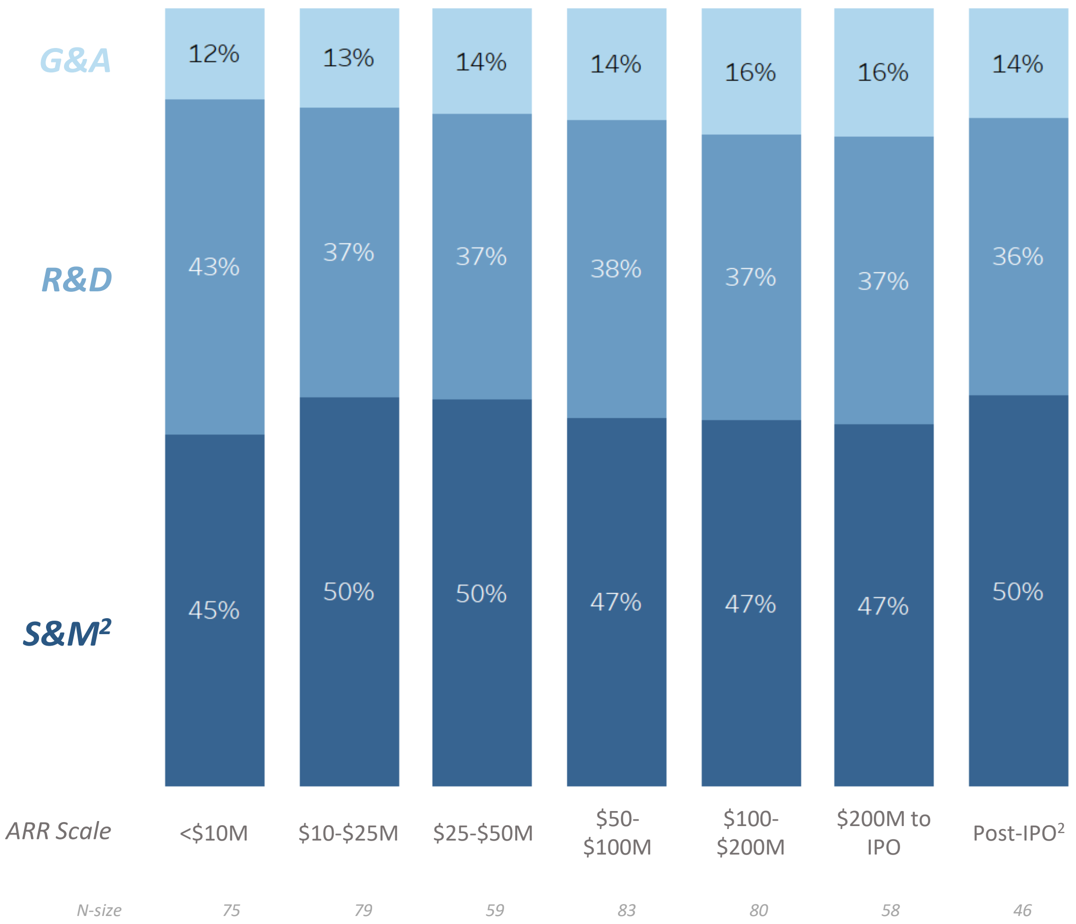
1 Quarterly operating and financial data from the companies included
2 Total Sales & Marketing OpEx includes Customer Success OpEx
3 ICONIQ Analytics + Insights: Engineering Efficiency
4 "Post-IPO" includes data within 2 fiscal years after IPO

Spend Profile | Headcount Distribution

As the major driver of operational expenses, headcount trends similarly to OpEx as SaaS companies scale. As product maturity is achieved, R&D as a proportion of headcount decreases, while both S&M and G&A teams are built out to enable operations and go-to-market.

