

MARKET UPDATE · Q4 2026 EARNINGS CYCLE

The TSIA Cloud 40 Index

Forty cloud and SaaS businesses, from three hyperscaler segments to companies under \$30M a quarter.

Here's what the most recent reported quarter says about whether cloud economics still work, and what it means for your services P&L.

75.4%

MEDIAN GAAP GROSS
MARGIN

16.1%

MEDIAN REVENUE
GROWTH

5.1%

MEDIAN OPERATING
MARGIN

4 of 34

CLEAR RULE
OF 40

A GAAP scorecard for cloud economics.

The TSIA Cloud 40 Index tracks forty cloud and SaaS businesses using what they report in their public financial filings. Each quarter, we compare every company's most recent reported quarter against the same quarter a year earlier.

A FEW THINGS WORTH KNOWING ABOUT THE DATA

- **Quarters are not aligned.** Fiscal year ends span six different months, so “this quarter” means each company's own most recent quarter, not the same three calendar months for everyone.
- **Total Tech Revenue is the base.** We look at subscription and support revenue separately from professional services wherever companies report it, so the technology business can be judged on its own.
- **The medians cover 34 companies.** The three hyperscaler cloud businesses are shown on their own for comparison. Match Group doesn't report comparable margins, and Dayforce and OneStream have gone private.

Every number in this book is a median, not an average.

The hyperscaler segments and the smallest companies are at opposite extremes of scale and margin. An average would blur them into a figure that describes no actual company in the index. The median tells you what a typical cloud company looks like.

34

COMPANIES IN THE MEDIANS

23.6%

MEDIAN FCF MARGIN

5.6%

MEDIAN NET MARGIN

Like the AI-20 and T&S 50, every figure is based on GAAP results rather than company-adjusted metrics.

Forty companies, five size tiers.

Cut by quarterly total revenue, from three hyperscaler segments down to companies under \$30M a quarter.

Hyperscaler segments n = 3 · shown separately for comparison

AWS Amazon Web Services

MSFT-IC Microsoft Intelligent Cloud

GOOG-GC Google Cloud

Mega cap SaaS above \$2B/qtr · n = 3

CRM Salesforce

NOW ServiceNow

WDAY Workday

Large cap SaaS \$700M to \$2B · n = 12

CRWD CrowdStrike

SNOW Snowflake

DOCU Docusign

OKTA Okta

PLTR Palantir Technologies

TWLO Twilio

DDOG Datadog

MTCH Match Group

HUBS HubSpot

VEEV Veeva Systems

ZS Zscaler

NTNX Nutanix

Mid cap SaaS \$250M to \$700M · n = 12

MDB MongoDB

RNG RingCentral

NET Cloudflare

PAYC Paycom Software

DAY Dayforce

IOT Samsara

GWRE Guidewire Software

KVYO Klaviyo

PCOR Procore Technologies

BOX Box

BLKB Blackbaud

GTLB GitLab

Small cap SaaS below \$250M · n = 10

BRZE Braze

UPWK Upwork

SPSC SPS Commerce

BL BlackLine

QLYS Qualys

OS OneStream

OOMA Ooma

LPSN LivePerson

CCLD CareCloud

EGAN eGain

Medians in this eBook cover 34 companies. The hyperscalers are shown separately, Match Group doesn't report comparable margins, and Dayforce and OneStream have gone private.

Cloud gross margin is holding.

The classic SaaS bar clears more often than not.

75.4%
MEDIAN GAAP GROSS MARGIN

Nineteen of thirty-four clear 75%.
Against the AI-20's 68% median and 5
of 15 clearing the bar.

86.9% **46.1%**
Nutanix (ceiling) CareCloud (floor)

GAAP GROSS MARGIN AGAINST THE 75% SAAS BAR · RANKED			
Nutanix	86.9%	eGain	73.4%
GitLab	85.8%	LivePerson	72.7%
Paycom Software	84.7%	MongoDB	72.2%
Palantir Technologies	84.7%	RingCentral	71.9%
HubSpot	83.5%	Cloudflare	71.2%
Qualys	83.4%	ServiceNow	70.7%
Procore Technologies	79.9%	SPS Commerce	70.2%
Box	79.5%	Snowflake	66.6%
Docusign	79.4%	Braze	65.7%
Datadog	79.2%	Guidewire Software	63.5%
Okta	77.8%	Ooma	62.4%
Zscaler	77.3%	Blackbaud	61.3%
Upwork	77.2%	Twilio	48.6%
Salesforce	76.9%	CareCloud	46.1%
Workday	76.2%		
BlackLine	76.0%		
Samsara	75.4%		
CrowdStrike	75.3%		
Klaviyo	75.1%		
Veeva Systems	75.0%		

Blue clears the 75% bar. Orange sits below it.
Twilio and CareCloud are structurally low margin: CPaaS carrier pass-through and healthcare business-process outsourcing, respectively — not a software cost problem.