FTE Distribution[1]

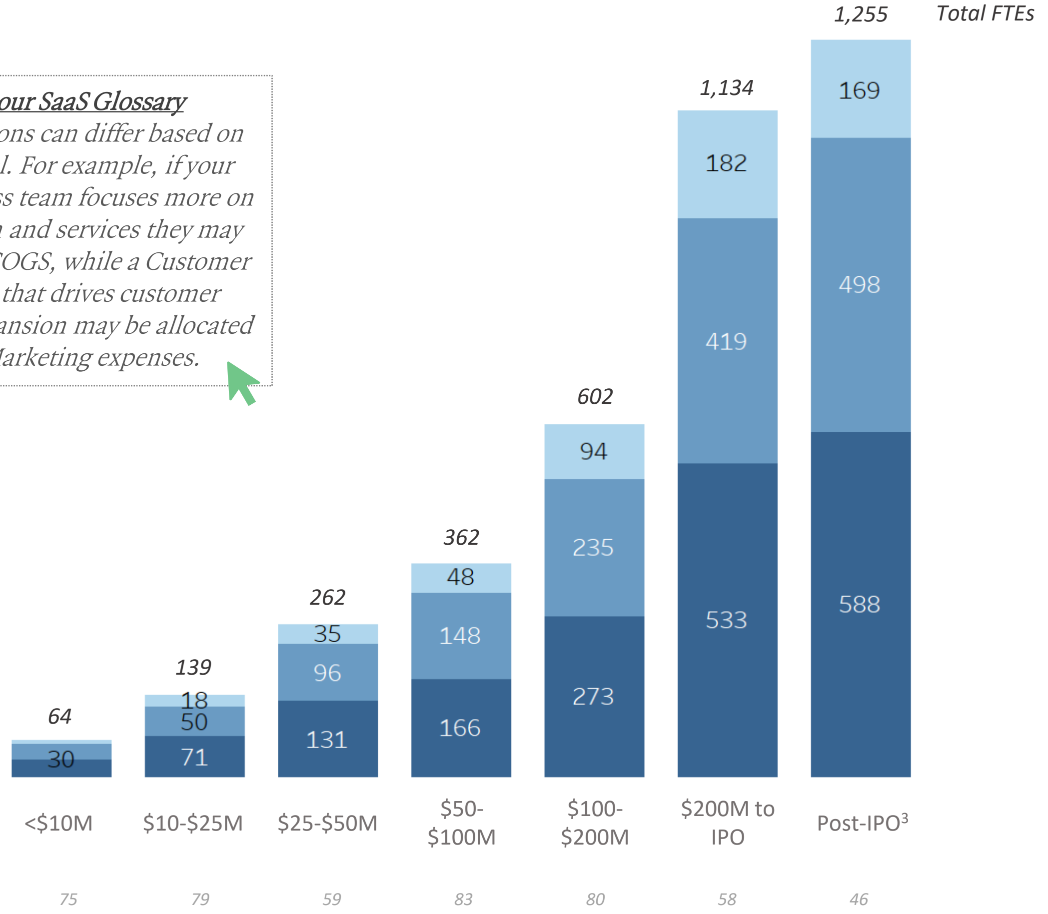
Average % of Headcount by Type and ARR Scale



Number of FTEs[1]

Average Headcount by Type and ARR Scale

Tips from our SaaS Glossary
Cost classifications can differ based on business model. For example, if your Customer Success team focuses more on implementation and services they may be allocated to COGS, while a Customer Success team that drives customer renewal and expansion may be allocated to Sales & Marketing expenses.



1 Quarterly operating and financial data from the companies included
2 Total Sales & Marketing OpEx includes Customer Success OpEx
3 "Post-IPO" only includes data within 2 fiscal years after IPO

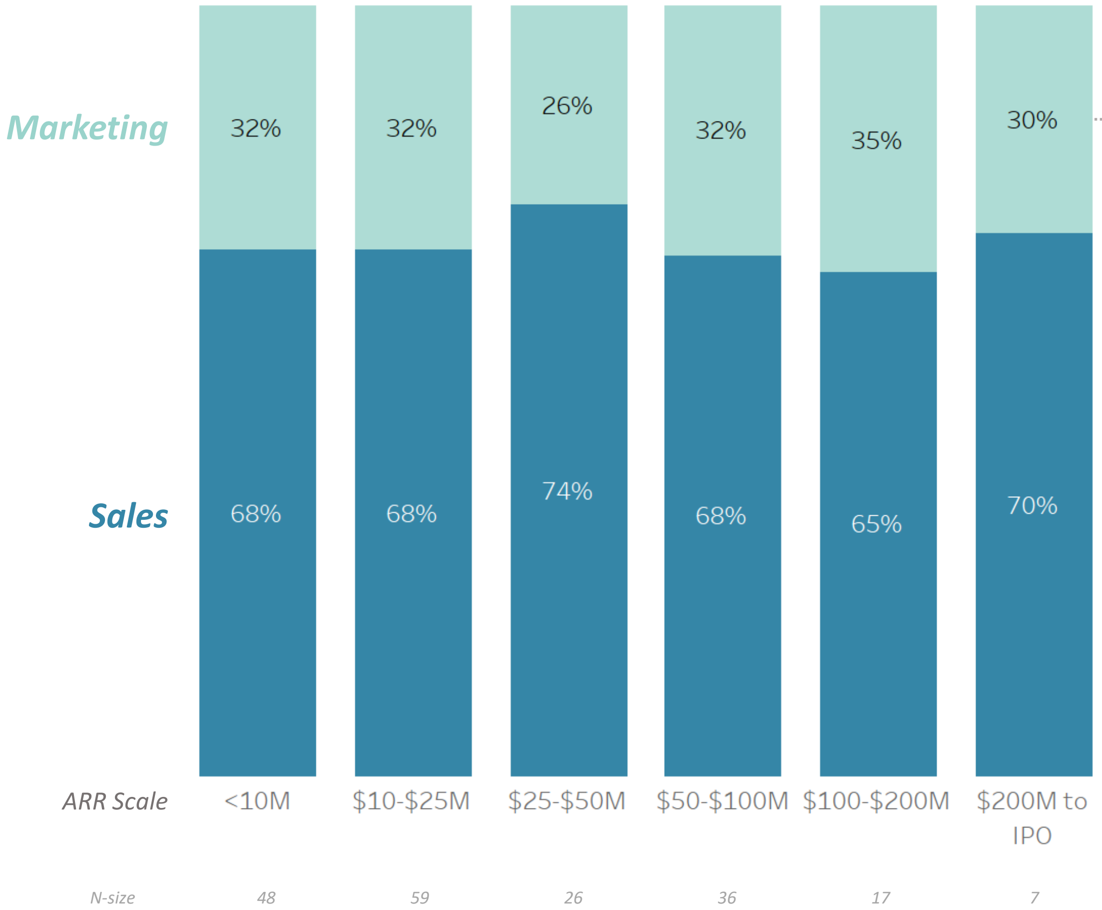
ICONIQ | Growth

Spend Profile | GTM Spend and Headcount Distribution

Sales & Marketing spend make up the largest portion of overall OpEx and headcount for B2B SaaS companies regardless of scale. For Sales-led growth companies, this is primarily driven by the Sales org, which makes up 65-75% of total S&M OpEx and 70-80% of total S&M headcount.

S&M OpEx Distribution[1]