The growth is real. The profit conversion is not.

16.1%

MEDIAN REVENUE GROWTH

5.1%

MEDIAN OPERATING MARGIN

4 of 34

CLEAR THE RULE OF 40

The typical company is seventeen points short of the Rule of 40. Twenty-six of thirty-four are still profitable on an operating basis. This looks like a mature industry, not a growth one.

THE FOUR COMPANIES THAT CLEAR THE RULE OF 40

Palantir	140	92.8% growth at a 47.1% operating margin.
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Veeva Systems	47	16.3% growth at a 30.9% operating margin.
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Qualys	45	11.0% growth at a 34.0% operating margin.
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Paycom	45	7.8% growth at a 36.8% operating margin.
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Three of the four get there on margin, not growth. Only Palantir clears it on growth.

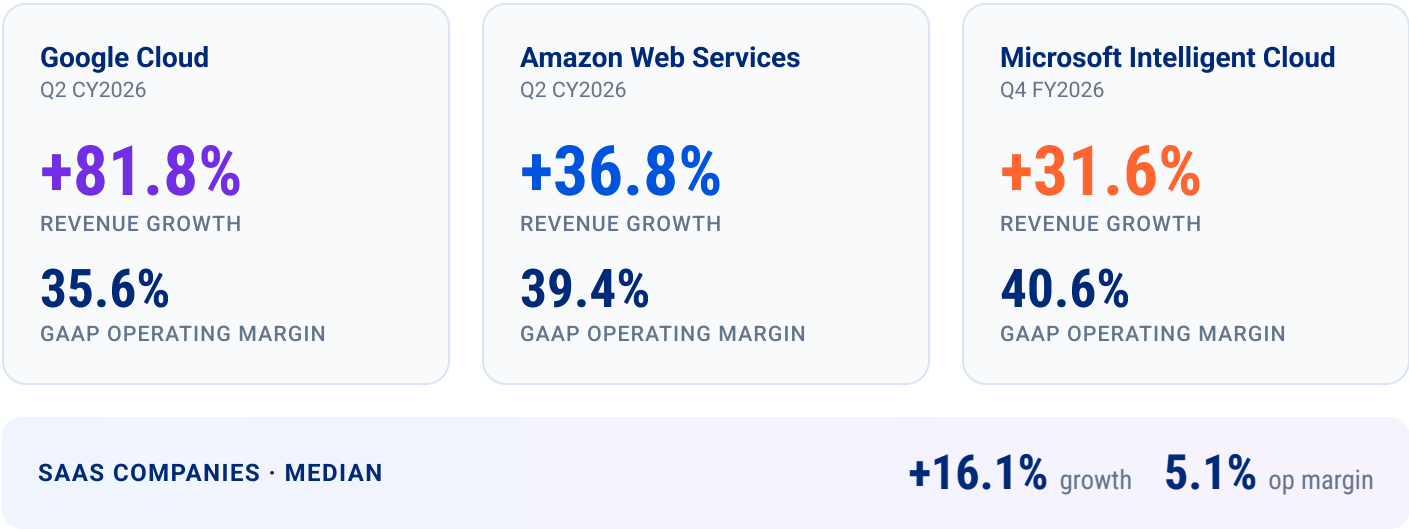
The Rule of 40 needs two answers here, too.

GitLab scores -6 on operating margin and +79 on cash. Datadog scores 33 and 64. Both gaps are almost entirely stock-based compensation — 19.6% of revenue at Datadog alone. The lesson: if you only publish one version, you will be measured on the flattering one.

The layer beneath is taking the economics.

Most SaaS companies in this index host their software on AWS, Microsoft or Google Cloud... and they pay them for it.

Those three companies are growing two to five times faster, at operating margins four to eight times higher.



Two caveats: Microsoft Intelligent Cloud is not Azure — it also carries Server products, Nuance, GitHub and Enterprise and Partner Services, and Azure alone grew 43%. Alphabet excludes shared AI model-development cost from all segments, so Google Cloud's reported margin is not fully loaded.