Average % of S&M OpEx by Type and ARR Scale; Sales-led Growth Companies

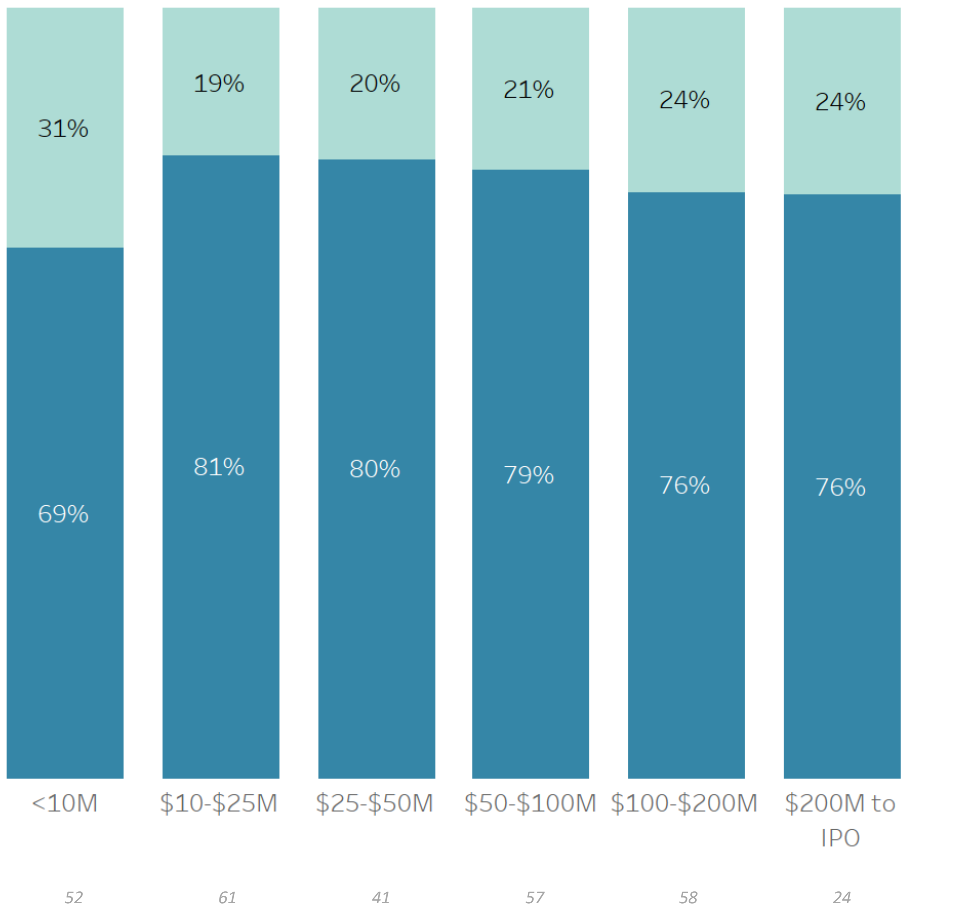


Product-led growth companies have a much higher proportion of Marketing spend [see next page].

Customer Success is typically included in the S&M org; however, it was excluded here due to data availability. On average, **about 20% of total S&M OpEx is Customer Success** across ICONIQ Growth SaaS portfolio companies, which stays relatively constant over time.

S&M Headcount Distribution[1]

Average % of S&M Headcount by Type and ARR Scale, Sales-led Growth Companies



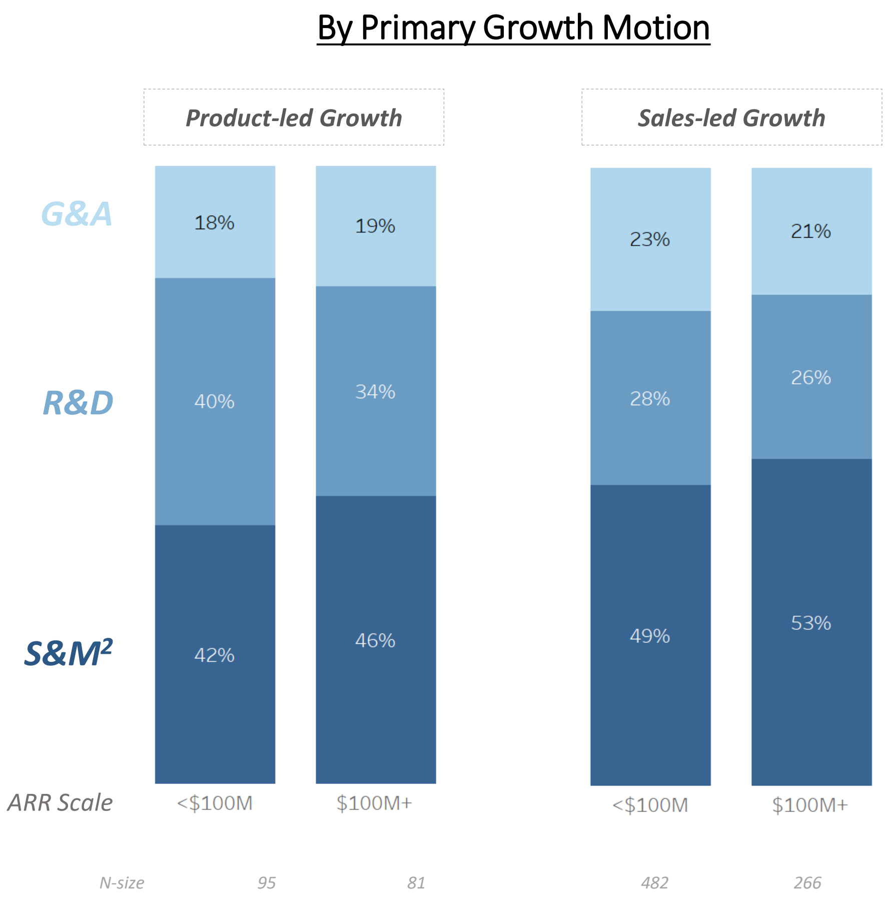
1 Quarterly operating and financial data from the companies included

Spend Profile | Product-led Growth Trends

SaaS companies with product-led growth (PLG) tend to invest more in R&D and Marketing than those with traditional sales-led growth motions. PLG companies allocate 35-40% of total OpEx on R&D and 45%+ of S&M OpEx on Marketing.

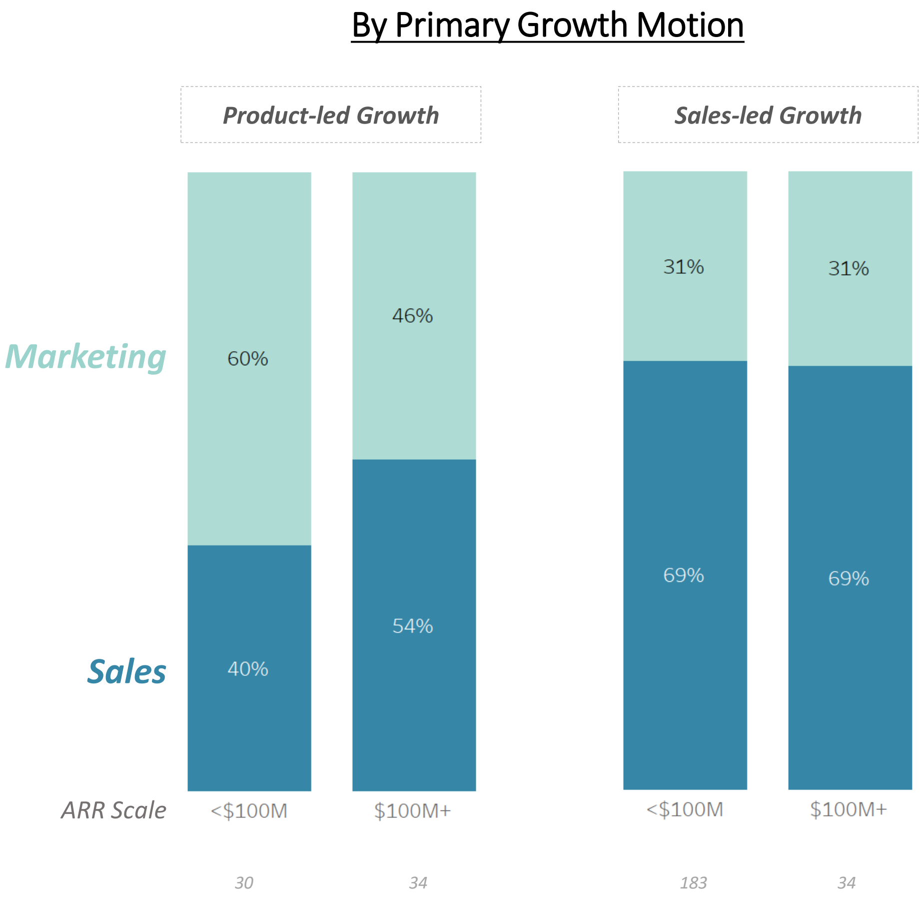
OpEx Distribution[1]

% Contribution by Type and ARR Scale



GTM OpEx Distribution[1]