Nobody makes money on professional services.

Among the companies that report services separately, nearly all run professional services at or below breakeven.

COMPANY	SERVICES GM	% OF REV	WHAT IT MEANS
Snowflake	-37.1%	4.1%	Deliberate loss-leading adoption motion. Services exists to drive consumption, not profit.
Okta	-33.3%	2.0%	Almost all of its revenue is subscription, and it still loses money on the services it does sell.
ServiceNow	-26.4%	2.8%	Swung from a positive 2.9% a year ago. Acquisition integration cost is showing up here.
Salesforce	-14.3%	4.9%	Improving from -22.9%, and being deliberately shrunk as a share of revenue.
Workday	-2.1%	7.4%	Closest to breakeven, and carries the heaviest services mix of the five.
CrowdStrike	+17.0%	4.7%	The only clearly profitable services business in the group.

This is the strongest case for judging your technology business apart from your services business. Blended gross margin goes up whenever services shrinks as a share of revenue... and that's not the same as getting more efficient.

Six companies to read with caveats.

If you're comparing your business against any of these names, keep this context in mind.

COMPANY	CONTEXT	IN THE MEDIANS OF THIS REPORT?
Dayforce	Taken private by Thoma Bravo in February 2026. It no longer reports public results.	No
OneStream	Taken private in April 2026. It no longer reports public results.	No
LivePerson	Being acquired by SoundHound AI, targeted close 21 October 2026. Revenue shrinking 12 percent.	Yes
Match Group	A consumer dating subscription business, not cloud software, and it doesn't report a comparable gross margin.	No
Upwork	Freelance marketplace, take-rate on gross services volume. Not a software subscription business.	Yes
Paycom	Books float revenue on client payroll funds as revenue, inflating the 84.7 percent gross margin. Rate-sensitive, not demand-driven.	Yes

SoundHound is part of TSIA's AI-20 Index, so an AI-native company is about to absorb a cloud one.

Four things to do this quarter.

Put these in place before your next board meeting. None of them require a reorg.

1

Your gross margin is probably fine. Go find operating leverage instead of defending it.

The typical company earns 75.4 cents on the revenue dollar and still only converts 5.1 cents to operating profit. The leak is between gross margin and operating margin, not above it.

2

Price and staff professional services as an adoption cost, not a profit center.

Nearly every company that reports services separately, except CrowdStrike, loses money on them. If you are still running PS on a utilization target, you are measuring the wrong thing.

3

Model the infrastructure bill as a strategic line, not a procurement line.

Your hosts grew 32 to 82% at 36 to 41% operating margins. That margin comes partly out of yours. Treat it as a competitor for economics, not a vendor.

4

Report the Rule of 40 both ways before someone else does it for you.

GitLab scores minus 6 on operating margin and plus 79 on cash. Datadog scores 33 and 64. Publish only one and you will be measured on the flattering one, then repriced when the market notices.

Cloud gross margin survived. Cloud growth did not. The hyperscalers took both.

Twenty-six of thirty-four companies are profitable and four clear the Rule of 40. This is a mature industry now — manage it like one.

Want to learn more? Here's what to do next.

Forty companies still clear the classic SaaS margin bar. Four clear the Rule of 40. The number to watch is not your gross margin — it's what happens between gross margin and operating profit.

1 Take the research further with TSIA Advisor.

TSIA Advisor is a conversation with TSIA. Ask it anything and get answers backed by real research, tailored to your role and your company, with a TSIA Expert one message away.

PROMPTS TO START WITH

- “What does TSIA research say about converting stable gross margin into operating leverage in a mature cloud portfolio?”
- “Which TSIA frameworks should I use to price and staff professional services as an adoption cost rather than a profit center?”
- “Given my role and my company, what does the Cloud 40 finding on hyperscaler operating margin mean for my infrastructure strategy?”
- “Recommend a TSIA Expert who can review how we report Rule of 40 to our board.”

[Ask TSIA Advisor](#)

2 Bring your questions to Technology & Services World.

The Cloud 40 refreshes quarterly; the conversation about what to do with it happens in person. TSW is where services leaders working the same margin problem compare notes.

OCTOBER 19–21, 2026

Sessions on cloud services economics, operating leverage and professional-services pricing — from the research executives who build the Cloud 40.

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