% Contribution by Type and ARR Scale



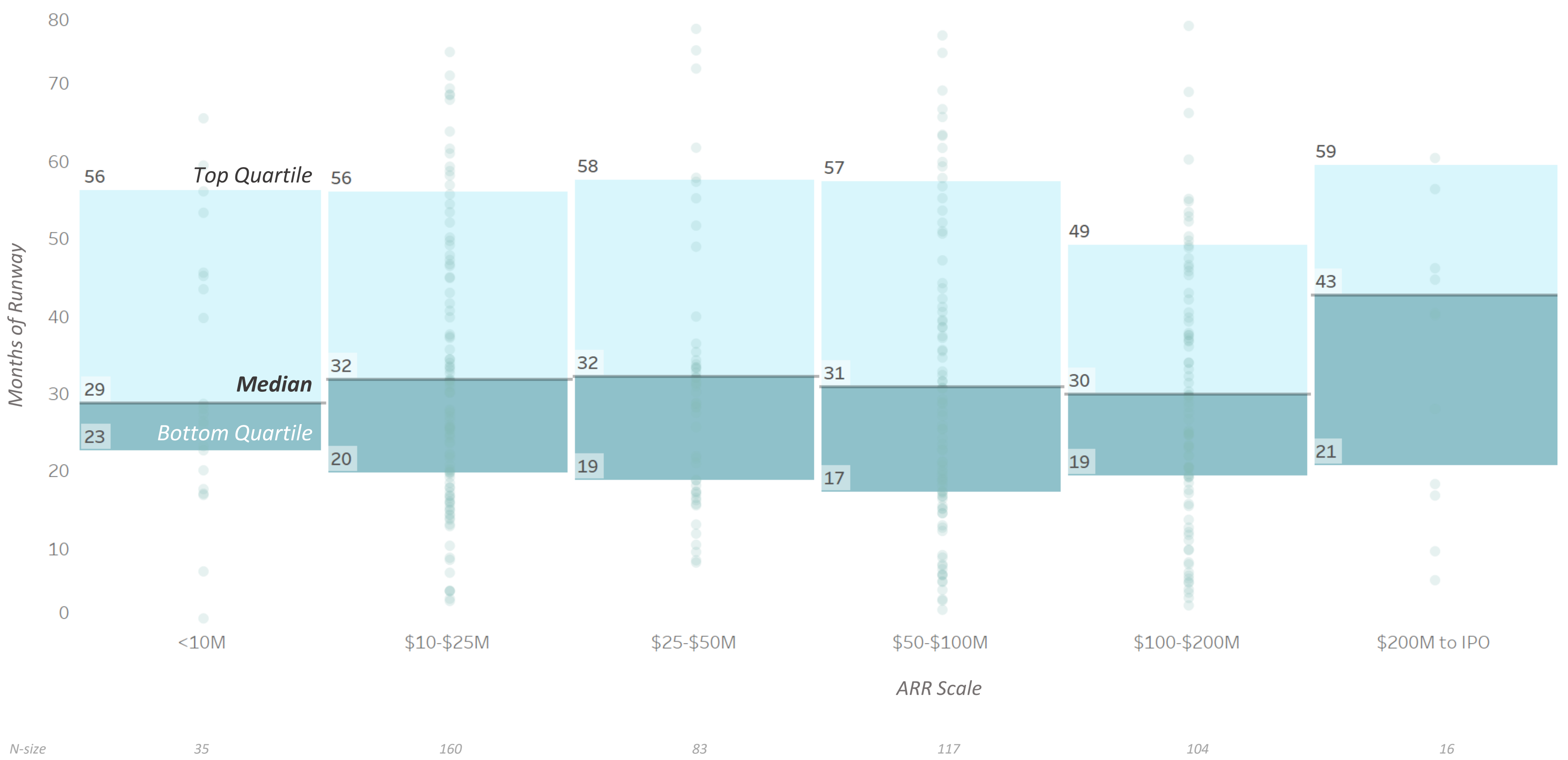
1 Quarterly operating and financial data from the companies included
2 Total Sales & Marketing OpEx includes Customer Success OpEx

Spend Profile | Cash Balance & Runway

Maintaining a healthy runway is critical in the current environment as focus shifts towards balancing growth with efficiency and the challenging macro environment endures. As they scale, B2B SaaS companies maintain a median 30 months of runway.

Months of Runway[1]

Cash Balance / FCF Top, Median, and Bottom Quartile by ARR Scale; Non-Profitable Companies Only



After a few years of instability due to COVID-19 paired with a turbulent macro environment for technology markets, we recommend companies **focus on extending runway.**

1 Quarterly operating and financial data from the companies included
2 ICONIQ Growth Analytics + Insights: Cost Management in a Turbulent Environment

4

Appendix

Supplemental Materials

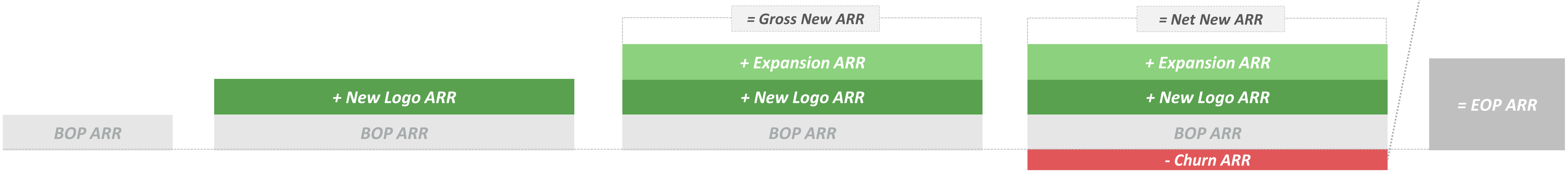
Topline Health | Drivers of ARR Growth – The ARR Funnel

SaaS companies maintain a churn rate below 15% regardless of scale, with higher churn rate in the early stages ($10-$100M ARR) as companies find product market fit and refine ideal customer profiles.

Annualized ARR Funnel by ARR Scale[1]

Average New Logo, Expansion, and Churn ARR

Churn ARR is typically composed of logo churn + downsell.



BOP ARR Range	Gross New Logo ARR	New Logo as % of Total Gross New ARR	Gross Expansion ARR	Expansion as % of Total Gross New ARR	Churn ARR	Churn Rate[2]	N-size
<$10M	$5M	76%	$1M	24%	($1M)	12%	152
$10-$25M	$9M	66%	$4M	34%	($2M)	14%	146
$25-$50M	$19M	63%	$12M	37%	($6M)	15%	78
$50-$100M	$27M	56%	$22M	44%	($10M)	14%	106
$100-$200M	$38M	51%	$42M	49%	($17M)	13%	89
$200M to IPO	$54M	41%	$79M	59%	($25M)	9%	45

1 Quarterly operating and financial data from the companies included
2 Gross Churned ARR / BOP ARR

ICONIQ | Growth

Growth Efficiency | Spend vs. Revenue by Customer Segment

SaaS companies targeting SMB to mid-market customers tend to get more leverage from operating costs due to lower spend across both COGS and OpEx. Revenue begins to outpace spend for these companies around $150M ARR versus $250M+ ARR for those targeting enterprise customers.

Spend to Revenue Ratio[1]

Total Spend (COGS + OpEx) / Revenue by Company and ARR Scale

1 Quarterly operating and financial data from the companies included

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Analytics & Insights

Seeking to empower our portfolio with proprietary analytics and insights across business operations and strategy

Christine Edmonds

Head of Portfolio Analytics

Claire Davis

Portfolio Analytics

Sam O’Neill

Portfolio Data Manager

Vivian Guo

Portfolio Analytics

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A PORTFOLIO OF CATEGORY LEADERS

1Password	adyen	Age of Learning	airbnb	Airtable	ajaib	Alibaba Group	alteryx	APTTUS
articulate	aurora	AUTOMATTIC	AXONIUS	bambooHR	Benchling	BetterUp	bill.com	BLACKLINE
braze	Calendly	Campaign Monitor	CaptivateIQ	chime	CLARA	collibra	conexiom	coupa
CROWDSTRIKE	CyberGRX	DATADOG	dataiku	dbt	DevotedHealth	dialpad	DocuSign	DRATA
enfusion	EPIC GAMES	Epic	ezcater	fastly	fetch REWARDS	Fivetran	Fireblocks	Flipkart
FREEWILL	FTX	Gem	GitLab	gofundme	GoodRx	GreenSky	Groww	GUILD
HashiCorp	headspin	HEPTAGON	highradius	HIGHSPOT	hightouch	Hippo	HONEST	houzz
iex	INTERCOM	invision	komodohealth	loom	Lucid	MARQETA	miro	MONTE CARLO
motorway	Moveworks	Nayya	netskope	notable	Notion	orca security	panther	people.ai
PLURALSIGHT	Primer	PROCORE	QGenda	ramp	recharge	RED VENTURES	ReifyHEALTH	Relativity
Reprise	Restaurant365	robinhood	SANITY	SERVICETITAN	shopmonkey	side	skuid	sendbird
SMARTLING	snowflake	SPOTNANA	sprinklr	SQUIRE	TENCENT MUSIC ENTERTAINMENT	truckstop.com	turbonomic	twin
Twistlock	UBER	Unit21	UNITE US	vic.ai	virtru	WARBY PARKER	wayfair	Wealthsimple
			Wolt	zinier	zoom			

These companies represent the full list of companies that ICONIQ Growth has invested in since inception through ICONIQ Strategic Partners funds as of the date these materials were published. Trademarks are the property of their respective owners. None of the companies illustrated have endorsed or recommended the services of ICONIQ.

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